

The Danish labor market, 2000–2022

The Danish flexicurity model has proven its resilience to large shocks, with favorable overall labor market performance

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

ELEVATOR PITCH

Denmark is often highlighted as a “flexicurity” country with lax employment protection legislation, generous unemployment insurance, and active labor market policies. This model has coped with the Great Recession and the Covid-19 pandemic, avoiding large increases in long-term and structural unemployment. The recovery from Covid-19 alongside re-openings has been swift, so labor market effects were temporary. A string of recent reforms has boosted labor supply and employment; although fiscal sustainability is ensured, demographic changes challenge the labor market. Real wage growth has been positive and responded—with some lag—to unemployment.

KEY FINDINGS

Pros

- ⊕ Employment rates are high, increasing in recent years due to cyclical factors and structural reforms.
- ⊕ High job turnover rates ensure most unemployment spells are short, preventing increases in unemployment raising structural unemployment.
- ⊕ Resilience to the Great Recession and the Covid-19 pandemic has avoided sharp increases in long-term and youth unemployment.
- ⊕ Wage adjustment has been flexible, preserving wage competitiveness.
- ⊕ There are few working poor.

Cons

- ⊖ A large share of youth enters the labor market with a low qualification level; this is especially challenging because there are few low-skilled jobs.
- ⊖ Average working hours are low.
- ⊖ Job turnover may be detrimental to human capital accumulation.
- ⊖ Wage inequality is widening moderately.
- ⊖ Demographic changes challenge the labor market.

AUTHOR'S MAIN MESSAGE

Employment has trended upward in recent years and reached record high levels. Several reforms contributed to this development. The flexicurity model has been tested both by the Great Recession and the Covid-19 pandemic. It should be evaluated against its ability to prevent temporary falls in employment from becoming persistent and it has passed this test for the Great Recession—despite one of the largest GDP decreases—and the Covid-19 crisis. Job turnover rates are high in Denmark, implying that many are affected by unemployment, but unemployment spells are generally short. This prevents increases in long-term unemployment and eases labor market entry for youth. Wage inequality is rising, but less than elsewhere, and wage dispersion remains relatively low. Although reforms—in particular increases in the retirement age—ensure that public finances are sustainable despite an aging population, the workforce is shrinking as a share of the total population.

