Back to Work

DENMARK

IMPROVING THE RE-EMPLOYMENT PROSPECTS OF DISPLACED WORKERS

OECD

Back to Work: Denmark

IMPROVING THE RE-EMPLOYMENT PROSPECTS OF DISPLACED WORKERS

OECD
BETTER POLICIES FOR BETTER LIVES

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Foreword

OECD labour markets are dynamic. Each year, around 20% of jobs in a typical OECD country are created or destroyed, and around one-third of all workers are hired or separate from their employer. These large job and worker flows are driven by a continuous process of labour reallocation, both across industries and between declining and growing firms within the same industry. This process is an important source of productivity gains, since more productive firms expand at the expense of less productive firms and earnings rise on average for workers who change jobs, particularly those who voluntarily quit one job to move to another. However, high job turnover also means insecurity for workers, especially those displaced from their jobs because of market re-structuring. A common challenge facing OECD governments is thus to nurture labour market dynamism, while keeping the adjustment costs that are borne by displaced workers as low as possible.

To address this issue the OECD Employment, Labour and Social Affairs Committee is conducting a thematic review of policies to help workers who lose their jobs for economic reasons or as a result of structural change to move back into work. Nine countries participate in this review: Australia, Canada, Denmark, Finland, Japan, Korea, New Zealand, Sweden and the United States.

This report on Denmark was prepared by Michelle Marshalian and Gwenn Parent, economists from OECD's Employment, Labour and Social Affairs Directorate, with contributions from Rune Vammen Lesner (Aarhus University), under the supervision of Christopher Prinz. Statistical assistance was provided by Sylvie Cimper and Agnès Puymoyen and editorial assistance by Gabriela Bejan. Valuable comments were provided by Mark Keese and Paul Swaim. The report benefited greatly from discussions with Danish experts, officials, employer federations, trade unions, academics and businesses during an OECD mission to Denmark in November 2013, as well as from comments to a draft version provided by several ministries and stakeholders.

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Acronyms and abbreviations

ALMP(s)	Active labour market programme(s)
BSA	Basic social assistance
CREC	Continuous-Entry Reclassification Committees *Comité d'aide au reclassement à entrées continues* (Québec)
DKK	Danish Krone
EGF	European Globalisation Adjustment Fund
EPL	Employment protection legislation
EU	European Union
GDP	Gross domestic product
GFC	Global financial crisis
IDA	Integrated Database for Labour Market Research
ILO	International Labour Organization
JSA	Job search assistance
JSC	Job Security Councils (Sweden)
LM	Labour market
LMI	Labour Market Information
NRR(s)	Net Replacement Rate(s)
PES	Public employment service – *Jobcentre*
PIAAC	Programme for the International Assessment of Adult Competencies
pp	Percentage point
RPL	Recognition of prior learning
SA	Social assistance
SMEs	Small and medium-sized enterprises
STAR	Agency for Labour Market and Recruitment, the Danish national labour market authority
STW	Short-time work
UA	Unemployment assistance
UI	Unemployment insurance
VET	Vocational education and training
WI	Wage insurance
WS	Work-Sharing

Executive summary

The largest part of the high labour turnover in Denmark is the result of workers choosing or agreeing to change their job, often with positive effect. Workers who involuntarily lose their jobs as firms close or downsize in response to market fluctuations, however, often face substantial personal costs, both economic and non-economic. Around 2-3% of Danish workers with at least one year of tenure are displaced every year on average as a consequence of mass dismissal or firm closure, a share that doubled in the global financial crisis. In normal times, about three in four of these workers find a new job within one year, however this share dropped to only one in two workers after 2008 and has only slowly recovered since. Even for those displaced workers who do find jobs, many have to accept significant wage cuts. Older displaced workers face the poorest re-employment prospects, and bear the largest and most persistent wage losses.

Overall, Denmark has effective policies in place to assist quickly people losing their jobs by providing good re-employment support and securing adequate income in periods of unemployment. Relative to its GDP, Denmark spends more on active labour market programmes than any other OECD country, combined with strong job-search requirements and monitoring. Together with a very flexible labour market, this approach has become known as the *flexicurity* model. Prior to the global financial crisis, this model delivered excellent outcomes in terms of labour market dynamism and inclusiveness, but it has struggled recently. A series of employment reforms have been put in place in response.

In spite of the favourable policy set-up, challenges remain because not every worker in Denmark can benefit from the same amount of support. In particular, workers affected by collective dismissals in larger firms receive faster and better support than those in small firms or involved in small or individual dismissals. Blue-collar workers are also treated less favourably than their white-collar counterparts. More generally, low-skilled and older displaced workers struggle the most to re-enter the labour market.

The OECD recommends that policy makers in Denmark:

- Ease access to early intervention for workers displaced from small businesses or in the case of individual dismissals in regions or sectors facing restructuring, by ensuring quick access to pre-dismissal services.
- Improve unemployment insurance coverage of low-skilled and low-wage earners by either making the system universal or making membership more attractive for low-wage earners and implement the 2016 UI reform improving incentives for beneficiaries to accept short-term, fixed-term and part-time employment, as a stepping stone back into jobs.
- Make active labour market policies more effective for displaced workers by earlier recognition of prior learning, reinforced training and pre-training counselling, and rigorous evaluation of the impact of training schemes for displaced workers.

Assessment and recommendations

Denmark's *flexicurity* model has become a hallmark of its labour market. Flexicurity is the combination of: i) a flexible labour market allowing employers to hire and fire workers in line with fluctuating demand; ii) a generous unemployment benefit system securing income while unemployed; and iii) strong activation policies enforcing incentives to look for jobs and enhancing jobseekers' employability. Prior to the global financial crisis (GFC) in 2008-09, the Danish flexicurity model delivered good outcomes in terms of labour market dynamism and labour market inclusiveness. This report looks into how well the Danish model works for workers made redundant for economic reasons and how robust the system has been following the crisis.

People lose jobs and find new jobs relatively easily

The Danish labour market is dynamic, especially in good economic times. Mirroring the philosophy of the flexicurity approach, job turnover is high with one in five jobs being separated every year. Unemployment is less persistent than in many other OECD countries, with a share of long-term unemployment of 25% compared with the OECD average of 35%. Despite high annual job separation rates, job displacement for economic reasons is no more frequent in Denmark than in other OECD countries. In a normal year, around 2 to 3% of the workforce is made redundant as a result of companies closing or downsizing, with higher rates of redundancy in smaller companies and for workers who are younger, with job tenure under four years and with less than secondary education.

The chances for a displaced worker in Denmark to find a new job quickly are good: around three in four displaced workers find a new job within one year, which compares very favourably with re-employment rates in a number of other OECD countries. However, there are considerable inequalities in post-displacement outcomes. Much lower rates of re-employment are found for workers aged 55 and over or with tenure of 20 years or more and those with a lower level of education. Moreover, some workers face considerable wage losses in their new jobs, more so than in other Nordic countries.

The crisis was and is a stress test for the *flexicurity* model

Denmark was hit hard by the GFC, harder than its neighbouring countries. The unemployment rate doubled from an all-time low of 3.5% in 2008 to around 7.5% in the period 2010-12 and has been declining only slowly since. In 2015, the employment rate was still 4 percentage points lower than before the GFC with only minor improvement since 2013. In line with these findings, the annual displacement rate almost doubled to 5.2% in 2009 and re-employment rates of redundant workers fell by 20 percentage points. At the peak of the crisis, only 50% of redundant workers were finding a job within one year and the re-employment rate for such workers was still lower in 2015 than before the GFC. This performance is currently worse than in other Nordic countries, although still better than in most Western European countries.

These headline figures suggest that the *flexicurity* model may be fragile in a severe economic downturn. However, the model has survived to a large extent and eventually the situation has gradually improved. There are two main reasons for this. *First*, fiscal space created in the boom period before the GFC allowed Denmark to accommodate the negative shock in 2008-09. Expenditure on both passive and active labour market policies was increased immediately in line with rising unemployment. *Second*, the traditional adaptability of the Danish model has allowed a prompt reaction to the new situation with a series of far-reaching labour market reforms in the past few years. The reforms further strengthened the activation approach (through more intense and earlier contact with unemployed people) while reducing the generosity of the system (through a gradual reduction of the hitherto very long unemployment benefit payment period), thereby making the system more robust to future economic shocks.

The wounds left on the Danish labour market by the GFC, however, are not fully healed and there is still a risk that some of the increase in cyclical unemployment could become structural. In any case, the latest reforms imply a shift in the balance of the three components of the flexicurity model, with potentially a considerable impact on the situation of redundant workers.

The *flexicurity* model leaves limited space to prevent redundancies

The desire to maintain high labour market flexibility means that the policy focus is not on preventing job displacement for economic reasons. The focus on flexibility as one of the pillars of the *flexicurity* approach is in some way in conflict with a stronger focus on prevention. Even so, during the GFC for the first time the *short-time work* scheme was used in Denmark to a considerable extent: the scheme covered some 40 000 beneficiaries

in 2009, ten times the number in the year before, and one quarter of this was for longer than 13 weeks, a possibility only introduced in 2009. However, take-up dropped immediately afterwards to reach a more normal level again in 2011. As such, Denmark could avoid deadweight losses from an overuse of the system. On the downside, only few of the users took up training during their work-free periods.

In the absence of additional preventive tools, ongoing skills development of the Danish workforce is essential. More action was taken recently to anticipate and identify skill needs at the regional level, with the employment regions identifying in-demand skills. Tools to develop worker skills are widely available, including for example *adult apprenticeship* or the *jobrotation* scheme which encourages firms to train their workers through a public subsidy to hire a replacement worker during the training period. The challenge in this case is to ensure good take-up of the scheme in small and medium-sized enterprises and among workers who tend to need training more but are less likely to take training, especially older and less-skilled workers.

Significant notice periods create the necessary space for early action

Employment protection in Denmark for permanent contracts is around the average of OECD countries, but the system is characterised by long advance notice periods which are defined by legislation and/or collective agreements and increase with job tenure. Especially in case of collective dismissal, broadly defined as a dismissal of 10% of the workforce within a period of 30 days, advance notification to the regional labour market council creates the necessary space for early action by the social partners and the public authorities.

Accordingly, Denmark has far-reaching early-intervention policies in place for some workers at least. Workers affected by collective dismissal can receive services through so-called *warning pools* – a system of counselling services to facilitate quick job-to-job transitions provided by the Jobcentre of the municipality in which the firm is located and including the immediate provision of information, career planning and job-search assistance. This is done either in the Jobcentre office or in a temporary employment service office set up at the workplace.

But Denmark does not treat all redundant workers equally

One of the weaknesses in the Danish system in regard to early action is that not all workers can benefit from the same level of support to the same degree. Some workers receive considerably more and faster help than others.

There are two types of inequality which Denmark should address. *First*, workers affected by collective dismissal receive much better support than other workers. Additional state funds for warning pools are dedicated to dismissals affecting at least 50% of the workers of a firm with 100 and more employees. Qualifying conditions can be adjusted and exemptions from firm and dismissal size be granted but this is at the discretion of the authorities. This is critical because 28% of the Danish workforce works in companies with less than 20 employees and around half in companies with less than 100 employees. It also implies that workers in supply-chain firms affected by the closure of a bigger company may not receive the same level of support. It was also the case that additional funding received from the *European Globalisation Adjustment Fund* in the period 2007-13 was used only to support workers involved in large-scale redundancies in large companies (with 30 000 beneficiaries from 10 companies).

There are potentially useful examples from other OECD countries, especially Quebec/Canada, on how to diffuse early help to workers laid-off within small-scale or individual dismissals in regions facing multiple redundancies in small and medium-sized firms (therefore not reaching the mass dismissal threshold) or in sectors affected by seriously deteriorating economic conditions or whenever mass dismissals in large firms have severe consequences on smaller supply-chain companies. Such structures are also needed to provide a level-playing field between companies fully complying with their obligations and those who do not, between small and large firms, and between downsizing and closing firms. As early intervention during the notice period derives from the collective bargaining process in Denmark, this could be part of future negotiations between unions and employer organisations.

Second, blue-collar workers are at a systematic disadvantage compared with white-collar workers. This is because notice periods for dismissal are much shorter for blue-collar than for white-collar workers, at all levels of tenure. For workers with tenure of up to three years the difference is around 50 days (20 versus 70), and for those with tenure over ten years it rises to 110 days (70 versus 180). This is critical because much of the activities of the warning pools are taken before actual dismissal, to promote job-to-job transitions.

Unemployment insurance maintained its key role in the crisis

When job-to-job transition prior to actual dismissal is not feasible or not successful, income security becomes a key issue. The main safety net for unemployed people in Denmark is provided by unemployment insurance (UI). Severance payments play only a minor role compared with

many other OECD countries. This is especially the case for blue-collar workers since severance pay entitlements for these workers, contrary to white-collar workers, are reduced by the amount of any UI benefit to which they are entitled. This difference implies that blue-collar workers will *de facto* most often not receive any severance pay.

The main issues for unemployment insurance are generosity and coverage. Eligible displaced workers in Denmark receive UI benefit at a high level in comparison with other OECD countries (with an initial net replacement rate of around 75%, the third-highest in the OECD) and for a long period. The payment period is currently being reduced gradually from four years to two years, with the full roll-out to be completed in 2017 and cushioned through repeated unemployment benefit extensions to assure the system's role as an automatic stabiliser. Four years was the longest unemployment benefit payment period in the OECD area, except for countries with a time-unlimited payment, and two years is still long in a comparative perspective.

Following benefit exhaustion, or if not entitled to UI payments in the first place, displaced workers might become entitled to means-tested social assistance. With the now shorter UI benefit payment period the risk of benefit exhaustion has increased and so has the number of social assistance claims. The government has responded to this challenge through a reform of social assistance to both prevent people from being trapped in inactivity and bring them back to employment through more stringent job-search obligations. This has led to higher re-employment and re-education rates of such recipients.

But also the benefit system creates inequalities and unreasonable incentives

The biggest challenge for Denmark's UI system is benefit coverage. A substantial proportion of low-wage and low-skilled workers is not covered by the current system and, as a consequence, faces a much higher risk of experiencing large income losses when unemployed. UI membership is only 45%, 70% and 80% in the first, second and third income decile, respectively, compared with around 90% for all other workers. This is explained by the system's eligibility criteria and the fact that UI fund membership is voluntary. In addition, by changing the entitlement rules to UI from hours worked to earnings, the 2016 UI reform risks worsening UI coverage of low-wage earners as workers earning less than EUR 15.24 per hour will now be required to work longer to earn the right to UI entitlements. Low-wage earners often choose not to be insured, despite a higher risk of becoming displaced. As a result, and because social assistance eligibility is very tight, close to one in five displaced workers who does not

find a new job within a year receives no income support of any type one year after their dismissal. While less than 2% of all displaced workers who are entitled to UI benefit live in an income-poor household, the corresponding figure is 17% for those not entitled to UI benefit. Added to this, re-employment rates are significantly lower for those not affiliated to an UI fund.

To address benefit coverage gaps and to make the system more inclusive, two aspects are critical. *First*, efforts should be made to encourage and attract UI fund membership, either by reforming the financing structure of the system (to make membership attractive for low-wage earners through for example a reduced fee) or by making the system universal, and rules should be harmonised across groups of workers. Doing so is in the hands of the social partners through a well-functioning collective bargaining process taken place every two to three years and would do away with underinsurance of certain groups and the undesirable difference in the treatment of entitlements for displaced blue-collar and white-collar workers. *Second*, the benefit system is geared towards full-time, permanent employment thereby providing little incentives to accept short-term, fixed-term and part-time jobs as a stepping-stone to finding more permanent employment. Many of these issues will be addressed by measures included in the 2016 UI reform, including for example a flexible extension of the benefit period for jobseekers working short periods of time during their unemployment spell; or the creation of an additional waiting period of 1 day every 4 months for all unemployed who have not worked at least 20 days over these 4 months. This will create incentives to accept short-term jobs during the unemployment spell.

The Danish activation regime is unmatched in the OECD area

Denmark has made considerable efforts to prevent its generous benefits from undermining work incentives and leading to long-term unemployment and inactivity. Availability and job-search requirements for the unemployed and job-search monitoring are among the strictest in the OECD and recent employment reform, in 2015, tightened the process further. Displaced workers have to register as unemployed within one day after dismissal, have a meeting with their UI fund in the first two weeks, and regular meetings with the Jobcentre afterwards (initially on a monthly basis and after the first six months, every third month). Some of the follow-up meetings now involve both the Jobcentre and the UI fund, thereby reducing existing duplication and incoherence in the system. The purpose of the frequent meetings is to assist the jobseeker in the process of job-seeking and secure tight monitoring and the referral to activation measures as appropriate.

At the same time, Denmark is the world champion on active labour market programme spending. No other country spends nearly as much for this purpose, both as a percentage of GDP (1.82% in 2013) and per unemployed person. Displaced workers, just like other UI benefit recipients, have the right and also the duty to participate in one active labour market measure within the first six months of unemployment (or within the first three months, for jobseekers under age 30 or over age 50). One year after dismissal, 10 to 15% of all displaced workers who are still unemployed are in a labour market measure and two years after, the share is 15 to 25% (varying by age and gender).

The array of training programmes available to displaced workers is large

Training is the most frequently used labour market measure among displaced workers but little is known about the effectiveness of training programmes, especially for displaced workers since this is not a group identified in the statistics of the employment service. Spending on training gradually declined before the crisis, for two reasons: because of the gradual decline in the number of unemployed people until 2008 and the reduced use of ineffective programmes which were shown to come with a strong lock-in effect. But spending on training was increased quickly again after 2008 when job displacement surged and chances to find a job had deteriorated, and spending is now back to its high level in the early 2000s.

With the 2015 employment reform, a number of training-related changes came into force some of which are important for some groups of displaced workers. Most importantly, it is now possible to offer training from the first day of unemployment for displaced workers with no or low education. More generally, education and training measures are now better targeted at unskilled jobseekers as well as skilled jobseekers with outdated education – a group of displaced workers at a high risk of long-term unemployment, especially if they are older than 50 years. But it will be important, given the considerable resources involved, to carefully evaluate the effectiveness of these measures.

Access to services for displaced workers could be facilitated

With Denmark's strong focus on activation and high spending on measures geared at helping all jobseekers back into employment, displaced workers are generally likely to receive the support and encouragement needed to find a new job. The employment reform in 2015 aimed at strengthening the system further, although it is too early to tell how successful this reform will be. Displaced workers are not and have never been regarded as a special group. Mainstreaming seems justified but

outcomes for displaced workers should be separately monitored as they may face difficulties finding work that are different from those of the typical jobseeker, especially if they have worked in the same occupation for most of their working lives and are now, all of a sudden, asked to change their occupation.

A few additional changes could be examined in order to secure a high level of sustainable re-employment for this group of jobseekers. In particular, future reform could: i) strengthen the way in which jobseekers' needs are identified and jobseekers are assigned to match-groups and thus services; ii) bring forward in time the recognition of prior learning, ideally even before dismissal, and involve employers and Jobcentres in the recognition process; and iii) reinforce the system of training and pre-training counselling to assure that the right training is offered quickly.

Key policy recommendations

Making early intervention accessible for all displaced workers

- Ease access to warning pool funds reserved for collective dismissals for workers at risk of displacement from firms in the supply chain or in regions facing multiple redundancies in small and medium-sized companies.
- Provide quick pre-dismissal services similar to those offered by warning pools to workers displaced in small-scale and individual dismissals, whenever needed due to deteriorating economic conditions in the region or the sector.
- Allow several Jobcentres to receive funds for a specific warning pool, in cases where a significant share of displaced workers do not live in the same area as the dismissing firm, and facilitate the transfer of displaced workers who benefit from warning pool services to the Jobcentre of their residence.
- Provide a level playing field for blue-collar workers in terms of their possibility to access early intervention measures before dismissal by making notice periods equal or at least more similar to those of white-collar workers.
- Promote the take-up of publicly-subsidised, employer-provided training among workers who need training most, especially low-skilled and older workers.

Making the unemployment benefit system available for all workers

- Increase unemployment benefit coverage for low-wage, low-skilled workers by making the system universal or by changing the financing structure to make insurance attractive also for low-wage earners, and remove differences between blue-collar and white-collar workers in regard to the interaction between severance pay and unemployment benefit entitlements.
- Monitor the impact of the latest unemployment reform geared at providing better incentives for beneficiaries to accept short-term, fixed-term and part-time jobs, as a stepping stone back to more permanent employment, including a flexible extension of the benefit period for unemployed who work short periods of time during their unemployment spell and additional waiting periods for those who do not work during their unemployment spell.

Making active labour market policies effective for displaced workers

- Strengthen the way in which jobseekers are assigned to match-groups and services by introducing a scientific profiling tool to support caseworkers.
- Bring the recognition of prior learning forward in time and involve employers in the recognition process to assure that displaced workers can benefit systematically and, ideally, already before actual dismissal.
- Rigorously evaluate active labour market programmes and training schemes with a special focus on their effectiveness for displaced workers.
- Reinforce training and pre-training counselling to ensure people choose and get the right training at the right time and avoid costly but ineffective training.

Chapter 1

Job displacement in Denmark and its consequences

This chapter examines the prevalence and consequences of job displacement in Denmark. Although job displacement has a lower incidence in Denmark than the international average, the risk of redundancy increased markedly during the crisis, but returned back to pre-crisis levels shortly thereafter. A large share of laid-off workers gets back to work relatively quickly, but the costs of displacement can be persistent for the most vulnerable groups. Danish laid-off workers face higher earnings losses than their Nordic counterparts and re-employment rates remain below their pre-crisis level, calling for more personalised re-employment support for those most in need.

OECD (2013a and 2013b) measures the incidence and consequences of job displacement in 13 OECD countries, highlighting the high cyclicality of this labour market adjustment process. Between 2% and 7% of workers with stable attachment to the labour market involuntarily lose their job every year, and a large proportion experience large and persistent earnings losses following their layoff, especially older and low-skilled workers. In Denmark, blue-collar workers also generally face a bumpier ride in recovering from redundancy. The remainder of this chapter provides a portrait of Danish laid-off workers including occasionally a comparison with two other Nordic countries, Finland and Sweden.

Incidence and characteristics of job displacement

Defining and measuring job displacement

Displaced workers (also indifferently referred to in this report as *laid-off workers* or *redundant workers*) are employees with a strong attachment to paid employment who lose their job because of economic reasons or technological change, or as a result of structural change. The definition of job displacement has been developed and harmonised across national databases; however, variations were used depending on the data source. These differences are comprehensively explained in OECD (2013a and 2013b) and summarised in Box 1.1. The incidence and consequences of job displacement in Denmark are calculated using the *Integrated Database for Labour Market Research* (IDA)[1] from 2000 to 2012.

Box 1.1. **Defining and measuring job displacement in Denmark**

As argued in OECD (2013a and 2013b), the reason for each job separation is not necessarily known or accurately measured in an internationally comparable way. Depending on available data sources, two concepts of job displacement are used in the OECD review: based on household surveys, some OECD countries use a *self-defined definition* of job displacement, the accuracy of which depends on respondents' answer to the reason for leaving their job. In other countries including Denmark and its two Nordic benchmark countries, Sweden and Finland, administrative data provide a *firm-identified definition* of job displacement considering job separations from firms that, from one year to the next, either ceased to operate (*firm closure*), or experienced an absolute reduction in employment of five employees or more *and* a relative reduction in employment of 30% or more (*mass dismissal*). The definition used for Sweden slightly deviates as it is based on establishments rather than firms so as to avoid an over-estimation of displacements due to frequent changes in firm identification numbers in Sweden.

Box 1.1. **Defining and measuring job displacement in Denmark** *(cont.)*

The OECD definition of *mass dismissal* also differs from national standards. The Danish Labour law considers cases as mass dismissal where the number of planned dismissals within a period of 30 days reaches: i) at least 10 workers in firms with 20-99 employees; ii) at least 10% of the workforce in firms with 100-299 employees; or iii) at least 30 employees in large firms employing at least 300 employees (see Chapter 3). Therefore, the OECD definition is more restrictive than the Danish law for large firms and less restrictive for medium-sized firms. Both OECD and the Danish definition exclude individual and small-scale displacements, thus leaving a large share of job separations uncovered by early intervention services.

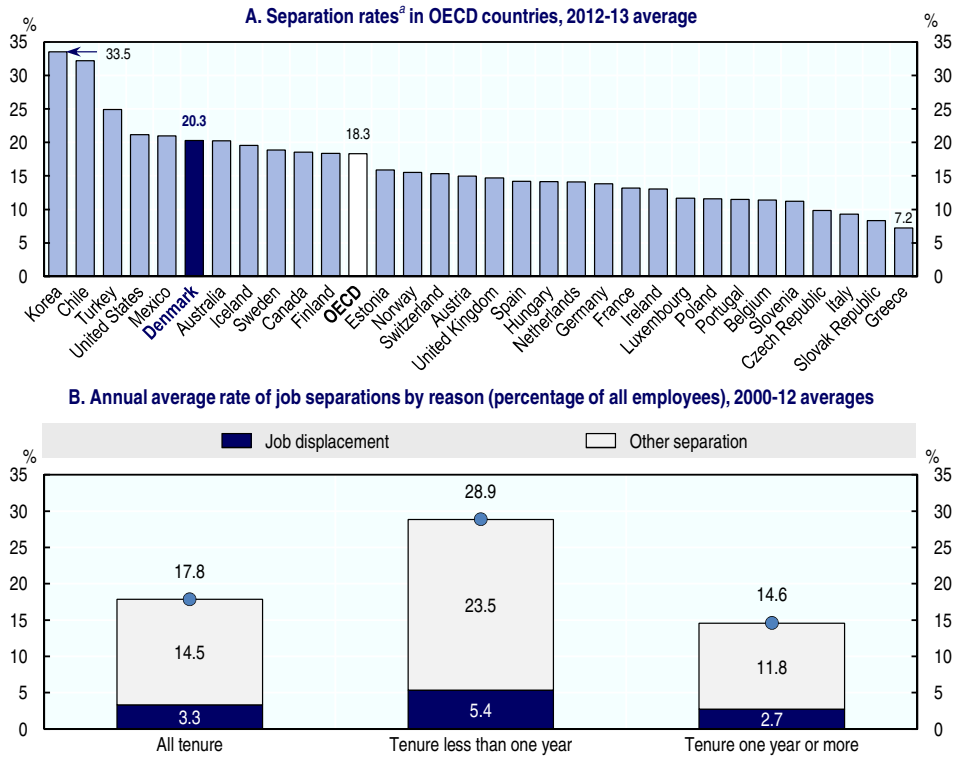
Source: OECD (2013a), "Back to work: Re-employment, earnings and skill use after job displacement", Final Report, OECD Publishing, Paris, October, www.oecd.org/els/emp/Backtowork-report.pdf, and OECD (2013b), *OECD Employment Outlook 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2013-en, and Danish Labour Law.

Labour turnover is high in Denmark but the incidence of job displacement is lower than the international average

Overall labour turnover is high in Denmark compared with most other OECD countries, as on average one in five Danes separate from their job every year (Figure 1.1, Panel A). Large job flows imply that many Danish workers experience a period of unemployment in any given year, but in most cases only for a short period of time. Most job separations occur within the first year of employment: separations are twice more frequent for workers with short job tenure[2] than for those with at least one year of tenure in their previous job (Figure 1.1, Panel B). Almost 15% of these workers with stable attachment to the labour market lose their job every year, four out of five being affected by individual or small-scale dismissal or quitting voluntarily (thereafter referred to as *other separations*) and only one in five being *job displacement* as defined in this review (including mass dismissals and firm closures).

Between 2000 and 2012, on average 2.7% of Danish workers with at least one year of tenure[3] are displaced every year with a minimum of 1.8% in 2006-07 and a maximum of 5.2% in 2009. Job displacement in Denmark is below the average of OECD countries with similar data, with Portugal, Finland, the United States and the United Kingdom showing higher rates, but Germany and Sweden performing better than Denmark (Figure 1.2, Panel A). However, the Danish labour market reacted promptly to the crisis in 2008 (Figure 1.2, Panels A and B).

Figure 1.1. **Labour turnover is high in Denmark and job displacement represents only a small share of all job separations**



a) Data refer to the difference between the hiring rate and the net employment change.

Source: *OECD Job Tenure Dataset*, a subset of the *OECD Employment Database*, www.oecd.org/employment/database for Panel A; and OECD estimates based on *Integrated Database for Labour Market Research* (IDA) for Panel B.

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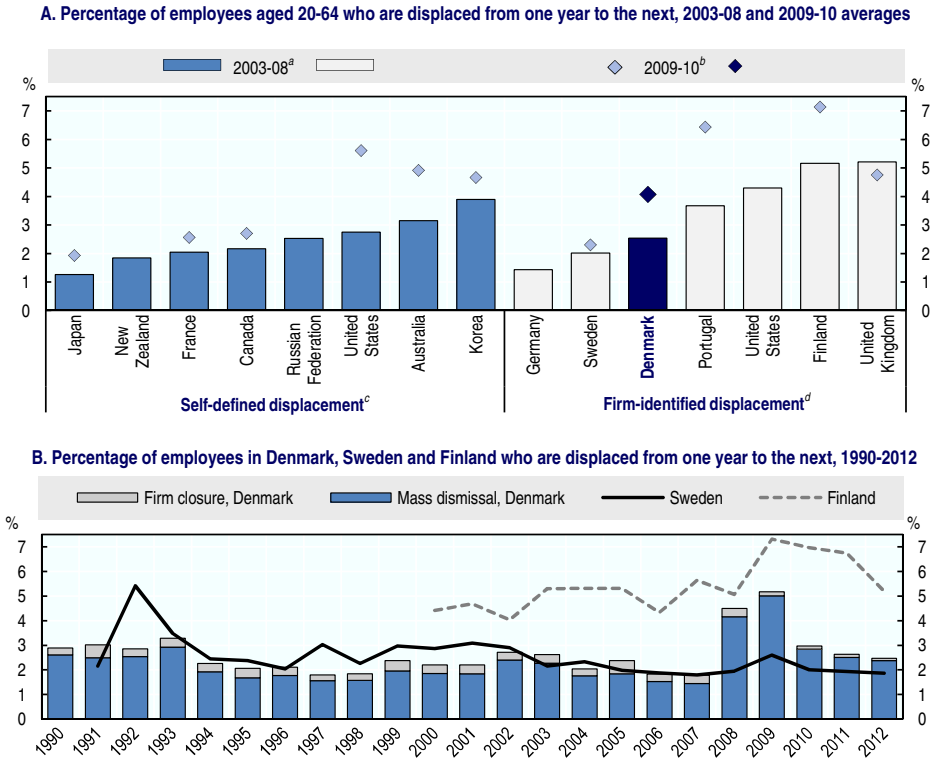
Who is at risk of being displaced and who suffered most in the crisis?

In Denmark as in most other OECD countries, job displacement rates are higher for younger workers (Figure 1.3), peaking at 6.9% during the crisis period (2008-09) for workers aged 20-24 years. All three Northern European countries (Denmark, Finland and Sweden) show unusual displacement patterns for older workers who are not specifically more at risk of losing their job in mass dismissals or firm closures than prime-aged workers. Workers with short job tenure, low education or working in small firms, in transportation or other services, as well as workers in elementary occupations face the highest risk of job displacement (Figure 1.3 and Annex Figure 1.A1.1).

Figure 1.2. **Job displacement rates in Denmark and Sweden are lower than in other OECD countries, but Sweden was more resilient to the crisis**



Note: For Panel A, see Table A1.1 in Annex A.1 of OECD (2013) quoted in the source below, for details on the samples and definitions used for each country.

a) Data refer to an average of 2000-04 for Germany; to an average of 2004-08 for France and the Russian Federation; and for the United States to an average of 2003, 2005 and 2007 for self-defined displacement, and to an average of 2003-07 for firm-identified displacement.

b) Data refer to 2009 for Korea, Portugal and the United States.

c) Self-defined displacement (using household panel data): job separations where the reason given for leaving the previous job is economic reasons (e.g. redundancy, layoff, business slowdown, lack of work, firm closure, mass dismissal, etc.) or dismissal for cause.

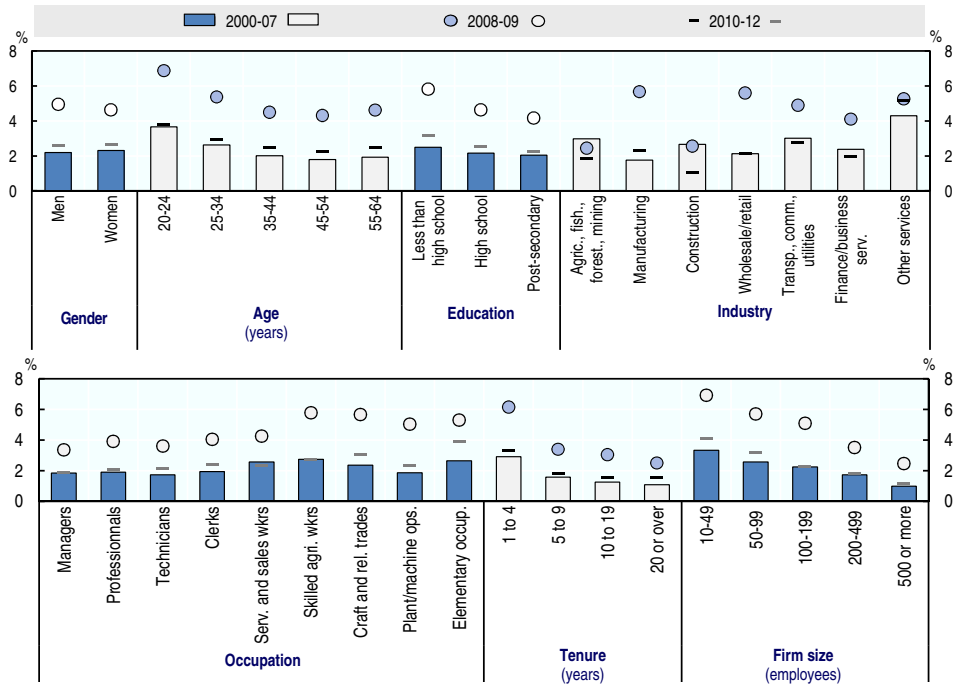
d) Firm-identified displacement (using administrative data): job separations from firms that, from one year to the next, experience an absolute reduction in employment of five employees or more and a relative reduction in employment of 30% or more (mass dismissal) or that ceased to operate (firm closure).

Source: OECD (2013), "Back to work: Re-employment, earnings and skill use after job displacement", Final Report, Directorate for Employment Labour and Social Affairs, OECD Publishing, Paris, October, www.oecd.org/els/emp/Backtowork-report.pdf for Panel A; OECD estimates based on *Integrated Database for Labour Market Research* (IDA) for Denmark, *Individual and Firm level Data Base at Growth Analysis* (IFDB) for Sweden, and *Finnish Longitudinal Employer-Employee Database* (FLEED) for Finland for Panel B.

StatLink http://dx.doi.org/10.1787/888933430410

Figure 1.3. **Youth, low-skilled and workers working in the manufacturing sector were particularly hardly hit by the 2008 crisis**

Displacement rates by worker characteristics (percentages), 2000-12



Note: All differences between pre-crisis (2000-07) and crisis (2008-09) rates are significant at 95% confidence except for construction. All differences between crisis (2008-09) and post-crisis (2010-12) rates are significant at 95% confidence except for other services.

Source: OECD estimates based on *Integrated Database for Labour Market Research* (IDA).

StatLink http://dx.doi.org/10.1787/888933430425

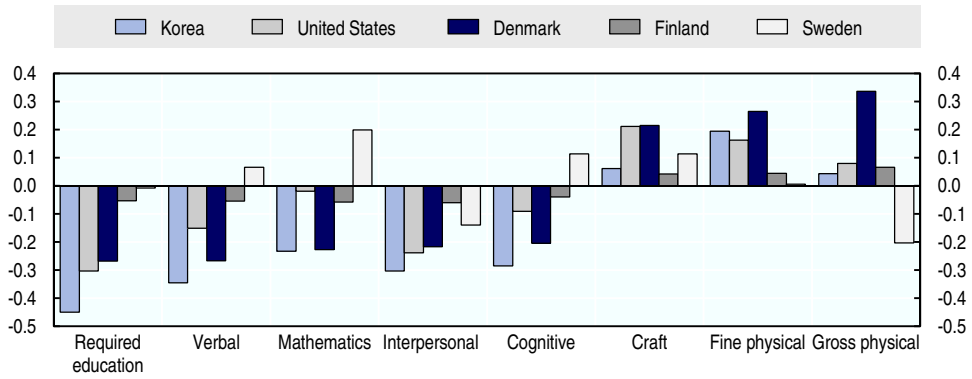
Being a country with a very flexible labour market (see Chapter 3), the immediate job displacement response to the GFC was very severe in Denmark. Figure 1.3 highlights this highly cyclical pattern: in comparison to the pre-crisis period, job displacement more than doubled during the crisis (reaching 4.9% in 2008-09 compared with 2.2% in 2000-07), increasing across the board for almost all types of workers, and recovered quickly afterwards (down to 2.7% in 2010-12). The crisis hit particularly sharply the manufacturing sector with displacement rates more than tripling, from 1.8% in 2000-07 to 5.7% in 2008-09.[4] Displacement rates also rose to a sharp extent for some vulnerable groups of workers: low-skilled workers (5.8%), short-tenured workers (6.2%), youth (6.9%) and workers working in small firms (6.9%). The post-crisis

recovery has been uneven, as displacement rates remained close to their crisis levels for workers in other services and agriculture and mining as well as workers in elementary occupations. On the contrary, job displacement significantly decreased down to 1.1% in 2010-12 in the construction sector, most probably linked to the government's 2009-10 fiscal stimulus package, boosting infrastructure investment in particular in railroads and roads (European Commission, 2009; and OECD, 2009).

Displaced workers differ from the average worker in the typical set of skills they used in their pre-displacement job (Figure 1.4). In Denmark, displaced workers tend to make lesser use of math, verbal, cognitive and interpersonal skills than all employees but more use of craft as well as fine and gross physical skills, illustrating that workers with a lower level of education, youth and those working in low-skilled occupations are more at risk of job displacement. This skill distinction is similar to the one seen in other countries, with the exception of Denmark's closest neighbour, Sweden, where the skills gap to all employees are of lower size and where displaced workers more often come from occupations using math, verbal and cognitive skills, and less often from occupations using gross physical skills.

Figure 1.4. **Displaced workers generally made more use of craft and physical skills than other employees, also in Denmark**

Difference in pre-displacement skill use between displaced workers and all employees (units of a standard deviation), 2000-10 averages[a]



a) Skill requirements are measured by indices with mean zero and unit standard deviation (see OECD, 2013). This figure reports the difference in skill requirements between displaced workers and all employees.

Source: OECD (2013), "Back to work: Re-employment, earnings and skill use after job displacement", Final Report, Directorate for Employment Labour and Social Affairs, OECD Publishing, Paris, October, www.oecd.org/els/emp/Backtowork-report.pdf.

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Labour market outcomes following displacement

Seven displaced workers out of ten get back into work within one year

The transitional nature of the Danish labour market exposes workers to more frequent job loss but also facilitates a quick return to employment. On average, seven laid-off workers out of ten find a new job in the first year after displacement (Figure 1.5, Panel A), and three out of four within two years.[5] Displaced workers who lost their job through either a mass dismissal or a firm closure more often find new employment than laid-off workers experiencing individual or small-scale dismissal: 69% of displaced workers find a new job in the first year after displacement compared to 62% in the case of other separations.

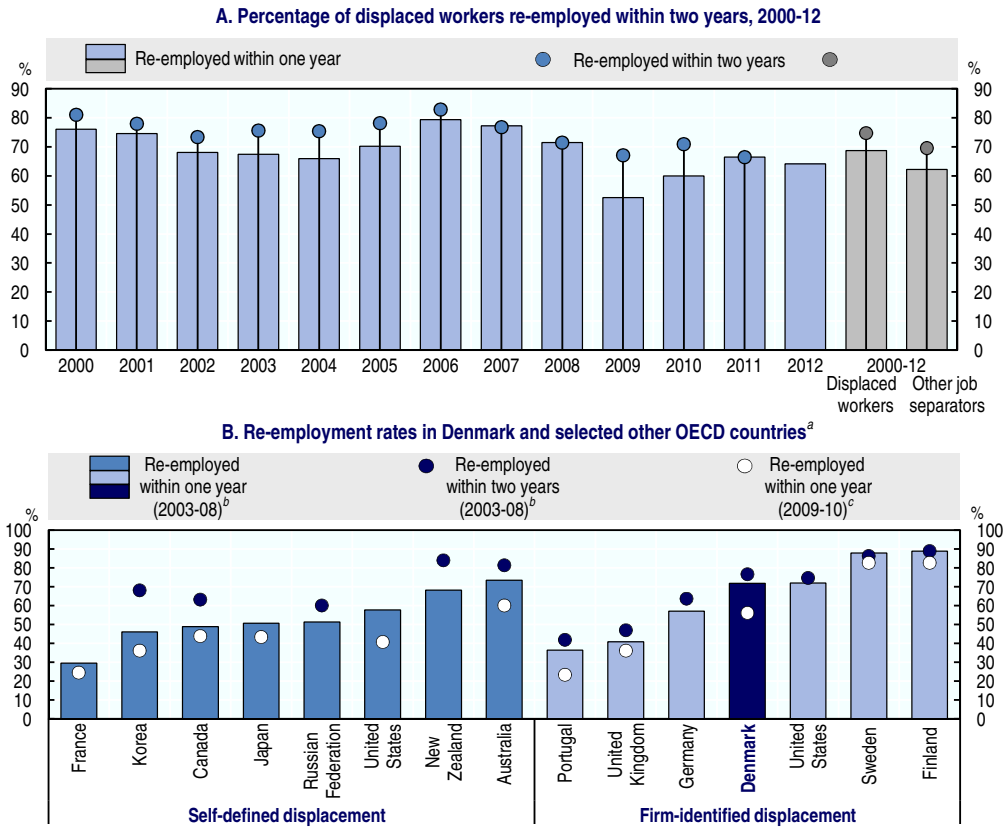
Re-employment rates for displaced workers in Denmark are relatively high by international standards but below those in Finland and Sweden (87%) in both countries (Figure 1.5, Panel B). Re-employment rates fell sharply in Denmark during the crisis, from 72% in 2000-08 to 52% in 2009, and did not recover to pre-crisis levels in the close aftermath (2010-12). Sweden and Finland, for comparison, showed far more resilience to the crisis as re-employment rates only declined respectively by 5 and 6 percentage points (pp) between pre-crisis years (2003-08) and 2009-10, compared with 16 pp in Denmark.[6]

But older and low-skilled workers struggle to find a new job

As in many other OECD countries, older laid-off workers have the greatest difficulties in re-entering employment, with less than one out of two finding a new job within one year: 47% in 2000-07 compared to 77% for prime-aged workers (Figure 1.6) and therefore spend a longer time unemployed or end up withdrawing from the labour force altogether. Redundant workers with very long tenure (who spent 20 years or more in their previous job) also have extremely low chances of re-entering employment within a year (56%). Low-skilled workers are also highly vulnerable in their re-employment process after mass dismissal or firm closure: only 64% of displaced workers with less than secondary school find employment within one year, compared with almost 80% for their post-secondary counterparts. Otherwise, workers laid-off from the manufacturing, agriculture and mining sectors have lower re-employment prospects than those coming from other sectors.

Figure 1.5. **On average, in Denmark seven displaced workers out of ten find employment within one year**

Re-employment rates after displacement (percentages), 2000-12



a) For countries with *self-defined* definition of job displacement, data refer to workers who lose their job for economic reasons, due to the end of a temporary contract or for cause. For countries with *firm-identified* definition of job displacement, data refer to workers who lose their job due to a mass layoff or firm closure. For full details of the data sources and methodology, see Table A1.1 in Annex A.1 of OECD (2013) quoted below.

b) Data refer to an average of 2000-08 for Canada, to an average of 2004-08 for France and the Russian Federation, to an average of 2000-04 for Germany, and to an average of 2004, 2006 and 2008 for the United States. There are no data on re-employment within two years for France and for the United States.

c) Data refer to 2009 for Korea, Portugal and Sweden, and to 2010 for the United States.

Source: OECD estimates based on *Integrated Database for Labour Market Research* (IDA) for Denmark; and OECD (2013), "Back to work: Re-employment, earnings and skill use after job displacement", Final Report, Directorate for Employment Labour and Social Affairs, OECD Publishing, Paris, October, www.oecd.org/els/emp/Backtowork-report.pdf, for all other countries.

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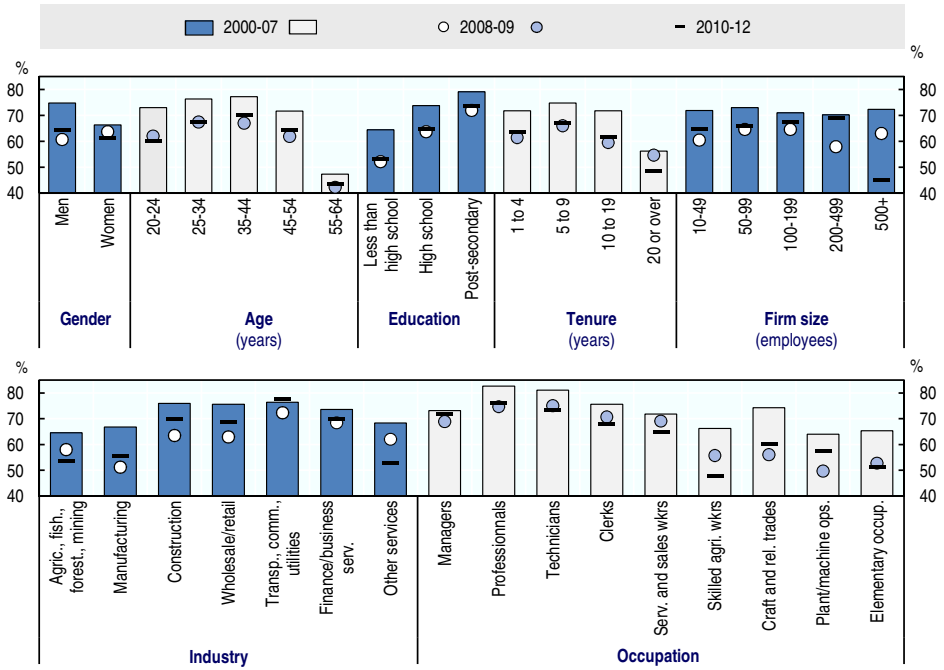
Figure 1.6. **Once laid-off, older workers, low-educated and long-tenured workers struggle most in finding a new job after mass dismissal or firm closure**

Re-employment rates by worker's characteristics (percentages), 2000-12



Note: All differences between pre-crisis (2000-07) and crisis (2008-09) re-employment rates are significant at 95% confidence. All differences between crisis (2008-09) and post-crisis (2010-12) re-employment rates are significant at 95% confidence except for young (20-34) and older (55-64) workers, workers with less than high school education, with medium tenure (5-9), working in finance/business services and for most occupations.

Source: OECD estimates based on *Integrated Database for Labour Market Research* (IDA).

StatLink http://dx.doi.org/10.1787/888933430457

The raw comparison of re-employment rates by categories of workers hides multichannel effects and prevents from disentangling the relative penalties or advantages of each characteristic. For example, tenure typically rises with age; re-employment rates of older workers and long-tenured ones are therefore highly correlated, but what is the really barrier to finding a new job? Being old or having a long job history within the same firm (and having firm-specific skills that are not transferable to another firm)? Annex Figure 1.A1.2 shows the results of a multivariate analysis isolating the separate effects of each job and worker characteristic from compositional effects. Other things equal, long job tenure only slightly

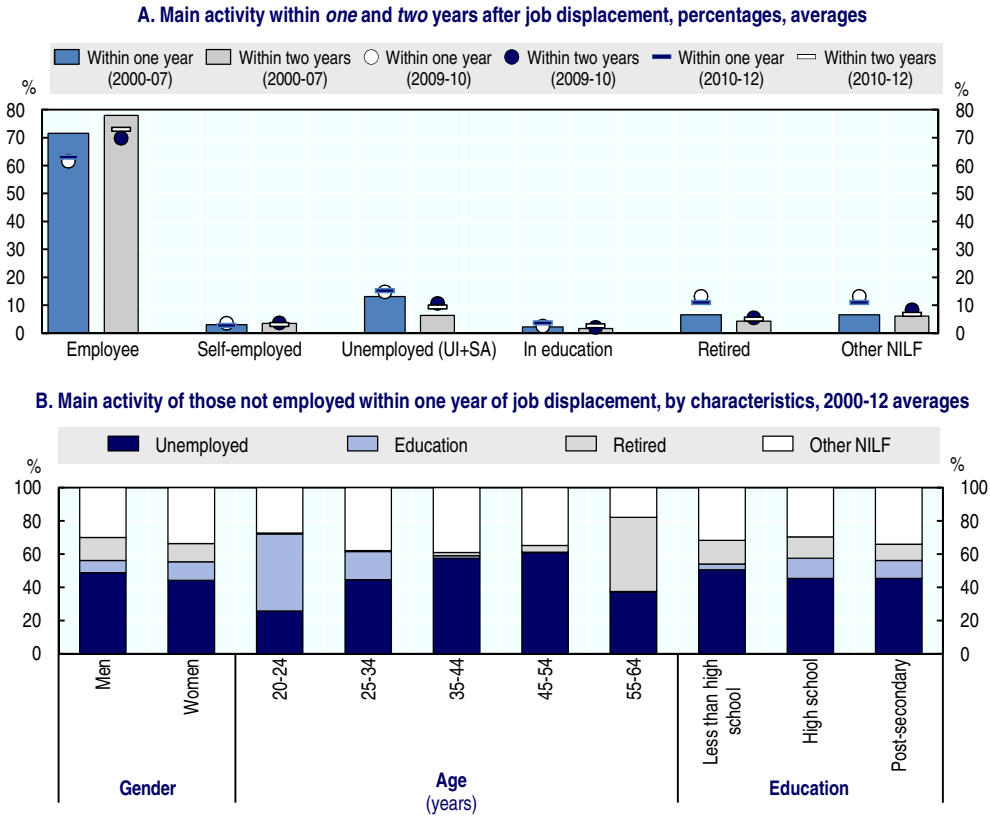
decreases re-employment (by -3 pp compared with workers with short tenure), while older workers are extremely penalised in their re-employment prospects because of their age (-22 pp compared with prime-aged workers). The age penalty is higher than all sector and occupation effects and even higher than the effect of the crisis (all other things equal, re-employment was lower by -17 pp in 2009 compared with 2000), calling for improvements in the re-employments services provided by the PES to this specific population (see OECD, 2015d, for a discussion of policy initiatives implemented in Denmark to promote longer working lives and improve the employability of older workers).

Men in Denmark were hit particularly hard by the crisis: their chances of finding a new job dropped by 14 pp compared with only 3 pp for women. Young laid-off workers as well as workers dismissed from the manufacturing sector also experienced particularly severe deterioration of their re-employment prospects: only one laid-off manufacture worker out of two found employment during the crisis. The crisis also polarised further the labour market outcomes by education: the gap between re-employment rates of displaced workers with less than high school and those with post-secondary education increased from 15 pp in 2000-07 to 20 pp in 2008-09, and only 53% of low-skilled displaced workers found a new job during the crisis. Skilled agricultural workers, craft ones and those in elementary occupations had the largest fall in re-employment rates as compared to pre-crisis rates.

Alternative outcomes are unequally distributed

What happens to non-employed displaced workers mostly depends on their age and qualification. On average in the first year after job displacement, one out of two benefit from unemployment insurance or social assistance, three out of ten withdraw from the labour force and a small proportion retire (13%) or return to education (9%) (Figure 1.7). Not only have low-skilled displaced workers to face poorer re-employment prospects than their skilled peers (36% and 21%, respectively, do not find employment within one year) but when not re-employed, education is less often an outcome for low-skilled than for high-skilled displaced workers (3% and 11%, respectively), illustrating the room for improvement in the Danish retraining policies targeted at displaced workers (see Chapter 5). Almost one older worker (55-64 year-old) out of two retires when not re-employed within one year after displacement.

Figure 1.7. **Undertaking formal education after displacement is a less frequent outcome for low-skilled than for higher-skilled workers**



Note: NILF: Not in the labour force; SA: Social assistance; UI: Unemployment insurance.

Source: OECD estimates based on *Integrated Database for Labour Market Research* (IDA).

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The aftermath of displacement: Changes in wages and job characteristics

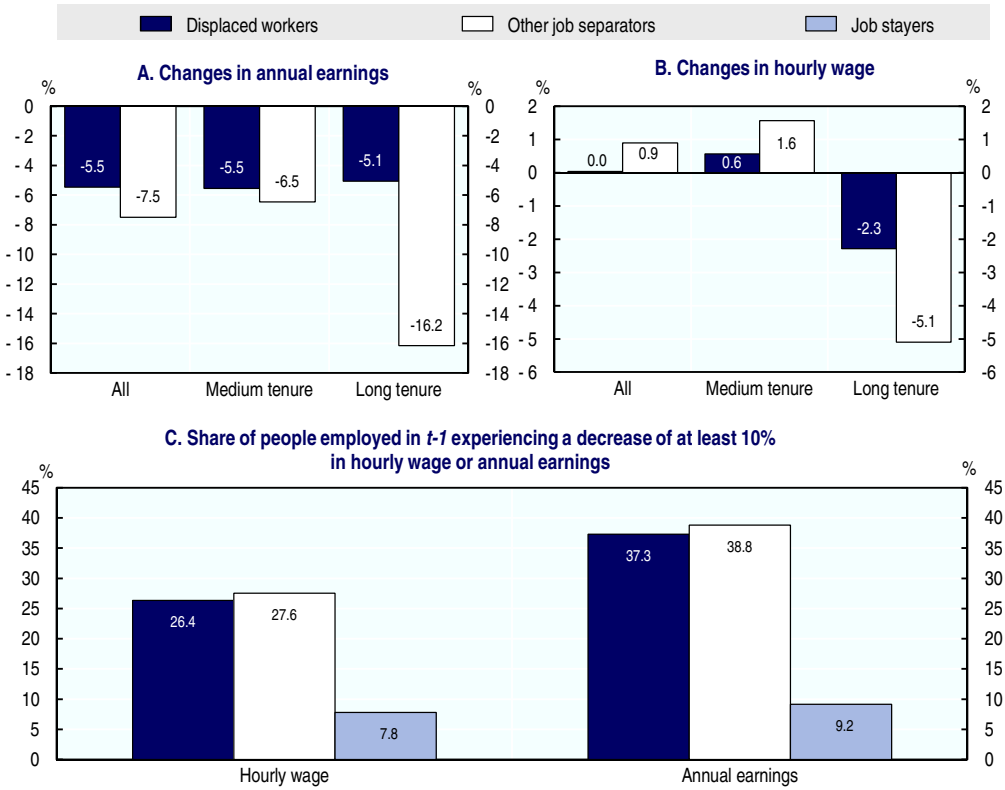
Job displacement can induce long-lasting earnings losses

Even when they find a new job quickly, a large share of displaced workers experience a decrease in earnings: in Denmark, their annual earnings were reduced on average by 5.5% over the first year after displacement compared to job stayers (Figure 1.8).[7] Most of this decrease derives from the lack of wages received during periods of unemployment (one displaced worker out of three is still not employed at the end of the

displacement year). For long-tenured workers, part of the explanation comes from 2.3% lower hourly wages in their new job.[8] Nevertheless, workers laid-off in the context of a mass dismissal or a firm closure (the definition of displacement used in this report) generally suffer from lower earnings and wages losses than workers losing their jobs in small-scale or individual dismissals. All in all, more than one displaced worker out of three faces an earnings loss of at least 10% in the year following displacement, and one in four an hourly wage loss of the same degree.

Figure 1.8. **More than one displaced worker out of three bears an earnings loss in the first year after their job loss of at least 10%**

First-year changes in income for re-employed displaced workers and other job separators (median hourly wage and annual earnings percentage changes), 2000-12 averages



Note: Medium-tenured workers: 1 to 9 years in previous job. *Long-tenured workers:* 10 years and over.

Source: OECD estimates based on *Integrated Database for Labour Market Research* (IDA).

StatLink http://dx.doi.org/10.1787/888933430474

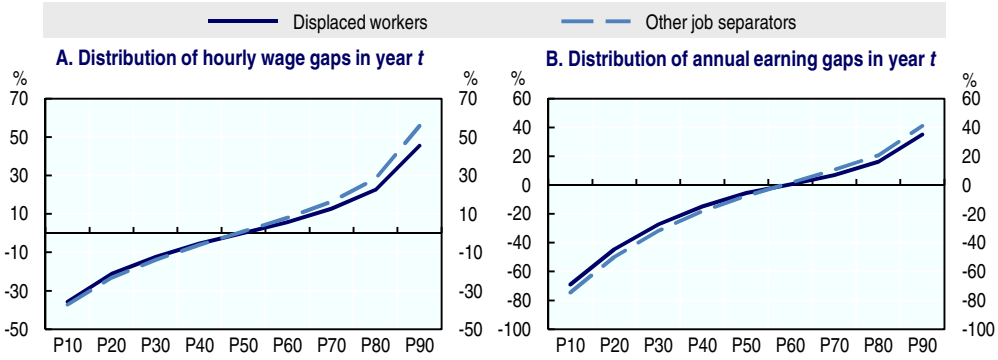
Earning losses are not only sizable but also persistent over time. This pattern prevails in all OECD countries, but the size of the effect varies across countries (OECD, 2013a and 2013b): displaced workers in Sweden and Finland face earning losses one year after displacement which are lower than in Denmark (4.5% and 3.6%, respectively, compared with 8.3%) while earnings losses in the United States and Germany are even larger (9.9% and 12.1%, respectively).[9] Interestingly, in the three Nordic countries, displaced workers experience the largest earnings losses only one year after job displacement while in the United States the largest loss occurs in the displacement year. This illustrates the important role played by unemployment insurance benefits and social assistance in these countries, to create a safety net and prevent displaced workers from falling into poverty (see Chapter 4). In Denmark, earnings of displaced workers remain 2.5% lower than their pre-displacement levels even four years after displacement. Using data for the United States, Cooper (2014) shows that the negative earnings effects of job displacement can be particularly long-lasting, as earnings of displaced workers do not catch up to those of their non-displaced counterparts for nearly 20 years.

The financial burden is unevenly shared across displaced workers

Looking more closely at the distribution of individual gains and losses reveals that job loss (be it job displacements or other separations) induces extremely diverse financial consequences for the affected workers, varying from a 36% hourly wage loss for the first decile of workers to a 46% wage gain for the top decile. Earning losses are even more diverse. Three displaced workers in Denmark out of five lost earnings in their displacement year, and for the 10% most affected, the realised decline in earnings was more than 70% – compared to earnings gains for the top income decile of close to 40% (Figure 1.9).

Figure 1.9. **Job losses induce unequal financial consequences**

Distribution of first-year earnings changes, by labour mobility status
(percentage change in earnings between year *t-1* and year *t*), 2000-12 averages



Source: OECD estimates based on *Integrated Database for Labour Market Research* (IDA).

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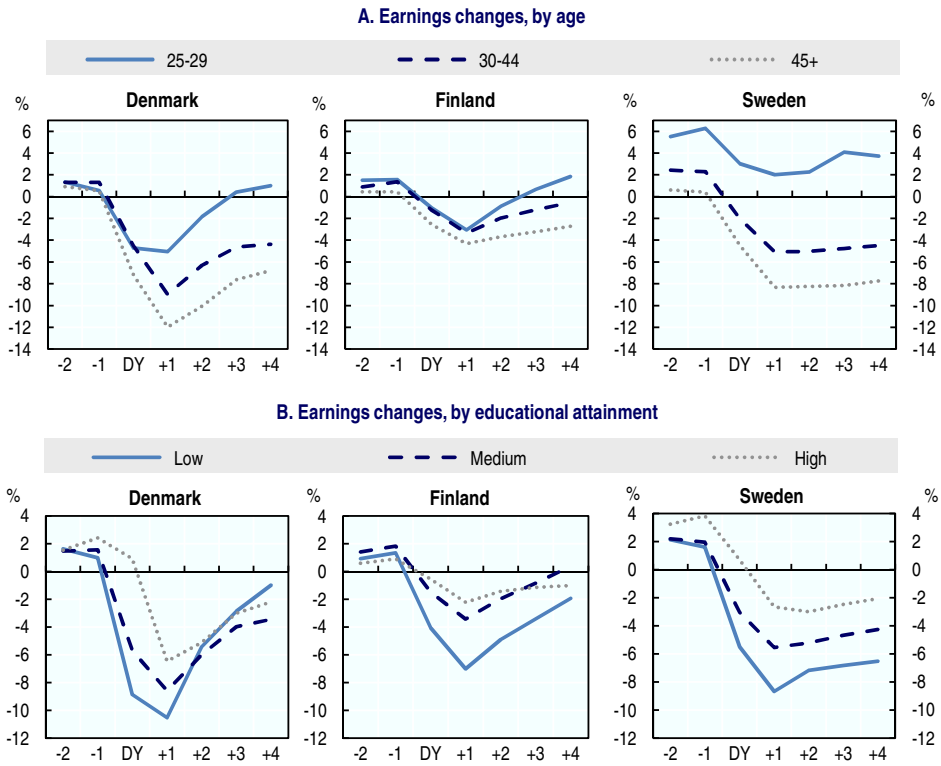
Earning losses increase with age in all countries (OECD, 2013a), but the age gap is more pronounced in Denmark than in its neighbouring countries. The financial penalty borne by displaced workers aged 45 years and over is much higher in Denmark (-12%) than in Sweden (-8%) or in Finland (-4%). Earning losses are also the highest in Denmark among the three countries compared for low-educated displaced workers (-10.5% on average), who however recover their pre-displacement earnings levels more quickly than workers with a high level of education, which is not the case in Sweden and Finland (Figure 1.10).

Figure 1.10. **Older and low-educated Danish displaced workers bear the highest cost of job displacement**

Earnings changes *before* and *after* displacement in Denmark, Finland and Sweden (percentage of pre-displacement earnings),[a] 2000-10 averages



Note: DY = Displacement year. *Low:* Less than secondary education; *Medium:* Secondary education; *High:* Post-secondary education. See Annex 4.A1 in OECD (2013) for a full description of the samples, years and definitions used for each country. Data refer to annual earnings.

a) Pre-displacement earnings is the average earnings in the year prior to displacement (-1 in each chart).

Source: OECD (2013), *OECD Employment Outlook 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2013-en.

StatLink http://dx.doi.org/10.1787/888933430497

In conclusion, older workers, low-skilled workers and those with long tenure are therefore the most affected groups of displaced workers with one or several of the following penalisations: a higher displacement rate, lower re-employment prospects, and a higher earnings/wage penalty when finding a new job. This calls for attention to rapid intervention re-employment services. The subsequent chapters focus closely on these risk groups in their analysis of policy measures designed to foster re-employment of displaced workers.

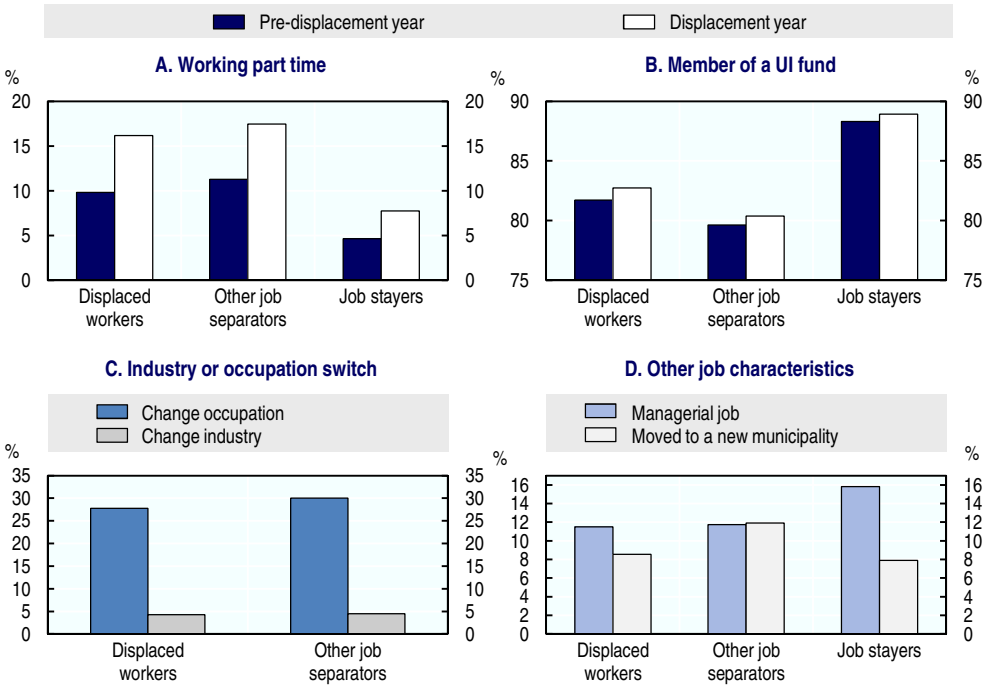
Immaterial consequences of job displacement darkens the picture

Other than financial consequences of job displacement may be even more problematic. Job quality, for example, tends to worsen following a job displacement. Once re-employed, displaced workers are more likely to work only part time (16%) than prior to displacement (10%) and much more than job stayers (8%). A lower proportion of displaced workers perceives their job as a managerial position (11%) compared to job stayers (16%); and a lower share contributes to an unemployment insurance fund in their new job (83%) compared to job stayers (89%), leading to a reduced unemployment insurance coverage in case of a future job loss (Figure 1.11).

Job losses are also associated with household strain and instability (Pacitti, 2011; Bubonya et al. 2014), particularly for older workers (Chan and Stevens, 2001), poorer health outcomes (Michaud et al., 2014) and the level of happiness and subjective well-being (Krueger and Mueller, 2011). For Sweden, Eliason and Storrie (2009) show that the mortality risk of displaced workers increased by 44%, while Browning and Heinesen (2012) analysed the reasons and time pattern of similarly increased mortality in Denmark. They found that job displacement increases the risk of mortality caused by stress-related health concerns (circulatory disease), the loss of psychological well-being (suicide and suicide attempts, mental illness) and due to increased recklessness and high-risk behaviour (traffic accidents and alcohol-related disease). The effects are the largest just after plant closure, with the mortality risk increased by 79% in the year of displacement, but mortality is still 36% higher than for non-displaced workers even 1-4 years after displacement and remains higher for 20 years.

Figure 1.11. **Job quality worsens following job displacement**

Job characteristics of the re-employed displaced workers and other job separators, 2000-12 averages



Note: UI: Unemployment insurance.

Source: OECD estimates based on *Integrated Database for Labour Market Research* (IDA).

StatLink http://dx.doi.org/10.1787/888933430500

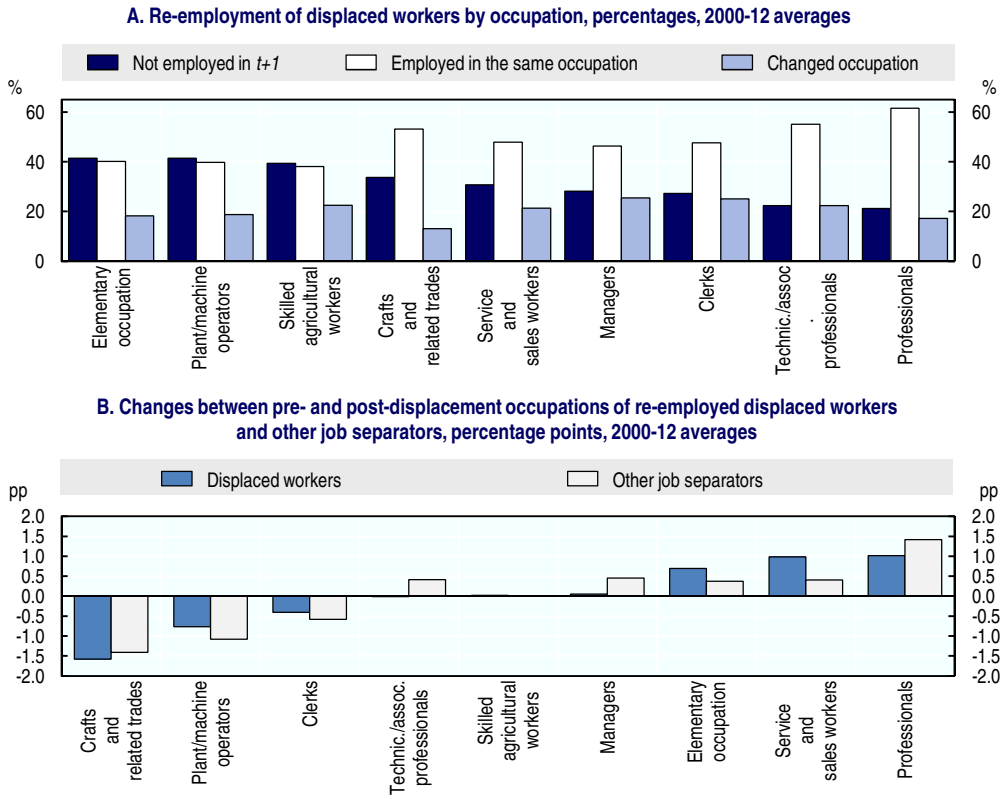
Occupational changes are common after displacement

Re-employment prospects of displaced workers vary considerably by occupation. Workers laid-off from elementary occupations as well as plant and machinery operators struggle to find new jobs: more than 40% are still not employed one year after their job loss, compared with 21% of professionals (Figure 1.12, Panel A).

Among those who find a new job, Figure 1.12, Panel B shows a net exit from craft and related trades and plant/machinery operators, while displaced workers shift towards elementary occupations, professionals, or become services and sales workers. Interestingly, managers and clerks are the ones who most often change occupation, sometimes experiencing severe downward mobility: 8% of the re-employed managers end up in elementary, plant/machinery or craft occupations (representing one out of five moving

managers), compared with 6% among technicians and clerks and only 2% among professionals. On the other hand, services and sales occupations are promising job opportunities for displaced workers previously employed in elementary occupations (representing one out of five moves observed from this category).

Figure 1.12. **Re-employed displaced workers shift towards elementary occupations, professionals, or become services and sales workers**



Note: pp: Percentage point.

Source: OECD estimates based on *Integrated Database for Labour Market Research* (IDA).

StatLink http://dx.doi.org/10.1787/888933430510

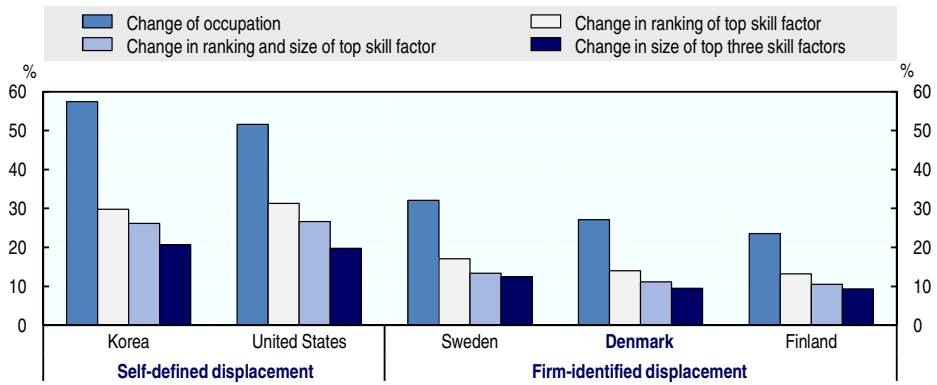
Can skills switches explain post-displacement earning losses?

Displaced workers are mostly re-employed in occupations with similar skills

If human capital was completely occupation-specific, widespread occupational changes would cause sizeable skills losses following displacement. Skill changes as a result of changes in occupation may also explain part of the earnings losses perceived. But even when they move to a new occupation, most displaced workers find jobs that use skills similar to those required in their previous jobs (OECD, 2013a). After displacement, 27% of the re-employed displaced workers change occupation but only 14% move to occupations with very different skill requirements (Figure 1.13). While this is a non-negligible share of displaced workers and may support the rigorous vocational and education policies in place for life-long learning, it also emphasises the importance of portable and transferable skills in helping displaced workers transition into new employment.

Figure 1.13. **Displaced workers switch occupation but continue to use similar skills**

Skill use before and after displacement[a] (percentage of displaced workers who change occupation[b] and skills set[c]), 2000-10 averages



a) Skill requirements are measured by indices with mean zero and unit standard deviation (see Box 3). This chart reports the difference in skill requirements between displaced workers and all employees.

b) Occupation is defined at the ISCO-88 two-digit level, with the exceptions of Canada and the United States where it is defined using the US Census occupational classification at the three- and two-digit levels, respectively.

c) For skills set changes, the ranking of the top factor is considered to have changed if it has fallen by at least two positions and only changes in skill factor sizes of at least half a standard deviation are considered (see Box 3 in OECD, 2013).

Source: OECD (2013), "Back to work: Re-employment, earnings and skill use after job displacement", Final Report, OECD Publishing, Paris, October, www.oecd.org/els/emp/Backtowork-report.pdf.

StatLink http://dx.doi.org/10.1787/888933430523

Workers switching skill-sets in the same industry face the largest earnings loss

Poletaev and Robinson (2008) find that wage losses following displacement are associated with changes in skills use before and after job displacement rather than changes in occupation and industry. According to OECD (2013a), while in some countries the effect of skill-switching appears to be magnified by industry moves (like in Finland or Portugal), this is not the case in Denmark where the largest earning losses are borne by displaced workers who switch skill-sets within the same industry (nearly 10% decrease in the first year after displacement, and between 5% and 8% in the following years).

Human capital is apparently not occupation or industry-specific, which is good news for re-employment services, as it implies that intensive retraining is not necessarily needed for displaced workers. On the contrary, professional guidance and career counselling might be enough to guide and orient displaced workers towards jobs in new occupations that suit their transferable skills. Identifying these bridges towards new professional opportunities is therefore the crux of the re-employment process of displaced workers. This has particular implications for policies used to support laid-off workers, as changing occupations (through re-training and skills development) may be more difficult in a short period of time than retaining previous occupations to remain working in the same industry.

Conclusion

High turnover is a key characteristic of Denmark's flexible labour market. It is important that high job flows do not systematically leave certain types of individuals aside, all the more if it concerns workers losing their jobs involuntarily. The incidence of job loss in the context of firm-closure or mass layoff (the definition of job displacement used in this report) is lower in Denmark than in many other countries, while re-employment prospects for displaced workers are a little better than average but worse than in Finland and Sweden. As in other countries, earning losses can be significant and long lasting while job quality and health worsens following job displacement.

In Denmark, older workers, low-skilled workers and workers with long tenure are the most affected groups, cumulating several disadvantages: a higher job displacement rate, lower re-employment prospects and a higher wage penalty when finding a new job. The crisis hit certain groups particularly hard: the manufacturing sector, low-skilled workers, youth and workers working in small firms. While generous labour market support is

offered to all the unemployed, special attention of rapid intervention re-employment services should be placed on those who have a harder time adapting to structural change and remain vulnerable due to the recent economic crisis. The remaining chapters of the report discuss how well Denmark addresses these challenges.

Notes

1. The *Integrated Database for Labour Market Research* (IDA) is a longitudinal matched employee-employer panel based on administrative data and including all individuals and firms in Denmark.
2. Along the lines defined in OECD (2013a), job separations happening soon after hiring may result from the firm and employee deciding that they were not well-matched rather than for economic or technological reasons or as a result of a structural change. Therefore, only workers with at least one year of tenure with the same employer are taken into account.
3. Following the methodology used in previous reviews of this series (OECD, 2013a and 2013b, 2015a, 2015b, 2015c and 2016), the population of interest includes private-sector employees aged 20-64 years with at least one year of tenure, single job holders, who are employed in firms with ten or more employees. Employers, self-employed and unpaid family workers are excluded from the analysis, as are workers in the public administration, defence, other community and social services; and extra-terrestrial organisations and bodies (ISIC Rev. 3, groups L, O and Q).
4. The Danish Economic Council (2012, 2013) identified that the net job losses in the manufacturing and the construction industries were largely due to a decline in export demand from several large exporting partners.
5. Re-employment rates stabilise at around 75% in the third and fourth year after displacement.
6. OECD (2015a) discusses the reasons for these high re-employment rates in Sweden and analyse the country's ability to flexibly reallocate labour and manage restructuring.
7. During the crisis, Denmark has been experiencing downward wage rigidities in all sectors of the economy (although some more than others): on average, 40% of full-time employees experienced real wage cuts since 2008, including for more than half of them even nominal wage cuts (OECD, 2014). Displaced workers were not exempt from earning losses and were, unsurprisingly, even more affected than job stayers. To

determine the real wage losses borne by displaced workers, a *difference-in-difference approach* must be used (see Box 1 in OECD (2013b) for more details about this method), as a simple difference between the scale of earnings before and after displacement would underestimate the lost opportunities for wage raises that non-displaced colleagues may have perceived by remaining employed (Jacobson et al., 1993; and OECD, 2013a).

8. Wage and earnings effects are calculated only for workers who are employed at the end of the displacement year. It is plausible to assume that workers who have longer periods out of work may suffer from larger wage losses when they eventually return to work.

9. Part of the explanation may come from the fact that open economies have more compressed wage distributions than countries that are less exposed to international competition (Barth and Moene, 2013).

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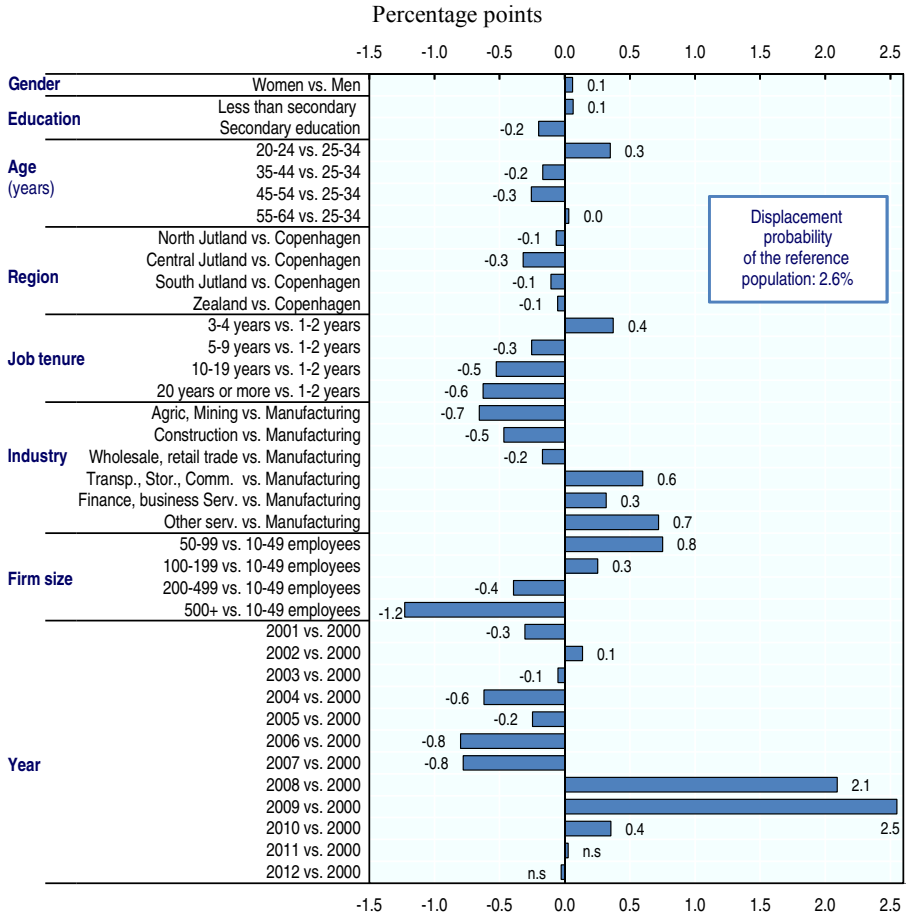
Annex 1.A1

Supplementary figures

Figure 1.A1.1. **Marginal effect of selected characteristics on the likelihood of being displaced, 2000-12**



Source: OECD estimates based on *Integrated Database for Labour Market Research* (IDA). Marginal effects (in percentage points) of a logit estimation. Explained variable: displacement in year *t*. Explainable variable included in the estimation, but not displayed in the figure: occupation. All marginal effects are significant at less than 1% except for those labelled *n.s.* (not significant).

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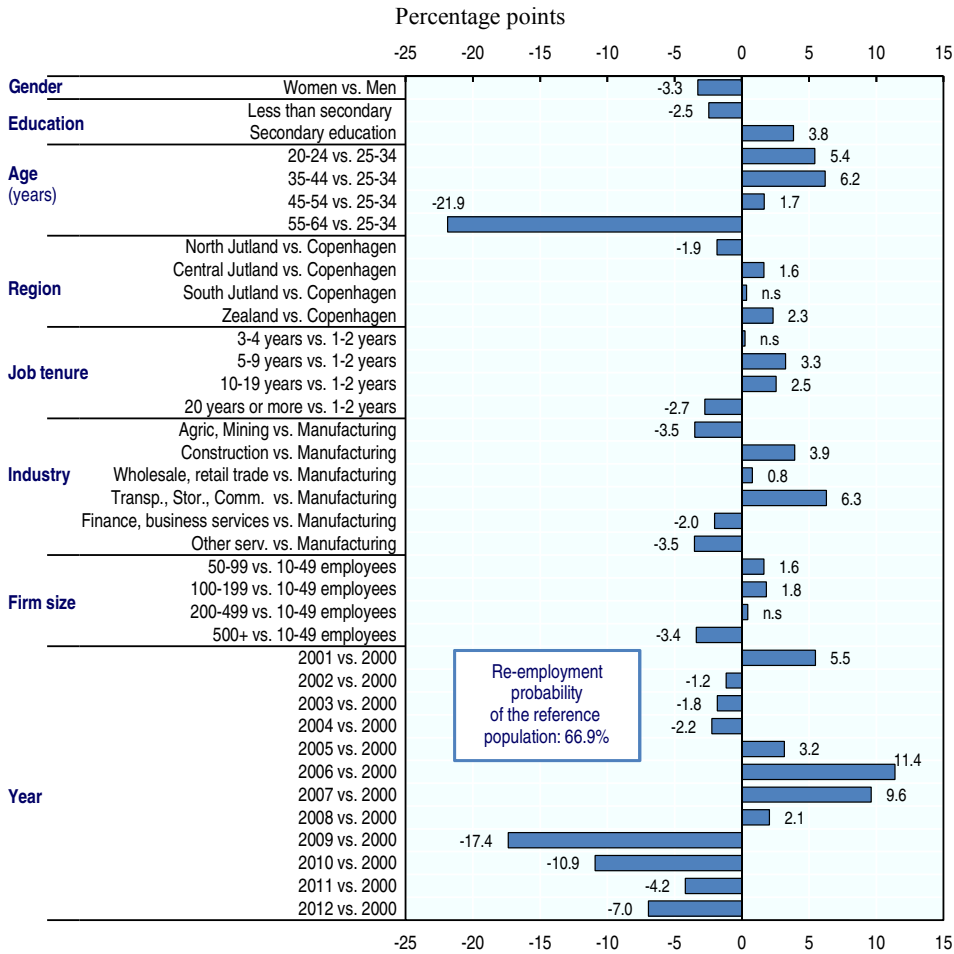
Figure 1.A1.2. **Marginal effect of selected characteristics on the likelihood of re-employment, 2000-12**



Source: OECD estimates based on *Integrated Database for Labour Market Research* (IDA). Marginal effects (in percentage points) of a logit estimation. Explained variable: displacement in year *t*. Explainable variable included in the estimation, but not displayed in the figure: occupation. All marginal effects are significant at less than 1% except for those labelled *n.s.* (not significant).

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Chapter 2

The Danish *flexicurity* model and institutional setup

Delivering good economic and social outcomes, the well-known Danish flexicurity *model has inspired a number of other countries over the past decade. The global financial crisis raised doubts about the sustainability of such a model in an economic downturn. This chapter describes the Danish model, the institutional setup and the main actors involved. The chapter highlights the challenges in regard to i) employment protection legislation fostering flexibility for employers, ii) the income support system providing a safety net for displaced workers, and iii) the activation strategy helping displaced workers back into work.*

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

The *Global Financial Crisis* (GFC) hit Denmark hard in 2008 highlighting the importance of solid labour market policies to respond quickly to a sharp economic downturn. The GFC suddenly increased the number of workers at risk of being displaced, but also the risk that job losers will remain unemployed for a long period of time, thereby threatening the viability of the entire social and labour market system. This chapter describes the Danish *flexicurity* model and its key actors and examines how Danish authorities adapted the three pillars of this model in response to the crisis: flexibility for employers to quickly adjust their workforce to economic conditions; security for individuals through a solid safety net; and a strong activation strategy to ease the re-employment process of displaced workers.

The Danish *flexicurity* model through the crisis

The Danish flexicurity *model builds upon three pillars*

The Danish model of *flexicurity* received considerable international attention in particular during the decade prior to the economic crisis, as a model that delivers good outcomes in terms of both labour market dynamism and inclusiveness. These achievements built upon the combination of: i) a flexible labour market relying on a relatively low level of employment protection; ii) income security based on generous unemployment benefits; backed up with iii) strong activation policies ensuring incentives to look for jobs and enhancing jobseekers' employability. Anchored on these three pillars, the Danish model provides employers with the ability to easily adjust their workforce to structural change and cyclical fluctuations in demand, while at the same time providing workers and their families with a solid safety net against large income losses and poverty risks. As a consequence, high job turnover is a dominant feature of the Danish labour market and employees are accustomed to more frequent work transitions.[1] Job displacements are therefore inherent to the Danish model and finding the *right* balance between flexibility for employers and safety for employees is a central concern in Denmark, so as to prevent displaced workers from being the losers or victims of this social contract.

Denmark was particularly hard hit by the crisis

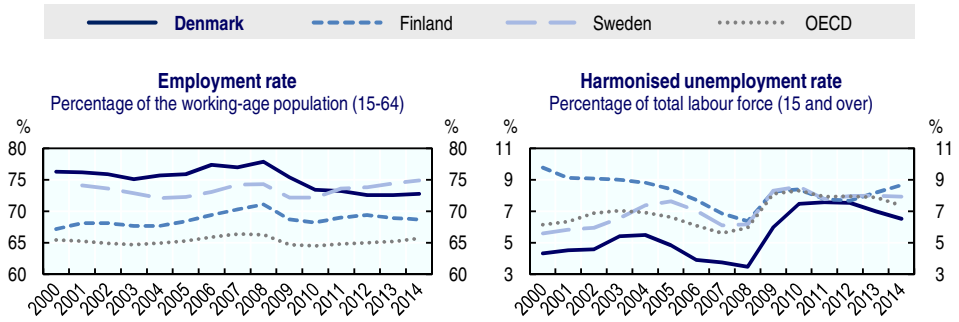
Given high structural job turnover, it is not surprising that Denmark experienced a rapid surge in unemployment when the economy fell into deep recession in the second half of 2008. By the end of 2009, GDP had contracted by more than 6% (as compared to 4.5% in the Euro area), the job finding rate had dropped to 15% from a record high of 30%, while the job

separation rate was only on a slight decline, remaining just above 25%. While the GFC clearly impacted employment during the onset of the crisis, the high transitional nature of the Danish labour market has not deterred net employment from remaining well above the OECD average (Figure 2.1, Panel A; see also Eriksson, 2012).

Nevertheless, the unemployment rate peaked at 7.8% in the second quarter of 2012 from a record low of 3.2% four years earlier (OECD, 2014a). This is among the largest unemployment increases in the OECD during the GFC, both in absolute and relative terms, due to the high sensitivity of the Danish labour market to the business cycle but also because at the onset of the crisis the Danish economy showed clear signs of overheating (Figure 2.1, Panel B). As many other countries, Denmark faces higher unemployment in particular for youth; long-term unemployment has grown; and wages are stagnant over the past few years (OECD, 2014a).

Figure 2.1. **The global financial crisis affected the job market in Denmark more than in other OECD countries**

Employment and unemployment rates in Denmark and selected countries, 2000-14



Note: For additional information on harmonised unemployment rates, see www.oecd.org/std/labour-stats/44743407.pdf.

Source: OECD (2014), "Harmonised unemployment rates (HUR)" (indicator), http://dx.doi.org/10.1787/52570002-en for harmonised unemployment rates; and *OECD Employment Database*, www.oecd.org/employment/database for employment rates.

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The global financial crisis is a stress test for the Danish flexicurity *model*

The GFC is seen by many as a stress test for the Danish *flexicurity* model, challenging its sustainability in bad economic times. Depending on the public policy response, the following challenges can arise:

- Leaving unchanged the per-capita level of activation for newly unemployed people would lead to an increase in public spending on active measures, thereby jeopardising the financial sustainability of the social contract.
- Lowering the level of activation per unemployed in order to meet financial requirements risks decreasing job-finding rates, increasing unemployment duration, and raising the number of long-term unemployed. This in turn would raise public spending on benefit payments for the unemployed.
- As the composition of the unemployed may also change in bad economic conditions (with a higher share of people dismissed from their job), targeting Active Labour Market Programmes (ALMPs) might become more difficult and deadweight costs may rise as among the newly unemployed, some are likely to be job-ready and able to find a job quickly without intensive help.
- Concerns also remain in regard to the effectiveness of ALMPs in a deep recession (Andersen, 2012; and Madsen, 2013), as activation may be less effectual in a period with fewer job vacancies and the increase in the number of participants may lead to difficulties in meeting the set requirements.

Denmark seems to have met most of the recent challenges

The job-finding rate recovered quickly (to 27% in 2013), implying that even in the midst of the recession there are jobs to search. This is crucial for the Danish *flexicurity* model to remain on a sustainable track. Overall, there is currently little sign that much of the rise in unemployment has become structural (Andersen, 2012). Unemployment spells remaining of relatively short duration is both a major outcome of this model and a prerequisite for its financial viability. And this has indeed been the case. Although the average duration of unemployment spells increased in the course of 2009, by 5 weeks to stabilise at 15 weeks, it remains at a rather low level (Andersen and Svarer, 2014; Andersen, 2014). The level of activation, as measured by both the proportion of jobless persons enrolled in ALMPs [20% for unemployment insurance (UI) benefit recipients and 35%-40% for social assistance (SA) recipients] and the average programme duration (14-15 weeks for UI benefit recipients and 10-11 weeks for SA recipients), has been broadly maintained despite the rapid increase in unemployment (Andersen and Svarer, 2014). The Public Employment Service (PES) managed to expand its administrative and supply capacity quickly, a challenging task that could have risen major funding and organisational issues. In this respect, there are indications that the PES has faced difficulties in keeping the deadlines with respect to activation.

Madsen (2013) sums up the observations of the stress factors with respect to the three flexicurity pillars. *First*, the level of income support provided by the UI benefits system has declined along a number of dimensions. *Second*, the crisis had put pressure on implanting ALMPs, where one has also seen a deliberate policy change toward less counselling and training. Finally, the introduction of minor elements of severance pay for blue-collar workers who had been employed for more than three years is a small step towards more restrictive employment protection. On the downside, this model entails high public expenditure on labour market programmes (on both active and passive measures), amounting to 3.5% of GDP in 2013, the highest level among all OECD countries (OECD, 2015a).

Key actors of the *flexicurity* model

Municipalities became the main actors of labour market policies

After the 1970 decentralisation of labour market responsibilities, Denmark implemented in 2007 a major structural reform of local and regional government. The number of municipalities was reduced in order to strengthen the decentralised public sector in the context of changing economic conditions. Previous analyses had shown that administrative units were too small and lacked the capacity to perform the tasks they were given and ensure optimal sector planning (Mploy, 2011). The division of responsibilities was restructured and more tasks given to the municipalities, which are now responsible for almost all public services.

Municipal Jobcenters deliver all employment services

In line with this administrative reform, municipalities gained a larger role in delivering employment services to jobseekers and in the management of mass lay-offs.[2] Some 94 local Jobcenters, basically one in each municipality, are responsible for the financing and provision of help, assistance and guidance for both insured and non-insured jobseekers.[3] To carry out their mandate, Jobcenters receive municipal and state funding. The latter integrates national employment priorities by providing financial incentives in the form of reimbursements and performance-based management monitoring tools. Reimbursement rules are complex and have been changed many times over the past decade, and they are not exempt from potential *tactical behaviour* (OECD, 2013a).[4] Recent reforms of these reimbursement rules in spring 2014 and new reforms in 2016 are meant to increase the efficiency of the resource allocation process and to simplify the rules which have become more and more complex (see Box 2.1 for more details). It is too early to judge whether the ambitious objectives will be reached.

Box 2.1. **Steering local government behaviour through differential reimbursement of intervention by the national government**

More than in most other OECD countries, social and labour market policy in Denmark is run by the local government through the local Jobcentres. Denmark has long understood that incentives of local government actors are critical for achieving the desired outcomes. A main mechanism to steer behaviour at the local level, in addition to making local outcomes transparent and available, is to reimburse different types of local intervention by national government money to a different degree – ranging from 0% to 65%. The logic being to let local governments pay for much of the cost of inactive benefits and reimburse much of the action aimed at helping jobseekers back into work. Over the years this system has been refined several times, often responding to undesirable variation in outcomes, each time with the aim to encourage local actors to use active measures and bring jobseekers back into work and to discourage any lenient granting of long-term benefits. Each change seemed a step in the right direction but eventually the system became too complicated to handle. By 2014, reimbursement rates not only varied by type of benefit, but also for some benefits by duration people were on benefit and by the degree to which Jobcenters were following the letter of the law (e.g. the reimbursement rate was lower when there was an undue delay in using activation measures or insufficient documentation for a flexjob subsidy).

With the latest reform, the principle idea to encourage activation was maintained but the system was simplified considerably, also to prevent municipalities from playing the system and shifting people unnecessarily from one benefit to another, for example. In short, reimbursement today no longer varies by type of benefit but only by the length of time a person has been in the system. During the first four weeks, municipalities get 80% of their costs reimbursed by national money. This share drops to 40% for weeks 5-26, 30% for weeks 27-52 and 20% for anyone in the system for more than a year. The new idea being that the key to success is to act early and thus encouraging Jobcentres to provide active measures early enough to prevent jobseekers from remaining unemployed for longer than necessary.

Source: National authorities; OECD questionnaire on displaced workers policies; and OECD (2013), *Mental Health and Work: Denmark*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264188631-en.

Jobcenters are also on the front line in the case of mass dismissals; they are contacted by their employment region as soon as a firm located in their municipality gives notice of a sizable downsizing and responsible for quickly setting-up a reintegration structure in collaboration with the employer (so-called *warning pools*, see Chapter 3) to help displaced workers find a new job.

National and regional labour market authorities set objectives and monitor the performance of Jobcentres

The Agency for Labour Market and Recruitment (STAR), an agency under the Ministry of Employment which replaced the National Labour

Market Authority in 2015, conducts annual performance audits of each municipality and sets targets for employment initiatives in the municipalities. For example, in 2013 the ministry targeted three highly disadvantaged population groups: young people without education receiving public benefits; people receiving social assistance or disability benefits; and long-term unemployed people. Displaced workers have never been among the groups of interest, nor were there any structures set up to meet their specific needs. STAR also sets uniform, minimum requirements for municipalities regarding the availability of services, the frequency of contacts between citizens and the Jobcentre, the frequency of interviews by the Jobcentre and the citizen's rights to receive employability-enhancing services.

The national performance objectives are disseminated to Jobcenters and evaluated by the regional employment councils, whose weak historical role has been enhanced through the 2015 employment reform (Madsen, 2015). From 2007 to 2014, four employment regions were in charge of the follow-up of the national objectives as well as the monitoring and evaluation of the outcomes of the Jobenters' efforts. Since 2015, eight labour market regions also support the cooperation between municipalities, between municipalities and unemployment insurance funds, and between Jobcenters, educational institutions and regional growth fora (Thomsen, 2013; Madsen, 2015). The new responsibilities of the employment regions include: benchmarking results of the municipal Jobcenters by *cluster* and disseminating good-practice examples; counselling and supporting Jobcenters that seek their advice; developing and implementing evidence-based guidance instruments; and implementing new initiatives. At both the national and regional level, tripartite bodies are involved with representatives from the social partners and public authorities.

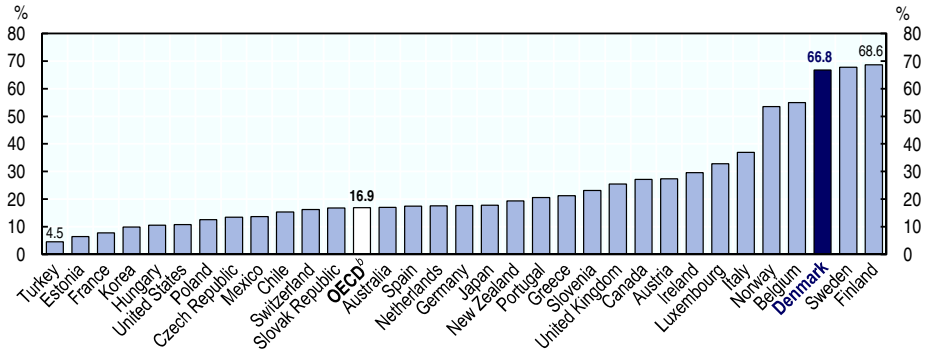
Trade unions negotiate employment protection through collective bargaining

The Danish labour market is to a large extent regulated by collective agreements: negotiations between trade unions and employer organisations cover a large range of issues that would elsewhere often be dealt with by legislation.[5] At the highest level, the general agreement between the Danish Confederation of Trade Unions (LO) and the Danish Employers' Federation (DA) sets the rules for issues including dismissal and industrial disputes, while pay and working conditions are negotiated through industry-level collective agreements, also leaving room for further negotiations at the firm level.

Given the strong role played by collective bargaining in Denmark, trade unions are key actors in the definition of employment protection for displaced workers. Union density is one of the highest in OECD countries, covering around 67% of the workforce and the entire public sector (Figure 2.2). However, as in most OECD countries, the unionisation rate has been declining since the early 1980s, and the liberalisation of regulations on labour unions that introduced a new type of union led to a gradual change in the role of unions.[6] Nevertheless, collective bargaining coverage remains high at 85% of the workforce (Hayter and Stoevska, 2011).[7]

Figure 2.2. **Union density in Denmark is among the highest of OECD countries although also declining over the past three decades**

Union density,[a] 2013 or latest year available



Note: Countries are ranked in increasing order of union density.

a) Trade union density expresses union membership as a proportion of the eligible workforce and can be used as an indicator of the degree to which workers are organised. However, union density only measures the extent of unionisation and tells very little about the influence or bargaining power of unions.

b) Weighted average of 32 OECD countries (excluding Iceland, Israel and Latvia).

Source: Hayter, S. and V. Stoevska (2011), "Trade union density and collective bargaining coverage – International Statistical Inquiry 2008-09", Technical Brief - Social Dialogue indicators, International Labour Office, Industrial and Employment Relations Department; and *OECD Trade Unions Dataset*, a subset of the *OECD Employment Database*, http://stats.oecd.org/Index.aspx?DataSetCode=UN_DEN. For further details on sources and methodology see www.oecd.org/els/emp/UnionDensity_Sourcesandmethods.pdf.

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Unemployment insurance funds deliver unemployment insurance benefits

The Danish unemployment insurance (UI) is a voluntary scheme (see below) administered by 27 UI funds. Unemployment insurance is run through a private-public partnership in which private insurance companies (UI funds) are in charge of the delivery of UI benefits in co-ordination with Jobcenters focusing on getting the unemployed back to work. While Jobcenters provide displaced workers with publicly-funded employment services, UI funds can sometimes also be involved in preparing displaced workers for job search and evaluating their job situation during their notice period. UI funds are also involved in the monitoring and sanctioning of unemployed people not complying with job-search and participation requirements, and have a strong role to play in the activation mechanism of the flexicurity model (see Chapter 5).

UI funds used to have close links with unions and are, as the latter, specialised by industry and/or occupation.[8] The UI system being voluntary, workers are free to choose a UI fund, leading to competition between the funds to attract workers. In addition, before the 2007 reform, municipalities used to be responsible for hard-to-place workers only (i.e. those on social assistance or disability benefits) and Jobcenters may still suffer from this pejorative image. Therefore, some UI funds build a strong marketing argument of the delivery, after job displacement, of tailored employment and counselling services, arguing that they know the specificities of the industry better, have good contacts with the recruiting employers in a specific branch and can, therefore, be of greater help than the municipal Jobcenter (Clasen and Viebrock, 2008).

Once widespread, the role of private providers is now again more limited

In 2002, the *More People into Work Act* opened the provision of employment services to private providers through competitive tendering (Lodemel and Moreira, 2014). In order to stimulate the development of a service market, the Jobcentres were under an obligation to outsource their activities in respect of at least 15% of insured jobseekers (Freedland et al., 2007), among which many displaced workers. As a result, in 2005, approximately one-third of the vocational guidance and placement activities were managed by private and semi-private enterprises (Hendeliowitz and Bastlund Woollhead, 2005). The role of private providers was considerably reduced with the administrative reform in 2007, when competitive tendering was abolished again, but some larger firms continue to outsource early-intervention re-employment services to private providers when they plan a large-scale dismissal (see Chapter 3).

The first *flexicurity* pillar: Flexibility for employers to adjust their workforce

Danish employment protection is at the average OECD level

In Denmark, individual and collective dismissals are regulated by a mix of legislation and collective agreements, shaping the practices of and incentives for employers, employees, trade unions, Jobcentres and unemployment insurance funds. Danish employment protection is around the average of all OECD countries regarding the strictness of its protection for permanent workers against individual dismissals (Figure 2.3, Panel A).[9] This is due to two offsetting factors: on the one hand, Danish employers face the third-lowest level among all OECD countries of difficulty for dismissing permanent workers – comparable with the United States, Canada and the United Kingdom. Moreover, statutory severance payments are relatively low in international comparisons. On the other hand, employers must comply with rigid notification procedures and consultation requirements including with trade unions when starting the dismissal process. These *procedural inconvenience* requirements create the necessary *space and time* for dialogue between the social partners and, thus, provide the conditions for conducting negotiation and intervention at an early stage (see Chapter 3).

For mass dismissals, the *Danish Act on Collective Redundancies* stipulates that employers must, at the earliest possible stage, inform the Regional Employment Council of expected large-scale redundancies.[10] Across OECD countries, additional protection for permanent workers against collective dismissal is common to increase the effectiveness of prevention and early intervention measures for displaced workers (Figure 2.3, Panel B). Among other requirements, longer notification periods are required in Denmark for collective dismissals.[11] Longer notice periods create the opportunity for negotiations with employees and unions and mitigation of potential displacements.

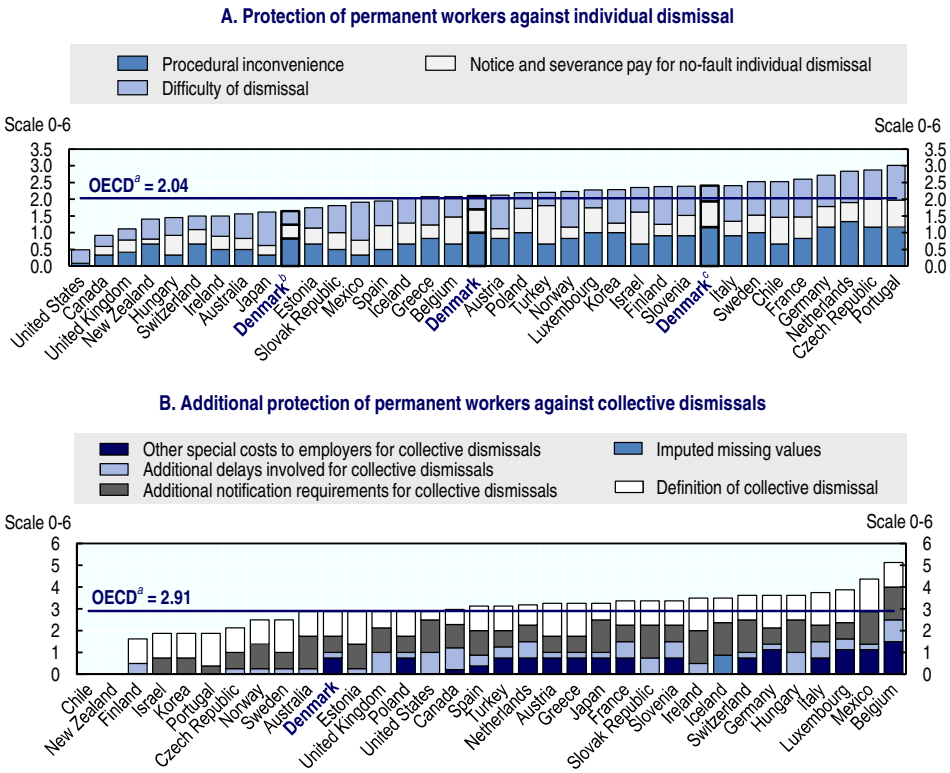
But there are large disparities between blue and white-collar workers

Danish employers dismissing white-collar workers face noticeably stricter employment protection rules than employers dismissing blue-collar workers (Figure 2.3, Panel A); a difference the size of which has little if any justification. On the basis of the widely-used OECD employment protection legislation (EPL) indicator, protection for white-collar workers in Denmark is comparable to the overall strictness for countries like Finland, Sweden or France, while blue-collar workers in Denmark face employment protection closer to that found in countries with a very flexible labour market such as

Australia or Ireland (see Chapter 3). This implies that the overall average position of Denmark in terms of EPL is driven by the country's much more lenient employment protection for blue-collar workers.

Figure 2.3. **Employment protection of permanent workers in Denmark is much higher for white-collar than for blue-collar workers**

Employment protection of permanent workers in OECD countries, 2013



Note: The figure presents the contribution of different sub-components to the indicators for employment protection. The height of the bar represents the value of the indicator.

a) Unweighted average of the respective indicator shown in each panel for the 34 OECD countries.

b) Indexes for Denmark if the regulation of *blue collars* were applied to all workers.

c) Indexes for Denmark if the regulation of *white collars* were applied to all workers.

Source: OECD estimates, and *OECD Employment Protection Database, 2013 update*, http://dx.doi.org/10.1787/lfs-epl-data-en.

StatLink http://dx.doi.org/10.1787/888933430576

Mitigating the flexibility given to employers

The EPL indicator provides a summary measure of the costs and burden an employer faces when displacing a worker. However, the indicator should be interpreted with caution, for two reasons: first, it ignores the potential benefits of adjustment measures, such as measures aimed at preventing layoffs or at helping displaced workers finding a new job through early intervention (see Chapter 3).[12] Second, procedural inconveniences that play a constructive role in Denmark can be a big impediment to efficiency in countries where industrial relations are more adversarial. Stringent EPL can have a negative sizeable effect on labour market flows, increase unemployment, and foster labour market duality (Martin and Scarpetta, 2012; OECD, 2013b and 2014a), while the lack of an adequate safety net can create a high level of income insecurity and lead to additional pressures to increase the strictness of EPL. Therefore, achieving a balance between flexibility for employers and security for individuals is a central labour market challenge, not only for Denmark.

The second *flexicurity* pillar: Security for individuals through a solid safety net

The Danish income support system differentiates between insured and uninsured unemployed persons. The former receive unemployment insurance benefits if complying with eligibility rules, while the latter might have access to social assistance if complying with means-tested conditions. A non-negligible size of the Danish non-employed population also may have access to disability benefits [see OECD (2013a)], while older displaced workers might be entitled to access early-retirement schemes [see OECD (2015b)].

Unemployment insurance benefits for insured displaced workers

The most common form of income support available to displaced workers after job displacement is UI benefit delivered by one of the several UI funds. The UI system is financed by employee contributions and supplemented with considerable state funds. UI funds collect fees from their members and deliver UI if they are displaced and fulfil the eligibility conditions. Workers can also subscribe to supplementary UI which is offered by the UI funds.[13]

Subscription to UI is voluntary in Denmark. Even so, the subscription rate remains high: during the period 2010-13, 75-80% of the labour force in the private sector and close to 100% in the public sector.[14] Overall, in 2013, 2.1 million individuals were members of an UI fund. But subscription rates

had decreased in Denmark before the GFC. The Danish pre-crisis boom most likely created a false sense of security that may have had an impact on employees' decision to subscribe to a UI fund. To be entitled to UI, individuals must be registered with the municipal Jobcenter and have been employed and a member of a UI fund for at least 52 weeks within the past three years.[15]

Employees' contributions to UI are a fixed amount of approximately EUR 700 per year (OECD, 2014b).[16] In addition, subscribers may choose to include an option for early retirement (Svarer, 2011), which can be used by older displaced workers as a way to extend UI payment duration until the retirement age (OECD, 2015b). Employers contribution to UI were eliminated in 2000[17] (OECD, 2014c) but employers have a slight incentive to encourage employees to subscribe to a UI fund in order to reduce severance pay in case of job displacements.[18] The costs of administration and distribution of funds are supplemented by general taxes. This funding structure makes the share of public subsidies dependent on the level of unemployment: the system is self-supporting when the unemployment rate is approximately 3%.[19] However, even at times of low unemployment the bulk of UI is tax-financed and the share of direct personal contributions is relatively low, implying a strong individual incentive to join a UI fund (Clasen and Viebrock, 2008).

Basic social assistance as a last resort for non-insured displaced workers

Displaced workers may be entitled to family-based, means-tested basic social assistance (BSA) if they i) are not members of a UI fund; ii) are members of UI fund but do not yet qualify for a UI benefit; or iii) have exhausted their UI entitlement. BSA can also be used to *top up* low UI benefit but is more often given to those who do not qualify for such benefit. BSA amounts up to approximately 80% of UI benefit and is not time-limited. To be eligible, one must be unemployed, available for work and actively seeking work. BSA is financed by general taxes and administered by municipalities which receive reimbursement from the state for their expenses. Recent reforms to the BSA scheme have reinforced the importance of activation while receiving benefits (see Chapter 4). BSA works as a safety net for some displaced workers, but its needs-tested and family-based requirements can prevent displaced workers from benefiting despite a significant individual income loss. Eligibility is subject to income and assets conditions which take into account housing costs and the size of the household. Therefore, displaced workers who have a working partner and/or a house or car will not be eligible until they exhaust their assets.

Other types of income support upon certain conditions

Displaced workers with health conditions certified by a medical evaluation of their ability to work may qualify for disability benefit.[20] This is a flat-rate benefit financed by the government which is not time-limited and not means-tested, and entitlement does not require previous subscription. The net replacement rate (NRR) of disability benefit alone is around 80% of the previous wage for displaced workers earning an average wage, and even 115% for low-wage earners. Disability benefit can therefore be 10-20% higher than UI benefit or BSA payments (OECD, 2010). One year after displacement, 2.3% of the non-re-employed displaced workers receive a disability benefit, with older and low-skilled workers being over-represented in this group. Recent disability benefit reforms have incorporated a series of activation requirements that combine educational, health and employment services to maintain work ability and prevent the payment of disability benefit, but the benefit remained more attractive than alternative options (OECD, 2013a).

Older displaced workers may qualify for early retirement benefits which are available for subscribed, eligible and entitled contributors to the UI fund for early retirement.[21] Between 2000 and 2012, one older displaced worker out of five withdrew from the labour force after job displacement, either by retiring (3%) or through the voluntary early retirement scheme (18%). Recent pension reforms aim at reducing the ease and incentives to take up early retirement (OECD, 2015).[22]

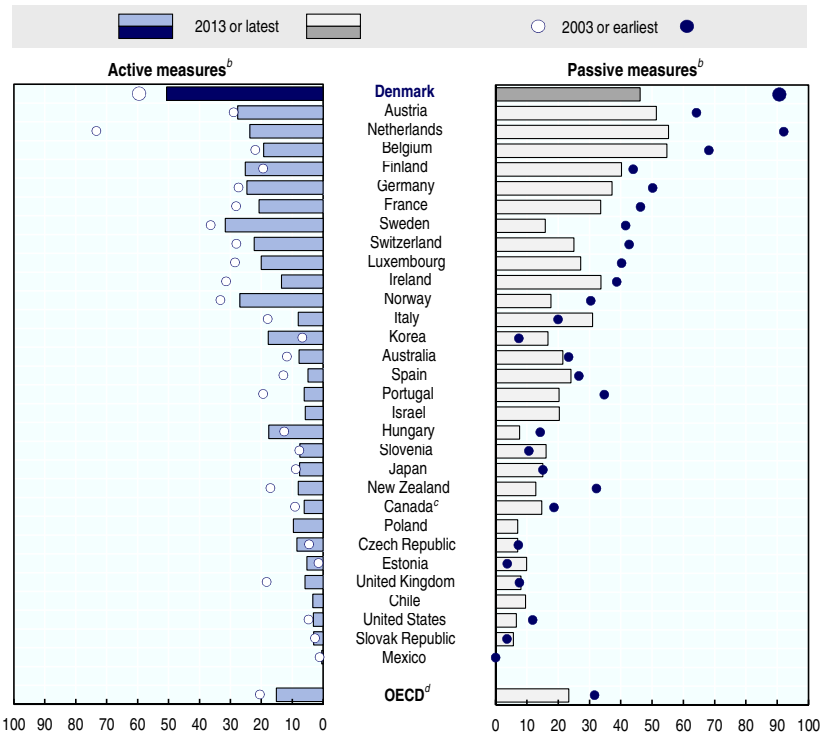
The third *flexicurity* pillar: A strong activation strategy

Labour market spending is among the highest of all OECD countries

A strong activation strategy, with considerable rights and obligations for unemployed people, is the third pillar of the *golden flexicurity triangle*. Potential disincentives resulting from high income replacement payments are offset by requiring recipients to be actively seeking work, and through their participation in mandatory full-time activation programmes at more or less regular intervals (Hendeliowitz, 2008). In 2013, Denmark spent 3.5% of its GDP on labour market policy (OECD, 2015a), the highest level of all OECD countries, with considerable emphasis on active labour market programmes. Spending per unemployed decreased since 2003 as in many other countries, but Denmark remains the OECD leader of activation spending per capita (Figure 2.4). Danish active expenditures are dominated by training, supported employment (including rehabilitation) and direct employment incentives.

Figure 2.4. **Labour market spending in Denmark is the highest in the OECD**

Public expenditure on active and passive labour market programmes in OECD countries, 2003 and 2013[a] (spending per unemployed, as a percentage of GDP per capita)



Note: FY: Fiscal year. GDP: Gross domestic product. Countries are ranked in decreasing order of the total of both active and passive measures in 2013. Data refer to fiscal years for Australia, Canada, Japan, New Zealand, the United Kingdom and the United States.

a) Data refer to 2004 (instead of 2003) for Hungary, Italy, the Slovak Republic, Slovenia, and to FY 2004/05 for the United Kingdom; they refer to 2012 (instead of 2013) for France, Korea, Poland, Spain, and to FY 2011/12 for the United Kingdom.

b) *Active measures* refer to Categories 1 to 7, *Passive measures* to Categories 8 and 9 of the *OECD/Eurostat LMP Database*. For more details, see Grubb and Puymoyen (2008).

c) Data include federal expenditure on programmes implemented by the provinces and territories, but do not generally include the provinces' additional or complementary funding of these programmes.

d) Unweighted averages for countries where both active and passive measures are shown for 2003 (or earliest) and 2013 (or latest), i.e. except Chile, Israel and Poland.

Source: OECD/Eurostat Labour Market Programme Database, http://dx.doi.org/10.1787/data-00312-en; *OECD Population and Labour Force Dataset*, a subset of the *Annual Labour Force Statistics* (ALFS) *Database*, http://dotstat.oecd.org/Index.aspx?DataSetCode=ALFS_POP_LABOUR; and Grubb, D. and A. Puymoyen (2008), "Long time series for public expenditure on labour market programmes", *OECD Social, Employment and Migration Working Papers*, No. 73, OECD Publishing, Paris, http://dx.doi.org/10.1787/230128514343.

StatLink http://dx.doi.org/10.1787/888933430587

Considerable rights and duties for displaced workers

Entitlement to UI benefit is conditioned on fulfilment of three criteria: i) availability requirements (be able and available to take a job, have a residence and live in Denmark); ii) job-search requirements (actively search for a job, submit electronic CV to the internet-based job bank, confirm job search online every week, apply for jobs suggested by the Jobcenter or the UI fund); and iii) activation requirements (accept job offers arranged by the Jobcenter or the UI fund with one day's notice, attend meetings at the Jobcenter or the UI fund with one day's notice, participate in other activities initiated by the Jobcenter or the UI fund). The rules incite individuals to actively participate in job-related activities or, if needed, adapt their skills to meet the demands of the labour market. Activation is seen as representing a qualification and a motivational purpose (Hendeliowitz, 2008). The requirement to accept jobs further away from the lieu of residence and in other occupations increases as the unemployment spell lengthens. In addition, Danish jobseekers had, during the crisis period (2008-14), an obligation to participate in educational or vocational programmes after four months of unemployment (Koch Committee, 2014).

When eligibility criteria are violated, the UI fund may impose temporary or permanent financial sanctions, depending on the nature of the breach: in the first category, failing to confirm job search online every week, not attending a meeting or comparable minor violations induces a temporary loss of UI benefit until job search is reconfirmed. In the second category, failing repeatedly to attend meetings with the Jobcentre or the UI fund entails a temporary suspension of UI benefit for three weeks. An individual who receives two temporary suspensions within 12 months will not be considered as actively searching for work and will therefore lose his UI rights. Access to UI benefit can only be regained in this case by working for 300 hours in a period of ten weeks. The composite indicator of the strictness of eligibility conditions for unemployment benefits provided by Venn (2012) and subsequently updated by Langenbucher (2015) shows that suspensions for initial refusal of job offers (or refusals of ALMP participation) are relatively short in Denmark compared to other countries but that repeated offenders are particularly hardly hit as benefits are completely suspended following a second refusal. Consistent with the empirical literature on sanctions in other OECD countries, sanctions in Denmark have a positive correlation with exit from unemployment.

Conclusion

The global financial crisis (GFC) raised serious doubts about the sustainability of the Danish *flexicurity* model in a deep economic downturn: about the ability to maintain the employment protection of workers while fostering flexibility for employers, the financial viability of the income support system providing a safety net for displaced workers, and the effectiveness of the activation strategy in helping them get back to work. Two key factors have helped the Danish authorities meet these challenges:

- First, there was *fiscal space* to accommodate rising expenditure on labour market programmes (up by 1.3 percentage points of GDP). A key lesson from the GFC is that creating fiscal space in good times to be able to accommodate negative shocks in bad times is essential to ensure the viability of the flexicurity model.
- Second, *adaptability* has long been a key feature of Danish labour market policies, with considerable fine-tuning over the years to adjust the design and content of active measures in light of the labour market situation and new evidence on their effectiveness. The GFC marked an important step in the adjustment process of the flexicurity model, and a number of reforms were decided that aim at strengthening the activation stance through a shortening of the UI payment duration (Chapter 4), earlier interventions and more intensive contacts with the unemployed (Chapter 5; and also Madsen, 2013).

Despite the adaptability during the crisis, the Danish model contains little-discussed elements of inequality which raise doubts about the universal application of the flexicurity model. In particular, employment protection is much stricter for white-collar workers than it is for their blue-collar counterparts – an issue that has yet to be addressed to create a level playing field.

Notes

1. Compared with many other OECD countries, the Danish labour market is characterised by an intensive process of labour reallocation, similar to the United States (OECD, 2009). Even before the crisis, around one fourth of all workers moved out from their job every year (Anderson and Svarer, 2014).

2. Public employment services were previously run at the regional level with municipalities only in charge of the most disadvantaged (for instance, unemployed on social assistance).
3. Contrary to insured unemployed, uninsured unemployed do not fulfil the elegibility conditions for unemployment insurance benefits. However, they might still be entitled to other public income transfers such as cash benefit, sickness benefit or disability benefit.
4. On the positive side, the demanding requirements to monitor and evaluate municipalities under the reimbursement system have improved the quality and extent of administrative data in Denmark. As a result, Jobcenters can easily compare themselves to other Jobcenters or to a benchmark group of Jobcenters. All jobseekers in Denmark have access to this database.
5. Three trade union confederations organise different groups of occupations: the Danish Confederation of Trade Unions (LO) organises the broadest range of workers including salaried, skilled and unskilled workers as well as civil servants; the Confederation of Professionals in Denmark (FTF) organises only salaried employees and civil servants while the Danish Confederation of Professional Associations (AC) covers graduate professional and managerial staff.
6. The new young unions differ from the traditional ones in various ways: they charge lower fees and do not participate in collective agreements or support union strikes or attach themselves to traditional left-wing political parties. Nevertheless, members of these new unions (the so-called *yellow* unions in contrast to the traditional *red* unions) continue to benefit from protections acquired through standard collective agreements.
7. Collective bargaining coverage measures the proportion of employed workers whose pay and/or conditions of employment are determined by one or more collective agreement(s).
8. Even today, it is not always clear for adherents that the UI fund is different from the union with which they are associated and the overlap is rather large (80% of the UI fund members are also member of the corresponding union).
9. The OECD EPL indicators are compiled from 21 key aspects of legislation quantifying, for employers, the costs and procedures involved in dismissing individuals – or groups of employees – or hiring workers on fixed-term or temporary-work-agency contracts. For permanent workers, the indicator includes the following subcomponents: i) difficulty of dismissal, ii) advance notice and severance pay, iii) procedural regulations, and iv) additional provisions for collective dismissals. For temporary employment, the indicator includes regulations on both fixed-term contracts and temporary-work-agency employment. For more information, see www.oecd.org/employment/emp/oecdindicatorsofemploymentprotection.htm.

10. Mass dismissals in Denmark include displacement for economic reasons of at least 10% of the workforce within a 30-days' timeframe for medium to large companies (100-300 employees); dismissal of at least 10 employees for firms employing 20 to 100 employees; and dismissal of at least 30 employees for firms employing more than 300 employees.
11. Notification must include any relevant information including the reason for dismissal; the number and job categories of employees involved; the number and job categories of employees that are normally employed; the criteria used to determine dismissals; and whether there are potentially displaced employees with the right to redundancy payment. Danish law limits the possibility of displacement when an undertaking is transferred, e.g. in the case of a merger or acquisition.
12. In the case of mass dismissals, additional benefits from the early warning pool funds can support prevention and early intervention measures.
13. UI funds offer their members the possibility to subscribe to a supplementary UI benefit which serves as supplementary income for people with earnings above the ceiling of the public system, thereby lowering the sudden loss of income by high-wage earners during unemployment periods (Madsen, 2015).
14. UI is voluntary and resembles an opt-in rather than an opt-out system: one must choose to subscribe to a UI fund.
15. The qualification conditions in regard to the contribution period changed in 2010. Employees had previously been required to contribute for six months over the past three years to qualify for UI benefit.
16. Employees make a fixed contribution of DKK 10 837. The contribution is split into two parts: a mandatory contribution for UI (DKK 3 840) and a voluntary contribution to an early retirement scheme (DKK 5 604). Added to this is an administration fee of DKK 1 393 (OECD, 2014b). Contribution to UI payments alone, therefore, is DKK 5 233 or EUR 703 per year.
17. Employers still make a small contribution to the UI system by paying UI benefit to dismissed workers during the waiting period, through the so-called *g-dage*, a per-diem allowance covering the first three days of unemployment (as of 2017). In 2015-16, employers only pay unemployment benefits (G-days) for the first two days to workers who have been employed less than three months.
18. When employers are liable to a severance package, the financial burden is limited for UI fund members as the severance pay decreases with the UI benefit received. A wage earners' guarantee fund provides displaced workers with their compensation claims in case their employers are insolvent.

19. Between 1975 and 1995, when the average unemployment rate in Denmark was roughly 9%, member fees covered only one-third of direct fund benefit outlays, with the remainder covered by state subsidies and by compulsory contributions from employers. In 2001, when unemployment was close to 5%, fees covered almost 75% of the direct benefit outlays and one-third of total expenditures (Parsons et al., 2015).

20. To be eligible for a disability benefit, the medical evaluation needs to certify that a person is unable to work in either a (subsidised) *flexjob* or any other (non-subsidised) job. An additional unemployment allowance (the so-called *waiting allowance*) – paid at the level of UI benefit – is available for persons with partially-reduced work capacity who are waiting for a placement in a flexjob, or have recently become involuntarily unemployed from a previous flexjob and are waiting to be placed in a new flexjob.

21. The *Voluntary Early Retirement Pension* (VERP) scheme is a co-financed public-private benefit that can provide income protection for older displaced workers until age 63/65. To be entitled, displaced workers must be a member of a UI fund; reach the early retirement age (60 years in 2012, scheduled to increase to 64 years in 2023); have paid early retirement contributions for 30 years; be entitled to UI benefit when reaching the early retirement age, including being capable and available for work; as well as having worked 52 weeks in the last three years (with some exceptions). The amount of VERP benefit is equal to the corresponding UI entitlement.

22. Latest pension reforms increased the VERP age from 60 to 62 years over the period 2014-17 and the age for an old-age pension from 65 to 67 years over the period 2019-22 (incrementally by six months per year). Consequently, the duration of a VERP benefit will decrease from five to three years between 2018 and 2023. In addition, as from 2027, both schemes will be linked to improvements in life expectancy.

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Chapter 3

Job displacement prevention and early intervention policies in Denmark

This chapter discusses Danish measures aiming at preventing the loss of jobs that are still economically viable. It assesses measures providing early adjustment assistance during the notice period or shortly after displacement to workers whose jobs cannot be preserved. Early notification of labour market authorities and long notice periods are crucial to building the basis for prevention and early intervention measures. Denmark has a sound and well-developed system in international comparison, but inclusiveness of these policies remains a concern as not all workers can benefit from these rapid response policies.

Danish employers operate in a regulatory environment which provides great flexibility to dismiss workers easily when circumstances request it. At the same time, however, employment protection also ensures security for dismissed workers. This chapter describes how the Danish employment protection framework provides favourable conditions to prevent unnecessary dismissals and smooth the transition of workers to new jobs through early intervention measures.

Early notification of potential displacements is crucial for an apt reaction

Advance notice requirements create the conditions needed to intervene early

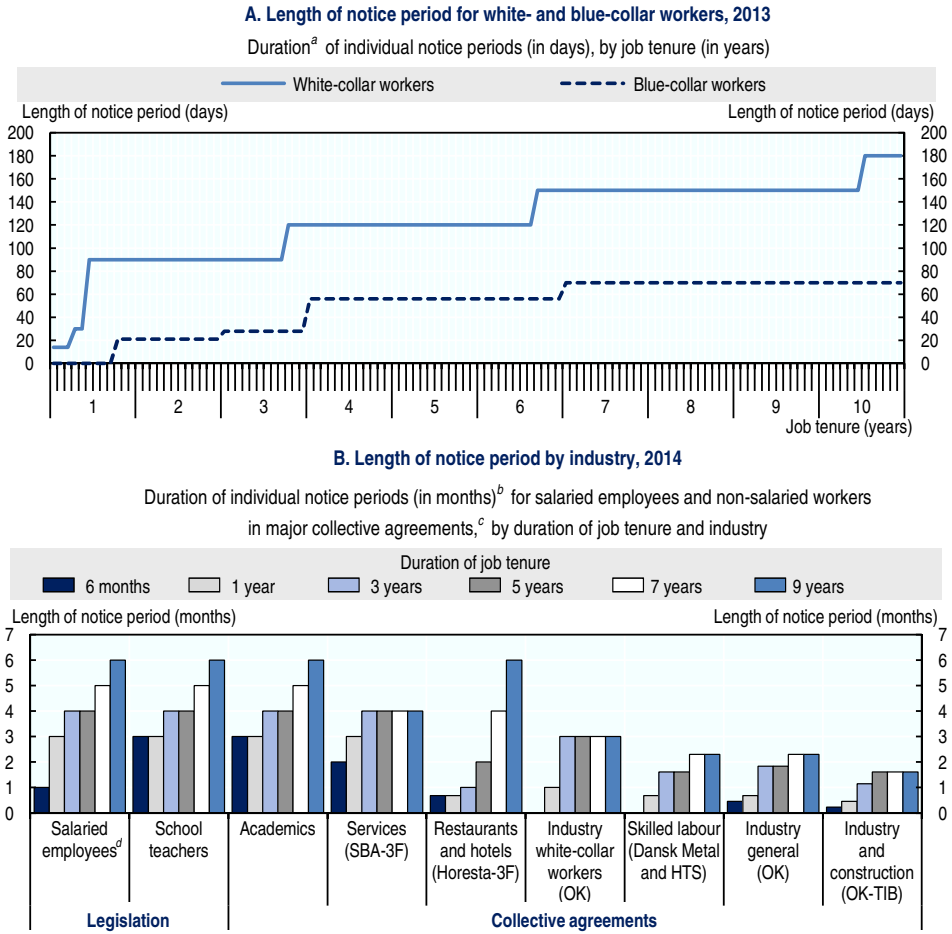
The length of notice periods is higher in Denmark than in most OECD countries

In Denmark, notification of individual dismissal is a requirement and advance notice periods are defined by legislation or collective agreements at the industry level. Specific dismissal procedures may apply depending on the status of the employee, but notifications of individual dismissal must be handed out to the employee in writing. Notification procedures, notice periods and severance pay for white-collar workers are set out in special legislation[1] and may be supplemented by provisions in collective agreements, while the minimum notice period for non-salaried workers and the majority of blue-collar workers is determined primarily by collective bargaining (Venn, 2009). Both white and blue-collar workers are protected against discriminatory dismissal through legislation. Considering requirements set up in collective bargaining, the length of notice periods is higher on average in Denmark than in most OECD countries.

But notice periods vary significantly by skills level and industry

The distribution of the duration of notification periods places medium and low-skilled workers at a disadvantage relative to high-skilled workers, for two main reasons: *first*, blue-collar workers are entitled to much shorter advance notice than white-collar workers (Figure 3.1); *second*, for white-collar workers, the notice period starts from the first day of the calendar month following receipt of notice (adding on average 15 days to the notice period). OECD's employment protection legislation (EPL) indicator highlights large gaps between blue and white-collar workers in the average duration of notice periods at all job tenures (Figure 3.1, Panel A).[2] After six months of tenure, the legal notification period for white-collar workers is longer than that for any blue-collar worker, no matter of job tenure of the latter: ten years of job tenure would only grant a blue-collar worker with 70 days of notice compared with 90 days for a short-tenured (six months) white-collar worker.

Figure 3.1. **Notice period durations vary a lot by skill level and industry**



a) Duration for regulations takes into consideration legislative and collective agreements for white- and blue-collar workers in force on 1 January 2013.

b) When the notice period was reported in weeks or days in the original source, they were converted into months.

c) Notes in parenthesis indicate the name of the representing union.

d) The Salaried Employees Act mainly pertains to shop assistants and office workers, employees of technical or clinical services (except handcraft work or factory work) and manager or supervisors.

Source: Detailed information on employment protection, Denmark, http://www.oecd.org/els/emp/Denmark.pdf for Panel A; Jensen, C.S. (2010), "Flexicurity og de danske arbejdsmarkedsrelationer: En eller to modeller?", *Dansk Sociologi*, Vol. 21, No. 1, University of Copenhagen, pp. 27-53 (available only in Danish, with a summary in English), http://ej.lib.cbs.dk/index.php/dansksociologi/article/view/3194/3351; and OECD updates and estimates for Panel B.

StatLink http://dx.doi.org/10.1787/888933430597

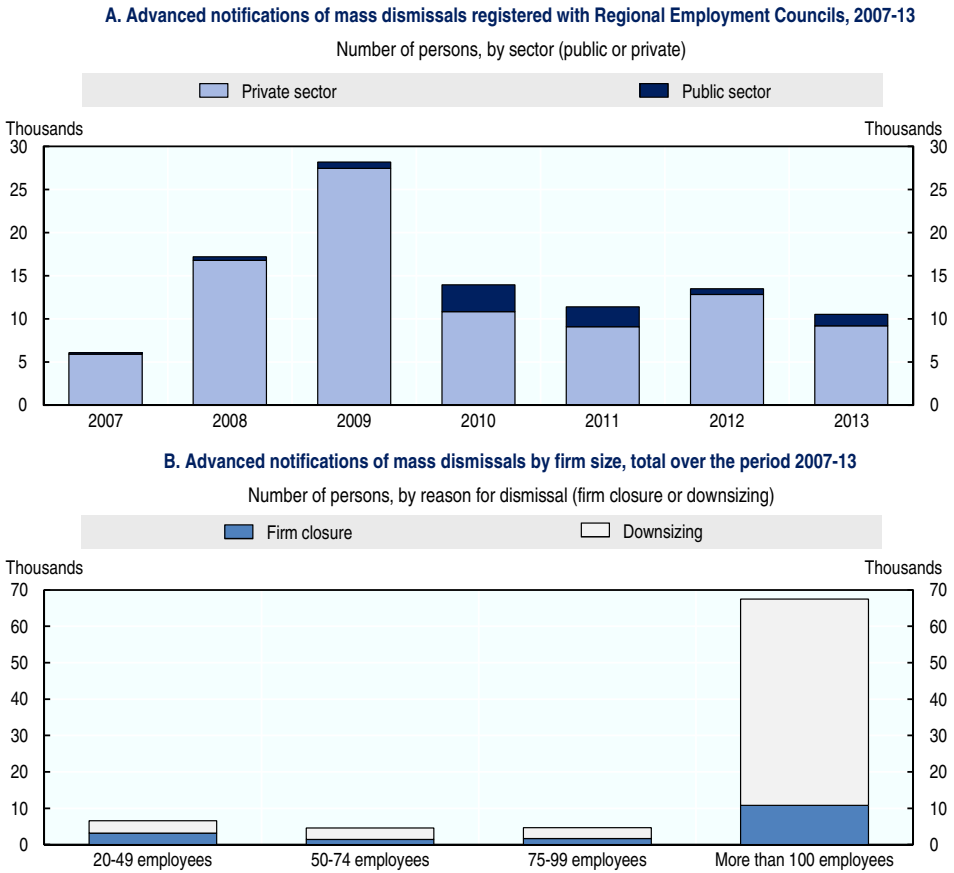
Distinct industry-specific collective agreements[3] also lead to sizable disparities in EPL among both blue-collar and white-collar workers (Figure 3.1, Panel B). These differences can challenge the implementation of prevention and early intervention policies for the most disadvantaged populations. For example, blue-collar workers in restaurants and hotels can acquire advanced notice requirements similar to those of white-collar workers which are not the case for their counterparts in the general industry. As shown in Chapter 1, workers in the manufacturing sector suffered the highest increase in job displacement during the crisis, and their re-employment prospects declined more than in other sectors. Low-skilled workers in general, in particular in the manufacturing and construction sectors, will therefore not be notified long enough in advance to be able to benefit from the large set of early intervention measures available in Denmark, as discussed in the following sections.

Special rules facilitate early intervention measures for mass dismissals

Prior to a mass dismissal in firms employing at least 20 employees,[4] any employer must – at the earliest possible stage – initiate negotiations with the employees or their representatives. The objective of these negotiations is to reach an agreement to avoid, or limit, planned dismissals and to ease the consequences of dismissals through activities focusing on reassigning (within the firm) or retraining workers to be displaced. Sufficient time and regulatory support for negotiations is particularly relevant when companies are considering cut-backs rather than firm closure, however, the success of these dismissal prevention practices are largely contingent on the nature and reach of early notification procedures.

After the negotiation phase, employers who decide to go on with the planned dismissals must notify the regional labour market authority (STAR) of forthcoming collective dismissals no later than 30 days prior to proceeding with job displacements.[5] Staff affected must be informed no later than 10 days after this notification. The number of persons who received advance notification as part of a pending mass dismissal grew substantially between 2007 and 2009 due to the very severe impact of the GFC on the Danish economy (Figure 3.2, Panel A). In the public sector, the increase occurred mostly in 2010 and 2011, initially at the municipal and regional level and later also at the central level.[6] Mass dismissals (as defined by the Danish legislation) primarily happen in rather large firms employing more than 100 employees, and mostly concern downsizing firms rather than firms closing altogether (Figure 3.2, Panel B).

Figure 3.2. **Labour market authorities were notified of a large number of mass dismissals during the global financial crisis**



Note: Firms with 20 employees or more, representing 10% of all firms, but 72% of all workers.

Source: Jobindsats, Danish Ministry of Employment, www.jobindsats.dk; and Reports from employment regions and the National Enterprise Register (CVR-register).

StatLink http://dx.doi.org/10.1787/888933430608

Denmark's capacity to implement prevention and early intervention measures is contingent on the creation of room for negotiation and action. Particularly in the case of mass dismissals, advance notification of labour market authorities together with individual notice periods provide employers, unions and other worker representatives, as well as the labour market authorities, with the necessary time and conditions to enter into negotiations before displacements occur and to create the opportunity for an

apt adjustment response. When the regional labour market authority receives notification of a forthcoming mass dismissal, the firm is contacted by the municipal Jobcentre, which offers help to the affected employees in order to ease their way back to a new job. When considered appropriate by the Jobcentre, displaced workers can qualify for *warning pool funds*[7] which provide early and targeted access to adjustment assistance for workers whose jobs cannot be preserved.

How to prevent job displacement in Denmark?

Preventing job displacement goes against the principle of flexicurity

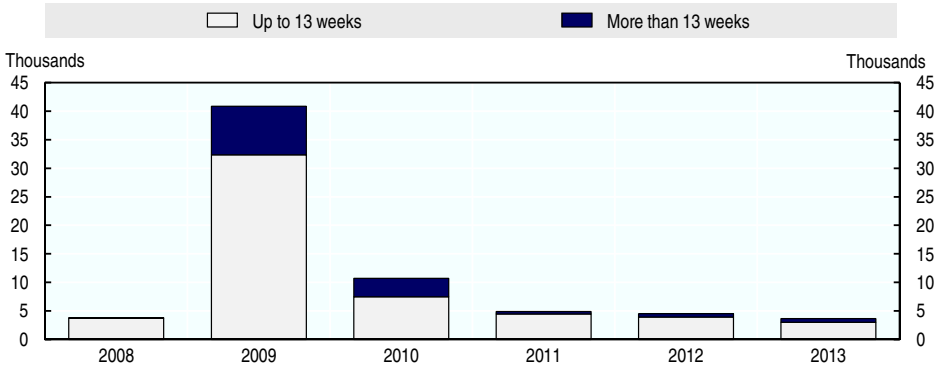
High job turnover is inherent to the Danish labour market, leaving little room for prevention of job displacement. Danish employment protection is characterised by an avoidance of blind protection of jobs that are not economically viable in the long-run. Targeted measures to prevent job losses are therefore not as developed as in other countries where less flexibility is granted to employers to adjust their labour force to economic conditions, and displacement prevention in Denmark is limited to temporary solutions for temporary changes in market demand, such as the short-time work (STW) scheme, and mostly rely on retaining employment by shaping the skills and employability of employees.

The Danish STW scheme acted as a countercyclical measure during the GFC

During the negotiation phase between the social partners, some dismissals may be prevented via work-sharing arrangements. Danish employees working in a firm considering downsizing can agree to a reduction in working-time[8] (and thereby also in wages) in exchange for safeguarding of jobs,[9] to limit job displacement. The maximum duration of the programme is 13 weeks, however, extensions can be granted by the regional labour market authority. During this period, employees use their entitlement to unemployment insurance and are therefore also required to actively participate in finding an employment solution (e.g. updating CV, applying for jobs, etc.). The worker must be available for new employment (with higher working hours) should a job offer be made. Likewise, employers have to agree to waive the notice period if an employee finds another job. This STW scheme existed in Denmark before the GFC, as in several other OECD countries, but acted as an important countercyclical measure during the crisis due to easing of regulations implemented in 2009. The relaxed regulations contributed to the large increase in take-up of the STW scheme: the number of beneficiaries grew almost 9-fold from 2008 to 2009 and the number of extensions also increased (Figure 3.3). In the following years, STW participant numbers dropped substantially again and are now just above the pre-crisis level.

Figure 3.3. **Work-sharing acted as an important countercyclical measure during the global financial crisis**

Work-sharing beneficiaries, by duration of the work-sharing scheme, 2008-13



Note: The maximum duration of work-sharing benefits for those registered in the unemployment insurance fund is 13 weeks; however, this may be increased upon discretion of the regional employment councils.

Source: Reports from employment regions and the National Enterprise Register (CVR-register).

StatLink http://dx.doi.org/10.1787/888933430610

Nevertheless, STW can create distortions that need to be minimised

Hijzen and Venn (2011) measured the impact of STW schemes in 16 OECD countries, including Denmark, and their potential distortions. They highlight that in countries such as Denmark where firms do not bear any part of the cost of STW (because employees receive UI benefit during their work-free period) the risk of significant deadweight loss is considerable. Hijzen and Martin (2013) indicate that the timing of STW is crucial in that sense: while STW schemes helped preserving a significant number of jobs during the crisis, their continued use during the recovery may have slowed the job-content of the recovery. By the end of 2010, the net effect of STW on employment was negligible or may even have become negative in some countries. The rapid decline in STW take-up in Denmark after the peak of the crisis indicates that deadweight loss was minimised successfully. Nevertheless, as in other countries, the positive impact of the Danish scheme was limited to workers with permanent contracts, increasing labour market segmentation between workers in regular jobs and those in temporary and part-time jobs. A mix of work-sharing and training or education courses was encouraged by union representatives as both a preventative and anticipatory opportunity for individuals faced with the possibility of dismissal. Nevertheless, only 10% of STW beneficiaries took

part in training in Denmark (Hijzen and Venn, 2011). The work-free weeks of STW could be used further to offer vocational training and formal education to employees, with the possibility for publicly-funded training subsidies.

Preparing the workforce to frequent transitions on the labour market is a more pro-active option to prevent dismissals

Skills anticipation is a prerequisite to prepare the workforce to future labour demand

While improved skills and training can provide relief for displaced workers by increasing human capital stock during cyclical downturns, it can also open opportunities for adapting to structural change. A forward-looking strategy for skills development for employees within the firm can facilitate this process. In the province of Quebec, in Canada, a new central committee provides a co-ordinated approach to regional skills development (Box 3.1). Such a forward-looking industry-educational *skills-matching* approach could be beneficial for Denmark. The Koch Commission[10] has also recommended the provision of yearly overviews of expected infrastructure and construction projects which provides some idea of yearly demand for labour; however, a more long-term and coordinated analysis could be useful for anticipation of future labour demand while improving allocative efficiency.

Box 3.1 **Special measures to monitor labour market developments during the economic crisis in Quebec**

Special initiatives to monitor developments in the labour market, financial markets and economic activity in specific industries were implemented in Quebec following the onset of the GFC. Since 2008, members of the *Commission des partenaires du marché du travail* (CPMT) – a formal collaborative body that has a central role in training decisions and labour market training investments – have organised monthly meetings to monitor the specific labour market situation in the province and every sub-regions. From late 2010, as the Quebec labour market situation improved, these meetings have devoted more effort to the examination of structural and long-term issues such as long-term unemployment, job prospects for older workers and job quality, while maintaining the monitoring indicators of the labour market on a monthly basis. These regular meetings led to the implementation of a specific training programme (*Soutien aux entreprises à risque de ralentissement économique*, SERRÉ), which offers training responding to the anticipated skills gaps to workers during an economic downturn.

Source: OECD (2015), *Back to Work: Canada – Improving the Re-employment Prospects of Displaced Workers*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264233454-en.

Retaining and developing skills helps develop worker's employability

Anticipating skills demand and supply is imperative to prepare a labour force capable of adapting to future labour demands. Forward-looking management of skills and jobs can prevent firm down-sizing and/or closures during periods of cyclical downturns, and can have various positive employment outcomes including mitigating wage inequalities (OECD, 2015b). Therefore, the combination of an anticipation of labour market needs and a proactive attitude by firms towards vocational training of their employees is crucial to help workers retain their employment during times of structural adjustment. In Denmark, vocational and educational policies for workers before displacement are advanced, but carried out on a municipal level. Work-sharing, adult apprenticeship as well as up-skilling through the *Jobrotation* scheme have received favourable evaluations and provide motivated employees with the opportunity to reduce the risk of job loss. *Jobrotation* in particular encourages firms to train their employees through a public subsidy to hire a replacement for the person on training (OECD, 2015c). The aim is to combine up-skilling of workers with work practice and network-building for the unemployed. This can have both a prevention effect on job displacement and a re-employment effect by easing the access to work experience for already displaced workers. Yet, it is also important to address the on-the-job training needs of at-risk populations, like those in jobs with high turnover and those who may be excluded from vocational training due to non-standard work contracts or individual traits such as older workers who may require a more targeted approach (OECD, 2015c).

Employees working in small and medium-sized firms (SMEs) also usually have lower access to training than those working in larger firms, being therefore less ready to succeed in a mobile job market like the Danish one. European Commission (2009) highlights external and internal barriers and obstacles that SMEs and in particular micro and small companies are facing with regard to improving their skills base – including organisational and financial aspects, the lack of a skills development strategy, and inadequate training offers. The stumbling block to training, especially for SMEs, is how the leave costs – training fees, wages of the absent employee, and costs of replacement staff – are to be met. *Jobrotation* offers a partial solution to the problem of absence for purposes of training, also for SMEs. An alternative solution, proposed in Stone (2010), is to rely on a pooling of resources which may involve local or sectorial cooperation among SMEs or between larger firms and their supply chain partners, including small firms.

Collective bargaining improved skills development during the notice period

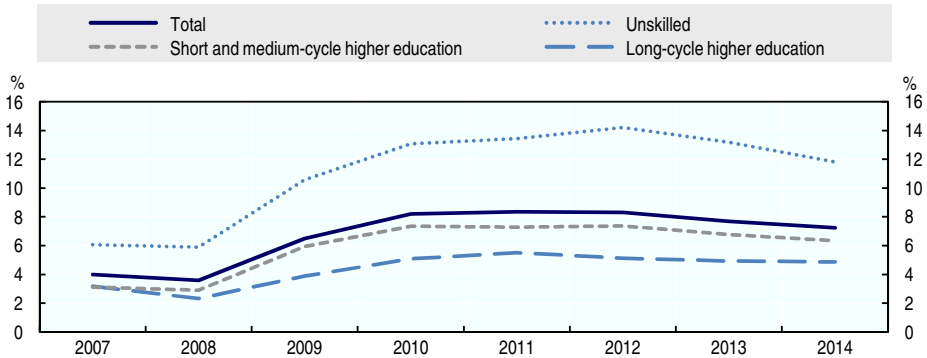
With many job changes over a working life, the mobile Danish labour market requires workers to upgrade their skills and develop their employability continuously.[11] Various Danish trade unions took a keen interest in this issue and reacted to the GFC by putting skills up-grading at the centre of the collective bargaining discussions in 2014, trying to make skills-upgrading a collective action rather than an individual one. The agreement set up in the manufacturing sector between the Central Organisation of Industrial Employees and the Confederation of Danish Industry set the standard and economic framework for all other collective bargaining agreements in Denmark (Jørgensen, 2015). This agreement included innovative features regarding the notice period in the case of displacement: displaced workers with at least six months of tenure in the industry sector now have the possibility to receive further training for a minimum of one week during their notice period, paid from the employer-funded competence development fund. Another innovation is found in the collective agreements in the transport sector: dismissed employees with at least one year of tenure are entitled to two weeks of training during their notice period, thereby extending the notification period proportionally. Using the notice period for additional vocational training and retraining is one of the good practices recommended by the OECD. The social partners should consider spreading out these new training opportunities for displaced workers in other collective agreements.

Low-skilled workers bore the highest adjustment costs from the GFC, with the lowest training opportunities

The unemployment rate of unskilled workers rose sharply during the crisis relative to their high-skilled counterparts, reaching a level of 14.2% of the unskilled workforce in 2012 compared with only 5.5% of workers with long-cycle higher education (Figure 3.4). Unskilled workers also face shorter notice periods (see above) and more limited vocational and skills development opportunities: in firms with high job turnover, employers have less incentive to provide on-the-job training and skills management to their employees. As a result, up-skilling is more accessible for permanent and full-time workers than for non-standard contracts and temporary jobs, both affecting mostly unskilled workers (OECD, 2014). In practice, this restricts equal access to training and career building opportunities within the firm and between skill levels, and reduces the ability of unskilled workers to maintain employment. Ensuring the right to up-skilling regardless of contract type can help mitigate this situation and prevent job losses and periods of prolonged unemployment among unskilled and low-skilled workers.

Figure 3.4. **The adjustment process of the Danish labour market affected unskilled workers**

Unemployment rate (ILO definition) by level of education, percentages, 2007-14



Source: Labour force survey, Statistics Denmark, www.statbank.dk.

StatLink http://dx.doi.org/10.1787/888933430623

Early intervention services to foster return to work

Denmark has strong early intervention policies for some workers

Early implementation of warning pools *in the case of mass dismissal*

When displacements are unavoidable after preventative measures had been taken, reaching soon-to-be displaced workers at the earliest possible stage is crucial and providing tailored assistance and counselling in order to ease their transition into new jobs or towards skill-enhancing opportunities and thereby reducing unemployment duration (Swaim and Podgursky, 1990; Rhum, 1994). While no specific measure exists in Denmark for workers affected by individual dismissals, those concerned by mass dismissals may receive early intervention services, carried out through the *warning pools* approach. Once receiving advance notification of a big mass layoff, the regional labour market authority organises this rapid-response service to begin assisting affected workers during their notice period. Employees are placed in either *ordinary* or *supplementary* warning pools and have access to tailored re-employment assistance (Box 3.2). The Jobcentre of the municipality where the firm is located can arrange to provide job-search assistance, career planning, and educational solutions either in the Jobcentre itself or in a temporary employment service office set up at the workplace. The proximity of Jobcentre caseworkers eases contacts with affected workers and facilitates a collective response towards upcoming layoffs.

Box 3.2. Early intervention services in the case of collective dismissals

Every year, some 100-350 large firms give advance notification of mass dismissal to their regional labour market authority, and this figure almost doubled during the GFC, to almost 600 firms in 2009. In cases of very large dismissals (at least 50% of the employees in a company), the regional labour market authority contacts the *Jobcentre* of the corresponding municipality and two types of (nonexclusive) rapid-response services, called *warning pools*, can be provided to the affected workers:

1) Ordinary warning pools: Regardless of the size of the firm, this scheme can be used to establish a temporary employment service office in the workplace, where caseworkers from the Jobcentre deliver individual job-search assistance and/or help the employees build a job strategy. Counselling services are provided *during* the notice period, preparing workers before they are actually displaced. Under certain conditions (dismissals of at least 50% of the employees in firms of at least 100 employees), the Jobcentre, in cooperation with the firm, can apply for additional resources from the state government for complementary job-search and upgrading programmes. When the planned dismissals are of particular importance to the local community, exemptions from the firm and dismissal size qualifying conditions can be granted.

2) Supplementary warning pools aim at supporting displaced workers *after* their notice period, for those still unemployed and in receipt of UI benefit or social assistance. Under supplementary warning pools, various services can be provided: short counselling, clarification courses (up to two weeks), educational courses like work-study programmes (internships and education) or language courses (up to eight months). Support for skills-upgrading is granted either for skills in current or future demand (as determined by the regional labour market authority) or whenever an employer is willing to hire an unemployed person without wage subsidy after completion of a skills-upgrading course. Skills-upgrading must be planned within 14 days after displacement, must begin no later than three months after displacement and end at least six months after displacement.

Case study of Danfoss (in Sønderborg)

In March 2009, after receiving advance notification of future mass dismissals within the Danfoss company, the *Jobcentre* of Sønderborg (Southern Denmark) applied for funds from the ordinary warning pool. The *Jobcentre* was granted DKR 2.6 million (EUR 350 000) to assist between 800 and 1000 soon-to-be displaced workers. The Sønderborg *Jobcentre* invited all displaced workers to informal meetings where they were informed about their rights, obligations and opportunities. A *Jobcentre* office was established in the workplace temporarily to provide easy access to information and job-search and retraining counselling. Most displaced workers chose to take job-search courses while only a few planned on retraining to get into new occupations and got access to education courses for a period of up to eight weeks (although this option was offered to all displaced workers).

Source: The National Labour Market Authorities, OECD questionnaire on displaced workers policies, OECD consultations with Danfoss, the *Jobcentre* of Sønderborg, unions and VET institutions.

Supplementary warning pool funds which assist displaced workers after the end of the ordinary warning pool are crucial to help those displaced workers with shorter notice periods, such as blue-collar or non-salaried workers, allowing them to participate in job-search and skills-upgrading programmes after the notice period, thereby enhancing their opportunity for a speedy return to the labour market. The upgrading or up-skilling programmes proposed within warning pools can include educational courses for a period of up to eight weeks during the notice period and another eight weeks after dismissal. Several financial incentives are granted to promote VET courses for affected displaced workers: i) the warning pool funds can be used to finance part of the VET courses tuition so that neither the employer nor the *Jobcentre* have to bear the full cost of training; ii) an additional VET allowance can be granted to employers sending their affected employees to training; and iii) during the notice period, displaced workers participating in VET courses are not subject to tax on this benefit (Ministry of Employment, 2015).

Alternative initiatives for early intervention by UI funds and private providers

In some cases, particularly during mass dismissals, UI funds can also offer services directly within a firm, especially when most of the workers are covered by the same collective agreement and affiliated to the same UI fund. In addition, larger firms sometimes contract private placement service providers when they plan a mass layoff, ensuring to provide adapted and personalised outplacement services to their dismissed employees during their notice period (and sometimes also after the actual dismissal). This predominantly seems to be done for white-collar workers. Private providers are then allowed to refer workers to standard vocational training offered to all unemployed people within Jobcentres. The former specialisation of Jobcentres on unemployed people in receipt of social assistance (see Chapter 2) may have created the impression that public employment services might be less apt to support higher-skilled displaced workers, leaving room for private providers' intervention. Firms demonstrating they are already offering their employees with the same kind of employment support as warning pools can be exempted by the labour market authorities from actually implementing a warning pool.

Additional support through the European Globalisation Adjustment Fund

At the EU level, another scheme is available since 2007 for very large structural adjustments: the *European Globalisation Adjustment Fund* (EGF) can provide intensive support to workers made redundant as a result of major structural changes in world trade patterns caused by globalisation or the GFC. The EGF can co-finance projects including measures such as: help

with looking for a job; career advice; education, training and re-training; mentoring and coaching; and entrepreneurship and business creation. It can also provide training allowances, relocation allowances or subsistence allowances. Between 2007 and 2013, across Europe in total 129 firms applied for support from the EGF (among which ten in Denmark, see Box 3.3), and about 30 000 beneficiaries received EGF co-financed support totalling close to EUR 135 million (European Commission, 2014).[12]

Box 3.3. **The use of the European Globalisation Adjustment Fund (EGF) in Denmark**

Since 2009, in Denmark ten firms experiencing large-scale dismissals have applied for funds through the EGF (seven in the field of machinery, two in shipbuilding and one in electronics), requesting a total of EUR 64 million. Between 2009 and 2014, the EGF has provided approximately EUR 21 million to seven selected firms and helped more than 2 300 displaced workers by providing them with further education, training, reorientation and mentoring services focusing on sectors expected to grow in the future.

Case study of Danfoss, Sønderborg: Danfoss displaced around 1 000 employees due to a dramatic decrease in sales. The firm applied for EGF in 2009 and received in 2010 EUR 2.7 million for initiatives for 385 beneficiaries to mitigate the impact of their redundancies caused by the economic crisis. EGF intervention had heterogeneous impacts on different age groups: over the course of the project, caseworkers reported that older displaced workers were less inclined to react to supplementary training than younger ones; as a consequence, the latter became self-supporting much faster.

Case study of Lindø, Odense: The EGF also provides the opportunity to create networks of social actors to support local area development. The EGF project implemented with the closure of the shipyard *Lindø* in Odense in 2010-12 was the occasion to build a network among social actors including unions, twelve involved *Jobcentres* and educational colleges for the retraining and placement of offshore displaced workers. The network survived the end of the EGF project and is now involved in the development of the local area previously dominated by the old shipyards where lots of small entrepreneur businesses have started since the shipyard closure.

Source: OECD consultations with Danfoss; Ministry of Business and Growth; Local Sønderberg Union representatives; *Jobcenter* of Sønderborg, European Commission (2015), "Activities of the European Globalisation Adjustment Fund in 2013 and 2014", Report from the commission to the European parliament and the Council, http://eur-lex.europa.eu/resource.html?uri=cellar:c32bc336-3050-11e5-9f85-01aa75ed71a1.0009.02/DOC_1&format=PDF; European Commission (2015), "Ex post-evaluation of the European Globalisation Adjustment Fund (EGF): Final report", Report from the commission to the European parliament and the Council, http://ec.europa.eu/social/BlobServlet?docId=14371&langId=en.

Around half of the workers who joined EGF initiatives have found new jobs or taken up self-employment (European Commission, 2015b), among which nine out of ten were in full-time work and eight out of ten in permanent contracts. In Denmark, re-employment rates ranged from 15%

to 60%. Reasons explaining these relatively poor outcomes include: i) the length of the approval period meant that a large number of potential beneficiaries had found employment prior to the commencement of measures, impacting the re-employment outcomes, ii) bad regional economic conditions,[13] and iii) late delivery of EGF (reducing the period of delivering measures to dismissed workers). A mid-term evaluation highlighted that these funds were successful in helping harder-to-help beneficiaries and that they worked more effectively when offered complementary to the support by the public employment service and with a personalised package of measures (GHK, 2011). Nevertheless, the evaluation also pointed out some limitations: the initial threshold for applying for funding (1 000 workers made redundant by a single employer, including its suppliers and downstream producers) was considered too high and the approval process too slow to provide a rapid response to the crisis. In response to the GFC, the European Commission adapted the scheme in 2009, by reducing the threshold of redundancies to 500 employees, extending the maximum duration of EGF projects from 12 to 24 months, and increasing its contribution from 50% of the total cost to 65% until the end of 2011 (European Commission, 2015a).

Early intervention policies need to reach the entire workforce

Early intervention remains concentrated on large dismissals from large firms

As in many other OECD countries, small firms are responsible for a large degree of job creation and job destruction also in Denmark (Ibsen and Westergård-Nielsen, 2011; Criscuolo et al., 2014). Employees in SMEs are therefore exposed to the highest rates of turnover and the downsizing or closure of a large number of small firms in one region can have a strong impact on local dynamics. In Denmark, SMEs with 20 employees or less are exempt from regulations for collective dismissals, therefore employers have no requirement to start any process of job displacement prevention, nor do workers displaced from small firms have access to services within the *warning pool* system or the EGF scheme. This implies that employees in SMEs (accounting for 28% of total employment; see Venn, 2009) are excluded from the benefits of early notification as they cannot access any scheme of early intervention. Small-scale dismissals even in larger firms (not complying with the Danish collective dismissal definition, see above) are also excluded from these early intervention services. Early intervention remains concentrated on large dismissals from large firms while early help for workers displaced from small firms or experiencing individual or small-scale dismissals is limited.

Firms may not comply with their obligations or try to get around them

Even though required by law, firms closing their business altogether have lower incentives to register with the regional labour market authority. These so-called *run-away firms* are a common problem in OECD countries that leave displaced workers with limited rights to early intervention services. In practice, even if they are not *running away*, employers do not always alert the pertinent labour market authorities as soon as they are aware of the need to shut down in part because of the adverse motivational effects this may have on their workforce. In other cases, gradual dismissals of workers over time spread out over a period of more than 30 days exonerate employers from the obligation of advance notification and of offering prevention measures and early intervention services. Such firm behaviour should be monitored.

Considering good practices from other countries

While Denmark has a sound and well developed set of prevention and early intervention measures in international comparison, examples from other countries can give insights about possible further improvements (see Box 3.4 for more details on each country example):

- HQ Sharp in Japan built a network of subcontractors of the same employer and across these firms in order to help prevent displacement of employees whose skills are still in demand within the network. This also provides an example of good coordination between public and private services to displaced workers, as well as tailored services to address possible spill-over effects of large dismissals.
- The Canadian province of Quebec managed to expand prevention and early intervention policies to small firms and individual dismissals by implementing *Continuous-Entry Reclassification Committees* (CREC). The CREC is open to all displaced workers in an area regardless of the size of the firm or the number of dismissals in the firm, and provides early intervention employment services similar to those given when mass dismissals occur. As early intervention during the notice period is in the domain of union advocacy in Denmark, this could be part of future negotiations with employer organisations.
- A permanent service such as CREC could be financed by employers through a fee based on labour costs, as done in Sweden. Job Security Councils in Sweden act in parallel to the PES and play a vital role in the restructuring process by providing continuous and tailored services to displaced workers. They function as an insurance against job displacement at the industry level. The size of such a service running along the PES would need to be considered carefully since it may suffer from erratic flows i.e. large inflows in time of economic crisis or big industry shifts. One possibility would be to establish only a small number of such service offices which could serve displaced workers within a region, in co-operation with the local *Jobcentre*.

Box 3.4. **Good practices from other countries**

HQ Sharp in Japan: After a rapid deterioration of business conditions, Sharp announced in 2012 an early retirement plan for almost 3 000 workers aged 40 and over. In response to this announcement, the local PES implemented the Support for *Sharp-related Displaced Employees Headquarters* (HQ SHARP), a co-ordinating committee consisting of managers from the participating organisations of both private providers and the PES. Its mission was to build an integrated support system to offer effective re-employment and livelihood aid for displaced workers. It was also intended to provide support measures for related businesses (Sharp's suppliers). Much of the work of the HQ consisted of an extensive consultation process that was used to achieve agreement on the strategy to adopt and eventually the setting-up and implementation of action plans. The aim of HQ SHARP was to facilitate a smooth transition into re-employment and to support the living standards of workers who lost their job. As part of achieving this goal, informational meetings were organised for workers who had enrolled in the voluntary retirement programme, to provide information about various services that were available to these workers, vocational counselling, as well as instructions about how to access these services and training.

CRECs in Quebec: Quebec is the only province in Canada providing specialised adjustment assistance to workers affected by individual and small-scale displacements. These workers can enrol in *Continuous-Entry Reclassification Committees* (CREC) which are open to all displaced workers from different firms and provide services similar to those provided in large-scale dismissals by the *Reclassification Assistance Committee* (CAR), the equivalent of the Danish warning pools. CRECs meet the needs of regions facing multiple redundancies in firms with less than 50 displaced workers (the threshold necessary to implement a CAR), and/or do not have enough PES staff to cope with the sudden and massive influx of displaced workers in a local employment centre. A permanent scheme such as CREC is advantageous due to its ability to meet the distinct needs of displaced workers with different skill levels and deliver *peer* support service because of shared experience between staff and -compliant firms, runaway-firms or firms that refuse to participate in the setting up of assistance committees.

Job Security Councils (JSC) in Sweden: JSCs were first developed in the 1970s against the backdrop of the deteriorating economic conditions in Sweden and the massive job losses of white-collar workers in the wake of the oil crisis in 1973. At that time, the Swedish PES was not regarded by employers as providing sufficient support for white-collar workers to find new jobs. The JSCs, based on collective agreements between social partners in a sector or an occupational field, are actively involved in the process of restructuring and provide advice and consultation to employers and trade unions at an early stage, while also providing transition services and guidance to workers who are made redundant. JSC activities are financed by the employers who continuously contribute a percentage of their total payroll, determined within collective agreements (0.3% of payroll). JSCs distribute the risk and costs of restructuring among its members while also allowing access to workers in small and medium enterprises. Around 80% of JSC participants find a solution (employment or retraining) within a period of seven months, and this high number was sustained even during the GFC of 2008-10.

Source: OECD (2015), *Back to Work: Canada: Improving the Re-employment Prospects of Displaced Workers*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264233454-en; OECD (2015), *Back to Work: Japan: Improving the Re-employment Prospects of Displaced Workers*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264227200-en; OECD (2015), *Back to Work: Sweden: Improving the Re-employment Prospects of Displaced Workers*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264246812-en.

Conclusion

The flexible Danish labour market is characterised by high job turnover, which makes it easy for employers to hire and fire workers in line with fluctuating demand. This leaves little room for policies to prevent job displacement in case of economic difficulties. In this context, continuous skills development is crucial to make workers fit for change, especially also for weaker workers in small and medium-sized enterprises. Partly this issue has been addressed in recent years through the inclusion of training matters during the notice period in collective agreements. In the aftermath of the global financial crisis, the short-time work scheme has also helped to prevent dismissals; use of the scheme exploded in 2009 but quickly fell back to normal levels thus avoiding the conservation of non-viable jobs.

Significant notice periods for most workers in Denmark and the early notification requirement in the case of mass dismissal provide a good base for early intervention. Particularly in the case of structural adjustment, the long notification period for all employees gives social partners, employers and displaced workers the time needed to negotiate alternative solutions that fit all parties. However, lacking inclusiveness of early intervention policies is a big concern as not all workers can benefit from the available schemes and resources to the same extent. The Danish system is strong for large-scale dismissals in large companies but does not support to the same extent individually retrenched workers in either small or big companies.

Building on good practices in other OECD countries, several steps can be taken to further improve the current Danish approach to job loss prevention and early intervention for displaced workers. In particular, reforms should be geared towards creating a level playing field for all workers affected by job displacement, irrespective of their skills level, the size of the company they are working in and the size and nature of the dismissal. In this regard, the following steps would be particularly useful:

- Make notice requirements for blue-collar workers more similar to those of white-collar workers to create more space for early intervention and expand recent efforts in collective agreements to provide early training, thereby improving the job-finding chances of low-skilled displaced workers.
- Broaden access to warning pools in case of mass dismissals for workers displaced or at risk of displacement in supply chain firms, i.e. smaller firms supplying intermediate goods and services.
- Make the strict geographical accordance between the firm in troubles and the Jobcentre more flexible by allowing more than one

Jobcentre to receive funds for a specific warning pool (if a significant share of displaced workers do not live in the area of the dismissing firm) and facilitating the transfer of displaced workers entitled to benefits from warning pools to the Jobcentre of their residence to avoid duplication in terms of diagnostics, action plans and other employment services.

- Consider re-enforcing the role of the regional labour market authority as an oversight body to address the specific needs of workers who had been displaced due to structural adjustment.
- Set up continuous-entry warning pools for small firms and individual dismissals to be able to provide the same early support to all displaced workers, similar to the system in Quebec, Canada.

Notes

1. The Salaried Employees Act provides details on minimum notice periods for the majority of white-collar workers.
2. The OECD EPL indicator incorporates collective bargaining for Denmark by taking the average of provisions for blue- and white-collar workers.
3. For all non-salaried workers and salaried workers with collective agreements, minimum advance notice requirements can vary substantially by the specific collective agreement regulating conditions of employment.
4. Mass dismissals in Denmark are defined as dismissals where the number of planned dismissals within a period of 30 days reaches: i) at least 10 workers in firms between 20 and 99 employees; ii) at least 10% of the workforce in firms with 100 to 299 employees; or iii) at least 30 employees in large firms employing at least 300 employees.
5. The notification must specify the number of planned dismissals and their job categories, the reasons for the dismissal, the number of employees normally employed in the firm as well as the proposed date(s) for dismissals. The employer must also, without delay, and no later than 10 days after submitting the advance notification, inform the regional labour market authority of which individuals will be affected by the dismissals.
6. Danish public sector employment remains among the highest in OECD countries – at almost 30% of overall employment – mainly due to high levels of public-sector employment at the municipal level (OECD, 2013b).

7. According to Danish terminology, people scheduled for mass dismissal are registered for *advanced warning*, whereas *warning pools* refer to groups of people eligible for additional support via *warning pool funds*. Here we use *advance notification* to refer to those receiving advanced warnings.

8. The work-sharing arrangements can include a reduction of at least two days per week or alternating full-time work and unemployment.

9. All employees participating in the programme are protected against dismissal during the time of the work sharing agreement. The measure may be applied to all employees, or be specific to sub sections of the firm.

10. In 2013, the Danish government appointed a commission, led by former minister for taxation Carsten Koch, to propose a new employment policy system. The commission presented a reform proposal in 2014 and the Parliament amended the regulations to simplify activation procedures and increase efficiency of active labour market programmes.

11. Every year in Denmark, there are about one million transitions among the 2.5 million employees (average 2000-12), 62% of which are job-to-job transitions, 21% transitions to unemployment and 17% transitions out of the labour force, including to education, sickness and retirement (Frederiksen and Westergaard-Nielsen, 2007 and Westergaard-Nielsen, 2015).

12. Big differences exist between the amount requested by firms and what the EGF actually granted, and between what was implemented and what was finally approved by the commission. For example, in the case of the Danish LM Glasfiber, 1 650 workers were displaced, 825 were targeted by the EGF application, and 401 were assisted by the implemented EGF programme.

13. Among EGF cases performing poorer than their comparators, the European Commission (2015b) identified two Danish cases: the Danfoss Group and Linak. Re-employment rates were below those achieved by mainstream labour market measures (50% compared with 24% and 35%, respectively, in the Danfoss and Linak cases). Stakeholders and independent experts attributed some of the difficulties in achieving re-employment to the specificities of the region, with dispersed populations and limited labour market opportunities.

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Chapter 4

Income support as a safety net for displaced workers in Denmark

Displaced workers cope with the consequences of a job loss very differently depending on the type and generosity of the income support they receive. A well-designed benefit system can minimise the adverse consequences resulting from displacement, without necessarily decreasing the incentive for displaced workers to move quickly back into the workforce. This chapter discusses how well displaced workers are covered by the Danish benefit system, and whether the level of income support is adequate to mitigate their wage losses. Recent reforms have helped maintain the sustainability of the benefit system but further measures are required to adapt it to changing economic conditions and improve the inclusiveness of the system.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

The Danish income support system is presented in detail in Chapter 2. While unemployment insurance (UI) benefits for displaced workers in Denmark are rather generous, they remain privy to eligibility rules and entitlement requirements that may lower the system's coverage. Displaced workers may also qualify for social assistance (SA), disability benefits or early retirement benefits depending on age, health status and household wealth. In rare cases, employers either due to legislative requirements or through collective bargaining agreements may provide their workers with severance payments which compensate workers for the harm caused by the loss of employment. The present chapter discusses how well these forms of income support compensate displaced workers' income losses during their period of unemployment and prevent them from falling into poverty. It discusses how recent reforms helped maintain the sustainability of the benefit system, and ways to adapt further the Danish system to changing economic conditions.

Displaced workers in Denmark are relatively well covered by income support

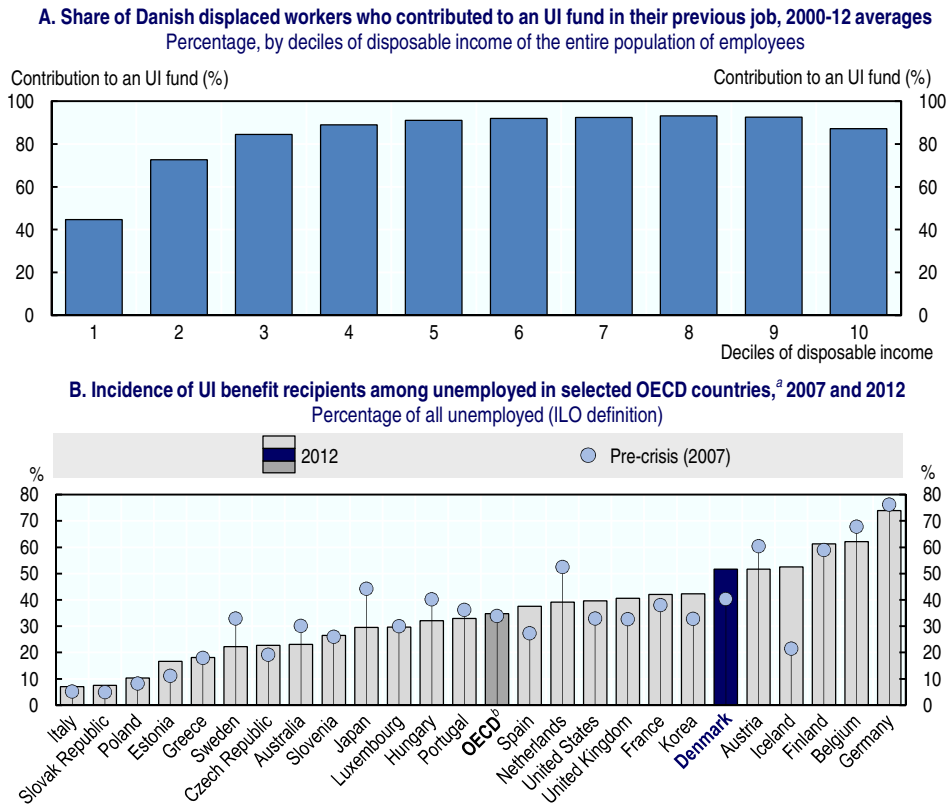
Unemployment insurance coverage is high in Denmark but unevenly distributed

In Denmark, UI is a voluntary scheme; only members of a UI fund can be insured against unemployment. With three employees out of four being insured (73% of the labour force), Denmark finds itself around the average of EU countries (Esser et al., 2013). By comparison, Finland and Sweden have coverage rates over 95% as both countries provide basic benefits (without means-testing) in addition to the voluntary state-subsidised unemployment benefits. In addition, UI membership in Denmark is unevenly distributed across income levels (Figure 4.1, Panel A): over the period 2000-12, low-paid displaced workers were much less often member of an UI fund in their previous job (45% of displaced workers in the first income decile) than their wealthier counterparts (90% of displaced workers in the top seven income deciles). Two aspects largely explain the unevenly distributed membership to the UI scheme: i) the fixed amount of UI contribution might seem too high a price to pay for low-paid workers; and ii) the potential access to social assistance benefits can play a disincentive effect for low-paid workers.

Being insured against unemployment does not necessarily mean receiving UI benefit when losing one's job because a series of other eligibility criteria are required (see Chapter 2). Overall, only one Danish unemployed (ILO definition) out of two actually received UI benefit during his unemployment spell in 2012 (Figure 4.1, Panel B). With such a share, Denmark finds itself 15 percentage points above the OECD average in terms

of UI benefit coverage and significant improvements were made in Denmark in this regard since the pre-crisis period (as only 40% of the unemployed received UI benefit in 2007).

Figure 4.1. **Lower-paid displaced workers are less well insured against unemployment**



Note: ILO: International Labour Organization; UI: Unemployment insurance.

a) Countries are ranked in ascending order of the incidence in 2012.

b) Unweighted average of the 25 OECD countries shown in Panel B above (excluding Canada, Chile, Ireland, Israel, Latvia, Mexico, Norway, New Zealand, Switzerland and Turkey).

Source: OECD estimates based on *Integrated Database for Labour Market Research* (IDA) for Panel A; OECD estimates based on household panel surveys (Australia and Japan), administrative data (Korea) and national labour force surveys for other countries for Panel B.

StatLink http://dx.doi.org/10.1787/888933430634

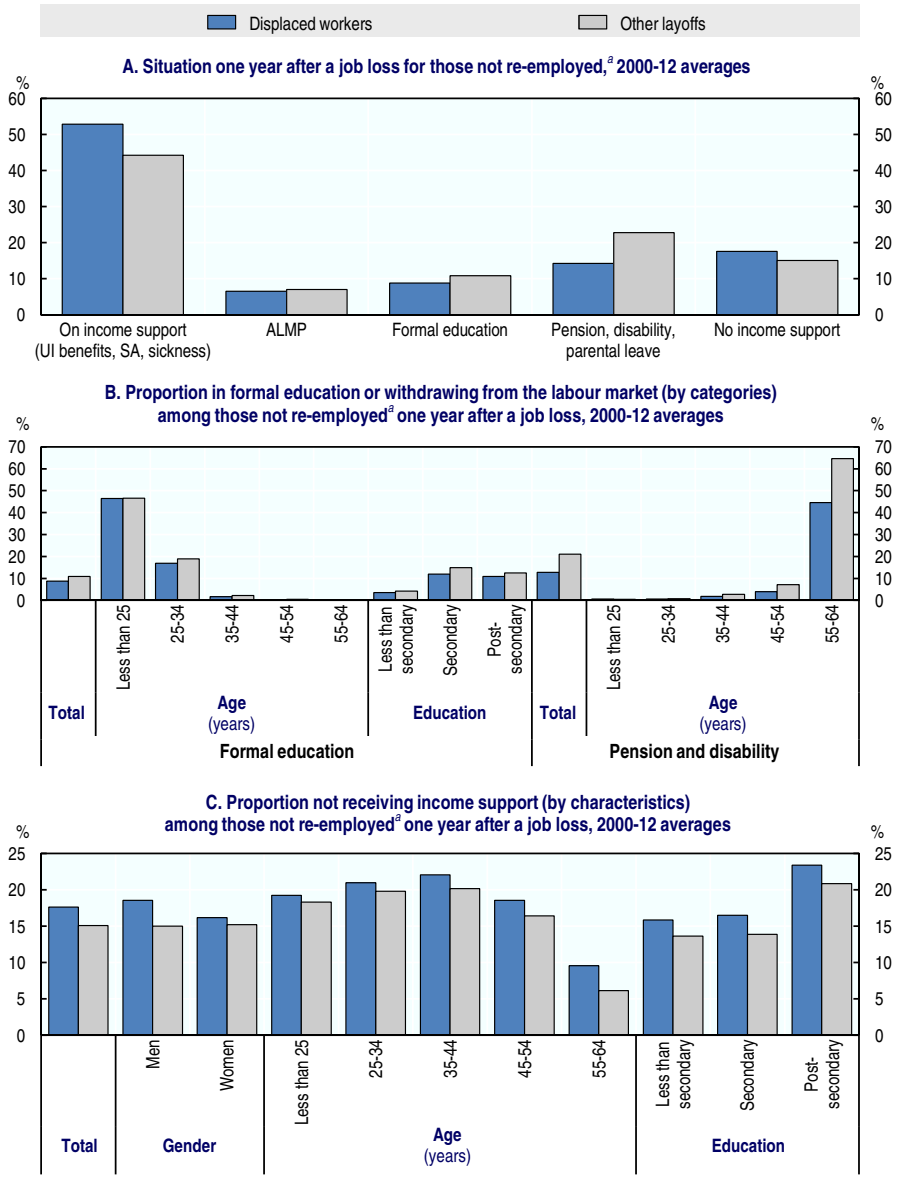
Nevertheless, almost one out five has no access to any kind of income support

One year after losing their job, displaced workers who have not found a new job still have relatively good access to income support: 53% of them receive either UI benefit or social assistance (SA) or sickness benefit compared with 44% of other job losers (Figure 4.2, Panel A).[1] For both groups, displaced workers and other job losers, around 7% are in active labour market programmes (ALMP) and might therefore also receive income support (UI benefit or SA), while around 10% are in formal education and might have access to the education compensation scheme. A significant share withdraws from the labour force and receives alternative welfare support, through early retirement, pension, disability or parental leave: nevertheless, displaced workers rely much less often on these alternative welfare supports (14%) than other dismissed workers (23%).

Exit from the labour market is unequally distributed across age and education categories (Figure 4.2, Panel B). Almost one young displaced worker out of two is in formal education, with strong disparities across educational level: only 3% of low-skilled displaced workers (with less than secondary education) are in formal education one year after displacement, compared with 12% of those with secondary education. This highlights the need for further targeting of education support on those who would need it most; i.e. low-skilled workers. Displaced older workers (aged 55-64 years) withdraw much less often from the labour market to (early) retirement or disability than other job losers, 45% versus 65%, and this is not due to a distributional effect as there are not more older workers among other layoffs than among displaced workers. Recent reforms especially to the early retirement scheme have considerably lowered the risk of early exit but further efforts are required to increase incentives to stay in the labour market after job displacement, especially for older workers (OECD, 2015).[2]

Despite the various state supports available to displaced workers, almost one out of five of those not re-employed within a year has no access to income support (Figure 4.2, Panel C), and this share is higher for displaced workers than for other job losers (18% versus 15%). The gap between the two groups of dismissed workers is largest for men and for older workers. However, overall older workers are least likely not to qualify for income support. Little difference is observed in the share accessing income support between low-educated displaced workers and those with secondary-level education; among both groups one in six have no access to any kind of income support.

Figure 4.2. **Displaced workers are better covered by the income support system than other dismissed workers, but a significant share is without income support**



Note: ALMP: Active labour market programmes; SA: Social assistance; and UI: Unemployment insurance.

a) 30% of all displaced workers and 35% of other layoffs are not re-employed within one year.

Source: OECD estimates based on *Integrated Database for Labour Market Research* (IDA).

StatLink http://dx.doi.org/10.1787/888933430646

Income support in Denmark as a means to mitigate wage losses

Once displaced, the loss of income can have grave consequences on household welfare and the displaced worker's capacity to find a new, sustainable source of income. Workers face two forms of income loss due to displacement, the net income loss incurred during the period of unemployment and the wage loss due to lower wage rates in the new job (Parsons, 2014). While governments aim to minimise the time spent out of work (and on the government's pay bill), displaced workers are concerned about their current and future earnings as well as the quality of their new job. Some can face a trade-off between the level of their reservation wage (and conditions of employment) and remaining unemployed; or considering adapting their skills and education. In the meanwhile, insurance companies, employers, governments and labour unions can help provide income support to smooth consumption during this intermittent period of income loss.

Severance payments play a limited role

In Denmark, severance pay plays a limited role in mitigating the financial impact of job loss for displaced workers, while in other countries, it can be an important part of the compensation workers receive in case of displacement, especially for older and long-tenured workers who bear the largest earnings losses. In 2013, Danish employers faced lower severance pay obligations than most OECD countries and rules differ for white and blue-collar workers (Table 4.1).

Severance pay is determined by statutory requirement for white-collar and by collective agreements for blue-collar workers, but in both cases, the amount received is largely determined by job tenure, type of occupation and field of work. Due to specific rules linking the delivery of severance pay to UI benefit,[3] blue-collar displaced workers rarely receive severance pay in Denmark, all the more in the case of low-paid workers (Figure 4.3)[4] but also because the subscription rate to UI funds are high. However, the lower legal requirements for severance payments in Denmark compared to other countries are consistent with part of the literature arguing that severance payments have either no impact or are less efficient than unemployment benefits in providing insurance against labour market risks (Boeri, Garibaldi and Moen, 2014). Some studies suggest that severance pay is more useful in countries with limited rule of law or inefficient judicial systems (Blanchard and Tirole, 2008). While severance pay in general is not a central theme in income protection for Danish displaced workers, in recent policy reform discussions the social partners have kept severance pay on the table as a potential bargaining chip. Moreover, the inequality of treatment between blue and white-collar workers, on top of already shorter notice periods for blue-collar workers compared with their white-collar peers, leaves room for further convergence.

Table 4.1. **Characteristics of severance pay schemes in selected OECD countries**

	Legal base and eligibility conditions	Amount in statutory law	Collective bargaining coverage rate[a]	Interaction with UI entitlement
Australia	Federal statutory law and provisions in collective agreements	Min: tenure ≥ 1 year and < 2 year = 4 weeks Max: tenure ≥ 9 years and < 10 years = 16 weeks Tenure ≥10 years = 12 weeks	45% (2007)	Waiting period for UI benefits is increased by number of (wage) weeks received in severance pay
Austria[b]	Statutory law: Access to individual accounts only if tenure over 3 years. Otherwise account carried over to next employer	Amount depends on the capital accrued in the fund, investment income earned and capital guaranteed	99% (2010)	None
Canada	Federal statutory law and provisions in collective agreements	Min: tenure < 1 year = 0, tenure ≥ 1 year and < 3 years = 5 days after which tenure ≥ 3 years = 2 days for each year of tenure	29% (2012)	Waiting period for UI benefits is increased by number of (wage) days received in severance pay
Denmark[c]	Statutory requirement for white-collar workers and collective agreements only for blue-collar workers	White collars: Min: 1 month > 12-year tenure; 2 month > 15-year tenure; 3 months > 18-year tenure Blue collars: The monthly amount of severance pay is calculated as follows: 85% of monthly salary *minus* the monthly unemployment benefit, and is payable for: 1 month > 3-year tenure; 2 months > 6-year tenure; 3 months > 8-year tenure	85% for all workers (2007)	For blue-collar workers, the amount of severance pay is reduced by the amount of UI benefits. Indeed, since initial replacement rates are most often above 85% for low-paid workers, severance pay is rarely paid to blue collars.
Finland	No severance pay	n.a.	90% (2008)	n.a.
France	Statutory law and provisions in collective agreements	Min: tenure ≥ 1 year: 2 months Max: tenure ≥ 20 years: 5.3 months	90% (2008)	Waiting period for UI benefits is increased if severance pay exceeds legal minima, by a duration in days corresponding to the extra-amount in severance pay divided by previous daily wage (total waiting period capped at 75 days).

Table 4.1. **Characteristics of severance pay schemes in selected OECD countries** *(cont.)*

	Legal base and eligibility conditions	Amount in statutory law	Collective bargaining coverage rate	Interaction with UI entitlement
Germany	Statutory law: an employee working in a firm with at least ten employees who is dismissed on the basis of compelling operational reason is entitled to severance pay if he renounces to go to court	Half a month's pay per year of tenure	61% (2010)	None
Japan	No legal requirement. Provisions in collective agreements		16% (2008)	
Korea	No legal requirement. Provisions in collective agreements		10% (2008)	None
New Zealand[d]	No legal requirement in general but right to negotiate severance pay in case redundancy is due to outsourcing (note). Provisions in collective agreements		17% (2007)	None
Sweden	No legal requirement. General provisions established in collective agreements respectively for white collars aged over 40 and for blue collars aged over 40 and with 50 months of employment over the last 5 years	White collars: complements UI at a max of 70% of previous wage for a period of 6-18 months depending on age. Blue collars are entitled to a lump sum increasing with age	91% (2011)	Amount depends on UI for white collars
United States	No legal requirement. Provisions in collective agreements		13% (2011)	Waiting period for UI benefits or reduction in the amount depending on the state.

Note: UI: Unemployment insurance; n.a.: No severance payments for workers.

a) The collective bargaining coverage rate provides an indication of the proportion of the workforce potentially covered under these agreements and therefore likely to receive higher severance packages than the legislated ones.

b) *Austria*: Conditions refer to workers with contracts concluded after January 2003.

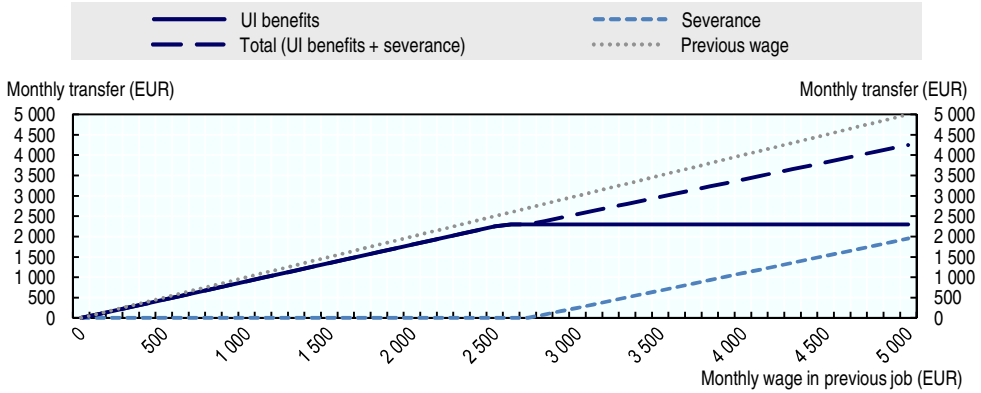
c) *Denmark:* Conditions are regulated by collective agreements per sector for blue-collar workers and by regulation for white-collar workers.

d) *New Zealand:* In case of restructuring, defined as outsourcing, the employee has the right to ask for transfer to the contractor. If refused, the worker can negotiate redundancy arrangements.

Source: OECD Employment Protection Database, 2013 update, http:dx.doi.org/10.1787/lfs-epl-data-en; *ILO Employment Protection Legislation Database*, www.ilo.org/dyn/eplex/termdisplay.severancePay?p_lang=en; *ICTWSS Database*, www.uva-aias.net/208 for adjusted bargaining coverage rates; and Lindquist, G.S. and E. Wadensjö (2007), "Social and occupational security and labour market flexibility in Sweden: The case of unemployment compensation", *IZA Discussion Papers*, No. 2943, Institute for the Study of Labor, July, Bonn, http://ftp.iza.org/dp2943.pdf.

Figure 4.3. **Severance pay plays a limited role in mitigating the financial impact of job loss for blue-collar displaced workers**

Total maximum amount of income support for workers insured to an UI fund, eligible to UI benefits and entitled to severance based on their job tenure



Note: EUR: Euros. UI: Unemployment insurance. *UI benefits* for insured and eligible displaced workers. *Severance:* Potential severance payment for those complying with tenure condition.

Source: OECD estimates based on a specific collective agreement for blue-collars workers, CO-Industri and DI (2012), *Industrial Agreement 2012-2014*, Central Organisation of Industrial Employees in Denmark (CO-Industri) and Danish Confederation of Industry (DI), www.co-industri.dk/uk/agreement-history/agreement2012_2014/Pages/Default.aspx.

StatLink http://dx.doi.org/10.1787/888933430652

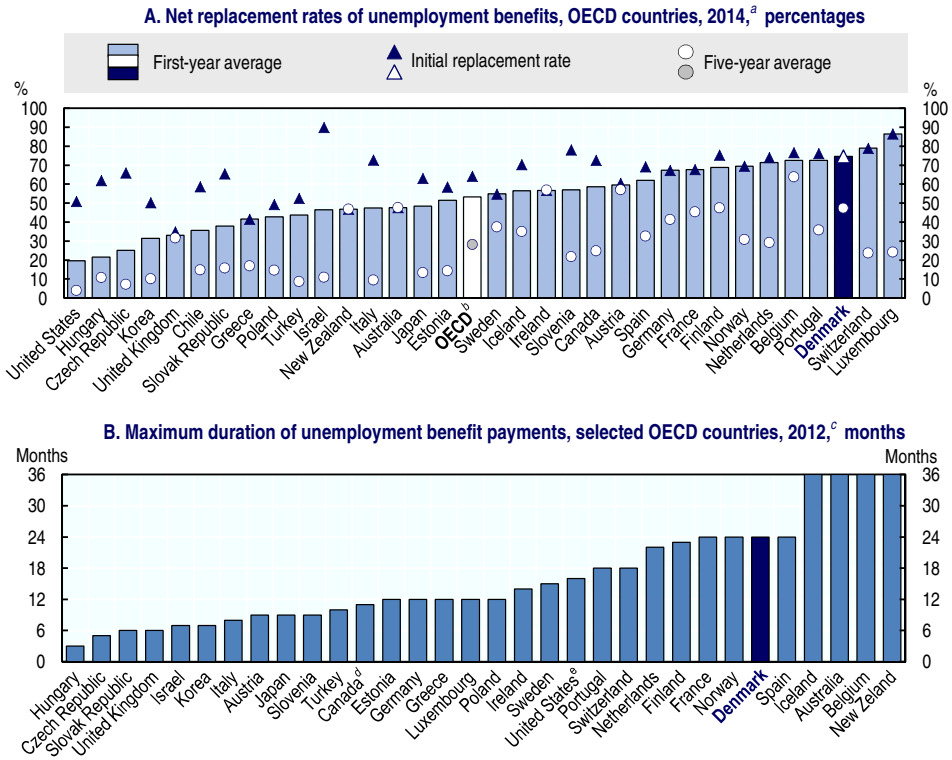
UI plays a crucial role in cushioning the financial impact of redundancies

Displaced workers receive rather high benefits for a rather long period of time

Denmark has one of the highest UI benefit replacement rates among all OECD countries (Figure 4.4, Panel A). During their first year of unemployment, displaced workers entitled to UI benefit receive on average 74% of their previous wage, compared with 57% on average in the OECD. However, the net replacement rate varies across the wage distribution: benefits amount to 90% of the previous wage for low-wage earners and are capped at approximately EUR 554 per week in 2015, this cap affecting a large share (80%) of insured unemployed. As a result, the level of income support decreases with the workers' previous wage. In order to compensate for this decrease, some individuals also subscribe to private unemployment insurance (available since 2003) that provides cumulative unemployment benefits on top of the regular UI benefit. Workers can receive UI benefit for a total of two years within a three-year period, which is also one of the longest unemployment insurance durations in the OECD (Figure 4.4, Panel B), although the duration was recently reduced from four years to two years as part of the policy response to the crisis.[5] As a result, displaced

workers' income replacement rate in Denmark, measured over a five-year period, remains above the OECD average. After exhausting their unemployment benefit entitlements, displaced workers might be eligible for means-tested or health-related sources of income replacement.

Figure 4.4. **Both the income replacement rate and the payment duration of unemployment benefits are high in Denmark compared with other OECD countries**



a) Net replacement rate (NRR) is the ratio of net income out of work to net income while in work. Calculations consider cash income (excluding, for instance, employer contributions to health or pension insurance for workers and in-kind transfers for the unemployed) as well as income taxes and mandatory social security contributions paid by employees. Social assistance and housing-related benefits potentially available as income top-ups for low-income families are not included. Family benefits are included, while entitlements to severance payments are excluded. NRRs are calculated for a 40-year-old worker with an uninterrupted employment record since age 22. They are averages over four different stylised family types (single parents and one-earner couples, with and without children) and two earnings levels on the lost job (67% and 100% of average full-time wages). Due to benefit ceilings, NRRs are in most countries lower for individuals with above-average earnings.

b) Unweighted averages of the 33 OECD countries shown in Panel A above (excluding Latvia and Mexico).

Figure 4.4. **Both the income replacement rate and the payment duration of unemployment benefits are high in Denmark compared with other OECD countries** *(cont.)*

c) No duration limit, for Australia, Belgium and New Zealand.

d) The maximum duration of Employment Insurance (EI) payments in Canada depends on the unemployment rate in the relevant EI region. The 11-month duration shown corresponds to the unemployment rate of 9% in Ontario in July 2012.

e) The duration of unemployment insurance benefits in the United States varies with state rules and unemployment rates. The 16-month duration shown reflects the situation in Michigan in July 2012.

Source: OECD Tax-Benefit Models, www.oecd.org/els/social/workincentives.

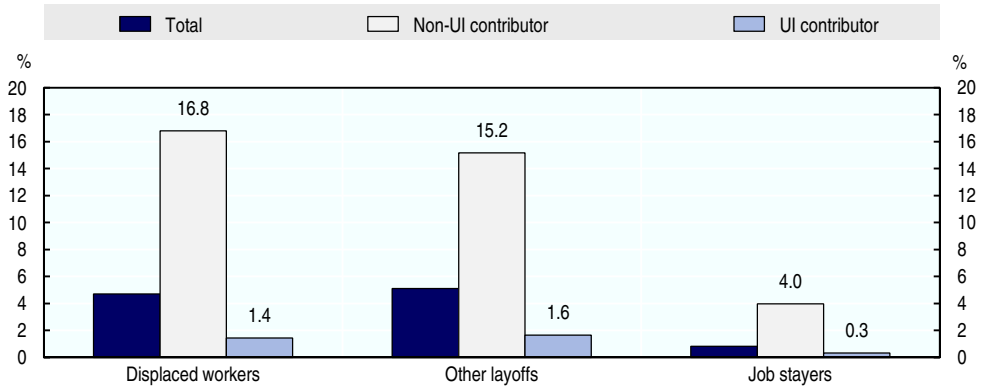
StatLink http://dx.doi.org/10.1787/888933430668

Unemployment insurance benefits reduce the poverty risk after displacement

Unemployment insurance in Denmark acts as a solid safety net to prevent displaced workers from falling into poverty after job loss. Through the relatively long payment duration and the relatively generous benefit level, UI benefit alleviates the shock that displacement causes on household disposable income: one displaced worker out of six who was not contributing to an UI fund in his previous job lives in a poor household following job displacement, while this is the case for only one out of 70 for those who contributed to an UI fund (Figure 4.5). Being UI insured therefore plays a crucial role in limiting the negative financial consequences of job displacement.

Figure 4.5. **Unemployment insurance in Denmark successfully cushions the financial impact of a job loss**

Proportion living in a poor household, percentages, 2000-12 averages



Source: OECD estimates based on *Integrated Database for Labour Market Research* (IDA).

StatLink http://dx.doi.org/10.1787/888933430672

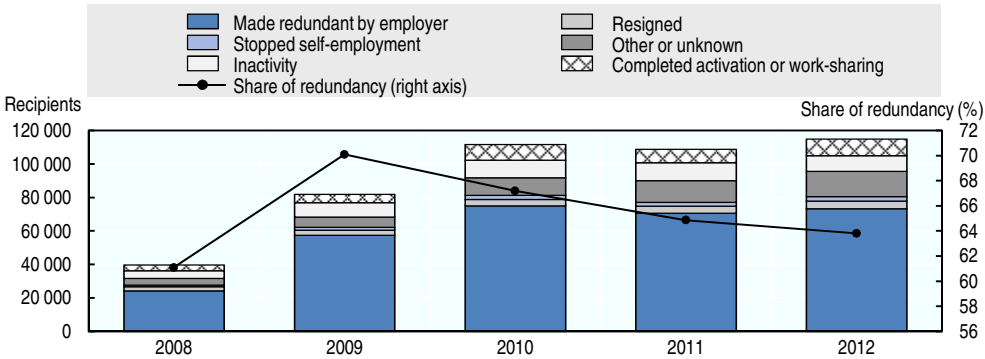
Preserving the sustainability of the Danish income support system

The income support system was put under great pressure during the crisis

From 2008 to 2012, the number of UI benefit recipients almost tripled from around 40 000 to more than 110 000 and the share of redundant workers among UI benefit recipients increased sharply in 2009, from 61% to 70% (Figure 4.6). Denmark has long had a high level of income protection for the unemployed (as the second pillar of its *flexicurity* system), but the GFC and its sharp and sudden rise in benefit recipients put great pressure on the income support system, increasing total public spending on passive labour market measures from 1.2% of GDP in 2008 to 1.8% in 2010. Nevertheless, prior to the GFC, the Danish economy flourished and several pre-crisis reforms aimed at reducing the generosity of the Danish income support system by reducing the duration of income replacement and reviewing the terms of eligibility to UI benefit. These measures have been maintained with and in the crisis, although with several adjustment mechanisms aiming at smoothing their impact on the unemployed during those bad economic conditions.

Figure 4.6. **The large increase in UI benefit recipients during the crisis was mainly driven by displaced workers**

Number of UI benefit recipients by reason of entry into unemployment, 2008-12



Note: UI: Unemployment insurance. *Inactivity* includes temporary absence from the labour market; temporarily sent home; education, parental or maternity leave; school leaver or completed national service. *Completed activation or work-sharing* includes those who completed activation and those who were given a certificate of release from work-sharing.

Source: Jobindsats, Danish Ministry of Employment, www.jobindsats.dk.

StatLink http://dx.doi.org/10.1787/888933430683

Recent reform reduced benefit generosity and increased activation requirements

UI payment duration was progressively shortened from four to two years

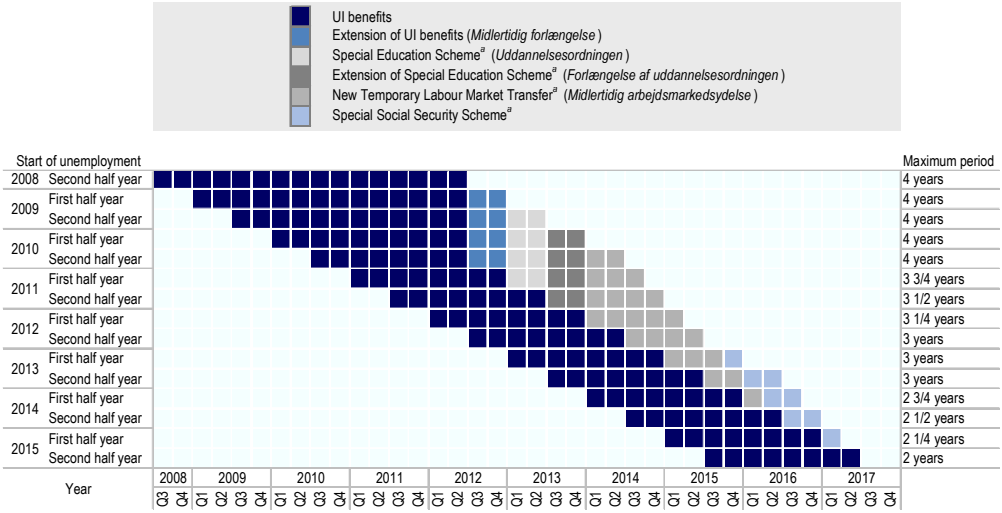
In 2008, the Danish government increased the strictness of UI by shortening the total UI payment duration from four years to two years for all unemployed. However, during the GFC, the increased need for income protection took precedence over budgetary constraints, and several temporary extensions were implemented in order to smooth the change in UI payment duration over a longer period and thus mitigate the impact of reform during the crisis on affected households. The temporary benefit extensions compensated the total reduction in UI payment duration between 2008 and 2010 (Figure 4.7), and displaced workers only began to see an effective reduction in payment duration from the beginning of 2011 when some of the temporary benefits began to expire. Only from the second half of 2015, an eligible and entitled worker laid-off from his job receives unemployment benefits for no longer than up to two years. The temporary support of these extension schemes created some stability for displaced workers, but may also have brought false confidence that the duration would remain at previous levels. However, most of the extension schemes added specific activation requirements to the usual eligibility criteria as for example, a requirement to carry out an education plan with the Jobcentre for the *Special Education* scheme or participate in active labour market programme (wage subsidy or job training) for its extension.[6] Such, the seemingly necessary temporary benefit extensions could be introduced without jeopardising the re-employment potential.

Re-entitlement conditions to UI benefit were tightened

At the same time as the payment duration was gradually cut, eligibility conditions to UI benefit were tightened by an increase in the re-entitlement period for UI benefit from 26 to 52 weeks of employment within a three-year period and the previous possibility of regaining eligibility with a subsidised job was abolished. Eligibility conditions are an equally relevant criterion of the generosity of the UI system. Andersen et al. (2015) show that benefit payment duration and employment requirements are substitute instruments in affecting job-search incentives and thus gross unemployment. If the employment requirement of the UI system is lax (i.e. if the number of hours/weeks worked within a period of time required to be eligible to UI benefits is low), the maximum duration of a benefit spell matters less since it is easy to regain eligibility and vice versa.

Figure 4.7. **Several temporary extensions were implemented in order to smooth the reduction in UI payment duration from four to two years**

Duration of UI benefits and extensions, 2008-15



Note: UI: Unemployment insurance.

a) 60% of UI benefits if no children at home, and 80% if children at home.

Source: Koch Committee (2014), "Ekspertgruppen om udredning af den aktive beskæftigelses indsats Veje til job – en arbejdsmarkeds indsats med mening", February, http://www.oecd.org/els/emp/Carsten%20Koch%20udvalget%20WEB%20pdf.ashx.pdf.

Social assistance has also been reformed towards more activation

In order to increase activation and limit inactivity traps, social assistance has also been reformed in 2013 (Box 4.1). The reform aimed at providing education to young beneficiaries under age 30, without any professional training or education, and finding employment for youths with professional training and more generally adult claimants over age 30. A report by the Danish Government (2015) presents a quantitative evaluation of the effects of social assistance reform and finds a positive effect of 3.4 percentage points on the employment rate and 4.7 percentage points on the education rate of new recipients five months after the start of the benefit period, representing an increase in both the average education and employment rates of roughly one-third. This might have had an impact on low-skilled, low-paid displaced workers who were not UI insured but had to rely on social assistance (see above).

Box 4.1. **Main elements of the 2013 social assistance reform**

The government reformed social assistance in 2013, mainly to avoid young people being trapped in inactivity, but also to increase activation of those receiving social assistance. The reform includes the following main changes for three categories of recipients:

- Low-educated youth under age 30 no longer receive social assistance but are encouraged to undertake education and are covered by a benefit equivalent to the education grant. Among these disadvantaged youth, those not ready for education receive specific training aimed at preparing them for education.
- For adults over age 30, job-search obligations and sanctions are increased. After three months, they must accept a job to receive the benefit.
- People with multiple vulnerabilities receive holistic support and have the right to be followed by a coordinating caseworker from the Jobcentre.

Source: OECD (2014), *OECD Economic Surveys: Denmark 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_surveys-dnk-2013-en.

Addressing the remaining challenges of the Danish income support system

Reforms raised concern about the solidity of the safety net for displaced workers

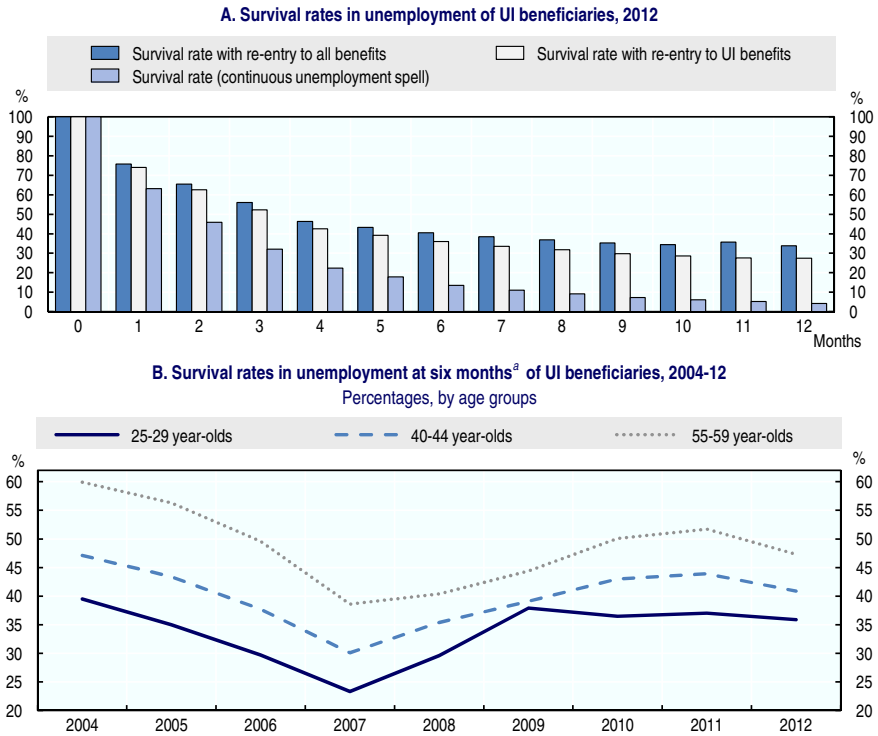
How long do displaced workers remain on income support?

Depending on how long displaced workers remain on income support on average, the reduction of UI payment duration from four years to two years might strongly impact the number of displaced workers exhausting their UI entitlement and risking to touch poverty after two years of unemployment. Survival rates presented in Figure 4.8 (Panel A) illustrate how long recipients receive UI benefit, with and without exiting unemployment for short periods of work and re-entering the system to receive UI again or possibly other types of income support. Within just two months, half of all benefit recipients stop receiving UI benefit. Within three months, half of all benefit recipients – with or without re-entering UI – are no longer registered for UI. And within four months, half of all UI benefit recipients are no longer receiving any kind of public income support.

UI payment duration increased significantly during the GFC for all age groups. At the peak of the crisis, half of the older unemployed stayed at least six months on income support while this was the case for only one-third of

the young unemployed: the older the unemployed the longer they stay on benefits (Figure 4.8, Panel B).

Figure 4.8. **Duration of UI benefit receipt increased significantly during the GFC**



Note: GFC: Global financial crisis; UI: Unemployment insurance.

a) Survival rates with re-entry to UI benefits (see Panel A).

Source: Jobindsats, Danish Ministry of Employment, www.jobindsats.dk.

StatLink http://dx.doi.org/10.1787/888933430692

Did the cut in UI payment duration speed up re-employment for displaced workers?

Jonassen (2014) examines the labour market outcomes of the first cohort of unemployed to be covered by the new two-year duration rule. He highlights a large positive effect on exits from unemployment three months before expiry of the UI benefit: the weekly exit rate increased from 1% for previous cohorts to around 5.5% for the affected cohort. Nevertheless, a large proportion of these exists in fact quit the UI system for other types of benefits or other activities than employment, e.g. education or no income support at

all. The author identifies only a small significant positive effect on entries into employment three months before expiry of the UI payment period (around 1% of the sample got a job earlier than they would have done with a longer benefit duration), and no impact within the first 21 months of the unemployment spell. In any case, all efforts should be concentrated on early intervention to prevent UI benefit recipients from becoming long-term unemployed and from reaching the two-year payment threshold.

An increased number of displaced workers risk exhausting unemployment benefit

As feared by trade unions, the number of unemployed who exhaust their full benefit entitlement increased sharply: before the 2010 reform, 3 000 unemployed used to exhaust their entitlement, a number which doubled by 2012 and rose to 32 000 in 2013, giving many Danish unemployed the feeling that the system was no longer providing the necessary security (Dagpengekommissionen, 2015). Unskilled workers and older workers are overrepresented among exhausting recipients. Exploiting a previous change in the payment duration (the Danish 1999 reform reduced UI entitlement from five to four years), Lyk-Jensen and Weatherall (2012) conclude that the threat of running out of UI motivated Danish unemployed to find a job, the transition rate from unemployment to employment reaching its maximum three to six months before benefit exhaustion. Filges et al. (2013) also find a significant unemployment benefit exhaustion incentive effect on the job-finding rate through a meta-analysis pooling data for seven European countries, the United States and Canada.

Financial sustainability in the long run is a big concern for displaced workers

The risk might nevertheless be high after two years of UI benefit receipt that displaced workers move permanently into social assistance or inactivity. There is no data available on the number of displaced workers eventually receiving social assistance. A report by the Danish Economic Council (2014) estimated that approximately 70% of the unemployed exhausting their UI benefit after two years would not be eligible for social assistance due to its strict means-testing conditions. Hence, for most displaced workers still unemployed after two years (i.e. one displaced worker out of four; see Chapter 1)reaching exhaustion of UI benefit means a sharp drop in household income. Older and long-tenured workers might be the most impacted for several reasons: i) they are more likely to have accumulated savings and assets over their working life and thus less likely to meet social assistance eligibility conditions; ii) they bear the largest earnings losses after displacement; and iii) they have the lowest re-employment prospects of all groups. Therefore, concerns were raised by UI funds and social partners about the potential long-term effects of job losses for those who do not find a new job within two

years. Unions in Denmark are now seeking to improve protection against job and income loss in case of displacement through collectively-agreed severance pay and longer notice periods, as well as early intervention approaches.

The Danish unemployment benefit system is not free from inequality issues

Inequality issues in the Danish unemployment benefit system arise from the combination of two facts: first, it is a voluntary scheme and second, the bulk of the system is tax-financed (see Chapter 2), with only a small part covered by the members' contributions to the UI fund. Therefore, non-insured workers will pay taxes but will not benefit from the UI system. Westergaard-Nielsen (2015) also emphasises that the *flexicurity* system provides security mostly to those less flexible on the labour market, leaving behind to a certain degree those who bear the highest level of flexibility: young workers who are often not covered by unemployment insurance as well as low-skilled, low-wage workers. Indeed, in the Danish system workers tend to become members of the UI insurance system after the age of 30 as they begin having breadwinner obligations. These inequality issues of the Danish UI system make a strong case for a universal UI scheme or at least for stronger efforts to encourage UI fund membership among young and low-wage workers.

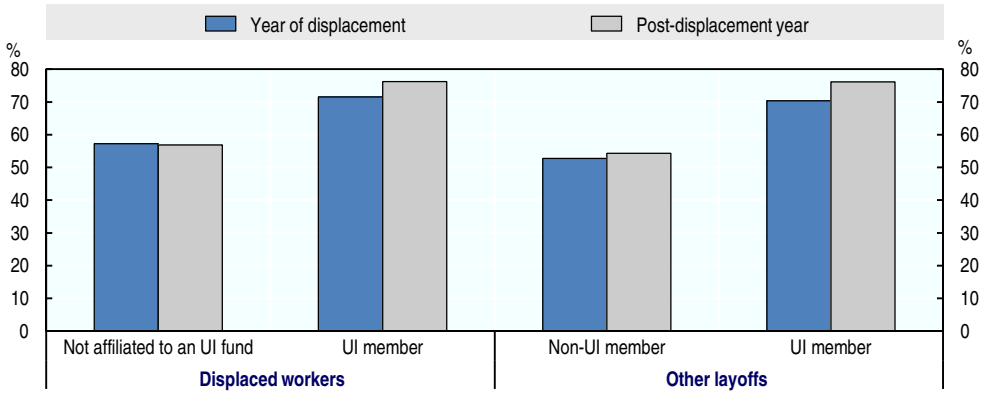
Adapting the Danish income support system to its current challenges

Work disincentive effects seem to be well-contained in the Danish UI system

UI schemes are confronted with an inherent trade-off between insurance and incentives: they insure workers against job loss and smooth consumption by limiting income losses but may also provide disincentives for job-search efforts and job-acceptance behaviour (Caliendo et al., 2009; Tatsiramos and van Ours, 2012). While allowing unemployed more time to find more stable and better-quality jobs, overly generous benefit (either in terms of payment duration or benefit level) tend to increase the duration of unemployment and reduce job-search efforts. However, a simple comparison of the job-finding rates of displaced workers who were members of an UI fund and those who were not affiliated is reassuring in the case of Denmark.[7] In the first year of displacement, re-employment rates are 14 percentage points higher for those affiliated to an UI fund and therefore most likely to receive UI benefit, indicating that those not entitled to UI benefit generally take longer to look for a job or accept one. One year after displacement, return-to-work rates have increased for both groups and the gap increases (Figure 4.9). This pattern is consistent with benefit recipients increasing their job-search efforts as they approach and come close to UI benefit exhaustion. Notably, the pattern is exactly the same for people laid-off for other than economic reasons.

Figure 4.9. **Displaced workers who are members of an UI fund have significantly better re-employment prospects than those not insured**

Re-employment rates of UI fund members and non-members, percentages, 2000-11 averages



Source: OECD estimates based on *Integrated Database for Labour Market Research* (IDA).

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Reform options to increase the insurance function of income support

Some groups of displaced workers face higher risks of not being covered by income support, not finding a job quickly or exhausting UI payment duration. Special attention is required to these most vulnerable groups: older workers, long-tenured workers and blue-collar workers. In addition, the series of temporary UI payment extensions in the past few years have maintained payment durations at high levels during the crisis years and provided temporary political relief in the short-run, but might also have created false expectations. Further adaptation of the Danish income support system should enhance security for all groups of displaced workers and also strengthen the work incentives of the system to make sure work pays.

In 2015, the Danish government set up the Danish income support commission (Dagpengekommissionen [DPK], 2015) composed of nine members (four representatives of the social partners and five independent experts). The DPK recommended an interesting mix of measures to modernise the unemployment benefit system without affecting public finances. A version of the reform proposal was adopted by parliament on 22 October 2015 and will be implemented as of 2017. The UI reform includes innovative measures to foster the acceptance of short periods of work while on UI benefit: i) a flexible extension of the benefit period for up to one year based on a simple rule of one day of work during the

unemployment spell extending the payment period by two days; ii) a flexible extension in the reference period[8] of wages considered for the calculation of the daily UI benefit amount, so as to decrease the financial penalty for workers accepting low-paid jobs during their unemployment spell; iii) the consumption of UI benefit rights in hours instead of weeks, to avoid a financial penalty for workers accepting part-time or short-term jobs during their unemployment spell; iv) the creation of an additional waiting period of one day every four months for all unemployed who have not worked at least 20 days over the past four months; and v) benefit levels[9] will no longer be adjusted during the unemployment spell to prevent that the recalculation every three months discourages take-up of low-paid work. An Employment Account will be created to give the unemployed personalised, up-to-date information on their acquired and consumed rights.[10] The reform also includes as of 1 July 2017 a major change in terms of entitlement to UI, which will be based on 12 months of work with earnings of at least EUR 29 380 (DKK 218 616 in 2016)[11] over the past 3 years, while it was previously based on hours worked (1 924 hours). This means the reform will penalise workers earning less than EUR 15.24 per hour, who will now be required to work for a longer period of time to earn the right to an UI entitlement.

The reform is expected to foster incentives for displaced workers to accept jobs during their unemployment spell even though these might not be the expected and desired ultimate job they were looking for. The reform will increase their labour market attachment while enhancing income security through more flexible UI benefit extension and reference period. The Ministry of Finance and DPK estimated that the reform would reduce the number of persons exhausting their UI entitlement by between 15% and 40% at no extra cost and with no adverse impact on structural employment. However, this reform will not be sufficient to address all inequality issues raised above and major concerns remain in particular as regards the lower UI coverage for low-income groups that might even worsen with the new qualifying criteria. Further efforts are required to reach this already vulnerable population.

Conclusion

For displaced workers in Denmark, the major source of income support is unemployment benefit, while means-tested social assistance and other forms of public income support may also be relevant for some groups. In an international perspective, eligible displaced workers receive rather substantial benefits for a rather long period of time. But recent reform aimed at increasing the sustainability of the benefit system had some impact on displaced workers' safety net following job displacement. Reform was enacted just when the GFC had started and was, therefore, initially cushioned temporarily by repeated unemployment benefit extensions. More recently the effects of reform start to surface, decreasing the long-term benefit replacement rate and raising considerably the number of displaced workers exhausting unemployment benefit. The number of social assistance claimants has increased as a result, also among displaced workers.

The Danish safety net remains one of the strongest of all OECD countries despite the recent changes but additional measures could improve the inclusiveness of the system and address the remaining challenges. Two aspects are critical. First, too many low-wage and low-skilled workers are not covered by the unemployment insurance benefit system. As eligibility for means-tested social assistance is very tight, this group faces a much higher poverty risk. This problem is best tackled by making more efforts to encourage and attract UI fund membership. This could for example be achieved by reforming the financing structure of the system, replacing the current flat-rate fee for UI fund members by a system with a lower fixed fee and some additional fee proportional to the member's wage, thereby lowering the costs for low-wage earners; or by making the system universal. Secondly, the benefit system is geared towards full-time, permanent employment thereby providing little incentives to accept short-term, fixed-term and part-time jobs as a stepping-stone to returning to the labour market. Changes forthcoming in 2017 in response to measures proposed by the income support commission address some of these issues and can help increase labour market attachment and foster re-employment prospects. The impact of the reform will have to be monitored closely.

Notes

1. Unfortunately, it is not possible to disentangle UI and SA recipients with the available *Integrated Database for Labour Market Research* (IDA) data; hence, coverage can only be shown in relation to both.

2. Recent change includes: the 2013 flex-job and disability pension reform; the 2014 state education fund reform; the 2014 social assistance reform; the 2014 sickness benefit reform; the 2015 employment policy reform; and the 2015 vocational education reform; see Jørgensen (2015) for a detailed description.

3. The amount of severance pay is reduced by the amount of UI benefit for blue-collar workers. Therefore, those who do not qualify for UI benefit are more likely to receive severance pay.

4. UI benefit amounts to 90% of the previous wage for low-wage earners but is capped (at EUR 2 300 a month in 2013), leading replacement rates of UI benefit to decrease with wage for workers earning more than EUR 2 550 per month. Since initial replacement rates are most often above 85%, severance pay is rarely paid (severance pay is zero for blue-collar workers earning EUR 2 700 or less), and when it is, the amount of severance pay is reduced by the amount of UI benefit.

5. With the 2015 revision of the reform of the unemployment insurance benefit system, the possibility of an extension of the unemployment benefit payment period was introduced. Benefit can now be paid for a maximum of three years if the benefit recipient has worked sufficiently which earns him/her additional eligibility (for each day of work, two days of additional benefit entitlement are acquired).

6. The first scheme *Extension of unemployment benefit* was a regular extension of the UI payment period. The second scheme *Special Education Scheme benefits* required the same eligibility criteria as UI, with the additional requirement of carrying out an education plan with the Jobcentre. Towards the end of June 2013, the Special Education Scheme was modified to include the obligation to take part in active labour market programmes. A third temporary extension, the *Improved Conditions for Unemployed* agreement, in 2012, included a temporary extension of six months plus more resources for the job rotation scheme. The last extension of UI, the *New Temporary Labour Market Transfer* in January 2014, offers transfers at a reduced level similar to social assistance for up to 15 months. In order to receive this benefit, the unemployed must satisfy UI benefit eligibility criteria and is required to participate in active labour market programmes, the apprenticeship programme and work-sharing for at least 13 weeks after the first four weeks of receiving the new labour market transfer.

7. One would prefer looking at re-employment rates of displaced workers receiving UI benefit and those not receiving UI benefit but, unfortunately, this variable is not available in the data, therefore the closest proxy for benefit eligibility is the fact that workers were members of a UI fund the year before being displaced.

8. From the past three months to a reference period extended by a ratio of three months per month worked (*plus* one month). For example, someone who worked three months while on UI benefit will have the possibility to extend its benefit period by six months (ratio 1:2) to be spent within the reference period of ten months (ratio 1:3 *plus* one month). Small periods of work during an UI benefit claim can either be spent for an extension of the current entitlement or used to acquire a new benefit period of two years, or be split for both purposes.

9. The calculation of the amount of UI benefit changes and will be based on the 12 months with the highest income within the past 24 months (compared with the earnings of the past 3 months previously). Replacement rate remains 90% of the previous income with the daily rate limited to a maximum of DKK 836 (EUR 111). However, unlike in the current system, there will no longer be a minimum of 82% of the maximum UI benefit rate for people finishing their education (down to 71.5%).

10. The Employment Account will be available online at the summer of 2017 and will include information on the number of days in work since becoming unemployed, days to the next waiting period, working days needed to cancel a waiting day and days needed to become entitled to a new benefit period.

11. Earnings above EUR 2 444 per month (DKK 18 218 in 2016) do not enter in the calculation to avoid favouring high-income groups.

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Chapter 5

Effective re-employment support for displaced workers in Denmark

This chapter examines employment services and training available to displaced workers once they are unemployed. While there are no specific programmes for this group, municipal Jobcentres provide displaced workers with guidance and orientation in preparing for, searching and finding employment as well as more intensified help, if necessary, through a range of active labour market programmes and re-training opportunities. Denmark spends more on such programmes than any other OECD country, and also has a tight activation regime in place to make sure that jobseekers seek jobs actively.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

The third pillar of the Danish *flexicurity* model is its strong activation approach, which aims at minimising work disincentives resulting from high income replacement payments by requiring the unemployed to actively seek for work and encourage them to accept jobs to stay attached to the labour market, through regular participation in mandatory active labour market programmes to maintain or foster their employability. This chapter analyses the extent to which the activation strategy reaches displaced workers and discusses how the recent employment reform addressed some of the employment policy challenges. Particular attention is given to different ways to further improve displaced workers' access to effective activation programmes, and in particular training which is the major tool used in Denmark's activation toolbox.

Activation with a dual management structure to strengthen job-search efforts

A strong activation strategy with considerable programme spending

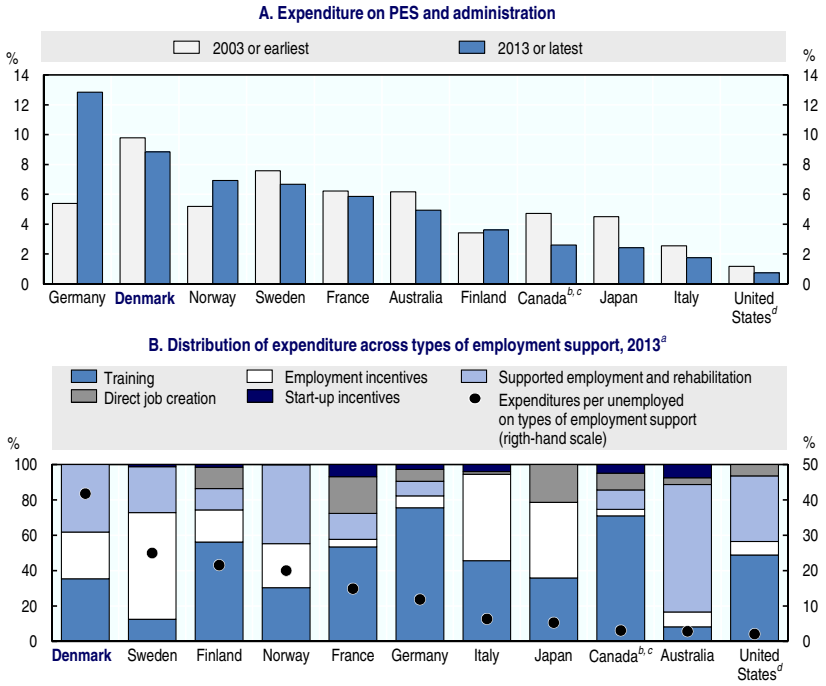
The Danish activation strategy relies on two key elements: *frequent contacts with a caseworker*, aiming to counteract the potentially negative effects of unemployment benefits on incentives to work by enforcing conditionality and active job search; and *participation in active labour market programmes* (ALMP), aiming to maintain and improve employability (OECD, 2013a and 2015a).

During the GFC, a jobseeker receiving either unemployment benefit or social assistance, was required to have a CV available on the Jobcentre website within the first four weeks of unemployment, and had to participate in interviews on job search and labour market availability at the Jobcentre at least every third month. Jobseekers have both a right and a duty to participate in an activation measure (skill-enhancing courses, subsidised jobs in private or public enterprises, corporate internships). The specific timeline for ALMP participation changed over the years with successive employment reforms. During the GFC, for prime-aged unemployed (30-59 years) ALMP participation was mandatory after nine months and thereafter every sixth months, while younger and older jobseekers were activated earlier in their unemployment spell (i.e. after three weeks for jobseekers below age 19, after three months for those aged 20-29 and after six months for those aged 60 and over).

Denmark's active labour market policy has three broad priorities: vocational training (around 2% of the Danish labour force participates in training in every year), subsidised employment, and supported employment and rehabilitation (Figure 5.1, Panel B). The latter two are targeted on highly disadvantaged jobseekers mostly, i.e. often people with additional health barriers, while training is generally the most frequently used scheme for displaced workers.

Figure 5.1. **Denmark remains the world champion of ALMP spending, despite a slight decrease over the past decade**

Public expenditure per unemployed as a percentage of GDP per capita (Panels A and B) and percentage distribution (Panel B, left-hand scale), by category of spending, 2003 and 2013[a]



Note: ALMP: Active labour market programme; FY: Fiscal year; GDP: Gross domestic product; PES: Public employment service. For more details about the categories, see Grubb and Puymoyen (2008).

a) Data for the United Kingdom refer to FY 2004/05, respectively FY 2011/12 (instead of 2003, respectively 2013).

b) Data include federal expenditure on programmes implemented by the provinces and territories, but generally do not include the provinces' additional or complementary funding of these programmes.

c) The sum of expenditures on PES and administration (Panel A) and types of employment support (Panel B) does not correspond to the expenditures on active measures (in Figure 2.4) because the latter includes the Aboriginal Human Resources Development Agreements, which have not been allocated across the main categories.

d) The sum of expenditures on PES and administration (Panel A) and types of employment support (Panel B) does not correspond to the expenditures on active measures (in Figure 2.4) because the latter includes work-related activities of Temporary Assistance for Needy Families (estimated as 0.02% of GDP), which have not been allocated across the main categories.

Source: OECD/Eurostat Labour Market Programme Database, http://dx.doi.org/10.1787/data-00312-en; *OECD Population and Labour Force Dataset*, a subset of the *Annual Labour Force Statistics* (ALFS) *Database*, http://dotstat.oecd.org/Index.aspx?DataSetCode=ALFS_POP_LABOUR; and Grubb, D. and A. Puymoyen (2008), "Long time series for public expenditure on labour market programmes", *OECD Social, Employment and Migration Working Papers*, No. 73, OECD Publishing, Paris, http://dx.doi.org/10.1787/230128514343.

StatLink http://dx.doi.org/10.1787/888933430716

As a result of its strong activation focus, Denmark remained over the years the OECD champion of active labour market spending (1.82% of its GDP in 2013) though with a slightly reduced level of spending per unemployed in 2013 compared with 2003, similar to many other OECD countries, as unemployment has increased significantly over the past decade.[1] Spending per unemployed on administering the system dropped by 10% (Figure 5.1, Panel A), and spending on programmes by 16%. The share dedicated to training fell from 42% of total ALMP spending in 2003 to 35% in 2013, largely reflecting the closing or downsizing of education programmes that have been shown to be rather ineffective, leading to a gradual shift towards supported employment and rehabilitation as well as employment incentives (such as recruitment incentives, employment maintenance incentives, job rotation and job sharing). The generous nature of the Danish system of income protection and labour market programmes make moral hazard an issue. While monitoring mechanisms exist to control this, some areas of concern remain.

Is the Danish profiling system targeting displaced workers' needs?

Public employment services (PES) in most OECD countries including Denmark, are not specific to displaced workers. However, the types of services and ALMPs available and the way in which displaced workers are assigned to specific programmes can have an important impact on their labour market outcomes.[2]

Profiling is a method that enables the PES to classify jobseekers based on their distance from the labour market. The purpose of profiling is to identify those with the greatest risk of long-term unemployment and to refer them to intensive employment support early on, as necessary. Maibom et al. (2014) discuss the Danish profiling system which applies in the very same way to recipients of all temporary income transfers. Based on an overall assessment of the potential for the individual to be employed (including qualifications, work experience, and the social situation), individuals are classified into one of three mutually exclusive categories:

- Match-group 1: *Job-ready* are all jobseekers with no problems beyond unemployment who are available for a job immediately.
- Match-group 2: *Ready for active employment measures* are individuals not directly ready to start a job, but able to work with some support and capable of participating in a measure preparing them for employment.
- Match-group 3: *Temporarily on passive income support* are individuals neither ready for a job nor for participation in an activity aiming at employment (people temporarily exempt from participation requirements).

The assignment of a jobseeker to one of the three match groups is made by the caseworker at the municipal Jobcentre. The Danish profiling tool does not specifically target or identify displaced workers nor include involuntary job loss as one of the criteria for the assignment to any programme. Nevertheless, *de facto* most displaced workers receiving UI benefit will end up in match-group 1; as recently laid-off jobseekers they are likely to be very close to the labour market, at least initially.

Different rights and obligations apply to each of the three match groups. Displaced workers in match-group 1 need to register and have a CV available on Jobnet.dk, be available for work immediately, meet a caseworker every third month, confirm every week their active job search, and participate in employment-directed measures as requested by the caseworker. Displaced workers in match-group 2 are also required to have a personal contact every third month and to participate in employment preparation programmes such as vocational training or practical work training in enterprises or they may receive a wage subsidy. Displaced workers in match-group 3 just need to have a personal contact every third month. The 2013 reform of the disability pension and the flex-job scheme created multidisciplinary rehabilitation teams in every municipality helping unemployed in match-group 3 dealing with multi-dimensional problems (Danish Government, 2015).

Strict job-search monitoring with some inefficient overlap of responsibilities

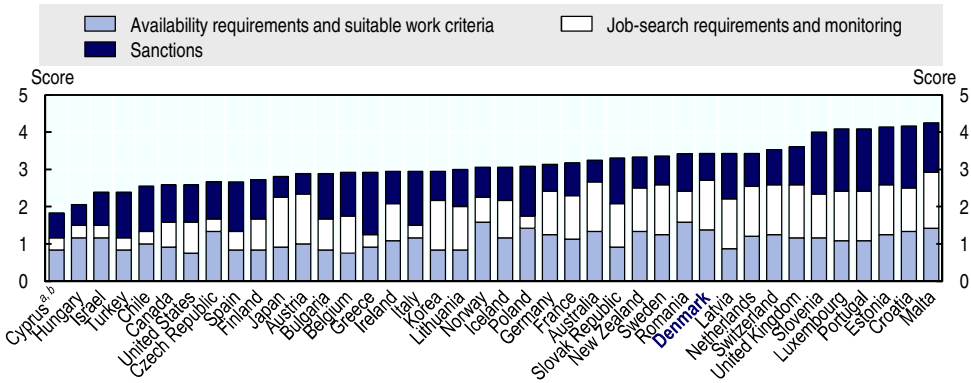
In addition to regular meetings at the Jobcentre with their caseworker, displaced workers are required to attend *availability interviews*, either at their UI fund (for all UI-insured displaced workers) or at the Jobcentre (for all non-insured displaced workers). These interviews aim at monitoring jobseekers' independent job-search activities: they focus on how the jobseeker has been conducting the job search and how he/she should direct these efforts in the future.

Denmark is among the strictest OECD countries as regards job-search requirements and monitoring (Figure 5.2). Availability interviews at the UI fund also occur on a quarterly basis, and displaced workers have to bring a plan for job-search activities and a number of examples of job applications.[3] UI-insured jobseekers therefore have to attend meetings in both the Jobcentre and the UI fund every third month. While UI funds monitor job-search efforts, they also attract their clients by offering job-search counselling and providing, to the extent possible, interesting job vacancies based on their knowledge of the branch and their contact with employers in their industry. There is noticeable overlap in the roles of the

UI funds and the Jobcentres. Insufficient co-operation between Jobcentres and UI funds is an issue, lowering service quality and efficiency (OECD, 2015c) and decreasing the effectiveness of the monitoring and, especially, the sanctioning regime.

Figure 5.2. **Denmark finds itself among countries with a more strictly administered unemployment benefit scheme**

Overall strictness of unemployment benefit eligibility criteria, synthetic indicator consisting of 11 items on job-search requirements, suitable-work criteria and sanctions, overall weighted score for 40 countries, 2014



Note: Countries are ranked in ascending order of the synthetic indicator which is scored from 1 (least strict) to 5 (most strict).

a) *Note by Turkey:* The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".

b) *Note by all the European Union Member States of the OECD and the European Union:* The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Source: Langenbucher, K. (2015), "How demanding are eligibility criteria for unemployment benefits? Quantitative indicators for OECD and EU countries", *OECD, Social, Employment and Migration Working Papers*, No. 166, OECD Publishing, Paris, Figure 5, http://dx.doi.org/10.1787/5jrxtk1zw8f2-en.

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The 2015 employment reform implemented a tighter activation process

In addition to potential duplication of meetings and services provided by the two institutions, the Danish employment policy has been criticised for "running around in circles", resulting in ineffective activation programmes rather than skills improvement and a sustainable return to employment (OECD, 2015c). In 2013, the government formed an independent expert group to analyse the active labour market system and make recommendations on how to simplify procedures and increase the efficiency of ALMPs (Koch Commission, 2014; and Danish Government, 2015). This process led to the 2015 employment reform adapting the overall timeline of public employment services, intensifying contacts with the jobseeker while avoiding redundant meetings, moving up the period of activation for all age groups and removing repeated activation, fostering co-operation between Jobcentres and UI funds, extending the sharing of information, and increasing free choice for the jobseeker. The reform also ensured support for those unemployed who are at risk of having a weak attachment to the labour market (Danish Government, 2015).

Displaced workers are still required to register at the municipal Jobcentre (personally or online) on the first day of unemployment, but the reform introduced an intensified contact process between jobseekers, the Jobcentre and the UI fund during the first six months of the unemployment spell, as well as new requirements (Table 5.1). The first meeting at the UI fund now takes place within the first two weeks, and this is the occasion for displaced workers to get their CV approved. Thereafter, displaced workers are entitled and obliged to monthly meetings at the Jobcentre. A novelty introduced with the reform is that the UI fund takes part in the first meeting between the jobseeker and the Jobcentre as well as the fifth (or sixth) one. The joint meetings are instrumental to make both institutions work together, help them learn about their respective practices and ways of working as well as strengths and weaknesses, and extend sharing of information. Availability for work is also checked by the UI fund twice within the first six months.

Displaced workers now have the right and duty to just one activation measure in the first six months (instead of repeated and sometimes *meaningless* offers previously), mainly in the form of job training in enterprises; the initial period is only three months for young and older jobseekers (under age 30 or over age 50). The reform also provides an immediate right to education for unemployed with low to no education, rather than having to wait for a period of at least three months. This will help displaced workers with qualification needs. For every jobseeker a *job-log* is created and maintained to document the jobseeker's job-search efforts, and this monitoring tool can be used by both the UI fund and the Jobcentre.

Table 5.1. **The activation process is now tighter while duplication was eliminated**

<table>
<tr><th></th><th>Before 2015</th><th colspan="3">As of 2015</th></tr>
<tr><td colspan="5">Early intervention</td></tr>
<tr><td>Before dismissal</td><td colspan="4">If part of a mass layoff the individual can receive early help from the Jobcentre.</td></tr>
<tr><td colspan="5">Unemployment spell</td></tr>
<tr><td>Day 1</td><td colspan="4">Register as unemployed at the local Jobcentre or online.</td></tr>
<tr><td>Day 7</td><td colspan="4">Login to Jobnet.dk every week and look for jobs.</td></tr>
<tr><td>Two weeks</td><td></td><td colspan="3">First meeting at the UI fund and approval of CV.</td></tr>
<tr><td>Three weeks</td><td>First meeting at the UI fund and approval of CV.</td><td colspan="3"></td></tr>
<tr><td>One month</td><td>First meeting at Jobcentre.</td><td>Joint meeting including Jobcentre, UI fund and the unemployed.</td><td rowspan="6">Only one activation programme within the first six months.</td><td rowspan="6">Availability interviews at the UI fund twice within the first six months.</td></tr>
<tr><td>Two months</td><td></td><td rowspan="3">Monthly meetings at Jobcentre.</td></tr>
<tr><td>Three months</td><td>Meeting at UI fund and meeting at Jobcentre every third month.</td></tr>
<tr><td>Four months</td><td>Right to six weeks of education.</td></tr>
<tr><td>Five months</td><td></td><td>Joint meeting including Jobcentre, UI fund and the unemployed.</td></tr>
<tr><td>Six months</td><td></td><td>Monthly meeting at Jobcentre.</td></tr>
<tr><td>After six months</td><td></td><td colspan="3">Meeting at Jobcentre every third month.</td></tr>
<tr><td>Nine months</td><td>Repeated activation every six months.</td><td colspan="3"></td></tr>
</table>

Note: UI: Unemployment insurance.

Source: OECD based on Koch Committee (2014), "Ekspertgruppen om udredning af den aktive beskæftigelses indsats: Veje til job – En arbejdsmarkeds indsats med mening", February, http://www.oecd.org/els/emp/Carsten%20Koch%20udvalget%20WEB%20pdf.ashx.pdf; and Danish Government (2015), "The national reform programme, Denmark 2015", March, http://ec.europa.eu/europe2020/pdf/csr2015/nrp2015_denmark_en.pdf.

Enhancing case management to better tailor services to displaced workers

Randomised social experiments run by the Danish national labour market authority (STAR) as well as 35 out of 40 international reviews show positive effects from job counselling through intensive and individualised follow-up and dialogue (Danish Agency for Labour Market and Recruitment, 2014). Several studies also confirm that guidance services are particularly helpful for harder-to-place jobseekers. Card et al. (2010) in a meta-analysis of impact estimates from around the world find that job-search assistance and sanction programmes are most successful in the short run. Card et al. (2015) find positive employment effects by job-search

assistance schemes that are most prevalent in Nordic and Anglo-Saxon countries.

While several efforts have been made in Denmark, on both the national and regional level, to adapt interventions to the needs of the labour market, it has been a public concern that displaced workers (just as other jobseekers) lack more personalised *case management*. The 2015 reform have tried to address this concern by giving jobseekers more choice and concurrently more responsibility. As part of the *digital job-log*, the jobseeker will be responsible for booking meetings with the Jobcentre and the UI fund via a self-booking system. The employment reform is a good start to promote a case management approach, but it is too early to assess the effectiveness of the change on the sustainability of employment outcomes.

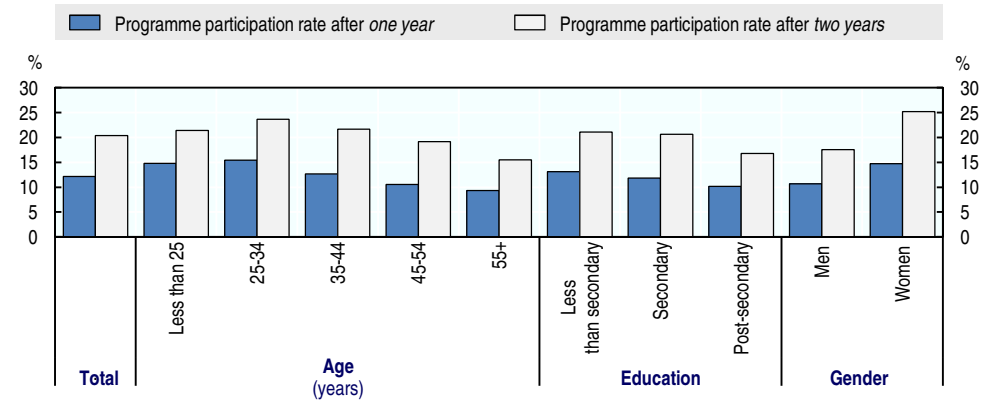
Making active labour market programmes accessible and effective for displaced workers

The Danish ALMP menu: Who gets what?

If *ex-ante* measures to prevent displacement are unsuccessful, displaced workers have the "right and duty" to participate in a series of *ex-post* measures. Activation measures that the Jobcentre may offer include the following: guidance and upgrading of skills and qualifications (50%), practical work training with public or private employers (30%), and wage subsidies in the private or public sector (20%). The three different tools can also be combined if necessary to address personal needs. Overall, one displaced workers out of three does not find employment during the first year after displacement (Chapter 1). Among those unemployed displaced jobseekers, 10-15% is in an active labour market programme one year after displacement and 15-25% two years after (Figure 5.3). ALMP participation follows an inverted U-curve with age, with young jobseekers going mostly to formal education in the education system and less towards AMLP and older jobseekers often withdrawing from the labour market, voluntarily or not, by moving into passive schemes such as early retirement or disability benefits. ALMP participation also decreases with the level of education and is lower for men than for women.

Figure 5.3. **In the first year 10 to 15% of all still unemployed displaced workers are in a labour market measure and in the second year 15 to 25%**

Displaced workers participating in an ALMP as a share of those unemployed or in an ALMP, by personal characteristics, *one year* and *two years* after job displacement



Note: ALMP: Active labour market programme.

Source: OECD estimates based on *Integrated Database for Labour Market Research* (IDA).

StatLink http://dx.doi.org/10.1787/888933430732

How effective are ALMPs in helping displaced workers back into jobs?

There are five major labour market programmes in Denmark relevant for helping job-ready displaced workers back into work: *work-sharing* (see Chapter 3 for more details), *job rotation*, *adult apprenticeship*, *practical work training* and *subsidised employment* (Table 5.2). In addition, some specific labour market programmes address the needs of older displaced workers and displaced workers with additional health-related concerns (OECD, 2013b and 2015c). Before the 2015 reform, access to the majority of these ALMPs was contingent on a six-month post-displacement waiting period and available financing from the municipal Jobcentre. Job rotation and wage subsidies depend on the funding available from the central government, while the adult apprenticeship programme, in particular, depends on the willingness and availability of employers to take in an unemployed person and the availability of appropriate vocational programmes.

Table 5.2. **Major active labour market programmes for displaced workers**

	Work-sharing (*Arbejdsfordelings ordningen*)	**Job rotation** (*Jobrotation*)	**Adult apprenticeship programme** (*Voksenlærlingeordningen*)	**Practical work training**	**Subsidised employment** (public or private)
Content of the programme	Employees in firm reduce or shift working hours. Trade unions and the firm apply to JC.	Employee in firm takes educational courses. Unemployed person replaces employee.	Competent worker, or unemployed gains vocational training that supplements technical skills and competences already gained while working.	Unemployed person is hired by a firm and the municipality subsidises the hourly wages.	Long-term unemployed person is hired by a firm to work.
Target groups	Employees in firms, with a slowdown in production or firm activity facing possible displacement.	Employed persons in need of skills-upgrading. Unemployed persons in need of practical work experience.	Unemployed over the age of 25, looking to attain labour market experience.	Unemployed with little experience.	Long-term unemployed.
Duration of the programme	13 weeks, with a possibility of extension (6 weeks *plus* 6 weeks if training during WS).	12 months (at least 10 hours a week).	2-3 years.	4-6 weeks.	Public: 4 months; Private: 6 months (since 2014/15).
Financing (employer and municipality incentives)	Employer pays for less working hours.	DKK 195 to employers (1 January 2013)	100% refund to municipality from central government. Employer only pays part of wages as cost of training and wages are reimbursed.	Municipality and central government. Employer does not pay wages.	Municipality and central government. Work is subsidised for 6 months for about 35-40% of wages. Firm must pay ordinary wages.
Income replacement (wages or UI benefits for individuals)	Yes, during work-free periods.	Hourly wages to workers, DKK 173.09 per hour (1 January 2013).	Wages. The employing business can receive a subsidy equivalent to about 20% of the trainee's salary, thus adding an extra incentive for prospective employers to take on an adult trainee (EC, 2014).	UI benefits.	Wages (subsidised). The wage subsidy is: DKK 70.54 per hour for private employers and DKK 136.35 per hour for public employers.
Re-entitlement to UI benefits?	Reduces the length of UI benefits if finally displaced.	Yes, can receive supplementary benefits.	No (because considered out of the labour force) but when education is finished, eligibility to UI benefits is immediate.	No (because considered out of labour force).	No, subsidised employment counts as an unemployment period as regards UI benefits re-entitlement.

Table 5.2. **Major active labour market programmes for displaced workers** *(cont.)*

	Work-sharing (*Arbejdsfordelings ordningen*)	**Job rotation** (*Jobrotation*)	**Adult apprenticeship programme** (*Voksenlærlingeordningen*)	**Practical work training**	**Subsidised employment** (public or private)
Relevance for displaced workers	Avoid displacement.	Retain skills of employed workers and may therefore avoid displacement. Get unemployed back into LM.	Attain skills certification. For employed and unemployed. As of 2015, cannot be combined with job-rotation.	Attain skills once displaced, for those who have very limited experience on the LM.	Gain work experience for displaced workers not re-employed after a long period of time.

Note: JC: Jobcentre; LM: Labour market; UI: Unemployment insurance; WS: Work-sharing. The table excludes counselling services.

Source: Ministry of Employment response to the OECD questionnaire, and official national reports.

Job rotation provides unemployed persons placement in a firm in which a regularly employed worker seeks vocational training.[4] The unemployed person can be hired after three months of unemployment as a substitute for at least ten hours a week. Job rotation is financially beneficial for firms and municipalities. Employers receive a substantial subsidy, particularly when providing employees with an education in areas with a labour shortage. The municipality receives reimbursement from the state for related expenses when placing a jobseeker in a job-rotation scheme. The 2015 reform reduced reimbursement from 100% to 60% and halved programme duration to six months. Job-rotation participants find non-subsidised employment on average two to three weeks faster than other jobseekers (Sørensen and Arendt, 2014). But outcomes are heterogeneous: job rotation only shows positive effects for unskilled unemployed and in the public sector.

The *adult apprenticeship* programme offers employed and unemployed individuals the opportunity to obtain professional certification. The programme is targeted at low and unskilled workers and long-term unemployed.[5] Employers pay a minimum wage to the adult apprentice and receive a 20% subsidy per hour of work from the municipality, which in turn is fully refunded for these expenses by the state (Koch Committee, 2014). Adult apprenticeship programme participants have a higher probability of being employed one year after completion than non-participants (70% versus 58%), and income levels are increased for those previously unemployed or in unskilled jobs (Deloitte, 2013; European Commission, 2014; and Madsen, 2015).

Practical work training helps harder-to-place unemployed not immediately job-ready in gaining practical work experience in a firm. The duration of practical work training is usually four to eight weeks and around 30% of

individuals with professional qualifications who enter this work-based programme find employment afterwards. Participants receive UI benefit during training periods while firms gain employment with no direct labour costs.

Subsidised employment is a targeted measure to promote employment for prioritised groups of jobseekers. A normal wage is paid by the employer according to collective agreements but part of it is subsidised.[6] In 2014, the duration of the programme was halved to six months in the private and four months in the public sector (periods of subsidised employment do not generate unemployment benefit entitlements). Wage subsidies have positive employment outcomes in the private sector (Rosholm and Svarer, 2011; and Rotger and Arendt, 2010), in particular for unemployed with low labour market attachment. Nevertheless, subsidised jobs are mostly available in the public sector. While this may be partially due to the nature of jobseekers targeted by this ALMP (particularly disadvantaged, longer-term unemployed), a concerted effort to place individuals in private subsidised jobs may lead to better long-term outcomes for displaced workers.

Possible deadweight, lock-in and substitution effects of wage subsidies are of great concern to policymakers in Denmark. Rotger and Arendt (2010) finds that hiring a subsidised employee has on average no deadweight loss nor direct substitution effects at employer level, depending on the nature of the job: employers offering non-seasonal jobs tend to hire the subsidised employee on regular terms at the end of the programme, but employers who hire for seasonal employment may indeed be contributing to crowding-out effects for regular, non-subsidised, seasonal employment. The lock-in risk is also high with this type of activation programme (Danish Economic Council, 2012; and Parsons, 2014). Using administrative data from 2005 to 2009, Rosholm and Svarer (2011) found that lock-in effects are larger in the public sector and for jobseekers over age 30.

Senior jobs and *Flexjobs* are additional wage subsidies available in Denmark for older workers and workers with reduced work capacity, respectively, to enter the standard non-subsidised labour force. However, transition rates of these schemes into regular work are low (see OECD, 2013b, and 2015c for more details).

In an evaluation of the overall package of ALMPs in Denmark, Vikström, Rosholm and Svarer (2011) found that, on average, ALMPs reduce the duration of unemployment by about two weeks. Much of this reduction in unemployment duration is attributed to positive interactions with jobseekers (type and frequency of contact) and the threat of benefit loss. Staghøj, Svarer and Rosholm (2010) and Graversen and Ours (2011) also point to the relevance of threat effects of ALMPs.

Building on the experience with programmes introduced after the GFC

Measures targeted to long-term unemployed people

The Danish government implemented a series of measures in response to the crisis and increasing rates of long-term unemployment. In addition to adapting the income support system (temporary extensions discussed in Chapter 4), this includes programmes to address the needs of the long-term unemployed and more discretionary, temporary programmes aiming at providing urgent help:

- In 2010, the agreement of *Measures to Reduce Long-Term Unemployment* was implemented as an answer to the numerous workers who lost their job for economic reasons at the beginning of the crisis and had become long-term unemployed by 2010. The agreement included screening and provision of courses to improve reading, writing and numeracy skills; job-specific upgrading of qualifications; and competency assessment.
- In 2012, in an attempt to help the large number of UI beneficiaries still struggling to find employment, the *urgent help package* was adopted accounting for DKK 332 million (EUR 45 million) and creating a specific *job unit* in UI funds and Jobcentres to help claimants coming close to exhausting their benefits. All unemployed within six months of benefit exhaustion were contacted by their Jobcentre or their UI fund and entitled to quick, intensified support including job counselling, a personal job coach, easier access to job rotation, skills upgrading and quick access to job training or employment with a wage subsidy. In agreement with employers, municipalities and the regional authorities, a measure called *urgent jobs* created 12 500 new jobs in 2012-13 for this group.

Measures targeted to displaced workers in fragile industries and regions

The GFC led to a marked increase in the number of displaced workers in the manufacturing industry and the wholesale & retail market, while re-employment rates were low and dropped sharply especially in the manufacturing and agricultural sector (Chapter 1). Some industries subject to intensified demand shocks received additional help both from the European and the national level. The *European Social Fund* provided substantial support to industries struggling with structural change and workers facing displacement. The Danish government successfully applied for funding from the *European Globalisation Adjustment Fund* (EGF) for ten large-scale dismissals. This allowed additional assistance, such as

providing the resources and expertise required to convert a closed shipyard to other employment-generating uses (see Chapter 3). Denmark also provided increased support for structural change: for instance, in the infrastructure and construction sector, national and local authorities took the opportunity of planned infrastructure projects to focus on building a skilled workforce. Between 2010 and 2012, the *Danish Innovation Fund* supported activities that helped create the basis for further economic activity and employment in hard-hit geographical areas.

In weak economic conditions, which programmes work for displaced workers?

A recent study differentiated the effects of ALMPs implemented during the economic boom period prior to the GFC and in the recessionary period just afterwards (Danish Economic Council, 2012). The review indicated that most ALMPs have positive employment effects during boom periods, but much lower post-programme effects during recessionary periods (Table 5.3). At an aggregate level, participation in subsidised employment in private enterprises generally lowers unemployment, while regular contact and meetings appear to be the most effective instrument during a recession. As the maximum unemployment benefit payment duration in Denmark has been reduced from four to two years (Chapter 4), there is an increased need to develop effective shorter active labour market programmes. The negative lock-in effect during the time spent in the programme has shown to dominate the positive post-programme effect in a number of cases, especially so in a recession. Active labour market programmes should, therefore, target counselling and frequent meetings combined with for example short-term employment with a wage subsidy.

Table 5.3. **Effects of active labour market programmes in boom and bust periods**

	Duration analysis for individual unemployed			Analysis of unemployment level		
	Boom		Recession	Boom		Recession
Wage subsidy in private enterprise	+	>	–	+	=	+
Wage subsidy in public enterprise	0	>	–	0	=	0
Counselling and courses	+	>	–	+	<	+
Corporate internship	+	>	–	+	=	+
Contact and meeting	*	*	*	0	<	+

Note: +: Positive, statistically significant effect, i.e. shortened unemployment spell for individual unemployed and reduced unemployment level in aggregate analysis.

–: Negative, statistically significant effect, i.e. longer unemployment spell for individual unemployed and higher unemployment level in aggregate analysis.
0: the effect is not statistically significant.
*: Not examined in the relevant study.

<, =, >: Comparison of estimated effects in a boom and a recessionary period.

Source: Danish Economic Council (2012), *Dansk Økonomi, efterår 2012*, (Danish Economy, Autumn 2012), Economic Outlook, Danish Labour Market Policy, Autumn, www.dors.dk/vismandsrapporter/dansk-okonomi-efterar-2012, Summary in English www.dors.dk/files/media/rapporter/2012/e12/e12_summary.pdf.

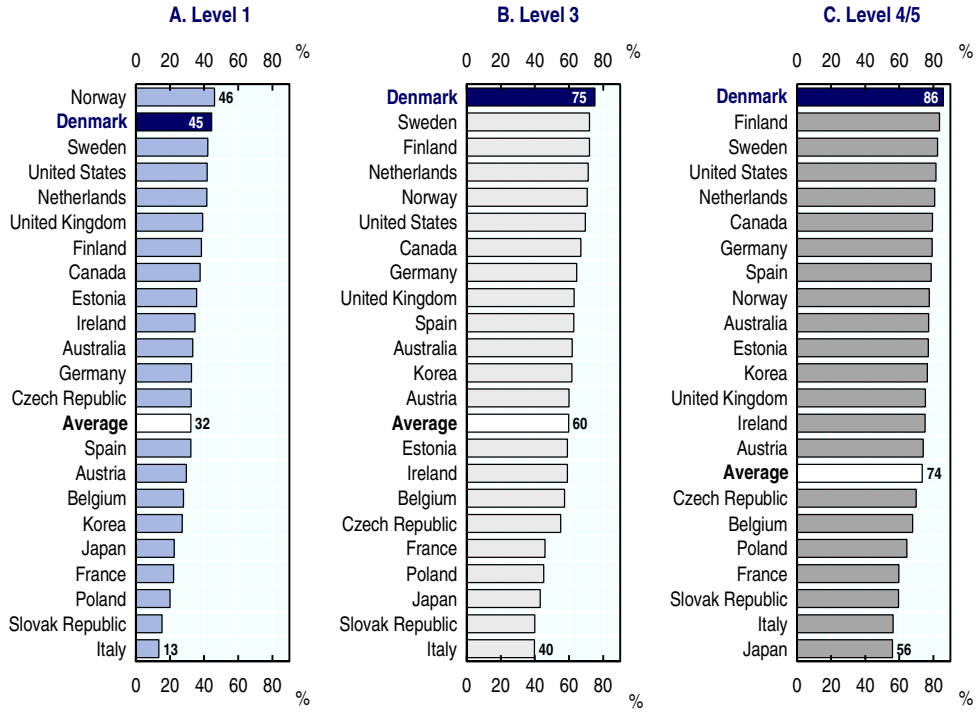
Maintaining and adapting a robust training system

Adult learning is more widespread than in other OECD countries

Continued training and education has a long tradition in Denmark, among both workers and jobseekers. Adult education is crucial in an economy with a flexible labour market that is based on easy firing of redundant workers and quick hiring of new workers in case of rising demand and an economy that is constantly confronted with restructuring and technological progress. According to data from the Programme for the International Assessment of Adult Competencies (PIAAC), the OECD Survey of Adult Skills, the share of working-age people who participate in adult education and training during a year is higher in Denmark than in any other OECD country (Figure 5.4). Like in all OECD countries, higher-skilled workers are more likely to receive adult education also in Denmark but even among the low-skilled the annual training participation rate is close to 50% and among the highest-skilled even close to 90%. This is about 20 percentage points higher than on average across the OECD, irrespective of the skills level. Vocational courses are the most frequent form of adult training with courses typically lasting two to three weeks, often taking place on the job and generally covering firm-specific, industry-specific or occupation-specific material (Hummels et al., 2012).

Figure 5.4. **The majority of Danes participate in some form of adult education every year**

Percentage of people who participated in adult education and training during the past year, by level of proficiency in literacy skills, 2012



Note: Belgium refers to Flanders only.

Source: OECD, Survey of Adult Skills (PIAAC) (2012); OECD (2013), *OECD Skills Outlook 2013: First Results from the Survey of Adult Skills*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264204256-en; and see www.oecd.org/fr/sites/piaac-fr/chapter5developingandmaintainingkeyinformation-processingskills.htm, Download tables for Chapter 5, Table A5.7 (L).

StatLink http://dx.doi.org/10.1787/888933430744

Adult education typically takes place during work hours and with generous government support: Workers pay very low tuition fees and employers are refunded for part of their wage costs during training, the subsidy being equivalent to the hypothetical UI benefit an employee would have received during the training period. Such, employer incentives to send workers for training can be substantial. This is especially useful and seems particularly used in periods of slowing-down economic activity of a firm during economic downturns. It could contribute to preventing dismissals and enable workers that have been given notice to access retraining quickly to

increase their chances of a quick job-to-job transition. Care should be taken in this regard to assure that training to facilitate such job-to-job transitions is also requested and taken by older workers who have been given notice.

The impact of adult education of workers on either employment retention or re-employment in case of job loss is mixed, with higher and vocational education programmes showing better immediate effects than general or preparatory education programmes (Kristensen and Skipper, 2009). A critical question to consider is how to assure that those needing training most are receiving it, including workers facing the consequences of globalisation through offshoring, workers with low initial education and/or with long tenure and those working in areas with fast technological progress. Recent findings suggest that adult education which could help workers changing occupation or sector is generally not taken up more by displaced workers than the general population except for workers given notice and dismissed by, or staying within, offshoring firms (Hummels et al., 2012; and OECD, 2014).

Improving the skills and employability of unskilled displaced workers

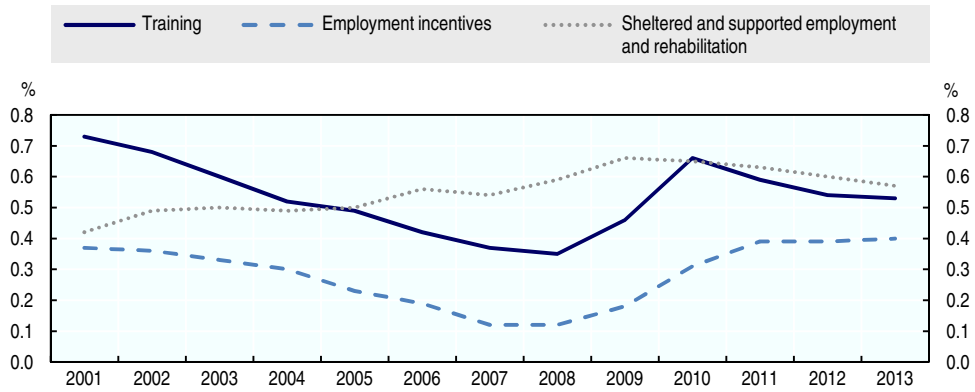
Before the GFC, the focus of policy has gradually shifted away from the provision of more comprehensive training for jobseekers and towards bringing these people back into work as quickly as possible. This was driven by both the buoyant labour market of the time and significant lock-in effects found for many of the more comprehensive training schemes. The policy shift was mirrored in falling numbers of jobseekers participating in training and in overall spending on training for the unemployed in the period 2001-08. Since the GFC, however, the focus for labour market policy has shifted again to more education and adaption of skills (particularly for youth); the number of jobseekers participating in training has quickly reached the level of the early 2000s (Figure 5.5). This was made possible by a fast increase in spending and in the number of counsellors largely in line with rising unemployment.

The recent post-crisis policy shift is coming in parallel with a reform of the training landscape. In 2010, 13 regional training centres were created with the aim to reach a number of objectives: to bring together the various education providers; to simplify the access to vocational training (with a single entry for all citizens and firms); to improve the outreach to small and medium-sized enterprises; and to work more closely with businesses. Denmark is moving towards further integrating business needs with vocational and up-skilling programmes (Danish Economic Council, 2012).

The 2015 labour market policy reform also has a strong focus on education and training, especially for the unskilled unemployed to respond to the rising level and duration of unemployment for unskilled workers during and after the GFC who now comprise roughly 30% of the jobseeker caseload (Madsen, 2015). Education measures are more strongly targeted towards jobseekers with fewer qualifications; with a stronger work-related focus and more options for improving skills in literacy and numeracy. Moreover, adult apprenticeship and job rotation are more targeted at the unskilled and more generally, unskilled jobseekers as well as skilled jobseekers with outdated education and aged 30 years or over can undertake skilled vocational education on the condition that they already have acquired the necessary practical work experience. Training can be offered from the first day of unemployment, upon approval of the Jobcentre which has to make sure that the jobseeker has the prerequisite to complete the education within two years. Importantly, job-search and availability requirements are waved during the training period while unemployment benefit is paid at a reduced rate (at 80% of a normal benefit), but with access to loans to top up the payment to the normal level (Madsen, 2015).

Figure 5.5. **Spending on training in Denmark has gradually fallen before the crisis but went up quickly again afterwards**

Spending on training (percentage of GDP) compared with other active labour market programmes, Denmark, 2001-13



Note: GDP: Gross domestic product.

Source: *OECD/Eurostat Labour Market Programme Database*, http://dx.doi.org/10.1787/data-00312-en.

StatLink http://dx.doi.org/10.1787/888933430751

Tools to develop worker skills are widely available in Denmark but recent action was taken to improve the anticipation and identification of skill

needs at the regional level. As part of the 2015 employment reform, the government invested around DKK 100 million in a regional training fund distributed across regions on the basis of the regional unemployment rate. Twice a year, regional employment councils identify a *positive list* of skills expected to be needed by the labour market of the region in the coming six-month period. Jobcentres can then make use of this training fund to provide UI fund members, free of charge, with short vocational training courses taken from this list of approved courses.

Promote recognition of prior learning combined with training counselling

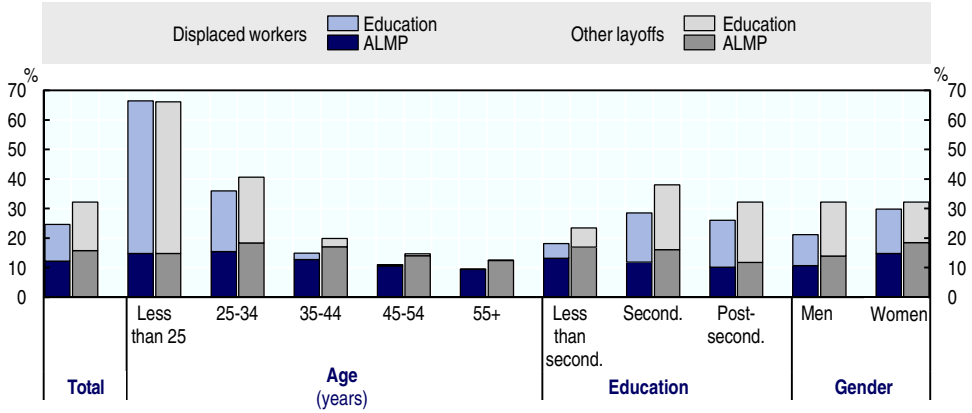
There are no training programmes in Denmark especially targeted at displaced workers who face the same rules and can choose from the same training landscape. Are displaced workers able to access ALMPs or formal education to the same degree than people who had been laid-off for other reasons? Survey data suggest that this is not the case even though in many cases displaced workers will have to change sector or occupation to find a new job and are therefore often in greater need of training (see Chapter 1). One year after job loss, around 12% of all displaced workers not yet re-employed or self-employed participate in an ALMP measure and a similar share (though with a totally different age structure) in formal education. The corresponding shares are systematically higher for other layoffs (Figure 5.6). Irrespective of the reason of job loss, however, most of those entering formal education are under age 35.

To make ALMPs more accessible for displaced workers, recognition of prior learning (RPL) is crucial – in particular for those among them who are older and have longer tenure and/or a low level of initial education. RPL is the process of certifying pre-existing skills and knowledge, particularly those acquired on the job, often informally. The purpose of RPL is to make the acquired skills visible to all stakeholders: the displaced worker (to create motivation for training), the education and training institutions (to be able to select or offer the right training course), and potential employers who would be more inclined to hire these workers.

In 2007, RPL was more formalised in Denmark and its use encouraged. Employees and jobseekers can get their qualifications assessed and be provided with a corresponding certification or advice about which specific courses are missing for a certification. This is a step in the right direction for displaced workers who have acquired job-specific skills over their work career not certified by a diploma or an academic degree. However, there are still a number of problems in the Danish RPL system which should be addressed (see also Field et al., 2012).

Figure 5.6. **Displaced workers access active labour market programmes and formal education less often than jobseekers laid-off for other reasons**

Jobseekers participating in an ALMP or in formal education one year after job loss as a share of those unemployed or in a programme, by personal characteristics and type of job loss, 2000-12 averages



Note: ALMP: Active labour market programme. Second.: Secondary.

Source: OECD estimates based on *Integrated Database for Labour Market Research* (IDA).

StatLink http://dx.doi.org/10.1787/888933430768

First, while RPL is now available at all stages of education, its use is limited and rather variable. Assessment methods differ across sectors and education institutions. *Second*, RPL is exclusively in the hands of education institutions who decide when RPL is used and for what purpose (e.g. only to waive course admission requirements) and how it is accomplished. *Third*, there is a wide variety in terms of training for RPL assessors. Education institutions are also responsible for quality assurance and evaluation of the RPL system (Aagard, 2010). This narrowness limits the usefulness and use of RPL for displaced workers and for the labour market. Denmark should therefore consider encouraging the development of an industry-led professional RPL examination system (Field et al., 2012).

Most importantly, RPL should be brought forward in time to assure displaced workers leave their workplace with the right expectations and certificates. This also means that previous employers and the Jobcentre should get involved in the RPL process to ensure that acquired job-specific skills are more fully captured. Increasing the responsibility of the dismissing employer not only in the RPL identification process itself but also in the formal tagging of experience-acquired skills would i) make these often invisible skills more transparent to potentially hiring employers; ii) transform firm-specific skills into more generic and transferable ones;

iii) be a starting point for later career guidance; and iv) help educational institutions build tailored career training pathways for displaced workers (by allowing access to education programmes through exemption from course requirements).

Based on the skills assessment through a thorough RPL system, training and pre-training counselling is an important follow-on step to help displaced workers identify the right career pathway and the right course or piece of training that builds upon the acquired skills and knowledge. The roles of both the education institutions and the Jobcentres are crucial in this process to guide displaced workers towards certifications that not only motivate them and use their capacity but are also demanded on the labour market and could lead to sustainable quality employment.

Conclusion

Denmark's activation policy is unrivalled in the OECD. Spending on active labour market programmes and activation procedures both per jobseeker and in percentage of GDP is twice the level in other Nordic countries and a multiple of what is spent in other countries. Denmark has one of the tightest activation regimes in the OECD, with frequent face-to-face contact between the jobseeker and the caseworker and significant availability, job-search and programme participation requirements which are also tightly monitored. At the same time, jobseekers also have a right to support through active labour market programmes. The large menu of services offered to jobseekers help Denmark manage the needs for employer flexibility and the high turnover of jobs in a dynamic labour market, and the tight monitoring of obligations assures that jobseekers do every effort to find employment.

A comprehensive employment reform implemented in 2015 has tightened the system further and aimed to tackle some of the remaining problems in the system including: the often late provision of necessary intervention and skills training, typically not in the first six months of an unemployment spell; a lack of exchange of information and co-operation between the municipal Jobcentres and the UI funds which both have strong responsibility for operating the system; the frequent granting of repeat activation measures with limited employment impact; and the still disappointingly ineffective financial incentives for Jobcentres to deliver employment outcomes. Co-operation of the main actors is much stronger today and activation programmes are offered faster but less often.

It is certainly too early to assess the impact of the 2015 reform but several of the changes such as the earlier provision of job-focussed training can make a big difference for displaced workers. Many of the reforms such

as the new co-operation between Jobcentres and UI funds depend entirely on how they will be implemented and tight monitoring of implementation and resulting employment outcomes will be critical. However, a few issues remained unaddressed and many of those could be highly relevant for displaced workers who are not identified in the Danish system as a special group and not treated in any special way. This form of mainstreaming of support is justified in many ways but conceals that problems of displaced workers can be different from those of other jobseekers, especially if they have worked in the same field and occupation for a long time, have reached a mature age and have never been unemployed ever before. Those people may find a similar job quickly but they may struggle for a long time if they have to change their occupation.

Among the issues that remain to be addressed and can be important for a fast and sustainable re-employment of displaced workers are the following:

- Assigning jobseekers to a match-group which in turn determines the intensity and frequency of support is a highly discretionary process at the moment and entirely in the hands of the caseworker. A more formalised scientific profiling tool to be used by caseworkers in addition to their own assessment, common in other OECD countries, could help to determine the right match early on for displaced workers in need of more support.
- The recent shift in Denmark towards better and earlier access to support and training for unskilled unemployed will reach disadvantaged displaced workers indirectly. However, the renewed focus on youth could imply that older displaced workers who need the most help in adjusting to structural change slip through and face a high risk of long-term unemployment.
- The recognition of prior learning (RPL) to identify skills acquired on the job was more formalised in 2007 but is still exclusively in the hands of the education institutions and its use is limited and highly variable. It will be essential to bring RPL forward in time to ensure displaced workers can fully benefit, to involve previous employers and the Jobcentre in the RPL process, and to harmonise the approach across the country.
- Building on a much stronger RPL system, (pre-)training counselling can be strengthened and provided faster and more efficiently to assure that the need for and type of training is identified immediately and training offered without further ado to promote transitions into sustainable quality jobs.

Finally, it will be important to monitor and evaluate carefully the impact of the recent shift to more intense and frequent contact and intervention in the first six months of an unemployment spell. In particular, it is important to understand what impact it has on those who fail to find a new job in this period. Many of those will be displaced workers who will need considerable support for a longer period.

Notes

1. For reason of better comparability, in this chart and chapter expenditures per unemployed are expressed as a percentage of GDP per capita, in order to control for the size of the country's population.
2. Martin (2014) for lessons from OECD country reviews of activation policies, Martins and Pessoa e Costa (2014) on effects of activation during recessions, and Staghøj et al. (2010) comparing assignment rules into training programmes.
3. Jobseekers are also requested to provide general information on their job-search activities. Unless requested by the UI fund, there is no need to provide any further evidence. However, in case of insufficient search efforts or when the unemployed is unable to provide general information on his job-search activities, the UI fund can request evidence on all job-search activities for a period of up to three months.
4. For employers to benefit from this arrangement, the employee can only have up to vocational or equivalent-level education. The job-rotation programme consists of two parts: i) the regular job-rotation programme for unskilled and skilled workers and ii) the specific job-rotation programme for unemployed with higher education, with previous unemployment of at least three months.
5. The programme subsidises employment of those above 25 years of age in need of labour market experience, but close to 60% of the participants are over 30-years old.
6. In 2014, the wage subsidy was DKK 70 per hour in the private sector and DKK 136 per hour in the public sector.

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DENMARK

IMPROVING THE RE-EMPLOYMENT PROSPECTS OF DISPLACED WORKERS

Workers who are involuntarily displaced from their jobs can face long periods of unemployment. Wages also tend to be lower once they find a new job, especially when they are unable to find a new job in the same occupation as their pre-displacement job or in occupations using similar skills. Helping displaced workers back into work quickly and minimising the income losses they face are therefore an important challenge for employment policy. This series of reports provides new empirical evidence from a comparative perspective on the incidence of displacement and the risk that displaced workers may subsequently face a long spell of unemployment and large wage losses when re-employed. It also identifies the main labour market programmes providing help to these workers and assesses how adequate and effective they are. Policy recommendations for further action are presented.

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