

DENMARK

Faster growth in GDP per capita over the past decade has contributed to maintain relatively high income levels by international standards, even though the gap vis-à-vis the United States has further widened.

Priorities supported by indicators

Reduce tax wedge on labour income

Tax rates on earned income are high, with the top marginal rate payable as from around the average wage. This reduces the incentive to work and discourages entrepreneurship.

Actions taken: The threshold for the intermediate tax bracket has been raised and an in-work benefit has reduced the tax wedge for people on low incomes. Marginal tax rates have therefore been lowered by about 6 percentage points for middle-income earners. A tax freeze was implemented in 2002 and remains in place.

Recommendations: Modify the tax freeze so that revenue-neutral changes can be made at all levels of government (for example, raising taxes on immovable property, which are relatively low, and cutting taxes on earned income). Cutting the top marginal tax rate or lifting its threshold would have the largest impact on labour supply.

Reform sickness and disability benefit schemes

Around 12 per cent of the working-age population receives either a disability pension or a sickness benefit. Benefits are relatively high and easily accessible.

Actions taken: Eligibility criteria for the disability benefit have been tightened by requiring that working capacity be reduced by two-thirds (previously one-half). The benefit structure has also been simplified. The government has proposed that municipalities should pay a greater share of long-term sickness benefits, and that medical assessments be made earlier.

Recommendations: Make it easier for disability benefit recipients to rejoin the labour force on a part-time basis, and periodically review all cases where a disability is not permanent. Reduce sickness absences by introducing a waiting period and requiring a medical certificate before getting public benefits, using independent medical assessors and enforcing the 12-month limit for regular assessment.

Reduce domestic barriers to competition

Regulations unduly limit competition in many sectors. Concentration is high in some industries, a legacy of the lack of merger control in the past. Some local governments compete unfairly with the private sector.

Actions taken: The competition law has been modernised and cartel control stepped up, but the enforcement agencies need streamlining. Pro-competition reforms have been announced for electricity, but the two dominant generators plan to merge. Local governments are opening up to competition, but at a slow pace.

Recommendations: Cut the number of agencies applying competition law and remove interest-group representatives from their boards. Eliminate unneeded restrictions in construction, land transportation and professional services. Reduce limits on shop-opening hours and location of retail outlets. Raise public-sector outsourcing by enforcing current laws.

Other key priorities

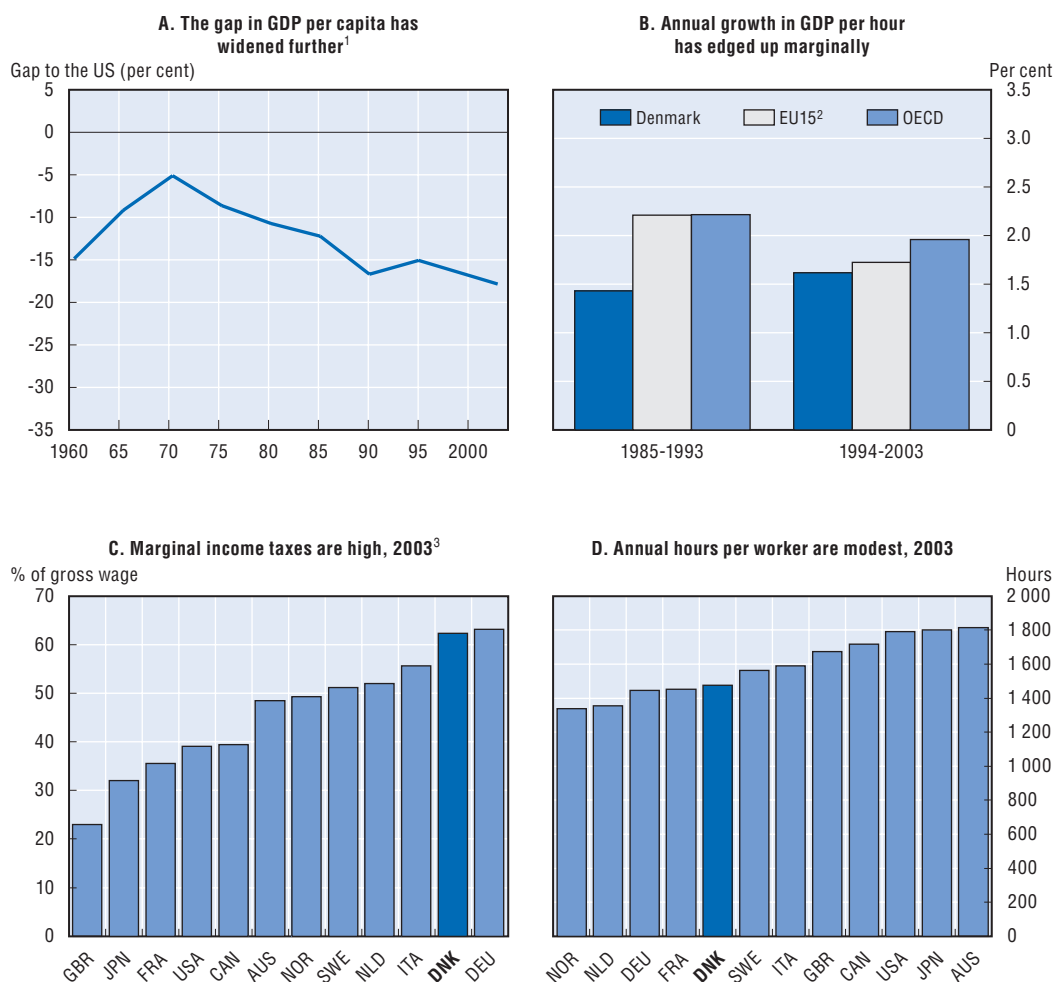
- Reduce work disincentives in the early retirement scheme, *e.g.* by linking the entry age to life expectancy and raising the cash bonus for later retirement.
- Improve the under-performing school system. Denmark has one of the most expensive school systems in the world; however, students need to be more challenged (*e.g.* through testing), and teachers need to spend longer time in class, be better trained and specialise more.

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Structural indicators

	1990	1995	2000	2003
Trend GDP per capita (% growth rate)	1.4	1.8	1.7	1.7
Trend employment rate	75.5	75.7	76.3	76.3
Trend participation rate	81.0	80.5	80.2	80.2
Structural unemployment rate (NAIRU)	6.8	6.1	4.8	4.8

Source: Estimates based on OECD Economic Outlook, No. 76.



1. Percentage gap with respect to US GDP per capita (in constant 2000 PPPs).

2. Excluding Austria and Luxembourg.

3. Marginal income tax plus employee contributions less cash benefits for a one-earner family with no children, 167% of average worker's earnings.

Source: Charts A and B: National Accounts of OECD Countries, 2004; OECD Labour Force Statistics, 2004; OECD Economic Outlook, No. 76; Chart C: OECD Taxing Wages, 2003/2004; Chart D: OECD Economic Outlook, No. 76.