



Progressive educational policies can keep unemployment low – the Danish case

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Many critics of active labor market policies in Denmark argue that the educational programs within active labour market policies (ALMP) do not work, i.e. they do not get unemployed back to work. Study results, however, show that if educational programs aim towards specific job types, they have a positive effect on employment. This policy viewpoint discusses different approaches and their outcomes.

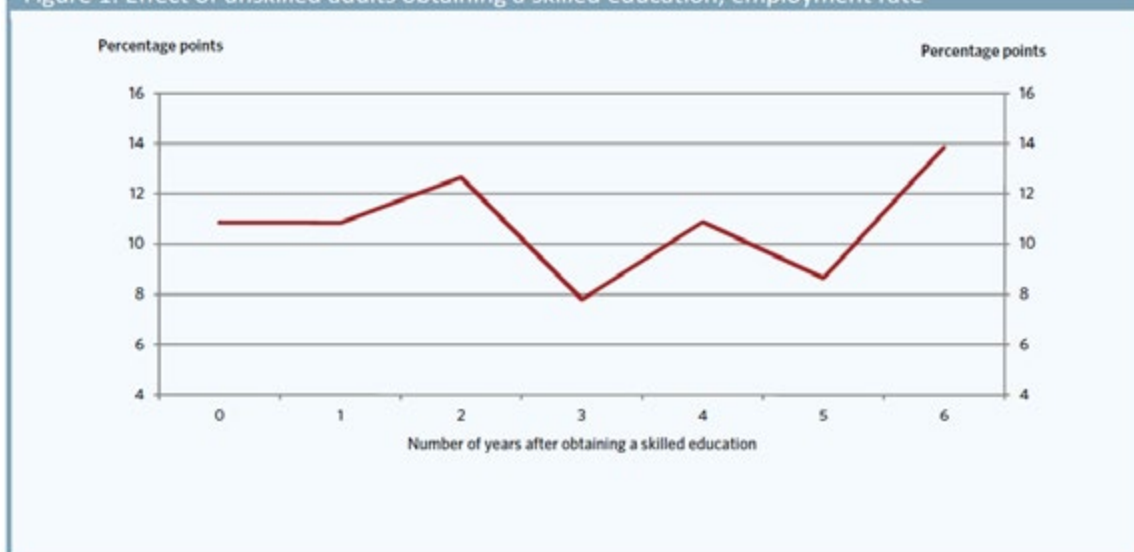
The Danish labor market is known for being dynamic and for having a high rate of employee turnover compared to other countries. In 2012, there were around 714,000 job vacancies, which translates to a turnover of around 19 percent (Koch et al, 2014).

Active labour market policies can affect the quality and the duration of the employment following a period of unemployment. In existing literature on the topic, there is strong evidence that conversations between unemployed and caseworkers have positive effects on employment. For the unemployed with the relevant skill-set and motivation, conversations are evaluated to be among the best and most robust tools in the active labor market policy. Among other factors, it is because the conversation strengthens the position of the unemployed in the labor market (Brown and Koettl, 2012). Furthermore, studies indicate that the positive effect increases with the number of conversations (Koch et al, 2014).

The timing has a big impact on the final valuation of the different efforts that the job centers make to get the unemployed back to work. In the beginning of a period of unemployment, there is typically a fall in the number of people who go from unemployment to employment. That is due to the simple fact that many unemployed are so for a short period of time. Therefore, there is a risk that an early and intensive effort from the job center can delay the chances to get back to employment fast. On the other hand, for some unemployed an early effort is optimal. Few studies concern the timing of the active labor market policy and therefore, there is no concrete knowledge about the optimal timing. However, Lauzadyte suggests that

FIGURE 1: EFFECT OF UNSKILLED ADULTS OBTAINING A SKILLED EDUCATION, EMPLOYMENT RATE

Figure 1. Effect of unskilled adults obtaining a skilled education, employment rate



Note: The employment effect is calculated with starting point in RAS. The graph depicts the rise in employment rate for unemployed who obtain a skilled education compared to a situation where they do not obtain a skilled education. Source: ECLM based on own calculations in STATA and data from Statistics Denmark.



the optimal time of activation is after approximately one year of unemployment (Lauzadyte, 2008).

Generally, there is evidence that education is a good investment for the individual and for society as a whole. That is also true, when it comes to unemployed. People with an education that qualifies them for the labor market typically experience less unemployment and better connection to the labor market, which also translates into later retirement. This is the case both with high and low unemployment.

In Denmark, the employment rate for skilled workers was 81 percent in 2011, while only 56 percent of the unskilled workers were employed. That means that the level of employment was around 25 percentage points lower for the unskilled. This supports the claim that unemployment programs targeted towards educating the unskilled and unemployed will have a positive effect on employment. When it comes to the duration of unemployment, the skilled labor force once again stands stronger than the unskilled does.

In Denmark, there are many educational options for the unemployed. They belong to the category "guidance and upgrading of skills". Despite a decrease in the last couple of years, guidance and upgrading of skills are among the most used tools in ALMP in Denmark. In 2012, ordinary education accounted for almost one third of the total guidance and upgrading of skills.

Offers of guidance and upgrading of skills are granted by the job center. An example of a program is the adult apprentice program.

The main aim is to ensure that unskilled workers above the age of 25 can become skilled even if they have no educational background besides primary school. Specifically, the program is targeted towards giving adults a better option to become part of the skilled labor force in order to make them more attached to the labor market. The program gives employers, who make an agreement with an institute of vocational education, the right to a special salary supplement during the period of work training in the education. It is, among other things, required that the education can lead to a job in a field with lack of workers. These programs of education targeted towards parts of the labor market where there is a lack of qualified labor, have positive effects on employment.

The adult apprentice program is interesting because it deals with unskilled workers, who generally experience more unemployment than skilled workers do. Unemployed, who get an education with the adult apprentice program, have a significantly better probability of maintaining a job the first years after they have finished their education compared with unemployed who have not participated in the program. Figure 1 shows that the unemployed who obtain a skilled education, experience a rise in their employment rate of over 10 percentage points the first 2 years after they finish their education.

The employment effect from the program is worth emphasizing because it gives unskilled and unemployed persons a set of skills - and in many cases a job.

From the point of view of the society, the effect is very desirable as it means fewer expenses from unemployment benefits and more income from taxation. However, one should note that it is only the case for the persons who were unskilled prior to participating in the program, i.e. the program is not efficient for already skilled labour.

Studies point in different directions when it comes to the effect of activation through education. A group of experts has looked into the Danish system and come with a number of suggestions for improvement. First of all, they believe that the current knowledge about the effects of activation through education and the very heterogeneous results, make it difficult to come with general policy recommendations on the topic. However, in order to achieve better results, it is recommended to base the choice of tools on individual factors. In line with the adult apprentice program, they also recommend that unemployed obtain relevant skills instead of just a formal set of skills.

Overall, the critiques of the Danish ALMP may be legitimate in some cases, but as argued above there are programs such as the adult apprentice program that are efficient in getting the unemployed back to work. However, the program only counts for a smaller part of the total options. In the future, experts recommend individual programs that give unemployed a skill-set that employers demand.

References

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