

DENMARK

Income per capita levels have remained high by international standards over the past decade, even though the gap vis-à-vis the United States has widened further.

Policy priorities

Reduce the tax wedge on labour income

Challenge and recommendations: To improve work incentives and encourage entrepreneurship, it was recommended that the tax freeze be modified so as to allow revenue-neutral reform packages, for example, cutting taxes on earned income while raising property taxes.

Actions taken: The tax freeze remains in place in unchanged form. Following the 2004 reduction in income tax rates for some groups, the government has stated that additional tax cuts will be made when the fiscal position permits.

Reform sickness and disability benefit schemes

Challenge and recommendations: To reduce sickness absences, it was recommended that a waiting period and a requirement for a medical certificate before getting public benefits be introduced. Also, that part-time employment participation be made easier for disability benefit recipients, and that all cases where a disability is not permanent be reviewed periodically.

Actions taken: Negotiations on larger municipal co-financing of long-term sickness benefits are expected in the Spring of 2006. Medical assessments are now to focus on work ability but are no longer required after eight weeks – it is up to the municipality when to require an assessment.

Reduce domestic barriers to competition

Challenge and recommendations: To strengthen competition, the following recommendations were made: cut the number of bodies 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; and raise public-sector outsourcing by enforcing current laws.

Actions taken: New legislation allowing for a gradual relaxation of restriction on retail opening hours came into force in July 2005. The dominant players in the energy sector decided to merge, although this has yet to be approved by the competition authorities. Efforts to create a level playing field between private and public providers are ongoing, but progress in public outsourcing is still slow.

Raise incentives for later retirement and continued work

Challenge and recommendations: It was recommended that work disincentives in the early retirement scheme be reduced, *e.g.* by lifting the contribution rate, linking the entry age in related transfer schemes to life expectancy and reducing the implicit tax on later retirement.

Actions taken: In December 2005, the government's Welfare Commission proposed to phase out the early-retirement scheme by raising the entry age by four months each year. The proposals are being discussed.

Improve the under-performing school system

Challenge and recommendations: Denmark has one of the most expensive school systems in the world. It was recommended that students be more challenged (*e.g.* through testing), and that teachers be required to spend more time in the classroom, be better trained and specialise more.

Actions taken: The government intends to implement a reform of teachers' training that involves greater specialisation and to introduce more student evaluation in compulsory education. A national action plan for literacy includes measures to detect early childhood linguistic difficulties and sets more ambitious performance objectives throughout the compulsory education path.