

Denmark's National Reform Programme

Contribution to EU's
Growth and Employment Strategy
(The Lisbon Strategy)

October 2005

The Danish Government

The Danish Reform Strategy

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Introduction: The Danish reform strategy

The Danish Reform Programme is this year for the first time prepared as a complete overview of the Danish reform strategies and considerations. The programme is prepared on the basis of a decision made by EU's Heads of States or Governments. It replaces and brings together a number of previous reports, including the national action plan for employment and the so-called "Cardiff-report" concerning the product and service markets.

The purpose of The National Reform Programme is to provide a coherent basis for mutual inspiration and evaluation of structural economic reforms that take place in a number of areas within EU. In some of these areas Member States' policy is common, including for instance, the internal market and part of the competition legislation. But in most of the areas that are central to the economic and social development the competence and responsibility lies with the Member States themselves.

In this reform programme the Danish government's strategy for structural reforms is presented. It aims at improving the long-term potential for growth and employment within the framework of good social conditions and sound environmental and sustainable fiscal development. The programme focuses on concrete national initiatives that are either implemented or planned, and these initiatives are put into the setting under which they are being discussed in EU. In parallel, the Commission has published a communication concerning the effort at the Community level. In the coming months the countries' national reports and the communication from the Commission will be examined and discussed and they will form part of the continued exchange of experience and preparation of concrete initiatives.

The Danish reform strategy builds on two decades of comprehensive reforms of especially monetary policy, fiscal policy and the labour market. These reforms have ensured robust financial balances in the public and private sector following great imbalances in former decades. The unemployment rate is now at a low structural level and total employment is high compared to other countries. At the same time low income dispersion is maintained. The Danish "flexicurity model" for the labour market is characterised by flexible rules for hiring and dismissal, a relatively high level of unemployment benefits and social security plus a comprehensive active labour market policy that encourages active job seeking and helps getting unemployed back into employment quickly.

The main economic and social challenges ahead are to

- prepare for the ageing of the population through a continued reduction of the public debt and permanently higher employment, including through improved employment and integration of disadvantaged groups.

- reap the full benefits of globalisation through flexible markets, an extensive improvement in the quality of education and of the share of young people completing an education after primary and lower-secondary school plus an effective strengthening of the quality and quantity of research.
- strengthen the framework for productivity improvements in the private sector through more competition, better cooperation with public education and research, increased innovation and promoted entrepreneurs as well as better regulation and infrastructure.
- get as much value as possible for the users of the public sector, in which modern management, in the absence of direct market tests, shall be supported by institutional incentives, fast utilization of new technology, free choice and competition exposure.

The handling of these challenges shall be combined with a continued high level of environmental protection for the benefit of the nature, health and consumers along with effective solutions regarding the environmental problems, especially concerning the climate, air pollution, chemicals and water resources.

A number of these initiatives have been implemented or planned in connection with the daily work in government and Parliament. The government puts great emphasis on a thorough preparation and debate before comprehensive reforms are carried out. Reforms have been implemented or are being prepared on the basis of four extensive works:

- A comprehensive reform of the municipal structure and the division of responsibilities between different administrative levels in Denmark has been adopted. The reform will come into force on 1 January 2007 and it implies, for instance, that the tasks will be concentrated in substantially fewer municipalities and thereby dealt with more effectively. Moreover, the counties will be replaced by five new regions.
- The government has established an independent Welfare Commission that by the end of 2005 at the latest is to propose reform initiatives, especially aiming at handling changes in the composition of the population and the organisation of welfare services.
- The government has established a broadly based Globalisation Council that is to advise the government on the possibilities and challenges from globalisation. The work focuses especially on questions regarding education, research, innovation and entrepreneurship. The government's ministerial committee on "Denmark in the global economy" will announce its strategy and vision in the spring of 2006. Overall, globalisation leads to major advantages in terms of lower prices on imports, better division of labour, diffusion of new technology, stronger competition to the benefit of consumers, and new openings for export and for domestic services that grow by virtue of the increased purchasing power of consumers. The challenge is to adapt the economy to rapid changes, to be part of the new interna-

tional division of labour with products of high quality and to ensure that benefits are spread out to all groups in society.

- The government and the social partners have initiated a comprehensive work in order to provide lifelong learning and education for everyone. This committee is expected to report its results in the beginning of 2006.

Further information can, inter alia, be found in The Government Platform, Denmark's Convergence Programme and from the Globalisation Council's work www.globalisering.dk. The government will every year publish a competitiveness review that analyses and benchmarks results and indicators concerning structural policy.

Box 1.1

The National Reform Programme – background and function

The National Reform Programme is prepared by virtue of the conclusions from The European Council meeting on 22-23 March 2005. At this meeting the Heads of States or Governments evaluated EU's strategy for growth and employment (The Lisbon Strategy). It was decided that Member States every third year shall prepare programmes that expounds the countries' reform strategies within the Lisbon strategy, which aims at providing growth and employment within a sound macro-economic frame and on the basis of social and environmental sustainability.

The three-year cycle for The National Reform Programmes is in parallel with the agreed three-year cycle for the preparation of the so-called integrated guidelines that are adopted at EU-level and contains a number of recommendations to Member States to be used in preparation of national reform initiatives.

In the years between preparations of national reform programmes it is the intention that Member States shall prepare implementation reports that primarily aim at describing the initiatives they have implemented in the last 12 months. Likewise, it is the intention that the integrated guidelines in the intervening years shall be revised only if necessary. A three-year cycle has been chosen based on the experience that planning and implementing structural reforms often take several years.

In this programme the coherence between the Danish government's strategy and the before mentioned integrated guidelines is illustrated in boxes that contain abstracts of the guidelines that are most relevant for Denmark.

1. The economic framework

After a sustained period of budgetary consolidation, public debt has been reduced considerably. In addition, continued external surpluses have led to a marked reduction in foreign debt. Unemployment is low and employment high. Economic policies – including the fiscal, structural, and stable exchange rate policies pursued for over two decades – have contributed to these achievements. Together, these factors strengthen the basis for meeting the challenges associated with population ageing.

A key challenge ahead is to maintain sustainable public finances. Among other things, this requires:

- *An increase in employment corresponding to some 50-60,000 persons through 2010 (in cyclically-adjusted terms), yielding a sustained budget improvement of 1 per cent of GDP.*
- *Moderate public expenditure growth – including real growth in public consumption of 1/2 per cent per year during 2005-2010.*

The medium-term objective is to maintain an average structural fiscal surplus in the range of 1/2-1 1/2 per cent of GDP through 2010 and thereby reduce public debt further.

The Danish economy is showing positive signs with fairly strong output growth, falling unemployment, rising employment, moderate inflation and surpluses on the fiscal as well as the external balance.

During 2004-2006, economic growth is projected to average some 2 1/4 per cent after subdued growth of 3/4 per cent per year during 2001-2003.¹ Initially, the recovery has been driven primarily by stronger private consumption boosted, in particular, by the lowering of income taxes in 2004, low interest rates and rising house prices.

Economic growth in 2005 and 2006 looks set to become more broad-based and balanced as business investment and exports are expected to gather pace, while private consumption growth is expected to ease back. Fiscal policy in both 2005 and 2006 is set to be broadly neutral in terms of its impact on economic activity, after a tangible stimulus in 2004 stemming not least from the earlier-mentioned tax reductions.

Unemployment has dropped by about 25,000 persons since the end of 2003 and is expected to decline by an additional 10-15,000 by end-2006. The unemployment rate (national definition) is thus expected to decline from almost 6 per cent of the labour force in 2003 to just above 5 per cent in 2006. Meanwhile, employment is expected to increase by some 35,000 persons (1.3 per cent) from 2003 to 2006 – of which some 30,000 persons in the private sector. Overall, these trends point to increasing pressures in the labour market.

¹ Source: Economic Survey – August 2005, Ministry of Finance.

Based on the positive cyclical outlook, the public surplus is expected to reach 2.5 per cent of GDP in 2005 and 1.9 per cent of GDP in 2006. In part, the projected surpluses represent a temporary strengthening of the fiscal balance. Hence, the increase in oil prices is projected to entail relatively high revenue from North Sea oil and gas activities.² Moreover, in 2005 the tax on pension returns is projected to yield above-normal revenues due to large capital gains on stocks and bonds. The average structural surplus is projected at just below 1 per cent of GDP in 2005 and 2006, which is consistent with the medium-term objectives.

Denmark continues to fulfil the convergence criteria for stable exchange rates, inflation, interest rates and public finances, *cf. table 1.1*. In table 1.1 the public surplus of 2.3 per cent of GDP in 2004 is reported in accordance with the EDP-definition of the fiscal balance (Excessive Deficit Procedure). In particular, it includes the surplus in the Labour Market Supplementary Pensions Fund, ATP.³

Table 1.1
Convergence criteria, 2004

	Consumer price inflation (HICP)	Long-term yield (10-year gov't)	Public balance (EDP-definition)	Public gross debt (EU-definition)
	Per cent	Per cent	-----Per cent of GDP-----	
Denmark	0.9	4.3	2.3	43.2
EU25	2.1	4.7	-2.6	63.4
Euro area	2.1	4.0	-2.7	70.8
Convergence criteria	2.2	6.1	-3.0	60.0

Source: EU Commission, Statistics Denmark and own calculations.

1.1 Medium-term strategy and objectives

Fiscal policy is designed on the basis of the fiscal objectives and requirements laid out in the 2010-plan, *cf. the forthcoming update of the Danish convergence programme*. The key objective in the 2010-projection is sustainable fiscal policy, entailing a marked reduction in public debt (as a share of GDP) through 2010. The fiscal targets provide a sound basis before the ageing of the population sets in.

² Higher oil prices have a direct positive impact on Danish public finances, in contrast with the majority of EU countries. Higher oil prices lead to higher public revenue from the taxation of North Sea oil and gas activities in the shape of, notably, higher corporate tax revenue and the so-called carbohydrate tax. As Denmark is a net exporter of oil, the balance of payments also tends to improve when oil prices rise.

³ The public surplus is larger on an EDP-basis than on the national accounts basis. The public surplus amounted to 1.1 per cent of GDP in 2004 based on the national accounts against 2.3 per cent of GDP on the EDP-basis. The primary cause of the difference of 1.2 per cent of GDP is that the surplus of the ATP-fund of about 1.0 per cent of GDP is included in the EDP-balance. The treatment of swap interest rates etc. also pulls in the direction of higher surpluses on the EDP-basis corresponding to 0.2 per cent of GDP. Gross debt (EDP definition) is consolidated for ATP holdings of government bonds. This reduction amounts to about 1/4 percent of GDP.

Fiscal sustainability requires, in particular, moderate growth in real public consumption of ½ per cent per year in the period 2005-2010 and a durable increase in employment, sufficient to strengthen the public balance by about 1 per cent of GDP. This requires an increase in employment of 50-60,000 persons (or 2 per cent) through 2010.

In spring 2006 the government will put forward a new multiannual programme. According to the government's agreed policy platform *New Objectives*, February 2005, the plan will be elaborated in light of the analyses of the Welfare Commission.⁴ The plan will extend at least to 2015 and contain targets for, inter alia, employment, public debt and taxation. The government's agreed policy basis also states that the government will lower labour income taxes further, provided the fiscal room for manoeuvre is achieved.

Box 1.1

EU Broad Economic Policy Guidelines

Member States should:

- Secure economic stability by respecting their medium-term budgetary objectives in line with the Stability and Growth Pact. Furthermore Member States should avoid pro-cyclical fiscal policies. (...).
- Safeguard economic and fiscal sustainability in view of the ageing populations e.g. through undertaking a satisfactory pace of government debt reduction and take measures to increase labour supply. (...).
- Promote an efficient growth and employment orientated allocation of resources e.g. by redirecting public expenditure towards growth-enhancing categories such as research and development. (...).
- Ensure that wage developments contribute to macroeconomic stability and growth by encouraging the right framework conditions for wage-bargaining systems. Developments in nominal wage and labour cost should e.g. be consistent with price stability. (...).
- Promote greater coherence between macroeconomic, structural and employment policies through labour and product market reforms that increase the growth potential. Member States should renew impetus in tax reforms to improve incentives and to make work pay. (...) (Guidelines no. 1-5).

Overall, economic policies aim at ensuring high and stable employment, sustainable public finances and good framework conditions for growth; cf. the forthcoming update of Denmark's convergence programme.⁵ Central objectives for individual policy areas include:

⁴ The government established the Welfare Commission in autumn 2003. The Commission is made up of experts and private sector representatives. The primary task of the Welfare Commission is to provide analyses of the challenges associated with prospective demographic changes, which may also form the basis of wide-ranging public debate. Based on the analyses, the Commission is charged with proposing possible reform initiatives. The Welfare Commission is due to report at the latest by the end of 2005.

⁵ As part of the economic-policy cooperation in the EU, the euro countries prepare stability programmes and other Member States, including Denmark, prepare convergence programmes. The programmes are focused in particular on public finance developments, including countries' strategies for complying with the requirement of the Stability and Growth Pact.

- *Monetary and exchange rate policies:* Continued stable exchange rate and inflation developments by virtue of the stable krone exchange rate vis-à-vis the euro.
- *Fiscal sustainability:* The target is to ensure a public surplus of between ½ and 1½ per cent of GDP on average through 2010.
- *Tax policies:* Tax freeze and lower taxes on labour income. Tax reductions on labour income have entered into force as of 2004.
- *Expenditure policies:* Moderate growth in overall public expenditure. For 2005-2010, the scope set aside for real public consumption growth amounts to 0.5 per cent per year.
- *Structural and labour market policies:* New initiatives are required to lastingly strengthen employment by 50-60,000 persons, thereby improving the public balance by about 1 per cent of GDP. Productivity growth should be underpinned by, notably, strengthened competition, improved framework conditions for business, and reduced administrative burdens.

The key target areas for higher employment include: more immigrants in work, earlier education completion for young people, reduced absences due to sickness, higher participation rates among elderly cohorts and a better functioning labour market.

To reap the maximum benefits of globalisation, the government plans to strengthen emphasis on research, education, innovation and entrepreneurship.

Monetary policy is aimed at maintaining a stable exchange rate of the Danish krone against the euro. This ensures that inflation follows the medium-term development in the euro area. The framework for the fixed exchange rate policy is the ERMII agreement, which stipulates a narrow fluctuation band against the euro of $\pm 2\frac{1}{4}$ per cent around the central parity. For a number of years, the exchange rate has been close to the central parity. Since the introduction of the euro in January 1999 the average (numerical) difference has been around $\frac{1}{4}$ per cent.

A wide majority in the Danish parliament supports the fixed exchange rate policy, and the government regards the commitment and the credibility of the fixed exchange rate policy as paramount. The focus of fiscal policy on stability and sustainability supports the monetary objectives.

Fiscal policy and the required structural initiatives to raise employment ensure a sustainable development in public finances given the long-term assumptions on interest rate, indexation of income transfers etc. The operational target for fiscal policy is to maintain a structural public surplus of ½-1½ per cent of GDP on average through 2010. The required surplus is specified as an interval to reflect the uncertainty in determining long-term pressure on public finances.

The target specification for the average surplus through 2010 allows room for letting the automatic stabilizers work unrestricted, thus helping to dampen cyclical fluctua-

tions. The target requires prudent fiscal policies when cyclical conditions are favourable and unemployment low, and ensures fiscal room for manoeuvre in case of severe downturns with evident imbalances.

The surplus on the structural fiscal balance is estimated at almost 1 per cent of GDP in 2005 and 2006, cf. table 1.2. This is within the aforementioned target interval. The projected actual surpluses for 2005 and 2006 are thus greater than the estimated structural surplus. This reflects that part of the actual surpluses represents a temporary strengthening of public finances.

Per cent of GDP	2003	2004	2005	2006
Actual budget balance (EDP-basis)	1.1	2.3	3.6	-
Actual budget balance (national account basis)	-0.2	1.1	2.5	1.9
Cyclically adjusted balance	0.6	0.4 ¹⁾	1.0 ¹⁾	0.8 ¹⁾

1) Corrected for the suspension of contributions to the Special Pension Scheme.
Source: Statistics Denmark and own calculations.

The tax freeze introduced in November 2001 is the cornerstone of *tax policy*. The tax freeze implies that direct or indirect tax rates may not rise, whether expressed as a percentage or as an amount in Danish kroner. In addition, a cap is imposed on the nominal property value tax. Due to the nominal caps on excise duties and the property value tax the tax freeze, all else equal, contributes to a gradual reduction of the tax burden.

Taxes on earned income were reduced by almost DKK 10 billion in 2004 (corresponding to 0.7 per cent of GDP). The tax reduction is evenly divided between an earned income tax credit (EITC) and a higher income threshold for the 6 per cent middle-bracket income tax. The tax reduction increases both incentives to find a job and work more hours if already employed. All in all the tax reduction is estimated to increase the labour force with the equivalent of around 10,000 full-time employed. Provided the economic room for manoeuvre is available, the government will lower labour income taxes further.

Expenditure policies are aimed at moderate growth in overall public expenditure. Public consumption is presumed to increase by ½ per cent per year in the period 2005-2010, while real growth in tax-financed public investment amounts to 1 per cent per year.

The annual growth in real public consumption corresponds to roughly DKK 2 billion per year (or about 0.1 per cent of GDP) and hence an accumulated amount of some DKK 30 billion for the period 2006-2010. The proposed fiscal bill for 2006

implies that DKK 24 billion of the presumed total for coming years is reserved for high-priority areas, including:

- Research, education, innovation and entrepreneurship (DKK 10 billion in 2006-2010) – initiatives to follow up on the work of the Globalisation Council.
- Improved conditions for families with children – reduced co-payment and better quality in day-care institutions (DKK 8 billion in 2006-2010).
- Hospitals and elderly people (DKK 5 billion in 2006-2010).
- Nature and the environment (DKK 1 billion in 2006-2009).

The subsequent sections are focused on the structural policy efforts underpinning and complementing the general economic policy strategy.

2. Denmark as a knowledge society

To bring Denmark as a knowledge society into focus, an independent ministry for science, technology and innovation was established in 2001. Since then extensive reforms of the research advisory system, the university managements and the government research institutions have been carried through. The purpose of the reforms has been to enhance the quality of research for example through increased competition for research grants. Furthermore, as mentioned in section 1, a Globalisation Council focusing specifically on the field of knowledge has been established.

The main challenges in the the coming years are:

- *To ensure increased private investment in research and development and better interaction with public research.*
- *To double the number of PhDs.*
- *To improve the primary and lower-secondary school system including strengthening evaluation and quality development processes.*
- *To increase the number of students who complete a secondary education programme and, at a later stage, tertiary education programme.*
- *To ensure continued improvements in the framework conditions for innovation and entrepreneurs.*
- *To appropriate DKK 10 billion for an increased effort in research, innovation, entrepreneurship and education until 2010.*

2.1 Investment in research, development and innovation

Box 2.2

EU guidelines on investment in research and development (R&D)

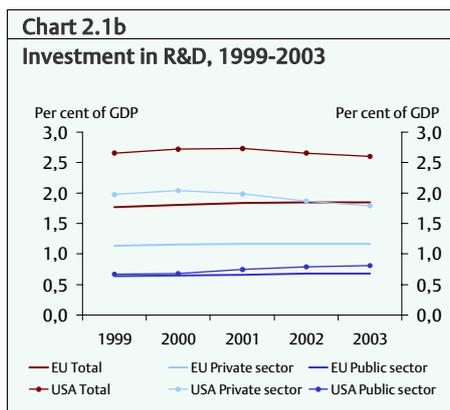
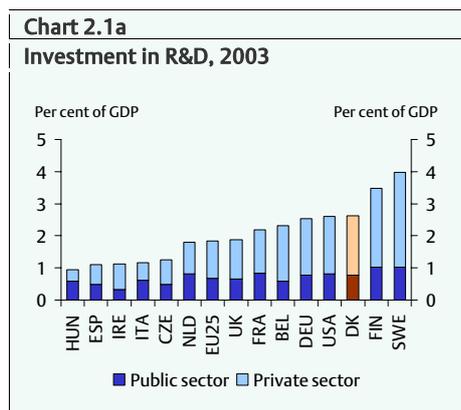
By 2010 the total investment in R&D in the EU should equal 3 per cent of GDP with an adequate split between private and public investment. In order to achieve this objective Member States should improve framework conditions and ensure that companies operate in a sufficiently competitive and attractive environment. Moreover, Member States should enhance the effectiveness and efficiency of public expenditure on R&D and develop public-private partnerships. The Member States should modernise the management of research institutions and universities, and make provisions to ensure a sufficient supply of qualified researchers. Finally, Member States should develop and make better use of incentives to lever private R&D. (...) (Guideline no. 7).

The total Danish investment in research and development is above average in both the EU and the OECD. This applies to private and public research and development alike. The investment equals 2.62 per cent of GDP with 1.83 per cent stemming from the private sector and 0.79 per cent from the public sector¹, cf. chart 2.1a. Pri-

¹ Source: Statement prepared by the Danish Centre for Studies in Research and Research Policy, August 2005. The figures do not take into account the loss of tax revenue due to additional tax deduction possibilities for R&D expenditure; such deductions amount to an estimated DKK 3 billion per year or 0.2 per cent of GDP.

vate investment in research and development has increased from 0.96 per cent of GDP in 1991 to the aforementioned 1.83 per cent in 2003. The government intends to expound an action plan with the objective to increase the public and private investments thus reaching a level of more than 3 per cent of GDP in 2010. In this context it is the aim that public sector investment comprises 1 per cent of GDP.

The investment level in the EU as a whole and seen over time is lower than in the US. In 2003 the level of investment was 2.6 per cent in the US compared to 1.85 per cent for the EU25, cf. *chart 2.1b*. This difference is mainly due to the level of private investment being higher in the US than in the EU. There are, however, considerable variations between the different EU-countries. Danish investments in research and development are at the same level as that of the US with similar division between the private and public sector.



Source: OECD: Main Science and Technology Indicators 2005 and update of the numbers for Denmark until 2003.

Good general economic framework conditions, including a balanced and stable macroeconomic development, support confidence to future earnings possibilities and thereby to investments in new technological solutions. Other important instruments to support research of high quality are clear and effective guidelines for companies' cooperation with relevant and highly qualified research environments at universities. Through competition among Danish universities internally and between Danish and foreign universities it is the objective that cooperation between universities and companies will be strengthened.

Since 2001, a number of initiatives and reforms have been carried through affecting among other things the distribution of public research funds, the university management structures, research training, and tax schemes for companies, cf. *box 2.3*. It should be emphasised that to avoid support to activities that would have been carried through anyway direct support to companies' investments in research and development is only given in a very limited size.

As part of its globalisation strategy, the government is expected to propose that an increased share of the total public research grants be awarded based on free competition. Currently approximately one-third of the research grants are awarded based on competition while the majority is given directly to the institutions for internal prioritising.

Research should be more internationalised. The best researchers, Danish as well as foreign, should have an incentive to do research in Denmark; and the universities should be able to participate in the international education market. Research and research cooperation is also given high priority at EU level where funds for research in the next financial programme period 2007-2013 will constitute a considerably larger share of the EU budget than today.

Box 2.3

Initiatives within research and development

Public research

- Reform of the research advisory system dividing the system into research councils that support independent basic research and a research council supporting politically prioritised strategic research. Furthermore, the reform ensures the continued existence of the Danish National Research Foundation.
- Establishment of the High-Technology Foundation. The capital of the Foundation will gradually be increased to DKK 16 billion. The return on the capital is to be invested in research and innovation projects involving both public and private sector participants including SMEs (small and medium-sized enterprises).
- Reform of the university management structures.
- Reform of the government research institutions increasing their professional independence.
- Increasing (doubling) the number of new PhD-students in the fields of natural science, technical science and health science as well as within the industrial PhD programme.
- Establishing a mobility centre with support from EU.
- Better possibilities for the universities to operate internationally.
- A special programme for talented young researchers (EliteForsk) is being prepared.

Tax incentives

- 150 per cent tax deduction to companies for financial support given to research and research schools at universities etc.
- Reduced tax rates for foreign experts in Danish companies and at Danish research institutions.
- Immediate deduction of research expenditures.

The initiatives are described in further detail in Annex 2.1.

High technology and intermediate to high technology start-ups have traditionally constituted less than 2 per cent of all new enterprises, and Danish enterprises innovate less than enterprises in other European countries.

A number of initiatives have been prepared for the purpose of testing new mechanisms that will strengthen companies' ability to exploit new knowledge in their production planning. This applies to both high-tech enterprises and to companies using more traditional methods of production. The aim is that new knowledge arising

from, inter alia, research and development should be converted into new products and services.

In many Danish enterprises, innovation results from interaction with customers and suppliers. The government intends to develop a special programme for user-driven innovation and dissemination of knowledge based on market demand in fields where the enterprises locally and regionally have special competences.

Box 2.4

Initiatives within knowledge transfer and innovation

- Action plan with more than 20 initiatives to increase interaction between public research institutions and private enterprises.
- Networks promoting partnerships between private enterprises and knowledge institutions.
- The action plan “Knowledge relocates – The path to high-tech regions”.
- Act on Technology Transfer at Public Research Institutions enabling the public research institutions to establish and invest in companies to commercialise public research results.
- Developing a programme for user-driven innovation.
- Increased weight on innovation and development in the food, agriculture and fishery sector, including changes in the rural development programme and the Innovation Act.

The initiatives are described in further detail in Annex 2.1.

2.2 Strategy for integration of ICT

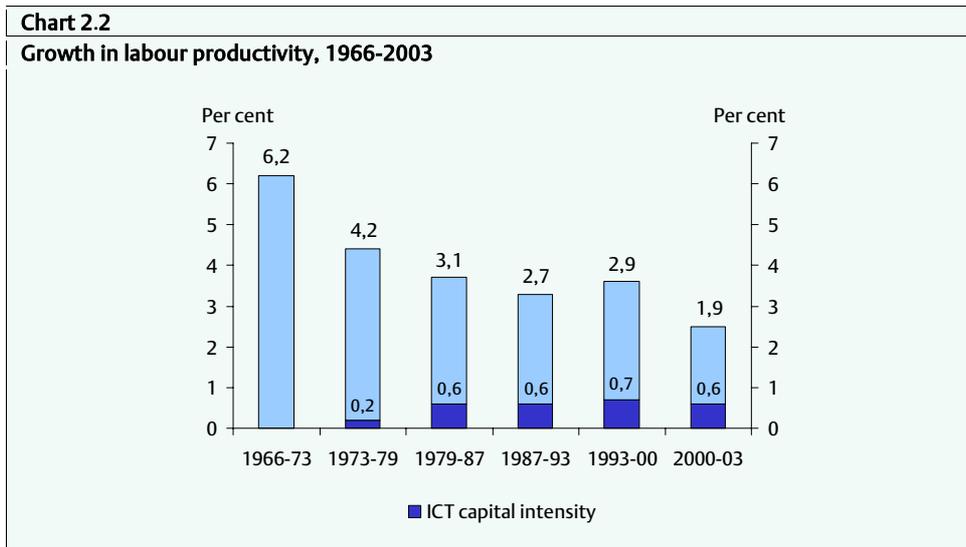
Box 2.5

EU Guidelines: Information and communications technology (ICT)

Member states should encourage the widespread use of ICT in public services. The necessary framework should be fixed for the related changes in the organisation of work in the economy, and a strong European industrial presence should be promoted in the key segments of ICT. Finally, the deployment of broadband networks should be encouraged (...) (Guideline no. 9).

The use of ICT by enterprises, public institutions and private households is extensive, and the area is constantly being developed for the purpose of promoting overall growth in business and industry, ensuring sustainable development, obtaining service improvements and creating efficiency gains. However, to reap the full benefits from ICT, it is necessary to move from basic use to integration across all sectors of society.

The share of ICT investments in overall capital investments has increased markedly since the 1980s, representing 20 per cent in 2001. During the same period investments in ICT have contributed about 0.6 percentage point per year to the growth in labour productivity, cf. *Chart 2.2*. As the overall growth in labour productivity has been declining, a larger proportion of the economic growth can be directly attributed to ICT today.



Note: ICT capital intensity is the quantity of ICT capital per working hour. ICT capital includes ICT products such as telecommunications equipment, computers and related equipment, electronic components, software, audio and video equipment etc.

Source: Statistics Denmark.

Denmark supports the establishment of a European information space without frontiers as one of the main objectives of the i2010 Initiative. Prior conditions of this is common - and to the greatest possible extent, open standards to ensure interoperability, attractive content available on many electronic platforms (e.g. mobile telephony, internet and digital TV) and a clear legal and political framework supporting convergence and increased competition between existing and new sectors.

The framework conditions for the rollout of a modern and up-to-date infrastructure should be organised in a manner that will support competition in the market. An intensive strategic research effort is necessary to ensure future growth and development based on ICT. In view of the technological development, security issues are in focus more than ever. The new security threats as a result of the technological development (virus attacks, hacking, phishing etc.) should be addressed in due time to build up trust and ensure implementation of the best suitable ITC security policy. Initiatives regarding standardisation and amendments to the major part of current ICT and media legislation will depend to a great extent on discussions globally and within the EU. In a number of areas, national activities have also been launched, *cf. box 2.6.*

Box 2.6**National ICT policy initiatives**

- e-government, standardisation in the public sector, e-Days, and digital signatures.
- ICT use in SMEs.
- ICT research and innovation.
- ICT trust and security.
- Infrastructure and broadband.
- ICT skills and e-Learning.
- Establishment of a Digital Task Force to promote the transition to e-Government across the public sector.

A number of the initiatives have been described in further detail in Annex 2.2 together with key development indicators.

2.3 Entrepreneurship**Box 2.7****EU Broad Economic Policy Guidelines: To promote a more entrepreneurial culture**

Member States should improve access to finance in order to favour the creation and growth of SMEs. They should strengthen economic incentives by simplifying tax systems and reducing non-wage labour costs, among other measures. In addition, Member States should strengthen the innovative potential of SMEs and provide relevant support services, like the creation of one-stop contact points and the stimulation of national support networks, etc. (...) (Guideline no. 15).

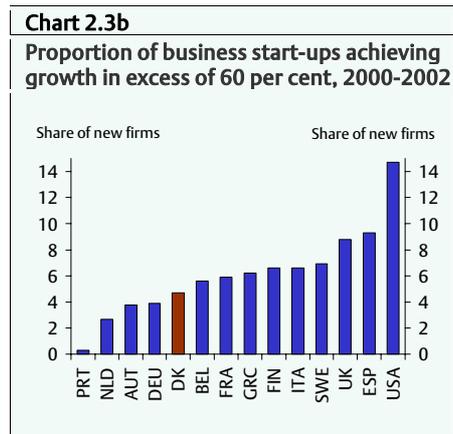
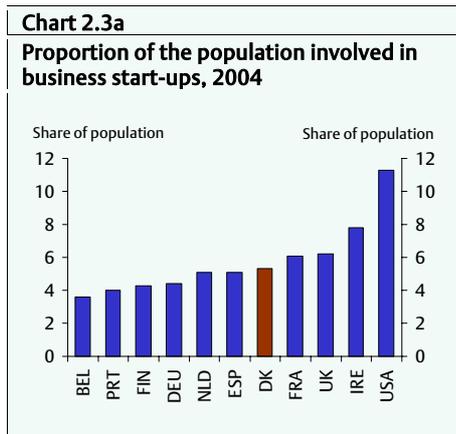
The focus of the entrepreneurial area is directed, in particular, at improving access to capital (loan or borrowed capital) as well as to information and advice for entrepreneurs, while at the same time promoting a better entrepreneurial culture. EU Structural Funds provide grant aid for a number of initiatives in this area. For more information, cf. Annex 7.

Around 16,000 new businesses are started in Denmark each year and just over 5 per cent of adult Danes are engaged in entrepreneurial activities – either by starting up their own business or by playing a key role in the development of a new business, cf. *Chart 2.3a*. This means that, in relative terms, Denmark has one of the highest numbers of business start-ups in Europe. Over a two-year period, there are more than 10 business start-ups for every 100 existing businesses. The corresponding figures for Finland and Sweden are just under 8 and 7 start-ups, respectively.²

However, there seem to be many indications that Denmark has fewer high-growth business start-ups than a number of other countries, cf. *Chart 2.3b*. Out of 100 businesses start-ups, 3 per cent of the businesses achieved growth in turnover and employment in excess of 60 per cent in the period 2000-2002. The corresponding fig-

² Source: Eurostat.

ures for Sweden and Finland were just over 5 per cent and close to 6 per cent, respectively.



Note: Chart 2.3a Proportion of the Danish population (aged 18-64) directly involved in starting up or running a new business. Chart 2.3b. Growth is indicated by a simple average of growth in turnover and employment. The indicator is based on data from business start-ups after 1996, employing between 15 and 100 staff in 2000 and still being in existence in 2002. Business start-ups achieving growth in excess of 60 per cent in the period 2000-2002 are categorised as growth businesses. US figures are based on a relatively small number of observations.

Source: Global Entrepreneurship Monitor, "Denmark 2004 National Report", 2005. National Agency for Enterprise and Construction, 2004, based on data from Bureau van Dijk (Orbis).

Benchmarking has been initiated in this area. An index measures results (business start-up rates and number of growth entrepreneurs) and the quality of a large number of framework conditions of importance to entrepreneurs.³ Relevant framework conditions include access to capital, entrepreneurship education and training, advice and culture.

Entrepreneurial initiatives focus on five areas: Tax, finance, entrepreneurship infrastructure, legal and administrative matters, as well as education and cultural impact. In recent years, the key initiatives have revolved around finance, advice and entrepreneurial culture, *cf. Box 2.8*.

³ http://www.ebst.dk/publikationer/ivaerksaettere/entrepreneurship_index_2004/pdf/EBS_Ivaerk_GB_5k.pdf

Box 2.8**Completed and planned entrepreneurial initiatives***Completed initiatives*

- Get-Started loans. Entrepreneurs are eligible to borrow up to DKK 500,000 against government guarantee.
- Establishment of the International Danish Entrepreneurship Academy, IDEA
- The Entrepreneurship Foundation, which is to invest in new businesses in their earliest stages.
- Venture capital action plan.
- Advice and entrepreneurial culture.
- IT Growth House to provide a meeting venue for students, new businesses, etc.
- Business sparring through establishment of entrepreneurship clubs.

Planned initiatives

- Tax cuts for growth entrepreneurs.
- De-bureaucratisation of systems and procedures in connection with business start-ups.

For more information on the initiatives, cf. Annex 2.3.

2.4 Education and training

Box 2.9**EU guidelines: Education and training**

Member States shall *at a broad level* expand and improve investment in human capital and adapt education and training systems in response to new competence requirements. *More specifically*, measures shall be implemented to bring about a considerable reduction in the number of pupils who leave school early and effective strategies for lifelong learning that are open to all in accordance with the agreements established at European level, to improve and ensure the attractiveness, openness and high quality standards of education and training, to increase opportunities for and ensure flexible learning paths and opportunities for mobility (...) (guideline nos. 23-24).

Note: The guidelines for education and training are part of the guidelines for employment as described in section 5.

Denmark has one of the world's most expensive primary school systems. In 2002, 8.5 per cent of the country's GDP was allocated to education and training, a figure which is well above the average within the EU, cf. *Table 2.1*. International comparisons of pupil performance indicate, however, that the results do not bear comparison with the economic investment, particularly in core subjects such as Danish, mathematics and science.

Table 2.1
Total expenditure on education and training as a per cent of GDP 1999-2002

	1999	2000	2001	2002
Denmark	8.1	8.4	8.5	8.5
EU15	5.0	4.9	5.1	5.2

Note: "Education and training" includes primary and secondary schools and higher education institutions. Expenditure on education and training support is also included.
Source: Eurostat.

The subject orientation at lower secondary schools must therefore be improved, partly through improvements in the teaching of Danish with more lessons in the 1st - 3rd form levels, improvements in the teaching of mathematics and science and a national action plan for reading. Evaluation of the benefits to pupils of the teaching is to be stepped up and mandatory tests are to be introduced at several form levels in core subjects.

The basic teacher education and in-service training is also to be improved. The teaching of the core subjects of Danish and mathematics is to be made more specialised. The number of main subjects in education is to be reduced and teacher education in science is to be improved. The long-term goal for core subjects is for teachers to only teach their main subject.

In addition to a solid foundation from lower secondary school, a good upper secondary education is an important prerequisite in enabling individuals to adapt to the demands of the labour market for lifelong learning and the acquisition of new skills. Young people who do not complete an upper secondary education are more likely to be unemployed and lead an adult life on the fringes of the labour market. The government's aim is to ensure that at least 95 per cent of all young people complete an upper secondary education once they have completed lower secondary school, and to increase the proportion of students completing a higher education from the current figure of 42 per cent to 50 per cent in 2015, *cf. Table 2.2*.

Table 2.2
Education and training targets, proportion of a year who complete the relevant education

	Today	Target 2010	Target 2015
(per cent)			
Upper secondary education (all)	78	85	95
Higher education	42	45	50

One of the measures that have been implemented to achieve these targets is the introduction of a *reform programme of the general upper secondary education* from August 2005. The basis of this reform is to make the subjects more coherent than was previously the case, so that they can support each other. Interaction between subjects will, all

else equal, give a more coherent knowledge. The target descriptions for each subject have been revised, so that the focus is now on the competence of the pupil.

A series of initiatives have also been planned and implemented, including the targeting of the 10th form level, new routes into vocational education and training, the introduction of education via apprenticeships, the improvement of vocational colleges, the establishment of strong, broadly focussed centres for intermediate-length higher education courses, the introduction of university colleges, greater flexibility in general adult education and adult vocational training, including the introduction of competence descriptions for courses, and an action plan for IT in primary and lower secondary schools, cf. the description in Annex 2.4.

A political agreement dating from November 2002 will provide a stable framework for the development of *universities*. Danish universities have become independent institutions with boards with an external majority, an external board chairman and employee managers. New development contracts for the universities for 2005 also reflect their role in developing new knowledge and technology for industry and society in general and in providing enterprises with highly educated labour at a high international level.

Universities that contribute more and educate a large number of bachelors and master's degree graduates will be rewarded with a special bonus for each graduating student. The universities will be rewarded for reducing drop-out rates and for getting students through their courses faster. This could for example be achieved through improved study environments and targeted guidance.

All university courses will now be incorporated into a bachelors and master's degree structure, which is both flexible and coherent. Specific access requirements are being simplified and tightened, in order to create greater coherence between the output level of secondary education courses and the input level of the universities.

In 2006, a free place and scholarship scheme will be set up for the best foreign students at the universities, with the aim of attracting highly qualified students from abroad to relevant courses.

As with the national initiatives, initiatives at European level can also help to improve courses and the mobility of students. In this context, the open method of co-ordination is an important instrument that is being used in relation to the implementation of the "Education and Training 2010"⁴ work programme. Denmark also fully

⁴ The "Education and Training 2010" work programme is the framework for the EU's initiatives relating to education and training, which sets the following three objectives: improve the quality and effectiveness of European education and training systems, facilitate access for all to education and training and make the education and training system open to the outside world. The Council and the Commission will adopt the second status report on progress in relation to the objectives in February 2006.

supports the Bologna⁵ and Copenhagen processes⁶, cf. also section 5. The government's initiatives in relation to direct labour market-related education and training efforts are also described in section 5. It is the government's aim to give the adult education and retraining sector a significant boost.

⁵ The Bologna process, which is an intergovernmental rather than a Community process, is aimed at improving quality, transparency, mutual recognition and mobility within higher education.

⁶ Within vocational education and training, cooperation at European level was enhanced during the Danish EU-Presidency, through the so-called "Copenhagen process". This cooperation, which actively involves the social partners, is also aimed at improving quality, transparency, mutual recognition and mobility.

3. Efficient competition and the internal market

Competition has improved in the Danish economy in recent years. Since 2001, the number of sectors facing competition problems has decreased by 17 per cent and regulation of the product markets has been relaxed. However, Danish net retail prices are still some 5 per cent higher than those of other EU Member States. The Danish Competition Act is amended on an ongoing basis in order to maximise competition. An inter-ministerial task force has identified areas that are burdened with unnecessary regulation and where there is potential for reducing administrative burdens.

The main challenges in the coming years are:

- To continue to strengthen competition, the objectives being to halve the number of sectors facing competition problems by 2010 and to bring Danish net retail prices more in line with the rest of Europe.
- To implement the objective of lowering administrative burdens on businesses year by year, reducing these burdens by up to 25 per cent from 2001 to 2010.
- To continue to ensure that internal market directives are transposed into Danish legislation.
- To initiate the establishment of a fixed link across the Fehmarn Belt in partnership with Germany.

3.1 Enhanced competition

<p>Box 3.1</p> <p>EU Guidelines: To ensure open and competitive markets</p> <p>Member States should give priority to the removal of regulatory, trade and other barriers that unduly hinder competition and to more effective enforcement of competition policy. Finally, selective screening of markets and regulations should be conducted by competition and regulatory authorities in order to identify and remove obstacles to competition and market entry (...) (Guideline no. 13).</p>
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A number of indicators (*cf. Tables 3.1 and 3.2*) show that, in general, competition in the goods and services markets has improved in recent years. This is the case both in Denmark and abroad. The enhanced foreign competition benefits the Danish economy through higher growth for our trading partners.

The Danish government has drawn up a number of sub-objectives for the dual purpose of assessing whether competition has improved sufficiently and obtaining an indication of whether the initiatives launched have borne fruit. The sub-objectives include the following:

- The number of sectors facing competition problems should be halved by 2010.
- Danish consumers should not face higher net retail prices for the same products than consumers in our benchmark countries in Europe.
- By 2010, fewer areas should face competition-impeding government regulation.

Halving the number of sectors facing competition problems implies reducing the number from 64 in 2001 to 32 in 2010. In 2005, the number of problem-prone sectors was estimated at 53 – somewhat above the target of 32, *cf. Table 3.1*. The sectors facing competition problems are listed in Annex 3.1. Just over 50 per cent of these are in the services sector.

Table 3.1				
The number of sectors facing competition problems				
	2001	2003	2004	2005
Number of identified sectors	64	60	56	53
Note: The Danish Competition Authority identifies sectors facing competition problems based on a set of competition indicators in conjunction with the Authority's subjective assessment of competition in the sector in question. A triviality limit applies. The criteria for the identification are reviewed in Annex 3.1. Source: The Danish Competition Authority.				

For a number of years, the Danish Competition Authority has calculated the *price level* and compared Danish net retail prices with the corresponding prices in the EU9 countries.¹ While the price level compared with other countries is affected by differences in cyclical price increases and exchange rate fluctuations, consistently high prices may be the result of weak competition in the goods and services markets – partly as a result of high profit margins and partly as a result of wage premia (weak competition contributing to a high payroll level).

The latest calculation shows that in 2004 Danish net retail prices were 6 per cent higher than the EU9 average, *cf. Table 3.2*. Although there are still significant price differences in the EU9, prices vary less among the countries than they did in the 1990s. See Annex 3.2 for an elaboration on the price differences.

The relative price level has remained stable in recent years despite the tightening of the Competition Act and liberalisation of several sectors in the economy. Part of the relative increase in prices since 2002 is attributable, among other factors, to the appreciation of the euro against the pound sterling, which is reflected in the relative fall in prices in the UK.

¹ The nine countries are Denmark, Sweden, the UK, Germany, the Netherlands, Finland, Belgium, Italy and France. The calculation of the net price index is based on Eurostat prices from the PPP-programme, which was launched more than 30 years ago and comprises a large number of countries. The price information is subject to some uncertainty.

Table 3.2
Comparison of the net retail prices in a number of EU Member States

EU9 =100	1994	2002	2003	2004
Denmark	109	104	106	106
Finland	103	106	105	103
Sweden	109	101	103	103
Germany	109	102	102	102
France	104	97	97	100
UK	80	108	102	98
Italy	84	93	96	98
Belgium	100	95	95	96
Netherlands	100	94	94	93
Standard deviation	10.9	5.2	4.3	3.9

Note: Net retail prices are retail prices adjusted for VAT and other taxes. Please note that the price index figures should be interpreted with caution, as the Eurostat price collections are subject to a number of uncertainties, entailing that year-on-year changes are highly uncertain in a number of cases.

Source: Competition Report, 2005, based on Eurostat.

In spring 2005, the Danish Competition Authority conducted an analysis of the impact of payroll costs on the price variations between the EU9 countries. While considerable uncertainty is attached to the analysis, it does indicate that the Danish productivity level translates into higher pay, probably accounting for approximately 3.5 per cent of the Danish excess price relative to EU9 in 2003.² This leaves a price difference of about 2.5 per cent, possibly reflecting that competition is less intense in Denmark than abroad.

The price level may also be affected by government regulation. This is the case if, for instance, regulation imposes cost-increasing requirements on providers. OECD indicators of product market regulation (PMR) are used as indicators of the extent of *competition-restricting regulation*. The latest estimate shows that Denmark, along with Ireland, had the second lowest index for product market regulation in EU9 in 2003, *cf. Table 3.3*. In other words, government regulation probably does not contribute to the higher prices in Denmark. The calculation shows that since 1998 competition-restricting regulation has been reduced for all the countries surveyed.

² The analysis is based on the Balassa-Samuelsen effect, which implies that differences in productivity in manufacturing might be an important factor behind variations in the price levels across countries.

Table 3.3
The OECD indicators of product market regulation in selected OECD countries

	1998	2003	Difference 1998-2003
UK	1.1	0.9	-0.2
Ireland	1.5	1.1	-0.4
Denmark	1.5	1.1	-0.4
Sweden	1.8	1.2	-0.6
Finland	2.1	1.3	-0.7
Belgium	2.1	1.4	-0.7
Netherlands	1.8	1.4	-0.4
Germany	1.9	1.4	-0.5
France	2.4	1.6	-0.8

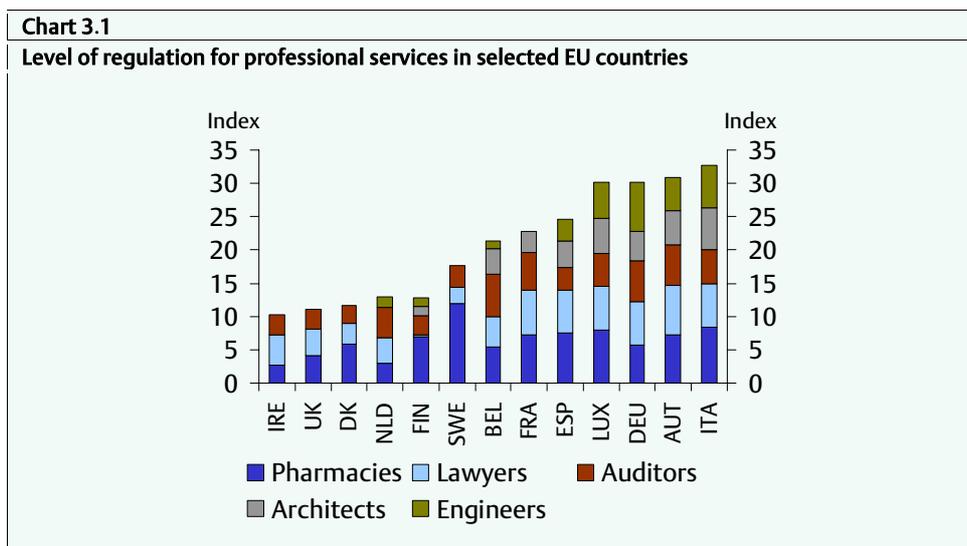
Source: OECD (2005) Economics Department Working Paper No. 419, "Product Market Regulation in OECD Countries: 1998 to 2003". The index takes values from 0 to 6, a higher value indicating more regulation.

In summer 2004, an inter-ministerial task force submitted a report identifying a number of areas affected by competition impeding rules. A common denominator for these areas was the existence of rules designed to safeguard specific public interests, such as supply reliability and environmental and health considerations; in some cases, these rules may, however, impede competition unnecessarily.

The task force presented recommendations for 12 areas where regulations could be changed to reduce their negative impact on competition. Nine of the 12 areas are within the *services* sector. The current status of the recommendations for the nine areas is listed in Annex 3.1. In this context, an objective is that the internal market for services be realised.

Professional services account for a significant part of the service sector, e.g. attorneys, real-estate agents, accountants, architects, land surveyors, doctors and dentists. As these professions sell knowledge, it is vital that quality be ensured to protect consumers. However, it should be considered on an ongoing basis whether the consumer protection rules remain relevant, or whether they impede competition unnecessarily.

In 2003, the Commission prepared a study of the regulation of selected professions in 13 Member States, *cf. Chart 3.1*. An index of the level of regulation was calculated and the study shows that the Danish level of regulation is relatively low on average for five selected professions. The Danish level of regulation for pharmacies is relatively high, however.



Source: The Commission 2004, Report on Competition in Professional Services.

In 2004, the Danish Competition Authority conducted a study of the competition conditions for four standard services in the professions: communication and advice in connection with sale; purchase of owner-occupied dwellings; and administration of estates of deceased persons and debt collection. The players in these areas are mainly real-estate agents and attorneys. The study showed that competition problems arise when new providers fail to challenge existing business structures. Such structures may be subject to habitual thinking, resulting in weak competition and moderate product development. Other problems include lack of transparency of prices and the services provided.

In 2004/2005, the Danish Competition Authority prepared a study of the regulation and liberalisation of 11 selected *infrastructures*³ by comparison of framework conditions. The study shows that – compared with a number of other countries – there is scope for improvement in Denmark when it comes to reducing existing exclusive rights in the infrastructures and to extending the use of competitive tendering. In other words, some of the infrastructures may, to a greater extent than is currently the case, be exposed to competition – either in the form of competition in the market or competition for the market (through increased use of competitive tendering). The infrastructures may also have a number of technical barriers and rules impeding competition, making it difficult for new, for example foreign, operators to enter the market.

³ The 11 infrastructures are railways, airports, postal services, electricity, natural gas, district heating, telecommunications, television distribution, water supplies and wastewater management, as well as waste disposal and incineration, see the Danish Competition Authority, Competition Report 2005.

The government has launched a number of competition policy initiatives designed to strengthen competition in the Danish economy.

An amendment to the Danish Competition Act, effective from 1 February 2005 (the fourth amendment since 1998), implies that the Competition Council may make binding commitments. This means that if an enterprise, at the Competition Council's request, makes a commitment (promise) to correct distortions of competition, the Competition Council may follow up on the case for a specific period of time, for instance by requesting all relevant documents. The stage is thus set for more solutions based on compromise in cases where an enterprise is under suspicion of breaking the law. The amendment also enables the Competition Council to order dominant enterprises to prepare and submit written trading conditions to the Danish Competition Authority.

Moreover, it is under consideration to strengthen the investigative instruments under the Competition Act with a view to extending the possibilities of revealing *cartels*. This includes allowing control inspections in private homes and introducing the possibility of offering enterprises reductions in fines in case of voluntary disclosure of cartel conduct to the competition authorities.

In summer 2004, an inter-ministerial task force submitted a report, recommending changes of a number of competition restricting rules in various areas. In several of these areas, the work to change the rules has already been initiated.

Competition for public sector contracts is a special priority area, which has received more focus in recent years, for instance through public-private partnerships (PPP). See Section 6.2 for further information.

Reference is also made to Annex 3.1 for information on other competition policy initiatives, including amendments to the Public Tender Act, the Shops Closing Act, liberalisation of infrastructures, etc.

3.2 The internal market

Box 3.2

EU Guidelines: To extend and deepen the Internal Market

Member States should speed up the transposition of Internal Market directives; give priority to stricter and better enforcement of Internal Market legislation; eliminate remaining obstacles to cross-border activity; and promote a fully operational internal market of services (...) (Guideline no. 12).

The prerequisites to ensure an efficient internal market are that Member States transpose EU legislation on the internal market in national law and that they refrain from

introducing special national competition-impeding rules, on the other. Moreover, it should be ensured that no regulation is implemented at Community level that reduces competition and transparency (such as import quotas, etc).

The latest scoreboard for the transposition of internal market directives, from July 2005, shows that the average transposition deficit among the 25 EU member states is 1.9 per cent. The Danish transposition deficit is 0.8 per cent. In order to strengthen Danish transposition efforts, the scoreboard has been discussed regularly at the meetings of the inter-ministerial committee preparing the government's handling of EU issues.

With a view to removing special national rules and administrative procedures that do not comply with the fundamental principles of the internal market, the government has appointed an internal market task force. Under the auspices of the internal market task force, legislative and administrative barriers in the services sector are reviewed, including approval and authorisation procedures. The work is likely to be completed in spring 2006, translating into proposals for changes to rules and procedures.

3.3 Better regulation

Box 3.3

EU Guidelines: To create a more competitive business environment through better regulation

Member States should reduce the administrative burden that bears upon enterprises, particularly on SMEs and start-ups; improve the quality of existing and new regulations. At the same time, Member States should preserve their objectives, through a systematic and rigorous assessment of their economic, social, health and environmental impacts, while considering and making progress in measurement of the administrative burden associated with regulation, as well as the impact on competitiveness. (...) (Guideline no. 14).

Preliminary measurements indicate that Danish and international regulation imposes administrative costs on Danish enterprises in connection with statutory, administrative work. These costs are estimated at 2-2½ per cent of GDP.

Compared with the EU average, in 2001 Denmark had an above-average number of enterprises indicating that administrative burdens had a negative impact on their performance. On the other hand, other studies show that Danish enterprises believe that regulation and public administration function more efficiently in Denmark than in most other countries.

There is not necessarily any direct correlation between the enterprises' perception of the administrative burdens and the actual costs incurred. The implications of administrative burdens on performance also do not indicate the extent of *unnecessary* regulation. Regulation is often introduced to safeguard business and consumer interests

and ensure orderly conditions. However, the extent of immediate costs is large enough for a significant potential to exist for reducing poor or outdated regulation.

It is important that new and existing rules be reviewed to establish whether possible disadvantages of the regulation are offset by similar-sized or even greater advantages. In this respect, the administrative costs of the enterprises are important parameters. Consequently, enterprises are included in the efforts to enhance regulation.

In 2002, the government set a target that the administrative costs of Danish enterprises were to decline on a year-on-year basis and be reduced by up to 25 per cent between 2001 and 2010. The first preliminary measurements show that the overall burden has declined slightly since 2001.

In order to realise the target, the government has drawn up a strategy based on four overall priority areas:

- Based on systematic measurements, using a Standard Cost Model, the most burdensome rules and legislation are reviewed with a view to finding new ways of simplification and digitalisation.
- The quality of new regulation is enhanced by supplementing the compulsory assessment of economic, social and environmental impacts of all bills by analyses of the administrative implications on enterprises, for instance, through business panels.
- More and enhanced digital solutions, including establishment of the portals Danmark.dk, containing information on hearings, legislation, etc., and Virk.dk from which enterprises can find forms for reporting, etc., to public authorities.
- Improved communication and service can help enterprises comply with the rules as efficiently as possible.

3.4 Infrastructure

<p>Box 3.4</p> <p>EU Guidelines: To expand, improve and link up European infrastructure</p> <p>Greater integration of national markets should be achieved within the enlarged EU. Therefore, Member States should develop adequate conditions for resource-efficient transport and energy infrastructures, especially those included in the TEN (trans-European) networks. Community mechanisms should be complemented, notably in cross-border sections and peripheral regions. Development of public-private partnerships should be considered. (...) (Guideline no. 16).</p>

A plan has been prepared for government investment in areas such as roads and public transport, and political agreements have been reached on annual real growth in capital investment totalling 2 per cent a year. The government gives high priority

to this area in an attempt to reduce traffic congestion and economic waste. These investments are designed to strengthen the interrelationship between Danish regions.

It has been decided to boost public transport by injecting a total of some DKK 10.5 billion into this area until 2014. The Danish rail network will be renovated. An additional DKK 700 million has been allocated for operation, renovation and maintenance of the rail network for 2005 and 2006. Allocations for subsequent years have been increased by an additional amount of just under DKK 1 billion a year.

The 10-year contract with DSB (Danish State Railways) for 2005-2015 provides for a considerable expansion of long-distance and regional train traffic, as well as S-train traffic (metropolitan trains).

In an EU context, the establishment of a fixed link across the Fehmarn Belt is one of the government's main priorities, *cf. Box 3.5*. This link is on the Commission's list of prioritised infrastructure projects.

Box 3.5

A fixed link across the Fehmarn Belt

Establishment of a fixed link across the Fehmarn Belt is a high-priority area for the Danish government. The fixed link will connect Scandinavia even closer to the European continent and will help to stimulate growth and employment on both sides of the fixed link. Germany and Denmark will not be the only beneficiaries from the fixed link.

A cost-benefit analysis from 2004 shows that a fixed link across the Fehmarn Belt consisting of a cable-stayed bridge with four road lanes and two rail tracks will generate an economic net gain of roughly DKK 14 billion in terms of travel time savings benefiting citizens and enterprises alike. Moreover, a fixed link will offer a number of long-term strategic and dynamic effects. Environmental analyses show that the establishment of a fixed link across the Fehmarn Belt will reduce harmful air emissions – both immediately after its opening and in the long term. CO₂ emissions are expected to be reduced by 220,000 tonnes a year in 2040, equivalent to the current annual CO₂ emissions produced by the activities of 20,000 people.

In June 2004, the Danish and German governments signed an agreement in principle on a link across the Fehmarn Belt (confirmed in June 2005). In other words, the German and Danish governments have declared that they will work towards realising the project. The two governments are currently seeking to clarify a number of issues concerning the financing of the project, environmental matters, and the technical design of the project.

4. Sustainability, the environment and energy

Denmark has come a long way in its efforts to improve environmental protection to the benefit of human health, consumer protection and nature. In key areas it seems that the trend increase in the environmental impact of economic growth has been curbed (e.g. for energy, waste, and water), but a number of environmental problems still require special attention.

The main challenges in the coming years are:

- *To ensure both continued economic growth and a high level of environmental protection.*
- *To promote and encourage more effective solutions to environmental problems; especially within the areas of climate, air pollution, chemicals, and the protection of water resources and nature. Development of environmentally efficient technology contributes to this objective.*
- *To reduce Danish CO₂ emissions by 21 per cent before 2012 compared to the level in 1990, cf. the EU's burden sharing agreement in order to honour the Kyoto-protocol.*

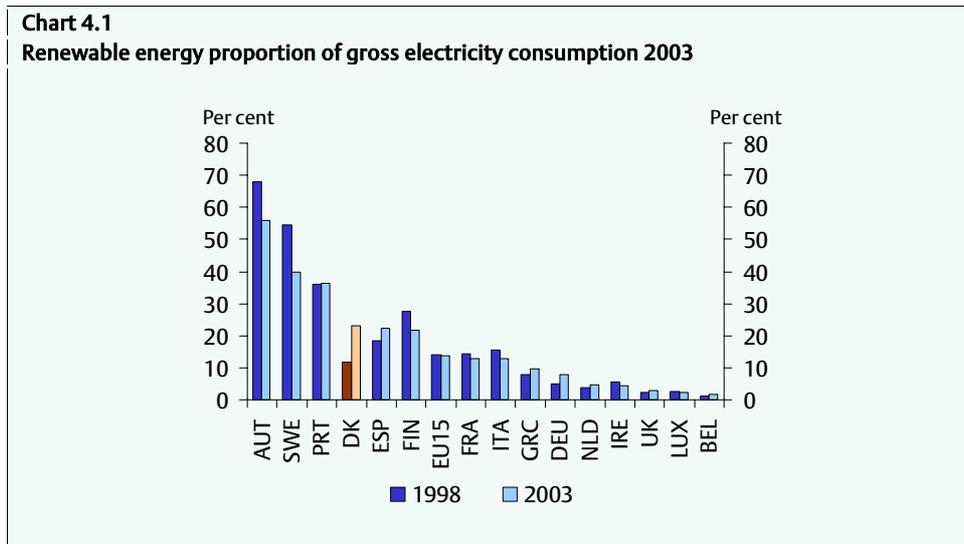
Box 4.1

EU guidelines: sustainable development

Member states should ensure sustainable use of resources and synergy between environmental protection and growth. Member states should focus their attention on four areas: promoting the use of eco-efficient technologies, especially within transport and energy; promoting internalisation of environmental costs and decoupling the link between economic growth and environmental impacts; launching efforts to counter climate changes and at the same time meeting the Kyoto goals in a cost-effective manner; halting the loss of biodiversity. (Guideline no. 11).

4.1 Promoting environmentally efficient technology

The development of renewable energy sources clearly demonstrates the potential gains from using environmentally efficient technology. The proportion of electricity consumption stemming from renewable energy sources has increased from 11.7 per cent in 1998 to 23.2 per cent in 2003, thus exceeding the EU average, cf. *Chart 4.1*.



Note: Including electricity generation from hydropower which boosts the figures for countries like Austria and Sweden.

Source: Eurostat.

A large industry for renewable energy has existed in Denmark for many years, particularly with regard to the production of wind turbines. The Danish government wishes to continue encouraging efficient environmental solutions. It would be advantageous if environmental initiatives could also lead to exports and thereby to environmental benefits abroad, as well as to workplaces with high added value. The government is therefore preparing an action plan for environmentally efficient technology. This plan will also be Denmark's contribution to the implementation of EU's Environmental Technologies Action Plan (ETAP) and it is expected to be presented in spring 2006. The action plan should:

- Promote technology and innovation that can provide cost-effective solutions to environmental problems.
- Identify the strengths of Danish industry within the areas of eco-efficient technologies.
- Identify areas for possible enhanced efforts in terms of research and development.
- Create good and long-term conditions for market-based developments and use of eco-efficient technologies.

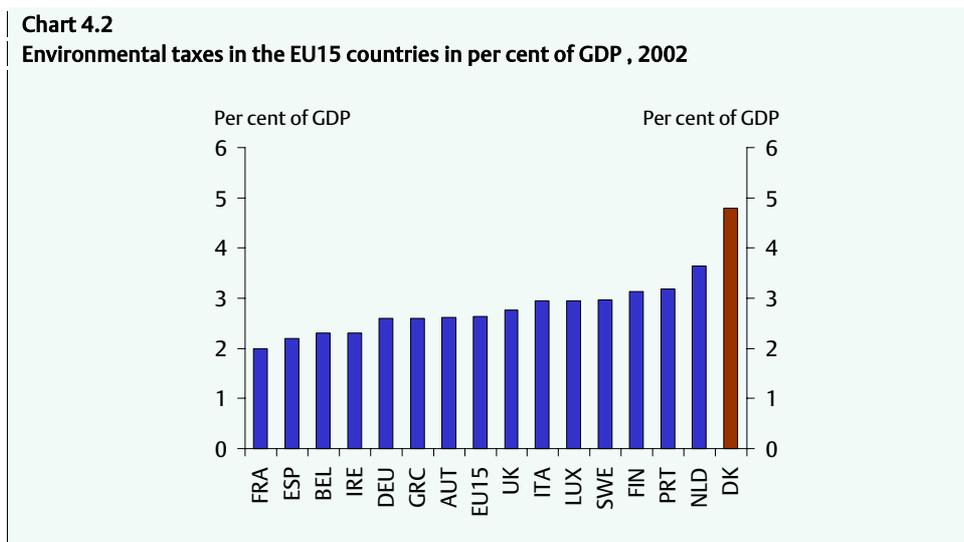
Furthermore, the government has commenced the preparation of a strategy for sustainable livestock farming, e.g. to identify needs and possibilities for developing and using new technologies in livestock farming. The government also intends to introduce environmental approval in connection with the expansion or establishment of

livestock farms with more than 75 animal units that provide incentives for using environmentally efficient technologies.

In fisheries, the government has initiated work to identify possibilities of developing cleaner technologies within fish farming systems based on recirculation. Development of such technologies may hold perspectives both for Danish fish production and for exports of knowledge and technology.

4.2 Internalisation of environmental costs and decoupling the link between economic growth and environmental impacts

In a number of areas Denmark has sought to *internalise* the environmental costs in the prices of goods and services. This is reflected, for instance, in the high level of environmental taxes in Denmark relative to GDP, when compared to other EU15 countries, cf. *Chart 4.2*.



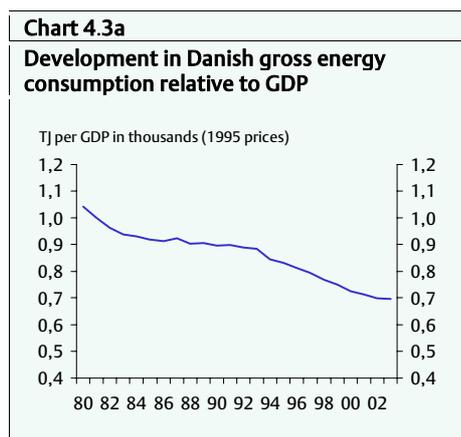
Note: Taxes on transport, i.e. primarily registration and vehicle excise duty, are included in these numbers. According to Eurostat, transport taxes constituted 0.54 per cent of GDP in the EU15 countries in 2002, whereas the corresponding figure for Denmark was 1.9 per cent.. Denmark is still at the high end if transport taxes are excluded, but the difference to other countries is reduced.

Source: Eurostat.

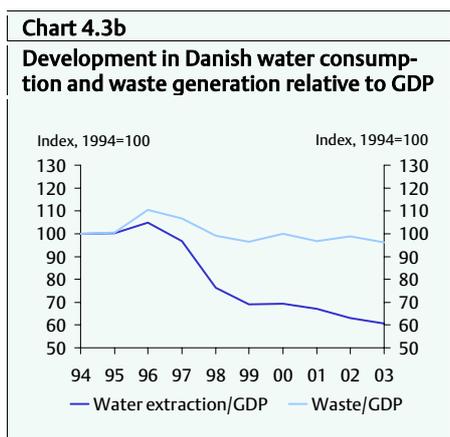
The government will regularly assess whether the level of environmental taxes in the different sectors reflects the environmental costs. For example, from the beginning of 2005 the tax on sulphur-free petrol and diesel has been reduced corresponding to the environmental gain that has increased the market for sulphur-free fuels. Furthermore,

a tax has been introduced on mineral phosphorous in animal feed with effect from 2005.¹

Efforts to *decouple* the link between economic growth and environmental impacts should be encouraged while considering the effectiveness of initiatives and the effect on industrial development. In key areas, Denmark has successfully decoupled the link between growth in production and increased environmental impact. For instance, since 1980 economic activity in Denmark has grown faster than energy consumption, *cf.* Chart 4.3a. In 2003, the gross energy consumption was 0.7 TJ per DKK thousand GDP (1995 prices), as opposed to 1.0 TJ in 1980; i.e. fuel intensity has been reduced by about a third during this period. The absolute energy consumption went up by 1 per cent from 1990 to 2003.



Source: Danish Energy Authority.



Source: Danish EPA..

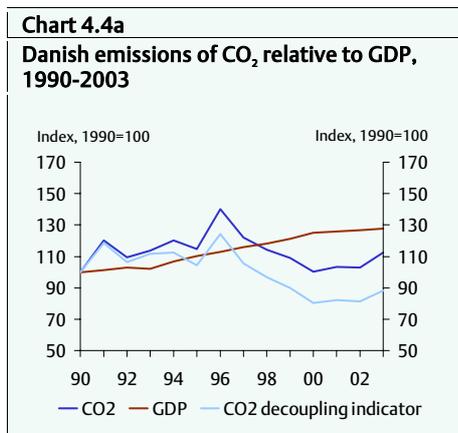
Similarly, the trend in water extraction (comprising both resource consumption and wastewater generation) and waste generation relative to GDP is falling, *cf.* Chart 4.3b. In the period 1994 to 2003, water extraction fell by about 27 per cent in absolute terms, while the waste volumes increased, although slightly less than the growth in GDP.

An important objective of the government's action plan for eco-efficient technology is to encourage technological innovation that can reduce the pressure on our resources and the generation of waste, both from production and consumption, as well as promote the development toward a decoupling of economic growth and environmental impacts.

¹ The tax on phosphorous has been introduced in accordance with the government's tax freeze. This is because it is an environmental tax and revenues are to be used to lower other taxes or duties.

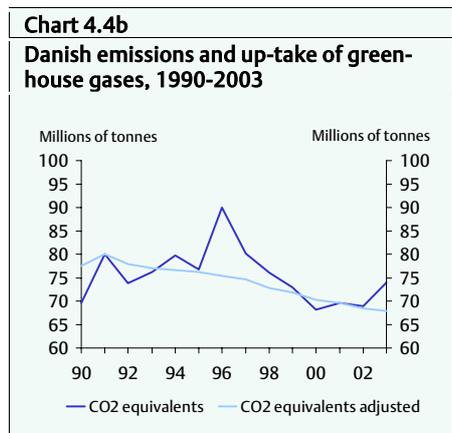
4.3 Efforts against climate change

Since the end of the 1980s, Denmark has completed several initiatives aimed at achieving reductions of greenhouse gas emissions. Absolute emissions of the greenhouse gas CO₂ have fallen since 1996, despite steady economic growth, cf. *Chart 4.4a*.



Note: National emissions calculated without adjustments for temperature fluctuations and electricity exchange with neighbouring countries.

Source: Statistics Denmark.



Note: The adjusted emissions have been adjusted for temperature fluctuations and electricity exchange with neighbouring countries.

Source: Ministry of the Environment.

When considering Danish emissions of greenhouse gases in the period 1990 to 2003, a slight increase is seen. However, if the total emissions of greenhouse gas emissions are adjusted for electricity exchange with neighbouring countries and temperature fluctuations, Denmark has seen a steady reduction in greenhouse gas emissions of 12 per cent in the period 1990 to 2003, cf. *Chart 4.4b*.

Initiatives in the climate area should be seen in the light of Denmark's ambitious commitment under the EU Burden Sharing Agreement to reduce CO₂ emissions by 21 per cent compared to the base year 1990. In accordance with this agreement, the EU has committed itself to an 8 per cent reduction before the year 2012, cf. the Kyoto-protocol.

The government places great emphasis on finding an appropriate solution to the problem of the reference-year – a solution that takes the unusually large electricity imports in 1990 into account – with a view to finalising the national allocation plan in June 2006. In addition to allocating the limited number of CO₂ allowances between the sectors covered by the Emissions Trading System Directive, this plan should determine to what extent further initiatives should be prepared. This could for example be done by purchase of EU allowances or credits and through national initiatives.

The government's energy strategy from June 2005 includes specific initiatives to counter climate changes, for instance by significantly strengthening initiatives in the energy-savings area in general, by increasing the focus on energy consumption in the transport sector and by ensuring that good framework conditions for renewable energy are upheld.

It is the government's aim that the EU actively seeks an ambitious agreement concerning greenhouse gas reduction – and that this be done well before the first phase expires in 2012 – based on broader participation as well as the efforts so far. The EU should work towards ensuring that large countries with increasing CO₂ emissions – China, India and the US etc. – take greater responsibility for the climate of the earth.

4.4 Stopping the decrease in biodiversity

The government's action plan for biological diversity and nature protection 2004-2009 establishes that ensuring biodiversity and ecosystems is a necessary prerequisite for sustainable development.

The action plan addresses different options for making current initiatives more targeted. This should be done by ensuring that existing areas with a high value for natural habitats, etc – the so-called NATURA 2000 sites – are protected against deterioration, and by developing cohesive networks of natural areas. The action plan also established that sector-integration is a crucial element. Environmental considerations must be included in all sectors so as to ensure sustainable development.

The plan is to earmark DKK 1 billion (Euro 0.13) extra from 2006 to 2009 for nature restoration initiatives, securing habitats, increasing efforts to ensure cleaner water as well as increased afforestation.

The government aims to implement the Action Plan for the Aquatic Environment III before 2015. The target is to halve the phosphorus surplus from agriculture and to reduce nitrogen run-off and leaching by an additional 13 per cent in 2015, in addition to the 50 per cent reduction that has already been achieved. Furthermore, a strategy ensuring a cost-effective implementation of the EU Water Framework Directive will also be prepared.

5. The Danish employment policy

The Danish labour market has a favourable starting position. Denmark has an employment rate that is already higher than the joint EU objective of 70 percent, partially because of the high participation of women in the labour market. Furthermore, the Danish structural unemployment is relatively low, which is partially because of the Danish flexicurity model with flexible rules on hiring and dismissal, a well-developed unemployment benefit system and an active labour market policy – based on strict rules on availability, re-education, etc. Extensive reforms have been carried out, especially with regard to the development of the structural unemployment and to keeping persons with reduced working capacity on the labour market.

The main challenges in the years to come are:

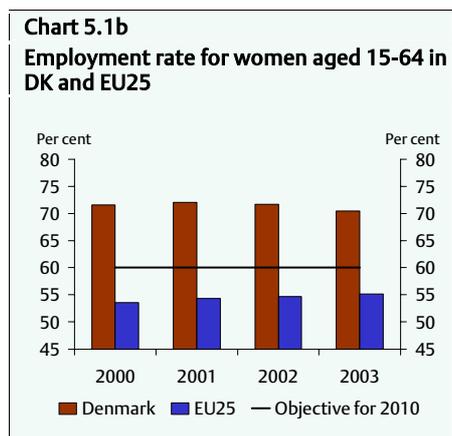
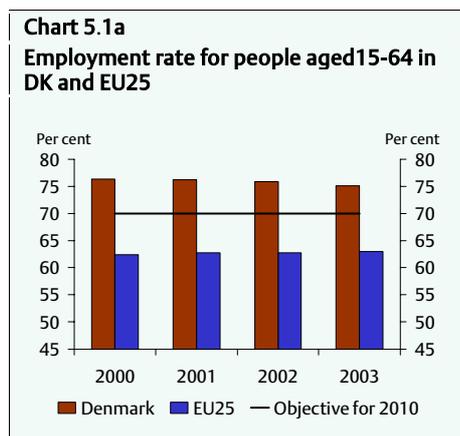
- *The structural employment must be increased by 50,000-60,000 people before 2010 to counter the demographic development. Particularly, focus should be on:*
 - *Continued incentive for people to get into the labour market earlier and stay there longer.*
 - *Ensuring the implementation of the integration agreement, in order to increase the employment rate of immigrants and descendants.*
- *The adaptability of employees and companies must be improved further, for example by strengthening the effort within general adult education and adult vocational training, in order to reap the gains and meet the challenges of globalisation and the technological development.*

Box 5.1

EU Guidelines: High employment

Policies should contribute to achieving an average employment rate for the European Union (EU) of 70 per cent overall, of at least 60 per cent for women and of 50 per cent for older workers (55 to 64) by 2010, and to reduce unemployment and inactivity (...) (Guideline no. 17).

Denmark meets the three employment objectives, cf. *Chart 5.1a+b and Annex 5.2.*



Source: Eurostat.

Even though the employment is high at present, it is a goal of the *structural and labour market policy* to increase the employment permanently by approximately 50,000 to 60,000 people before 2010. This amounts to an increase in employment of approximately 2 per cent and corresponds to an improvement of public finances of approximately 1 per cent of GDP. The employment objective contributes to maintaining a sustainable fiscal policy, cf. section 1.

The need for continuous adjustments of the structural and labour market policies is emphasised by the demographic development. The ageing of the population will all else equal lead to a reduction of employment by approximately 28,000 people in the period between 2004 and 2010. A number of already implemented structural reforms pull in the opposite direction, the estimated impact on employment amounting to an increase by 20,000 people before 2010. cf. table 5.1.

The already implemented initiatives include, for instance, the reforms of the voluntary early retirement pay scheme and the anticipatory social pension, the abolition of transitional allowance, the labour market reform *More people into employment*, *Lower taxes on earned income* and the latest agreement in the integration area *A new chance for everyone*.

1,000 people	Change 2004-2010
Demographics	-27
Already implemented initiatives	20
Structural employment without further initiatives	-7
Cyclical contribution	18
Basic scenario	11
Required effect of new structural political initiatives	50
2010-plan	61

Note: An estimated contribution of 11,000 people to the increase in employment from higher educational level is included in the demographic scenario and not – as in the Economic Survey from May 2005 – in the contribution from already implemented initiatives. The estimated contribution to employment from already implemented initiatives has increased compared to the Economic Survey May 2005 when correction is made for this technical relocation. This increase reflects primarily the integration agreement "A new chance for everyone", which is estimated to raise employment by 6,000 people

Source: Danish Ministry of Finance.

Moreover, an increase in employment corresponding to around 18,000 people is expected as a result of a foreseen normalisation of the cyclical position, as the unemployment is expected to be above its structural level in 2004. On balance total employment is expected to rise by approximately 11,000 people from 2004 to 2010 in the absence of further structural reforms.

Within the 2010-plan it is required that new initiatives raise the structural employment by 50,000 people, as a total increase in employment of 61,000 people before 2010 is required in the projection based on the target of a sustainable fiscal policy.

At the end of 2005, the government's Welfare Commission will present its suggestions for reforms of the structural and labour market policies. The Welfare Commission is instructed also to prepare analyses that describe the challenges arising from the changed age composition of the population. Analyses and suggestions are to form the basis of a wide, public debate.

To fulfil the ambitious medium-term requirements for the employment rate, efforts have to focus on several areas. Key aspects of the Danish employment policy for the years to come, as laid down in the government platform *New Goals*, February 2005, are:

- More immigrants into employment. The objective is that up to 25,000 more refugees, immigrants and descendants of immigrants be employed in 2010.
- Lower age when finishing education. The objective is that young people's average age when finishing their education is reduced by one year.
- Less absence due to illness. The objective is to reduce the average number of days lost because of illness by one day.

- More elderly people in the labour market. The objective is to increase the average retirement age by six months.
- Better functioning of the labour market. The objective is to improve the structures in the labour market, for instance, through an overhaul of the employment policy, that focus on flexibility-impeding regulations in the unemployment system, tightening of the rules on availability and a more effective public employment service.

In addition the government has drawn up a multiannual action plan to give more *people with disabilities* jobs. The objective is that the employment of people with disabilities be increased by 2,000 people each year.

In accordance with the European Employment Strategy, the government thereby focuses on objectives and launch initiatives that contribute to raising labour supply and employment as well as the quality of work and social coherence, *cf. boxes 5.1. and 5.2.*¹ The initiatives are primarily financed by *national funds*. The EU's Social and Regional Funds contribute to some extent, *cf. Annex 7.*

5.1 Labour supply, etc.

Box 5.2

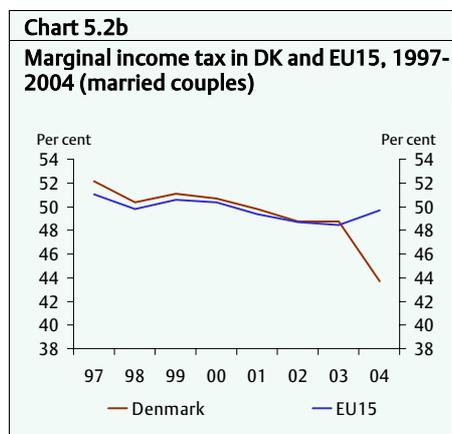
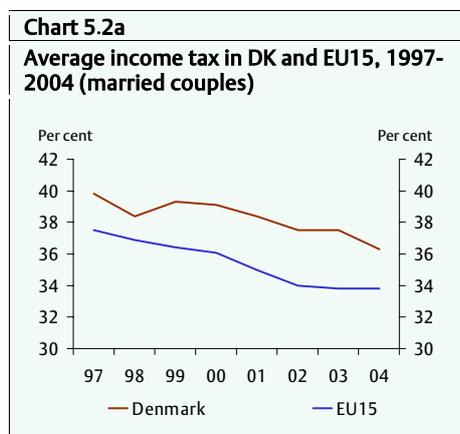
EU Guidelines: Labour supply, etc.

Generally, the Member States are to promote a lifecycle approach to work; ensure inclusive labour markets; enhance work attractiveness; make work pay for job-seekers, including disadvantaged people and the inactive; improve matching of the labour market's needs. *More specifically*, they should promote employment for among others young people and women including by reducing gender gaps in employment and promoting a better balance between work and private life for instance by providing accessible and affordable childcare facilities and care for other dependants; support to active ageing, including adequate incentives to work and discourage early retirement; modernise the social protection systems; use active and preventative labour market measures, including early identification of needs; continual review of the incentives and disincentives resulting from the tax and benefit systems, including a reduction of high marginal effective tax rates, notably for those with low incomes, whilst securing adequate levels of social protection; modernise and strengthen labour market institutions, notably employment services, and remove obstacles to workers' mobility across Europe (...) (Guideline no.-s 18-20).

One of the leading principles of the government's employment effort is that it must pay to work and also to make an extra effort. This is reflected in the reduction of taxes on earned income by DKK 10 billion in 2004, corresponding to 0.7 per cent of GDP, *cf. Chart 5.2a*. The tax reduction is evenly divided between an earned income

¹ The contribution from the social partners regarding the state, municipal and private labour market is enclosed as *annexes 8.1-8.4*. The contribution from The Danish Council of Organisations of Disabled People is summed up in *annex 8.5*. The government's response to the Council's recommendations for Denmark (2004) is discussed continuously in the government's reform programme and a supplementary description is provided in *Annex 5.1*. Denmark's position with regard to selected community indicators is described in *annex 5.2* and - on the basis of national data - in *Annex 5.3*.

tax credit and a higher threshold for the middle-bracket income tax. The earned income tax credit increases the incentive to get a job, while the increase of the middle-bracket income threshold in particular increases the incentive to work more, if already employed. In total, the tax reduction is estimated to increase the effective labour supply by around 10,000 full-time persons.²



Note: The numbers are based on an average for a married couple with two children with an income of 100 per cent and 67 per cent respectively of the earnings of an average production worker. The average and marginal tax comprise income tax plus employee- and employer-paid social contributions, in percentage of the gross income. The number for EU is a simple average.

Source: Taxing Wages Statistics, OECD.

In the spring of 2006, the government will present a new multiannual fiscal plan for Denmark. Provided that the necessary financial margin is available, the government will reduce the taxes on earned income further.

The integration agreement "*A new chance for everyone*" implies an improvement of the incentives to work relative to receiving *social assistance*. For a married couple where both spouses receive social assistance, it is agreed that if one spouse has not had ordinary work for 300 hours within a period of two years, the person in question is considered to be working at home – and thus not available to the labour market – whereby the social assistance is discontinued for this person. At the same time, the rules on availability are extended for recipients of social assistance, as the tightened right and duty to participate in activation is extended to include recipients of social assistance that are not registered at the public employment service. In total, the elements in the integration plan can increase the number of full-time persons in employment or undertaking an education by up to 10,000 persons before 2010.³

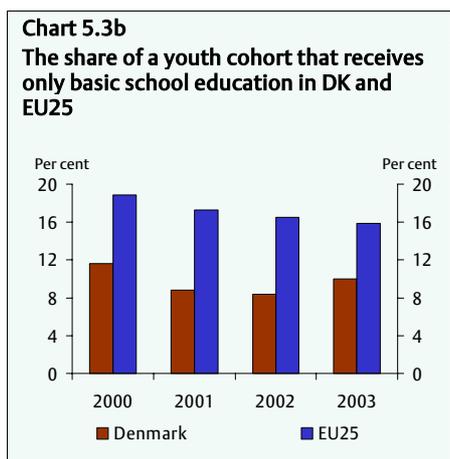
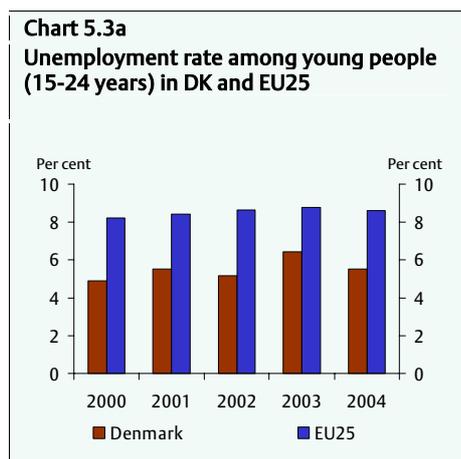
² The effect is included under "Already implemented initiatives" in *table 5.1*.

³ Of these, 6,000 people are included under "Already implemented initiatives" in *table 5.1*.

As for the financial incentive to apply for work for newcomers on the Danish labour market, it has been demonstrated that immigrants receiving start help⁴ get jobs or start an education to a greater extent than immigrants receiving social assistance. Thus, the start help apparently has an effect as a financial incentive.

More focus will be put on the incentive to work in connection with the coming *overhaul* of the employment policy.

The unemployment of young people (18-25 years) is among the lowest in the EU and lower than the average unemployment in Denmark, cf. *Chart 5.3a*. In May 2005, the unemployment rate for young people had fallen to 3.9 per cent.



Note: Eurostat defines unemployment in Chart 5.3a as the number of unemployed people in the age group 15-24 years in proportion to the total population in the same age group.

Source: Eurostat.

The share of young people that receives only basic school education in Denmark is also lower than the EU average, but still there are too many who do not complete a *youth education*, cf. *Chart 5.3b*. These young people have a higher risk of unemployment. The objective is that at least 95 per cent of all young people in 2015 complete a youth education. At present, 78 per cent of a cohort completes a youth education.

The drop-out rate among *young people with foreign background* is too high, especially in vocational education and training programmes. With the government's integration plan and the broad political agreement "*A new chance for everyone*" from June 2005, all young people are guaranteed a relevant education offer. In future, all young recipients of social assistance between the ages 18 and 25 that do not have a qualifying education will be obliged to apply for education. Otherwise they will lose their right

⁴ Start help was introduced on the 1st of July 2002 and is given to people who have not resided in Denmark for 7 out of the latest 8 years, and fulfil the other requirements for receiving social assistance. The start help is a lower benefit than the social assistance.

to social assistance. The plan is to create practical access to more educations, strengthen the outreach in connection with providing apprentice positions and to establish a new education with craft's apprenticeship. Furthermore, the government will reorganise the child allowance, providing it only for 15- to 17-year-old children if they are undertaking an education or have a job with educational perspective.

The quality of schooling for children and young people that are placed outside the home has generally turned out to be outdated. As the schooling is of great significance to future educational and occupational opportunities, a *placement reform* has been implemented by statute with the intention of bringing school conditions for the individual into focus. The act comes into force on 1 January 2006.

Denmark has a high total *rate of participation and employment for women*. The government focuses on breaking down the gender-divided labour market, see also the contribution from the social partners, *cf. Annexes 8.1-8.3*. Guidelines for the companies on *promoting equal pay* in the workplace are being worked out in cooperation with the social partners. The government is preparing a bill that will require companies above a certain size to prepare *gender-segregated wage statistics*. Furthermore, the government will present an action plan to break down the gender-specific barriers among ethnic minorities in connection with education, work and local community activities.

In the fall of 2005, a *Family and Working Life Commission* will be established to uncover the demands that modern family life and modern working life make on a more flexible society in the future. The Commission's work is to conclude in concrete recommendations on how the society can best be adapted to take into account the situation and needs of the individual person and the individual family. The Commission's work must be finished by the end of 2006.

All children have the right to an offer of *child care* regardless of the parents' attachment to the labour market. Today, around 66 per cent of all children between the ages of 1 and 2 and approximately 95 per cent of all children between the ages of 3 and 6 make use of an offer of child care. During the next three years, the government is going to lower the maximum parental contribution for child care from 33 per cent to 25 per cent of the costs and raise the family allowance for children below the age of three. Furthermore, freer choice between public and private services within the areas of children and elderly people will be introduced, *cf. section 6*.

In 2005, the social partners in the *central government* have agreed on better conditions for families with children, *cf. Annex 8.1*. Among other things, this includes additional paid child care days per child, including during hospitalisation of children, and improvements of parents' right to full or partial leave of absence with pay in connection with care-taking of seriously ill children. The government will ensure that everyone who is not covered by a fund for parental leave equalisation through a collective agreement will be included in a compulsory arrangement from 2006. See the contribution of the social partners, *cf. Annexes 8.1-8.4*.

More elderly people on the labour market are a high priority. There has been uninterrupted progress in the employment rate for the people between the ages of 55 and 64 in recent years, which for instance, show the effects of reforms of retirement rules in 1996 and 1999. The employment rate for people between the ages of 55 and 64 in Denmark is above the EU average and complies with the EU's total 50 percent-objective, cf. box 5.1. However, the employment rate is somewhat lower than for people of working age in general, and because of the possibility to enter the voluntary early retirement pay scheme at the age of 60, there is significant difference between the employment rate for the people between 55 and 59 and those between 60 and 64, cf. table 5.2.

Table 5.2
Employment rates for elderly people, 1996-2004

	1996	1998	2000	2001	2002	2003	2004
55-64 years	48.4	49.8	53.0	54.6	56.7	57.8	57.8
55-59 years	63.8	66.0	70.4	71.4	73.2	73.7	74.0
60-64 years	30.3	30.3	30.6	32.2	33.9	35.9	36.4

Source: Statistics Denmark. A national definition of employment rates has been used which implies slightly lower employment rates than the figures used by the European Commission, cf. Annex 5.2.

The purpose of the reform of the voluntary early retirement pay scheme from 1999 was to increase older employees' incentive to stay in the labour market through financial incentives and by improving the possibilities of gradual retirement. The voluntary early retirement pay scheme for people between the ages of 60 and 64 was changed in several ways and the income testing of the state pension on the basis of earned income was eased. At the same time, the retirement age was lowered from 67 to 65 years.

In July 2005, the government earmarked DKK 7 million for an attitude campaign, which is to contribute to later and more gradual retirement. To support the campaign, regulations etc. for older people in the labour market will be revised. Furthermore, the working environment reform from 2004 has resulted in changes that also contribute to improving the working conditions for seniors in the labour market.

From 2004, rules regarding *postponed pension* have been implemented. According to these rules, all elderly people that have reached the retirement age and continue to work can choose to postpone the state pension and participate actively in the labour market in return for getting a higher state pension later.

In 2003, a reform of the *anticipatory social pension* was carried out. The main purpose was to ensure that people with a working capacity that makes it possible for them to retain attachment to the labour market also actually get to use these resources in a

job. The reform will make it more attractive to employ people with lasting reduced working capacity through so-called flexible employment.

Retirement schemes and financial incentives to stay in the labour market will occupy a prominent place in the political debate after the report from the Welfare Commission.

The strategy for promoting labour supply and increasing the quality of work aims also at a *modernisation of the social protection*, including matters regarding absence due to illness and prevention of industrial injuries.

From the 1 January 2006, a range of tools and information will be made available through the internet portal Virk.dk to help the companies reduce *absence due to illness*, see also the contribution of the partners, *cf. Annex 8.3*.

The purpose of the *industrial injury insurance reform* from 2003 is to adapt the industrial injury insurance to the modern work life, including that the premiums and contributions paid by the employers meet the injured persons' needs for compensation. The government has established a committee with participation of the social partners that will consider the regulations for interaction between the Danish industrial injury insurance act, the Danish act of liability to pay compensation and social benefits. At the same time, the committee is to consider the development of further incentives to maintain work under normal conditions after a personal injury.

Denmark has a very *extensive labour market policy* compared to other EU countries, *cf. table 5.3*, but the effort still has to be improved. The labour market reform "More people into employment" from 2002 brought individual and quick access to employment into focus, including a general strengthening of the financial incentives to work. Strengthened examination was introduced, implying an improved initial assessment of how the person can find work most quickly. In 2005, an overhaul of the employment policy will be initiated, among other things directed at special regulations in the unemployment benefit area that impede flexibility, a tightening of the rules on availability and a more effective job placement.

Table 5.3
Expenses for active and passive labour market policy in DK and EU15 respectively, in per cent of GDP

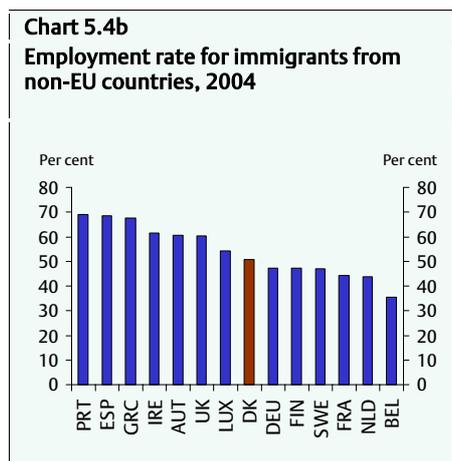
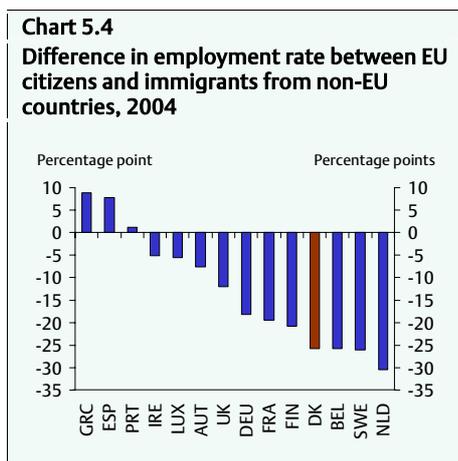
	2000	2001	2002	2003
Denmark, active	1.7	1.6	1.7	1.5
EU15, active		0.7	0.7	0.7
Denmark, passive	2.4	2.3	2.3	2.7
EU15, passive		1.3	1.3	1.4

Note: The term “active labour market policy” comprises a number of active initiatives to promote employment, for example job training, job rotation, start-up and employment initiatives. The term “passive labour market policy”, on the other hand, comprises initiatives such as early retirement from the labour market, etc. It should be noted that it is difficult to compare different countries’ passive labour market policy because of problems with delimitation with regard to, in particular, social-political initiatives. For Denmark, the passive labour market policy particularly comprises unemployment benefits and social assistance for people who are available to the labour market.

Source: Eurostat.

Furthermore, an action plan for the use of *providers of job placement services from outside the central and local governmental sector (private providers)* has been implemented in 2005. The action plan is to improve the use of these providers and thereby the matching in the labour market.

A particular effort to increase the employment rate among immigrants is necessary. Immigrants from non-EU countries have a significantly lower employment rate, *cf. Chart 5.4a*. Part of the explanation is that the standard of reference, i.e. the employment rate of the rest of the population, is higher in Denmark, *cf. Chart 5.4b*. To increase the employment level among immigrants and descendants of immigrants, the government has concluded a political agreement “A new chance for everyone”, which, for example, implies that foreigners that are subject to the integration law must be covered by an *integration contract* for the first seven years after their arrival in Denmark, or until the individual foreigner achieves permanent residence permit. The contract implies that the person is obliged to learn Danish and make an effort to get a job. The government will continue focusing on raising the employment rate of immigrants and descendants of immigrants.



Source: Eurostat.

As part of the integration agreement, the government will initiate the nationwide effort "A new chance for everyone", where the municipalities provide *active offers for all recipients of social assistance* who have received passive financial support for a longer period of time. The effort is to ensure that everyone gets active offers that can help them get closer to the labour market. In future, the municipalities will be under the obligation to continuously provide offers to recipients of social assistance, which is not the case today.

As just as important element is the *active social policy*, which quickly steps in to deal with any social problems that may exist apart from the unemployment. These problems are often the reason why a longer-lasting unemployment problem has arisen.

For socially vulnerable groups, personal *debt* is often a barrier to move on in life. The financial incentives to work can be undermined, because repayment of debt is required, if the person gets a job. Therefore, funds have been set aside for 2005 and onwards for a debt reduction arrangement.

For many companies it can be a problem that some socially vulnerable people – especially in the beginning of employment – have a less stable attendance than normally. To remove this barrier for employment, funds have been set aside to support *substitute arrangements* that can indemnify the company. Funds have been set aside also for development of *mentor schemes* in connection with drop-in centres.

There is a group that is so *far from the labour market* that an attachment to the labour market is not realistic at the moment. In order to help this group funds have been set aside to start pilot projects in the form of social activation.

Box 5.3**The Danish social policy and the Lisbon strategy**

The Danish social policy is obviously far more inclusive than the areas of effort mentioned above. In the present national reform programme, only the aspects relevant to the Lisbon Strategy have been included, i.e. primarily employment-related parts of the social policy. Within the framework of the EU, there is a special cooperation about social policy under The Social Policy Committee. (SPC).

There are approximately 700,000 *people with disabilities* in Denmark. Out of these, 400,000 have jobs. In December 2004, the government presented a multiannual action plan for people with disabilities, "Disability and Job". The action plan includes an effort to create more concrete knowledge about the interaction between disability and job as well as concrete initiatives that are to make it easier to combine a disability with employment. Furthermore, a number of initiatives are presented that are to change the attitudes of caseworkers, the social partners, educational institutions and the people with disabilities themselves. Further development of methods for protected employment of people with disabilities is also required.

The government wants to create an *inclusive labour market* with the right balance between social inclusion and financial efficiency. Increasing the labour market participation of people with disabilities provides significant advantages for the individual person as well as for the economy.

The objective is to increase the employment of people with disabilities by 2,000 people per year. At the same time, the number of companies that have an employee with a disability is to rise by one percentage point per year. Among other things, the objective is to be achieved through promotion of the dialogue between the involved parties, employment on special terms, social chapters in the collective agreements and the social commitment of the companies. See also Annex 8 about the effort of the social partners and the contribution from The Danish Council of Organisations of Disabled People (DSI).

The overhaul of the employment policy in 2005 will, among other things, be directed towards ensuring financial incentive for municipalities, the public employment service (AF) and for other players in the area of job mediation. With the adoption of the *municipal reform* in 2005, new frameworks will be created for a more efficient and transparent labour market. The employment services and the municipalities are going to work together in new joint job centres and will take part in a binding cooperation on the employment effort. The local job centres constitute one joint entrance for all unemployed and companies that need help and service in the employment area. Four state regions are to manage and supervise the job centres to ensure a consistency between the national employment policy and the local effort. In the new employment system, there will be increased focus on effects and results of the effort in the individual job centres.

The government wants to promote employees' *mobility across international borders*. EURES – a cooperation between employment services, unions and employer organisations in the EEA countries – is therefore a part of the tools in the new job centres, and it must be possible to search among the job centres' available positions abroad on www.jobnet.dk and on www.eures.dk.

Furthermore, bilateral cooperation has been initiated on the *border region* between Germany and Denmark with a view to promoting increased mobility, which includes employment service and social benefits. The intensified cooperation – also in the employment area – between Denmark and Sweden that was started with the Øresund bridge also continues.

Based on the *transitional arrangement* for employees from the new Eastern European Member States of the EU, a supervision system of the Danish labour market has been established. Thus, a suitable implementation of the agreement on the transitional period is ensured. The supervision system makes it possible to follow the inflow to the Danish labour market from the new EU countries divided into industries and regions and to compare information about inflow of labour with general information about development in unemployment and employment. Furthermore, the system makes it possible to follow the development in the new EU citizens' use of social benefits.

An agreement has been made with a view to ensuring that the *immigration from third countries is adapted to the needs of the labour market*. Therefore, foreigners coming to Denmark must either have obtained employment or have the possibility of being supported by their family already living in Denmark. To ensure the supply of highly qualified labour within industries that need labour, the government has established a *job card arrangement*. At the moment, the government is considering to expand the arrangement to make it possible for students from third countries to achieve a residence permit after they have finished their education with a view to finding employment within certain industries.

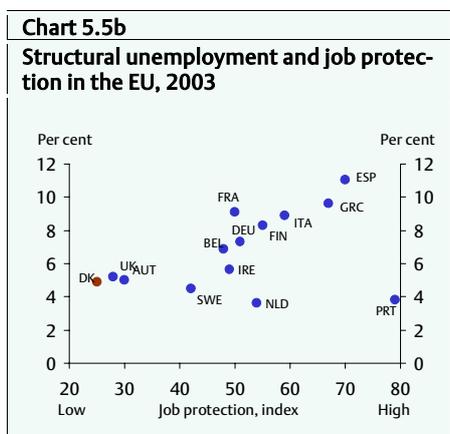
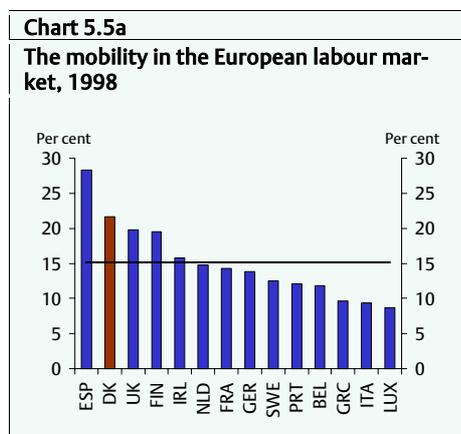
5.2 Adaptability

Box 5.4

EU Guidelines: Adaptability of employees and companies

In general, the Member States are to create greater flexibility and at the same time ensure job protection and limit the division of the labour market, and ensure employment-promoting development of labour costs and wage setting mechanisms while showing appropriate consideration for the role of the social partners. *More specifically*, the work should include an adaptation of the labour market legislation; handling of the problems with undeclared work; and prompting of the parties to establish the right framework for wage agreement systems (...) (Guideline no.-s 21-22).

The *adaptability* of Danish employees and companies is extensive. Today, Danish employees change jobs more than 800,000 times a year. This corresponds to around 30 per cent of the labour force changing jobs every year. This is considerably above the general level within the EU, cf. *Chart 5.5a*, which shows the job changing frequency in 1998.



Note: The mobility is calculated as the number of employees that have had their present position for less than a year and who were employed the year before compared with people who were employed both years. The data for Ireland in Chart 5.5a is from 1997. The index for job protection in Chart 5.5b has been constructed by The World Bank and it takes values from 0 to 100. The higher the number, the higher the degree of job protection in the national legislation. Spain stands out because of the high mobility combined with high job protection, which is due to a substantial increase in the application of temporary contracts.

Source: Stimpson (2000), OECD, The World Bank and calculations from the Danish Ministry of Finance.

The Danish labour market is characterised by *flexible rules on hiring and dismissal* established over a long period on the basis of collective agreements between the social partners. This makes it easy for the companies to continuously adapt their employment to market needs. Together with a well-developed unemployment benefit system and an active labour market policy – based on strict availability rules, re-education, etc. – these regulations make up the so-called “*flexicurity*” model, which contributes to keeping the structural unemployment in Denmark low, cf. *Chart 5.5b*. These three elements and the connection between them are continuously supervised and debated. The government is very aware of the need to protect the model and ensure continuous balance.

The government wants the adaptability of employees and companies to improve continuously, which takes place in close cooperation with the social partners. This is one of the reasons why the government and the social partners established the joint committee, the *Tripartite committee for life-long qualification and education for everyone in the labour market*, in September 2004 to strengthen the effort within adult and supplementary education. The committee is expected to report on their results in the beginning of 2006 and to present – on the basis of considerable analysis and mapping work – suggestions on how the objective of life-long qualification and education for

everyone can be realised in cooperation between the employers, the wage earners and the central government. See also *Annexes 8.1-8.3* on the results of the social partners' collective bargaining (the collective agreement of 2005 (OK05)) in the spring.

The structure of *the decentralised Danish wage negotiation model* is continuously adapted to the needs of the labour market. Through the collective agreement of 2005 (OK05), the municipal social partners carried out the so-called reversed model, which implied that the individual member organisations started negotiations with the respective employers on a wider range of themes than earlier, before the negotiation community, municipal public servants and employees appointed on a group contract basis (KTO) negotiated fewer and more general demands. Furthermore, the local wage setting system was adjusted and revised, for example on the basis of the project "Equal pay and job evaluation". See also the contribution of the social partners, *cf. Annex 8.1-8.3*.

It is unlikely that the total extent of *undeclared work* in Denmark is higher in general than in other countries. But undeclared work is anti-competitive, harmful to the economy and distorts competition. Therefore, the government has intensified the battle against undeclared work in recent years, and presented the action plan "Fair play" in 2004. The efforts include increased prevention and tightening of control, fines and of punishment. In 2005, the government has implemented an expansion of the sanctions.

5.3 Investment in human resources

Boks 5.5

EU guidelines: Human resources

In general, the Member States are to expand and improve investment in human capital and adapt education and training systems to new competence requirements. More *specifically*, this includes a significant reduction of the number of early school leavers; efficient lifelong learning strategies open to all in accordance with European agreements; appropriate incentives and cost-sharing mechanisms with a view to enhancing participation in continued training and workplace training throughout the life-cycle, especially for the low-skilled and older workers; raising and ensuring the attractiveness, openness and quality standards of education and training; broadening the supply of education and training opportunities and ensuring flexible learning pathways and enlarging possibilities for mobility; responding to new occupational needs, key competences and future skill requirements by improving the definition and transparency of qualifications, their effective recognition and the validation of non-formal and informal learning (...) (Guideline no.-s 23-24).

Denmark is well ahead compared to the other countries in the EU and the OECD when it comes to the *total investment* in education, *cf. section 2, table 2.1*.

It is the government's goal to achieve better use of the resources, for example by increasing the focus on *quality, flexibility and transparency*. Denmark complies with the international recommendations in the Bologna process in the area of higher education and took the initiative to a corresponding process in Copenhagen in 2002 in the

fields of initial vocational education and training, general adult education and vocational education and continued training.

High quality of the vocational education and training programmes plays an important role in ensuring that young people get the *necessary vocationally oriented competences* within new technologies and traditional trades.

The government intends to establish a committee with participation of the relevant parties and independent experts to analyse the Danish vocational education and training system to assess if it corresponds to the demands of the future. Based on this, suggestions for changes in the vocational education and training system will be presented. In 2005, the government has initiated an action plan based on a statement to the Danish parliament in November 2004 on the recognition of prior learning in the education programmes.

In recent years, several initiatives have been launched and carried out to broaden, in particular, the basic social and health care education programmes and the vocational education and training programmes. In 2005, committee work has been started in order to contribute to the creation of *new educational directions in the initial vocational education and training programmes*, especially with consideration to the educational needs of young people with practical competences. As of 1 July 2005, a prize of DKK 20,000 has been introduced for companies for each additional student that they hire.

The participation in all types of adult education and training is significantly higher in Denmark compared to the EU average, *cf. table 5.4*. In recent years, the government has carried out a number of necessary and efficiency-enhancing *reforms in the area of all types of adult education and training*. The vision of the government's reforms has been to create a more goal-oriented, flexible, transparent and dynamic educational system that matches the needs of the labour market better, and which is closely connected to professionally strong initial vocational education and training programmes. The government has placed particular focus on giving the qualifying elements of the programmes more importance and on creating enough consideration for supply and demand as well as quality.

(Per cent)	2000	2001	2002	2003
Denmark	20,8	17,8	18,4	25,7
EU25	8,3	7,9	8,0	9,3

Note: It should be noted that the calculation method was adjusted in 2003.
Source: Eurostat.

User charges – which are still quite low and from which a number of groups are exempt – is an important tool to screen the demand in the area of all types of adult

education and training. The user charges is a market test that only puts the companies etc. under an obligation to contribute directly to the financing of precisely the general adult education and adult vocational training that they use and need. The area of adult education and training has a high priority in the government, and developments in the area are followed continuously.

User charges in the areas of general adult education and adult vocational training was introduced in 2002 to screen the demand and immediately resulted in a fall in the number of students per year in the vocational education and continued training programmes (AMU and the single subject EUD). However, the number of students per year in the adult vocational training system (AMU) has risen significantly in 2004 and the number of full-time equivalent students in the EUD system is expected to go up again in 2005, cf. table 5.5, thereby strengthening the effort within general adult education and adult vocational training, see also the objective of the established tripartite committee, see above.

Table 5.5
Adult education and adult vocational training, number of students per year, 2001-2005

	2001	2002	2003	2004	2005
AMU with user charges ¹	8,104	7,252	7,102	7,879	7,825
EUD – single subject	2,922	3,925	2,087	814	1,336
Part-time educations	874	610	399	460	568

1) There are no user charges in individual competency clarification, social and health education and pedagogical subjects as well as EUD.

Source: Danish Ministry of Education. The figures for 2005 are budget figures.

In the 2005-budget, DKK 400 million were set aside to strengthen efforts in the area of *qualification of people with short educations*. Furthermore, special funds have been set aside for strengthening skilled workers' and young adults' basic reading and arithmetic skills. And a possibility has been opened for the 60 to 64-year-olds to receive educational support for general adult educations and adult vocational training with a view to making it possible for them to stay in the labour market longer.

The government's *Globalisation Council* will, among other things, focus on strengthening the educations. In the spring of 2006, the government intends to present a comprehensive strategy that is to prepare Denmark for the challenges of globalisation, see the Tripartite committee on life-long qualification and education for everyone on the labour market.

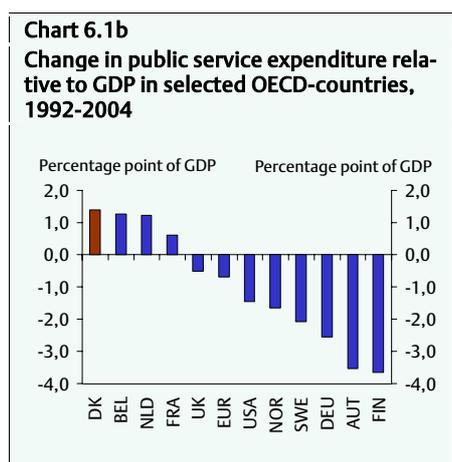
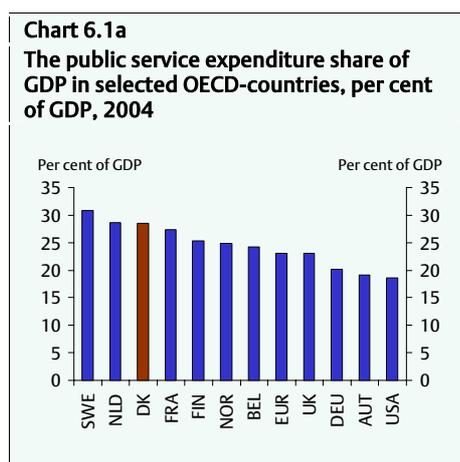
6. Continuous improvements of the public sector

In recent years Danish public governance has aimed at providing better services for citizens and enterprises both by making the public sector more efficient and by promoting the use of free choice of welfare services.

The main challenges in the coming years are:

- Implementation of the Structural Reform at the municipal, regional, and central government level, cf. the political agreement reached in June 2004.
- Extension of citizens' free choice of provider of welfare services and improvement of the actual use hereof.
- Implementation of the government's modernisation programme including the new concept of performance-management.

The public sector in Denmark accounts for a large part of the economy and has an important role to play in the overall value-creation in society. The total public service expenditure was 413 billion DKK in 2004 which corresponds to approximately 28 per cent of GDP. This is a relatively large share seen from an international view-point. Amongst the OECD countries only Sweden and the Netherlands had public service expenditure accounting for a larger share of GDP, cf. Chart 6.1.a. Since 1992 public expenditure has increased moderately compared to GDP, cf. Chart 6.1b.



Note: EUR indicates the average of the EURO-countries.

Source: OECD, Economic Outlook 77, 2005. Public service expenditures are here defined as the sum of general government consumption expenditures and fixed capital formation.

The effectiveness and efficiency of the public sector is methodologically hard to measure. But the endeavour to do things in a smarter and better way remains a cen-

tral priority in order to ensure that the public sector is up-to-date, dynamic and capable of continuous improvement and innovation.

Since 2001 the government has made it a central policy to modernise the public sector by placing the citizen at the centre of the activities of public governance, by creating more opportunities for free choice of welfare services, by easing administrative burdens, and by putting more emphasis on tangible targets and results, which can give more value for money. One central element in that respect is to further digital governance. The modernisation takes place within the framework of a major reform of the structures and responsibilities at the local government level, *cf. box 6.1*

Box 6.1

A new framework for public services – the Structural Reform

The Structural Reform which Parliament agreed upon in June 2004 was translated into legislation through Parliament's passing of 50 bills in the spring of 2005. The bills concern both geographical matters and the distribution of responsibilities. The part of the structural reform that concerns matters of finance and redistribution will be dealt with in the next sessional year of Parliament (2005-2006). The Structural Reform will come into force on 1 January 2007.

The Structural Reform means that Denmark's current 271 municipalities will be merged into 98 new municipalities with an average population of 55,000 inhabitants. The mergers have in most cases been agreed on a voluntary basis, with general guidelines (minimum size etc.) and a deadline provided by the central government.

The municipalities will be responsible for almost all public services, thus being the citizens' main entrance to the public sector. The municipalities will for example have the authority and responsibility regarding all social services and primary schools, including special education, and they will play a more important role in matters of employment, health, spatial planning, enterprise services, culture, maintenance of roads and public transport. The municipalities will also be able to provide various citizen-oriented services on behalf of other authorities in the local service centres.

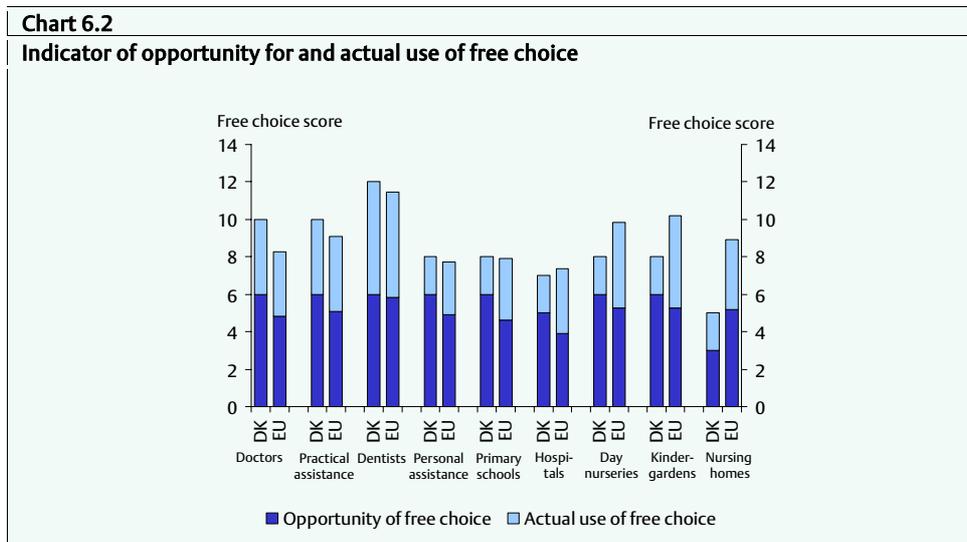
Moreover, the 13 counties will be discontinued and replaced by five new regions, led by popularly elected boards, with populations ranging from 0.6 to 1.6 million inhabitants. The regions' main tasks will be health care, health insurance and psychiatry. Furthermore, the regions will be entrusted with the elaboration of regional development plans, the establishment of traffic companies and the operation of specialised social institutions.

Finally the central government will take over tax matters, the operation of high schools and various environmental and cultural tasks. In addition, it has been decided to create a national centre and an advisory organisation with regard to social matters and matters of specialised education (VISO).

6.1 Freedom of choice as a means of securing better welfare services

In the spring of 2002 the government released its *Free of Choice programme*. The programme contained several initiatives that enhanced citizens' opportunities for free choice in a number of public service areas including health care, care of the elderly, primary schools, and childcare. The objective of the programme is to raise user-satisfaction in public services and to focus on the quality of the services provided.

In general, the initiatives in the programme have enhanced the citizens' opportunities for free choice considerably, so that Danish citizens today have more free choice than the EU-average. However, at present the actual use of free choice does not fully reflect these opportunities *cf. Chart 6.2*.



Note: The EU-average is based on 10 out of 25 EU-countries. The indicator shows the opportunity and the actual use of free choice. It is possible to score the total of 6 points for the opportunity for free choice and another 6 points for the actual use of free choice.

Source: Konkurrencestyrelsen, *Konkurrencerdegørelse 2005*.

The Government Platform from February 2005 includes a range of initiatives aimed at enhancing the use of free choice:

- Obligation for every unemployment fund to inform their members about their free choice of unemployment fund.
- Improvement of free choice in the health care sector, so that the treatment-guarantee comes into force after one month of waiting.
- Free choice between municipal nursing homes, private foundations and private nursing homes.
- Drafting proposals on how opportunities for free choice can be built into the current welfare services offered to the socially lesser-fortunate groups.

6.2 Strategies for increased efficiency and productivity

The government launched a comprehensive programme for the *modernisation of the public sector* in 2002. The programme instructs all ministries to work out a strategy for more effective and efficient governance and quality development. Since 2004 all departments in the central government have adopted such strategies covering the

whole sphere of a ministry; the strategies are published on the website of each ministry.

The strategies should aim at simplifying the performance management systems of the central government in order to focus on results, effectiveness and efficiency. As a minimum the following four elements must be included:

- Clear objectives for user-oriented tasks in order to ensure the greatest possible transparency as to what enterprises and citizens can expect from the services of central government institutions.
- A detailed description of objectives and performance management in order to raise productivity, effectiveness and efficiency of the central government's performance.
- A tendering policy with the purpose of encouraging active and systematic work on tendering issues in all sections of the ministry.
- A public procurement policy with the purpose of ensuring that procurement issues are dealt with in a systematic and professional way.

All central government institutions must every year publish a complete survey with information on transparent goals, the results of the year and an annual assessment on their website. At the end of April 2006 the follow up on the institutions' work on transparent goals must be completed for the year 2005 and surveys must be published.

Today a number of other methods are used in order to *raise productivity in the public sector*. The public sector can in this regard get inspiration from private companies using various tools such as LEAN manufacturing. LEAN manufacturing focuses on delivery on time, in the exact quantity and with the exact quality, at the same time eliminating waste of resources and superfluous steps in the process.

Furthermore, the government has launched a range of initiatives that support competition in the provision of public services and which hereby, in an indirect way, can improve the productivity of the public sector. Such initiatives include the introduction of the right to challenge all public tasks, the publication of an action plan for public-private-partnerships (PPP) and the establishment of enhanced free choice between public and private providers in the area of welfare services.

Finally, the government intends to create an *independent evaluation institute* with the purpose of evaluating the performance of the new municipalities and regions in order to improve the financial management and the use of resources.

6.3 Other initiatives to improve the public sector

At present, and in the years to come, a range of other important initiatives are being implemented which all in all will create a unified whole and coherence in the governance system of the central government. The headings of these initiatives read: Service

close to the citizens, Restructuring of the public sector, Accrual accounting and budgeting, Attractive public jobs and good management, More openness and transparency and a new Modernisation programme. A more detailed description of these initiatives can be found in Annex 6.1. In addition, work is ongoing on ensuring better public regulation and easing the administrative burdens of enterprises, cf. section 3.