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EEO Review: Self-employment, 2010

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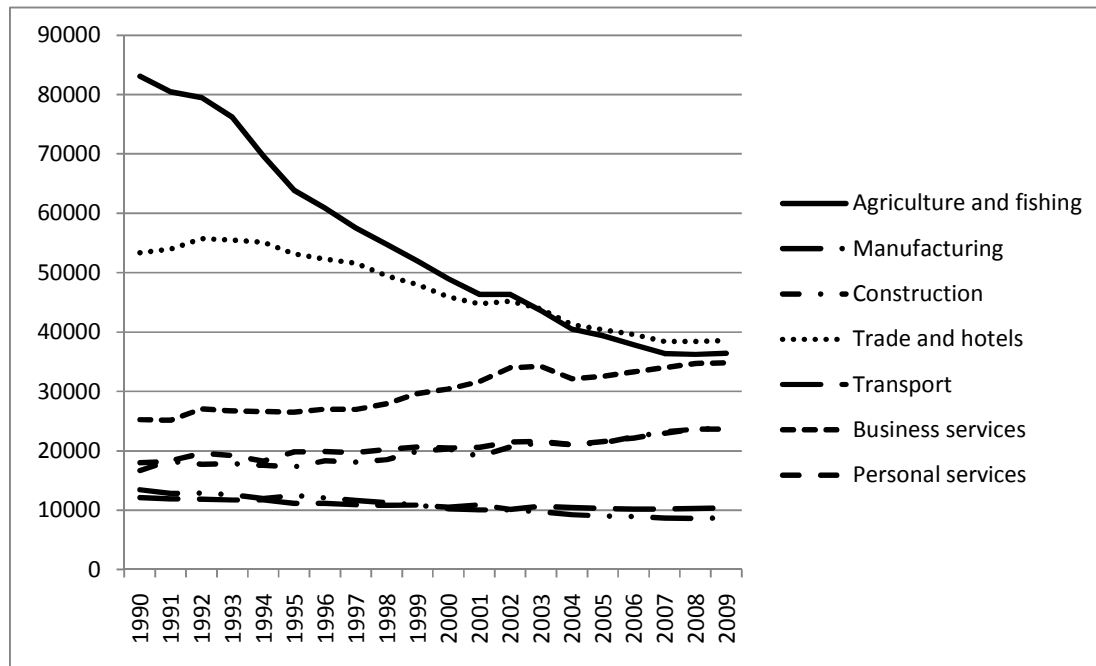
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1. Introduction

About 6.2 % of the total Danish employment of 2.8 million persons is self-employed. One in four is a woman. The low share of women in self-employment is mainly explained by the few women among skilled workers, the point being that many self-employed are traditionally recruited among skilled workers setting up their own small business. Among spouses of the self-employed working in the family business, the vast majority is women, reflecting the traditional family structure of the small self-employed who owns a farm, a retail store or works as a craftsman.

Figure 1, below, shows the long-term trend in the number of self-employed by sector.

Figure 1: Self-employed by sector 1990-2009



Source: Databanks of Statistics Denmark

While the total number of self-employed has fallen from around 220 000 in the early 1990s, to around 175 000 today, this decline covers very diverging trends in different sectors. The number of self-employed in agriculture has been steadily falling due to the rapid modernization and restructuring of this sector during the last fifty years. A more recent trend is the decline since the early 1990s of the number of self-employed in trade and hotels, here spurred by the development towards larger units in the form of, for instance, super-markets and hotel-chains. Slightly declining numbers of self-employed are also found in manufacturing and transport, while the self-employed within business services have increased significantly. Increasing numbers, but to a lesser degree, are also found for the self-employed in personal services and construction.

According to the available data, the crisis since 2008 has had a surprisingly small effect on the number of self-employed, while the number of employed wage earners has fallen by more than 150 000 persons. According to the quarterly employment data from the national accounts, the total number of self-employed has only declined by a few thousand. The distribution by sectors is also stable. Even given the uncertainty of the latest data, there is no

doubt that self-employment has been more robust to the crisis, when it comes to the number of persons, but of course not to their income.

In general, the public authorities take a positive attitude towards entrepreneurs and support the start-up of new firms by various measures. The reason for this is the view that SMEs and start-ups are important sources of dynamism and job-creation in the Danish economy. Sometimes, it is furthermore argued that the Danish culture is dominated by a wage-earner culture, and that special efforts are therefore needed to promote entrepreneurship. These efforts are, for instance, targeted at the educational system, where several campaigns have been launched over the years to increase the awareness of students with respect to the possibility of becoming entrepreneurs.

A final observation is that Denmark, in contrast to most other countries, has no schemes that support the unemployed who want to start their own business. The support to entrepreneurs is seen as the task of the Ministry of Economic and Business Affairs, not the Ministry of Employment. The reason for this is discussed further below.

2. Assessment of national Labour Market policies and recovery measures

This section first describes the status of the self-employed with respect to Danish labour market policy and then presents the current policies for entrepreneurs.

The self-employed and labour market policies

As in other countries, the relationship between self-employment and unemployment in Denmark is complex.

On the one hand, a recession may lead to bankruptcy and unemployment for a number of self-unemployed persons and thus reduce total self-employment. This effect will in Denmark be mediated by the fact that the self-employed may also become members an unemployment insurance fund and thus receive unemployment benefits in case of unemployment. About 70 % of the self-employed are members of an unemployment insurance fund. This share is only slightly below the average for ordinary wage earners (Madsen & Petersen 2000, p. 68). In principle the same set of basic rules and level of benefits apply to wage-earners and to the self-employed, when they become employed. This also includes the obligation to take part in active labour market programmes after a spell of unemployment, which is nine months at present, for adults aged 30 years and over.

There are special regulations, when it comes to determining whether a self-employed person has permanently closed down their business. As a rule, the self-employed person has to close down the business completely and sell all its assets. The amount of unemployment benefits is then calculated based on the previous income from self-employment according to the same principles as for unemployed wage-earners.

On the other hand, a *rise* in self-employment might also be expected as a result of *rising unemployment*, when unemployed persons are forced to look for other sources of income. In Denmark, this process is influenced by two main factors. One is the rather generous system of unemployment benefits which means that persons at the lower end of the income scale will receive up to 90 % of their previous income as unemployment benefit for a period currently lasting up to four years. This period will by 2013 be reduced to two years. On average, the rate of compensation of Danish unemployment insurance is around 65 %. This of course

reduces the economic incentive to start self-employment as a result of unemployment, especially for those among the lower skilled groups, which are eligible for unemployment benefits.

Another factor influencing the flow from unemployment to self-employment was previously the *scheme to promote self-employment among the unemployed* which was established in 1985 and abolished in January 1998. The scheme had changed somewhat over the years, but the general principle was that any insured unemployed after a certain spell of unemployment had the right to receive a grant for establishing his or her own business. The grant amounted to 50 % of unemployment benefits and was paid on a monthly basis for two and-a-half years. In 1997, the required duration of unemployment before becoming eligible for the grant was five months during the last 8 months. A similar scheme existed for non-insured unemployed, who were eligible for social assistance (cash benefits).

The number of participants in the two schemes rose quickly to between 10 000 and 15 000 full-time participants. The volume declined somewhat during the upswing from 1994 and onwards. Thus in 1995, the number of full-time participants was 14 000. In 1997, the number had declined to 11 200 persons, while there were 220 000 persons registered as unemployed.

The scheme for the insured unemployed was evaluated in 1992 by the Danish National Institute of Social Research and the Danish Institute of Technology (Høgelund, 1992). After two years, 14 % of the participants were back in unemployment and a considerable number of the newly started firms were doing badly from a financial point of view. The evaluation showed that after four years, more than half of the participants had given up on self-employment. By January 1998, the schemes for both insured and uninsured unemployed were abolished following a proposal from the Government. The main argument against the schemes was the change in the overall situation on the Danish labour market with significant lower registered unemployment from 1994 onwards. In this situation, the scheme was considered to reduce the supply of labour, because the participants were not available for ordinary jobs, while they received the grant to start their own business. The Government further argued that the scheme did not give the unemployed new qualifications, which would improve their long-term situation on the labour market. Finally the risk of dead-weight was included among the arguments against the schemes; they were phased out during the years 1998-2000.

During the present crisis since 2008, no proposals have been put forward to reinstate this or any similar programmes.

Policies to support self-employment and entrepreneurship

While there are no longer any special programmes to encourage self-employment for the unemployed, the Ministry of Economics and Business is actively supporting self-employment in general, implemented by the Danish Enterprise and Construction Agency (<http://www.ebst.dk>). Since 2002, a total of five action plans to support the start-up of new firms have been launched by the Government. They cover the following types of measures (see for instance Regeringen, 2003):

- Intensified efforts to raise the awareness of pupils and students on the gains from entrepreneurship.

- Establishing five regional incubators, which supply assistance to individuals planning to start their own business. These centres have a joint website (<http://www.startvaekst.dk>) with information about their services and other advice with respect to the creation or further development of a company. A special part of the website is targeted at women with the aim of raising the share of women among entrepreneurs from the present level of about 25 % (<http://www.virksomhedskvinder.dk>).
- Better use of IT to diminish the administrative burdens of small firms in their interaction with the public sector.
- Strengthening a special “Growth Fund” (Vækstfonden), which is a public fund providing venture capital to entrepreneurs (<http://www.vf.dk>). The fund has since 2005 supported special start-up loans, which are loans from private banks, but with a state guarantee and combined with counselling for prospective entrepreneurs. From 2005 to 2009 a total of 750 such loans have been given. In an evaluation from 2007 by the “Growth Fund” the survival rate of the firms receiving these special loans was estimated at 92 % after 1.5 years. Other start-ups only had a survival rate of 75 %.
- The improvement of an existing tax credit scheme, which allows for tax credit, when a wage earner makes savings on a special account, which can be used when establishing a firm.

In line with the general tradition in Danish policy-making, the measures are rarely targeted at special groups. As an exception, the Ministry of Integration and the Ministry of Economics and Business launched a new national action plan for ethnic entrepreneurship, in June 2010. This was based on the observation that firms established by persons from ethnic minorities have a significantly lower survival rate than firms established by ethnic Danes. The action plan involves the creation of a national centre for ethnic entrepreneurship and six regional centres, which will have direct contact with the ethnic entrepreneurs and will provide targeted guidance to them.

3. Quality of self-employment jobs

Self-employment is often in the international literature referred to as an example of “atypical” employment, which unemployed persons resort to, due to lack of job opportunities on the regular labour market. In general, this does not seem to be the case in Denmark, where self-employment is to a large extent a voluntary choice (Bredgaard et al, 2009). A characteristic feature of those starting their own business in Denmark is that their educational background is above average, with fewer having only a basic education and more being skilled workers or having a higher education (Erhvervs- og Byggestyrelsen 2006, p. 24). Therefore, they do not fit with the usual portrait of the typical unemployed person.

However, one must also stress that the group of self-employed is very heterogeneous and covers different kinds of professions from farmers to craftsmen, industrialists and business consultants. There will therefore be many exceptions from the general statement above. One such exception is found among immigrants, where self-employment can be identified as a way of entering employment in situations where lack of skills or discrimination hamper entry into paid work (Ejrnæs, 2003; Rezaei 2007).

A study from the Chairmen of the Economic Council also points to the fact that being a self-employed person increases the poverty risk, when other individual background variables are taken into account (Det økonomiske Råds Formandskab, 2006, chapter 2). One should note that the study is based on administrative data, and that these data may be biased due to the tendency of the self-employed to under-report their income to the tax authorities. Also the study does not make a distinction between self-employed in different sectors.

The working environment of the self-employed

Concerning the working environment of self-employed persons, detailed information is available from the National Research Centre for the Working Environment (<http://www.nfa.dk>). The Centre runs a survey of the working environment of both employees and the self-employed, every five years. With respect to the self-employed, the results bring forward the diverse working-life of different groups of self-employed (Burr et al, 2006, chapter 6):

- Self-employed persons in the manufacturing industry have a large volume of work, and they have longer working weeks than other jobs. The proportions of self-employed in industry that do office work, that experience physical activity or do heavy lifting, is similar to all employed in the sector. The same applies to the proportion which is exposed to noise and solvents. The self-employed in services, have a working environment that largely resembles the self-employed in manufacturing industry.
- The self-employed in agriculture and construction share many characteristics. They have a very large volume of work and long working weeks. They have virtually no seated work. In contrast, they generally do very physically strenuous work and they often work with their backs twisted or bent. They are also very often exposed to vibration at work, and work more often with wet or damp hands than in other jobs.

While the situation of the self-employed differs somewhat with respect to the physical working environment, they are, in general, experiencing a more positive situation compared to wage-earners, when it comes to the psycho-social working environment (Burr, 2006). Thus, the self-employed generally experience better prospects for personal development in their job. They also feel that their work is less emotionally stressful than average and that they have better opportunities to balance work and family-life. This is in spite of the fact that they experience a work-load which is above average. The explanation is probably that the self-employed have greater control over the timing of their work and they can adapt more flexibly to other demands.

One should add that the last survey of the National Research Centre for the Working Environment was made in 2005, when the Danish economy was recovering from the recession in 2003-2004. The crisis from 2008 onwards may of course have influenced the quality of work of the self-employed in Denmark. There are however no more recent studies available on this issue.

Income security of the self-employed

The access of the self-employed to unemployment benefits has already been described in the previous section. Concerning other kinds of income support, social security is in general not related to the kind of labour market attachment that an individual has. This is in line with the

universalistic character of the Danish welfare state. The self-employed are therefore eligible for the same types of social security (cash benefits, sickness benefits and leave benefits) as regular workers. In some cases, however, special rules may apply due to the particular character of the self-employed status compared to that of a wage earner, when it comes to the documentation that the cease of self-employment activity, when claiming cash benefits as an unemployed.

Similarly, while being eligible for public sickness benefits (including maternity and paternity benefits) after two weeks of sickness, a self-employed or an assisting spouse may voluntarily take an insurance, which allows them to draw sickness benefits from the first or the third day of illness/leave. The self-employed and their spouses, in principle, have the same rights to receive economic compensation in relation to childbirth as wage earners. Therefore they also have to fulfill requirements for employment (as self-employed) over the last 12 months. The maximum of the maternity/paternity benefit is equal to unemployment benefits.

Since most wage-earners will receive their full wages during their maternity or paternity leave, there is a political debate about whether a special fund should be established, which can increase the benefit paid to the self-employed up to a level more in line with their normal income. Such a proposal was for instance put forward by the Commission on Work-Life Balance in 2007 (Familie- og Arbejdslivskommissionen, 2007:79). This proposal is now being discussed by the political parties.

4. Conclusion

Entrepreneurship is in general viewed in a positive light in Denmark, and a number of policies are in place to support the start-up and survival of small businesses. They are mostly of a general nature, but one can also find examples of targeted measures, for instance for ethnic minorities or female entrepreneurs.

When it comes to the quality of work of the self-employed, most indicators point to the fact that they seem to experience an above-average quality of working life. Therefore, this is not a political issue.

With respect to labour market policy, Denmark stands out by not having any programmes that are targeted at assisting the unemployed in starting their own business. The last example of such a scheme was abolished in 1998 and the present crisis has not lead to attempts to revive such programmes. Such programmes are viewed with scepticism due to the risk of deadweight losses and the assumption that being unemployed is in itself not a strong qualification for a successful business venture.

The self-employed in Denmark in general have access to the same sort of income and employment security as others. In line with the universalistic nature of the Danish welfare state, they can join an unemployment insurance fund and be eligible for social security of various forms.

Finally, the number of self-employed has been rather stable during the crisis and the unemployment rate of the two unemployment insurance funds for the self-employed is below average. This can be a further reason, why the issue of policies targeted separately at the self-employed has not gained more prominence recently, in the context of the Danish economic crisis.

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