

## The Danish labor market, 2000–2020

### Flexicurity has proven resilient to large shocks, but low skills and employment rates are challenges, especially among youths

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

#### ELEVATOR PITCH

Denmark is often termed a “flexicurity” country with lax employment protection legislation, generous unemployment insurance, and active labor market policies. This model is not a safeguard against business cycles, but has coped with the Great Recession and the Covid-19 pandemic, avoiding large increases in long-term and structural unemployment. The pandemic has had severe effects due to restrictions and lockdowns, but the recovery and re-openings in late 2020 and spring 2021 have been strong, indicating that the labor market effects are mainly temporary. Recent reforms have boosted labor supply and employment. Real wage growth has been positive and responded—with some lag—to the developments in unemployment.

#### KEY FINDINGS

##### Pros

- ⊕ Employment rates are high and employment increased due to cyclical factors and structural reforms.
- ⊕ High job turnover rates ensure that most unemployment spells are short, which helps prevent a rise in structural unemployment.
- ⊕ Resilience to crises like the Great Recession and the Covid-19 pandemic avoid sharp increases in long-term and youth unemployment.
- ⊕ Wage adjustment has been flexible, preserving wage competitiveness.
- ⊕ There are few working poor due to high minimum wages and a compressed wage structure.

Gross unemployment rate and real wage growth, 2000–2020



Note: Gross unemployment includes individuals in activation programs. Real wage growth = growth in hourly wages in industry minus increases in the consumer price index.

Source: Statistics Denmark. Online at: <http://www.statistikbanken.dk>

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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.
- ⊖ The high rate of job turnover may reduce human capital accumulation.
- ⊖ Wage inequality is widening somewhat.
- ⊖ Average working hours are low.

#### AUTHOR'S MAIN MESSAGE

Employment has been trending upward and reached record high levels. Recent reforms have contributed to this. “Flexicurity” has been tested by the Great Recession and the Covid-19 pandemic but is no safeguard against such shocks and should be evaluated against its ability to prevent temporary decreases in employment from becoming persistent due to increases in youth unemployment, long-term unemployment, and thus structural unemployment. This has not been the case as a result of the Great Recession, although Denmark experienced one of the largest GDP decreases; and evidence indicates a rather swift recovery from the setbacks caused by Covid-19-motivated restrictions and lockdowns. Turnover rates—job openings and destructions—are high, implying that many are affected by unemployment, but unemployment spells are generally short. This is critical to preventing increases in long-term unemployment and eases labor market entry for young people. Wage inequality is rising, but less than in other countries, and wage dispersion remains relatively low.