
The Labour Market Integration of Immigrants in
Denmark

Thomas Liebig

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THE LABOUR MARKET INTEGRATION OF IMMIGRANTS IN DENMARK

Thomas Liebig

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SUMMARY

1. The labour market integration of immigrants has been a key issue both in the public debate and on the government agenda in Denmark, triggered by unfavourable employment outcomes of immigrants – the gaps in employment rates of immigrants compared to the native-born are among the highest in the OECD – and a rapid rise of the immigrant population during the past twenty years. Prior to the 1980s, immigration to Denmark was a very marginal phenomenon. Despite the rapid growth since then, with less than 7% immigrants in the population, Denmark still has one of the smallest immigrant populations in Western Europe.

2. Labour market outcomes for immigrants have been significantly below those of the native-born for more than two decades. This is partly attributable to the fact that immigration to Denmark has been strongly dominated by refugees and family reunification – groups whose labour market outcomes tend to be not as good as the native-born or economic migrants in all countries, particularly in the early years of settlement. Since 2001, lower social assistance has been introduced for all persons who have been in Denmark for less than seven out of the past eight years because of concerns about the impact of Denmark's relatively high social benefits on work incentives. In addition, participation in integration measures has been made obligatory. Finally, for more than a decade, there have been efforts to improve the labour market integration of immigrants, and these efforts have been enhanced recently.

3. However, the observed unfavourable labour market outcomes are not confined to non-OECD immigrants. Employment rates of immigrants from OECD countries are low in international comparison as well. In addition, a substantial part of the immigrant population in Denmark has tertiary educational attainment, yet this characteristic does not yield as large an impact on employment probabilities as one would expect, even if the qualification is obtained in Denmark.

4. The second generation is now gradually entering the labour market in larger numbers, and this group is of particular policy concern. Their educational attainment is well below that of comparable Danes without a migration background. This is mainly due to the fact that the dropout rates from vocational training for the second generation are more than twice as high as among persons of Danish origin. This, in turn, is at least in part attributable to the fact that persons with a migration background have more difficulties getting apprenticeship contracts with companies than comparable persons of Danish origin. There have been a series of recent measures to address this issue. However, even for those with upper secondary or tertiary education, employment rates of the second generation are significantly lower than for the native-born. This also holds for the offspring of immigrants from the OECD.

5. About one third of total Danish employment is in the public sector, where immigrants are underrepresented, although the degree of underrepresentation seems to be lower than in other OECD countries. Indeed, a variety of measures have been taken to increase immigrants' employment in this sector, because of its size and importance in the Danish context. The public sector is also viewed as having a role-model function. Private employment is largely dominated by small- and medium-sized enterprises, but immigrants do not seem to be less present there than in large companies – in contrast to other OECD countries.

6. Considering the recent nature of most immigration, and the relatively small size of the immigrant population, the overall framework for integration in Denmark is highly developed and a significant amount

is invested in integration efforts. This is mirrored by the fact that Denmark is among the few OECD countries which has a separate Ministry for Refugee, Immigration and Integration Affairs, in which immigration and integration policies are considered together. Under this framework, municipalities have to offer a three-year introduction programme to immigrants from outside the European Economic Area, which consists of language courses and a range of labour market integration measures. Indeed, the strong emphasis on labour market integration in the introduction programme is particularly noteworthy. There are strong financial incentives for municipalities to achieve rapid labour market integration of recent arrivals, and an elaborate benchmarking system is in place to monitor municipalities' integration performance and facilitate the mainstreaming of effective policies.

7. There is some indication that current policies are having the desired effect, as labour market participation and employment of recent arrivals have increased. However, the unemployment rate for this group has also increased and it is getting lower social assistance. One way to escape from the resulting marginalisation is via self-employment, but few immigrants seem to succeed in pursuing this route. This may be linked with the fact that immigrants generally do not have access to loans before they acquire permanent residence, and requirements for permanent residence have been tightened. There is thus a case for better loan access for this group.

8. What is especially striking in the Danish context is the fact that employment gaps relative to the native-born are across-the-board – they are longstanding and they are found for both OECD and non-OECD immigrants and even for offspring of immigrants from both OECD and non-OECD countries, at all attainment levels. Even returns to Danish education are lower for children of immigrants than for children of non-immigrants. Outcomes seem to be improving recently, but the general backdrop remains. Some of this may be attributable to the fact that foreign qualifications and experience may not be recognised by employers in Denmark, as is generally the case elsewhere as well. But this should not be the case for offspring of immigrants born and educated in Denmark, who show poor performance relative to children of non-immigrants at all attainment levels.

9. In any event, the inadequate results for the second generation, whatever the geographic origin or qualifications of persons in this group, suggests that the benefit disincentive explanation often advanced for low immigrant employment rates is not an entirely satisfactory one. A mix of less developed personal networks, information asymmetries and discrimination seems to be part of the answer. These are generally difficult to disentangle as the former in practice have the effect of excluding equally skilled immigrants from certain jobs even where there is no ostensible discrimination. Nevertheless, testing results in the past have shown that immigrants and their children were, not infrequently, selectively ignored in the recruitment process, even when they had similar characteristics as native Danes. This phenomenon undoubtedly still exists. It needs to be more regularly monitored and publicised, and measures to diversify recruitment channels should be encouraged.

10. Given Denmark's relatively high entry wages, the relative lack of networks and the information asymmetries about immigrant skills and qualifications, which may be more important in the Danish context with its recent immigration experience, one would expect measures which help to overcome hiring reticence and enable employers to evaluate immigrant skills to be particularly effective. Indeed, empirical evidence shows that company-based training and wage subsidies to employers have a strongly positive effect on labour market integration. Yet, relatively few immigrants profit from such measures currently. It is thus recommended to increase the scale and scope of these tools. First steps in this direction have recently been taken. There are also a variety of innovative networking projects in place which seek to set off this immigrants' lack of access to networks, including a nationwide mentorship project, and these benefit from a strong involvement of the civic community.

RÉSUMÉ

11. Suscité par les médiocres résultats des immigrés au regard de l'emploi (au Danemark, l'écart entre leur taux d'emploi et celui des autochtones compte parmi les plus importants de la zone OCDE) et par l'accroissement rapide de cette population au cours des vingt dernières années, l'intégration des immigrés sur le marché du travail est une question clé qui fait débat dans l'opinion publique et que le gouvernement a inscrite dans son programme. Avant les années 80, l'immigration dans ce pays était un phénomène très marginal. Pourtant, en dépit de la progression rapide de cette population depuis lors, les immigrés représentent moins de 7 % de la population totale. Ainsi, le Danemark compte encore l'une des populations immigrées les plus faibles d'Europe occidentale.

12. Cela fait plus de vingt ans que les immigrés affichent de médiocres résultats au regard du marché du travail, ce qui tient en partie au fait qu'au Danemark, cette population est composée d'un fort pourcentage de réfugiés et de personnes arrivées dans le cadre du regroupement familial – deux groupes dont les résultats au regard du marché du travail ne sont généralement pas aussi bons que ceux des autochtones ou des migrants pour raisons économiques et ce, dans tous les pays, notamment pendant les premières années d'installation. Depuis 2001, l'immigration pour regroupement familial fait l'objet de mesures restrictives. Parallèlement à ces mesures, le Danemark a opté pour un plafonnement des prestations sociales accordées aux nouveaux arrivants et rendu obligatoire leur participation à des programmes d'intégration. De plus, depuis plus de dix ans de nombreux efforts ont été faits pour améliorer l'intégration des immigrés sur le marché du travail, et encore accélérés récemment.

13. Toutefois, les immigrés originaires de pays non membres de l'OCDE ne sont pas les seuls à afficher de médiocres résultats. Les taux d'emploi des immigrés provenant de pays de l'OCDE sont faibles également d'après les comparaisons internationales. De surcroît, au Danemark, une part non négligeable de la population immigrée possède un niveau d'études supérieures. Pourtant, cette caractéristique n'influe pas autant sur les probabilités d'emploi qu'on pourrait s'y attendre, même lorsque les qualifications ont été acquises au Danemark.

14. Aujourd'hui, les immigrés de la deuxième génération entrent progressivement dans la vie active. Ils sont nombreux et leur groupe préoccupe tout particulièrement les pouvoirs publics. Leur niveau de formation est nettement inférieur à celui des Danois qui présentent des caractéristiques comparables mais ne sont pas issus de l'immigration. Cela tient principalement au fait que les taux d'abandon en cours de formation professionnelle des immigrés de la deuxième génération sont plus de deux fois supérieurs à ceux des personnes nées au Danemark de parents eux-mêmes autochtones. Cette situation s'explique principalement par le fait que les personnes issues de l'immigration rencontrent plus de difficultés pour obtenir des contrats d'apprentissage dans les entreprises que les jeunes nés au Danemark de parents eux-mêmes autochtones présentant un profil comparable. Toutefois, même lorsqu'ils possèdent un niveau d'études du deuxième cycle du secondaire ou d'études supérieures, les immigrés de la deuxième génération affichent des taux d'emploi nettement inférieurs à ceux des autres autochtones. Cette remarque vaut également pour les enfants d'immigrés originaires de pays de l'OCDE.

15. Considérant la nature récente d'une grande partie de l'immigration ainsi que la taille relativement faible de la population immigrée, on constate qu'au Danemark, le cadre global de l'intégration est extrêmement développé. En témoigne le fait que ce pays compte parmi les quelques pays de l'OCDE à s'être dotés d'un ministère chargé des réfugiés, de l'immigration et de l'intégration bien distinct, qui s'occupe à la fois des politiques de l'immigration et de l'intégration. Dans ce cadre, les communes sont tenues de proposer aux immigrés originaires d'un pays n'appartenant pas à l'Espace économique européen (EEE) un programme d'accueil sur trois ans, qui comporte des cours de langue et une palette de mesures d'intégration sur le marché du travail. De fait, la grande importance accordée par ce programme à cette forme d'intégration mérite d'être soulignée tout particulièrement. Les communes bénéficient de fortes

incitations financières pour faire en sorte que les nouveaux arrivants s'intègrent rapidement sur le marché du travail, et un système élaboré d'évaluation comparative est en place pour observer les résultats qu'elles obtiennent en matière d'intégration et faciliter la généralisation des politiques ayant prouvé leur efficacité.

16. Certains indices donnent à penser que les politiques actuelles produisent les effets désirés, les taux d'activité et d'emploi des immigrés de fraîche date ayant progressé. Toutefois, le taux de chômage de ce groupe a lui aussi augmenté, alors que les prestations sociales dont il bénéficie sont inférieures à celles des autochtones. Une méthode pour éviter la marginalisation qui en résulte consiste à devenir travailleur indépendant mais, semble-t-il, peu d'immigrés empruntent cette voie avec succès. Cela est peut-être lié au fait qu'en règle générale, les immigrés ne peuvent contracter un emprunt avant d'avoir obtenu un titre de séjour permanent, et que les critères d'octroi de ce titre ont été durcis. En conséquence, il conviendrait de faciliter l'accès de ce groupe aux prêts.

17. Ce qui frappe particulièrement dans le contexte danois, c'est que les disparités d'emploi par rapport aux autochtones se retrouvent partout : elles existent depuis longtemps et concernent aussi bien les immigrés provenant de pays de l'OCDE que ceux qui sont originaires d'autres pays ; elles touchent même les descendants de ces deux catégories d'immigrés et ce, quel que soit leur niveau de formation. Même le rendement de l'éducation danoise est inférieur dans le cas des enfants d'immigrés à celui que l'on observe chez les enfants non issus de l'immigration. Récemment, les résultats au regard de l'éducation semblent s'être quelque peu améliorés mais, globalement, la situation perdure. Peut-être cela tient-il en partie au fait que les qualifications et l'expérience acquises à l'étranger ne sont pas forcément reconnues par les employeurs du Danemark qui, à cet égard, ne fait pas exception. Mais les enfants d'immigrés, nés et scolarisés au Danemark, ne devraient pas connaître ce problème. Pourtant, ce groupe affiche de médiocres résultats par rapport aux enfants de personnes non issues de l'immigration, à tous les niveaux de formation.

18. Quoi qu'il en soit, les résultats peu probants de la deuxième génération, quelles que soient l'origine géographique ou les qualifications des individus de ce groupe, font penser que l'explication souvent avancée pour expliquer les faibles taux d'emploi des immigrés (l'effet démobilisateur des prestations) n'est pas totalement satisfaisante. Les observations communiquées nous conduisent à penser qu'il y a lieu de lutter contre la discrimination, de la surveiller et de la dénoncer de manière plus efficace. Compte tenu de l'absence relative de réseaux relationnels et de l'asymétrie de l'information concernant les compétences et les qualifications des immigrés, qui ont peut-être plus d'importance dans le contexte danois caractérisé par une expérience récente de l'immigration, on pourrait penser que des mesures destinées à aider les employeurs à surmonter leurs réticences à l'idée d'embaucher des immigrés et à leur permettre d'évaluer les compétences de ceux-ci seraient particulièrement efficaces. De fait, selon des données économétriques, la formation à l'intérieur de l'entreprise et le versement aux employeurs de subventions salariales ont eu un effet extrêmement positif sur l'intégration sur le marché du travail. Actuellement, pourtant, les immigrés qui bénéficient de ces mesures sont assez peu nombreux. En conséquence, il est recommandé d'accroître l'envergure et la portée de ces dispositifs.

19. Au Danemark, le secteur public compte pour un tiers environ de l'emploi total. Il s'agit d'un secteur où les immigrés sont sous-représentés. Toute une palette de mesures ont été prises pour augmenter l'emploi des immigrés dans ce secteur du fait de sa taille et de son importance dans le contexte danois. On considère aussi que le secteur public doit jouer un rôle de modèle. Dans le secteur privé, les petites et moyennes entreprises sont largement majoritaires comme pourvoyeurs d'emploi mais nombreuses sont celles qui ne possèdent qu'une connaissance limitée de la population immigrée. En outre, les contacts avec les employeurs dans ce secteur s'établissent souvent par le biais de réseaux de relations personnelles. Or, les immigrés ont généralement moins de relations de cette nature. Le Danemark a donc mis en place une multiplicité de projets innovants de constitution de réseaux par lequel il s'efforce de remédier à ce problème, y compris un projet de mentorat à l'échelle nationale. Ces projets bénéficient de la forte implication de la société civile.

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THE LABOUR MARKET INTEGRATION OF IMMIGRANTS IN DENMARK

Section I: Introduction

20. The labour market integration of immigrants is a very topical issue in Denmark. There is a general belief that their labour market outcomes are below those of the native-born, and a first glance at key indicators bears this out. Improvement of these outcomes has taken a prominent place in recent government proposals to meet future challenges of the welfare state. The government is trying to improve the contribution of immigration to meeting these challenges by improving the integration of those immigrants and their offspring who are already in the country and by more restrictive entry policies for some groups of migrants – Denmark’s rules for family reunification, for example, are among the most stringent in the OECD.

21. With less than 7% immigrants in the population, Denmark has by far the lowest share of immigrants among the countries that are covered in this first round of OECD reviews of immigrant labour market integration (Sweden, Germany, Australia, Denmark and France). The native-born Danish population, in addition, is a relatively homogeneous one.

22. The low immigrant share is explained by the relatively recent history of immigration to Denmark. The immigrant stock has more than doubled over the past twenty years. Denmark started later than most other European countries in the post-war era with the recruitment of the so-called “guestworkers”, and that recruitment was quite limited. Immigration only accelerated in the late 1980s and in the 1990s. Thus, a large part of immigrants in Denmark are relatively recent arrivals.¹ Among those who have arrived over the past twenty years, immigration was largely dominated by family migrants and refugees, groups whose outcomes tend not to be as good as those of labour migrants.

23. The labour market in Denmark has a high share of the public sector in total employment, high employment of women, a strong dominance of small and medium-sized enterprises, and a relatively generous welfare system coupled with high collectively-bargained minimum wages and low employment protection. Noteworthy are also the relatively favourable overall labour market conditions, with an overall unemployment rate of about 5% and an annual GDP growth of about 3% since 2005. This situation provides a window of opportunity for introducing pro-active, future-oriented integration measures.

24. The target populations considered in this report will be the foreign-born population, together with the native-born children of foreign-born parents, the so-called “second generation”, who are often referred

¹ Data from the European Community Labour Force Survey show that among the European OECD countries covered by the survey, only in Spain, Italy, Greece and Ireland has a larger share of the current immigrant stock arrived in the past ten years.

to in the Danish context as “descendants”.² Although the second generation has not itself immigrated, it is included in this report because the outcomes of this group are viewed as problematic in many European countries, including Denmark. This study will limit itself to integration into the labour market, although education outcomes – in particularly for the second generation – are also discussed, as they have an important impact on employment.

25. This report is structured as follows: following a brief overview of some key labour market integration indicators, Section II presents the background with respect to the labour market integration of immigrants in Denmark, including the history of immigration and integration policy, the main services provided to migrants, and the key actors involved. In Section III, some key issues are analysed. This section is divided in five main parts. The first part investigates immigrants’ characteristics and how these affect labour market outcomes. The second part discusses key specificities of the Danish labour market and their impact on integration. The third part investigates some key integration policies and their effectiveness. This is followed by an analysis of the labour market integration of the offspring of immigrants. Section III concludes with a discussion of the issue of discrimination. The report ends with an overall summary including recommendations.

Section II: The framework for integration

Overview of employment outcomes

26. The first and salient observation with respect to the labour market integration in Denmark is the relatively unfavourable results in aggregate employment and labour market outcomes of immigrants in general (Table 1).

27. The employment rate of immigrant men is among the lowest in the countries included in Table 1.³ In no other country is the difference between the employment rates of immigrants and those of the native-born as high as in Denmark. This holds for both genders, although the employment rate of immigrant women is not as unfavourable in international comparison since employment of women is generally high in Denmark. A further observation is that there are large differences between the employment rates of immigrants from OECD and non-OECD countries, with the latter having employment rates 13 or more percentage points lower than the former. Indeed, the overall unfavourable outcomes in Denmark are in part linked to the fact that more immigrants come from non-OECD countries than is the case in other OECD countries (see OECD 2005a). However, even the labour market outcomes of immigrants from the OECD area are well below those of the native-born. Indeed, in no other country in the comparison group are differences between the employment rates of OECD immigrants (excluding Turkey) and those of the native-born larger than in Denmark.

28. Unemployment rates among immigrants in Denmark are more than twice as high as those of the native-born. Only the Netherlands and Belgium have similarly high relative magnitudes. In absolute terms, however, the unemployment of immigrants is lower than in many other European countries.⁴

² The term “second generation” is used in this report to describe the native-born offspring of foreign-born parents. Even though the term may not be entirely clear, it is used in this document for the sake of conciseness and convenience. The children of native-born parents (occasionally referred to as “native Danes” in the report) are generally referred to as “persons of Danish origin” in Denmark.

³ The term employment rate is used in this report synonymously with the employment-population ratio. It is not the ratio of persons employed to persons in the labour force.

⁴ In contrast to what is observed in all other European countries shown in Table 1, the incidence of long-term unemployment is lower among immigrants than among the native-born. According to the European Community Labour Force Survey, 20% of Denmark’s unemployed immigrants in 2004-2005 have been

Table 1: Labour force characteristics of the native- and foreign-born populations, 15-64 years old, selected OECD countries, 2005/2004 average

	Participation rate		Employment rate		Unemployment rate		<i>Ratio</i>
	Native-born	Foreign-born	Native-born	Foreign-born	Native-born	Foreign-born	
<i>Men</i>							
Australia	85.3	79.9	80.5	75.5	5.6	5.5	1.0
Belgium	73.2	71.3	68.8	60.7	5.9	14.9	2.5
Canada	83.2	83.2	78.6	77.7	5.5	6.6	1.2
Denmark	84.6	74.3	81.1	66.1	4.2	11.0	2.6
-- <i>OECD</i>		78.8		72.9		7.5	1.8
<i>foreign-born</i>							
-- <i>Non-OECD</i>		70.2		59.5		15.3	3.6
<i>foreign-born</i>							
France	74.9	77.0	68.9	66.6	8.0	13.4	1.7
Germany	79.9	79.0	71.6	64.9	10.5	17.9	1.7
Netherlands	84.8	77.3	81.8	68.7	3.6	11.1	3.1
Norway	82.1	77.1	78.6	68.8	4.2	10.7	2.5
Sweden	81.7	75.9	76.0	65.0	7.0	14.4	2.1
United Kingdom	81.9	78.3	78.0	72.6	4.7	7.4	1.6
United States	78.4	85.2	73.0	80.2	6.9	5.8	0.8
<i>Women</i>							
Australia	69.9	60.4	65.9	57.0	5.7	5.6	1.0
Belgium	60.3	48.0	55.8	39.4	7.5	17.8	2.4
Canada	72.5	68.9	68.9	64.2	4.9	6.8	1.4
Denmark	76.9	61.0	73.0	54.0	5.1	11.4	2.2
-- <i>OECD</i>		66.7		61.5		7.8	1.5
<i>foreign-born</i>							
-- <i>Non-OECD</i>		55.9		47.6		15.0	2.9
<i>foreign-born</i>							
France	64.9	58.1	58.4	48.4	9.6	16.7	1.7
Germany	67.8	56.2	61.1	47.3	9.9	15.8	1.6
Netherlands	71.5	57.0	68.3	51.3	4.4	10.1	2.3
Norway	75.9	66.1	72.9	61.1	4.0	7.6	1.9
Sweden	78.0	68.5	72.8	59.9	6.6	12.5	1.9
United Kingdom	69.6	59.8	66.9	55.5	3.8	7.2	1.9
United States	69.2	60.3	65.4	56.2	5.5	5.8	1.1

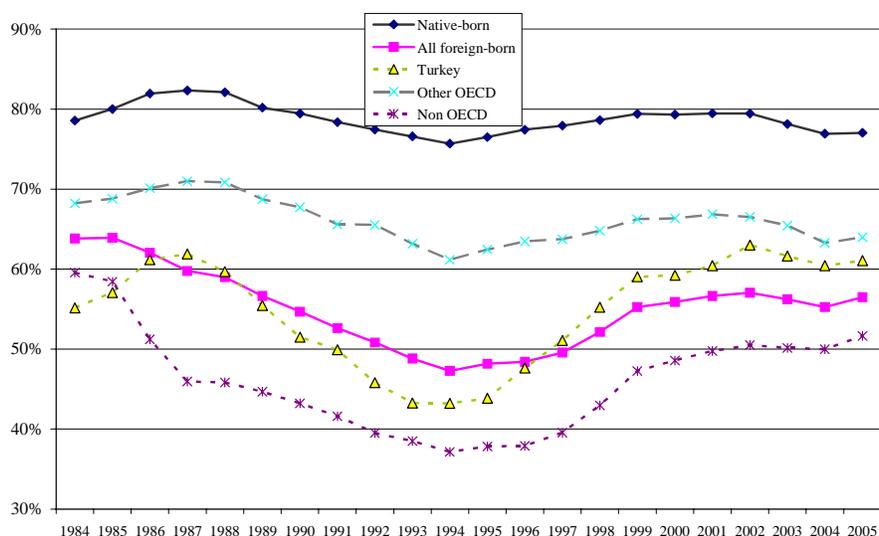
unemployed for a year or more. Only Norway and Sweden have similarly low levels of long-term unemployment among unemployed immigrants. Indeed, temporary layoffs of only a few days or weeks are a very common phenomenon in Denmark. Employers pay unemployment benefits for the first two days of an unemployment period. Temporary layoffs are therefore a convenient way of overcoming temporary business lows. About 40% of all unemployment spells in Denmark are temporary layoffs (see Rosholm, Svarer and Hammer 2004).

Source: European Community Labour Force Survey, except for Australia (Survey of Education and Work), Canada (Survey of Labour and Income Dynamics) and the United States (Current Population Survey March Supplement). Data refer to 2002 for Canada and to 2003 for the United States.

29. In addition, unfavourable labour market outcomes for immigrants compared to those of the native-born are not a recent phenomenon in Denmark (Figures 1a and 1b). There have been substantial gaps in employment rates *vis-à-vis* the native-born for more than two decades, for both genders. This stands in contrast to the situation in, for example, Germany and Sweden, where the employment rates of male immigrants were broadly comparable with those of the native-born until the early 1990s (see OECD 2004 and 2005b). This may in part be attributable to the fact that Denmark did not take in as many “guestworkers” as other European OECD countries.

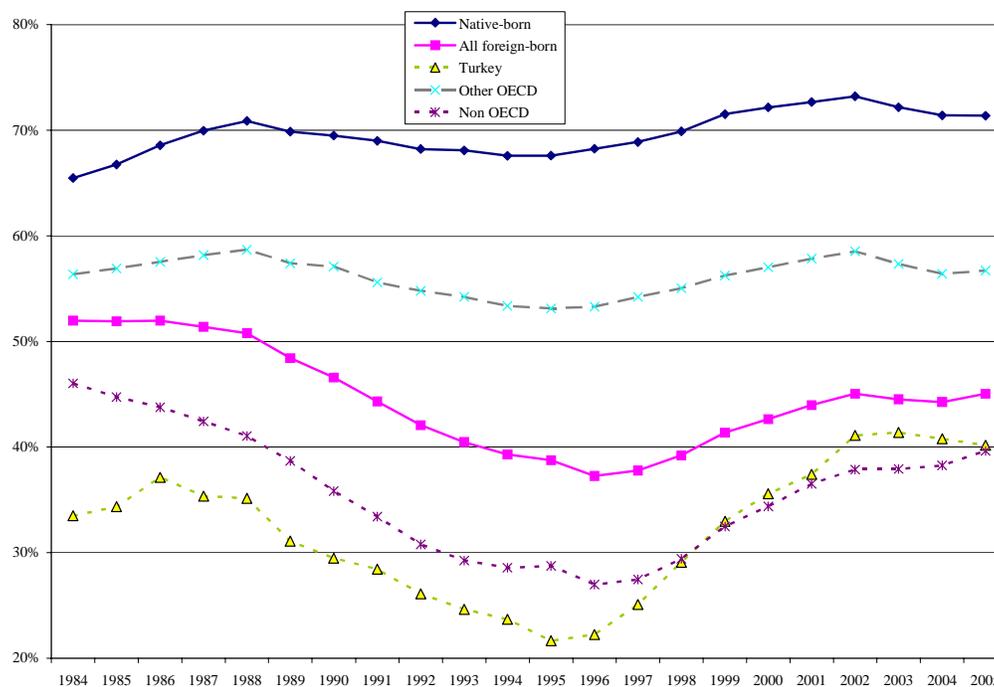
30. All immigrant groups were particularly hard hit by Denmark’s economic recession in the early 1990s. This period also saw the arrival of many new immigrants, whose chances of early access to the labour market were hampered by adverse economic conditions (see below).

Figure 1a: Evolution of the employment/population ratios of native- and foreign-born since 1984, by group of origin, 16-66 years old, men



Source: Danish register data.

Figure 1b: Evolution of the employment/population ratios of native- and foreign-born since 1984, by group of origin, 16-66 years old, women



Source: Danish register data.

31. Since the mid-1990s, labour market outcomes have improved markedly, particularly for immigrants from Turkey and from non-OECD countries. However, the improvement was mainly driven by a decline in immigrants' unemployment, whereas labour market participation remained broadly constant.

32. This is the overall picture of the labour market outcomes of immigrants in Denmark, compared to those in a number of other countries. Before looking more closely at the evidence, we will first present a general overview of the historical context and the policy environment surrounding labour market integration in Denmark.

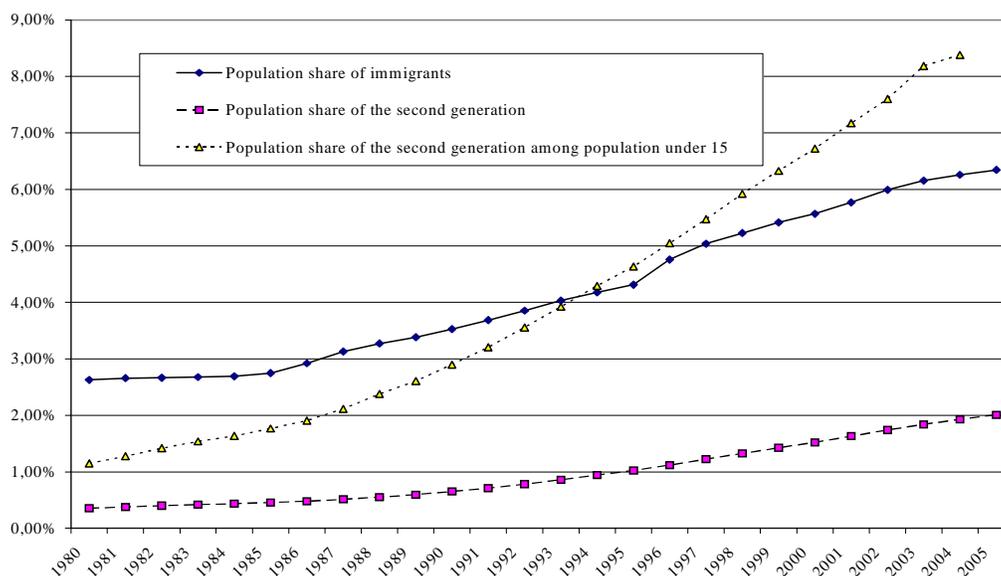
History of migration to Denmark and structure of the immigrant intake

33. As mentioned above, compared to the other OECD countries under review – especially Australia, France and Germany – Denmark has a relatively recent history of immigration. Until the 1950s, Denmark was a country of net emigration, and unemployment was relatively high. This situation changed at the end of the 1950s, when Denmark was characterized by high labour demand, which triggered labour immigration – mainly from Turkey and Yugoslavia. From that time until the first oil shock, Denmark had a steady inflow of labour immigrants, albeit on a much smaller scale than in other European OECD countries where labour demand was also strong. Only at the end of the 1960s was there notable net immigration.

34. Like most other European countries, Denmark introduced a ban on labour-market oriented immigration for non-EEA nationals in 1973. Despite the stop on labour immigration from third countries, immigration continued at a steady but low level throughout the 1970s, mainly through the channel of family reunification. As a result, the immigrant stock remained low in comparison to other European

OECD countries, with immigrants accounting for less than 3% of the total population until the mid-1980s (see Figure 2a).

Figure 2a: Evolution of the immigrant and second-generation population

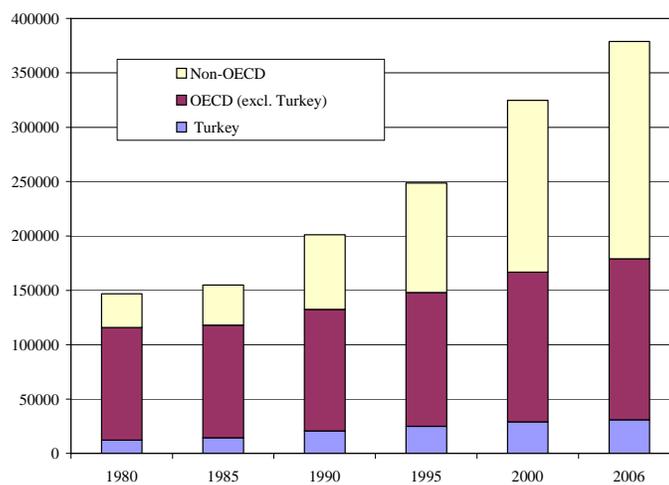


Source: Statistics Denmark

35. With immigration into Denmark being a relatively recent phenomenon, the offspring of immigrants – the “second generation” – are only now gradually entering the labour market. Almost 75% of the second generation are aged 15 or less (see Annex 1 for the population structure).

36. Reflecting the small-scale nature of immigration to Denmark, and the fact that the large majority of immigrants were originally from OECD countries (Figure 2b) – many from the neighbouring countries – the legislation with respect to immigration until the early 1980s still dated back to 1952, *i.e.* to a time when immigration to Denmark was a very marginal phenomenon. In 1983, Denmark comprehensively reformed its immigration framework in ways which improved the legal situation of immigrants. *Inter alia*, a legal right to family reunification was introduced that covered not only spouses and children, but also parents if these were above the age of 60 – although the principal applicant generally had to assure parents’ financial support (see Bauer, Larsen and Matthiessen 2004). The 1983 Aliens Act also improved the legal situation of so-called “de facto refugees”.⁵ With these changes, Denmark was generally considered to be a country with a pronounced humanitarian immigration policy.

⁵ “De facto refugees” are, under Danish law, persons who for reasons similar to those listed in the Geneva Convention or for other important reasons resulting in a well-founded fear of persecution, *etc.* are not required to return to their origin countries.

Figure 2b: Evolution of the origin region of the immigrant population

Source: Statistics Denmark.

37. In the following years, immigration accelerated – a phenomenon which was mainly attributable to family reunification and humanitarian migration.⁶ Since 1979, Denmark has accepted about 500 quota refugees on an annual basis. In addition, Denmark has received rising numbers of asylum seekers and, in the early 1990s, war refugees from the former Yugoslavia. The numbers of asylum seekers arriving in Denmark per 100 000 inhabitants between 1985 and 2000 were always well above the average of the EU-15, with the exception of 1990/91.⁷

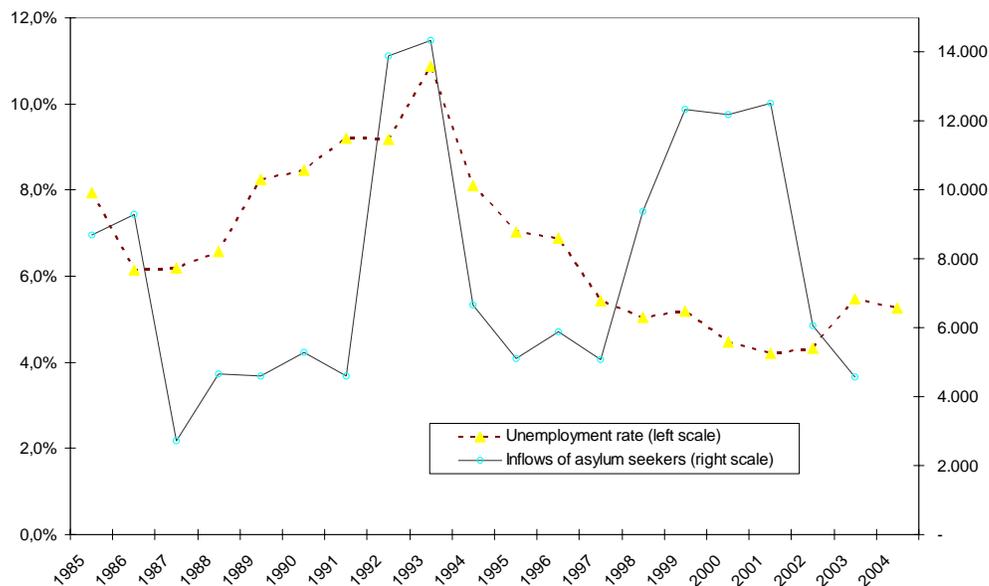
38. The peak in asylum seeking was reached in 1992/1993, and coincided with the peak in unemployment (Figure 3). At the same time, over the 1990s, so-called “recognition rates” for asylum seekers in Denmark were the highest in the OECD (UN Human Rights Commission 2002). The year 1992 marked the beginning of a somewhat more restrictive immigration policy. The current, much more restrictive period in immigration policy started in 1999, *i.e.* in a period of again rapidly rising asylum seeking – albeit under much more favourable labour market circumstances.⁸

39. With the high degree of humanitarian immigration since the mid-1980s, the composition in the origin countries of Denmark’s immigrant stock shifted relatively quickly from OECD countries to non-OECD countries (see Figure 2b and Annex 2). The decline in the share among total immigration was particularly pronounced with respect to the neighbouring countries of Germany, Norway and Sweden: whereas more than one third of the 1985 immigrant stock originated from these countries, their share continuously declined to 20% in 1995 and less than 15% in 2006.

⁶ Indeed, until very recently, the discourse on immigration to Denmark almost exclusively referred to refugees and family reunification. In this context, it should be noted that Danish statistics generally distinguish between immigrants from “Western countries” (defined as EEA, Switzerland, USA, Canada, Australia, New Zealand, and the European Micro-States) and “Non-Western countries”. Statistics and research – as well as government policies – tend to focus on the latter.

⁷ Note that the large countercyclical drop in the employment rates of non-OECD immigrants observed in Figures 1a and 1b between 1985 and 1987 coincides with the first wave of high asylum seeking.

⁸ However, it should be noted that the Danish Aliens Act has been amended several times since 1985, and the changes in 1992 and 1999 were not motivated *per se* by the increasing numbers of asylum seekers.

Figure 3: Evolution of unemployment and asylum-seeking in Denmark since 1985

Data: OECD Labour Market Database; UNHCR

40. Despite the increase in humanitarian inflows, family reunification remained the dominant form of immigration.⁹ Over the period between 1988 and 1992, for example, on average more than 8000 new residence permits were issued annually for family reunification, accounting for about 40% of the immigrant intake.¹⁰ Although these figures were similar to those observed in other OECD countries if related to total migration inflows or the total population (see OECD 1994, 1995), they represented increases in the immigrant population of over 5% per year.

Legislation governing immigration into Denmark

41. As mentioned above, in reaction to the sizeable immigration flows into a country that had very little experience with immigrants, asylum and particularly family reunification legislation has been amended several times since the mid-1980s. In 1992, for example, a regulation was introduced which generally denied family reunification for immigrants who had not been in Denmark for at least five years.

42. Under current laws, spouses or registered partners must be over 24 years of age. In addition, the “combined attachment” of the couple to Denmark must generally be greater than the attachment to the origin country of the spouse. This requirement is waived if the individual already resident in Denmark has either had Danish citizenship for 28 years or more, or been born and have lived in the country for 28 years.¹¹ It is also envisaged that prospective family reunification immigrants, before being granted a

⁹ No distinction is being made here between family reunification and family formation (*i.e.* arrival of persons for marriage). The figures for family reunification thus include family formation as well.

¹⁰ With respect to the immigrant stock by immigration category, data are only available with respect to immigrants who obtained their last permit in 1997 or later. These figures show that about 45% of the immigrants with a permit that is potentially permanent (*i.e.* excluding students, au pairs, *etc.*) immigrated for reasons of family reunification.

¹¹ Exemptions to the 24-year requirement and the association requirement are given if the person living in Denmark is employed in a field covered by the job-card programme (see below) and for certain other

residence permit, will need to pass an exam in their home country, documenting a basic knowledge of Danish society and language.

43. Since 1 July 2005, applicants for a residence permit on family reunification grounds must sign a declaration of integration. Under this provision, the applicant has to commit to making active integration efforts, including learning the Danish language and becoming self-supporting through gainful employment. This also applies to potential foreign spouses of persons of Danish origin. A similar form has to be signed by the resident spouse. In addition, the Danish resident who applies for family unification has to lodge a financial guarantee of DKK 55 241 (about 7 400 Euros at the current exchange rate). Half of this sum may be reimbursed when the family reunification migrant has passed a Danish language test or at least has provided proof of active participation in a Danish course.

44. Together, these measures have resulted in a strong decline in family reunification inflows in recent years. This has also been associated with an increase of immigration to the Malmö area in Sweden, from where immigrants can commute to Copenhagen to work. This involves reunified families where the resident spouse has Danish nationality, thereby profiting from the EU regulations on free movement.

45. The second major component of Denmark's immigration intake has been humanitarian migrants.¹² Activation as the hallmark of Denmark's integration policy starts already at a relatively early stage of the immigration process for such migrants. For example, since July 2003, asylum seekers in Denmark above the age of 18 must participate in certain activities on the basis of individual contracts between them and the asylum centre. If they do not follow these contracts, support payments will be substantially lower. Under these contracts, asylum seekers are normally required to participate in a 30-hour introductory course into Danish society during the first four weeks after posting their application. If their application is further processed, they receive between 10 and 37 hours training per week, which includes education in English, or other relevant education, and can include external practice and unpaid humanitarian work outside the centre. However, asylum seekers are not allowed to pursue regular employment – the activation concerns, in addition to the training, activities in the centres. Nevertheless, asylum seekers with work contracts or work permits valid for a specific trade or profession covered by an approved list may apply for a residence permit on those grounds.

46. For persons recognized as refugees, Denmark operates a dispersal policy. Under this policy, Denmark's annual intake of refugees is distributed across the country by means of quotas per region (counties), which are then broken down to the level of the municipality – taking into account the municipality's immigrant share and the municipality's economic situation. Areas which already have a high concentration of immigrants, *e.g.* large municipalities, are generally exempt from this distribution. The underlying idea behind the dispersal policy is that a more equal geographic distribution of refugees will improve their integration. A further aim of the dispersal policies is to distribute the integration task more evenly among municipalities, to avoid overburdening a few. Immigrants must remain in their assigned municipalities for three years, which is the duration of the integration program.

47. Furthermore, there have been some recent changes with respect to Denmark's intake of quota refugees. For a number of years, the Danish Immigration Service has been assessing quota refugees in terms of their chances of establishing roots in Denmark. Since 2005, Section 8 of the Aliens Act specifically stipulates that in addition to an individual's needs, his/her language ability, educational

groups of immigrants. Furthermore, the conditions for spousal reunification are disregarded if a refusal of reunification would be contrary to Denmark's international obligations, including Article 8 of the European Convention on Human Rights.

¹² About 30% of the current stock of permanent immigrants who arrived after 1997 have immigrated on humanitarian grounds.

background, work experience, family situation, network, age, and motivation should also be taken into account in the selection of quota refugees.

48. These changes, and other restrictions (such as with respect to benefit access, see below), have also resulted in a marked decline of total immigration in recent years. At the same time, given the challenges of demographic ageing and the current favourable economic situation, Denmark is trying to attract more labour immigrants. Special tax incentives have been introduced for highly-qualified immigrants who stay for a limited time in Denmark. In July 2002, a job-card scheme was established to facilitate recruitment of people with professional qualifications which are in shortage in Denmark. Furthermore, students from a range of post-secondary educations can extend their residence permits for three months after termination of their studies to seek a job in Denmark, and may stay if they find one. In April 2006, plans were announced to extend this period to six months by means of so-called “Green Cards” giving six-month residence permission for foreigners without a specific job offer, but with a good chance of finding one, including those completing a tertiary degree in Denmark. It is also envisaged to give residence permits to anybody with a job offer with a salary of more than 450 000 DKK per year. Entries under the job-card programme have been limited, and the new programmes have yet to be implemented.

49. In this context, it should be noted that work permits follow residence permits (with some exceptions for students) in Denmark. Therefore, formal access to the labour market is generally not a problem for immigrants with residence permit in Denmark – in contrast to some other European countries such as, until recently, Germany (see OECD 2005b). However, if an immigrant who entered as a work immigrant loses his/her job, the residence permit ceases as well if the person does not have permanent residence.¹³

50. Currently, immigrants generally receive a permanent residence permit if they have lived in Denmark for seven years, completed an introduction programme and passed a Danish-language competency test corresponding to their respective introduction programme (*i.e.* Danish 1, 2 or 3 – see Annex 3). In addition, the basis of residence must still exist (*i.e.* continuation of marriage, persecution, or work – depending on the migrant category).¹⁴ The applicant also must not have defaulted on any debts to the public sector, and restrictions exist for persons who have been sentenced to prison. For first time applications submitted after 1 April 2006, applicants must sign an integration contract and a declaration stating that, to the best of their ability they will involve themselves actively in integration into Danish society and in specific activities as well.

51. It is planned to tighten the requirements for permanent residence. Under the new proposals, an integration exam will be introduced for all immigrants, in addition to the current residency requirements. This includes proof of Danish 2 (or a lower competency level and an English-language test on a level equivalent to Danish 2). Furthermore, immigrants must have been in ordinary full-time employment for at least 2 ½ years. The new requirements apply to all new immigrants not in retirement who received their residence permit after July 1st 2006. Resident immigrants who had not finalized their introduction programme by the end of November 2006 will also be subjected to the new requirements.

¹³ An immigrant who loses his job and finds a new position must apply for a new work permit, as the work permit is tied to a specific workplace.

¹⁴ This period can be lowered to five years if the applicant has “considerable ties” with Danish society, and who, in addition, has been employed for the three years prior to submission of the application for permanent residence and did not receive welfare payments during the past three years.

The evolution of integration policy

52. Parallel to the introduction of a new foreigners' law in 1983, the Danish government issued a memorandum in which integration was formulated as a goal of Danish society. The memorandum established a variety of guidelines to be implemented by the municipalities. In the following years, there were several political initiatives on integration. These involved language training, but also job training and other activities to support entrance on the Danish labour market and initiatives to combat strong concentration of immigrants in certain areas.

53. Until the mid-1980s, integration measures were provided on a rather *ad hoc* basis and almost exclusively oriented towards refugees.¹⁵ The underlying principle of integration was that once a refugee had obtained residence in Denmark, he/she should have the same rights and obligations as other citizens. In 1986, in the context of the growing humanitarian immigration, Denmark established a formal integration programme for accepted refugees, with a duration of 18 months. This first formal programme included language training and was intended to familiarise these immigrants with the functioning of Danish society. Language training was already provided in three tiers, with labour-market-oriented Danish being the focus of the medium track – similar to the present setup (see below and Annex 3). However, there were no activation policies in place. Until 1999, these and other integration activities were almost exclusively carried out by the Danish Refugee Council and focused on refugees. The Danish Refugee Council (see below) had the authority to grant social benefits to refugees and to offer so-called “rehabilitation” measures aiming at education and employment.

54. Along with the introduction of the integration programme in 1986, the first dispersal policy was established. Originally, equal geographical distribution of the immigrant population was not the main focus. Instead, dispersal was mainly aimed at those municipalities where housing, educational facilities and employment were available (see Damm and Rosholm 2003).

55. In the following years, the growing discrepancy between native-born Danes and immigrants with respect to labour market outcomes became a matter of increasing concern. Already in the early 1990s, the gaps in employment rates between immigrants and the native-born were higher than in any other OECD country. In addition, at that time, unemployment was about three times as high among the foreign-born as among the native-born – together with Sweden and the Netherlands one of the highest ratios in the OECD.

56. As a consequence, a committee was set up in 1992 to investigate immigrants' barriers to accessing employment, and in 1994, a comprehensive Action Plan was implemented. The plan included *inter alia* measures to improve recognition of foreign qualifications, language training, and vocational education and training for immigrants. Some of these measures were already in place, but only available for refugees. The prime goal of the Action Plan was to provide equal conditions for refugees and other immigrant groups. Parallel to this, the counties became responsible for teaching Danish to adult immigrants, including family reunification migrants and refugees both during and after the introduction period.

57. Still, until 1999, only refugees received a formal integration programme, although family reunification migrants faced integration problems similar to those of refugees. In 1999, a first Integration Act was established, which mentioned labour market integration as an explicit objective. Under that Act, the responsibility of integration was transferred from the Danish Refugee Council to the municipalities. Furthermore, the duration of the integration programme was expanded to three years, and the dispersal policy was tightened (see Chapter III below). Equally important, since January 1999, the integration

¹⁵ Already since 1956, the Danish Refugee Council (*Dansk Flygtningehjælp*) has been in charge of the integration of refugees, financed by government funds.

programme (see below) covers all newly arriving non-EEA immigrants above the age of 18. Participation is obligatory and the scope and content are fixed in individual contracts. It is the explicit aim of the contracts to integrate new arrivals either into employment or into further education, on the basis of an assessment of the respective immigrant's skills.

58. An important element in the context of the current integration policy is the so-called "starthelp". Originally, recent arrivals received the same level of social benefits as other residents, and their earnings could be supplemented by additional earnings of up to 1.50 Euros per hour. In 2002, however, the government introduced a seven-year qualifying period for access to full cash benefits (*i.e.* only persons having resided in Denmark for at least seven of the past eight years – both foreigners and Danes – are entitled to regular assistance).¹⁶ During this period, benefits (*i.e.* the "starthelp") for a family are generally only at about 50-70% of the regular social benefits.¹⁷ It is also hoped that these lower rates enhance work incentives – although at the risk of increasing poverty for those who do not find employment. To increase work incentives, immigrants who receive introduction allowance or starthelp are now allowed to keep 4 Euros per hour worked without any loss of benefits.

59. In recent years, there have been a large number of policy proposals aimed at fostering integration of people with a migration background. It is a stated policy objective to increase employment of the current immigrant stock by 25 000 over the time period 2005-2010. In May 2005, the government released its plan "A new chance for everyone", which is aimed at immigrants and their offspring who have already been living in Denmark for several years and who are thus not subject to the formal integration programme. The plan, which passed the legislative process in early 2006, contains a series of measures relating to education and employment, among others.

60. Under the "A new chance for everyone" programme, receipt of cash assistance for young people aged 18 to 25 is made conditional on participation in education activities – a measure which applies equally to persons of Danish origin. Similarly, only young people of 15-17 years who have started a qualifying course or have a job with an educational perspective will be eligible for family allowance.¹⁸ There are also a variety of measures in place to incite municipalities to contribute more actively to the integration of those who are no longer in the period of initial settlement. The municipalities shall – from 1 July 2006 to 30 June 2008 – activate all recipients of cash benefit and start help, who have not been activated during the previous year. The municipalities will afterwards be obliged to provide activation regularly for all recipients of cash benefit and start help. In addition, foreigners granted residency in Denmark must sign a special integration contract clearly specifying their obligations. Finally, Danish-language skills of pupils will be regularly tested, and special homework coaches made available to support learning.

61. The provisions for language training for the children of immigrants at pre-school age mirror the evolution of Denmark's integration policy over the past decade, from limited access of immigrants to

¹⁶ The lower assistance is called "starthelp". During the three-year introduction programme, it is generally referred to as "introduction allowance", but the benefit levels are the same. Although the starthelp does in principle also apply to native Danes, by nature of the targeting towards recent arrivals the vast majority of those affected by it are immigrants and their children (data from one week in 2005 show that this group accounted for 80% of those affected by the measure).

¹⁷ The start help amounts to a total of 744 Euro per month for a single person, and an additional 617 Euro if the immigrant is married/cohabiting. If there are children under 18 years of age in the family the parents receive 154 euro per child (186 euro if single parent). Parents can get extra start help for at most two children.

¹⁸ The measure targeted at young recipients of assistance has been used for several years with young unemployed persons receiving unemployment benefits.

integration services to universal but voluntary access to obligatory participation. In 1996, the Danish parliament passed an Act that provided for free language training for children of immigrants before entering school if the municipalities opted for this. Only two years later, in 1998, municipalities were obliged to offer language training to bilingual children from the age of four if an expert assessed the need for this. The age threshold was lowered to three in 2002. In August 2004, such language stimulation was made compulsory for all children at the age of three with language difficulties, and municipalities are obliged to orientate the parents about this provision. In 2005/2006, more than half of all bilingual children received language training.

62. In short, a substantial part of Denmark's integration measures is now compulsory for those immigrants at which they are targeted (see Box 1).

63. In June 2006, the Danish government and various parties (*Dansk Folkeparti, Socialdemokraterne* and *Det Radikale Venstre*) have concluded an agreement on a reform aimed at reforming the Danish welfare system for the future. This includes a variety of measures aimed at improving employment among immigrants and their descendents, such as providing targeted job training to persons with a long unemployment period; partnerships between companies and the State or the municipalities; and extra job advisers in the municipalities to improve the guidance of jobseekers and the match between company and jobseeker. In addition, activation measures will also be an option for persons who do not receive transfer income, but who are nevertheless in need of such measures.

Key actors

64. The principal actor with respect to migration and integration policy in Denmark at the national level is the *Ministry of Refugee, Immigration and Integration Affairs* (thereafter referred to as the Ministry of Integration). This ministry was created in 2001 as one of the first of its kind in Europe and has a broad range of responsibilities. It is in charge of all matters relating to work and residence permits, as well as with respect to naturalization. In contrast to similar ministries in other OECD countries, the ministry is also responsible for the teaching of Danish as a second language and for labour market initiatives with a special immigrant focus. This includes funds for special projects for ethnic minorities, but also more general measures such as the removal of barriers to the employment of immigrants and refugees and the creation of a more open labour market for immigrants. It also provides grants for job-related Danish lessons at workplaces. In addition, the Ministry of Integration supports urban policy initiatives aimed at improving living conditions and social integration of immigrants.

65. Due to the rapidly declining number of family reunification and humanitarian immigrants, overall expenses for integration have declined markedly, by more than 60% over the past four years. In the 2006 budget of the Ministry of Integration, 1.449 million DKK (about 194 million Euros) are scheduled for integration (2002: 4.100 million DKK), and more than 80% of this sum is for introduction programme expenses and (other) language courses. Within the introduction programme, it is not possible to distinguish between expenses for language training and other measures.¹⁹ Beyond the introduction programme, there has been, however, a significant increase in the ministry's funds for targeted labour market integration measures for all immigrants, from about 50 million DKK (about 7 million Euros) in 2002 to more than twice as much in 2006. Furthermore, a new diversity programme has been introduced in the context of an action plan to promote equal treatment and diversity and to combat racism. The ministry disposes of approximately 24 million DKK for initiatives under this title for the period 2006-2009.

¹⁹ Statistics on the activity of language course providers show that in 2004, total expenses for language training were about 840 million DKK, of which 310 million for people covered by the Integration Act.

Box 1: Integration measures - choice or compulsion?

With the rising concern about the integration of immigrants, several European countries (*e.g.* Austria, Belgium, Denmark, France, Germany, the Netherlands and Norway) have adopted integration measures in recent years that are obligatory for new arrivals or that involve reductions in monetary benefits for immigrants who refuse to participate or who do so intermittently. Such policy measures are not unique to immigrants. They exist as well in many welfare systems where the repeated refusal to accept appropriate job offers may result in loss or reduction of benefit. Indeed, in countries where obligatory measures concern some sort of activation or labour market preparation for immigrant recipients of benefits and where schemes with the same sanctioning mechanism are also in place for natives, they are viewed as an integral part of the incentive structure of the welfare system.

In some cases, non-participation may also be associated with the threat of denial or delay of a permanent residence permit. Although this may be a formally specified penalty, it is unlikely that a permanent residence permit would be withheld, for example, for an immigrant who acquired adequate language proficiency without formal participation in the introduction programme.

Participation in the introductory measures is generally framed in terms of a formal signed contract or a personal action plan between the receiving state and the immigrant. In this contract, the state commits itself to providing language and civic instruction to the immigrant and assuring that he/she has, in principle, the same opportunity to exercise social and economic rights as natives. In return, the immigrant commits him/herself to respecting the laws and the values of the receiving state and to taking training in language and in knowledge of the host-country society. This may also include the commitment to participate in certain activation offers aimed at integration into the labour market or the education system. In certain cases, participation has been made obligatory in response to what was viewed as inadequate acquisition of host-country skills by immigrants, in turn associated with less favourable labour market performance. The justification is that integration into the host society involves both rights and responsibilities and that the latter need to be more clearly formulated. The contract thus formalises the behaviour which the immigrant would normally be undertaking in his/her own self-interest and as a responsible new resident of the host country. The obligatory nature rests on the assumption that, in the absence of a formal obligation, the investment might not be undertaken or not be sufficient, even if provided free of charge by the receiving state or municipality. The evidence in support of this is the fact that a certain proportion of past immigrants do not in fact possess minimal levels of language proficiency even after many years in the host country. Often this is associated with labour market difficulties for themselves and with inadequate education and employment outcomes for their children.

Although compulsory measures do indeed address the past inadequate investment in host-country human capital of certain immigrants, they also assume that it is immigrant behaviour that is at fault rather than policy or market failure. In many cases, however, the lack of investment in the past may not have been a consequence of immigrant (or their spouses) unwillingness or reluctance, but rather of ignorance of the possibilities available, of inconvenient offerings (*e.g.* lack of simultaneous childcare for the children of the participants, offers which are insufficiently adapted to their abilities), or because such investment was not expected to yield a sufficient return. Moreover, under conditions in which immigration issues are sensitive, it is unclear what message is implicitly being communicated to the domestic population by compulsory measures: i) that immigrants are being treated the same as the native-born or ii) that if left to themselves immigrants will not choose to integrate. Because the message is ambiguous, it risks comforting if not encouraging certain attitudes which may themselves affect the human capital investment decisions of immigrants as well as their labour market outcomes.

66. With respect to integration, *municipalities* play a very important role (see Box 2 for an example). They are obliged to offer newly-arrived immigrants an introduction programme, which is expected to last three years (see below). In addition, municipalities are in charge of the housing facilities, payment of financial aid, and the organisation of Danish language courses. There is a relatively complex refunding scheme in place, which assures that all expenses are reimbursed by the state. Part of the Danish welfare state model is a universal guarantee of social benefits, which is independent of unemployment insurance.

Unemployed who do not have a special unemployment insurance are therefore under the responsibility of the local municipalities.²⁰

Box 2: Municipal integration activities – the example of Århus

One example of municipal integration efforts is the city of Århus, which established a formal municipal integration policy in 1996. Self-sufficiency of immigrants through better labour market integration is considered, along with language mastery, to be the most important prerequisite of integration. The city formulates clear, measurable two-year objectives to reach its integration goals in five main areas (employment, language skills, attitudes, residential issues, leisure and culture). With respect to employment, for the 2001-2002 period, for example, an increase in the proportion of immigrants among the permanent employees of the municipality from 6% to 7% was envisaged. Similarly, concrete objectives have been formulated with respect to qualifying or employing previously unemployed immigrants. As many smaller municipalities have had only limited experience with integration in the past, the Ministry of Integration has established a special integration consulting service for municipalities to disseminate experiences and advise on good practices.

67. Denmark is currently undergoing a fundamental reform of its public administration. As of January 2007, the number of municipalities will be reduced from 271 to 98. Along with this move, the decentralised levels of the public employment service will merge with the municipal labour market administrations to form local job centres in order to provide job seekers and companies with one single contact point. Municipalities and the State will be in charge of these local centres. The reform thus strengthens the role of the municipalities with respect to labour market integration. Indeed, under the new system, municipalities will be in charge of the entire labour market integration process, from the introduction programme to the integration of long-term residents. This should facilitate a more coherent and systematic integration approach at the local level.

68. Despite the wide-ranging competences of the Integration ministry, several other government departments also play a role with respect to the integration of immigrants. Through the employment services, the *Ministry of Employment* is in charge of unemployed immigrants after the initial three years of settlement. Indeed, the relevant sections on labour market measures in the Integration Act mirror the general active labour market policy tools. Although there were in principle no specific measures targeted at immigrants – Denmark pursues an all-inclusive employment policy – they have increasingly been the focus of efforts to promote employment, particularly among welfare recipients. A notable exception are language courses for unemployed immigrants not covered by the Integration Act (*i.e.* after three years of residence in Denmark). Furthermore, the ministry finances specialised job consultants with a view of overcoming immigrant-specific employment obstacles. It is also putting a special advisory body in place to assist the jobcentres with free counselling on how to facilitate and improve employment for ethnic minorities. This body will also monitor the jobcentres' success in getting immigrants and their offspring into employment. In addition, the Ministry of Employment has established centres to certify practical competences of immigrants (see Section III on the returns to foreign qualifications).

69. The *Education Ministry* is another major actor, through its responsibilities for education and training, in particular the apprenticeship system and the schooling for migrant children, including language training in schools. The Education Ministry is also in charge of the assessment of foreign qualifications, and it has established a specialized agency to do this.

70. The *Social partners* have a large influence on the functioning of the Danish labour market, and key decisions affecting labour market integration (such as the framework for job subsidies and the creation

²⁰ About 72% of active immigrants are covered by the unemployment insurance system, compared to more than 80% of the native-born.

of new job categories) are generally taken through consensus with the labour unions and the employers' associations. Particularly noteworthy in this context is the high degree of unionization in Denmark. However, immigrants are largely underrepresented in the bodies of the social partners.

71. *Non-governmental organizations* (NGOs) in general, and migrant organizations in particular, play a somewhat more limited role than in other countries. This is partly due to the nature of the Nordic welfare state, where the role of such organisations tends to be taken by the government (Esping-Andersen 1990).²¹ Furthermore, the relatively recent nature of the immigration experience is also likely to have contributed to the limited role of migrant organisations in particular. Finally, since 2001, funding for several NGOs working with immigrants has been substantially decreased.

72. One notable exception with respect to the limited role of NGOs is the *Danish Refugee Council*. Under the pre-1999 framework, it used to be the key actor with respect to the integration of immigrants and was *inter alia* in charge of the introduction courses. Since these responsibilities were taken over by the municipalities in 1999, its role is now more limited. Nevertheless, it is still a major provider of integration services, *e.g.* as a contractor for language courses and for the counselling of refugees. It also provides interpretation services to immigrants who need this. These activities generally receive multi-level funding from the government, local authorities, the European Social Fund and private donations.

73. Furthermore, there is a *Danish Institute for Human Rights*, which is *inter alia* in charge of monitoring and reporting discrimination, under whose auspices a Complaints Committee for Ethnic Equal Treatment has been established. This Committee has been given the power to hear cases on discrimination on the grounds of race or ethnic origin in the labour market if the person concerned is not a member of a labour union (which would be in charge otherwise). The Complaints Committee can decide whether there has been a violation of the Danish Act on Ethnic Equal Treatment's prohibition against discrimination or against victimisation. However, its role is fairly limited since the Committee cannot impose sanctions or award the complainant any kind of damages as a result of discrimination. However, in cases where the Complaints Committee finds that there has been a discrimination case, the Committee can recommend granting of free legal aid at the courts. A reform of the system of protection against discrimination is currently being debated. This would include the replacement of the Complaints Committee by a new Complaints Board on Equal Treatment – not linked with the Danish Institute for Human Rights. This Board would also have the possibility to award victims of discrimination compensation for non-pecuniary damages.

74. Since the 1999 Integration Act, so-called *Integration Councils* can be set up in municipalities. The Councils are advisory bodies for the integration efforts of the municipalities. Council members are voted by, or appointed from, members of local refugee and immigrant associations or other corresponding persons in the municipality. Each local integration council elects one representative to the Council for Ethnic Minorities. The national Council advises the Minister of Refugee, Immigration and Integration Affairs.

75. There has also been a recent blossoming of civic engagement in integration activities in Denmark. Examples of this are the activities of football clubs (Box 3), as well as the large involvement in mentoring activities (see Box 4 below).

²¹ These tasks are, however, partly contracted to NGOs. For example, the *Danish Red Cross* administers some of the asylum centres.

Box 3: Integration through club networks: “From the Bench to the Pitch”

The project *From the Bench to the Pitch* was created in 2002 by one of the largest football clubs in Denmark, Brøndby IF, in co-operation with the Municipality of Brøndby and the Ministry of Integration. The aim of the project is to establish contacts between young people with a migration background and the club’s network of about 350 sponsor firms. The club thereby acts as an intermediary. Brøndby IF has currently about 1200 amateur players, about 30% of whom have a migration background. Nevertheless, the project is also open to young people who are not part of the club.

The advantage of this mediation is that the club tends to have some knowledge about the strengths’ and weaknesses of the young people involved, while at the same time having access to high-level company representatives who have taken a commitment to support the club and its activities. A job consultant from Brøndby IF studies the abilities, qualifications and desires of every interested young person through interviews and then tries to find out opportunities for that person. The initial contact with the consultant is often established through the weekly training. This training also allows for a continuous informal check on the labour market integration process. The hands-on approach also limits red tape, as little paperwork is involved for the companies. Employers appear to trust the recommendations of the club, and the responsibility to maintain the reputation of the club is also seen as motivating the young people who receive a job offer to perform well.

More than 130 young people with a migration background have been placed into apprenticeships or regular employment since 2003, and the project is continuously expanding as it is opening towards non-sponsors and people who did not initially have close links with the club. Since 2003, other football clubs in Denmark have established similar initiatives, including Århus and Odense.

The introduction programme

76. In 2004, a new Integration Act entered into force, which implied some substantial changes in the integration programme, and a stronger focus on labour market integration, mainly by enhancing municipalities’ incentives to integrate new arrivals rapidly into the labour market. Within about two months after the granting of the residence permit, municipalities are obliged to offer all newcomers (with the exception of EEA nationals) an introduction programme. The details of this are established in individual contracts. Failure to follow the plan may lead to a reduction in the introduction allowance by up to 30%.

77. These plans should account for the immigrants’ characteristics and the needs of the labour market and generally comprise language lessons as well as activation offers. Under the new Act, there are three main categories of activation activities. The first category is obtaining counselling and attending education activities with a view of upgrading of the immigrants’ skills and qualifications. This may include training and bridging courses to enable participation in the labour market in a job that meets the migrants’ skills. The second broad category is taking job training in public or private enterprises with the aim of identifying the immigrants’ competences and needs, for up to 13 weeks (26 weeks under certain circumstances). A third category involves employment with a wage supplement for up to one year. Immigrants are expected to stay active for a total of at least 37 hours per week, including preparation. There are follow-ups on each contract on a regular basis, at least every three months.

78. The new Integration Act also changed the financing of the integration programme with the aim of providing the municipalities more incentives for labour market integration. Regardless of whether or not newcomers have a job, the government pays the municipalities a monthly lump sum for each participant in the programme (a so-called “basic grant” of about 450 Euros). In addition, municipalities receive about 4 200 Euros for every immigrant who started a non-subsidised job within the introduction period, provided that this employment was subsequently held for at least six months. The system thus provides strong incentives for municipalities to achieve rapid labour market integration. Furthermore, local authorities have

the possibility of providing earnings top-ups to incite family reunification migrants who do not receive welfare benefits to take up employment.

79. It is envisaged to further strengthen the municipalities' incentives to rapidly integrate recent arrivals by a further reform of the financing system, to be implemented on 1 January 2008. Under the envisaged new system, in addition to the current basic grant, municipalities will be refunded 50 per cent of actual integration expenses. Currently, again in addition to the basic grant, there are lump sum payments for integration programme expenditure whose amount is estimated to cover approximately 100 per cent of the municipalities' costs for the introduction programme. Municipalities will also receive less reimbursement for the introduction allowance which they have to pay for immigrants on welfare (50% of the allowance, compared to currently 75%). In turn, there will be higher lump sum grants for municipalities who succeed in getting immigrants subject to the introduction programme into employment or education (approximately 5 350 Euros).

80. The municipalities are in charge of the integration programme, and enjoy a substantial degree of discretion in its implementation within the broad framework specified in the Integration Act. The key pillar of the introduction programme is the Danish-language courses, which are scheduled flexibly within the three-year integration period and correspond to 1.2 years of full-time study (*i.e.* about 2000 hours). They are provided in three tracks (see Annex 3). A first track is for illiterate immigrants (about 15% of the participants). A second track (accounting for about 35%) is available for those with limited prior education and who are therefore expected to learn Danish rather slowly. This track is somewhat more employment-focused than the other two. The third track (about 45% of participants) is more academically oriented and intended for students with at least secondary education who can be expected to learn Danish relatively rapidly. Each of these tracks is again divided into six modules, with specific target levels to be achieved. There is a test after each module. Track-switching as well as module-jumping is possible. However, a change of tracks is no longer possible once the final test in the respective track has been taken. This appears to be a problem for immigrants in the second pillar, since two key thresholds are exclusively accessible via the third track: obtaining Danish citizenship requires a Danish knowledge level to be reached after completion of Module 5 of the upper track; and university access requires a level equivalent to full completion of this third tier.

81. The details of language courses are laid out in a special 2003 *Act on Danish Language Courses for Adult Aliens, Etc.* When this new Act entered into force in 2004, all foreigners (as well as some Danish nationals with language difficulties) above the age of 18 – regardless of their permit category, their length of their stay in Denmark and of any prior language training – became, in principle, entitled to participate in such a three- year language course.²²

82. Providers are chosen by the municipalities following a tendering process and may either be municipal language centres, public education institutions or private providers. The courses are generally provided free of charge to the participants, and the providers are reimbursed by the municipalities. Municipalities in turn receive 36 DKK (about 4.5 Euros) per student per hour from the Ministry of Integration.²³ In addition, 2 800 Euros are paid to the municipality when an immigrant has passed a

²² In this context, it should also be noted that municipalities used to be obliged to offer mother-tongue language training of young immigrants and the second generation in primary schools. This obligation was abandoned in 2001.

²³ The estimated cost per student hour is about twice as high, and there are different funding regimes for different groups of immigrants in place which broadly assure that most of municipalities' expenses are reimbursed. There are plans to replace the current 36 DKK subsidy by a 50% refund on language course expenses, in addition to general government subsidies to all municipalities with immigrants.

language competency test in the introduction period.²⁴ The course providers may also include arrangement of traineeships and jobs for students.

The labour market integration model

83. In 2002, the Danish government, along with municipalities and the social partners, developed a so-called “stepmodel” for the labour market integration of unemployed immigrants from non-Western countries.

84. The step model is targeted at both new arrivals and immigrants who have been in Denmark for some years. It is a flexible model of gradual integration into an ordinary job. Which steps the immigrant needs to take depends on his or her qualifications. The first step in the model is intensive language training and introduction to the labour market (step 1). This is followed by a workplace introduction, which may be combined with continuous language training. The language training is, where possible, given on-the-job or at least provided to meet the needs of the immigrant with respect to his employment. During this second step, no wage or salary is paid to the trainee. If eligible, he/she continues to receive regular social benefits. Subsequently, the enterprise where the immigrant had his previous traineeship is expected to offer him/her a job, although the immigrant may still not be in a position to be fully functional in the workplace. At this third step, there may thus still be a need for language training or skills upgrading. Accordingly, the local authority can subsidise part of the salary for a maximum period of 12 months. The subsidy is paid to the employer and depends on the qualifications of the employee. It is possible for the local authority is to finance workplace mentorships, where other employees in the firm are being financed part of their worktime to introduce the newcomer to the workplace. The model is implemented in the rules-for-employment schemes.

85. The Danish Confederation of Trade Unions (LO), The Danish Employers’ Confederation (DA) and National Associations of Local Authorities in Denmark (KL) have formed a project by which the model is used systematically in 13 municipalities over the period 2003-2006. Preliminary results of 330 participants who followed the stepmodel show that about 50% got into either ordinary employment or education. Unfortunately, there has been no control group, making it difficult to interpret this figure. Negotiations between the social partners, the municipalities and the Danish government on adjustments of the model are currently under way. Adaptations are being discussed with respect to making better use of immigrants’ skills and to promote the mentorship component.

86. In summary, there is a very strong focus of integration efforts in Denmark with respect to employment, and early labour market access in particular. Denmark is rather unique among OECD countries in having this focus. Indeed, Article 2 of the Integration Act explicitly states “making newly arrived aliens self-supporting as quickly as possible through employment” as a key objective of integration efforts.

Section III: Key issues in the labour market integration of people with a migration background

Immigrants’ characteristics and labour market outcomes

87. This section analyses the links between the socio-economic characteristics of Denmark’s immigrants and their employment outcomes. It first looks into the impact of immigrant category, before investigating the qualification structure of immigrants and the issue of convergence in labour market outcomes over time.

²⁴ In the context of the above-mentioned reform of financing of municipalities’ integration efforts, this payment is envisaged to be increased to about 4 000 Euros.

Outcomes by migrant category

88. As already mentioned, immigration to Denmark has been largely dominated by humanitarian migrants and family reunification migrants. As the regression analysis Annex 4 shows, there are large effects of migrant category, even after controlling for a broad range of socio-demographic characteristics, and these two groups have considerably lower employment probabilities. Indeed, the permit-category effects clearly outweigh the impact of any socio-demographic characteristics and are much more important than country-of-origin effects. Even within the broad migration groups (humanitarian, family, and work), one observes important differences. Quota refugees have the lowest employment probability, followed by other refugees and family reunification to refugees. Family reunification migrants to non-refugees have already a more than five times higher chance of being employed than those who immigrated as family of refugees. Thus, the dominance of humanitarian immigration in the past has undoubtedly had a large impact on the outcomes.

89. Husted *et al.* (2001) show that years of residence have a stronger impact on the employment of refugees than on other immigrant groups. This results in a stronger assimilation process for the former, particularly during the first five years, albeit from a much lower level. After about 8 years in Denmark, their employment probability has broadly approached that of other immigrant groups. However, after about 13 years of residence, their employment probability seems to fall again. It is, however, unclear to which degree this is attributable to cohort effects.

Immigrants' qualification structure and the returns to foreign qualifications

90. Contrary to public perception in Denmark, the qualification structure of the immigrant population does not appear to be unfavourable in international comparison. Immigrants are somewhat overrepresented at both ends of the skills spectrum (Table 2).²⁵ In contrast to the (other) European countries which had substantial so-called "guestworker" labour recruitment during the 1950s and 1960s, a relatively large share of Denmark's immigrants has tertiary education. This holds both for immigrants from OECD and from non-OECD countries, although the average qualification level of the latter is somewhat lower.

Table 2: Percentage point differences in the educational attainment between native- and foreign-born populations, 25-64 years old, 2005

	low	medium	high
Belgium	12	-10	-2
Denmark	5	-12	8
-- OECD	1	-11	9
-- non-OECD	9	-16	6
Germany	23	-18	-5
France	17	-15	-2
Netherlands	2	5	-7
Norway	7	-11	4
Portugal	-26	14	12
Sweden	5	-6	2
United Kingdom	4	-4	0

Source: European Community Labour Force Survey.

Note: "Low" refers to below upper secondary, "medium" to upper secondary and post-secondary non-tertiary, "high" to tertiary and above.

²⁵ Note, however, that Table 2 includes both qualifications obtained in the host country as well as education obtained abroad. It is not clear to what extent qualifications from abroad are equivalent to domestic ones, but this is an issue affecting the data for all countries in Table 2.

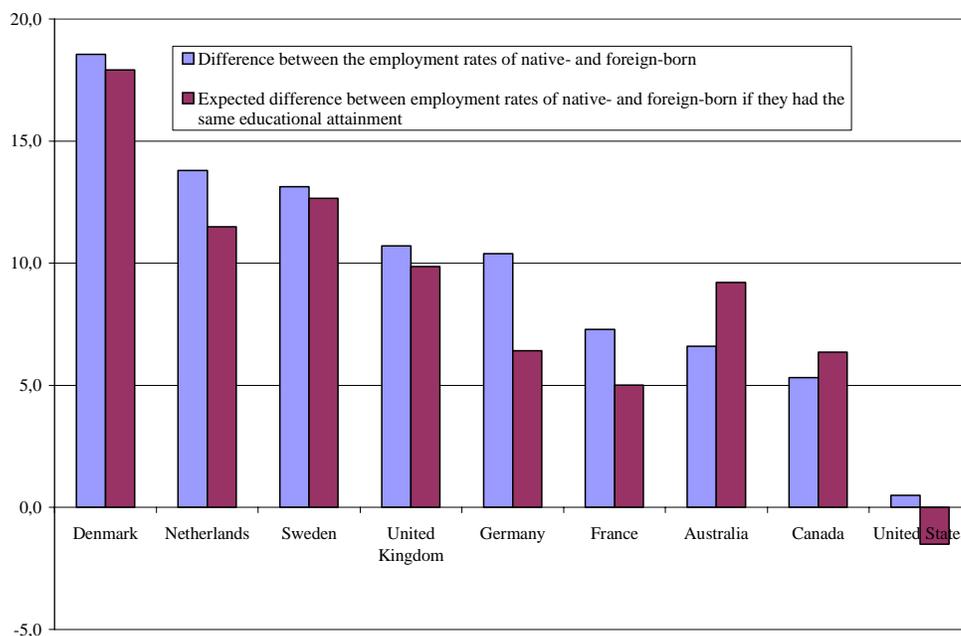
91. This suggests that differences in educational attainment are unlikely to account for the observed unfavourable employment outcomes. Indeed, even if immigrants had the same distribution of the three levels of educational attainment as the native-born, the employment rate would not differ much (Figure 4). Indeed, as Table 3 reveals, one observes that there are high gaps in the employment of immigrants *vis-à-vis* the native-born across all education levels.

92. Education has a positive impact on an immigrant's chance of being employed. It is, however, noteworthy that the gaps are highest at the top end of the skills spectrum and larger for immigrants from non-OECD countries, especially for those with low educational attainment.²⁶ Notwithstanding the beneficial impact of education, the increase in employment with educational attainment is not as large as it is for native-born Danes. Although part of the relatively large gaps in employment rates may be attributable to the fact that Denmark has a larger proportion of humanitarian immigrants than other host countries, labour market difficulties of immigrants in Denmark are not confined to the low-skilled and to persons from non-OECD countries.

93. The degrees of immigrants – particularly of those from non-OECD countries – have generally been acquired in countries where educational systems are different from the Danish one, and such degrees may thus be of limited comparability. Indeed, as can be seen in Table 4, the above-mentioned increase in the gaps in employment rates with qualification level is only observed for foreign qualifications. In this context it is also important to note that the gaps in employment by qualification level are much larger for immigrants who have acquired their education abroad. This, however, may also be linked to some extent with the fact that immigrants who have acquired Danish education immigrated at a younger age, and therefore tend to have better language mastery. Indeed, the differential effect of Danish *versus* foreign degrees on employment – with the exception of the intermediate level – is rather limited in econometric analysis after controlling for duration of residence (see Annex 4). Notwithstanding this, it has to be emphasised that education – whatever its origin – still has a significant and robust impact on improving immigrant's employment probability.

²⁶ Indeed, econometric results (see Annex 4), show that the effect of education – whether or not acquired in Denmark – on the employment probability is rather limited, with the notable exception of Danish intermediate-level education.

Figure 4: Percentage point differences in employment rates between foreign- and native-born and the impact of the qualification structure, 2004, 15-64 years old



Note: Data refer to 2002 for the Netherlands, and to 2003 for Australia and Canada. The expected differences are calculated using the employment rates by three levels of educational attainment (see Note to Table 2) for the foreign-born.

Source: Australia: Household, Income and Labour Dynamics Australia Survey; European countries: European Community Labour Force Survey (data provided by Eurostat); United States: Current Population Survey March Supplement; Canada: Survey of Income and Labour Dynamics.

Table 3: Gaps in the employment rates between the native- and foreign-born populations, by qualification level, 15-64 years old, 2005 (Percentage points)

	low	medium	high
Belgium	7	16	11
Denmark	15	15	19
-- <i>OECD</i>	<i>8</i>	<i>11</i>	<i>18</i>
-- <i>Non-OECD</i>	<i>22</i>	<i>17</i>	<i>22</i>
Germany	-5	8	16
France	-4	9	10
Netherlands	14	16	9
Norway	11	12	9
Portugal	-2	-7	-1
Sweden	8	13	13
United Kingdom	11	11	6

Source: European Community Labour Force Survey.

Table 4: Gaps in employment rates by qualification level and origin of education between immigrants and native-born in Denmark, aged 25-54

	low		medium		high	
	Men	Women	Men	Women	Men	Women
Gap if qualification obtained in Denmark	11	17	11	7	12	9
Gap if qualification obtained abroad	16	24	29	40	32	35

Source: Statistics Denmark.

Note: For better comparability, "low" is defined as ISCED 2, "medium" as ISCED 3, and "high" as ISCED 5.

94. In any case, the origin of the credentials has an impact on wages. Blume (2003) shows that in particular for immigrants from Vietnam, Iran and Iraq, wage returns to foreign schooling are substantially lower than returns per year of Danish schooling. This is in line with a broad range of research showing lower returns to qualifications obtained in non-OECD countries (see *e.g.* Longva and Raaum 2003 for Norway; Kler 2005 for Australia; Aydemir and Skuterud 2005 for Canada), although the gap in the returns to foreign schooling appears to be relatively high in Denmark. Blume (2003) also observes a significantly negative impact of the overall unemployment rate at immigration on the employment probability. This suggests that transferability of home country qualifications may at least in part be depending on the macroeconomic conditions upon arrival.

95. Linked with the above is the problem of so-called "overqualification":²⁷ about 23% of the highly-educated employed foreign-born are working in jobs below their qualification level (see OECD 2006), but this figure is not higher than in other OECD countries. Moreover, for those immigrants who have obtained their qualifications in Denmark, overqualification does not seem to be more pronounced than for comparable Danes (Think Tank on Integration 2006).

²⁷ Overqualification is defined as individuals working in jobs which are below their level of educational attainment.

96. In order to make better use of the qualifications of immigrants, an agency under the Ministry of Education has been created which is in charge of the assessment of (formal) foreign qualifications.²⁸ The assessment is aimed at facilitating a potential employer's judgment of foreign qualifications. It is also used for the pay grading in the public sector.

97. All persons with foreign qualifications are entitled to have their (formal) qualifications assessed by CIRIUS. These services are generally provided for free, although there may be a charge if there is a need for translation of documents. For regulated professions (*e.g.* nurses, bus operators, *etc.*), official approval and, therefore, an assessment is required – although in many of these cases, other (professional) assessment bodies are in charge rather than CIRIUS.

98. Immigrants are encouraged to take an assessment even if it is not required to enhance transparency of their diploma *vis-à-vis* potential employers. The assessments of CIRIUS are only binding in certain labour market contexts. This is notably the case with respect to membership of unemployment funds and public authorities' decisions on employment. In 2005, more than 60% of the recognition of academic credentials referred to academic degrees from EU/EEA countries. Since the large majority of immigrants who arrived in Denmark over the past decade came from non-OECD countries, it appears that relatively few of these immigrants take advantage of this possibility. This may be attributable to a lack of awareness, particularly among those who have immigrated before the establishment of CIRIUS.

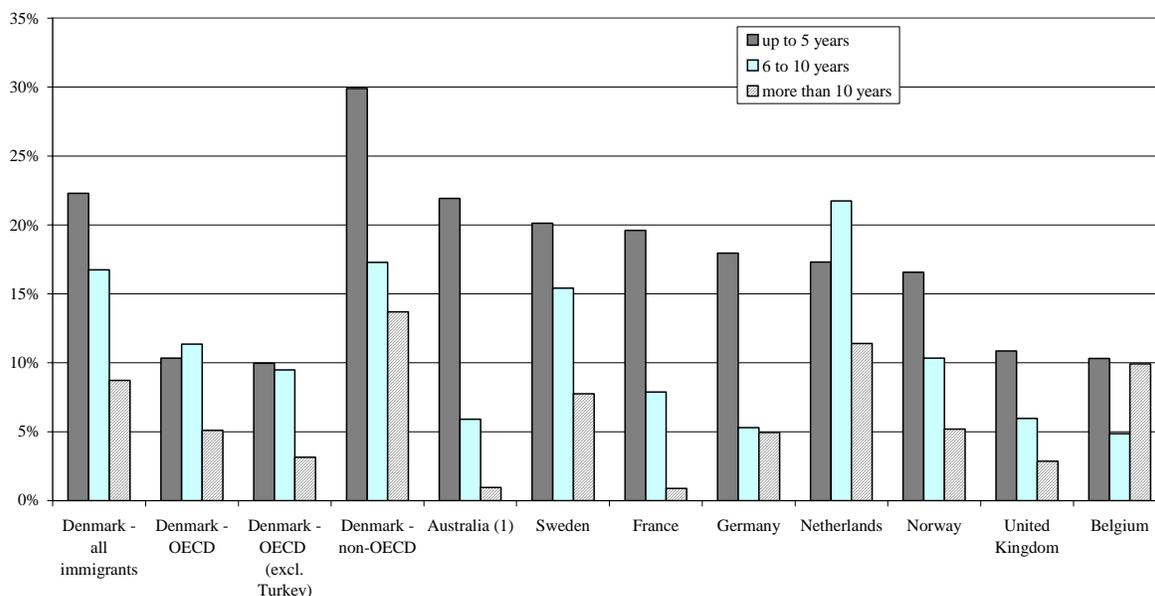
99. In 2004, five regional knowledge centres for the assessment of the skills and qualifications of immigrants were established by the Ministry of Employment in co-operation with the confederations of employers and trade unions. In contrast to the assessment by CIRIUS which focuses on formal educational attainment, the task of the knowledge centres is to assist employers, municipalities, *etc.* in the general assessment of immigrant skills, and to systematize and diffuse methods of assessment. This mainly refers to practical competences, but also includes so-called "soft skills" (*i.e.* personal and social skills). The assessment is generally done in workplace situations at companies. These centres also assist the municipalities in their integration offers with a view to finding an employment that matches the immigrants' competences. They also serve as a means of information sharing with respect to good practices in connection with the labour market integration of immigrants. The regional knowledge centres also issue so-called "competence cards" for immigrants which show how the person's skills relate to concrete labour market needs.

Process of convergence of immigrants' employment rates towards those of natives

100. Figures 5a and 5b show the gap in the employment rates between immigrants and native-born in Denmark compared with selected other OECD countries by years of presence in the host country for men and women, respectively. Note that these results are not based on longitudinal data following immigrants over time, rather they are cross-sectional data based on length of stay. Nonetheless, the pattern observed is generally as expected, *i.e.* those immigrants who have been longer in Denmark have better outcomes. One nevertheless observes higher gaps in the employment rates of recent arrivals for both genders compared to other OECD countries, whereas the gaps for those who have been longer in Denmark are in the range of what is observed elsewhere. A further disaggregation into OECD and non-OECD immigrants shows again that the latter have more difficulties on the labour market, independent of duration of stay and gender. However, substantial gaps are even observed for immigrants from the OECD area, in particular for women during the first years after arrival. Excluding immigrants from Turkey – who are the largest immigrant group – does not fundamentally alter the picture for the immigrants from OECD countries.

²⁸ A first agency in charge of recognition of foreign qualifications was established in 2000. Since 2005, it has changed its name to CIRIUS.

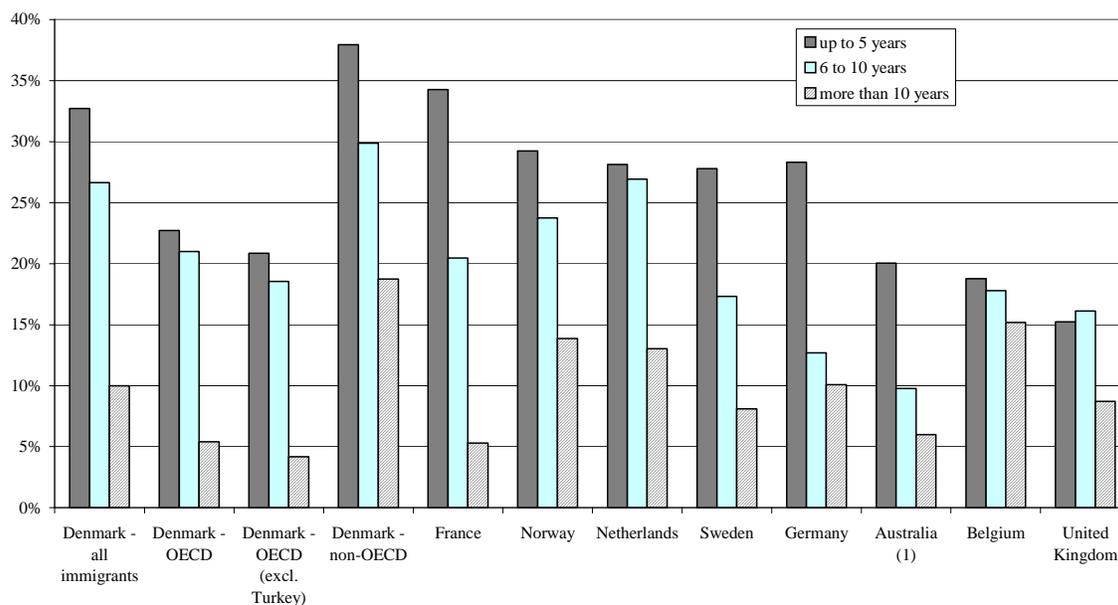
Figure 5a: Differences (in percentage points) between the employment-population ratios of 15-64 native-born and immigrant men, by years of presence in the host country, 2003-2005 average



Source: European Community Labour Force Survey, except for Australia (Survey of Education and Work).

Note: 1. Data for Australia refer to 2004.

Figure 5b: Differences (in percentage points) between the employment-population ratios of 15-64 native-born and immigrant women, by years of presence in the host country, 2003-2005 average



Source: European Community Labour Force Survey, except for Australia (Survey of Education and Work).

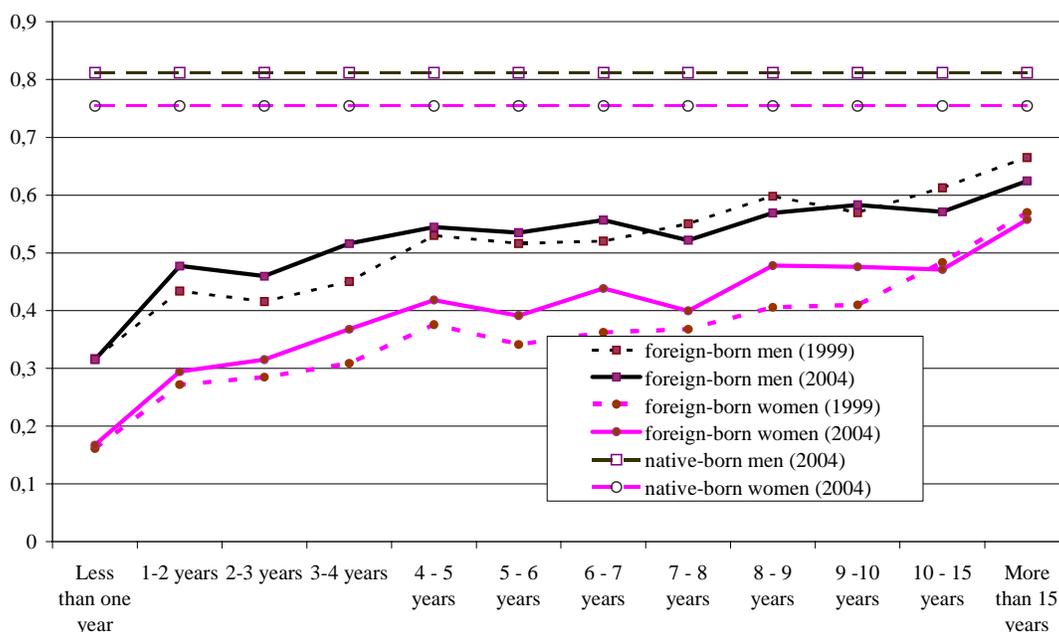
Note: 1. Data for Australia refer to 2004.

101. Looking more closely into the picture in Denmark, one observes that despite a clear convergence process, immigrants do not achieve full convergence with their native-born counterparts, even after 15 or more years of residence. The speed of this partial convergence seems to be quickest during the first 4 years of residence (Figure 6).

102. As seen above, after 1999, and in particular since 2001, there has been a strong focus on integration, and a series of measures were introduced to foster employment of immigrants – especially of recent arrivals. These policies seem to have had some effect on the arrivals since then, as the speed of convergence has accelerated during the first three years of residence (see the employment rates by duration of residence in 2004 compared to 1999 as shown in Figure 6). Immigrants who arrived under the new policies have about 6% higher employment rates after 3-4 years than previous cohorts. This is noteworthy, since overall labour market conditions are slightly less favourable than in 1999. For women, one even observes an increase of similar magnitude for all immigrants who have been in the country up to about nine years.

103. It will be interesting to see whether this stronger movement into employment after arrival will have a long-term impact, *i.e.* whether it will result in higher employment compared to past cohorts once these newly arrived immigrants have been in Denmark for a longer time. Evidence provided in the companion reports on Sweden (OECD 2004, see also Rooth 1999) and Australia (OECD 2006b) has shown that early labour market entry has large and robust positive effects on later employment probability not only in the short term, but also for long-term integration into the labour market. Furthermore, early labour market entry seems to have an important impact on earnings progression in Denmark. Nielsen *et al.* (2004) show that the returns to experience acquired in Denmark are highest during the first five years after arrival.

Figure 6: Employment rates by duration of residence in Denmark, men and women, 16-64 years old, 1999 and 2004



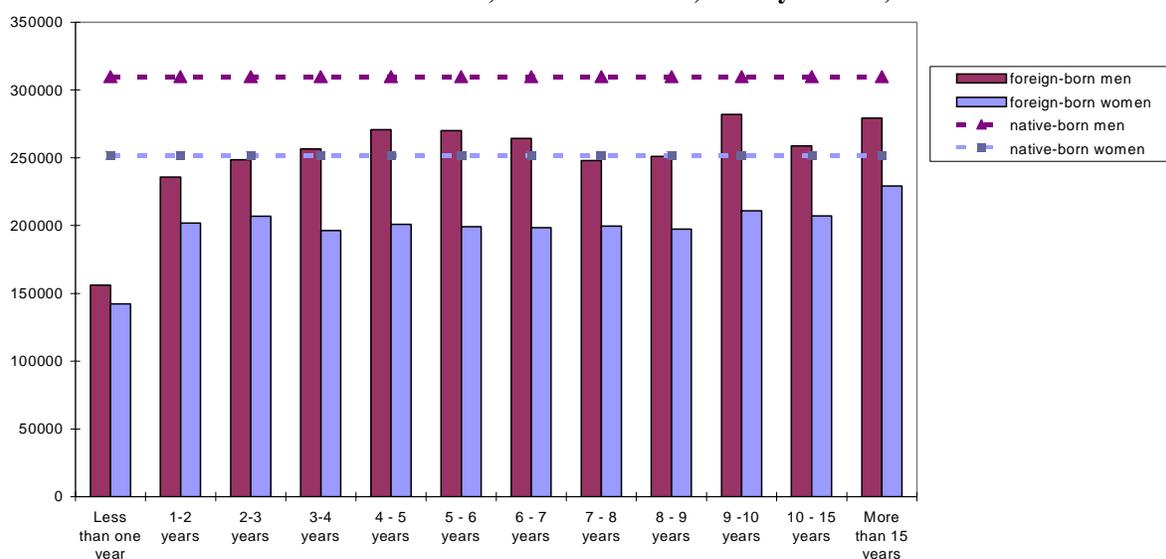
Source: Statistics Denmark.

Note: Employment rates for native-born in 1999 (not shown) were about 2 percentage points lower for men and virtually unchanged for women compared to 2004.

104. The convergence picture shown above – relatively rapid convergence after four years, but a slowdown leading to less-than-full convergence even in the long-term, is also broadly confirmed in econometric analysis (Annex 4). The results on the cohort effects in Annex 4 confirm that the employment probabilities have somewhat increased for immigrants who arrived after 1998. This holds even after controlling for socio-economic characteristics including country-of-origin effects and permit categories. Part of the improvement may, however, be attributable to the more favourable economic conditions at arrival. After about eight to nine years, no further convergence is observed. For immigrants with more than ten years of residence, there is even a slight decline in the employment probability.²⁹

105. A picture similar is observed for wages. As Figure 7 shows, employed immigrants who have been longer in the country tend to earn more, and the earnings increase with years of residence seems strongest in the first two years. Note, however, that Figure 7 is based on cross-sectional data on immigrants with different durations of residence and does not follow the same immigrants over time.³⁰ For women, average wages remain broadly constant for the cohorts between two and fifteen years of residence, whereas the average wages for men increase with duration of residence for the first five years. On the aggregate, the wage gap between immigrants and the native-born is broadly of similar size as the gender wage gap, which in turn is similar for immigrants and the native-born.

Figure 7: Average yearly wages (in DKK) for full-time employed immigrants by duration of residence in Denmark, men and women, 16-64 years old, 2004



Source: Statistics Denmark.

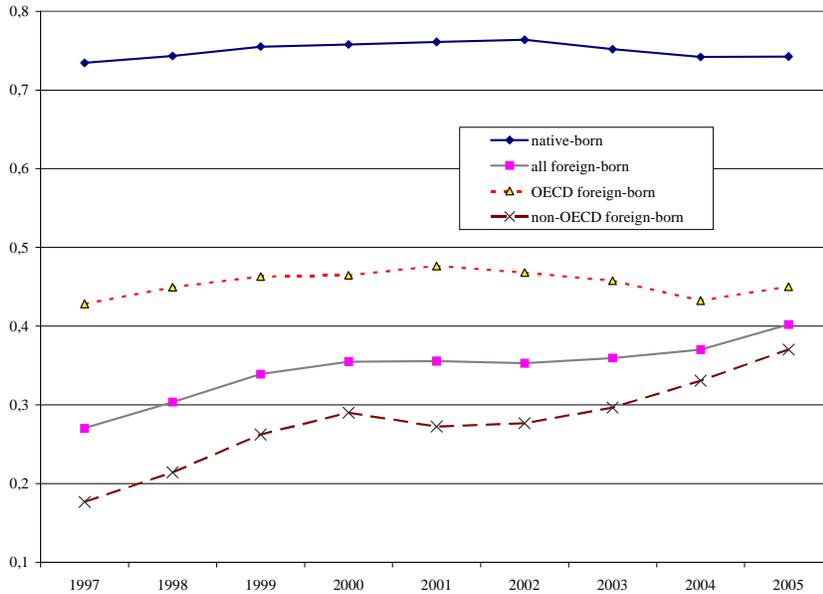
106. Figure 8a further illustrates the continuous increase in the employment of recent immigrants over the past few years. As can be seen, this favourable trend only affected non-OECD immigrants, who had a substantial increase in labour force participation. Nevertheless, a considerable share of recent arrivals from these countries remains unemployed. Indeed, at the same time as employment rates of new arrivals have

²⁹ Note that this may in part be due to the fact that many humanitarian immigrants arrived in the late 1980s and early 1990s, but information on the permit is only available for those immigrants who had their last issuance or renewal of a residence permit in 1996 or later.

³⁰ Thus, the respective cohorts may differ in terms of qualification levels, origin, economic situation at entry, etc.

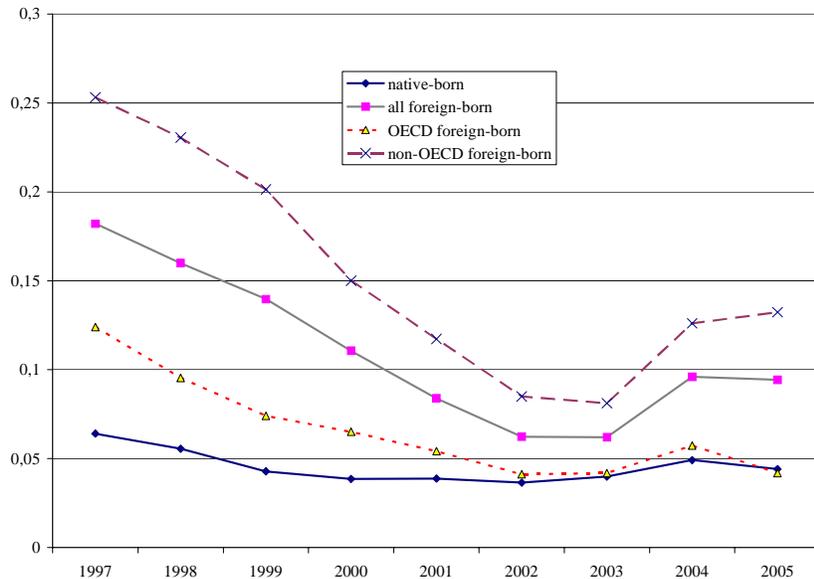
been improving, their unemployment rates have shown an increase since 2003 (Figure 8b). The increase has been by more than 5 percentage points in only two years. It thus appears that the strong push of new arrivals into the labour market as a result of current policies has not always met with success, as many immigrants seem to have difficulties finding employment.

Figure 8a: Evolution of employment-population ratios of the native-born and various country-of-origin groups for immigrants with less than five years presence in Denmark since 1997, aged 16-66



Source: Danish Register Data.

Figure 8b: Evolution of unemployment rates of native-born and various country-of-origin groups for immigrants with less than five years presence in Denmark since 1997, aged 16-66



Source: Danish Register Data.

107. In sum, the unfavourable employment outcomes in Denmark are to a certain extent associated with the nature of migration to Denmark, that is, the fact that the large majority of immigrants in the past have been refugees and their family. These are groups whose outcomes are not as good as for labour migrants – of which Denmark has had relatively few in the past. Furthermore, a large part of immigration to Denmark is relatively recent, and outcomes will tend to improve over time. However, evidence suggests that convergence seems to halt after about nine years of residence. This has to be seen in the context of the observation that for more than twenty years, the employment and participation rates of immigrants – even of those from OECD countries – have been well below those of the native-born. This gap is particularly pronounced for the highly-qualified. Indeed, there seems to be a structural gap in employment figures which is not explicable by socio-demographic characteristics. There are nevertheless signs of improvement, particularly for recent immigrants from non-OECD countries, whose participation has clearly increased. It remains to be seen whether this improvement in outcomes after arrival is also reflected in better results over the longer term.

Specifics of the Danish labour market

108. The following section investigates the links between immigrants' employment outcomes and the specifics of the Danish labour market: a welfare system with high net replacement rates at the bottom end; high minimum wages; a large public sector; predominance of small- and medium-sized enterprises; and a high labour force participation of women.

Impact of the welfare system

109. Denmark has a unique labour market system with very limited employment protection and a high degree of social security – the so-called “flexicurity” system. In principle, one would presume that the low degree of employment protection should facilitate labour market integration of immigrants, as it enables employers to test immigrants' skills. However, as will be seen below, there are other characteristics of the Danish labour market which may offset this.

110. The public debate in Denmark, however, seems to be largely concerned about the potential budget impact of social security, given the higher incidence of non-employment among immigrants. According to the OECD Social Indicators (OECD 2005d), *net* replacement rates for unemployment benefits in Denmark – *i.e.* the percentage of household income replaced by unemployment benefits in the case of a person earning the average production worker wage – are well above the OECD average. Yet, they are generally not higher than those observed in the other Nordic countries. However, social assistance is higher than in the other Nordic countries, and Denmark's overall public social expenditure is the highest in the OECD measured as a percentage of GDP. The Think Tank on Integration in Denmark (2002, p. 6) estimates that “the inadequate integration of foreigners in the labour market will cost the public sector some 23 billion DKK annually from the year 2005”. Accordingly, a large body of research in Denmark is concerned with the issue of redistribution from persons of Danish origin to immigrants (*e.g.* Wadensjö 2000; Wadensjö and Orreje 2002; Nannestad 2004), although these generally rather pessimistic views have not remained uncontested (*e.g.* Ekberg 2000).

111. At the micro level, there is some concern that Denmark's benefits, which are among the highest in the OECD, may have a negative impact on work incentives, in particular for the low skilled. Denmark's social security scheme basically relies on flat-rate benefits, which tends to result in very high net replacement rates for low former income levels.³¹ Indeed, immigrants tend to be overrepresented among

³¹ For a discussion of social security benefits in Denmark with a focus on access conditions for immigrants, see Hansen *et al.* (2002).

those who may find themselves in a so-called “unemployment trap”, and there is evidence that such traps have a negative impact on employment (see Pedersen 2005 for an overview).³² There are, in principle, three possible reasons for the higher incidence of such traps among immigrants, and appropriate policy responses may differ accordingly.

112. Firstly, immigrants may have socio-demographic characteristics which make them more prone to be in such a trap. In particular, immigrants are overrepresented among persons with low education, and thus tend to have lower wages. These lower wages would explain the high net replacement rates for immigrants (Smith *et al.* 2003) which determine the magnitude of the trap. There has been no econometric study to date aimed at investigating to which degree immigrants’ socio-economic characteristics account for the higher incidence of unemployment traps, but aggregate characteristics indicate that this may be part of the explanation (see Roseveare and Jorgensen 2005). In any event, if such unemployment traps exist for immigrants, they would presumably also exist for low-paid Danes as well.

113. Secondly, immigrants may have more difficulties in finding employment than comparable Danes – due to lack of access to networks, information asymmetries or selective hiring on the side of employers. It is naturally difficult to ascertain to which degree this is the case, although these obstacles doubtlessly exist, in Denmark as elsewhere (see also below on discrimination). Among the possible measures to tackle these problems would then be policies aimed at overcoming information asymmetries and selective hiring (see next section). To overcome these barriers, the Danish government has started to build up partnerships with firms, introduced and extended job consultation and mentoring; and set up wage subsidies for companies hiring immigrants.³³

114. Thirdly, immigrants may have higher reservation wages and could thus react differently to such disincentives than native Danes. There is *a priori* no reason to expect this to be the case.³⁴ Indeed, more than a third of employed immigrants would only experience marginal income losses if they would be unemployed, and more than one in five would even be financially better off (Schultz-Nielsen 2001). However, the observation that self-employment among immigrants is used as a means of avoiding unemployment (see below) – even at the price of earning less than unemployed Danes – indicates that many immigrants prefer not to depend on social benefits. This notion is also supported by analysis of welfare dependency: if immigrants intended to profit from the welfare system instead of being self-sufficient, one would expect welfare dependency to increase along with years of residence as immigrants gain insight into the welfare system and entitlement to the respective benefits (see Borjas and Hilton 1996). Blume and Verner (forthcoming) show that this does not appear to be the case in Denmark, as there is a robust decline in welfare dependency over time. However, a high age at immigration increases the probability of welfare dependency.

115. Note, however, that labour market outcomes of OECD immigrants are also not favourable in Denmark. In addition, as already noted, differences in the employment rates compared to Danes are highest at the top end of the qualification scale – both for OECD and non-OECD immigrants. Given the flat-rate nature of the benefits, employment disincentives diminish for the more skilled (as these can expect to earn more, at least in the longer run). However, disincentives can have an impact on certain groups, particularly

³² If the disposable income for a non-employed is higher than or close to the disposable income in a potential job, the incentives to search for jobs are reduced, and the economic incentives to quit a low-paid job and become voluntarily non- or unemployed are high.

³³ Mentorship programmes, for example, can be established with public funding according to the Integration Act and the Act on Active Employment Policy. See also Box 4 below.

³⁴ There are, however, indications that public-spiritedness is particularly pronounced in Denmark, which tends to limit moral hazard problems (Algan and Cahuc 2006). This may tend to apply to Danes more than to immigrants, especially during the first years of arrival, but there is no evidence on this.

among the low-qualified, both for immigrants and the native-born. But the existence of unfavourable outcomes across many categories of immigrants, low- and high-skilled, OECD and non-OECD, first- and second-generation, suggest that that there may be more at play than employment disincentives.

116. Some of the current policies appear to be in part motivated by a concern that immigrants react differently to the high net replacement rates at the low-skilled end of the labour market. Among these are the lower levels of social benefits for recent arrivals during the first seven years of residence (see Section II). Although this may induce participation by inactive immigrants, it may also increase the incidence of poverty for those who are dependent on these benefits if they do not find employment. Blume *et al.* (2003b) show that already prior to the introduction of the introduction allowance and starting assistance, (relative) poverty among immigrants in Denmark was relatively high, and on the increase in the course of the 1980s and 1990s.

The effects of wage compression

117. There may also be demand-side obstacles linked to the wage and benefit system. A structural feature of the Danish labour market is a high degree of wage compression, and the incidence of low-paid work (*i.e.* the percentage of wage-earners earning less than two thirds of the median wage) is among the lowest in the OECD (OECD 2006c). The relatively high entry wages may be a concern since immigrants are overrepresented among the low-skilled, particularly among those which have only very basic education. The productivity of some immigrants may thus be below entry wages, at least initially. Furthermore, information asymmetries regarding immigrant skills may lead to selective hiring at given wages.

118. One way of overcoming these problems are wage subsidies for employers. Indeed, empirical analysis shows that this is an effective measure for all non-employed, but particularly for immigrants (see below on the effects of active labour market policies). It thus seems that deadweight losses may be less pronounced for immigrants than for other groups targeted by such subsidies. In order to avoid that such measures become overly costly for the public purse, they should be carefully applied, including accompaniment by (preparatory) training for the low-skilled to assure that such subsidies can be phased out once productivity of these immigrants increases and information asymmetries are overcome. This is the approach taken in the above-mentioned stepmodel, and the evidence to date suggests that this is an effective strategy. As part of the above-mentioned welfare agreement of June 2006, a new wage subsidy scheme will be implemented. This envisages the possibility for a wage subsidy – equivalent to the highest unemployment benefit – for the employment of persons who have received cash benefit, start help or introduction allowance during at least 140 weeks out of the last 156 weeks. Wage subsidies can be paid for up to one year.

119. Lowering the minimum wages is an alternative to such wage subsidies. Indeed, employment with wage subsidies to the employer or lower minimum wages are equivalent for the employer. They are also equivalent for the immigrant *provided* the wages are fully topped up.

120. Not fully topping up any lower minimum wages has been proposed as a further option, and this may be considered less costly to the public purse if this measure has the same effect as wage subsidies or full topping-up. However, in the presence of lower benefit levels, reducing the immigrant's effective wage level offsets in part the impact of reducing the benefit level, that is, it increases the risk of unemployment traps. In addition, equity concerns would argue against migrants' getting lower take-home-pay for equal work, in addition to the lower benefit levels which they already face.

Self-employment

121. One way to escape from structural barriers in the labour market is self-employment. At first glance, self-employment among immigrants in Denmark is not very high in international comparison, and is only slightly higher among immigrants than among the native-born (Table 5).

Table 5: Self-employment rates for immigrants and native-born in various OECD countries, 15-64 years old

	Denmark	Sweden	Norway	Germany	Netherlands	Belgium	France	Portugal
Foreign-born	8.3%	10.9%	7.3%	10.0%	10.8%	14.8%	11.2%	14.1%
Native-born	7.7%	9.4%	6.9%	11.0%	11.3%	12.8%	9.4%	20.6%

Source: European Community Labour Force Survey.

122. Immigrants' self-employment has been the object of many studies in Denmark (Blume 2001; Blume *et al.* 2003a; Constant and Zimmermann 2005; Bager and Rezaei 2001; Dohlmann 2001). These studies indicate that self-employment is used by immigrants as a means of escaping marginalization on the labour market, and tends to be linked with previous unemployment experience.³⁵ However, as the comparatively low self-employment figures of immigrants in Denmark show, not many of them appear to be successful in following this route.

123. Immigrants choosing self-employment to escape marginalization is not observed in Denmark only. This is also the case, for example, in the United Kingdom (Clark and Drinkwater 2000). Andersson and Wadensjö (2004) compare self-employment among native- and foreign-born in Sweden and Denmark. They find that, after controlling for socio-economic characteristics, immigrants from non-Western countries show in both countries very similar patterns with respect to self-employment. The latter not only tend to be overrepresented among the self-employed, but also earn significantly less than comparable native-born self-employed. Indeed, self-employed immigrants have lower incomes, on average, than even unemployed native-born.

124. In this context, it should be noted that there are no formal obstacles to self-employment in Denmark that are associated with immigrant status. The results reported above suggest, however, that there may be a case for better support and accompaniment of immigrants who chose to become self-employed.

125. There have been some measures to promote immigrants' self-employment (see OECD 2003). However, these are relatively small-scale. Two counseling centres for immigrants intending to establish their own businesses have been established. In addition, entrepreneurship has been introduced as a theme in the language courses. Thus far, improvement of immigrants' access to loans has not been a major focus in this respect. In recent years, however, there have been a variety of general initiatives by the Danish government to promote entrepreneurship and self-employment through loan programmes (see OECD 2005c). For example, in collaboration with Danish banks, the government has established government-backed loans in 2005, the so-called "get started" programme. One would expect these loans, which cover relatively small amounts, to be relatively attractive for immigrants, as access to regular bank loans is generally a problem for start-ups, particularly for marginalised self-employment.

³⁵ Danish register data, which show substantially higher self-employment rates for immigrants, demonstrate that in times of high unemployment, such as in the early and mid-1990s, self-employment among immigrants was somewhat more pronounced.

126. Unfortunately, there is no data available on the participation of immigrants in this and similar programmes.³⁶ However, having a permanent residence permit tends to be required by banks and the government organizations in charge of administering the loan programmes. As many immigrants do not have permanent residence, access to financial means is likely to become more difficult with the tightening of requirements for permanent residence.

Migrants and the Danish public sector

127. The issue of employment of immigrants in the public sector is of particular importance in Denmark, since it is one of the OECD countries with the highest shares of employment in the public sector in total employment.³⁷ This fact could, in principle, facilitate immigrants' integration, as the government has a more direct influence on its own employment decisions than in the private sector and, thereby, could contribute to the labour market integration of immigrants. This also increases the visibility of immigrants in daily life and can contribute to enhancing the understanding of immigrants' needs by public institutions. Furthermore, by employing immigrants, the public sector acts as a role model for enterprises.

128. However, in most OECD countries, immigrants are underrepresented in the public sector. The reasons for this are many, and are often linked with legal obstacles (as some jobs may require citizenship) and specific qualification requirements. There are no fully internationally comparable statistics on this, although an approximation on the basis of the European Community Labour Force Survey on the employment by sector indicates that the degree of under-representation in the public sector tends to be lower in Denmark than elsewhere.³⁸ This is also confirmed by Danish register data, which shows that about 30% of immigrant employment is in the public sector, only marginally less than the 35% for the native-born. This observation also holds for the second generation, after controlling for age.

129. It is difficult to ascertain the reasons for the relatively good integration of Denmark's immigrants into the public sector, although it is noteworthy that Denmark has been relatively active in this respect.³⁹ In 2003, a diversity agenda was established which included the stated objective of both the state and the municipal governments to have a roughly proportional representation of people with a migration background (*i.e.* immigrants and the second generation) in the public sector. This is translated into specified target percentages – the overall goal is to have at least 4% immigrants employed in the public sector. For example, both the state sector and the municipalities regularly publish figures on employment in their institutions by migration background, with the evolution over time and by region of origin. Furthermore, there are some (albeit rather small) financial incentives for managing staff in the public sector to favour employment of immigrants. In 2005, a new job category “integration and training jobs”

³⁶ Evidence from Germany (OECD 2005b) suggests that immigrants may be less aware of the existence of such support schemes than the native-born.

³⁷ According to harmonised data from OECD (2002), Denmark's public sector employed an estimated 23% of the labour force, the highest share among the countries for which data are available. According to Danish Register Data, the share is even higher, with about one third of total employment being in the state sector (including employment in municipal services).

³⁸ Using a rough approximation of public sector employment (public administration and defence; education; health and social work; sewage, sanitation and similar activities), data from the European Community Labour Force Survey show that immigrants are in most European countries underrepresented in the public sector. In Denmark, there is no significant difference between immigrants and the native-born in the employment share of these sectors.

³⁹ The share of public employment in immigrants' total employment has remained broadly unchanged over the past decade. It is thus difficult to establish – based on these descriptive figures – a link between current policies aimed at promoting immigrant employment in the public sector and the relatively good representation of immigrants in this area.

was created to bring rather low-skilled immigrants with limited knowledge of Danish into the public sector. During the first year of employment, 20% of the immigrant's time is reserved for training, who accordingly receives 80% of the regular pay.

Employment in small and medium-sized enterprises

130. A further specificity of the Danish economy is the fact that it is largely dominated by small and medium-sized enterprises (SMEs). Almost all firms in Denmark are SMEs. They account for about 70% of total employment (OECD 2005d). Among these, very small firms with less than ten employees account for 92% of all firms, and 30% of total employment.

131. For a variety of reasons, one would expect it to be more difficult for immigrants to find employment in such companies. Firstly, owners of rather small companies may not have prior experiences with immigrants, particularly in a country which, like Denmark, has had relatively few immigrants until recently. Evidence from Sweden (Carlsson and Rooth 2006) indicates that selective hiring against immigrants is more pronounced in SMEs. Secondly, vacancies in such companies are often filled through informal contacts and personal networks, of which immigrants tend to have less.⁴⁰ Linked with this is some anecdotal evidence that the municipalities and employment services in Denmark tend to refer immigrants mainly to larger companies. Thirdly, informal communication and unwritten rules tend to be more important in SMEs. Evidence from Norway (Rosholm, Røed and Schøne 2006) shows that companies where informal human capital and soft skills are more important tend to employ fewer immigrants.

132. The extent to which the dominance of SMEs affects labour market integration in Denmark is unclear. In any case, available data on employment by firm size (Table 6) show that immigrants do not tend to be underrepresented in Danish SMEs.

Table 6: Distribution of the employment by firm size and immigrant status, 15-64 years old, 2003

Firm size	0-5	6-50	51-100	101-150	>150
Native-born	8%	39%	15%	7%	31%
Foreign-born	9%	34%	14%	8%	35%

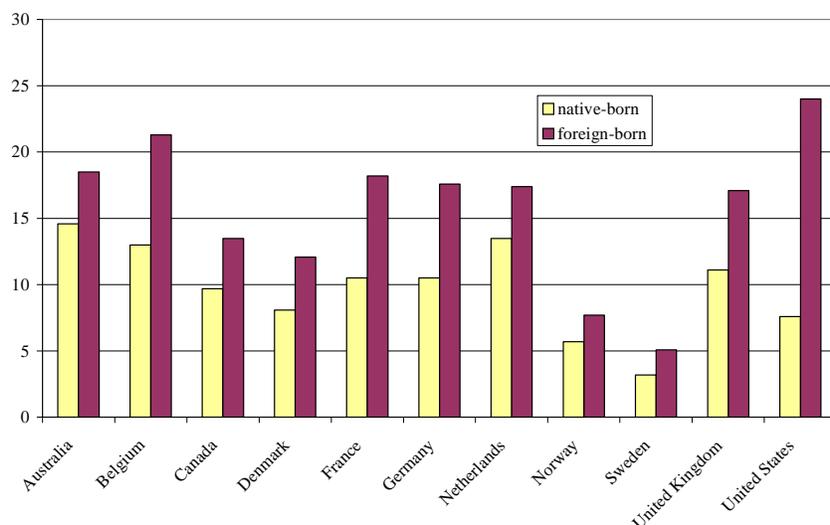
Source: Statistics Denmark.

Employment of immigrant women

133. In addition to the “flexicurity model”, the large share of the public sector and the dominance of SMEs, a high labour market participation of women is the fourth salient feature of the Danish labour market. The employment rate of women in Denmark is among the highest in the OECD. There is a large gap in the employment rates between native- and foreign-born women in Denmark. Nevertheless, employment rates of immigrant women are similar to those observed in other OECD countries. Indeed, the gender gap within the foreign-born population is, after Sweden and Norway, the smallest in the comparison group (see Figure 7).

⁴⁰ The extent to which lack of personal contact may explain the unfavourable outcomes in the Danish context is unknown. A survey among immigrants in Denmark (Skovgaard Møller and Rosdahl 2006) showed, however, that those unemployed immigrants who do have networks have a higher probability of finding employment than those who do not – but the magnitude of the effect is unknown.

Figure 7: Differences in employment rates by gender and immigrant status, 15-64 years old, selected OECD countries, 2005



Source: European Community Labour Force Survey, except for Australia (Survey of Education and Work) and Canada (Survey of Labour and Income Dynamics). Data refer to 2002 for Canada and to 2003 for the United States.

134. Husted *et al.* (2000) investigated whether immigrant women suffer from a “double disadvantage” with respect to wages in Denmark, *i.e.* whether they face lower wages both due to their immigrant status and due to their gender. They found mixed evidence for such a double-negative effect. In the specifications where evidence of a double disadvantage was found, the gender dimension dominated. All considered, there thus appears to be little evidence for a “double disadvantage” for immigrant women in Denmark – or at least, the degree of such disadvantage seems to be more limited than in other OECD countries.⁴¹

135. There are several projects targeted at fostering employment of immigrant women. Among these is a nationwide mentoring project, which is described in Box 4 below. Furthermore, at the municipal level, there are some programmes which are targeted at immigrant women. One example of such activities is “Mother and Child – Rainbow Kids” which is being organized by the municipality of Frederiksberg, a Copenhagen suburb. This brings together language education and job training projects for women combined with day care facilities and language stimulation for their children under a single roof. This makes it easier for rather isolated immigrant women with children to participate in such measures. In 2006, the Ministry of Integration has established a new grant scheme for the employment of immigrant women with funding of 12.4 million DKK.

⁴¹ For an overview of this issue in international comparison, see Dumont and Isoppo (2005).

Box 4: Mentoring programmes – a nationwide approach

Mentorship has a variety of advantages, as it helps to overcome information asymmetries and provides immigrants with access to personal networks and tacit knowledge about the functioning of the labour market. Such programmes are appealing to governments since they are relatively low cost for the budget, while at the same time involving the civic community. Therefore, mentorship programmes are increasingly popular among the integration measures of the OECD countries that have participated in this first round of reviews.

In most cases, mentorship programmes in Denmark are rather small-scale and confined to a certain municipality or region. A remarkable exception to this is the Kvininfo mentorship programme, which is run nationwide through four regional branch offices and co-ordinated by Kvininfo, an independent institution under the Ministry of Culture aimed at the dissemination of knowledge on gender issues. The project is mainly financed by the Integration Ministry, from which it has received funding of about 20 million DKK for the period 2003-2009. Further funding is provided by the municipalities involved.

The approach taken by the Kvininfo mentorship programme, which started in 2003, is to bring immigrant women, in particular refugees, together with native-born women who have experience in the labour market. In order to achieve an appropriate match, interested potential mentees and mentors are first interviewed and their name subsequently filed in a database. With the help of this database a matching between mentors and mentees is done according to the mentees' needs and wishes, with a view of contributing to the integration into the Danish labour market. The mentor is expected to share her experiences, to advise the immigrant and open her network to the respective mentee. The primary objective is to get the mentees into employment. Accordingly, among the issues discussed in the mentorship relation are the writing of job applications, information about job interview practices, and establishing contacts with potential employers and professional networks. Nevertheless, there are generally a variety of barriers to be overcome until labour market integration is achieved, and further education – assisted by the mentor's advice – is often a first step towards the more distant goal of adequate employment. The mentorship relation is originally established for a fixed period of time by means of a formalised agreement, generally lasting from six months to one year. After that, the formal mentorship period ends, although the relation often continues as an informal friendship.

There are currently about 900 mentees and a roughly equal number of mentors involved in the project, and the programme has become so popular that a waiting list for the preliminary interview had to be established. An assessment of the outcomes is currently under way. Available figures show that about 160 previously unemployed women (including some women working in jobs that did not match their education level) have gained employment through the network activities in the first three years of establishment, but it is not yet possible to analyse the programme's effectiveness on the basis of these preliminary figures.

136. Summing up the section above, one can thus conclude the following: there is only very limited evidence that the dominance of SMEs and of the public sector have had a detrimental impact on immigrants' integration, in contrast to findings from other countries. Unemployment traps arising from high net replacement rates may be a problem, but there is no evidence that they would affect immigrant's behaviour in a different way than comparable native-born. Self-employment could be used by immigrants as a way to escape marginalisation, but the rate of self-employment among immigrants is lower in Denmark than in other OECD countries. Finally, immigrant women do not seem at a disadvantage compared to immigrant men, and gender gaps in employment are only slightly higher among immigrants than among the native-born.

Analysis of integration policies

Effectiveness of the integration programme

137. As explained above, Denmark provides a relatively elaborate introduction programme, which has undergone some significant changes since 1999. The frequent and substantial changes in the introduction programme make it somewhat difficult to assess its overall effectiveness. Furthermore, some measures have been introduced only recently, and it is too early to evaluate their long-term impact. In this context, it

should also be stressed again that the municipalities have substantial discretion with respect to the implementation of the integration programme. Therefore, a benchmarking of the municipalities' integration policies has been conducted, on the basis of the variation in the average duration between municipalities until newly arriving immigrants get self-supporting or find employment (Box 5).⁴²

Box 5: The benchmarking of municipalities' success in labour market integration

Denmark has a unique and elaborate benchmarking system for measuring municipalities' success in the labour market integration of immigrants, which mirrors its strong emphasis on incentive-based labour market integration and the corresponding accountability. The system was established in 2002 in the context of the Integration Act which had transferred the responsibility for integration to the municipalities. It is a continuous monitoring of the municipalities' success with respect to the economic integration of immigrants during the first 36 months of settlement (see *e.g.* Gørtz *et al.* 2006). Only immigrants aged 16-64 from non-EU and non-Nordic countries who are family reunification or humanitarian migrants having arrived after 1 January 1999 are considered. There are two indicators used to assess performance, one with respect to the duration until new immigrants become self-supporting (or in education), and one with respect to the duration until an immigrant is in employment (or education). Only the 72 municipalities which have at least 80 recipients of introduction allowance are included in these two indicators.

The benchmarking works as follows: For both indicators, the *actual* average duration until the above-mentioned event (self-sufficiency/education or employment) occurs is being measured. This is then compared with the average *expected* duration, accounting for the immigrants' characteristics (*i.e.* gender, country-of-origin, age, marital status, number of children, duration in Denmark, migrant category, health status, qualifications) and the municipalities' structural conditions (*i.e.* local unemployment rate, structure of the immigrant stock, the share of high-skilled jobs). The indicator measures the deviation between actual and expected duration in weeks, with 0 weeks being the normalised overall average. Both indicators have two sub-indicators to account for the sustainability or self-sufficiency of employment: they measure whether the economic event lasts for at least eight or at least 26 weeks.

One objective of the benchmarking indicator is to encourage the diffusion of effective integration tools. Based on the indicator, the impact of integration measures, immigrant characteristics and economic conditions in the host communities can, in principle, be assessed.

Benchmarking is not always a straightforward exercise, and it is often difficult to pin down why there are differences between municipalities. Some of the differences can be due to very particular, local settings, which may make the transfer of experiences somewhat limited. Furthermore, after accounting for the above-mentioned characteristics, differences between municipalities often tend to be rather small. Although the difference between the best and worst performers in the benchmarking indicator for self-sufficiency is about 14 months, between most municipalities, differences are not statistically significant. This is in part due to the fact that the analyses are "right-censored" due to the recent introduction of the integration programme, *i.e.* differences in the long run cannot yet be measured. Thus, the relatively short time-span covered by the indicator does not capture the long-term impact of integration measures. Furthermore, due to data availability, the analysis lags about two years behind. Given the fact that integration policy in Denmark has undergone substantial changes in recent years, the effect of recent initiatives may thus not show up in the indicator. For these reasons, the current ranking can be expected to show a relatively high degree of volatility, but this should improve once there are more experiences with the system, and when longer term data are available. In summary, the benchmarking appears to be a tool for discussion, experience-sharing and subsequent mainstreaming in many ways. In spite of its analytical limitations, it can also serve for programme evaluation – a chronic deficit of integration measures in many countries.

⁴²

Furthermore, the Ministry of Employment has established a web-based tool to assist in the management and benchmarking of municipalities' employment efforts, including measures targeted at persons with a migration background. After March 2007, this tool will include data on the immigrant and second generation population by geographic area, including data on nationality mix; labour market attachment; average duration on public assistance; as well as on the measures provided and their respective employment effects.

138. About half of the observed actual variation in durations is picked up by the different socio-demographic characteristics of the immigrant intake and the structural conditions of the municipalities. Preliminary analysis indicates that the more successful municipalities place a higher importance on integration in general, and focus on immediate employment rather than on learning Danish. The benchmarking also indicated that municipalities with specialized case workers and follow-up on the measures taken tend to fare better. These effects, however, have not been quantified.

139. With respect to the impact of activation measures, some quantitative analysis has been conducted (e.g. Clausen *et al.* 2006). On the whole, activation measures seem to have a limited impact on labour market integration, if any. Indeed, education and workfare programmes seem to delay, rather than enhance integration – although they may have positive long-term effects which cannot be captured due to the recent introduction of the programme. The observation that such programmes tend to delay integration – at least initially – is probably due to the fact that immigrants have less time to look for a job if they are under full-time activation, a phenomenon generally known as the “lock-in effect” of programme participation.

140. The only measure which resulted in a significant improvement appeared to be private (*i.e.* enterprise-based) job training. Looking only at those municipalities which have at least 50 recent immigrants, one observes that an increase in the average number of days in private job training of 1% is associated with a reduction in the average duration from date of residence permit to starting an employment spell by about 5 days (Heinesen *et al.* 2004).⁴³

141. However, only very few immigrants profit from private job-training. There may be two principal reasons for this. Firstly, companies may not be able to evaluate the skills of such recent arrivals. Secondly, as with any training, the benefit arising from the provision of this training will generally be greater than the expected return to the company (*i.e.* there are positive externalities), in part since it is not assured that trained immigrants will not subsequently seek employment elsewhere. There thus seems to be a case for providing incentives to companies to provide this kind of training to newly-arrived immigrants. Although some subsidies are available – up to 60 DKK per hour – it appears that the current level may be too low to correct both for the externality problem and the information asymmetries linked with employing a recent arrival, particularly in the case of skilled positions. As noted earlier, a new wage subsidy scheme will be implemented as part of the June 2006 Welfare Agreement which implies an expansion of the scale and scope of wage subsidies.

Effects of active labour market policies

142. As already mentioned, the activation offers in the introduction programme mirror the general active labour market policies applying to all residents. Analysis of the effect of such policies shows that private job training and wage subsidies are very effective in bringing people into jobs, both immigrants and the native-born (Table 7). Both of these measures help to overcome employer hiring reticence and allow them to evaluate the productivity of the person in question at a lower cost. Particularly noteworthy is the result that wage subsidies to employers have a significantly stronger effect on the employment of immigrants than for the native-born. However, enterprise-based trainings have a much stronger effect for both groups.

⁴³ However, one cannot directly interpret the coefficients estimated in the benchmarking analyses as causal effects since the use of such measures may be correlated with (unobserved) characteristics of immigrants and further local labour market conditions in the municipalities.

Table 7: Effects of participation in labour market programmes on employment in the following year

	Maximum-likelihood estimate	Standard error
Place of birth		
Native-born*		
Foreign-born	-1.2652	0.00724
Programme participation		
Education	-0.2155	0.0229
Workfare programmes	0.2823	0.027
Wage subsidies	1.311	0.0908
Enterprise-based training	2.8241	0.1792
Other	-0.1772	0.0101
Level of education		
Low*		
Medium	0.6665	0.00593
High	0.9917	0.0063
Unknown	0.0675	0.0086
Interaction effects with the foreign-born		
Education	0.5564	0.0241
Workfare programmes	0.2967	0.0326
Wage subsidies	1.4555	0.1533
Enterprise-based training	(-0.0643)	0.2799
Other	0.2732	0.00935

Note: The regression is based on pooled programme data for the period 2000-2003. The coefficients show the impact of the programme participation in $t-1$ on employment in t , taking the non-employed in $t-2$ as the base. The regression also includes control variables for age, gender, being on social benefits, marital status and duration of residence. Reference categories are marked with an *. Coefficients which are not significant at the 5%-level are shown in parentheses.

Language training and the importance of Danish-language knowledge

143. Speaking the host country's language is an important factor for successful integration, not only with respect to the labour market, but also for social integration. There are some indications that speaking the host country language has a stronger impact in Denmark than elsewhere. Constant and Schultz-Nielsen (2004) show that the impact of Danish fluency increases the chances of being employed by a factor of about 3 to 4, substantially higher than the corresponding figure which they obtain for Germany (*i.e.* 2 to 2.5).

144. It appears that often too much mastery of the Danish language is demanded by employers, but it is difficult to ascertain to which degree this is actually the case. Assessments of language training needs certainly appear to have resulted in high training recommendations relative to other countries (see below).

145. Given the importance of speaking the host country language for integration, as in most other OECD countries, and despite the strong focus on employment integration activities, language training remains the most important expenditure on integration in Denmark. Immigrants are generally entitled to three years of free language training. The number of hours is based on the individual's needs. The Danish courses are established on the norm of approximately 2 000 hours of training, although the actual number of hours depends on the course level (see Annex 3 and above; the average number is lower for Danish 3

than for Danish 1) and the individual's needs. In any case, this training seems far more extensive than in other countries. The estimated cost of language training is 73 DKK per student hour for 2006, which results in a projected investment in language training per immigrant of almost 20 000 Euros at current exchange rates.

146. This has to be seen in the context of evidence from Sweden (OECD 2004), which suggests that after about 500 hours of language training, there may be no additional impact on the employment prospects of immigrants. Similarly, empirical analysis in Denmark indicates that an immigrant's chances of becoming self-sufficient are greatly reduced while participating in a language course (Clausen *et al.*, 2006). Again, there is some evidence of potential lock-in effects.

147. Clausen and Husted (2005) show that, although improved language skills through language training increase the chances of becoming self-sufficient, this programme effect does not seem to outweigh the lock-in effect during the introduction period. A similar picture is observed with respect to employment (which is highly correlated with self-sufficiency), as Danish-language training does not seem to improve the chances of employment within the introduction period of three years. Under their simulations, only over the longer term – after about ten years – are Danish language courses estimated to have an important and statistically significant effect on employment. Their study also demonstrated that the rate of progression in the language courses is significantly faster for employed participants and for participants in evening classes in general – even after controlling for other socio-economic characteristics. This indicates that language advancement is strongly linked with employment.

148. In sum, there are thus several indications that language training in Denmark may be provided above the efficient level, particularly for migrants in the upper tier (Danish 3). In the context of language training, it should also be noted that within the first seven years of residence, one may lose the residence permit if the reason for residence ceases. Along with the stringent family reunification requirements and the public debate on the welfare costs of immigration, this may be viewed by immigrants as a message from the Danish public that they are not intended to stay permanently. Under such circumstances, the incentives to invest in country-specific human capital may be limited. Although these issues are in no way exclusive to Denmark (see *e.g.* the companion report on Germany, OECD 2005b), they may have a stronger effect since the Danish language is of limited use outside of Denmark. Messages that increase uncertainty about the ability to stay in Denmark may thus have a stronger impact on the incentives to learn the Danish language than in countries where the language is of broader international use.

Impact of dispersal policies

149. It is natural for people from the same country living in a foreign country to congregate, and this generally occurs in large centres. However, such a concentration may have undesirable effects. Firstly, it could create a social and fiscal burden in host regions which needs to be spread more equally across the country. Secondly, living in such enclaves may retard the integration process – particularly with respect to acquisition of the host-country language – because of a tendency to socialise with persons of one's own communities. Immigrants may thus have less contact with the native population as a result. Thirdly, these centres may not necessarily be places where labour demand – and therefore employment possibilities for immigrants – is buoyant. When there is no adequate transportation to employment areas, or when these are distant, this could hamper labour market integration. Based on these arguments, policies to disperse or to encourage immigrants to disperse throughout the country have been introduced in a number of OECD countries.

150. In Denmark, a dispersal policy has operated since 1986 – following the rapid increases in refugee numbers in the years prior to that date. During the first dispersal period from 1986 to 1999, immigrants were first distributed among the 13 Danish counties. At the county level, refugees were subsequently

distributed across municipalities, taking available housing, educational facilities and other factors such as employment opportunities into account. During this first dispersal period, the only sanction for not observing the assigned location was that immigrants were not provided housing. In particular, access to welfare benefits was not affected by whether or not the immigrant would reside in the assigned location. Nevertheless, about 90% of all refugees migrated to their assigned location initially (Damm and Rosholm 2005).

151. In an analysis of the first Danish dispersal policy, Damm and Rosholm (2005) find that refugees assigned to areas with lower immigrant concentration had a shorter transition period into the labour market than refugees assigned to immigrant-dense cities. This is an argument in favour of achieving a more equal distribution of refugees across the country. However, refugees assigned to less immigrant-dense locations were also more likely to re-locate, and such relocation tended to shorten the duration until finding employment, even though the relocation municipalities had less favourable labour market conditions on average. One possible explanation for this is the presence of ethnic networks in certain locations, which may support labour market integration. Using a simulation model, Damm and Rosholm (2005) find that a removal of the dispersal policy might have quickened labour market integration, because relocation delayed the onset of job search.

152. The 1999 Integration Act reinforced the dispersal policy with the aim of spreading out the task of integration to all municipalities, and to avoid large concentrations of immigrants. Since 1999, dispersal is enforced by restricting benefit access to those immigrants who locate in the municipality to which they have been assigned. Generally, refugees may lose access to the introduction programme (and, thereby, to the introduction assistance) if they move to another municipality within the three-year introduction period unless this move is for the purposes of taking up employment.

153. An assessment of the impact of the post-1999 dispersal policy (Blume and Pohl Nielsen 2006) showed that the new policy had the effect of spreading the refugees more evenly across the country, and secondary migration was more limited than under the previous rules. Even after the introduction period (*i.e.* when no more sanctions apply for changes in residence), immigrants had a higher probability of staying in their assigned municipality than under the pre-1998 policy. Moves were often linked with employment, although into relatively instable jobs. An interesting observation was the finding that immigrants who moved during the introduction period tended to have a higher employment rate in subsequent years than those who moved thereafter. The authors associate this with positive self-selection among the early movers, although long-term effects of early labour market access could be a further explanation due to the observed strong links between changes in locality and employment.

154. In summary, the evidence on the impact of dispersal on employment shows that an equal geographic distribution should not be the sole objective and that there are other factors to consider, particularly with respect to secondary re-locations which seem to contribute to better integration into the labour market and to avoiding dispersal to high unemployment areas which tend to complicate labour market access by immigrants. This is currently at least partly accounted for, as the refugee's own wishes, as well as his/her educational needs and employment chances, are considered in the authorities' placement decisions.

Integration of the "second generation"

155. There are many reasons why one cannot necessarily expect, at least in the early years of settlement, outcomes for the foreign-born that match those of the native-born with the same socio-economic characteristics. Among these are problems of the recognition of foreign qualifications and work experience; difficulties associated with living in a new country; language problems; *etc.* These impediments should, at least in principle, not play a role for the native-born children of foreign-born

parents. For this group, one would expect outcomes that are similar to those of their native-born peers without a migration background who have a comparable socio-economic background. For these reasons, the outcomes of the second generation can be viewed as a “benchmark” for the long-term success of integration policy.

156. Despite the small size of the second generation, the integration of the second generation has been the object of considerable attention in Denmark, both in the literature (see Box 6) and with respect to integration policy, since the offspring of immigrants are now gradually entering the labour market in larger numbers. There seems to be a view that the current favourable economic situation provides a window of opportunity to invest in the integration of the offspring of immigrants.

Box 6: Data and research on the integration of immigrants in Denmark

In Denmark as elsewhere, the integration of immigrants has been the object of a large amount of literature. Considering the small scale of the immigrant population – both in absolute and relative numbers – the research with respect to integration in Denmark is large in its scale and scope compared to the other OECD countries. This observation holds both for immigrants and their offspring.

One reason for this is that available data in Denmark (as in the other Nordic countries) permit a wide range of studies with respect to integration and intergenerational transmission, but also regarding programme evaluation. In 1968, social security numbers were introduced in Denmark, and a Central Population Register (CPR) was established on the basis of such numbers (for a description, see *e.g.* Petersen 2000). The CPR numbers are used as personal identification numbers, and a wide range of individual-level information is submitted to Statistics Denmark in different registers. These registers contain information on the entire Danish population, as all residents in Denmark are assigned such a number. Through this number, different register data sets can be linked, including *inter alia* data on immigration, education, employment, and programme participation (*e.g.* with respect to language courses or activation measures). This makes it possible, for example, to follow the integration process of immigrants over time. Since knowledge of the register number of a person’s parents is also available, the integration of the second generation can be well studied. The overwhelming majority of research on integration in Denmark uses CPR data.

There are, however, two important caveats with respect to the use of the register data in integration analysis. The first relates to the foreign qualifications of immigrants, which are recorded only since 1999. For those immigrants who arrived before that date, a survey was conducted to identify their educational background. However, only immigrants who did not subsequently obtain further education in Denmark were covered and the response rate was only about 50%. In addition, the data are based on the person’s own judgement, not on the formally recognised education. The second relates to the fact that the employment data are based on formally registered employment and are thus not necessarily appropriate for international comparisons. For these reasons, sample sizes permitting, the harmonised data from the European Labour Force Survey (LFS) are generally used in this report in the comparative tables, except in those with respect to the second generation, since the LFS does not provide information on this population.

Educational attainment

157. The Danish school system consists of nine years of compulsory, comprehensive schooling. These nine years can be followed by an optional 10th grade. After these nine or ten years, two principle upper secondary pathways are available, an academic and a vocational one. Currently, about 80% of a youth cohort in Denmark completes at least upper secondary education – one of the highest percentages in the OECD.⁴⁴ However, in the framework of its globalization strategy, the government has stated the objective of raising this share to 85% by 2010. Given the growing numbers of the second generation in the relevant cohorts, realisation of this objective partly hinges on a higher participation of the second generation in

⁴⁴ Among OECD countries, Denmark also stands out as having the lowest percentage of 15-19 year olds who are neither in school nor in employment (OECD 2005d).

upper secondary education and indeed, this group is the main focus of the efforts to enhance educational attainment.

158. As Table 8 shows, the gap in educational attainment between the second generation and persons of Danish origin has grown substantially over the past decade. Whereas the educational attainment of young people without a migration background has improved markedly as well, education levels of more recent second-generation cohorts have a lower average attainment than previous ones – that is, there is a divergent trend, similar to what has been observed in Germany (OECD 2005). This divergent trend is attributable to a change in the country-of-origin composition of the parents, since a larger part of the earlier second-generation cohorts had parents from other Nordic countries who tend to have a higher educational attainment.

Table 8: Distribution (in percentage points) of persons of Danish origin and the second generation by educational attainment levels, aged 25-29 years

	2005		2000		1995	
	Danish origin	Second generation	Danish origin	Second generation	Danish origin	Second generation
Basic schooling	19	38	22	34	25	27
General upper secondary	12	14	12	19	11	21
Vocational education and training (incl. vocational upper secondary)	40	28	43	29	46	30
Higher education	29	20	23	19	19	22

Source: Statistics Denmark

159. This observation also holds in international comparison. In no other OECD country shown in Table 9 are the differences in average educational attainment between native-born with and without migration background larger than in Denmark. The differences are particularly pronounced among men, and among the second generation whose parents migrated from Turkey. In contrast, the second generation from other OECD countries has an average educational attainment level that is broadly comparable to that of persons of Danish origin.

160. Data on mathematics and reading literacy scores among 15-year olds in 2003 from the OECD Pisa Study (Table 10) show that the second generation in Denmark is also disadvantaged with respect to educational outcomes. For example, only in two other countries (Germany and Belgium) is the gap in the mathematics scores higher than in Denmark. A substantial disadvantage remains even after controlling for the generally less favourable socio-economic background of the second generation. Nevertheless, with respect to reading, which is more critical for integration, the results are better than for mathematics. Furthermore, the language spoken at home has a smaller influence on the PISA scores for Danish youngsters than in most other countries (see OECD 2006a).

Table 9: Overrepresentation (in percentage points) of the second generation among those with less than upper secondary education, 20-29 years and not in education, by gender, around 2000

	Men	Women
Denmark	30	20
- both parents from Turkey	42	45
- both parents from other OECD countries	6	4
- both parents from non-OECD countries	29	17
Norway	7	4
Sweden	10	7
Germany	18	18
France	8	8
United Kingdom	2	-1
United States	3	8
Switzerland	7	6
Australia	-3	-6

Source: Switzerland: Census (2000); Denmark, Norway and Sweden: Population register (2004); Germany: Microcensus (2005); Australia: Census (2001); France: Étude de l'histoire familiale (1999); USA: Current Population Survey March 2005 supplement; United Kingdom: Labour Force Survey (third quarter 2005).

Notes: Second generation is defined as native-born children of two foreign-born parents, except – due to data limitations – for the United Kingdom (native-born with other than white-British background), Switzerland (native-born with foreign nationality at birth) and Australia (native-born with at least one parent foreign-born). Qualification levels for Australia were classified as follows: Low: No (professional) qualifications; Medium: Certificate; High: Diploma and above.

Table 10: Points differences in the PISA (2003) scores of natives and the second generation, children aged 15 years

	Before accounting for the effects of socio-economic background of students		After accounting for the effects of socio-economic background of students	
	Mathematics	reading	mathematics	reading
Australia	(5)	(4)	(-4)	(5)
Canada	(-6)	10	-8	12
United States	22	22	(-1)	(1)
New Zealand	32	22	16	(5)
Sweden	34	20	15	(0)
France	48	48	14	(12)
Austria	56	73	26	31
Netherlands	59	50	26	22
Switzerland	59	53	36	32
Denmark	70	57	36	(26)
Belgium	92	84	47	40
Germany	93	96	45	48

Note: Numbers in parentheses indicate that the difference is not statistically significant. The index of socio-economic background was created on the basis of the following variables: the International Socio-Economic Index of Occupational Status (ISEI), the highest level of education of the student's parents (converted into years of schooling), the index of family wealth, the index of home educational resources and the index of possessions related to "classical culture" in the family home. For each test, the mean score across all OECD countries was set at 500 points, with a standard deviation of 100 points (see OECD 2004 for details).

Source: Secretariat calculations based on the OECD PISA database.

161. In addition, the second generation in Denmark does not fare significantly better than the young immigrants with respect to the educational outcomes in the OECD (2006a) PISA assessment. This picture is quite different from, for example, Sweden, where second-generation students do significantly better than immigrant students from the first generation. It should be noted, however, that some of the performance differences may be associated with a change in the composition of the parental migrant generations.

162. It is noteworthy that differences are smaller for reading than for mathematics. One reason for this may be the fact that childcare is provided at relatively early ages. Evidence from France (Caille 2001) suggests a strong influence of kindergarten attendance at the age of 2 on elementary school success. Data from the OECD Education Database show that Denmark is among the OECD countries which have a high share of a youth cohort in education at very young ages. One would expect that this time spent in public institutions at a critical age for language development would not only limit the influence of the language spoken at home, but also lower the initial gap in educational outcomes. Until recently, however, there was a large gap in the participation in daycare institutions between the second generation and Danes without a migration background (Table 11).

163. However, it is also the case that this gap has closed substantially over a relatively short period. Participation of the second generation in day-care or kindergarten below the age of five has increased by more than 50% between 1995 and 2003. For those up to the age of 2 – *i.e.* at the age at which the impact on later school success seems most pronounced – attendance has even more than doubled. Further disaggregation of the data shows that the children of immigrants from non-EU countries have even higher participation rates than those with a background from EU countries. This trend could well lead to a sharp fall in the gap in educational performance between the children of immigrants and the children of the native-born in the future.

Table 11: Percentage of children in day care or kindergarten by age and migration background

	1995		2000		2003 ¹	
	Ethnic Danes	Second generation	Ethnic Danes	Second generation	Ethnic Danes	Second generation
0-2 years	50%	19%	57%	33%	65%	43%
3-5 years	84%	56%	90%	84%	95%	85%

Source: Statistics Denmark.

Note: 2003 data are from a different source and may therefore not be fully comparable.

164. There has been a recent regional follow-up on the PISA study in Copenhagen, where all 9th grade students from Copenhagen public schools, as well as 9th grade students from a range of private schools in the area (about 2 400 students in total, of which 18% were second generation) were surveyed in order to provide a more in-depth picture at the local level. This was done with a view to identifying school and peer effects. The data showed a relatively large degree of ethnic segregation in Copenhagen schools, with the average student with a migration background attending a school with 55% of non-natives.

165. Empirical evidence suggests that such segregation has a negative impact on educational attainment (*e.g.* Guryan 2004). In Denmark, an analysis with respect to the performance of the second generation using the PISA Copenhagen data (Rangvid 2005) shows that school and peer characteristics (*i.e.* the percentage of pupils with a migration background and the average educational attainment of the parents) account for 15% of the gap in the PISA scores between students with a migration background and

those without.⁴⁵ While the impact of segregation is thus not negligible, the bulk of the gap remains nevertheless unexplained by this.

166. The empirical results on the educational outcomes reported above also seem to hold with respect to education *levels*. Nielsen *et al.* (2002) show that the second generation in Denmark has an about 20% lower chance of completing a qualifying education than Danes without a migration background. Interestingly, even after controlling for socio-economic background variables such as parental education, a gap (a lower probability of about 15%) remains. This stands in contrast to results obtained for some other countries, *e.g.* for Switzerland (Office fédérale de la statistique 2005), the Netherlands (Van Ours and Veenman 2003), and France (with respect to enrolment, Caille 2005), where the second generation performed at least as well as other native-born after controlling for background variables. Results similar to those in Denmark, however, were obtained for Germany (Riphahn 2003), although the impact of parental education appears to be somewhat weaker in Denmark.

167. Colding (2005) shows that children of immigrants enter upper secondary education at almost the same rate as persons of Danish origin. Indeed, the probability of entering academic upper secondary education would be even higher than that of Danes without an immigrant background if these two groups had the same background characteristics. The lower attainment level is, therefore, mainly attributable to higher dropout rates among children of immigrants (see below). She calculates that about twice as many students from the second generation drop out of upper secondary education as do students of Danish origin. This is particularly pronounced for vocational education and among second-generation men (see below). In her econometric analysis, family background characteristics explain a large part of differences in dropout rates for academic upper secondary education, but not vocational education. However, even in the case of academic education, differences remain after controlling for family characteristics, particularly for those with a Turkish background – which account for about one third of the second generation aged between 15 and 25.

168. This suggests that other factors such as difficulties in obtaining apprenticeship places may play a role. A further explanation is differences in unobservable personal characteristics, for example a higher likelihood of second generation persons making erroneous educational choices, or other behavioral differences such as lack of motivation. This latter factor could in turn be a result of perceived lower returns to education.

Participation in vocational education and training

169. Traditionally, vocational training and education has been the dominant transition regime between school and work in Denmark. Although its importance has declined in recent years, more than half of students in upper secondary education follow the vocational track. The children of immigrants are underrepresented in vocational training – they are more likely to chose an academic track if they pursue an upper secondary education.

170. Vocational education and training in Denmark is based on the dual system of apprenticeship, in which periods in school alternate with periods of training in an enterprise (see Danish Ministry of Education 2004 for details). Only in Switzerland is a larger share of the students in upper secondary education in the apprenticeship system.

171. The Danish apprenticeship system generally starts with a flexible basic school-based course which lasts about 20 weeks. Students may enter this course without restrictions after completion of basic

⁴⁵ Due to the high collinearity between the ethnic and social peer effects, the two were not separated in the study.

schooling. In particular, they do not need an apprenticeship contract at this initial stage. However, in order to start the main part of the programme, a contract with a company is needed. Children of immigrants seem to face particular difficulties in getting such contracts. There is generally a two-week internship as part of the basic course which should allow potential employers to test the students, but schools report difficulties in getting such initial short-term placements for the second generation. As a result, dropout rates from vocational training are high, particularly for second-generation males. Colding (2005) calculates a dropout rate of the latter from vocational education of almost 66% – compared to less than 30% for persons of Danish origin. Part of the higher drop-out rates may be explained by differences in the outcomes of primary and lower secondary education, as the gaps in the PISA score reported above indicate. Unlike the differences in educational outcomes observed in PISA, however, the higher dropout rates out of vocational training do not seem to be mainly attributable to differences in parental capital.⁴⁶ Jakobsen and Rosholm (2003) have reported a similar finding with respect to young immigrants.

172. The system has undergone a variety of changes in recent years to enhance its attractiveness, and with a view to reducing dropout rates and improving access to apprenticeship places, both for persons of Danish origin and young people with a migration background. These measures include the establishment of more practical routes through short programmes and partial qualifications. In addition, in August 2006, a practical pathway has been introduced where the entire basic course is to be completed by means of in-company training. Furthermore, subsidies are available to companies which provide additional apprenticeship places. In 2005, a special pre-apprenticeship training (*Forpraktik*) was introduced which allows companies to test potential apprentices for up to six months. Up to now, few immigrants have participated. Finally, in 2005, special apprenticeship placement search subsidies were introduced for vocational schools which have a large share of students with a migration background.

173. There is a widespread notion that young people with a migration background are not attracted by the trades. Indeed, children of immigrants tend to prefer academic upper secondary education instead of vocational training, of which the trades account for the bulk (see Colding 2005). In the framework of its national action plan “We Need All Youngsters” (Box 7), the Ministry of Integration has launched a campaign *inter alia* targeted at attracting more immigrants into the trades.

174. The measures thus tend to target the skills deficiencies and pathway choices of immigrants, although lack of access to networks and selective hiring by employers may also be part of the explanation for the high dropout rates. Although an internet-based portal for training places and the introduction of mentorships are also among the measures taken, improvement of the access of the second generation to training places appears to be somewhat less in the focus of the package. Although not specifically targeted at immigrants, a bonus scheme has been introduced to support employers who provide additional apprenticeships. This scheme is financed by an employer fund.

175. There is a possibility for students who did not get a training contract to get in-school vocational training, and immigrants tend to be overrepresented in these school-based pathways. This provision, however, has been substantially restricted in recent years to avoid stigmatization and overcrowding in certain professions.

⁴⁶ It would be of interest to study to which degree differences in school grades account for the higher dropout rates. Such a longitudinal analysis is not yet possible, as registering of school grades has only started recently.

Box 7: The national action programme “We Need All Youngsters”

The Campaign *We Need All Youngsters* was launched in 2003 by the Ministry of Refugee, Immigration and Integration Affairs with the aim of fostering equal opportunities in the education system and in the labour market (see Ministry for Refugees, Immigration and Integration 2006). The main objective of this large-scale, nation-wide campaign is to improve the integration of young immigrants and the second generation into the labour market by promoting their educational attainment, in particular with respect to vocational education. In order to ensure a lasting integration, a second objective is to encourage them to pursue training in areas where future shortages are perceived and where young people with a migrant background are underrepresented. Eight consultants are in charge of the campaign, which is scheduled for a period until 2008 at a budget cost of 17 million DKK in 2006. Since 2006, the campaign is partly co-funded by the European Social Fund.

Among the initiatives taken by the campaign is the creation of a team of young role models with a migration background. These role models have been successful in the education system and the labour market. They travel around the country to discuss with other young people with a migrant background about their experiences and give advice on how to choose and successfully complete educational programmes. 320 visits around the country have been conducted thus far. In the same spirit, a team of so-called “parent role models” was set up to share experiences among parents. There are also activities concerning homework support, which are carried out with the help of about 1,000 volunteers.

Another initiative in this framework was a recruitment campaign for training courses in the social and health care services, two areas where there are shortages which are expected to increase in the future. This initiative targeted first and second-generation migrants in the age group 16 to 20 years to promote enrolment in social and health-care-oriented programmes. A similar campaign was conducted with the aim of recruiting youngsters for the police, armed forces, emergency and security services. Furthermore, several education fairs have been conducted under the initiative. There are also supplementary courses for teachers on how to deal with diversity in the classroom.

A particular obstacle with respect to vocational education is the lack of training places. In the framework of the campaign, more than 100 additional training placements for this group have been raised by the consultants in 100 days. Furthermore, a guide book on how to write applications for apprenticeship places has been created. Information material for both the children and their migrant parents was made available in seven languages. In addition, special facilities (so-called “jobseeker cafés”) have been created where immigrants can obtain support and counselling when applying for apprenticeships.

We Need All Youngsters is currently recruiting a mentor team of retired craftsmen from branches that have not been attractive for first and second-generation migrants. The team will advise and support this group of students during the vocational programme. The campaign is also planning education and company fairs to enhance the interest of young people with a migration background for vocational education and training programmes in occupational areas where there is shortage of labour.

Integration into the labour market

176. A first glance at the record shows that in most OECD countries, the second generation tends to have less favourable employment outcomes than the children of native-born parents (Table 12). However, the second generation in Denmark is particularly disadvantaged, and the gaps in the employment rates *vis-à-vis* their native-born peers without a migration background are larger than elsewhere. Interestingly, the gaps in the employment rates are broadly the same across the main country-of-origin groups – despite the large differences in educational attainment between these groups reported above. It is also noteworthy that the employment rates of the second generation whose parents came from OECD countries are well below those of persons of Danish origin – despite the fact that they have similar average education levels.

Table 12: Percentage point differences between the employment-population ratios of native-born with and without native-born parents, 20-29 years and not in education, by gender

	Men	Women
Denmark	17	17
<i>- both parents from Turkey</i>	<i>16</i>	<i>15</i>
<i>- both parents from other OECD countries</i>	<i>16</i>	<i>14</i>
<i>- both parents from non-OECD countries</i>	<i>18</i>	<i>19</i>
Norway	13	16
Sweden	15	12
Germany	11	12
France	13	9
United Kingdom	12	9
United States	2	3
Switzerland	2	1
Australia	1	-2

Source and Note: See Table 6.

177. The high employment-rate gaps compared to persons of Danish origin are linked in part with the lower educational attainment levels of the second generation reported above. However, even after controlling for educational attainment, sizeable differences in the employment rates compared to (other) native-born Danes remain (Table 13). These are particularly high at the upper end of the qualification spectrum. These employment gaps also remain after controlling for other socio-demographic characteristics, such as age and marital status (Annex 5).

Table 13: Percentage point differences between the employment-population ratios of native-born with and without native-born parents, 20-29 years and not in education, by educational attainment and gender

	Low (below upper secondary)		Medium (upper secondary)		High (Tertiary)	
	Men	Women	Men	Women	Men	Women
Australia	-1	-6	1	-1	2	0
Denmark	5	2	11	14	13	13
<i>- both parents from Turkey</i>	<i>3</i>	<i>-4</i>	<i>8</i>	<i>11</i>	<i>...</i>	<i>...</i>
<i>- both parents from other OECD countries</i>	<i>(13)</i>	<i>...</i>	<i>14</i>	<i>8</i>	<i>(10)</i>	<i>(8)</i>
<i>- both parents from non-OECD countries</i>	<i>6</i>	<i>6</i>	<i>18</i>	<i>11</i>	<i>15</i>	<i>13</i>
France	12	4	14	5	3	5
Germany	5	-1	5	4	12	12
Norway	7	3	9	9	15	16
Switzerland	-2	-3	1	-1	2	2
United States	-5	-2	1	-3	8	9
United Kingdom	8	...	18	15	7	8

Source and Note: See Table 6. Parentheses indicate that the groups in question are small.

178. However, this does not necessarily mean that education has a weaker impact on the labour market integration of the second generation than for persons of Danish origin. Indeed, the empirical evidence on this is mixed. Annex 5 shows that the impact of having upper secondary or tertiary education on the employment probability is smaller for the second generation than for persons of Danish origin. Likewise, with respect to wages, Nielsen *et al.* (2003) find lower returns to education for the second generation.⁴⁷

Discrimination

179. Without a common measure of human capital, it is difficult to assess the incidence of discrimination in the labour market. Even for persons with equal socio-demographic characteristics, remaining differences in the employment probabilities may be due to unobservable characteristics such as access to networks or tacit knowledge about the functioning of the labour market. Discrimination remains as a third possibility and can take two forms. The first is statistical discrimination, which occurs in the presence of information asymmetries, *i.e.* when the employer judges an applicant not on the basis of his/her individual skills, but rather on preconceptions about the average skills of the group to which the person belongs. Outright and conscious discrimination on the basis of race, *etc.* – the second form – is generally less common.

180. The ILO has conducted a series of discrimination studies on the basis of random applications to job offers by natives and immigrants with similar characteristics, and Denmark was among the countries under study. The Danish study (Hjarnø and Jensen, 1997) found a discrimination rate of about 34% in Denmark for young people with a Turkish and Pakistani origin, similar to the rates observed in the other countries under study.⁴⁸

181. In contrast to the other countries under ILO review, discrimination was somewhat less pronounced with respect to the first initial contact than in the other countries (see Simeone 2005).⁴⁹ In this context, it should be noted that in 1996 – *i. e.* just at the time of the ILO testing – Denmark introduced a law against discrimination in the labour market. This seems to indicate that the anti-discrimination law may have raised awareness of outright discrimination, which is particularly apparent in the first contact stage (*i.e.* a telephone call to make an informal inquiry). Denmark has also operated a special hotline to denounce discriminatory practices and to advise immigrants who felt discriminated against, but funding for this hotline ceased in 2001.

182. Using a procedure applied in Carlsson and Rooth (2006) for Sweden to the data from the Hjarnø and Jensen (1997) study, one finds that discrimination may account for up to two thirds of the difference in unemployment rates between native Danes and the second generation of Turkish and Pakistani origin (which are 5 and 15%, respectively). This procedure is, however, an estimate which rests on a number of assumptions (same job acceptance rate, no discrimination in firing, same search intensity). While discrimination may thus explain a substantial part of the differences in unemployment rates for the children of immigrants, it does not explain the large gaps in participation for the second generation compared to native Danes.

⁴⁷ On the other hand, the authors also find the impact of years of education on the reduction of the waiting time until entering the first job to be almost twice as large for the second generation as for Danes without a migration background. The impact on the duration of the first employment spell was even stronger. However, these are second-order effects compared to the overall impact on employment.

⁴⁸ A net discrimination rate of 34% means that in about one third of application procedures (encompassing initial contact, invitation to an interview and job offer) migrants/minorities were discriminated against.

⁴⁹ Due to a somewhat higher discrimination at the second stage – *i.e.* the invitation to a job interview – differences over the entire job-search process were only on the margin of significance.

183. There is some anecdotal evidence on discrimination by job counselors in the vocational training schools, but the degree to which the much lower probability of apprenticeship placements for the second generation may be attributable to discrimination is difficult to assess.

184. Based on Danish register data, Nielsen *et al.* (2004) show that the wage returns to Danish education tend to be negative rather than positive for immigrant women, which may be an indication of potential discrimination. However, their analysis uses only data on education obtained in Denmark, which may bias the results. This deficiency is partly overcome in Blume (2003), who also finds significantly lower returns to foreign qualifications. Nevertheless, as already mentioned, it is difficult to ascertain to which degree foreign qualifications are equivalent to Danish ones. A better indication for wage discrimination can be given by comparing the returns to education for the second generation to those of persons of Danish origin. Nielsen *et al.* (2003) estimate that the wage return to an additional year of schooling is about 9% for persons of Danish origin, for both men and women. For the native-born offspring of immigrants, the returns are only 5% for men and insignificant for women. While this is a *prima facie* indication of potential wage discrimination, it may also be attributable to differences in the quality and type of education.

185. Thus far, there are three main sets of measures in place to combat discrimination (see Ministry of Refugee, Immigration and Integration Affairs 2003 for an overview). The first is anti-discrimination legislation, and a proposal to strengthen it by awarding compensation for non-pecuniary damages is about to be forwarded to parliament. The second strand is monitoring of discrimination. For example, there is a Documentation and Advisory Centre on Race Discrimination which regularly reports on the issue. Finally, several information campaigns against discrimination in the labour market have been initiated, both by the Ministry of Integration and by the Ministry of Employment. This also includes the recent establishment of a diversity programme aimed at sharing best practice experiences in diversity management between companies.

Summary and recommendations

Denmark has relatively unfavourable labour market outcomes for all groups of immigrants...

The labour market integration of immigrants in Denmark is not favourable. In no other OECD country are the differences between the employment rates of native-born and immigrants as large as in Denmark, and unemployment is more than twice as high among immigrants as among the native-born. The gaps in employment rates *vis-à-vis* the native-born are particularly high for immigrants from non-OECD countries, which account for about half of the overall immigrant stock. However, gaps in employment rates are also high for immigrants from OECD countries and their offspring. This has to be seen in light of overall high employment rates in Denmark, particularly for women. Yet, even immigrants' employment rates themselves are below those observed in other countries.

...which are partly attributable to the recent nature of the immigrant intake and the dominance of humanitarian migrants in the immigrant stock.

These disappointing outcomes have to be seen in the context of a doubling of the immigrant population over the past twenty years, with particularly high immigration in the second half of the 1990s. Among the EU-15, only the Southern European countries and Ireland experienced a larger increase in the immigrant stock in the past ten years. But the stock of foreign-born in the Danish population is still relatively low in international comparison: about 7% of the working-age population compared with an EU average of about 12%. In addition, the composition of migration to Denmark has been dominated by humanitarian migrants. Such migrants tend to have relatively poor labour market outcomes in most countries, particularly in the early years of settlement. Indeed, entry-category effects far outweigh the employment impact of any other socio-economic characteristic. However, other factors are at work too since labour market outcomes are also not favourable for the foreign-born from OECD countries.

Labour market outcomes for immigrants have never been good.

The observed high gaps in employment rates for *all* immigrant groups are not a new phenomenon. For more than two decades, gaps *vis-à-vis* the native-born have been well above 10%, for both genders. This stands in contrast to a number of other European countries, where outcomes of immigrants were similar to those of the native-born until the early 1990s. This may be partly attributable to the fact that Denmark had less "guestworker" migration than other countries.

Integration is a hot political topic, and the government has responded by tightening entry controls, restricting access of new arrivals to social assistance and enhancing integration policies.

Against the background of persistently unfavourable outcomes and a growing immigrant population, integration of immigrants has taken an increasingly prominent place in the public debate. As a result, improving the integration of immigrants, and labour market integration in particular, has become a prime objective of the Danish government. It has tackled the issue by enhancing its efforts to improve the labour market integration of already resident immigrants and their offspring by a comprehensive set of integration measures, some of which are quite resource-intensive and developed. Although data are not fully comparable, it appears that Denmark invests significantly more into integration than other countries, particularly with respect to language training and targeted labour market measures. At the same time, Denmark is trying to shift the mix of immigrants by facilitating labour-market oriented immigration and restricting entry policies for other categories of immigrants, particularly for family reunification, and by introducing selection criteria for its

annual intake of quota refugees – whose current employment probability is particularly unfavourable. For recent arrivals, lower social assistance applies for seven years, and participation in a three-year introduction programme is obligatory for those migrants receiving social benefits after arrival.

This has led to some ambiguity in the integration discourse.

This mix of restrictive entry policies and obligatory measures on the one hand and elaborate, non-obligatory offers on the other sends an ambiguous message to resident and potential immigrants. Much is being done to integrate them, and integration is doubtlessly in their own interest, but the nature of some of the policies in place reflects the view that immigrants may not be willing to integrate into the Danish economy and society.

The introduction programme is strongly focused on early employment...

The three-year introduction programme consists of extensive, modular and multi-tiered language training and tailored labour market integration offers. Particularly noteworthy in this respect is the strong focus on labour market integration, based on the view that employment is the single most important factor contributing to successful integration. Municipalities are in charge of implementing the introduction programme, and they enjoy substantial discretion in doing so. There is a highly developed scheme of financial incentives for municipalities to foster rapid labour market integration of new arrivals.

...which seems to have improved integration of recent arrivals, although the associated cuts in welfare benefits entail poverty risks.

The strong focus on employment in the integration efforts, particularly for recent arrivals, seems to have increased the employment probability of immigrants, in particular among recent immigrants from non-OECD countries. As early labour market entry has a strong impact on future employment probability, this can be anticipated to contribute positively to future integration, although it is too early yet to evaluate the long-term effect of the measures taken. However, along with the increase in employment, a growing share of recent immigrants is unemployed. Indeed, the emphasis on early employment has the risk of neglecting those groups which face particular difficulties in labour market integration, and where employment might be expected to be a more distant objective. The increase in unemployment may well reflect the increase in participation and thus the success of activation schemes but may also point to persistent difficulties in finding employment, which benefit cuts will not resolve.

Convergence in employment rates is pronounced during the first four years, but seems to taper off after eight years.

There is relatively quick convergence in employment during the first few years after arrival in Denmark, but this generally tapers off after 8-10 years, leading to less-than-full convergence over the medium-term. The recent policies for new arrivals seem to have increased the speed of convergence for new immigrants, but the long-term effect is not yet clear. For women, there are even indications of an increase over the medium term.

There is an elaborate benchmarking system in place, though it is hard to draw lessons from it.

186. Due to a well-developed statistical and research infrastructure, the integration of immigrants has been the subject of more study in Denmark than in many other OECD countries. There is a benchmarking system in place to monitor the success of the municipalities in the labour market integration of immigrants, and to measure the impact of specific policies on labour market entry. This system has shown that after accounting for the structural conditions of the municipalities and the personal characteristics of the immigrant intake, differences in the integration performance between most municipalities are small, despite the substantial discretion which municipalities enjoy in the application of the introduction programme.

There are structural entry barriers in the Danish labour market...

Many immigrants tend to face high net replacement rates resulting from low expected earnings and relatively generous benefits at the bottom end. However, there is no evidence that immigrants react differently to the resulting disincentives than the native-born, yet the benefit levels for recent arrivals have been lowered substantially. On the demand-side, the relatively high collectively-bargained entry wages are a concern, and may be one explanation for employer hiring reticence in the case of information asymmetries or lower initial productivity. Indeed, there is evidence that wage subsidies are much more effective for immigrants than for the native-born. However, there appears to be little reason for lower minimum wages as a hiring incentive to employers if these are not compensated by payments to the immigrant. Such measures would tend to foster potential unemployment traps, and could intensify the problem of low returns to education which employed immigrants face.

...and private job-training and wage subsidies seem particularly effective in tackling them and should be provided more often.

The stylised labour market integration model (“stepmodel”) for unemployed immigrants in Denmark accounts for these barriers by a flexible combination of preparatory up-skilling including language training, on-the-job-training and subsequent initial wage subsidies, based on an assessment of the individual’s needs and the demands of the labour market. This seems to be an effective strategy as empirical analysis shows that among the labour market integration measures taken, enterprise-based job training (*privat jobtr ning*) is most effective, followed by wage subsidies to employers. However, few migrants profit from these measures, and the stepmodel is not often applied. Measures should thus be undertaken to foster the provision of enterprise-based job training, and broader provision of wage subsidies could be considered. First steps in this direction have been taken by the June 2006 agreement on welfare, which enhances the scale and scope of both of these measures.

There seems to be a case for assessing the effectiveness of dispersal policy.

Denmark has a dispersal policy which aims to spread out immigrants more evenly across the country. However, some of the smaller municipalities did not have much experience with immigrants in the past, and with the declining numbers of humanitarian and family reunification immigrants, small municipalities have difficulties in offering the full range of integration measures. Indeed, some of the integration measures which seem particularly effective – *i.e.* company-based training combined with job-specific language training – require a certain number of immigrants in order to generate scale economies. Some of these problems should be alleviated by the forthcoming municipality reform, which reduces significantly the number of municipalities. Nevertheless, empirical evidence suggests that dispersal may not always be effective, as it prevents immigrants from using their ethnic networks to get into employment. An equal geographic distribution should thus not be the sole objective and there are other factors to consider. Although the refugee’s preferences as well as his/her educational needs and employment chances are taken into account in the authorities’ location decisions, there seems to be a case for assessing the effectiveness of dispersal policy.

Language training may be provided above the efficient level, and it is urgent to evaluate this

As in other OECD countries, the bulk of directly integration-related public spending is attributable to language training. The calculated norm is that immigrants in need of this may receive on average 2000 hours of such training. Although the actual average number of training hours is unknown, this clearly appears to be well above the levels in the other countries under review which provide typically between 500 and 900

policy.

hours. In contrast to the elaborate evaluations on integration measures in general, the labour market impact of language training has not been sufficiently investigated in Denmark. The available evidence to date suggests some lock-in effects related to the relatively extensive language training, *i.e.* language training may be provided at a level that is no longer effective, let alone efficient. Given the high cost of this measure, it is urgent to undertake some rigorous pilot studies of what might be a more optimal intensity of language training and what types of language training work best for immigrants. A study is currently being prepared which should look into these issues.

More attention should be paid to the integration of skilled migrants...

Contrary to public perception, the qualification structure of Denmark's immigrant intake is not unfavourable in international comparison, as immigrants are overrepresented among both the low- and highly-qualified. However, immigrants' skills are not often used effectively. Gaps in employment rates *vis-à-vis* comparable natives are particularly high at the top end of the qualifications spectrum and about one fourth of those who are employed are in occupations below their qualification level. For those in employment, wage returns to foreign schooling are substantially lower than for Danish education. However, even returns for Danish education are much lower for immigrants and the second generation than for the native-born.

...despite the early establishment of a system for the recognition of foreign qualifications.

Denmark has tried to make better use of the skills of immigrants with foreign qualifications by establishing an agency for the recognition of foreign qualifications at all levels. Yet, relatively few non-OECD immigrants have taken advantage of this possibility, and this is the group for which information asymmetries regarding foreign qualifications are most pronounced. This possibility for assessment and recognition of foreign qualifications should be more actively promoted to immigrants – both recent arrivals and established immigrants – and linked with bridging courses for cases when foreign degrees are deemed largely, but not fully equivalent to Danish. Recently, regional knowledge centres have been established to assess and certify non-formal qualifications and skills. It is too early yet to assess the impact of these measures, but it appears that employers' acceptance and awareness of these assessments could be improved.

Employment in the public sector is particularly important.

The public sector – which accounts for about one third of total employment, one of the highest shares in the OECD – plays a particularly important role in integration in Denmark. There is awareness of this fact, and Denmark has set the target that the share of immigrants employed in the public sector should match their population share. Some (albeit limited) incentive schemes, together with the regular publication of the corresponding employment statistics, are in place to help achieve this target. Already, immigrants are less underrepresented in the public sector in Denmark than in other OECD countries.

<i>Mentoring seems to be an efficient way of creating networks.</i>	Although there is little solid data on the importance of social networks in recruitment, it is likely that, as in Sweden, many vacancies in Denmark are filled by personal contacts with employers. This may hinder the employment chances of immigrants who tend to have less network contacts. A variety of public-funded projects aim at providing such networks to immigrants and their offspring, and mentoring appears to be a particularly effective means. Among the promising initiatives taken in this context is a nation-wide mentoring programme targeted at immigrant women. There is a need to evaluate such initiatives, and if they work, to provide them on a broader basis.
<i>Access to microfinance and accompaniment in self-employment needs to be improved.</i>	Self-employment is one way by which immigrants seek to enter the labour market. Despite this, self-employment among Danish immigrants is low in international comparison, which suggests that at least in the long run, not many immigrants are successful in pursuing this strategy. Furthermore, immigrants' earnings from self-employment are very low. With the lower levels of benefits for recent immigrant and the tightening of requirements for permanent residence, the potential importance of self-employment to escape marginalisation is likely to increase. However, access to bank loans for self-employment is generally dependent on permanent residency. There is thus a case for improving loan access of immigrants, particularly for those who have not yet acquired permanent residency, and a better accompaniment of those who become self-employed.
<i>The outcomes of the second generation are of concern.</i>	A specific aspect of the Danish case which raises serious concern – as shown by the many initiatives that have been taken in this respect – is the unfavourable outcomes of the second generation, since the children of immigrants are now entering the labour market in larger numbers. In no other OECD country are the differences in the employment rates between native-born with- and without a migration background larger than in Denmark. This is partly associated with very low educational attainment levels of the second generation, particularly for males and for children with a Turkish background. However, high gaps in employment rates remain also after controlling for educational attainment. Furthermore, even the employment rates of the offspring of immigrants from OECD countries are low, despite the fact that they have an average education level similar to that of persons of Danish origin.
<i>The low educational attainment of the second generation is mainly due to high drop-outs from vocational education.</i>	To some degree, the low educational attainment of the second generation is associated with the fact that they come from a less favourable socio-economic background. Furthermore, school segregation is relatively pronounced in Denmark, and this has an impact on educational outcomes in compulsory schooling. The key reason, however, is high drop-out rates from vocational training – which is the principal school-to-work transition pathway from school to work for Danish men. Almost two thirds of male children of immigrants who enter vocational training drop out – a figure that is twice as large as for natives Danes.
<i>Returns to education are much lower for the second generation than for persons of Danish origin.</i>	This seems to be at least partly attributable to the particular difficulties which the second generation faces in finding an apprenticeship place at a company. This, in turn, may be due to a variety of factors, such as lack of access to networks or inappropriate education choices on the part of the second generation, although reluctance of the employers to provide such placements to persons with an immigrant background may also be part of the explanation. Even those children of immigrants who obtained an upper secondary or a tertiary degree have significantly lower returns to education than persons of Danish origin, both with respect to probability of

employment and regarding wages. This limits their incentives to invest into human capital.

Given this, discrimination cannot be discarded as one possible cause for the disappointing outcomes.

Labour market outcomes are thus below those of the native-born across all immigrant groups and education levels. In addition, wage returns to education – even if obtained in Denmark – are lower for persons with an immigrant background than for comparable native-born. Discrimination thus cannot be discarded as a possible cause for the relatively unfavourable picture across-the-board. Indeed, as in other OECD countries, testing results have illustrated the presence of discrimination in hiring. Although there are a variety of anti-discrimination measures in place, the findings reported suggest that discrimination needs to be more effectively combated. This could include the introduction of anonymous CVs and measures to diversify recruitment channels.

Overcoming selective hiring is thus essential, with more active involvement of the social partners.

One explanation for selective hiring could be that due to the recent nature of the immigration experience and the dominance of small- and medium sized enterprises in Denmark, many employers have had little experience with employing immigrants. This has to be seen in the context of an integration discourse which tends to emphasise immigrants' cost to the welfare state, which may enhance negative preconceptions about immigrants. There seems to be a case for provision of more and better information to both employers and employees to raise awareness of the particular difficulties which immigrants face, and first steps in this direction have already been taken. This should involve the social partners, who play an important role in the Danish labour market policy setting. Yet, immigrants tend to be rarely present in these associations, both with respect to membership and in the decision-making bodies. The issue seems particularly important in the labour unions, where immigrants' absence tends to exclude the immigrant voice in key decisions concerning them. Measures should thus be taken by the social partners to involve more immigrants in their membership and decision-making.

The combination of day-care for children and integration measures for women seems particularly effective and should be provided more frequently.

Nevertheless, there are some indicators pointing to a more positive future evolution of the outcomes for the second generation. Day-care attendance among the offspring of immigrants below the age of five has increased by more than 50% over a five-year period. Such early contact with host-country language is crucial for integration as it is generally associated with a favourable impact on educational attainment and, as a result, better labour market integration in the future if other obstacles such as selective hiring are tackled. The combination of day-care for children with language courses and other activation activities for their mothers seems particularly promising. This tackles obstacles hindering women's greater participation in integration activities while at the same time empowering immigrant women to become the motor of integration for the entire family. Although such activities tend to be costly for the public purse, they are a long-term social investment and the favourable economic environment is an apt time to implement them on a larger basis.

In spite of the unfavourable labour market outcomes, there is some recent improvement, and increasing company-based training and

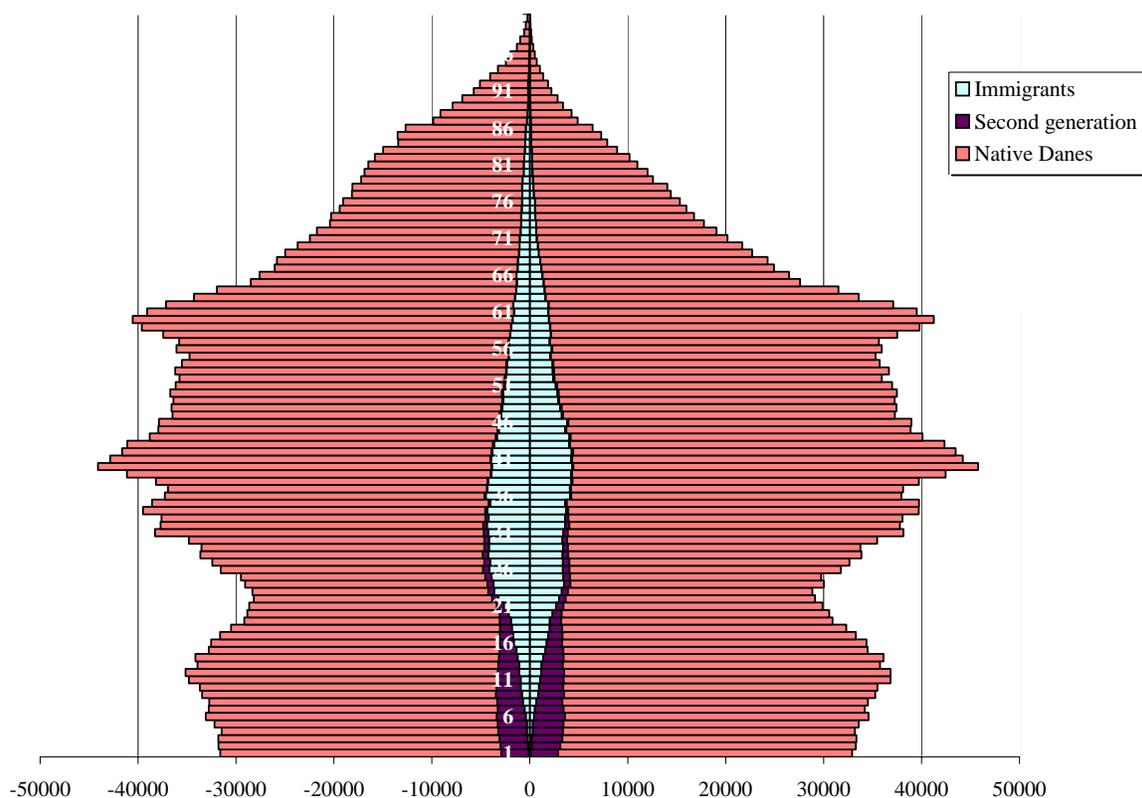
In sum, labour market outcomes of immigrants and their offspring, regardless of origin and qualification, are significantly below those of native Danes. However, there are some signs of improvement, particularly for recent arrivals from non-OECD countries. The strong emphasis on activation in the integration efforts appears to have the desired effect of increasing participation and employment, but has also been accompanied by an increase in unemployment. In short, immigrants seem to be encountering difficulties in finding employment. Measures which help to overcome

wage subsidies to employers should foster this positive evolution.

employer hiring reticence and which enable employers to evaluate immigrant skills, such as company-based training and wage subsidies to employers, have a strongly positive effect on labour market integration. Their scale and scope should thus be increased while trying to minimise deadweight losses, and first steps in this direction have recently been taken.

Annexes

Annex 1: Age structure of the Danish population by gender and migration background, 2006



Source: Statistics Denmark.

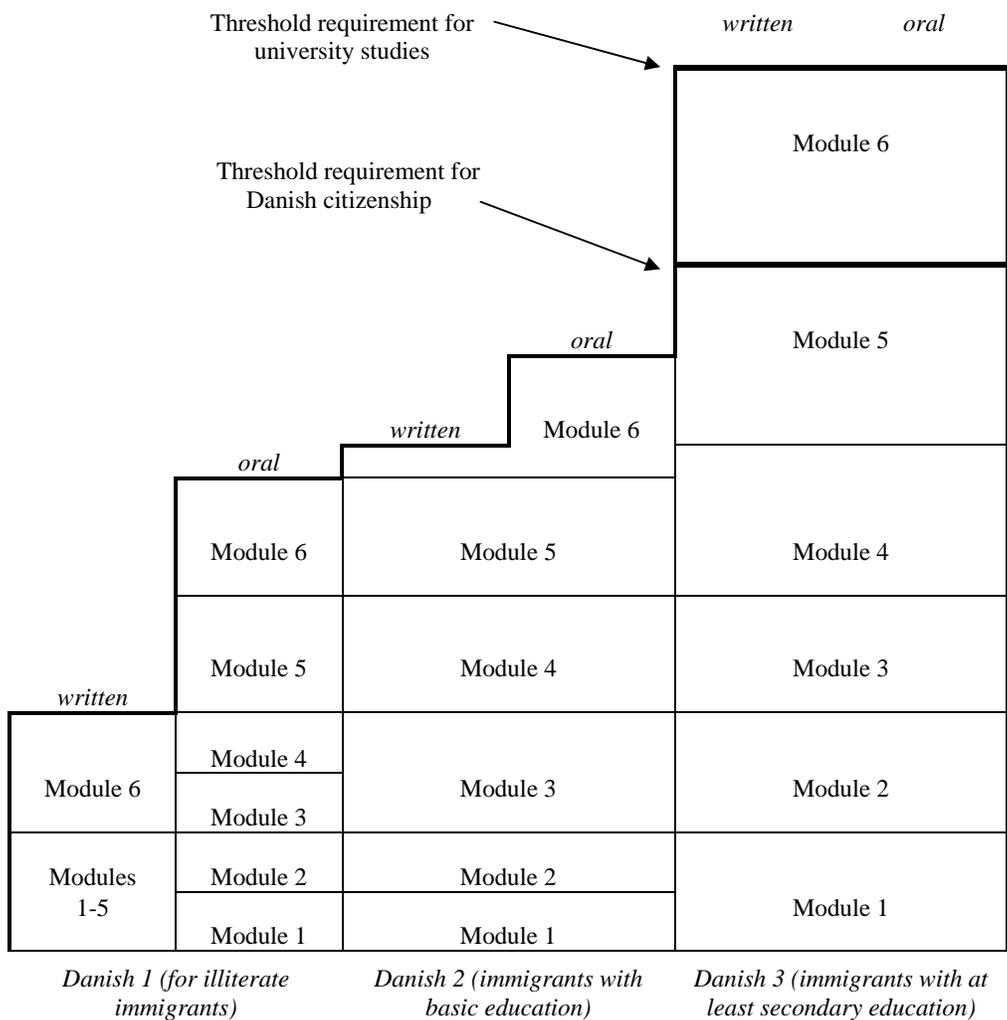
Note: Women are depicted on the left side of the graph.

Annex 2: The ten most important origin countries of immigrants and their share in the total immigrant stock in 1985, 1995 and 2006

1985		1995		2006	
Germany	16.8%	Turkey	11.1%	Turkey	8.8%
Turkey	10.8%	Germany	9.7%	Germany	6.6%
Sweden	9.5%	Norway	5.3%	Iraq	5.9%
Norway	8.6%	Sweden	5.2%	Bosnia-Herzegovina	5.0%
United Kingdom	5.5%	Lebanon	4.9%	Norway	4.0%
Pakistan	4.8%	Iran	4.5%	Sweden	3.6%
Yugoslavia	4.7%	United Kingdom	4.4%	Poland	3.5%
Poland	4.4%	Poland	4.3%	Lebanon	3.4%
USA	3.6%	Yugoslavia	4.2%	Yugoslavia	3.3%
Vietnam	2.5%	Pakistan	3.9%	Iran	3.3%

Source: Statistics Denmark.

Annex 3: Structure of the Danish language courses



Annex 4: Determinants of immigrants' employment probability – odds ratio estimates

Explanatory variables	Model 1	Model 2	Model 3
Gender			
Men*			
Women	0.477	0.508	0.404
Marital status			
Not married*			
Married	0.76	0.882	0.954
Type and origin of education			
Low and obtained abroad*			
Low and obtained in Denmark	1.004	1.058	1.141
Medium and obtained in Denmark	2.954	2.656	2.514
High and obtained in Denmark	2.255	1.566	1.4
Medium and obtained abroad	1.547	1.289	1.285
High and obtained abroad	1.996	1.490	1.424
Unknown or no education	1.073	0.881	0.859
Years of residence			
0-1 years of residence*			
1-2 years of residence	2.074	2.256	2.406
2-3 years of residence	2.615	2.899	3.155
3-4 years of residence	3.052	3.406	3.753
4-5 years of residence	3.266	3.679	4.116
5-6 years of residence	3.534	4.020	4.586
6-7 years of residence	3.991	4.575	5.289
7-8 years of residence	4.152	4.769	5.706
8-9 years of residence	4.471	5.102	6.101
9-10 years of residence	4.429	5.018	5.971
10-11 years of residence	3.889	4.566	6.036
More than 11 years of residence	4.232	4.592	4.973
Entry cohorts			
1998 and after*			
1989-1993	1.116	0.896	0.891
1994-1997	0.883	0.884	0.969
Region of origin			
Nordic countries*			
Turkey		0.531	
Other OECD countries		1.020	
Non-OECD countries		0.248	
Categories of permit			
Quota refugees*			
Other refugees			1.753
Family reunification to refugees			1.766
Family reunification to others			9.645
Paid employment EU/EEA			30.297
Workers ¹			26.128
Education ²			7.501
Other ³			11.056

Notes: Pooled data from 1995-2003. *for categories of reference. Results not significant at the 1% level are shown in parentheses.

1. Includes wage earners and self-employed, including New EU countries and Job card scheme.

2. Includes Apprenticeship and au pair categories.

3. Includes other minor work and study categories as well as immigrants without an entry in the permit database.

**Annex 5: Probability of being employed - Persons aged 20 to 29 years old and not in education
(maximum likelihood estimates)**

	Total		Men		Women	
	Estimate	Standard error	Estimate	Standard error	Estimate	Standard error
First model						
Intercept	0.943	0.013	0.933	0.019	0.292	0.017
Sex (Reference: Men)						
Women	-0.663	0.009				
Origin of the person (Reference: Danish origin)						
Second generation	-0.445	0.030	-0.563	0.041	-0.293	0.043
Marital status (Reference: Not married)						
Married	0.355	0.012	0.538	0.023	0.270	0.015
Level of education (Reference: Below upper secondary)						
Tertiary education	0.135	0.010	-0.214	0.015	0.364	0.014
Upper secondary education	1.646	0.010	1.860	0.015	1.443	0.015
Second model						
Intercept	0.938	0.013	0.928	0.019	0.289	0.017
Sex (Reference: Men)						
Women	-0.661	0.009				
Origin of the person (Reference: Danish origin)						
Second generation	-0.303	0.033	-0.397	0.044	-0.191	0.050
Marital status (Reference: Not married)						
Married	0.355	0.012	0.537	0.023	0.270	0.015
Level of education (Reference: Below upper secondary)						
Tertiary education	0.138	0.010	-0.211	0.015	0.366	0.014
Upper secondary education	1.658	0.010	1.876	0.015	1.450	0.015
Interaction between origin and level of education						
Second generation X upper secondary education	-0.651	0.069	-0.962	0.100	-0.388	0.096
Third model						
Intercept	0.942	0.013	0.934	0.019	0.290	0.017
Sex (Reference: Men)						
Women	-0.663	0.009				
Origin of the person (Reference: Danish origin)						
Second generation	-0.421	0.033	-0.591	0.045	-0.214	0.049
Marital status (Reference: Not married)						
Married	0.354	0.012	0.539	0.023	0.269	0.015
Level of education (Reference: Below upper secondary)						
Tertiary education	0.137	0.011	-0.217	0.015	0.370	0.015
Upper secondary education	1.646	0.010	1.859	0.015	1.444	0.015
Interaction between origin and level of education						
Second generation X tertiary education	(-0.119)	0.073	(0.1513)	0.104	-0.3425	0,102

Note: All models include age controls. Figures not significant at the 1% level are shown in parentheses.

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