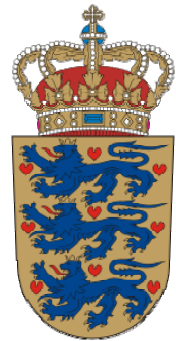


Denmark: Economic Overview

Balancing insularity with economic growth:

Denmark is traditionally known as an insular country. Having joined the European Community in 1973, the Danes only conditionally approved their country's 1993 European Union (EU) membership given four op-outs achieved by the government.¹ Even with this isolationist undertone, Denmark benefited from extensive trade with other countries, exporting \$84.95 billion worth of goods in 2005.² It is worthy to note that Denmark still does not use the Euro, though the 2 currencies are pegged at 7.46 Danish Kroner to 1 Euro.



Important Events:

- Agriculture played a central role in the Danish economy from the 1930s to the 1950s. However, after the 1950s the agricultural share of the economy gradually declined until it occupied only 2.8% of the Danish GDP in 2001, as the

	2000	2001	2002	2003
GDP per head (\$ at PPP)	28,771	29,326	30,042	30,410
GDP (% real change pa)	2.83	1.56	1.02	0.01
Government consumption (% of GDP)	25.28	25.90	26.35	26.67
Budget balance (% of GDP)	2.50	2.80	1.81	1.30
Consumer prices (% change pa; av)	3.14	2.35	2.42	2.09
Public debt (% of GDP)	54.38	53.79	52.07	47.40
Labour costs per hour (USD)	21.49	21.98	24.23	30.18
Recorded unemployment (%)	5.38	5.16	5.15	6.08
Current-account balance/GDP	1.52	3.09	2.05	2.90
Foreign-exchange reserves (mUS\$)	15,108	17,110	26,985	37,105

overall economy adjusted itself to the growth of the manufacturing and service sectors. With the service sector dominating 74% of the Danish GDP in 2001, Denmark has one of the few post-industrial economies which enjoy a GDP higher than \$34,000, with much of its economy relying on the service sector. The industrial share of GDP has been sluggish over the past decade, accounting for fewer than 25% of total GDP. 73% of all employed workers are in the services sector, 25% in the industrial sector and just 1.6% for agriculture in 2001.

¹ The Economist, "Country Briefings: Denmark Factsheet,"
<<http://www.economist.com/countries/Denmark/profile.cfm?folder=Profile-FactSheet>>

² "Denmark" 2006 CIA World Factbook,

- Denmark enjoys a low unemployment rate, thanks to a quarter-century of sound macroeconomic policies, and also a flexible labor market and a competition-friendly regulatory environment. Short-term factors such as revenue from oil exploration have also contributed to strong public finances, which are reflected by the highest consumer confidence levels since records began three decades ago. Wage inflation has been subtle, yet labor shortages in the construction sector are likely to spread to other industries.³
- The public sector has been an important employer since the 1960s, accounting for 32% of total employment as of 2001. A feature which demarcates Denmark from other Western countries is that its high ratio of state expenditure to total economic activity is among the highest in the world, reflected by its above-average total employment along with government purchases of goods and services which accounted for 25.1% of GDP in 2001.⁴

*Economic Indicators:*⁵

- GDP (official exchange rate US\$): \$243.4 billion
- GDP per Capita (PPP): \$34,800
- GDP Growth Rate: 3.2%
- Inflation Rate (consumer prices): 1.8%
- Import of goods f.o.b. (US\$): \$74.69 billion
- Export of goods f.o.b. (US\$): \$84.95 billion
- Current account balance: \$7.753 billion
- Unemployment Rate: 5.7%
- Oil consumption: 188,300 bbl/day
- Oil production: 376,900 bbl/day
- Natural Gas consumption: 5.173 billion cubic meters
- Natural Gas production: 7.965 billion cubic meters
- External Debt: \$352.9 billion

*Economic Structure:*⁶

- GDP Breakdown (2005 % of total):
 1. Agriculture: 1.8%
 2. Industry: 24.6%

³ Organization for Economic Co-operation and Development, "Economic Survey of Denmark 2006: Reforms can help to maintain growth,"

<http://www.oecd.org/document/17/0,2340,en_2649_34569_36604625_1_1_1_1,00.html>

⁴ The Economist, "Country Briefings: Denmark Fact sheet,"

<<http://www.economist.com/countries/Denmark/profile.cfm?folder=Profile-FactSheet>>

⁵ 2006 CIA World Factbook, <<https://www.cia.gov/cia/publications/factbook/geos/da.html>>

⁶ Ibid.

3. Services: 73.5%

- Principal Exports (2005 % of total):
 1. Manufactures goods (excluding ships): 73.5%
 2. Agricultural Products: 10.3%
 3. Fuels: 9%
 4. Ships: 1%

- Principal Imports (2005 % of total):
 1. Intermediate goods: 41.2%
 2. Consumer goods: 28.4%
 3. Capital goods (excluding ships): 14.1%
 4. Fuels: 6.6%

- Major Exporting Partners:
 1. Germany 17.5%
 2. Sweden 13.2%
 3. Britain 8.8%
 4. U.S.A. 6.4%

- Major Importing Partners:
 1. Germany 20.5%
 2. Sweden 13.8%
 3. Norway 6.6%
 4. Netherlands 6.6%

- The Danish private sector is dominated by many small and medium-sized enterprises (SMEs). About half of total employment is held by firms with 50 employees or less, compared to 12% of the labor force working in companies with 500 employees or more. Self-employment constitutes 8% of total employment. Danish women have among the highest employment rates throughout the Western world.⁷

- Denmark has a small industrial sector that relies on granite and kaolin. In the agriculture spectrum, about 60% of the land is extensively exploited and fertilized. Domesticated animals are an important economic activity in Denmark. Dairy cattle, pigs, and poultry are raised to supply domestic and foreign markets while the fishing industry also occupies a major role in the economy.⁸

⁷ The Economist, "Country Briefings: Denmark Factsheet,"
<<http://www.economist.com/countries/Denmark/profile.cfm?folder=Profile-FactSheet>>

⁸ "Denmark." Encyclopædia Britannica. 2006. Encyclopædia Britannica Online.
<<http://www.britannica.com/eb/article-33923>>.

Political Considerations:

- The recent election of a new centre-right governmental coalition may spark changes, as the government announced plans to attack bureaucracy, tighten funding, reduce public-sector employment, and consider private-sector alternatives in lieu of some public services. Total public-sector employment is forecasted to remain at current levels despite increased recruitment in the health and education sectors.
- Denmark is divided into 270 municipalities and 13 counties, namely Copenhagen, Frederiksberg, Copenhagen County, Frederiksborg, Roskilde, West Zealand, Storstrøm, Funen, South Jutland, Ribe, Vejle, Ringkjøbing, Viborg, North Jutland, Aarhus, and Bornholm. Greenland and the Faroe Islands are also Danish possessions but they are largely autonomous. The capital of Denmark is Copenhagen.
- The largest Danish political party is the Social Democratic Party, which led Denmark from the 1930s to the early 1980s; since then, coalition governments and non-socialist parties have predominated, headed by the Conservative People's Party and the Liberal Party in 1981–93. Every Danish political party supports the welfare state model, except for the tax-protest and anti-immigration Progress Party. The Christian People's Party is a vocal critic of pro-abortion laws. The Socialist People's Party is against Denmark's dealings with NATO and is part of the movement that staunchly opposed Danish ascension to the European Union (EU).⁹
- Small-scale law infractions are dealt in police courts. Most other criminal charges and civil disputes are tried in the 84 municipal courts. Two High Courts serve as appeal and municipal courts, exercising original jurisdiction in serious criminal cases wherein a 12-person jury is installed. For nonjury criminal cases, lay and professional judges sit alongside each other and have equal votes. There is a special Court of Complaints that is able to reopen a criminal case and oversee a new trial. The Danish Maritime and Commercial Court uses lay judges as well, while the Supreme Court has the final word in the legal system.¹⁰

Attractions:

- **Economic Stability:** The current center-left coalition government promises to reduce the unemployment rate and has already turned the budget deficit into surplus, hence lowering inflation. The country also

⁹ "Denmark." Encyclopædia Britannica. 2006. Encyclopædia Britannica Online. <<http://www.britannica.com/eb/article-33923>>.

¹⁰ Ibid.

maintains a stable currency; marginal income tax rates have been lowered yet retaining the overall tax revenues. Industrial competitiveness is boosted through various reforms, increased industry-specific research and development funds, and improved welfare for the neediest while increasing public sector efficiency by cutting “red tape”.

- **“Flexicurity”**: The Danish model is best seen as the blend of a flexible labor market, generous social security, and active labor-market policy with rights and responsibilities for the unemployed. Workers who pay high taxes, but trade job security for a guarantee, enjoy a time-limited but generous unemployment pay that they can live on as well as the promise that they will get new jobs fast, should they be fired. Hiring and firing can happen from one day to the next, which makes Danish companies competitive over countries like Sweden and Germany. About a fifth of Danish workers loses their job in any given year, but most quickly are re-employed in other jobs.
- **The Danish Labor Market**: The spectacular Danish Model helps decrease the unemployment rate to 4.5%, the lowest in over 30 years. Inflation is below the Euro-area average and growth is faster; the budget surplus now occupies 3.9% of GDP in 2005. It is Denmark’s exceptional performance on jobs that has attracted the most attention. Over the past three years the public payroll decreased nearly 1% while private-sector employment increased by 3.7%. It is estimated that 34,000 private-sector jobs will be created in 2006.

Troubled Spots:

- **Lack of skilled labor**: Such a phenomenon can only result in higher pay raises, lifting the demands for more skilled workers, and eventually overheating the economy. This will follow in the footsteps of the boom-and-bust cycle in 1986, when Denmark introduced a tax reform and restricted the private loan market due to a record balance-of-payments deficit. As a result, the trade balance showed a surplus in 1987, and a balance-of-payments surplus in 1990 (first surplus since 1963). Both figures have remained in positive territory, with the exception of the balance of payments in 1998.¹¹
- **Limitations of Natural Resources**: Denmark has few natural resources to extract within its territory, as a result of its small size. Economic setbacks are not unusual, as in the early 1970s when the import-dependent Denmark generated 90% of its energy from foreign oil while reeling from the negative effects of the Arab Oil Crisis. Oil and natural gas

¹¹ 2005 CIA World Factbook <<http://www.cia.gov/cia/publications/factbook/geos/ti.html>>

fields in the North Sea do permit a partial self-sufficiency. Coal-powered electric plants now produce 90% of Denmark's electricity. The switch from petroleum made possible the utilization of heat from electricity production to warm water supplied to homes and factories. Henceforth, many power plants' energy output has been doubled.¹²

- **Employment Outlook:** A long-term issue will be the huge decline in the ratio of workers to retirees.¹³ In effect this will place a heavy burden on the Danish economy with fewer workers to maintain the GDP Per Capita, especially when more than 80% of the cost of the health care system is paid for by national and local authorities and employers.

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¹² "Denmark." Encyclopædia Britannica. 2006. Encyclopædia Britannica Online.
<<http://www.britannica.com/eb/article-33923>>.

¹³ 2005 CIA World Factbook <<http://www.cia.gov/cia/publications/factbook/geos/ti.html>>