



Small Great Nation

The public sector - the welfare state's jewel?

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Preface

The public sector is facing two challenges that may change the welfare state as we know it. Demographic headwinds and low productivity mean that Denmark must either turn down expectations about the quality of public services or rethink how the welfare state is designed. This report looks into whether the public sector is braced for the challenges and follows up on the 2019 Small Great Nation report on the state of the welfare state.

Around every fourth member of the Danish labour force works in the public sector, and all Danes are offered a relatively high level of service with access to, for example, childcare, education and health services. But the large public sector also poses a big challenge: The public sector handles a string of tasks with lower productivity growth than in the private sector. Among economists, this challenge is referred to as Baumol's cost disease, and it is an obstacle to the ability of public service to keep up with developments in private consumption without having to increase the tax burden.

Also, Denmark is on the verge of a period when the number of people outside the labour market will surge while the number being of working age remains almost unchanged. More elderly people and the baby-boom generation mean that the demand for public services will grow.

So overall, the public sector is subject to double pressure productivity-wise and demography-wise. In the years ahead, the politicians are therefore faced with tough prioritisation between letting public service follow the citizens' growing need for public services as well as increasing expectations of quality or keeping taxes stable. This is putting Denmark's welfare model under pressure and raises some compelling questions:

How will citizens deal with the public service level not keeping up with private prosperity? We show that there has been a soaring increase in the number of health insurance policies taken out. Are there areas in the public sector where work can be organised smarter? For example, we show that scope creep in the healthcare system is probably the reason why midwives are experiencing an increasing workload even though there has never been more midwives per delivery than today. Is the current recruitment challenge in the public sector a chronic problem? We show that, by 2030, there will be a shortage of 10,000 nurses and social/health care workers, and we take a look at what the general situation is when it comes to recruiting and retaining workers in the social welfare areas.

You can read about these analyses and many others in this Small Great Nation report on the public sector of tomorrow. The report and its analyses can be used as a starting point for the broad political agreements that are needed to future-proof the public sector.

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Enjoy our report!

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1. Executive summary

The Danish welfare model

Denmark's public sector is a contributor to relatively great social and economic equality in the population. Also, satisfaction with Denmark's public sector is great, and confidence in the welfare state has been on the rise in recent years despite a healthcare system under pressure, recruiting problems, etc. The analyses in this report bear witness of Denmark in many areas having a well-working public sector backed by the general public.

The future holds great challenges for the welfare state

However, the future of the welfare state as we know it is threatened by two challenges in particular that will affect the public sector and the quality of its services. The first challenge is that Denmark is heading for a 20-year period when the number of children and elderly people will increase while the number of labour force people is going down. This will put pressure on both public finances and the ability to recruit the staff needed, particularly in the areas of health, social care and day care. The other challenge is that productivity developments are generally lower in public sector production than in private sector production. Nevertheless, pay in the public sector needs to match that in the private sector if the public sector is still to be able to recruit qualified staff. Over time, this will make public services relatively more expensive compared to private production, and the public sector is therefore generally to account for an increasingly larger share of finances if the scope of public services is to match private consumption.

We analyse the public labour market

The pay and working conditions of public workers have been topics of much debate in this year's election campaign. If the level of service delivered by the public sector to citizens is to remain high, it is important that recruiting, retaining and motivating the many public employees is successful in future. In this report, we identify the public sector's recruitment challenges and how to potentially resolve them.

The debate of privatisation is often politically driven

Privatisation can ease the increasing pressure on the public sector, and the free-market forces have already become a growing part of the Danish welfare model. But can the public sector entrust welfare services to free-market forces in the private sector without this affecting the service level? Or will enhanced competition heighten efficiency and thus make it possible to improve the service level without increasing costs? This is often a politically driven discussion, yet in this report we try to shed light on the myths and realities of privatisation.

We analyse the public sector

In this report, we analyse the public sector and its challenges. In chapter 1, we summarise results and discussions from the other chapters of the report.

1.1 The Danish welfare model

The public sector ensures good framework conditions and services

Denmark's public sector is an important part of the welfare model where this sector ensures that all citizens of Denmark have some degree of social and economic security. Each citizen pays a considerable amount of taxes on their income, but public welfare services like health, childcare, education and social care are made available in return to all people without or with much reduced co-payment. The public sector also delivers a series of public benefits that provide a social safety net for citizens. Together with progressive taxation of income from employment and capital income, these processes redistribute social resources to those members of the population with relatively small earnings. A well-working public sector also helps ensure good framework conditions for the business community through regulation and efficient administration.

We take a look at public service and the welfare state

To set the scope of the focus of this report on the public sector's challenges, we take a look at the size of this sector over time and in an international perspective with focus on public service. We also ask the Danes how they view the welfare state. We examine how much confidence they have in the welfare state and their experience of the quality of public service. Finally, we look at the correlation between economic growth and the size of the public sector.

Denmark has a large public sector

Denmark's public sector

The development of the public sector accelerated particularly after World War 2. However, since the early 90s there has been a tendency to reduce the size of the public sector through its finances, although interrupted by heavy increases during the financial crisis. Yet, Denmark is still among the OECD countries with the largest public sector, measured by share of GDP. This is not least because the Danish society is characterised by huge public service, with around one third of public spending going to personalised public services such as day care centres, educational opportunities and hospital visits.

Private prosperity has a strong presence in other countries

The public sector's huge importance in Denmark reflects a choice to have the state, regions and municipalities perform a number of social welfare services that many other countries have chosen, for political, economic or historical reasons, to let the private sector handle a large portion of. Among these countries are the USA where many social care and healthcare expenses are incurred by private households. All in all, Americans spend a larger share of their income on social care and healthcare expenses than Danes do.

Confidence in the welfare state has gone up in three years

Danes' assessment of the welfare state

The welfare state and its future are a hot issue in the economic and political debate. And justly so given the fact that the public sector is an important factor. In a survey, Danes respond that they have relatively little confidence in the welfare state's ability to support them should they find themselves in a situation where they have difficulties in finding for themselves. However, this confidence has gone up over the last three years

Quality of elderly care considered low

It differs much how Danes assess the individual parts of the welfare state. Danes generally consider the police, courts and healthcare system to be of high quality while elderly care is considered to be of lower quality. Also, Danes with children in day care facilities consider the quality of these facilities to be much higher than Danes do in general.

Satisfaction with the welfare state hit by recall bias

When Danes compare public sector services today with those ten years ago, most of them say that quality has gone down. Most of them also expect that the welfare state will support them less in ten years than today. International surveys find, however, that Danes asked ten years ago were less satisfied with the educational and healthcare system than Danes asked today. This could indicate that Danes recall the past as being better than it actually was.

Do public sector cuts boost growth?

Economic growth and the size of the public sector

The Scandinavian countries are all organised with a large public sector. And they are among the most prosperous countries in the world. Yet lower taxes and related public sector cuts are often singled out as the necessary policy if a country is to achieve a higher level of prosperity. We will take an empirical look into this paradox.

Yes in general, but no cuts in education

Public sector cuts generally seem to raise the level of prosperity across most OECD countries. However, public spending on education and infrastructure seems to have a positive effect on countries' prosperity.

No gains from making cuts in the Danish public sector

Whether or not public sector cuts improve a country's prosperity depends on how efficient the public sector of that country is. Our analyses show that cuts in a public sector as efficient as the Danish sector will not contribute positively to the level of prosperity.

1.2 The future of the public sector

Massive public service affects many Danes

Virtually all Danes receive services or benefits from the public sector at some point during their lives. Particularly at the beginning and at the end in the form of day care facilities, education, health care and social care. However, when looking at the future of the welfare state as we know it, there are dark clouds on the horizon where two challenges in particular pose a threat to the welfare state and its services.

1st challenge: Demographic headwinds

The first challenge concerns Danes' combined need for public services which is dependent on Denmark's demographic structure. Here, Denmark is really heading for demographic headwinds for the next around 20 years. There will be many more children and elderly people in society in the decades ahead. For the first time ever, people outside the labour force will probably account for the largest share of the population. This will put pressure on both the funding of public spending and the ability to recruit the staff needed, particularly in the healthcare system and for elderly care. These areas are already now experiencing massive recruitment challenges.

2nd challenge: Baumol's cost disease

Another huge challenge is that public production primarily consists of services which generally have lower productivity growth than production of goods. But wages in the public sector need to increase concurrently with those in the private sector to be able to attract qualified labour. That is why public services will be relatively more expensive in the long run than private production. This phenomenon is also called Baumol's cost disease, which is a problem pointed out by Kraka-Deloitte in our 2019 report. It involves that, as a rule, the number of public services cannot keep up with private consumption unless the public sector accounts for an increasingly larger share of finances

We analyse developments in public spending

The challenges of the welfare state are huge, and it takes creative thinking, new solutions and tough prioritisation to resolve them if taxes are not to be raised regularly. This chapter analyses the historical development in public spending and politicians' scope for affecting the service of the welfare state. Moreover, it is analysed whether additional purchasing of private services, which can be viewed as a symptom of Baumol's cost disease, could also help solve the problem with this disease.

Public spending has followed private consumption until 2010

Public service level

A measure of the public service level is public spending which is composed of the public sector's expenditure for procurement and payroll. We measure public spending per user allowing for changes in both size and structure of the population.¹ Public spending per user has generally been consistent with private consumption per citizen from 1970 to 2010. Even though public spending per user cannot be equated with the quality of public service, there is nothing to indicate that a shift in public service was to have taken place during this period compared with the general level of prosperity. From 2010 and onwards, however, public spending per user is largely the same whereas private consumption continues to go up. When taking into account the albeit modest productivity growth in the public sector, public spending is closer to being consistent with developments in private consumption since 2010, yet still somewhat lower.

¹ 'Per user' is a measure for public spending checked for age and number. I.e., allowance is made for an 80-year-old on average requiring more public spending than a 40-year-old, and allowance is made for a large population requiring more public spending.

So far, the Baumol problem is under control

Historically, it has been possible to keep the Baumol problem at bay without increasing the tax burden. There are several major reasons for that. Firstly, state interest expenses for public debts have seen a massive decline since the 1980ies, thus freeing resources for public spending. Secondly, the number of able-bodied people on social assistance has decreased considerably since the 1990ies. Also, the use of foreign labour has seen a heavy increase while Denmark's net international investment position has surged. But there were also requirements in the 2010s to increase productivity, which caused serious cuts in the growth of public spending and potentially produced some productivity gains. But these very productivity requirements have also been a contributor in public spending not keeping pace with private consumption. The question is what the next move must be so that the Baumol problem will still not set an expiry date for the welfare state.

Different political plans for real growth in public spending

Growth in public spending per user until 2030

The political parties have different plans as to how public spending is to grow in the years ahead. In an analysis we take a closer look at what the consequences of different public spending targets will be for the number of public workers until 2030.

Increase in the number of public workers is lower than in public spending

The payroll quota, which measures the public sector's remuneration of employees as a percentage of public spending, is of relevance to developments in the number of public workers at a given public spending growth rate. The higher the quota, the more people will be employed in the public sector at a given public spending growth rate. Historically, however, the payroll quota has seen a slight decline. The Danish Ministry of Finance bases its calculations on the payroll quota being steady in future. When productivity growth is higher in the private sector than in the public sector, the prices of the goods and services procured by the public sector from the private sector will decline relative to public wages. Consequently, growth in the number of public workers will be lower than real growth in public spending (procurement and employees).

Coverage of demographic characteristics leads to fewer public workers

Demographic characteristics are a measure of how much public spending must increase to cover population trends and changes in the demographic structure of society. If public spending follows the demographic characteristics, this will be equivalent to an average real growth rate of around 0.55% a year until 2030. An unchanged payroll quota will cause the number of public full-time workers to go down by 8,000 people from 2023 to 2030. If the number of public workers per user is not to go down, then the number of public full-time workers is to increase by 29,000, based on the same assumptions. I.e., there is a difference of 37,000 public full-time workers in 2030 between the scenario under which costs follow the demographic characteristics and the scenario under which the number of public workers follows the demographic characteristics.

DKK 9 billion more needed

If the number of public workers per user is to be maintained until 2030, then DKK 9 billion more needs to be found than is available under the current fiscal space. This is equivalent to a one percentage-point raise of the basic tax rate.

More and more purchase additional services...

Additional purchasing of private services indicates Baumol symptoms in the public sector

Over the past 20 years, Danes have increasingly turned their eye towards the private service sector as a supplement or opt-out to parts of the public sector services. The additional purchases have taken place, for example, through private companies or institutions which offer private schooling, private health insurance and private home care.

...this indicates more demand for welfare services

The figures suggest that the citizens perceive the public service level not to be high enough to match what they want. This development can therefore be a symptom the Baumol cost disease that has contributed to public service not having kept pace with the prosperity achieved privately by citizens in the past ten years.

In future, the public sector will only provide a base package

Our analysis shows that the Danish society may be on its way to a model where the public sector provides a “base package” of services to which many will add private purchases, for example, through health insurance. This model may put pressure on the social contract in the universal welfare state, yet it may also be part of the solution to Baumol's cost disease. We recommend initiating a thorough review of how the public sector of tomorrow can interact with services offered by the private sector.

1.3 The public labour market

More “warm hands” will be needed in future...

It goes for all of the welfare state's challenges that they generally warrant a need for more public workers if the service level of the public sector is not to deteriorate. Denmark already has around 860,000 public workers, which is approximately 28% of the total labour force.²

There will be a slight decline in the number of labour force people over the next 20 years, whereas the number of people outside the labour force will surge. This will result in a battle for labour. Also, there are already recruitment challenges for a long range of social welfare practitioners, such as nurses and social/health care workers. The recruitment challenges are increased by many positions in the social welfare area generally requiring a specific education and good Danish skills. This makes it more difficult to fill the staff shortage with foreign labour or people from other professions.

If the public sector is to work in future, it is vital that the sector is able to recruit, retain and motivate the many public workers whose pay and working conditions have been topics of much debate before as well as after this year's election campaign. In this chapter, we identify the public sector's recruitment challenges and how to potentially resolve them.

Public workers are sceptical of the future

We have asked public workers about their satisfaction, motivation, and expectations for the future. Overall, they are satisfied with their work, yet many of them believe that they are not given a fair pay. Also, every fourth public worker feels that the development in their pay has been slower than for other professions over the last ten years.

Public workers have low expectations in their future working conditions. 41% of public workers respond that they expect their working conditions to deteriorate in the next ten years. The same goes for only 18% of private sector workers. These negative visions for the future are disturbing because they may add to the future recruitment challenges. For example, this year has seen the lowest intake on social welfare education programmes in many years.³

Projection of social welfare workers needed

In future, the Danish social welfare sector will experience a pressure from more users and at the same time many of the current workers in this sector will retire from the labour market. By projecting the supply of and demand for social/health care workers, nurses, pedagogues and teachers until 2050, we find that, as early as in 2030, there will be a shortage of around 3,000 full-time nurses and 7,000 full-time social/health care workers. By 2040, the shortage will be even greater, and the educational sector will be 8,000 full-time primary school teachers short at that. The projection is based on a scenario where demand for staff follows the full demographic characteristics, i.e., that the number of public workers follows the number of users of public services. The focus of the projection is solely on the supply of and demand for people and not on the funds needed in both scenarios. Even if the politicians decide on lower public spending growth, a demand is still likely to exist in the private market.

² Danish Ministry of Finance (2022b), which is the latest official projection of public finances for 2030

³ Danish Agency for Higher Education and Science (2022).

The problem worsens if staffing is to be improved	If demand is instead projected using a so-called Baumol effect, i.e., the number of public workers follows the private prosperity achieved, the shortage of educated people is even greater. The Baumol effect illustrates a scenario where the number of public workers per user will go up because of an increasing demand for service generated by increasing prosperity. This means, for example, that, in the projection, the result will be more teachers and pedagogues per child.
Action is needed now to mitigate future shortage	There are many ways of trying to deal with the discrepancy between supply and demand. For example, technological progress and improved productivity can lower the demand for staff. Also, supply can be increased by getting more people to work in their profession, work full time, or by revising rigid demarcation lines and language skills requirements. Another way is to have more people enrol in social welfare education programmes. However, action is needed now if supply is to be increased sufficiently. For example, the intake of students on the social/health care worker programmes must be raised from around 10,000 a year to 15,000 to create a balance between supply and demand in 2050 under the scenario where the number of public workers follows the number of users.
Recruitment and retention problems	<p>Recruitment and retention of social welfare workers</p> <p>The discrepancy between the supply of and demand for social welfare workers is driven by problems recruiting and retaining available people with the relevant education etc.</p> <p>This is reflected in that some with a social welfare education never get to put their education into practice and others drop out a few years after they completed their education.</p>
Increasing problems in recruiting teachers...	The problems of recruitment seem to be particularly severe for school teachers where the share of teachers practicing their skills one year after they completed their education is declining. This tendency seems to have started around the time when the Danish Folkeskole reform was implemented in 2013/14.
...and large problems in retaining social/health care workers	For the social/health care workers, the problem is a different one: Here, most of them start working in their profession. But then 30% of them drop out within the first five years, which is a much larger percentage than in the other professions. The primary reason for this drop-out is that many are transferred into governmental benefits associated with illness and long-term unemployment.
Apparently no problems with respect to nurses	On the other hand, there are no signs of major problems in attracting and retaining qualified nurses, which may seem surprising considering their strong presence in the public debate. Some of the explanation might be that our figures only cover the period up to 2020, so they do not say anything about developments in the last two years. However, in the period under review nurses are the one profession among those analysed where most are working in their field both directly after graduation and after some years. This suggests that the reason for any challenges in recruiting nurses is rather that too few nurses are educated.
We look at social welfare workers' income over the last 40 years	<p>Development of pay for social welfare workers over time</p> <p>If you want to look into the root cause of the problems with securing the labour needed for the social welfare professions, there is no getting around pay as a factor in choosing an education and a job. We have looked at how social welfare workers' pay has developed compared to general wage developments over the last 40 years.</p>
Since 1980, midwives' relative pay has plunged	Midwives in particular seem to have lost ground over the last 40 years, meaning that they have gone from having a high-paid job in 1980 to having an average-paid job similar to pedagogues in 2020.

Nurses' pay is closing in on teachers' pay, but is still behind

Nurses have moved up a bit in the income distribution since 1980 in that today they are around the 69th percentile. Teachers, however, have experienced a slight decline. Yet teachers come from a higher base point level in 1980, and throughout the period their pay has exceeded that of nurses even though the differences have grown smaller

We analyse what warm hands can earn in the private sector

Nurses can secure higher pay by shifting to the private sector

However, the pay level in the public sector is not the only pay level that can have a bearing on recruitment and retention of social welfare workers in the public sector. Private sector pay levels to the same group – the so-called outside option – also play a vital role. That is why we have analysed whether nurses and other groups of social welfare workers can secure higher pay by switching to the private sector.

Nurses gain much financially from a switch

For experienced nurses, there is a considerable gain of DKK 56,000 a year on average by switching to the private sector. This goes for nurses moving to, for example, private hospitals and clinics as well as for nurses leaving nursing for, say, a sales job in the pharmaceutical industry. The latter group has seen the greatest increase in pay.

Still, relatively few nurses leave

Despite a potentially large financial gain from moving, relatively few nurses actually take the plunge. Out of the nurses having worked the first three years of their careers in the public sector, only 4% decide to move to the private sector over the next three years. Thereof, most continue in their profession even if there a major financial gain can be secured by switching to the pharmaceutical industry.

No financial gain for other social welfare professions

For pedagogues, teachers and social/health care workers, moving to the private sector does not involve a financial gain. Seen in isolation, this may suggest that the recruitment and retention potential of increasing the pay for public sector nurses is greater than for other professions.

Less foreign labour in the public sector

Foreign labour in the public sector

Over the past ten years, the number of foreign nationals employed in Denmark has soared. However, during this period the public sector has not been able to keep up with the private sector when comes to hiring foreign labour. Also, Denmark has a relatively small share of immigrants employed in public professions compared to other European countries.

Foreign labour is economically beneficial

More foreign labour in the public sector could in fact increase productivity by having a better match between employer and employee, result in an economic gain for the public purse, and help resolve the recruitment challenges. That is why it should be examined what the barriers are to the public sector engaging more foreign labour.

Difference driven by the sectors' structural differences

Our analysis shows that private companies have hired much more foreign labour compared to the public sector because of differences in the structure of these two sectors. The analysis therefore includes a limitation in expectations as to many more foreigners may be expected to flow to the public sector given the current rules

Reforms needed

If more foreign labour is to be secured for the public sector, this could suggest taking more fundamental steps. One could be to ease the Danish skills requirements in the public sector. Do all care assistants at retirement homes or all nurses in future have to be able to speak Danish or could some communication be in English?

Public workers work less once they have children

Public workers work less once they have children

As a contribution to the debate about public workers' work hours, we have analysed how these hours are affected when public workers have children. Here we found that nurses, pedagogues, teachers and social/health care workers work less once they have children and that this effect is still evident ten years later

The biggest effect in female-dominated professions

Children are of the greatest significance to women's work hours and hence also of the greatest significance to the work hours of nurses and social/health care workers as these are female-dominated professions. That is why more gender equality could assist in securing labour for the public sector.

and bigger for nurses than other social welfare workers

Children are also of greater significance to nurses' work hours than to other women with vocational higher education in the public sector. One explanation for this could be that nurses typically work shifts with atypical working hours, which may be difficult to combine with a family life.

Busyness of midwives is a paradox

The midwives paradox

Never have the Danish public hospitals had so many midwives employed per delivery than they have today. Still, there are regularly articles and debate pieces in the media describing record-high busyness of the midwives at the maternity wards. This development would appear to a paradox yet explainable if the tasks of midwives have increased with each child delivered.

Midwives have replaced social/health care workers and secretaries

Since 2010, many more doctors and midwives have been added to the maternity wards whereas the number of secretaries and care workers, including health visitors and social/health care workers, has gone down. In 2022, there are 40% more midwives and 32% more doctors at the maternity wards than in 2010. By comparison, there were 35% less care workers and 15% less secretaries. Thus, an obvious part of the explanation of the paradox is that the midwives have taken over tasks previously belonging to other professions. However, our analysis also shows that the total number of maternity ward staff has increased by around 11% from 2010 to 2022, resulting in a slight rise in total staff per delivery. Another obvious part of the explanation of busyness at the maternity wards is therefore that the total number of tasks performed has gone up.

Appoint an expert group to resolve challenges

The challenge of busyness at the maternity wards will not become smaller in future, rather the reverse. Up to 2030, the number of deliveries is expected to increase from around 60,000 a year to 72,000.⁴ Kraka-Deloitte therefore recommends appointing an expert group to unravel the remainder of the midwives paradox and help resolve the challenges ahead.

1.4 Efficiency opportunities

The public sector is under pressure

Whatever the political parties in government and whatever the line of sight will be for public sector growth, a relatively large amount of money needs to be provided to the public sector if the number of public workers per user is not to be reduced up to 2030. To this should be added the Baumol problem. In other words, the public sector will come under pressure.

Privatisation could be an effective tool

That is why it is vital that public service too is improved without the number of public workers going up. The requirements in the noughties and the twenty-tens for yearly productivity increases in the public sector have contributed to public spending not having followed private consumption but also to producing efficiency gains. One of the tools used to improve efficiency is outsourcing public sector task

The debate of privatisation is often politically driven

But can the public sector entrust welfare services to free-market forces in the private sector without this affecting the service level? Or will enhanced competition heighten efficiency and thus make it possible to improve the service level without increasing costs? This discussion and the debate about which welfare services may be privatised are often politically driven. Instead, we try to shed light on these questions by means of facts and analyses.

Vocational rehabilitation programmes, unemployment benefit system and tax reforms

We also take a closer look at whether there might be other areas where to use smart thinking or where to spend resources more efficiently and effectively. This goes for, for example, vocational rehabilitation programmes at the job centres, the unemployment benefit system, and tax reforms.

⁴According to Statistics Denmark, StatBank Denmark (BEF5 and FRDK121).

What does privatisation mean?

Is privatisation the solution to everything?

Privatisation is a broad notion but involves that production of goods or services is to some degree transferred from the public sector to the private sector. Be it sale of state-owned shares or outsourcing of public sector tasks. In this report, we look at privatisation in the sense that public sector tasks are outsourced to private players but that the public sector is still responsible for the tasks being done. Typically, what is called outsourcing or a public-private partnership. It is more obvious to privatise some public tasks than others. Today, for example, bus services in municipalities are operated largely by private players only whereas youth centres are operated largely by the public sector.

Pros and cons in privatisation

In recent decades, there has been a general tendency towards privatising more public tasks. This also goes for the social welfare area. Privatisation can help subject production of social welfare services to competition and hence boost productivity. However, this also involves some risks that cause the quality of welfare services to go down. Privatisation is often on the one hand made into something that converts welfare into profit in private businesses or on the other hand into something that generates economies for the public sector. But there are many examples of privatisation of public tasks that have overall been a success of where experience is mixed. It is therefore important that the public sector regularly evaluates quality if social welfare services are privatised and to generally take experience from previous privatisation projects.

We analyse the effect of outsourcing on costs

Can outsourcing produce savings for the municipalities?

The degree of outsourcing by municipalities varies greatly. This is so across municipalities, tasks and time. We use this variation to analyse the effect of increased outsourcing of municipal tasks on the municipalities' gross operating costs in different areas. If a municipal task is put out to tender, the players will compete about submitting the best proposal for the task. The tender and competition are intended to ensure that the best player is selected for the task. This may produce savings for the municipality without deteriorating the quality of the task performed.

Quality and costs do not necessarily go hand in hand

Our questionnaire survey enables a comparison of a municipality's child care costs per child and its citizens' evaluation of the quality of day care facilities. Both costs and the quality evaluated vary greatly across municipalities, yet there is nothing to indicate that higher costs lead to higher quality across municipalities.

Total savings potential of DKK 1.4 billion a year

The findings suggest that, on average, the municipalities have realised savings on their total gross operating costs per citizen by increasing the outsourcing scope. If all municipalities below the median level of outsourcing raise their outsourcing scope to the median level, this would result in total savings of around DKK 1.4 billion a year in the municipalities.

Great difference in potential across areas

The estimated effect of increased outsourcing in the different areas varies considerably. The effect on the costs is estimated to be the greatest in the area of programmes for adults with special needs, whereas outsourcing seems to have increased costs in the area of programmes for children and young people with special needs.

Higher savings potential if few tasks are outsourced

The findings also indicate that particularly municipalities doing little outsourcing are the ones that can achieve the largest savings by increasing their outsourcing scope. However, the findings also suggest that some municipalities have a larger savings potential because of differences between municipalities that our model cannot allow for.

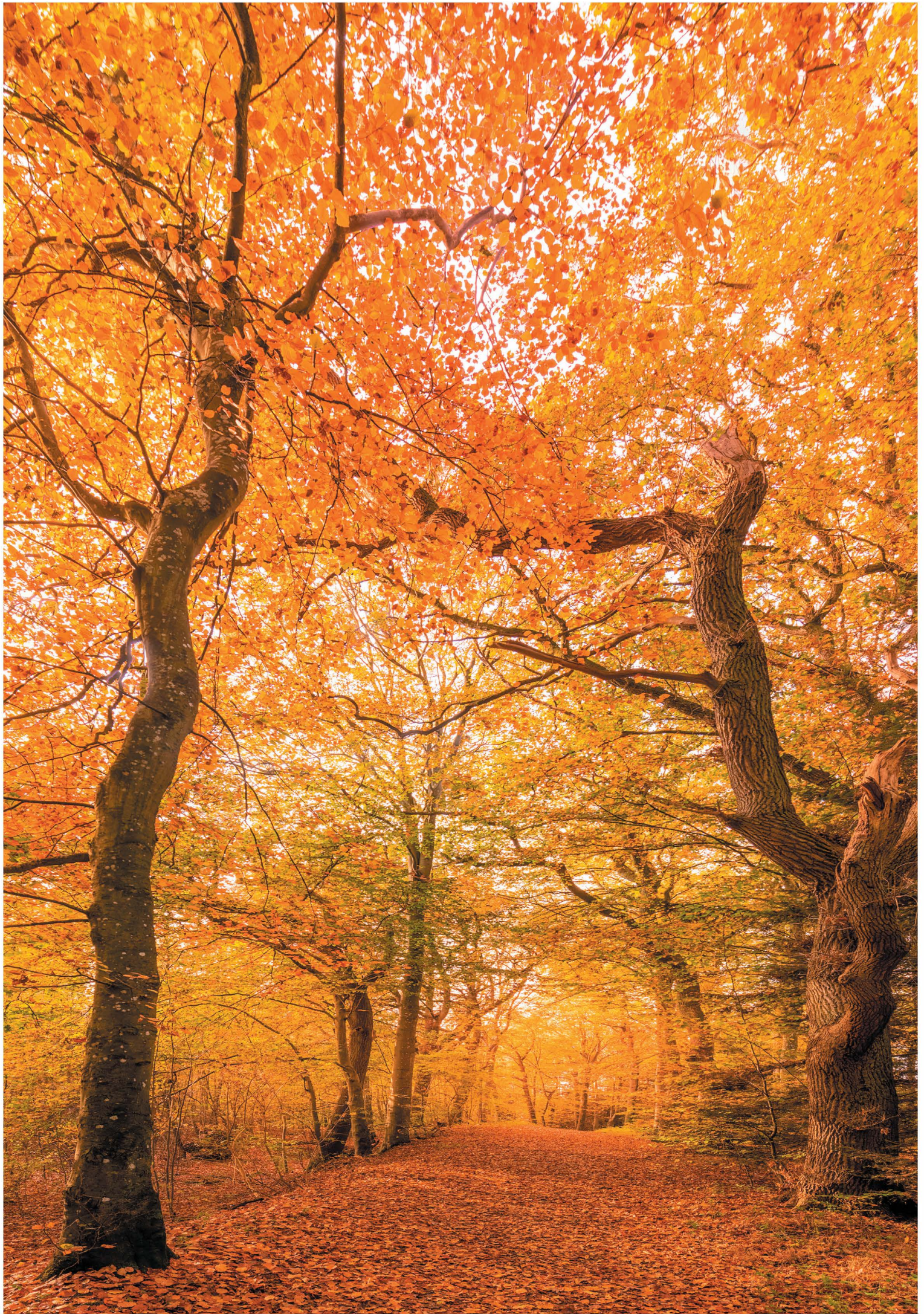
Potential hinges on municipality and area

All in all, the findings therefore indicate that generally there is a savings potential in outsourcing, although it is not given that the municipalities can just achieve savings in the different areas. Also, there is a difference in potential across municipalities

potential in people on social assistance	<p>Are vocational rehabilitation programmes a benefit for society?</p> <p>Able-bodied people on social assistance are an area with a high potential for freeing both labour for society and funds for the public sector. In an attempt to have fewer people flow into the pre-retirement benefit scheme but instead reintegrate them into the labour market, vocational rehabilitation programmes were introduced in 2013 as part of the reform of the pre-retirement benefit scheme and the flexijob scheme. Our analysis indicates that the programmes managed to get some people into permanent employment, yet the reform was not successful in stopping the development in an increasing number of pre-retirement benefits being granted.</p>
Vocational rehab programmes are expensive with uncertain effect	<p>Overall, the introduction of vocational rehabilitation programmes generated a surplus in 2020 for the state. However, the calculated costs for the activities at the job centres exceed what the state got in return in the form of more people in jobs. We therefore estimate that the vocational rehabilitation programmes are an expensive arrangement with an uncertain effect</p>
Should psychiatric wards or job centres handle psychiatric illness?	<p>It can be important for the national economy to move more people from social assistance to employment. Instead of more welfare-to-work programmes at the job centres, perhaps re-thinking is in place. In the years prior to the reform, many young people were granted preretirement benefits due to mental illness.⁵ Part of the solution could therefore be to spend more money on psychiatric treatment and less money on managing vocational rehabilitation programmes at the job centres. In 2018, around DKK 13.7 billion was spent on job centres whereas in 2021 around DKK 10 billion was spent on psychiatry⁶</p>
New agreement helps ensure the flexicurity model	<p>The no-claims driver principle can help Danish flexicurity under pressure</p> <p>In January 2022, the Danish Parliament adopted by a close majority a proposal for a possible higher unemployment benefit rate in the first three months of an unemployment benefit period, conditional upon an employment requirement of two years' work in the past three years. This proposal strengthens the safety net of the unemployment benefit system, which is a key element of the Danish flexicurity model. The way the system is today, the benefits do not cover the unemployed's lost earnings to the same degree as before. We illustrate that, by tightening the employment requirement under the new scheme, the scheme will become both cheaper and also targeted at the very group with the lowest incentive to be part of the unemployment benefit system</p>
Proposal will ensure targeting and be cheaper	<p>Costs can be halved in case of an employment requirement of two years and nine months. In the adopted proposal, around 55,000 persons a year could receive the increased unemployment benefit rate whereas in Kraka-Deloitte's proposal it would be 21,000 persons, which would cost the Danish state DKK 120 million in up-front expenses.</p>
Set off the length of the notice period	<p>It should also be considered offsetting the period of notice from the period during which it is possible to be paid a higher unemployment benefit rate</p> <p>This would target the scheme even more at persons with short notice periods that are the ones with the greatest need to secure income in case of unemployment.</p>
The Danish Parliament has great opportunities for affecting inequality	<p>Tax reforms – equality or efficiency</p> <p>Inequality in society is a regular topic in the public debate. The degree of inequality is affected by a series of trends such as technological developments, globalisation etc. but also more specific factors such as the size of the public sector. The public sector can reduce inequality through taxation and possibly by redistribution of funds from tax receipts.</p>
The top tax rate is most efficient in reducing inequality	<p>Politically, the goal of reducing or at least not increasing inequality is weighted differently relative to the desire to increase growth and prosperity. Regardless of where one's position is in the weighting, it is important to achieve the desired degree of equality with as little loss of prosperity as possible. We show that, among the most usual fiscal policy levers, raising the top tax rate is the most efficient way to reduce inequality in the sense that a given reduction in inequality is here achieved by the smallest loss of combined welfare. Conversely, easing the employment relief is the most efficient way to increase prosperity in society, measured by the smallest increase in inequality.</p>

⁵ Text of the agreement – Reform of the pre-retirement benefit scheme and the flexijob scheme 2012

⁶ Local Government Denmark (2018).



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