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Summary in English



SUMMARY AND MAIN RECOMMENDATIONS

Denmark has a dynamic youth labour market outperforming most OECD countries but is challenged by the current jobs crisis

The current economic downturn has brought about a worsening in the labour market performance of Danish youth. In the year to the third quarter 2009, the unemployment rate of youth aged 15-24 rose by 2.7 percentage points to 11.4% according to the labour force survey. However, the youth unemployment rate in Denmark is still well below the corresponding OECD average (17.6%) and even below the levels observed in many other OECD countries before the crisis.

Denmark entered this global economic crisis with rather favourable labour market conditions. In particular, the youth employment rate was very high from an international perspective: in 2008, it reached a high point at 68.5%, 25 percentage points above the corresponding OECD average.

Moreover, the transition from school to work is traditionally very smooth for most Danish youth. Many enter the job market when they are still studying and the time it takes for school-leavers to find their first job is usually short. In addition, the gap between youth with and without an upper secondary education in terms of time to find their first job was, in 2008, smaller than in most of other OECD countries, partly because of the tight labour market. There is however some evidence that in Denmark, the labour market performance of children of immigrants is less satisfactory than the one of children of natives.

Denmark has a well-developed institutional and policy setting that allows most of youth to get a firm foothold in the labour market. This setting will help them weather the current jobs crisis better than in many other OECD countries and prepare them for the recovery. Number of the schemes that other OECD countries are hastily introducing to cope with the immediate consequences of the crisis were already available in Denmark before the current downturn.

In particular, young individuals in Denmark are insured against the risk of poverty by a combination of generous unemployment insurance and social assistance benefits. An elaborate set of rules, derived from the “mutual obligations” principle, activate financially-assisted youth to find a job, if they are job-ready, and to complete their education, if they are without an upper secondary education. Moreover, in Denmark, public funding for active labour market programmes (ALMPs) is automatically adjusted according to the government’s official unemployment forecasts to ensure sufficient resources to support the larger number of jobless persons, including youth.

These underlying institutional features imply that youth in Denmark potentially face a lower risk of long-term unemployment, poverty and exclusion than in other OECD countries during the economic downturn. In this respect, there is a limited risk of a “lost generation” (like in Japan in the 1990s) created by a prolonged disengagement of youth from the labour market and the associated human capital depreciation. At the same time, the Danish model is also better placed to promote a rapid reintegration of youth into employment once economic growth picks up again.

The tentative conclusion is that the Danish government can focus more on the supposedly less challenging tasks of improving its existing schemes and evaluating their capacity to combat rising youth unemployment, instead of putting in place new programmes, as is the case in a number of other OECD countries.

Recent initiatives to tackle youth unemployment

Despite these strengths of the youth labour market in Denmark, like in other OECD countries, some youth are particularly hard hit by the current economic downturn. For example, recruitment of apprentices by Danish firms fell by 24% in the first eight months of 2009, compared with the same period in 2008. Many tertiary studies require students to complete a compulsory work placement and it is feared that, if students do not secure one, they will drop out of their studies. The Danish government has therefore announced in September 2009 that it will invest DKK 1.3 billion (approximately EUR 180 million) in securing 5 000 new apprenticeship and training places next year: 1 650 places in private companies; 1 500 places in schools offering programmes targeted on occupations facing skill shortages; 1 650 places in regions and municipalities; and 200 places in public administration.

In addition, in November 2009 the government and the three major political parties have agreed on a series of policies designed to ensure a quick, intensive and focused approach towards youth aged 15-17, 18-19 and 18-29. These actions cover both the Ministry of Education and the Ministry of Employment.

Concerning the 15-17-year-olds, all pupils in lower secondary education will prepare an education plan in collaboration with their parents, the school and the youth guidance centre (the institution that has primary responsibility for initiatives in relation to the individuals under the age of 18). The education plan should lead to further education or describe what the young person will otherwise be doing and may include activities such as training, employment, internship, stay abroad or volunteer work. If pupils do not follow their education plan, their parents will risk losing child benefits. Additional resources have been provided for increased co-operation between youth guidance centres, educational institutions and the Public Employment Service (PES). The Ministry of Education and the Ministry of Employment will co-operate to develop a database, which will ensure a full overview of the education and training of each young individual. This will enable a quick identification of vulnerable young people and provide the information needed to offer a targeted effort.

Initiatives targeted at the 18-19-year-olds focus on a package offering intensive contact with the PES and rapid activation. The package includes an individual interview after only one week of applying for welfare benefits, a job-search training course within the first two weeks and an active measure (an educational

opportunity or work placement) offered no later than one month after the beginning of the unemployment period.

More generally for all youth aged 18-30, the aim is to tackle long-term unemployment. In particular, the PES will propose a hiring subsidy in the private sector for young people under 30 who have been recipients of welfare benefits for longer than 12 months. In addition, young people without qualifications will take a reading and writing test when they register as unemployed and the PES has been given resources to provide literacy and numeracy courses. The PES will also be obliged to refer new graduates under 30 to a private provider after only six weeks of unemployment (previously after 4-7 months depending on the level of education).

Suggested recommendations in response to the remaining challenges

The recent initiatives go in the right direction to prevent youth most at risk from dropping out of school and to maintain contact with the labour market during the downturn. However, their implementation should be carefully monitored to adapt them as necessary and/or to scale them up to address the structural challenges facing the youth labour market in Denmark. In particular, the Danish government should focus on three areas: i) ensuring that everyone leaving education is capable of gaining the skills needed on the labour market; ii) removing remaining demand-side barriers to promote better jobs for more youth; and iii) strengthening activation to better help disadvantaged youth.

Ensuring that everyone leaving education is capable of gaining the skills needed on the labour market

Disappointing PISA test scores

Test scores from the OECD Programme for International Student Assessment (PISA) 2003 and 2006 reveal, on average, a mixed performance for Danes at age 15. In particular, Danish teenagers perform at the OECD average level in mathematics and slightly below the OECD average in reading, despite Denmark's relatively high GDP per capita and, especially the very generous public funding on education, which amounted 4.4% of the GDP in 2006 (well above the OECD average of 3.7%).¹

These somewhat disappointing results should encourage the Danish authorities to further strengthen the curriculum in

¹. Education includes primary, secondary and post-secondary non-tertiary education.

primary and lower secondary schools. Extensive reforms are currently being implemented in the primary and lower secondary schools with the aim of improving the level of attainment in particular in reading literacy, science and mathematics.

The government has established in 2006 a new national agency for quality assurance and evaluation in primary and lower secondary schools and in the same year, the Danish Parliament decided to make national tests a compulsory pedagogic tool in primary and lower secondary schools. The main purpose of the Danish National Test Reform is to provide teachers with a pedagogical tool which can help them analyse the proficiency level of their pupils and the level of their class. This is a step in the right direction. Standardised tests create an environment in which schools, teachers and municipalities pay more attention to the determinants of children's school attainment.

But Denmark has theoretically banned any form of ranking of schools based on test scores. There are a number of reasons for preventing individual raw scores to be disseminated. In particular, raw score gaps tend to reflect not only teaching quality differentials but also differences in socioeconomic background factors that can influence pupils' performance. However, Denmark's very restrictive approach of results dissemination may weaken incentives for improvements, as poor performance receives little publicity. Moreover, the scheme contains no element of school accountability as there are no consequences attached to poor school performance. It thus remains to be seen whether Denmark's policy of "soft testing" will be an effective mean of bringing the expected changes to schools' performance.

A higher than expected school drop-out rate in general

Denmark is also characterised by a relatively high school drop-out rate. The proportion of those aged 20-24 who did not complete upper secondary school was 15.6% in 2008, slightly below the OECD average of 16% but well above the corresponding rate recorded in central European countries or other Nordic countries like Sweden (9%) or Finland (9.7%). Recognising this poor school outcome, the Danish government is currently committed to ensure that 95% of each youth cohort should complete upper secondary education in 2015, although reaching that target will prove difficult to achieve from the level of 83% in 2007.

Denmark's relatively high drop-out rate seems to be partially driven by the relative inability of the basic education system to equip disadvantaged youth with core literacy and numeracy

skills. In particular, PISA has demonstrated lower assessment results for the children of immigrants in Denmark and there are close links between poor PISA outcomes and high drop-out rates.

The VET system performs well for those who complete it

By contrast, Denmark has a good vocational education and training (VET) system for those aged 16 and more. The Danish VET system is relatively demanding. It takes on average four years to obtain a VET degree. Research also suggests that a good level of mathematics is the best passport to success in some VET programmes. An important aspect of VET in Denmark is its strong “dual” component, synonymous with: i) systematic involvement of firms and social partners; and ii) (partially as a result of that) a high job-readiness for those who complete it.

However, access to VET intervenes late, typically after the end of compulsory education (16 years of age) and the traditional gap years that young Danes grant themselves before undertaking an upper secondary qualification. The latter explains in great part why in 2005 the average age of all students starting VET was almost 21.

The drop-out rate in VET is high, in particular among immigrant youth of non-western origin. Admittance in the “basic course”, the school part of VET, is free for all young people who have completed nine years of elementary school. Entering the dual part of a VET programme after the basic course, the so-called “main course”, is more difficult since the apprentice must have found a contract with a firm to apply for it. It is almost entirely up to the students to find a firm willing to take them as apprentices. When they do not find an apprenticeship contract in a specific VET programme, many of them are able to find one in another VET programme or continue in general upper secondary education programmes. Nonetheless, 40% of all VET drop-outs are estimated not to continue any education or training programme.

Apprentice wages have a special regime. Within each sector, a minimum wage for apprentices is negotiated every third year in collective labour agreements. Additionally, the apprentice – as in an ordinary employment contract – has the opportunity to negotiate a higher salary. Firms receive important subsidies to hire and train apprentices. As a result, the average cost for an apprentice is half the cost for an ordinary employee. The wage received by an apprentice is however attractive for a young person, being on average 60% higher than the state education grant.

Reducing VET's drop-out rate while preserving the quality of VET students

Policy makers, rightly concerned by the overall incidence of drop-outs, are trying to improve the quality of VET (*e.g.* mandatory action plans within VET schools and mentoring). They are also reforming VET in order to accommodate the needs of those forming the lower end of the skill distribution (shorter programmes leading to partial qualifications, or less school-based education implying fewer weeks sitting in school before starting apprenticeship within firms). The challenge, however, is to raise VET attendance and completion rates without compromising quality, in particular the willingness of firms to recruit, train and pay apprentices.

Probably the oldest students in the OECD

Denmark probably has among the oldest students and graduates in the OECD, meaning that – unless Danes effectively retire later² – they spend fewer years in employment. Some argue that older students in Denmark have accumulated significant labour market experience as many of them hold student jobs, something that help them have a smoother and faster transition into stable employment. Indeed, in 2008, about 70% of students aged 23-24 were working. Yet, even more Australian students (78%), for example, work at the same age but still manage on average to graduate at a much younger age.

The delay in completing education starts at the end of compulsory education. Students very often take the voluntary 10th grade³ in the compulsory school system, even if they are academically ready for further education. There are thus long waits between the lower secondary and the upper secondary cycles. A similar phenomenon is observed at the articulation between upper secondary education and tertiary education. Moreover, within tertiary education, Danish students frequently change study course, implying that they are older when they start the programme they eventually graduate from.

Addressing this issue is challenging as there is no straightforward answer to a phenomenon that is deeply rooted in the Danish culture. Possible options include: i) a better command of core skills at the end of compulsory education in

². The employment rate of workers aged 55-64 in 2008 in Denmark was effectively above the corresponding rate in OECD and in the European Union (respectively 58%, 54% and 47%).

3. The 10th grade was conceived as an opportunity for less able students to catch up on material not learnt well during the nine compulsory years of schooling and clarify their choice of upper secondary education.

order to increase the level of “study readiness” of teenagers; ii) improved guidance within schools; and iii) a well-designed set of financial incentives rewarding early start and completion of tertiary education.

In the 2006 Welfare Agreement, a number of measures were announced to combat the late-study-completion syndrome. The single most important change consisted of making access to tertiary education easier if the student does not wait more than two years after completing upper secondary education. Under the new setting, the prospective students have their grade average multiplied by 1.08, implying an easier access to studies where the number of places is limited by a *numerus clausus*. However, the odds are that this is unlikely to significantly affect students’ behaviour as open access exists to most study programmes.

Measures aimed at changing the attitude of providers (i.e. tertiary education institutions) were also announced in the Welfare Agreement. In particular, new financing structures should bring the actual study duration better in line with the scheduled one. The intention was also that part of the public financing should be paid out to providers only when students complete the exams. The final report of the 2007 Labour Market Commission⁴ also proposed a range of measures to encourage earlier completion of education.

These are steps in the right direction. But other decisions could prove counterproductive. For instance the decision to increase earnings ceilings for students allow them to earn more while still receiving full education grants and may indeed delay study completion. Research finds that the higher the student’s own earnings, the longer it takes to complete studies. It is noteworthy that the Swedish Fiscal Policy Council has just recommended reducing the earnings limit so as to encourage students to work less and focus on their studies.

To ensure that all youth have the basic skills needed to enter, and progress, on the labour market and are enticed to rapidly put them to use, the following measures could be envisaged:

- *In primary and lower-secondary education, enhance the National Test Reform and make sure schools are more accountable.* There is international evidence that externally-defined standards such as those set out in the 2006-enacted National Test Reform help combat the tendency of teachers to lower expectations and demands when confronted with

4. The Labour Market Commission was established in 2007 to provide recommendations on how to achieve the employment goals required by the government’s 2015 Plan for fiscal policy and released its final report in August 2009.

presumably low-skilled pupils. If there are good reasons for preventing individual raw scores to be disseminated, Denmark's decision to strictly confine school ranking based on test scores should be reconsidered. In addition, elements of school accountability, based on verifiable outcomes (e.g. pupils' progress in core topics), should be developed.

- *Tackle the high drop-out rate in VET programmes.* Teenagers should be better prepared before starting the basic course of a VET programme. Offering more opportunities to participate in practical work in “production” schools⁵ could be a possibility as well as a better individual monitoring in primary and lower secondary education. Youth guidance centres should better assist young people when they apply for the main course and are seeking for an apprenticeship in a firm. It is important that the PES and youth guidance centres co-operate closely to find more apprenticeship places.

- *Invest in a fully-fledged activation strategy aimed at reducing the overall time to graduation.* The combination of high income tax and generous education grants creates adverse incentives to take extended breaks between upper secondary and tertiary education and to prolong studies once started. Since altering the current high income tax/generous student financing mix may be difficult to envisage, Denmark needs to develop an ambitious activation strategy⁶ targeting students but also educational institutions, with the explicit aim of enticing both sides to foster students to start and complete education on time. As part of this strategy, adjustments should be made to student grants rewarding early entry and on-schedule completion of studies. Simultaneously, full-rate taximeters⁷ financing tertiary education institutions should only be available for those that recruit and graduate on-schedule students.

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5. Since 1978, these schools offer youth aged 16 or more who are not ready for the normal VET programme the opportunity to participate in practical work in different areas ranging from metal, carpentry and textiles to media, theatre and music.
 6. Replicating in the sense the philosophy that Denmark implemented very successfully for welfare benefits.
 7. The Danish version of the voucher system.

Removing remaining demand-side barriers to promote better jobs for more youth

Until mid-2008, Denmark was characterised by a very tight labour market. Capacity utilisation rose close to historical peaks and skilled labour shortages became a more prominent constraint. A tight labour market also implied more employment opportunities for low-educated workers or for immigrants.

The short-term policy challenges posed by the recession

The current economic downturn is challenging some of the very good labour market outcomes in Denmark. The first reaction of firms to a sharp economic slowdown is to cease hiring before commencing on the more expensive procedure of redundancies. It is evident that young people comprise a disproportionate segment of job seekers and are thus more heavily affected by a freeze in new recruitments.

The cost to firms of firing young workers is also generally lower than for prime-age workers. Being less experimented than the latter, young workers involve a smaller loss of specific know-how to firms making them redundant. Moreover, young workers have lower tenure and are often involved in temporary jobs. Both factors reduce the dismissal costs for their employers and youth are often the first to go during downturns: an illustration of the last-in first-out (LIFO) phenomenon.

However, it is worth stressing that in Denmark there are no differences in the degree of employment protection provided by legislation or regulations between young and older workers.⁸ This is the consequence of Denmark's tradition of labour market flexibility as part of the "flexicurity" model, whereby private sector employees can be easily dismissed. Other things being equal, it implies that the overall cost of the economic crisis in terms of job destructions should be less concentrated on young workers than in other OECD countries. Besides a relatively lax employment protection legislation framework, Denmark has also a moderate tax-wedge by western European standards.

But it may still make sense to try to compensate for the disadvantage youth tend to suffer from when labour demand falters. A way to achieve that goal consists of making especially at-risk youth more attractive for private employers *via* temporary and targeted reductions in labour costs.

To better cope with the current crisis and tackle the remaining demand-side barriers to youth employment, the

8. This is the case for example in Spain, Poland or France.

following measures should be considered:

- *In a period of faltering labour demand, social partners should explore ways of temporary reducing the cost of employing low-skilled youth.* In practice, this could be done by extending to all school drop-outs below the age of, say, 25 the wage regime that sectors/firms currently apply to VET apprentices. This would raise the degree of income differentiation across educational groups and the incentives to invest in human capital: something supposedly helpful in reducing the incidence of school drop-out. Such a measure should be evaluated after a short period of implementation in order to decide whether it should be removed once the recovery is back.
- *Alternatively, the same effect on the youth labour demand could be achieved by more generous hiring subsidies in the private sector for disadvantaged youth.* Very recently, the Danish government announced such hiring subsidies for youth who have been recipients of welfare benefits for longer than 12 months. Such a measure should be evaluated after a certain time to ensure that it is cost-effective and to decide whether it could become a long-term policy.

Strengthening activation to better help all disadvantaged youth

Generous welfare benefits coupled to activation measures

Unemployed young people in Denmark are covered by one of the most generous income-support system in the OECD area. The net replacement rate provided by unemployment insurance benefits is among the highest in OECD, and the maximum benefit duration of four years is also one of the longest. Means-tested⁹ social assistance is also generous by international standards and available for all those who do not (or no longer) qualify for unemployment insurance benefits as from the age of 18.

While relatively generous welfare schemes theoretically bear the risk of creating unemployment and inactivity traps, in Denmark activation measures targeted at youth successfully promote their rapid reintegration in employment. As already mentioned, this is a result of a strict and well-established implementation of the “mutual obligations” activation approach introduced in the mid-1990s whereby, in exchange for income support, job seekers (including youth) need to participate in training, job-search or placement activities (the flexicurity

9. Social assistance in Denmark is means-tested on family income and wealth.

approach). There are benefit sanctions for refusing to participate.

During the second part of the 1990s and in the early 2000s, activation was fine-tuned and reinforced, especially in relation to youth, with apparent success. Before the onset of the economic crisis, the incidence of long-term youth unemployment was extremely low in Denmark by international standards. In 2008, it represented 6.4% of youth unemployment, compared with 23.9% and 18.8% in, respectively, the European Union and the OECD.

From August 2009, the PES is further decentralised and the implementation of ALMPs is the responsibility of municipalities. This removes the previous distinction between national offices, administering benefits for insured unemployed people, and local offices, administering benefits for social welfare recipients – all unemployed will now be dealt with by the same agency (one-stop shop) in each municipality. However, this new arrangement raises the risk of increased diversity in the services offered between different municipalities, although measures have been put in place to monitor consistency with national employment policies. It is important that the decentralisation process is carefully assessed as from the beginning to ensure that effective services are delivered to youth in particular.

Early intervention and six months of activation for all benefit recipients below the age of 30

From the summer of 2009, after a first interview between one month (previously three) and a maximum of three months (previously six) of unemployment, all youth under 30 receiving unemployment insurance or social assistance benefits must take part in activation programmes lasting six months. Activation rules are the strictest for youth under 25 without an upper secondary qualification and without children. They are obliged to enroll in an educational programme, either in the ordinary educational system if they are ready or otherwise in a special education programme to prepare them for ordinary education. By contrast, all types of ALMPs can be used for youth aged 25-29 and for youth with children.

Furthermore, since 1996, with the enactment of the Youth Unemployment Programme (YUP), youth aged 18-24 without an upper secondary educational attainment already saw their level of unemployment benefits cut by 50% (close to the level of the education grant) after six months in unemployment and were obliged to enter a special education programme. A benefit reduction after six months of activation was progressively extended to all youth under 25 receiving welfare benefits. However, for recipients aged 25-29 and for all youth with

children, the welfare benefit is not reduced, even if they have a low educational attainment. And there is evidence that these groups tend to stay longer on welfare benefits also because of their weaker incentives to move quickly into employment.

Threat effect versus programme effect?

Back in the 1980s, two components of the so-called “flexicurity” model – flexible employment regulations and generous welfare benefits – were already part of the Danish labour market landscape, but unemployment rates were high, particularly for youth. Their potential effects on the duration of unemployment were significantly strengthened by stricter enforcement of job search eligibility conditions and reinforced re-employment strategies, important elements of the so-called activation strategy.

But activation policies are costly. Given the extensive use of these policies in Denmark, it is not surprising that public expenditure on ALMPs¹⁰ (1% of GDP in 2007) is well above the OECD average (0.4% of GDP) and among the highest in OECD countries. Various studies find strong threat effects of activation policies, whereas the evidence on the effects of individual ALMPs is mixed.

Push to employment or back to education?

Many ALMPs in the OECD have historically been developed around a work-for-the-dole philosophy. But during the present downturn, a shift from a “work-first” to a “skill-first” strategy – which prioritises education and training over immediate job placement – is visible in a number of OECD countries for disadvantaged youth. In Denmark, the YUP for example already had a clear positive effect on the transition rate into education, whereas the effect on the immediate transition into employment was more uncertain. The international evidence shows that a work-first activation strategy works better for skilled youth who are job-ready, but a skill-first activation strategy is more relevant for disadvantaged youth who often lack the skills needed on the labour market. A shift to a skill-first activation strategy during the current downturn might help low-skilled youth to be better equipped for the recovery.

10. Excluding PES and administration.

The following measures could be envisaged to improve the effectiveness of Denmark's welfare system in relation to youth:

- *Extent stronger financial incentives in moving out of welfare benefits to low-educated youth aged 25-29.* Some Danish analysts and the Labour Market Commission have recommended the extension of stricter welfare benefits rules up to the age of 30. This reform should be implemented swiftly. However, young parents a priori should not be considered as a group that could be exempted from the mainstream activation strategy.

- *Make sure that the skill-upgrading services offered are tailored to the profiles of jobless youth and in particular to school drop-outs resuming education.* There is now a growing need to put more emphasis on skill-upgrading activities and a shift to a skill-first strategy should be considered for the most disadvantaged youth. For disengaged youth, it is important to avoid the back-to-the-classroom option as the latter might prove very counterproductive. Danish evaluation suggests that only training programmes with a strong on-the-job component have a positive effect on post-programme employment and wage prospects. The priority should be put on programmes taught outside traditional schools with regular exposure to work experience, preferably under the umbrella of organisations that have been historically involved in job placement or counselling.

- *Develop a residential option as part of the arsenal of measures aimed at helping very disadvantaged youths.* Standard ALMPs are unlikely to work for the most disadvantaged youths who usually cumulate social risk factors (low education, ethnic minority background, drug use, mental illness, etc.). For this group, more radical and costly options are probably needed. One possibility – using the existing “production” schools and Folk High Schools¹¹ as platforms – would be to systematise the offering of a boarding-school type environment, delivering a mix of: i) adult mentoring; ii) work/production experience; and iii) remedial education. Models for this initiative could come from the long-standing US Job Corps programme.

11. Education residential programmes where traditional Nordic life skills are taught without any recognised diploma.

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