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Overview of Current Economic Conditions in Denmark

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Overview of Current Economic Conditions in Denmark

With a population of about 5.3 million, Denmark is a small but open economy. In 1999, for instance, around two-thirds of foreign trade was completed inside the European Union (EU), mostly with Germany, Sweden, and the United Kingdom. After a decade of conservative-liberal governments, Social Democrats returned to office in 1993.

The Danish economy has boomed since 1994 but slowed to under 2% in 1999. The economy has picked up to more than 3% growth in the first half of 2000 (see table below). High economic growth and low growth in the overall population leads to high output rates—or gross domestic product (GDP)—per capita.

The increase in Danish growth since 1993 was caused by a policy-mix of supply-side and demand-side measures. The risk of an expansive fiscal policy by means of deficit spending and tax reductions in 1994 was followed by a period of strict budgetary consolidation that led to a balancing of the budget in 1997 and eventually a surplus of 3.0% in 1999. Focussing on fiscal consolidation, Denmark further reduced its general public debt to only 52.5% in 1999, which is lower than one of the so-called Euro convergence criteria of a 60.0% debt limit. During the 1990s, inflation has been relatively low, and since 1994 it has hovered around the 2% level. An important reason for this is that the Danish National Bank is following the principle of monetary stability. Since 1982 it has been the aim within the European monetary co-operation to secure a stable Danish exchange rate compared with the D-mark. In connection with the establishing of the Euro-zone, which started January 1, 1999, the Danish authorities and the European Central Bank agreed upon a narrow bilateral exchange corridor of $\pm 2.25\%$. However, despite the recent plebiscitary refusal of Danish participation in the Euro (September 28, 2000), there is no political intention to change the existing monetary policy of an almost fixed exchange rate vis-à-vis the Euro. It has furthermore been possible to keep the leading interest rates close to the lower German levels in the 1990s and, except for a balance-of-payments deficit in 1998, the balance of trade and the balance of payment have been positive throughout the decade.

**Output and population growth in Denmark, 1990-2000
(1995 prices)**

| | Real GDP growth (% change) | Population growth rate (% change) | Real GDP growth per capita (% change) |
|--------------------|-------------------------------------------|--------------------------------------------------|------------------------------------------------------|
| 1990 | 1.0 | 0.2 | 0.8 |
| 1991 | 1.1 | 0.3 | 0.8 |
| 1992 | 0.6 | 0.4 | 0.2 |
| 1993 | 0.0 | 0.3 | -0.3 |
| 1994 | 5.5 | 0.4 | 5.1 |
| 1995 | 2.8 | 0.7 | 2.1 |
| 1996 | 2.5 | 0.5 | 2.0 |
| 1997 | 3.1 | 0.4 | 2.7 |
| 1998 | 2.5 | 0.4 | 2.1 |
| 1999 | 1.6 | 0.3 | 1.3 |
| 2000 | | | |
| Half-year 1 | 3.1 | n.a. | n.a. |

Danish growth has, to a great extent, been driven by a strong increase in domestic demand. However, after five years of high GDP rates, imbalances in the economy began to occur, such as bottlenecks in the labour market, rising wages, and a pressure on the balance of payment. A soft landing was achieved by tightening up fiscal policy measures. The effect of the so-called “Withsun package” (*pinsepakken*) in 1998 was a reduction in domestic demand but also a decline in growth in 1999. However, the simultaneous recovery of the international economy caused a strong increase in exports that rose above the level of domestic demand. In 2000, domestic demand has again become more important for Danish growth.

Strong decrease in Danish unemployment since 1994

During the 1990s the labour force consisted of around 2.9 million workers (around 79.0% of the 16-66 year olds), and the employment rates were high at more than 75.0% for men, and close to 70.0% for women. High female employment rates have been the case since the 1960s. At almost 70.0% of employment, Denmark has a pronounced service economy—30.0% of jobs are in public services, while almost 27.0% are in manufacturing, and less than 4.0% in agriculture. However, the low number of people working in the primary sector should not divert from the importance of what could be called the “agricultural-industrial complex” in the Danish economy.

The unemployment rate in Denmark has decreased continuously since 1994 from 12.3% to around 5.5%, a growth in employment of approximately 130,000 people through 2000 (see table below). These figures are based on national claimants counts, which means that they are approximately one percentage point higher than figures collected by labour force survey statistics based on the ILO standard. In addition to the already mentioned fiscal policy mix, the so-called active labour market reform, enacted simultaneously, is an important reason for the unemployment figures dropping to their lowest level since the first oil crisis in the 1970s. The lowering of unemployment was achieved with a mixture of passive and active labour market measures, such as early retirement and "sabbaticals" on the one hand, and obligatory "activation" on the other. The activation, in the form of either vocational education and training schemes or via subsidised jobs, is to be effectuated at a relatively early stage in the unemployment period. The price has been a stepwise tightening of the conditions that must be met to receive unemployment benefits, such as suitability criteria and duration of payment. However, the long-standing situation of high unemployment benefit levels in exchange for an employer's right to dismiss employees with almost no restriction has not been changed by the reforms of the 1990s.

Tight labour markets have also had a significant effect on employment among immigrants and their descendants, especially when taking the almost 50.0% increase in this population since 1992 into consideration. However, the still high unemployment figures for these groups in 1999 are an indicator of low integration capacities in the Danish economy. Compared to people from so-called more developed countries, the risk of unemployment is around twice as high for immigrants and their descendants coming from countries outside Europe (and North America). But the unemployment among people from more developed countries may also indicate the limits to the efficiency of the internal European labour market. Recent political-economic debates have begun to address the possibility of labour shortages threatening Denmark's future welfare, indicating that the negative attitudes of the employers toward using foreign labour may be changing. However, at the same time, attempts have been made to increase the overall labour force by, for instance, reducing access to early retirement.

Denmark unemployment rates

Unemployment (seasonally adjusted)

| | Overall | Men | Women | Immigrants and their descendants | | % of total population [#] |
|------------------|---------|------|-------|----------------------------------|-----------------------|------------------------------------|
| | | | | More dev. countries* | less dev. countries** | |
| 1990 | 9.7 | 8.4 | 11.3 | n.a. | n.a. | 4.2 |
| 1991 | 10.6 | 9.2 | 12.1 | n.a. | n.a. | 4.4 |
| 1992 | 11.3 | 10.0 | 12.9 | 17.4 | 36.7 | 4.6 |
| 1993 | 12.4 | 11.3 | 13.7 | 18.8 | 39.1 | 4.9 |
| 1994 | 12.3 | 11.0 | 13.8 | 19.1 | 42.5 | 5.1 |
| 1995 | 10.4 | 9.0 | 12.0 | 16.6 | 36.9 | 5.3 |
| 1996 | 8.9 | 7.8 | 10.1 | 14.5 | 31.9 | 5.9 |
| 1997 | 7.9 | 6.7 | 9.3 | 13.5 | 27.8 | 6.3 |
| 1998 | 6.6 | 5.5 | 7.8 | 11.6 | 22.8 | 6.6 |
| 1999 | 5.7 | 4.9 | 6.5 | 10.0 | 20.2 | 6.8 |
| 2000 | | | | | | |
| January | 5.4 | 4.6 | 6.2 | n.a. | n.a. | |
| February | 5.3 | 4.6 | 6.2 | n.a. | n.a. | |
| March | 5.3 | 4.6 | 6.2 | n.a. | n.a. | |
| April | 5.2 | 4.5 | 6.1 | n.a. | n.a. | |
| May | 5.3 | 4.6 | 6.2 | n.a. | n.a. | |
| June | 5.4 | 4.6 | 6.3 | n.a. | n.a. | |
| July | 5.3 | 4.7 | 6.3 | n.a. | n.a. | |
| August | 5.4 | 4.6 | 6.3 | n.a. | n.a. | |
| September | 5.5 | 4.7 | 6.4 | n.a. | n.a. | |
| October | 5.5 | 4.7 | 6.4 | n.a. | n.a. | |

* Countries such as those in the EU and the former Yugoslavia--167.841 persons in 1999.

** Countries such as Turkey, Pakistan, Iran, Iraq, Lebanon, and Somalia--195.581 persons in 1999.

All immigrants and their descendants as a share of the total population.

Immigrants are persons born outside of Denmark whose parents are either non-Danish citizens or born abroad. Descendants are persons born in Denmark by parents born non-Danish citizens.

Persistent low unemployment in Denmark has also reduced involuntary part-time employment for economic reasons, underemployment, and long-term unemployment (see table below). By the use of targeted activation measures against youth unemployment, significant reductions in the overall unemployment rate as well as in long-term unemployment rates for the 15-24 year olds has also been possible.

Long-term unemployment and underemployment in Denmark

| | Involuntary part time for economic reasons (% of total labour force) | Hidden labour force (% of total labour force) | Long-term unemployment (> 12 month, % of unemployed) |
|-------------|------------------------------------------------------------------------------------|---------------------------------------------------------|-----------------------------------------------------------------------|
| 1990 | n.a. | n.a. | n.a. |
| 1991 | n.a. | n.a. | n.a. |
| 1992 | 3.2 | 4.5 | 27.0 |
| 1993 | 3.5 | 4.7 | 25.2 |
| 1994 | 3.6 | 5.4 | 32.1 |
| 1995 | 3.4 | 7.2 | 28.1 |
| 1996 | 2.9 | 6.0 | 26.5 |
| 1997 | 2.9 | 5.8 | 27.2 |
| 1998 | 3.1 | 5.7 | 27.0 |
| 1999 | 3.0 | 4.1 | 20.5 |
| 2000 | n.a. | n.a. | n.a. |

Increasing Danish wages at a high level by relatively low differentiation

Danish government estimates of real wages in manufacturing show that the average real wage in manufacturing increased significantly during the 1990s (see below). Real wages began to rise at the end of the 1980s, after steady declines through most of that decade. This increase began at the end of the 1980s after a steady decline since 1980.

Danish average hourly earnings in manufacturing (DKK)

| | Nominal average hourly earnings in manufacturing | Real average hourly earnings in manufacturing |
|------|--------------------------------------------------|-----------------------------------------------|
| 1990 | 128.44 | 72.40 |
| 1991 | 133.66 | 73.56 |
| 1992 | 137.94 | 74.36 |
| 1993 | 141.25 | 75.22 |
| 1994 | 144.88 | 75.61 |
| 1995 | 150.35 | 76.86 |
| 1996 | 156.08 | 78.16 |
| 1997 | 161.97 | 79.36 |
| 1998 | 169.15 | 81.36 |
| 1999 | 176.16 | 82.70 |
| 2000 | n.a. | n.a |

The above calculations are based on indices made by Statistics Denmark concerning prices and nominal wages using 1980 as the basic year (1980 = 67.68 DKK).

Increasing unionisation rates at a high level in Denmark

Unionisation rates in Denmark have been rising during the 1990s. In addition to the effects of the typical Scandinavian political-economic discourse on solidarity, the administration of the unemployment benefit funds by the unions is an important reason for the high levels of unionisation. It is also worth noting that unionisation rates have increased despite the expectation that they would fall as a result of deregulation in the area of working conditions.

Unionisation rates for all Danish workers

Union Coverage (%)*

| | |
|------|------|
| 1990 | 72.5 |
| 1991 | 73.0 |
| 1992 | 73.9 |
| 1993 | 74.8 |
| 1994 | 74.2 |
| 1995 | 74.7 |
| 1996 | 75.6 |
| 1997 | 75.8 |
| 1998 | 75.5 |
| 1999 | 75.5 |

* Union membership as a share of the labour force.

High levels of Danish inequality persist despite rising wages and redistribution due to taxation

Despite low unemployment and rapid growth in income and wages since 1994, Denmark continues to have a highly unequal distribution of income (see table below). In 1998, the top fifth of Danish families received 43.5% of all family income, while the lowest fifth (about 1.1 million people) received only 5.5%. However, in Denmark it is important to consider the effects of redistribution due to taxation as well. As shown in the table below, the unequal distribution of income is corrected to a certain degree by tax policy. In this way income and wages are redistributed from the top fifth to those in the bottom 60% of the income distribution.

Denmark income distribution, by quintile (1998)

1998 family income distribution

| | Before tax | After tax |
|-----------------|-------------------|------------------|
| Quintile | | |
| Top | 43.5 | 40.3 |
| Fourth | 24.7 | 25.0 |
| Middle | 15.9 | 16.7 |
| Second | 10.5 | 11.9 |
| Lowest | 5.5 | 6.3 |

What is poverty in Denmark?

Due to the large scale Scandinavian-type welfare state, high levels of income inequality contribute only to a certain degree to an increase in social problems. Maybe this is why official figures on poverty rates do not exist in Denmark.

Separate poverty measures based on relative incomes suggest that poverty is low and declining in Denmark. According to recent figures from the first two waves of the European Community Household Panel on Income and Living Condition (ECHP), the so-called "50% poverty rate" was 6.4% in 1994 and 8.0% in 1996. (The "50% poverty rate" defines as poor all households with incomes below 50% of the median household income.) A separate measure of household income inequality, the Gini coefficient, shows that income inequality declined between 1990 and 1998.

Denmark Gini-coefficients*

| | |
|-------------|------|
| 1990 | 0.39 |
| 1991 | 0.39 |
| 1992 | 0.39 |
| 1993 | 0.38 |
| 1994 | 0.36 |
| 1995 | 0.36 |
| 1996 | 0.36 |
| 1997 | 0.36 |
| 1998 | 0.36 |