

Decent Work Pilot Programme

Country Brief: Denmark

I National Context

With a population of 5.4 million, a labour force of about 3 million and gross domestic product (GDP) of US\$ 32,200 per capita* in 2004, Denmark is among the wealthiest countries in the industrialized world. Its economic fortune is not derived from natural resources but primarily from high levels of employment and output per hour worked. A welfare state, the country enjoys a high standard of living. It combines strong GDP per capita, low unemployment, large welfare entitlements and high rates of employment both for women and men. Denmark also has high social equality and low inequality of income, a large public sector and strong social partners.

Denmark became a member of the European Union (then known as the European Economic Community) in 1973 and is a member of the North Atlantic Treaty Organization. The country has several opt-outs from EU policies and did not adopt the European single currency, the euro. The Danish krone, however, is pegged to the euro and the country's central bank tends to keep interest rates in line with those of the euro zone. Denmark's public finances are in comparably good health.

Denmark has a long-term record of steady economic growth, although it has experienced short periods of slow or little growth. The Economist Intelligence Unit (EIU) expects the country's GDP to grow by about 2.3 per cent annually in 2005 and 2006, up slightly from the rate of 2.1 per cent in 2004 and sharply higher than the previous three years, when growth averaged only 0.6 per cent a year. The Danish economy grew by an average rate of 3.1 per cent a year in the period 1993-2000, compared with 1.9 per cent a year in 1983-1993. The current upturn is being driven by a rebound in consumer and investment demand, with household spending buoyed by low interest rates and new mortgage lending facilities.

The Danish economic environment is considered highly business friendly, with the EIU ranking the country as the best place in the world to conduct business for the period 2005-2009. The Global Competitiveness Report published by the World Economic Forum put Denmark fourth out of 117 economies for 2005-2006. The country has a relatively open economy, with exports and imports each equivalent to about 30 per cent of GDP.

At the same time, the country's economic policies and welfare system ensure that economic wealth is spread widely. Denmark is among the most egalitarian countries in the world, with a comparatively high degree of income equality. It also has a very low incidence of poverty.

I.1 National Development Priorities

In the first half of the 1990s, Denmark, like most Nordic countries, experienced an economic crisis with high rates of inflation, large fiscal deficits and high

* In terms of purchasing power parity.

unemployment. This led to suggestions that the so-called Scandinavian model of economic growth had reached its limits. But developments in the latter half of the 1990s do not bear out this view.

In Denmark's case, the principles and entitlements associated with the welfare state have helped the economy to adapt and move rapidly out of recession, onto a path of balanced growth and lower unemployment. By the end of 1990s, Denmark had an impressive record of decent work and economic performance that few countries could match. Although some problems remain and challenges continue to emerge, Denmark's working and living conditions rate among the best in the world. The country's priority is to maintain this combination of high levels of international competitiveness and decent work.

In looking at how to promote decent work and economic growth in Denmark and elsewhere, it is useful to have a better understanding of the way in which Denmark's society and economy function. This is particularly important in the context of current discussions on the challenge of globalization, where emphasis is often on making competitive gains by reducing costs, in particular labour costs.

II Focus of the Decent Work Pilot Programme

In 1998-99, the ILO carried out a comparative review of employment policies in Austria, Denmark, Ireland and the Netherlands. This was part of the follow-up to Commitment Three on full employment and sustainable livelihoods of the Copenhagen Declaration and Programme of Action, adopted at the World Summit for Social Development in 1995. The employment policy reviews of these four European countries, chosen for their outstanding labour market performance in the 1990s, received widespread attention. They contributed to increased interest within some countries on concluding social agreements to promote national employment goals. In the meantime, the Danish Ministry of Labour requested that the ILO follow up the Danish Employment review.

In response, the ILO proposed to undertake a decent work programme for Denmark. Denmark's government, unions and employers responded favourably. They were interested in working with the ILO to address prevailing domestic policy, particularly regarding the labour market and social protection, through a comparative perspective. The ILO, for its part, sought a deeper understanding of policies and practices that Denmark has helped to pioneer.

The decent work programme for Denmark resulted in the publication of a report^{*} analysing the country's success in sustaining competitiveness at a global level while maintaining high standards of labour and social protection. In preparing this report, the ILO benefited from background information from the Ministry of Labour, the Ministry of Social Affairs, the Danish Employers' Confederation and the Danish Confederation of Trade Unions. A series of consultations between the Danish Constituents and the ILO team were held in Copenhagen and Geneva. The report is summarized below.

^{*} *Decent Work in Denmark: Employment, Social efficiency and Economic security*, ILO 2003.

II.1 Decent Work Trends*

Denmark displays numerous signs of decent work, scoring well on a series of economic and social indicators. In many instances, the country is near or at the top of the scale of members of the European Union and the Organization for Economic Co-operation and Development.

Levels of employment and education are high, and the population is well protected against social contingencies and labour market risks. The country has relatively low proportions of dead-end and low pay/low productivity jobs. Comparatively few people are out of work for a long time. However, unemployment among immigrants, especially those from developing countries, remains relatively high. While the country has a strong record on gender issues, women are segregated in certain professions and are less likely to be found in senior management, as is the case in many other parts of the world.

Good Employment Performance

Denmark ranks among the industrialized world's best performers regarding employment. In 2000, 80 per cent of the working age population (15-64 years) were in the labour force, higher than the rate for the United States (77.2 per cent) and 10.5 percentage points above the mean rate for the then 15-member EU. The participation rate for women in Denmark was 75.9 per cent, the second highest in the EU after Sweden.

At the same time, the proportion of the population aged between 15 and 64 years who were employed was 76.4 per cent in 2000, an increase of 3.7 percentage points from 1994. This employment rate was by far the highest in the EU and the second highest in the OECD-20, behind Norway. It includes high employment rates for women and young people compared with the other industrialized countries, with only Norway and Sweden showing a better performance for female employment and the Netherlands for youth. For example, Denmark's employment rate of 67.1 per cent for young people aged 15-24 was well above the 40.8 per cent average rate in the EU and 47.4 per cent in the OECD-20.

Correspondingly, Denmark's unemployment rate is low compared to many other countries. In 2000, unemployment (using an internationally standardized measure) stood at 4.7 per cent, compared with an average rate of 8.3 per cent in the EU and 6.6 per cent in the OECD-20. Denmark made big gains in reducing unemployment during the 1990s, cutting in half its 1993 unemployment rate of 10.2 per cent.

However, unemployment among foreigners is considerably higher than among nationals. In 2000, for example, joblessness was 4.3 per cent for nationals and 13.5 per cent for non-nationals. This was despite a decline in unemployment among non-Danes since the mid 1990s.

* Figures in this section are from *Decent Work in Denmark: Employment, Social Efficiency and Economic Security*, ILO 2003. The statistical information cited in this report comes from a variety of sources. Unless otherwise indicated, the figures concerning the OECD-20 group refer to the unweighted average of the industrialized OECD countries, barring Luxembourg and Iceland. These two countries were omitted because of their small size and because for many indicators they are outliers in the distribution of values. The EU refers to the 15 countries that were members in 2000.

Extensive Benefit System

Denmark has developed an extensive social protection system, with benefits covering unemployment, retirement pensions, sickness, disability and leave for childcare. There is also a comprehensive social assistance scheme, providing an economic safety net for people who are unable to support themselves.

In 1998, slightly over 40 per cent of the country's total population received some form of public income transfer payment. Of these, 28 per cent were getting temporary payments, with old-age pensions accounting for the bulk of permanent benefits. Transfers directly linked to unemployment or employment benefits concerned 13 per cent of all beneficiaries.

Unemployment benefits are good, covering up to 90 per cent of previous wages for up to four years. Compensation is capped, however, so that only low-income groups reach the 90 per cent level. Unemployment benefits are not fully taxed.

In contrast to this highly developed income protection for the unemployed, statutory employment protection in Denmark is relatively moderate. There are shorter notice periods for terminating employment contracts and less extensive severance pay than in a number of other countries. On average, for example, severance pay is provided only after 20 years of employment at an average rate of 1.5 month's salary. This compares with mandatory severance pay after 20 years of employment equalling 12 months' salary in Spain, 18 months in Italy and 20 months in Portugal. Nonetheless, notice periods and severance pay can vary in Denmark according to collective agreements and individual contracts.

Denmark has a universal tax-financed old age pension that is not linked to years of employment and previous income. In addition to this, there are supplementary pensions, income-based labour market pensions and private pensions. There are also comprehensive sickness and disability benefits. Parents receive maternity and paternity leave as well as leave to take care of children up to eight years old.

If all mandated welfare provisions are included, Denmark's total public social security expenditure was 33 per cent of GDP in 1996. This was the second highest level of social spending in the OECD, behind Sweden (34.7 per cent) and ahead of Finland (32.3 per cent) and France (30.1 per cent).

Education and Training

Participation of Danish youth in education is high. The proportion of 15-24 year olds in education reached 70.9 per cent in 2000, the second highest level in the EU after the Netherlands (71.7 per cent) and above the EU average of 64.1 per cent. Only 13.1 per cent of young Danes aged 25-34 years had stopped their education in lower secondary level. This figure is among the lowest rates in Europe after Norway (7 per cent), the UK (10.5 per cent) and Sweden (12.8 per cent), and well below the mean EU rate of 25.9 per cent. In 1999, 27 per cent of Denmark's labour force aged 25 to 64 years had completed tertiary education.

There is also extensive job-related training for adults in Denmark. For example, a 1999 survey of EU countries showed that 20 per cent of the adult labour force had participated in education and training in the previous four weeks. This was second

highest, after Sweden (26 per cent) and compared with a EU average of 8 per cent. In 2000, 49 per cent of Danish employees undertook training paid for or provided by their employer. This was behind Finland's 55 per cent, but well above the EU average of 33 per cent.

Total public expenditure on education as a percentage of GDP was 6.8 per cent in Denmark in 1998, the highest rate in the EU, which had an average rate of 5.1 per cent.

Progress on Gender Equality

In looking at equality between men and women, the decent work report considered their relative opportunities in the labour market across the following dimensions: access to education, training and employment; access to particular job positions in specific occupations and sectors; and ranking in terms of occupational status, promotion opportunities, earnings and social security coverage.

Women's education levels in Denmark are nearly as high as that of men, with the gap narrower among younger people (aged 25-34) than the population as a whole. Labour force participation of women and men has steadily moved toward convergence over the past 40 years. In 1950, virtually all men of working age were in the labour force, whereas the rate for women was just 43.5 per cent. By 2000, the rate for men was 84 per cent and for women 75.9 per cent. The employment rate of women was 72.1 per cent in 2000, among the highest in Europe, but still 8.6 percentage points less than that of men. Female unemployment stood at about 5 per cent, compared with 4 per cent for men.

Women have made considerable progress in the world of work. Together with Finland, Sweden and the United Kingdom, Denmark is at the top of the list of European countries with a comparatively high proportion of workers whose immediate supervisor is a woman.

However, occupational segregation by sex remains high in Denmark, as in many other parts of the world. Women are 75 per cent more likely to enter a public sector occupation than one in the private sector. For example, 77 per cent of all municipal employees are women.

More than 80 per cent of women employees are concentrated in four of 10 occupational groups – technicians, clerks, service workers and plant and machine operators. Women are less likely to be found in higher administrative and managerial jobs, accounting for less than 3 per cent of legislators, senior officials and managers. Denmark's record of women entrepreneurs is comparatively poor. Only 21.4 per cent of entrepreneurs were women in 1990-99, the fourth lowest among 27 OECD countries. Portugal had 41 per cent and 11 other nations had rates of between 30 and 40 per cent.

In contrast, women hold just under 40 per cent of all national parliamentary seats. They held 45 per cent of all ministerial posts in 1999, putting Denmark close to the Swedish level of 55 per cent.

Women in industry and services in Denmark earned 82 per cent of average male earnings in 1998. Belgium, France, Finland and Sweden had a similar gender wage

gap, while in Austria, the Netherlands and the UK, the ratio of women's earnings to men's was about 70 per cent. The EU average was 77 per cent. For Denmark, the gap is widest in the private sector, narrower in municipal jobs and still narrower in the state sector.

Working Conditions, Rights and Organization

Figures for fatal and non-fatal occupational injuries show that Denmark is among European countries with the safest workplaces. The percentage of the labour force reporting absences due to work-related health problems, meanwhile, was the same as the average for the EU.

Denmark has ratified all the fundamental international labour Conventions covering freedom of association and collective bargaining and the elimination of forced labour, child labour and discrimination. It also has ratified other major Conventions on labour market policies. As of late 2005, Denmark had ratified 69 ILO Conventions and one Protocol, of which 61 Conventions and the Protocol were in force. This is a relatively low number compared with Finland, Sweden, Norway and France. This ratification record reflects a preference for regulating the labour market through collective bargaining agreements rather than law.

The great majority of wage and salary earners in Denmark are members of a trade union. Union density, which measures the number of trade union members as a percentage of all wage earners, varies enormously among industrial countries. Denmark and Sweden are at the top of the spectrum. In the middle are countries such as Belgium, Norway and Ireland, while the U.S. and France have relatively low unionisation rates. The trade union density rate, however, is not necessarily a good indicator of union strength, influence and capacity for collective action. One reason for the high membership rates in Nordic countries, as well as Belgium, relates to the involvement of unions in managing employment benefits.

Much of the workforce is covered by collective agreements – a survey commissioned by the Danish Confederation of Trade Unions put the coverage rate at 83 per cent in 2000. The strike rate in Denmark was below the EU average in every year between 1990 and 1997. But an 11-day strike in 1998 brought the average for 1990-98 period well above the EU average. According to the European Survey on Working Conditions, Danish workers consider that they have a relatively strong influence on working conditions, including hours and organizational changes.

Information on the degree of organization among employers is less complete. In 1995, the member firms of the Danish Employer's Confederation covered about half of the labour force in the private sector, and about 70 per cent in the manufacturing sector, but much lower proportions in services. For the economy as a whole, the employer organization density rate is estimated at about 72 per cent.

Labour Productivity

In 2000, GDP per person employed in Denmark was just below the average for the OECD-20. Six other European countries had values close to Denmark's, including Germany, Sweden and Norway. The U.S., Belgium and Ireland has higher levels of productivity.

Denmark performs better when productivity is measured in terms of GDP per hour worked, however. Using this indicator, Denmark was ninth among the OECD-20, not far behind the U.S. The better ranking for hourly productivity reflects the comparatively low number of annual working hours in Denmark. In assessing an economy's performance in labour productivity, it is necessary to take into account its structural features. These include the balance among different economic sectors and the average size of enterprise. Because Denmark's economy is small and relies mainly on small and medium-sized companies, the country is likely to have lower productivity levels than countries with a higher proportion of large enterprises that bring economies of scale.

II.2 How Denmark has Attained Decent Work

Decent work in Denmark is the result of both institutions and policies. These were not designed in one stroke. They have emerged over time, sometimes in piecemeal fashion. There is a long history behind the way in which the Danes tackle their social problems. At times, there has been conflict and confrontation between various parties. But gradually, relations evolved in line with commonly defined and accepted principles and rules that underlie a culture of dialogue negotiation and compromise.

Institutions

Institutions are increasingly recognized as an important dimension of economic growth and development. They structure political, economic and social interactions, reduce transaction and information costs and facilitate shaping of agreements and policies among actors. This is especially the case for labour market institutions, viewed by some as determining growth and development. Such institutions form an essential part of Denmark's overall performance.

Basic Institutional Features

At the core of the Danish model lie some basic institutional features:

- A high degree of political and economic decentralization;
- An economy largely based on small and medium-sized enterprises – enterprises with nine or fewer employees account for 90 percent of all firms;
- An open economy – exports and imports are each equivalent to about 30 percent of GDP;
- A homogeneous and egalitarian society, where income differences between top and bottom earners are relatively narrow;
- An active society in terms of participation in social, cultural and political affairs.

In practice, Denmark has a remarkably flexible economic and social organization. This flexibility is based on dialogue, mutual trust and cooperation stemming from shared basic values.

This tradition has its roots in the strong cooperative movements in agriculture, and in the crafts and guilds that started to forge industrialization in the latter half of the nineteenth century. It stems from the self-reliance of small agricultural communities and the popular high school movement. But it has been reinvented several times as challenges and new situations have emerged. The success of small firms in Denmark

owes much to their tradition of cooperation as well as the shaping of local private and public support systems. These cover areas such as product and technology development, export promotion, credit financing, training of the workforce and social and labour market security.

Cooperation is perhaps best exemplified in the extensive consultations and negotiations among employers' and workers' organizations. Typical areas for collective bargaining, which takes place at various levels, are wages, pensions, supplementary social benefits and working time. Other areas, such as productivity, work organisation, occupational safety and health, training and education, labour market policy and unemployment benefits, are addressed through consultation and cooperation at enterprise, local and national levels.

Denmark is a lively democracy where political, social and economic rights are exercised through direct and indirect participation of citizens in a myriad of associations and organizations. These affect political, economic and social decisions.

Key Social and Economic Policies

Social Protection for All

All citizens have equal rights to social security benefits and social services. The underlying aim is to promote equality at a high level, rather than equality in meeting minimum needs.

Incomes are redistributed through taxes, transfers and subsidies to almost everybody. As outlined in the section on decent work trends, there are a wide variety of benefits and entitlements. Moreover, extensive care services have been developed in response to growth in the number of older people and to changing family structures and patterns. These include cost-free and subsidized health care, day care and care for dependent elderly persons. In addition, targeted measures are available for groups that are socially excluded or at risk of social exclusion, including people with physical and mental disabilities. The public sector is primarily responsible for providing benefits and services. Their planning and delivery is decentralized, with local government in charge of administering the social sector.

Expenditure on social protection is largely financed from tax revenues, not from social contributions of employees and employers.

Social welfare schemes do more than provide effective social protection. They also have implications for income distribution and redistribution, poverty, the level and structure of employment, economic growth and social cohesion.

In Denmark, social transfer payments and social services generally are not dependent on previously earned income or labour market attachment. When they are, it is to a limited extent. As a result, the level of compensation relative to previous income is higher for persons with low incomes. This is further reinforced through ceilings on benefits. Coupled with a progressive income tax scale, the social welfare system helps to redistribute income in favour of the less well off.

Social protection regimes can also serve as a form of investment. Many education and active labour policies in Denmark are geared toward improving the skills of the labour

force. Data from EU countries indicate that levels of literacy and skills clearly co-vary with the degree of income equality. To the extent that welfare diminishes poverty, it may help prevent crime, corruption and social disorder and strengthen social cohesion. This in turn contributes to creating a better business environment and climate for investment. Social protection can also encourage trade and investment by facilitating change. Workers who are well protected against income losses from structural adjustment tend to be less resistant to change and more willing to cooperate in product and process innovation.

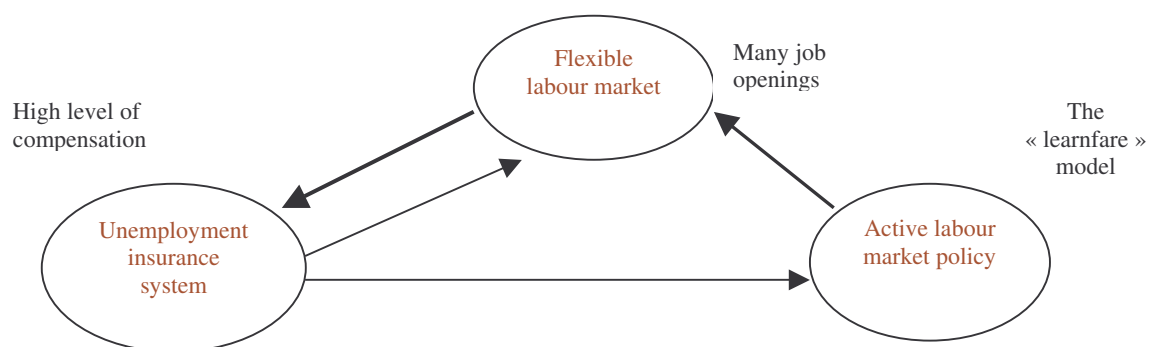
Among industrial countries, those with the most open economies also have the highest level of social spending. These include Denmark and the other Nordic countries, Austria, Germany and the Netherlands.

An important feature of Denmark's social policy is its close link to labour market policy. Beneficiaries must meet criteria of employability and availability for work. For instance, participation in active labour market programmes is a condition for receiving cash social assistance and unemployment benefits. A mix has been found between policies for welfare and equity, on the one hand, and efficiency and competition, on the other. This results from the way in which social partners have learned about policy through collective bargaining processes.

Active Labour Market Policy

The Danish labour market is an integral part of the socio-economic system and the welfare state. Contemporary labour market policy in Denmark has been described as a "golden triangle" consisting of:

- A flexible labour market characterized by comparatively weak employment protection legislation. This is partly supplemented by collective agreements for certain sectors, especially with regard to dismissal notice periods;
- Generous income protection in case of unemployment;
- A wide-ranging active labour market policy, including extensive training programmes that enable the unemployed to return to work as soon as possible.



The golden triangle of "flexicurity", Madsen, 2001

This combination makes it relatively easy for firms to dismiss workers and for workers to quit firms, while laid-off workers are fairly well protected against loss of income and their employability is promoted. Finding publicly financed training is easy and everybody has access to the public employment service. Active labour market policies, which mainly involve training, also include direct job creation and

employment subsidies, as well as measures for the disabled. The interaction between private and public labour markets and labour market institutions produces a highly mobile and secure workforce. This arrangement allows for employment adjustment, high labour mobility and employability.

Mobility is more equally distributed throughout the workforce than in a number of other European countries. In Spain, for example, mobility mainly involves young people on temporary contracts and the labour market is strongly segmented between stable and flexible workers. In contrast, Denmark has a much lower proportion of temporary workers, less segmented labour markets and a lower degree of concentration of flexibility.

The main difference between Denmark and other high-mobility labour markets, such as the U.S. is the proportion of workers transiting through labour market institutions. While job loss in the U.S. is associated with considerable income loss, Danish workers – especially those with below average earnings – are fairly well protected and have opportunities to enter training and other labour market programmes.

The Danish experience is not in line with the often-heard view that a generous income-replacement scheme for the unemployed produces disincentives to work. In Denmark, good benefits combine with low rates of unemployment. The labour market training system is designed to accommodate short-term training needs of companies and workers, as well as the longer-term training needs of the unemployed. It seems also to be highly adaptable to the prevailing labour market situation.

Denmark clearly has pursued the goal of integrating more people into the labour market. It has progressed toward a more active welfare state, with social transfers contingent on an individual's participation in paid activities, rather than offering long periods of passive income replacement. An active labour market policy is based on the view that public intervention is needed to remedy market failures leading to involuntary unemployment. Action during the past decade has been primarily geared to extending and upgrading labour market skills to maintain Denmark's competitive position internationally.

Of course, labour market policies are not without costs. In the second half of the 1990s, Denmark spent more than any other OECD country on labour market measures. Financing labour market policies requires high tax rates. But both firms and workers benefit because such policies allow wage costs to be "socialized," which is especially important for small firms, improve employability and foster a better match between supply and demand in the labour market.

That said, Denmark's labour market strategy would probably have been much less successful if it had not coincided with, and benefited from, an economic upswing. This was triggered by a number of factors, including a fine-tuned expansionary macroeconomic policy in the early 1990s. Denmark provides an interesting illustration of the strong link between the labour market, social welfare and overall economic growth. Underlying this link are integrated micro- and macroeconomic policies.

Policy Interaction

Denmark benefited greatly from increased consistency and effectiveness of its micro- and macroeconomic policies during the 1990s. Macroeconomic policy choices closely paralleled labour market policy choices. Fiscal balance became a priority, following the brief expansionary stimulus of 1993, which boosted internal demand but was quickly balanced by higher external demand. Labour market policy aimed to increase flexibility and put more people back to work by improving their skills. The goal was to reduce the number of people receiving unemployment benefits rather than cut the level of benefits.

The country balanced its budget because it was able to spend less on unemployment benefits, rather than slash expenditures. At the same time, macroeconomic policy steered the economy toward a higher growth path, in which both domestic demand and exports were significant. This experience illustrates how closely the objective of fiscal balance is linked to developments in the labour market.

In tandem, lower inflation became an explicit objective and was facilitated by an implicit policy of wage restraint. Keeping a lid on wages was made easier by reduced inflation expectations, in part a product of the lower fiscal deficit. Therefore, macroeconomic policies pursued in Denmark as of 1994 enlarged the scope for labour market policy choices. Conversely, labour market reform to increase flexibility and employment levels widened the room for an expansionary, non-inflationary macroeconomic policy, and hence for economic growth. A virtuous circle was established. In addition, a competitive exchange rate significantly boosted exports until the end of 1997, when a slight currency appreciation tempered economic overheating. High growth in exports played a significant role in generating employment after 1994.

Overall, these macroeconomic conditions sustained a period of high and non-inflationary growth with positive effects on employment and real wages.

II.3 Social Foundations of Decent Work – A Synthesis

The Danish case demonstrates that decent work and economic strength support each other. While there may be trade-offs between the two, these can be managed through an appropriate policy mix.

Flexibility, equality, social security and broad social participation are explicit policy goals and, at the same time, instruments for problem solving. Their combination allows the national economy to remain open to world markets, by strengthening the capacity to adjust rapidly to global change and cushioning the negative effects of external economic shocks.

Denmark also illustrates that large income transfers and a high level of unemployment benefits need not act as a disincentive to employment or stifle the labour market, if combined with labour market policies that include rights and obligations. Moreover, Denmark demonstrates that flexibility need not be at the expense of security – the two can go hand in hand. It is also wrong to assume that a large public sector will necessarily harm private business, crowd out investment and impede employment. The Danish case shows that the public sector and private business can be combined in a mutually beneficial partnership.

Significantly, Denmark shows that it is not necessary to have extreme wage disparities for the labour market to function efficiently. The Danish example offers proof that there is a viable alternative to the unfettered wage competition model of labour market flexibility. This involves policies for continuous, comprehensive labour market training and other active measures that allow labour supply to better match demand. While this takes funding, the expenditure pays clear dividends in human and economic terms. As concluded by the UNDP in its 2001 Human Development Report, income inequality is likely to erode social capital, including the sense of trust and citizenship that is key to the formation and sustainability of sound public institutions.

Denmark's social and economic policies interact in a positive way. Strong employers' and workers' organizations, and continuous dialogue with the government at both national and local levels, sustain this policy mix.

III Challenges Ahead

The basic challenge facing Denmark is whether it can sustain the model described above. This depends largely on the capacity of the Government and the social partners to maintain a rate of economic expansion that is sufficient to allow respectable growth in real incomes in conditions of macroeconomic stability and social cohesion.

Labour Supply

The most important constraint is inadequate supply of labour, given Denmark's low population growth and increasing proportion of elderly people. Only very moderate growth in the labour force is projected for the period up to 2010 (0.25 per cent a year), with employment increasing at a slightly higher rate (0.36 per cent a year). There are a number of ways to address this problem.

The Government and social partners have already agreed to reverse the policy of encouraging early retirement. Incentives are now provided for workers to continue working beyond the age of 60 and to postpone early retirement until at least 62. A reasonable objective would be to raise the employment rate of workers aged 55-64 over the next few years from the present level of 54 per cent to about 60 per cent, which would still be below that of Sweden. Efforts should concentrate in particular on workers aged 60 and over.

Another way to extend labour supply would be to seek lower levels of unemployment. This could involve extending active labour market policies to more people. Instead of focussing only on recipients of unemployment benefits, training and other policy instruments could target those who might have been interested in early retirement as well as people on extended sick leave, invalidity pension or other social assistance. Because these groups are likely to be less employable than people who are temporarily out of work, policy instruments may have to be revised and expanded.

In addition, Denmark should continue to evaluate the labour market advantages and potential costs of immigration.

Decent Work

While Denmark has achieved impressive levels of decent work, there are also challenges on this front.

Working conditions should be continuously reviewed and improved, in particular in relation to specific age groups, such as workers aged 55 and over, and to occupational safety and health. New concerns have recently emerged regarding the notion of stress, which while ill-defined refers to a complex set of factors related to physical and mental duress at the workplace. The social partners and Government are increasingly concerned about stress, and absences associated with it.

Methods for worker participation in enterprises should also be kept under review, as areas for the direct involvement of workers and unions representatives expand or change.

Despite considerable progress, gender equality and equality of opportunity are still an unfinished business in Denmark. Differences remain in pay, occupational patterns and qualifications and skills. Women entrepreneurs are rare. Some of the differences may reflect discrimination, while in other areas patterns of social segregation prevail. The objective is not to aim for total elimination of occupational or sectoral segregation by sex, but rather to ensure equality of opportunity in the labour market based on freedom of choice.

Denmark is likely to see the proportion of immigrants in the labour force rise from 5 per cent to 7-8 per cent in 2010. This will reflect both an increase in the number of immigrants of working age and higher rates of labour force participation. This development presents both a challenge and partial solution to the ageing of Denmark's population. Given that unemployment is higher among immigrants than natives, Denmark has already begun targeting measures to improve employability and access to the labour market among immigrants. These integration measures have the potential not only to improve equality in the labour market, but also to ease supply shortages.

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