

Indicative answers - Correction Guide

December exam 2013

The period 2006-2013 was marked by major reform programs in the Danish welfare state. The reforms have had a notable impact on the Danish economy in both the short and long term. Moreover, it has affected the economic distribution and incentive structure.

The first reform in 2006 aimed to create sustainability in the Danish economy in the long term. This means that there would not be sent a rising bill for the next generations through increased taxes. At the same time reforms intended to increase its workforce within the reform work feared, against the former reduction due to the early withdrawal. Finally, the reform processes had globalization and the extensive customization as a goal.

It is important that the students take these objectives into account and analyze the effects of reforms in this light.

Later in the reform period changed target. The global financial and economic crisis is forcing the government to set public short-term and long-term reform agenda. This is done by accelerating the 2006 retirement reform so that it already takes effect from 2014 (see 2011 pension reform). In addition new reform campaign, which aims to generate savings of public finances and strengthen the incentive structure in such a way that students are motivated to start their studies more quickly after high school completion and finishing her studies at the prescribed time, the eye incentives for the unemployed to apply for jobs faster (2010 benefits reform), reducing benefits for subsidized employment scheme, so flex job holders are motivated to extend working hours and the state saves money and tightening the conditions for receiving cash assistance, so that young people under 30 years is encouraged to attend training or activated in jobs and older people in social assistance is available for work.

The effects of the reforms can be summarized as follows:

2006 and 2011, the retirement reform, which, overall, increases the early retirement scheme retirement age from 2014 the state pension age from 2019 and later indexes age of changes in life expectancy of the elderly population, everything else will just create a larger labor supply in the long term. This could be illustrated figures / graphs from DOR/DØR or other sources.

The increased supply of labor may in the short term lead to unemployment in the long run, the large labor supply lead to wage pressures which, in neoclassical economic theory would create more jobs. Economics can be argued that the biggest part of the population with occupational pensions will experience an improvement in their pensions because they save up for a long period of work, while pension period of reform is stipulated to be fixed (19 ½ years).

Sustainability in the Danish economy will be strengthened considerably, because there will be almost a constant number of pensioners (with increasing retirement age) funded by the growing number of people in the labor market. It could be argued that nonetheless there are several dependents aged 80, drawing in the other direction. DOR 's/DØR's and The Dream model could be involved, and document that bears airworthiness indicator (sustainability indicator) after the reforms is close to 0, that is, full bearing ability after this reform work.

For SU- reform applies similar reasoning. The basic element of the reform is that the state wanted to save money (about 2 billion DKK) and use the money to invest in new jobs (e.g. tax relief to businesses). At the same time required is increasing the labor supply of young graduates. The largest reduction in output is via home SU receivers while livings with their parents suffer less. All are motivated, however, faster study start and end. The short-term effects may be unemployment, or to the many students with employment may reduce business hours and thus become less suitable profession. At the same time, they will experience a lower standard of living. On the other hand, the earlier study completion mean several years of revenue and graduates, in a favorable labor market. In the long term, reform means a possible greater supply of highly educated workers who can give pressure on wages so that more jobs are created and income distribution between high-skilled and other groups changed. Opposed to this is the assessment of the quality of the new high education!

Flexible working arrangements reform and social assistance reform have in common the aim is both to save state spending and strengthen the incentive structure of the schemes. For subsidized employment scheme, there is a significant loss of performance for the beneficiaries of the new regime in the past. There is a group of citizens who have been through an extensive activation process with job testing and training and is rated health, and thus searched for a reduced output of subsidies for the remaining non-rendered output. It is difficult to imagine that this group will be able to supply more hours of work, with less labor and health testing has been inadequate. Therefore, it is most likely to flex job - cannot provide additional hours, why reform involves a ruin stringent income and thus increase inequality. On the other hand, expect the state to save significant financial resources.

Social assistance recipients are divided into match groups according to their working ability. Match Group 1 is expected to be able to match the labor market immediately; falling down to group 3 Reform Work involves a dividing line between those over and under the age of 40. The under the age of 40 year olds will be activated over 40 year olds can obtain disability benefits. Everyone must go through a process resource. The crucial factor is the labor that well today demands 1 sorting labor, is able to integrate workers from matching groups. The reform should be seen in context with the benefits reform, where benefits will stop after two years of unemployment. Subsequently, the unemployment outside the per diems referred to their dependents, spouse maintenance, or cash.

There is no doubt that people who fall outside the per diem rules will experience a significantly reduced standard of living and inequality in society will increase. Finally, the argument from subsidized employment scheme reiterated that the mentally impaired or incapacitated persons who did not get jobs under the old system, is also unlikely to obtain employment after the reform, so

their standard of living is likely to be reduced. By contrast, the government victors with significant savings and a growing group that is available in the labor market in the fringe and, in principle, pushing wages.

At the end it would be good to mention that the long political process that started with significant labor market reforms and retirement reforms in 1990'ere has meant that the Danish welfare state has gone from Welfare to Workfare. At the same time, the basic universal model, with significant tax financing of the welfare state survived and become sustainable in the basic healthy and strong Danish economy. But the long-term trend of increasing inequality (from 1990 onwards) see the evolution of Gini may well continue in the great work of reform, although the reforms in terms of inequality move in several directions.