



DIRECTORATE-GENERAL FOR INTERNAL POLICIES

POLICY DEPARTMENT **A**
ECONOMIC AND SCIENTIFIC POLICY



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Youth Unemployment and the Skills Mismatch in Denmark

In-depth Analysis for the EMPL Committee



DIRECTORATE GENERAL FOR INTERNAL POLICIES
POLICY DEPARTMENT A: ECONOMIC AND SCIENTIFIC POLICY

Youth Unemployment and the Skills Mismatch in Denmark

IN-DEPTH ANALYSIS

Abstract

This document, provided by Policy Department A to the Committee on Employment and Social Affairs, gives an overview of the current labour market situation in Denmark with a focus on youth unemployment and related policy measures. It furthermore presents data on future skills mismatch and the various Danish reforms to tackle the challenge of a rising demand for highly skilled workers. Finally it discusses some policy lessons that can be drawn from the Danish experience.

This document was requested by the European Parliament's Committee on Employment and Social Affairs.

AUTHOR

Per Kongshøj MADSEN, Centre for Labour Market Research, Aalborg University, Denmark

RESPONSIBLE ADMINISTRATOR

Ms Laurence Smajda
Policy Department A: Economic and Scientific Policy
European Parliament
B-1047 Brussels
E-mail: Poldep-Economy-Science@ep.europa.eu

LINGUISTIC VERSIONS

Original: EN

ABOUT THE PUBLISHER

Policy departments provide in-house and external expertise to support EP committees and other parliamentary bodies in shaping legislation and exercising democratic scrutiny over EU internal policies.

To contact Policy Department A or to subscribe to its newsletter please write to:
Poldep-Economy-Science@ep.europa.eu

Manuscript completed in February 2015
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LIST OF ABBREVIATIONS

AGS	Annual Growth Survey
CSR	Country specific recommendation
EPL	Employment protection legislation
GDP	Gross domestic product
LFS	Labour force survey
LTU	Long-term unemployment
NEET	Not in employment, education or training
VERP	Voluntary early retirement pay

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EXECUTIVE SUMMARY

- After 2008 Denmark, like most other European countries, fell into a deep recession as the combined result of the steep decline in the international economy and the bursting of a national housing bubble.
- The disaster should not be exaggerated. The Danish situation is far from the states of profound crisis that characterise many European countries. In fact, Denmark is still at the top end, when it comes to the usual measures of economic and social performance.
- Denmark has traditionally had high employment rates for young people and low levels of youth unemployment. However, a negative aspect of youth employment in Denmark is the particularly difficult situation of young people belonging to ethnic minorities.
- The low levels of open unemployment and of young people not in employment, education or training (NEETs) are related to an active policy effort with respect to youth unemployment.
- When interpreting the situation of young people on the Danish labour market, an important factor is the Danish flexicurity model, which implies a low level of labour market segmentation. During the crisis both youth unemployment and long-term unemployment increased, but still remained at a low level compared to the majority of other European countries.
- The main reasons for the relatively low levels of youth unemployment and NEETs in Denmark are:
 - The existence of a de facto youth guarantee for unemployed young people, who have to take part in active measures after a short spell of unemployment. If they do not already have a vocational education, they will be directed towards one.
 - A relatively smooth transition from school to work, which is enabled by the dual training system and the widespread use of traineeships including in further education, and the work experience which many young people gain from combining study and part-time employment.
 - The low entry barriers to employment due to the low employment protection of older workers.
- The idea of a future labour market with a surplus of unskilled labour and a great need for workers at skilled level and higher has become generally accepted in the Danish discourse on educational policy. This has led to several educational reforms in recent years at all levels from primary school to university level. It has also influenced recent reforms of active labour market policy.
- The main policy lessons from the Danish labour market model are:
 - A relatively low level of EPL for ordinary workers seems to support the inclusion of outsiders (e.g. long-term unemployed and youth) in the labour market.
 - Well-designed active labour market policies can help to keep labour market segmentation low, including in times of crisis, and prevent long-term and youth unemployment from soaring.
 - Active labour market and social policies can also be linked to the longer-term goal of increasing the educational level of the workforce.
 - Dual training systems for vocational education and the introduction of regulated traineeships including in further education seem to ease the transition from school to work for young people.

1. GENERAL OVERVIEW OF THE EMPLOYMENT AND SOCIAL SITUATION IN DENMARK

1.1. The Danish economy and labour market

Denmark received considerable **positive international attention** during the decade before the economic crisis. The achievement of the highest employment rate in the EU, the low level of unemployment and an overall positive macroeconomic performance made Denmark stand out as a best practice for Europe (Madsen, 2006; European Commission, 2006: 78-79; OECD, 2004:97-98).

After 2008 Denmark, like most other European countries, fell into a **deep recession**. This was the combined result of the steep decline in the international economy and the bursting of a national housing bubble that had developed since the beginning of the decade and accelerated after 2005. From the peak of the business cycle in the spring of 2008 to the bottom of the crisis a year later, Danish GDP fell by 8% on a quarterly basis. Reacting more slowly to the downturn, total employment reached its lowest level in the first quarter of 2012, having declined by 7.7% (Madsen, 2014). The disaster should not be exaggerated. The Danish situation is far from the states of profound crisis that characterise many European countries. In fact, Denmark is still at the top end when it comes to the usual measures of economic and social performance (Madsen, 2013, 2014).

Taking unemployment as an example, Denmark in June 2008 flagged the lowest rate of unemployment in the European Union. In December 2012 Denmark had dropped to being no. 12 in the ranking and only 2.7 percentage points below the average unemployment level of EU-27. Since then the relative position of Denmark has improved somewhat. In July 2014, the unemployment rate was 6.4%, which was the seventh lowest in the EU-28.

Table 1 presents the **main indicators** of the Danish labour market and compares the pre-crisis situation with recent data. For comparison the table also shows information about the labour market development in EU-28, the Danish ranking vis-à-vis EU-28 and the recent data for the Eurozone (EU-17). In terms of share of employment and unemployment, Denmark is in 5th and 7th place respectively – still not far from the top. In terms of youth and long-term unemployment Denmark remains among the three or four EU countries with the lowest unemployment levels. Also the share of young people not in employment, education or training (NEETs) is relatively low and about half the level observed in EU-28 and the Eurozone.

However Denmark's overall employment rate is significantly below the Europe 2020 target set by the government of 80% (Danish Government, 2014:31). However, one should note that the target is set for the so-called **structural employment rate**, which takes into account the expected effects on labour supply of the labour market reforms of recent years (including the reforms of disability pension, cash benefits etc.)¹.

¹ The structural employment rate is calculated under the assumption of a normalisation of the macroeconomic situation compared to the present economic downturn. It is therefore assumed that the economy returns to employment levels close to the full capacity of the labour market and therefore also to a higher employment rate than at present.

Table 1: Main indicators of the Danish labour market 2008 and 2014

Indicator	Denmark		EU-28		Denmark's rank compared to the best performer in EU-28		Euro area (19 MSs.)
	2008 Q2	2014 Q2	2008 Q2	2014 Q2	2008 Q2	2014 Q2	2014 Q2
Employment rate (%)	78.1	72.7	65.8	64.9	1	5	64.0
Unemployment rate (%)	3.2	6.4	6.9	10.2	2	7	11.0
Long-term unemployed as share of total unemployment (%)	15.6	23.1	38.7	50.1	3	3	51.4
Youth unemployment (15-24 years, %)	7.3	12.3	15.2	21.6	4	4	22.6
NEETs rate* (%)	4.3	6.0	10.9	13.0	3	5	12.8

Source: Eurostat.

Note: *The NEETs rates reported are for the age group 15-24 years and for the calendar years 2007 and 2013 respectively.

Concerning the state of the economy in general, there are **still mixed signals** concerning Denmark's growth prospects for the coming years, which also – given the openness of the Danish economy – reflects the uncertain situation of the European and global economy.

The latest macroeconomic forecast from the Ministry of Economic Affairs and the Interior was published on 12 December 2014². For 2014 the growth rate is estimated to be 0.7%, which represents a clear improvement from the growth rate of -0.5% in 2013, while the forecast for 2015 of 1.4% indicates expectations of a modest upswing next year. For 2016 the growth rate for GDP is estimated to be 2.0%. The modest growth rate for 2014 reflects mainly a constant level of private consumption and a modest increase in public consumption. The other components of total demand are increasingly led by a raise in housing investment of 4.5% and in public investment of 3.1%. For 2015 private consumption is expected to increase by 1.5% and thus stimulate overall growth. One must note however that expectations concerning increasing private consumption have been disappointed several times during the economic crises.

² Økonomi- og Indenrigsministeriet: Økonomisk redegørelse, December 2014 [Economic Report, December 2014] (www.oim.dk).

According to the ministerial forecast the balance of payments continues to show a large surplus – above 7% of GDP – in 2014-15, while the public deficit will be -2.5% of GDP in 2015 and -2.6% in 2016. For 2014 a surplus of 1.8% is expected.

1.2. Youth employment and unemployment

Denmark has traditionally had **high employment rates for young people and low levels of youth unemployment**. Thus in 2013 the employment rate for persons aged 20 to 24 years was 63.0%. Even for young persons aged 15-19 years the employment rate is as high as 44%, which can be compared to the average rates for EU-28 of 44% for the 20-24 age group and 15% for the youngest age group. The high employment rates apply to both men and women and reflect the widespread habit of combining study and work (OECD, 2010:52). The high rate of working students, who are often employed during holiday seasons, is also reflected in the high share of young workers on temporary contracts, which in 2013 was above 20% for the youngest age groups compared to 6% for the 25-64 age group.

According to Eurostat, the youth unemployment rate in 2013 was 15.8% for the 15-19 year age group and 11.1% for the 20-24 year age group. For 25-29 year olds, the unemployment rate in 2013 was 10.0%. The **educational level is significant when it comes to the risk of unemployment**. Based on the labour force surveys (LFS), the rate of unemployment in 2013 was 15.5% for young persons aged 25-29 years having only lower secondary education and 8.0% for the medium-skilled. For the highly-skilled the rate of unemployment was a bit higher reflecting the difficulties of new university graduates during the crisis. Similar differences are found for the younger age groups. There is therefore a considerable focus on the share of young people that are not in employment, education or training (the NEET group). As already shown in table 1, this share in 2013 was 6.0% for 15-24 year olds, which is rather low compared to the EU-28 average of 13.0%. The rate of early school leavers in the 18-24 year age group was 8.0 % in 2013, while the average for EU-28 was 12 %. One can add that the share of early school leavers in Denmark in 2013 is well below the target of 10% set by the government for 2020 (Danish Government, 2014:31).

A final characteristic of youth employment in Denmark is the particularly **difficult situation of young people belonging to ethnic minorities**. The employment rates of both young men and women with an immigrant background from non-Western countries are significantly lower than for native Danes (Danmarks Statistik, 2014:34-43). The difference in employment rates for young people is around 20-30 percentage points and is also reflected in higher unemployment rates for youths with a non-Danish background.

While the high employment rates of the younger age groups can be taken as a reflection of social norms and the general high level of employment in Denmark, the relatively **low levels of open unemployment and NEETs** are also related to the **active policy with respect to youth unemployment** that has been developed in Denmark over the past decades. This issue is further discussed below.

2. OVERVIEW ON MEASURES TO COMBAT YOUTH UNEMPLOYMENT

2.1. The role of the Danish flexicurity model

When interpreting the situation of young people on the Danish labour market, an important factor is the Danish flexicurity model. As has been discussed in the general literature on flexicurity, Denmark shows some interesting traits when it comes to the country's combination of the basic elements of a Nordic welfare state with some characteristics of more liberal market economies. The Danish development of the welfare state and labour market has thus been seen as a **successful hybrid** between the **flexible labour markets in the liberal welfare states** characterised by high numerical flexibility (liberal hiring-and-firing rules) **and the Scandinavian welfare regimes** of generous social security and active labour market policies. The hybrid model seemingly managed to reconcile the dynamic forces of the free market economy with the social security of the Scandinavian welfare states (Madsen, 2006). In the wider European discourse on flexicurity, Denmark was rapidly endorsed as an inspiration for a European Social Model that could guide the Member States in the development of their employment strategies (European Commission, 2006).

As shown in section 1, the Danish flexicurity model has **by no means been resistant to the economic crisis**. On the contrary, the model lived up to the expected consequences of a low level of employment protection and the relative ease with which employers could dismiss workers with a standard employment contract. But on the other hand the model also delivered the expected outcomes when it comes to a low level of labour market segmentation caused by both the limited barriers between insiders and outsiders and the active regime of labour market policy, which takes charge of unemployed people at an early stage. Thus both youth unemployment and long-term unemployment increased, but still remained at a low level compared to the majority of other European countries, in spite of the sharp decline in employment.

In addition, the **basic security arrangements** in the form of income security and active labour market policy are still functioning. One indication of this is the observation that Danes rank very low in studies of the economic hardship caused by the crisis (Eurobarometer, 2012). When asked whether the household has run out of money to pay ordinary bills or to buy food or other daily consumer items during the last 12 months, 8% of Danes answer positively. This is, together with Sweden, the lowest share in the EU-27, where the average is 18%. When asked whether they are able to keep up with household bills and credit commitments, 79% of Danish households state that they can keep up without any difficulties. This is the highest share in the EU, where the average is 44%.

Finally one should note that the Danish flexicurity model is also closely linked to the tradition of having a **strong involvement of the social partners** in the regulation of the labour market. This applies both to the regulation of work and pay conditions, but also to a high level of involvement in the formation and implementation of labour market policy through tripartite bodies at both national and regional levels.

2.2. Youth unemployment and active labour market policy

The **organisation of active labour market policy** at national, regional and local levels and the role of social partners can be described as follows:

- The institutions that are responsible for delivering employment services at the local level are the **jobcentres**, which are under the auspices of the municipalities. Their work is both monitored and supported by eight labour market regions and at the national level by the Danish Agency for Labour Market and Recruitment.

- At both the national and the regional level there are **tripartite bodies with representatives from the social partners and public authorities**. The regulatory authority of the regional labour market councils was enhanced under a reform made in 2015.
- Finally, both **public educational institutions and private service providers** play a role in assisting the jobcentres. The former offer the courses for the unemployed; the latter are especially involved in the case of unemployed people with special needs such as academics.

Since the sweeping **labour market reforms of the 1990s** Denmark has developed a regime of active labour market policy, which is based on **early intervention** and a widespread use of **mandatory activation**, including for young persons. For young unemployed persons the focus is furthermore on improving their formal skills through vocational education, based on the affirmation that unskilled young people face the largest risk of unemployment and unstable employment.

In more detail active measures directed at the young unemployed are as follows:

For young unemployed persons who are **members of an unemployment insurance fund**, the following rules apply:

- They are at first subject to the same offers and obligations as older unemployed persons, including the obligations of active job search and regular interviews with the jobcentre.
- Young persons under 30 years old are furthermore subject to mandatory activation after only three months of unemployment and not after six months like older unemployed persons.
- For young unemployed persons who do not have a vocational education, the jobcentres have a special focus on guiding them towards general or vocational education in the regular system.
- For those aged 24 years or less, their unemployment benefit will furthermore be reduced by 50% after six months with the aim of giving them a stronger incentive to take up a regular education programme; this is due to the fact that the state student's grant is significantly less than normal unemployment benefits.

One should add that graduates can become members of an unemployment insurance fund, even if they do not have an employment record, on the condition that they join the fund immediately after graduation. The unemployed graduates receive a reduced unemployment benefit of 82 percent of the normal level.

Young unemployed persons less than 25 years old, who have not completed secondary education, are furthermore always tested for their skills in writing, reading and arithmetic. If the test reveals problems, the young person has the duty to participate in relevant training.

The unemployed who are **not members of an unemployment insurance fund** can apply for **means-tested cash benefits**. This group accounts for 29% of total unemployment (full-time basis). For young unemployed 16 to 24 years old the share is 47%. The means-testing implies that they do not qualify, if they have assets over a certain limit or a spouse who can support them. If they qualify for benefits, the following rules apply:

- Unskilled young unemployed persons less than 30 years old, who are assessed as being able to take part in regular education programmes, are obliged to do so and

receive a special benefit, which is similar to the state student's grant. If the young unskilled person is not able to attend regular education programmes, he or she must take part in active measures.

- If the young unemployed person already has a vocational education, he or she will have the same status as an older unemployed person aged 30 years or more and has to look for work and also take part in mandatory activation after three months of unemployment.
- Unemployed persons who have barriers related to health or social problems take part in various rehabilitation programmes.

In addition to the measures directed at the young unemployed there is a **strong focus on youth education**, i.e. general and vocational education at the upper-secondary level. A major issue in this context has been the still significant share of young persons who do not complete a vocational education, and the high drop-out rate from vocational education especially for young people with an immigrant background. A reform of the dual training system for skilled workers has therefore been introduced and will be implemented during 2015. The reform is discussed in more detail in section 3.2.

Based on the material presented, the **main reasons for the relatively low levels of youth unemployment and NEETs** in Denmark can therefore be listed as:

- The existence of a **de facto youth guarantee** for both insured and non-insured young unemployed, who after a short spell of unemployment have to take part in active measures where they are directed towards regular education programmes, if they do not already have a vocational education. Such a de facto youth guarantee dates back to the mid-1990s and thus has a long tradition within Danish labour market policy. A reform of cash benefits for young people implemented from 2014 has further strengthened this element.
- A relatively smooth transition from school to work, which is enabled by both the **dual training system and the widespread use of traineeships** including in further education, and the **work experience** which many young people gain from combining study and part-time employment.
- Finally the low entry barriers to employment due to the low **employment protection of older workers** seem to play a positive role for the young entrants to the labour market (Madsen et al., 2013).

3. ADDRESSING THE SKILLS MISMATCH ON THE DANISH LABOUR MARKET

3.1. Analysing and forecasting skills mismatch

The issue of skills mismatch is addressed from a number of perspectives (Madsen, 2012).

Firstly, the labour market authorities regularly **monitor the imbalances on the labour market at the regional level**. This is based on the so-called labour market balances, which show the current unfilled demand for labour analysed among approximately 850 types of jobs. The balances are based on several sources of information including both registered data and surveys among employers concerning their demand for labour and unfilled vacancies. The labour market balances are used to guide individual unemployed people and to calibrate the various training programmes in order to direct them towards potential bottlenecks on the labour market.

Secondly, **forecasts of future skills mismatches** are produced on a more or less regular basis. With respect to methodology, one can identify a wide range of approaches, from quantitative econometric modelling to qualitative case studies in specific sectors or for specific groups on the labour market.

The *Ministry of Education* has a special section, which produces a set of statistical databases for the educational system as a whole and a number of quantitative forecasts related to education and the labour market. The forecasts focus on the supply side of the labour market, but also include forecasts of future imbalances between the supply and demand for different kinds of labour. The forecasts are used for budgetary purposes and to plan the intake into different parts of the educational system. The latter is not done in a mechanical fashion, as there is some scepticism with respect to the reliability of the longer-term forecasts of labour market imbalances.

Another institution producing regular forecasts of the supply and demand for labour with different skills is the *Economic Council of the Labour Movement*, which is an independent think tank financed by a number of trade unions. The forecasts are used as inputs for policy debates and proposals. The forecasts are based on coupling quantitative models for the supply and demand for labour.

Table 2 shows as an **example a recent forecast** from the Economic Council of the Labour Movement, where the future imbalances are analysed by level of education.

Table 2: Imbalances in the supply and demand for labour by skill level, 2020 and 2030

Skill level	Workforce 2020	Demand 2020	Imbalance 2020 (+: surplus)	Workforce 2030	Demand 2030	Imbalance 2030 (+: surplus)
	<i>1,000 persons</i>					
Unskilled	605	501	104	531	448	83
Upper secondary level	340	272	68	313	254	58
Skilled level	996	1001	5	882	974	-92
Short cycle higher education	153	200	-47	182	245	-62
Medium cycle higher education	549	576	-27	634	676	-43
Long cycle higher education	335	351	-16	522	467	56

Source: Arbejderbevægelsens Erhvervsråd 2013, p. 38, and Dansk Metal (2015), figure 8.3.

For both 2020 and 2030, the table shows forecasts for the supply (workforce) and the demand for labour with different levels of education. The grey columns show the imbalances. For workers with lower or only upper secondary level the conclusion is clear: there will be a surplus of labour. There is also a clear trend towards imbalances for short and medium cycle higher education. For skilled workers there seems to be a balance in 2020 and a growing deficit, while persons with long cycle higher education face a surplus in 2030.

Two **important reservations** should be made. Firstly, forecasts of the surpluses and deficits should not be translated into estimates of unemployment or the opposite. The flexibility of the labour market and potential substitution between workers with different skill levels will eliminate many of the estimated imbalances. Secondly, the estimated imbalances are very sensitive to the estimates of the sectoral composition of growth. This relates for instance to the relative growth of the private and public sectors, which have rather different skills profiles of their demand for labour. Thus the public sector has more employees with a higher education than the private sector. The demand for academics will therefore depend on the relative growth rates of the two sectors.

3.2. Policies to address the skills mismatch

Having said that, the overall vision of a future labour market with a **surplus of unskilled labour and a great need for workers at skilled level and higher** has become generally accepted in the Danish discourse on education policy. This is due to the combined effect of ongoing technological change and competition from low-wage countries resulting from globalisation. There is therefore a **need to improve the education system in order to increase the number of persons with higher levels of qualifications**.

This target has also been formalised in the **programme of the present government**, which stipulates that³:

- 95% of young people should have at least an upper secondary education or a vocational education as a skilled worker;
- 60% of young people should have a tertiary education in 2020;
- 25% of young people should have a university degree in 2020.

These goals have led to **several education reforms** in recent years at all levels from primary school to university. They have also influenced recent reforms of active labour market policy. The reforms of relevance to youth education are spelled out in more detail below. Labour market policy is addressed in the following chapter.

An element of the education system which has received considerable political attention and has also been targeted by the Country Specific Recommendations (CSRs) for 2011, 2012 and 2013, is **vocational education**⁴. Here the main challenges have been a high drop-out rate and a lack of apprenticeships. The recent reform has the following objectives:

1. more students need to choose a vocational education directly after 9th or 10th grade;
2. more students must complete vocational training, once they have started;
3. vocational training must challenge all students to become as proficient as they can be;
4. confidence in and well-being at vocational schools must be strengthened.

The reform thus responds to the Danish CSRs for 2013 and their demand for an improvement in vocational education⁵. A major challenge will be the **lack of sufficient traineeships** with public or private employers. Therefore a significant share of the students in the vocational education system will have to follow school-based training and not training in a real workplace.

Another major reform in this area was the **reform of the state education grant system** (SU) from the spring of 2013, which is now under implementation. Danish students are rather old when they graduate: their average age when completing a university degree at bachelor level is 27 years, compared to the EU average of 26 years (OECD, 2014:81). This is due both to a tradition of taking a sabbatical after leaving secondary education and to spending more time in education than is the norm.

³ See Regeringsgrundlag: *Et Danmark der står sammen [A Denmark United]*, October 2011, p. 8. In the national Reform Programme the target has been translated into a target of having at least 40% of the 30-34 year age group with a completed tertiary education in 2020 (Danish Government, 2014: 31).

⁴ "Improve the quality of vocational training to reduce drop-out rates and increase the number of apprenticeships." Danish CSR 2013, see *Council Recommendation of 9 July 2013 on the National Reform Programme 2013 of Denmark and delivering a Council opinion on the Convergence Programme of Denmark, 2013-2016* (2013/C 217/05).

⁵ See *Aftale om Bedre og mere attraktive erhvervsuddannelser 24. februar 2014 [Agreement on better and more attractive vocational education 24 February 2014]* (www.uvm.dk).

The aim of the reform is to change this situation. The reform has a number of elements aimed at **motivating students to complete their studies faster**. For students starting their tertiary education more than two years after the qualifying examination, the duration of the state education grant system will be limited to the standard norm for the education in question. Other students will be allowed an additional six months for a bachelor's degree and a further additional six months for a master's degree. Examples of other initiatives are automatic registration for courses and exams, better possibilities for the students to obtain credits for prior education, a better and more flexible transition between bachelor and master's degrees, better opportunities for more flexible admission and increased demands on universities regarding improvements in time of study and the possibility of early study tests.

Although not directly related to employment issues, one can finally note that **a reform of primary schooling** was legally adopted in December 2013 and is being implemented since August 2014⁶. The reform implies among other things an increase in the number of hours that pupils stay at school. The aim is to increase the quality of teaching and prepare the pupils better for secondary school and vocational education.

⁶ See for instance: <http://www.uvm.dk/Aktuelt/~UVM-DK/Content/News/Udd/Folke/2013/Dec/131220-Lovforslag-om-folkeskolereformen-er-vedtaget-i-dag>.

4. CURRENT IMPORTANT ISSUES IN EMPLOYMENT AND SOCIAL AFFAIRS

4.1. Reform of active labour market policies and Public Employment Services

Following a period of criticism of the performance of ALMPs and jobcentres and based on a set of proposals from an expert committee and a hearing of the social partners, a **major reform was agreed in June 2014** to be implemented from 2015. The reform, which will change both the content and the organisation of ALMPs targeted at the insured unemployed, has the following main elements⁷:

- A number of **procedural regulations** concerning the timing and content of the active measures will be removed, thus allowing for more flexible assistance to the individual unemployed person based on a dialogue with the jobcentre.
- During the first six months of unemployment the unemployed person will have to take part in **mandatory monthly meetings** with a counsellor at the jobcentre; the meetings will also involve staff from the relevant unemployment insurance fund.
- The unemployed person will be given more freedom to plan his or her contacts with the jobcentre through **digital self-service facilities**, which will also include a personal "job-log" to record job-search activities and options to choose various forms of training in job-search.
- An opportunity will be given to unskilled workers to use the two-year benefit period to **train to become skilled workers**, the condition being that they have already acquired the necessary practical experience. During the training period unemployment benefit will be reduced to 80% of the normal level.
- All unskilled and skilled unemployed people will have **access to six weeks of training** from the first day of unemployment.
- The present 98 local employment councils and four regional councils will be abolished; and a new structure with **eight regional councils** replaces them from the beginning of 2015. The councils will have **representatives from the social partners and other regional actors including educational institutions and the growth forums**.

The reform was **positively received by the social partners and the municipalities**. However in the implementation phase a number of worries have been expressed, especially concerning the practical challenges of conducting a large number of individual meetings with the unemployed.

The expert committee responsible for preparing the reform for the skilled unemployed will submit its second report in March 2015. This report will focus on the unemployed, who face more severe employability problems, and put forward proposals to integrate them better into the labour market. Important target groups for this effort will be youths and adults lacking formal education, and unemployed people from ethnic minorities. This reflects an effort to address the challenges of multi-ethnicity and increasing demand for skilled workers described above. One can note that the **present reform activities can be seen in the light of the Danish CSRs for 2012, 2013 and 2014**⁸.

⁷ Forlig mellem Regeringen (Socialdemokraterne og Det Radikale Venstre) og Venstre, Dansk Folkeparti og Det Konservative Folkeparti: *Forlig om reform af beskæftigelsesindsatsen [Agreement on a reform of active employment policy]*, 18 June 2014 (www.bm.dk).

⁸ "Take further measures to improve the employability of people at the margins of the labour market." Danish CSR 2014. See *Recommendation for a Council Recommendation on Denmark's 2014 national reform*

4.2. Social security systems

The reforms of the VERP (Voluntary Early Retirement Pay/"Efterløn") and other welfare programmes like cash benefits and sickness pay have taken Denmark a long way towards raising the workforce of the future by both including more inactive adults in the workforce and by raising the retirement age. This has again led to a situation where the public finances are assessed as "sustainable" in the sense that there is **no long-run tendency to increased public debt** (Det Økonomiske Råd, 2014, chapter 2). The reforms should also be seen in relation to the Danish CSRs for 2011 and 2012⁹.

The main current issue under this heading is the challenge of handling **the large number of persons who have exhausted their right to unemployment benefits** since the shortening of the benefit period from four to two years that was implemented from January 2013. The government has appointed a **new commission on benefit reform**. It has been asked to submit its report by September 2015, which will probably be after the upcoming parliamentary elections. The commission is composed of **independent experts and representatives from the social partners**¹⁰. Since the Danish benefit system for insured unemployed people is in need of a check-up after having had the same basic structure since 1970, there are good arguments for appointing the commission. Whether such a reform will to a sufficient degree address the worries of the trade unions is hard to assess at present.

4.3. Policy learning¹¹

In many respects, the **Danish reform strategy** as outlined in the National Reform Programme in recent years must be characterised as both ambitious and coherent. With its emphasis on long-term labour supply, it is also well in line with the demographic trends of the coming decades. From both political and economic points of view, the main challenge of the strategy is **striking the right balance between long-term goals and the present problems on the Danish labour market**.

As described above, the overall policy-path followed by the Danish government and outlined in its National Reform Programme also to a large degree **conforms to the targets set by the various CSRs and the AGS**.

More specifically with respect to youth unemployment and skills shortages the Danish CSRs from 2011 onwards have consistently called for educational reforms and improvement of the employability of people at the margin of the labour market¹². Danish policy towards youth unemployment is also in line with the **EU's Youth Guarantee**, which requires that "all young people under the age of 25 years receive a good-quality offer of employment, continued education, an apprenticeship or a traineeship within a period of four months of

programme and delivering a Council opinion on Denmark's 2014 convergence programme, Brussels, 2.6.2014. COM(2014) 405 final.

⁹ "Take further steps to enhance long-term labour supply by reforming the disability pension, better targeting subsidised employment schemes (the 'flex-job' system) towards people with reduced work capacity, and improving the employability of people with migrant background." Danish CSR 2012, See: *Recommendation for a Council Recommendation on Denmark's 2012 national reform programme and delivering a Council opinion on Denmark's convergence programme for 2012-2015*, Brussels, 30.5.2012. COM(2012) 304 final.

¹⁰ More information about the commission can be found on the website of the Ministry of Employment (<http://bm.dk/da/Beskaeftigelsesomraadet/Flere%20i%20arbejde/Dagpengekommisionen>).

¹¹ For a more detailed discussion of policy lessons from Denmark, see Madsen (2014).

¹² See for example the Danish CSR no. 2 from 2014: "Take further measures to improve the employability of people at the margins of the labour market. Improve educational outcomes, in particular for young people with a migrant background, and the effectiveness of vocational training. Facilitate the transition from education to the labour market, including through a wider use of work-based training and apprenticeships.", See *Recommendation for a Council Recommendation on Denmark's 2014 national reform programme and delivering a Council opinion on Denmark's 2014 convergence programme*, Brussels, 2.6.2014. COM(2014) 405 final.

becoming unemployed or leaving formal education”¹³. In the Danish case the **youth guarantee is an integral element in the active programmes for both insured and non-insured young persons.**

Finally the recent **reform of the vocational education system** and the other measures described in section 3.2 are in line with the European recommendations for improved youth policies and reducing skills mismatch as they are outlined in the **Youth Package** of 2012¹⁴.

A realistic assessment would be that this conformity in the Danish case should not be interpreted simply as a direct effect of the European Semester in triggering national reforms. But it does reflect the **high level of conformity between the Danish national discourse on reform strategies and policy trends at the European level.**

When it comes to **concrete policy lessons for other Member States**, the first observation is that the **Danish labour market model cannot be copy-pasted.** The model has a long and specific history and is closely related to other features of Danish society like the large welfare state and a high level of social capital and trust. However, some **specific policy lessons may be drawn:**

Firstly, the Danish case shows that a **relatively low level of EPL** for ordinary workers seems to support the inclusion of outsiders (e.g. long-term unemployed (LTU) and youths) in the labour market. The low level of EPL should be balanced by well-designed ALMPs and income support systems, which assist individuals who are negatively affected by the higher level of numerical flexibility.

Secondly, **well-designed active labour market policies** can help to keep **labour market segmentation low**, including in times of crisis, and prevent LTU and youth unemployment from soaring.

Thirdly, active labour market and social policies can also be linked to the **longer-term goal of increasing the educational level** of the workforce.

Fourthly, **dual training systems** for vocational education and the introduction of regulated traineeships including in further education seem to ease the transition from school to work for young people.

Finally, one can stress that **welfare arrangements** like child care and maternity/paternity leave seem to support the flexible labour-market participation of women. This element has not been the focus of the present paper, but should be included when taking a broader look at the merits of the Danish model, which supports a **high participation rate for women**, including during periods when they have responsibilities for small children.

¹³ See Council Recommendation of 22 April 2013 on establishing a Youth Guarantee (2013/C 120/01).

¹⁴ See Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions *Moving Youth into Employment*, Brussels, 5.12.2012 COM(2012) 727 final.

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NOTES

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ISBN 978-92-823-6631-8 (paper)
ISBN 978-92-823-6632-5 (pdf)

doi: 10.2861/97370 (paper)
doi: 10.2861/91104 (pdf)