



SCHOOL of
PUBLIC POLICY



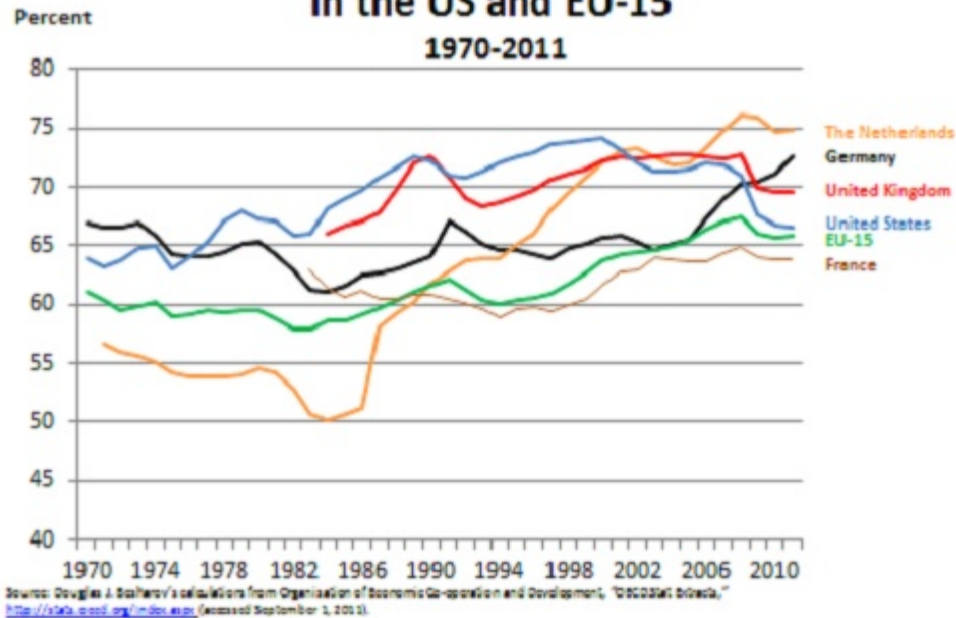
Recent Developments in Labor Activation in Denmark

Douglas J. Besharov
Douglas M. Call

Even before the 2007/2008 Financial Crisis and the national recessions that followed, employment and labor force participation rates in many developed countries were in worrisome decline, a trend that began in the 1970s. Across the EU-15, for example, between 1970 and 1982, the percentage of the population employed fell from 61 percent to 57.8 percent (before beginning a slow increase). For men, the decline was much longer and steeper, from 83.7 percent in 1970 to 70.5 percent in 1994. Overall labor force participation increased during this period, but only because more women were entering the labor force. (See figure 1.) At the same time, in most countries, new highs were reached in the percent of the population receiving government benefits (essentially unemployment insurance, disability benefits, and social assistance).

Various factors were at work, of course, including a general weakening in demand for workers (coupled with changes in required skills, in part brought on by automation), demographic shifts (including aging populations and the increasing role of women in the workforce), and more competition from abroad (driven by cross-national manufacturing as well as outsourcing). But, most experts agree, generous social safety net arrangements also contributed, although there is legitimate disagreement about the size of the impact (as with the other factors). The interaction between formal work and safety-net benefits is direct enough: All things being equal, at some point, means-tested benefits become large enough (often coupled with high marginal tax rates) to discourage many lower-wage workers from seeking formal employment—or, at least, to not encourage them to work, especially in times of declining wages as well as high unemployment.

Figure 1
Employment/Population Ratios
in the US and EU-15



In response, in a series of slow but steady steps over the past two decades, a growing number of OECD countries introduced policy reforms aimed at “activating” the recipients of safety-net benefits who might be able to work. These changes were both programmatic (such as tightening eligibility, limiting the duration of benefit receipt, and mandating job search and other work-first activities) and administrative (such as consolidating programs, decentralizing authority, outsourcing services, and incentivizing systems of financing and reimbursement). The U.S. welfare reforms of the 1990s were an early part of this movement, but since then, other (but not all) OECD countries have made more fundamental reforms to their labor activation policies, and they can serve as models to other countries (including the U.S.).

Given what will apparently be a long period of persistently high unemployment, many analysts and policymakers are asking whether such labor activation policies should be strengthened to help speed recovery—or whether they should be paused or at least slackened until economies strengthen. On the one side, the need to move safety-net recipients toward work seems greater than ever, and may be a necessary precursor to economic progress. On the other side, it seems an unfair waste of effort to put recipients through the stressful effort of looking for work at this time of lesser job opportunities and high unemployment.

Since the beginning of the global financial crisis (starting in 2007 in the United States and in 2008 in the rest of the world), a number of other OECD countries have continued to modify their safety-net assistance programs in an effort to “activate” those receiving unemployment,

disability, and social assistance. Up to now, however, the U.S. policy discourse has largely ignored these developments, some of which are quite substantial. Instead, recent U.S. policy has gone in the opposite direction: lengthening benefit duration, expanding eligibility, and relaxing activation requirements.

Key Developments in Denmark

Some of the most extensive changes have been made in Denmark, and many of its new policies are worthy of consideration by the U.S.—as responses to the immediate economic crisis, and some also deserve consideration as longer-term solutions to chronic unemployment and a continued commitment to “labor activation.” Key aspects are summarized below.

Unemployment benefits

Between 1994 and 2010, Denmark instituted a series of changes that reduced the maximum number of years that persons could receive unemployment benefits, increased the minimum number of weeks that persons must have worked in order to be eligible for unemployment benefits, and added activation requirements to the receipt of unemployment benefits.¹

In 1994, Denmark attached activation requirements to the receipt of unemployment benefits. Recipients are required to participate in an activation program twelve months after starting to receive benefits. There are three activation programs: job counseling, job training, and subsidized employment.²

UI recipients must participate in their initial activation program assignment for six months and must take any “acceptable” employment offer.³ For each consecutive six-month period, recipients must participate in another activation program for at least four weeks. In

¹European Commission, *Assessment of the 2011 National Reform Programme and Convergence Programme for Denmark* (Brussels: European Commission, 2011), http://ec.europa.eu/europe2020/pdf/recommendations_2011/swp_denmark_en.pdf (accessed July 15, 2011); and European Foundation for the Improvement of Living and Working Conditions, “Denmark: Social Partner’s Involvement in Unemployment Benefit Regimes,” <http://www.eurofound.europa.eu/eiro/studies/tn1206018s/dk1206019q.htm> (accessed April 10, 2013).

²Torben M. Andersen, “A Flexicurity Labour Market in the Great Recession: The Case of Denmark,” (paper presented at CPB-ROA conference on Flexibility of the Labour Market, The Hague, January 2011), http://www.cpb.nl/sites/default/files/paper_flex_andersen_0.pdf (accessed July 5, 2011).

³Employment that is within recipients’ “professional competence” or, if having been unemployed twelve or more months within the last fifteen months, any employment regardless of profession. Paul Craig, Mark Freedland, Catherine Jacqueson, and Nicola Kountouris, *Public Employment Services and European Law* (Oxford: Oxford University Press, 2007).

addition, every three months, recipients must interview with staff at the Public Employment Service (PES) regarding their job search activities.⁴ Failure to attend the PES interviews, enroll in an activation program, interview for a job, or take an acceptable job can result in a suspension of benefits for up to three weeks. Continued failure to comply can result in a suspension of benefits until recipients accumulate “300 hours of paid work within a 10 week period.”⁵ After two years, UI recipients are moved to social assistance and receive lower benefits.

In 1998, Denmark enacted the Law on Active Social Policy which reduced the maximum number of months recipients could receive benefits before being required to participate in an activation program. Recipients under age thirty are required to participate after thirteen weeks of receipt, and recipients thirty and older are required to participate after nine months of receipt.

Additional changes in 1999 and 2010 reduced the maximum number of years of benefit receipt first to four years and then to two years.

Between 2004 and 2008, the number of recipients receiving unemployment benefits declined by about 64 percent, from about 201,000 to about 72,000, but then, after the Financial Crisis, sharply increased to 150,000 by 2010.⁶

Sickness and Disability programs

In the early 2000s and again in 2012, Denmark made a number of changes to its sickness benefits and disability programs to establish wage subsidies for the partially disabled and develop a system to reassess disability status periodically.

As in many other OECD countries, Denmark has a short-term “sickness benefits” program for individuals who have health issues that limit their ability to work but that are expected to be resolved, and a long-term disability program for those who seem to have permanent health issues.

Sickness benefits are provided to individuals who do not have a permanent disability but are incapacitated in some way that prevents them from working full-time. Sickness benefits are initially limited to fifty-two weeks but can be extended for an additional fifty-two weeks before

⁴Organisation for Economic Co-operation and Development, “Denmark: 2009” in *Benefits and Wages: OECD Indicators* (Paris, Organisation for Economic Co-operation and Development, 2009), <http://www.oecd.org/dataoecd/10/16/47346737.pdf> (accessed July 15, 2011).

⁵Michael Svarer, “The Effect of Sanctions on Exit from Unemployment: Evidence from Denmark,” *Economica* (2011): 1–25, <http://onlinelibrary.wiley.com/doi/10.1111/j.1468-0335.2010.00851.x/pdf> (accessed July 15, 2011).

⁶European Commission, Eurostat, “Labour Market Policy Database,” http://epp.eurostat.ec.europa.eu/portal/page/portal/labour_market/labour_market_policy/database (accessed June 4, 2012).

recipients are moved to the disability program. Because disability benefits are permanent, recent changes have tried to reduce the flow of recipients onto disability. In 2003, for example, Denmark introduced “flexjobs” to move sickness benefits recipients into employment. Recipients who worked part-time (either one-third or half-time) were eligible for wage subsidies. According to the OECD, because flexjobs paid higher subsidies for higher paying work, the unintended consequence of the program was to incentivize workers to drop from full-time to part-time and receive a wage subsidy.⁷

In 2012, Denmark modified the flexjob program to increase the subsidy for lower paying jobs, decrease the subsidy for higher paying jobs, make the flexjob arrangement temporary with a required reassessment of recipients’ capabilities, and change the definition of part-time from either one-third or one-half time to any number of hours between one and thirty-nine. Annually, the municipal job centers are to reassess the work capability of recipients and the amount of their subsidies.⁸

In addition, between 2010 and 2012, Denmark conducted an experiment of the “Return-to-Work” programme for sickness benefit recipients in twenty-two municipalities. Similar to that of the Rehabilitation Model described below, recipients are assessed by a caseworker along with doctors and psychiatrists to determine recipients’ work capacity in a short period of time.⁹ Results of the study are expected to be available in late 2013.

Besides efforts to reduce the number of recipients moving from sickness to disability benefits, Denmark also eliminated permanent disability benefits for individuals under the age of forty. The 2003 change had been to move from identifying incapacity to determining ability to work. Caseworkers used a ten-point assessment to determine the abilities of applicants and the barriers they faced. According to the OECD, in practice, many caseworkers found it difficult to perform the assessments and often used them as a way to justify approving recipients for

⁷Christopher Prinz, “Chapter 4: Sickness, Unemployment, and Return to Work in Denmark,” in *Mental Health and Work: Denmark* (Paris: Organisation for Economic Co-operation and Development, 2013), <http://www.oecd-ilibrary.org/docserver/download/8113061ec006.pdf?expires=1363793491&id=id&acname=ocid194091a&checksum=93A4A98B77504A49C724F4939233A6F0> (accessed March 20, 2013).

⁸Christopher Prinz, “Chapter 4: Sickness, Unemployment, and Return to Work in Denmark,” in *Mental Health and Work: Denmark* (Paris: Organisation for Economic Co-operation and Development, 2013), <http://www.oecd-ilibrary.org/docserver/download/8113061ec006.pdf?expires=1363793491&id=id&acname=ocid194091a&checksum=93A4A98B77504A49C724F4939233A6F0> (accessed March 20, 2013).

⁹Christopher Prinz, “Chapter 5: Tackling Labor Market Exit in Denmark Due to Disability Benefit,” in *Mental Health and Work: Denmark* (Paris: Organisation for Economic Co-operation and Development, 2013), <http://www.oecd-ilibrary.org/docserver/download/8113061ec006.pdf?expires=1363793491&id=id&acname=ocid194091a&checksum=93A4A98B77504A49C724F4939233A6F0> (accessed March 20, 2013).

disability as opposed to helping them find employment.¹⁰

In 2012, Denmark replaced the disability benefits program for recipients under the age of forty with the “rehabilitation model.” Municipalities are to create “rehabilitation teams” consisting of representatives of the health, education, social services, and business sectors with coordinators that are either caseworkers from the municipal job centers or other representatives from the municipalities. The rehabilitation teams are to assess applicants and recommend actions based on the applicants’ capabilities. These recommendations may include receiving activation services or receiving other services to prepare for employment. Recipients also receive cash benefits that are equivalent in amount to social assistance benefits. After five years, the rehabilitation teams re-assess recipients and create new plans. Recipients who are over the age of forty are required to participate in one cycle of the rehabilitation model. If they have made no progress in their incapability to work, they may be moved onto disability benefits.¹¹

In addition, benefits for disability recipients who work part-time and wage subsidies for employers of disability recipients were increased as an incentive to encourage recipients to find work and to encourage employers to hire and keep disability recipients.¹²

Social Assistance

Between 1994 and 2010, Denmark imposed requirements for social assistance recipients to participate in activation activities and reduced benefit amounts for certain recipient populations after specified periods of time.

Like UI recipients in Denmark, social assistance recipients are now required to participate in an activation program within a defined period of time after the initiation of benefits.

¹⁰Christopher Prinz, “Chapter 5: Tackling Labor Market Exit in Denmark Due to Disability Benefit,” in *Mental Health and Work: Denmark* (Paris: Organisation for Economic Co-operation and Development, 2013), <http://www.oecd-ilibrary.org/docserver/download/8113061ec006.pdf?expires=1363793491&id=id&acname=ocid194091a&checksum=93A4A98B77504A49C724F4939233A6F0> (accessed March 20, 2013).

¹¹Christopher Prinz, “Chapter 2: Young Danes and Their Transition Into the Labor Market,” in *Mental Health and Work: Denmark* (Paris: Organisation for Economic Co-operation and Development, 2013), <http://www.oecd-ilibrary.org/docserver/download/8113061ec006.pdf?expires=1363793491&id=id&acname=ocid194091a&checksum=93A4A98B77504A49C724F4939233A6F0> (accessed March 20, 2013); and European Employment Observatory, *EEO Quarterly Reports Executive Summary (including a Horizontal Assessment): Second Quarter of 2012 (April – July 2012)* (Birmingham, UK: European Employment Observatory, 2012), http://www.eu-employment-observatory.net/resources/quarterly_reports_exec_summary/July2012QRES-FINAL.pdf (accessed March 20, 2013).

¹²European Employment Observatory, *EEO Quarterly Reports Executive Summary (including a Horizontal Assessment): Second Quarter of 2012 (April – July 2012)* (Birmingham, UK: European Employment Observatory, 2012), http://www.eu-employment-observatory.net/resources/quarterly_reports_exec_summary/July2012QRES-FINAL.pdf (accessed March 20, 2013).

(Recipients under age thirty are required to participate after thirteen weeks of receipt, and recipients thirty and older are required to participate after nine months of receipt.) Activation programs include job counseling (with as skills assessments), job training (either placement in public or private programs for those who lack qualifications or skills), and subsidized employment (either public or private and typically used as on-the-job training to retrain or upgrade skills).¹³

In addition, parents in two-parent households are required to have each worked at least 450 hours in the previous two years to remain eligible for social assistance benefits. Failure to comply can result in a benefit reduction. (In 2010, a requirement was added that at least 225 of those work hours had to be in the first year and added a ceiling on benefits, but both of those policies were ended in 2011.)¹⁴

After six months of benefit receipt, two groups recipients benefits are reduced: married couples by about 5 percent, and recipients under age twenty-five by the equivalent amount of education grants provided by the Danish government to those attending college.¹⁵

Between 1994 and 2008, the number of social assistance recipients in Denmark declined by about 35 percent (from about 220,000 to about 142,000). But, again, after the Financial Crisis, the number had increased to 172,000 by 2010.¹⁶

¹³Torben M. Andersen, "A Flexicurity Labour Market in the Great Recession: The Case of Denmark," (paper presented at CPB-ROA conference on Flexibility of the Labour Market, The Hague, January 2011), [http://www.cpb.nl/sites/default/files/paper flex andersen_0.pdf](http://www.cpb.nl/sites/default/files/paper%20flex%20andersen_0.pdf) (accessed July 5, 2011).

¹⁴European Foundation for the Improvement of Living and Working Conditions, "Denmark: Social Partner's Involvement in Unemployment Benefit Regimes," <http://www.eurofound.europa.eu/eiro/studies/tn1206018s/dk1206019q.htm> (accessed April 10, 2013); and Jon Kvist and Ivan Harslof, "The Nordic Approach Combining Minimum Security With Activation: From Workfare with Welfare to Instigating Dual Tracks Based on Ethnicity in Denmark," (paper, Anti-Poverty Programs in a Global Perspective conference, Berlin, June 20-21, 2011), http://www.wzb.eu/sites/default/files/protected_downloads/blanc/33e6d712729ad8d391b373db0c90acac.pdf (accessed April 10, 2013).

¹⁵Peter Abrahamson, "The Active Turn in Danish Welfare Policy: Employment and Social Protection in Denmark," *SER Social* 11, no. 25 (July/December 2009): 274–301; and Organisation for Economic Co-operation and Development, "Denmark: 2009" in *Benefits and Wages: OECD Indicators* (Paris, Organisation for Economic Co-operation and Development, 2009), <http://www.oecd.org/dataoecd/10/16/47346737.pdf> (accessed July 15, 2011).

¹⁶Nordic Statbank, "Denmark: Individuals Receiving Social Assistance During the Year by Reporting Country, Unit and Time," <http://91.208.143.50/pxweb/pxwebnordic/Dialog/varval.asp?ma=SOCI12&ti=SOCI12%3A+Individuals+receiving+social+assistance+during+the+year+by++reporting+country%2C+unit+and+time.+&path=../Database/5.%20Social%20integration/Social%20protection/&lang=1> (accessed June 27, 2012).

Program consolidation

In 2007, Denmark combined the services for unemployment insurance, social assistance, and disability recipients into one-stop job centers in each municipality. The job centers are run jointly by the municipalities and the national Public Employment Service and provide labor activation services.¹⁷ These job centers are “responsible for all people seeking to stay in or return to employment, irrespective of the type of benefit they receive, their insurance and employment status, and their distance to the labour market.”¹⁸ Those recipients who go to the job center are put into one of three groups: the first group are those who are job ready, the second group are those who are not currently job ready but may move into employment in the future, and the groups are those who are determined to be unlikely to return to work. Recipient placement in these groups is reassessed every three months.¹⁹

Incentivized system of financing and reimbursement

As an incentive to provide activation services, since 2010, the national government has reimbursed municipalities for 50 percent of such services compared to only 30 percent for “passive” social assistance spending.²⁰ In the next year, the period of time days that employers are required to pay for sickness benefits was extended from the first twenty-one days to the first thirty days of receipt. In addition, the federal government’s reimbursement rate to municipalities for expenditures on sickness benefits and services was reduced. For weeks nine to fifty-two of benefit, the reimbursement rate for activation services was reduced from 65 percent to 50 percent

¹⁷Organisation for Economic Co-Operation and Development, *Sickness, Disability, and Work: Breaking the Barriers, Denmark, Finland, Ireland, and the Netherlands* (Paris: Organisation for Economic Co-operation and Development, 2008).

¹⁸Christopher Prinz, “Chapter 4: Sickness, Unemployment, and Return to Work in Denmark,” in *Mental Health and Work: Denmark* (Paris: Organisation for Economic Co-operation and Development, 2013), 73, <http://www.oecd-ilibrary.org/docserver/download/8113061ec006.pdf?expires=1363793491&id=id&acname=ocid194091a&checksum=93A4A98B77504A49C724F4939233A6F0> (accessed March 20, 2013).

¹⁹Christopher Prinz, “Chapter 4: Sickness, Unemployment, and Return to Work in Denmark,” in *Mental Health and Work: Denmark* (Paris: Organisation for Economic Co-operation and Development, 2013), <http://www.oecd-ilibrary.org/docserver/download/8113061ec006.pdf?expires=1363793491&id=id&acname=ocid194091a&checksum=93A4A98B77504A49C724F4939233A6F0> (accessed March 20, 2013).

²⁰The Danish Government, *The Danish National Reform Plan* (Copenhagen: Ministry of Finance, May 2011), http://ec.europa.eu/europe2020/pdf/nrp/nrp_denmark_en.pdf (accessed January 17, 2012). See Stig Martin Norgaard, “From Welfare to Work: The Danish Case” (presentation, Association for Public Policy Analysis and Management annual conference, Los Angeles, CA, November 2008); and Peter Abrahamson, “The Active Turn in Danish Welfare Policy: Employment and Social Protection in Denmark,” *SER Social* 11, no. 25 (July/December 2009): 274–301.

and the reimbursement rate for passive payments was reduced from 35 percent to 30 percent.²¹

December 5, 2013

²¹Claus Mikkelsen, “Amendment to the Danish Sickness Benefits Act,” *Employment and Labor Law*, no. 1 (July 2011), http://www.employmentlawalliance.com/Templates/media/files/Law%20Firm%20Articles/Plesner_Newsletter-July_Employment_Labour%20Law.pdf (accessed March 20, 2013).