

DENMARK

Priorities supported by indicators

Reduce marginal taxes on labour income (2005, 2007, 2009)

Recommendations: Cut income taxes, focus on lowering the top marginal rate or increase its threshold.

Actions taken: The Parliament adopted a major tax reform in 2009. The top marginal rate will be reduced and the income threshold from which it applies raised. The in-work tax credit will be expanded and the middle state income tax bracket abolished.

Reform sickness leave and disability benefit schemes (2005, 2007, 2009)

Recommendations: Increase incentives for the sick and disabled with some ability to work to return to ordinary employment in the labour market, particularly by reducing remuneration in the special disabled employment programme (Fleksjob).

Actions taken: The Parliament adopted a bill in 2009 which introduced return to work plans for employees on sickness absence, a requirement for employers to conduct interviews with these employees within the first four weeks, and a new form of agreement between the employer, the employee and their doctor about work capacity. No action on Fleksjob since the maximum wage subsidy was reduced in 2006.

► Enhance the competition framework (2005, 2007, 2009)

Recommendations: Enhance competition *inter alia* by liberalising opening hours in retailing, removing discretion in local government planning, and continuing with privatisation and outsourcing of publicly-funded services.

Actions taken: In early 2009, the government introduced a range of measures to cut business red tape, particularly in relation to starting a new business. The government has appointed a new Public Procurement Committee to encourage public-sector competition.

Improve the efficiency of the education system (2005, 2007, 2009)

Recommendations: Improve education outcomes by raising the education content of the first years of school and improving basic literacy. Speed up tertiary completion by introducing tuition charges.

Actions taken: Compulsory language screening for three-year-olds was introduced in 2008 along with strengthened individual evaluation. Universities will receive extra funding when students complete cursus within a year after the prescribed cursus length and a binding time limit was introduced for masters' theses in 2007.

Other key priorities

Reduce housing subsidies and abolish rent regulation (2007, 2009)

Recommendations: Abolish rent regulation and housing subsidies, and raise the real estate tax rate.

Actions taken: While housing taxation has not been raised, the cuts to taxation of equity income announced in 2009 will reduce the gap between taxation of housing and shares. No action on rent regulation.

Raise incentives for later retirement and continued work (2005)

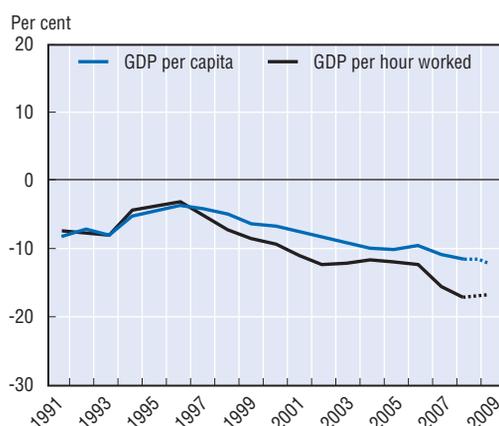
Recommendations: Reduce disincentives for continued work created by the early retirement scheme.

Actions taken: The 2006 Welfare Agreement raised the age of entry into the early retirement scheme and linked it to life expectancy, but will not take effect until 2019. In 2008, the Government introduced a temporary tax rebate for 64-year-olds who were continuously employed from age 60.

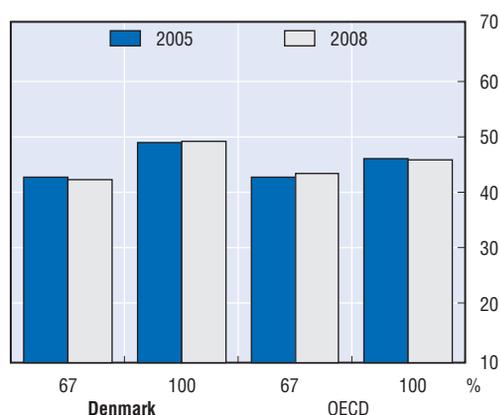
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- The income gap with the best-performing countries has widened over the past decade, with rising labour utilisation being more than offset by slower productivity growth. Also, Danish employees still work significantly fewer hours per year than their counterparts in most other OECD countries.
- In key priority areas, the new tax reform package agreed in 2009 will significantly reduce the overall tax burden, which has been amongst the highest in the OECD. Progress has been made in competition policy and sickness and disability, although benefits have not been changed. More fundamental changes recommended in housing and education policy have not been implemented.
- In other areas, labour market reform has been a consistent focus in order to raise labour supply. Ambitious goals in energy and climate policy have also been priorities.

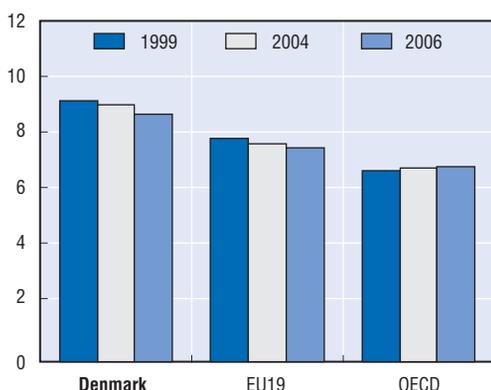
A. Gaps in GDP per capita and productivity have widened
Gap vis-à-vis upper half of OECD countries¹



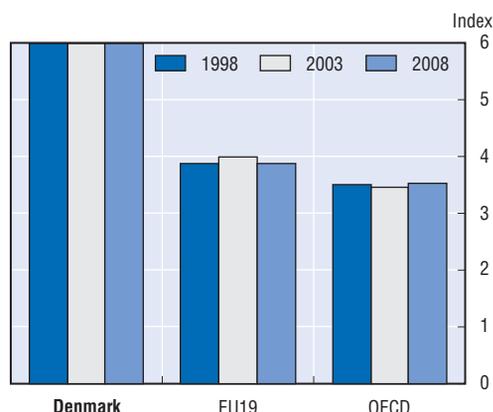
B. Marginal tax wedges are relatively high
Percentage of total labour compensation²



C. The share of working-age population receiving disability benefits is high³
Percentage of the population aged 20-65



D. Regulation of shop opening hours in the retail sector is among the most restrictive in the OECD⁴



1. Percentage gap with respect to the simple average of the upper half of OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs). The gaps for 2009 are OECD estimates, based on the OECD *Economic Outlook*, No. 86.
2. Evaluated at 67% and 100% of average earnings for a single person with no child.
3. Disability benefits include benefits received from schemes to which beneficiaries have paid contributions (contributory), programmes financed by general taxation (non-contributory) and work injury schemes.
4. Index scale of 0-6 from least to most restrictive.

Source: Chart A: OECD, *National Accounts and Economic Outlook 86 Databases*; Chart B: OECD, *Taxing Wages Database*; Chart C: OECD (2003), *Transforming Disability into Ability* and OECD estimates; Chart D: OECD, *Product Market Regulation Database*.

StatLink  <http://dx.doi.org/10.1787/786611566183>