

The Danish labor market, 2000–2018

Employment has increased since the recession due to a cyclical upturn and structural reforms

Keywords: flexicurity, business cycles, structural policies, youth unemployment, immigration

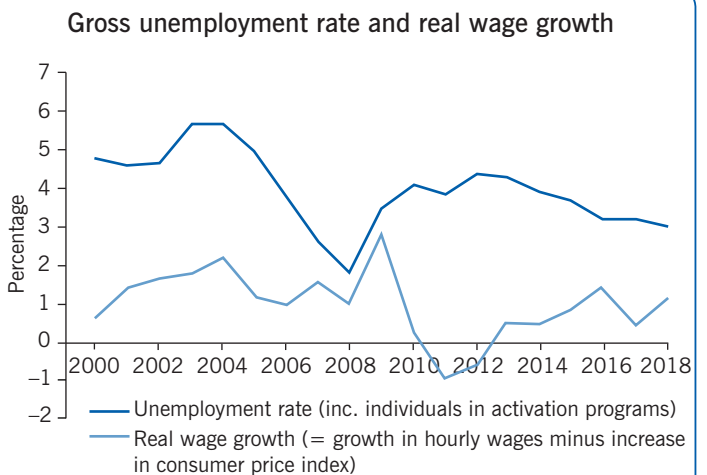
ELEVATOR PITCH

Denmark is often highlighted as a “flexicurity” country characterized by 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 increased long-term and structural unemployment. Most unemployment spells were short, muting the effects on long-term and youth unemployment. Recent reforms boosted labor supply and employment, targeting the young, elderly, and immigrants. Employment recovered to its structural level around 2015 and has since increased due to a favorable business cycle situation and structural reforms (particularly increases in retirement age).

KEY FINDINGS

Pros

- + Employment rates recovered after the crisis; employment has been increasing in recent years due to cyclical factors and structural reforms.
- + 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 helps prevent a rise in structural unemployment.
- + Wage adjustment has been flexible and wage competitiveness has recovered since the crisis.
- + There are few working poor due to high minimum wages and a compressed wage structure.



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Cons

- A large share of youths 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 moderately widening.
- Average working hours are low.

AUTHOR'S MAIN MESSAGE

Employment increased up to 2007–2008, then decreased sharply due to the financial crisis, and then increased again. The Danish economy was severely affected by the Great Recession, and the associated employment loss was large. Overall, the Danish “flexicurity” model was able to cope 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. Recent increases in employment have not induced large wage increases. Wage inequality is rising, but less than in other countries, and wage dispersion remains relatively low.