

Denmark and Sweden

Ambiguous and ambivalent reforms (without impact on employment?)

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Transfer Workshop.

**Ist die Arbeitslosenversicherung noch zeitgemäß?
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From the good old days...

New party programme of the Danish Social Democrats, 1977:

”... Unemployment is an involuntary situation for the unemployed. This means that unemployment benefits should be granted – without any limitation on duration – as long as the person remains unemployed”

From the good old days...

Ghent model of
voluntary
state subsidized
unemployment insurance

- Denmark 1907 (**Liberal government**)
- Sweden 1934

Based on voluntary associations of the unions
Maintained for political-tactical reasons
Dropped in Norway when funds went bankrupt 1930s
→ Significantly lower unionization rates (about 50%)

Transforming the Ghent model from Liberal to Social Democratic Unemployment Insurance

Problem of equality: People with low unempl. risk opt out = don't contribute at all.

Solutions (when Ghent model is installed):

1. **Maximize state subsidies**, minimize contributions
 - directly: small contributions
 - indirectly: generous tax deductions
2. **Maximize risk sharing** = contributions indep. of unemployment level in society + indiv. Funds
3. **Maximize de-commodification**: Low conditionality

(Institutional change theory footnote)

- Transformative change through incremental reforms (=current focus)
- Our case is moreover an instance of qualitative (institutional) change through quantitative adjustments.
- Formal frame (Ghent model) apparently the same – but it can be transformed from “Liberal” to “Social Democratic” institution – and back again!)
- Sweden partly succeeded both ways

The Danish Case: Reform of Danish unemployment insurance system 1967-1972

Until 1967 very liberal. Very low replacement rate, low coverage. Transformed into:

- Universal flat-rate contributions
- Unrelated to unemployment (group + society)
- State responsibility for increasing costs
- Compensation rate 90 per cent, rather high ceiling
- Universal compensation, unrelated to duration of insurance or employment
- Easy access: 26 weeks of employment or recognized education
- Duration 2½ years (→ De facto almost unlimited duration from c. 1980)

Social Security /Citizenship Paradigm in Denmark

Prevent spill-over from Labour market marginalization

To Social marginalization

- **Inclusive unemployment benefit** system for unemployed. **Easy to enter, difficult to leave**
- Social Assistance for **people with complex problems** (small residual group, flexible rules)

Survived the crisis of the 1970s & austerity of the 1980s

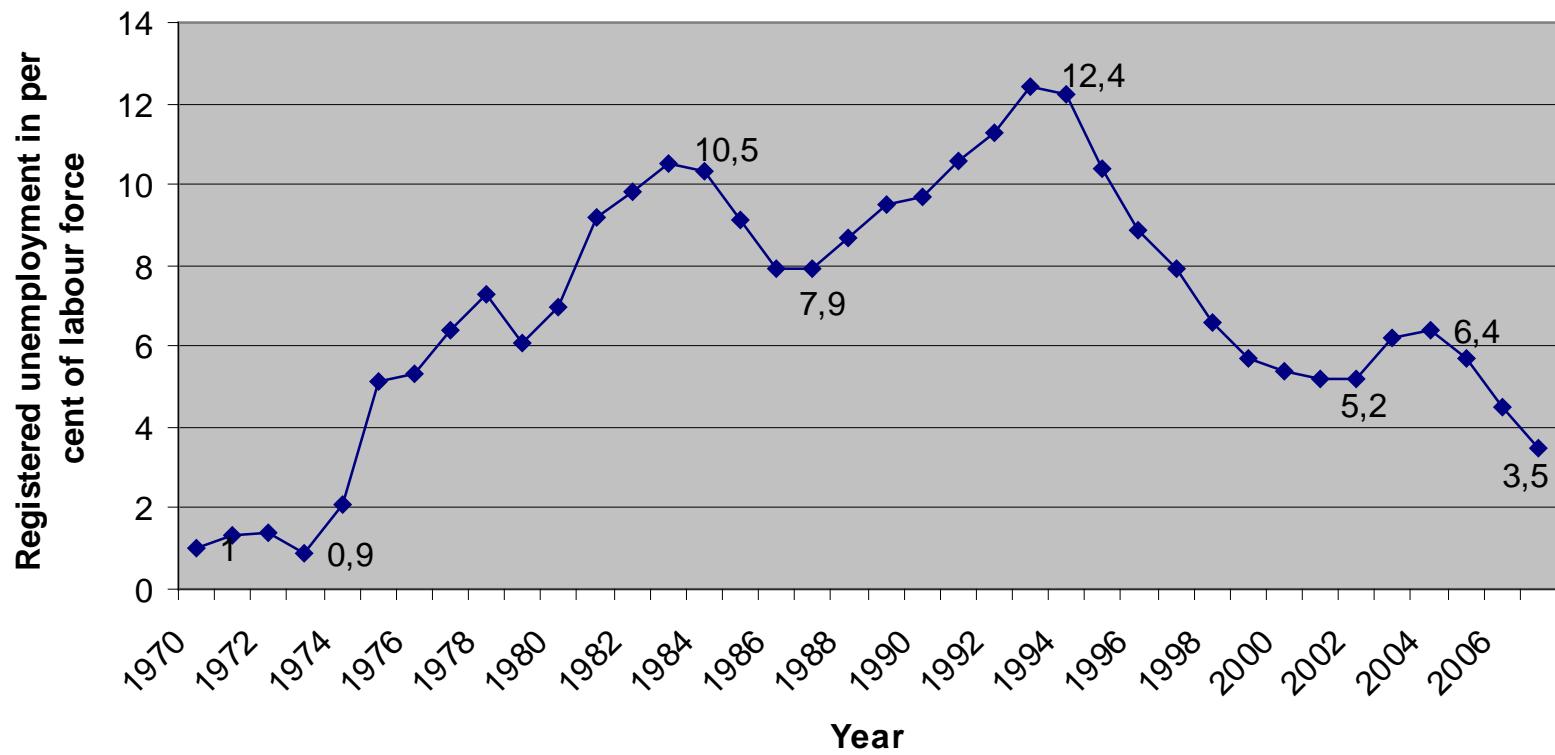
Different activation carousels in Denmark & Sweden:

“Difficult to leave” in Sweden: requalification via (frequent) activation → Focus on discrepancy between declared and real purpose of activation

“Difficult to leave” in Denmark: Via job offer. No “problem”.

Registered Unemployment Denmark (national figures)

Figure 1. Registered unemployment, 1970-2007. Per cent of labour force.



Social Citizenship heydays in Dk

Activation (I) introd. 1979 as a means to prolong duration of unemployment benefits

- Prevent people from being pushed out of the UB system after 2½ years, "job offer" of 7-9 months.
- Duration of UB extended to 8½-9 years
- Works test: Very lenient
- Practically everybody out of job entitled to an income from the state
- Survived mass unempl. & 11 years Cons. Gov.
- Winners write the history: But it worked!
(+1979 Voluntary early retirement from age of 60)

Sweden heydays of social citizenship

- Basically the same
- Slightly more generous than in Denmark
- Slightly smaller contributions
- Tradition of rather strong works test including obligation to move for a job.
Probably never got quite as lenient as Dk

Criticism

From the centre-right:

- Moral hazard, decline of work motivation
- Poverty trap, hysteresis: lose employability
- Unemployment is structural. Incentives + flexibility needed

From centre-left:

- Letting the unemployed down just paying them money. Should do something more

Two interpretations of structural unemployment

Neoliberal:

- Adjust minimum wages to qualifications
- Too generous benefits → work doesn't pay. + people become unemployable

Social Democratic:

- Mismatch between demand and supply of qualifications → need for coordination
- Adjust qualifications to high minimum wages
- Improve employability of long-term unemployed. Restore self-confidence

Problems & solutions, Denmark & Sweden

**Denmark: Prosperity not austerity main driver of reforms
(political attempts 1980s unsuccessful)**

Sweden: Austerity 1990s + political factors 2006

Ideas.

Both countries focus on structural unempl. from c. 1990

Similar diagnoses, different focuses & solutions

- Sweden. Focus on flexibility problems (Economy Commission 1992/93 expert commission)
- Denmark. More focus on qualifications + regional mismatch + ALMP. (Zeuthen Commission 1992; corporatist)
(Swedes were already disappointed by ALMP – too much a matter of requalification for benefit entitlements)
- At least in Denmark, the diagnoses were partly wrong

Reform attempts Denmark 1980s

- Increase members' contributions (partly successful; some increases)
- Improve incentives by reducing benefit levels by duration of unemployment (failed)
- Improve incentives for wage constraint by relating contributions to unemployment level (failed)

failed → idea to relate to aggregate employment →

“Labour Market Contribution” as a gross tax on employed to finance labour market costs →

Carried through by Social Dem 1993, named and blamed by opposition as a “gross tax” →

In 1998 employees should be rewarded for wage constraint as gross tax revenues > expenditures (but fiscal tightening was needed)

→ Recognized as PRO-CYCLICAL tax instrument (!!)

→ These ideas abandoned

Compare Sweden 2006-2010

Almost exactly the same:

- Sharp increase in contributions (but from low level) + remove tax deductions
- Benefit level decrease with duration
- Contributions related to unemployment in individual unemployment insurance funds

Compare Denmark 2001-2010

Political formula: Political majority to the right (without centre parties) for the first time since 1920

Possible because trad. Soc Dem voters could be attracted on immigration issue

Provided they were not alienated by too neoliberal welfare policies. (=welfare chauvinism as much as possible)

With this constraint:

- Too risky to follow the Swedes (=Denmark in the 1980s)
- Instead remove the link between occupation and UI Fund → Establish competition (side effect: weaken unions)
- Improve opportunities for private providers in activation
- And change the administrative structure

Denmark: Flexicurity

- Flexicurity was rediscovered around 2000
- Golden triangle (1) generous social protection – (2) flexible EPL – (3) activation=back to work
- Embraced by government against liberal critics within own ranks. Justification of pol strategy

Incentives

- Played a rather great role in Swedish debates throughout the last two decades. Even for the Social Democrats (=effect of 1992/93 Commission?)
- Minor role in Denmark, and was almost silenced after the improvement of employment in 1990s

Denmark use of incentives:

- Tax relief for the employed: (universal) deduction for employment (with ceiling)
- Cuts in Social Assistance de facto targeted at immigrants (start assistance, benefit ceiling)
- Employment requirement for married Social Assistance claimants. 300 hours → 450 hours 2008 after Metock verdict
- Indexation fixed to wages in private sector 1990 onwards

Sweden: Automatic indexation stopped in 1993. Only adjustment on two occasions

Denmark: New ALMP + Activation (II).

Development of human resources

Labour Market Reform 1993/1994.

Social Democratic solution to structural unempl.

- Right (1995 right and duty) to activation after 4 years of unemployment
- Activation typically = education/training
- Individual action plan. Negotiated between the unemployed and the employment office
- Regionalized ALMP. Directed by corporatist regional boards. Point of departure is regional demand for and supply of qualifications

The different worlds of activation

	I. Soc. Security	II. Human resources	III. Discipline Paternalism / (dis)incentive
Unemployment problem	Demand side	Supply side: qualifications + Matching probl.	Supply side: Make work pay & non-work unpleasant
Solution	Maintain resources = employability	Improve qualifications + job search capacity	Duties + sanctions Activation alternative to benefit cuts
Employment Motivation	Positive	Positive	Negative Imposed from authorities
Conditionality	None	Voluntary Conditional	Conditional
Goal	Security Citizenship	Improved capacity to work	Work first -gives the capacity

Further Reforms, Denmark until 2009

1995/1998/2002/2006. Broad agreements

- Leave programmes & pre-early retirement (from age of 50) phased out
- Early activation, less emphasis on education
- Much stricter **conditionality & control**
- Duration of UB = 4 years
- 2002ff. **Work first**. “Plan of action” → “Job Plan”.
- Increasing emphasis on **activation as a works test** & incentive to find a job **(Activation III)**
- Conditionality in practice: Corporatist control
- Social effects small. Almost **no exclusion** from UB
- Background: Full employment. Shortage labour power, even unskilled.

Extension of employment efforts

Basically the same story in Denmark & Sweden

- The not-so-employable elderly workers. Extremely well-protected in Denmark → Mainstreaming
- Young workers → Mainstreaming towards ord. education

Employment efforts for

- Social assistance claimants
- Sick
- Disabled

(Denmark: Flex jobs as alternative to disability pension – a success, but some deadweight losses & moral hazard)

Denmark until 2010

- Benefit generosity almost unaffected in Denmark. 85-90 per cent of those registered as unemployed received UB
- Virtually no dropout from UB system
- Alternative: Conditionality
- UB= flat rate = maximum (= 26.250 € in 2010)

Sweden: Less generous, more dropout, risk of substantially higher dropout after 2007/08 reforms

Denmark: Administrative reform

Preference of Lib-Cons.government

- 2002 reform: Included a remark about "individualization" for all unemployed
- 2006/2007. Corporatist regional administration scrapped. Municipal Job Centres. Common entrance
- 2008 (unexpected part of Budget compromise, not discussed during the negotiations, not discovered by the media):

Full Job Centre reform:

Job Centre reform 2008/2009/2010

- Common administration
- UI Funds maintained – so far
- Corporatist labour market councils can give advice
- Steering via strong regulation

Fast track reform?

- Municipal job centres have learned to follow instructions
- Social workers disciplined
- Further reforms possible without legislation

April 26, 2010. New matching groups for all types (UB, SA, Sickn., Rehab, others):

1. “Ready for work within 3 months”
2. “Ready for activation/other intervention”
3. “Temporarily passive”

Is it recession-proof? Probably not.

Financial reform

- Financing of UB equivalent to SA. Shared between state & municipality
- Steering via incentives: Reimbursement depend on performance: employment record & activation
- In practice, municipalities got irresistible incentives to seek maximum activation at lowest possible costs
- Social partners were against. Experts were unanimously against
- Negative side effects showed immediately – just as predicted
- Unemployment affect broader groups by 2010 → Able to draw media attention to the problem
- Government will “have a look at it”

2010 Goodbye to flexicurity?

- May 2010 unexpected reform: Cut duration from 4 to 2 years. This was the most generous part of generous security
- Flexibility has become less flexible by 2010 collective agreements=improved protection of insiders
- Activation irresistible incentives to provide low quality activation. Improved deterrence effect – but few positive effects

Business cycle dependent Labour Market Policy makes sense

- Education / qualification / improved self confidence. Highly relevant when unemployment is high and enduring
- Work first is more reasonable when there is shortage of labour power – even though it may become too short-sighted
- Regional cooperation to solve matching problems between demand and supply of labour power always reasonable
- Duration of benefits related to unemployment level (as suggested by Danish Labour Market Commission)

Here we leave Denmark ...

- Current system is **not recession-proof**
- Until 2007 it could be adjusted to the business cycle
- Government believed prosperity would last forever. Reflected in work first approach. Difficult to re-adjust
- One string system for Social Assistance and Unemployment Benefits introduced when these groups were more different than they ever were
- Administered by municipalities even though labour markets are regional.
- Perverse activation incentives
- Flexicurity is de facto more or less dropped
- Moving towards more dual system
- Denmark's successful post-industrialization is lost: Oil is running out. Educational improvements stopped. Generational replacement does not lead to higher qualifications. Enormous loss of production 2008/2009 – and R & D moves away alongside production
- Except for China no understanding of export opportunities to the new strong economies

How bad situation if nothing had been done at all?

A few findings

Net compensation (after tax) of Unemployment Benefits for an APW (average prod. Worker) and others

1998	Wage level			
	75 % APW	APW	150 % APW	200 % APW
Denmark	80	63	46	37
Sweden	80	70	52	41
Finland	66	60	50	45
Netherlands	71	71	69	54
Germany	59	58	58	49
Austria	57	56	56	47

Source: Hansen (2000: 33, 60-61). Since 1998, UB has become even more flat rate

Findings

- Economic resources / economic hardship main determinant of social and political participation, happiness, psychological distress – much more important than unemployment per se.
- Scandinavia efficient – Denmark more than any other country – in avoiding social marginalization among long-term unemployed (poverty, participation, happiness, distress, whatever).
- Unemployment in Denmark was high until 1993
- Interpretation as structural unemployment not very plausible
- Long term unemployment in Scandinavia including Denmark lower than in other countries except US
- Relative unemployment rates among low-educated below other countries – including the US
- Employment rates correspondingly higher
- Scandinavia and in particular Denmark has world record in Non-Financial Employment Commitment (ISSP 1997, 2005).

Impact of incentives to work (short term gain by transition to employment)

- Significant but not very strong effect for short-term unemployed. Smith & Pedersen (2002).
- No sig. Effect for long-term unemployed (6 months or more) (Bach 1999; Smith & Pedersen 2002; Goul Andersen 2003).
- At least if incentives are indicated by **carrots**: Positive incentives to move from unemployment to employment. Effect of negative and in particular strongly negative incentives (**stick**) probably stronger. No micro level evidence but aggregates support this interpretation.

Panel data 1994-99		Per cent of unemployed who..			
LTU 1994	% of unem- ployed	Want a job	Seek a job	Seek actively	% in empl. 1999
Expected wage					
Below UB max	8	78	50	36	49
0-12 % above UB max	12	84	63	56	50
12-24 % above UB max	24	87	60	48	48
25 % or more % above UB max	56	84	65	54	50
all	100	82	61	49	50

Economic factors LTU 2007 (age 25-57) subjective measure: Arguably most important.

Expected short term net gain by employment	Prop. Of LTU
Less than 1000 DkK/ month	20 %
1000-1999 DkK / m	20 %
2000-2999 DkK / m	16 %
3000-3999 DkK / m	12 %
4000-5999 DkK / m	15 %
6000 + DkK / m	17 %

Source for this and subsequent tables:
Preliminary findings from Unemployment survey. Project Unemployment and Incentives
financed by Strategic Welfare Research Programme of Danish government

Impact of econ.incentives. LTU 2007 (25-57 y.)

Short-term gain	Number of jobs applied for	Time spent
Below 1000 kr / m	23	15
1000-1999 kr / m	27	21
2000-2999 kr / m	28	23
3000-3999 kr / m	24	15
4000-5999 kr / m	36	26
6000 + kr / m	37	37
Eta	.17***	.25***
Control f. education	n.s.	n.s.

LTU 2007

Perceived long-term gain	Prop. Of long-term unemployed
None/deterioration	11 %
Somewhat better	49 %
Much better	40 %

LTU 2007: Current econ. Situation compared to situation before unemployment	Prop. Of LTU
The same or better	27 %
Somewhat worse	38 %
Much worse	35 %

Econ. Situation now as compared to situation before unemployment	Average number of job applications	Average time spent on job search
No change/ better	27	22
Somewhat worse	28	19
Much worse	29	24
Eta	.09	.09
Control for education	n.s.	n.s.

LTU 2007 .

Expected long-term gain	Number of jobs applied for	Time spent on job search
None or negative	23	17
Somewhat better	27	20
Much better	32	26
Eta	.16	.15
Control for educ.	n.s.	n.s.

Different goals of activation

- Employment effect
- Welfare effect
- Aggregate qualification effect

Aggregate qualification effect

- Not much studied
- Difficult to measure
- But regardless of the individual, activation may help solve matching problems by providing the qualifications needed in society.
- Element of life long learning
- Outsourcing of low-skilled jobs unavoidable. The challenge is to reduce the number of low-skilled workers even faster.
- (also outsourcing of high-skilled employment, but that's another story)

Welfare effect

Much studied

- Mostly positive evaluations (self-confidence, something to get up to, improved qualifications)
- Strongly alienated minority
 - get sick of it – if it does not lead anywhere
 - high-skilled people often most dissatisfied

Employment effects of activation

More sophisticated measurement.

From simple exit figures to
fixed effect / survival analyses:

Compare to situation without activation

Generally speaking rather **disappointing**

Denmark among the negative:

- Some effect of private job training
- Sometimes effect of public job training
- Sometimes positive, sometimes negative – but overall zero effects of education

Measurement problems

Selection problems / not experiment.

(e.g. "creaming"). Partly solved by more advanced measurement. + increasing use of experiments!

But there are different effects for different people

- for some groups anything works
- for others nothing works

There is a data problem: Skill / unemployability problem was over-estimated in the 1990s. Activation was designed on the basis of wrong interpretations.

Activation was applied to solve non-existing problems. The main problem was demand side: Too little demand for labour power.

There is a time horizon problem: Education may work in the long run

Different effects: How could activation work?

Danish economists usually distinguish between four effects:

1. Motivation effect (=deterrance!)
2. Qualification effect
3. Lock in – effect
4. Selection effect: Some are in a wrong category. E.g. disabled

Insufficient. There are two more effect:

1. Positive motivation effect (self-confidence etc)
2. Contact effect. Recruitment for jobs often informal, network based.

Different time profile

- Private job training: Contact matters
 - Strong short-term effect
 - Corresponds with biases of existing short-term measurement
- Education:
 - If any effect, it is long-term
 - Sometimes problems with courses that do not really improve qualifications
 - Sometimes applied to people who do not need it

Is activation beneficial?

Governments have been a little too fast to learn

There are several lessons:

1. We know to have more adequate measurement of employment impact
2. Activation should be adjusted in accordance with the business cycle
3. The (potential) impact of increasing skill levels is perhaps more collective than individual
4. Activation should be better targeted, less mechanical
5. Activation as deterrent indisputably has an impact. But this should not make us trust too much in the underlying arguments about incentives which are often wrong
6. There is a world beyond employment. Welfare matters.