

## DENMARK

*GDP per capita remains stable relative to the best performing OECD countries. Productivity growth is modest and, while employment rates are generally high, average working hours are short, and labour utilisation is weak for some groups.*

### Policy priorities

#### **Reduce marginal taxes on labour income**

**Challenge and recommendations:** Social security contributions and income taxes combine to a marginal rate of above 60%, even for incomes modestly above average full-time earnings. To reduce high marginal rates, it was recommended that the income threshold from where the top tax rate is applied be lifted when the cyclical position permits and real estate taxes be increased to allow for further income tax cuts.

**Actions taken:** In 2008, ¼ per cent of GDP will be spent on an enhanced in-work tax credit, but the effects on labour supply will be muted by a simultaneous increase in benefits paid to those not working. In 2009, the threshold from where the middle tax bracket applies will be raised, financed by letting energy taxes grow in line with inflation. However, for the 40% of the full-time employed paying the top tax rate, marginal rates will be unchanged. The government has also decided to establish a tax commission to review reform options.

#### **Improve the efficiency of the education system**

**Challenge and recommendations:** To improve learning outcomes in compulsory schooling, it was recommended that the educational content of the introductory year for six-year-olds be increased and the voluntary 10th form (for 16-year-olds) be abolished. As taxes and grants encourage university students to start and end studies late, it was also recommended that tuition charging and loans for tertiary education be developed to encourage completion, while reducing high marginal income tax rates.

**Actions taken:** The 10th form is now targeted at youth with special needs, and a bill has been presented to parliament that would enhance the educational content of the introductory year. As of 2008, university funding and study programmes will be adjusted to encourage early completion; as of 2009, students applying for university places within two years after ending their secondary degree will be given priority.

#### **Reform disability benefit schemes**

**Challenge and recommendations:** To avoid overuse of schemes giving wage subsidies and other support to keep disabled people with significant remaining work capacity in employment, it was recommended that Flexjob subsidies be further reduced, and that disability pension and Flexjob cases be reviewed on a regular basis with a view to bringing more beneficiaries back to unsubsidised employment. It was also recommended that prevention and rehabilitation be developed further to facilitate declines in the number of disability recipients.

**Actions taken:** No further action since the maximum wage subsidy under the Flexjob scheme was reduced from July 2006, even though the subsidy is still well above the disability pension. Flexjob eligibility assessment has also been tightened, but a recent government report still indicates substantial problems with the scheme.

#### **Enhance competition, notably in publicly funded services**

**Challenge and recommendations:** While regulation in the business sector is relatively liberal, it was recommended that publicly funded services be opened to competition, privatisation be continued, and access to permits via one-stop shops be broadened. It was also recommended that competition agencies be streamlined and interest-group representatives be removed from their boards.

**Actions taken:** A broad reform of publicly funded services was announced in August 2007, with enhanced benchmarking and a few measures to ensure a more level playing field for public and private providers, but most publicly funded services will nonetheless remain sheltered from competition.

#### **Reduce housing subsidies and abolish rent regulation**

**Challenge and recommendations:** Starting from a highly subsidised and regulated housing market, it was recommended that resources be freed up by reducing housing subsidies for individuals and rental housing, as well as by raising the real estate tax rate to be neutral vis-à-vis interest deductibility and other capital taxation. It was also recommended that rent regulation be abolished.

**Actions taken:** No action taken.