

## CHAPTER 4

# THE ROLE OF WELFARE AND ACTIVATION POLICIES

Under normal economic circumstances, active labour market programmes (ALMPs), such as job-search assistance, training and employment incentive schemes, play an important role during the school-to-work transition period for youth, especially for the low-skilled ones. During an economic recession that significantly reduces job opportunities for the labour-market entrants, an adequate safety net in combination with well-designed ALMPs is important to preventing youth poverty, disengagement from the labour market and human capital depreciation. Effective ALMPs can also contribute to rapid (re)integration into employment, once the economic growth picks up again.

This chapter outlines recent developments in passive (Section 1) and active (Section 3) labour market programmes for youth in Denmark, while focusing on its renowned youth activation strategy introduced in the mid-1990s (Section 2). Finally, the chapter briefly reviews the role of Public Employment Services (PES) (Section 4).

### 1. The role of passive labour market measures

Unemployed youth in Denmark are covered by one of the most generous income-support schemes in the OECD area, either in the form of unemployment insurance benefits or in the form of social assistance benefits (cash benefits).

#### A. *Unemployment insurance benefits (UIB)*

*UIB are available to school-leavers without work experience*

In Denmark, only members of unemployment insurance funds can receive UIB and membership is voluntary. Benefit eligibility is in general

conditional on a minimum of 52 weeks employment history in non-subsidised jobs within the past three years (a minimum of 34 weeks during the past three years for part-time employment). However, school-leavers with no employment history can also receive UIB as soon as they start looking for work conditional on two conditions being met: *i*) school-leavers must have completed a “qualifying education” lasting a minimum of 18 months;<sup>63</sup> and *ii*) they have to join an unemployment insurance fund no later than two weeks after completing school.

The unemployment insurance system in Denmark, which covers both employees and self-employed persons aged 18 to 64, is managed by funds which are usually associations of employees and/or the self-employed and are closely related to trade unions (OECD, 2005a). They are funded by membership fees and, to a smaller degree, contributions from employers who lay off members of unemployment insurance funds. But unemployment insurance funds are also highly (2/3) subsidised by the state, in a clearly countercyclical way. Membership fees did not change substantially during the past decade. It is the state subsidy that varied with the level of unemployment. Therefore tax payers bear the full increase in the costs of financing benefits when the level of unemployment rises. This means that labour unions and employer organisations risk not fully taking into account the costs of unemployment to society (Danish Economic Council, 2002).

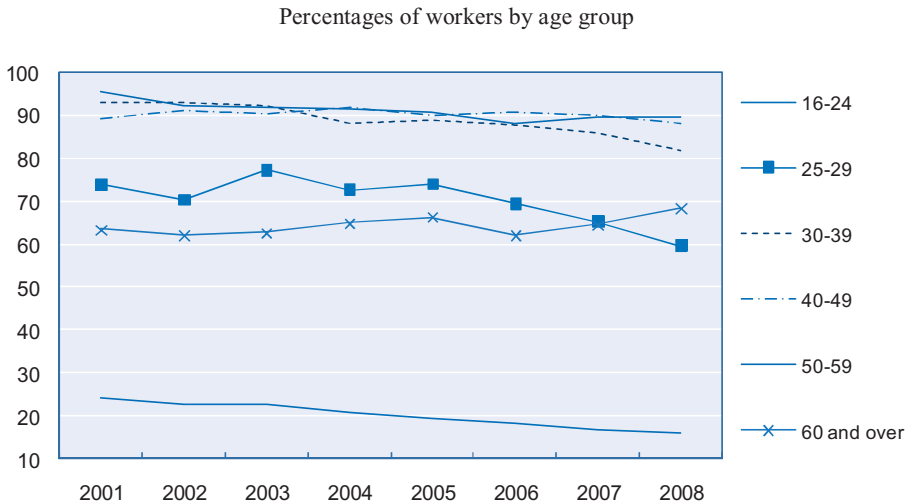
At a more micro level, the Danish unemployment insurance system embodies welfare principles rather than insurance principles, judging by the main features of the system, such as the low upper ceilings combined with high net replacement rates and uniform maximum benefit duration regardless of contribution history (Leschke, 2007).

Meanwhile, unemployment insurance is becoming less popular among youth. In 2008, the memberships rate was more than 80% among Danish workers aged 30-49, but only 16% among young workers aged under 25, down from 24% in 2001 (Figure 4.1). According to a study carried out by the Association of Unemployment Insurance Funds in September 2006, few youth in Denmark today are knowledgeable about the nature of an unemployment insurance fund (Jørgensen, 2006). They confuse unemployment insurance funds with trade unions or with the social assistance system delivered by municipalities.

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63. The underlying logic is that the applicant must have: *i*) completed 18-month-long upper secondary education (ISCED 3); and *ii*) acquired qualifications that are relevant for the specific unemployment insurance fund he/she is joining.

Figure 4.1. **Membership of unemployment insurance funds, by age group, Denmark, 2001-08**



Source: StatBank Denmark.

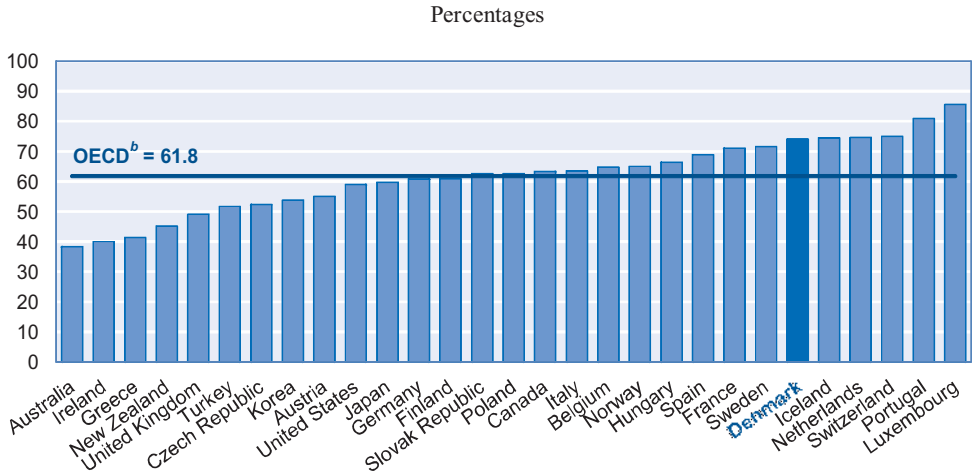
*But school-leavers receive lower unemployment insurance benefits (UIB) than those with an employment record*

School-leavers without regular work experience receive lower UIB. While members with adequate work experience can receive up to 90% of their former salary or a given maximum, inexperienced school-leavers receive a flat rate amounting to 82% of that maximum.<sup>64</sup> However, many youth rapidly accumulate sufficient labour experience to qualify for the standard replacement regime, mainly because they held student jobs while studying.

Granting a high gross replacement rate, the Danish unemployment insurance benefit system is considered to be among the more generous among OECD countries. International comparisons of UIB net replacement rates<sup>65</sup> faced by single persons without children with a low wage show that the net replacement rate in Denmark for a low-paid worker is close to 75% and is above the OECD average (Figure 4.2).

64. In 2009, the maximum weekly unemployment insurance benefit was EUR 487 (DKK 3 625) and EUR 400 (DKK 2 975) per week for school-leavers.

65. The net replacement rate is an indicator that compares income from work to benefit income and is adjusted for the effects of taxation.

Figure 4.2. Net unemployment benefit<sup>a</sup> replacement rates, OECD countries, 2006

- a) These data are net replacement rates, *i.e.* they are adjusted for the effects of taxation. They refer to an average of net replacement rates faced by single persons without children with pre-unemployment earnings of 67% and 100% of the average wage. They relate to the initial phase of unemployment after any waiting period. No social assistance “top-ups” are assumed to be available in either the in-work or out-of-work situation. Any income taxes payable on UIB are determined in relation to annualised benefit values even if the maximum benefit duration is shorter than 12 months.
- b) Unweighted average.

Source: OECD Tax-Benefit Models, [www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives).

### *The duration of unemployment insurance receipt is long but strictly conditional*

Unemployed Danes can collect UIB during at most four years within a six-year period. This is a long duration by international standard, even it is much shorter than in the early 1990s where it was nine years. However, UIB recipients have strict obligations to follow. As a rule, every UIB recipient should be registered as unemployed at the local PES and should actively search for a job. He/she has to apply for all jobs which he/she can manage and must be able to start a job with one day’s notice. All unemployed people will, after some time, receive an individual action plan organising regular mandatory contacts with the PES as well as participate in ALMPs. In general, recipients must accept various offers of activation programmes after nine months. Rules are however stricter for youth, and particularly for low-educated youth (more on this in Section 2 below).

## **B. Social assistance**

### *Social assistance is available to deprived or uninsured youth*

In parallel with the unemployment insurance system, there is a social assistance scheme in Denmark implemented under the joint responsibility of the Ministry of Interior and Social Affairs and the 98 municipalities. It is delivered by the latter. The unemployed who are not members of an unemployment insurance fund or those who face UIB termination can apply for social assistance, which basically consists of cash benefits. Youth under 25 years receiving social assistance benefits resuming education should apply for an education grant. If they refuse to go back to education, they cannot get any benefits.

Social assistance benefits are means-tested and available to any adults who are unable because of particular circumstances (sickness, unemployment) temporarily, for a shorter or longer period, to provide for themselves either through work, support from their spouse or through other social services (Jespersen *et al.*, 2008). There are no conditions relating to age in terms of access. In practice, however, social assistance is seldom given to children under 18 because they are presumably supported by their parents. If an individual chooses not to join an unemployment insurance fund and becomes unemployed, he/she is eligible for social assistance.

Recent reforms ensure that social assistance benefits are lower than the unemployment insurance benefits (UIBs). The starting level is 80% of the maximum UIB for parents with children living in Denmark (60% of the maximum of UIB for persons with no children) and the benefits are reduced after six months to the level of an education grant.

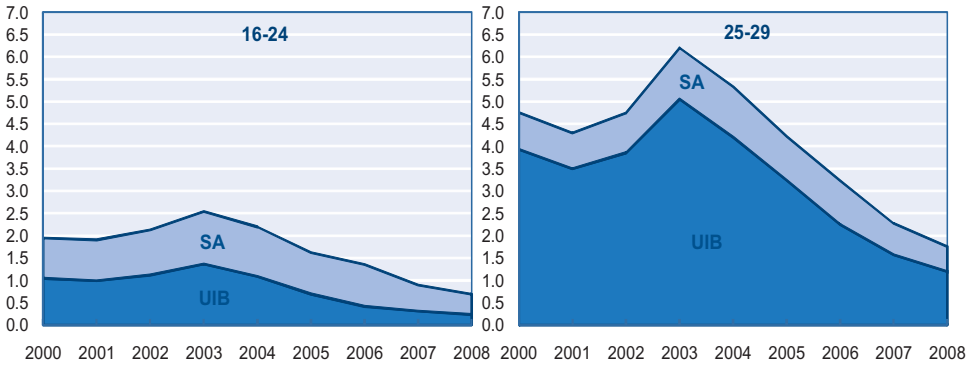
Municipal authorities have to offer activation measures to people receiving social assistance. Beneficiaries with no other problem than unemployment must actively look for a job. Such an offer will normally last for a continuous period of at least four weeks. Payment is suspended if the beneficiary refuses without reason to participate in an activation measure or repeatedly refuse a job opportunity (see following section for more details on activation measures).

## **C. Only a very small group of youth receive UIB or social assistance**

The number of unemployed youth receiving UIB has declined since 2003 (Figure 4.3), in line with the overall reduction in youth unemployment (Figure 4.5). In 2008, 0.2% of the age group 16-24 and 1.2% of the age group 25-24 received UIB while the corresponding proportions were 0.5%

and 0.6% for social assistance benefits. Youth aged less than 25 receive in general more often social assistance benefits than UIB, while it is the opposite for older youth.

Figure 4.3. **Unemployed youth by type of benefit<sup>a</sup> and age group, 2000-08**  
 Percentages of population by age group



SA: social assistance; UIB: unemployment insurance benefit.

a) Data refer to monthly figures in December each year.

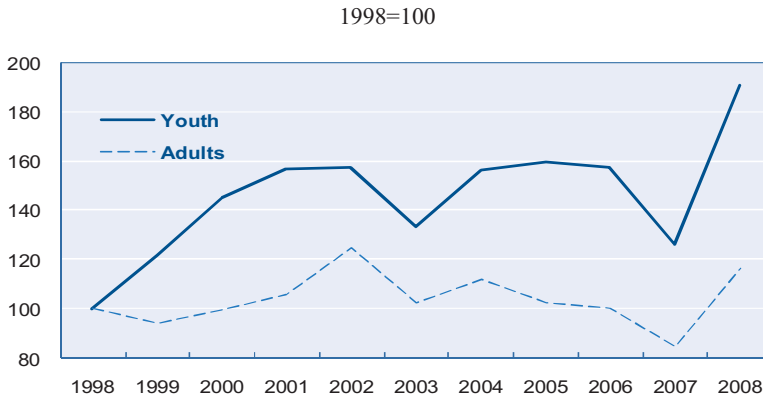
Source: StatBank Denmark, [www.statbank.dk/AUAAAR01](http://www.statbank.dk/AUAAAR01).

#### D. *Sickness and disability benefits*

An issue worth keeping in sight is the rise in the number of youth (15-29) receiving disability benefits in Denmark (Figure 4.4). Such a trend is found in other OECD countries (OECD, 2008d), especially the Netherlands and Norway (OECD, 2008a, d). Although the at-risk population remains clearly biased against older age groups,<sup>66</sup> recent years have seen a large increase in the inflow into disability benefits by young people. This is at odds with the generally high health premium associated with being young.

66. In 2008, youth aged 15-29 represented 10% of new recipients of disability benefits.

Figure 4.4. **Trend in new disability benefit recipients, youth<sup>a</sup> and adults,<sup>b</sup> Denmark, 1998-2008**



a) Aged 15-29.

b) Aged 30-66.

Source: National Social Appeals Board.

The most worrying element is that entering health-related benefits at a young age may act as a long-term inactivity trap. The international evidence about rehabilitation programmes is that they seem to be relatively ineffective at assisting benefit recipients back into employment – at least as they currently operate (OECD, 2009c). This tentatively means that Denmark’s activation challenge towards youth not only consists of reducing the number of unemployed but also bringing down the caseload of those young persons who end up being considered as “disabled”, presumably after a long period on sick leave.

## 2. The role of activation

### A. *Activation policies for the unemployed*

A sequence of reforms initiated in the mid-1990s, and fine-tuned since, has radically shifted the system from a passive focus on income maintenance to a more active emphasis on bringing unemployed into employment. The main ingredients of the policy changes introduced since the mid-1990s comprise: *i)* a shortening of the benefit duration; *ii)* the abolition of the possibility to re-gain UIB eligibility *via* participation in activation measures; and *iii)* the introduction of activation requirements both in the unemployment insurance scheme and in the social assistance scheme.

The 1994 labour market reform was key in the implementation of this agenda (Danish Economic Council, 2002 and 2007a). The reform marked the adoption of a strong “mutual obligations” culture. After nine months of unemployment benefit, eligibility should be conditional on participation in ALMPs. Another element of the reform was the introduction of individual action plans for the unemployed based on the needs of the local labour market. But the single most important change was probably the abolition of the rule allowing the unemployed to renew their right to UIB by participating in ALMPs. Since, the right can be only regained by regular work for at least 26 weeks within the last 36 months. These moves were aimed at combating “carousel” effects where the unemployed go back-and-forth between ALMPs and unemployment.

Since 2003, both the unemployment insurance and social assistance systems implement similar activation routines. For instance, all unemployed individuals regardless of their benefit status are referred to the PES for ALMP delivery (Kluve *et al.*, 2007; see Section 4 on the Public Employment Service). From the summer of 2009, implementation of ALMPs will be solely the responsibility of municipalities.

## ***B. Activation policies for unemployed youth***

### *Youth activation, a central feature in Denmark*

While, by the mid-1990s, activation became a central feature of the Danish labour market, its implementation was gradually improved and intensified, especially in relation to youth.

Denmark’s first compulsory youth activation programme, the Youth Allowance Programme (YAP), directed towards social assistance claimants (uninsured unemployed) aged 18-19 was introduced in 1990. Since then, the activation scheme has been gradually extended to cover all youth aged less than 30 benefiting from social assistance. Until the summer of 2009, they must take part in activation programmes and receive reduced benefits equivalent to education grants after a maximum of three months (*versus* nine months for older individuals) of unemployment. Refusal to participate entails the loss of benefits.

In 1996, the YAP was supplemented by the Youth Unemployment Programme (YUP), targeted at the insured unemployed aged 18-25. Since YUP’s inception, low-educated youth (without upper secondary education or ISCED 3), who have been receiving UIB for six months during the past nine months, are obliged to participate in 18-months long training programmes. But the single most important measure was the decision to



halve UIB after six months of unemployment. This reduction also results in eliminating the gap between unemployment benefits and education grants, thus serving as an incentive for the young unemployed to undertake ordinary education on education grants or to find a job (Jensen *et al.*, 2003). Refusal to participate in the special education programmes or to enter the ordinary education system is followed by a sanction, going in theory as far as a total loss of benefits. In 1999 these elements were extended to include better educated youth aged less than 25 as well.

*Strengthening activation for all young unemployment-insured adult, even single parents?*

Proposals have been made in Denmark to extend the tighter benefit rules (*i.e.* the 50% cut after six months of unemployment) applicable to youth aged less than 25 so that they also cover youth aged 25-29. This recommendation was included in the final report of the Welfare Commission in 2006, as well as the recommendation to shorten the duration of UIB for youth from four to two and a half years. But the 2006 Welfare Reform agreed upon by a parliamentary majority did not follow these recommendations. Older youth still receive higher UIB than their younger peers and the maximum UIB duration remained unchanged at four years (Danish Economic Council, 2007b).

The Labour Market Commission established in 2007 to provide recommendations on how to achieve the employment goals required by the government's 2015 Plan for fiscal policy released its final report in August 2009 (OECD, 2009f). The Labour Market Commission recommends that the arrangement whereby unemployed people under 25 receive reduced UIB rates should be extended to unemployed people between 25 and 29 without children. However, leaving single young parents aside of any compulsory activation towards education or employment could be questioned.

### **C. Youth activation in practice in 2009**

#### *General activation rules*

In Denmark, all newly unemployed, irrespective of their age, are required to immediately register with a local PES (called a job centre). Within a month they must post their curriculum vitae (CV) on *Jobnet*<sup>67</sup> and

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67. Jobnet is the public Job Centre Internet facility for all job seekers and employers in Denmark. It contains most job offers and CVs in Denmark, and has more than two million visitors every month. At Jobnet, job seekers can also find information on job searching, training and recruiting of new employees ([www.jobnet.dk](http://www.jobnet.dk)). In

subsequently update it on a weekly basis. The PES must promptly assess of the job seeker's employability using job-profiling software in combination with in-depth interviews by caseworkers in order to quickly identify those who are at risk of ending up in long-term unemployment.

The unemployed must document that he or she is actively seeking for work and should apply for at least four jobs per week. After one month, there is a mandatory meeting with the unemployment insurance fund. The unemployed person then has to contact the PES and the unemployment insurance fund every three months in order to receive job search counselling and to be checked his/her availability for work (European Employment Observatory, 2008).

Currently, any "reasonable" job must be accepted from the first day of unemployment, regardless of previous occupation of the unemployed. This means the acceptance of up to four hours of commuting each day, although the implementation of this rule may not be very strict (Dingeldey, 2007). Recipients who do not comply (for instance miss a appointment with their caseworker or refuse to participate in a programme) face sanctions. In most cases (80% of all cases), individuals lose a couple days' worth of unemployment benefits. In very rare cases, individuals can lose benefit entitlements for several weeks or more (Geerdsen and Holm, 2007).

### *Different activation rules according to age, educational attainment and family obligations*

Activation rules are the same for recipients of social assistance or UIB. However, the time limit within which an individual action plan is drawn up and the unemployed person is ascribed to an ALMP and the type of active measures – *i.e.* the maximal duration of the "passive" period – varies between age groups, educational attainment and family situation (Table 4.1). Benefit recipients aged less than 30 have to participate in activation measures within three months of unemployment. If they lack an upper secondary educational attainment, the activation measure must be related to education and preferably, ordinary education. However, for young parents aged less than 25 as well as for benefit recipients aged 25-30, return to ordinary education is not mandatory. By contrast, any activation measure starts after nine months for benefit recipients aged 30-60 years or more (and after six months for those older than 60). It should be noted that these time limits are minimum requirements; many job centres propose ALMPs at a much earlier stage (Kluve *et al.*, 2007).

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2009, the website Jobnet has been given extra resources to provide a better overview of internships and student jobs.

Table 4.1. **Activation process by age, educational level and family situation, from 1<sup>st</sup> August 2009, Denmark**

**Age under 30**

*General rule:* Have to be activated before 13 weeks of continuous unemployment for a period of six months. All active measures can be used to activate recipients

*Rules for special groups of youth*

<i>Under 25 without upper secondary education</i>	Without children	<i>Not ready to enrol in an educational programme</i> Activation towards making recipients ready for ordinary education
		<i>Ready to enrol in an educational programme</i> Activation towards compulsory enrolment in ordinary education
	With children	Enrolling in an educational programme at the upper secondary level is not an obligation but is possible
<i>Unemployed aged 25-30 without upper secondary education</i>		Enrolling at the upper secondary level is not an obligation but is possible if they have been unemployed for a long period (typically more than 15 months)

**Age over 30**

*General rule:* Have to be activated after nine months of unemployment for a period of at least four weeks

*Specific rule:* Unemployment insurance recipients aged 60 and more have to be activated after six months of unemployment

*Source:* Danish Ministry of Employment.

### *Intensified intervention in the crisis*

In November 2009, a series of policies designed to ensure a quick, intensive and focused approach towards youth aged 18-29 have been decided to be implemented immediately by the PES. These actions cover both the Ministry of Education and the Ministry of Employment.

First, measures targeted at the 18-19-year-olds are based on intensive contact and rapid activation. An immediate offer will be provided for unemployed between 18 and 19 years consisting of an individual talk after only one week of unemployment, a clarifying course within the first two weeks and an active offer (an educational opportunity or work placement by the local council) no later than one month after the beginning of their unemployment period.

Second, other initiatives are targeted at the 18-30-year-olds. Among them, there are the following:

- Young people under 30, who have been recipients of public benefits for longer than 12 months, will be eligible for a special subsidy provided by the PES to receive active offers in the private sector.

- Young people without qualifications will be able to take a reading and writing test when they become unemployed, and job centres have been given resources to provide literacy and numeracy courses.
- Newly graduated students under 30 will be obliged to be referred by the PES to a private provider after only six weeks of unemployment. Previously new graduates were passed on after 4-7 months depending on their educational attainment. The new accelerated process should prevent long-term unemployment among them.

#### ***D. Monitoring and evaluation of youth activation***

##### *Only 5% of newly unemployed youth had to be activated in 2007*

With generous benefits and high income tax rates (already at fairly low levels of earnings), Denmark supposedly faces a high risk of unemployment traps among young people. However, in 2007, less than 5% of unemployed young people who were receiving unemployment benefits stayed unemployed longer than six months (Table 4.2) and consequently started an action plan. This achievement can be, at least partially, ascribed to Denmark's well-designed activation measures targeted at youth that successfully promote a rapid reintegration in employment.

##### *Evaluations of activation programmes for youth: back to education or reintegration into employment?*

Jensen *et al.* (2003) find that the 1996 enacted Youth Unemployment Programme (YUP) had a clear positive effect on the transition rate into education, whereas the effect on transition into employment was more uncertain. This means that the 1996 reform probably had more of an impact on the number of unemployment youth than on the youth unemployment rate.<sup>68</sup> Figure 4.5 indeed suggests that the decline in the Danish youth unemployment rate began in 1993. During the same period, the overall unemployment rate also receded markedly.

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68. By definition, an unemployment rate is a ratio that can be affected by changes of both its numerator (the number of unemployed) and denominator (the number of individuals who participate to the labour force). When unemployed youth find a job the ratio unambiguously goes down. But when they return to education, the direction of the ratio is hard to predict as both the numerator and the denominator decline.

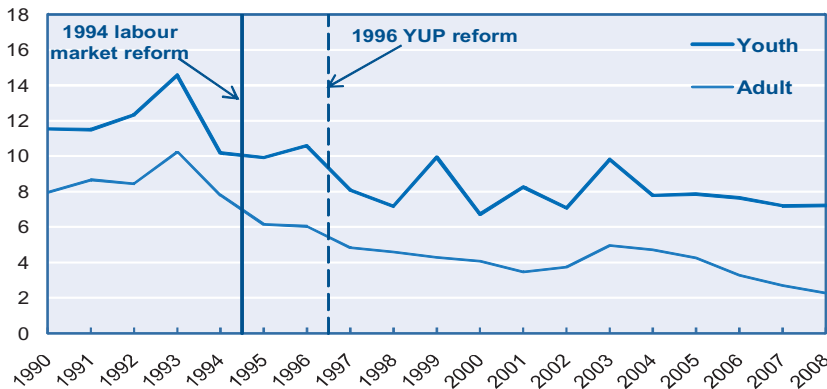
Table 4.2. **Activation of young people, Denmark, 2004-07**  
Numbers and percentages

	2004	2005	2006	2007
Number of recently unemployed youth <sup>a</sup> (A)	46 232	39 022	31 688	19 737
Number of recently unemployed youth who are still unemployed after six months <sup>b</sup> (B)	3 036	2 411	1 802	959
Number of recently unemployed youth who have obtained an action plan within six months of unemployment (C)	1 629	891	1 716	959
Share B/A (%)	6.6	6.2	5.7	4.9
Share C/A (%)	3.5	2.3	5.4	4.9

- a) Data are based on the unemployment insurance funds' reporting of the unemployed persons first day of unemployment.
- b) Data refer to the number of young unemployed persons with 26 weeks continuous full unemployment/re-training from the time of the first day of unemployment.

Source: Danish Government (2008), *Denmark's National Reform Programme: Contribution to the EU's Growth and Employment Strategy (the Lisbon Strategy)*.

Figure 4.5. **Adult<sup>a</sup> and youth<sup>b</sup> percentage unemployment rates, Denmark, 1990-2008**



- a) Aged 15-24.
- b) Aged 25-54.

Source: OECD Labour Force database.

Jensen *et al.* (2003), using Danish monthly unemployment data, argue that the decline in adult unemployment is actually smaller than the decline in youth unemployment, and the gap between youth and overall unemployment rates became noticeably wider after the implementation of YUP in April 1996. They further state that it is difficult to know whether this pattern is

due to YUP or is simply a consequence of youth unemployment being more cyclically sensitive than the aggregate unemployment rate and consequently decreasing faster during booming periods – something supported by the analysis of how the youth unemployment rate responds to the business cycle presented in Chapter 3.

*Evaluations of activation programmes for youth: threat versus programme effect?*

Even in the 1980s and the early 1990s, when unemployment rates were persistently high, the two components of the Danish *flexicurity* model (Box 3.1) were already in place in the Danish labour market, but the active labour market policy was not as intensive as today. Therefore, many observers see intensive activation policies as a pivotal component in the *flexicurity* model's achievement (Rosholm, 2008; Zhou, 2007).

But activation policies are costly both in terms of administration and programme costs. Given the extensive use of these policies in Denmark, it is not surprising that public expenditure in PES and administration and in ALMPs are among the highest in the OECD area, constituting respectively 0.28% and 1.02% of GDP in 2007 while the OECD average was 0.15% and 0.40% of GDP (OECD, 2009d). This raises the question of whether the effects of activation are worth the resources spent (Andersen and Svarer, 2007; Svarer, 2007).

Various studies stress that there is a clear evidence of strong threat effects of activation policies while the evidence on the programme effects<sup>69</sup> of individual ALMPs *per se* are mixed (see Rosholm, 2008; Kluve *et al.*, 2007). The point is that ALMPs form the expensive part of the scheme. In 2005-06, there was an interesting experimental evaluation to assess the effectiveness of ALMPs in Denmark (Box 4.1). The main findings were that there was a significant positive effect on the outflow from unemployment to employment and that this effect was generated mostly by the perceived risk of: *i*) intensified monitoring and programme participation; and/or *ii*) benefit cuts associated to participation (*i.e.* the threat). There is also some empirical evidence that job search by unemployed persons is intensified just prior to enrolment in ALMPs. In addition, people who receive benefits but have little or no interest in being available for work typically leave the unemployment insurance system when they are required to participate in ALMPs (Danish Economic Council, 2002).

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69. The threat effect is the increase in search effort brought about by the threat of having to participate in ALMPs. The programme effect is the expected positive implications for the chances of an unemployed person finding a job due to the training or experience they have received while participating in an ALMP.

#### Box 4.1. The Danish experiment on early intervention and intensive counselling for the newly unemployed in 2005-06

A natural experiment in labour market policy was carried out in two counties in Denmark during the winter of 2005-06. Approximately 5 000 newly unemployed people participated in this pilot programme (European Employment Observatory, 2008).

The treatment consisted of increasing early intervention to unemployed people during the first weeks of their unemployment. This involves information, early mandatory participation in job search assistance programmes, frequent meetings with employment officers, and full-time programme participation for at least three months of people who had not found a job within 18 weeks of becoming unemployed.

In general, the results of this experiment showed that there was a significant positive effect on the outflow from unemployment to employment. Graversen and van Ours (2008) find that the job finding rate of unemployed persons in the treatment group is 30% higher than in the control group. The reduction in median unemployment duration is also higher, at 18%. The authors speculate that the threat effect as well as intensive monitoring and counselling, *i.e.* the stick rather than the carrot, might explain this strong treatment effects in Denmark. When divided into sub-periods, the effects were only significant during weeks 5-18 of the experiment, exactly the period when intervention was most intense, and ending with planned activation after about four months. The effects were greater for young unemployed people (<30) and for older unemployed people.

Rosholm (2008), also using the results of the experiment, finds that the intensification of labour market policies is highly effective, leading to increases in the exit rate from unemployment ranging from 20-40%, varying by region and elapsed unemployment duration. Meanwhile, the author finds that, while none of the various specific treatments prescribed to the participants (*e.g.* job search assistance, various meetings and programmes) have a positive effect on the exit rate from unemployment, the anticipated risk of participating in an activation programme in a given week has a strong positive effect on the job-finding rate (*i.e.*, individual treatments do not appear to be effective *per se*, but the perceived risk of treatment appears effective).

The Danish Economic Council (2007b) has conducted a cost-benefit analysis of the experimental intensification of active measures, using detailed cost information and calculating as benefits the reduction in unemployment benefit payments multiplied by the price of providing public funds (tax distortion) and the increased value of production resulting from reduced unemployment duration. They estimate the socio-economic value of the intensification about EUR 2 000 (DKK 15 000) per person. The social gain from the experiment is estimated after 46 weeks, and thus does not include the long-term effects.

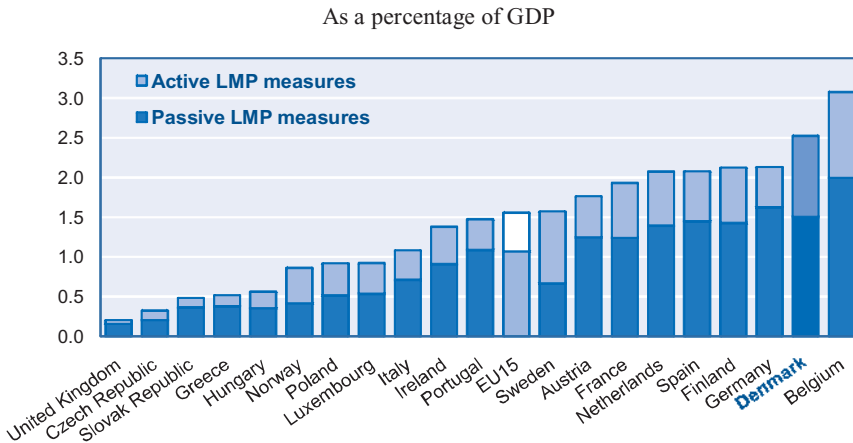
The measures used in this experiment are now being disseminated to the PES nationwide through a campaign initiated by the Ministry of Employment in January 2008. The ministry also has launched a second-generation experiment, where the different tools and practices applied in early intervention are to be tested in more detail.

### 3. Active labour market programmes

#### A. *Denmark spent about 2.5% of its GDP on active and passive labour market programmes in 2007*

Public expenditure in active and passive labour market programmes in Denmark is high by international standards. In 2007, Denmark spent 2.51% of its GDP on active and passive labour market policy (PES and administration excluded), the highest level after Belgium among European countries (Figure 4.6). However, Denmark, like other EU countries, spends more on passive measures (1.5% of GDP) – UIB and early retirement – than on active ones<sup>70</sup> (1.02% of GDP), the only exception being Sweden. However, the gap between active and passive measures has narrowed a lot in Denmark in the 1990s, and is the lowest in 2007 before the onset of the current economic crisis.

Figure 4.6. **Labour market programme (LMP) expenditure,<sup>a</sup> selected European countries, 2007**



- a) Categories 2-7 (training, employment incentives, supported employment rehabilitation, direct job creation and starts-up incentives) are counted as active measures and categories 8-9 (out-of-work income maintenance and support and early retirement) as passive measures.

Source: Eurostat/OECD database on Labour Market Programmes.

70. Categories 2-7 of the OECD-Eurostat classification: training, employment incentives, supported employment rehabilitation, direct job creation and starts-up incentives.



An interesting feature of Denmark's financing of labour market policy is that the national budget for ALMPs is adjusted according to the government's official unemployment forecasts. Hence, during recessions (like today's) sufficient funding is available to support the larger number of unemployed persons, including young individuals.

### **B. Main active labour market programmes (ALMPs)**

The Consolidated Act on Active Employment Measures of 2005 prescribes three main ALMPs: *i) guidance and upgrading of skills and qualifications; ii) practical work training in enterprises; and iii) wage subsidies*. These instruments can be combined according to the needs of the person and/or those of the labour market (Eurostat, 2009).

First, the *guidance and upgrading of skills and qualifications* programme has three basic instruments: “specially arranged activation”, “short guidance and skills qualifying programmes” and “education and training”. These instruments are normally used for a period of up to six weeks. However, they can be used for up to 26 weeks if learning the Danish language is a major part of activation measures and for up to one year in case, for example, the unemployed person has to acquire skills in sectors experiencing skill shortages. “Specially arranged activation” is implemented through, for example, information meetings, work experiences in enterprises, job seeking activities, recruitment interviews and job tests. The measure may also contain educational activities. “Short guidance and skills qualifying programmes” are carried out also through information meetings, job seeking activities, recruitment interviews and job tests. Activation in “education and training” includes training either in the general education/training system or in especially tailor-made programmes.

Second, *practical work training in enterprises* is to provide a practical work experiences for the hard-to-place group of the unemployed who are not immediately job-ready. Participants keep receiving their previous benefits, and are not employed in enterprises. This programme may be carried on at, for example, private associations, private households, sport clubs, cultural organisations as well as in the public sector. It lasts normally four weeks, but the authorities may prolong it up to 26 weeks according to the needs of the unemployed persons.

Third, *wage subsidies* are available both for private and public employers. To be eligible for the subsidy, the subsidised job should result in an increase in the number of staff in the firm and there should be a reasonable proportion between subsidised employment and ordinary employment within the firm. In the private sector according to collective agreements, wages and working conditions are the same for participants as

for regular employees. In contrast, for participants in the public sector, monthly earnings equal unemployment insurance benefits (Jespersen *et al.*, 2008). This programme targets primarily the unemployed who is almost immediately ready for a normal job, but needs small adjustments in personal qualifications. This programme can be used for a period of up to one year. In case of private employers, subsidised employment is only available for an unemployed person who faces a special risk of long-term unemployment or has already been long-term unemployed for at least 12 months (six months in the case of the unemployed person under the age of 30) and has received social assistance benefits.

### C. Youth programmes

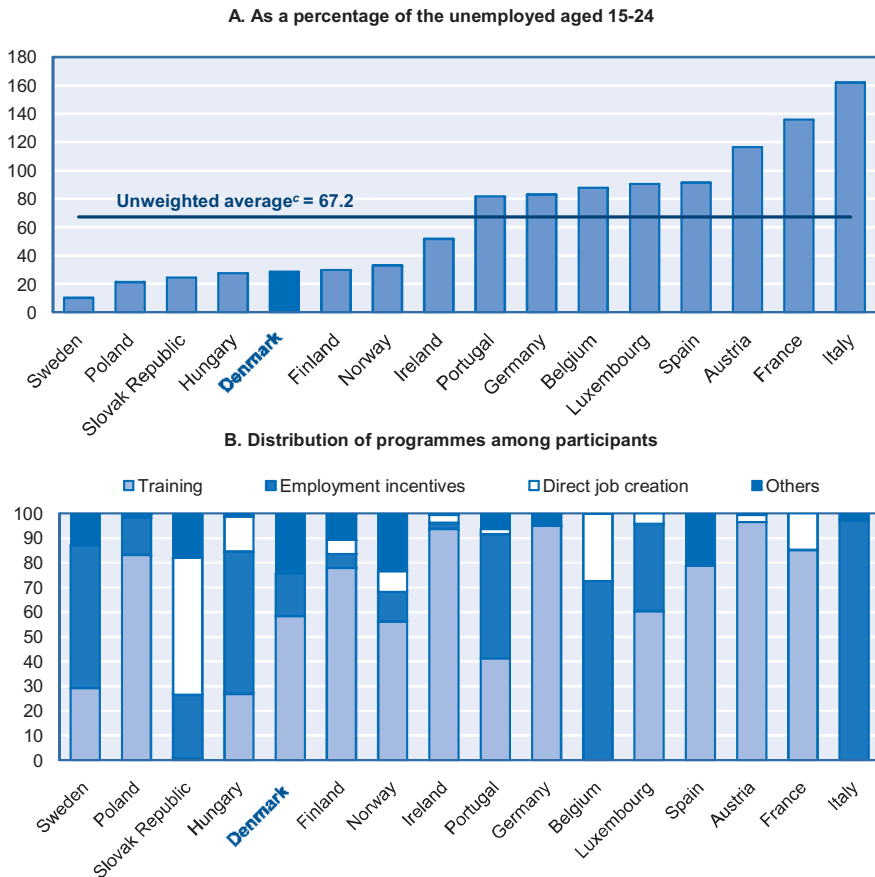
Until 2002, public expenditure on youth programmes<sup>71</sup> could be easily traced in the OECD database. In 2002, expenditure for youth programmes in Denmark came to 0.10% of GDP, slightly more than the OECD average (0.08% of GDP). From 2002 onwards, the Eurostat database no longer reports on public expenditure on youth programmes. Countries are just asked to say whether participants are aged less than 25. Unfortunately, only 16 countries responded and not for all the programmes.<sup>72</sup> On average in 2007 – for the 16 countries that filled in the age of participants – the proportion of participants represented 67% of unemployed youth, but only 29% in Denmark (Figure 4.7). This share is relatively low compared with countries like Italy, France and Austria where more than 90% of the unemployed youth participated in ALMPs. As discussed earlier, the Danish situation might be explained by the fact that a mere 5% of unemployed youth stayed unemployed for more than six months (see Table 4.2).

In 2007 in Denmark, training was the most widely attended programme by youth: 58% of participants aged less than 25 were in training programmes. Training is however less frequent than in Poland, Ireland, Germany, France and Austria where the proportion is more than 80%. Administrative data on ALMP participation show that the training programme called “specially adapted projects and educational activities” is particularly frequent among the unemployed aged 16-24, followed by job search assistance (guidance and clarification activities) (Table 4.3). The

- 
71. The OECD classification of youth measures included from 1995 to 2002 specific measures for unemployed youth and subsidies for apprenticeship and other types of general youth training. From 2002 onwards, the OECD database is derived from the Eurostat database.
72. As the response rate differs by age group, programme and country, international comparison needs to be interpreted with caution.

unemployed aged 25-29 benefit first from adult apprenticeship support, followed by training programmes such as specially adapted projects and educational activities and ordinary education.

Figure 4.7. Youth ALMPs in selected European countries,<sup>a</sup> 2007<sup>b</sup>



- a) Data on participants are not available for some ALMPs in the Eurostat database, thus making aggregate data not fully reliable. The aggregate data presented here refer to those which cover at least 80% of relevant expenditure.
- b) 2003 for Spain; 2006 for Germany.
- c) Unweighted average of countries shown in the chart.

Source: Eurostat/OECD Labour Market Programmes database.

Table 4.3. **Participants in active labour market programmes,<sup>a</sup> by age, Denmark, 2007**

Persons and percentages of registered unemployed persons by age

	All ages		Aged 16-24		Aged 25-29	
	Persons	Share	Persons	Share	Persons	Share
Registered unemployed persons	77 165	100.0	5 649	100.0	9 054	100.0
Guidance and upgrading of skills and qualifications	38 482	49.9	5 180	91.7	5 214	57.6
Guidance and clarification activities	9 046	11.7	1 443	25.5	1 086	12.0
Specially adapted projects and educational activities	16 302	21.1	3 126	55.3	2 328	25.7
Ordinary education	13 090	17.0	602	10.7	1 792	19.8
Special activities upgrading skills	44	0.1	10	0.2	8	0.1
Subsidised employment	73 943	95.8	1 848	32.7	6 857	75.7
Business in-service training	6 507	8.4	849	15.0	742	8.2
Employment subject to wage subsidies	7 882	10.2	431	7.6	877	9.7
Flex jobs	43 861	56.8	448	7.9	1 211	13.4
Sheltered jobs	4 902	6.4	118	2.1	336	3.7
Service jobs	705	0.9	0	0.0	0	0.0
Adult apprenticeship support	10 088	13.1	2	0.0	3 690	40.8
Integration education (Danish lessons)	1 928	2.5	208	3.7	479	5.3

a) Data refer to the average number of participants in each labour market policy measure.

Source: Statistics Denmark, StatBank.

### *Beyond threat: the mixed programme/treatment effects of youth ALMPs*

As mentioned earlier, while several studies confirm the “threat effects” of Danish activation policies, there is mixed evidence on the “programme effect” or “treatment effect” of individual ALMPs. Some even argue that the actual objective of ALMPs – to improve the job and wage prospects of the unemployed – has not been achieved (Danish Economic Council, 2002).

Kluve *et al.* (2007) have reviewed the recent evaluation studies on Danish ALMPs. In general, private sector employment programmes appear to have positive effects, whereas training programmes – which is the most widely used programme for youth in Denmark – and public sector employment programmes have negative effects, by prolonging unemployment duration, primarily *via* large negative locking-in effects.

The Danish Economic Council (2007b) also shows that some programmes have a negative effect on employment and earnings. On-the-job training in the private and public sectors are the only programmes displaying a positive effect on subsequent employment and earnings. Classroom training – that incidentally is mostly attended by individuals with a relatively high educational attainment – and other programmes have a negative effect of employment and wages. Cost-benefit evaluation of ALMPs shows a high deficit for classroom training, while on-the-job training in the private and the public sectors present a surplus. The Council recommends that classroom training should be more focused and targeted on those of the unemployed who can benefit from participation. It further recommends giving priority to counselling, job-search assistance and more systematic availability-for-work testing (Danish Economic Council, 2007b).

Research done by Jespersen *et al.* (2008) covering the years 1995 to 2005, largely accords with that of the Danish Economic Council. It also finds that job training in the private sector generates a high return, which is mainly due to substantially higher earnings and reduced income transfers after participation. Public job training also generates a significant value added while classroom training generates a significant deficit.

### *Which activation strategy for very disadvantaged youth?*

Most of the 2000s were synonymous with low unemployment and skill shortages in Denmark. This means that a growing share of unemployed youth consisted of individuals intrinsically hard to place in employment, who for instance had a record of underachievement at school, of substance/alcohol addiction or mental illness. Traditional ALMPs – counselling, job-search assistance, training programme and even financial incentives – tend to prove ineffective at dealing with such a public.

The recent downturn may make such a public less visible among the inflated ranks of unemployed youth, removing some of the political pressure to address its needs. That said, in the future, in view of population ageing and other long-term trends, Denmark will probably anew be confronted with the problem of insufficient skilled labour to sustain growth. Therefore, Denmark will probably need to keep developing programmes with the capacity to reach out to very disadvantaged youth in order to reintegrate them into regular employment.

The Danish government recently introduced a programme called “4K” targeting youth with psychosocial disabilities (Box 4.2) associating municipalities with private employers.

#### Box 4.2. The “4K”, a project for youth with psychosocial disabilities

The project “4K” was initiated by the Minister of Employment and Danish Disability Organisations with the support of the Danish National Network of Business. The name “4K” has two meanings. It involves at least four young people at the same time into a business centre, and the project is characterised by the following four points:

- *Candidate for employment and education*: the project provides the young people to get closer to the labour market and eventually hope to get an ordinary job.
- *Competences*: participants develop their personal and professional skills through participation in a business centre.
- *Social skills*: participants will have new social contacts with other young people in the business centre as well as colleagues at the company.
- *Contact mentor*: contact between the candidate and the mentor from the company is an important cornerstone in the project. The mentor helps and supports the candidate through the course at the workplace.

The target group for the project “4K” comprises young people under age 30 with psychosocial disabilities who receive social assistance (*i.e.* cash benefit) or other disadvantaged youth. The goal is to get the young people ready for employment or further education. The group includes a wide range of young people with psychosocial disabilities like ADHD (Attention-deficit hyperactivity disorder), brain damage, or with “an uneven start in life”, such as young single mothers and third-generation cash-benefit recipient. The experiment is designed to prevent the target group from dropping out of the labour market before the age of 30.

Currently, there are two municipalities participating in “4K” alongside four private companies. Each company has set up an absorption centre, called a business centre. Hence, there are a total of 32 participants in this project. There can be awarded maximum EUR 4 000 (DKK 30 000) per participant. The grant is used partly to supplement or to subsidise Job centres and to support businesses and participants in the form of, such as, mentoring and physical education.

Among programmes targeted specifically to very disadvantaged youth, there is some experimental evidence that residential programmes with a strong focus on remedial learning and employment assistance may yield positive private and social returns once allowance is made for impacts on adverse social behaviours (crime, drug-taking, poor parenting), as well as labour market outcomes. An example of these programmes, the Job Corps in the United States, is presented in Box 4.3. This is however an expensive programme, costing more than USD 20 000 per participant. Although the evaluation literature has been very positive about the outcomes of this programme, a recent synthesis paper by Schochet *et al.* (2008) suggest that Job Corps is cost-effective is primarily for young adults (aged 20-24).

### Box 4.3. The US Job Corps programme

For several decades, Job Corps has been a central part of the US Federal government's efforts to provide employment assistance to disadvantaged youth and help them become "more responsible, employable and productive citizens". To be eligible, youth must be 16-24, meet low-income criteria and face one or more barriers to employment such as lacking qualifications or being a runaway, a foster child, a teenage parent or a homeless youth. Job Corps services are delivered at 122 centres nationwide in the United States and serve about 60 000 new enrollees annually. Most youth participate in a campus-like residential living component – approximately 85% of students are residential – while the remaining students commute to their centres daily. Participation is entirely on a voluntary basis.

Programme components include a strong focus on academic education and vocational training to help participants attain an upper secondary qualification. Thanks to close cooperation with unions, some vocational training courses available at Job Corps are recognised as pre-apprenticeship programmes, allowing entry to apprenticeships at a higher level and salary. At the end of the programme lasting normally eight months, placement services help participants to secure sustainable employment. Other key services include health education, health care and counselling. During the programme, youth receive a stipend twice a month – increasing with seniority, up to USD 46 – and a lump sum of USD 100 every three months to purchase of technical-training clothing. Youth who complete vocation training and obtain an upper-secondary qualification are eligible for USD 1 200 to help with the start-up costs of independent life.

Outreach activities, centre management, training and placement services are all run by private contractors. Contracts are allocated through a competitive tendering process and can last up to seven years after a series of renewals. All contractors are evaluated based on several criteria each carrying a different weight, with some weights modelled on the characteristics of the population in each Job Corps centre. For instance, outreach contractors are evaluated based on: the number of youth recruited; the percentage of women recruited; the share of recruited youth who remain enrolled for a minimum of 60 days; and the share of recruited youth who do not separate within 30/45 days due to a violation of Job Corps' Zero Tolerance policy against violence/drugs. On the other hand, contractors who run the centres are evaluated based on: the share of participants who acquire an upper secondary qualification; the share of participants who complete vocational training; the literary and numeracy gains of participants; the initial placement of graduates; the match between a graduate placement and the training received at Job Corps; the initial placement of non-terminees (youth who do not acquire an upper secondary qualification while on the programme); the initial graduate wage; the employment status of a graduate six months after exit; the graduate wage six months after exit; and the employment status of a graduate 12 months after exit. The achievement of these goals influences contractors' payment in the form of extra bonus payments – *i.e.* centre contractors are only allowed to bid for costs and a profit margin of 2.8% but can attain profits of up to 6% if they perform well according to the above-mentioned criteria.

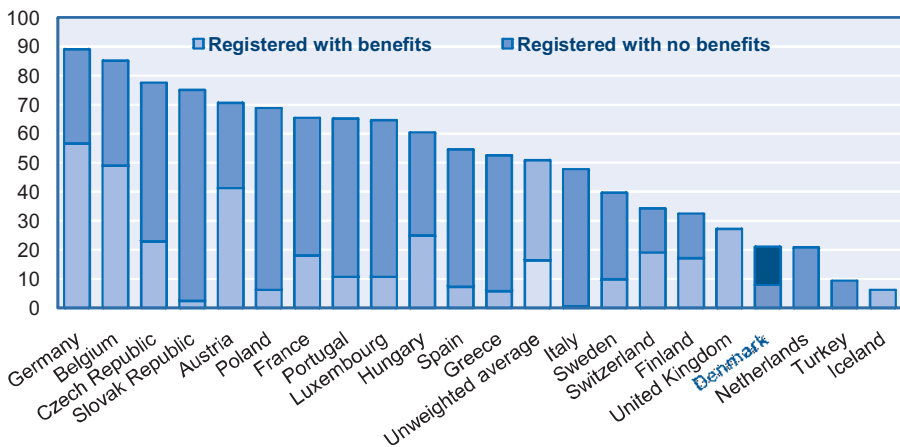
Job Corps is an expensive programme given its design, costing approximately USD 22 000 per participant (OECD, 2009g). As a result, it has been evaluated several times during its history, most recently *via* experimental (*i.e.* random-assignment) methods. Schochet *et al.* (2001) found rather positive effects of Job Corps on participants' employability and earnings and high social rates of return. However, a follow-up analysis based on administrative data on earnings rather than survey-based data (Schochet *et al.*, 2003) found less positive benefits for teenagers but continued to show high social returns for young adults (the 20-24 age group). The residential component of the programme appears to work better than the non-residential option.

#### 4. Public and private employment services

The proportion of unemployed youth who register with the PES in Denmark is relatively low among OECD countries (Figure 4.8). Part of the explanation might be the division of the role between the PES (in charge of unemployment benefit) and the municipal authorities (in charge of social assistance) which existed until very recently. From the summer of 2009, the PES has been further decentralised and all unemployed persons, irrespective of their benefit level, will be dealt with by the zone agency (one-stop shop) in each municipality.

Figure 4.8. **Unemployed youth registered with the PES, 2006-07<sup>a</sup>**

As a percentage of unemployed aged 15-24



a) Data refer to a 2006 and 2007 average.

Source: Estimations based on the European Union Labour Force Survey (EULFS).



### ***A. Towards one-stop shops at the municipal level***

Until the summer of 2009, there were two different ALMP delivering systems: the central state system (the Ministry of Employment) that dealt with the members of the unemployment insurance funds and the municipal system that dealt with recipients of social benefits (Winter *et al.*, 2008).

From 2007, the access point for these two groups of beneficiaries was different. The local government reform in 2007 introduced a new administrative structure for employment policy. The central and local government provision of employment services were merged into jointly-functioning new PES (job centres) located at the municipal level.<sup>73</sup>

The 91 local job centres, which are staffed by both local and central government employees, have become a single access point for all citizens and companies needing assistance in employment matters. Furthermore, on a pilot basis, seven job centres are run entirely by the local government without central government involvement – *i.e.* the municipalities took over the state's responsibility for the unemployed with insurance.

The new approach creates a greater focus on employment by removing the distinction in employment services based on the kind of income support the unemployed person receives (OECD, 2008e).

Recently, the government decided to move forwards by completely merging the two systems in order to provide exactly the same offers and conditions for all unemployed irrespective of whether they are insured or not. Therefore all job centres are run by the municipal authorities from August 2009.

With this reform, some concerns have been raised by the social partners as well as some researchers. First, there might be a risk of fragmentation of labour market intermediation and the municipal focus may hinder labour mobility by focusing the unemployed and jobs within the municipality (OECD, 2008e). In addition, Winter *et al.* (2008) find that in Denmark the central provision of services is more consistent with national policy goals than the local provision of national policies. Second, there is a risk of heterogeneity in the way the activation process is implemented among different municipalities.

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73. The 2007 structural reform reduced the number of municipalities from 271 to 98 municipalities.

However, these risks can be counterbalanced by: *i*) the detailed regulations imposed by central authorities as to how municipalities should treat their clients; and *ii*) state-of-art benchmarking capabilities by municipality, such as *Jobindsats*.<sup>74</sup>

### ***B. Towards a coherent guidance system***

There are no specialised public employment agencies targeting youth in Denmark. However, in recent years, the government established youth guidance centres to provide educational and vocational guidance to school drop-outs (see Section 5, Chapter 2 and Box 4.4).

### ***C. Co-operation between private and public employment agencies***

In 1990, the PES monopoly on placement services was abolished in Denmark. Since 2003, part of employment services has been outsourced to private agencies, including trade unions. An average of around 30% of unemployed people was referred to other actors than the PES in 2004, while the minimum legal obligation for outsourcing is 10%. Preliminary evaluation studies show that private agencies perform marginally better than the PES in helping the unemployed to return to work (Dingeldey, 2007, quoting Bredgaard *et al.*, 2005). Greater outsourcing and privatisation of employment services are being pursued in conjunction with the 2007 Reform on local government and employment services (Dingeldey, 2007).

In case of temporary agency work, the share of temporary agency workers among total employment in Denmark was one of the lowest in Europe, although this share has increased in recent years, from 0.3% in 1999 to 0.9% in 2006 (Bredgaard *et al.*, 2009). This situation might be explained by the fact that there is no legal provision for temporary agency work in Denmark, and so this type of employment is regulated only through collective agreements.

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74. *Jobindsats.dk* is an Internet portal which provides information and data on the latest results of the employment policy programmes. *Jobindsats.dk* offers a large selection of data *e.g.* on the developments in youth unemployment. *Jobindsats.dk* makes it possible to closely monitor the developments in employment policy at local level, and serves as an efficient tool for central and local government as well as researchers. It is possible to perform searches on a wide range of variables, including geographical areas, periods, gender, ethnic background, age and match category.

#### Box 4.4. Youth guidance centres in Denmark

There are 45 municipal youth guidance centres to provide guidance services for young people up to the age of 25 years. The youth guidance centres focus on guidance related to the transition from compulsory school to youth education or, alternatively, to the labour market. The main target groups are:

- Pupils in primary and lower secondary school – forms 6 to 9 (10)
- Young people under the age of 25 who are not involved in education, training or employment. The centres provide outreach services for this group as they are obliged to establish contact with these young people and help them get back into education and training or employment.
- Other young people under the age of 25 who contact the centres themselves for guidance.
- Young people with a special need for guidance – a transversal target group that includes young people whose problems are related to the continuing or completion of an education programme.

Guidance activities include individual and group guidance sessions, as well as introductory courses and bridge building schemes to give pupils a “taste” of conditions, levels and requirements at different youth education institutions.

Cross-sectoral co-operation is emphasised in the Danish legislation on guidance to ensure a coherent guidance system and a regular exchange of experiences, knowledge and best practice. The youth guidance centres are thus obliged to co-operate closely with the PES (job centres) as well as primary and secondary schools and youth education institutions in the area.

*Source:* Danish Ministry of Education; [www.uvm.dk/](http://www.uvm.dk/).

## 5. Key points

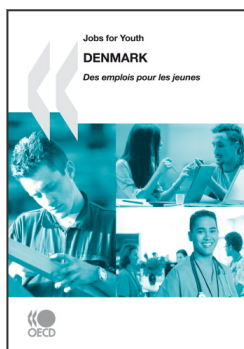
Unemployed young people in Denmark are covered by one of the most generous income-support systems in the OECD area. The net replacement rate provided by unemployment insurance benefits is among the highest in OECD, and the maximum benefit duration of four years is also one of the longest. Means-tested social assistance is also generous by international standards and available for all those who do not (or no longer) qualify for unemployment insurance benefits as from the age of 18.

While relatively generous welfare schemes theoretically bear the risk of creating unemployment and inactivity traps, in Denmark activation measures targeted at youth successfully promote their rapid reintegration in employment. This is a result of a strict and well-established implementation

of the “mutual obligations” activation approach introduced in the mid-1990s whereby, in exchange for income support, job seekers (including youth) need to participate in training, job-search or placement activities (the flexicurity approach).

During the second part of the 1990s and in the early 2000s, activation was fine-tuned and reinforced, especially in relation to youth, with apparent success. Today, early intervention is considered as the fastest way to bring people back to work. The benefit is reduced for youth under 25 (without children) after six months of activation. From the summer 2009, after a first job interview within one month of unemployment and a maximum of three months of unemployment, all unemployed youth less than 30 must take part in activation programmes. However, activation rules are the strictest for youth under the age of 25 without an upper secondary qualification and without children. They are obliged to enter an education programme, either in the ordinary educational system if they are ready for taking on education or otherwise in a special education programme to make them ready to enter the ordinary educational system. By contrast, all types of ALMPs can be proposed to youth aged 25-29 and for youth with children.

Many analysts see intensive activation policies as a pivotal component of Denmark’s good labour market performances. Various studies confirm the strong “threat effect” of Danish activation policies, while the evidence on the effect of individual programmes is mixed. In other words, what works is the perceived risk of treatments (and the string of financial sanctions attached to them), not the (relatively expensive) treatments.



**From:**  
**Jobs for Youth/Des emplois pour les jeunes:  
Denmark 2010**

**Access the complete publication at:**  
<https://doi.org/10.1787/9789264075160-en>

**Please cite this chapter as:**

OECD (2010), "The role of welfare and activation policies", in *Jobs for Youth/Des emplois pour les jeunes: Denmark 2010*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264075160-8-en>

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