DENMARK

The income gap vis-à-vis *the upper half of OECD countries has widened over the past decade, with rising labour utilisation more than offset by lower productivity growth. Employment rates are high but working hours remain low. Reforms over the past few years have notably focused on raising labour supply, and on fostering green growth including through policies to reduce greenhouse gases emissions. However more needs to be done in the areas below.*

Priorities supported by indicators

Improve the efficiency of the education system

Weaknesses at various levels of the education system have contributed to the labour productivity slowdown. The overall international student test score is just above the OECD average, the drop-out rate from upper secondary education is high and so is the age of completion of tertiary education.

Actions taken: From 2009, the grade point average is raised for students who apply for university within the two years after completion of upper secondary school, making their access to tertiary education easier.

Recommendations: Strengthen the educational content and enhance the culture of evaluation of compulsory education. Target the 10th Form (the optional 10th year of schooling before upper secondary school) towards the weakest students. Consider introducing tuition charges in tertiary education together with loans with income-contingent repayment.

Reform sickness/leave and disability benefit schemes

Not only is Denmark still operating an early retirement scheme, but the share of the working-age population that receives sickness/leave and disability benefits remains also high, reducing labour force participation.

Actions taken: In 2009 the Parliament adopted new rules for sickness/leave that put emphasis on rehabilitation.

Recommendations: Increase incentives to return to ordinary employment for the sick and disabled with some ability to work, particularly by reducing subsidies to the disabled employment programme (*Fleksjob*) which have created some lock-in effects.

Reduce marginal tax rates on labour

The top marginal tax rate is among the highest in the OECD and concerns workers with incomes only modestly above average earnings, contributing to low average working hours.

Actions taken: In 2009, the Parliament adopted a tax reform lowering the top marginal income tax rate. Income tax thresholds have also been raised even though the government finally decided in May 2010 to limit these increases through 2013 as part of its fiscal consolidation plan.

Recommendations: Continue to cut income taxes by focusing on lowering the top marginal tax rate or increasing its threshold while restraining public expenditure growth.

Other key priorities

Enhance the competition framework and relax product market regulation

Although product markets are relatively lightly regulated, productivity would be boosted by enhancing competition in some sectors, notably retail trade and publicly-funded services.

Actions taken: In 2010, the Parliament adopted legislation that broadens the set of mergers subject to scrutiny by the authorities, strengthens the sanctions for violation of procurement rules and liberalises the market for books. Regulations of opening hours in the retail sector have been eased since July 2010. No significant action has been taken in publicly-funded services.

Recommendations: Enhance competition by removing discretion in local government planning and continuing with privatisation and outsourcing of publicly-funded services.

Reduce housing subsidies and abolish rent regulation

Rent regulation remains very strict and all forms of housing receive direct and indirect tax subsidies, hindering labour market mobility and thereby productivity.

Actions taken: The 200 tax reform will reduce the value of the mortgage interest rate deduction from income taxation starting from 2012. No action has been taken on rent regulation.

Recommendations: Ease rent regulations, cut housing subsidies and raise housing taxation.

DENMARK

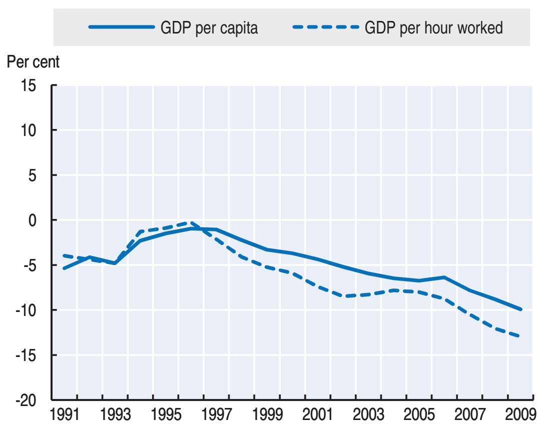
Structural indicators

Average annual trend growth rates, per cent

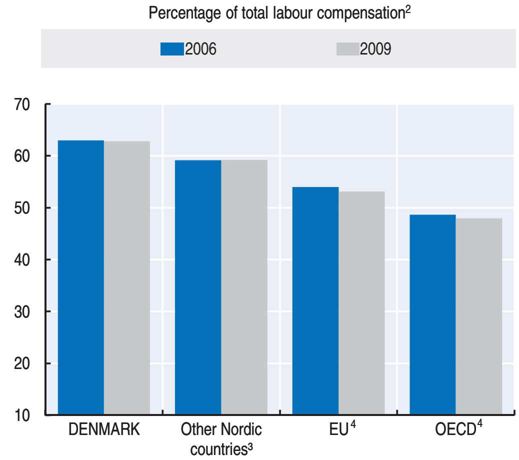
		1999-2009	1999-2004	2004-09
GDP per capita		1.3	1.4	1.2
Labour utilisation		0.5	0.6	0.5
of which:	Employment rate	0.2	0.2	0.3
	Average hours	0.3	0.4	0.2
Labour productivity		0.8	0.9	0.7
of which:	Capital intensity	0.9	0.9	1.0
	Multifactor productivity	–0.2	0.0	–0.3

Source: Estimates based on OECD (2010), *OECD Economic Outlook* No. 88: *Statistics and Projections Database.*

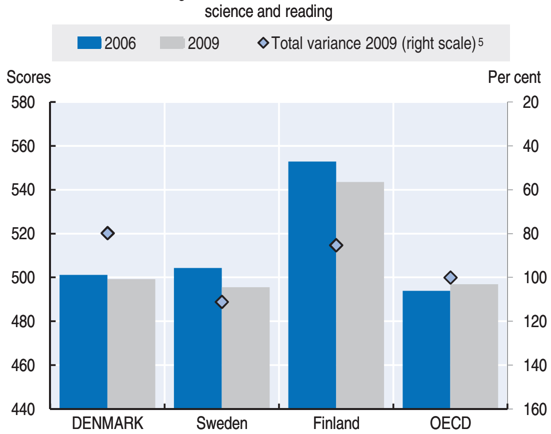
A. Gaps in GDP per capita and productivity have widened
Gap to the upper half of OECD countries[1]



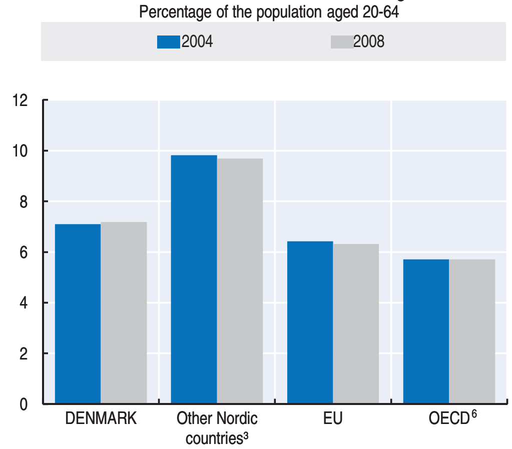
B. The marginal tax wedge on high incomes is still substantial
Percentage of total labour compensation[2]



C. Student performance could be improved
Average of PISA scores in mathematics, science and reading



D. The share of working-age population receiving disability benefits remains above the OECD average
Percentage of the population aged 20-64



1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs).
2. Evaluated at 200% of average earnings for a single person with no child.
3. Average of Finland, Norway and Sweden.
4. Average of European countries in the OECD. EU and OECD averages exclude Chile, Estonia, Israel and Slovenia.
5. The variance components, in reading performance only, were estimated for all students in participating countries with data on socio-economic background and study programmes. The variance is calculated, as a percentage of the average OECD variance, from the square of the standard deviation for the students used in the analysis.
6. Excluding Chile.

Source: Chart A: OECD, *National Accounts* and *OECD Economic Outlook* No.88 *Databases*; Chart B: OECD, *Taxing Wages Database*; Chart C: OECD, *PISA 2009 Database*; Chart D: OECD (2010), *Sickness, Disability and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries.*

StatLink http://dx.doi.org/10.1787/888932373761