Introduction
This paper deals with a discussion and assessment of a series of recent reforms of Danish labour market policy and their effects as they are measured by already available studies. This paper hopes to offer a broad overview of what the reforms are about and what their likely effects have been so far. Finally we also offer a brief discussion of the barriers to the implementation of the reforms.

Part A: Developments of Danish labour market policy

In this section we shall outline the motivation for the current Danish labour market policy based on some recent reforms and the different groups at which it is targeted. We shall also briefly outline legal steps taken to implement this policy and other institutional arrangements necessary to bring the labour market policy into action. Also the cost of the labour market policy will be briefly mentioned.

However, before going into detail, we shall explain what is meant precisely by labour market policy in the context of this paper. Labour market policies in general might cover a wide range of policy measures, such as wage policies, pension schemes, benefit entitlement etc. This paper seeks to describe the probable effects of a series of reforms on the labour market that were initiated when Labour ("socialdemokratiet") went into government in 1993. These reforms mainly concerned change in policy on benefit levels and periods, active labour market measures such as training, sanctions and early retirement. Hence these are the policy ingredients that are meant by labour market policies in this paper.

A.1. Background

During the 1970's and 80's Denmark was pointed out as one of the countries that had the lowest spending on active labour market policies per capita among the OECD countries (Atkinson and Micklewright, 1990). Hence, despite very generous unemployment benefit levels and attractive early retirement schemes, Denmark had limited spending on active labour market measures. From table 1 in the annex it is also clear that this period witnessed a large growth in the number of individuals in the age group 16 – 66\(^1\) years on different public support schemes.

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\(^1\) The age for qualifying for public pension was 67 years.
To reduce this growing number of individuals on public support, the conservative government that held office in the 1980s launched a number of labour market policy initiatives. They introduced a nominal ceiling on unemployment benefits and they also introduced active labour market policies as a policy measure. However, these measures had limited success for a number of reasons. One was fierce opposition from the labour party and another was insufficient staffing and inexperience of the available staff at the employment agencies. A third reason was lack of instruments for monitoring the behaviour of the unemployed, and hence not all target groups were affected by the change in policy. At the end of the 1980s an economic recession commenced and the number of individuals on support again began to increase - almost at the same rate as before the introduction of the policy measures (see table 1 in the annex).

Therefore, when labour took over government in 1993, one of the instruments to regain an economic recovery was thought to be a more efficient labour market policy, with the emphasis on active labour market training.

A.2. Target groups

Generally the target group of the Danish active labour market policies has been the long term unemployed, also before the labour market reforms of the labour government. In practice, this group has often been narrowed down to unemployed people of less than 50 years of age, as it was believed during the early 1990s, with record high unemployment rates, that it would be difficult to assist unemployed people over 50. This policy was enforced through a temporary early retirement scheme (“overgangsydelse”) allowing unemployed people over 55 years of age to leave the labour market on reduced benefits. However, this scheme soon became so popular that it had to be abandoned for fiscal reasons.

Also, because the OECD had pointed to the high Danish youth unemployment rate, special measures were introduced for young unemployed people under 25.

When the labour market reforms were introduced in 1994 a distinction was made between different types of unemployed. The unemployed were divided into three mutually exclusive groups. These groups were: individuals who only need job seeking assistance, individuals who need new qualifications and individuals who have other problems than just unemployment, e.g. different types of abuse, social problems etc.

During the series of reforms after 1994, the definition of unemployment also changed. Initially, unemployment had to last four years before one was covered by active labour market measures. During the reforms this period has gradually been cut to one year. Hence the concept of long term unemployment has changed in terms of active labour market policy. Also the maximum unemployment benefit period was reduced from seven to now four years. Finally, the possibility of renewing benefit entitlements after participating in active labour market measures was abolished. However, when entitlement is exhausted, most unemployed people can still rely on cash benefits at a similar level to unemployment benefits.
A.3. Legal and financial provisions

Behind the labour market reforms are of course a number of new laws and also some administrative changes related to the new laws. One of the most important laws in relation the labour market reforms was the abolishment of the possibility of renewing unemployment benefit entitlement after participating in active labour market measures. Until 1994, unemployed people could renew entitlement by participating in particular measures and thus obtain indefinite entitlement. With the change of this rule, the unemployed had a much higher incitement to obtain qualified assistance in order to find a job after the exhaustion of the entitlement period. Hence the change of this rule put much more emphasis on the content and quality of the active labour market measures.

The net financial provision for the reforms of 1994 and thereafter is hard to measure. Most of the reforms are cost-effective according to the Ministry of Labour (2000) which has carried out the only cost-effectiveness or cost-benefit analyses on the labour market reform.

A.4. Institutional arrangements

During the build-up of the labour market reforms, including the reforms before 1994, still more emphasis has been put on the employment offices in terms of assistance and guidance of the unemployed. However, especially the labour market reforms of 1994 demanded many new and human resource intensive efforts of the employment offices. These requirements were two-fold.

First the offices had to call all the long term unemployed for interviews and make individual plans for the participation in active labour market measures. This plan depended on which of the three categories mentioned above they where judged to belong to. Hence, the unemployment offices should, on an individual level, based on individual interviews, determine what type of problems the particular unemployed person was facing and, in doing this, decide, together with the unemployed individual, on the timing and type of measures. That is to say whether the unemployed person should participate in relief jobs\(^2\), job training, vocational training or different types of educational programmes.

Secondly, on the basis of the interviews, the offices had to ensure the appropriate supply of relief jobs and training and educational facilities among a number of employers and educational suppliers. Thus, not only should the unemployment offices ensure the appropriate supply, but also ensure the appropriate timing of this supply.

This of course meant an overwhelming increase in the workload of the unemployment offices, and an immediate consequence was a significant drop in the fraction of unemployed enrolled in active labour market measures. However gradually the unemployment offices recovered from the initial shock and, during 1995, the number of enrolments began to climb again. We shall return to this below.

\(^2\) By relief jobs we mean jobs that are offered to unemployed people on subsidised terms, that is either jobs with an employer with a wage subsidy or jobs at workplaces set up as job training centres for the unemployed.
Part B: Results

In this section we shall discuss the outcome of the changes in labour market policies, with an emphasis on the effects of the active labour market policy and the changes in this policy. We shall divide this discussion into a discussion on enrolment and outcomes.

The reason that we also discuss enrolment is that current and historic critique of the labour market policies has dwelled on the efficiency of enrolment with respect to the intentions of the active labour market policies. Furthermore, the labour market reforms of 1994 initially had counter intentional effects on enrolment, as mentioned above.

B.1. The qualitative results

The discussion of the qualitative results shall, besides the discussion on enrolment and the effect of labour market policies, dwell on the similarity and difference of the assessment of the effect of the change in labour market policies from a macro and micro economic perspective.

In the discussion of the effects of the labour market policies, one should also keep in mind what is being discussed. What we really would like to assess is the effects of changing labour market policies. However, what is often discussed, both in scientific papers as well as governmental evaluation reports, e.g. Ministry of Labour (2000), are the existence of effects at all from labour market policies either before or after the reforms.

B.1.1. Enrolment

However, before discussing effects of labour market policies, we shall first briefly discuss the effects of the labour market reforms on enrolment. From the 2005 committee on the status of the labour market reforms (udvalget om videreførelse af arbejdsmarkedsreformerne) (1998) we find from their figure 4, page 6, that enrolment into active labour market measures increased from 1988 and until 1991. From 1991 and until 1995 participation declined, with the sharpest decline from 1994 to 1995, which is just after introducing the recent labour market reforms.

The increase in enrolment from 1998 to 1991 is to a large extent explained by the down-turn in the economy. The more unemployment rises, the more the number of the long termed unemployed rises and hence also the number of unemployed eligible for active labour market measures. However, the decline in enrolment from 1993 to 1995 is not only attributable to the economic recovery beginning in this period, but to an overwhelming workload for the unemployment offices from introducing the labour market reform as discussed above.
To get a clearer idea of how enrolment would have developed if the labour market reform had not been introduced see figure 1 below. The figure shows actual enrolment fractions and predicted enrolment based on a regression on the relationship between unemployment and enrolment prior to the labour market reforms, that is prior to 1994. The regression analysis is shown in the annex.

Figure 1. Actual and predicted enrolment


Even though the statistical basis of the analysis is very limited (six data points) it is very illustrative that the observed drop in enrolment in 1994 is not larger than what would have been expected from the associated drop in the unemployment rate.
Furthermore we see from the figure that by 1997 there is a huge gap between the actual enrolment rate and the one that should have been expected from changes in unemployment rates alone. So even though the observed enrolment rate in 1997 is not much larger than the maximum enrolment rate prior to the labour market reform, it is presumably much larger than what would have been expected in the absence of the labour market reform. This suggests a large increase in the efficiency of the unemployment offices in terms of recruiting unemployed people into active labour market programmes. However, whether this effect is justified in terms of increased funding and staffing of the offices due the labour market reform remains unexplained and of course also depends on the effectiveness of the labour market measures in terms of providing the unemployed with jobs.

B.1.2. Effects

In this section we shall return to the effects of the active labour market policy and will hopefully also be able to say something on the effects of the reforms. In doing so we shall point to two types of useful distinctions. The first is the types of expected effects. There are two types. One is an incentive effect from enforcing and tightening unemployment benefit eligibility and the other is a human capital effect from participating in active labour market measures such as training and education.

The other type of distinction is between effects observed at the macro level, such as effects on wage formation and overall unemployment rates, and at the micro level, such as significant individual wage and employment effects or effects on individual transitions between labour market states.

B.1.2.1 Macro level effects

There have not been many attempts to quantify the effects of the labour market reforms from the macro perspective. One recent study is however available, Baadsgaard (2001). In this study, based on a technique called the Kalman filtering, an attempt is made to disentangle noise and business cycle effects from the structural level of unemployment, determined through a Phillips-curve relationship. Following the paper it is clear that the labour market reforms are associated with a sharp decline in the structural unemployment rate, from 10 – 11% in 1994 to about 5% in 2000. Even more interesting is that, according to the paper, there was a structural increase in unemployment during the 1980s when the conservative government also made reforms on the active labour market policies, cf. above. According to the paper, the structural unemployment rate increased from 6 – 7% in 1976 to 10 – 11% in 1994.

3 One should however, note that the author is employed by the Treasury.
Given that we accept the idea that there is a significant and quite large effect from the labour market reforms in 1994 and onwards, we get no information from macro studies whether these structural effects are due to inventive effects, human capital effects or sorting and screening effects. At least not from the paper discussed above. Such information generally requires micro data. Hence we proceed to discuss these types of effects from the available micro data studies.

B.1.2.2. Micro level effects

Most studies of the effects of active labour market policies focus on effects of wages or employment effects\(^4\) although a number of studies focus on transitions on the labour market.

Another important issue is whether one studies the incentive effects or whether one studies programme impact effects. Finally, from the published Danish studies another distinction should be mentioned. Most studies only look at whether there is an effect from active labour market measures after 1994 and do not make any attempt to say whether these measures had different effects before and after 1994, as already mentioned. Hence we might want to make separate studies that look for changes in effects before and after the reform (virtually none) and studies that look at effects after the reforms.

- Wages and employment effects

  There are a number of studies focusing on wage and employment effects of active labour market measures. Notably Langager (1996), Langager (1997) and Ministry of Labour (2000). All of these studies use fixed effect estimators\(^5\) and Langager (1997) and Ministry of Labour (2000) show significant effects of the active labour market measures on subsequent employment. These effects are particularly significant and large for the unemployed in terms of relief jobs with private employers (privat jobtræning) and for the unemployed receiving benefits to become self-employed (etableringsydelse). It also appears that there is a stronger effect on males compared to females and that the effect is most pronounced for the age group 25-49 of age. From most of these studies we find strong, significant effects from at least some measures of the active labour market policy.

\(^4\) Usually these are measured as fractions of unemployment or fractions of employment during a calendar year.

\(^5\) However, for some reason the Ministry of Labour (2000) claims that even though their effect estimator is a difference in time, for the same individual their estimator is not a fixed effect estimator. The reason for this is unclear for the author of this paper.
However, interestingly enough Langager (1996) finds no effects using experimental data. Experimental data is recommended and widely used by American labour market researchers in order to remove selection effects in the observed effect of training. Hence from Langager (1996) we could get an indication that the effects in this paper are more credible than the fixed effect estimates. However, the results in Langager (1996) are based on a small data set and focus on one type of training only.

Hence we might want to ignore this finding and generally believe that there are some effects of active labour market measures in terms of getting the unemployed back into employment from the fixed effects studies. These effects can be due to a number of factors. One is that training increases the qualifications on the labour market, another that training provides information for the employers in terms of sorting the unemployed when hiring new employees. Both effects could be associated with decreasing structural unemployment.

A general problem with the fixed effect estimator is that it looks into the differences between employment or wages before and after training. If those entering training have extraordinary unemployment, then what appears to be a training effect is just a return to more normal unemployment levels (regression towards the mean). An example of this effect might be what is seen in figure 5.5 in Ministry of Labour (2000). Here the fixed effect estimate becomes smaller the longer the period previous to entering training is used for comparison of the reduction in unemployment following training which is allowed for. Hence, in this case the fixed effect estimator is in fact invalid for program evaluation, now a widespread interpretation in the econometric evaluation literature, see Heckman et al. (1999).

To overcome this problem, unemployment duration analysis following in detail unemployment histories might prove a valuable tool. This is what is being done in Ministry of Labour (2000). Furthermore, from linear fixed effect models it is hard to disentangle incentive effects from human capital effects or sorting and screening effects, like with the macro economic analysis. This is possible through duration analysis using an appropriate analytical set-up.

- **Labour market transitions**
  There are only a few published analyses on the effects of active labour market policy using duration analysis and only one after the labour market reform in 1994. This is Arbejdsmenisteriet (2000). In this analysis three topics are investigated, using unemployment duration analysis. The effects of the special policy towards unemployed people under 26 years of age, the incentive effects from the active labour market policy and the human capital effects etc. from active measures.

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6 This is known in the econometric literature on program evaluation as “Ashenfelters dip”.

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One weakness of the analysis is that, similarly to most of the fixed effect studies, there is not much comparison with the situation before the reform in 1994. Hence, it is not possible to see whether the different policy measures work more effectively before compared to after the reform.

The effects on incentives and on the special policy towards youth unemployment is analysed by comparing transition rates from year to year. In the particular case of the policy towards unemployed less than 25 years, there is a comparison between the hazard rates before and after the reform, which in this case took place in 1996 and not in 1994 as is the case for the general reform. The analysis of hazard rates for unemployed less than 25 years suggest an effect of the reform. This is seen as the hazard rate until the time of enrolment into labour market measures are relatively higher after the reform compared to before. The reason that this could not entirely due to business cycles effects is that this difference is much smaller once hazards rates after enrolment are compared. However, if hazard rates for this period are dominated by locking in effects from enrolment it is still questionable whether the observed difference are due to program effects or business cycle yielding similar differences in the hazard rates. Hence it is not entirely convincing that the observed differences between hazard rates before and after 1996 are due to an effect from the reform.

The duration analysis allows disentangling transition effects before, during and after participating in active measures. This analysis is carried out for unemployed over 25 years of age. The analysis of this topic suggests a large locking in effect from participation. That is, while participating, the unemployed person in active measures has a much lower transition rate into employment compared to those not participating. On the other hand, after participating, the transition rate is much higher than for those who did not participate. Especially for groups with low overall transition rates is seems that the transition rate from unemployment into employment are much higher for those who have participated compared to those who remained unemployed.

To get the overall effect one must take into account both the "negative" looking-in effect and the "positive" post measurement effect. This can be done by examining how many individuals who entered an active measure are unemployed say 5 months after training compared to how many are unemployed with similar unemployment history (except for the fact that they remained unemployed rather than participating in an active measure). For the comparison to be worthwhile, both types of individuals must have the same background. This is ensures by regression analysis.

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7 Identification of program effects could have been tried carried out, by explicitly modelling the effects of national or regional unemployment on the transition rates into employment.
8 Technically, this is done using survival functions associated with the transition rates analysed.
The comparison showed that for individuals with generally high transition rates (females with an academic degree) active measures have a negative overall effect on the probability of obtaining employment over a given period, while for individuals with an overall low transition rate (unskilled females), there is no effect or a small positive effect. In Ministry of Labour (2000), only a limited number of such comparisons have been carried out, and hence it is hard to judge whether this result is generally applicable. Forthcoming studies by the author, however, agree on these results, albeit suggesting some positive effect of the labour market measures and an improvement after 1994 compared to before 1994, also taking into account business cycles.

B.1.3. Concluding remarks on effects

If one accepts the idea of a small or no overall effect of the labour market measures from the duration analysis, this result is somewhat in disarray with the results from the linear fixed effect models. Hence it seems difficult to get a general idea of whether we should believe that the active measures have a positive effect. Perhaps this is due to the fact that the fixed effects are capturing both incentive effects as well as effects of the active measures. But this seems unlikely as incentive effects are pronounced before entering the active measures and hence we should then expect that the transition analysis of participating as well as the fixed effect models both pick up human capital or training effects of the active measures and not incentive effects.

One explanation of the difference between the general positive estimated effects by the fixed effects models and the absence of effects from the transition analysis could be the inadequacy of the fixed effects models to properly take into account the effects of “Ashenfelters dip”, that is the tendency of unemployed people entering active measures to have previously experienced extraordinary unemployment. Perhaps a more modest critique might be that this matter needs to be looked into more thoroughly9.

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9 This is not a surprising conclusion given that the author is himself a researcher specialising into the effects of active labour market measures.
B.2. Other results and achievements

Besides looking at the “hard” measures of the outcomes of the labour market reforms, a number of studies have also looked into the perceived utility, usefulness and satisfaction among participants of active labour market measures. Despite frequent critique in the press by participants on the uselessness of many measures, most studies report widespread positive experience by the participants. Hence from a user perspective the active measures seem to be a success.

B.3. Problems and barriers

There have been many problems and barriers to the implementation of the labour market reforms. Some of them shall be discussed here.

One comes from the fact that the payment of unemployment benefits and initial guidance for unemployed people is administered by the trade unions. For a period, there was criticism of the incentive problems of the trade unions in these circumstances. It was argued that the trade unions were too lenient to members close to exhausting their benefits. This critique has stopped. This might be due to the overall decline of unemployment and also because the co-operation between the regional unemployment offices responsible for the implementation of the active labour market measures and the trade unions has improved.

Another problem, also concerning the trade unions, has to do with the institutional set-up of the regional implementation of the active measures. Regional labour market boards with representatives from the employers’ organisation, the trade unions and the regional unemployment offices decide and finance the demand for measures, including making contracts with the different regional suppliers of adult training and education. There has been some critique of the trade unions favouring “their” own educational suppliers, the vocational training centres (AMU). However, this critique has also been directed at the municipalities when deciding on the suppliers for training for unemployed people relying on social welfare. The municipalities have been criticised for being too prone to choosing their own training centres (produktionsskoler).

Hence, more generally, one could argue that the choice of appropriate measures for the individual unemployed are too much subject to regional political considerations and not what is believed to be the most adequate measure for a particular unemployed individual.

A different point in discussing barriers for implementation of the labour market reforms is the traditional Nordic set-up for implementing political reforms. Rather than setting up new organisations, most reforms are implemented through the existing administration. This is also the case with the labour market reforms. These were mainly implemented through the already existing regional and local unemployment offices, although the associated labour market boards were reformed. The author, however, has no knowledge of research on the efficiency of either choosing the “Nordic” model or setting up new administrative bodies when implementing new political reforms.
Part C: Discussion

Finally we shall briefly touch on some further points of discussion on the labour market reform. We have already discussed effects of the reform, both in terms of enrolment and effects. We have also discussed some institutional matters. What is left for this section is a short discussion of the willingness and openness of the national and regional administrations to discuss implementation and effects of the reforms and labour market measures in general and the how evaluation has been carried out so far.

In general it seems that there has been a large willingness from the national administration to initiate evaluations of the reform and also to publicly discuss the reform. This has facilitated a widespread discussion of the reform, especially during periods with high unemployment rates, and eventually yielded some acceptance among the public of the merits of the reform.

Also there has been funding of research of the effects and implementation for the reform, both at independent research institutions and at universities. However, there is still a lack of a thorough authoritative scientific evaluation of the reform, perhaps carried out by international experts. There are examples of such studies, Bonnal et al. (1997) or Gritz (1993) in which a complete evaluation is carried out. Such research might be able to give more affirmative conclusions on effects than what seems to be available currently.
References:


Langager, K (1997) Indsatsten overfor de forsikrede ledige – evaluering af arbejdsmarkedskommissionen 1. (in Danish) SFI.

Langager, K (1996) Ledige på kursus, (in Danish) SFI.

Annex:

Table A.1. Individuals of working age receiving benefits. In thousand persons full time equivalents

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<td>928</td>
<td>903</td>
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* The numbers for 1998 are estimates, based on figures from the ministry of economics.
Table A.2 Regression analysis on enrolment.

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<th>Parameter</th>
<th>Estimate</th>
<th>T-value</th>
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<td>$R^2$</td>
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Note: The solid line is total unemployment rates, dashed line is unemployment rates for 16 – 25 year-olds.

Source: Groes and Holm (1999).