

Self-Employment in Denmark - Trends and Policy

by

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Abstract

Self-employment in Denmark is at a level close to that of other OECD countries. The dynamic factors behind tend to be more entrepreneurial pull than unemployment push. Self-employment can be seen as an important factor for the revitalization of some industries. This is especially the case in private services. The development in self-employment has gained strength from a positive economic development in recent years. This economic condition and an increased focus on more organizational flexibility in many private companies and public institutions have created room for a new division of labour favoring small companies and still more often self employed.

The Danish public support policies have not and are still not targeted at promoting self-employment.

First, the general labour policy acts as a framework which does not enforce the unemployment push factor. Early attempts to promote self-employment as an employment opportunity for long-term unemployed were terminated due to lack of adequate results. The main reason for the lack of success was the fact that the large majority of unemployed persons participating in the scheme did not have the qualifications for running a business of their own.

Second, the public industrial support programmes do generally not promote self-employment. However, a limited number of initiatives might have had an indirect positive effect on creating self-employment. Only one scheme, the Home Service scheme, has in recent times had the objective of generating more job openings through self-employment. The initiative was designed to facilitate a kick-starting of a new market for commercial household services. By 1998 the scheme has generated approx. 3,500 small businesses providing employment (mostly part time) to approx. 10,000 persons. The persons employed are generally low skilled and formerly unemployed persons.

Thus it can be concluded that self-employment in Denmark is driven by market forces while public policies only generate few positive incentives to promote self-employment.

Introduction

Interest in self-employment has increased within the last 10-15 years. A number of studies have been concluded which enable me to structure the discussion of the Danish case in such a fashion that it is possible to add to the international discussion of the dynamics of self-employment.

Bogenhold and Staber (in *The Decline and Rise of Self-Employment* (1991)) suggest two forms of logic behind the development of self-employment :

- a logic of economic necessity (the lack of alternative forms of income)
- a logic of autonomy (the wish to become your own boss)

Others (Granger et al., 1995) have used the same dynamic dichotomy as a framework for further research and have used other labels :

Unemployment Push ; A cyclical push effect of unemployment which limits labour market opportunities

and

Entrepreneurial Pull ; Personal ambitions adding to macro economic vitality by increasing the number of small-scale business.

Granger et al. argue that even if the push-pull model makes sense it is not only a simple two level push-pull model. More attention must be given to people's motives for becoming self-employed. In addition, it is necessary to include the structural changes of the economy as well as the effects of new technology to create new employment possibilities.

Thus, some of the factors worth mentioning as driving the unemployment push are :

- The level of unemployment in general and the concentration of long-term unemployment,
- The level of labour market flexibility,
- Public support incentive structure; i.e. the policy on unemployment insurance (level of compensation, duration of eligibility),
- The existence and forms of public schemes encouraging the unemployed to become self-employed,

Some of the factors often mentioned as driving the entrepreneurial pull are:

- The process of externalization, - larger firms contracting out work - often to smaller businesses.

- The wishes of many - often younger people - to combine a meaningful private life with a professional working life generate more interest in an alternative organization of the individual's working life through a career as self-employed (Gerd Vonderach, 1980).
- The creation of niches of employment opportunities between government and market. The Government's increasing dependency on Non Governmental Organizations (NGOs) as well as social and religious institutions to deliver solutions to an increasing number of problems in a modern society creates new opportunities for both regular employment as for self-employment.
- The development of ICT in general and the possibilities for tele working, both creating new opportunities for establishing new small business in ICT-related industries, e.g. multimedia and entertainment.
- The existence and forms of public schemes encouraging people in general to become self-employed, e.g. tax incentives, industrial policies supporting entrepreneurship, etc.
- Organized labour / the unions' attitude and policies towards flexibility, individualization of contracts and more self-employed members. In a country where the level of unionization is high, as in Denmark, the circumstances created by the framework of the Industrial Relations and the Collective Bargaining Agreements tend to determine the willingness of union members to become self-employed. Thus, a high level of unionization tends to reduce the effect of the Entrepreneurial Pull - unless the unions support such efforts.

In this report we rely on either quantitative or qualitative indicators to measure for the current importance of the different factors mentioned.

Executive summary

In the case of self-employment in Denmark it is necessary to be careful not to read the trends and policies out of context.

The answer to the fundamental question of why people choose to become self-employed - 'Unemployment Push' or 'Entrepreneurial Pull' - must to a large degree depend on the economic, cultural and political context.

The fact that we are witnessing a structural change in the division of labour within modern society, - a higher demand for personal and professional services, also seems to be important in analysing the dynamics of self-employment.

The concept of self-employment is not generally used in a Danish context. Thus, this report relies on a number of different definitions.

The number of self-employed in Denmark is - using a narrow definition - low compared to e.g. Canada and the US. If other definitions are used, the level of self-employment in Denmark is comparable to other modern economies.

If the most narrow definition is applied - persons employed in non-corporate firms without any employees - the number of self-employed persons is approx. 3.6 % in 1995 (44,222 persons out of 1,214,300 full time employees in the private economic sector (except the primary sector)).

However, when a broader definition is applied, the analysis reveals a high number of persons who must be regarded as 'semi-self-employed'. They are utilising their skills both as employees and as self-employed at the same time. These people do not depend on the income which is generated by their activities as semi-self-employed. In total, this group consists of 76,114 persons (approx. 6.3 % of all full-time employed persons).

Finally, a group of self-employed running businesses where there are some employees amount to 35,514; they may be regarded as self-employed although they differ from the first group by having a higher turnover and higher profits.

If all three different groups of self-employed are included, the level of self-employment in Denmark tends to be comparable to other OECD countries (7-8 % of all full-time employees).

It is an interesting thesis that the three different groups of self-employed may be looked upon as being in different stages of a business life cycle: starting with the semi-self-employed, going through the group of self-employed without employees to the group of self-employed who heads businesses with an increasing number of employees and a growing turnover. The successful ones among the last group turn into owners and managers of incorporated companies, leaving the existence as self-employed behind them.

Those who are self-employed are generally men, aged 25-59. They are found in business services, retail and construction (which is approx. 55 % of the total). Self-employment in

manufacturing is limited (less than 10 % of all self-employed persons).

Public Support Policies

In Denmark public policy interest in promoting more self-employment is generally limited.

This is also the case when it comes to looking at self-employment as a means of fighting unemployment. There are several reasons for this.

Firstly, the job creation process in Denmark has for the past 5-6 years been successful in creating new jobs and reducing unemployment dramatically, thus reducing the impact of the push-factor for more self-employment.

Secondly, the new structural division of labour has created a large number of business opportunities for setting up professional service companies. This seems especially to have happened in relation to the development in ICT and in relation to the general acceptance of a management strategy which focuses on core business and competence, leaving an increasing amount of activities to outsourcing and sub-suppliers.

This development has enhanced the pull factor to some degree, creating increasing opportunities for self-employed persons to enter knowledge intensive business services (KIBS). The growth in KIBS is often reflected in new small-scale businesses managed by academics and professionals with a competence within ICT-related areas.

Public Support Incentive Structure

As mentioned, the impact of national support programmes aiming at self-employment is very limited in Denmark. The concept of self-employment as a means of enhancing employment and economic growth has not captured political thinking as in other OECD countries. However, a limited number of public support policies exist which have both a positive and negative impact on self-employment.

The public support incentive structure (labour and social policy) has been classified as being too generous by numerous OECD reports. In recent years a number of initiatives limiting the generosity of the social welfare system in general and the unemployment insurance system in particular have been taken by the Danish Government.

However, there has been an emphasis on maintaining the functionality of the system to support the overall functional and numerical flexibility on the Danish labour Market. Generally, this is still the case.

Thus, the public incentive structure in general tends not to enhance the effects of the Unemployment Push factor.

Public Labour Market Schemes for Self-Employment

In the 1980s Danish governments tried to design labour market policy schemes to help the

long-term unemployed to become self-employed. These public schemes have all been terminated after a period of almost no measurable effects. The problems identified by a number of evaluations were generally linked to the lack of proper motivation for becoming self-employed as well as lack of competence.

By neglecting the personal motivations and competences of long-term unemployed people the public labour market policy has not been able to promote self-employment to any significant extent.

The overall political framework of labour and social policy are reducing the effects of the unemployment push factor. As already mentioned, the unemployment insurance system is relatively generous in terms of the level of compensation compared to other OECD countries.

All in all, the public labour market and social policies which in other countries might enhance the unemployment push factor only plays a limited role in the creation of self-employment in Denmark.

However, the same system is causing problems to freelance workers and self-employed because it is designed to take care of unemployed wage earners, not self-employed persons having trouble generating a proper income. Thus, the labour market and social policy tends to work against the interests of the self-employed.

Public Industrial Support Programme

Currently, only one public **industrial support** programme is aimed at creating more self-employment. The scheme is the HomeService scheme. It is designed to facilitate the kick-starting of a new market for commercial household services. By the end of 1997 the scheme was made permanent.

The scheme has generated a substantial number of small-scale homeservice companies, thus created a new trade and a new market in Denmark for personal homeservice which did not exist before the implementation of this scheme.

The scheme has led to the creation of approx. 3,200 small scale businesses, the majority of which are managed by self-employed persons.

Many of the people now employed in HomeService firms had a record of unemployment before entering this new market. The scheme has especially created self-employment opportunities for low and unskilled labour.

Other public support programmes are limited in both scope and scale and the industrial policy thinking in Denmark has, with the exception of the HomeService scheme, generally not been selective.

The prime group of interest is the 'semi-self-employed'. These persons which work both as employees and as self-employed persons (many of which are professionals) constitute a potential for growth in KIBS self-employment related to e.g. the explosive development of multimedia and the Internet. The public support programmes for this form of self-employment

are similar to the efforts aimed at encouraging entrepreneurship in general. No specific, targeted initiative has been launched to support the development of KIBS.

Concluding remarks

The Unemployment Push factor is getting weaker in Denmark both due to a positive economic development creating new jobs and reducing unemployment and due to a public labour market and social policy which compensates the loss of income, thus reducing the incentive to convert from a position as wage earner to one as self-employed.

The Entrepreneurial Pull factor tends to become somewhat stronger due to the structural changes of the economy and the division of labour. The growth of self-employment in KIBS confirms the important role of self-employment as a means of creating new industries, especially for professionals. The industrial policy approach aimed at this new industrial segment is currently not sufficiently focused.

The policy thinking has been focused on initiatives supporting entrepreneurship in general and not on the specific needs of self-employed. Thus, the impact of a number of policy programmes on the development of self-employment must at best be regarded as unintentional and not the result of an explicit straightforward strategic thinking.

The one clear public support programme which has proved to generate self-employment for low and unskilled persons is the HomeService scheme.

The appropriateness of the current policy framework and support programmes does not seem to encourage a strong, non-market-driven growth in self-employment in Denmark. The market generated demands for self-employed persons, especially within new knowledge intensive business services, create new opportunities for an increasing number of professional self-employed. The remaining question is whether or not the kick-starting of a homeservice industry will create similar effects for low and unskilled persons.

Section 1

1. Trends in Self-Employment in Denmark

1.1 Indicators for Self-Employment

Self-employment has not been given much attention in Denmark by researchers or politicians. This has contributed to the fact that there are no current quantitative or qualitative studies of this labour market segment in Denmark.

Therefore we must use different types of approximate values and indicators to shed light on the extent of self-employment in Denmark.

In the following self-employment is defined as

persons who are not employed by public, private or non-profit enterprises, who are not employed by a registered company owned by themselves (where they are technically employees).

This definition is in accordance with the Bureau of Labour Statistic's definition.

The Danish Statistical Office (*Danmarks Statistik*) does not use the concept of self-employment in their statistical surveys which has made it necessary to use indicators.

We have chosen to use statistics on single proprietors to 'locate' the self-employed.

Single proprietors are characterized by the fact that the owners have personal and unlimited liability for the activities carried out in connection with their enterprise. Single proprietors are characterized by not being incorporated.

On the basis of the company statistics of 1995 which are based on the VAT accounts submitted to the Danish customs in combination with information from the business statistics, DTI Industrial Analyses asked the Danish Statistical Office to carry out a special database search for single proprietors in Denmark.

The advantage of the company statistics is that for urban trades it is possible to calculate value added¹.

¹ The value added is calculated as the company's net turnover, less the consumption of goods. Net turnover is defined as the return from the sale of products and services which pertain to the primary operation of the company. The consumption of goods is defined as the consumption of raw and subsidiary materials, commodities, subcontracts, contract work and other direct costs connected with the purchase.

This enables us to differentiate between the enterprises which produce a high enough yield to assume that the owner can subsist on the income of the enterprise alone and the enterprises where the owner must have a second income.

On that basis the single proprietors are divided into **active, partly active and non-active enterprises**. The active enterprises have a value added of more than 120,000 DKK, the equivalent of an average annual wage in Denmark.

The partly active enterprise have a value added of between 60,000 and 120,000 DKK and the non-active enterprises are below 60,000 DKK in value added.

The statistics concentrate on the single proprietors in the urban trades, i.e. the manufacturing and the agricultural industries are not included. Even though agriculture constitutes a large share of the single proprietors in Denmark, we do not find it relevant to include this sector, as the situation and development of agriculture is very different from the remaining sectors.

The active group is the interesting one in defining the self-employed workers.

The enterprises which are partly active and non-active are not included in the core group of self-employed workers since their activities on their own are not capable of maintaining what must be considered an ordinary income in Denmark. These enterprise owners will often have other salaried jobs to supplement their income.

Even though this group is not directly included in the category of self-employed, it is an interesting group. The partly active and non-active enterprises may constitute a future potential for becoming self-employed. However, we cannot analyse this potential further on the basis of the data material present.

The active single proprietors constitute the total group of self-employed in Denmark. To vary the picture further, we will examine the core of the self-employed in addition to describing the group as a whole.

Single proprietors without employees can be described as the core of the phenomenon since they actually live up to the literal meaning of the term as the enterprise owners are characterized by employing themselves. In the following section the core of the self-employed and the group of active enterprises will be described separately.

1.2 The 'Core' of the Self-Employed

The number of self-employed in Denmark is low compared to other OECD countries, e.g. Canada and the US.

The distribution of the single proprietors (cf. table 1) shows that a total of 156,813 single proprietors existed in Denmark in 1995, of which 79,728 enterprises may be called active (approx. 50 %).

When the most limited definition is used as an indicator of the level of self-employment, this

is the result: Persons employed in non-incorporated firms and without any employees puts the size of the self-employed in 1995 to approx. 3.6 %. (44,222 persons out of 1,214,300 full-time employees in the private economic sector (except the primary sector) in 1995.

Table 1. Single proprietors by size, level of activity and employment, 1995

	Enterprises with no employees		Enterprises with one or more employees		Total	
	Enterprises	Employment	Enterprises	Employment	Enterprises	Employment
Active	44222	44222	35506	118417	79728	162639
Part-time and non-active	76114	76114	971	2452	77085	78566
Total	120336	120336	36477	120869	156813	241205

(Source: DTI Industrial Analyses on the basis of data from the Danish Statistical Office)

However, when a wider definition is used, including part-time, active self-employed persons, the analysis reveals a high number of additional persons who must be regarded as 'semi-self-employed'. They are utilising their skills both as employees and as self-employed at the same time. These people do not depend on the income which is generated by their activities as semi-self-employed. In total this group consists of 76,114 persons (approx. 6.3 % of all full-time employees). Not all of these persons can be regarded as potential, active self-employed, but some will in the future enter the group of active self-employed workers.

Finally, a group of self-employed workers running a business with employees amounts to 35,506 (employing 118,417 employees); they may be looked upon as self-employed, although they differ from the first group by having a higher turnover and higher profits.

However, a large majority of the group of self-employed are running firms with less than 5 employees (approx. 80 %) and a turnover of less than 1 million DKK annually (approx. 48 %). It must be assumed that the general working conditions in many aspects are the same as for the core group of active self-employed.

If all three different groups of self-employed are taken into account, the level of self-employment in Denmark tends to be comparable to other OECD countries. The level of self-employment can - depending of course on how large a segment of the other groups one wants to include - be estimated to approximately the double of the active self-employed, approx. 7 to 8 % of all full-time employed persons.

It is an interesting thesis that the three different groups of self-employed may be regarded as being in different stages of a business life cycle: starting with the semi-self-employed, going through the group of self-employed without employees to the group of self-employed people who own businesses with an increasing number of employees and a growing turnover. The successful people among the last group turn into owners and managers of companies, leaving

their existence as self-employed behind them.

Self-Employment by Industries

The distribution of the core of the self-employed by in Denmark shows that business services is the sector which has the highest number of self-employed as there is a total of 22.3 % of the self-employed in the sector.

Table 2. Self-employed by industry, Denmark, 1995.

Urban trades	Number of active self-employed	Distribution by percentage
Food, drink and tobacco	169	0,4%
Textiles, clothing and leather work	312	0,7%
Wood, paper and graphics	797	1,8%
Mineral oil, chemicals and plastics	96	0,2%
Brick, clay and glass	209	0,5%
Iron and metal	1862	4,2%
Furniture and other industry	633	1,4%
Construction	6052	13,7%
Car sale, auto repairs, service stations	2334	5,3%
Wholesale and commission business (exc. cars)	2740	6,2%
Retail trade and repairs (except cars)	7271	16,4%
Hotels and restaurants	3766	8,5%
Transport	3517	8,0%
Letting of real estate and property trade	1076	2,4%
Business services	9869	22,3%
Health services etc.	176	0,4%
Refuse disposal, associations and entertainment	3343	7,6%
Total	44222	100,0%

(Source: DTI Industrial Analyses on the basis of data from the Danish Statistical Office)

Furthermore, retail and repair enterprises represent 16.4% while construction represents 13.7 % of the total number of self-employed.

Smaller industries are distributed on various sectors and constitute 9.3 %.

The group of self-employed in Denmark is characterized by being male, since 77.5% of the total number of self-employed are male. This percentage does not differ significantly from the general gender distribution among enterprise owners in Denmark.

In addition to being male, the typical self-employed person is also characterized by being between 25-59 years old; 87.3 % of the self-employed are between 25-59 years old, while 10.7 % are over 60 and 2% are under 25.

1.3 The Total Group of Active Self-Employed

There are 79,728 active self-employed persons with and without employees in Denmark. All of the self-employed in Denmark and their employees constitute approx. 16% of the total employment in the urban trades in Denmark in 1995.

If the total group of self-employed is examined more closely with respect to company size, it appears that a little less than half (44.5%) of the firms have more than one employee in their firm.

The main part of these firms are divided into groups with one employee and with 2-4 employees, as 17.4 and 18.4 % of the firms have either one or 2-4 employees.

Enterprises with more than 10 employees are included in the statistics on self-employment. Even though the share of enterprises in this group is very small, 2 %, the group contributes significantly to general employment.

Table 3. Active single proprietors in Denmark by number of employees and sector, 1995.

	0	1	2-4	5-9	10-19	20-49	50-99	100+	Total
Food, drink and tobacco	169	141	380	345	124	14	0	0	1.173
Textiles, clothing and leather work	312	105	111	48	14	6	0	0	596
Wood, paper and graphics	797	201	202	107	35	8	0	0	1.350
Mineral oil, chemicals and plastics	96	40	34	20	10	1	2	0	203
Brick, clay and glass	209	55	60	18	5	0	1	0	348
Iron and metal	1.862	460	618	278	104	24	2	1	3.349
Furniture and other	633	156	120	64	29	9	2	0	1.013
Construction	6.052	2.295	2.914	1.142	330	51	6	1	12.791
Car sale, auto repairs, service stations	2.334	1.076	1.542	464	115	39	1	1	5.572
Wholesale and commission business (exc. cars)	2.740	752	725	252	109	26	1	0	4.605
Retail trade and repairs (except cars)	7.271	3.301	3.394	903	333	107	4	2	15.315
Hotels and restaurants	3.766	1.883	1.592	368	131	44	7	1	7.792
Transport	3.517	736	762	318	130	38	5	0	5.506
Letting of real estate and property trade	1.076	275	326	73	20	4	0	0	1.774
Business services etc.	9.869	1.439	1.099	314	65	19	1	1	12.807
Health services	176	55	47	11	1	0	0	0	290
Refuse disposal, associations and entertainment	3.343	945	759	159	31	7	0	0	5.244
Total	44.222	13.915	14.685	4.884	1.586	397	32	7	79.728
Percentage	55.5	17.5	18.4	6.1	2	0.5	0	0	100

(Source: DTI Industrial Analyses on the basis of data from the Danish Statistical Office)

Turnover

Table 4. Active single proprietors with and without employees by turnover and sector, 1995.

	-250.000	250.000-500.000	500.000-1mio.	1mio.-2,5 mio	Above 2,5 mio	Total
Food, drink and tobacco	0,7	5,0	11,6	38,2	44,5	100,0
Textiles, clothing and leather work	1,2	30,5	30,2	24,8	13,3	100,0
Wood, paper and graphics	5,9	25,2	24,1	25,7	19,2	100,0
Mineral oil, chemicals and plastics	2,5	16,3	22,2	28,1	31,0	100,0
Brick, clay and glass	11,5	27,3	23,3	22,7	15,2	100,0
Iron and metal	3,5	25,1	26,1	26,9	18,5	100,0
Furniture and other	5,4	37,4	27,3	16,9	12,9	100,0
Construction	3,1	24,3	26,5	29,0	17,0	100,0
Car sale, auto repairs, service stations	0,0	11,8	24,1	28,5	35,6	100,0
Wholesale and commission business (exc. cars)	0,1	3,5	23,9	32,4	40,1	100,0
Retail trade and repairs (except cars)	0,3	11,4	22,1	35,6	30,6	100,0
Hotels and restaurants	5,9	21,5	30,5	31,3	10,8	100,0
Transport	5,1	25,3	30,1	23,7	15,8	100,0
Letting of real estate and property trade	12,2	22,2	23,2	27,8	14,7	100,0
Business services etc.	21,2	36,0	24,3	14,3	4,2	100,0
Health services	4,1	16,6	27,2	40,3	11,7	100,0
Refuse disposal, associations and entertainment	34,6	34,0	21,2	8,8	1,4	100,0
Total	7,8	22,0	24,9	26,4	18,9	100,0

(Source: DTI Industrial Analyses on the basis of data from the Danish Statistical Office)

The annual turnover for the active self-employed is more or less evenly distributed between 250,000-2,5 million DKK, as there are 22% of the self-employed who have a turnover of 250,000-500,000 DKK p.a., 24.9% who have a turnover of 500,000-1 million DKK and 26.4% who have a turnover of 1 million-2.5 million DKK p.a. The fact that the enterprises do not have a larger turnover must be attributed to the fact that the self-employed are characterised by not having many employees. Only 18.9 % of the single proprietorships have a turnover which exceeds 2.5 million DKK.

1.4 The Dynamics of Self-Employment

The dynamics behind the Unemployment Push factors are:

- The level of unemployment in general and the concentration of long-term unemployment.
- The level of labour market flexibility.
- The public support incentive structure; i.e. the labour market policy concept for the

unemployment insurance (level of compensation, duration of eligibility).

- The existence and forms of public schemes encouraging unemployed to become self-employed.

It must be concluded that these factors do not enhance the dynamics for more self-employment in Denmark. The indications for this statement are the following:

Unemployment is Low

A large number of indicators of economic developments prove that Denmark in recent years has performed well.

The overall high level of employment (64 % of everyone in the age group 15-65 years) as well as the growth of new job opportunities in the last 4-5 years have increased and simultaneously, there has been a decline in unemployment. In some trades and industries - unemployment is below 4 % which causes bottleneck problems.

The level, especially for long-term unemployment, has decreased significantly during the 90's. The current level of unemployment is approx. 6 % leaving some but not a significant impression of a strong unemployment push.

Level of Labour Market Flexibility

Generally, both the supply and demand side of the labour market is very dynamic.

A high numeric flexibility and a large pool of contingent work are traditional, dominant features of the Danish labour Market. The high numerical flexibility is based on an extremely liberal labour law. It is easy for employers to adjust the manpower needed. The cost of hiring and firing staff is generally low and employees are by international standards relatively well compensated if they become unemployed. The average level of economic compensation is 60-70 % of the former income for a period of up to 5 years.

Private companies are created, restructure and die in great numbers. The average age of a private enterprise in Europe is approx. 1.,5 years (cf. De Geus, 1997) and in Denmark approx. 10 years (cf. DTI Industrial Analyses, 1998).

Not only small enterprises die or reduce employment, the heaviest job losses are found in the largest and often most well-established enterprises.

The large turnover of enterprises and the continuing fluctuation in jobs which lead to employment create such a comprehensive, basic dynamic that it requires a high level of flexibility on the supply side of the labour market in order to keep up.

Contingent Work

The most extensive and perhaps therefore also the most overlooked type of contingent work is actually attributable to the extensive use of numeric flexibility by Danish firms.

The numeric flexibility is and has for the past 25 years been very high if the unemployment

statistics are used as an indicator. Approx. 800,000 persons (approx. 1/3 of all full-time employees) are affected by unemployment within one year, of these approx. 50 % more than once. By far the majority, however, only experiences short spells of unemployment and easily returns to new forms of employment. A small number (less than 100,000 persons) have a period of unemployment of a total of 80 % or more of a year. Even among this hard hit group more than 1/3 escapes the situation as long-term unemployed in a period of 2½ years.

Generally, analyses show quite a significant segmentation of the Danish labour market into two groups, one which experiences unsteady employment and many spells of unemployment and another group which hardly ever experiences unsteady employment.

Over a ten-year period approx. 1-1.2 million persons belong to the group with unsteady employment and a significant share of these has a status of temporary labour.

Analyses (DTI, 1992) of the unemployed group show that there is a group which has seasonal casual labour (e.g. tourism, fishery, construction) as well as a group of 'gypsies' who - in spite of relatively many periods of employment annually (5-10) - also have an unemployment volume of less than 50 % annually or more without becoming long-term unemployed. These two groups fill the requirements of the enterprises for temporary help, i.e. they are contingent labour in the real sense.

Temporary Help Services

Temporary staff are traditionally used in periods with a heavy workload and, increasingly, also for more specialized purposes. In the past 20 years staff agencies have increased in Denmark. However, their number seemed to stagnate in the mid-1990s.

The conditions obtained by temporary staff are per definition characterised by their temporary connection with the enterprise. However, most temporary workers have the same wage and working conditions as permanent staff as long as they are employed. Some temporary workers obtain permanent jobs via a period as a temporary worker and some use the agencies as a job-hunting platform.

Part-Time Work

Part-time work is a special form of casual employment. The primary requirements are flexibility in working hours and the acceptance of an uncertain employment position in the case of staff reductions in a given enterprise.

Part-time work has long been very widespread on the Danish labour market (approx. 0.5 million persons), particularly in the labour market segments which are dominated by women, e.g. child care, retail and clerical work. Part-time employment has stagnated on a high level in Denmark in the 90s. Other countries in the EU seem generally to be following the same development path.

The key issue concerning self-employment is that the comprehensive numeric flexibility indicates a demand pattern in Danish enterprises which de facto is based on casual labour to a

large degree thus potentially reducing the demand for services delivered by self-employed. On the other hand, the widespread use of numeric flexibility proves the fact that Danish enterprises pay a great deal of attention to overall flexibility issues, - which might increase the potential market for services delivered by self-employed.

New Forms of Industrial Relations on the Danish Labour Market

Enterprises' efforts to obtain a high degree of organizational flexibility are reflected in many different types of employment and variations of working time.

Analyses of the development in the organizational flexibility of Danish enterprises show that in 1997 approx. 25 % of all Danish enterprises consciously worked with various types of flexibility in their organization. Quite a significant share of companies used outsourcing (DISKO, 1997).

Two effects of this trend appear: an increase in the number of wage earners employed on non-standard terms and an increase in the use of self-employed, particularly via an externalization of functions which were previously found within the organization of the enterprise.

So externalization is increasingly seen as making a significant contribution to the dynamics behind the share of self-employed in knowledge intensive business services (KIBS) . Some of the self-employed are motivated by the opportunity to work in alternative organizations during their working life.

Non-Standard Working Contracts (atypical employment)

Danish enterprises are increasingly showing interest in using casual labour through non-standard contracts. Non-standard contracts (i.e. fixed-duration contracts, project contracts) are used increasingly if case studies and anecdotal indicators are to be believed.

Traditionally, this type of employment was widespread in the tourism, construction and media sectors.

In the past few years highly-placed and qualified employees have also been employed on fixed-duration contracts (e.g. managing directors and specialists). In addition, there are professional athletes (who have some of the most highly paid jobs) and actors / directors etc. who have fixed-duration contracts with e.g. theatres.

Public policy initiatives are often organized in such a way that they depend on a pool of qualified self-employed workers.

Non-typical employment types do not only occur in the private sector. Many public policy fields which make use of experimental pools and ad-hoc projects have created a special group of project employees who have fixed-duration contracts within their special field. This applies to e.g. the social policy area, the activity and education offers and the cultural policy field.

The same practice is widespread in connection with aid for third world countries and support for Eastern Europe where a complete 'body-shopping' culture has appeared.

Working conditions and earning potential are - as already indicated - polarised since specialists and highly-placed employees often have very good conditions and pay, while the seasonal workers often, but not always, have less favourable conditions and a lower wage potential.

Generally, the difference is primarily due to other matters than just the atypical employment arrangement. These are differences in qualifications, in current collective agreements and differences in the demand which conditions the polarization.

There are also risks for the persons who belong to the group of well-paid employees in atypical employment. Primarily, there is the problem of new contracts, projects, etc. and secondarily, the question of continuing to develop the competence which can maintain their particular, privileged position.

Tele Working - not a Dominant Force in Self-Employment

The development of ICT and especially tele working is often mentioned in connection with atypical working conditions and increasing possibilities for self-employment. Tele working does not necessarily have to be linked to self-employment. It might also be a salary job carried out as tele working.

Tele working is found in three different types: As traditional wage and salary employment, self-employment and flexible employment, (Lars Qvortrup, 1997). It is becoming more common primarily as traditional wage and salary employment. However, there are no special temporary workers, it is a question of a different organisation of working time and place of the production for the people already employed.

Self-employment and flexible employment are more closely linked to the various types of self-employment and semi-self-employment. There are a number of studies which provide good indications that the growth which can be seen in KIBS is based on a combination of externalisation and advanced utilisation of ITC.

The extent to which ICT-related industries, such as multi-media and entertainment, create employment for the self-employed can be seen as a partial confirmation of ICT as a part of the dynamics behind the development in self-employment in Denmark.

Section 2

2. An Overview of the Policy Framework Related to Self-Employment

The concept of self-employment as a means of enhancing employment and economic growth has not captured political thinking in Denmark as it has in other OECD countries.

However, a limited number of public support policies exist which have a positive and negative impact on self-employment.

This section first looks briefly at labour market and social policy and then more broadly at industrial policy initiatives and their relevance for self-employment.

2.1 Public Support Incentive Structure (Labour Market and Social Policy)

The overall political framework of labour market and social policy is reducing the effects of the unemployment push factor.

The public support incentive structure (labour market and social policy) has by numerous OECD reports been classified as being too generous. In recent years a number of initiatives limiting the generosity of the social welfare system in general and the unemployment insurance system in particular have been taken by the Danish Government. Still, there has been an emphasis on maintaining the functionality of the system to support the overall functional and numerical flexibility of the Danish labour market.

Thus, the public incentive structure in general tends not to enhance the effects of the unemployment push factor.

Labour Market Schemes for Unemployed Aimed at Creating Opportunities for Self-Employment

In the 1980s Danish governments tried to design labour market policy schemes to help long-term unemployed to become self-employed. These public schemes have all been terminated after a period of almost no measurable effects (SFI, 1992:3). The problems identified by a number of evaluations were generally linked to the fact that many of the unemployed lacked proper motivation for becoming self-employed as well as relevant competence.

The evaluation of the most relevant scheme to turn unemployed into self-employed (Iværksættedydelsen) shows that approx. 2/3 of all who tried to start up their own business had closed down within 4 years. Many were left with a heavy personal debt. The main problem for the persons who went bankrupt were difficulties in generating a significant turnover. 4/5 of all self-employed had an annual turnover of less than 1 mio. DKK - 44 % less than 250.000 DKK. 2/3 did show a profit but more the half of these firms reported a profit of less than 60.000 DKK p.a. 1/3 reported having problems attracting the necessary investments

for conducting their business. 1/4 also mentioned to heavy a workload as the reason for not being self-employed anymore. A follow-up study revealed that more than 60 % of the persons who failed to become self-employed lack proper employment. 37 % became unemployed and the rest either went into another public employment scheme or went into some kind of training / education (3%).

By neglecting the problems of the competences of long-term unemployed people to run their own business the public labour market policy was not able to promote self-employment to any significant level.

All in all, the public labour market and social policies which in other countries might enhance the unemployment push factor only play a limited role in the creation of self-employment in Denmark.

However, the same system is causing problems for freelance workers and self-employed because the whole system is designed to take care of unemployed wage earners, not self-employed people having trouble generating a proper income. Thus the labour market and social policy tends to work against the interests of the self-employed. This is a problem rarely addressed by the public authorities and only so when a union has made a complaint on behalf of one of its members. Some unions, especially those representing a significant number of freelance and self-employed persons, are gradually paying more attention to the issues of internal contradiction between the different policies, e.g. between labour market policy and commercial law.

2.2 Industrial Policies of Potential Relevance to Self-Employment

Small enterprises have long been the focus of attention of Danish industrial policy.

Focus has mainly been on creating the necessary framework for enterprises to flourish and develop to the benefit of employment and exports. A number of initiatives and schemes have been started. These initiatives are i.a. aimed at the group of self-employed persons wishing to start up an enterprise or who have already started an enterprise. The initiatives primarily offer consultancy services, the creation of an innovative environment and financial support. It is impossible to measure to what degree these government-supported offers are used since annual reports and evaluations of the schemes do not focus on the enterprise type. The schemes described below are not aimed at the group of self-employed but are presumed to benefit this group to varying degrees.

Budgets for the business development schemes aimed at self-employed persons

Consultancy Services	
Hotline	Costs equivalent to 7 full-time employees
Establishment Guides	DKK 42 million p.a.
Technological Information Centres	DKK 61.1 million in 1997
Innovative Environment	
Science Parks	DKK 5 million p.a.
Innovation Centres	DKK 300 million over a three-year period
GTS ² Introductory Discount	DKK 20 million p.a. in 1998-2000
Subsidies	
HomeService	DKK 389 million in 1996

Consultancy Services

It requires considerable knowledge about many complex issues before you can start up an enterprise. In many cases good consultancy services aimed at the individual entrepreneur or self-employed person and his/her situation and requirements are crucial to the survival and development of the enterprise. There is a profusion of consultancy offers to small and medium-sized enterprises and in the following the schemes which are aimed most directly at the self-employed will be described.

Hotline

The Danish Ministry of Business and Industry have seven full-time employees who provide free consultancy services regarding public service offers, subsidy schemes, rules, options for appeal, etc. for future or established enterprise owners.

Establishment Guides

A more comprehensive type of consultancy is provided by the Establishment Guide Scheme which was established in 1997. The guides provide free and professional consultancy services for people wishing to start their own enterprise. The advice offered covers a wide range as the scheme has 150 guides with different qualifications. This means that the enterprise can receive advice from a guide with the qualifications relevant for that particular enterprise. The limit for consultancy is DKK 7,000 which is equivalent to at least 12 hours of consultancy.

The aim of the service is to ensure that the enterprise has a solid basis for decision before the enterprise is established; this is done through the preparation of a business plan which

² GTS: Advanced Technological Service Infrastructure

describes the business concept, competition and the market potential.

There are some preconditions which must be fulfilled before free consultancy services are provided. These are 1) that the enterprise must be the main occupation of the founder (30 hours per week), and 2) the enterprise must be in the establishment phase, i.e. the annual earnings of the enterprise must be less than DKK 20,000. The scheme's expenses are DKK 42 million annually which corresponds to approx. 6,000 applicants obtaining free consultancy services annually.

Technological Information Centres (TICs)

The Technological Information Centres are a regional network of 15 centres which are aimed at strengthening Danish businesses through information and consultancy services.

The TIC network has existed for 25 years and is an independent institution based on a set of bylaws laid down by the Ministry of Business. In 1997 TIC's budget was DKK 61.1 million. These means were primarily used to distribute knowledge either through assignments, consultancy services or course activities, all with the aim of contributing to the competitiveness of enterprises.

TIC's target group is small and medium-sized enterprises. However, according to TIC's 1997 annual report predominantly small enterprises make up TIC's customers as 53 per cent of the enterprises which approach and receive TIC services are enterprises with 0-9 employees.

GTS Introduction Discount

The Introduction Discount to GTS is a new scheme established in 1997 which provides small enterprises with the possibility of acquiring consultancy services at a discount from one of the approved technological service institutes (GTS). There are 13 such institutes in Denmark and they have an annual turnover of DKK 1.9 billion. The enterprises can receive a discount on services up to DKK 20,000 at any of the institutes which normally corresponds to 30 hours of consultancy services. A 70 per cent discount may be given on that. The discount does not apply to all types of consultancy services but is limited to services which may be used in connection with the development of technology, strategy and organisation. The aim of the discount is to strengthen the innovative efforts in the enterprises by promoting development and exploration of technological, management and market knowledge. The aim is furthermore that the enterprises will get a "taste" of the knowledge and competence which the GTS institutes possess.

The scheme has been awarded DKK 20 million annually over a two-year period which means that approx. 1,500 enterprises can use the scheme annually.

Science Parks / Innovation Centres

The aim of the Danish government is to encourage more Danish enterprises with unique competence at the forefront of international competition, and enterprises which can create growth in Denmark. This can happen on the basis of innovation and exploitation of research results and through improved interaction between enterprises and the Danish research environments. On that background, initiatives have been taken to set up science parks and the Innovation Centre Scheme.

Science Parks

There are five small science parks in Denmark which each receive a grant of DKK 1 million annually from the Ministry of Research. These parks are all very different, both with regard to background, profile and how long they have existed. However, there are some common characteristics. They all have a basic idea which is to create and provide contact between the world of research and business in order to provide enterprises dependent on research with a basis on which to create new ideas. The task of the science parks is to create a stimulating environment which is done by letting offices, making laboratory facilities available and offering business services in the form of administration. The science parks are an attempt at creating innovative environments in Denmark; however, by 1996 it was recognised that developments were too slow compared to the most successful experiences made abroad. On that basis the government provided the financial support to strengthen Danish innovative environments.

Innovation Centres

Innovation Centres are a completely new scheme which was introduced by the Danish Agency for Trade and Industry in the beginning of 1998 to strengthen the innovative environments of the science parks. Five innovative environments are planned in Denmark. The idea behind these is that they will actively assist researchers and entrepreneurs wishing to start an enterprise based on either a high-tech product, a new production method, an invention with commercial perspectives, etc. The centres are also meant to be the basis for courses.

The enterprises participating in the environments can obtain subsidies to carry out projects. This might include consultancy services to build a business concept, preparation of a business plan, including a plan for the financing of the actual development project, technical estimates, prototype development, etc.

The type of projects prioritised will depend on the wishes and demands of each individual innovative environment since it is expected that the five innovative environments create their individual profiles.

The guidelines for the application procedure and criteria for the assessment of suitable projects have not yet been determined. DKK 300 million over a three-year period have been allocated to the five innovative environments.

The HomeService Scheme

The HomeService Scheme is the one most clearly aimed at supporting self-employment through industrial policy means. The aim of the scheme is to establish a new line of business within consumer services which will create increased employment, reduce the amount of clandestine work and give consumers more leisure time. The scheme is described in greater detail in section 3.

Business Development Finance

Business Development Finance offers "preliminary" capital, i.e. capital to carry out preliminary studies. These may include searching for cooperation partners, assessment of market potential, product testing, patenting or the preparation of a business plan. The conditions on which Business Development Finance may grant subsidies are that the preliminary studies would not have been carried out without the subsidy, that there is potential in the development project, that there is some project risk and that the project is profitable. The capital is aimed at researchers, small enterprise managers and entrepreneurs and is meant to promote innovation capacity in Danish enterprises. Business Development Finance can grant no more than 50 per cent of the costs of a preliminary study and the maximum grant is DKK 300,000.

Section 3

3. A Detailed Description of the most Important Support Programmes for the Self-Employed

3.1 The Danish HomeService Scheme

The single most effective support programme for the self-employed in Denmark is the Danish HomeService scheme. The following section will go into greater detail on the official justification of the scheme and review some of the current debate of the scheme.

We will also examine some the cost-benefit considerations and a more qualitative assessment of the scheme.

The Objectives and Design of the Homeservice Scheme

The aim of the HomeService legislation was to lay the groundwork for a whole new marketplace for home and garden jobs. This market is now being serviced by newly-founded companies as well as by established businesses in the service sector. From January 1, 1994 until December 31, 1996, the HomeService scheme was run on an experimental basis to establish a new market for household services.

The scheme became permanent on January 1, 1997. This section is a description of the permanent scheme.

The objectives of the HomeService scheme are to:

- create a new market for companies in the private sector,
- create permanent jobs for people with little or no training,
- reduce black market employment,
- convert do-it-yourself work into paid jobs, thus providing valuable assistance to senior citizens and creating more leisure time for busy families.

However, the problem has been to overcome some harsh barriers which are fundamental to Danish society.

The wage and income differences between socio-economic segments of Danish households are generally very small compared to other comparable countries due to an comprehensive and progressive tax-system and the redistribution of income through highly sophisticated welfare state system.

The main effects of the system are on one hand that the incentives for low or unskilled labour to look for household service jobs are generally non-existent. On the other hand, the size of the upper middle class which would like to purchase household services and pay the commercial market prices is also very limited.

The result is that there is almost no room for a market-based homeservice sector in the Danish economy. The scheme is aimed at kick-starting a market for these services by using public subsidies to create a number of small-scale businesses established and managed by self-employed people.

The scheme grants direct public subsidies in connection with household and/or gardening work performed in private homes by VAT-registered companies. The subsidies are intended as an assistance to private households. For administrative reasons, however, subsidy payments are made to the HomeService company.

Services subsidised by the HomeService scheme include cleaning, grocery shopping, window cleaning, cooking, laundry work, ironing, gardening, snow removal and similar chores. The subsidised services must be provided by VAT-registered companies.

All arrangements concerning the amount and type of work required, quality, price, etc., are made directly between the company and the customer.

Subsidies for work performed in any one home by the same company are limited to a quarterly maximum of 10,000 DKK (approx. 1,500 USD).

The scheme was created and is financed by the Danish State. It is administered by the Danish Commerce and Companies Agency under the Ministry of Business and Industry.

Until the scheme came into effect, very few private individuals could afford the kind of services provided by commercial companies. HomeService, therefore, is an entirely new type of business with a whole new market in private homes.

The subsidy makes commercial companies an attractive alternative to black market and even do-it-yourself work (DIY).

It is important to emphasise that HomeService is not a replacement for publicly-funded assistance in the home. The scheme does not cover personal care or nursing of the elderly, children or other household members.

Participation in the HomeService scheme is limited to commercial companies providing services to private households. These companies may already be well-established, but any person interested in starting up a new business in this sector is also eligible. The company is registered under the HomeService scheme by the Danish Commerce and Companies Agency, after which the business is free to offer its HomeServices anywhere in Denmark.

To join the HomeService scheme, a company must first of all be VAT-registered (however, it is not required that the enterprise is registered). Secondly, it must have a liability insurance covering any damages occurring on the job.

If the company or its owner owes DKK 50,000 or more to any public authority, the firm will not be accepted under the HomeService scheme. In addition, the company, its owner or anyone in a position of authority at the company must not have a criminal record that could

lead to a suspicion of fraud in connection with the HomeService scheme, and they may not join if they have previously been expelled from the scheme.

Furthermore, the company must have a set of environmental guidelines for its activities. The law also requires that the HomeService companies follow normal labour market agreements for their employees.

HomeService cannot be performed by persons under the age of 18, nor can it be performed by persons receiving a national retirement pension or a public salary supplement.

Income depends on the company's ability to sell its services at the right price. The only certainty is that the HomeService scheme releases a public subsidy of 50% of the total bill.

For example, a bill of DKK 400 for a cleaning job means a subsidy of DKK 200 to the company, leaving the customer to pay the remaining DKK 200. Expenses for supplies are not covered by the subsidy.

It is important to note that the company must pay VAT and tax on the subsidy as well as on the income from customers.

The customer pays for services rendered with a special giro form handed out by the company. Customer payment is registered at the central administration which then transfers the corresponding subsidy directly to the company's bank account.

On the giro form, the customer must indicate his or her personal identification number as well as the type of HomeService he or she has paid for.

At the beginning of 1994, a broad promotional campaign for the HomeService scheme was launched on TV and local radio stations. Advertising in newspapers, magazines and on buses was another part of the campaign. The objective was to make potential customers aware of the new service and to make companies market themselves as HomeService suppliers.

Campaign material is available to each company to be used in its own marketing. In addition, municipal authorities will supply potential customers with listings of local HomeService names and addresses so that they can easily find relevant companies in their area.

However, each business under the HomeService scheme is a private company and is therefore basically responsible for its own advertising, as well as for finding customers, drawing up contracts, etc.

The current status of the HomeService sector

By mid-1998, approx. 3,500 companies were part of the HomeService scheme, providing jobs for the equivalent of 3500 full-time employees (including the owner of the business), - reflecting the fact that more than 10.000 persons worked full or part-time. About 40 % of the current HomeService staff was unemployed prior to working for a HomeService company. 64 % of the people employed in 1997 were unskilled labour.

An estimated 200,000 Danish households have used the service. The direct expense to the state (total subsidy paid) was DKK 100 million in 1994 and DKK 270 million in 1995. By December 1996, the annual expense had reached 389 million DKK. In 1997 the total turnover of the scheme was DKK 725 million and is still growing. A recent survey on the satisfaction of the customers shows that 89 % were satisfied with the service delivered.

All segments of the Danish population are using HomeService. However, the typical user is either a senior citizen or a double-income family with breadwinners in senior positions and two or more children.

All in all, the scheme has proved to deliver more opportunities for the self-employed, especially unemployed and persons with relatively low formal skills.

In this aspect it has been far more successful than previous attempts initiated by the Ministry of Labour and others. However, it is still too early to conclude that the scheme has established a commercial market for household services which can eventually exist without any subsidies.

Section 4

4. Conclusion

The appropriateness of the current policy framework and support programmes

The first conclusion to be drawn from this study is that support programmes aimed at self-employment play no major part in the current policy framework in Denmark.

The phenomenon of self-employment seems in many aspects to develop differently from what can be observed in some other OECD countries.

The explanation must be found in the different conditions both in terms of culture, job creation and employment conditions as well as the division of labour between firms and individuals. The relatively low unemployment level and the high level of job creation in the service sector are limiting the effects of the unemployment push dynamic and reducing the need for political initiatives.

The extremely flexible Danish labour market and the widespread commitment by Danish small scale companies to develop their organization according to the principles of flexible organization encourages a process of externalization, thus creating opportunities for self-employment. Thus, the need for initiating a public support policy aiming at self-employment tends to be of minor interest.

An additional explanatory factor is the overall policy framework guiding industrial, labour market and social policy development in Denmark. Generally, the labour market and social policy is focused on maintaining the overall flexibility of the labour market. The few attempts to develop specific employment initiatives targeted at turning long-term unemployed into self-employed have all failed. The interest in creating new support programmes in an attempt to create more self-employment as a means of fighting unemployment has been limited.

The industrial policy thinking in Denmark has, leaving the HomeService scheme apart, generally not been selective in its scope and only limited in scale.

The policy thinking has been on initiatives supporting entrepreneurship in general and not on the specific needs of self-employed. Thus, the impact of a number of policy programmes on the development of self-employment must at best be regarded as unintentional and not the result of an explicit straightforward strategic thinking.

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