

Factsheet Denmark

JANUARY 2008

TRADE, INDUSTRY AND LABOUR MARKET

Since the mid 1990s, the Danish economy has been characterised by an upturn in many important areas. Unemployment has dropped to the lowest level for 35 years. Inflation is among the lowest in the EU area. There is a significant surplus in the balance of payments and in the public finances. The result of this development is that a formerly considerable net foreign debt has been paid off. The public sector has experienced a significant decline in public debt in recent years.

The positive development which has characterised the Danish economy should be seen in the context of a number of factors. In the late 1980s, the economic policy was tightened considerably. This resulted first in a balanced budget and later in a surplus in the balance of payments after many years with chronic deficits. The price was a significant increase in unemployment until 1993. By then, not only the balance of payments, but also the public finances had improved so much that it was possible to exploit the freedom of action that had been achieved to introduce an economic policy which started an economic upturn that eventually became self-reinforcing. The associated increase in the rate of employment was presumably a major reason why it became politically possible to introduce a series of reforms in the labour market policy in the mid 1990s.

Compared with most other EU countries, Denmark has a very high rate of labour force participation and a high percentage of employment. The high level partly reflects that the public sector in Denmark undertakes many of the tasks in relation to care for children, the sick and the elderly, which in some other countries are the responsibility of the family.



The **public sector** is the largest sector in Denmark with a 26.7% share of production. The photo shows an operation team at Amager Hospital in Copenhagen in November 2007. Photo: Lars-K. Crone.

The development in employment and unemployment is closely connected with the economic development described in the next section. This is followed by an account of some of the main conditions on the Danish labour market.

Production and economic life

Denmark belongs to the group of affluent OECD countries, which is reflected in the distribution of production on the various economic sectors. Traditionally, Denmark has been seen as an agricultural country with large exports of processed foods. Agricultural exports are still significant, but by 2006 agriculture's share of the total production had declined to just under 2% of GDP (gross domestic product).

The category 'agriculture, etc.' also includes fishing and the extraction of oil and natural gases. Manufacturing constitutes 16.5% of production. Building and construction have a similar share of the total production as primary trades, approx. 6%. By far the largest main sector is private sector services, amounting to 45.6% of total production in 2006. This

broad sector primarily includes trade, transport and financial institutions. Finally, the public sector accounts for 26.7% of the nation's production in 2006.

A survey of the development in recent decades shows major changes, with primary production, manufacturing industries and building and construction declining to a share of total production of approx. 28%. In the so-called tertiary trades, the public sector's share of production has increased from 15 to 27%, while the private service sector in a broad sense has increased from approx. 41% to around 46%. The growth in the public sector's share of production has not been even. The highest share was achieved in the early 1980s. Since then, the public sector's share of production has been declining slightly.

With the exception of the years 2001-2003, the growth of the Danish economy has been between 2 and 4% annually, as shown in figure 2 for the years since 1996.

The individual industries

In recent years, agriculture has undergone structural changes which have led to increased specialisation and larger farms. Compared with the average for the other EU countries, farms are considerably larger in Denmark. Approx. 66% of production is animal, with a preponderance of

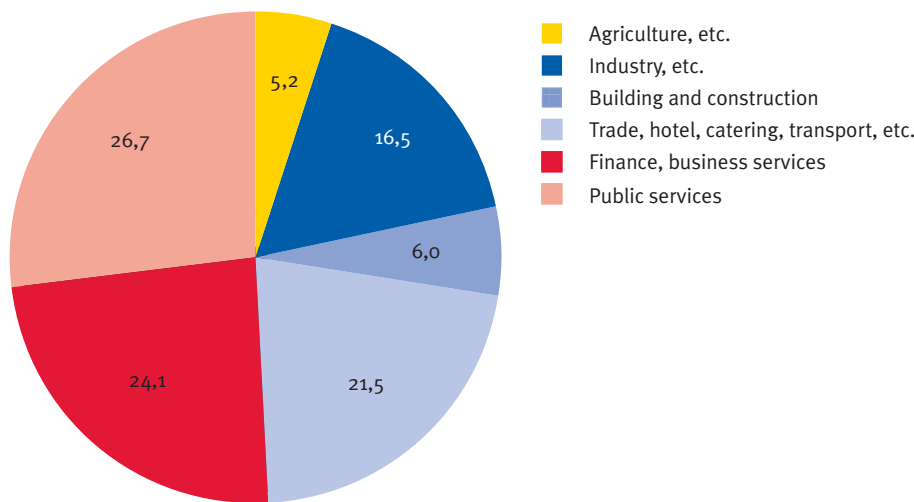


September Agreement: A lengthy major labour market conflict ended in September 1899 with the parties entering into an agreement, which became a kind of constitution for the Danish labour market. The Agreement laid down rules for conflicts and collective agreements. The basic principles of these rules still apply today, more than a century later. The long-term consequence of the September Agreement in 1899 has

been that the labour market in Denmark differs from those of most other countries by its great emphasis on voluntary agreements and corresponding lack of emphasis on legal regulation. In addition, the Agreement resulted in relatively few labour market conflicts in the form of strikes and lockouts after a few decades. – Arbitration during the national lockout in 1899. Drawing: Alfred Schmidt.



Figure 1 - Production by economic sectors 2006



dairy products and pork. Agriculture has a very large export share and accounts for around 10% of all Danish exports. In addition to agriculture, the primary trades include fishing and the extraction of oil and natural gas. Significant extraction of oil and gas from the North Sea only started in the 1980s. Self-sufficiency was reached in 1999 and today Denmark is a net exporter of fossil energy. As virtually all fossil energy used to be imported, this represents a very significant change of the basis of production, which has also played a part in the great turn-around in the balance of payments mentioned above. The significant change within the energy area is shown in figure 3, which illustrates production and consumption of primary energy, along with the transition to self-sufficiency.

Like the primary trades, building and construction have experienced a sharp decline in production compared with the rest of the economic life. While this sector constituted approx. 10% of GDP in the mid 1960s, the percentage today is just over half. For many years, building has been characterised by stagnating productivity. The explanation may partly be the change from construction of new buildings to greater emphasis on repair and

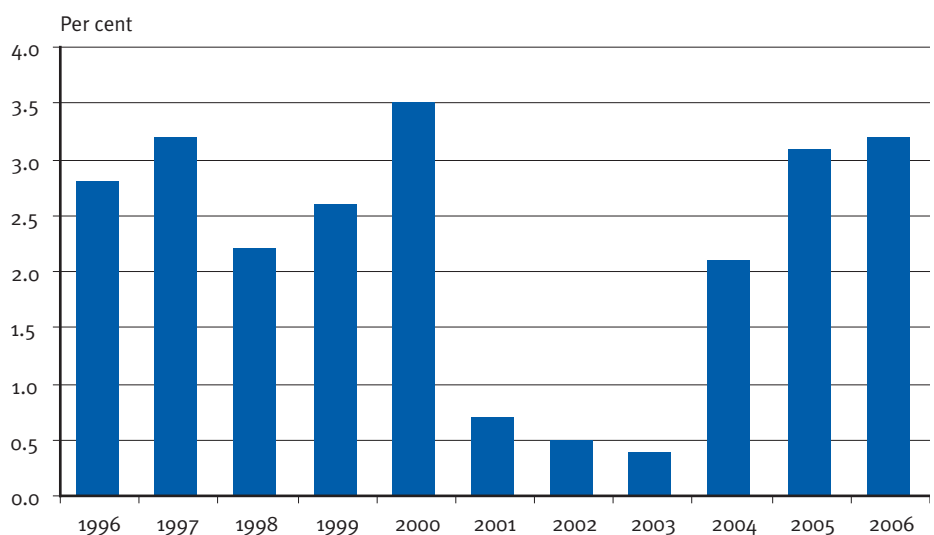
maintenance. In addition, there have among other things been inadequate co-operation and co-ordination between the various parties and companies in the building sector.

Industry's share of production is smaller in Denmark than in most other small European countries. However, this is partly due to the public sector's relatively large share of production. In terms of employees, the largest Danish industries are metal, including electrical and electronic equip-

ment, food, beverages and tobacco, and paper and graphics. The prominent position of the food processing industry reflects the relatively large agricultural production.

Measured by annual turn-over, the largest company in Denmark is the A.P. Moller – Maersk Group with a revenue in 2006 of DKK 264 billion. The A.P. Moller – Maersk Group is a conglomerate of shipping, energy and manufacturing companies with activities in many other areas as well. With this exception, Danish industry is dominated by small and medium size companies. The largest companies within the food, beverages and tobacco industry are the meat processing company Danish Crown with approx. 24,000 employees in Denmark and the dairy company Arla, which is a merger of the dominant dairy companies in Denmark and Sweden. The Arla Group has approx. 18,000 employees. With approx. 32,000 employees worldwide, the Carlsberg Breweries are a major player in the brewery industry, also internationally. Other large Danish industrial companies include Novo Nordisk, an important global manufacturer of insulin and enzyme preparations, Lundbeck, Scandinavian Tobacco Company, Vestas Wind Systems, Danisco,

Figure 2 - GDP growth rate 1996-2006





1930s – unemployment: The international crisis in the 1930s hit the Danish labour market and economic life hard. Free trade was replaced by protectionism and regulation, resulting in completely new conditions for the two main economic sectors: Agriculture and industry. Unemployment rose significantly, but at the same time the foundations were laid for the welfare society which became very important in the

post-war years, e.g. in the form of the introduction of holiday legislation focusing directly on those employed on the labour market and the passing of an extensive social reform affecting all citizens. – The first holiday act was passed in 1938. All employees had to have 14 days of holiday. At the same time, the creation of more holiday facilities for workers began, here Bellevue Beach Park. Photo: Kai Lund Hansen.



Danish Underground Consortium (DUC) from 1962 operates oil and gas fields in the North Sea. Photo: The A.P. Moller – Maersk Group.

From the end of 2008, **Carlsberg** from 1847 is gathering its Danish beer production in Fredericia. Photo: Carlsberg.

F.L. Smith, the Rockwool Group and Lego, a world-famous toy manufacturer. Danfoss and Grundfos are internationally prominent companies within temperature regulation and pump technology. In addition, Danfoss is one of the largest Danish industrial companies with approx. 17,000 employees in total. In summary, however, even the largest Danish industrial companies are small compared with the largest international industrial conglomerates.

The private service sector is a diffuse economic sector. Measured by the number of employees, by far the largest company in the sector is the ISS Group with approx. 435.000 employees worldwide. Retail and wholesale trade account for approx. 27% of production in the sector. Communication and transport constitute 29%. The rest of the sector consists of financial institutions, business services, etc. The financial sector includes partly many small companies and partly a few very large ones. After a merger with Realdanmark, which consisted of BG Bank and Realkredit Danmark, Dan-ske Bank

has become the largest financial institution in Denmark. In recent years, Danske Bank has expanded in the other Nordic countries, Republic of Ireland, Northern Ireland and the Baltic states. The second-largest bank, Nordea, is part of a Nordic bank group.

In the trade sector, FDB (COOP Denmark FDB), which has grocery stores nationwide, has merged with the cooperative societies in Norway and Sweden. They have formed a new joint limited company COOP Norden, which started trading on 1 January 2002. Another very large retail company is Dansk Supermarked, part of a conglomerate within the Maersk Group, which as mentioned above also covers shipping, oil extraction and industrial activities. In the transport sector, most trains are run by the national company DSB (Danish State Railways), while aviation is dominated by the Scandinavian company SAS (Scandinavian Airlines). In recent years, previously purely state or public communication companies have either been organised as limited companies or fully privatised. The first is true of the postal service, while the latter applies to the national telephone company Tele Denmark Communications (TDC), which in 1997 entered into a strategic partnership with the American company Ameritech. In 2005, a capital fund became the main shareholder in TDC.

Productivity development

The development in production per person is crucial to the development of prosperity. Among other things, productivity is influenced by the nation's investment activity, which reflects how quickly new production equipment is installed and how many resources are invested in research and development.

Until the first oil crisis in the mid 1970s, investment as a proportion of total production was higher in Denmark than in most of the other European OECD countries. Since then, the investment percentage in Denmark has, until recently, typically been lower than in the other countries. The relatively low investment percentage partly explains why productivity has also developed more slowly in recent decades and why the transition to a lower rate of increase has been slightly more pronounced in Denmark than in the other countries.

In 2005, the expenditure on research and development in Danish industry was approx. 1.6% of GDP. This is close to the average for OECD countries and slightly higher than the EU average. The development has been characterised by high growth rates and is also characterised by major differences between the individual industry sectors. Empirical studies suggest a clear correlation between growth and research and development investments in Danish companies.

1960s – full employment: In the 1960s, Denmark for the first time achieved full employment. In fact, unemployment was so low and the demand for labour so great that foreign workers were brought to the country, primarily from Turkey, Pakistan and Yugoslavia. At the same time, the economic structure changed significantly. Industry became more important than agriculture in terms of both employment and exports.

However, relatively soon, further structural change meant that service industries became more important than manufacturing industries. Denmark's long history as an agricultural country completely dominated by large exports of agricultural products came to an end.
 – Full employment resulted in export growth. The photo shows a ship being built at Burmeister & Wain in Copenhagen. Photo: Unknown.



With a world market share of 28% in 2006, the wind turbine company **Vestas** is a market leader within modern energy. Photo: Vestas.

The classic Lego brick is the starting point of all the **Lego Group's** activities. Photo: Lego.

Grundfos' water supply pump SQFlex can be powered by sun cells and wind turbines or a combination of the two sustainable energy sources. Photo: Grundfos.

One of **Danfoss'** most recent technologies is this device which turns sea water into drinking water through reverse osmosis. Photo: Danfoss.

Export and competition

Denmark's exports of products and services constitute approx. 50% of GDP. Approx. 75% of the exported goods are industrial products covering a very wide range, with machinery and instruments constituting the largest individual category. Approx. 67% of the total exports go to other EU countries. The percentage of exports going to the ten largest markets in 2006 is illustrated in figure 4.

In 1960, Denmark joined the European Free Trade Association, EFTA, and in 1973 it became a member of the current EU. However, the percentage of total exports

going to EU countries has remained very stable at around 67% despite the changed institutional framework. Apart from commodity exports, Denmark has a net foreign income from services, especially sea transport, of around DKK 50 billion in 2006. The net income in this area has been increasingly important in recent years.

The external competition has increased, partly as a result of the gradual liberalisation process over the last fifty years, partly in the wake of the establishment of the EU's internal market in 1986. At the same time, the monitoring of the companies' behaviour in relation to competition legis-



Women onto the labour market: A decisive change occurred from the mid 1960s to the mid 1980s, affecting both labour market and economic life. Married women entered the labour market to such an extent that their labour force participation eventually approached that of the men. In the early years, part-time work was very important, but already in the mid 1980s, the part-time rate began to decline, so that the women's

labour market behaviour began to resemble that of the men in this respect as well. The growth of the public sector, including the major expansion of child care opportunities, played a major part in this development. – Full employment enabled more women to enter the labour market. The photo shows the day nursery Vestervang in Elsinore in the 1960s. This was the first beginnings of the welfare state. Photo: Unknown.

lation has become more stringent, both at EU level and nationally. Other important factors in relation to the internationalisation of the economic life is the huge growth in the extent of direct foreign investments and the relocation of both manufacturing and services to countries with lower wage costs.

For many years, Denmark's economic policy has traditionally been characterised by a liberal basic attitude in the sense that subsidies and markedly selective policies generally play an insignificant part. The economic policy has typically focused on creating a favourable overall framework for the development of trade and industry.

The labour market

The participation in the labour market in Denmark is very high. Of those aged 16-66, 76.5% are in the labour force. In 2006, this corresponded to approx. 2.75m people employed on the ordinary labour market as wage-earners or self-employed, while 107,000 were unemployed. In 2006, the distribution of employment on economic sectors was as follows: 3.2% in primary trades, 20.8% in secondary trades, 40.9% in a diffuse group of tertiary private sector trades and finally 35.2% in public and personal services, where the great majority are public employees. In recent decades, there have been major changes to the distribution of employment on sectors and currently the dominant part of the labour force, approx. 75%, is employed in the service sector.

The very high rate of labour force participation in Denmark is due to the proportion of married women working, which by international standards is relatively high. Until the late 1980s, the rate of labour force participation in Denmark was increasing. This was the net result of several years of strong growth in the participation rate for women, alongside a slightly declining trend for men. The slight decline for men reflected that the average retirement age for men had been decreasing for a number of years. Since the late 1980s, the labour force participation rate has been declining slightly. The decline affects both women and men, but in the case of women, there has been a simultaneous contrary trend as a result of the gradual transition from part-time to full-time employment. The development of the labour force participation rate for women and men in recent years is illustrated in figure 5.

Immigration constitutes an important new element on the labour market. As in most other European countries, the demographic development in Denmark is characterised by the low fertility, which will result in a declining population without the boost of immigration. The development in the number of immigrants and

Figure 3 - Production and consumption of fossil energy 1995-2005

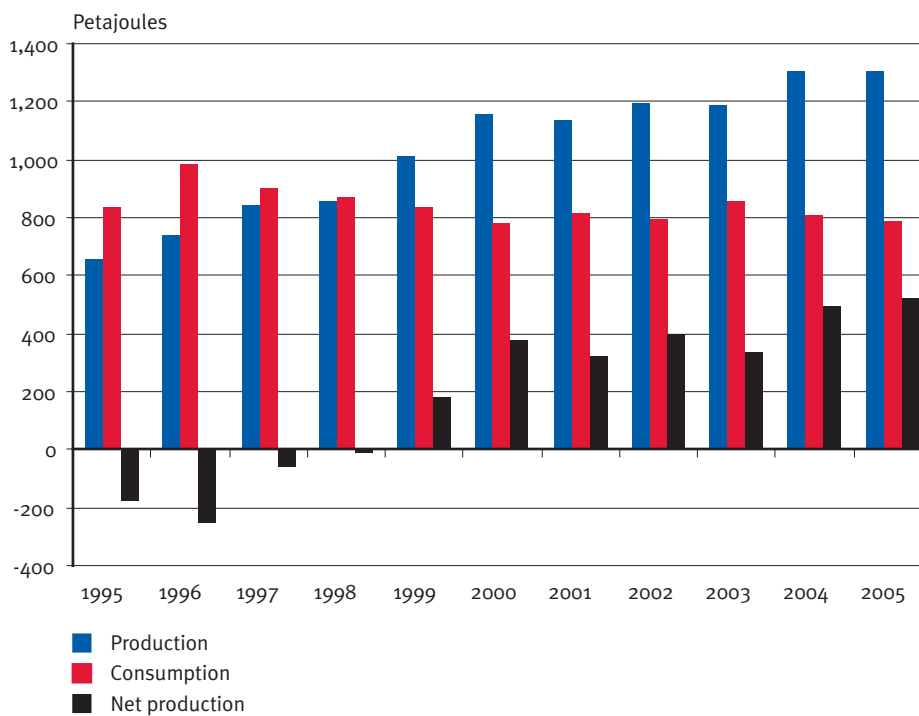
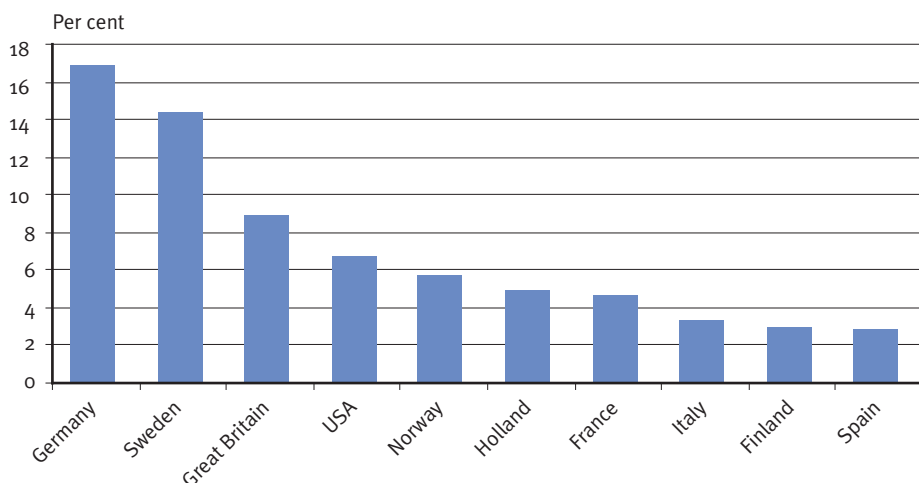


Figure 4 - Share of total exports to the ten largest markets 2006



Globalisation: In recent years, globalisation has made its mark in the form of a significant increase in the percentage of the industrial production which is exported. At the same time, production has extensively been outsourced to countries with lower wage costs. On this background, many jobs have been lost, but at the same time, even more new jobs have been created as a result of the labour market's great adapt-

ability. The development in Denmark has not been characterised by a negative attitude to globalisation, but by a desire to exploit the new opportunities created in the best possible way shared by both the labour market parties as well as the individual wage-earners and companies. – Supplementary training became essential to success on the labour market. The photo shows a module computing course. Photo: Harry Nielsen.



their descendants in recent years is illustrated in figure 6, divided into two main groups: Western and non-Western countries. Unemployment on the Danish labour market, partly overall and partly for the new residents in Denmark, is discussed below.

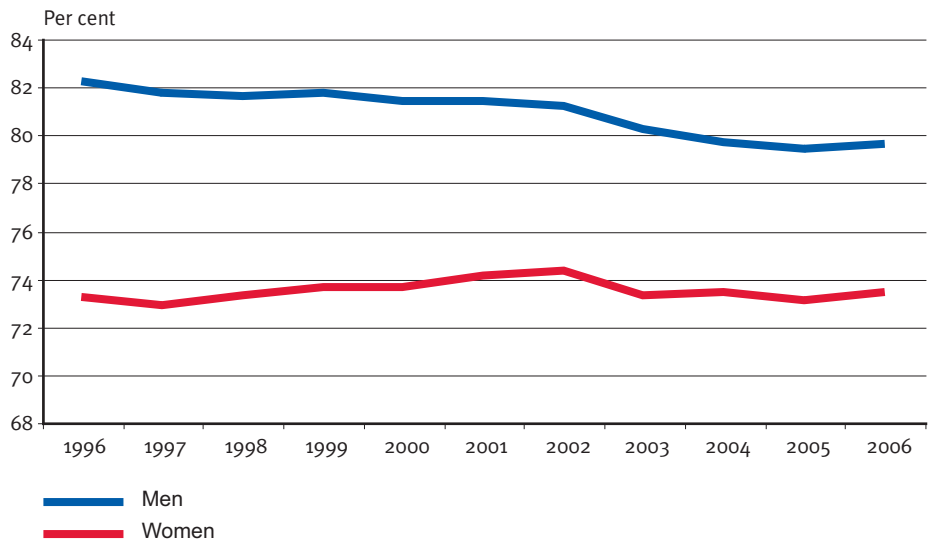
Retirement

One of the factors behind the changes in the labour force participation is the average age of actual retirement from the labour force. In Denmark, the official normal retirement age has been reduced from 67 to 65 years. However, the average actual age of retirement is around 61-62 years. For years, it has shown a declining trend, which has only recently been broken. The background is partly the voluntary early retirement programme (*efterløn*) from 1979, which enabled a large part of the labour force to leave the labour market with an income corresponding roughly to unemployment benefit. The scheme

The **Rockwool Group** is the world leader in stone wool insulation, one of the foremost solutions to bring down CO₂ emissions. Photo: Rockwool.

ISS is one of the world's leading facility services companies, offering property services, office support, catering and cleaning. Photo: ISS.

Figure 5 - Labour force participation rate for women and men aged 16-66 1996-2006 (data break in 2003)



was intended as an alternative to early retirement for those worn down by hard and repetitive physical labour, but instead relatively soon became a de facto part of the pension system. In 1999, the rules of the scheme were tightened to curb or turn the trend of early retirement.

Working hours

The total labour supply is also affected by the development of the average number of

hours worked annually. The normal working week in Denmark is 37 hours. Until recently, the normal holiday entitlement was five weeks. In recent years, a sixth holiday week has gradually been introduced. Long-term, the total number of hours worked annually in the Danish economy has declined by approx. 15% despite the increasing number of persons employed. The decline is due to shorter working weeks and longer holidays. The

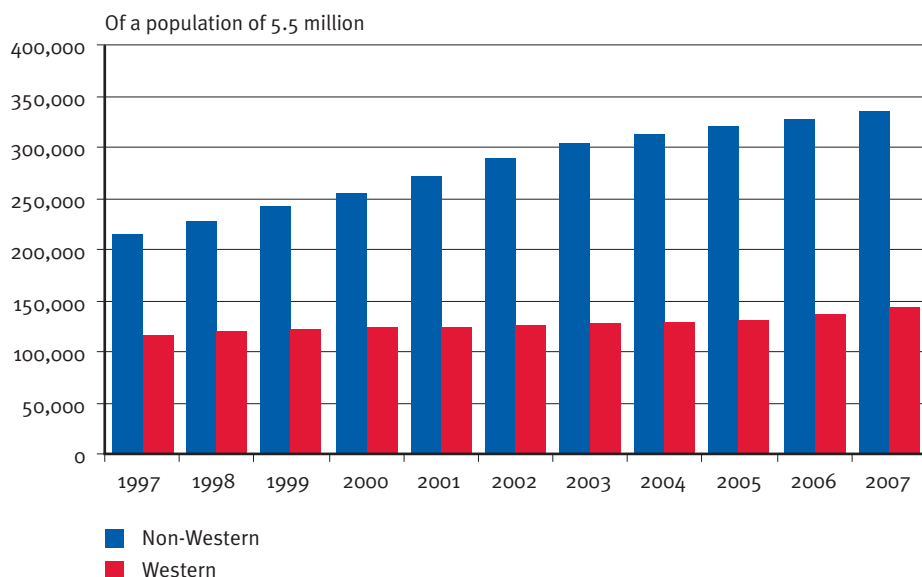




Flexicurity: Flexicurity is a general term for some important features of the labour market, which have helped to produce a steep decline in unemployment in recent years. The word is a combination of “flexibility” and “income security”. Specifically, it characterises the flexibility with which employers can adjust the number of employees up or down. When it is relatively easy to reduce the labour force, employers are less

cautious about taking on additional employees during an economic upturn. At the same time, the relatively high benefit level means that wage-earners have a considerable degree of income security if they become unemployed for a period. Combined with an active labour market policy, this constitutes the core of the flexicurity concept. – Unemployed people queuing in 1989. Photo: Harry Nielsen.

Figure 6 - Number of immigrants in Denmark 1997-2007



future demographic development in itself involves a decline in the number of people in the labour force. The risk of a sharp drop is one of the main challenges facing the Danish government in the coming years.

Unemployment and labour market reforms

Unemployment in Denmark has declined sharply in recent years and now averages approx. 100,000. The economic upturn

since 1994 has contributed to the sharp decline, also in the number of long-term unemployed. In addition to the upturn, the unemployment rate is influenced by the strategic shift in the labour market policy, especially in connection with the labour market reform initiated in 1994. Key changes include a reduction of the maximum duration of unemployment benefits and a stepping up of various kinds of activation for the unemployed

who are unable to find a new job themselves. Job training and education are the main activation types. Especially for young people under 25, the decline in unemployment since 1994 has been so sharp that the formerly major problem of youth unemployment is virtually solved in Denmark. For the young, the reform meant that the unemployed who do not find a new job themselves within six months must either receive training or accept having their unemployment benefit halved. Figure 7 shows the unemployment rate development over the last decade, partly for everyone aged 16-66 and partly for immigrants from non-Western countries and their descendants. In the light of the demographic development, it is crucial that new residents in Denmark relatively soon attain the same labour market attachment as the rest of the population. The figure shows that the economic

In 2006, the **agriculture and food industry** exported goods worth DKK 103.3 billion and in 2007 it employed 178,400 people. Photo: Carsten Andersen.

Arla Foods is one of Europe’s largest dairy groups, selling products in more than 100 countries in all continents. It is owned by 9,000 Danish and Swedish milk farmers. Photo: Arla Foods.



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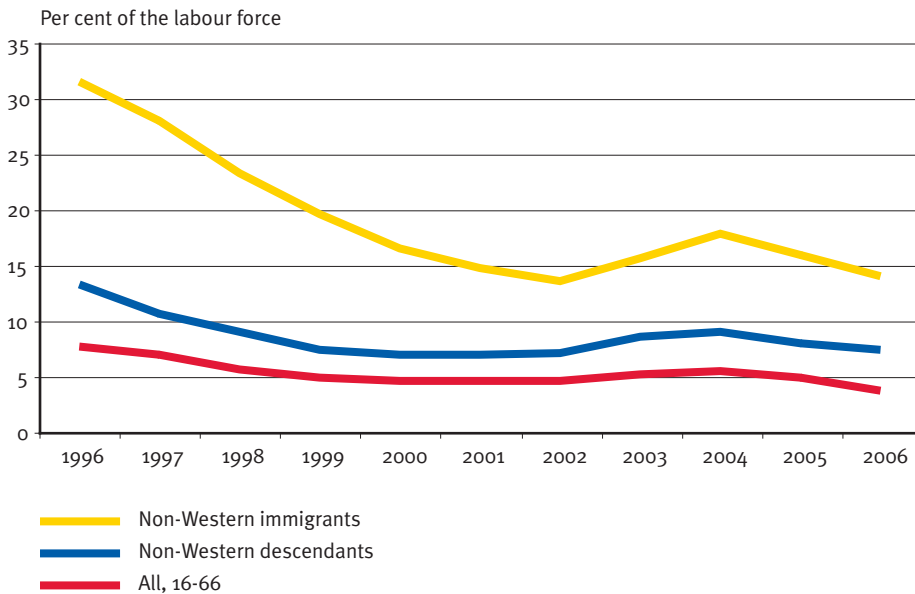
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Figure 7 - Unemployment rate for the population as a whole and for non-Western immigrants and their descendants 1996-2006



upturn has also benefited immigrants and their descendants. The unemployment rate is calculated in relation to the share of the relevant group which is on the labour market. When interpreting figure 7, it must be taken into account that the economic activity of non-Western immigrants is still significant below the average level for the population as a whole. The country still faces a major integration task in relation to the labour market.

Unemployment insurance

Traditionally, unemployment insurance is the most important passive programme within the labour market policy. In contrast to most other countries, unemployment insurance in Denmark is a voluntary scheme organised in state approved funds according to the so-called Ghent principle. Most of the funds are administered in close collaboration with trade unions. Provided it meets certain conditions, an unemployment fund will receive state approval, which means that the state will bear the residual financial risk in the form of increased unemployment benefit costs in the case of a recession.

People aged 16-65 can join. To be entitled to unemployment benefit, they must have been members for at least twelve months and fulfil a previous employment requirement. Only those newly qualified from vocational training lasting at least 18 months are exempt from this requirement. Unemployment benefit is calculated as 90% of the previous wage. However, there is also an absolute maximum, which means that the actual average relationship between benefit and wage is around 65% compensation for lost income. Unemployment benefit is taxable. The employer has to pay for the first two days of all unemployment periods.

The fixing of wage rates in Denmark is dominated by collective agreements. The labour market is highly organised and, until recently, it was dominated by centralised negotiations. In recent years, there has been a marked shift towards a more decentralised structure. At the central level, general issues related to pension, hours of work, etc. are negotiated and minimum pay for various areas are agreed. The actual individual wage is then negotiated de-centrally. In Denmark, many of

the functions which in most other EU countries are laid down by law are managed by the labour market organisations through negotiation and collective bargaining. Denmark also differs from the other EU countries in having very few mandatory labour market contributions. A comparison of the direct wage costs in Denmark with the level in other EU countries is therefore misleading, unless it is taken into account that employers in the other countries have to add significant mandatory contributions to the direct wage.

As mentioned above, unemployment in Denmark has declined sharply in recent years. However, it is part of the overall picture that, in addition to the unemployed, the number of participants in active and passive schemes originating on the labour market was approx. 284,000 in 2005. Of these, 166,000 were receiving benefit from the voluntary early retirement programme, etc. while approx. 118,000 were taking part in various kinds of activation and qualification improvement.

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