

## DENMARK

The income gap with leading countries mainly reflects lower productivity, which has grown only modestly in recent years. Employment rates are high but working hours are low and many working-age adults are dependent on income benefits. Reforms over the past few years have focused on boosting human capital and encouraging later retirement, but more remains to be done, in particular in the areas below.

### **Reduce marginal taxes on labour income**

Average hours worked are among the lowest in the OECD, due to fewer hours worked per week and fewer weeks worked per year. Moreover, unreported work is common in certain professions, e.g. in the case of skilled construction workers, who typically report earnings at the level where the high marginal tax rates set in.

**Actions taken:** From 2009, the threshold from where the first progression step, i.e. the 6% tax bracket, is paid will be moved up to just above average full-time earnings.

**Recommendations:** Continue the reforms by lowering the top marginal rates and/or moving up the threshold from where they are applied.

### **Reform sickness leave and disability benefit schemes**

Sickness absence has risen sharply in recent years. Moreover, the inflow to subsidised employment for the disabled (Flexjobs) has risen, without a commensurate decline in the inflow to disability benefit schemes.

**Actions taken:** An action plan, put forward in June 2008, emphasises the health benefit from returning to work early and remaining active while waiting for or undergoing treatment. This is to be promoted via early dialogue between the employer, the person concerned, medical professionals and municipal case managers.

**Recommendations:** Make sure that benefit recipients gain financially by returning to work. This requires that benefits during sickness and disability, often topped up by compensation according to collectively-agreed schemes, be reduced. Pay in Flexjobs should be lower than in unsubsidised employment.

### **Enhance the competition framework**

Business regulation is relatively liberal. However, restrictions exist in some sectors, notably retail trade, and competition in publicly-funded services has been slow to develop.

**Actions taken:** A leniency programme was introduced into the Competition Act. Limited reforms of price setting have taken place in electricity. Government ownership has been reduced in the postal sector. Competition in public services is gradually being enhanced, for example via the offer for publicly-funded private hospital care if waiting lists for public hospitals exceed one month.

**Recommendations:** Continue to liberalise opening hours in retailing and remove the local government discretion based on perceived market need in the Planning Act. Continue with privatisation and expose publicly-funded services to competition. Competition agencies should be further streamlined.

## Other key priorities

- **Education.** Learning outcomes for 15-year-olds have improved slightly, but are still unsatisfactory relative to education spending. Progress in this respect should be continued, *inter alia*, by increasing the educational content of the introductory year for 6-year-olds and in facilities for 3 to 6-year-olds. Improvements in basic literacy would also lay the ground for raising the share of a youth cohort completing upper-secondary education.
- **Housing policies.** Rent regulation remains very strict and all forms of housing receive large direct and indirect tax subsidies. This hinders labour mobility, locks tenants into housing that no longer suits their needs, and nurtures informal and even illegal arrangements. To overcome these problems, rent regulations should be eased, subsidies cut, and effective housing taxation raised.

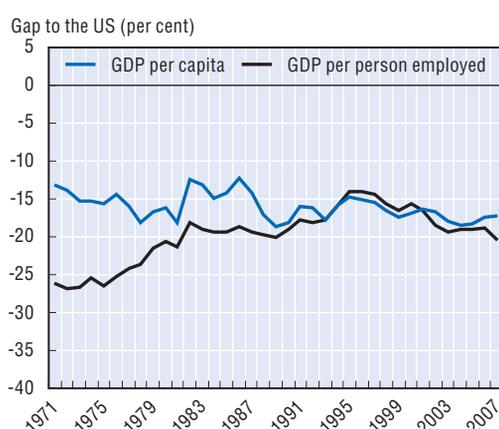
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## Structural indicators

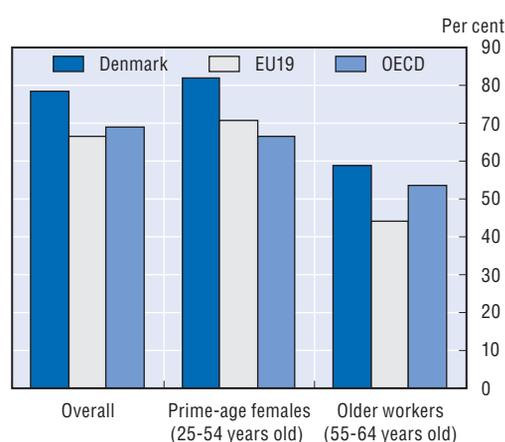
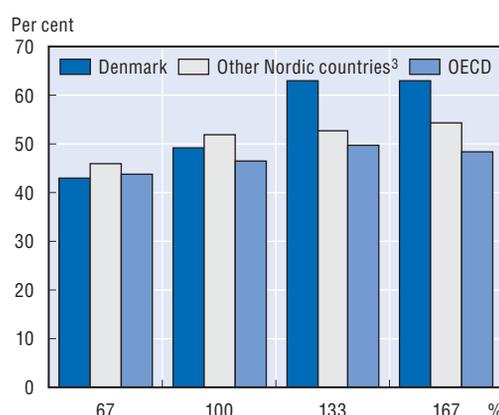
Average annual trend growth rates, per cent

	1997-2007	1997-2002	2002-2007
GDP per capita	1.5	1.7	1.4
Labour utilisation	0.4	0.5	0.4
of which: Employment rate	0.1	0.0	0.1
Average hours	0.4	0.5	0.3
Labour productivity	1.1	1.2	1.0
of which: Capital intensity	0.9	0.9	1.0
Multifactor productivity	0.1	0.3	0.0

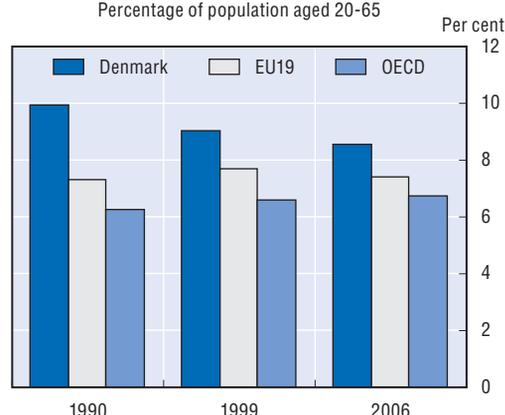
Source: Estimates based on OECD Economic Outlook, No. 84, Vol. 2008/2.

A. Gaps in GDP per capita and productivity are persistent<sup>1</sup>

## B. Employment rates are high, 2007

C. Marginal tax wedges are high, 2007<sup>2</sup>D. The share of working-age population receiving disability benefits is high<sup>4</sup>

Percentage of population aged 20-65



1. Percentage gap with respect to US GDP per capita and per person employed (in constant 2000 PPPs).
2. Evaluated at 67%, 100%, 133% and 167% of average earnings.
3. Average of Finland, Iceland, Norway and Sweden.
4. Disability benefits include benefits received from schemes to which beneficiaries have paid contributions (contributory), programmes financed by general taxation (non-contributory) and work injury schemes.

Source: Chart A: OECD, National Accounts Database; Chart B: OECD, Labour Force Statistics Database; Chart C: OECD, Taxing Wages Database; Chart D: OECD (2003), Transforming Disability into Ability and OECD estimates.

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