

## **LONG-TERM UNEMPLOYMENT IN DENMARK**

*This report is the response to an ad hoc request from the Commission to provide an overview of recent developments concerning long-term unemployment in Denmark including the distribution among different groups in society (age groups, qualifications, ethnic background, men/women). The report furthermore addresses recent initiatives to combat the rising long-term unemployment and assesses the stability and durability of current rules governing the active labour market measures in Denmark.*

### **1. Recent developments in long-term unemployment in Denmark**

Since the summer of 2008, the Danish rate of unemployment has increased dramatically. Thus the registered unemployment rate for March 2010 was 4.2 percent, more than a doubling from its lowest level of 1.6 percent in June 2008 (seasonally adjusted). The unemployment rate according to the European Labour Force Surveys (LFS) was 7.6 percent in March 2010 compared to 2.6 percent in June 2008.

The difference between the two estimates of the unemployment rate is due to the fact that registered unemployment measures the number of unemployment in the administrative registers of the job-centers (recipients of unemployment benefits or social assistance as unemployed), while the LFS is based on survey data. In the latter a person is counted as unemployed, if he or she declares to be actively looking for work and able to start working within a few weeks (the so-called ILO-definition).

Relative to the average situation in the Member States, long-term unemployment (LTU) in Denmark is still at a very low level. In the fourth quarter of 2009, the share of the unemployed that had been unemployed for more than 12 months was 11.1 percent according to the European LFS, which was by far the lowest number found in the EU. For EU-27 the share of long-term unemployed was 35.2 percent.<sup>1</sup> The rate of LTU as a share of the workforce was 0.8 percent in Denmark compared to 3.3 percent in the EU-27.

In spite of this apparently positive situation, long-term unemployment has become a top issue on the Danish political agenda and the Government has announced that an action plan towards long-term will be put forward later in the spring.

There are two reasons for this increased focus on LTU. The first is the fact that, albeit from a low level, long-term unemployment has risen steeply during recent months as more and more of those, who lost their job in the beginning of the downturn, are now entering the ranks of the long-term unemployed.

Secondly the national Danish estimates of the number of long-term unemployed significantly differ from those found in the European LFS. This is partly due to the differences in the method of data collection already mentioned. But furthermore the EU-definition is based on the unemployed person's own statement of having been without work for 12 or more consecutive months. The definition of LTU applied in the national Danish unemployment statistics is that a person has been registered as unemployed or as a participant

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<sup>1</sup>Danmarks Statistik: *Nyt fra Danmarks Statistik* no. 181, April 28, 2010

in an active labour market programme for at least 80 percent of the last 12 months prior to the data of measurement.

In figure 1 the development since the beginning of 2000 in the number of LTU according to this national definition is shown. The figure also shows “gross unemployment”, which is defined as the total number of registered unemployed plus the number of participants in active labour market measures. The data are in both cases taken from a data base with longitudinal data about all recipients of transfer income (the so-called DREAM-database).<sup>2</sup>

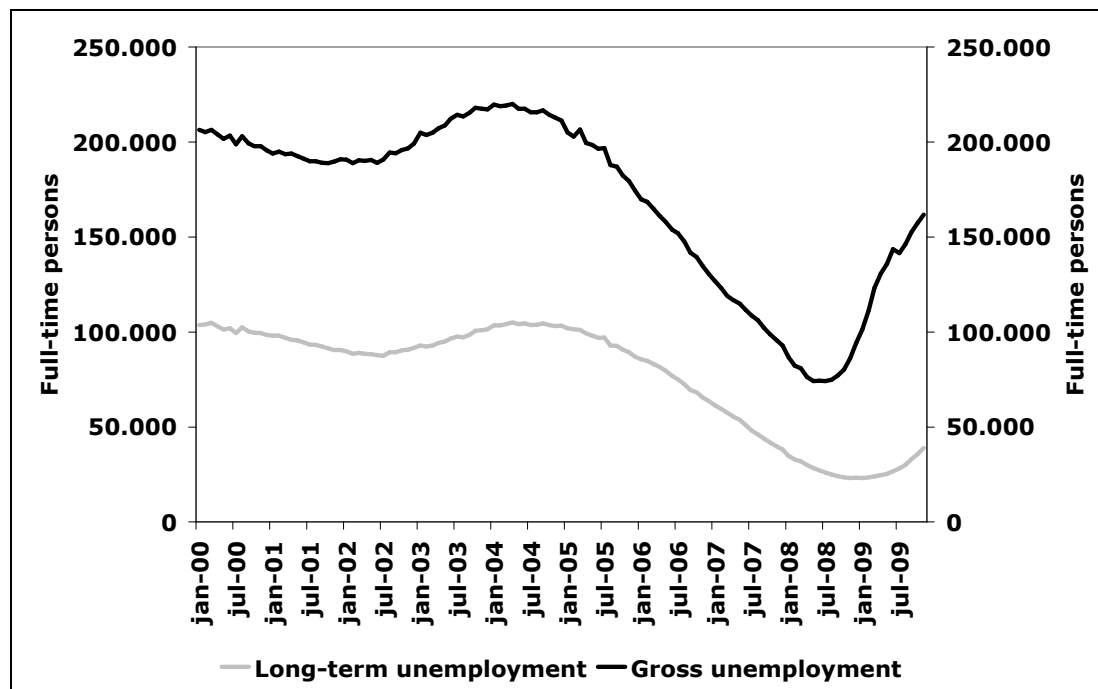


Figure 1: The number of long-term unemployed and "gross unemployment". Source: Ministry of Employment

As it is evident from figure 1, the use of the national definition of LTU drastically raises the number of LTU to about a quarter of the total number of unemployed in the fall of 2009. In the early 2000-years the share was even higher – up to about half of total unemployment. Thus is due to the fact that persons, who have been unemployed for more than 3 to 9 months, will have the duty to take part in active measures and therefore no longer count as (long-term) unemployed neither in the usual rate of registered unemployment or in the LFS.<sup>3</sup> The exact spell of unemployment before entering activation depend on the person’s age, cf. below.

<sup>2</sup> The data for the figures in this section have kindly been made available to the author by the Ministry of Employment.

<sup>3</sup> In the Danish LFS, participants in active labour market measures are classified as employed, if they themselves state that they were employed during the reference week.

Compared to the early 2000-years the number of LTU in the fall of 2009 is still modest, but in relative terms one of course notes a large increase from a low of 23,100 persons in January 2009 to 38,800 persons in November 2009. Furthermore the Ministry of Employment in a recent memo estimates that the number of LTU will double during 2010, again as the result of the rapidly rising number of unemployed entering the ranks of the LTU as an echo of the many new entrants to unemployment during 2009.<sup>4</sup>

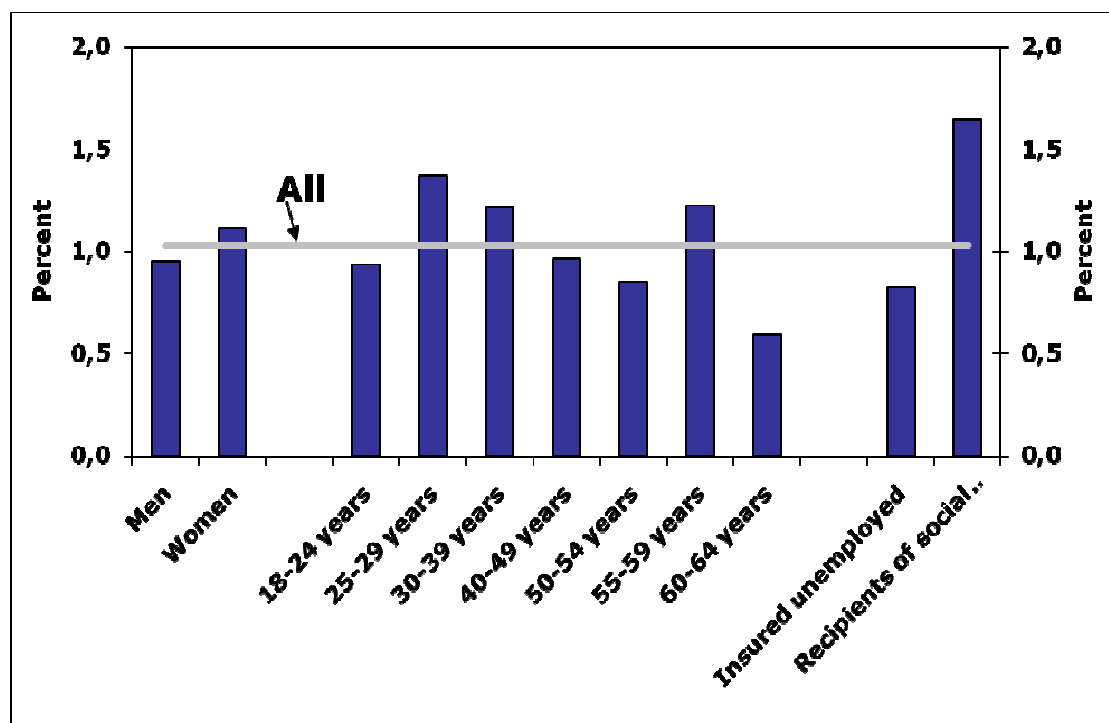


Figure 2: LTU for different groups on the labour market, 3rd quarter of 2009. Source: Ministry of Employment

As documented by figure 2, LTU is unevenly distributed over the different main groups on the labour market. While the average rate of LTU (as a share of the workforce) was just above 1 percent in the 3<sup>rd</sup> quarter of 2009, the rate was slight higher for women than for men. Distributed by age, the age group mostly affected by LTU was the “older” of the young unemployed (aged 25-29 years). Other groups with an above average rate of LTU were the age group 30-39 years and the older workers aged 55-59 years. The lowest rate of LTU is found among the oldest age group as a reflection of their access to the Voluntary Early Retirement Pay (“*efterløn*”). By source of income the recipients of social assistance to unemployed show a significantly higher share of LTU than the members of an unemployment insurance fund. This reflects the different levels of employability of the two groups.

<sup>4</sup> Beskæftigelsesministeriet: *Langtidsledighed [Long-term unemployment]*, January 22, 2010 ([www.bm.dk](http://www.bm.dk)). The Ministry has announced that a larger report analyzing LTU will be published together with the action plan that is expected in a few weeks.

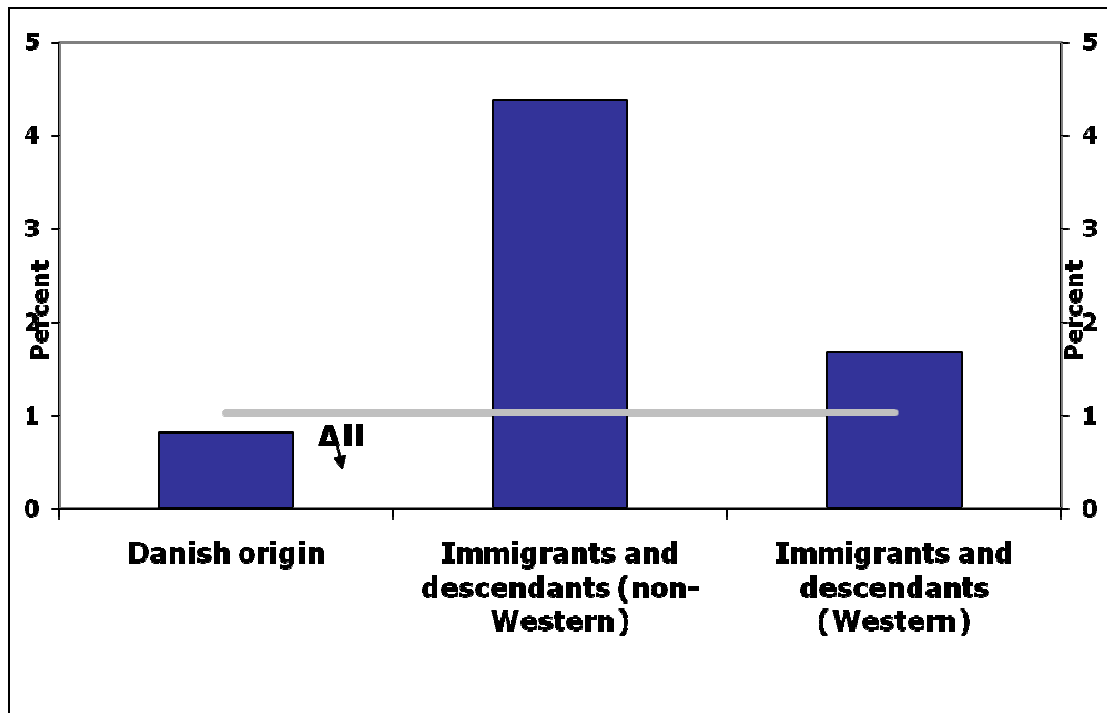


Figure 3: Rates of LTU for different ethnic groups, 3rd quarter of 2009. Source: Ministry of Employment

As illustrated in figure 3, ethnic background has an important effect on the risk of LTU. Thus the rate of LTU for immigrants and descendants from non-Western countries is more than five times higher than the rate for unemployed of Danish origin. Also immigrants from Western countries have a higher rate of LTU, but the difference is not as dramatic. The data thus once more illustrates the difficult situation of persons with a non-Western ethnic background on the Danish labour market.

Finally figure 4 depicts the rates of LTU for different educational groups ranging from the primary and secondary level to long-cycle further education. Again some striking differences are unveiled in the form of a close correlation between the level of education and the rate of LTU. Especially one noted the gap between the groups with and without a vocational education.

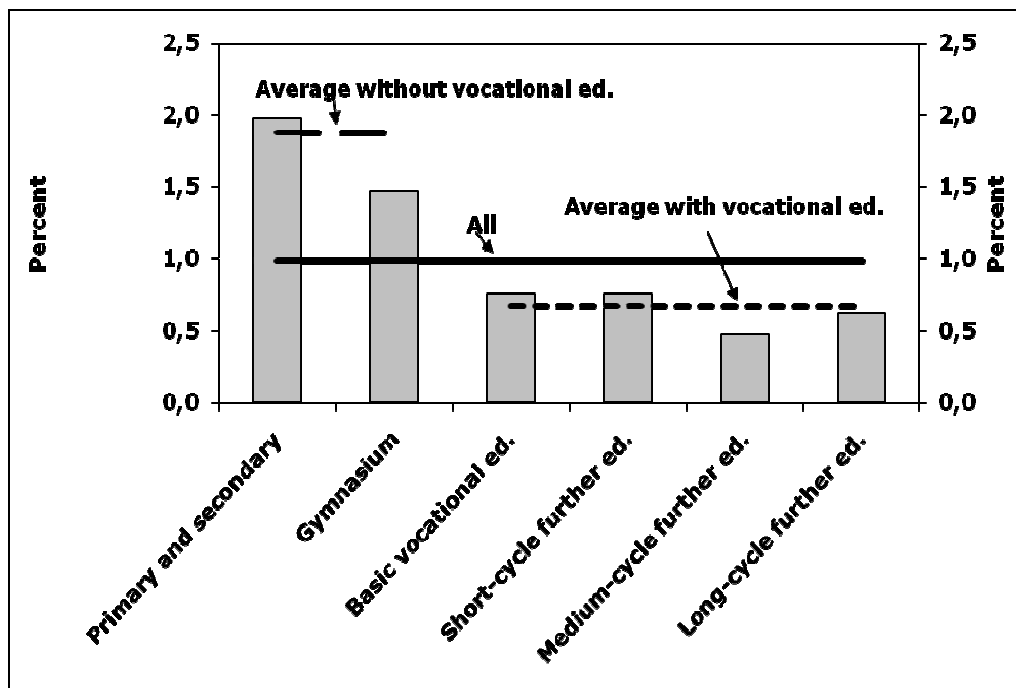


Figure 4: Rates of LTU for persons with different educational background. Source: Ministry of Employment

## 2. Recent initiatives to combat LTU

This section presents the major policy initiatives, which have been taken as a reaction to the employment crisis since 2008. Focus is on measures to combat LTU. However, these measures must be seen in the context over the overall efforts to cope with the rise in unemployment, which are therefore briefly outlined below.

### “Growth packages”

Firstly, the rapid rise in unemployment during the fall of 2008 and the following winter put the issue of “growth packages” high on the political agenda. During the spring of 2009 a number of concrete expansionary measures were undertaken, most of them as part of a political agreement between the Government and the Danish Peoples Party in March 2009 labeled “Forårspakke 2.0” (Spring Package 2.0).

Also, as part of the general negotiations in the fall of 2009 over the budget for 2010, an agreement between the Government and the Danish People’s Party implied an increase in public investments of about 5 billion DKK over the period 2010 to 2013. The investment package included intensified maintenance of state roads and hospitals, renovation of harbors and modernization of state buildings. Furthermore the municipalities will be allowed to borrow 3 billion DKK more for investments in 2010. Also, the political parties behind the so-called “globalization fund (“Globaliseringspuljen”) decided to allocate 1.2 billion DKK to a large number of initiatives to further support research, education and entrepreneurship.

To these discretionary fiscal policy measures must be added the fact the Danish economy due to its rather high tax level and the large share of the workforce covered by unem-

ployment benefits, has some of the largest built-in automatic stabilizers in the EU.<sup>5</sup> Thus the effects of the economic downturn on income and unemployment are significantly dampened. The backside of this is of course that the public budgets have deteriorated rather dramatically during the crisis.

*Active labour market policy focused on the unemployed*

When it comes to direct intervention in the labour market focused at the unemployed a number of actions have been taken during 2009 and in the first months of 2010

In February 2009, a broad political agreement was reached inspired by a proposal from the social partners. It implied a number of changes in the rules for active labour market programs. The changes were all aimed at targeting the programs more towards upgrading the skills of the unemployed in the light of the composition of labour demand. The main elements in the agreement were:

- An existing scheme gave a training subsidy to employers, if they hire unemployed persons. However the eligibility criteria were rather strict and the scheme had been used very little. The reform of the scheme made it more flexible and easier to administrate. The training subsidy will be targeted at unemployed having at least 3 months of unemployment and being unskilled, skilled or having obsolete qualifications. The duration of the training can be up to 6 weeks and the training must be provided by an external service provider. The new version of the scheme has duration of three years, after which it will be evaluated. It is assessed that the costs of the new scheme will be 10 million DKK per year or 0.001 percent of the wage bill.
- An existing scheme gave any insured unemployed the option to choose up to 6 weeks of education during the first 9 months of unemployment (6 months if aged less than 30 years). The reform of the scheme implies that the limit of 6 weeks is suspended 1) if the unemployed has no vocational training or obsolete qualifications, 2) if the unemployed cannot find work within his/hers previous line of work and 3) if the education taken is directed at areas where there are good employment prospects (like for instance health care). The new version of the scheme has duration of three years, after which it will be evaluated. It is assessed that the costs of the new scheme will be 25 million DKK per year or 0.003 percent of the wage bill.

While the two reforms just mentioned were triggered by the rapid rise in unemployment, the extent of the efforts made seems rather modest measured by the expected costs of the two schemes.

Furthermore one of the initiatives made by the Minister of Employment in March 2009 implied that the funds allocated to assist employees that are affected by collective dismissals are increased. At the same time the target group for the scheme is extended from firms with at least 100 employees to firms with at least 20 employees. Employees affected by collective dismissals will have access to training and further education of up to 8 weeks. The new version of the scheme lasts until the end of 2010 after which it will be evaluated. It is assessed that the total costs of the new scheme will be 15 million DKK in 2009 and 2010 (or 0.002 percent of the wage bill). Again initiative can be considered relevant and timely in the light of the rapid rise in unemployment, but the extent of the efforts made seems rather modest measured by the expected costs of the scheme.

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<sup>5</sup> Cf. for instance Dolls, Mathias; Fuest, Clemens; Peichl, Andreas (2009): "Automatic Stabilizers and Economic Crisis: US vs. Europe", *CESIFO WORKING PAPER NO. 2878*

The political agreement of February 2009 also implied a stricter regime with respect to the CV that any unemployed must submit. Under the previous rules an unemployed should enter his/hers CV into a central database (“Job-net”) before one month after having registered as unemployed. According to the agreement, this limit is reduced to 3 weeks from August 1, 2009. The idea is to make the qualifications of the unemployed visible to potential employers at a very early state. However, given the limited market share of Job-net in the actual hiring activities of the employers, one can be skeptical towards the overall effect of this measure.

Also, one should mention that a full merging of the state branch and the municipality branch of the job-centers took place from August 1, 2009. This development was the result of a political agreement between the Government and The Danish Peoples Party in the fall of 2008 on the reorganization of the local job-centers. From 2010 the municipalities will furthermore take full economic responsibility for all unemployed (including their benefits) albeit with a refund from the state. The administration of benefits for the insured unemployed will however still be in the hands of the unemployment insurance funds.

Finally, the Minister of Employment in January 2010 announced new initiatives to assist employers that are restructuring and employees that are about to be dismissed:

- The existing support to education of unemployed that are dismissed can now be extended beyond the date, where the dismissed persons leave the firm. The total duration of education and training can be up to 8 weeks. The reform will allow more employees with short notice periods to benefit from such programs.
- The job-centers will now be obliged to assist persons under notice to draft an individual action plan that spells out the steps to be taken to return to employment. Until now such action plans could only be prepared for persons already in unemployment.
- Persons that are not covered by a collective agreement will get the same rights as persons working under such agreements, when it comes to access to temporary reduced working time with support from supplementary unemployment (the so-called work-sharing scheme).

The above mentioned initiatives were in part inspired by a joint set of proposals from the social partners, who in January 2010 published 23 concrete proposals to improve employment policy and combat long-term unemployment.<sup>6</sup> The Minister of Employment has subsequently announced a number of new initiatives in the coming months focused at long-term unemployment.

These initiatives will, like some of the ones mentioned above, probably imply a somewhat higher priority to education and training and also more intensive contact with the unemployed in the form of frequent meetings with counselors at the job-centre.

### **3. Assessing Danish policies towards LTU**

In assessing the policy responses to the crisis since 2008, one must highlight that Danish labour market policy to a large degree is “rule-based” in the sense that the law on active employment policy in detail specifies a number of rights and obligations for the unemployed and the jobcentres.

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<sup>6</sup> LO og DA: *23 initiativer til at målrette beskæftigelsesindsatsen og modvirke langtidsledighed [23 initiatives for a targeted employment policy and the reduction of long-term unemployment]* January 22, 2010 ([www.lo.dk](http://www.lo.dk))

Among the most important rights and obligations are individual deadlines for contacts with the job-centre and for taking part in mandatory active programmes. This implies for instance that an unemployed member of an unemployment insurance fund must be activated after 9 months of unemployment or 3 months, if the person is aged less than 30 years. Unemployed aged 60 years and above are activated after 6 months of unemployment. For unemployed recipients of social assistance a similar set of rules applied, albeit with somewhat more discretion for the jobcentres, when it comes to the exact timing of activation. By example, most jobcentres apply “instant activation” to unemployed that apply for social assistance. This implies that the unemployed after only a few days of unemployment is referred to some kind of active measure.

Another example of strict deadlines is the mandatory interview, which must be held every three months with the unemployed.

This rather strict regime of monitoring and activation is not related to the business cycle. To a large degree Danish labour market policy therefore has the character of an automatic stabiliser, where there is little need for discretionary actions to be taken under a downturn.

This role is reinforced by the universal character of Danish labour market policy, which encompasses the majority of wage-earners (and self-employed) due to their membership of an unemployment insurance fund or access to means tested social security.<sup>7</sup> The major challenge is of course the necessity to adjust the resources of the jobcentres to accommodate to the larger inflow of unemployed that follows from fall in employment.

Least, but not last, the level and duration of income support to unemployed is rather generous in a comparative perspective. For insured unemployed, the maximum duration of benefits is four years. For low income groups, the replacement rate is 90 percent. A maximum on benefits implies that the maximum monthly benefit in 2010 is 16,300 DKK (2,173 Euro). The cap also implies that the replacement rates falls rapidly with increases in income above the lowest level.

For non-insured unemployed there is no limit to the duration of cash benefits, but the benefit level is means-tested and related to the family situation. By example a person aged 25 and more and having children will in 2010 receive 13,100 DKK per month (1,750 Euro), while a young person aged 24 and less and living alone will receive 6,350 DKK per month (850 Euro). Like unemployment benefits, cash benefits are taxable income. Both insured and non-insured unemployed will have to accept the offers from the jobcentre to participate in active programmes, if they want to keep their right to benefits.

As also noted by the ILO, the non-discretionary character of Danish labour market policy is an important reason for the absence of major new initiatives since the mid-2008.<sup>8</sup> Both when it comes to macro-economic policies and labour market policies the most character-

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<sup>7</sup> According to a recent study from the Economic Council of the Labour Movement, 85 percent of the employed would qualify for unemployment benefits or social security, if becoming unemployed (Arbejderbevægelsens Erhvervsråd: *370.000 danskere uden mulighed for dagpenge eller kontanthjælp*, København, 2010)

<sup>8</sup> ILO (2009): *Protecting people, promoting jobs. A survey of country employment and social protection policy responses to the global economic crisis. An ILO report to the G20 Leaders' Summit, Pittsburgh, 24-25 September 2009*, Geneva

istic feature of the Danish policy regime is therefore its non-discretionary nature. This goes both for the important role of strong automatic stabilisers in the macro-economy and for the rule-based and universalistic nature of labour market policy. Probably the most striking feature of the Danish response to the crisis is thus the absence of discretionary interventions in the form of large scale policy reforms.

When it comes to assessing the stability and durability of current rules governing the active labour market measures in Denmark, a number of observations can be made.

Firstly, from the point of view of the public budgets, the automatic character of labour market policy implies a high sensitivity to the business cycle. As a reaction, the Danish public budget has turned from a surplus of 3.4 percent in 2008 to a deficit of 2.7 percent in 2009.<sup>9</sup> For 2010 the Danish Ministry of Finance in its economic report from December 2009 published an expected deficit of 5.5 percent. While such a deficit is not alarming, when compared to a number of other European countries, it has of course given rise to considerations about the need to consolidate public finances. However, no concrete reform proposals have been aired by the Government that directly involves labour market policy.

A second issue of stability and durability relates to the question of the capacity of the jobcentres to handle the rapidly rising inflow of long-term unemployed in the light of the tight deadlines for interviews and activation mentioned above.

Table 1 gives an indication of the difficulties faced by the jobcentres in handling this challenge.

*Table 1: The share of interview and activation offers that are within the deadlines*

	December 2009	January 2010	February 2010
Interviews	86	78	84
First activation offer	84	75	67
Repeated activation offer	95	88	73

Source: Press release from the National Labour Market Authority, April 11, 2010 ([www.ams.dk](http://www.ams.dk))

As indicated by the data in table 1, the jobcentres are having some difficulties in handling the unemployed according to the deadlines. Furthermore the difficulties seem to be increasing over time. As a reaction to this, the National Labour Market Authority has urged the four Employment Regions, which monitor the results of the local jobcentres, to pay special attention to their performance with respect to the timeliness of interviews and activation.

A third issue is the adequacy of income support. As mentioned above, about 85 percent of the employed will receive some form of income support, if becoming unemployed. The backside hereof is of course, that 15 percent will be without any safety net and also not

<sup>9</sup> See Eurostat News Release Euroindicators 55/2010, April 22, 2010

eligible for receiving the offers of active labour market policy. The significant number of persons reporting as unemployed in the Labour Force Survey, but not being registered as unemployed at the job-centers could be another indication of the limits of Danish income security, which also reflect a gradual decline in the number of members of the unemployment insurance funds by about 5 percent during the last decade.

On the other hand, there are also indicators that the Danish labour market model is still providing the LTU with shelter against the crisis. Thus the basic security arrangements in the form of income security and active labour market policy are still functioning in spite of the increased pressure from the crisis on the labour market. The indicators of stress are there in the form of slower implementation of active measures and of rapidly rising costs of benefits. But in a comparative perspective LTU in Denmark is still at a modest level.

Concerning plans for reforms of the policies towards LTU, the Government has not yet announced any details about the expected initiatives. A fair guess is however that the actions, which will probably be announced later this month, will consist of adjustments to existing measures. The fine-tuning could have the form of more frequent mandatory contacts with the LTU and maybe a somewhat higher emphasis on training and education and on firm-related training. But no more sweeping reforms seem to be in the pipe-line.