



European
Commission

GETTING LONG-TERM
UNEMPLOYED BACK TO WORK

Wage subsidies to the long-term unemployed for employment in private companies

Information review: October 2015

DENMARK

The practice concerns wage subsidies for the long-term unemployed (LTU) for employment in private companies in Denmark. The wage subsidy provides an opportunity for an unemployed person to work in an ordinary workplace for a limited time period (the maximum duration is 12 months). The benefits for the unemployed person are the establishment of a network and an opportunity to regain professional and personal skills. In addition, the subsidised employment is an opportunity for an unemployed person to demonstrate his or her skills and competences to an employer. Overall, the net employment effect is that a wage subsidy moderately contributes to job creation, so the subsidy leads to a new ordinary job in 26% of the companies.

Name of the PES

Arbejdsmarkedsstyrelsen
The National Labour Market Authority

When was the practice implemented?

1980 – on-going

Which organisation was involved in its implementation?

The private company employs the unemployed person and pays 50% of the salary. The remaining part of the salary is covered by subsidies.

Which social groups were targeted by the practice?

Long-term unemployed people

What were the practice's main objectives?

The purpose of the practice is to promote access to the labour market for the long-term unemployed. The PES provides long-term unemployed individuals with a subsidised job in a private workplace. On a broader perspective, the expected outcome is to create new jobs in private companies, as a subsidised employee may not replace those employees that are employed on regular terms. The expected outcomes of subsidised employment in private companies are (for the unemployed person):

1. training and retraining of his or her skills and competencies; and
2. increasing his or her ability to get an ordinary job.

What activities were carried out?

The PES may offer long-term unemployed individuals a subsidised job in a private workplace. Working conditions are agreed between authorities and employers and are formalised in a contract. The subsidy covers a maximum of 50% of the minimum wage and is constant during the subsidy period. The maximum duration of a subsidised job is one year, but usually it lasts about six months.

What resources and other relevant organisational aspects were involved?

The local jobcentres are in charge of the management. PES officers are responsible for the contracts between the authorities and private employers. Moreover, PES officers also follow up on the private company and the unemployed individuals during the subsidy period.

Source(s) of funding

National budget (tax revenue)
Local/municipal budget (tax revenue)
Private source(s): The private company pays part of the subsidised employees' salary.

What were the outputs of the practice: people reached and products?

People reached:
N/A

Products:
N/A

What outcomes have been identified?

After the completion of the subsidy period, the subsidy contributed to increasing the number of ordinary hires in 71% of the cases. However, in 45% of the cases this occurs at the expense of an existing ordinary employee. Overall, the net employment effect is that a wage subsidy contributes moderately to job creation, so that in 26% of the firms the subsidy leads to a new ordinary job.

What are the lessons learnt and success factors?

The main findings of the evaluation of the practice were the following:

- ▶ Hiring a subsidised employee has, on average, no deadweight loss nor direct substitution effects at employer level in Denmark. Wage subsidy has on average a positive effect on the firm's level of ordinary employment, suggesting that employers tend to hire the subsidised employee on ordinary terms or use subsidy to finance the hiring of other ordinary employees.
- ▶ Estimated effects are that there is a negative correlation with seasonal companies. This suggests that this type of employers may replace seasonal ordinary jobs by subsidised ones, a situation that suggests reinforcing monitoring of subsidised employment in the case of seasonal firms.
- ▶ Employers that rely on subsidised or other types of non-ordinary employment to a higher extent do not present different responses to a new wage subsidy than the average employer, in spite of higher incentives for this type of employers to abuse the subsidy scheme.

More information on the practice

http://ec.europa.eu/employment_social/empl_portal/weesp/DK-2.pdf



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