

DENMARK

The level of GDP per capita is declining relative to the best performing countries, partly due to slower productivity improvements. Although employment rates are generally high, average working hours are relatively short, and labour utilisation is weak for some groups.

Priorities supported by indicators

Reduce marginal taxes on labour income

Marginal taxes are high and the top bracket is applied from relatively low income levels. With social security contributions and income taxes combining to a marginal rate of above 60%, there is little incentive to work longer hours.

Actions taken: The tax freeze has ended the upward drift in municipal income tax rates, but the number of people in the top income tax bracket still grows.

Recommendations: When the cyclical position allows, lift the income threshold from where the top tax rate is applied. Raising the real estate tax rate would create further room for cutting taxes on income from work and also help reduce indirect housing subsidies arising from the nominal freeze of real estate taxes.

Improve efficiency of the education system

The proficiency of 15-year olds in reading and science is relatively low while spending is among the highest in the OECD. Taxes and grants encourage university students to start and end studies late.

Actions taken: The introduction of national tests in reading, mathematics, science and English will monitor progress in schools, and teacher training will be strengthened in key subjects. Students applying for university places at most two years after ending their secondary education will be given priority. University funding and study programmes will be adjusted to encourage early completion.

Recommendations: Increase the educational content of the introductory year for six-year olds to increase learning capacity and abolish the voluntary 10th form. Develop a system of tuition charging and loans for tertiary education to encourage completion, while reducing some high marginal income tax rates.

Reform disability benefit schemes

Although it has started to decline, the share of disability pensioners in the adult population is above the OECD average. Schemes giving wage subsidies and support to keep in employment disabled people with significant remaining work capacity suffer from overuse.

Actions taken: The maximum wage subsidy under the Flexjob scheme was reduced from July 2006, but it is still well above the disability pension. Flexjob eligibility assessment has also been tightened. Measures to better accommodate people with mental health problems in the workplace are being introduced.

Recommendations: Reduce the maximum Flexjob subsidy further and limit it to the actual hours worked, while paying an unemployment benefit for the hours not worked. Review disability pensions and Flexjob cases on a regular basis with a view to bringing more beneficiaries back to unsubsidised employment. Develop prevention and rehabilitation further to facilitate an additional reduction of the number of disability recipients.

Other key priorities

- Notwithstanding relatively competition-friendly regulations in the business sector, restrictions in some sectors persist and should be eased. Open publicly-funded services to competition, continue privatisation, and broaden access to permits via one-stop shops. Streamline the competition agencies and remove interest group representatives from their boards.
- Reform housing policies. Free up resources by reducing housing subsidies and raise the real estate tax rate to be neutral vis-à-vis other capital taxation. Abolish rent regulation and stop subsidisation of the rental sector.