

The Danish labor market, 2000–2016

Despite recession-induced job losses, high turnover prevented a steep increase in long-term and youth unemployment

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ELEVATOR PITCH

Denmark is often highlighted as a “flexicurity” country characterized by rather lax employment protection legislation, generous unemployment insurance, and active labor market policies. Despite a sharp and prolonged decline in employment in the wake of the Great Recession, high job turnover and wage adjustments worked to prevent long-term and thus structural unemployment from increasing. While many have been affected by unemployment, most unemployment spells have been short, which has muted the effects on long-term and youth unemployment. Recent years have seen a sequence of reforms to boost labor supply and employment, including measures targeting the young, the elderly, and immigrants.

KEY FINDINGS

Pros

- + Employment rates have recovered since the Great Recession.
- + No significant increase has been observed in long-term unemployment and youth unemployment has remained relatively low.
- + High job turnover rates ensure that most unemployment spells are short, which helped prevent a rise in structural unemployment.
- + Wage adjustment has been flexible and wage competitiveness has recovered since the Great Recession.
- + There are few working poor due to high minimum wages and a compressed wage structure.

Cons

- A high share of youth enters the labor market with low qualification levels; this is especially challenging because there are few low-skilled jobs.
- Immigrants from low-income countries have low employment rates.
- Job turnover may be excessively detrimental to human capital accumulation.
- Wage inequality is widening.
- Average working hours are low.

AUTHOR'S MAIN MESSAGE

Employment has displayed large changes driven by the business cycle, first increasing up to 2007–2008 and then decreasing sharply. The Danish economy was severely affected by the Great Recession and the associated employment loss was large. But overall, the Danish “flexicurity” model has coped with the crisis. Although many have been affected by unemployment, unemployment spells have been short due to high job turnover rates. This has prevented a sharp increase in long-term unemployment and eased labor market entry for young people. Wage inequality is on the rise, though less than in other countries, and wage dispersion remains relatively low.

