

DENMARK

- The small income gap relative to the most advanced OECD countries has steadily widened over the past decade, reflecting a drop in labour utilisation. The employment rate is falling from a high level and hours worked remain below the OECD average, while labour productivity growth has improved recently.
- Income inequality has risen over the past decade, although the Gini coefficient remains the lowest in the OECD. The increase in inequality mostly reflects movements among higher incomes. The income share held by the poorest 20% of the population has been unchanged at a level well above the OECD average.
- New entries in disability benefit schemes have decreased following a reform in 2013, partly addressing a long-standing *Going for Growth* priority. Thus, reforming sickness leave and disability schemes is no longer considered a top priority, although close monitoring and evaluation is warranted, including of the new rehabilitation programme that focuses on employing disabled. Some progress has been made in promoting competition, notably by easing access to regulated professions and relaxing zoning and planning regulation. Nonetheless, broader reform is needed. Reform of upper-secondary education is being implemented with the aim of enhancing quality and matching skills acquisition with labour market needs. A small reduction of the tax deductibility of mortgage interest payments is under way, but is insufficient to remove distortions in the housing market.
- Measures are needed to improve the weak economic performance, particularly compared with other countries in the region. These should aim at boosting productivity growth, notably by shifting the high tax burden to less distortive taxes, bolstering competition, improving educational outcomes, and fostering geographical labour mobility. A particular concern is that during the crisis, the labour market integration of immigrants deteriorated, pointing to a need for more inclusive measures to boost their employment rates.

Going for Growth 2017 priorities

Strengthen the labour market integration of migrants.¹ The gap in employment rates between immigrants and natives is among the highest in the OECD and such integration failure tends to be transmitted to the following generation. Boosting immigrants' labour market participation and employability will help to foster growth, reduce social spending and expand the tax base.

Recommendations: Secure efficient implementation of social partners' agreement on entry wages and training programmes, improve the quality and implementation of integration programmes for immigrants: raise the quality of Danish language courses, ensure good access to and participation in training. For second generation immigrants, implement a broad integration strategy into the education system.

Shift the tax structure toward immovable capital. Favourable tax treatment of owner-occupied housing and a freeze of property taxes distort the housing market and fail to reduce house price fluctuations. Moving taxation away from personal income to housing would bolster work incentives and dampen the recurrent housing bubbles, securing a higher and more stable growth path.

Actions taken: Tax deductibility of mortgage interest is gradually being reduced from 30.5% to a still generous 25% by 2020 for interest costs exceeding DKK 50 000.

1. New policy priorities identified in *Going for Growth 2017* (with respect to *Going for Growth 2015*) are preceded and followed by an “*”.

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Growth performance and inequality indicators

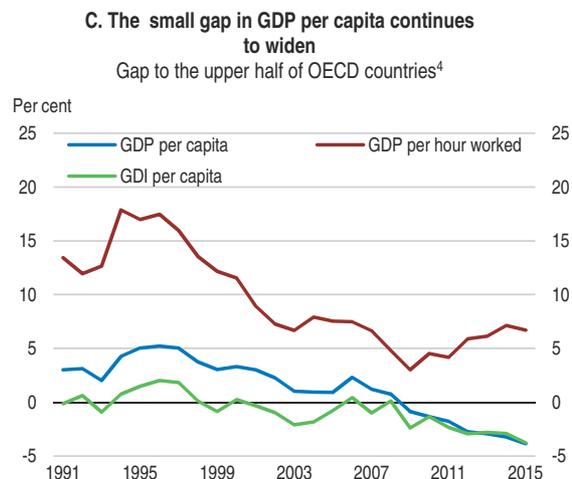
A. Growth		
Average annual growth rates (%)	2003-09	2009-15
GDP per capita	0.3	0.8
Labour utilisation	0.0	-0.7
of which: Labour force participation rate	0.0	-0.6
Employment rate ¹	-0.1	0.0
Employment coefficient ²	0.2	-0.1
Labour productivity	0.1	1.4
of which: Capital deepening	0.6	-0.3
Total factor productivity	-0.5	1.8
Dependency ratio	0.1	0.1

B. Inequality		
	Level	Annual variation (percentage points)
	2013	2008-13
Gini coefficient ³	25.4 (31.7)*	0.3 (0)*
Share of national disposable income held by the poorest 20%	9.8 (7.7)*	0 (0)*

* OECD average

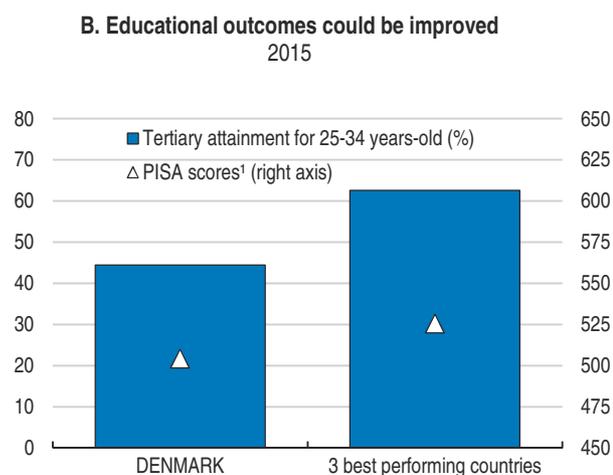
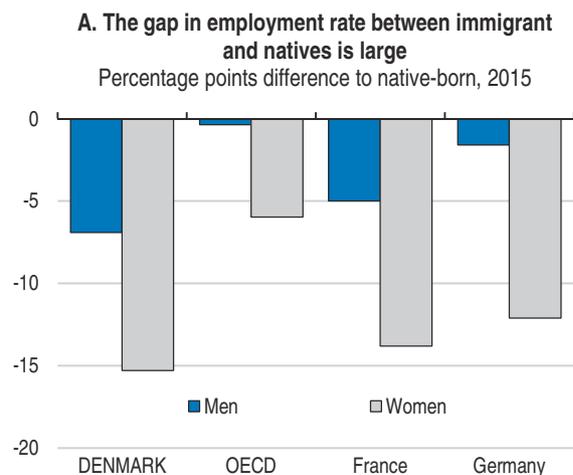
- The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice-versa.
- This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
- The Gini index measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.
- Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2010 PPPs).

Source: Panel A: OECD, Economic Outlook No. 100 Database; Panel B: OECD, Income Distribution Database; Panel C: OECD, National Accounts and Productivity Databases.



StatLink <http://dx.doi.org/10.1787/888933455017>

Policy indicators



- Average of PISA scores in mathematics, science and reading.

Source: Panel A: OECD, Migration Statistics Database; Panel B: OECD, Education at a Glance 2016: OECD Indicators and PISA Database.

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Recommendations: Shift the tax burden further away from labour and corporate incomes, by raising taxes on immovable property and by eliminating the tax deductibility of mortgage interest. In addition, achieve tax neutrality across asset types for instance by subjecting immovable property to capital gain taxation.

Reduce distortions in the housing market. Housing subsidies and rent regulation reduce labour market mobility and put upward price pressure on the owner-occupied segment, notably in urban areas, hindering productive reallocation of labour resources.

Actions taken: A new rental housing act that came into force in 2015 changed refurbishment regulations and reduced contract termination requirements.

Recommendations: Ease rent regulation further and reduce housing subsidies. Improve targeting of housing subsidies by relying more on in-kind support for students and of social housing in general.

Strengthen competition and ease regulation in specific service sectors. Stronger competition, particularly in a number of domestically-oriented service sectors, would bolster productivity growth.

Actions taken: Rules concerning shop size and location will be eased in 2017. Also, more decision-making power on zoning and planning regulation is being transferred to municipalities. The Competition Board has become more professional with fewer and mostly academic members with additional support from a new advisory committee.

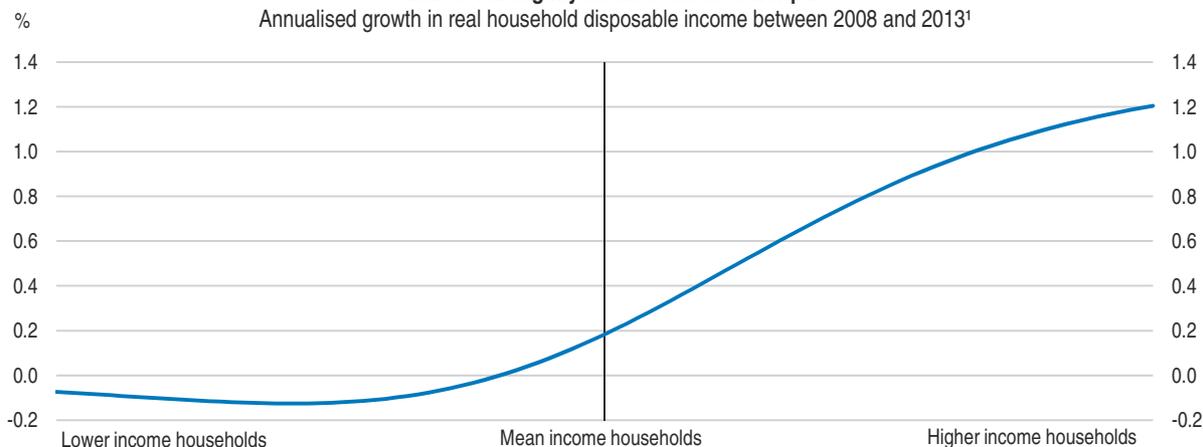
Recommendations: Further ease zoning and planning regulation in the service and construction sectors, streamline the institutional set-up for the competition authorities, and improve efficiency of public procurement rules.

Improve the efficiency of the education system. A more efficient education system that provides higher quality would bolster human capital accumulation, boosting productivity growth.

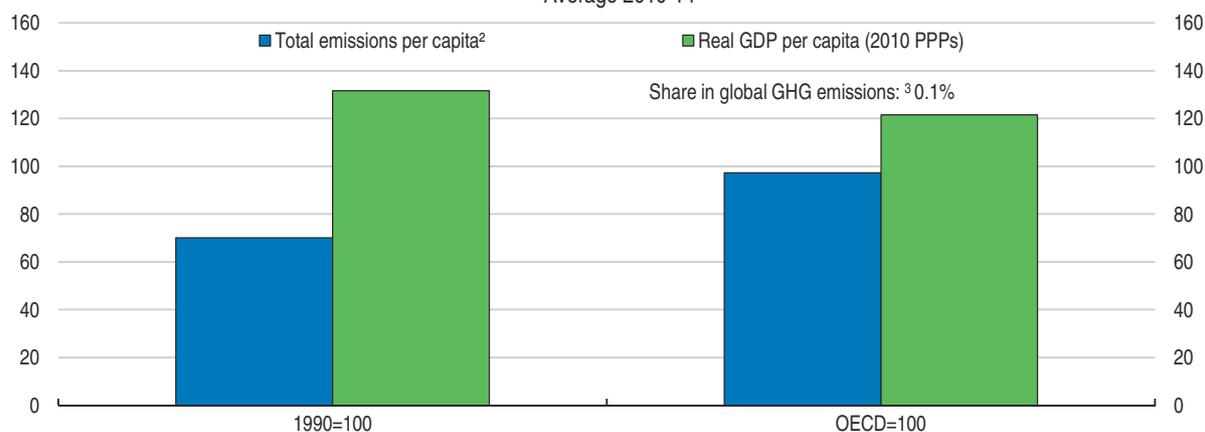
Actions taken: Progress has been achieved in the implementation of the reform of the vocational education and training (VET) programmes that aims at raising their quality and attractiveness to better reflect labour market needs. In June 2016, a broad political agreement to reform upper-secondary education was reached. Notably, the number of study programmes that students can choose from should be reduced and better targeted to higher education. Moreover, entry requirements are to be strengthened.

Recommendations: Continue to develop the evaluation framework in compulsory and higher education. Develop VET programmes that reflect future structural changes in the economy and offer pathways to higher education. Improve adult learning by providing greater incentives for educational institutions to recognise prior learning, increasing the quality of courses and expanding on-the-job training opportunities. Reduce drop-out rates in upper-secondary education by focussing on early identification of weaker students and help them by developing targeted initiatives.

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Beyond GDP per capita: Other policy objectives**A. Income increased for those in the upper part of the income distribution while it fell slightly for those in the lower part**Annualised growth in real household disposable income between 2008 and 2013¹**B. Emissions per capita are below the 1990 level and close to OECD average**

Average 2010-14



1. The data show average annual growth rates in disposable income (i.e. income after tax and transfers) across the distribution and refer to the period between 2008 and 2013. Disposable incomes cover the full population. Income data are expressed in constant prices (OECD base year 2010).
2. Total GHG emissions including LULUCF in CO₂ equivalents (UNFCCC). The OECD average (excluding Israel and Korea) is calculated according to the same definition.
3. Share in world GHG emissions is calculated using International Energy Agency (IEA) 2010 data.

Source: Panel A: OECD, *Income Distribution Database*; Panel B: OECD, *National Accounts and Energy (IEA) Databases*, *United Nations Framework Convention on Climate Change (UNFCCC) Database*.

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