

Denmark

1. Denmark benefits from high GDP per capita (122% of EU average in 2004), productivity and employment levels. Annual real GDP growth has been some 2% on average in the last decade, while labour productivity growth per person employed has been slightly above the EU average. The employment rate is the highest in the EU (75.7% in 2004). Employment growth has been strong since 2004 and the unemployment rate (5.4% in 2004), one of the lowest in the EU, has been further reduced.

PART I: GENERAL ASSESSMENT

2. The Danish National Reform Programme (NRP) outlines four broad challenges: to prepare for the ageing of the population; reap the benefits of globalisation; strengthen the framework for improved productivity; and increase value for the users of public services. These broad challenges are translated into a number of priorities: improving competition in certain sectors; enhancing public sector efficiency; developing a knowledge society; securing environmental sustainability and energy; encouraging entrepreneurship; and increasing the labour supply. The Commission shares the NRP's analysis of the main priorities.
3. The Danish reform strategy is presented clearly and coherently. The NRP's approach is broad, ambitious, long-term and realistic. It aims to carry out existing policies and, if necessary, to reinforce them. Quantitative targets with timetables are set in some areas. The target set for R&D investment is to exceed 3% of GDP by 2010, the same level as the overall target for the EU. The employment target is to increase employment by between 50 000 and 60 000 people, corresponding to around 2% of the labour force, by 2010. The policies presented in the NRP often refer to broad lines for action and relatively few specific measures are presented. This is particularly the case for initiatives aiming at improving competition and increasing the labour supply. The NRP states, however, that further measures to raise labour supply and to strengthen education, innovation and entrepreneurship will follow on the basis of the reports and recommendations of two key advisory bodies appointed by the Government: the Welfare Commission, whose report was presented in December 2005, and the Globalisation Council, due to report in Spring 2006.
4. Consultation and efforts to develop ownership of the document have been substantial. The NRP has been endorsed by the Government and presented to Parliament. The views of social partners, local authorities and representatives of civil society have been collected and are presented in annexes to the programme.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

5. The overall macro-economic aims are sound public finances, a stable exchange rate, price stability and high employment. The Commission fully subscribes to these aims.
6. The strategy to assure long-term fiscal sustainability is a continuation of the one in place for a number of years, consisting of building up government funds by

saving budget surpluses in combination with increasing employment by around 2 per cent of the labour force by 2010. In the medium and long term, a higher level of employment is necessary to secure the future funding of welfare commitments. Policy to ensure fiscal sustainability in view of an ageing population continues to be based on the objective of an average annual general government budget surplus of 0.5-1.5% of GDP until 2010. On the expenditure side, a key objective is to limit the annual growth of real public consumption to 0.5 per cent up to 2010. Income taxes were cut by 0.7 per cent of GDP in 2004 and taxes will be further reduced to the extent that there is budgetary scope. Monetary policy aims at keeping the krone's exchange rate with the euro stable. This policy lays the basis for price stability in line with the euro area.

7. The implementation of the measures outlined in the programme should contribute significantly to attaining the objectives of the macro-economic strategy. However, few concrete measures are set out to achieve the increase in employment necessary for long-term fiscal sustainability.

Micro-economic policies

8. The Danish government identifies as important challenges: enhancing competition in some sectors; strengthening public sector efficiency; developing a knowledge society; securing environmental sustainability and encouraging entrepreneurship. The Commission shares this analysis.
9. The NRP points to the objective of halving the number of sectors facing competition problems by 2010, in order to help bring consumer prices in Denmark, consistently the highest in the EU, more into line with the rest of the Union. Sectors currently affected by a lack of competition include parts of the construction sector, utilities, food processing and professional services. The NRP describes concretely how the authorities identify sectors facing significant competition challenges. It sets out measures to increase competition through amendments to the Competition Act and a review of competition-restricting rules. This will complement action already under way to make shop opening hours more flexible and to amend the Public Tender Act. While the measures envisaged have good potential to enhance competition, full details and clear schedules are not always given. Against this background, a swift implementation of these measures, including strengthening competition through combatting cartels more effectively, would be positive.
10. The NRP also includes proposals to make public services more efficient. A planned reform will lead in 2007 to a large cut in the number of municipalities and is likely to deliver efficiency gains through economies of scale. In addition, the NRP presents measures to increase competition in the provision of public services, including enhanced competition between public and private providers.
11. Total R&D spending amounted to 2.6 per cent of Denmark's GDP in 2003, well above the EU average of 1.9 per cent. About 70 per cent of R&D spending is financed by the private sector. If Denmark maintains its current strategy and increases public R&D as intended, the 2010 target of 3 percent of GDP seems realistic. There remains scope to maximise the results of Denmark's relatively high R&D spending in terms of further boosting productivity. In this respect, the NRP includes promising plans to better exploit technological opportunities by improving knowledge transmission between universities and the private sector, though it is not yet clear to what extent these plans will change incentives for public sector researchers to collaborate with the private sector. In addition,

Denmark aims to enhance the use of ICT by the public administration through its new strategy for e-government and a public internet portal for citizens to access government services and information.

12. The NRP makes positive efforts to decouple the link between economic growth and environmental impacts. Environmental taxes, such as the new tax on mineral phosphorous in animal feed and the reduction in tax on sulphur-free petrol, are used to ensure that prices better reflect the costs of environmental degradation for society. The 2005 energy strategy promotes energy-saving initiatives addressing in particular energy consumption in the transport sector.
13. While Danish entrepreneurship looks healthy on the basis of the indicator of business start-ups, few of the new firms develop into high-growth companies. The NRP therefore includes plans to grant certain entrepreneurs a three-year period of tax relief to provide an incentive for further growth. This is an interesting initiative and should be followed by a careful evaluation. The relatively small and illiquid stock market could hinder firm growth and the measures presented in the NRP to ease access to capital will help address this problem. An example is the Entrepreneurship Fund that provides early stage venture capital. The government aims to reduce the administrative costs of enterprises by 25 per cent between 2001 and 2010, and has developed a strategy to achieve this objective. With regard to internal market policy, Denmark's efforts in terms of implementing internal market policy, for instance through a special task force, are encouraging.
14. The micro-economic policy initiatives in the NRP are likely to make a positive contribution to jobs and growth. In some cases, the proposed measures need to be more concrete in order to guarantee successful implementation. For example, few details are given on the timing of the measures to enhance competition.

Employment policies

15. Against the background of the ageing population, the Danish NRP identifies increased labour supply through higher labour force participation as an important challenge. In addition, the NRP focuses on improving the adaptability of employees and enterprises, improving the basic school system and increasing the number of students in secondary and tertiary education. The Commission shares this analysis of the main challenge and priorities.
16. The NRP outlines a number of measures to attract and retain more people in employment in order to increase the labour supply by 2010 and beyond: tighter requirements to seek a job for immigrants who receive benefits; a lower average age for finishing tertiary education; reducing absence due to illness; getting more older people into the labour market; and improved functioning of the labour market through overhauling employment policies. These measures have potential to further increase the already high employment rates but might be insufficient to meet the challenge of a targeted increase of 50-60,000 persons in employment by 2010.
17. In terms of adaptability of workers and enterprises, no specific measures have been taken so far. However, to realise national objectives for lifelong learning, the government and the social partners have established a Tripartite Task Force to reform the vocational and adult training system. This is an important first step in a long-term process. The first recommendations from this Task Force are expected in early 2006.

18. Regarding investments in human capital, the focus is again on addressing more long-term challenges and preparing Danish society for the effects of globalisation and technical change. One set of new initiatives aims at increasing the proportion of young people completing upper-secondary education by establishing more cohesion and interaction between subjects, and by improving apprenticeships and vocational colleges. Another set of initiatives aims at increasing the numbers of young people completing higher education and the speed with which they do it. Youth unemployment, which is linked to early school-leaving in particular, will be tackled through measures to ensure participation in individualised education or training. These measures are adequate and focused, with overall targets identified for 2010 and 2015, although some of those seem over optimistic.
19. Overall, the Danish employment strategy is wide-ranging and ambitious but specific measures to increase employment are so far limited, partly because the government is awaiting important advisory reports. In general, budgetary information is scarce in the employment section of the NRP.