



**Employment Region  
Copenhagen & Zealand  
The Danish National  
Labour Market Authority**

# **Danish Employment Policy**

**National Target Setting,  
Regional Performance Management  
and Local Delivery**

**February 2008  
By Jan Hendeliowitz**

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## 1. Introduction

In the course of the past decade, Danish labour market policy has evolved in the context of favourable international economic trends, demand-driven macroeconomic management and a political approach to employment policy that have come together to produce considerable results.

At a time when large areas of Europe were experiencing persistently high unemployment, Denmark managed to reduce its unemployment to a level which is among the lowest in Europe. At the same time the employment rate rose steadily. There is a general consensus that the Danish labour market model, which is often called the 'flexicurity model', is a principal factor in the notable outcomes achieved.

This paper provides an insight into the Danish labour market model and the political approach adopted towards it. The first part of the paper describes the four main elements of the Danish labour market model:

- 1) Active labour market policies
- 2) High degree of job mobility due to limited employment protection legislation
- 3) Generous system of unemployment benefits
- 4) The social partners' role in the labour market policies.

The second part of the paper focuses on the institutional set-up connected with Denmark's labour market policy, which underwent a structural reform in 2007. The reform has produced major changes not only in the institutional set-up but in the structure and division of responsibilities between the state, municipalities and social partners, along with more decentralised planning of the employment effort. The reform also introduced a greater degree of central performance and target management that focuses on the effects and outcomes of the efforts made to help the unemployed back into employment, rather than on the activities undertaken.

## 2. The Danish Labour Market

In recent years the Danish economy has been characterised by high growth, increasing employment and a sharp decline in unemployment. From a peak of 12.4 per cent in 1993, the rate of unemployment has gradually declined to 2.4 per cent of the workforce in 2007, corresponding to 66,000 persons<sup>1</sup>. This is the lowest level in more than 30 years and also one of the lowest in Europe.

<b>Box 1: Facts about Denmark 2007</b>	
Total population	5.5 million
Workforce	2.8 million
Employed people	2.7 million
Employment rate	73.6 %
Unemployment rate	2.4 %
Youth unemployment	2.0 %
<i>Source: <a href="http://www.jobindsats.dk">www.jobindsats.dk</a> (Statistics Denmark)</i>	

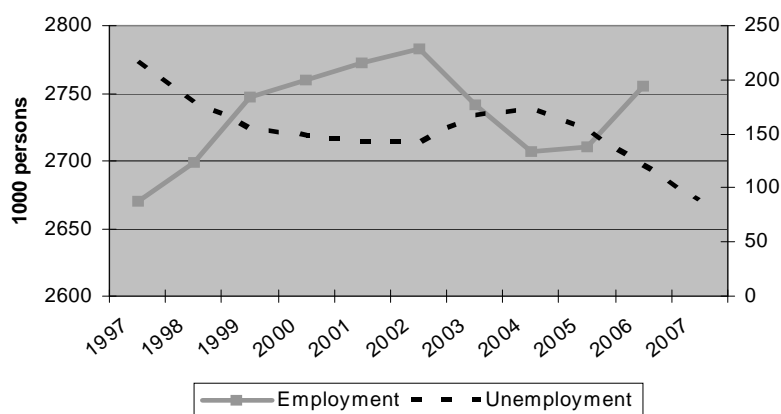
As Figure 1 shows, the trend from 1997 onwards is characterized not only by a reduction in unemployment but also by an increase in employment. From 1996 to 2006 the employment rate rose from 71.5 percent to 73.6 per cent<sup>2</sup>. One significant reason for the high Danish employment rate is the fact that 70.2 per cent of women are working; the corresponding figure for men is 76.9 per cent. This outcome is the result of a change which started in the 1960s, when more women began to enter the labour market and an extensive childcare system started to get established<sup>3</sup>.

<sup>1</sup> Source: Statistics Denmark, the official website for statistical data on Danish society.

<sup>2</sup> Source: Statistics Denmark. Employment rate defined as percentage of total population aged 15-64 who are in work.

<sup>3</sup> Sørensen 2006

**Figure 1: Total employment (left-hand scale) and unemployment (right-hand scale) in Denmark 1997-2007**



Source: Statistics Denmark

There seems to be an international consensus that the success of the labour market in Denmark is the result of high labour market dynamism combined with a relatively high degree of social protection. The dynamics of such a system has in recent years been termed the 'flexicurity model', which is a reference to *flexibility* in form of a high degree of job mobility due to limited employment protection legislation, plus a *social security* system that provides generous unemployment benefits; the model also incorporates an active labour market policy.

The model is based on the assumption that public interventions are necessary to ensure adaptability among both employers and employees, which is crucial for the effective functioning of the labour market. It views the flexibility of enterprises and the security of workers as being mutually reinforcing rather than conflicting with each other. The aim is to create an environment that is conducive to the creation of more jobs while also promoting active and universal inclusion in the labour market by helping individuals to adapt and take advantage of new opportunities.

## 2.1 Active labour market policy (ALMP)

In Denmark, labour market policy is an independent economic policy area with a particular focus on employment and the development of the workforce. It is increasingly being coordinated with local economic development policies at the central and regional levels. Evaluations show that the labour market policy reforms have been a crucial element in the successful economic policy of recent years.

With the labour market reforms of the 1990s in particular, there was a shift towards a more active labour market policy. Attention was increasingly paid to upgrading the skills of the unemployed in order to equip them to take advantage of new job opportunities, while equally strengthening their right to draw unemployment benefits in conjunction with their obligation to be available for work. Additionally, activation became not just a right but a duty for all the unemployed. Some researchers have characterised this development as a shift from welfare to workfare<sup>4</sup>.

### Box 2: Activation programmes

Activation programmes can include general and vocational guidance, job search assistance, individual job-oriented action plans, private and public job training, education, leave schemes, job rotation and the sharing of full-time jobs.

<sup>4</sup> European Commission, 1997

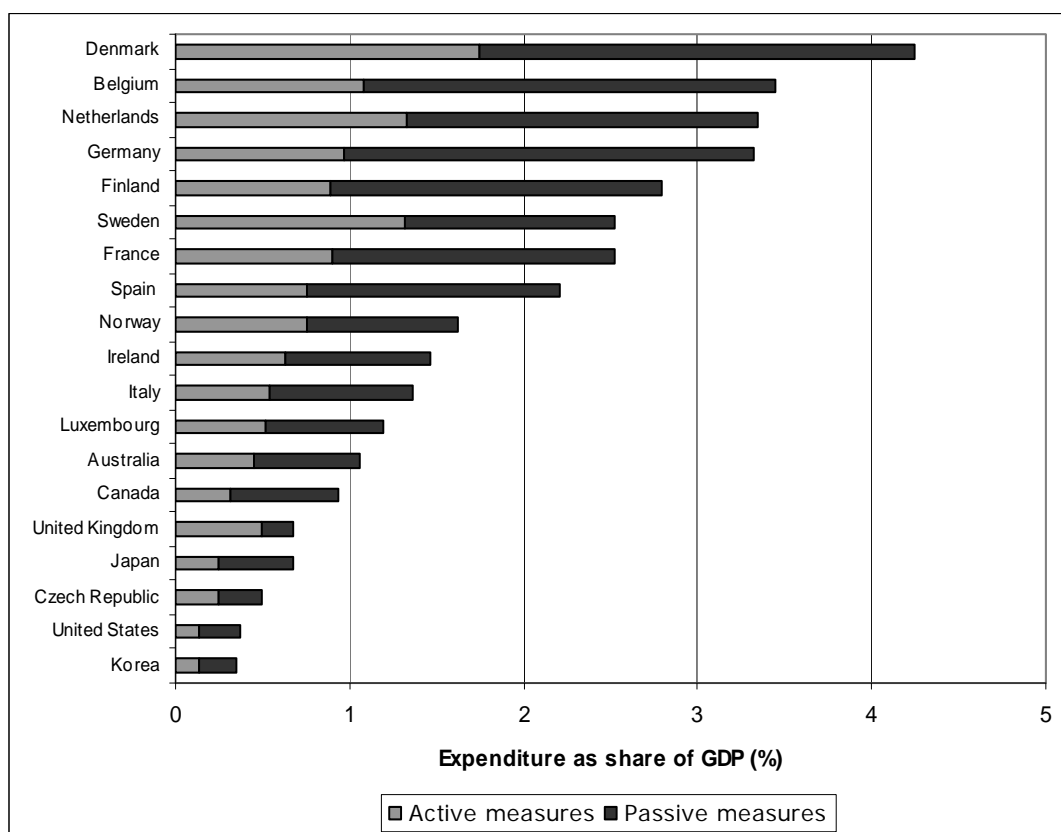
There has been a series of reforms since then. The main focus has been to ensure a flexible labour market, combined with generous unemployment benefits and the right and obligation to participate in activation measures. Regulations that impose greater activation obligations, sanctions for refusing to take part in activation measures, tougher availability rules and an upper limit for social security payments have been put into effect. All these measures have the purpose of enabling Denmark to be able to meet the challenges of globalization and demographic change through an upgrading of the qualifications of those in employment and the motivation of the unemployed through activation measures.

The potential disincentives deriving from high income replacement payments are offset by requiring the unemployed to be actively seeking work, and through their participation in mandatory full-time activation programmes at more or less regular intervals. Activation is therefore seen as representing both a qualification and a motivational purpose<sup>5</sup>.

The labour market reforms have increased the labour force's adaptability and readiness for change, reduced the average period of unemployment, and eliminated youth unemployment. This has led to a considerable reduction in structural unemployment, and has been a decisive factor in Denmark's continued economic growth<sup>6</sup>.

As the figure below shows, Denmark's public expenditure on the labour market is substantial. Approximately 1.7 per cent of GDP is spent on active measures and 2.5 per cent on passive measures, including unemployment insurance.

**Figure 2: Expenditure on labour market policy as a proportion of GDP, subdivided into active and passive measures, 2005<sup>7</sup>**



Source: OECD – Employment outlook 2007

<sup>5</sup> Sørensen, 2006

<sup>6</sup> OECD, 2003: 68

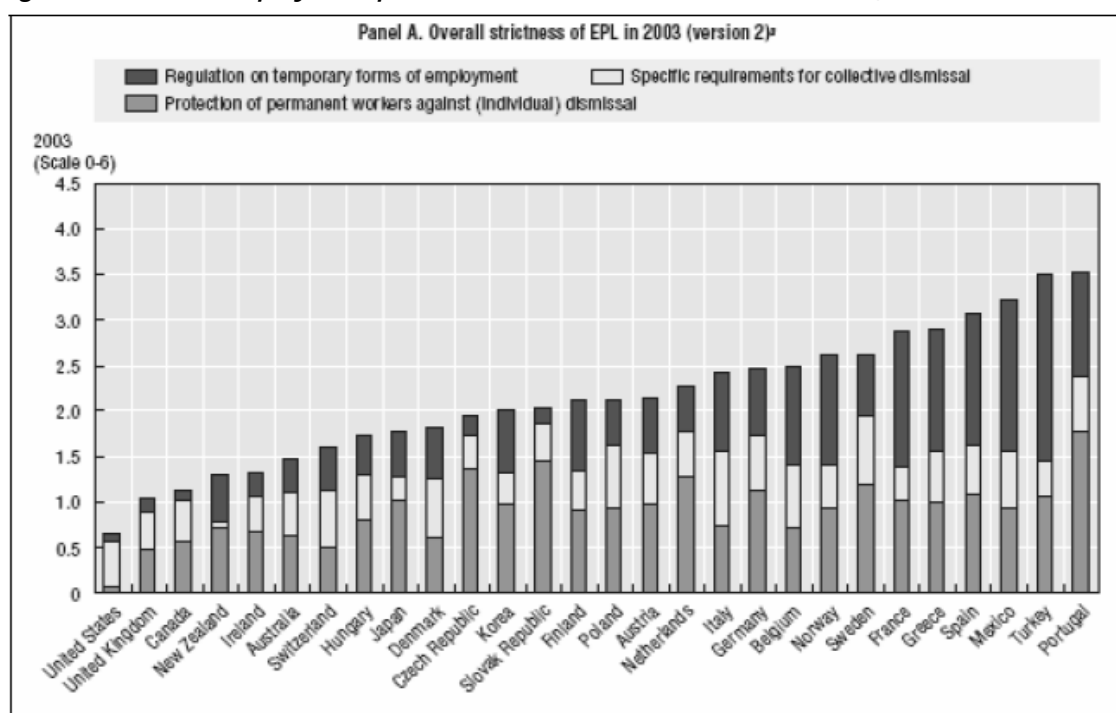
<sup>7</sup> OECD, 2007: 270-276

## 2.2 The flexible labour market

The Danish labour market is characterized by a high degree of mobility. On average 25-35 per cent of the Danish workforce change their jobs each year, equating to circa 800,000 of all wage earners<sup>8</sup>. The average job duration is eight years, which is among the lowest in the OECD countries<sup>9</sup>. Research shows that mobility exists in both low and high-status jobs. A global view of the Danish labour market indicates that regardless of the type of employee, industry sector or size of enterprise, overall mobility in the Danish labour market is high.

The limited degree of employment protection that exists in Denmark is one of the explanations for the high level of job mobility (cf. Figure 3). Empirical evidence indicates that restrictive employment protection reduces flow into and out of unemployment<sup>10</sup>. Although employment protection regulations safeguard existing jobs and impede job loss, they also constrain job creation. Denmark's employment protection legislation is not extensive, which makes it easy for companies to continuously adapt their recruitment to market requirements. This means that job security in Denmark is quite low<sup>11</sup>.

Figure 3: Index of employment protection in a number of OECD countries, 2003<sup>12</sup>



The low degree of job security is substantially offset by the high level of employment security. Around 260,000 jobs disappear each year, but an equivalent number are created, which ensures a high level of employment security<sup>13</sup>. A study conducted by European Opinion Research Group EEIG shows that Denmark's wage earners are experiencing both the highest job security in Europe and the greatest level of job satisfaction<sup>14</sup> (cf. Figures 4 and 5).

<sup>8</sup> Sørensen, 2006

<sup>9</sup> OECD 2007: 115

<sup>10</sup> OECD, 2004: 77

<sup>11</sup> Ministry of Employment [Beskæftigelsesministeriet], 2005

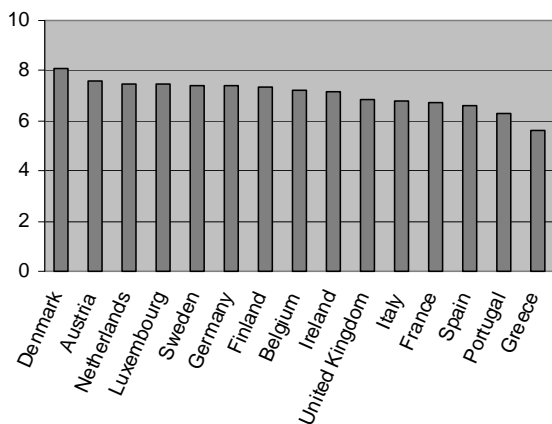
<sup>12</sup> Bredgaard, Larsen and Madsen, 2005. OECD 2004

<sup>13</sup> Ministry of Employment [Beskæftigelsesministeriet], 2005

<sup>14</sup> Studies conducted in 2004 by both the European Foundation for the Improvement of Living and Working Conditions and the OECD show the same results.

**Figure 4: Job security**

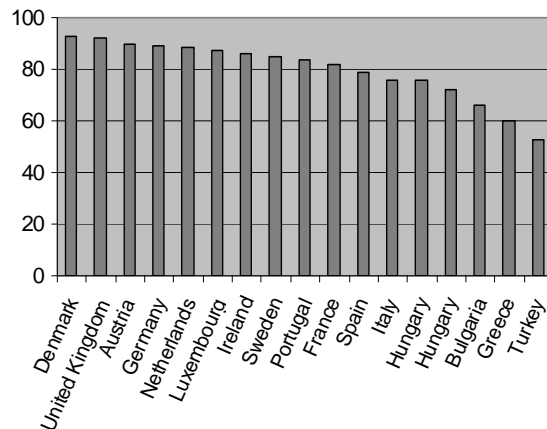
Scale from 1 to 10, from low to high job security



Source: European Opinion Research Group EEIG (2001)

**Figure 5: Job satisfaction**

Percentage of those employed who are satisfied or very satisfied with their jobs



Source: European Foundation for the Improvement of Living and Working Conditions (2006)

This might seem paradoxical, since Danish employers can quite easily, and with little additional cost, fire their employees. However, observers point to the tradition of collective bargaining and the presence of trade union representatives in all companies as significant factors that contribute to job security in Denmark<sup>15</sup>. The generous unemployment benefits, together with employment security, also play a significant role.

### 2.3 The unemployment benefit system

A major factor in the perception of security that exists among Danish employees is the comprehensive unemployment benefit system, which consists of unemployment insurance (UI) benefits complemented by a basic state-financed social security benefit system. According to researchers in the field, the availability of such benefits is also a significant reason that the trade unions are willing to accept the ease with which employees in Denmark can be fired.

The vast majority of unemployed individuals who belong to a UI fund receive *unemployment insurance* calculated at the rate of 90 per cent of their previous income from the first day of unemployment and up to a maximum of four years, including activation periods. In practice this figure is generally lower, as there is a built-in upper limit to the amount that may be paid. For low-income groups, this and other income-related benefits, combined with the effects of a fairly high level of income tax, result in high net income replacement rates<sup>16</sup>.

The UI is based on voluntary schemes administered by the 36 state-approved UI funds, which have a membership of about 2.1 million members, corresponding to 77 per cent of the labour force<sup>17</sup>. These funds are independent of the Ministry of Employment and can devise autonomous strategies that reflect the policies of the trade unions they represent. Although the UI funds are private organisations, more than 90 per cent of their revenue comes from the state<sup>18</sup>.

In order to receive unemployment benefit, members of the UI fund must have worked for a minimum of 52 weeks full-time during the previous 3 years or have paid their membership dues. The Ministry of Employ-

<sup>15</sup> Ministry of Employment [Beskæftigelsesministeriet], 2005, and OECD, 1997

<sup>16</sup> OECD 2002, *Benefits and Wages – OECD Indicators 2002*, Paris

<sup>17</sup> Statistics Denmark, the official website for statistical data on Danish society.

<sup>18</sup> Hendeliowitz, 2005

ment's Public Employment Service (PES) is responsible for the activation of the unemployed. There is an obligatory requirement for further qualification through activation if an individual's eligibility for benefits is to be maintained.

The procedure reflects the principle that rights must be accompanied by obligations, plus the belief that early activation measures are more efficient than passive benefits for returning people to the workforce. If an unemployed person is unable to find employment after four years, he or she loses the right to unemployment benefits and must register for means-tested social assistance, which is administered by the municipalities. The political, administrative and financial responsibility for such individuals then passes from the PES to the local municipality<sup>19</sup>.

The local municipalities have administrative and financial responsibilities for other categories of social assistance beneficiary, including uninsured unemployed people, young unemployed people without vocational training, people receiving sickness or disability benefits, and those with other social or personal problems.

People receiving unemployment benefits from the municipality are classified into two categories. The first group consists of unemployed, uninsured people who are considered fit for work by the municipalities. They are formally registered with the local PES office and are largely subject to the same legislation as insured job seekers. The second category consists of people who are considered to have limited ties to the labour market and will therefore require special support before they can be integrated into the labour market. This category includes those who are receiving disability pensions and other long-term social benefits.

## **2.4 The social partners**

Tripartite co-operation between trade unions, employers' organisations and the State is a very characteristic feature of the Danish labour market model. This constellation has contributed to the establishment of a flexible and well-mediated labour market model based on agreement rather than regulation<sup>20</sup>. As long as the social partners are able to regulate pay and working conditions on their own and solve the problems that exist in a responsible manner, the State will not interfere.

Today, the cooperation involving the social partners is an integral part of labour market policy. This also applies in fields which are primarily regulated by legislation, such as safety and health at work, job placement and unemployment insurance. The social partners are consulted in connection with the drafting of legislation that has relevance for the labour market. In many fields, decisions are made by central or local councils in which the social partners are also represented.

More than 80 percent of Danish employees belong to a trade union. The trade unions are grouped into national confederations which in turn are affiliated to a small number of central organisations<sup>21</sup>. The Confederation of Trade Unions (LO) is recognised as being the worker's organisation with the greatest representation in both the public and the private sectors. More than 1.3 million workers belong to one of LO's affiliated unions<sup>22</sup>. The Confederation of Danish Employers (DA) is also a large organisation, representing 13 employers' organisations. It has a membership of more than 29,000 Danish private companies covering the manufacturing, retail, transport, service and construction sectors<sup>23</sup>.

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<sup>19</sup> Hendeliowitz, 2005

<sup>20</sup> Sørensen 2006

<sup>21</sup> The largest affiliated unions are: The United Federation of Danish Workers (3F), The Union of Commercial and Clerical Employees in Denmark (HK), and Trade and Labour (FOA).

<sup>22</sup> [www.lo.dk](http://www.lo.dk)

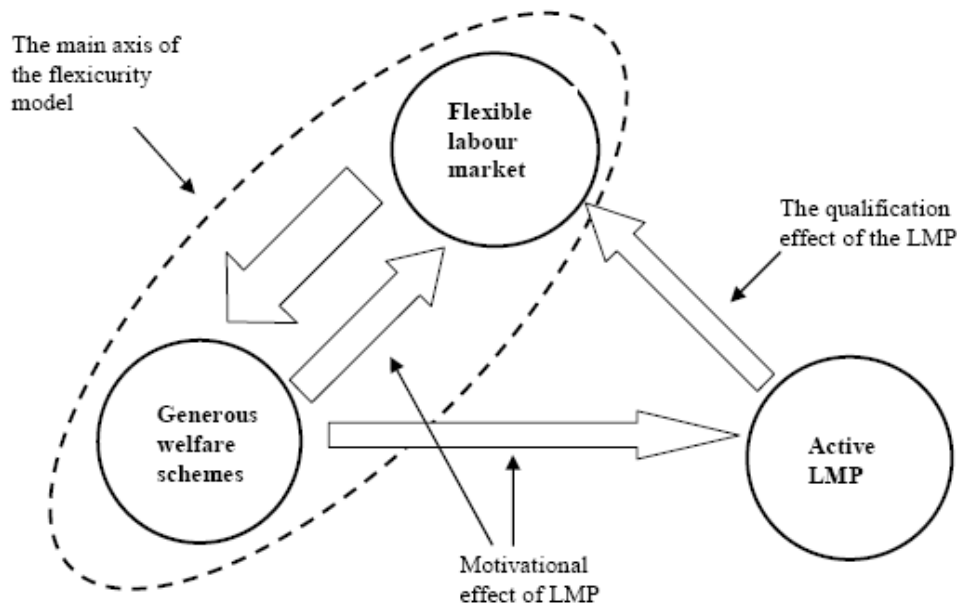
<sup>23</sup> [www.da.dk](http://www.da.dk)



## 2.5 The flexicurity model

The Danish employment system can be depicted as a triangle. The *first* side of the triangle consists of flexible rules governing the hiring and dismissal of employees. These make it easy for employers to dismiss employees during periods of recession and to hire new ones when the economy picks up again, enabling them to adapt to the changing demands and conditions of production and economic activity. The *second* side of the triangle consists of security for wage earners in the form of a comprehensive social safety net in the case of unemployment, and the active labour market policy makes up the *third* side of the flexicurity triangle.

Figure 6: The Danish "flexicurity model"<sup>24</sup>



Key: LMP = Labour Market Policy

The arrows joining the angles of the triangle illustrate the flows of people. The two arrows linking the flexible labour market and the social security system reflect the fact that many workers are affected by unemployment. Approximately half a million wage earners, or nearly 20 percent of the work force, experience unemployment each year<sup>25</sup>. The vast majority quickly find new jobs, while a small remnant group is unemployed for a longer period. Those who are unable to find new employment are assisted by active labour market measures, such as education and training programmes, which are designed to help them re-enter the labour market quickly<sup>26</sup>. An important additional aim of the active labour market policy (ALMP) is to ensure that those receiving unemployment benefits do not find it attractive to remain unemployed, despite the relatively generous allowances.

The high degree of flexibility that exists in the Danish labour market is indirectly supported by a number of welfare state services, such as a comprehensive education programme, adult vocational training and education, childcare, health care etc., which are mostly financed by an extensive taxation system.

<sup>24</sup> Bredgaard, Larsen and Madsen, 2005

<sup>25</sup> Ministry of Employment [Beskæftigelsesministeriet], 2005

<sup>26</sup> Sørensen, 2006

## 2.6 Danish employment policy in an international context

In October 2004, the Danish Ministry of Finance evaluated the labour market performance of the EU15 countries on the basis of their actual policies<sup>27</sup>. Its findings show that four different regimes of labour market policies can be identified within the EU. These are briefly described below:

- The *Northern European* regime (A) includes Denmark, the Netherlands and Sweden. In these countries unemployment benefits are high, but disincentive effects caused by generous benefits are counterbalanced by active policies, strict rules governing availability for jobs, and low to medium degrees of employment protection regulation.
- The *Anglo-Saxon* regime (B) includes the United Kingdom and Ireland. Low unemployment benefits, varying expenditures spent on active labour market policies, undemanding availability requirements, and a low level of employment protection characterise this regime.
- The *Central European* regime (C) includes Austria, Belgium, Finland and Germany. Labour market policies in these countries are predominantly passive, and employment protection is at average European levels. However, the levels of unemployment compensation vary across countries.
- The *Southern European* regime (D) includes France, Greece, Italy, Portugal and Spain. In these countries, employment protection is high and unemployment compensation is close to the European average, but labour market policies are passive.

Structural and long-term unemployment is closely related to the policies that have been implemented, and the Northern European and Anglo-Saxon regimes perform significantly better than the Central and Southern European regimes. The main difference between regimes A and B is that the former relies on pre-emptive active policies to counterbalance the disincentive effects of high unemployment compensation, while regime B relies on low compensation rates as a mechanism for keeping people attached to the labour market.

These findings are in line with one of the overall conclusions of the OECD's 2004 *Employment Outlook*, which emphasises less strict employment regulation protection combined with effectively-functioning unemployment benefit systems, effective re-employment services, and product market competition as a way to balance the need for labour market dynamism against the need for employment and income security<sup>28</sup>. In addition, the findings of the Danish Ministry of Finance support one of the main conclusions of the 2004 *Employment in Europe* report, namely that all categories of AMLP expenditure have a positive impact on the employment rate, but that their efficiency depends on the combination and mode of interaction with other policies and institutions.

In Denmark, microeconomic evidence shows that an important effect of ALMP is to increase availability for work and the extent of job search activity among the unemployed, and that the latter obtain jobs more quickly in the lead-in period before they must embark on a mandatory activation programme. This is found to be probably the most important effect through which ALMP reduces structural unemployment<sup>29</sup>.

In Table 1 below, the employment/population ratios, labour force participation rates and unemployment rates are shown by order of regime. There seems to be a correlation between the type of regime and the employment/population ratio, indicating that the North European regimes generate the relatively highest employment/population ratios.

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<sup>27</sup> To assess whether differences in labour market policies and institutions can explain differential unemployment rates among countries, the relationships between the unemployment rates versus the policies and institutions were analysed for a panel of 19 OECD countries over the period 1983-1999. The following indicators were used in the analysis: (1) Generosity of unemployment benefits; (2) Duration of benefits; (3) Availability for work requirements; (4) Employment conditions; (5) Expenditure on active labour market policy; (6) Employment protection; (7) Product market regulation; (8) Total taxes on labour; (9) Wage levels.

<sup>28</sup> OECD *Employment Outlook*, 2004: 12.

<sup>29</sup> *Medium Term Economic Outlook*, 2004: 7.

Table 1: Employment/population ratios, labour force participation rates and unemployment rates, 2006

Countries ordered by regime	Employment/population ratio	Labour force participation rate	Unemployment rate
<b>Regime A:</b>			
Denmark	76.9	80.1	4.0
Sweden	74.5	80.2	7.1
Netherlands	72.4	75.7	4.4
<b>Regime B:</b>			
United Kingdom	72.5	76.7	5.4
United States	72.0	75.5	4.7
Ireland	68.1	71.3	4.4
<b>Regime C:</b>			
Austria	72.2	75.9	5.0
Belgium	60.4	65.9	8.4
Finland	68.9	74.7	7.8
Germany	67.2	75.0	10.4
<b>Regime D:</b>			
France	62.3	69.1	9.8
Italy	58.4	62.7	6.9
Spain	65.7	71.9	8.6
Portugal	67.9	73.9	8.1
<b>Not categorised by regime</b>			
Japan	70.0	73.1	4.3
Korea	63.8	66.2	3.6
Switzerland	77.9	81.2	4.1
<b>OECD Europe</b>	62.5	68.3	8.5
<b>Total OECD</b>	66.1	70.5	6.3

Source: OECD Employment Outlook, 2007

### 3. The new Danish employment system

In 2007 a major structural reform came into effect. Its purpose is to strengthen the decentralised public sector in the context of changing conditions in business, trade and technology as a means of consolidating and further improving the level of welfare in Denmark. Analyses had shown that many of the administrative units were too small and lacked the capacity to handle the tasks they were given, and also that most of the counties (regional authorities) lacked adequate capacity to ensure optimal sector planning<sup>30</sup>.

The structural reform reduced the previous 271 municipalities to 98, and the 14 counties were abolished and replaced by five new administrative regions governed by popularly elected boards. Responsibilities and the division of labour were restructured, resulting in more tasks and obligations for the municipalities, which are now responsible for almost all public services. The municipalities are governed by directed elected politicians (cf. box 3).

An important element of the structural was to reorganise the employment system to enable it to meet the future challenges that would be posed by a shortage of qualified labour. The shortage is the result of the increasing proportion of elderly people in the population and the decreasing proportion of young people. As a result a new institutional set-up was put in place, and new planning and management tools were introduced. Furthermore 4 employment regions were set up to keep a special focus on the labour market situation. The administrative regions of Copenhagen and Zealand comprise a single employment region, as the labour mar-

<sup>30</sup> Report of the Structural Commission, 2004

ket is considered to be interconnected. The employment regions are separate from the five administrative regions so that the focus on the labour market policy can be maintained.

**Figure 7: Map of the four new employment regions showing the number of inhabitants**



### 3.1 Establishment of job centres

With the new reform, the Public Employment Service (PES) and the employment authorities in the municipalities have come together physically in 91 new job centres and have entered into a binding cooperation that focuses on the promotion of employment. The municipalities are still responsible for unemployed people without insurance, and the state is responsible for unemployed people with insurance. The division of responsibilities is therefore still clearly defined. However, the legislation prescribes that the state and the municipality authorities based in the job centres must cooperate in a joint employment effort in relation to both citizens and enterprises. In 14 municipalities, responsibility for the insured unemployed has been delegated to the municipality. The job centres in these municipalities are referred to as 'pilot job centres'.

The overall objective of the creation of the job centres is to combine and utilize the knowledge of the state service and the municipal service, and to provide a unitary employment system offering one-stop access to all citizens. This replaces what had been a two-tiered system that distinguished between the insured and the uninsured<sup>31</sup>.

With the reform the job centres have become the key to Denmark's employment efforts. The main task of the centres is to establish a quick and efficient match between jobseekers and enterprises. Enterprises must be provided with the labour they need as rapidly as possible; jobseekers must be provided with jobs equally quickly; and unemployed jobseekers and people on sick leave must be provided with the fastest way back into employment.

To make sure that the job centres maintain their focus on employment, job services and the payment of benefits are kept separate. This division of responsibilities is a key concept in the establishment of the job centres. Thus it is not the job centre's responsibility to pay out benefits, nor does it have responsibility for any decision-making concerning benefit claims, the amount of benefits, or other financial matters pertaining to individual cases. The local payment office or some other local government body determines an individual's eligibility for social benefits.

<sup>31</sup> Labour Market Authority [Arbejdsmarkedsstyrelsen], 2005

### 3.2 Decentralisation and accountability

The reform has resulted in a further decentralization of tasks and administration (PES) to the local levels. Some observers describe the recent development as part of a process of deconcentration rather than decentralisation. The term deconcentration implies that the management of the tasks is to a great extent subject to the central government's priorities and regulations, but is implemented at the local levels. This is partly true. However, as is described below, the job centres are granted a great deal of freedom in the planning and implementation of their employment measures, provided they are able to achieve satisfactory outcomes.

The decentralisation of the public sector is principally based on the notion that the political decision-making about the role of the public sector, as well as the standard, level and allocation of the benefits it provides, should be decided in proximity to the citizens it affects. It is presumed that through bringing the political decision-making closer to where the problems and individuals are, decentralisation facilitates the adapting of policies to local conditions, and hence a more efficient adjustment to the requirements of the citizens.

The second principle underpinning political decentralisation is the assumption that it represents a more flexible, and therefore more efficient, approach to handling responsibilities. If the state has to exercise political control over a great number of public institutions, the need for substantial regulation and hence bureaucratization of the public sector is also greater.

#### **Box 3: A decentralised public sector in Denmark**

Denmark has a long-standing tradition of operating a decentralised public sector in which most of the welfare responsibilities are handled by the municipalities.

The municipalities' share of public expenditure is circa 50 per cent, more than in any other OECD country. At the same time the Danish municipalities have considerable freedom, including the right to impose taxes. Denmark's extensive decentralisation is the result of historical and political circumstances, but there are other reasons which are connected with the operation of a welfare economy and democratic governance.

Each municipality is governed by a municipal council that is elected for a four-year term. Each council contains an odd number of politicians ranging from 9 to 31, depending on the size of the municipality. (Exceptionally, the council of the City of Copenhagen has 55 members.)

In order to ensure that the municipalities would also be able to handle additional responsibilities in the future, the municipalities were increased in size under the structural reform that took effect on 1 January 2007.

*Note: In 2007 the allocation of public expenditure was: Municipalities 48 per cent, regions 22 per cent, and the state 30 per cent. (Financial Statement 2007, Ministry of Finance)*

However, the decentralisation and deconcentration of tasks poses a number of challenges in terms of both the degree of flexibility in policy management that is possible in practice and the effective extent of public accountability. Accordingly, new forms of governance and management relationships, including those existing between the state and the decentralised levels, have been implemented as part of the process.

The new framework for the management, planning and monitoring of employment measures differs from those of the previous PES and municipality systems (as well as differing from one individual municipality to the next). Under the PES system the National Labour Market Authority of the Ministry of Employment would set specific requirements and objectives for the regional operational units. This formed the basis for annual performance contracts. In the municipalities practices varied greatly. Some municipalities planned and managed solely according to their budgets without setting specific employment targets, while others devised business plans that included the achievement of specific municipal employment objectives.

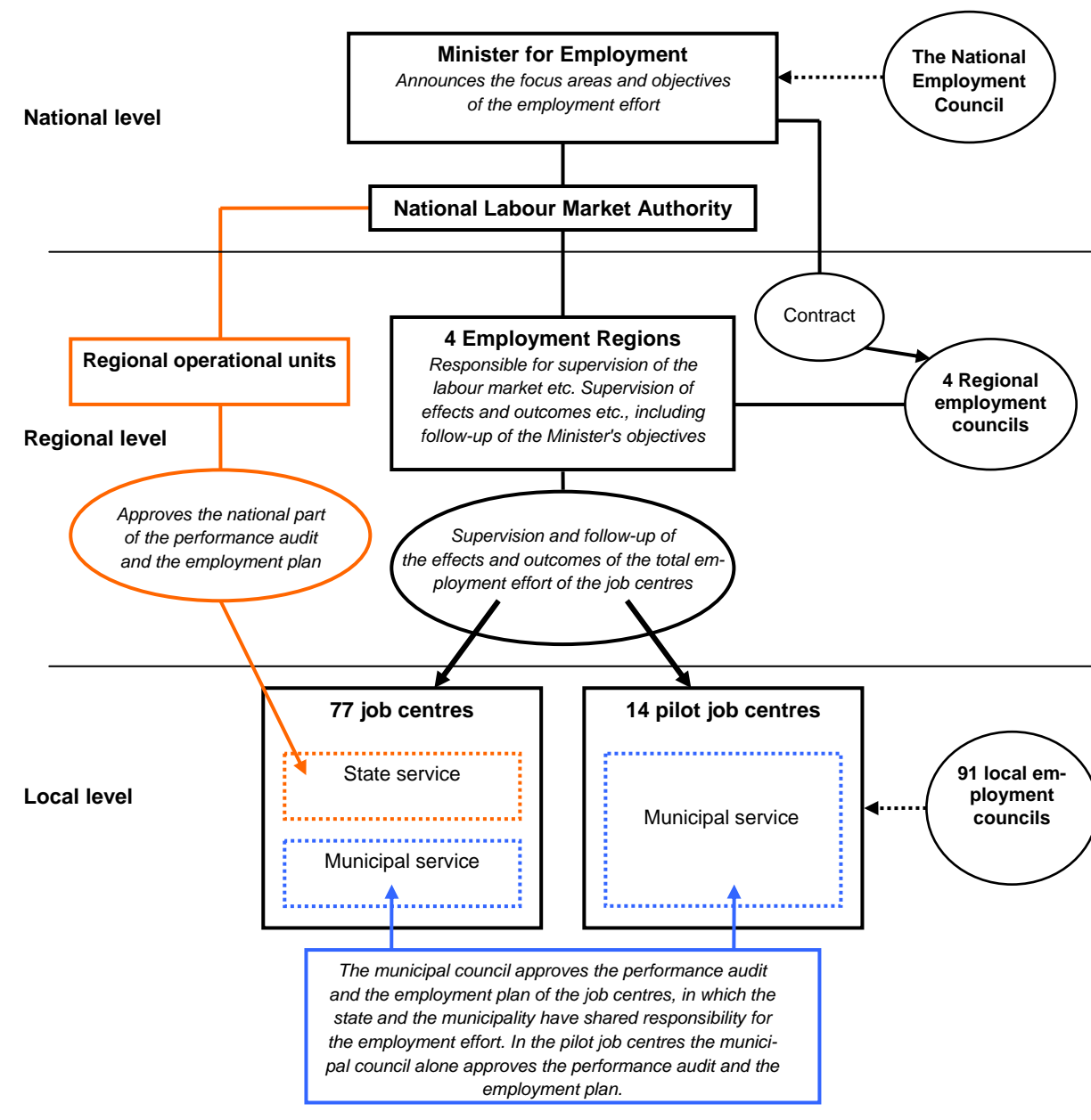
From 2007 the management, planning and monitoring of the employment measures has been systematised and homogenised with the introduction of new common tools. The overall management strategy is based on

granting the job centres extensive freedom in planning and implementing their employment measures as long as they demonstrate good results. Increased attention is being paid to the performance outcomes of the individual job centres. This also implies that those job centres with less good outcomes will be subject to closer follow-up of their employment measures.

### 3.3 Management by performance

The management system has three different policy and administration levels. At the national level the Minister of Employment sets a few measurable targets and focus areas. These are the starting point for negotiations involving the National Labour Market Authority, the Employment Regions and the Regional Employment Councils on the content and extent of the regional objectives. These objectives are specified in a contract between the Minister for Employment, the Employment Regions and the Regional Employment Councils. The contract includes targets and specific objectives for each employment region in the coming year. At the local level, employment plans are drawn up and submitted to the local employment councils. These plans take into account both the targets set by the Minister and the regional objectives.

Figure 8: Chart of the political and institutional set-up of the employment service



### The national level

Each year the Minister of Employment announces political objectives concerning employment. These objectives relate to those initiatives that will need particular attention in the coming years if the outcomes of the national or regional measures are to be improved. The targets are based on annual analysis reports on the effects and outcomes of the local job centres' employment measures and their efforts in general which are compiled by the employment regions and the regional employment councils. In the analysis reports the regional employment councils make recommendations about which initiative areas should receive particular attention, and in this way they guide the minister in determining the future objectives of the employment measures. As was the case under the previous employment system, the National Employment Council also advises the Minister concerning employment policy, and assists with planning labour market initiatives and drafting policy and legislation.

#### **Box 4: The national performance targets for 2008 set by the Minister of Employment**

The Minister of Employment has set the following three targets for 2008:

##### **Performance target 1:**

The job centres need to ensure a decrease in the number of unemployed people over 3 months.

##### **Performance target 2:**

The job centres particularly need to focus on people who have been unemployed for more than a year, as well as the targets set under the national initiative known as "A New Chance For Everyone".

##### **Performance target 3:**

The job centres need to ensure a decrease in the number of unemployed young people (those under 30)

##### **A New Chance for Everyone**

The initiative "A New Chance for Everyone" was introduced in July 2006 and will last for two years. The objectives are to enable those receiving social security and starting allowance (a reduced benefit rate for refugees and immigrants) to support themselves and to participate in employment or training to a greater extent than today. During this two-year period, everyone who has received social security and starting allowance for more than a year (65 out of 69 weeks) will have their unemployment situation reviewed to assess the best and shortest route to employment or training. Ethnic minorities from non-western countries are a particular target group under the plan, since their employment rate was only 46 percent in 2004. This applied especially to the women, whose employment rate in 2004 was only 40 per cent.

Specifically, the two-year national targets are:

- 1) That 25 per cent of the target group will enter employment or training
- 2) That the target group will be self-supporting 15 per cent of the time, and
- 3) That the target group will be participating in an activation scheme 40 per cent of the time.

Note: [www.nychance.dk](http://www.nychance.dk)

### The regional level

The four employment regions and four regional employment councils are responsible for supervising the job centres and thus for ensuring coherence between the national employment policies and the local initiatives. One of their main tasks is to monitor and analyse changes in the regional labour market and to provide information about the labour market situation.

The regional employment councils have a more extensive role than the previous regional labour market councils. Their emphasis has shifted from operational issues pertaining to the PES measures that cater to the insured unemployed to issues of a more general nature, i.e. helping to ensure that effectiveness and good performance outcomes from both the local and the central government measures.

The Minister for Employment appoints members to the regional employment councils. The members represent trade unions and employers' organisations as well as municipalities and organisations for the disabled etc. The employment regions function as the regional employment councils' secretariat and perform their tasks in close cooperation with the councils.

The employment regions and the regional employment councils support the employment measures in the job centres by providing advice on local employment measures and making knowledge available regarding current developments in the regional labour market, including information about the enterprises' current and future demand for labour. The regions and councils are also responsible for ensuring access to the specialist knowledge that may be required in special initiative areas, such as in the fields of disabilities, integration measures or specialized rehabilitation initiatives.

In terms of the regionalisation of labour market policies, the employment regions play an important role in identifying and facilitating initiatives for targeting such regional constraints as the shortage of skilled labour. Separate earmarked state funding is available for addressing this particular challenge.

The employment regions and regional employment councils monitor and follow up the effects and outcomes of the employment measures being pursued in the job centres. If individual job centres have serious problems achieving their specified effects and outcomes, the councils can recommend the regional director to contact them in order to discuss possible problems. If necessary, the employment region can enter into a written agreement with the job centre for the improvement of measures. As part of the agreement, the region may offer to finance consultancy services to help the job centre improve its efforts. In situations where agreement cannot be reached or if the outcomes do not improve as agreed, the regional director can recommend that the Minister should intervene by ordering the job centre to involve external actors in those aspects of their employment efforts where results are lacking. This reflects the overall management strategy under which job centres that demonstrate good outcomes have the freedom to implement whatever employment measures they see fit, whereas job centres whose outcomes are less good will find their employment measures being closely followed up.

#### The local level

The local employment councils monitor the effects and outcomes of the employment measures being taken by the job centres and provide advice on possible improvements. They also support initiatives directed at local enterprises and develop local preventive measures that are targeted at those people who are on the fringes of the labour market. The objective is to increase the employment opportunities for those who are at risk of becoming disconnected from the labour market, or those for whom it is difficult to find employment on normal terms. The local employment councils are included in the preparation of the employment plan, which is described below. The councils are consulted and may submit recommendations concerning amendments to the plan.

### **3.4 New management and planning tools**

A crucial element in the reform of the employment system is the introduction of the new tools for planning, managing and monitoring the employment measures. The tools have two purposes. One is to support the job centres in planning their employment measures. The other is to ensure accountability. The tools reflect and support the new management strategy, which focuses on outcomes rather than activities.

The main tools which have been introduced are:

- Performance audit
- Employment plan
- Analysis and outcomes dialog meetings
- Jobindsats.dk

#### Performance audit

As has already been mentioned, the emphasis is on the outcomes of the job centres' performance. Consequently, each year the municipalities and the state must carry out a performance audit of each job centre's overall employment efforts and the division of responsibilities between the municipality and state levels.



The performance audit is conducted in accordance with a common template and on the basis of the data contained in the Labour Market Authority's national measurement system at *jobindsats.dk*. This ensures that all the relevant areas are covered, and that the statistics used are comparable with those for other job centres.

The performance audit includes:

1. Effects and outcomes of the given job centre's activities compared with other job centres;
2. An indication and assessment of the savings that could be gained from more efficient employment initiatives; and
3. An assessment and recommendations for those areas where more efficient efforts are needed.

In this way, the performance audit provides an overview of the employment efforts of the job centre as a whole, and provides targeted information for the authorities (at both municipality and state levels) that are responsible for the various sub-elements of the measures.

The performance audit report is submitted to the municipal council prior to the adoption of the budget for the following year. This should ensure municipal focus on the employment area. The local employment council receives the performance audit for consideration and may recommend changes in the employment measures undertaken by the state and the municipal council. The performance audit is part of the regional employment council's monitoring function.

### Employment plan

Every municipality and the state put together an annual overall employment plan for each job centre's activities during the coming year. The purpose of the employment plans is to maintain focus on the overall targets and to ensure coherence between the national employment policies and targets and the day-to-day operations and activities being undertaken in the job centres.

The plan defines targets, priorities, and budgets for the employment activities, both for the measures as whole and for the measures as divided up between the municipality and the state. The employment plan is not a final performance contract, but rather a plan for how the job centres will tackle their employment policy challenges.

#### **Box 5: Minimum requirements of the employment plan**

As a minimum, the employment plan must include:

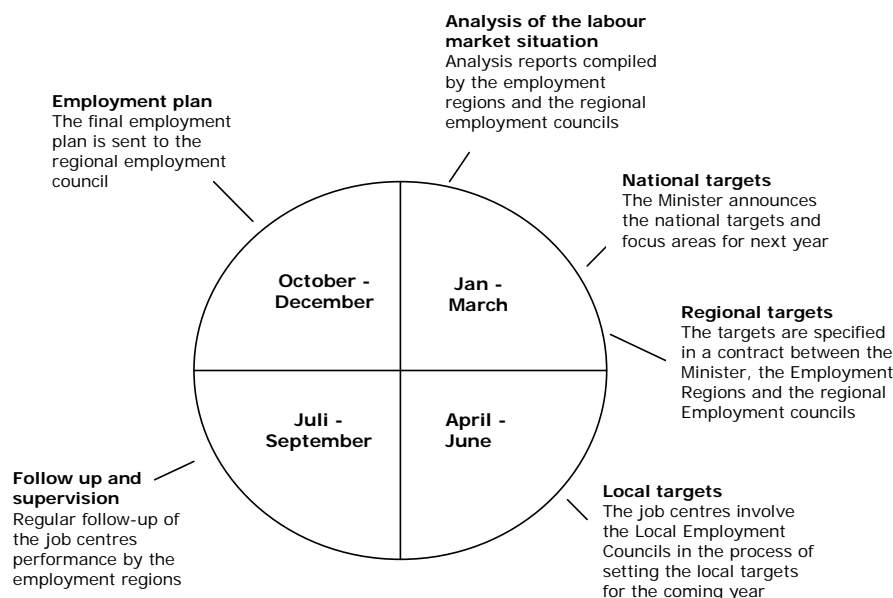
- 1) The targets set by the Minister of Employment
- 2) Description of the most important future employment policy challenges based on the national targets, the performance audit, and the analysis undertaken by the Employment region and the employment council
- 3) Local strategy and targets for the employment efforts
- 4) Strategy and targets for the service provided by the job centre to the enterprises
- 5) Strategy and targets for the involvement of external actors in the employment efforts
- 6) Budget for the employment efforts apportioned between the municipality and the state

Source: *www.ams.dk*

The employment plan is based partly on the performance audit, which shows the effects and outcomes of previous employment measures, and partly on the Ministry of Employment's targets for the measures and the analysis reports compiled by the regional employment councils.

The local employment council is involved in drawing up the employment plan, e.g. by submitting the plan for discussions at a joint seminar. The employment plans and performance audits form part of the central government's planning and budgeting for employment measures for the coming year. The final version of the employment plan is sent to the regional employment council.

**Figure 9: The planning and monitoring process in the job centres**



Analysis and dialog meetings concerning outcomes

The employment regions closely follow up the results of the efforts in the job centres by undertaking regularly analyses of the results achieved by the individual job centres. Each quarter, an analysis is conducted of the progress made in those job centres which have relatively similar framework conditions for their employment efforts. This makes it possible to compare and benchmark their performance. More specific analyses are undertaken in other areas such as the evolving results of the initiative known as “A New Chance for Everyone”.

**Box 6: Benchmarking of the employment efforts and outcomes**

On the basis of the overall national and regional targets, quarterly analysis reports are compiled by the employment regions. The reports contain assessments of the effects and outcomes achieved by the respective employment regions, plus comparisons of the individual job centres belonging to each employment region.

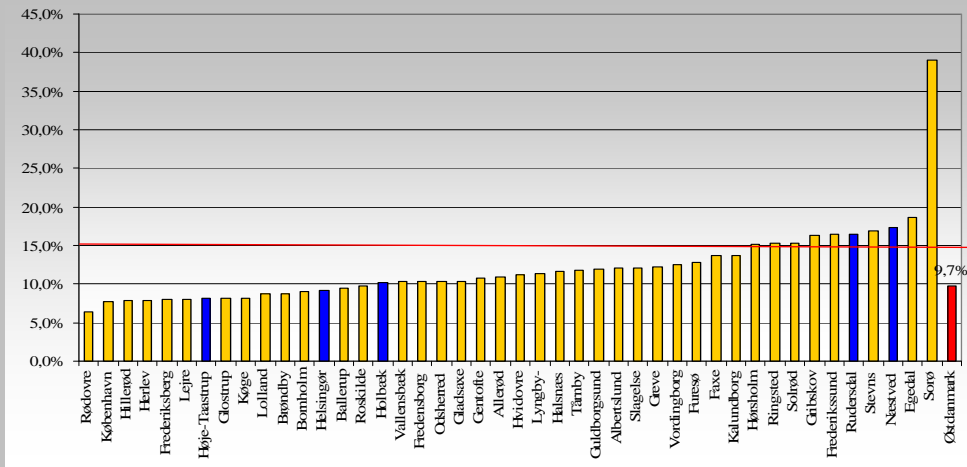
Example of benchmarking for the Eastern Denmark Employment Region, 3rd quarter of 2007:

The table below shows an overview of the individual targets. For each target the outcome achieved by the region is measured and compared with the nationwide outcome.

	<b>Eastern Denmark (per cent)</b>	<b>Nationwide (per cent)</b>
The number of unemployed people with more than 3 months of unemployment must be reduced by 15 per cent.	-27.7	-34.6
The number of people with more than 3 months of unemployment must be reduced by 23 per cent in areas with labour shortages.	-2.0	-19.0
By 1 July 2008 25 per cent of the target group of “A New Chance for Everyone” should be in employment or receiving training.	15.8	16.0
By 1 July 2008 15 per cent of the target group of “A New Chance for Everyone” should be self-supporting.	9.7	9.9
By 1 July 2008 40 per cent of the target group of “A New Chance for Everyone” should be undergoing retraining.	18.6	20.3
The number of unemployed people aged under 30 should be reduced by 15 per cent.	16.6	-17.7
In the course of three years the employment rate for men and women of non-western origin must be increased to 60 per cent and 50 per cent respectively.	Men: 57.8 Women: 45.7	Men: 56.3 Women: 43.7
The proportion of self-supporting unemployed from non-western countries must be increased by 5 per cent.	-2.0	3.1

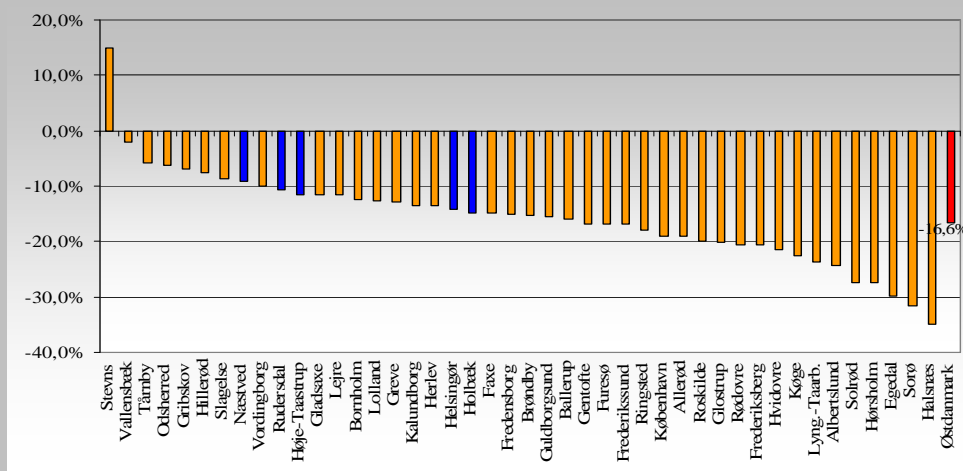
The report also compares the 44 job centres located in the Eastern Denmark employment region. Shown below is example of comparison for two of the target parameters.

Figure 1: The proportion of the target group of "A New Chance for Everyone" that is self-supporting



The x-axis displays the 44 job centres in the Eastern Denmark employment region, and the y-axis displays the results achieved in each of the job centres. The red line at 15 per cent marks the target.

Figure 2: The development in the number of young unemployed (under 30) sep. 06 – sep. 07.



Using the findings of the analysis, the employment regions discuss the results with the job centres. These dialogue meetings concerning outcomes take place at least twice at year. For the larger job centres these meetings are held every quarter.

The purpose of the close and continuous follow-up is not only to provide support and supervision to the individual job centres, but also to challenge them to increase their employment efforts in order to produce even better results. The dialogue meetings are given very high priority by the employment regions, because the meetings are the crucial for the achievement of better results both in the individual job centres and in the regions.

jobindsats.dk

A third management tool is the Web portal jobindsats.dk. The portal covers all the important aspects of the employment measures and provides data concerning the recipients of social benefits, unemployment benefits, disability pensions, sickness benefits etc. The portal also contains statistics for the population and the labour

market, municipal employment measures, initiatives aimed at ethnic minorities and unemployed people on the fringes of the labour market, and for labour supply and demand.

The portal provides an overview of the changes that are occurring in the labour market and the outcomes that have been achieved in the individual job centres. It is also possible to benchmark performance outcomes across municipalities and regions. The aim of the portal is to provide politicians, managers and employees with a better foundation for making decisions and planning their initiatives both locally, regionally and nationally.

### **3.5 Cooperation with actors across policy areas**

The job centres are obliged to focus on the outcomes of their employment efforts and to produce results that contribute to the realization of the national employment objectives set by the Minister of Employment. Within this framework, the job centres are free to plan their own local employment efforts and to decide how they should be implemented, provided they meet the legislative requirements.

The job centres can enter into agreements with institutions and external actors in different policy areas concerning the employment efforts targeted at the various different groups. This can either be done by issuing tenders for assignments to be undertaken by external actors, or by entering into agreements with other job centres at the regional or national levels. Cooperation with vocational training institutions and partnerships with large companies can be an important way of achieving good results. The job centres are free to enter into such agreements as long as their objectives are compatible with the overall objectives laid down by the employment regions and the Minister of Employment. The overall principle of the policy and administrative set-up governing the employment efforts can be summed up as 'freedom with responsibility'.

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