

# Setting up in Denmark

## 4. The labour market

### 4.1 The Danish labour force

The Danish labour force totals about 2.8 million, 1.44 million men and 1.31 million women. In 2005, about 2.7 million were in active employment (77 per cent of all men and 68 per cent of all women in the 16-66 age group).

The private sector employed in 2005 about 1.6 million, including 401,000 in manufacturing and 170,000 in construction. About 930,000 were employed in the public sector, and 5.7 per cent were unemployed.

In 2008, there is 439,461 foreign nationals living in Denmark, or about 8 per cent of the population. The foreign nationals from the EU and the Scandinavian countries have a legal right to seek work in Denmark, while others must apply for work permits.

With certain exceptions, foreigners are taxed like Danes. They may vote in municipal and regional elections after three years of residence, but must have a Danish citizenship to participate in a national election or referendum.

### 4.2 High levels of training and education

Like many other Western countries, Denmark has a well-trained and well-educated labour force. Their skills and qualifications are constantly being adapted to the demands of new technologies through vocational training and refresher courses. The costs of these courses are split among employers, employees and the public sector.

After leaving school, many young people acquire special technical skills and many receive an advanced education. In the past, youth unemployment was a serious problem, but in recent years, various measures have improved the situation. Under a youth-employment scheme introduced on April 1, 1996, people under the age of 25, after six months' unemployment within a nine-month period, have the "right and duty" to undergo education or training of at least 18 months' duration. In 2008 unemployment for people aged 16-24 stood at 1.6 per cent, which is a significant decline from previous years.

During the early part of the 90s, Denmark had a relatively high level of unemployment, peaking in 1993-1994 with more than 12 per cent of the workforce out of work. After that, unemployment fell steadily to 5.1 per cent in the beginning of 2002. Improved market trends and the labour market reforms were two of the reasons for the fall in unemployment in the 90s. Another was the fact that a large number of people left the labour market. Special leave schemes, early retirement and optional retirement depleted

the labour force, reducing unemployment. However, unemployment rose during the last recession and peaked at 6.4 per cent in 2004. In March 2002, 140,100 people were out of a job, and this number had risen to no less than 180,600 people by the end of October 2003. Since then the unemployment has fallen sharply due to the current boom in the economy and in January 2008 only 64,168 people were unemployed – 2.3 per cent of the labour force.

Because of the high unemployment rate during the first half of the 90s, labour market policies have focused on upgrading the qualifications of the unemployed and improving the opportunities for advancement and training for the unskilled labour force. The 1994 labour market reform gave high priority to drawing up an individual plan of action for each unemployed person, including offers of various “activation” jobs and training programmes. As unemployment fell quickly during 1994 and 1995, the aim of the labour market policies changed to ensure an ample supply of labour and to provide the unemployed with incentives to seek ordinary employment. In 1995, the “right and duty” principle was introduced in the activation measures and included offers to people in the activation period. With the decision in 1996 to begin the activation period after two years’ unemployment instead of four years, and in 1999 after one year’s unemployment, this principle has come to play an increasingly important role in the activation measures. The intention of the principle is to motivate the unemployed to seek ordinary employment or education on their own initiative. All in all, the aim of the labour market reforms has been to reduce structural problems by means other than a general reduction in the unemployment benefit level.

Most recently, a minor labour market reform was launched in the autumn of 2002. The reform aimed to simplify the activation policy and reduce the poverty trap for families on welfare benefits.

Earlier measures taken in the 1990s focused on reducing the number of unemployed people. To achieve this aim, the government stepped up activation of the unemployed and increased its training and education efforts. In the coming years, the principal aim of labour market policy will be to increase the labour force. Like many other countries of the Western world, Denmark will see a massive increase in the older segments of its population in the years ahead. As the Danish pension system is not fully funded, the labour force needs to expand or else the government will have to increase the tax burden or reduce welfare benefits.

### 4.3 The organisations

*Dansk Arbejdsgiverforening (DA)* is the central organisation for employers in the building, civil engineering, trade and industry sectors. DA has some 13 member organisations, and its members employ about 30 per cent of the total working population. In addition, there

are independent employer organisations within certain sectors, for example, agriculture and finance.

There is a high degree of trade union membership in Denmark; about 80 per cent of all employees belong to a union. This is due to both tradition and the fact that union membership is closely associated with membership in an unemployment insurance fund.

*Landsorganisationen i Danmark (LO)* is the counterpart of DA, an umbrella organisation for about 18 trade unions. Its members are employees and come mostly from companies in DA member organisations. On December 31, 2007, some 2.1 million people, more than 75 per cent of the workforce, were members of a trade union under LO. One of the largest individual unions is HK, which consists of commercial and clerical employees and has about 250,000 members. The general workers union, 3F, which includes most unskilled workers, has 277,656 members, while the metal workers union has some 89,744 members.

#### 4.4 Wage and working conditions

Working conditions are laid down in a complex system of legislation and organisational agreements. In Denmark, many aspects of wage and working conditions, such as working hours and minimum wages, are determined through collective bargaining rather than being regulated by legislation as in some other EU countries.

Employment legislation deals with such subjects as equal pay for men and women, the length of holiday periods, environmental directives for workplaces, and the statutory notice which must be given prior to layoffs.

Traditionally, the organisational agreements are negotiated every second year, but occasionally they apply for three or four years since the employers usually try to secure as long a period as possible. The collective bargaining process is based on the so-called "basic agreement", which was the result of a prolonged period of industrial unrest at the turn of the century and was most recently amended in 1986. The process is also governed by legislation, especially if the parties are unable to reach an agreement. In such cases, the public mediation institution intervenes.

Because of its broad powers, this institution is usually able to secure an agreement and prevent industrial conflicts. For example, it can postpone an announced strike or lockout. When strikes or other breaches of the collective agreements occur, another public body, the Labour Market Court (*Arbejdsretten*), serves as mediator.

If the two sides of the labour market cannot reach a new collective agreement in spite of the mediation efforts of the conciliation board, a national strike is called. A national strike can also occur if the result of the mediation is rejected in a ballot of the labour force.

This was the case in the spring of 1998, when the negotiated agreement was rejected by the wage earners. The result was the sixth national strike since the Second World War. After a couple of weeks of national strike, government normally intervenes and makes the mediation agreement into law, possibly with minor modifications, in order to end the conflict before the damage becomes too great. This also happened in 1998. The result for the labour force was moderate wage increases, a small rise in the pensions and two extra days off (five days if there are children below 14 in family). A relatively new feature is a provision to hold annual local wage negotiations for all workers; previously only skilled workers enjoyed this privilege. Under the 2000 central wage agreement, most agreements begin running for four years, unions' claims for six weeks' holiday were accepted by employers, and existing pension schemes are gradually being improved.

In December 2003, an agreement concerning access to the Danish labour market for workers from the new EU Member States was agreed. It states that the Danish labour market will be opened up to workers from the new EU Member States on May 1 2004. But nationals from the new EU Member States must during a transitional period hold a work and residence permit. It is a condition for obtaining a work and residence permit that the person concerned has a full-time job and that the terms and conditions agreed with the employer are in accordance with the terms and conditions applying on the Danish labour market. The work and residence permit will lapse if the person concerned loses the job.

## 4.5 Conclusion

The Danish labour market is undergoing a period of wide-ranging changes. Although these changes are domestic in origin, new EU regulations will probably also have an influence. For example, EU authorities will gradually take a greater hand in security and environmental conditions in workplaces.

Domestically, there are tendencies towards both centralisation and decentralisation. On one hand, employer organisations have become more centralised in recent years; and since the employee organisations are now following suit, the outcome will probably be larger collective organisations.

On the other hand and more importantly, the collective bargaining process is becoming more decentralised. To a greater extent than before, the members of the two organisations themselves set the guidelines for the process and conduct wage negotiations locally.