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The Danish Flexicurity Model in Distress: The Audacity of Austerity¹

Johannes Dragsbaek Schmidt and Jacques Hersh²

Without wishing to underestimate the role of international finance in the launching of the current “Great Recession” as it has been called, it is the position of this contribution that over-emphasizing such causality contributes to reducing the scope of the phenomenon. From this viewpoint, the understanding of the multi-layered crisis affecting a number of core capitalist countries is constrained by the conceptual frame of reference which in the past decades has achieved predominance in both socio-economic theorizing and policy-making.

As a result, the proposed resolutions to the impasse which seems to have impacted most economies of the world depend on this conceptualization. In the dominant mainstream political conversation, the policy choices offered have been either a course of austerity (neo-liberal shock therapy and decrease of living standards) or one of audacity (Keynesian “pump priming” and activating of demand). However, assuming a binary opposition between the two approaches may lead to false expectations as the proposed strategies belong to the same theoretical toolbox of policy-making under modern capitalism. That does not of course mean that the social and political consequences of each strategy are inconsequential. While the austerity discourse is based on the assumption of “no pain, no gain”, the audacity approach is based on the supposition of “unlimited prosperity”.

It is in this context that the following reflections will attempt to establish a general framework that can be used to analyze the Danish model’s response to the turbulent times confronting capitalist societies. According to most economists, the scope of the dysfunctioning of the world economy is reminiscent of the Great Depression in the 1930s; others see it as a conjunctural and temporary crisis or simply as “business as usual”. In this context it may be relevant to look at the way a small

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economy has navigated in coming to terms with the vagaries of late capitalism. In latter years, the so-called “Danish Flexicurity Model” has been hailed by the international media as a success-story (Zhou 2007) becoming almost the exemplar to follow in European labor market reform (Viebrock and Clasen 2009).

A former Danish social democratic finance minister published a book with the title *The Danish Model: A European Success Story* where he emphasizes the positive turn in employment and socio-economic activity in Denmark in comparison with large countries such as Germany and France on the European continent. “For a long time Danes have had no ambitions of dominating other large and small countries. But we do believe that we can contribute with good experience and ideas on how social democracy and social relations can enrich a society” (Lykketoft 2009: 6).

Calling the Danish example of industrial relations and social organization a model implies that it can be generalized and emulated which is a problematic proposition. Furthermore, its viability needs to be tested with the passing of time and the evolution of Danish society and the international political economy. In this respect, it is doubtful that multinational corporations would relinquish willingly the so-called “global labor arbitrage” pattern, whereby the differences in wage levels and other production costs between countries are exploited in order to extract surplus profits (Bellamy Foster and McChesney 2012: 15).

The framework of the Danish flexicurity model—characterized by flexible hiring/firing rules, generous social safety net, and active labor market policies—has been challenged in the past decade by a liberal-conservative government and yellow unions even before the crises hit the economy. Flexicurity as a conflict prevention scheme based on labor market regulations has been further weakened by EU legislation and various governments promoting a strategy of reductions and cuts in social security and unemployment benefits in addition to the marginalization of a growing pool of non-wage earners outside the labor market. Rising unemployment and a drastic reduction in unionization has created a new situation where the sustainability of the model is questioned. This also raises the issue and challenges of corporatist democracy as a specific form of governance in the nation-state. If an EU institutional straightjacket imposes itself on its member countries, this thereby weakens the notion of national sovereignty. Tendencies pointing in this direction seem to be at work. Examples are numerous: The financial treaty which lays a conservative, monetarist and restrictive fiscal policy in essence ties governments’ hands in terms of combating unemployment

and meeting the immediate social impact of the crisis with expansive policies; the pegged exchange rate of the Danish currency to the Euro hinders a flexible exchange rate as an alternative macro-economic measure to decrease production costs and enhance the internal and external competitive position of the economy. Such a policy rather than a strategy of "flexicurity" would improve the competitiveness of an economy with balance of trade problems and high production costs. Another contradictory position of the new "Red" government can be grasped when in its capacity of Chairmanship of the European Union it opposed the so-called Tobin tax ("Robin Hood") on financial transactions favored by rightwing governments in Germany and France.

The paper explores how the protracted multi-layered crisis has affected the Danish model in the past decades and focuses on the policy options and institutional responses in the attempt of adjusting the economy to the demands of neoliberalism and globalization while moderating and/or managing the impact on social and labor market conditions. More specifically, it offers an analysis of the collective agreements, income support, and wage negotiations and specifically on the strength/weaknesses of organized labor as a collective partner in the workings of the corporatist model. The first part questions the mainstream explanations of the crisis and strategies offered as a way out of the crisis. It also introduces the conceptual framework embedded in the "social structure of accumulation" for understanding the essence of the crisis and not only its symptoms. The second is devoted to a reconstruction of the historical background behind the shift from the corporatist welfare state (the so-called Danish model) to the corporatist competition state leading up to the crises of the private sector in the United States and Europe. The third part proposes a brief re-reading of the Danish welfare state while the fourth part offers an analysis of the impact of the crises on the labor market regulation model of flexicurity in Denmark. The fifth section discusses the options and limits of the Left under the current crisis while the last part presents some concluding remarks.

The Problem of Conceptualization

An important analytical problem working with the current difficulties of capitalism concerns the ambivalence of the term "crisis" as the *explanatory* paradigm. Mainstream definitions offer various choices. Hence, should it be understood as the expression of acuteness in a disease which will lead either to recovery or death—i.e., as a crucial moment or turning point? Its use in the neo-classical and Schumpeterian vocabulary of "economics in command" is to consider crisis as the culminating

point of a business cycle prosperity followed by a period of liquidation. The latter definition is the working hypothesis propagated by the dominating discourse in the world of academia and the mainstream media. Even self-proclaimed opponents of capitalism adhere to this interpretation and their proposed remedies thus remain within the box.

As a consequence, the political essence of the crisis has been assigned secondary importance while the financial aspects are given most attention. Nevertheless, as solutions are sought whereby the debt of financial institutions is nationalized or socialized by making populations assume the burden of repayment through decreasing standards of living and reforms of the labor market, it can be expected that a politicization of the crisis will emerge despite the present low starting point of the process. Far from representing a boon for anti-systemic forces, especially in Europe, the current crisis of capitalism has revealed the limbo in which they find themselves trapped in. This confusion is first related to the Social Democratic tradition's implicit conversion since World War II to the Keynesian macroeconomic model of state interventionism in the national economy during the Golden Age of capitalism and then in the 1980s to its acceptance of economic neoliberalism with its emphasis on supply economics, liberalization of market forces, lean and new public management leading to what Cerny (1994, 2007) has called the "embedded financial orthodoxy".

It has somehow fallen out of the collective memory that, following the Great Depression and the Second World War, the balance of political forces in the core countries was rather unstable with socialist or anti-capitalist forces on the ascendance. It is in this context that the strategy of Keynesian economics should be understood—i.e., putting "politics in command". In the words of John Kenneth Galbraith, capitalism was saved by the social-democratic tradition: "[T]he survival of the modern market system was in large measure, our accomplishment. It would not have survived had it not been for the successful efforts of the social left ... Let us not be so reticent: we are the custodian of a political tradition that saved classical capitalism from itself" (Galbraith 1997: 5). This is very much akin to Keynes' own view that capitalism is an imperfect machine that needs to be maintained and updated if it is to function and work to meet peoples' needs (Backhouse and Bateman 2011: 56). Not to be ignored however is the high degree of political mobilization that existed in capitalist societies at the time. It has to be recognized that social and political pressures—and not pure Keynesian economic intervention and policies—paved the way for a so-called social compact, albeit without challenging the dominant position of capital, whether in the short run or the long run, neither internally nor externally (Schmidt and Hersh 2007: 77).

Furthermore, while the Left assumed credit for the implementation of a counter-program to liberalism it did not have a monopoly on the strategy. It is interesting to note that prior to the 1970s all political forces aspiring to government responsibilities adhered to state interventionism which was understood as a necessary tool in order to avoid a rupture within the system. As written in a *Washington Post* essay: “Keynes was a lifelong member of Britain’s centrist Liberal Party. He wanted to save capitalism, not replace it. It is a mark of his ingenuity that his policies were adopted not only by those on the left but also by conservatives from Winston Churchill and Harold Macmillan to Dwight D. Eisenhower and Richard Nixon” (Wapshott 2011).

The backdrop to the resurgence of the free market orthodoxy, which the Great Depression had discredited, was on the one hand related to the difficulties encountered by the statist regime of macroeconomic management on the domestic and international levels in the core countries and on the other hand, the over-accumulation of capital as a consequence of overproduction leading to a return of the secular stagnation tendency. Equally important however was the neutralization of the working classes whose conditions had been improved through the establishment of the “Welfare State”.

The social contract that was established during the hegemonic period of Social Democratism had been under attack by conservative rightwing forces even before the Keynesian model began to show its relative weaknesses. However, in the 1970s, the problems of Keynesian economics/Welfare State became apparent as a result of the rising unemployment and increasing public expenditures, stagflation, limitations of interventionism, fiscal deficit, and inflationary tendencies caused by the dollar export by the United States and the loss of that currency’s value. The so-called “Nixon Shock” of 1971 whereby the convertibility of the dollar into gold was unilaterally rescinded by the American government was followed by a decade of one of the worst inflations in American history and the most stagnant economy since the Great Depression. In addition, the de facto devaluation of the US dollar caused havoc in the international economy and opened for foreign exchange speculation on a grand scale.

Although the model of “dirigisme” implied in Keynesian economics faced difficulties, there was no natural law dictating a reversion to (neo)liberalism as the solution. The return of the “second movement” (Polanyi 1957), this time with capital recouping on the years of state interventionism in favor of a relatively more equal distribution of the socially created wealth, was the result of

political decisions promoting the interests of capitalist forces. Ideologically and academically, the transition from “interventionist state” economics to “turbo” market capitalism was given legitimacy in 1974, when both the Swedish Keynesian economist, Gunnar Myrdal, and the leading figure of classical economic liberalism, Friedrich Hayek, shared the Nobel Prize in economics that year.

While the “rolling back” of the social compact of the Welfare State had been on the ideological agenda of the hardcore rightwing capitalist class since its inception, the debacle of the Keynesian model was accentuated at a time when the strengthened financial sector was liberating itself from the constraint of capital control and the technological revolution had made means of communication instant and reduced transportation costs. The growth and internationalization of the financial sector as well as the export of capital and outsourcing of production to low cost areas in the world economy (first and foremost China) played havoc with the sovereignty of the national state giving international organizations a large say in the economic policies of individual countries.

In its essence, the liberalization of the financial sector worldwide contributed to laxity in the regulation of speculative activities. While the much heralded current financial crisis can be seen as a self-inflicted wound by speculative capital, the solution proposed by the financial sector and the international organizations (i.e., the International Monetary Fund, the European Central Bank, and the European Commission), has been the nationalization of the debts incurred by the private financial institutions. The bottom line is to make the nation-state assume responsibility for the servicing and repayment of the debts by socializing them. As a consequence, acceptance of rescue packages for bailing out the banks and the servicing of the sovereign debt by governments with taxpayers’ money dictates a course of state spending cuts and radical austerity. What first appeared as a financial crisis quickly morphed into a sovereign debt crisis of the state leading to an economic crisis. The fact is that most of the debt of vulnerable countries increased—not because of excessive consumption or generous welfare benefits—but rather as a result of the nationalization of the losses of banks and other credit institutions. The problem arose in the private sector but the bill was passed on to the public sector.

In the last instance, the implication of such a blatant transfer of socially produced wealth to the financial sector demands a high degree of statecraft on the part of the authorities. The democratic challenge facing governing political parties is to have the social consequences of cutbacks in wages and pensions and public welfare internalized in the ideological superstructure of what can be called “a kind of collective Calvinism” (Petras 2012). Depending on one’s view of the longevity of the

crisis, what is politically taking place is a repudiation of the social contract as epitomized by the welfare state and Keynesian macro-economic management.

In the historical context of capitalism, it would be an error to juxtapose state and market as antagonistic institutions. While the state was a precondition for Keynesianism, the financialization and liberalization of the economy likewise depended on the state. This was recognized by Thomas Friedman during the “High Noon” of globalization and financialization of the world economy in the 1990s: “The hidden hand of the market will never work without a hidden fist” (Friedman 1999). The direct state help given banks during the ongoing crisis makes a mockery of the “Minimal State” vs. Maximal State dichotomy. The more essential question concerns the role of the state in the redistribution of wealth from the real economy to the private “fictive” economy.

In order to comprehend the tools at hand for the implementation of the adjustment program of austerity it is useful to grasp, as the “Social Structure of Accumulation” approach proposes, the political and cultural as well as economic institutions and arrangements which have been institutionalized in highly developed countries. Awareness of the complexity of supportive institutions allows for a holistic approach to the modus operandi of modern capitalism. The *domestic institutions* according to this school of political economy can include the arrangement overseeing labor-management relations; the organization of the work process; the character of industrial organization; the role of money and banking in relation to industry; the role of the state in the economy; the project and discourse of political parties; the race and gender relations; and the character of the dominant culture and ideology. The *international institutions* behind the accumulation process influence trade, investment climate, monetary-financial arrangements as well as the domestic political environments (Kotz et al. 1994: 1). Under this framework the relative bargaining power of labor and capital is always the main determinant of changes in wages and working conditions although there are other factors as well to be taken into consideration.

Just as important, or even more significant, as these institutions are, it is of primordial importance—as the current crisis reveals—to realize that the socio-economic system of capitalism is not only defended and promoted through the material resources of the state apparatus and the existing productive, financial and commercial enterprises. As Antonio Gramsci has shown, it is necessary to take into account the question of ideological hegemony and manipulation of popular opinion by the “chiens de garde” of the system, i.e. the army of ideologues, journalists, academics

and publicists. As a consequence, the deconstruction of the definitional power of the ruling elite is a task which alternative political forces, sooner or later, will need to come to grasp with.

In the present circumstances, however, the established political forces claiming to represent the interests of the working population have themselves been infected by the virus of neo-liberalism or remain at a reformist level. Essentially, they belong to the same historical bloc. The dilemma is that, while self-declared progressive political forces show themselves to be at the service of financial capital in the implementation of austerity measures, others perhaps yearning for a return to a glorious era of Social Democratism still remain in the context of the two orthodoxies of modern capitalism.

In this relation, what we see is the degradation of advanced capitalist societies through social turmoil as well as erosion of living standards and working conditions at the same time as trade unions and political opposition cling to a reformist dominant ideology. The politics of this “resistance” movement proposes to defend the structure of social benefits, public spending and investment by expanding the role of the state in the areas of the economy where the private sector is failing to create employment. In other words: “[T]he left proposes to conserve a past when capitalism was harnessed to the welfare state” (Petras 2012). Contrary to this opinion, we may wonder whether the reality was not the other way around—i.e., the welfare state being (temporarily) harnessed to capitalism.

Whatever the case, the call for a “capitalism of the past” is a non-starter as that socio-economic construction is gone, giving way to the reemergence of a more naked capitalism which is more virulent and intransigent. Seen in this light, the “crisis” which core capitalist societies are going through is less of a tipping point than the beginning of a transition process towards a more unadulterated capitalism.

The Historical Dimension of the “Danish Model”

The attempt to square the circle created by a strategy of catering to the economic interests of a minority ruling elite while wanting to promote and preserve the social gains of the majority is a political exercise that finds expression in institution-building. A case in point is the societal innovations which have taken place in a nation like Denmark during the last decades. In this relation, it ought to be pointed out that Danish political culture and society have been adaptive to the demands required of a developed industrial state. The country’s relative socio-political harmony

is often ascribed to that society's traditions of corporatist bargaining involving the labor market's partners, the Danish Confederation of Trade Unions (LO) and the Danish Employers' Confederation (DA) with the government as overseer. It is needless to say that consensus is easier to be reached in periods of high economic growth than during downturns or crisis. At the same time, while this tripartite arrangement can work as a shock absorber to the fluctuations of the international as well as the national economy, it should not be considered to be a game-changing institution.

The mode of functioning of this system of industrial relations is based on the regulation of the conflicting interests between wage earners and employers in the context of a capitalist labor market. In praxis, this means that agreements on a basic framework for wages and working conditions are reached between the different organizations for a period of two years at a time. Thereafter, all major groups of employees are expected to accept and conform to the results of these negotiations. These institutionalized labor market relations form the dominant aspect of the so-called Danish Model which has played a determining role in shaping the social and political evolution of Danish society for the past century.

The foundation of the Welfare State has been based on the workings of this collective bargaining system as an arena of consensus-making whereby conflicts of interest between the different actors of the labor market could be resolved or reduced. The mode of operation of this consensus-seeking institution has contributed to a high degree of stability by creating economic growth, social well-being and reducing political contradictions. Nevertheless, it would be inaccurate to portray Danish society as inherently more harmonious than other capitalist formations. At the same time though, the institutional innovation of collective bargaining did contribute to reducing potential conflicts and disharmony. A student of the Danish labor market put it in the following way: "This constant capacity for releasing tensions, defusing threatening situations and breaking crippling deadlocks has made the relationships between the social partners the main pillar of the Danish model" (Petersen 1997).

There is a tendency among political scientists and economists belonging to the social democratic tradition to ascribe societal innovations encompassing the "Danish Model" to inherent ingenuity and political culture of the Danes. Although this aspect ought not to be disregarded it should be put in the proper perspective. As an export-oriented economy (agriculture, shipbuilding, shipping, industrial products, high-tech, pharmaceutical production, oil, etc.), there is a built-in Danish

dependency on the fluctuations and transformations that take place in the world market. The implication of this state of affairs is that the domestic political conversation and policy-making is highly reactive to the external influence and the need to adjust to those demands.

The Mother (Muster kind) of All Welfare States

The relationship of the Danish political class to the construction of the welfare state, from its inception in the 1930s to the recent process of adjustment to the demands of the world market and the ideological gains of neoliberalism, reveal a somewhat bipartisan approach. When the country's voters returned the Social Democratic party to power in January 1993, the new government implemented a continuation of some of the measures that had been proposed by the conservative coalition but unable to put through. The sale by the Social Democratic government of the state-owned telephone company which, relatively speaking, represented one of the largest examples of privatization in Europe for the entire decade is a case in point. The new government also remained committed to balanced budgets leading to more low-level spending cuts. Important reforms of the unemployment system were introduced impinging on the living standard of the unemployed. Previously, unemployment benefits had been both generous—90 % of lost wages—and unlimited in time. With the new scheme unemployment assistance was limited to four years and under the condition that the recipients worked or enrolled in job training.

In order to make this policy effective, large government funds were invested in worker-counseling and job training with the intention of up-grading the qualifications of the working force in order to make the economy competitive for attracting foreign investments and accessing export markets. In those years, Denmark spent approximately 4 percent of its GDP on its labor market program. The explanation was of course that Denmark had a tax burden to match these expenditures. As a commentator in the American magazine *The New Republic* put it: “Half of the country's annual output goes through government in the form of taxes—again, among the highest in the developed world and well above the U.S. rate of just under 30 percent” (Cohn 2007). However, tax on work is comparatively speaking very low in Denmark almost half of that in Belgium and much lower than Germany and France. It is high value added tax (VAT) on goods and services that makes Denmark a high tax country (Goul Andersen 2011).

In fact, various studies have shown that a majority of Danes are willing to pay taxes although the complaint is that multinational corporations pay no or little taxes for their activities in Denmark.

Dissatisfaction also comes to the fore when the conversation revolves around immigrants and refugees who are accused to come to Denmark in order to “sponge” on the Danish welfare state. Although the established center-right parties were reluctant to tie the question of taxation to xenophobia, the populist Progress Party’s success built precisely on this connect which also resonated in the ranks of the working class and petite bourgeoisie.

The Social Democratic-led government which had come to power in 1993, until its demise in 2001, did relatively well in reducing the level of unemployment in the country. By the time the government was defeated, the rate of unemployment had been reduced from a peak of 9.6 percent in 1994 to 4.3 percent on 2001. The problem for the Social Democratic-led government was however that during the 1998 electoral campaign, the party leader and Prime Minister, Poul Nyrup Rasmussen, had made the promise that the early retirement arrangement, that had had its roots in the Social Democratic-Liberal government in the closing years of the 1970s, would not be tempered with. Originally, the early pension scheme had intended to relieve unemployment pressures on the economy by making room for younger people to enter the labor market as well as giving elderly worker a better old age. But a few months after the 1998 electoral victory, the Social Democratic party reached an agreement with the same Liberal party reducing the early pension benefits which had been a key issue for the party’s working class constituency. Squeezed by its own voters because of this broken promise and the inroad of the populist anti-foreigner Progress Party in the ranks of the working class, the Social Democratic party was soundly defeated. The incoming liberal-conservative government in the 2001 election continued along the same lines with a gradual reduction of social welfare benefits and introduced “employment policy” to de-activate the corporatist compromise between labor and capital.

This evolution partly explains the transformation of the Danish welfare state into a workfare state or what some commentators have termed a “competition state” which somehow is a paradox in itself by its peculiarity which demands more regulation and intervention “in the name of competitiveness and marketization” (Cerny 2007: 251).

The Big Trade-Off: Social Security-Flexibility-Competitiveness

The point to emphasize when discussing the politics of the welfare state and labor market relations is that the measures and schemes adopted are problem-solving initiatives which balance between catering to different social and economic interests while at the same time promoting the

competitiveness of the country's economy. This is especially the case for export-oriented economies. In this light, it is important to realize that while measures affecting industrial relations and the organization of the society find their origin in the domestic socio-economic and political conditions their viability will be reflected by the degree they promote the interests of the export oriented sector. This aspect is often not given the attention it deserves.

Consequently, the innovations in the sphere of labor market relations should not only be evaluated for their capacity to initiate and carry out policies conducive to internal social harmony between the different social groups around the inherently conflictual process of creation and division of the economic surplus.

In the last two decades, Denmark has had remarkable success in carrying out a relatively harmonious transition away from Keynesianism and adapting the economy to the agenda of neoliberalism. Under the slogan of reforms, attempts have been made to reduce the public and social sectors with the privatization of many service functions, often with the active help of the state. There have been systematic downsizing of unemployment benefits, reduction of the entitlement period from four to two years and further tightening of social welfare benefits for those falling outside the labor market. With regard to labor market strategy, while Keynesian macroeconomics puts emphasis on aggregate demand-creation by the state, the neoliberal mantra, which gained predominance in the political sphere and academia, has put emphasis on supply-side economics in order to satisfy the demands of the market. That is not only creating an ideal investment climate for domestic and foreign investors in the private sector of the economy but concurrently devising the specific type of labor market relations known as flexicurity.

Seen from the point of view of the enterprises, the scheme offers a comparative advantage in the form of having access to a qualified and flexible workforce without the burden of paying for the upgrading of qualifications nor for paying laying-off compensation to the dismissed employees. For organized labor it secures an autonomous collective bargaining position of unions in the protection of the interests of wage earners as well as other groups. It ought to be noted that although this model of industrial relations is corporatist, the structure of the private economy is dominated by small and medium-sized enterprises.

The essence of labor market regulation and flexicurity which is "a policy strategy to enhance, at the same time and in a deliberate way, the flexibility of labor markets, the work organization and

employment relations on the one hand, and security—employment security and social security—notably for weaker groups in and outside the labor market, on the other hand” (Wilthagen and Tros 2004; Tros 2012). In the Danish context, it can be understood as a post-deregulation strategy as well as a historical compromise between labor, employers and the state. It may consequently not only be characterized as a form of integration and synchronization of economic and social policy but also as an instrument for conflict preemption and resolution (Crumlin and Schmidt 2009; Tros 2012). The fundamental aim of the strategy is to increase mobility in the labor market simultaneously with income and employment security. In other words, it signifies the continuation of industrial relations by other means. In this line of thought, the opinion has been voiced that, in fact, governments and social partners had practiced flexicurity “without knowing it” long before the concept made its way into the vocabulary of industrial relations and welfare state. It was after policy-makers began to use the term to describe employment policies in a more coherent and deliberate way that the notion gained traction in labor market discussions (Clement and Goul Andersen 2006).

The positive reputation of the Danish flexicurity model is principally due to the “activation” policies of the Social Democrat-led government of Poul Nyrup Rasmussen which introduced an active labor market policy (ALMP) in the 1990s that simultaneously denoted a significant kudo to neoliberalism. As a result, a transition from distribution of welfare entitlements to workfare obligations was introduced by the back-door. The centerpiece of these policies is that they offered “people further job training, education, and other measures that improve their skills and abilities to help them re-enter the labour market. Macro-economic initiatives supported the goal of full employment. Because of the economic progress and improved employment, the length of the unemployment benefit period could be shorted from seven to four years” (Jørgensen 2011: 3). Danes change jobs more frequently than elsewhere in Europe and they have the shortest tenures (Bredgaard 2012: 184). In such a volatile job market it might be expected that there would be demands for protection as is common in the rest of Europe. But most people seem to agree that the combination of welfare programs and job-training means that the newly unemployed do not fear becoming destitute. Polls show that, despite the high rates of job turnover, Danes are seemingly among the most optimistic working populations about prospects of finding work again once laid-off. One may say that in principle the Danish system promotes employment security rather than job security.

A precondition for a well functioning labor market is of course growth of the economy. As we know, the capitalist world economy has since the post-World War II reconstruction shown stagnation tendencies. In fact, the real growth rate of the Triad (North America, Europe, and Japan) has been in decline since the 1960s (Bellamy Foster and McChesney 2012: 3) As a matter of fact, during the past decade or so, only the BRICS countries have shown some semblance of vigorous economic growth which is mostly accountable to China's emergence.

As in other core capitalist countries, the impact of the current economic downturn has been serious in Denmark thus putting flexicurity to the test. Compared to other economies (Holland and Germany) there has been a sharper decline in the growth of the Gross National Product which went down from +3.4 % in 2006 to -5.2 % in 2009—the sharpest decline since WWII (Madsen 2011: 7; Andersen et al. 2011: 118). This downturn has taken place in spite of the fact that the country has spent much on activating the workforce. Compared to other OECD countries, Denmark has one of the highest total expenditures on labor market policies (2.56 percent of GDP in 2008) as well as the highest expenditure on active labor market policies (1.35 percent of GDP in 2008) (cf. Bredgaard 2012: 185). The explanation is perhaps to be found in the fact that as a consequence of its flexible labor market with low severance costs for employers, the immediate reaction to the crisis was a fast increasing level of unemployment. The results were that the Danish unemployment rate is well above EU average and some reduction in income security for the jobless workers.

Besides seeing the loss of workplaces as an inevitable effect of the model of low job protection it can also be seen as a result of the policies of the former liberal government (2001-2011). During those ten years, the privatization of job centers and the reduction of skill-upgrading took place as drastic savings on adult and vocational education expenditure were implemented. As noted by a researcher, the new stress on obligation departed from the original model: “More ‘work first’ elements were introduced in the system, giving social discipline a prominent position. Sanctions were introduced. Integration policy was also used as a lever to obtain more general changes in the activation and security system” (Jørgensen 2011: 4).

Another accompanying issue affecting the Danish labor market is related to the relative loss of trade union bargaining strength which has been revealed by the crisis. One of the three pillars of the flexicurity regime is a relatively strong central organization representing a high percentage of the organized wage earners. However, the monopoly position of the social democratic unions has in later years been challenged. Although the European Union has approvingly included the concept and political strategies encompassed in flexicurity (Jørgensen 2011: 3), several European High

Court decisions against so-called exclusive rights in the labor market have moved in an opposite direction. Together with a substantial increase in yellow union membership and influence (more than 100,000 in a decade), the strength of the traditional trade unions has declined (a loss of more than 250,000 in a decade) (see Andersen and Redder 2011), thus weakening the bargaining power of the third component of the corporatist flexicurity structure. A 2006 ruling by the International Court of Human Rights in Strasbourg went against the Danish practice of exclusive (i.e., closed shop) agreements in a limited part of the labor market (Due and Madsen 2008: 526). Furthermore, the European High Court rulings in the Laval, Viking, Luxemburg and Rüffert cases have had grave repercussions on industrial relations generally and more specifically on the tripartite flexicurity institutional model itself.

Before these rulings, the labor unions had the exclusive responsibility to safeguard wages and employment conditions. The power of unions was implicitly strengthened by their threats to use industrial action against employees who did not belong to any labor organization and thus not bound, as union members were, to conclude “accessory agreements”, i.e., collective contracts in which the employer undertakes to apply the contents covering the branch of activity in question. Although there was stiff opposition to the rulings among trade unionists and no real change in Danish legislation has been made, the decisions of the International Court of Human Rights and the rulings of the European High Court have nevertheless strengthened the encroachment of yellow unions. If implemented these rulings would result in increased social dumping and threaten the distributive justice system in Denmark and would represent a further step in the direction of the neoliberal project of dismantling the welfare state.

The unfolding difficulties affecting the Danish labor market are thus influenced by the country’s membership in the European Union and the inclusion of the former socialist countries in it. The freedom of movement for labor, capital and enterprises within Europe has brought to the fore a whole new set of problems with regard to the application and implementation of Danish labor laws regarding migrant labor. As a direct outcome of EU legislation, the problem becomes acute when foreign companies operate in Denmark outside the flexicurity frame of industrial arrangements between employers’ organization and labor’s organization. A number of cases have exposed that foreign workers have been subjected to intensive exploitation by being paid low wages, long working hours and bad working and living conditions.

Social dumping is probably one of the most severe potential problems for organized labor leading to a race-to-the-bottom as wages are squeezed and trade unions are pressurized by

membership flight and the lowering organizational rate of employees. In the last instance, this represents a threat to the flexicurity model itself. It ought to be mentioned that the decreasing interest for the traditional labor organizations on the part of wage earners is also related to the bureaucratization of unions and their willingness to compromise with the employers' organization. As in other countries, the increases of labor productivity in the past decades have not been accompanied by corresponding wage increases in Denmark. Incomes for large sections of the population have depended on the rise of stock market shares as well as the housing bubble which permitted people to borrow on their properties in the expectation of a permanent rise of housing prices. As a consequence, the Danish people are the most indebted populations in Europe. Of course as part of the financial crisis, the housing bubble has also busted in Denmark (Bergmann Moll 2011).

It is clear that the flexicurity model of industrial relations promotes a variant of supply-side economics. In essence this means the creation of an investment climate capable of attracting capital, i.e. low taxation and other favorable conditions. With regard to the labor market it implies the availability of a qualified work force assuring a high level of productivity and relative competitive wage level. In the past ten to fifteen years, a discourse concerning a potential labor shortage bomb threatening Danish society has been put on the political agenda of all political parties. This has given rise to various proposals for increasing the working time of the employed and raising the retirement age in order to avoid bottlenecks. Such a position however overlooks the fact that modern means of production are based on labor saving technologies and the fact that also Danish labor intensive enterprises are outsourcing their activities to low production costs areas in the world. As Robert Boyer and Daniel Drache (1996: 18) point out the dichotomy between the need for less labor input and living wage is yet to be put on the agenda: "The deeper question is: can a wage-based system of capitalism overcome the disorientation of its labor-saving efficient technologies creating more wealth with less and less labor?"

The immediate Danish response to the crisis has been a number of state rescue packages to the banking sector and of growth packages attempting to kick-start the economy and create jobs. However, soon this was replaced with a far more restrictive praxis which among other issues saw a maximum of tax deduction for union membership and increasing fees charged for labor market training (Madsen 2011: 12). Oblivious to the new trends of modern production and globalization, the present Social Democratic-led government (which includes the Socialist Peoples' Party) has been at the forefront of the general offensive for increasing the working hours of employed labor. In

the spring of 2012, this government made several suggestions to immediately reduce the number of religious free days and decrease the rate of taxation for employed people. This caused havoc in the labor movement putting added pressure on the unions as the reduction of work time is an essential demand of the working population. Consequently, union leaders rebelled and the popularity of the “red” coalition hit the doldrums and in fact may not survive four years.

In addition to the malaise of the labor market, the socio-economic conditions of present Danish society leave much to be desired. In this relation, it should not be forgotten that in the past few years Denmark has experienced a drastic increase in official unemployment to approximately 160,000 persons. These figures however hide the fact that more than 850,000 individuals form a precariat outside the labor market and are thus not covered by these statistics. (The number of persons receiving public benefits has increased from 769,600 full-time participants in 2008 to 857,200 in 2010—an increase of 11 percent. The 857,200 full-time participants correspond to 24 percent of all inhabitants in Denmark between 16 and 64 years) (Danmarks Statistik 2011: 85). Related to this state of affairs, the key questions to ask are whether the social safety net is capable of absorbing such an increase of joblessness and whether the relatively high level of job creation and turnover characterizing the labor market can be sustained. The latter is important in order to avoid a more persistent increase in unemployment (long-term unemployment) or a reduction of labor force participation in the productive activities of society (Andersen 2012: 118). It is interesting to note that as the workfare structure of Danish labor market policy has gradually been strengthened, the accompanying legislation has also become a potential source for creation of a divide between insured insiders and uninsured outsiders. In the early 1990s, Danish law contributed to counteracting such divisions by seeking to combine the needs of job seekers with the needs of local communities and municipalities. The risk of insider/outsider divide has, however, increased since these original aims lost priority with the strengthening of workfare (Kananen 2012: 8). This problem is evident in the way “tripartism” has been challenged by the crisis—the work-sharing schemes previously widely used have been cancelled as the liberal government was not willing to extend their continuation to combine them with further educational measures (Jochem 2011: 137).

The Re-Commodification of Labor and the Competition State

The on-march of neoliberalism which ideologically and politically has framed the offensive against the social compact of the welfare state was accompanied by the so-called imperative of adjusting national economies to the requirements of globalization. This frame of reference legitimized the

movement away from welfare as countries had to face new constraints in balancing concerns for the maintenance of the social contract while adjusting to the demands of competitiveness in the international division of labor. The conundrum affecting all the advanced economies including Denmark is thus related to the transformation of the previous “social structure of accumulation”—with its welfare dimension—into a new pattern of accumulation prioritizing workfare at the expense of social considerations. While the welfare system to a certain degree liberated wage earners and other social elements of the population from complete dependency on the market through a partial de-commodification of labor (Esping-Andersen 1990), what is happening with the weakening of welfarism is a re-commodification of wage labor and society.

The Danish transition to the competition state was the Social Democratic attempt to achieve a “soft landing”, i.e., to combine retaining some features of the former arrangement while introducing measures to satisfy market demands by raising the productivity of its labor force without increasing production costs. The latter aim was general for all core countries with a welfare system, but the policy approaches did differ. Thus, as a commentator writing in the *New York Times* put it, Europe was more sociably minded than the strategy pursued in the United States: “...[J]ust as the U.S. was dismantling much of its welfare system—replacing it with the welfare-to-work reforms of the mid-1990s—Europe was (somewhat nobly) trying to show that an economy can be humane and competitive. In 1994, Denmark modernized a system, which came to be known as “flexicurity”, that offered American-style flexibility (layoffs, transitions into new lines of business) coupled with traditional European security. Laid-off workers were offered generous benefits, like 90 percent of their last salary for two years and opportunities to be retrained” (Davidson 2012).

The parameter for measuring competitiveness in the international division of labor is not the degree of welfare or social satisfaction but the availability of a qualified and disciplined workforce as well as a relatively competitive wage level, i.e. in comparison with other economies. Besides the constraints on the state to adjust to the new economic orthodoxy of neoliberalism and the demands of globalization, European countries have additional burdens to cope with. These are related to the policy-making straightjacket which membership of the European Union imposes. In the case of Denmark, although the population declined—by voting down a referendum—to be included in the European Monetary Union thereby retaining its own currency, the political class pegged the Danish Krone to the Euro. Adherence to the exchange rate of the Euro prevents countries from increasing their competitiveness through devaluation measures. Although conditions have not demanded such a course to improve Denmark’s foreign trade, having pegged the Krone to the European currency

removes one of the tools available to autonomous nation-states to manage their macro-economy. Another measure, which is being pushed by the current Danish social democratic government, is the EU finance treaty aiming at imposing budget discipline on the member states in order to prevent “countries from living above their means” by having their deficits not exceed 3% of their gross domestic product. With very few exceptions, the treaty has been adopted by 17 member states without a popular referendum, raising the legitimacy question of the decision-making process in the EU.

The point is that these institutional measures imposed in a non-democratic manner remove macro-economic instruments from the toolbox of sovereign states. Not having access to other means of economic management, sitting governments have only the possibility of applying some variant of austerity measures on the labor force and societies in order to participate in the race to achieve competitiveness. This moves the goal post of established politics in a non-democratic direction and reduces statecraft to following the dictate of external power centers. As Amartya Sen (2012) sees it the democracy edifice is at risk: “Perhaps the most troubling aspect of Europe’s current malaise is the replacement of democratic commitments by financial dictates—from leaders of the European Union and the European Central Bank and indirectly from credit-rating agencies, whose judgments have been notoriously unsound.”

The Crisis of the Left

Far from offering a vision of an alternative socio-economic model, the social democratic forces in the European context do their utmost to balance their acceptance of the demands of the market with efforts to preserve their image as defenders of the working populations and the underprivileged. Thus, during the Danish electoral campaign of November 2011, the Danish Social Democratic Party and the Socialist Peoples’ Party criticized the sitting liberal government both for its lack of audacity in the use of macro-economic instruments in order to put the economy on right track and for streamlining the welfare sector.

But upon assuming power, the government (with support from the Finance Ministry) issued a 2020-plan for the Danish economy which bases itself on the assumptions of supply-side economics. In other words, an increase in the qualified labor reserve army and a lowering of taxes for high income wage earners together with a reduction of capital gain taxes will incentivize the creation of jobs and intensify the activities in the private labor market. The plan furthermore foresees a low growth for the public sector which has been a main source of employment for a large segment of the

population. Tellingly, the employers' organization together with the liberal opposition have voiced approval of the plan while the government's supporting party, the Left Green Alliance has criticized it and refused its support.

The political context for political decision-making is similar in most core countries. The multi-faceted crisis which has hit the capitalist system has opened a path for the deconstruction of the various welfare state models that originated following the Great Depression of the 1930s and the Second World War. As President Obama's former White House Chief-of-Staff Rahm Emanuel said: "You never want a serious crisis to go to waste. And what I mean by that is an opportunity to do things you think you could not do before." What the world has seen since the financial sector busted has not only been the socialization of the losses incurred by banks and other financial institutions, but the strategic offensive on remaining state welfare structures.

The response of the "Left" to the crisis engendered by the shortcomings of neoliberal economics has nevertheless been to accept the premises laid-down by the protagonists of neoliberalism. Ever since, the problem of the financial crisis of the state was put on the political agenda of countries with generous welfare states, this has resulted in the de-politization of the welfare question. A Swedish commentator on the left puts it in the following manner: "The cuts in public expenditures during the past 20 years are no longer considered as neoliberal politics, but as 'necessary' adjustment to an 'inescapable' reality" (Ankarloo 2012). Without breaking out of the bind of this discourse which ties the financial problem to the question of welfare, no vision of the future can emerge and the political initiative grasped (Ankarloo 2012).

Another misconception of the liberal left is related to the belief that the crisis of their society can be resolved by raising the competitiveness of the domestic economy and establishing a semblance of full employment of labor and production capacity at a time when globalization has transformed the structure of production. On the one hand, the structural problem is connected to the existence of productive over-capacity and on the other the fact that the capital-intensive means of production reduces the relative need for labor input. Secondly, the fact that globalization has generalized industrial capitalism to the rest of the world and introduced large numbers of producers and consumers in the world economy is a factor which Left forces in the old core countries still have not taken into their strategic considerations.

Historically, the rise of colonialism and imperialism was primordial to the emergence of industrial capitalism. Besides fulfilling the role of markets for European production and source of raw material for industrial production, the gains of this relationship could be used to neutralize the

societal contradictions of emerging capitalism. Imperialism, as Cecil Rhodes said, was the alternative to revolution. The colonial tribute could be used to alleviate the conditions of the proletariat and other social classes.

The mutation in the making which the international division of labor is experiencing is the result of the internationalization of production with the inclusion of the so-called emerging economies on the scene. According to the International Labor Organization (ILO), the global workforce between 1980 and 2007 grew 63 percent from 1.9 billion to 3.1 billion—73 percent of the labor force located in the developing world, and 40 percent in China and India alone (Bellamy Foster et al. 2011). This is accompanied by the emergence of an Asian working and middle class in populous countries whose political system's legitimacy is based on continuous economic growth revolving around competitive low labor costs. This inclusion of billions of producers and consumers in the modus operandi of global capitalism will of course also put an additional burden on the carrying capacity of the planet earth.

It is in the context of over-capacity and huge reserve labor army that the transition to the “competition state” ought to be understood. The relationship between wage labor and competitiveness will impose itself on all economies in the system in what some have called a “race to the bottom”. The societies, who resolve this problematique best, will be those with a pliant labor force willing to accept less than a fair wage for a fair day's work—i.e., less than their increase in productiveness. In the current European crisis, Germany has proven itself to be the strongest economic power on the continent. In this connection it has to be taken into account that “in no other EU country have unit labor costs increased as little as in the past ten years as in Germany. German companies have procured competitive advantages for themselves through wage restraint” (Sablowski 2012). Consequently, the key to the success of Germany is determined to a great extent by the austerity that it practices at home and is pushing for in the rest of Europe.

Without resistance based on audacity, such a pattern will be the benchmark for the success of the competition state in future years. The lesson of what has taken place since the Great Recession of 2008-2009 has yet to be entirely absorbed. The recession was not only a short-lived downturn of a business cycle but it revealed a systemic crisis whose resolution is not yet in sight. Under the banner of economic necessity and increasing competitiveness many components of welfare capitalism is either being rolled back or dismantled. This is not only done as a temporary measure to resolve the short-term difficulties facing many countries, but as a general political offensive against welfarism.

As the editors of the *Socialist Register* in the 2012 volume put it: “We are witnessing the onset of permanent austerity in the advanced capitalist world” (Panitch, Albo, and Chibber 2011).

Concluding remarks

It is evident that contemporary capitalism is reaching a qualitatively new stage where the relative socio-political harmony based on dynamic economic growth is in the process of being replaced by a leaner and meaner “social structure of accumulation” on a world scale.

While the welfare state was a political construction aiming at the management of production and distribution of the economic surplus, the workfare state of 21st century capitalism is not only the result of neoliberal economics but a political project of re-distribution of wealth—both at the national as well as at the global levels—at a time when the stagnation tendency has again become the major characteristic of capitalism. This has resulted in a marked decline of the world GDP growth rates since the “Golden Age” of capitalism to the present. This is an evolution that is not in accordance with neoliberalism which is theoretically unable to foresee the possibility of long-run excess capacity because according to standard neoclassical micro theory such a possibility is not supposed to take place (Crotty 2002).

Governance of modern industrial capitalism has fluctuated between two orthodoxies: expansive Keynesian economics (demand creation by the state) and (neo)classical economics which celebrates the market as a self-regulatory institution without government intervention. The financial crisis under the reign of neoliberalism has, however, seen states and other international institutions coming to the assistance of banks and finance capital after the bubble bust. Departing from the original doctrine, government bailouts of banks and other institution has raised the specter of shifting the costs of this strategy on the shoulders of the working populations through so-called austerity measures—i.e., the audacity of socializing financial capital’s losses.

It is in the context of over-production and under-utilization of productive capacity in the world economy that the evolution from welfare state to flexicurity to the competition state—that has taken place in Denmark—should be understood. The Danish model of flexicurity was a political and institutional model of labor market relations which attempted to effectuate a smooth transition to the competition state by straddling the market demands of flexibility with that of security for wage earners while retaining a residual social dimension in the process. The explicit objective of this hybrid was to reduce indirect costs to enterprises or those involving the decrease of social benefits provided by the state through “flexibilizing” laws protecting labor employment.

The analysis has critically evaluated the internal strength and weaknesses of this corporatist structural pattern for managing labor market relations while at the same time responding to the challenges of the world economy and the institutional demands of the European Union on its member states. Whether the Danish model can prove to be the proto-type exception to the transformation of advanced capitalism while managing employment levels and working conditions in the national economy is questionable. The flexicurity model belongs to the toolbox of supply-side economics which besides taking responsibility for the continuous up-grading of a qualified workforce is an indirect subsidy to employers. As a follow-up to this strategy, the recent agreement between the Social Democratic-led government and the bourgeois parties to reduce taxes on high incomes to a certain degree reduces pressures on wage bargaining. At the same time reducing public expenditures for people outside the labor market divides the working population between a well paid qualified workforce (labor aristocracy) and a low qualified and low paid lumpen proletariat and unemployed people on the dole or physically or mentally unable to work.

We have shown that the Danish political class has in later years promoted the competition state structure while retaining the claim that such an adjustment was a precondition for the retention of residual welfarism. One ideological reason for this approach is that the welfare state construction has until recently been embedded in the political culture of the Danish population making a complete rupture politically difficult. The consensus-seeking institutional framework of labor market bargaining has thus attempted to protect employment while not drastically (as has been the case in other countries) cut welfare benefits. The offensive against deficit spending puts this strategy in question however.

The structural crisis of the system which the financial crisis revealed has affected most core capitalist nations. Under such conditions, the promotion of the competitive state only accentuates the dilemma. The generalization of the competitive state will bring about cuts in social programs and impoverishment as part of the “Age of Austerity” in all major countries (McNally 2012: 36). The proposed solutions and strategies have reduced the sovereignty of nations with an ensuing encroachment on democracy. It is in this context that the “Left” alternative has accepted the rule of neoliberalism and globalization and is unable to protect the interests of its constituency. The example of the victory of a Social Democratic-led government in Denmark in the 2011 election is a case in point.

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