

National Institute Economic Review

<http://ner.sagepub.com>

Danish Labour Market Activation Policies

Jon Kvist and Lisbeth Pedersen

National Institute Economic Review 2007; 202; 99

DOI: 10.1177/0027950107086172

The online version of this article can be found at:
<http://ner.sagepub.com/cgi/content/abstract/202/1/99>

Published by:

 SAGE Publications

<http://www.sagepublications.com>

On behalf of:



[National Institute of Economic and Social Research](#)

Additional services and information for *National Institute Economic Review* can be found at:

Email Alerts: <http://ner.sagepub.com/cgi/alerts>

Subscriptions: <http://ner.sagepub.com/subscriptions>

Reprints: <http://www.sagepub.com/journalsReprints.nav>

Permissions: <http://www.sagepub.com/journalsPermissions.nav>

DANISH LABOUR MARKET ACTIVATION POLICIES

Jon Kvist and Lisbeth Pedersen*

Under the heading of flexicurity, Danish labour market activation policies are receiving international attention because of their perceived ability both to curb unemployment and to boost employment. Indeed, the objectives, target groups and design of activation policy have undergone a remarkable transformation over the past fifteen years. From the initial curbing of unemployment among the insured unemployed through standard activation offers, the aim today is also to increase labour supply among non-economic active groups using individually tailored programmes. Danish activation policies thus embrace not only active labour market policies but also social and integration policies. Despite widespread popularity and belief in the positive effects of activation, little is actually known about its overall impact on the Danish economy.

Keywords: Activation policies; flexicurity; employment effects; Denmark

JEL Classifications: J60; J68

Introduction

Labour market activation policies (referred to henceforth as activation) form a crucial part of Danish economic policy. From initially combating unemployment in the mid-1990s, the chief aim of activation policies in the 2000s has now shifted to that of increasing labour supply. Denmark today has not only the lowest unemployment rate in the European Union but also the highest employment rate, outperforming the United States (see table 1). No wonder therefore that this employment performance makes Denmark's activation policies the focus of other European governments, especially those of continental Europe.

Many believe that new activation policies from 1994 onwards have contributed to a marked fall in unemployment in Denmark. The combination of these

activation policies, lax employment protection legislation and encompassing social security has created what is seen as a golden 'triangle', often described as a particular flexicurity model. This model focuses not on employment protection, i.e. making it difficult for an employee to be fired, but on social and job protection, i.e. combining high unemployment benefits with active labour market policies. Throughout the European Union there is now a movement towards this 'Danish direction', as witnessed, for example, in the recent European Commission (2007) Communication, 'More and better jobs through flexibility and security'.

This ability to meet both economic and social objectives has aroused international interest. In relation to other

Table 1. Unemployment and employment rates in Denmark, Germany, the United Kingdom and the United States, 1995–2006

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
EU 15	Unemp. rate	10.0	10.1	9.8	9.2	8.5	7.6	7.2	7.5	7.9	8.0	7.9	7.4
	Employment rate	60.1	60.3	60.7	61.4	62.5	63.4	64.0	64.2	64.3	64.7	65.3	66.0
Denmark	Unemp. rate	6.7	6.3	5.2	4.9	5.2	4.3	4.5	4.6	5.4	5.5	4.8	3.9
	Employment rate	73.4	73.8	74.9	75.1	76.0	76.3	76.2	75.9	75.1	75.7	75.9	77.4
Germany	Unemp. rate	8.0	8.5	9.1	8.8	7.9	7.2	7.4	8.2	9.0	9.5	9.4	8.4
	Employment rate	64.6	64.1	63.7	63.9	65.2	65.6	65.8	65.4	65.0	65.0	66.0	67.5
UK	Unemp. rate	8.5	7.9	6.8	6.1	5.9	5.3	5.0	5.1	4.9	4.7	4.8	5.3
	Employment rate	68.5	69.0	69.9	70.5	71.0	71.2	71.4	71.3	71.5	71.6	71.7	71.5
US	Unemp. rate	5.6	5.4	4.9	4.5	4.2	4.0	4.8	5.8	6.0	5.5	5.1	4.6
	Employment rate	72.5	72.9	73.5	73.8	73.9	74.1	73.1	71.9	71.2	71.2	71.5	72.0

Source: Eurostat (2007a).

*SFI – Danish National Centre for Social Research, e-mail: JK@sfi.dk.

parts of Europe, Denmark and the other Nordic countries have a higher degree of equality between men and women, a lower share of people at risk of poverty, and less inequality between rich and poor. Economically, international rankings by the World Economic Forum (2006) and others place the Nordic countries in the top ten for competitiveness.

Because of stronger economic performance and more innovative activation policies, Denmark has in recent years overtaken Sweden – where trade union economists Gösta Rehn and Rudolph Meidner had developed active labour market policies from the 1940 to 1960s – as a model for others. Thus Europe is now looking to Denmark, not Sweden, for solutions to problems of unemployment and lack of labour supply.

In reality, however, empirical evidence on the link between Danish activation policies and flexicurity on the one hand, and economic and social performance on the other, are lacking.

This paper sheds light on the design and development of Danish activation policies as well as their effects on individuals and the economy, to the extent that these have been investigated.

Activation in a small open economy

Denmark has a population of 5.4 million people, of whom 3.7 million are of working age, i.e. 15–66 years, see Box 1. The labour force consists of 2.9 million persons, 2.8 million of whom are in employment and 105,000 of whom are unemployed. Nearly all of the 800,000 persons between 15 and 67 years out of the labour force rely on social security.

In a country with a high degree of economic openness, activation has become a necessary structural tool to establish stable macroeconomic development. This can be illustrated by the present employment situation in

Box 1. Key labour market statistics, persons aged 15–66 years, Denmark 2006

Population	3,705,000
Labour force	2,915,000
Employed	2,809,000
Unemployed	105,000
Out of labour force	790,000

Source: Statistics Denmark (2007).

Denmark. At 3.3 per cent (July 2007), the unemployment rate is so low that it defies prediction by many labour market economists. Due to labour shortages, many firms find it difficult to meet the demand for products and services, and collective agreements in 2007 have been marked by demands for significant wage increases. In this situation activation becomes an important means of ensuring that as many as possible work, that those out of jobs are available for work, and that the relatively generous social protection system retains its legitimacy.

Activation policies enjoy political and popular support in Denmark. In Parliament there is a tradition for broad political compromise over reform of social and labour market policies. Social partners have a large role in the planning and implementation of activation policies. Professional case officers working with these policies believe in its merits. Three out of four participants are satisfied with their offer of activation, and the population at large supports these labour market policies.

The rationale behind activation is twofold. First, a welfare model like that of Denmark needs a very high level of employment to be able to offer and finance public benefits to the extent and quality necessary to meet the demands of the population. Second, employment has proven again and again to be the safest way for the individual to avoid social exclusion. From this perspective, activation can also be seen as a social policy initiative. One of the goals of the Danish welfare model is to enable everyone in Denmark to be an active citizen, preferably by participating in the labour market.

Activation plays a crucial dual role in policing moral hazard, so that everyone who can work actually does so, and in upgrading the skills of the unemployed to meet labour demand at market wages. The alternative – of increasing economic incentives to work by lowering benefits, or increasing employment opportunities by reducing wages – is generally seen as undesirable.

Activation policies are associated with considerable expense. Denmark spends more as a proportion of GDP on labour market policies – active as well as passive – than any other country in the European Union; see table 2. More than 100,000 persons (measured as full-time equivalents) participate in activation schemes every year. Because of its high costs in both economic and human terms, activation must work to be legitimate. As table 2 shows, Danish employment rates for both men and women outrank those of other EU countries. In fact,

Table 2. Expenditure on labour market policies and employment rates

	Public expenditure on labour market policies, % of GDP, 2005			Employment rate, 2006	
	Active measures	Passive measures	Total	Men	Women
EU 15	0.545	1.413	1.958	73.5	58.5
Denmark	1.433	2.514	3.947	81.2	73.4
Germany	0.616	2.346	2.962	72.8	62.2
United Kingdom	0.116	0.187	0.303	77.3	65.8

Source: Eurostat (2007b).

Note: Active measures include training, job rotation/job sharing, employment incentives, integration of the disabled, direct job creation and start-up incentives. Passive measures include out-of-work benefits, notably unemployment insurance, and early retirement.

as described below, surprisingly little is known about the contribution of activation and other labour market policies to the performance of the labour market.

quality provided by persons with relevant professional backgrounds in the social, health and educational sectors.

Danish activation policies in a broader context

To grasp the role that activation plays in Denmark, one must appreciate that it forms an integral part of a larger system made up of social protection, labour market policies and collective agreements (Kvist, 2002a). In some respects, Denmark shares many of the traits of the other Nordic countries, although there are also important differences. With regard to their similarities, Denmark belongs to a group of countries with a Nordic welfare model characterised by:

- **Comprehensiveness.** The state has a big social responsibility vis-à-vis the market and civil society.
- **Universalism.** The whole population enjoys a wide range of social rights in the form of social security and social services.
- **Individualism.** Social rights are to a large extent individualised; thus benefits are provided and calculated in relation to the situation of the individual, without regard to family circumstances (with social assistance and family allowances being the main exceptions).
- **Goal of high employment.** Policies aim to contribute to full employment and the reduction of unemployment, especially long-term unemployment.
- **Goal of equality.** Policies often aim to contribute to increased equality between groups based on gender, age, class, family situation, ethnicity, regions etc.
- **High quality and generosity.** Services are of high

- **Decentralised organisation.** Most services are provided by municipalities.

In relation to the other Nordic countries, the Danish model stands out in four respects. First, the Danish welfare model is to a larger extent financed through taxes rather than social security contributions. Contribution financing is limited to unemployment insurance, voluntary early retirement pay and supplementary labour market schemes. Secondly, benefits are less generous for middle and high income groups than in similar Finnish, Norwegian and Swedish schemes. In fact, Danish social security and social assistance are particularly generous for low income groups, often at the same or a higher level than in the other Nordic countries (Kvist, 2002b). In other words, it is most generous for the groups that are most likely to face periods of unemployment, sickness or work incapacity. Where the other Nordic countries secure a certain income compensation in social security to middle income groups, this has been left to negotiation between the social partners in Denmark. Extensive labour market schemes, which pay out, in particular, pensions for old age, invalidity and survivors, are the third way in which Denmark differs from the other Nordic countries.

Finally, since the middle of the 1990s, Denmark has led the Nordic countries in employment policy innovation (Kvist, 2003). Most recently, Denmark has become well-known for its flexicurity model, combining limited protection of jobs with an active labour market policy and a social protection system with easily accessible, generous benefits. Two of the elements, flexible employment protection legislation and generous social protection, have been part of the Danish welfare model

for decades, even in periods of very high unemployment. The activation element, however, dates back to the 1994 labour market reform.

Lax employment protection means that Danish firms are able to adjust quickly to changing demand, making the economy flexible and robust to economic shocks. To secure the support of trade unions, and to avoid unintended distributional effects, the social protection system offers benefits that, by international standards, are generous with regard to the length of benefit periods and the levels of benefits for low-income groups.

Potentially, however, generous benefits create two problems. First, high benefits mean that firms must offer higher wages to attract workers. Those unemployed with low qualifications may find it difficult to deliver what is needed to get the lowest wage. Secondly, high benefits may distort incentives to work. These problems are addressed in Denmark by the following means. First, education, job training and other activation policies aim to upgrade the skills of the unemployed so that their employment chances are improved. Second, monitoring, guidance, availability criteria and tests, as well as sanctions for non-compliance, all aim to avoid misuse of benefits and ensure that the unemployed are available for work.

In sum, activation is at the heart of the Danish welfare model. It gives the unemployed qualifications and polices moral hazard, which in turn reduces the costs of potential free-riding, increases the number of tax payers, and secures broad public support for an extensive welfare model.

The development of activation

The concept of activation originates with the poor laws of the 18th century, where receipt of poor relief was combined with compulsory work. But the type of activation we know today began at the end of the 1970s. Five years of rising unemployment had shown that high unemployment had become a permanent phenomenon that was leading still more people to rely on long-term public support and which could not be addressed by conventional demand-side policies. The 1978 Work Offer scheme is the first modern activation offer, having the dual objective of helping the unemployed back to work through qualification offers, and giving the long-term unemployed a chance to become re-entitled to unemployment insurance through participation in activation. At this time, activation was in other words not only employment policy, but also social policy.

Nothing much happened to employment policy during the Conservative-led coalition governments from 1981 to 1993. The main focus of these governments was to improve the balance of payments and the major deficits of general government. Although unemployment was high in the 1980s it took second place to the economic imbalances that were the main priority of economic policy.

When the Social Democrats took office late in 1993, their declared chief objective was to curb unemployment. The underfinanced Tax-Benefit scheme and the Labour Market reforms introduced in 1994 kick-started the economy and revolutionised the relationship between the welfare system and the labour market with a switch from a passive to an active approach. This switch occurred almost simultaneously in several OECD countries, but was perhaps spearheaded by the United Kingdom, the Netherlands and Denmark. Civil servants from these countries have exchanged knowledge and their colleagues in other countries have also looked at the design and experiences of activation in the three countries as promoted by the OECD Job Strategy and the European Employment Strategy (see also Nedergaard, 2006).

Four features of Denmark's labour market policies in the 1990s stand out in comparison with the policies of the two previous decades. First, it became impossible to 'recycle benefits'. Before the labour market reform of 1994, the unemployed could receive unemployment insurance for a maximum of 1½ years, after which they were entitled to an offer of active labour market policy for six months. Participating in this offer in turn re-entitled the person to another period on unemployment insurance, thus making a virtuous 'benefit carousel'; see figure 1. Now only ordinary employment counts towards qualification for benefits.

Second, the benefit period was gradually reduced. Initially, the maximum benefit period was set at seven years in 1994, a very long period by international standards that must be seen in the context of the previous benefit carousel. The maximum benefit period was reduced to six years in 1996, five years in 1998 and has been four years since 1999; see figure 1. After having exhausted the four-year benefit period, the unemployed are no longer eligible for unemployment insurance and must instead claim social assistance that is subject to a means-test that includes the income of the partner, if any, of the claimant. Four years is also a long period by international standards. But because of favourable

Figure 1. The structure of Danish unemployment insurance and activation periods

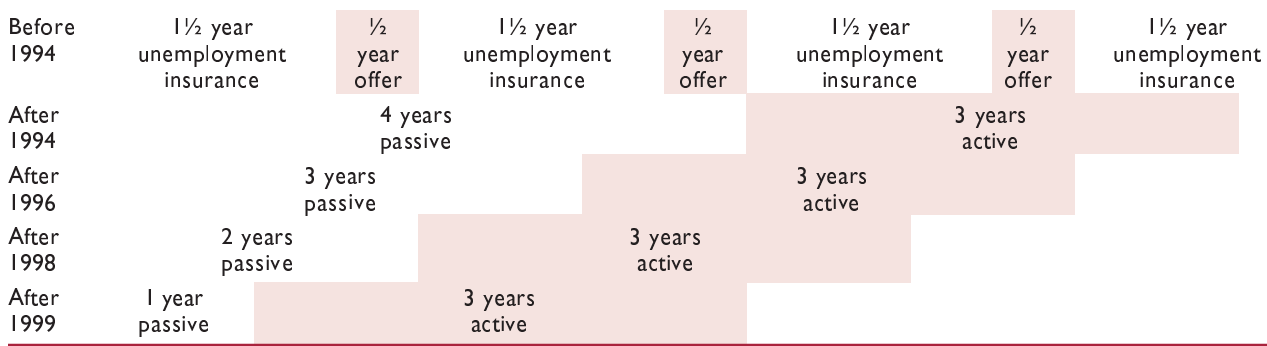


Table 3. Recent labour market reforms

1994 Labour market reform I
 Abolish re-entitlement to unemployment insurance through activation.
 Maximum unemployment insurance benefit period limited to 9 years.
 Stricter work availability demands with offer of suitable work after 12 months.
 Individual action plans.

1995 Service check of Labour market reform I (Budget 95)
 Shortening of the maximum unemployment insurance benefit period to 7 years.
 Stricter work availability criteria.
 Adjustment of leave schemes.
 Right and obligation to full-time activation in the whole active period.

1996 Labour market reform II (Budget 96)
 Gradual shortening of maximum unemployment insurance benefit period to 5 years.
 Right and obligation to full-time activation after two years.
 Young persons under 25 years of age right and obligation to full-time activation after 6 months.
 Work record to become eligible for unemployment insurance doubled from 26 to 52 weeks of work, both within 3 years.

1998 Labour market reform III (Budget 98)
 Shortening of maximum unemployment insurance benefit period to 4 years.
 Stricter work availability demands with offer of suitable work after 3 months.
 Earlier right-and-obligation to activation.

1998 Law on Active social policy
 Activation extended to social assistance claimants.

2002 Labour market reform (More in work)
 Abolition of the demand for 75% activation in the active period.
 Minimum demand on activation is every 6 months.
 Introduction of intensive contract schemes at a minimum of every 3 months.

2004 Social assistance reform (A new chance for everybody)
 Right and obligation to activation for social assistance claimants with other problems than unemployment who have received benefits for more than 12 months.

2006 Welfare agreement (education, immigration and integration, labour market and retirement)
 Earlier right and obligation to activation, i.e. after 9 months.
 Intensive activation after 2½ years on unemployment insurance.
 Quick job counselling and availability tests every 3 months.
 Elimination of special rules for elderly unemployed in regard to length of benefit period and participation in activation (but benefit period for persons aged 60+ years increased from 2½ years to 4 years).

economic development and intense activation offers, not least in the phase immediately prior to exhausting benefit rights, very few insured unemployed actually move from unemployment insurance to social assistance.

Thirdly, the concept of 'right and obligation' was introduced. The period of unemployment was divided into a passive and an active period. In the initial passive period the person claimed benefits without compulsory activation, hence the label 'passive'. Having exhausted this period, a person would enter the active period, where receipt of unemployment insurance benefits became conditional upon participating in activation offers.

Fourth, the introduction of individual action plans marked the end of standard offers lasting six months and given at the end of benefit periods. Individual action plans highlighted the need for longer and more coherent periods of activation.

Different channels of activation served to reach the overall goal of higher employment. The measures were intended to change and raise the qualifications of the unemployed so that they matched employer demands. At the same time, the compulsory nature of activation provided a test of the availability for work of the unemployed and a means of motivating them to intensify their job search. The availability for work criteria was also intended to prevent misuse of unemployment insurance and legitimate generous benefits. Activation aimed to enhance the productivity, flexibility and mobility of the unemployed.

Throughout the 1990s employment rose and there was ever more focus on the flexibility and availability of the unemployed in order to avoid labour force shortages. Annual adjustments to policy therefore brought forward the activation offer in the benefit spell and increased demands on claimants' geographical and occupational mobility.

In 1998 the Law on Active Social Policy extended activation to claimants of social assistance and thereby also to municipalities in charge of social assistance; see table 3. Indeed social policy in general gradually became more and more employment-oriented, as illustrated in particular by the transfer of social assistance from the Ministry of Social Affairs to the Ministry of Employment (previously the Ministry of Labour) in 2001.

In 2001 a new liberal-conservative coalition government came into office, which revised the laws on activation the following year. Principles of rights, obligation and

monitoring of availability remained, but the focus changed towards more guidance and job counselling rather than activation *per se*. The purpose was to find and use the shortest and most effective way from unemployment to a job.

In 2006 the measures were directed towards those groups of unemployed with the biggest employment problems. One of the significant initiatives was to 'turn the case pile' for the group of social assistance claimants who had not received an offer of activation within the last twelve months. The focus on this group is a logical consequence of the very low rate of unemployment which leaves people with significant employment problems as the main group without jobs.

Organisation and target groups

Danish unemployment insurance follows the Ghent model (Carroll, 1999), where insurance is voluntary and organised in funds affiliated to trade unions. Insured unemployed receive unemployment insurance benefits if they fulfil certain criteria, most notably that of having worked 52 weeks within the last three years, having been a member of an insurance fund for one year, and being able, willing and capable of working. Non-insured unemployed normally receive social assistance from the municipality. Social assistance is paid to people who have been subject to a social contingency – like unemployment, sickness or divorce – that involves the person being unable to support herself and her family. Because of the employment criteria associated with unemployment insurance, there are typically many more unemployed with better employment chances in the group of insured unemployed than in the group of non-insured.

Activation has historically been offered by the labour market exchange system for insured unemployed and by municipalities for non-insured. The two systems have been merged and from 2007 incorporated in 91 Job Centres located in the municipalities.

The target group for activation has gradually widened. Young claimants of social assistance were the first to be subjected to activation in 1978. During the 1990s, the target group was expanded to other age groups and the group of uninsured unemployed. Gradually, there have also been moves to include more marginal groups, such as persons on sickness benefits and disability pensions. Most recently, activation has become *de facto* targeted at certain groups of ethnic minorities who are long-term

claimants of social assistance. Activation of ethnic minorities is perceived as salient both to integrate more persons from ethnic minorities in the workforce and to increase the labour force.

Activation efforts have, since their beginning, been targeted towards both insured and non-insured unemployed. There has also been a series of labour market initiatives for groups that are more marginally placed in relation to the labour market. It was the intention not only to get jobs to those already close to the labour market, but also to those labelled ‘unemployed with problems besides unemployment’; for example, employment policy initiatives have been promoted under headings like ‘Need for all’ (*Brug for alle*), ‘More in work’ (*Flere i arbejdet*) and most recently ‘A new chance for everybody’ (*Ny chance til alle*).

Employment policy in Denmark covers broad groups with different types of labour market problems. Target groups for activation include:

- insured unemployed on unemployment insurance benefits,
- non-insured unemployed on social assistance,
- claimants of social assistance with problems besides unemployment such as ill health, social and personal problems,
- sickness benefit claimants,
- those who have totally or partly lost the capacity to work but who are expected to regain it at a later stage,
- those with a permanent reduction in capacity to work,
- disability pensioners.

The organisation of activation has also changed. Recent reforms mean that today there is, in principle, no difference in offers to claimants of unemployment insurance and social assistance. After the 2002 Labour market reform, offers have been provided under the headings of guidance and qualifications, in-work traineeships and wage subsidies. In practice, offers will differ between those who are close to the labour market and those who are further away. Instruments of activation include:

- private and public job training – salaried, but with a public wage subsidy to the employer,

- education in the form of introductory courses, shorter labour market education, and shorter further education (18 months),
- individual job training – non-salaried, e.g. in the form of specially organised projects and in-work traineeships.

Social assistance claimants typically get different offers from unemployment insurance claimants; see table 4. The most frequently used activation instruments for social assistance claimants are specially organised projects and in-work traineeships, as well as offers on guidance and clarification. Private and public job training coupled with wage subsidies, as well as ordinary education, is rarely used by social assistance claimants, but quite often by the insured unemployed.

Persons with reduced work capacity may be offered rehabilitation or jobs with permanent wage subsidies by the state. The latter type of jobs – flex jobs, sheltered jobs and service jobs – are taken up by nearly 50,000 persons. Over the past few years the number of people in flex jobs has risen markedly. In part this can be explained by the fact that, since the 2003 Disability Pension Reform, people can no longer apply for a disability pension (*førtidspension*), but first have to exhaust their potential work capacity. The intention of the 2003 reform was to create a labour market where as many people as possible were in ordinary employment and where a disability pension was awarded only to

Table 4. Active labour market statistics, fourth quartile of 2006, number of full-time persons.

	Insured unemployed	Social assistance	Total
<i>Total</i>			104,782
<i>Guidance & qualifications total</i>			31,471
Short guidance and clarification	1,802	4,405	6,207
Special projects		10,101	10,101
Special education	94	2,739	2,833
Ordinary education	11,621	709	12,330
<i>Supported employment total</i>			75,311
Traineeships	680	4,741	5,421
Wage subsidies	9,320	2,319	11,639
Flex jobs			42,543
Sheltered jobs			5,780
Service jobs			917
Adult apprenticeships			7,011

Source: Statistics Denmark (2007).

those who could not have a flex job. Although the number of persons in flex jobs has risen, and the economic climate has been favourable, there are no fewer persons on disability pensions. In 2006, there was a total of 237,000 persons on disability pensions and in flex jobs, which was 34,000 more than estimated when the reform was launched.

There are just as many people in activation programmes as there are people unemployed. However, if we exclude jobs for persons with reduced work capacity, there are 55,000 persons or nearly 2 per cent of the labour force participating in activation.

Effects and experiences with activation in Denmark

Theoretically, activation may have a series of different effects. These effects may be split into two, depending on whether effects are caused by the reactions of unemployed facing activation, or by reactions from the employed and persons outside the labour market. In Denmark it is common to distinguish between three types of effects for the unemployed in the target group as suggested by Calmfors (1994):

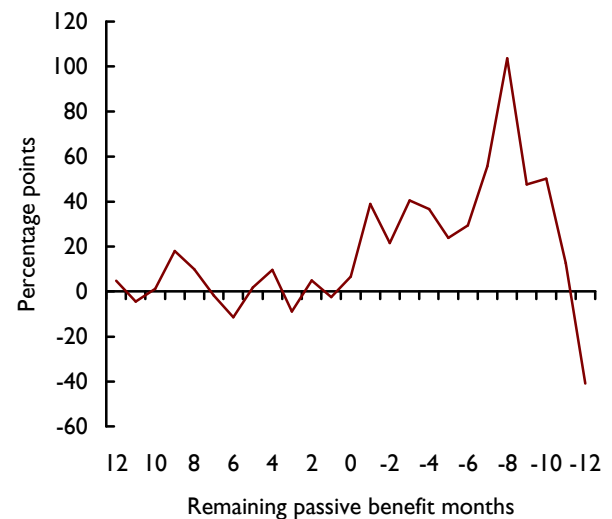
- Motivation effects: participation in activation as a condition of benefit entitlement makes the unemployed intensify their job search which increases the probability of getting work.
- Lock-in-effects: participation in activation makes the unemployed search less intensely for work because it takes time to participate in activation or because the unemployed prefer to finish the activation offer before applying for a job.
- Qualification effects: the labour market qualifications of the unemployed are improved, thus making it easier to find a job matching their qualifications.

Motivational effects and lock-in-effects

The motivational effects are strong for the insured unemployed. In a seminal study, Geerdsen (2002; 2006) analysed the ‘threat’ effect of activation by comparing the exit from unemployment for groups facing activation with groups not facing activation.

Figure 2 illustrates the results. The zero point marks the start of activation and the point ‘-12’ marks the 12th month after start of activation. The figure shows a

Figure 2. The probability of leaving the unemployment benefit system



Source: Geerdsen (2006).

marked increase in the exit rate from unemployment insurance in the start of the activation period. The increase occurs after the start of the activation period, and not before, as perhaps expected, because initially activation consists of writing up an action plan, finding and selecting a suitable offer of activation in a firm or in the educational system. The ‘threat’ of activation was in other words not very serious at the start of the activation period, involving relatively little disutility.

Eight months inside the activation period the curve falls. At this point in time the voluntarily unemployed who do not wish to participate in activation have left the system and the search intensity has fallen for the remaining persons participating in activation. The shape of the curve thus both illustrates the motivational and the lock-in effects. The lower search activity of participants in activation is confirmed in other Danish studies. For example, Madsen *et al.* (2007) find that participation in activation is one of the reasons for not wanting a job and not actively looking for a job. An older study shows that lock-in effects were largest for activation taking the form of education (Bolvig, Jensen and Rosholm, 2002).

Activation has also been shown to have motivation effects on social assistance claimants. The effects are small overall (Graversen, 2004), but stronger for persons under 30 years of age, the target group for so-called ‘immediate activation’ (Beskæftigelsesministeriet, 2006).

Qualification effects

Qualification effects are hard to measure. Whether the activated persons become employed due to new qualifications or increased job search is difficult to assess.

Changes in skill and search costs can hardly be measured directly. Instead, changes in the transition rates from unemployment into employment may be studied. For at least two reasons it is not easy to get a correct estimate of the employment effect of activation. One reason is that it is very difficult to measure the isolated effect of activation due to the lack of a good control group. A part of the group that becomes employed after activation would have found a job anyway. Another reason is that we do not have very good data on the exact extent of individual employment. To remedy these data problems, the effect of activation in recent Danish studies is estimated by the change, if any, in numbers receiving social security (i.e. unemployment benefits, social assistance benefits, sickness benefits, rehabilitation benefits, and parental leave benefits). In a Danish context this is a fairly correct way to measure the extent of employment, since only very few adults rely on financial support from their families. The degree to which a person is living on social security benefits within a year is measured on a scale from 0 to 100, where 0 indicates full employment and 100 indicates full public support.

The employment effect of activation has been analysed for different types of activation measures and separately for non-insured and insured unemployed in activation (Graversen and Weise, 2001; Bach, 2002).

Figures 3a and 3b illustrate the estimated employment effect of different activation measures for, respectively, insured unemployed and social assistance claimants as well as the shares of unemployed in different measures. Some measures have the same effects for the two groups of unemployed. Private job training has incomparably the largest direct employment effect. Individuals over 25 years of age that participate in this type of activation will, on average, reduce their dependence on social security by 20 percentage points, which is equivalent to about two months a year. However, only one in ten in activation participates in private job training and the effects of other measures are significantly smaller.

For social assistance claimants the most frequently applied measure is the use of employment projects. Participation in this type of programme reduces

Figure 3a. Effects of activation on insured unemployed

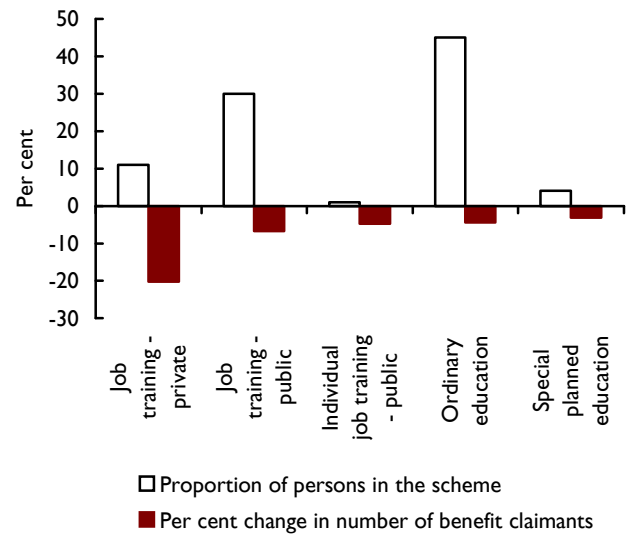
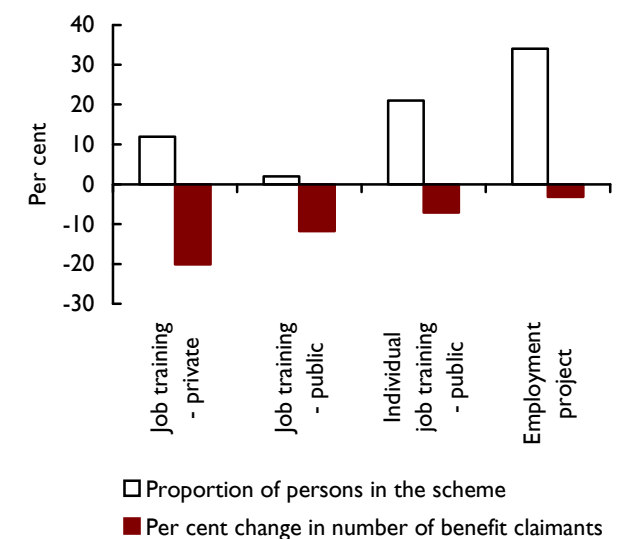


Figure 3b. Effects of activation on social assistance claimants



dependence on social security by only 3 percentage points, or about one-fifth of the effect of private job training. Individual job training in public workplaces is another measure frequently used by social assistance claimants. This type of measure reduces the participants' dependence on social security by 6 percentage points, equivalent to three weeks per year.

In a study of rehabilitation, Filges *et al.* (2002) found that the effects of this measure are very small and may be even smaller than the effect of activation. This is quite surprising, since rehabilitation is offered to persons who are expected to be able to regain working ability. On the other hand, a significant part of the group would probably have left the labour market if they had not been offered rehabilitation.

In Denmark it has generally been believed that education secures employment. Therefore, it has caused surprise and concern that education in the form of activation shows small effects for the unemployed. One reason may be that it is difficult to measure the effect of education, which may only materialise over the long term, with very different effects for different target groups. Another reason may be that education offers are not properly designed to match the individual and the demand of the labour market.

Not only does the content of activation have implications for its effects, but so also does the timing. To give the greatest effect, activation should be used early in the benefit spell for men, but later for women (Bolvig, Jensen and Rosholm, 2002). Similarly, early activation has positive qualification effects in some cases (Graversen, Damgaard and Rosdahl, 2007). Finally, the sequencing of activation offers is important. Where more than one activation offer is made, education should preferably be offered before job training (Graversen 2004).

Welfare effects

Although division into three different types of employment effects is widely used in European and American evaluations, it is common in Denmark also to include so-called welfare effects. Because many activation programmes in Denmark have a broader objective than merely to improve employment for the target group, there is also focus on non-employment effects. In particular, for weaker groups in the labour market the goal of activation is also to improve the general quality of life for the persons concerned. In fact, activation could have positive effects for such groups without it being measured by employment effects. To include effects beyond that of employment alone it is common in Denmark to include a fourth set of effects:

- Welfare effects: the effects of activation on participants' well-being.

Participants may have both positive and negative utility of activation. The importance of activation for participant's life quality can be related both to expected employment effects or to the offer itself. No Danish studies have had the explicit purpose of measuring welfare effects. However, there are a series of studies on participants' attitudes. Most participants believe that activation leads to a better daily life (70 per cent) and improved self-esteem (58 per cent) (Bach, 2002). About half believe that activation improves their labour market qualifications. Generally participants have a positive view on activation, but one in four have a negative view, either because they do not think activation provides new qualifications or because they think that there is no purpose to activation.

To balance the goal of improved quality of life against the goal of employment is hard. At the moment the employment goal ranks very high on the political agenda. But a total assessment of activation is likely to include both employment effects and welfare effects.

Typology of the unemployed

The effects of activation on the individual depend not only on the type, timing and sequencing of the activation offers but also on the causes of unemployment and the preferences of the unemployed for work, activation and leisure. To interpret the different effects of activation on different groups of unemployed, Pedersen and Søndergaard (2004) have suggested a fourfold typology of the unemployed; see table 5.

Estimating the number of persons in each type of unemployment is difficult because of problems in revealing the preferences of individuals towards work, activation and leisure, which make it difficult to provide precise estimates. However, discretionary accounts can be based on the unemployment statistics and two recent studies on the motivation and availability for work of the unemployed.

The potential target group for activation is about 220,000 persons. By 2006 there were 135,000 registered unemployed and activated. About 80 per cent of this group were insured unemployed relying on unemployment insurance, whereas the remaining 20 per cent were not insured, but claiming social assistance. These are persons who are expected to be able to work. Another group of 85,000 social assistance claimants are not ready for the labour market, including 25,000 in activation. These persons have been found by the authorities not to be able to work immediately.

Table 5. Typology of unemployed

		Wants to work	
		No	Yes
Can work	No	Double constrained: Do not want to work and cannot work with current type and level of qualifications (15%).	Qualifications do not match labour demand (23%).
	Yes	Voluntarily unemployed in the sense that they do not want to work at current levels of wages and benefits, but who do have qualifications matching labour demand (12%).	Mostly temporarily involuntary unemployed actively looking for work (49%).

Source: Pedersen and Søndergaard (2004), Bach and Petersen (2007), and Madsen, Filges, Hohnen, Jensen and Petersen (2007).

Among the registered unemployed and non-insured social assistance claimants, 80 per cent express a desire to work and 20 per cent do not (Madsen, Filges, Hohnen, Jensen and Petersen, 2007). Among the social assistance claimants that are not ready for work, 60 per cent say that they want to work (Bach and Petersen, 2007). In crude terms, this means that the potential target group for activation of 220,000 consists of about 49 per cent who are involuntarily unemployed, 12 per cent who are voluntarily unemployed, 23 per cent who lack the necessary qualifications, and 15 per cent who are facing the double constraint of not being able or willing to work.

Of course such figures must be treated with a great deal of caution. In the group of involuntarily unemployed there will be those wanting a job only under certain conditions. On the other hand, in the group of voluntarily unemployed, there will be persons waiting to get into the labour market and thus not against being in employment.

The number of persons in the group that qualifies for activation is greater than the number of participants in these programmes. Whereas persons above 30 years of age are obliged to participate in activation programmes after one year of unemployment, those below 30 are obliged to participate somewhat earlier. What is more, not everybody who is entitled and obliged to participate in activation actually receives an offer.

Indirect labour market effects

Activation can also affect the employed and persons outside the labour market:

- Employment participation may change. Persons attracted to an offer of activation may register as unemployed and job seekers. Persons deterred by the perspective of activation may stop participating in the labour market.

- Substitution effects. The unemployed person who obtains employment may substitute for another who is therefore pushed into unemployment.
- Wage effects. Activation may affect the level of wages because labour supply goes up and thus also competition for jobs. In addition, by providing some groups with better qualifications and employment opportunities, activation may affect the wage distribution.
- Tax effects. Activation may have a positive or negative impact upon the level of taxes, depending on whether activation in its entirety has a good or bad impact upon society as a whole.

Generally, indirect effects are hard to measure. There are no Danish empirical analyses of activation and aggregate employment. The substitution effect for firms with a stable production level has been estimated at 40 per cent for persons hired on wage subsidies (Hussain and Rasmussen, 2007).

Activation may have positive or negative effects on tax levels. If the net employment effect of activation is sufficiently high, this may cause a drop in the tax level, because productivity has increased while, at the same time, the fall in expenses for social security benefits has exceeded expenditure on activation. But activation need not always give a positive cost-benefit result. Activation in the private sector has been found to have positive budget effects, whereas most other activation instruments are close to cost neutral (Christensen, 2002). Most recently, the Economic Council of Wise Men (*Det Økonomiske Råd, DØR*) suggested that the net annual economic costs of activation ran at 3 billion DKK (£275 million) (DØR, 2007). This masks significant differences across activation instruments. Education was expensive, with a net cost of 5 billion DKK, whereas job training

was the only instrument with a positive return due to positive employment effects. The positive effects of education were in general greater for those without qualifications than for those with a formal education and with job training having positive employment effects. The motivational effects of activation were high, leading to a positive return of 2 billion DKK.

Alternatives to activation policies

Job rotation policies and economic incentives have been perceived as the two main alternatives to activation in Denmark. Job rotation was widely used in the early 1990s, but today is only available for older workers. In contrast, make-work-pay strategies were not used in the early 1990s, but have gradually become more dominant.

Job rotation has not proved to be a success in increasing employment. The 1979 voluntary early retirement scheme (*efterløn*) aimed at allowing workers aged 60 or older to retire so that the (younger) unemployed could take their place in the labour market. It did not work. Many people have, over the years, used voluntary early retirement to make an early exit from the labour market. The rotation principle in the leave schemes for educational, parental or sabbatical purposes codified in the 1994 Labour market reform has not worked either. Its immediate popularity helped reduce the official rate of unemployment nearly overnight, but contributed to bottlenecks in the improving labour market and was gradually phased out in the 1990s (Pedersen, 1996). Finally, the so-called transitional allowance (*overgangsydelse*) for the long-term unemployed, aged 55 to 59 years of age, was abolished in 1996. The idea of redistributing employment and unemployment through job rotation is today dead.

But the voluntary early retirement scheme is still in place. With around 180,000 claimants since 1998, there are more people on this scheme than on either unemployment insurance (varying from 117,000 to 145,000) or social assistance (87,000 to 102,000 persons). Several attempts have been made to reduce its use. The demand for membership of an unemployment insurance fund was increased in 1980, i.e. the year after the scheme was introduced, from five years within ten years to ten years within fifteen years. Membership requirements were further increased to 20 years within 25 years in 1992, when the so-called 63-year rule made it more economically attractive to postpone retirement to the age of 63 rather than at 60 years of age. The 1999

reform further increased the membership requirement to 25 years within the last 30 years, introduced separate contributions for the scheme (previously part of general unemployment insurance) and economic incentives to postpone retirement. Membership requirements were increased to 30 years in 2006 as part of the Welfare Agreement that will also gradually raise the age of eligibility from 60 to 62 years in the period from 2019 to 2022, and introduce regulation of the age of eligibility with demographic factors from 2025.

Improving economic incentives by cutting benefits has generally not been used. But there are exceptions to this rule, just as the tendency to use economic incentives in employment has increased under the liberal-conservative government that came into office in 2001. Under the previous government, a broad coalition of political parties in Parliament agreed on the 'youth package' in 1996 which, *inter alia*, meant that persons under 25 years of age without education had their benefit halved after six months and were obliged to participate in education or job training if they were not to lose their benefits. Secondly, a ceiling on the total amount of social assistance for couples on social assistance was introduced in 2005. Thirdly, people entering the country would normally be entitled to social assistance if they could not find a job, but as of 2002 the so-called Start Help replaced social assistance for people in the first seven years of their stay in Denmark, *de facto* halving the previous level of social assistance. Fourthly, from 2008, couples who both claim social assistance need to have worked 300 hours or more over the last two years, non-compliance resulting in the withdrawal of social assistance for one person. Finally, the earned income tax credit of 2.5 per cent of gross income introduced in 2004 with a ceiling of 7,500 DKK (2007) will next year be raised to 4.25 per cent with a ceiling of 13,100 DKK.

Concluding remarks

Danish activation policies have undergone massive changes over the past fifteen years. Most notably, the target groups have been widened from young social assistance claimants to other age groups and to other benefit schemes and policy areas. With changing target groups, the role of activation has also changed from combating unemployment to increasing employment and, most recently, to integrating those with disabilities and those from ethnic minority groups with low employment rates.

Danish experience confirms that activation has many types of effects: for unemployed individuals, who potentially or actually face an activation offer or requirement, and indirectly on the labour market itself.

Studies of Danish activation policies find significant motivation effects. Both the voluntarily and involuntarily unemployed who are already looking for jobs receive an extra incentive to increase their search intensity. The group of voluntarily and involuntarily unemployed with the necessary work qualifications makes up a significant share of all unemployed. Motivation effects are therefore one of the most important effects of activation.

Qualification effects of educational activation are particularly important for those whose employment prospects are limited by the lack of appropriate skills. Educational activation, however, has negative, if any, effects for persons who already have medium or high qualifications. Overall, the qualification effects of activation so far appear to be modest and only positively significant for job training. Recent studies show that targeting, content, procedure and timing are essential for securing an efficient upgrading of qualifications for the large group of unemployed lacking qualifications. Although recent studies show that early interventions are good, considerable lock-in effects may be a barrier for further expansion.

Rapidly falling unemployment has meant that the weakest social assistance claimants now constitute a large share of the group without labour market qualifications. Typically they are long-term claimants of social assistance with social and personal problems, a condition making it difficult for them to find appropriate activation offers; those who participate in activation schemes often go from one scheme to the next. Although many social assistance claimants say that activation has had a positive effect on their quality of life, a considerable part of this group does not get any closer to the labour market. This result poses challenges for finding ways to bring this group gradually closer to the labour market, just as it becomes important for researchers to go beyond immediate employment effects to measure the effects that reflect a progressive development towards employment.

Research challenges also consist of measuring the indirect labour market effects of activation and its combined effects with the lax employment protection and encompassing social protection. The Danish employment miracle is often accredited to its flexicurity

model, especially the role played by activation since 1993. But there is little research evidence to back up this claim. So far research points mainly to the direct motivation effects whereby activation has brought the unemployed into work. Activation may also have had a positive indirect effects, by reducing the numbers of those becoming unemployed and dampening wage increases due to the threat of activation. But such indirect effects have not yet been proved.

Other countries may well learn from Danish experience: job sharing has proved to be a dead end. Insiders have used stepping stones into the labour market to get out. Educational activation is not the panacea for all population groups. And labour market integration of the very weak non-employed demands a special focus absent in general activation offers. However, policymakers cannot pick and choose particular activation policies à la carte and expect to get positive 'Danish' results without paying attention to their own national labour market structure and organisation, the economic cycle, and other policies, especially – in the jargon of flexicurity – those of employment protection and social protection.

REFERENCES

- Bach, H.B. (2002), *Kontanthjælpmotageres aktivering og arbejdsudbud*, Copenhagen, Danish National Institute of Social Research.
- Bach, H.B. and Petersen, K.N. (2007), *Kontanthjælpmotagere i 2006*, Copenhagen, Danish National Institute for Social Research.
- Bolvig, I., Jensen, P. and Rosholm, M. (2002), 'The employment effect of active social policy in Denmark', IZA Discussion Paper 737, Bonn: IZA.
- Beskæftigelsesministeriet (2006), *Kulegravning af kontanthjælpsområdet*, Copenhagen, Ministry of Employment.
- Calmfors, L. (1994), 'Active labour market policy and unemployment – a framework for the analysis of crucial design features', *OECD Economic Studies*, No. 22.
- Carroll, E. (1999), *Emergence and Structuring of Social Insurance Institutions*, Stockholm, Swedish Institute for Social Research.
- Christensen, T.Q. (2002), *Cost-effect-analyser på den aktive socialpolitik*, Copenhagen, Danish National Institute of Social Research.
- Det Økonomiske Råd (2007), *Dansk Økonomi forår 2007*, Copenhagen, Economic Council of Wise Men (DØR).
- European Commission (2007), *Towards common principles of flexicurity: more and better jobs through flexibility and security*, COM (2007) 359 final.
- Eurostat (2007a), Structural indicators. Retrieved from www.ec.europa.eu/eurostat 14 September 2007.
- (2007b), Public expenditures on labour market policies and employment rates retrieved from www.ec.europa.eu/eurostat

- 14 September 2007.
- Filges, T., Harsløf, I. and Nord-Larsen, M. (2002), *Revalidering – deltagere, forløb og effekter*, Copenhagen, Danish National Institute of Social Research.
- Geerdsen, L.P. (2002), 'Does labour market training motivate job search?', Working paper 23:2003, Copenhagen, Danish National Institute of Social Research.
- (2006), 'Is there a threat effect of labour market programmes? A study of AMLP in the Danish UI system', *Economic Journal*, 116, 513, pp. 738–50.
- Graversen, B.K. (2004), 'Employment effects of active labour market programmes: do the programmes help welfare benefit recipients to find jobs?', PhD thesis, Aarhus, Aarhus University.
- Graversen, B.K., Damgaard, B. and Rosdahl, A. (2007), *Hurtig i gang – Evaluering af et forsøg med en tidlig og intensiv beskæftigelsesindsats for forsikrede ledige*, Copenhagen, Danish National Centre for Social Research.
- Graversen, B.K. and Weise, H. (2001), 'Effekter af aktiveringsindsatsen over for kontanthjælpsmodtagere', Arbejdsrapport 2:2001, Copenhagen, Danish National Institute of Social Research.
- Hussain, M.A. and Rasmussen, M. (2007), 'Do wage subsidies reduce ordinary employment? A firm level panel data analysis', Working Paper, Copenhagen, Danish National Centre for Social Research.
- Kvist, J. (2002a), 'Activating welfare states. How social policies can promote employment', in Clasen, J. (ed.), *What Future for Social Policy?*, Bristol, Policy Press, pp. 197–210.
- (2002b), 'Changing rights and obligations in unemployment insurance', in Sigg, R. and Behrendt, C. (eds), *Social Security in the Global Village*, International Social Security Series No. 8. New Brunswick, Transaction Publishers, pp. 227–45.
- (2003), 'Scandinavian activation strategies in the 1990s: recasting social citizenship and the Scandinavian Welfare Model', *Revue Francaise des Affaires Sociales*, 4, pp. 223–48.
- Madsen, M., Filges, T., Hohnen, P., Jensen, S. and Petersen, K.N. (2007), *Vil de gerne have et arbejde?* Copenhagen, Danish National Centre for Social Research.
- Madsen, P.K. and Pedersen, L. (eds) (2003), *Drivkræfter bag arbejdsmarkedspolitikken*, Copenhagen, Danish National Institute of Social Research.
- Nedergaard, P. (2006), 'Which countries learn from which? A comparative analysis of the direction of mutual learning processes within the open method of coordination committees of the European Union and among the Nordic countries', *Cooperation and Conflict, Journal of the Nordic International Studies Association*, 41, 4, pp. 422–42.
- Pedersen, L. (1996), *Orlov, ledighed og beskæftigelse*, Copenhagen, Danish National Institute of Social Research.
- Pedersen, L. and Søndergaard, J. (2004), 'The role of workfare in the Scandinavian Model of Social Security: soft incentives, skill upgrading or quality of life improvement for the disadvantaged?', in Saunders, P. (ed.), *Welfare to Work in Practice*, Aldershot, Ashgate.
- Statistics Denmark (2007), Statistikbanken, retrieved data from www.dst.dk 14 September 2007.
- World Economic Forum (2006), *Global Competitiveness Report 2006–2007*, Lausanne.