

Denmark: Early start and early end of income measures in response to COVID-19

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In Denmark, the government swiftly introduced income compensation schemes and adjusted existing social policies in March to protect incomes and employment against the consequences of the pandemic. These schemes and adjustments were then extended, before being scaled back or abolished in July and August.



Description

Since its decision to implement a gradual lockdown for non-essential workers as from 11 March 2020, to stop the COVID-19 pandemic, the Danish government has taken historic measures to protect jobs and maintain incomes, which are being scaled back or abolished from July. Measures adopted encompassed both new temporary income compensation schemes and adjustments to existing social policies.

On 15 March, Denmark introduced wage compensation for employees whose obligation to work had been temporarily terminated by their employer (furlough scheme). The scheme was put in place retroactively from 9 March and is expected to last until 29 August; it requires a company which is about to fire 30% or more of its workers to instead send them home, full-time or part-time. Companies benefiting from this scheme are not allowed to dismiss any workers in the period during which they receive compensation. If these requirements are met, the employer receives a compensation from the state equal to 75% or 90% of the wage for, respectively, white-collar and blue-collar workers, up to a monthly maximum of €4,000 (i.e. the maximum monthly compensation is €3,000 and €3,600 for, respectively, white and blue collars). The worker continues to receive full wage compensation but must take holiday in the period. The employer thus only has to pay 10-25% of the wage, except for highly-paid employees. The scheme is favourable for employees as there is no wage reduction unlike, for example, the

schemes in neighbouring countries (Sweden, Norway and Germany).

For the period 9 March-29 August, two income compensation schemes have been put in place for self-employed people and freelancers. One scheme is for people who are only self-employed or freelancers, and the other scheme is for people who combine wage income and income from self-employment/freelancers' fees. To qualify, the COVID-19 crisis must have resulted in a reduction of at least 30% of the person's turnover and, if any, wage. The compensation is equal to 100% of the lost turnover and wage, with a monthly maximum of €3,080.

The aforementioned wage and income compensation schemes were the result of a social dialogue between the government and the social partners. Over time, the schemes were made more flexible, broader and were extended twice. Even though they will be maintained beyond that date in those branches that are still subject to a lockdown, the general rule is that these schemes will normally be stopped on 29 August. This is a much earlier date than that of similar schemes in neighbouring countries.

Elements of existing social policy schemes have been adjusted.

Long-term sickness benefits financed fully by the State were put in place to give employers and employees an incentive to stay away from work in case of sickness resembling COVID-19. Normally, employers pay the first 30 days and the self-employed have a two-week waiting period. Both were

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suspended for the period 9 March-30 June; the State pays from day 1.

Recipients of sickness benefits and unemployment insurance exhausting their benefit period between 9 March and 30 June received a continuation of up to four months.

There has been a temporary suspension of activation elements in social benefit programmes, i.e. sickness benefit, unemployment insurance and social assistance. All requested job search and other activities for unemployed people on social assistance and unemployment insurance as well as recipients of sickness benefits were cancelled on 11 March, but re-instated on 15 June.

In social assistance, the requirement to complete 225 hours of work annually to remain entitled to full social assistance was practically suspended for four months from 9 March to 8 July.

These are among the most important measures rolled out in March-April, in terms of new schemes and adjustments to existing schemes until July-August. In these six months the government and parliament, often in dialogue with the social partners, have taken unprecedented action in expanding and then retracting temporary income compensation in response to COVID-19.

Outlook and commentary

The philosophy behind the Danish approach is that wage compensation schemes must cushion against temporary external shocks to the economy without interfering with structural

restructuring of the economy. Because the starting point of wage compensation is the situation prior to the COVID-19 crisis, these compensation measures are based on the status quo. Wage compensation schemes are seen as having potential adverse effects on productivity, employment and economic growth, thus delaying the recovery of the economy. Hence, in this view it is essential that wage compensation schemes are temporary.

The Danish wage compensation schemes will have been functioning for around six months if they come to an end, as currently planned, on 29 August.

The successor is likely to be a new temporary short-time work scheme that is promoted as a work-sharing scheme (arbejdsfordelingsordning). Such a scheme, that pays out supplementary unemployment insurance benefits to workers who have been sent home part-time, is right now the subject of a social dialogue between the government and the social partners, along the lines suggested by an expert working group led by professor Torben M. Andersen.

Denmark has been quick in both introducing and abolishing wage compensation, suspending and re-inserting activation measures, and temporarily extending existing schemes to new groups or for longer periods. So far, Denmark has been fortunate to not have had a dramatic resurgence of COVID-19 cases as its economy opens. However, if a second wave materialises, the country now has considerable experience with a broad group of measures addressing sudden drops in employment and income, just as trust in tripartite agreements and the social dialogue has increased.

Further reading

Andersen, Torben et al. (2020), "Rapport fra den økonomiske ekspertgruppe vedrørende udfasning af hjælpepakker" [Report from the economic expert group on the phasing out of help packages], 27 May 2020, last accessed at <https://fm.dk/media/18033/rapport-fra-den-oekonomiske-ekspertgruppe-vedroerende-udfasning-af-hjaelpepakker.pdf> on 29 July.

Joint digital platform of public authorities (2020), "Corona virus og din virksomhed" [The corona virus and your company] <https://virksomhedsguiden.dk/ehvervsfremme/content/temaer/coronavirus-og-din- virksomhed> on 29 July.

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