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# Employment Policy in Denmark - High Levels of Employment, Flexibility and Welfare Security

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## 1. Active Labour Market Policy in Denmark

In the course of the last ten years, Danish labour market policy has evolved under the fortuitous influence of a demand-driven macro-economic upswing and a political approach to employment policy that has produced remarkable results.

The overall unemployment rate in this period has been reduced by more than 50 per cent due to especially sharp reductions in youth and long-term unemployment.<sup>1</sup> Concurrently, the overall rate of employment has risen steadily,<sup>2</sup> mainly due to a rise in women's participation in the labour force, while the number of people in activation schemes and leave-of-absence schemes has been considerably reduced.<sup>3</sup> The resulting increase in labour force adaptability and readiness for change has led to a considerable reduction in structural unemployment.<sup>4</sup>

The Danish experience in recent years points to the economic feasibility of a "hybrid employment system" that combines the traditional virtues of a liberal, fairly unregulated labour market with a reasonable level of economic protection for the individual wage earner. The structural dynamics of such a system have been conceptualised by the term "flexicurity," which refers to

the specific combination of flexibility, measured by a high level of job mobility and a low level of employment protection, and social security, represented by the generous Danish system of social welfare and unemployment benefits.<sup>5</sup>

In 1994, a general labour market reform was introduced in Denmark to address shortcomings of labour market measures and other structural problems that were demanding political attention. A main feature of the reform package was a decentralisation of policy implementation to regional labour market councils, which were empowered to adjust programme design to fit local conditions and needs.<sup>6</sup> Furthermore, the reform included a comprehensive range of measures aimed at increasing access to the labour market, facilitating the acquisition of job-related skills, stimulating job creation, and supporting the function and capacity of the labour market in general.

Many evaluations of both process and effect of the labour market reforms support the argument that the 1994 changes in employment policies have made a significant contribution to the improved functionality of the Danish labour market over the past ten years. Nevertheless, the positive Danish experience also points to the importance of the macro-economic environment and should be evaluated in connection with general

<sup>1</sup> In 1994, 12.3 percent of the Danish workforce was registered as unemployed. In 2003, unemployment had fallen to 6.2 percent according to Statistics Denmark, the official website for statistical data on Danish society. Notice that comparative assessments elsewhere in this article are based on standardised data from the OECD *Employment Outlook*, 2004).

<sup>2</sup> From 1994 to 2003, the employment rate in Denmark rose from 70.3 percent to 73.5 percent (Statistics Denmark).

<sup>3</sup> There is some uncertainty as to the exact level of increase as gender-specific data has only been registered systematically by Statistics Denmark since 1997.

<sup>4</sup> *Medium Term Economic Look*, 2004: 4; Hendeliowitz, 2003: 6-7.

<sup>5</sup> Madsen, 2002: 49.

<sup>6</sup> Hendeliowitz, 1999; Hendeliowitz, 2003.

trends in the Danish economy. There is a consensus in Denmark that labour market policies in themselves cannot generate ordinary jobs and that sufficient pull from the demand side is a prerequisite for an overall positive macro-economic development.<sup>7</sup>

However, there is other evidence that a growing number of people are gradually being marginalized from the labour market.<sup>8</sup> The highly dynamic nature of the Danish labour market, involving a large job turnover, implies a continuous challenge to the qualifications and productivity of employees. Segments of the uninsured unemployed generally described as “weakly connected to the labour market” present a difficult set of challenges and there has been a slow upward drift in the numbers of people receiving transfer incomes, including sickness and disability benefits.<sup>9</sup> Like other forms of social security, these benefits are ultimately paid from the state; this is a social and a financial concern for the government as well as the municipalities that share a part of the financial responsibility.

Finally, it is important to stress the fact that the current results have been achieved during a period of economic expansion and could be jeopardized in the event of an economic downturn. When planning the future, the open question is how to adjust the hitherto successful employment policy to accommodate to a rapidly changing environment driven by globalisation, technological change, and the derived organisational innovation.

### 1.1. Flexibility

Over the past ten years, the main focus of the Danish employment policy has been to ensure dynamic interaction between the following three elements: the highly

flexible labour market; the safety net provided by generous unemployment benefits; and the right and duty to activation and job offers within the scope of the active labour market policies.<sup>10</sup>

The Danish labour market is characterised by a high degree of mobility both in terms of the willingness of the workforce to commute to work<sup>11</sup> and the turnover in jobs. It is estimated that approximately 800,000 people (some 30 per cent of the workforce) change jobs every year.<sup>12</sup> The average rate of job tenure is eight years, the third lowest among the OECD countries; only the United States and England have a lower average rate of job tenure. Denmark’s rate is also substantially under the level in the other Scandinavian welfare states.

One explanation for the high level of job mobility is the moderate regime of employment protection found in Denmark. Employment protection regulation (EPL) is thought to be a key factor in generating labour market stability, and empirical evidence indicates that strict employment protection reduces flows into and out of unemployment.<sup>13</sup> Although employment protection regulation protects existing jobs and cushions job destruction, it also restrains job creation, so its overall effect on employment and the functionality of the labour market is ambiguous.<sup>14</sup> Furthermore, employment protection is only one of many policy instruments and institutional variables that affect the functionality of the labour market. Other policy tools, such as unemployment insurance systems and active labour market policies, interact with employment protection legislation and counteract many of its detrimental effects.<sup>15</sup>

By international standards, Denmark has very low costs in connection with the recruitment and dismissal of employees. The rules governing the hiring and dismissal of workers are established through both labour leg-

<sup>7</sup> Madsen, 2002: 61 and Ploughmann, 2003: 56.

<sup>8</sup> Ploughmann, 2003: 64.

<sup>9</sup> Keane, 2001: 363.

<sup>10</sup> Keane, 2001: 344.

<sup>11</sup> The Danish National Institute of Social Research, 2004: 80.

<sup>12</sup> Madsen, 2003: 3.

<sup>13</sup> *OECD Employment Outlook* 2004: 77.

<sup>14</sup> *OECD Employment Outlook*, 2004: 89.

<sup>15</sup> It is often held that empirical evidence does not show a clear relationship between EPL and structural unemployment (see fx. *OECD Employment Outlook* 1999). However, multivariate analysis is supportive of the view expressed in the *Medium Term Economic Outlook* 2004, that strict EPL does indeed have some detrimental effects on structural unemployment (Danish Ministry of Finance, 2004: 8).

isolation and collective bargaining agreements; in practice they amount to a low to moderate level of strictness in the employment protection legislation.

There are no indications that the low to moderate level of employment protection causes Danish workers to feel less secure about their jobs. This is in line with recent OECD findings that generous unemployment benefits have a positive correlation with workers' perception of employment security, while stricter employment regulation affects it negatively. Statistically, Denmark comes out with the next highest ranking among the OECD countries in the index that measures workers' perceptions of job security, surpassed only by Norway.<sup>16</sup>

There are many possible explanations for this. One is the predominance of small and medium-sized technologically advanced enterprises (SMEs) in the Danish industrial structure, which implies that it is easier to shift from one firm to another due to lower entry barriers at the enterprise level. The general improvement in the Danish labour market situation since 1994 is also an influential factor.

Probably the major factor in the widespread perception of security among Danish employees is the generous system of unemployment insurance (UI) benefits and social welfare. The high rate of compensation guarantees income security to in case of job loss. The vast majority of unemployed persons who are members of a UI fund receive benefits of up to 90 per cent of their previous incomes. For low-income groups, this and other income-related benefits, combined with the effects of the relatively high level of income tax, result in high net income replacement rates<sup>17</sup> that can be correlated positively with perceptions of employment security.<sup>18</sup> The potential disincentives deriving from the high income replacement rates are addressed by requiring the unemployed to actively seek jobs and by offering mandatory full-time activation programmes.

## 1.2. Unemployment Insurance and Social Welfare

In Denmark, unemployment insurance (UI) is based on a voluntary schemes administered by approximately 50 state-recognised UI insurance funds, which have a membership of about 2.1 million members, corresponding to 77 per cent of the labour force. These funds are independent of the Ministry of Employment and can develop autonomous strategies reflecting the policies of the trade unions with which they are connected. Even though the UI funds are private organisations, more than 90 per cent of their revenues are paid for by the state under supervision of a Ministry of Employment agency.

To qualify for unemployment benefits, members of a UI fund must have had regular market employment for more than 52 weeks within three years and have paid their dues to the fund. Benefits may be claimed from the first day of unemployment for as long as four years, including periods of activation. The UI offices administer the payment, while the Public Employment Service (PES) under the Ministry of Employment is responsible for activation of the unemployed. It is mandatory for job-seekers to be registered with PES to have access to activation programmes.

The activation system is one of the instruments of the Danish active labour market policies. It includes such elements as general and vocational guidance, job search assistance, individual job-oriented action plans, private and public job training, education, leave schemes, job rotation, and pool jobs on a full-time basis.<sup>19</sup> These activities are carried out by the PES offices at the local level and, increasingly, subcontracted to private consulting firms referred to as private providers. During the first 6-12 months of unemployment, the unemployed person is obliged and encouraged to look for regular, unsupported employment. If no job is obtained, the person will enter a mandatory period of activation.

<sup>16</sup> The index rates the average answer, by country, to the question: "Do you worry about the possibilities of losing your job?" — Scale from 1 (I worry a great deal) to 4 (I don't worry at all). In relation to both temporary and permanent contracts, the aggregate Danish answer is approximately 3.6. (OECD *Employment Outlook*, 2004: 92).

<sup>17</sup> OECD *Employment Outlook*, 2004: 97.

<sup>18</sup> Here, employment security covers two aspects: the continuity of the employment relationship, *i.e.* job security and, in the case of job loss, the possibility of finding another job rapidly, *i.e.* employability (OECD *Employment Outlook*, 2004: 92 and 95).

<sup>19</sup> Keane, 2001: 347.

This procedure reflects the principle that rights must be accompanied by duties and the conviction that early activation measures are better than passive benefits for efficiency in getting people back into the workforce. If the unemployed person is unsuccessful after four years in finding non-subsidised employment, he or she will lose the right to unemployment benefits and must register for means-tested social assistance, which is administered by the municipalities. The political, administrative, and financial responsibility for the individual is then transferred from the PES to the local municipality. The local municipalities have administrative and financial responsibility for other categories of social assistance beneficiaries, including uninsured unemployed people, young unemployed without vocational training, people receiving sickness or disability benefits, and people with other social or personal problems.

A major consequence of the distinction between insured and uninsured is Denmark's current two-tiered system of access to the labour market, based on the insurance status of the individual seeking work or assistance.

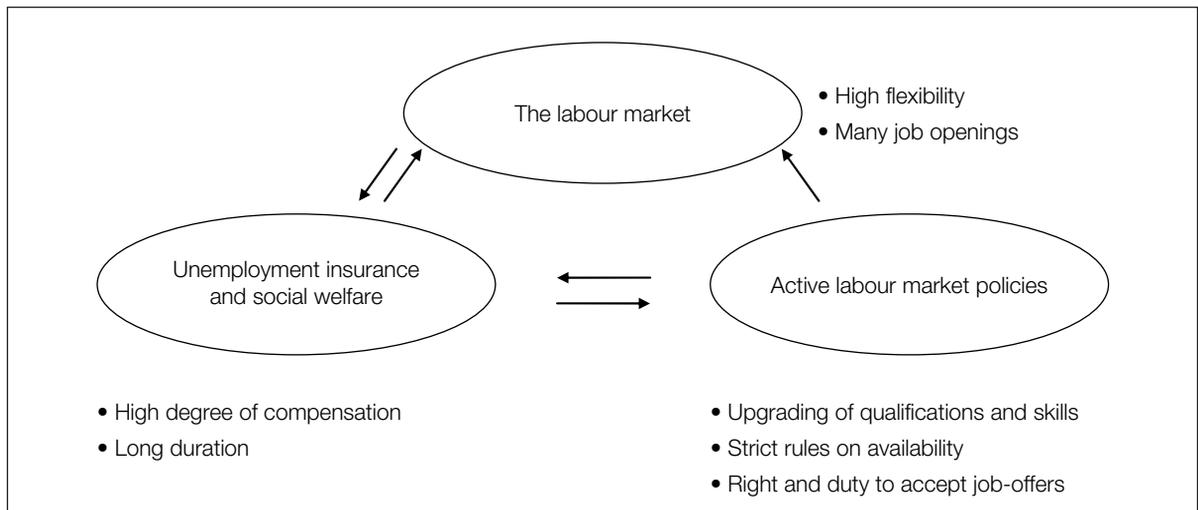
### 1.3. The Flexicurity Triangle

The relative success of the Danish model of the employment system in recent years has been conceptualised as the so-called triangle of flexicurity<sup>20</sup> shown in Figure 1. The arrows indicate flows of people between different positions within work, welfare, and active labour market programmes. The two arrows linking the flexible labour market and the generous welfare system indicate that large numbers of people are affected by unemployment every year, but that most of them get new jobs after a short spell of unemployment. Those who do not are assisted by active labour market programmes.

The underlying argument of the flexicurity triangle is that the results and effects of the Danish employment system are due to its combination of flexibility, social security and active labour market policies, all of which support the ongoing transformation of the economy.

The triangle depicts the Danish employment system as a dynamic and efficient mechanism that supports productivity growth and a sustained level of welfare. Due to non-restrictive employment protection regulation, which allows employers to hire and fire workers at short notice, the Danish system has a level of flexibility com-

Figure 1. The Triangle of Flexicurity



Source: Madsen, 2002: 51; OECD *Employment Outlook* 2004: 97; Keane, 2001: 345.

<sup>20</sup> Madsen, 2002: 50.

<sup>21</sup> Madsen, 2002: 51.

parable to the liberal markets in Canada, Ireland, the United Kingdom, and the United States. At the same time, through its social security system and active labour market programmes, Denmark resembles other Nordic welfare states in providing a fine-meshed safety net for its citizens.<sup>21</sup>

## 2. The Present Framework for Employment Policy

Denmark is not a large county. With some 5.5 million inhabitants, its total population is that of a medium-size European capital. The current administrative structure in Denmark has been in place since 1970, when the country was subdivided into 14 counties and 271 municipalities. This administrative structure has been described as the most important premise for the Danish welfare state in the late 1900s. It rested on the assumption that municipalities could operate most efficiently and close to the citizens if based on some 20,000–25,000 taxpaying inhabitants, whereas the counties should cover approximately 500,000 inhabitants to sustain well-functioning hospitals, educational facilities and other large-scale public services. In international comparison, Denmark stands out as having a highly decentralised government structure.

There are, however, a number of weaknesses in the current structure of the public sector, which will surely become more severe under future pressure on welfare services from the ageing population. The problems associated with lack of coordination of services and inadequate benefits from economy of scale cannot be solved by rearranging financing or voluntary cooperation between local governments. To address these issues, the government's *Structural Commission* final report called for a reform of local governments and the division of

tasks.<sup>22</sup> On this basis, the Danish Parliament has authorised implementation of a reform of the structure and tasks of local government that will take full effect from 2007. A brief outline of the future institutional set-up is given in Chapter 4, *The 2007 Reform of Local Government*.

### 2.1. The Institutional Set-up of the Employment Administration (1994-2006)

It is, however, the current political and administrative structure, in operation since the labour market reform of 1994, that has provided the framework for the active labour market policies and the promotion of regional economic development.

The main administrative feature of the 1994 reform was the establishment of 14 labour market councils, which replaced the former labour market boards. The councils have the same tripartite representation, but larger budgets, and greater autonomous authority than was earlier the case. They function as a forum where regional strategic planning can be accomplished with flexibility to adapt policies to local conditions. The roles, functions and outcomes of the decentralised structures in local government and the tripartite cooperation with the social partners has been thoroughly analysed by the OECD-LEED committee and other international observers.<sup>23</sup>

At the national level, the Danish Parliament decides on the total allocations for labour market measures. The Ministry of Employment<sup>24</sup> drafts labour market policy and legislation with advisory assistance from the National Labour Market Council in such matters as planning labour market initiatives and establishing the framework for measures at the regional level. Legislation, budget allocations and actual policies are

<sup>22</sup> The *Structural Commission* was established by the Danish government in October 2002 to analyse the local government structures in light of the rapidly changing societal conditions. The final and concluding report was delivered to the government in January 2004 and immediately followed by negotiations with the parties in Parliament.

<sup>23</sup> For an in-depth analysis of the Danish experience with decentralisation and local partnerships, see for example: Hendeliowitz, Jan (2003), "Denmark: Anchoring Labour Market Policies in the Regions", in OECD (2003), *Managing Decentralisation: A New Role for Labour Market Policy*, OECD Publications, Paris; or OECD (2001), *Report on Local Partnerships in the Storstrøm Region, Denmark — Tripartite Labour Market Boards and other Local Partnerships in Denmark* OECD Publications, Paris; or Hendeliowitz, Jan (1999), *Denmark: Anchoring Labour Market Policies in the Regions*, in OECD (1999), *Denmark: Decentralisation with Tripartism*, in OECD (1999) *Decentralising Employment Policy: New Trends and Challenges*, OECD Publications, Paris.

<sup>24</sup> In December 2001, the Danish Ministry of Labour formally changed its name to the Danish Ministry of Employment (Madsen, 2003a).

administered by the National Labour Market Authority (NLMA), which is the main executive institution under the Ministry of Employment. The NLMA determines the state-level targets and the results to be achieved at the regional level, in consultation with the National Labour Market Council.

The National and regional Labour Market Councils include elected politicians, representatives from the social partners and the county and municipal authorities.<sup>25</sup> They are responsible for defining regionally based labour market policy initiatives within the economic limits set out by the NMLA and the Ministry of Employment. In this context, the tripartite consultation between national and regional decision-makers and among representatives from the social partners and the local municipal politicians is a crucial element in the development and coordination of policy objectives. A micro-view of these dynamics is given in Section 3.1. *Partnerships and Collaboration on Employment and Work Force Development in the Storstrøm region, Denmark.*

## 2.2. The Role of the Public Employment Service

Within the national framework, the Public Employment Services (PES) is the executive branch that implements the policy guidelines set forth by the National Labour Market Authority and the regional Labour Market Councils. Administratively, the PES is under the NLMA. The 14 regional directors are appointed by the Minister of Employment and have the ultimate legal responsibility for ensuring that the decisions made by the regional Labour Market Council comply with state legislation, rules, and regulations. Formally,

the Regional Director is secretary to the regional Labour Market Council and the 14 regional head offices of the Public Employment Service serve as secretariats to the Councils.

The core function of the PES is to provide service to the public and ensure that enterprises and institutions can get the labour they need. Other operational functions include vocational guidance and training to job seekers and a wide range of measures such as private and public job training to support citizens in re-entering the labour market. All these operational functions are carried out through the local PES offices, which are responsible for delivering services at the local level. As of 2001, an increasing share of the core PES functions is being subcontracted to private providers. Presently, approximately one third of the vocational guidance and placement activities are now managed by private and semi-private enterprises under the supervision of the regional PES offices.<sup>26</sup>

In addition to these functions, the regional PES maintains close and coordinated contact with a large number of business associations, educational institutions and other public and private institutions. Another important task of the PES is to monitor labour market developments and to assist national and local authorities and enterprises with information and evaluation of labour market conditions. This is done at the regional level where guidelines and targets are continuously monitored in order to ensure that regional policies comply with the budgetary allocations and the national goals for labour market policy.

In 2002, PES launched an internet-based national employment service called "Jobnet.dk." Entering a standardised CV is mandatory within the first 30 days of unemployment. Approximately 30 per cent of all job

<sup>25</sup> The composition of the regional Labour Market Council is as follows: 7 representatives from the employer organisations include: 5 members of the Danish Employers Federation, 1 member from the Confederation of Employers Association in Agriculture and 1 member of the Central Organisation of Managers. 7 representatives of the employee organisations are: 5 members of the Danish Confederation of Trade Unions in Denmark, 1 member of the Salaried Employees and Civil Servants Confederation and finally 1 member of the Danish Confederation of Professional Associations. Further, there are 7 representatives from the County Council/Municipality Group, with 3 representatives coming from the County Council and 4 representatives from the local municipalities. Finally, there is 1 member from the Danish Council of Organisations of Disabled People (DSI). All in all, the regional Labour Market Council consists of 23 regular members including the Chairman. There are 22 deputy members to the council. The Chairman and the Vice-chairman are appointed by the members of the council.

<sup>26</sup> The first major evaluation of these efforts was published in September 2004 by Rambøll Management. It shows considerable regional variations in the contractual arrangements and market shares of the private consulting firms (National Labour Market Authority, 2004).

openings are posted on this site, which is available to both employers and individuals seeking employment. This and other technological innovations (internet-based registration tools and communication systems) are increasingly becoming integrated into the practices of the PES and are expected to enhance efficiency in cooperating with other actors on labour market requirements and needs in the future.

### 2.3. Tripartism - The Role of the Social Partners

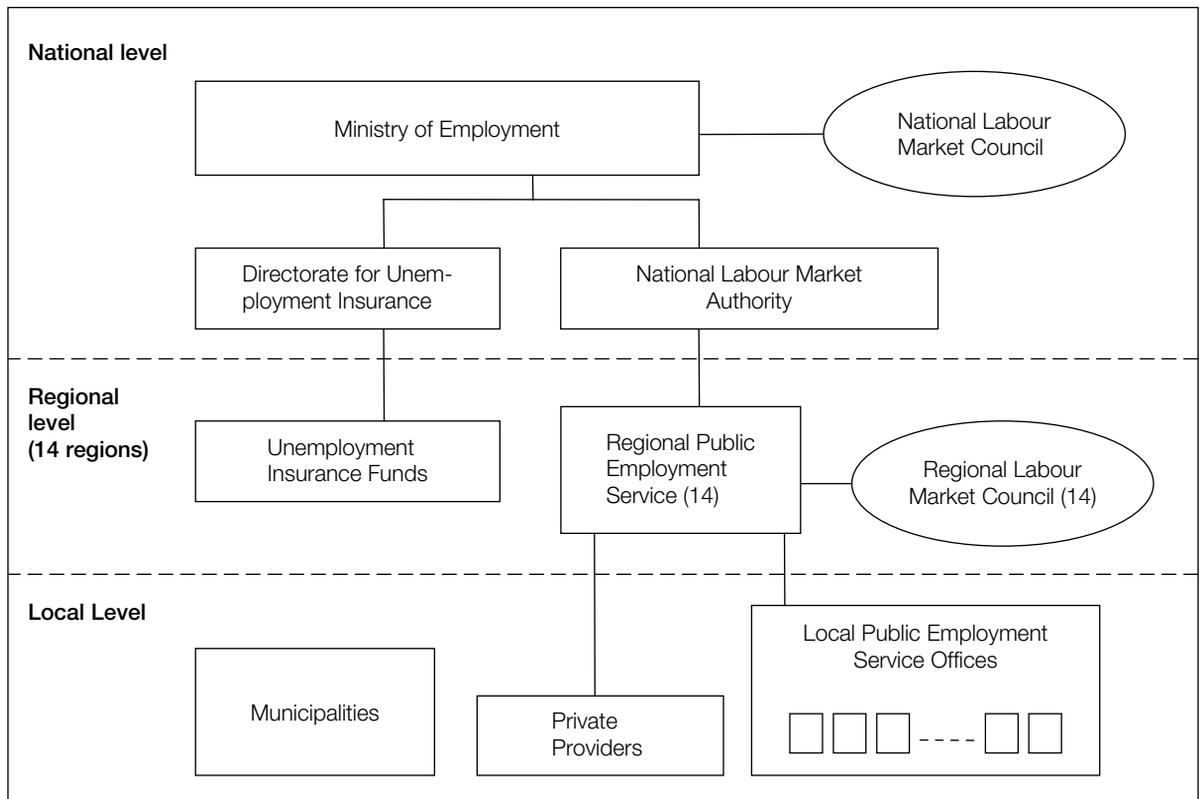
As previously mentioned, the regional Labour Market Councils are responsible for defining the labour market policy initiatives to be implemented at the regional level. Negotiation takes place between representatives of employees, employers, and the relevant authorities. This tripartite construction is considered an

important factor in establishing and maintaining a flexible and well-mediated labour market in Denmark.

Membership of a labour market organisation is widespread in Denmark. More than 80 per cent of Danish employees are members of trade unions, which have regional and national representation. The national chapters of the trade unions are grouped in three national confederations.

The employer organisations have a parallel structure with national head offices and regional representation. In this context, the trade unions and the employer organisations are referred to as the social partners. The emphasis on partnerships in public policy-making aims to improve governance and through it, the effectiveness of policies. The partnership organisations focus on various issues such as economic development, the labour market, employment and living conditions of disadvantaged groups, and other urban and rural development

Figure 2. Chart of the present set-up of the main public employment-related institutions in Denmark



Source: The Public Employment Service, Storstrøm Region, Denmark.

issues.<sup>27</sup> Their input to the political processes at the local level is essential for designing policies that reflect existing social and economic conditions.

Consultation and cooperation with the social partners is a cornerstone of policy formulation and labour market negotiation in Denmark. Currently, some observers question whether the traditionally high level of influence of the social partners will be adequately addressed under the new administrative structure of the labour market administration that will take effect in 2007.

## 2.4. The Role of the Municipalities

While the administrative responsibility for members of the unemployment insurance funds lies with the Public Employment Service, the corresponding administrative responsibility for non-insured unemployed persons lies with the municipalities under the supervision of the Ministry of Social Affairs.

The municipalities are responsible for administering social assistance and most other income transfers, except for unemployment compensation, and financially responsible for people who are not members of an unemployment insurance fund, but who do need assistance. The municipalities are reimbursed for 50 per cent of their social assistance-related expenses by the state.

Recipients of social assistance can be classified in two categories. The first is made up of unemployed, uninsured people who are considered fit for work by the municipalities. They are formally registered with the local PES office and subject to largely the same legislation as the insured job-seekers, although the financial responsibility for their maintenance lies with the municipalities.

The second category are people who — for a variety of reasons — are considered to be unfit for work at short notice and therefore in need of special support before they can be reintegrated into the labour market. This category includes those who are receiving disability pensions and other long-term social benefits.

Currently, the level of coordination between PES and the municipalities is relatively low and limited to an exchange of basic information. The two-tiered system of

access to the labour market, via either PES or the municipalities, is one of the main structural issues in the labour market area that will be addressed within the framework of the forthcoming structural reform of 2007. Figure 2 shows a chart of the present political and institutional set-up of the core institutions of the Danish labour market administration.

## 2.5. Public Expenditure on Employment Policies

In Denmark, public expenditures for labour market programmes add up to approximately 4.6 per cent of GDP. This figure can be broken down to 1.6 per cent of GDP spent on active measures and 3.8 per cent on passive measures, including unemployment insurance. Table 1 shows the figures for the year 2000 by programmes.

As previously mentioned, 90 per cent of the expenditure for the passive measures (such as unemployment benefit schemes) is financed by the state. The active measures are likewise financed by the state, but the 14 regional PES have been delegated the competence and authority to manage the regional budgets in accordance with the regional and local needs and conditions. The financial resources intended for active labour market policies are allocated to the 14 regions on the basis of their relative level of unemployment. A large proportion of the Danish workforce — 42 per cent — participates in labour market programmes each year, 21 per cent in active measures (including 16 per cent in labour market training for both employed and unemployed) and 21 per cent in passive measures. Table 1 gives an overview of labour market programmes by categories, the relative costs in relation to the GDP and the participant inflows as a percentage of the total labour force.

## 3. Policy Management

A major element of the 1994 labour market reform was the decentralisation of policy implementation to the regional Labour Market Councils in order to make labour market policy more flexible and attuned to local circumstances and specific needs. In practice, this means

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<sup>27</sup> See also Hendeliowitz, 1999.

Table 1. Public expenditure and participant inflows in labour market programmes in Denmark, for FY 2000.

Programme categories and sub-categories		Public expenditure as a percentage of GDP	Participant inflows as a percentage of the labour force
<b>1</b>	<b>Public employment services and administration</b>	<b>0.12</b>	
<b>2</b>	<b>Labour market training</b>	<b>0.86</b>	<b>15.90</b>
a)	Training for unemployed adults and those at risk	0.67	5.76
b)	Training for employed adults	0.19	10.15
<b>3</b>	<b>Youth measures</b>	<b>0.10</b>	<b>1.83</b>
a)	Measures for unemployed and disadvantaged youth	0.10	1.83
b)	Support of apprenticeship and related forms of general youth training	—	—
<b>4</b>	<b>Subsidised employment</b>	<b>0.17</b>	<b>0.82</b>
a)	Subsidies to regular employment in the private sector	0.02	0.20
b)	Support of unemployed persons starting enterprises	—	—
c)	Direct job creation (public or non-profit)	0.15	0.62
<b>5</b>	<b>Measures for the disabled</b>	<b>0.34</b>	<b>2.58</b>
a)	Vocational rehabilitation	0.34	2.58
b)	Work for the disabled	—	—
<b>6</b>	<b>Unemployment compensation</b>	<b>1.37</b>	<b>19.61</b>
<b>7</b>	<b>Early retirement for labour market reasons</b>	<b>1.67</b>	<b>0.98</b>
<b>Total</b>		<b>4.63</b>	<b>41.72</b>
<b>Active measures (1-5: for inflows, 2-5)</b>		<b>1.58</b>	<b>21.13</b>
<b>Passive measures (6 and 7)</b>		<b>3.04</b>	<b>20.59</b>

Source: OECD Employment Outlook 2004.

that overall policy goals are set at the national level, while the specific combination of instruments and detailed specification of targets is decided at the regional level.

The Ministry of Employment receives advisory assistance from the National Labour Market Council in drafting policy and legislation and for planning labour market initiatives and establishing the framework for measures at the regional level. Then, the content and extent of the regional objectives is negotiated between the National Labour Market Authority and the regional Labour Market Council and laid down in annual contracts between the regional Labour Market Councils and the Minister of Employment. The contract is signed by the Director General of the National Labour Market Authority, the Chairman of the regional Labour Market Council and the Regional Director of the Public Employment Service.

Within the national framework, the regional Labour Market Councils decide which measures are to be taken

at the regional level according to the regional labour market and work force conditions. They also establish priorities and dimensions and determine the target groups. The requirements and targets negotiated between the Ministry of Employment and the Regional Labour Market Councils are very specific. The annual contract contains an extensive number of objectives that are rigorously monitored on weekly and monthly basis. This work is carried out by the staff at the regional PES offices who report to the central level at regular intervals on quantitative and qualitative results obtained at the regional level.

### 3.1. Partnerships and Collaboration on Employment and Work Force Development - Examples from the Storstrøm Region of Denmark

In the following sections, the focus will be on the micro-level perspective in order to give a more substan-

tiated understanding of the day-to-day management of policy on employment and work force development the regional level. The example chosen is the Storstrøm Region, one of the 14 existing employment regions, situated in the South-eastern part of Denmark. The region covers approximately 7.9 per cent of the total area of Denmark, but is home to approximately 5 per cent of the population (260,498 persons).<sup>28</sup>

As in the other 13 regions of Denmark, the Public Employment Service serves as the secretariat to the regional Labour Market Council which, in turn, functions as a forum where regional strategical planning can be focused to meet local conditions. Within their respective mandates, the PES and the regional Labour Market Council of the Storstrøm Region seek to form partnerships and collaborate with all actors that are relevant to the labour market and work force development in and around the region. These actors include:

- Other local authorities (municipalities, the county administration and relevant subgroups)
- Unemployment Insurance Funds and Professional Associations
- A wide range of educational institutions, including those targeting immigrants in Denmark (Danish language teaching, vocational training, upgrading of basic skills, etc)
- Business, trade and tourist associations and business-political actors that work to promote local economic and employment development
- Ad hoc collaboration with a variety of partners on specific activities, such as the projected Fehmer Belt Bridge between Germany and Denmark, industrial development in specific areas of the region, etc. Many of these activities are co-funded by the European Social and Regional Funds.
- Network-type cooperation such as for example the ARES project, which is financed under Article 6 of the European Social Fund. ARES involves many actors and focuses on the social capacity and future economic development of the regional labour market. The project is described in greater detail below.
- Partnerships with actors in other regions and

countries on labour market and work force policy issues, for example Germany, under the Interreg III A Programme, and Sweden, within the framework of the Öresund Labour Market Council (both programmes are co-financed by the European Union and supplemented by national funds).

Technically, there are many different models of collaboration. In some cases, the PES is the responsible administrative unit, either in its own right, as the regional representative of the Ministry of Employment, or on behalf of the regional Labour Market Council. In such cases, the relevant meetings, seminars or workshops are organised and hosted by the staff of the regional PES office, working in teams established for the occasion. In other cases, the technical administration of programmes or projects lies with other institutions, in which instance the PES and the regional Labour Market Council are participating partners on the same level as the other actors.

A brief listing of the some of the external commitments of the members of the regional Labour Market Council provides an idea of the degree of involvement and corresponding levels of activity. The following committees and steering groups include from one to eight representatives from the regional Labour Market Council:

- The Regional Committee for the Objective 3 Programme (EU Social Fund)
- The Regional Committee for the Objective 2 Programme
- The Advisory Group for the Objective 2 Programme
- The Danish/German Committee for Interreg (EU Regional Development Programme)
- The Öresund Labour Market Council (EU Regional Development Programme)
- The Fehmer Belt Forum and the Advisory Group to the Fehmer Belt Forum
- The Committee for Industrial Development East of Rødbyhavn
- The Steering Committee of Development Cooperation for Lolland-Falster
- Chairmanship and Board representation of the

<sup>28</sup> Figures for number of inhabitants and average GDP per citizen are from 2003. *Statistics Denmark*.

- local Labour Market Centre in Western Lolland
- The Competence Committee for Western Zealand and Storstrøm regions
- The Steering Committee for the Knowledge Centre on Integration into the Labour Market of Refugees and Immigrants.

Given the fact that this list is not exhaustive, meeting and networking activities are very frequent and, depending on the scope, can easily average three or more per week, or daily, in the case of the Regional Director. They range from small and medium scale meetings with 3-30 participants that focus on policy mainstreaming, implementation and exchange of views and information, to more elaborate large-scale conferences, where all the relevant actors for a given topic are invited to share their particular perspectives among partners and peers.

One current example of an integrated approach to partnerships is the ARES Project, officially known as *ARES*<sup>29</sup> — *The Regional Labour Market — Future Economic Development — Regional Social Capacity*. The ARES Project is an attempt to develop a regional employment strategy that integrates aspects and perspectives from labour market policy, industrial policy and education policy. One aim of the project is to combine the wealth of regional data, information and experience with the ideas and innovative approaches of community-based actors involved in work force development in a way that reflects the specific interests and, indeed, visions of the involved partners.

The objective is to formulate a competitive regional development strategy that takes the future of the region into full account and seeks to maximise the existing potential. In more concrete terms, that means defining the needs and capacities of industry and enterprises 10-15 years from now, and taking steps to qualify the labour force correspondingly.

The project, which is planned to run for two years,<sup>30</sup> is focused on six themes that are of strategic importance to the labour market and employment situation of the region. These include:

- Retention of senior citizens in the labour force
- Labour market integration of immigrant citizens
- Definition of entrepreneurial strategies

- Creation of equal opportunities for female managers and entrepreneurs
- Promotion of a new financial balance in rural areas
- Raising the level and range of qualifications (education and training as a development factor)

As a result of the integrated approach, the ARES Project is based on a very high degree of cross-cutting cooperation between actors representing the labour market authority and institutions, business associations, educational institutions, interest groups, city and regional planning authorities and many other primary regional institutions. In terms of method, the project has been divided into five phases, some of which are overlapping in time:

- Phase 1: Description of the employment situation in the Storstrøm Region
- Phase 2: Definition of visions and objectives
- Phase 3: Establishment of think-tanks and pilot projects
- Phase 4: Analysis and development
- Phase 5: Formulation of a regional employment strategy

The basic budget for the project is estimated at 817,477 Euro. Seventy-five per cent of the budget total is financed under Article 6 of the EU Social Fund regulation that covers Innovative Measures in Local Employment Strategies (LES). The remaining 25 per cent of the basic budget are covered between the regional Labour Market Council of Storstrøm and the Storstrøm County Authority. This describes the basic budget that covers the overall planning and implementation of the core ARES project activities. In addition to this is the extensive network of related projects and activities with separate budgets under the management of other involved authorities and institutions.

From a EU perspective, the ARES Project presents an interesting innovative approach to developing methods of and synergy from cross-sector cooperation on regional employment and work force development and has therefore been eligible for support.

In a larger perspective, networking and involvement

<sup>29</sup> In this particular case, “Ares” refers to the Greek God of War, son of Zeus and Hera, famous for his courage and valour. The Latin name for Ares is Mars.

<sup>30</sup> From December 2003 to October 2005.

in partnerships like those outlined above is beneficial from an organisational point of view in that it facilitates a common understanding of policies and policy implementation that ultimately ensures cohesion, efficiency, and legitimacy in relation to the overall employment policy goals. Furthermore, it provides challenging opportunities for on-the-job training for the staff as well as upgrading of skills and competences that are valuable in a society that ultimately relies on the qualifications of its human resources. In the Storstrøm region, exchange of knowledge on new approaches to job creation and work force development is seen as a pertinent way of meeting the future challenges of a labour market undergoing structural change.

In this connection, it is worth noting that the Ministry of Employment runs a comprehensive and very thorough national programme for competence upgrading of all employees of the Public Employment Service. This programme is under constant evaluation and development and available to all employees according to management nomination. The programme seeks to keep the staff abreast with current legislation and developments relevant to their specific field of work. Participation in such educational activities for the staff is accorded high priority.

### 3.2. Coordination with EU Policies

Within the framework of the 1997 European Employment Strategy (EES), the European Commission monitors and benchmarks the employment policies in member countries. The most important element in the EES is the yearly *Employment Guidelines and Recommendations*. Feeding into this work are the National Action Plans for Employment (NAPs), prepared on a yearly basis by each member country. Although the NAPs and the employment report of the Commission are not legally binding, there is an ongoing process of consultation and a growing level of policy coordination in accordance with the common objectives.

One of the main challenges to the Danish labour market in coming years will be addressing the issues related to the enlargement of the European Union (EU)

and integration into the common European labour market of the ten new member countries, of which four are located in the Baltic Sea region. In Poland and the Baltic states, wages are about one-fifth of the Danish level and there has been slow but steady increase in the number of workers seeking employment in Denmark.<sup>31</sup> Integrating larger numbers of foreign workers will be a sizeable challenge for Danish employment policy in the years ahead.

Currently, the resources from the EU Structural Funds, primarily the Social and the Regional Funds, supplement the national budget for employment policies at the regional level. Due to its overall economic level, Denmark receives limited resources from the EU Structural Funds and the impact on national employment policy is limited.

However, the Storstrøm region is one of the less affluent regions of Denmark. Average GNP per citizen in the region is 23,000 Euro as compared to a national figure of 34,000 Euro. The economy of the region has a number of basic structural weaknesses, including:

- A heavy reliance on agriculture and the food processing industry
- A weak private service sector
- Slow growth of exports (both international exports and intra-regional export in Denmark)
- Below average technological level and levels of labour qualification

The percentage of the population with higher post-graduate qualifications and the percentage of persons employed in business services are well below the national figures. Although unemployment has recently levelled out to be nearly on a par with the national figure of 5.5 per cent,<sup>32</sup> the southernmost part of the region faces serious structural problems that are compounded by the relative geographical isolation. On account of these structural conditions, the Storstrøm region has become a target area for the regional programmes under Objective 2 of the EU Structural Funds of the European Commission.

<sup>31</sup> Madsen, 2003: 9.

<sup>32</sup> Which is the official figure in the OECD *Employment Outlook* 2004. Due to differences in the method of calculation, the figures from Statistics Denmark deviate slightly from the OECD figures.

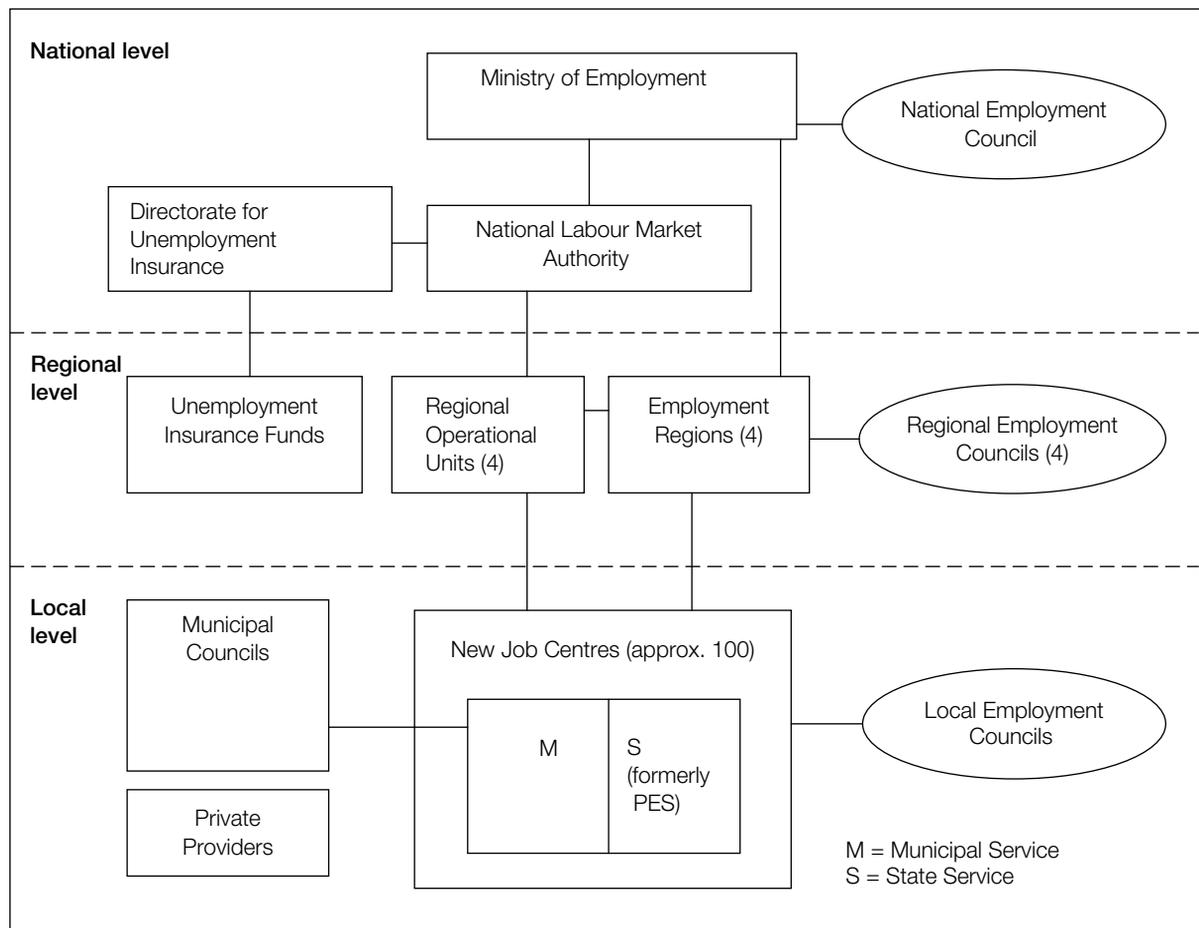
#### 4. The 2007 Reform of Local Government

Following the work of the *Structural Commission* concluded in February 2004, the Danish government entered into negotiations with the parties in the Parliament on a reform of local government and the administrative organisation of Denmark. An agreement on the principles of the reform was reached in June 2004. The reform reflects the fact that the current administrative structure is no longer an adequate administrative framework for managing the country and extending pub-

lic goods and service. It aims to strengthen the basis of the decentralised public sector in light of the changing conditions in business, trade, and technology as a means of consolidating and further developing the level of welfare in Denmark.

As mentioned, there are a number of weaknesses in the present structure of the government of the public sector. Analysis shows that many of the current administrative units are unsuitably small in relation to the tasks that they are given.<sup>33</sup> Small municipalities (local authorities) have problems ensuring adequate professional viability in certain tasks and generally have high expendi-

Figure 3. Chart of the 2007 political and institutional set-up of the public employment service in Denmark



<sup>33</sup> An English-language analysis of the current political and economic situation in Denmark is the 2004 Annual Review — Denmark, published by the Economic and Development Review Committee under the Economics Department of the OECD. (ECO/EDR (2004) 19).

tures per inhabitant. Likewise, most of the counties (regional authorities) lack sufficient capacity to ensure optimal sector planning, and there are coordination challenges in a number of areas with shared responsibilities. Both the county and the municipal levels have difficulties in reaping the benefits of digitalisation and economies of scale. To meet these challenges, the reform involves changes in both the size of local governments and the division of responsibilities and tasks. The envisioned benefits include that:

- Further decentralisation of tasks and operations is possible
- Tasks and responsibilities can be gathered at one level of government
- Citizens' access to the public sector can be simplified through the establishment of one-stop service centres
- The quality and the range of available options can be more easily increased
- Implementation of national policies will be easier; and
- Efficiency gains can be reaped, thereby providing a better basis for meeting future expenditure pressures.

Presently, there are 14 counties that have the main responsibility for regional development and secondary health care. Under the reform, the concept of counties will be abolished and replaced by five large regions,<sup>34</sup> reducing the administrative basis of taxation from three levels to two, namely the regional and the municipal levels. Municipalities are requested to amalgamate to a size of at least 30,000 inhabitants or more, bringing down the total number of municipalities from 271 to approximately 100. The new regions and municipalities will be formally enacted as of January 1, 2007. The transitional phase has already begun and will undoubtedly pick up momentum in the next two years.

#### 4.1. Changes in the Institutional Set-up and Administration of Employment Policy

Employment policy and its administration are a national policy priority and concern. Hence, one of the key aspects of the reform is the responsibility for active labour market policies and the modification of the two-

tiered system of access to the labour market. The 2007 reform will reduce the number of so-called Employment Regions from 14 to four that will be under supervision of the Ministry of Employment. Tripartite cooperation will take place between the Employment Regions and their corresponding Regional Employment Councils. The Employment Region will be responsible for and supervise Job Centres at the local level.

There will be some 40 local Job Centres with a number of subsidiaries (approximately 100) where employees of the PES and the municipalities will work together in the same physical locality and collaboration will be significantly streamlined and intensified.

Financially, the state continues to be responsible for the insured unemployed while the municipalities will be responsible for unemployed without insurance. In the future, PES and municipal administrations will carry out assignments under the same roof and serve as a "single point of entry" to public employment service for citizens, which is a significant modification of the present structure.

#### 4.2. Greater Interaction between Employment Policies and Regional Economic Development

So far, Denmark has not had a national policy on regional economic development based on regional strategies. However, under the coming administrative reform, regional Growth Forums will be established in connection to the new Regional Councils. The aim of the regional Growth Forums is to promote conditions for growth and business development and to ensure a coordinated and coherent regional approach.

Regional economic development strategies for business and entrepreneurship will be elaborated as the basis of the Growth Forum efforts. The strategies can contain: (a) a description of the regional business structure with an assessment of strengths and weaknesses in relation to regional challenges and conditions for business development; (b) selection of prioritised areas for action; (c) long-term and medium-term objectives for regional development within selected areas; and (d) indicators for measuring regional performance. The objectives will be specified in proposals for initiatives, which are to be

<sup>34</sup> On account of geographical conditions and level of labour market integration, there will be only four Employment Regions.

included in the annual regional plans of action. As a point of departure, conditions for growth and development will be assessed so that realistic but ambitious objectives can be defined. The Growth Forums will oversee the development in regional and local growth. Monitoring and evaluation will provide the necessary foundation for continual adjustment of the regional strategy on local economic development.

The four Regional Employment Councils will monitor labour market developments and address cross-cutting employment issues related to bottlenecks and other structural problems. The labour market analyses of the Regional Employment Councils will be used in the elaboration of regional strategies on local economic development and there will be close collaboration between the four Regional Employment Councils on regional conditions for local economic and business development.

## 5. The Danish Employment Policy in a European Context

In October 2004, the Danish Ministry of Finance evaluated the labour market performance in the EU15 countries on the basis of their actual policies.<sup>35</sup> The findings show that four different regimes of labour market policies can be identified within the EU. The regimes are described briefly below:

- The *North — European* regime (A) includes Denmark, the Netherlands and Sweden. In these countries unemployment benefits are high, but disincentive effects from generous benefits are counterbalanced by active policies, strict rules governing availability for jobs, and low to medium employment protection regulations.
- The *Anglo-Saxon* regime (B) includes the

**Table 2. Characteristics of Labour Market Policies in Regimes**

Regime	Policies	Countries
<i>Regime A</i> <i>North-European regime</i>	<ul style="list-style-type: none"> <li>• High compensation rates<sup>36</sup></li> <li>• Strict availability for work requirements</li> <li>• Active LMPs</li> <li>• Low to average employment protection</li> </ul>	Denmark Netherlands Sweden
<i>Regime B</i> <i>Anglo-Saxon regime</i>	<ul style="list-style-type: none"> <li>• Low compensation rates</li> <li>• Few formal demands on availability</li> <li>• Varying degree of active LMPs</li> <li>• Limited employment protection</li> </ul>	Ireland United Kingdom
<i>Regime C</i> <i>Central European Regime</i>	<ul style="list-style-type: none"> <li>• Varying compensation rates</li> <li>• Varying demand on availability</li> <li>• Passive LMPs</li> <li>• Average to high employment protection</li> </ul>	Austria Belgium Finland Germany
<i>Regime D</i> <i>South European regime</i>	<ul style="list-style-type: none"> <li>• Average compensation rates</li> <li>• Strict availability for work requirements</li> <li>• Passive LMPs</li> <li>• High employment protection</li> </ul>	France Italy Spain Portugal Greece

Source: *Medium Term Economic Outlook*, Danish Ministry of Finance, 2004:12.

<sup>35</sup> To assess whether differences in labour market policies and institutions can explain unemployment rates among countries, the relationship between the unemployment rates and the policies and institutions were estimated using a panel of 19 OECD countries over the period 1983-1999. The following indicators were used in the analysis: (1) Generosity of unemployment benefits; (2) Duration of benefits; (3) Availability for work requirements; (4) employment conditions; (5) Expenditure on active labour market policy; (6) Employment protection; (7) Product market regulation; (8) Total taxes on labour; (9) Wage negotiations; (10) Union membership; (11) Business cycle. *Medium Term Economic Outlook*, Danish Ministry of Finance, 2004: 6.

<sup>36</sup> Compensation rates in the *Medium Term Economic Outlook* 2004 are calculated on the basis of three different measures, namely the standard OECD indicator of the Overall Generosity of Unemployment Compensation in the IU System (gross), the standard OECD Net Replacement Rate indicator and the Adjusted Gross Replacement Rate, see also OECD (2002), *Benefits and Wages, and Medium Term Economic Outlook*, 2004: 32-33.

United Kingdom and Ireland. Low unemployment benefits, varying expenditures spent on active labour market policies, few demands for availability, and a low level of employment protection characterise this regime.

- The *Central-European* regime (C) includes Austria, Belgium, Finland, and Germany. Labour market policies in these countries are predominantly passive and employment protection is at average European levels. However, the levels of unemployment compensation vary between the countries.
- The *South-European* regime (D) includes France, Greece, Italy, Portugal, and Spain. In these countries, employment protection is high and unemployment compensation close to the European average, but labour market policies are passive.

Structural and long-term unemployment is closely related to the implemented policies and the North European and Anglo-Saxon regimes display a notably better performance than the Central and South-European regimes. The main difference between regimes A and B is that the former relies on active policies to counterbalance disincentive effects of high unemployment compensation, while regime B achieves similar, but less marked, effects by means of low replacement rates.<sup>37</sup>

These findings are in line with one of the overall conclusions of the 2004 OECD *Employment Outlook*, which emphasises less strict employment regulation combined with well functioning unemployment benefit systems, effective re-employment services, and product market competition as a way to balance the need for labour market dynamism with that for employment and income security.<sup>38</sup> Furthermore, the findings of the Danish Ministry of Finance support one of the main conclusions of the 2004 *Employment in Europe* report; — that all categories of active labour market policy (AMLP) expenditures have a positive impact on the employment rate but that efficiency depends on the combination and mode of interaction with other policies and institutions.

In Denmark, microeconomic evidence shows that

an important effect of ALMP is to increase availability for work and job search among the unemployed, and that they obtain jobs more quickly in periods leading up to the start of a mandatory activation programme. This is found to be probably the most important effect through which ALMP reduces structural unemployment.<sup>39</sup> The characteristics of labour market policies in regimes and their relative performance are shown below in Table 2.

In Table 3 below, the employment/population ratios, labour force participation rates, and unemployment rates are shown by order of regimes. There seems to be a correlation between regimes and employment/populations ratios, indicating that the North European regimes generate the relative highest employment/population ratios.

### 5.1. Future Challenges to the Danish Employment Policy

The introduction to this article raised the question of how to adjust the hitherto successful active labour market policies to the rapidly changing environment brought about by accelerating globalisation and technological change. The structural changes in the economic environment have meant that labour markets cover ever-larger geographical areas and that there is a steady increase in the degree of cross-border and international integration. Given the ageing population of Denmark, the key economic challenge is to maintain growth in living standards while preserving the welfare system. To achieve this, Denmark will need to raise labour market supply and productivity growth with a view to improving productivity and quality in work while maintaining the current level of social inclusion.

The structural reform of local government that is presently being undertaken by Denmark is a response to these and other future imperatives. The 2004 *Employment in Europe* report from the European Commission underlines the necessity of matching labour market flexibility with an adequate degree of security, particularly in terms of people's ability to remain and progress in the labour market. The report also underlines "the need to pro-actively anticipate, trigger and manage change resulting from economic inte-

<sup>37</sup> *Medium Term Economic Outlook*, Danish Ministry of Finance, 2004: 2.

<sup>38</sup> OECD *Employment Outlook*, 2004: 12.

<sup>39</sup> *Medium Term Economic Outlook*, 2004: 7.

Table 3. Employment/population ratios, labour force participation rates and unemployment rates, 2003

Countries ordered by regimes	Employment/ population ratio	Labour force participation rate	Unemployment rate
<b>Regime A:</b>			
Denmark	75.1	79.4	5.5
Sweden	74.3	78.9	5.8
Netherlands	73.6	76.4	3.6
<b>Regime B:</b>			
United Kingdom	72.9	76.6	4.9
United States	71.2	75.8	6.1
Ireland	65.0	68.0	4.5
<b>Regime C:</b>			
Austria	68.2	71.6	4.7
Belgium	59.3	64.3	7.7
Finland	67.4	74.1	9.1
Germany	64.6	71.3	9.4
<b>Regime D:</b>			
France	61.9	68.2	9.3
Italy	56.2	61.6	8.7
Spain	60.7	68.5	11.4
Portugal	67.1	72.0	6.8
<b>Not categorised by regime</b>			
Japan	68.4	72.3	5.4
Switzerland	77.8	81.2	4.2
<b>OECD Europe</b>			
	60.9	67.0	9.1
<b>Total OECD</b>			
	65.0	69.8	6.9

Source: OECD *Employment Outlook* 2004.

gration and technological change on a world scale. To promote higher flexibility in the labour market, to enhance employability and mobility, and to increase participation in employment, it is necessary to foster new forms of security and to prevent the emergence of a two-tier labour market.”<sup>40</sup>

This article has presented the current status and effects of the employment policies pursued by Denmark

since the labour market reform in 1994. These policies have proven their efficiency in achieving a well-balanced performance of the labour market. The challenge of the future will be to adapt the existing policies to the new administrative framework in order to maintain economic growth, high employment and the level of welfare and social security that is a notable characteristic of Denmark.

<sup>40</sup> *Employment in Europe*, 2004: Executive Summary.

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