

DENMARK

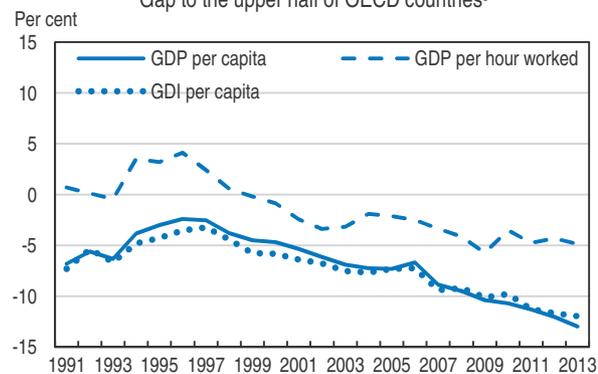
- The income gap relative to the upper half of OECD economies has continued to widen over the past few years, mostly due to weaker labour utilisation. Employment rates are high, but hours worked are below the OECD average.
- Progress has been made in priority areas to enhance product market competition and improve the efficiency of the education system. Reforms have also been undertaken to encourage the transition of sick and disabled workers into employment. However, less has been achieved in reducing distortions in the housing market.
- Continuing to shift the tax burden away from income and reducing potential pathways to early retirement would increase hours worked and employment rates. Enhancing the competition framework and reducing housing market rigidities, as well as improving the efficiency and quality of the education system would boost productivity growth.
- Measures that reduce drop-out rates in upper-secondary education would boost human capital formation and reduce inequality through improving incomes at the lower end of the income distribution.

Growth performance indicators

A. Average annual trend growth rates
Per cent

	2003-08	2008-13
Potential GDP per capita	0.8	-0.1
Potential labour utilisation	0.0	-0.5
<i>of which:</i> Labour force participation rate	-0.2	-0.6
Employment rate ¹	0.0	-0.2
Trend employment coefficient ²	0.2	0.2
Potential labour productivity	0.8	0.5
<i>of which:</i> Capital deepening	0.6	0.4
Labour efficiency	0.0	-0.1
Human capital	0.2	0.2

B. The gap in GDP per capita continues to widen
Gap to the upper half of OECD countries³



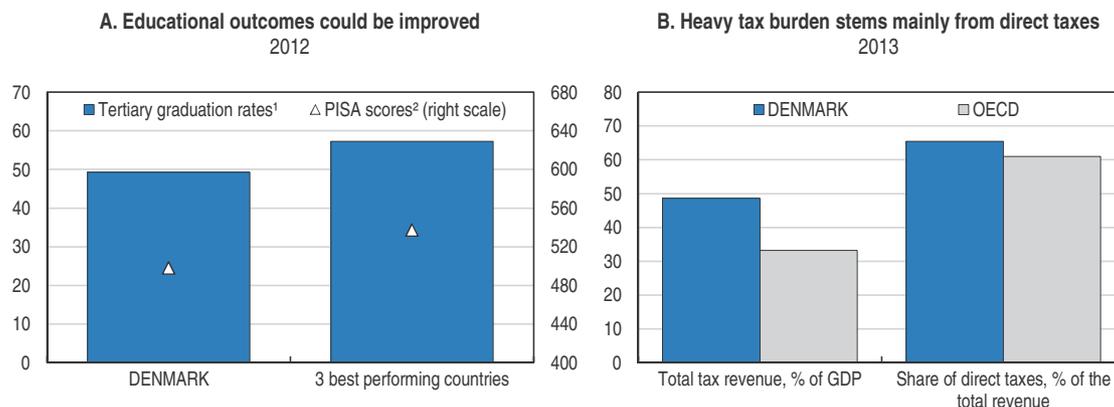
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

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Policy indicators



1. Graduation rate for typical age at tertiary type-A level (first-time graduate).

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

Source: Panel A: OECD (2014), *Education at a Glance 2014: OECD Indicators*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/eag-2014-en>; and OECD (2014), *PISA 2012 Results: What Students Know and Can Do (Volume I, Revised edition, February 2014): Student Performance in Mathematics, Reading and Science*, PISA, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264208780-en>. Panel B: OECD, *Revenue Statistics Database*.

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Going for Growth 2015 priorities

Priorities supported by indicators

Shift the tax structure away from income. The overall tax burden is high. Lowering and shifting taxation from labour and corporate income to indirect taxes and taxes on immovable property would help boost growth.

Actions taken: The corporate tax rate is being gradually reduced: it has been cut from 25% in 2013 to 24.5% in 2014 and should reach 22% in 2016.

Recommendations: Shift the tax burden further away from labour and corporate income, notably by raising taxes on immovable property once the recovery of the housing market is well under way. Streamline tax expenditures.

Reform sickness leave and disability benefit schemes. The share of the working-age population receiving disability and sickness benefits is relatively high, reducing labour utilisation. This situation partly reflects institutional weaknesses; for example that disability benefits are granted on a permanent basis for those above 40 years old.

Actions taken: In early 2013, a new rehabilitation model replaced the disability benefit scheme, emphasising integrated health and employment services and reducing the number of people entitled to a permanent disability benefit. Individuals receiving sickness benefits now have their case reassessed after five months to determine if they can be reintegrated into the labour force.

Recommendations: Ensure that permanent entitlements to disability pensions are only granted under special circumstances so that these schemes do not become a new pathway to early retirement. Focus on prevention measures targeted at groups that display higher inflow rate into disability benefits, such as young people with long spells on social benefits.

DENMARK***Enhance the competition framework and ease regulation in specific service sectors.***

Enhancing competition in some sectors, especially a number of domestically oriented service sectors, would boost productivity.

Actions taken: As from March 2013, the penalties for individuals and businesses that are members of cartels have been raised significantly. Competition for contracts relating to public sector works, services and supplies has been promoted by reducing rules and improving the guidance relating to tendering processes.

Recommendations: Enhance competition in the service and construction sectors by easing zoning and planning regulations; streamline the institutional set-up of the competition authorities; improve the efficiency of public procurement rules.

Other key priorities

Improve the efficiency of the education system. Enhancing the efficiency and quality of the education system would raise human capital.

Actions taken: In April 2013, the state grant system for tertiary education was reformed to speed up course completion. In 2013 the first phase of a plan to improve vocational education and training (VET) programmes was implemented, including the establishment of 50 placement centres nationwide. In February 2014, the government reached a broad political agreement to introduce entry requirements for admission to VET programmes and talent tracks for the most talented students, as well as a guaranteed minimum of 26 hours of teaching per week from 2016.

Recommendations: Continue to develop the evaluation framework in compulsory and higher education. Develop VET programmes that take into account likely future structural changes in the economy and offer pathways to tertiary education. To improve the adult learning system, provide greater incentives for educational institutions to recognise prior learning, increase the quality of courses and expand on-the-job training opportunities. To lower drop-out rates in upper-secondary education, focus on early identification of weaker students and develop targeted initiatives towards them.

Reduce distortions in the housing market. Existing policies such as housing subsidies and rent regulation reduce labour market mobility, hence also the allocation of resources to where they are most productive.

Actions taken: The tax deductibility of mortgage interest is being made less generous, decreasing gradually from 30.5% to 25.5% by 2020 for interest costs that exceed DKK 50 000.

Recommendations: Ease rent regulations and cut housing subsidies. Continue to reduce mortgage interest relief.

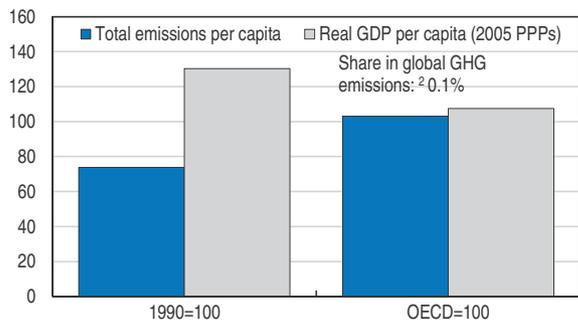
Reform areas no longer considered a priority in *Going for Growth*

For Denmark, all priority areas from the 2013 issue of *Going for Growth* are maintained.

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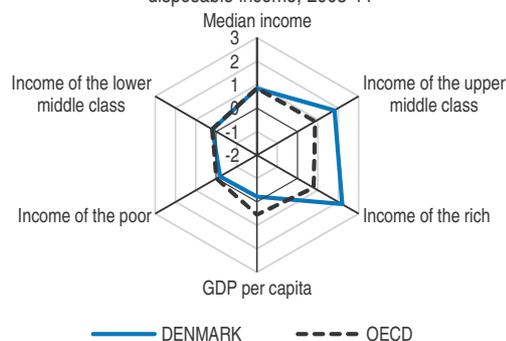
Beyond GDP per capita: Other policy objectives

A. Emissions per capita are below the 1990 level and close to OECD average
Average 2008-12¹



B. Real household income gains were skewed towards the top of the distribution³

Average annual growth rate in real household disposable income, 2005-11



1. Total GHG emissions including LULUCF in CO₂ equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.

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

StatLink  <http://dx.doi.org/10.1787/888933178607>