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**Article**

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# Youth Education and Employment – Recent Danish Reform Experiences

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## INTRODUCTION

Youth unemployment has both individual and societal costs, which makes it a major policy challenge. It is well established that entry into the labour market is of crucial importance for later labour market trajectories. This has both a business cycle and a structural component; employment rates for youth are generally more cyclically sensitive than for other age groups, and youth entering the labour market with weak qualifications are particularly vulnerable throughout their working career.

In the wake of the financial crisis, all OECD countries experienced an increase in youth unemployment, but even before the crisis, the share of youth in neither employment, education nor training was high in many countries – see Figure 1. Youth not acquiring relevant labour market qualifications are a major challenge, since they belong to a group with a high risk of becoming marginalised throughout their working lives a risk which is not diminishing given technological change, globalisation etc. While the NEET rate in Denmark is below the OECD average, it has been on an upward trend. Although there has been much focus on the so-called Danish flexicurity model's ability to attain a low unemployment rate, the issue of youth entering the labour market with weak qualifications is a challenge, also in a Danish context.

In countries with extended welfare arrangements, such as Denmark, the share of cohorts without labour market relevant education is a particular challenge. It is a fundamental policy goal to reconcile a high employment rate with decent wages (no working poor). The wage structure is compressed and minimum wages are high in an international comparison, and therefore the qualification requirements to find jobs are high. A high employment rate is also crucial for maintaining a relatively equal distribution of income, but it is also a precondition for the financial viability of the welfare model, since lower employment both increases expenditures on social transfers and lowers tax revenues. The importance of the employment level is politically well understood, and recurrent reforms have focussed on strengthening labour supply and employment.

The share of the working age population receiving various public transfers has gained increasing political attention. While it is difficult to change the labour market prospects of groups which have either entered the labour market with weak qualifications or been unemployed for prolonged periods, there is a large scope for improving the entry conditions for youth to reduce the risk that they become marginalised and highly dependent on social transfers. This brings both the incentive structure and the role of education to the fore.

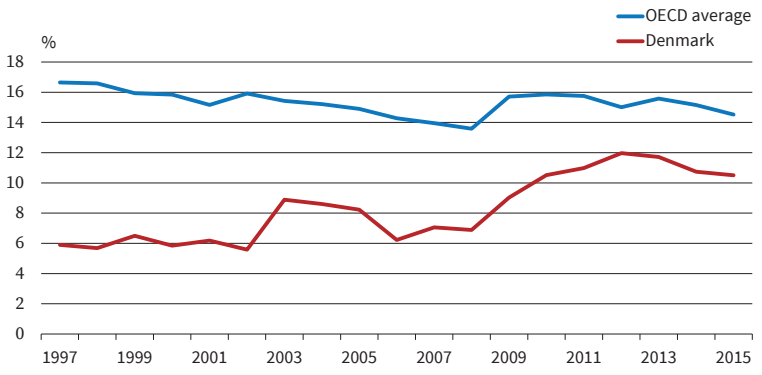
The Danish welfare model – as in other Nordic countries – offers largely publicly financed education (including study grants) as well as a relatively generous social safety net. Still, it is a particular concern that about $^1/_5$ of a cohort does not get a labour market relevant education. It is also well established that low educated persons are overrepresented among groups marginalised in the labour market with frequent unemployment spells and among the long-term unemployed; see e.g. Danish Economic Council (2015).

Accordingly, there is a strong policy focus on the educational level of youth, and in particular on reducing the share of a cohort not obtaining any labour market relevant education.[1] One key issue is whether the social safety net has the proper balance between incentives and insurance. In relation to education, there is a possible tension between short-run insurance/distribution concerns and the long-run effects on education and human capital. Is it possible that too generous insurance for youth can have detrimental effects on education incentives, and thus impair the possibilities of attaining welfare state objectives in the medium to long run?

[1] It is a policy target that 95 percent of a cohort should obtain a general and vocational upper secondary education measured 25 years after having completed compulsory schooling.

Figure 1

**Share of Youth Neither in Employment, Education Nor Training (NEET)**
OECD average and Denmark, 1997–2015




Source: www.oecd-ilibrary.org.

This article discusses recent reform efforts in Denmark aimed at increasing the educational level and employment rates for youth. The following section provides a short outline of key features of the Danish welfare model of importance for the education and employment incentives for youth. Recent reforms are described in the third section, and developments and effects of these reforms are discussed in the fourth section. A few concluding remarks are given in the fifth section.

## SOCIAL SAFETY NET DESIGN

All elements of the Danish social safety net pertaining to people in working age groups have been overhauled in recent years with the overarching aim of strengthening labour supply and employment. An important element in these reforms is changes in the social assistance scheme (cash benefits) constituting the ultimate floor of the social safety net. Social assistance provides support to those who are unable to support themselves or their family (means-tested on a family basis).[2]

Unemployment insurance in Denmark is voluntary, partly financed by membership fees and taxes. Eligibility depends on fulfilling criteria of employment in the three-year period preceding unemployment. Benefit duration is 2 years within a three-year period, and unemployed transit into the social assistance scheme when their benefit duration ends.

Education is publicly provided without any user charges, and study grants are generous by international standards. Although there are quantity restrictions (on top of qualification requirements) on entry into some education programmes, the intake is largely demand-determined.

There is a possible tension between the social safety net and educational incentives. While study grants are relatively generous, they are significantly below wage income, also for unskilled. From an education perspective, this is motivated by education being an investment, and the low income while studying is compensated by higher income later in life. The social safety net for people in the working-age population is designed to offer income support or insurance in case of failure to support oneself in case of unemployment, sickness, etc. The level of benefits is thus determined with a focus on the replacement rate, and the level is therefore significantly above study grants.

Income insurance and educational incentives are thus at a possible conflict. As an example, the study grant constituted (pre recent reforms) about 50 percent of the social assistance to a single person. This may create an 'educational trap' for non-educated youth, since commencing an education would in the short run lead to a fall in income compared to receiving social assistance benefits. This, in combination with habit formation in relation to living standards and/or myopia related to the assessment of future gains from education, may be an obstacle to education.

It has also been argued that the insurance, and thus the level of social assistance, provided for the young should differ from that offered to more mature individuals, since the insurance should be seen relative to what one could expect as young and relative to the income of peers (in education). This is related to the issue of whether the incentive to be in work is sufficiently strong, which is much debated.

In short, how to balance insurance and incentives of welfare arrangements for youth in relation to both education and work is far from trivial. In this light, it is not surprising that recurrent changes in the design of the social safety net and labour market policies are taking place.

## SOCIAL ASSISTANCE REFORM

A large reform of the social assistance (cash benefit) scheme took effect in January 2014 to strengthen work incentives. In the present context, the changes for youth are interesting because they introduce both an age and an education contingency into the eligibility conditions in the basic part of the social safety net.

The reform makes an age distinction at 30. Different and stricter rules apply for individuals below the age of 30. A distinction is made between those holding a labour market relevant education and those who do not. For the former group, social assistance benefits are the same as for those above the age of 30, but more strict activation requirements apply.

In recent years, activation policies have been changed from a rather rigid scheme to a more flexible system with a stronger focus on the situation of the individual and relying more on job-search/matching than programme participation, as well as incentives to ensure a quicker return to employment.[3] In the first part of an unemployment spell (3 months for persons below age 30, 6 months for persons aged 30 to 49, and 3 months for persons above age 50), the main intervention consists of meetings and counselling to strengthen and target job-search, and further into the unemployment spell this is followed by programme participation (a right and a duty).

Persons in the age group below 30 without a labour market qualifying education are no longer eligible for the normal social assistance but for the so-called education assistance (education cash benefits), which is at the level of study grants.[4] As an example, for a single, the benefit is reduced by almost 50 percent compared to benefits available before the reform (less for parents with dependable children). Moreover, there is full-time

[2] The scheme is not universal. Entitlement requires residence in seven out of the last eight years (since September 2015). There are also conditions dependent on past employment records determining benefit levels, see below.

[3] All unemployed also have a right to participate in an education programme lasting up to six weeks (individually chosen from a short-list).

[4] Similar rules existed already for those below the age of 25, and the reform extended those principles to the age group between 25 and 29. The reform also implies that youth under 25 without a qualifying education can only receive education cash benefits.

activation in the form of education – an 'education mandate' – which means that ordinary education should be commenced (unless they find employment). If there is an interim period until education starts, the individual is in full time activation. Individuals not assessed as being ready for education are, as a rule, offered initiatives to prepare them to undertake and complete an ordinary education within one year. For those not considered capable of completing a labour market relevant education, a special programme is offered. Recipients not ready for education or employment may receive a so-called activity supplement when participating in activation programmes.

The so-called Job Market Reform I, which was implemented in the autumn of 2016, further changed the social assistance scheme. The key elements are: (i) a ceiling on the total public transfers a family/person can receive (social assistance/education cash benefits, housing supplements, and special allowances); and (ii) an employment criterion requiring at least 225 hours in (non-subsidized) work within the last 12 months to receive full benefits (a reduced or no benefit is received if the employment condition is not met).

A key motivation of the reform is to strengthen incentives for both work and education. The reduced benefit level aims to strengthen work incentives. Removal of short-run economic disincentives to education as well as activation in the form of ordinary education is intended to reduce the group of youth without a labour market relevant education. The flipside of these initiatives is reduced income support to youth without a job.

The activation part includes the usual motivation, locking-in and programme effects. Using ordinary education as an activation programme (effectively mandatory education) is a new element in activation policies, where specific short-term courses and programmes targeted at the unemployed were usually applied. If programme participants succeed in obtaining a labour market relevant education, this likely provides a more robust platform than the various short-term courses. Mandatory education raises a number of questions. If youth have abstained from education due to habit formation or myopia, a mandated education may work. However, in most cases individuals belonging to the target group (age group 25–29) have been enrolled in an education at some point in time, and failed to complete the education. Whether drop-out is due to lack of motivation or weak proficiencies is unclear, but in either case it is not clear whether a mandate would overcome those barriers. It is easy to make people enroll in education if it is a take-it-or-leave-it offer, but it is difficult to bring it to a succesful completion.

## DEVELOPMENT AND REFORM EFFECTS

In the wake of the financial crisis, the employment and labour force participation rates have been falling (and increasing since 2014). The fall in the participation rate reflects a significant increase in the share of young in education, see Figure 2, reflecting the cyclical component in educational in-take. The Danish economy was booming prior to the financial crisis with a very low unemployment rate. In the subsequent recession – which has been particularly deep in Denmark – the intake to education increased. This is to be expected irrespective of any reform, in particular in a system with public financing of education and largely free access. In comparison to most other OECD countries, Denmark has seen a large decrease in the age group 20–29 in the labour force, which is the flipside of an increasing intake in education. This contributes to the recent fall in the NEETs rate – see Figure 1.

The effects of the reform of the social assistance scheme should be seen against this background. Has the reform succeeded in making more youth in the target group either find employment or commence an education?

For the age group 25–29, the immediate effect of the reform was to shift a substantial part of the group from cash benefits to education benefits, and therefore into 'education activation'.[5] This is a direct effect of the reform and the fact that youth below the age of 30 without a qualifying education can no longer obtain social assistance. Around the time of reform implementation (which was announced with a lead time of about eight months), there is a noticeable decline in the total number of persons on benefits, see Figure 3, but later the number has increased again.[6]

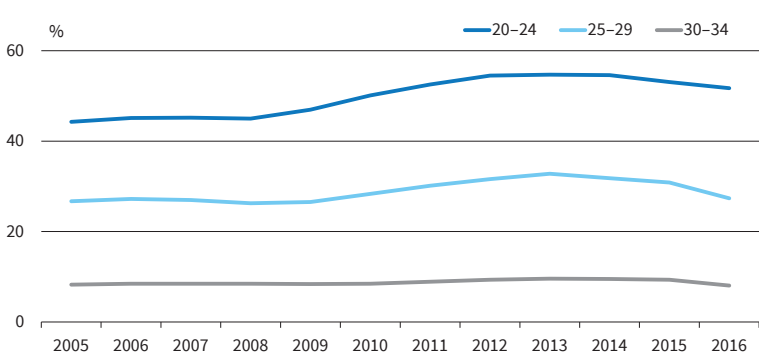
[5] Note that individuals in the age group without a qualifying exam and without entitlement to unemployment insurance are eligible for social assistance if they are unable to support themselves.

[6] There has been a trend increase in immigrants receiving social assistance, integration benefits or education cash benefits in recent years. The composition

Figure 2

**Education Enrolment Rates**

Percentage of age group population, 2005–2016



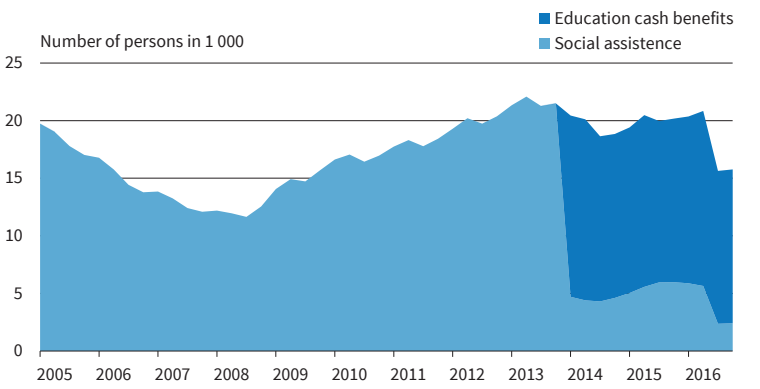

Note: Enrolment into education per October 1st each year as percentage of total population in the respective age groups.

Source: Statistics Denmark (www.statistikbanken.dk).

Figure 3

**Number of Claimants of Social Assistance or Education Assistance**

Denmark, 2005.I- 2016.IV




Source: www.jobindsats.dk.

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A better outset for assessing the effects of the reform is given by Figure 4, showing the post-financial crisis development in the number of recipients of social assistance or education cash benefits among different young age groups. The trend decline for the age group 16–19 matches the trend increase in education intake, see Figure 2. For the age group 30–34 there has been a steady increase over this period. For the age groups 20–24 and 25–29 the developments have been more volatile, but very similar. Around the time of implementation of the reform, there was a clear decline in the number of persons claiming social or education cash benefits, indicating an increased outflow into either employment or education. However, later the number of claimants increased, and in mid-2016 (before Job Market Reform I) it reached the same level as before the reform.

Note that for all age groups, there is a marked decline in the total number of benefit recipients after the implementation of Job Market Reform I in 2016. The main reason is the employment criterion required to qualify for full benefits. This reform element has thus accomplished a fall in expenditures on social benefits, but it is too early to assess whether the reform has succeeded in bringing more people in employment (or education) or whether they are self-supporting.

There are a few studies exploring the effects of the reform for the age group 25–29 that exploit individual data. Both the Ministry of Employment (2014 and 2016) and the Council of Economic Advisors (2015) find that the reform reduced the inflow to and the outflow from the group of benefit recipients. The largest effect on outflow is into education, but there is also evidence of a positive employment effect. These studies focus on the effect immediately after the implementation of the reform.

The later experience, especially the fact that the developments for the age groups 20–24 and 25–29 have been very similar both before and after the reform and the subsequent increases in the total number of claimants (despite an increasing employment level), suggests that the reform has not caused a major trend change in the number of youth claiming benefits. One aim of the reform was to make more youth complete qualifying education or attain a more stable employment relationship, but it is premature to assess whether the reform has succeeded in achieving this.

of the age group has thus changed over the reported period. Considering the group of Danish origin, there is a more clear downward trend in the total number of benefit claimants, but it remains above the level in 2009.

## CONCLUDING REMARKS

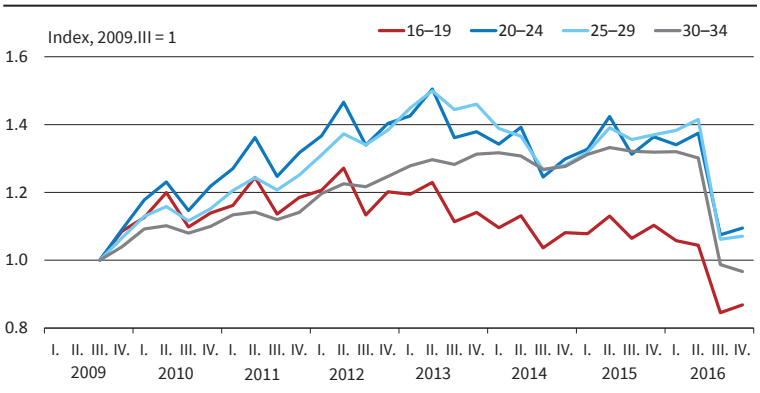
The role of qualifications for individual labour market options is well established, and therefore a high NEETs rate is problematic. Denmark offers free tax financed education, which should make the educational barrier less binding than in other countries. Distributional aims also imply more ambitious targets for those obtaining a labour market relevant education. Yet, the share of a cohort not obtaining a labour market relevant education is relatively high. This suggests that a multitude of reasons explain why a significant share of youth does not obtain a labour market relevant education.

Recent reform initiatives have aimed at strengthening the incentives of youth to be either in employment or education, and thus to reduce the NEETs rate. The experience so far is mixed. On the on hand, some evidence points to positive effects on employment and in particular education for the targeted groups, and, on the other

Figure 4

**Number of Claimants of Social and Education Assistance**

2009.I–2016.IV




Note: Non-seasonally adjusted data.

Source: www.jobindsats.dk.

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hand, that there is no trend decline in the share of youth depending on social benefits, before the implementation of an employment criteria as part of the eligibility criteria.

It is too early to judge the full effect of the reform, since it requires not only youth to commence an education but also to complete it successfully. One interpretation of the difficulty in overcoming the educational barrier for individuals in their late 20s is that the barriers should be addressed much earlier. Most persons in the target groups have been enrolled in education before – without completing it – and this points to the importance of early intervention (primary school or earlier) as a more effective tool in overcoming educational barriers.

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