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Migration and Integration
of Immigrants in Denmark

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By
Deborah Roseveare and Martin Jorgensen

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ABSTRACT/RÉSUMÉ

Immigration could offer one way for Denmark to expand its labour supply, thereby lowering the dependency ratio, at least for some time, and easing the task of ensuring fiscal sustainability. However, these beneficial effects are obtained only if immigrants are in work. Yet a significant proportion of immigrants have found it quite difficult to get work in Denmark, while the country has been relatively unattractive to high-skilled foreigners. Furthermore, the structure of the economy not only makes it difficult for low-skilled foreigners to gain a foothold in the labour market, but also provides generous social benefits that have caught many of the least skilled immigrants in a benefit trap. A heightened appreciation of these problems, including a tighter focus on the economic situation of the immigrants already present, have underpinned the main changes in policies on immigration in recent years.

JEL classification: H53, H6, I38, J11, J15, J21, J61

Keywords: Denmark, immigration patterns, demographic projections, participation rates, integration policies, language skills, wage compression, benefit traps, fiscal sustainability.

* * *

L'immigration pourrait être, pour le Danemark, un moyen d'accroître son offre de main-d'œuvre. Cela ferait baisser le taux de dépendance, pour quelque temps du moins, et serait propice à la viabilité budgétaire. Toutefois, ces effets bénéfiques ne se font sentir que si les immigrants sont pourvus d'un emploi. Or, un pourcentage non négligeable de cette population a eu de graves difficultés à trouver du travail dans ce pays qui, par ailleurs, n'attire que relativement peu de travailleurs hautement qualifiés. De surcroît, non seulement la structure de l'économie danoise permet difficilement aux étrangers faiblement qualifiés de s'insérer sur le marché du travail, mais le pays est généreux en matière d'octroi de prestations sociales, ce qui fait que beaucoup d'immigrants les moins qualifiés se sont trouvés pris au piège de l'assistance. Ces dernières années, les principaux changements apportés aux mesures concernant l'immigration ont été inspirés par une perception plus aigüe de ces problèmes, en particulier par une plus grande attention à la situation économique des immigrants déjà présents sur le territoire.

Classification JEL : H53, H6, I38, J11, J15, J21, J61

Mots clés : Danemark, tendances des flux d'immigration, perspectives démographiques, taux de participation, politiques d'intégration, compétences linguistiques, compression des salaires, piège des prestations sociales, viabilité budgétaire

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MIGRATION AND INTEGRATION OF IMMIGRANTS IN DENMARK

Deborah Roseveare and Martin Jorgensen¹

This working paper first sets out the link between migration and long-term fiscal sustainability. It then examines trends in immigration since the early 1960s and the key demographic characteristics of the foreign population. The next section reviews the entry policies that currently apply for those immigrants from outside the European Economic Area. The recent changes affecting each main type of entry — asylum seekers, family reunification and highly skilled immigrants — are set in an international context and linked back to the authorities' wish to better integrate those immigrants that are already in Denmark. The challenges of integration are discussed in the following section. The government's ultimate goal is that foreigners participate in economic activity on an equal footing with native Danes. Such an ambitious goal will obviously not be reached quickly or easily, and the authorities consider the critical intermediate objective to be getting more immigrants into jobs as a prerequisite to their future economic success. The measures already put in place go in the right direction, and the concluding section makes some suggestions as to how policies might be improved further.

Demographic developments and long-term fiscal sustainability

Almost all OECD countries face significant changes in the size and composition of the population in the years ahead. The common pattern of ageing populations basically stems from the same combination of a baby boom in the early post-war period succeeded by declining fertility rates and increasing life expectancy. The impact on growth potential and especially public finances from these developments will be substantial in most countries, given the current institutional settings. Output growth will, other things equal, slow as labour forces shrink. Public expenditure will increase with the number of elderly, while the reduction in labour forces tends to erode tax bases, thus raising concerns about intra- and inter-generational income distribution.

Developments in individual countries will depend not only on the specific demographic and labour force characteristics but also to a varying extent on the size and composition of net immigration, though the levels of immigration that would be required to make the demographic picture outlined above distinctly more favourable are probably not imaginable for most countries (Roseveare *et al.*, 1996). However, it will make a significant difference to the labour supply whether immigrants are highly qualified

1. The authors are economists at the OECD. This paper draws on material originally produced for the *OECD Economic Survey of Denmark* published in June 2003 under the authority of the Economic and Development Review Committee. The authors are indebted to colleagues in the Economics Department of the OECD for comments and drafting suggestions, in particular Peter Jarrett, Mike Feiner, Jørgen Elmeskov, Val Koromzay, Andrew Dean, Paul O'Brien and Ann Vourc'h. Special thanks go to Sandra Nilsson for background research, and to Raoul Doquin de Saint Preux and Mee-Lan Frank for technical assistance.

and active in the workforce or instead arrive with little potential for becoming self-supporting without a major amount of public assistance.

Table 1. **Population projections**¹

	2000	2020	2040	2100
	1 000 persons			
By age group				
0-14 years	981	872	942	1 074
15-64 years	3 558	3 589	3 384	3 611
65 years and above	790	1 052	1 223	1 182
Total	5 330	5 513	5 548	5 867
	Index 2000 = 100			
0-14 years	100.0	88.9	96.0	109.5
15-64 years	100.0	100.8	95.1	101.5
65 years and above	100.0	133.1	154.7	149.6
Total	100.0	103.4	104.1	110.1
	Proportion of total population, per cent			
0-14 years	18.4	15.8	17.0	18.3
15-64 years	66.8	65.1	61.0	61.5
65 years and above	14.8	19.1	22.0	20.1
	1 000 persons			
By origin				
Immigrants from LDCs	147	323	481	618
Immigrants from MDCs	150	205	240	257
Descendants from LDCs	60	181	327	570
Descendants from MDCs	21	40	62	116
Remaining population	4 952	4 764	4 439	4 305
Total	5 330	5 513	5 548	5 867
	Index 2000 = 100			
Immigrants from LDCs	100.0	219.0	326.6	419.8
Immigrants from MDCs	100.0	137.2	160.7	171.8
Descendants from LDCs	100.0	302.0	546.1	953.6
Descendants from MDCs	100.0	190.0	290.9	547.0
Remaining population	100.0	96.2	89.6	86.9
Total	100.0	103.4	103.4	110.1
	Proportion of total population, per cent			
Immigrants from LDCs	2.8	5.9	8.7	10.5
Immigrants from MDCs	2.8	3.7	4.3	4.4
Descendants from LDCs	1.1	3.3	5.9	9.7
Descendants from MDCs	0.4	0.7	1.1	2.0
Remaining population	92.9	86.4	80.0	73.4

1. Population as of 1 January of the year.
Source: DREAM (2002).

Although Denmark will undergo significant demographic changes this century of the sort mentioned above, the projected shifts are less extreme than in some other OECD countries. However, two distinct changes stand out: a higher proportion of elderly in the population and a higher proportion of immigrants and their descendants, especially from less developed countries (LDCs). The country's

prospects are quantified in the DREAM population projection,² which forms the basis for most policy planning in Denmark (Table 1). It assumes a slowly increasing fertility rate, a modest increase in life expectancy during the century and a net immigration of 10 000 persons per year (see Annex 1).

The ageing population and a relative shift towards groups of immigrants and their descendants will both have a stronger negative impact on labour supply than the reduction in the absolute size of the working-age population might suggest. This is because of the impact of age-, gender- and origin-specific labour force participation patterns (Figure 1). Labour force participation in Denmark ranks among the highest in the OECD, especially because with three-quarters of all 15 to 64 year-old women in the labour force, only other Nordic countries have higher female participation rates (OECD, 2002a). But given the current set of policies, there is no reason to expect that age- and gender-specific participation rates would alter spontaneously: shifts in the age structure within the working-age population will thus have almost inevitable consequences for total labour supply, though policy changes could influence their magnitude.

The profiles of age-specific participation rates for immigrants and their descendants are fairly similar to those of the remaining population. For descendants, the levels for both men and women are also close to those of the remaining population, although there are, as yet, relatively few adult descendants from LDCs from which to extrapolate.³ However, for immigrants the difference in levels is marked. Lower labour market participation among immigrants and descendants seems generally to reflect lower qualifications. Indeed, controlling for various characteristics, including education, labour market experience and the number of children in the household, immigrants have almost the same participation and employment rates as the remaining population (Det Økonomiske Råd, 2002).

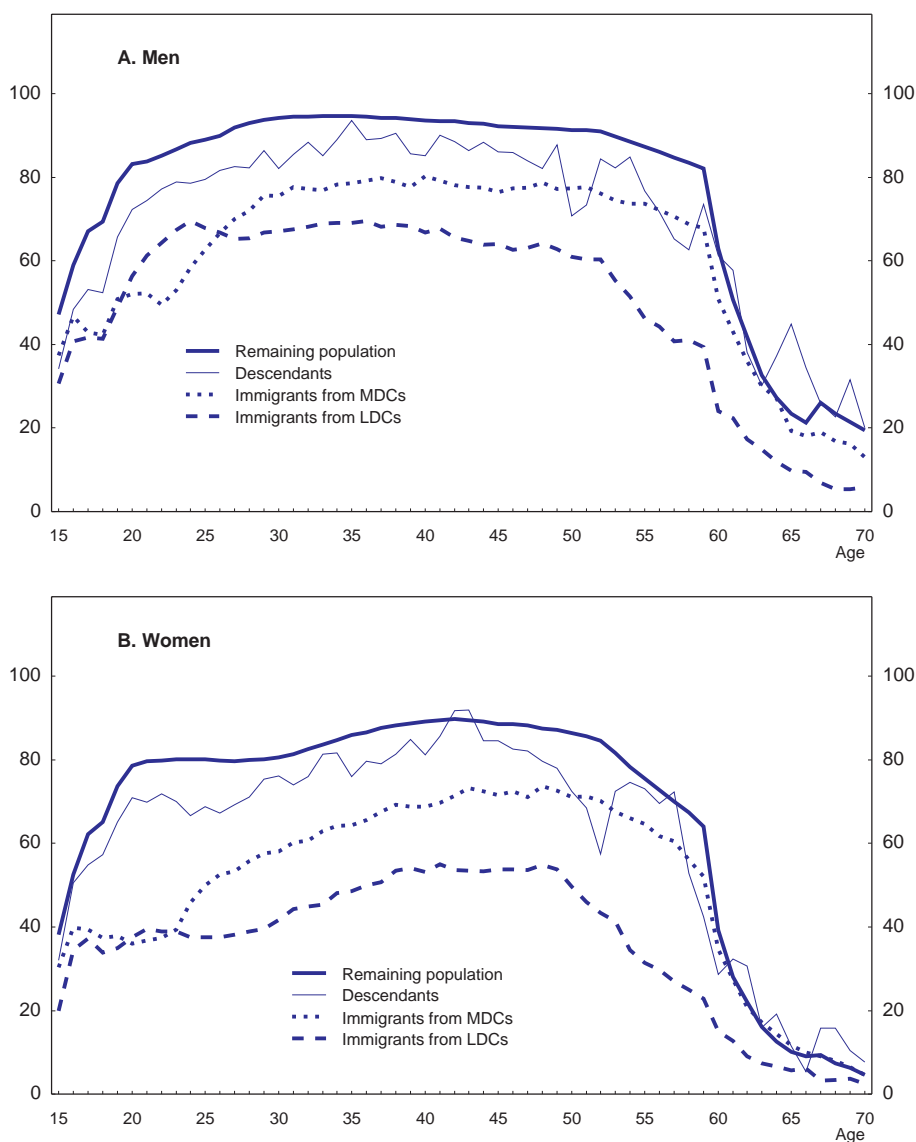
The ageing effects on labour supply will appear imminently, and the working-age population is expected to start shrinking from around 2010, although the major impact will not emerge until after 2020. By 2040, when the negative impact is largest, ageing effects alone are projected to reduce the labour force cumulatively by around 7 per cent (Figure 2). Of that, 5 percentage points would be due to the fall in the number of 15-64 year-olds, while the rest would come from the effect of assuming cohort-constant participation rates for different age groups and from changes in the age structure within the working-age population. However, when changes in the composition of the population stemming from net immigration are included, the reduction would be almost 11 per cent given the present differences in labour participation patterns between groups of various origins. These prospects stand in sharp contrast to the experience of the 1980s and 1990s, when demographic changes made a significant positive contribution to the labour force.

The combined effects from changes in the age and origin composition of the population will act as a severe strain on labour supply in the future. Given present participation and assumed immigration patterns, a steadily smaller part of the population will be producing the country's output and providing for the rest, thus raising concerns about the distribution of burdens between and within generations. The nature of the population changes suggests that policy action addressing the pure population effects will

-
2. The Danish Rational Economic Agents Model group is an independent, publicly funded institution administratively located within the Ministry of Finance. It maintains and develops a computable general equilibrium model of the Danish economy, which applies demographic projections as a basic input. While the population projection from DREAM has been widely used in recent years, demographic projections produced by Statistics Denmark still form the basis for planning by local governments, as they include projections for individual counties and municipalities. The projections from DREAM and Statistics Denmark differ slightly in assumptions and therefore outcomes.
 3. The number of individuals in each generation is very small for descendants of immigrants from LDCs. Thus, this group is assumed to have the same age-specific participation rates as descendants from more developed countries (MDCs).

necessarily be limited to the immigration dimension, since fertility and mortality rates are commonly believed to be largely beyond reasonable policy influence. In contrast, policies can make a significant difference to participation within the working-age population and even redefine the boundaries of the working-age population itself.

Figure 1. Participation rates by age, gender and origin
Per cent, 2001

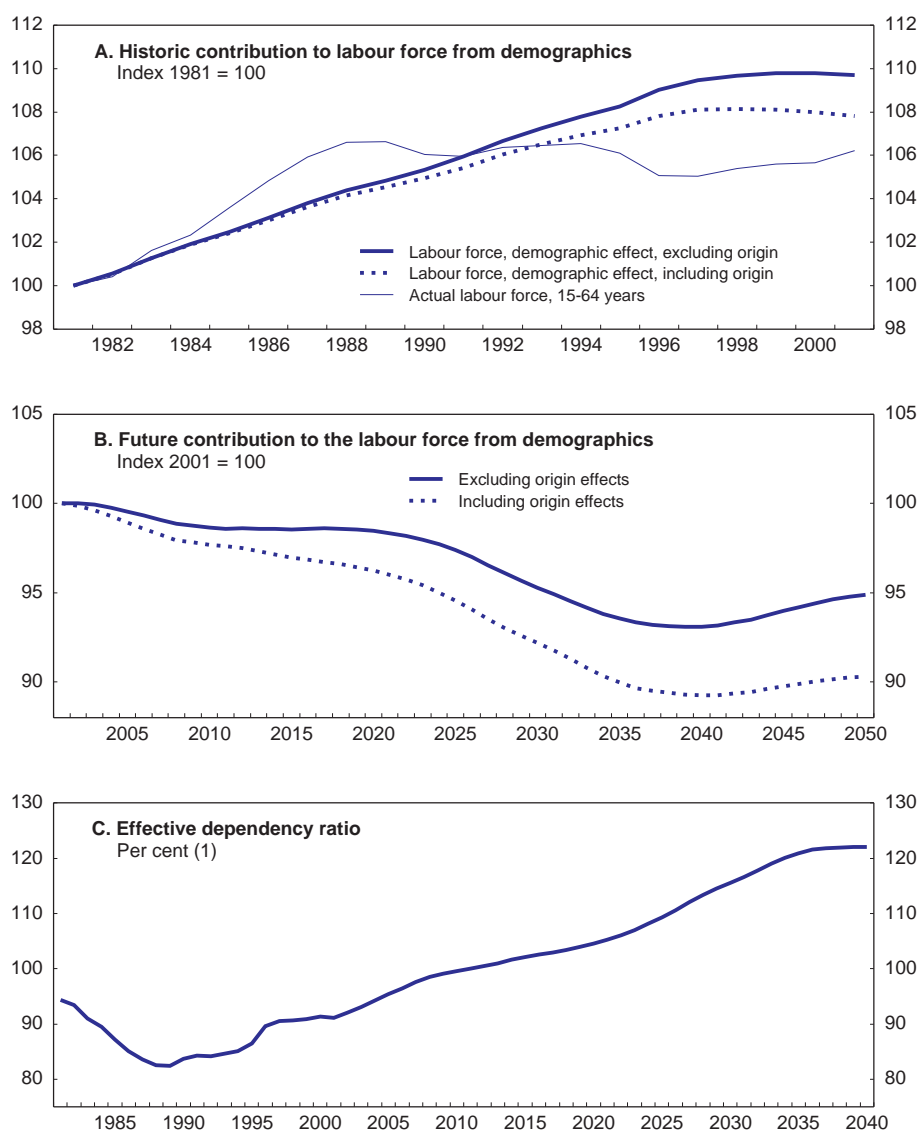


Source: Ministry of Finance; Statistics Denmark.

Long-term trends in both labour force participation and hours worked suggest that assuming even constant age-specific participation rates in the future may prove to be overly optimistic. While the demographics have been feeding into higher labour supply until now, changes in participation rates have in general worked in the opposite direction. The developments are most striking for those aged 60 years and older, reflecting the tendency to earlier retirement for both men and women, and among the under-30 year-olds, who are spending more time in education. But rates have even fallen for men between

30 and 50 years of age, partly reflecting easier terms for entitlement to early retirement (disability) pension and the introduction of different paid leave schemes but also the inflow of new immigrants with lower participation rates.

Figure 2. Demographic impact on the labour force



1. The ratio of inactive people to those in the labour force.
Source: DREAM; Statistics Denmark; OECD calculations.

The inflow to the labour force that has contributed to the expansion of growth potential in the last 40 years is likely to reverse in the future, when demographic changes will put downward pressure on effective labour supply (Table 2). In addition to the direct impact on growth through labour force developments, the demographic changes may also affect average labour productivity due to differences in productivity between population groups (distinguished by gender, age and origin). Given current evidence,

Table 2. **Possible change in total hours worked from demographics and labour market trends**
Per cent

	Changes from 2001		
	2010	2020	2040
Total demographic impact on total hours worked, basic scenario	-3.4	-5.0	-11.8
<i>Of which:</i>			
Size of working age population	1.3	0.7	-5.0
Composition effects from participation rates (age, gender and origin)	-3.6	-4.5	-5.8
Composition effects from working hours (age and gender)	-1.1	-1.3	-1.0
Additional change with prolonged trends			
Trend towards earlier retirement continues until 2020	-0.8	-1.4	-1.4
Trend towards longer education continues until 2020	-1.2	-2.7	-2.3
Trend towards lower official working hours per year continues until 2020	-1.5	-3.5	-3.5

Source: OECD calculations.

Table 3. **Effects on fiscal sustainability of various changes to assumptions**

	Per cent of GDP
Average life expectancy increases by one additional year	-0.2
Average life expectancy increases to the average EU level in 2050	-0.7
Average life expectancy remains at the current level	0.6
Immigration from LDCs per year rises by 5 000 people	-0.1
Immigration from MDCs per year rises by 5 000 people	0.1
Average retirement age increases by half a year	0.3
Medium-term employment objective is not achieved	-1.7
Implemented policy measures have no effect	-0.7
Not yet specified measures are not implemented or have no effect	-1.0
Fall in average working hours by 2¼ per cent	-0.7

Source: Finansministeriet (2002a).

it is unclear what the direction and magnitude might be.⁴ However, since increasing the proportion of immigrants and older Danes in the labour force involves bringing those with lower average work capacity into work, this could exert some downward pressure on aggregate productivity growth.

The assessment of fiscal sustainability (see Annex 2) is sensitive to changes in certain basic assumptions. Public finances in Denmark are affected mainly by changes in the dependency ratio, while the size of the population itself has very little impact (Finansministeriet, 2002a).⁵ Thus, changes in fertility or the extent of net immigration will not matter much for sustainability. But changes in life expectancy, average retirement age and integration of immigrants on the labour market could have a substantial impact (Table 3).

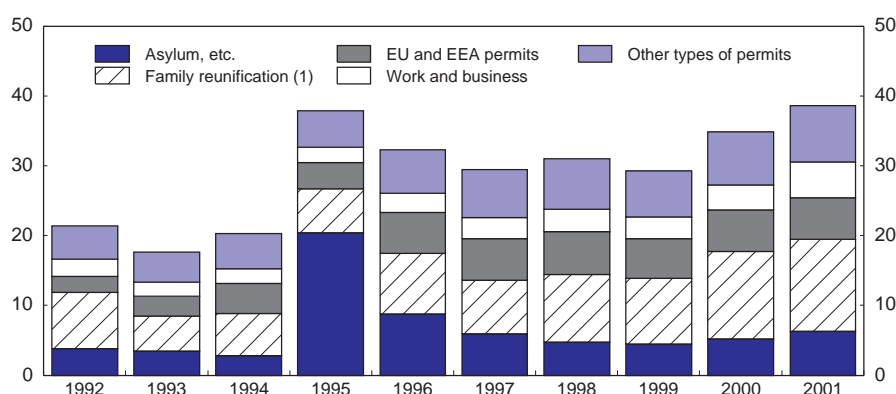
4. Feyrer (2002) finds that countries with a large proportion of workers below 40 years of age have lower aggregate productivity levels than those with large cohorts in their 40s, whereas the proportion of the workforce above 50 years is not seen to have a significant effect. The same relationship seems to hold when looking at productivity growth and changes in the composition of the workforce, *i.e.* countries with a change towards a larger part of the workforce in the ages below 40 have lower aggregate productivity growth. The regressions of productivity on the population shares of different age-groups are based on panel data from a sample of all OECD countries covering five year intervals from 1960 to 1990.
5. Changes in the discounting rate used to calculate net present values do not significantly affect the results.

Immigration patterns

Denmark has not traditionally been a popular destination for immigrants: immigration is a relatively recent phenomenon and has involved several distinct waves.

- Before 1960, the few foreign-born residents came almost exclusively from other Nordic countries, Germany and the United Kingdom.
- From 1960 to around 1974, Denmark permitted companies to recruit a significant number of workers from abroad, mostly from Turkey, Yugoslavia and Pakistan, in response to labour-market shortages.
- Since 1985, *de facto* refugees and asylum seekers have become significant. They have come especially from Sri Lanka, Iran, Iraq and Lebanon, and also in the 1990s from the Balkan states, Afghanistan and Somalia.
- As the earlier groups have become more established, entry for family reunification purposes has expanded: in the past few years these entrants have exceeded the flow of asylum seekers (Figure 3). Around half of the family reunification permits issued in 2001 involved spouses, of which almost one-quarter provided entry for people under the age of 24.

Figure 3. Residence permits granted
Thousands



1. From May 2000, all children born to parents holding permanent residence permits are required to hold a separate residence permit. It is estimated that this technical change accounted for around an additional 2 500 permits in 2000 and 2001.

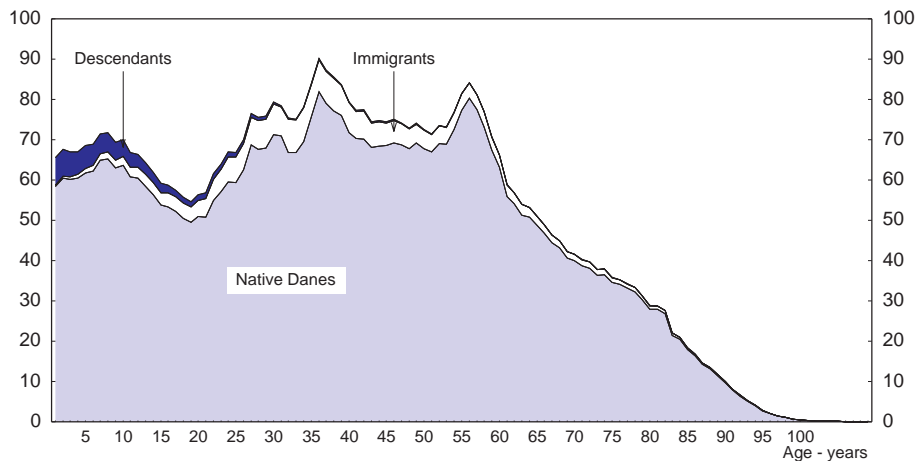
Source: Statistics Denmark.

As of 1 January 2002, there were almost 332 000 foreign born (“first generation”) immigrants and 99 000 descendants (“second generation”) living in Denmark, amounting to close to 8 per cent of the total population. Three-quarters of them came from less LDCs, with more than half of these having arrived in the last 10 years. Most immigrants are aged between 25 and 49, while most descendants are younger than that (Figure 4). The current age structure, along with significant differences in fertility rates, means that the proportion of immigrants and descendants is projected to almost double over the next 20 years, according to estimates prepared⁶ for the government’s Task Force on Integration. Overall, the growing proportion of immigrants and descendants over time suggests that any associated difficulties are likely to become more important if not addressed. Denmark’s immigration trends can also be set in an international

6. By the DREAM group established by the Ministry of the Interior and Health and now placed under the Ministry of Refugee, Immigration and Integration Affairs

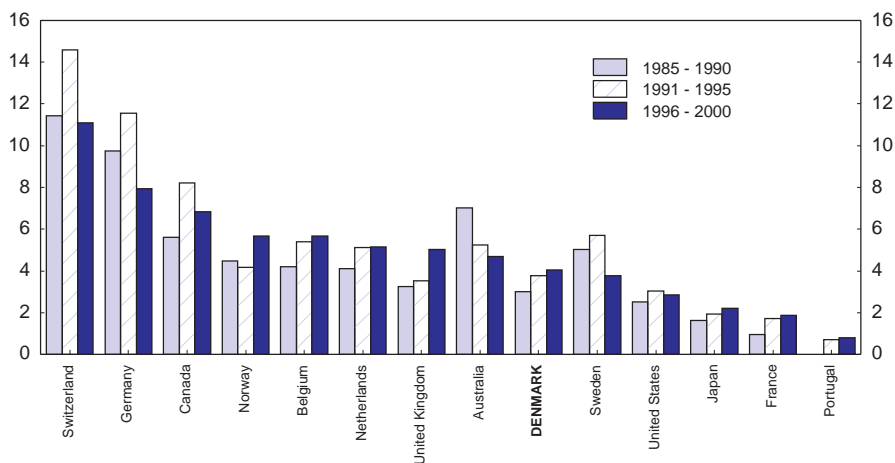
perspective. As a small country, it admits significantly fewer foreigners in absolute terms than many larger countries, but foreigners as a percentage of the population is around the middle of the OECD range while the inflow of migrants per 1 000 inhabitants increased significantly between 1985 and 2000 (Figure 5).

Figure 4. Population by age and origin
Thousand persons, 1 January 2002



Source: Statistics Denmark.

Figure 5. Inflows of foreigners to selected OECD countries
Per 1 000 inhabitants



Source: OECD (2002b).

In contrast to a number of other European countries (see, for example, OECD, 2003a), Denmark does not appear to have a significant number of illegal immigrants and illegal immigration is generally assessed to be almost entirely limited to the construction and entertainment sectors. This is probably for two main reasons:

- It is generally difficult for illegal immigrants to find work, as the social partners monitor, and if necessary, sanction employers using illegal workers or under-paying legal immigrant workers (Hjarnø, 1996). Also, the widespread use of the unique civil registration number in

public and private sector administrative systems makes it quite difficult for people to function in Denmark without one.

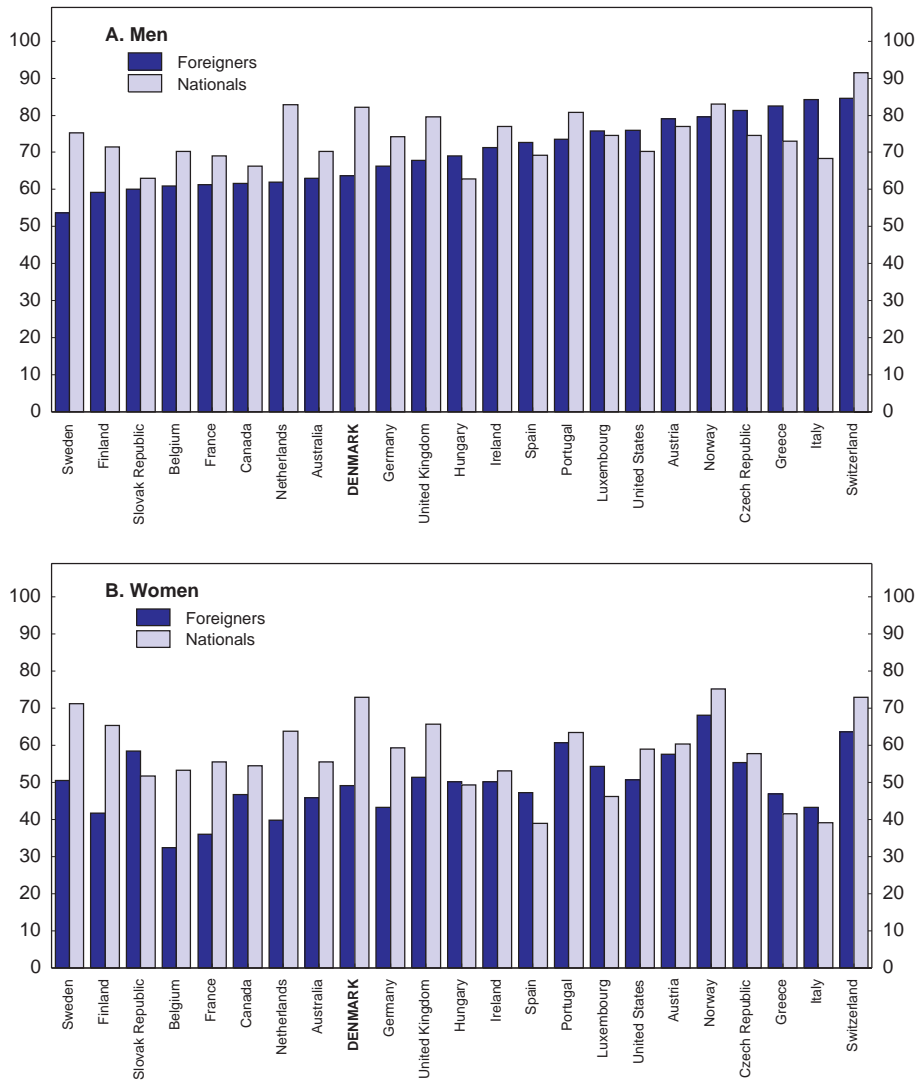
- The traditional ease with which someone arriving in the country could claim financial assistance means that there is no economic advantage in remaining clandestine.

Labour force participation is a key indicator of progress towards becoming integrated into society. Denmark is well known for its high overall participation rates, especially amongst women, but immigrants are significantly less likely to participate in the labour market. This gap stands in contrast to a significant number of other OECD countries, where foreigners are either more likely to work than nationals, or where their participation rates are only slightly lower (Figure 6). A closer look at the data for Denmark illustrates how much this depends on country of origin: well under half of some nationalities are active on the labour market (Table 4). Participation rates are higher for groups that have already spent a longer period in Denmark. Indeed, those who have spent more than 10 years in Denmark have a participation rate around double that of those who have been in the country two years or less. However, the significant shifts in the mix of migrants over the last decade caution against expecting that time alone will produce the same improvements for more recent arrivals.⁷ Another key element in determining the degree of labour force participation is age at arrival. This relationship probably reflects increased exposure to the Danish education system and stronger language skills, as well as a greater flexibility and willingness to adjust to the Danish working environment among young people (Figure 7).

There are also quite different patterns of reliance on public transfers for those who are of working age but outside the labour force (Table 5). Almost one in five males is receiving income support through activation measures, cash benefits etc., and more than one in four women are receiving this type of support or maternity pay, while a dramatically smaller fraction of native Danes and immigrants from more developed countries is drawing such benefits. This has a double fiscal effect: not only are these people not adding to tax revenues, but they are also drawing public expenditures.

7. The measured improvement over time may also be biased upwards by those migrants from earlier cohorts who have left the country again (Edin *et al.*, 2000). More than 17 000 foreign nationals emigrated from Denmark in 2001: some 5 per cent of the stock of foreigners. Almost two-thirds were of working age, and although there were actually more foreigners from MDCs than from LDCs, those who left had a slightly lower employment rate than those who chose to stay. However, there is little further concrete information about the characteristics of those who departed or their reasons for doing so.

Figure 6. **Employment gaps for immigrants**
 Employment rates of working-age nationals and foreigners¹ by gender
 1999-2000 averages²



1. Nationals and foreigners refer to persons born in the host country and born abroad, respectively, for Australia, Canada, Hungary and the United States.

2. August 2000 for Australia; 1996 for Canada and March 2000 for the United States.

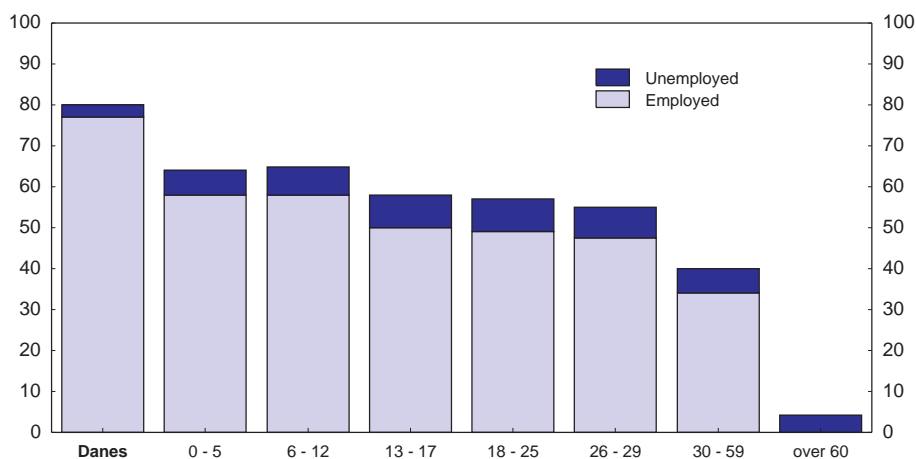
Source: OECD (2003b).

Table 4. **Participation rates among different immigrant groups**
Per cent, 1 January 2000

Country of origin	Male	Female	Total
All countries	63	48	56
United Kingdom	79	64	73
Sweden	74	70	72
Germany	72	56	64
Vietnam	71	53	62
Turkey	71	46	59
Oceania	69	49	61
Poland	68	62	64
Pakistan	68	34	53
Chile	67	56	62
Norway	66	62	64
Iran	62	41	54
North America	60	52	56
Ex-Yugoslavia	58	42	51
Unknown and stateless	46	27	39
Lebanon	46	17	33
Iraq	33	15	26
Somalia	25	10	18

Source: Ministry of the Interior and Health.

Figure 7. **Labour force participation by age at arrival**
Immigrants from less developed countries, aged 16-66 years
Per cent, 1 January 2001



Source: The Ministry of Refugee, Immigration and Integration Affairs' database in Statistics Denmark.

Table 5. Working-age population outside the labour force

	Less developed countries		EU, Nordic countries and North America		Native Danes	
	Men	Women	Men	Women	Men	Women
Participation in the workforce	59.0	43.0	71.0	62.0	83.0	75.0
Students in further education	4.5	5.1	2.9	3.8	2.9	3.5
Temporarily outside the labour force (activation, cash benefits, maternity, etc.)	18.0	26.8	3.2	3.8	2.2	4.0
Early retirement schemes (including disability)	7.8	5.7	6.7	12.1	9.7	13.8
Others, not in labour force	10.7	18.8	16.0	17.9	2.2	3.8
Total outside workforce	41.0	57.0	29.0	38.0	17.0	25.0
Total number of persons outside labour force	37 200	50 900	11 900	15 000	289 800	403 600

Source: SOPEMI report for Denmark, 2001.

Entry policies

The strong increase in immigration over the past decade, together with relatively weak integration of the earlier cohorts of immigrants from some LDCs, has led to a reconsideration of entry policies. The shift in policies was motivated in large part by three factors:

- a belief that Denmark had become a magnet for low-skilled asylum seekers because of both easier entry and more generous public income support than provided by most other countries (see Box 1);
- a concern that entry procedures made it particularly difficult for firms to recruit highly skilled immigrants;
- a realisation that economic and social integration of the foreigners needed improvement and that until the backlog of poorly integrated migrants had been effectively dealt with, adding more newcomers with a low probability of success would make the task more difficult.

In response, the rules governing entry have been changed incrementally since around 1998, with a series of legislative amendments to tighten both entry and integration requirements.⁸ In contrast to a number of other countries, Denmark does not operate quotas for any category of immigrants, nor does it make more than a technical distinction between residency and work permits:⁹ for practical purposes most legal residents can work.

8. For example, the Integration Act 1999 imposed a requirement to attend a three-year introduction course (including a significant language component) on all immigrants, not just refugees, and an amendment to the Aliens Act in May 2000 tightened the rules on family reunification.

9. For example, Australia, Canada, New Zealand and the United States all operate quotas for total immigrant flows or for certain categories. In France and Japan, some immigrants are granted residence permits but are not permitted to work or face restrictions on the work they may do.

Box 1. Welfare assistance for asylum seekers

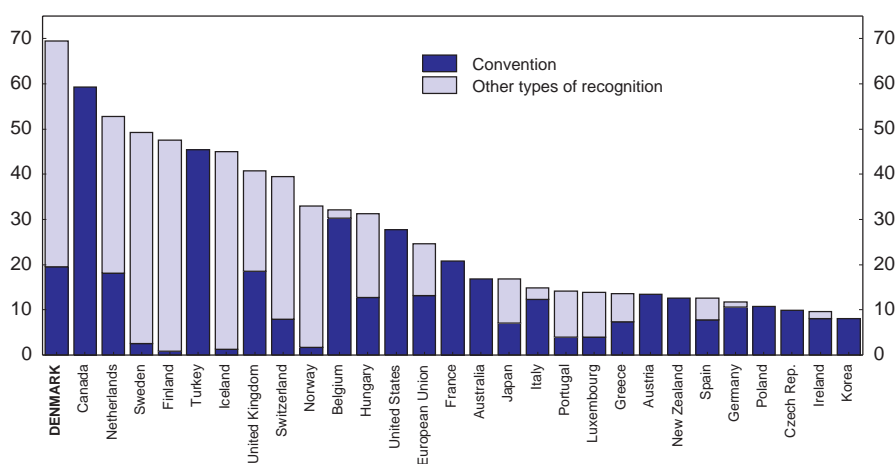
Denmark has traditionally provided generous welfare assistance to all residents, including new arrivals. Asylum seekers are lodged in special reception centres — most of them run by the Red Cross, under contract — while their applications are considered. They are provided with not only food, lodging and health care, but also with pocket money amounting to around 30 euros per week, significantly more than received by their counterparts in Austria, Belgium, the United Kingdom, Germany or Sweden, although slightly less than is paid in Norway (Ministry of Foreign Affairs, 2002). However, in January 2003 the government put forward a bill that lowers the welfare assistance to asylum seekers significantly. It was adopted by the Parliament in April 2003 and entered into force on 1 July 2003.

Furthermore, until the changes in mid-2002 (which imposed the residency requirement of seven out of the previous eight years for full access to social welfare benefits), asylum seekers recognised as refugees were entitled to receive full cash benefits immediately. Full welfare benefits are generous, both by international standards and especially relative to income from the work those unskilled immigrants could hope to obtain (see below). It is hard to know to what extent this generosity acted as a magnet to asylum seekers, although a number of countries operate some sort of waiting period before granting immigrants full access to the social welfare system. However, the Aliens Act of 2002 entitles the Danish Immigration Service to deny asylum seekers cash benefits if they fail to meet certain requirements.

Asylum seekers

Faced with the sharp increase in asylum seekers over the 1990s, Denmark enacted a new law on entry from 1 July 2002 (Annex 3). Reflecting this, there was a sharp drop of around 50 per cent in the number of applications for asylum in Denmark in 2002, whereas overall applications to the European Union remained stable, and countries such as Sweden and the United Kingdom registered strong increases. Denmark also stood out as having the highest rate of recognition (*i.e.* granting refugee status to asylum seekers) of all industrialised countries over the decade to 2001 (Figure 8), dramatically higher than the

Figure 8. Recognition rates for asylum seekers
Per cent, 1992-2001



Source: UN Human Rights Commission (2002).

European Union average. The new rules adopted in the Aliens Act 2002 bring Denmark more closely into line with other countries' practices, even as a number of other OECD countries are also tightening their rules. In a further development, the European Union has now reached agreement on a common set of rules to be applied concerning asylum, both to provide clear protection to those who genuinely need it and to prevent "asylum shopping" by those seeking to take advantage of variations in treatment between different EU destination countries.

Another element that has changed in Danish policy towards refugees is increased emphasis on the option of sending refugees home if the situation in their country of origin becomes safe once again. For refugees from Afghanistan, a common concrete repatriation plan had been adopted by the European Union during the Danish presidency. The Danish Board of Immigration had concluded in mid-2002 that for many Iraqi asylum seekers it was no longer dangerous for them to return to Iraq,¹⁰ although this judgement has since been suspended. These two countries alone accounted for around 40 per cent of asylum seekers between 1998 and 2001. At the same time, new rules on granting permanent residency (which once granted, protects the immigrant from being repatriated) operate to provide a stronger incentive for refugees to make every effort to integrate. It is thus a requirement for obtaining permanent residence that the immigrant completes an introduction programme, passes a Danish language test and has no overdue debt to public authorities. Furthermore, in March 2003 the government put forward a bill which *inter alia* implies that permanent residence can be granted earlier than after seven years of legal residence in Denmark, if the applicant is well integrated into Danish society and can support himself. On the other hand, the Repatriation Act 1999 allows for the possibility that the cultural and economic gap to be bridged for some immigrants and refugees is so large that their best option may lie in returning to their country of origin, and it therefore provides financial assistance for voluntary resettlement.¹¹

Family reunification

Family reunification has been a somewhat contentious aspect of Danish immigration amid concerns that some ethnic groups¹² were disproportionately using these rules to expand overall immigration from their countries. It may slow the integration process of the sponsor, most particularly for young people who bring in a spouse. Another concern has been whether these rules may have facilitated forced marriages in some cases, although it is difficult to assess how significant this problem is, as arranged marriages are a relatively common feature in some ethnic groups in any case.

Virtually all countries operate family reunification policies, and the strictness of Denmark's rules appears to fall within the range of policies that are applied elsewhere (OECD, 2001).¹³ The requirements for sponsorship that apply in different countries show many common elements, reflecting that they address similar concerns. Sponsorship is generally required to ensure that those coming into the country do not become reliant on state income support. Adequate housing must also be provided. For Denmark, the

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10. This assessment was in part based on a reappraisal of the extent to which the mere act of seeking asylum in another country put them in danger in Iraq, and of the consequences of refusing military service.
 11. The United Kingdom has also operated a programme of voluntary assisted returns since early 1999. Most of those who have availed themselves of this facility were still working their way through the asylum process at the time. An evaluation by Deloitte and Touche found that this approach provided clear financial and human benefits, especially for those who would have been refused leave to stay at the end of the asylum process (see United Kingdom Home Office, www.homeoffice.gov.uk/rds).
 12. Two ethnic groups stand out for such family reunification: Turks and Pakistanis, where some 80 to 90 per cent of young people marry someone from outside the country and seek to bring them to Denmark.
 13. For example, the United States operates a significantly more generous policy towards family reunification, while Austria operates a quota for family reunification for those who arrived since the beginning of 1998 that is limited to the spouse and unmarried minors. Those who settled in Austria before 1998 may only bring in their spouse and children under the age of 14 years. The family member is not allowed access to the labour market until after four years residence, and even then, it is not automatically granted. In Canada, the family class includes grandparents as well as dependent children, but it does not include fiancés, who have recently been moved to the humanitarian and compassionate category to allow for more detailed scrutiny and avoid abuse of this provision.

sponsor must — unless exceptional reasons make it inappropriate — take financial responsibility for the family member until he or she obtains permanent residence — otherwise the residence permit may be revoked. The main difference in the latest changes, brought into force in mid-2002, is that the same rules now apply to Danish citizens who seek to sponsor a foreign citizen under family reunification provisions, as well as immigrants. Previously Danish citizens were exempt, leading to claims of discriminatory treatment against immigrants. Other changes such as tightening the “ties to Denmark” provision, further limiting unification by marriage for those under the age of 24 years, and increasing the self-support requirements primarily serve to reinforce the policy changes made in May 2000. In any case, the total number of permits granted for reunification for spouses and partners has remained relatively stable in recent years, while the number of applications from residing immigrants, apart from refugees, has actually fallen since the peak in the mid-1990s (Table 6). In any case, only one-quarter of reunification permits granted for spouses in 2001 involved a partner less than 24 years old and it is unclear to what extent the tightening of these provisions will lead to postponements of such marriages or to a higher tendency to marry Danish residents instead. However, new data show that applications for family reunification have fallen since the latest changes brought into place in mid-2002.

Table 6. Family reunification permits granted and denied

	1996			2001		
	Granted	Denied	Per cent granted	Granted	Denied	Per cent granted
Spouses and partners	6 122	895	87.2	6 499	2 043	76.1
<i>of which:</i>						
to residing refugees	1 338	193	87.4	1 694	297	85.1
to residing immigrants	1 325	344	79.4	443	807	35.4
to residing Danish or Nordic citizens	3 449	358	90.6	4 362	939	82.3
Under age children	2 429	431	84.9	6 422	684	90.4
<i>of which:</i>						
to residing refugees	1 309	172	88.4	3 777	314	92.3
to others residing in the country	1 120	259	81.2	2 645	370	87.7
Parents over the age of 60	186	565	24.8	266	559	32.2
<i>of which:</i>						
to residing refugees	71	379	15.8	71	370	16.1
to residing immigrants	38	137	21.7	0	9	0.0
to residing Danish or Nordic citizens	77	49	61.1	195	180	52.0
Total	8 727	1 891	82.2	13 187	3 286	80.1
<i>of which:</i>						
to residing refugees (per cent)	31	-	-	42	-	-

Source: Ministry of Refugee, Immigration and Integration Affairs.

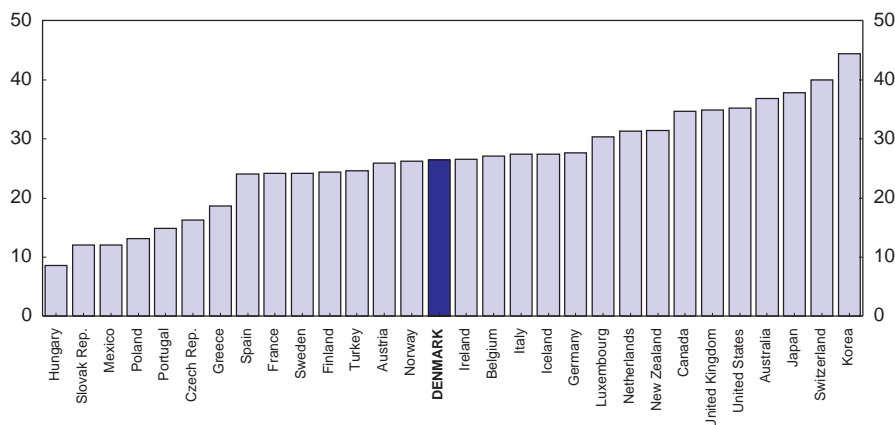
Highly skilled immigrants

Recent policy changes have made it somewhat easier for highly skilled immigrants to come and work in Denmark. European Union and Nordic citizens are entitled to move to Denmark anyway, and the latest modifications to the rules are intended to grant easier access to those of other nationalities with needed skills. The job-card scheme means that foreigners from other countries who have a concrete job offer within one of the sought-after occupational categories will be able to get work and residence permits within 30 days, as long as the salary and terms of employment conform to standard Danish employment conditions.

Even with these changes, Denmark's approach is still quite a long way from the approach taken by countries such as Australia, Canada and New Zealand, all of which operate a "points" system. Under this approach, these countries encourage anyone who wants to immigrate to apply and then select the "best" according to an evolving set of criteria. The emphasis is on selecting those most likely to be able to establish themselves economically, rather than trying only to match particular skills or requiring concrete job offers. Indeed, evidence from Canada indicates that job offers are an unreliable indicator of integration potential, and, thus, this factor is no longer given any weight in selection.

In competing to attract highly qualified migrants, Denmark faces two disadvantages: language and relatively low after-tax incomes. Almost all highly skilled migrants already have some English language skills, giving English-speaking countries a significant advantage as hosts that Denmark can do relatively little about. Furthermore, despite easing entry requirements, it may remain a less attractive destination than those countries where wages reflect more closely the international value of such human capital and taxes are less onerous (**Figure 9**). The special tax relief scheme for foreign researchers and key employees recruited abroad¹⁴ has the effect of raising their after-tax incomes.

Figure 9. **Annual after-tax income for high-earners¹ in selected OECD countries**
Thousand US dollars, 2000, current PPPs



1. Single person earning 167 per cent of the average production worker wage.
Source: OECD, Taxing Wages, 2000-2001.

Another possible consequence of relatively low after-tax incomes compared with other countries is that this might encourage well-qualified Danes to move abroad. This would be facilitated by the scope for free movement of labour within the European Economic Area, while most well-qualified Danes also have strong English language skills. Although there are a significant number of Danes living abroad, and some commentators have pointed to a risk of a "brain drain", it is rather difficult to conclude that a significant problem currently exists. Thus far, it would appear that the majority of exits are temporary: after six years, three-quarters of expatriate Danes have returned home (S.B. Nielsen *et al.*, 2002). It could be argued that such international experience is a plus for Denmark. Nevertheless, some concerns about the risk of a future "brain drain" persist.

The broader issue is the extent to which the population move either temporarily or permanently in order to minimise their lifetime tax payments while maximising their lifetime access to, or use of, the

14. This scheme provides for foreign, highly paid employees to pay 25 per cent gross income tax instead of normal (higher) rates of taxation on earned income, for a maximum of three years. The expert may choose to remain in the country for up to four more years, under normal tax rules.

generous public services and income support offered in Denmark (*i.e.* “social shopping”). This is an inevitable risk in a system where graduates have received extensive public funding to acquire their education and where access to many parts of the social welfare system is largely disconnected from contributions¹⁵ (see OECD, 2003c).

Improving the integration of immigrants from less-developed countries

Improving the economic integration of immigrants from LDCs is a challenging task and has become a priority for the Danish government. The Danish Think Tank on Integration was set up in November 2000 by the then Minister of the Interior to clarify the integration of foreigners in Danish society, analyse future trends in the number of foreigners and address the social consequences. It established seven criteria for successful integration (Think Tank on Integration in Denmark, 2001): Danish skills and education; employment; economic independence; lack of discrimination; contact between foreigners and Danes; participation in political life; and fundamental values and norms. The Think Tank considered that education, employment and economic independence are crucial, and participation in the labour market is the most important precondition to success. These seven criteria were accepted by the government as appropriate benchmarks. The government’s current strategy is particularly focused on the economic integration of foreigners, and this paper also addresses this aspect of integration.¹⁶

The importance of a job

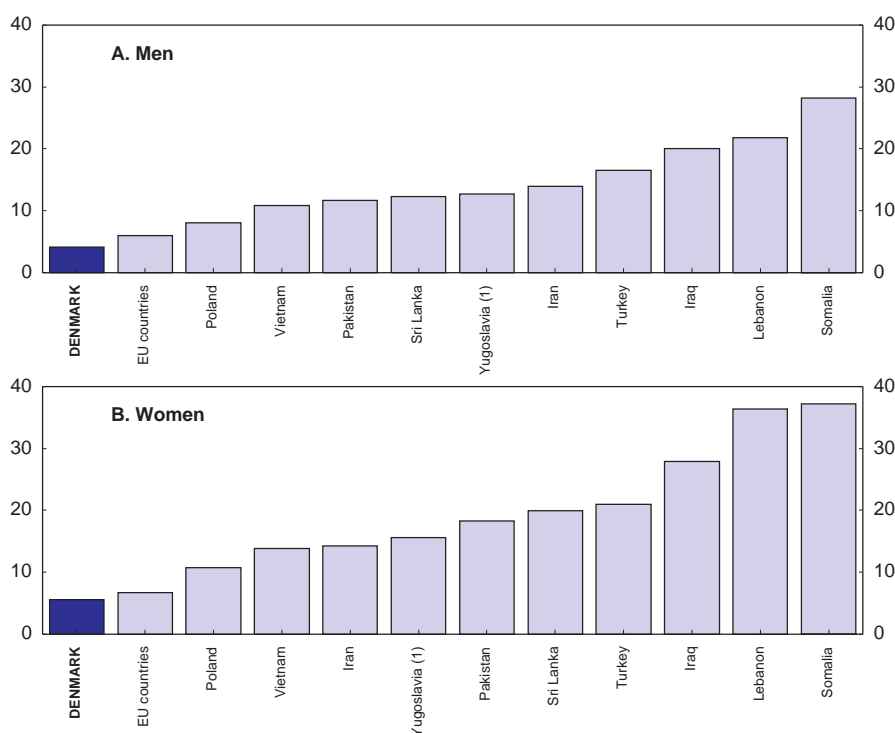
Even in the best of circumstances, full economic integration cannot be achieved overnight and may take even longer than a generation, but the objective for policy is to speed up the process as much as possible; indisputably, the critical step along the path is getting a job.¹⁷ Immigrants’ participation in the labour force is significantly lower than for native Danes, and unemployment amongst foreigners is also considerably higher (Figure 10). Getting migrants into work depends on both the availability of jobs that correspond to their skills, and the willingness of migrants to seek work. At the most basic level, the former requires either providing more low-skilled jobs, or raising the skills of immigrants to the point where they can all compete with native Danes for the jobs that are typically available.

15. Contributions are required for unemployment insurance, although workers overseas can still be members of an unemployment fund. Access to cash assistance benefits is now restricted to those who have been in the country for seven out of the previous eight years.

16. However, it should be noted that the government has also been working actively on addressing the elimination of all forms of discrimination on grounds of racial or ethnic origin. The government is working towards introducing legislation to implement the EU directive on equal treatment irrespective of race or ethnic origin, based on recommendations prepared by a committee set up in May 2001 by the then Minister of the Interior. In May 2002 the Danish Parliament adopted the Act that established the Danish Centre for International Studies and Human Rights, whose tasks include the promotion of equal treatment and which can publish independent reports. Awareness campaigns were also conducted within the context of the UN Year against Racism in 2001.

17. It not only provides financial independence, but also can provide valuable work skills and experience together with greater opportunities to mix with Danes and acquire language and customs (Husted *et al.*, 2001).

Figure 10. **Unemployment rates by country of origin**
Per cent, 2001



1. Former Yugoslavia.

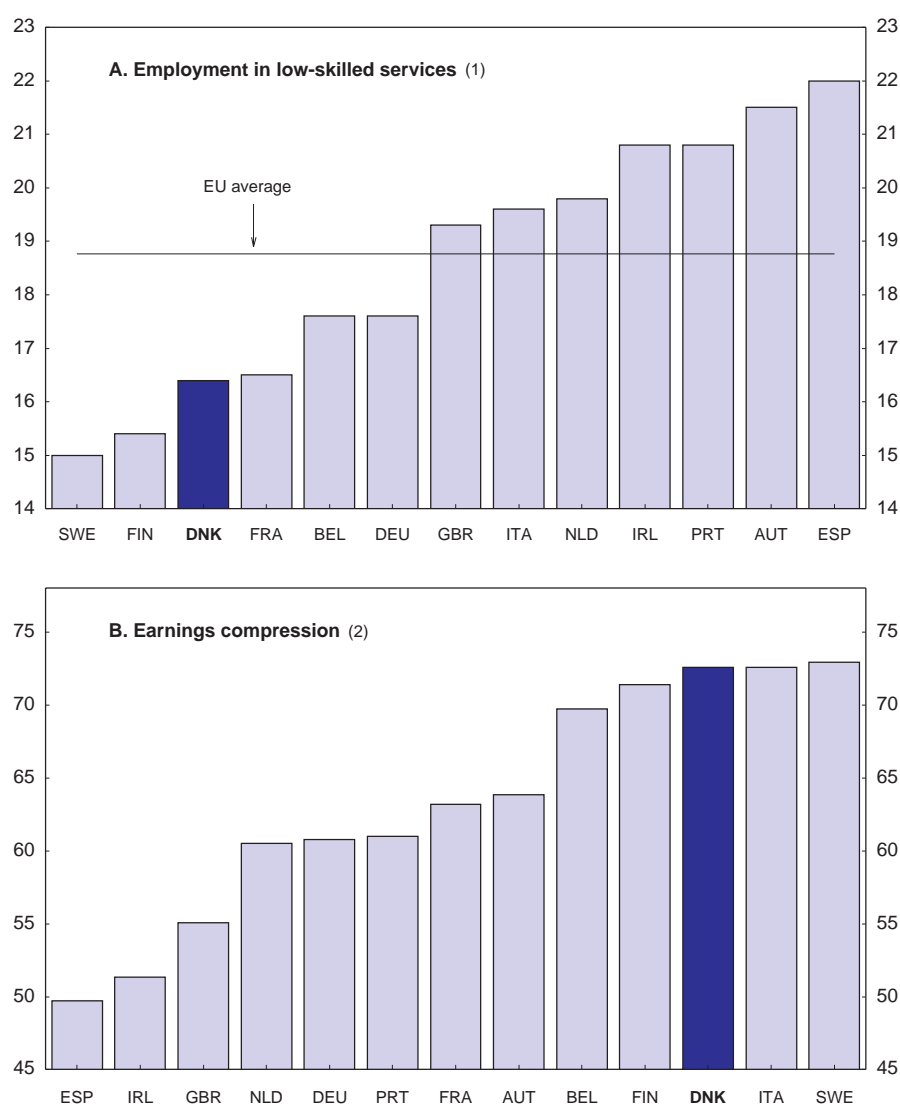
Source: Ministry of Refugee, Immigration and Integration Affairs (2002a).

In some countries, low-skilled work is relatively abundant, albeit at very low wages, and immigrant workers tend to be concentrated in certain sectors that employ a relatively large share of unskilled workers, most often agriculture and services such as hotels and restaurants.¹⁸ In Denmark, these low-skilled jobs are comparatively scarce (Figure 11). The economic structure has evolved into one where wages at the bottom end of the wage scale are relatively close to the average; the lower quartile is paid up to 83 per cent of the median hourly wage, while the ratio of the bottom decile to the median wage is one of the highest in the European Union.¹⁹ This wage compression at the low end would be a problem for low-skilled Danes as well, but with extensive public funding for higher education and skills acquisition, their wages and skills are better matched, resulting in high employment. But low-skilled migrants have a tougher time in this environment to find jobs that they are capable of doing, since generous income transfers and high effective minimum wages in collective agreements keep wages from falling to levels where they could price themselves into employment.

18. Although these workers are relatively poorly paid by host-country standards, for migrants the alternative is returning home to even less attractive economic prospects. A separate issue is the extent to which these immigrants have driven down wages for low-skilled native workers, although the evidence suggests this impact is over-stated. For example, Friedberg and Hunt (1995) find that a 10 per cent increase in the fraction of immigrants in the population reduces native wages by at most 1 per cent.

19. In the United States some 20 per cent of jobs pay less than two-thirds of the median hourly wage and 30 per cent pay less than three-quarters of the median wage (Economic Policy Institute website).

Figure 11. Low-skilled jobs and wage compression
Per cent



1. Wholesale and retail trade, repair of motor vehicles, hotels and restaurants.
2. Earning of lowest decile as a percentage of median, 1998 or latest year available. Data are based on gross earnings of full-time workers.

Source: Eurostat; OECD Earning database.

Furthermore, with a relatively high tax wedge on labour income, households have an economic incentive to reduce their working hours and carry out more domestic chores and home maintenance themselves, even if their comparative advantage and personal preferences might lead them to hire someone else if the tax wedge were smaller. For example, someone earning the average wage would need to work for 1.8 hours to be able to pay someone for an hour's casual employment at two-third average wage and 3.4 hours to pay for an hour's work by a tradesman earning the average wage. As a result native Danes undertake a significant proportion of major house repairs themselves (Brodersen, 1998). But it reduces the opportunities for low-skilled immigrants to find suitable work providing household services, such as cleaning and gardening, work that is disproportionately done by immigrants in most countries.

Alternatively this work may be undertaken in the black economy, but there is little precise knowledge about the extent of this.²⁰

Wage subsidies — bridging the gap between wages and productivity

One policy response to the gap between wages and immigrant productivity would be to develop wage subsidies of some sort, targeted on not yet skilled migrants to enable them to gain employment in the ordinary labour market. A new scheme has been announced that provides gradually diminishing wage subsidies for newly-hired immigrants, while providing in-the-workplace language training as well as job-specific skills (see Box 2). In principle, this approach has a great deal to recommend it, especially as it

Box 2. Integration through the workplace

In May 2002, the social partners, municipalities and the government signed a new agreement, "The Integration Package for Immigrants". This focuses on rapid introduction to working life and acquisition of Danish language skills through the workplace itself. It is motivated by the belief that the workplace is the best environment for immigrants to learn the skills they need, including Danish language, for successful labour market participation. It also reflects a realisation that the workplace provides excellent opportunities for closer contact between immigrants and Danes. The necessary legislation was introduced to Parliament in March 2003.

This agreement, *inter alia*, proposes a new model for workplace integration, involving three stages after an introduction to Danish language and the labour market:

Stage 1. Workplace introduction phase

- Immigrants undergoing workplace introduction will not be covered by an employment contract, and the enterprise will not pay them any wages. However, they will receive public income support (social assistance or introduction benefit).
- Danish language teaching will be the primary focus and will take place on site. It will be paid for by the municipalities, who will also cover the cost of other skills training.
- The workplace introduction phase will last up to 13 or up to 26 weeks if special needs apply, depending on the specifics of the programme. People with very special difficulties might even participate for a longer period if this is assessed to be relevant.

Stage 2. Workplace training phase

- Immigrants are recruited by the enterprise, and are paid according to collective agreements.
- The immigrant's time will be split between working and training, and employers will pay only for the periods when the employee is actually working. Specific job-training might also be used as an instrument, during this stage.
- The public authorities will pay the costs of continuing Danish language and other skills training and to some extent subsidise wages.

Stage 3. Ordinary employment

- The immigrant will be in ordinary employment and receiving hourly wages from the company employing him or her, like any other employee. There is a scope to reach agreement to pay lower wages to persons not yet completely skilled for the job. However, such employment may be part time, and combined with Danish courses or skills training, paid for by the public authorities.

integrates training in the workplace and is designed to take immigrants to the point where they can continue working, without requiring ongoing subsidies. Since getting the job may be the most difficult step of all, this could be all the help those immigrants need to achieve economic independence. It is too early to

20. One study of black market activity in Denmark found that it was primarily being undertaken by young, skilled males, including students and involved on average less than 3 hours per week for each person engaged in such activity (Pedersen, 1998).

judge the likely success of this strategy, which may depend on careful selection of those immigrants best equipped to make good use of the experience. It could also prove costly unless a clear and rapid phase-out path for each participant is adhered to. However, the immigrants with the weakest skills to start with may not even be capable of entering such a programme. They will still be able to take courses in Danish and build up their skills to the point where it is possible to introduce them to a workplace.

Self-employment

One way of bringing hourly wages for immigrants down to levels that make employment viable is self-employment, where effective minimum wages no longer act as a constraint. Self-employment is much higher among immigrant groups, although earnings are much lower than for those same immigrant groups in dependent employment (Table 7). In contrast, Danish entrepreneurs on average earn almost

Table 7. **Gross income for self-employed and wage-earners**
18-59 year olds, 1996

Country of origin	Self-employed DKK	Wage earners ¹ DKK	Gap DKK	Self-employed as per cent of active labour force
Denmark	285 200	233 200	52 000	8.7
Iran	104 600	183 400	-78 800	29.3
Pakistan	136 600	167 900	-31 300	30.7
Ex-Yugoslavia	176 500	190 800	-14 300	7.0
Turkey	114 300	166 300	-52 000	18.7
China	126 500	181 000	-54 500	21.7
Other countries	189 300	222 600	-33 300	13.2
Total	277 300	232 300	45 000	

1. Includes unemployed.

Source: Statistics Denmark; Bager and Rezaei (2001).

one-quarter more than Danish wage-earners, but they tend to be better educated and are much less likely to be concentrated in low value-added business sectors (Bager and Rezaei, 2001).²¹ Self-employed immigrants work very long hours, with only around 10 per cent working 39 hours or less per week, while the majority work 70 hours or more. Low returns to business ownership would seem to imply that those who could get a job working for someone else would prefer to do so. This suggests a very low hourly productivity and implicit hourly wage. Thus, low-skilled immigrants tend to opt for self-employment for lack of alternatives (Clark and Drinkwater, 1999).²² This is in quite sharp contrast to the experience of immigrant entrepreneurs in the United States: there, the self-employment rate for immigrants was around 12 per cent in 1990, only slightly more than that of natives, and their earnings were sharply higher than those for immigrants in dependent employment and tended over time to converge with, and then surpass,

21. For example, 25 per cent of Pakistani and 8 per cent of Iranian and Turkish family-owned businesses are small-scale supermarkets, kiosks, etc., compared with less than 0.5 per cent for Danes (Bager and Rezaei, 2001).

22. This phenomenon can also be seen for Pakistani migrants to the United Kingdom (Clark and Drinkwater, 1999), where the self-employment rate is almost 30 per cent for those over 35 years old and almost 40 per cent for those aged 16 to 24 years.

the earnings of both dependent and self-employed natives (Lofstrom, 1999). Thus, self-employment has played a quite different role in the integration of immigrants in the United States than in Denmark.

Indeed, it is hard for most immigrants in Denmark to use entrepreneurial activities to break out of traditional sectors, and it rarely happens. This may be in large part because, despite long hours and hard work, the experience does little to broaden their skills or offset their lack of qualifications. The skills gap with Danish entrepreneurs is huge — two-thirds of all native entrepreneurs have technical or advanced education, while less than one-third of Iranian entrepreneurs, the most qualified immigrant group, have equivalent qualifications. A lack of language skills is also seen as a handicap by many ethnic entrepreneurs, although they often rated even lower their skills on such basic business tasks as marketing and advertising, negotiating with authorities and staff administration (Bager and Rezaei, 2001). But a growing number of family businesses are now being handed on to better-educated descendants: already in 1996 around one in five Turkish-owned and Pakistani-owned businesses were owned by those aged between 18 and 25 years old. These younger owners might, with access to financial resources from their parents, and/or better skills at tapping external sources of finance, find it easier to either raise productivity and earnings or use their business as a springboard to a wider range of opportunities.

The Government has announced three initiatives concerning immigrants in its recent general plan to improve entrepreneurial activities:

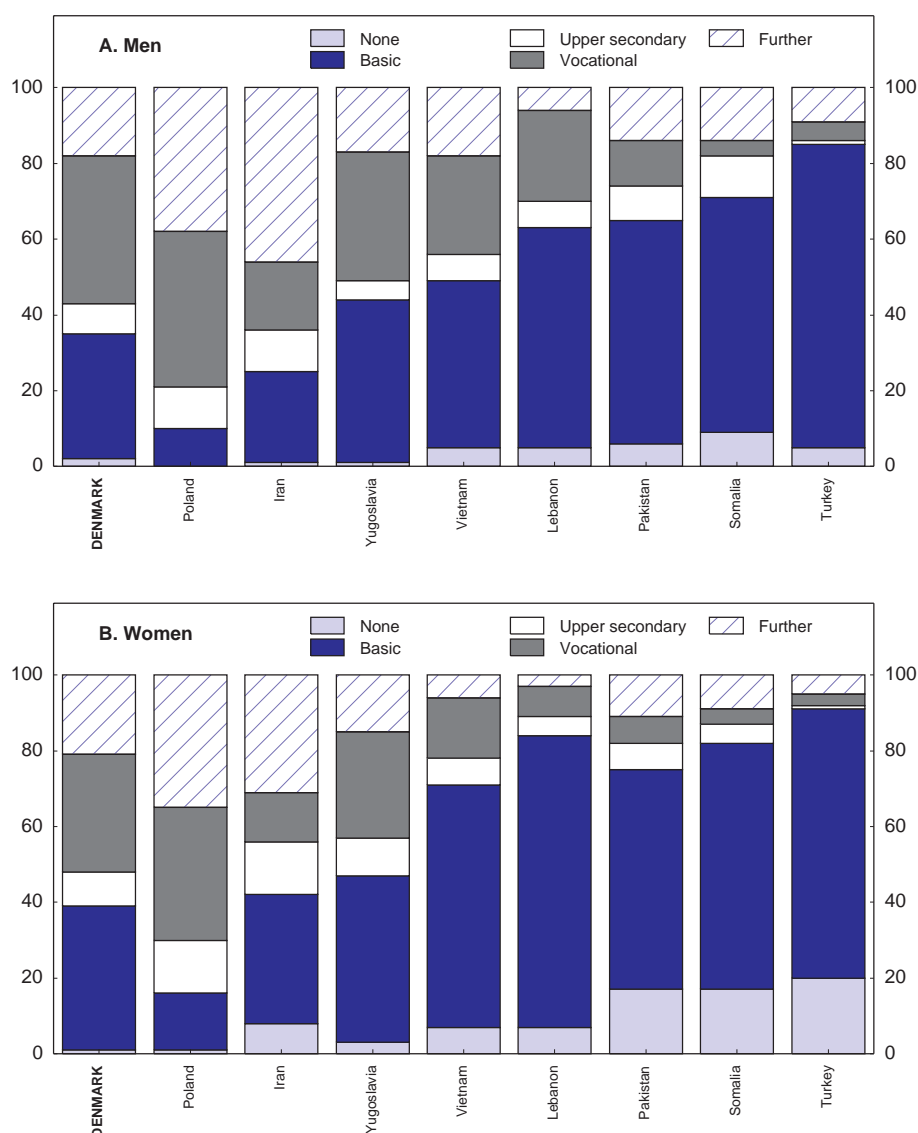
- Developing local networks for ethnic entrepreneurs and strengthening guidance services for them.
- Making entrepreneurial activities a theme in the courses for asylum seekers and the introduction programmes for aliens.
- Conducting a survey concerning the barriers faced by ethnic entrepreneurs in obtaining financial support.

The aim is to improve and broaden entrepreneurial activities among immigrants.

Addressing the skills gap

Another approach to addressing the skills gap for immigrants from LDCs is to invest in upgrading their skills, although careful attention needs to be paid to the cost-efficiency of such efforts. The distribution of education among immigrants from LDCs is quite noticeably different from that of native Danes (Figure 12), with large variations among different ethnic groups. Overall, half of these immigrants had no more than basic education compared with a third of native Danes, while significantly fewer had vocational education. For men, tertiary education rates were around the same as for Danes, although rates for women were significantly lower. Iranian and Polish immigrants are strikingly better educated on average. However, only around half of those with higher education when they arrived actually have jobs. This may be due to language difficulties, but also partly be due to lower, or even impossible to assess, quality of some foreign higher education, notably when obtained in some LDCs, and employers may find it difficult to evaluate these foreign qualifications. To assist them and to make it easier for skilled immigrants to make proper use of their qualifications in the Danish job market, the government has allowed the Danish Centre for Assessment of Foreign Qualifications to make binding assessment of foreign qualifications, permitting entry to regulated professions. The government also wants to make it easier for immigrants to

Figure 12. **Educational attainment of Danes and immigrants¹**
Per cent, 2001



1. For immigrants, education attained either in Denmark or abroad.

Source: Schultz-Nielson (2001).

have their actual level of skills verified, either through business colleges or on-the-job testing, as is already done by a group of companies located in Funen who issue their immigrant workers with written certificates of their demonstrated skills.

Having some Danish education is associated with higher labour market participation rates at all levels of educational achievement (Table 8). Few immigrants from LDCs have Danish post-compulsory education, and even after 15 years of residence in Denmark, around two-thirds still do not have any Danish education. Younger immigrants and descendants are more likely to participate in post-compulsory

Table 8. **Education and labour market participation**
Level of education attained as at 1 January 2001, 16-66 year olds

	Elementary school	Secondary school	Basic vocational education / apprenticeships	Shorter-term advanced studies (< 4 years)	Medium- / long-term university studies (> 4 years)	Not stated/no education
	Per cent					
Immigrants from third countries — education only acquired in the country of origin						
In work	41	42	51	49	50	28
Unemployed	10	9	8	8	7	4
Not in the labour force	50	49	41	43	43	67
Total	100	100	100	100	100	100
Immigrants and descendants from third countries — at least some Danish education						
In work	51	66	76	75	80	40
Unemployed	5	3	8	9	6	7
Not in the labour force	44	31	15	16	14	52
Total	100	100	100	100	100	100
The remaining part of the population						
In work	63	82	84	87	92	52
Unemployed	5	3	3	3	2	4
Not in the labour force	32	14	13	9	6	44
Total	100	100	100	100	100	100

Source: Ministry of Refugee, Immigration and Integration Affairs; Statistics Denmark.

education than their parents, but it is still a lower proportion than for young native Danes (Table 9). Both men and women aged between 18 and 35 are significantly less likely to have completed a qualifying education, with predictable consequences: a longer wait for their first job, shorter tenure in their first job and lower wages (H.S. Nielsen *et al.*, 2002).²³ These results are not unique to Denmark, and similar outcomes can be observed for descendants from less-developed regions in all destination countries, including the United States.²⁴ Nevertheless, there is actually greater improvement in educational attainment among the children of immigrants compared with their parents than can be seen for native Danes, with second-generation immigrants finding it easier, on average, to overcome the disadvantages of low income and parental education.

Table 9. **School-to-work transition**
18-35 year olds, 1997

	Ethnic Danes		Descendants	
	Men	Women	Men	Women
Average age	26.8	26.8	20.7	20.7
Education, years	11.8	12.1	10.7	11.1
Employed, per cent	69.0	56.0	46.0	28.0
Unemployment, rate	6.8	10.8	15.3	16.2
Completed a qualifying education, per cent	64.7	61.7	17.7	22.6
Duration of waiting time spell before first job, months	2.7	3.9	3.6	5.1
Duration of first employment spell, months	19.9	19.2	12.8	11.7

Source: H.S. Nielsen *et al.* (2002).

Several key factors have been identified as making a difference to education attainment for immigrants and descendants from LDCs:

- *Level of parental education and positive attitudes.* Many immigrants who arrived relatively young and went through the Danish education system had mothers with very low levels of education (Jakobsen and Smith, 2002). This particularly affects Turkish-born offspring: on average Turkish mothers who arrived during the “guest worker” period had only 1.4 years of formal education. This probably made it difficult for those parents to help their children with their education, especially in a school setting they were unfamiliar with. For descendants, the education level of their parents was not a factor affecting educational attainment, but still made a difference to their success on the labour market (H.S. Nielsen *et al.*, 2002). A positive parental attitude towards their children’s education also makes a significant difference, especially for girls.²⁵

23. Part of the difference can be explained by the average age difference, since amongst descendants there is a bulge at the younger end of the age group.

24. See, for example, a number of studies cited in H.S. Nielsen *et al.* (2002).

25. Jakobsen and Smith (2002) found that an additional five years of education for mothers (the equivalent of raising Turkish mothers’ levels to those of ex-Yugoslavian mothers) would increase the probability of

- *Marrying young.* Danes marry for the first time on average at the age of 31 years, Turkish immigrants at around 19 years, and Pakistanis and ex-Yugoslavians typically at around 22 years. Women tend to marry younger than men for all three minority groups and are less likely to complete their education as a result.²⁶ Early marriage is a particular handicap, given that in Denmark formal education is generally completed at a later age than in many other countries (OECD, 2003a). For second-generation immigrants, marriage to an ethnic Dane was associated with an increased likelihood that a female descendant will complete a qualifying education. But very few young women from LDCs actually marry outside their ethnic group (Pedersen, 2000).²⁷
- *Danish language proficiency.* This is obviously critical to obtaining a higher level of education and plays the most significant role in determining the individual dropout risk. This factor is clearly linked to both age at arrival and may also be affected by bilingual education practices and ethnic concentration (see below).

A key feature of the Danish education system is the extensive opportunities for adult education. This provides a second chance for Danes and foreigners to obtain basic and advanced skills, and attendance is free in most cases. Indeed, Danes show high rates of participation in adult education. In principle, this existing structure should make it not only possible but relatively easy for motivated immigrants to boost their qualifications and thereby improve their prospects. It is unclear why so few immigrants appear to be using this channel and might be worth examining more closely. In any case, the recent strengthening of the framework of activation plans could help to raise awareness among immigrants of the economic value of undertaking additional education.

Language skills

Language skills are clearly important to labour market success in Denmark, as in many countries.²⁸ Lack of Danish language proficiency remains a major handicap for many immigrants (Table 10).²⁹ Even among descendants, some 12 per cent are not fluent. Around DKK 1 billion of public

formal education by 10 percentage points for young women and 5 percentage points for young men. A very positive attitude to education among parents increases the probability by 18 percentage points for men and 31 percentage points for women.

26. For each year that marriage is postponed in the sample that Jakobsen and Smith (2002) examined, the probability of completing education rose by around 2 percentage points for men and 3 percentage points for women.
27. In contrast, already in the early 1980s, some 25 per cent of Mexican American marriages in California were mixed, and this rate had risen to 50 per cent by 1997 (Duignan, 1998).
28. For example, English proficiency has been shown to have a significant impact on both employment probability and earnings in both the United Kingdom and the United States (Dustmann and Fabbri, 2000), while speaking Swedish well has been shown to increase chances of getting a job in Sweden (National Board of Health and Welfare, 1999). It is worth noting that for the United Kingdom it was found that verbal skills boosted employment prospects only slightly, while writing abilities make about three times as much difference. Language proficiency makes a difference to earnings as well, although the effect seems to be stronger in the United Kingdom than in the United States, Canada or Australia, while in Germany the difference is slight.
29. In contrast, a study for the United Kingdom, where languages skills were also assessed by the interviewer, 78 per cent of immigrants arriving before the age of 10 years old, and 24 per cent of those arriving after the

funds per year are spent on providing free Danish language courses for adults, but the quality of some of these programmes may be variable, and absenteeism is around 25 per cent. It is not possible to identify to what extent these two factors have contributed to the weak language performance of immigrants. Nor is it clear what strategies might incite long established immigrants to make more effort to become fluent in Danish, if they have managed to get by in daily life without it thus far.

Table 10. **Danish language skills**¹
Per cent

	Fluent	Good	Average	Poor	Total
Men					
All immigrants and descendants	28	29	26	16	100
Immigrants, aged 13 or more on arrival	15	31	33	21	100
Immigrants, aged 12 or less on arrival	62	29	7	2	100
Descendants	88	10	2	0	100
Women					
All immigrants and descendants	28	21	25	25	100
Immigrants, aged 13 or more on arrival	13	23	31	32	100
Immigrants, aged 12 or less on arrival	69	22	8	2	100
Descendants	88	9	2	1	100

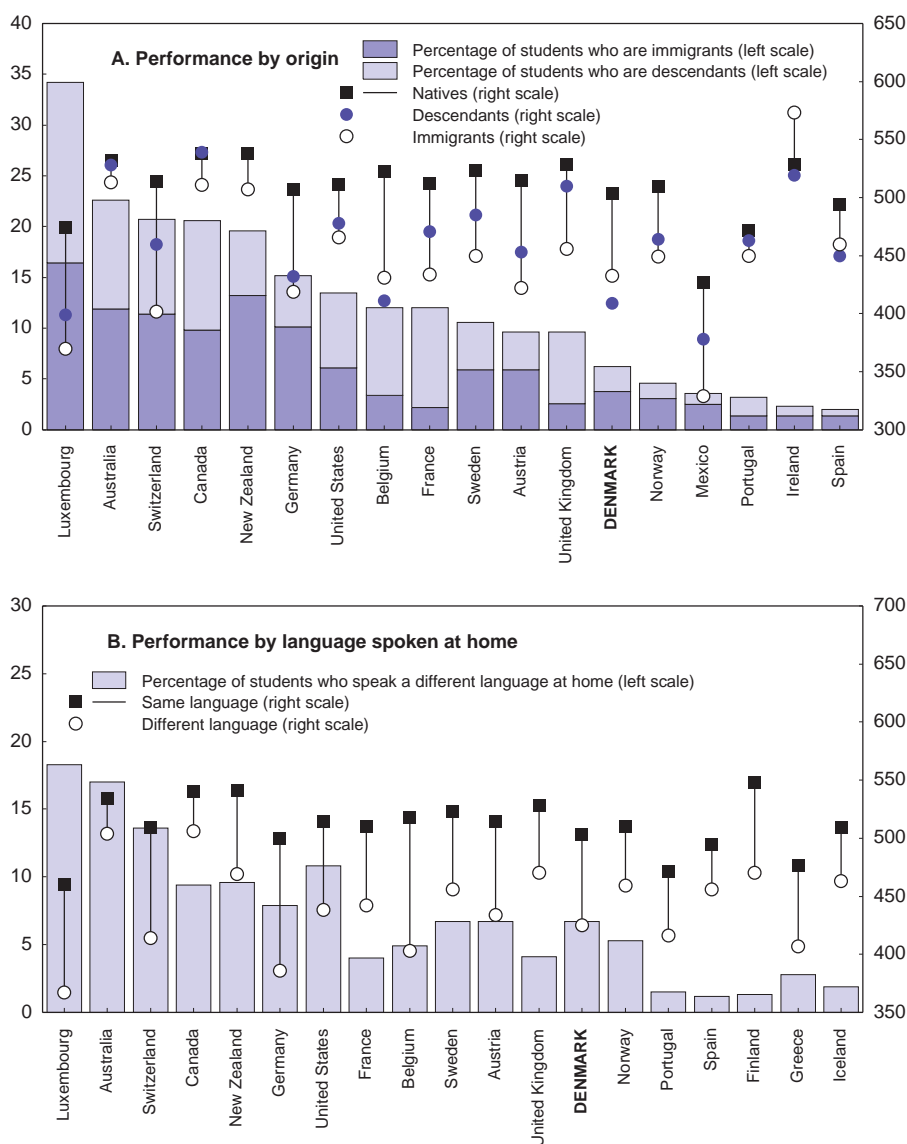
1. Interviewers' assessments of respondents' level of knowledge of Danish in 2001.
Source: Larsen (2002).

A greater awareness of the importance of language skills for successful labour market integration led the authorities to emphasise Danish language as part of the new Integration Act in 1999. This Act applies to all immigrants arriving from outside the European Union or Nordic countries, whether as refugees or under family reunification schemes. Under this legislation, responsibility for integration was handed to the municipalities, on the grounds that they would be better placed to implement comprehensive and co-ordinated measures to facilitate integration. They are obliged to offer all arrivals (except from Nordic or EU countries) a three-year introduction programme. This should be designed as an individual contract for each immigrant, after assessing his or her individual abilities and background, and be aimed towards eventual participation in the labour market or further relevant education. The programme involves Danish language lessons and classes in understanding Danish society and also involves activation for those eligible for the introductory benefit. For such immigrants, the introduction programme must be at least 30 hours per week.

The first introduction courses have only recently been completed, and it is perhaps too early to judge their success. However, despite the general good sense of this strategy, two aspects need to be carefully monitored. The first risk is that the length and intensity of the course (and associated income support) might actually keep some immigrants out of the job market longer than they would otherwise be, or discourage them from looking for work and achieving self-reliance. The present government has stressed that it does not believe that foreigners have to learn Danish before getting a job, and it is looking to find ways to organise language training so that it fits better the needs of individuals and companies. The new wage-subsidy scheme for immigrants, which incorporates workplace language courses, is one approach along these lines. The second potential shortcoming is that local case officers may be reluctant to exercise the sanction on non-attendance provided, namely reducing the introduction benefit, or such penalties might prove ineffective in changing behaviour.

age of 24, were fluent. Among different minority groups, Pakistanis had the weakest language performance (Shields and Price, 1999).

Figure 13. Reading literacy performance
15 year-olds, 2000



Source: OECD, *Education at a Glance*, 2002.

Bilingual education and performance

Language acquisition is also critical for the successful integration of immigrant children. But those children currently within the school system are clearly performing less well than Danes, and the gap for reading literacy among 15 year-olds is more marked in Denmark than in many other OECD countries. It is more surprising to find that the gaps on reading are worse for descendants than for immigrant 15 year-olds tested at the same time (Figure 13). Overall, this suggests that the education system is unsuccessful in overcoming the disadvantages ethnic minorities face in acquiring basic education and skills. Identifying the educational shortcomings and addressing them is beyond the scope of this working

paper, but one factor which has been called into question is bilingual education.³⁰ Until 2002, municipal authorities were obliged to provide bilingual instruction to all bilingual children, including descendants, and the majority of ethnic-minority pupils were enrolled in such education programmes. This requirement has now been abolished, but a number of municipalities continue to offer instruction in both languages spoken by those children.

Whether bilingual education *per se* helps or hinders educational attainment and integration more generally is a contentious issue in a number of countries (see, for example, Duignan, 1998).³¹ In one study of 12 OECD countries, most had established the goal of having immigrant children mainstreamed into regular classes within three months to three years (Glenn and de Jong, 1996). But although the countries followed quite a range of different strategies, and sometimes changed tack, none had achieved clear success in overcoming the weaker overall scholastic performance of immigrants relative to natives. The same study also pointed out that policies adopted were generally not grounded on research and evidence of a link to educational attainment.³² Given the lack of solid evidence demonstrating a strong role for mother-tongue education in improving educational attainment or assisting economic integration, and the weak Danish skills of immigrants, it seems reasonable to ask whether bilingual education might be retarding the integration process.

In this context, the government's recent decision to extend the opportunities for immigrant children to receive special Danish language exposure and stimulus programmes to 3 year-olds as well as 4 and 5 year-olds should help to get those children off to a better start in Danish, as well as redress the slightly lower participation of young immigrant children in childcare activities. Evidence from the US Head Start pre-school programme, designed to boost school readiness among disadvantaged children, suggests this would be a useful strategy (Currie and Thomas, 1999).

Enclaves

Ethnic concentration plays a complex role in integration. In principle, network effects may make it easier for new arrivals to become more quickly established in housing, as well as find jobs, through the established contacts of other immigrants. However, international evidence indicates that immigrants living in an enclave have weaker host-language proficiency, with both less incentive and fewer opportunities to improve language skills (Chiswick and Miller, 2002; Bauer *et al.*, 2002). They are also less likely to get involved in mainstream daily life and activities. In Denmark some 8 per cent of immigrants and descendants surveyed indicated they had no contacts at all with Danes, while another 19 per cent were on no more than nodding terms with any Dane (Schultz-Nielsen, 2001). The lack of contact with Danes among the unemployed, course participants and others outside employment is significantly higher. All else equal, including language proficiency, associating with native Danes and reading Danish newspapers regularly appears to boost male immigrants' chances of finding employment. Contact with Danes was also important for women's employment prospects. This raises questions about the extent to which ethnic enclaves may be hindering the integration process for adults and also providing a less favourable language environment for children, especially for those in bilingual schools.

30. Bilingual education involves providing some proportion of the instruction in subjects other than Danish language in the student's home language.

31. In the United States, the question has become highly politicised and closely intertwined with the objective of preserving ethnic cultures as well as an issue for educational attainment (Duignan, 1998).

32. The rationale for home-language teaching has also varied between countries and over time, including: facilitating the return home of guest workers' children; recognition of separate cultural identity; building minority children's self-esteem and sense of security; and cognitive benefits of bilingualism.

Most immigrants from LDCs are concentrated in a few municipalities, primarily around Copenhagen, Århus, Odense and Aalborg (Table 11). Although Copenhagen has the greatest number, four smaller authorities in the greater Copenhagen area actually have higher concentrations. The probability of finding work appears to be lower for immigrants who live in these enclaves (Ministry of Refugee, Immigration and Integration Affairs, 2002*b*), which is consistent with the above findings on the importance of contact with Danes. There has also been a clear trend towards segregation within all the larger towns and cities in Denmark: this problem has been exacerbated by the way in which municipalities have primarily allocated refugees to non-profit (social) housing estates and to dwelling blocks where there is already a larger-than-average proportion of Danes with social problems.

Table 11. **Concentration of immigrants by municipalities**
As at 1 January 2002

Municipality	Total population	Immigrants and descendants			
		From less developed countries		From EU, Nordic and North American countries	
			Per cent		Per cent
Copenhagen	500 531	69 110	13.8	20 663	4.1
Århus	288 837	25 451	8.8	6 076	2.1
Odense	183 628	15 738	8.6	3 066	1.7
Aalborg	162 264	7 990	4.9	2 558	1.6
Frederiksberg ¹	91 322	7 455	8.2	3 881	4.2
Brøndby ¹	34 542	6 870	19.9	609	1.8
Høje Taastrup ¹	45 947	6 227	13.6	709	1.5
Albertslund ¹	29 130	5 396	18.5	566	1.9
Ishøj ¹	20 987	4 974	23.7	323	1.5
Hvidovre ¹	49 674	4 877	9.8	1 012	2.0
Total of above municipalities	1 406 862	154 088	11.0	39 463	2.8
Rest of Denmark	3 961 492	157 281	4.0	64 499	1.6
Total	5 368 354	311 369	5.8	103 962	1.9

1. Municipalities within the Greater Copenhagen area.
Source: Statistics Denmark.

The government became concerned about the concentration of immigrants around the beginning of the 1990s and established a committee on Metropolitan Affairs in 1993 to find ways to discourage ethnic enclaves. This group proposed a number of measures to combat social problems in “distressed” urban areas. In 1996, the committee changed tack and focused on a new strategy, through an urban regeneration programme (Kvarterløft), aimed at making such areas more attractive without trying to directly influence the social composition of tenants. This approach has been extended further with the present government’s programme of “inclusive cities”.

The concentration of immigrants in social housing is probably made worse by the rigidities of the Danish housing market (OECD, 1999). The majority of Danes own their own home, with only 15 per cent residing in social housing, while the proportions are almost exactly reversed for immigrants and descendants from LDCs. Rent controls for private rented dwellings and co-operatives keep the rents under market value but produce long waiting lists and low turnover, which again makes access more difficult for

immigrants. Turnover is highest in the least attractive social housing, and municipalities have a right to allocate a part of this housing stock,³³ which tends to reinforce the concentration of immigrants in specific areas. The present government's announced reform to make it possible for social housing tenants to purchase their homes has been criticised for making it less likely that a more diversified mix of occupants would result over time (Groes, 2003). Policy changes to improve the way the housing markets function overall (OECD, 1999) would help to ease access for immigrants,³⁴ even though such measures must be implemented carefully and would not produce instant results.

Newly-arrived refugees are dispersed across the country, in accordance with the Integration Act, in order to distribute the responsibility among the municipalities and also to promote contact with native Danes. However, there is a tendency in Denmark, as in most countries, for migrants themselves to gravitate towards others of their ethnic group, even though it does not seem to be in their economic interests. This is an area where further research is needed, especially as international experience indicates that it is difficult to identify policies that can successfully and durably disperse immigrants more widely (Ministry of Refugee, Immigration and Integration Affairs, 2002). This suggests that, for the meantime, a more relevant target for policy might be to ensure that other measures minimise the present negative outcomes associated with enclaves: for example, through greater efforts to boost Danish language exposure.

The benefit trap

One factor that discourages immigrants from working is the low economic return, compared with living on public income support. The Danish welfare system is generous: so-called "short-term" benefits such as unemployment insurance and social assistance are intended to provide people with a bridge back to supporting themselves (see Annex 4). For native Danes, the system appears to fulfil this role, in sharp contrast to the situation of migrants from LDCs (Table 12). Migrants from non-western countries are particularly vulnerable to finding themselves in a welfare trap because their average earnings prospects are so much lower than for native Danes.³⁵ Seen in that light, it is remarkable that around one in five immigrants and descendants in work would be financially better off drawing unemployment insurance, while another third gain less than DKK 500 per month by working (Table 13). The situation for these low paid workers does not show any improvement until they have been working around five years. Indeed, it has been estimated that while Danish men benefit from a significant positive boost to earnings for five years work experience, all else equal, the gains to experience are marginal for immigrants (Husted *et al.*, 2001).³⁶

33. The rest of this housing is allocated by the housing association itself.

34. This would be the result if a shift to market-based rents removed the incentive for people to hang on to good quality, larger flats, on which they pay cheap rents. This would boost turnover, and a greater supply of available accommodation would reduce market prices.

35. Average hourly wages for refugees in 1995 were 18 per cent lower than for Danes and for immigrants from Africa, Pakistan and Turkey, earnings were still 14 to 15 per cent lower than for Danes (Husted *et al.*, 2001).

36. For refugees, early and firm attachment to the labour market is a critical determinant of future wages; although their wage levels are much lower at the outset, they climb more steeply than Danish wages if firm attachment is obtained within 10 years of arrival. But because such attachment is difficult for refugees, average wages remain low. Indeed, the probability of a male refugee finding employment starts to fall after 10 years in Denmark and more sharply so after 20 years, although this may also be an age effect.

Table 12. **Years on social assistance, municipal activation or retraining programmes**
Period 1996-2000

	Native Danes		Non-western immigrants and descendants	
	Men	Women	Men	Women
Not involved	89.2	87.5	47.7	48.5
Up to 1 year	6.2	7.0	20.1	15.6
1-2 years	1.6	1.8	8.7	6.7
2-3 years	1.0	1.2	7.6	7.1
3-4 years	0.8	0.8	6.2	6.8
More than 4 years	1.1	1.7	9.8	15.4
Proportion of each immigrant group who received support for more than 4 years				
Ex-Yugoslavia	-	-	9.4	14.6
Iran	-	-	13.5	23.3
Lebanon	-	-	30.5	56.2
Pakistan	-	-	2.8	9.6
Poland	-	-	3.9	8.4
Somalia	-	-	29.4	36.6
Turkey	-	-	2.9	9.4
Vietnam	-	-	8.3	19.8
Other non-western countries	-	-	8.9	11.9
Western countries	-	-	1.4	1.7

Source: N. Nielsen (2002).

Table 13. **Disposable income gaps between work and unemployment¹**
18-59 year olds, per cent

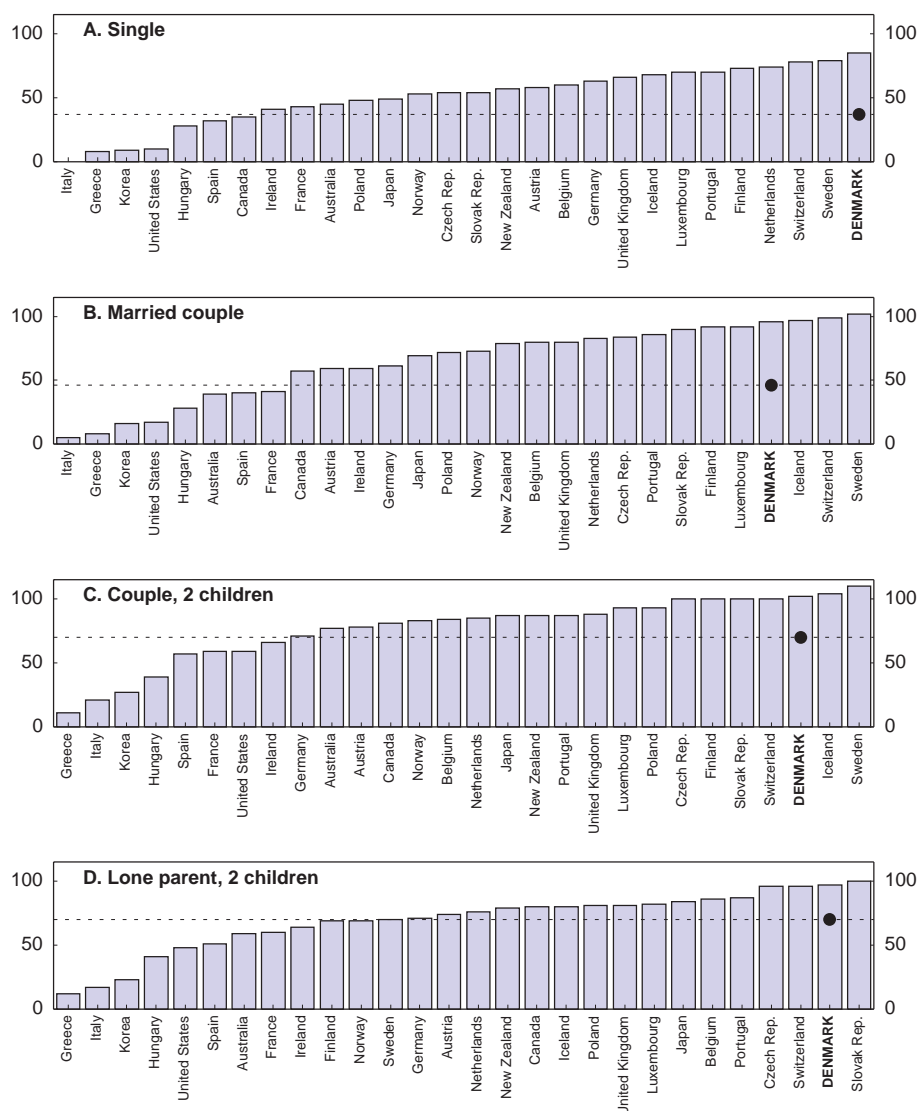
	Whole population, 1996			Immigrants and descendants, 1998/99		
	Men	Women	Total	Men	Women	Total
Childcare costs						
Included:						
Negative "gap"	6	16	10	18	26	21
"Gap" under DKK 500	12	28	20	34	41	36
Excluded:						
Negative "gap"	5	7	6	14	21	17
"Gap" under DKK 500	11	22	16	26	35	30

1. Proportion of employed members of an unemployment insurance fund who have a smaller disposable income from full-time employment than from full-time unemployment.

Source: Schultz-Nielsen (2001).

For those immigrants and descendants who are not members of an unemployment insurance fund, and thus qualify for social assistance instead, the incentive problems are even worse, because if one spouse gets a job, the social assistance to the partner is withdrawn. This means that if only one spouse enters the workforce, the household would experience a net loss unless he or she could earn more than DKK 28 000 per month, which is well above the median wage. This creates a benefit trap for any family in the same situation, but it affects immigrants disproportionately for three reasons: they are more likely to be married with dependant children than Danish recipients; they are more likely to find themselves in a situation where neither partner has a job; and their earnings potential is likely to be lower than that of native Danes.

Figure 14. **Net replacement rates for four family types**
1999, at 66.7 per cent of APW earning level after tax and
including family and housing benefits for long-term benefit recipients



Note: The dots in the columns for Denmark indicate the replacement rate for introduction benefits.

Source: OECD, Tax-benefit models.

To address these incentive problems, the government's "More People in Work" strategy includes a number of measures to make work relatively more attractive (OECD, 2003a). In addition, for new arrivals, it has introduced a residence requirement of seven out of the past eight years to qualify for full access to social welfare benefits. During those first seven years, those in need of social assistance will receive less generous introduction benefits, albeit within the range of net replacement rates that apply in other OECD countries (Figure 14). In every case, as a minimum, those receiving these benefits will receive at least as much as the benefits paid to students in Denmark. It is too early to assess the extent to which these adjustments to incentives will boost employment among new arrivals, but as already noted, it has probably reduced the risk of Denmark being considered a "soft touch" by some low-skilled asylum seekers.

Conclusions

Denmark has made considerable progress in putting in place a more coherent strategy for addressing the economic aspects of immigration. However, it still has to address the situation of those foreigners who arrived under earlier entry policies and who have not achieved economic integration. The economic consequences of those earlier policies are significant, given the gap between the economic prospects of immigrants from LDCs and the nature of the Danish economy. Low employment rates and high reliance on public income support among some immigrant groups has meant that, overall, immigration has not significantly boosted the country's economic output. It has at the same time added to the effective dependency ratio and entailed redistribution of resources from working Danes to non-working immigrants. Furthermore, some immigrants from LDCs have had visible difficulties in integrating into Danish society, which has created some social tensions.

The logical first steps in addressing the integration difficulties facing immigrants from LDCs are to avoid adding unduly to the problem and to do more to ensure that those who arrive in future can more quickly become self-supporting. Denmark has gradually tightened restrictions on entry over the past several years. It has also endeavoured to distinguish more clearly between providing safety and freedom from persecution for genuine refugees and restricting entry for those migrating for economic reasons but with poor prospects of achieving success in Denmark. The government has also delivered the clear message that anyone coming to Denmark will be expected to work and to make every effort to integrate. This message of self-reliance has also been delivered to Danes, along with measures to boost employment (OECD, 2003a).

The current challenge is to improve the integration of immigrants, especially those from LDCs with very low skills, some of whom arrived many years ago. With few low-skilled jobs in Denmark, high effective minimum wages and high net replacement rates on public benefits, these migrants face several obstacles to obtaining a job. These difficulties could be reduced by scaling back welfare benefits and allowing lower wages to be paid for low-skilled work. The social partners have announced that they will consider the possibility of making agreements that allow lower wages for persons not yet completely skilled for the job. Such agreements have already been made in parts of the industrial and financial sector. Furthermore, the unions and employers have collaborated on a scheme to place migrants in the workplace, with temporary wage subsidies linked to on-site training and work experience. This could be a promising approach as long as a rapid subsidy phase-out is enforced, although it may not reach enough migrants to make a major difference. Another helpful element would be to reduce the tax wedge on labour incomes, making it cheaper for households to employ low-skilled workers to provide household services, as they do in a number of other countries.

Raising the skills of immigrants is another way of achieving better labour market integration. Speeding up progress for young immigrants and descendants may be difficult, since the government may be able to exercise only limited influence over some of the factors that make a difference to educational performance, such as mothers' education. However putting more stress on the importance of education for economic integration may help to strengthen aspirations and counter negative parental attitudes; greater wage premia for educational qualifications would also make education more rewarding. Persuading young immigrants to concentrate on completing their education and gaining a foothold in the labour market before marriage may also yield considerable dividends although it is difficult to see how exactly this could be done. In addition, special efforts to reduce the gap in reading performance shown for immigrants and descendants still at school would seem to be a prerequisite to improve educational attainment for immigrants in general. Furthermore, the role of bilingual education in explaining this poor performance needs to be clarified. In any case, efforts to reinforce Danish language skills at all levels of the school system would help to reduce the current performance gap.

Evidence on the importance of host-country language skills for successful economic integration is overwhelming, not just in Denmark, but in other OECD countries as well. As a result, most countries have tightened their expectations that immigrants should make an effort to quickly acquire these skills, while facilitating, or requiring, attendance in language courses. Denmark instituted a three-year introduction programme for immigrants assigned to local authorities in 1999. Careful evaluation of these courses would help to signpost where improvements can be made and how the link to job readiness can be strengthened, especially for women. Attendance requirements need to be more effectively enforced, which to some extent depends on effective and consistent case management at the local level. Sharing of best practices for achieving results across municipalities might provide useful insights into how attendance can be boosted. Another approach would be to apply stronger economic sanctions on those who fail to make reasonable efforts to progress.

The benefit trap in which immigrants from LDCs too often find themselves is an additional obstacle to labour force participation. The government has already instituted a number of measures to limit the disincentives to work arising from relatively generous welfare payments. The most notable change is the lower introduction benefit for new arrivals, which should significantly increase their incentives to obtain employment. But for immigrants already in Denmark and drawing social assistance benefits, the government has limited room to manoeuvre. Tighter work requirements and effective activation measures that quickly lead participants to real jobs may thus be the primary way in which this unemployment trap can be overcome. But if this approach cannot be made to work, then the government will either have to consider more radical changes to the incentive structure faced by immigrants or accept paying social benefits to a high proportion of immigrants indefinitely. Specific policy recommendations arising from the analysis are presented in Box 3.

Box 3. Recommendations on policies for immigrants

Entry

Policies concerning entry to Denmark need to take into account a range of non-economic factors, but the government should in any case consider the following:

- Monitor the entry rules to ensure that Denmark receives in-flows of migrants that correspond to its objectives.
- Reassess the role that compressed wages and high taxes play in making it harder to attract more highly-skilled immigrants and also expose Denmark to the risk of a “brain drain”. Shifting more of the cost of higher education onto the individual, beneficial in any case, would reduce the economic cost of such emigration.

Integration

Policies concerning integration overlap to some extent with the general policy recommendations to boost employment, since the primary focus is on raising immigrants’ participation rates.

- Ensure that policies to overcome the skills gap and the benefit trap, such as wage subsidies and stricter activation policies are clearly time-limited and deliver results. If these do not generate significant improvements in integration, consider the scope for scaling back welfare benefits and reducing effective minimum wages to facilitate the emergence of more low-skilled jobs, which low-skilled immigrants could use as an entry point into the labour market.
- Facilitate the emergence of greater wage premia for education and skills to send clearer signals about the value of obtaining additional human capital, which would be beneficial in any case.
- Pinpoint and address the weaknesses in the school system that result in relatively poor results for immigrants and descendants. Put more emphasis on Danish language skills, and monitor programmes to identify and extend best practices.
- Monitor closely the results obtained from the introduction programme, and stand ready to modify it to make it more effective. Ensure that sanctions for non-attendance are applied effectively at the local level.

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ANNEX I

DEMOGRAPHIC PROJECTION ASSUMPTIONS

To a very large extent, demographic projections are determined by the age structure of those already alive and living in the country. Nevertheless, they are subject to significant uncertainties arising from assumptions about fertility rates, life expectancy and net migration. Although fertility patterns and life expectancy are only very indirectly under any sort of policy influence, immigration patterns are more amenable to deliberate choices. But immigration patterns can be to some extent unpredictable, and recent fluctuations suggest that some caution is warranted when evaluating the implications of the specific assumptions of the size and composition of net migration. The assumed net migration of around 10 000 people per year in the DREAM population projection (DREAM, 2002) would ensure a total increase of the population of almost 10 per cent between now and 2100. However, the shares of immigrants, descendants and the remaining population would change substantially: immigrants from less developed countries (LDCs) and their descendants, in particular, will increase both in numbers and as part of the total population. Thus, the proportion of immigrants from LDCs will almost quadruple, while the number of descendants relative to total population will be almost nine times higher, partly reflecting a relatively low starting point. Immigrants from more developed countries (MDCs) will also increase both absolutely and relatively, but not to the same extent.

The DREAM population projection distinguishes between nine groups depending on civil status:

- Immigrants from more/less developed countries with/without Danish citizenship;
- Descendants from more/less developed countries with/without Danish citizenship;
- Remaining population.

The *remaining population* consists of residents with at least one parent who is a Danish citizen and born in Denmark. Thus, it is irrelevant whether the person herself is a Danish citizen or born in Denmark. If a person does not belong to the *remaining population*, (s)he is either an *immigrant*, if (s)he is born abroad, or a *descendant*, if (s)he was born in Denmark.

More developed countries are: United States, Canada, Japan, Australia, New Zealand and all European countries, except Turkey, Cyprus, Azerbaijan, Uzbekistan, Kazakhstan, Turkmenistan, Kyrgyzstan, Tajikistan, Georgia and Armenia. *Less developed countries* comprise all countries that do not belong to the group of MDCs.

The main differences between groups are in fertility rates. Some convergence is assumed; while the fertility rate for immigrants from LDCs without Danish citizenship was more than double that of the remaining population in 2001, it is assumed to be only 40 per cent higher in 2050. The average fertility rate is assumed to stay around 1.7 until 2025, after which it gradually increases to just above 1.9 in 2065 and remains at that level throughout the projection period.

The expected lifetime for men and women is assumed to increase by 5½ and 2 years, respectively, until 2100, which is less than in UN projections for other EU countries, in particular for women. It is a result of the applied forecasting model extending a relatively small increase in expected lifetime for women from 1981 to 2001.

Long-term net immigration is assumed to be around 10 000 people per year, which is in line with the population projection from the United Nations. The projection does not include any effects on immigration from the recent changes to the Aliens Act, but immigration from LDCs is adjusted downwards compared with the historical average due to the drop in asylum seekers in 2002.

ANNEX II

BASIC MECHANISMS AND ASSUMPTIONS IN THE PROJECTION OF PUBLIC FINANCES

Table A1. **Central and local government primary balance**¹
Change from 2003, per cent of GDP

	2010	2040	2070
Expenditure	-0.6	3.7	4.1
Consumption ²	-0.6	2.4	2.8
Transfer payments after tax	0.0	1.7	1.7
Means testing of public transfers	0.0	-0.4	-0.5
Revenue	-1.4	0.3	0.5
Tax on private pension savings, net	0.2	2.3	2.6
Revenue from North Sea oil extraction	-0.3	-0.7	-0.7
Lower tax from the tax freeze until 2010	-0.7	-0.7	-0.7
Lower tax on earned income from 2004 ²	-0.7	-0.7	-0.7
Impact on primary balance	-0.8	-3.3	-3.5

1. These changes are calculated net of taxes on public transfer expenditure and excluding net interest payments and payments from the labour market supplementary pension fund. Thus, the recorded increases in expenditure and tax revenue in per cent of GDP in national accounts would be somewhat higher.

2. Including the tax cuts from 2004 and offsetting reductions in real public consumption.

Source: Finansministeriet (2002a and 2003); OECD calculations.

In addition to the effects from the change in the composition of the population, the projection of public finances presented in Table A1 is shaped by a number of mechanisms and assumptions:

- Public transfer rates and wages in the public sector are indexed to wages in the private sector in conformity with present legislation and wage agreements. The annual adjustment of public transfer rates and thresholds in the tax system (“satsreguleringen”) is based on the increase in wages according to the Danish Employers Federation’s structural wage statistics, which cover only members of that association. When calculating the adjustment, increases in pension contributions are excluded from the increase in salaries, thereby ensuring an adjustment that more closely resembles the increase in wage earners’ disposable wage income. The wage agreements for public employees include adjustments of public-sector wage increases to the increases in the private sector (“reguleringsordningen”). The statistical basis for the adjustment is the quarterly summary wage statistics for the private sector published by Statistics Denmark. These adjustment mechanisms imply that public finances are broadly unaffected by the level of price inflation and productivity increases, as these are ultimately fully reflected in the wage increases in the private sector. Thus, while higher productivity growth would boost overall output and thereby living standards, it would not ease the long-term pressures on public finances.

- Collective public consumption (administration, defence, justice, etc.) is assumed to follow the evolution of the overall population.
- The government's medium-term objectives, as set out in its medium-term survey to 2010 (Finansministeriet, 2002a), are assumed to be achieved. These include: *i*) a modest increase in real public consumption; *ii*) a tax freeze until 2010; *iii*) tax cuts implemented from 2004; and *iv*) a substantial increase in employment by 2010.
- After 2010, nominal public consumption per user follows the evolution of wages. That implies some growth in real public service standards because the price of public non-wage consumption increases less than wages.
- After 2010, tax revenue follows nominal GDP except for changes in tax bases relative to GDP. Maturing of labour market pension schemes will imply a significant increase in the base for taxation of pension payments. On the other hand, revenue from oil and gas extraction in the North Sea is assumed to decrease and finally cease in 2020 as the resources deplete and the costs from further operations become prohibitively large.

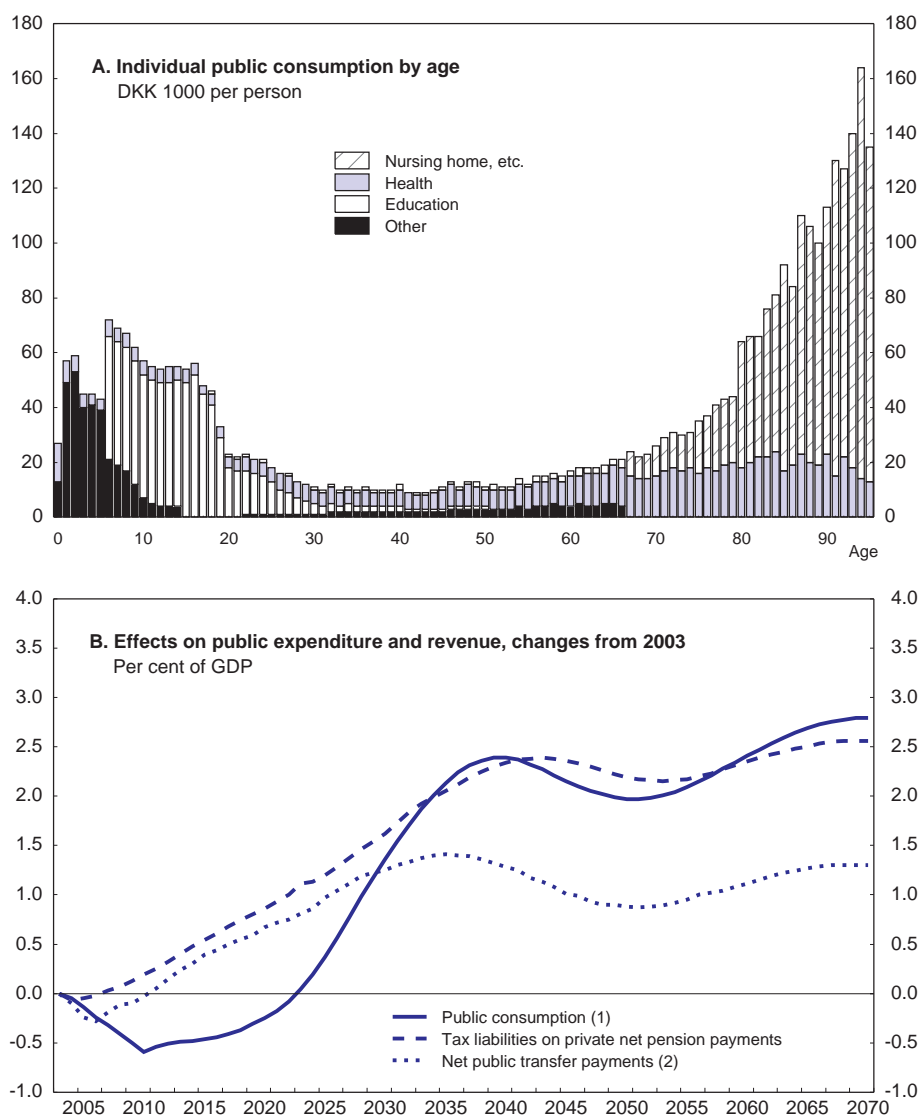
Elements and mechanisms shaping the pressure on public finances

The general government primary balance will deteriorate over the next 40 years due to the demographic changes. There are three major effects shaping the developments in expenditure and tax revenue:

- *Public consumption* as a per cent of GDP will increase rapidly after 2020 (Figure A1), primarily reflecting the impact of ageing on individual public consumption, which is about two-thirds of total public consumption.³⁷ It includes health, childcare and elderly care as well as education, and is therefore highly dependent on the age composition of the population.
- *Public transfers* will increase relative to GDP, as a larger proportion of the population qualify for public income support. This is partly offset by the effect of means-testing certain benefits, primarily the old-age pension supplement and rent allowance, as both the number of people with private pension savings and the average level of these savings will increase.
- *Revenue from taxable pension payments* will rise substantially, reflecting a shift from net pension *contributions* of almost 3 per cent of GDP in 2003 to net pension *payments* of around 3½ per cent of GDP in 2040 as the private labour market pension schemes mature. In general, pension contributions are exempt from ordinary income tax, whereas pension payments are taxed. The tax revenue foregone in the period before pension systems mature leads to a higher recorded general government net debt, but at the same time an implicit asset is built up in the form of deferred taxes.

37. Individual public consumption comprises expenditure that is — directly or indirectly — attributable to and/or can be appropriated by individual users. This stands in contrast to public goods such as defence and security or the provision of street lighting.

Figure A1. Elements shaping the pressure on public finances



1. Including the announced lower growth in real public consumption to offset the government's proposed tax cut.
2. Corrected for taxes and means testing.

Source: Ministry of Finance; OECD calculations.

Overall, the projected changes in expenditure and tax revenue imply a deterioration in the primary budget balance by around $3\frac{1}{4}$ per cent of GDP in 2040 (Table A1), notwithstanding an estimated boost of $2\frac{1}{4}$ percentage points from taxes on private pensions. Also, pressure on public finances is eased by the assumption of a substantial increase in employment in the period up to 2010 in accordance with the government's medium-term objectives. However, the government's tax strategy (*i.e.* the tax freeze and tax cuts to be phased in between 2004 and 2007) reduces tax revenue by close to $1\frac{1}{2}$ per cent of GDP in subsequent years. In addition, the government has been very prudent in assuming that revenue from extraction of oil and gas in the North Sea will gradually diminish to zero, reducing overall tax revenue by almost $\frac{3}{4}$ per cent of GDP in 2040. Furthermore, continued fiscal surpluses and associated reductions in the public net debt will gradually ease the interest burden.

Fiscal sustainability

The projected deterioration of the primary budget balance raises the question whether current fiscal policy is sustainable, *i.e.* whether the government is able to meet its future net obligations (in present value terms), given present public service standards.³⁸ If this were not the case, fiscal policy sooner or later would have to be tightened. In Denmark, this obligation is generally expressed in terms of the required change in the general government structural balance to ensure that the inter-temporal budget constraint is exactly met. Based on the projections of public expenditure and tax revenue presented above, fiscal policy is sustainable according to the method applied by the Danish authorities, as the required change in the general government fiscal balance is -0.1 per cent of GDP in 2003, *i.e.* the current structural budget balance is actually slightly higher than is needed (Table A2).

Table A2. **Long-term requirements for general government finances**
Per cent of GDP

	2003
Annual constant contribution from 2003 to future net obligations:	
(1) <i>Central and local governments' primary expenditure</i>	1.7
Consumption ¹	1.0
Transfer payments after tax	0.9
Means testing of public transfers	-0.2
(2) <i>Central and local governments' primary revenue</i>	0.4
Tax on pension savings, net	-1.4
Revenue from North Sea extraction	0.6
Lower tax from the tax freeze until 2010	0.6
Lower tax on earned income from 2004 ¹	0.6
(3) <i>Interest burden on central and local governments' net debt</i> ²	1.0
(4) Required surplus on central and local governments' structural primary balance = (1)+(2)+(3)	3.2
(5) Correction for central and local governments' structural net interest payments and the structural balance of public funds	1.4
(6) Required surplus on general government balance = (4)-(5)	1.8
(7) General government structural fiscal balance	1.9
Required change in general government fiscal balance = (6)-(7)	-0.1

1. Including the tax cuts from 2004 and offsetting reductions in real public consumption.

2. The interest burden is equal to the part of interest payments that is not eroded by GDP and, therefore, requires financing to prevent the debt-to-GDP ratio from rising.

Source: Finansministeriet (2002a; 2002b; and 2003); OECD calculations.

These calculations are based on a number of specific policy assumptions. An alternative demographic scenario, which does not include the government's medium-term objectives and assumes constant real public service standards³⁹ until 2010, would indicate a required increase in the general

38. More technically, the government should be able to satisfy its inter-temporal budget constraint, which means that current net debt cannot exceed the present value of future primary surpluses.

39. Real public service standards refer to real public consumption per user. Total real public consumption will change in parallel with the population if these standards are kept constant, and nominal public consumption per user will grow slower than wages because the price on public non-wage consumption increases less

government surplus of 0.1 percentage point. However, if nominal public service standards are assumed to be indexed to wages (which would imply a small trend increase in real public service standards), then the structural balance today would need to be 1.1 percentage points of GDP higher for fiscal policy to be sustainable.

Table A3. Indicators of fiscal sustainability in various studies

	Required permanent change in:		
	General government balance	Public consumption	Ordinary state tax
	Per cent of GDP		Percentage point
Ministry of Finance			
Policy scenario, medium-term objectives included until 2010	0.1	-	-
Demographic scenario, wage-indexed nominal service standards (public services per user)	-1.1	-	-
Demographic scenario, unchanged real service standards until 2010, wage-indexed service standards thereafter	-0.1	-	-
DREAM			
Demographic scenario, wage-indexed nominal public service standards	-	-1.6	3.9
The Economic Council			
Main scenario, excluding tax freeze	-	-0.4	1.1
Main scenario, excluding tax freeze but with continued trend towards more people on VERB ¹			2.2
Main scenario, including tax freeze			2.4
Demographic scenario, excluding tax freeze	-	-1.9	5.1
Demographic scenario, including tax freeze			6.4

1. Voluntary early retirement benefit.

Source: Finansministeriet (2002a); DREAM (2003); Det Økonomiske Råd (2002).

A number of other studies have evaluated the sustainability of Denmark's public finances, and in general they suggest that higher structural surpluses are required. DREAM finds that either a permanent reduction of collective public consumption of 1.6 per cent of GDP or an increase in the ordinary state tax of 3.9 percentage points is required if nominal public service standards are wage-indexed (Table A3). The Economic Council suggests that the ordinary state tax would need to increase by 2.4 percentage points if the government's tax freeze for the period 2003-10 is taken into account, and 1.1 percentage points if it is not. These different assessments are basically the result of different assumptions about future labour market developments, whether or not various policy measures are included, and the assumptions embodied in the projection of public consumption. The variety of results demonstrates that the underlying

than wages. If nominal public service standards, *i.e.* nominal public consumption per user, follow wages, real public consumption per user would increase for the same reason.

assumptions play an important role in the assessment of fiscal sustainability.⁴⁰ The DREAM projection, which could be interpreted as a neutral policy scenario, indicates that some strengthening of fiscal policy is needed if the present institutional setting and behavioural patterns are unchanged.

Nevertheless, Denmark seems well prepared for the ageing of its population when compared with other OECD countries. A number of studies suggest that substantially greater strengthening of public finances would be needed to counteract the projected increases in age-related net spending in most countries (see, for instance, Dang *et al.*, 2001 and Frederiksen, 2003). There are several reasons why prospects seem more favourable for Denmark than for most other OECD countries:

- Denmark has a higher structural primary surplus. The required improvement in public finances is highly sensitive to the initial position, and minor changes in the primary surplus can lead to substantial differences in the future debt-to-GDP ratio. However, if appropriate corrections are not made, high volatility in capital gains taxes, in particular, could alter the assessment of required fiscal consolidation from year to year. Thus, some caution is warranted when interpreting the quantitative estimates for different countries.
- The public debt-to-GDP ratio is relatively low in Denmark. Thus, the interest burden — and therefore the required primary surplus to service the debt — is correspondingly lower.
- The expected future increase in net expenditure is lower in Denmark. Demographic changes are more moderate, public old-age pensions are modest, and the deferred taxes on private pension savings will increase tax revenue in the future.

However, the favourable initial position largely reflects a high employment ratio in Denmark. Thus, the potential for improving fiscal balances through higher labour market participation and lower unemployment is more limited than in other countries. In addition, the projected increase in life expectancy is lower than in most other EU countries, suggesting that the budgetary impact from population ageing could be underestimated.

40. Both the Economic Council and the Ministry of Finance incorporate “structural” increases in the labour force in their main scenarios that to some extent counteract the demographic developments. Also, the assumption of real growth (if any) in public service standards (either because nominal service standards follow wage increases, or explicit assumptions on real growth are made) can make for substantial differences in the outcome of sustainability indicators.

ANNEX III

REFUGEES AND ASYLUM SEEKERS IN THE ALIENS ACT 2002

The main changes to the Aliens Act concerning refugees involved the following:

- The “*de facto*” status is abolished and only asylum seekers who meet the criteria of the Geneva Convention will be granted refugee status. Those who do not meet these criteria but cannot be sent back to their home country due to reasons covered by the provisions of Article 3 of the European Convention on Human Rights or the Convention on Torture, will no longer be considered as refugee but can be granted a new “protection status”.
- The number of “safe third countries” is increased. Furthermore, countries may be reclassified as safe after a period of unrest, if the political and social circumstances change.
- It is no longer possible to lodge a claim for asylum with a Danish diplomatic representation abroad and only those lodged on Danish territory are considered.
- Claims submitted by asylum seekers who abscond are no longer being processed.
- An increased number of claims are dealt with under the procedure for manifestly unfounded applications. It is also possible to process a case under this fast-track procedure within one day, for example in case of a large number of arrivals from a country whose nationals are normally not granted asylum. The cases vetoed by the Danish Refugee Council are referred to the Chairman of the Board, who will have the possibility to rule alone on the case.
- The Refugee Appeals Board is reduced to three members — *i.e.* one judge, acting as Chairperson, and one representative of each the Ministry of Interior and the Bar Association. The Danish Refugee Council and the Danish Ministry of Foreign Affairs are no longer part of the decision-making process at the appeal stage.
- The existing 15-day period for a rejected asylum seeker to leave the country voluntarily is abolished, those whose cases are rejected are obliged to leave the country as soon as the final decision on their case is made.

ANNEX IV

BENEFIT TRAPS

Although Denmark has a high employment rate compared with other European countries, there are still people on the fringes of the labour market. Indeed, it actually has marginally fewer prime-age men in work than on average elsewhere in Europe, while almost all of the 14 per cent of that age group who are not working are instead drawing some form of temporary or permanent public income support.¹ This suggests that with a stronger mix of economic incentives and assistance, more of those not working could be coaxed back into employment, even if they are not currently active job seekers. The government's 2002 "More People in Work" initiative endeavours to do this.

The key components of the package are designed to harmonise and streamline the various administrative systems that had previously applied to different categories of unemployed:

- A common labour-market system for all unemployed people, whether they are receiving unemployment insurance or cash benefits under the social assistance provisions.
- A faster and more direct path towards employment, with strengthened contacts with the public employment service and individual plans of action for all unemployed, using a new database containing *curricula vitae* for all unemployed.
- Simplified and more results-oriented activation programmes, using three key tools: guidance and counselling, job training in a firm and wage subsidies.
- Enrolment in education courses linked to labour-market participation, while those under 30 years of age would receive the (lower) education benefit rate while undertaking such studies.
- Stronger economic incentives through: greater scope to keep earned income while receiving means-tested cash benefits; a slight reduction in the cash benefit for married "bread-winners" after six months; and a ceiling on the total public income support that a beneficiary can receive after the first six months.
- Clearer and stricter rules governing availability and willingness-to-work criteria. Job search should start from the first day of unemployment, and there is an immediate requirement to accept a "reasonable" job offer. The requirements on geographic mobility have also been extended. Sanctions for turning down job or activation offers have been increased.

1. This includes unemployment benefits, social assistance cash benefits, educational support, sick leave, parental leave and early retirement (disability) benefits.

These changes certainly go in the right direction and reflect a number of best practices identified by the OECD in recent years, particularly concerning efficient management of active labour market policy approaches to help those out of work back into employment (OECD, 2002a).

But the economic incentives to actively search for work remain relatively weak for those at the lower end of the wage spectrum. The net replacement rates for unemployment insurance are the highest in the OECD for those earning two-thirds of the average wage. For all long-term beneficiaries, including those on daily and social assistance cash benefits, the net replacement rates are also very high by international standards, although there is significantly more variation across countries. The recent measures primarily strengthen the economic incentives of cash benefits recipients, whereas for the average beneficiary, the incentives to work only increase marginally. In contrast, simply bringing Denmark's average net replacement rate down to the OECD average would imply a reduction of more than 20 percentage points.

A significant cutback in benefit rates is clearly the most direct way to reduce the unemployment trap. But the inevitable trade-off is that strengthening economic incentives in this way would mean a lower income for those who remain out of employment, which appears to be politically unpalatable. However, there is evidence that providing a greater reward to those who do find work is almost certain to encourage more intensive job search among the unemployed and also to strengthen the attachment of women, in particular, to the labour force (Pedersen and Smith, 2001). However, even without trimming the benefit rate itself, other measures could help to trim the effective replacement rate indirectly and improve the incentives for job-search. Options would include shortening the maximum duration of unemployment insurance benefits from the present four years length,² tapering benefits as the unemployment spell lengthens (by basing benefits on income earned over the previous 12 months), and instituting longer work requirements before qualifying for full unemployment insurance benefits.

An alternative approach used in some countries is to boost the returns from working via an earned income tax credit (EITC). Denmark has also introduced a type of EITC applying to all workers and which does not gradually abate as incomes rise, a typical feature of EITC arrangements in other countries. Abatement would be particularly problematic in Denmark's case since phasing out a tax credit would imply a significant rise in effective marginal tax rates for a large number of workers because the wage distribution is relatively compressed: one quarter of all employees earn at most 20 per cent more than what the average person on unemployment benefit receives.

With weak direct economic incentives to "pull people into work", policies such as activation and tight eligibility conditions that "push people into work" need to shoulder more of the task. Denmark has established a tradition of emphasising active rather than passive labour market policies, and the "right and duty" principle embodied in activation policies has been successful in reducing unemployment rates among the young (OECD, 2000). The latest measures seek to refine and build on the experience of what policies work best and are consistent with established international best practice (Martin and Grubb, 2001). However, their success will depend on the willingness to apply sanctions to enforce the eligibility criteria for benefits, which are a sticking point for many countries (Grubb, 2001), especially where they confront concerns about hardship (as when children are involved). Indeed it is difficult to reliably assess the degree of strictness of sanctions across countries, as there may often be significant gaps between legal provisions and actual practice. But the improved operational procedures embodied in the "More People in Work" package should provide a stronger basis on which to enforce sanctions, if the political commitment is there.

2. Once unemployment insurance entitlements have been exhausted, the long-term unemployed instead receive means-tested social assistance benefits.

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