



## Beyond Retrenchment

*Welfare Policies in Denmark in the 1990s*

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*Publication date:*  
1997

*Document Version*  
Publisher's PDF, also known as Version of record

[Link to publication from Aalborg University](#)

*Citation for published version (APA):*  
Andersen, J. G. (1997). *Beyond Retrenchment: Welfare Policies in Denmark in the 1990s*. Aalborg Universitet. Arbejdsrapport: Institut for Økonomi, Politik og Forvaltning No. 8

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**Beyond Retrenchment:  
Welfare Policies in Denmark  
in the 1990s**

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ISSN 1396-3503

1997:8

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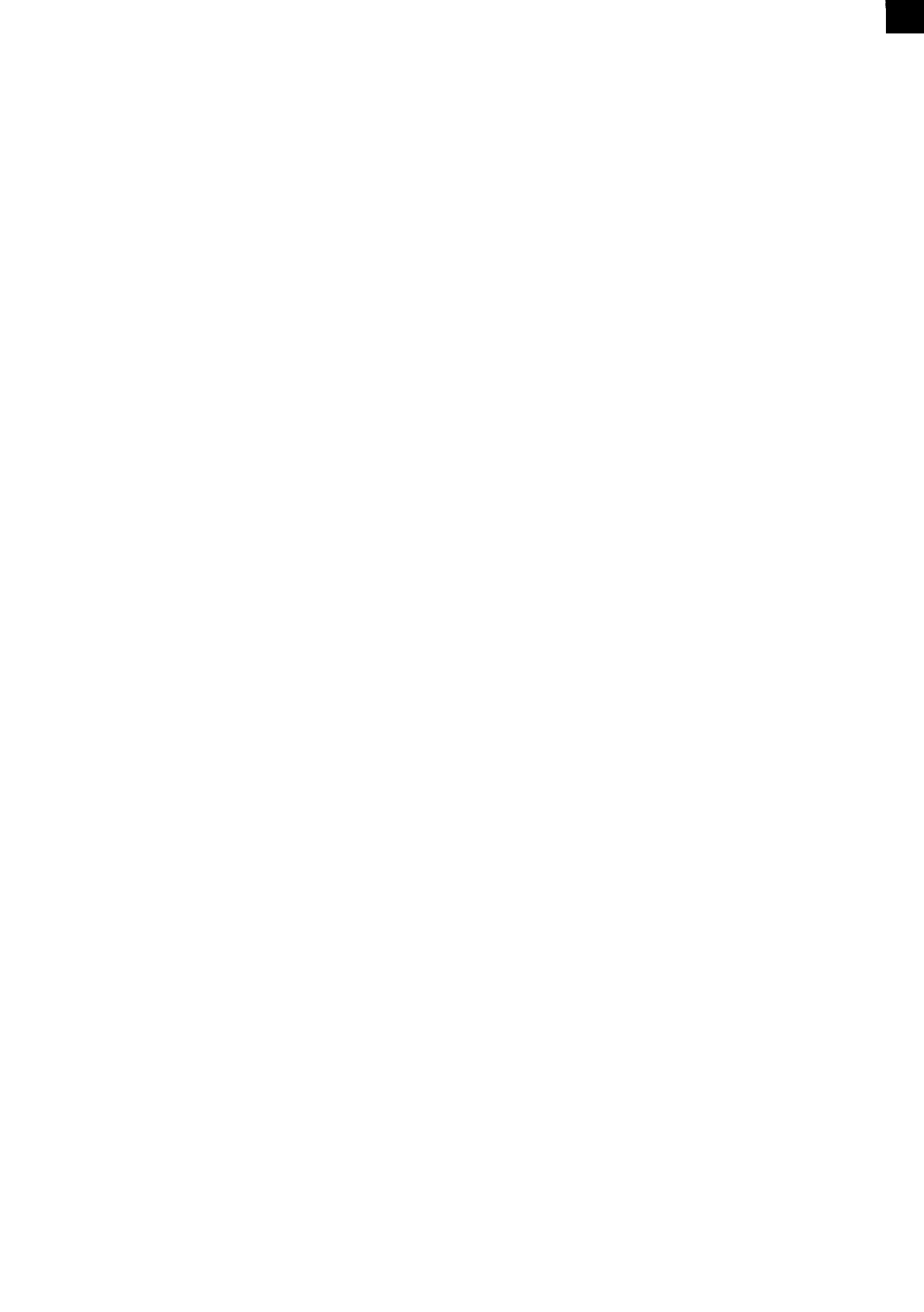
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*print: Kopicentralen  
Aalborg 1997*

**Beyond Retrenchment:  
Welfare Policies in Denmark in the 1990s**

Paper prepared for ECPR Round Table on  
"The Survival of the Welfare State",  
Bergen, Sep.18-21, 1997.

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first draft, not for quotation



Abstract:

The Danish Welfare State has overcome short-term economic pressures. This is explained partly by economic prosperity, partly by the bourgeois governments' efforts in the 1980s to correct structural imbalances of spendings and revenues. As little institutional change took place in the 1980s, the Danish welfare state survived the retrenchment period largely intact and even with significant improvements. Presently, it has entered a period of quite rapid expansion of welfare services. Unemployment has declined to comparatively low levels, public deficits have turned into a surplus, and the balance of payment is positive.

A closer inspection reveals that part of the success of fighting unemployment in the 1990s has been obtained by reducing the supply of labour power which contributes to rather high income transfers. Besides, the welfare state is not quite sufficiently consolidated if a new recession should appear. Still, the experience of the Danish welfare state in the 1980s and 1990s shows that even high levels of unemployment may have less detrimental effects to the Scandinavian welfare state than commonly assumed. It did appear possible to control welfare spending even in a recession period; levels of inequality and poverty did not increase; and social marginalisation and exclusion appeared not to be inevitable consequences of unemployment to the degree that one might have feared.

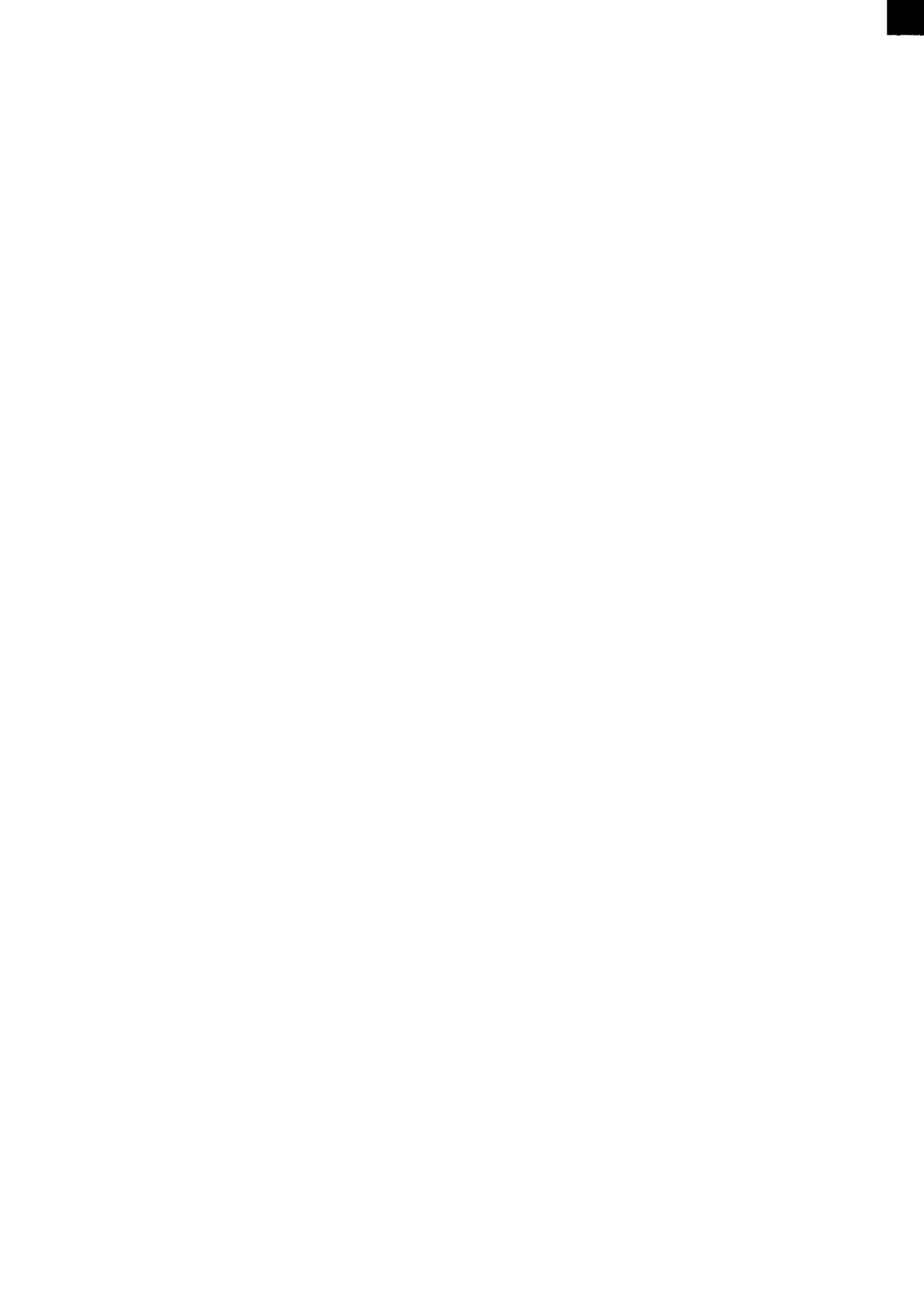
Turning to the long-term challenges, this also reduces somewhat the worries about the contested issue of the consequences of *globalization* in terms of over-supply of low-skilled labour; whether or not the Scandinavian welfare model is among the more vulnerable to large-scale immigration, is another contested issue relating to globalization. Due to high fertility rates and immigration, the *demographic changes* do not constitute any serious threat to the Danish welfare model. As far as the consequences of *individualization* is concerned, one may conclude that most challenges have already been successfully met; we have considered here the integration of women at the labour market, care facilities, and provision of voice and exit opportunities. Finally, the *externalities* of the welfare state for the economy seem rather small and often difficult to detect empirically. But it must also be underlined that the Danish model is working in relative conformity with the market, to a much larger degree than implied by e.g. the concept of "decommodification".

Ironically, the prospects for more thorough change seem somewhat larger than previously under the present Social Democratic government, in spite of economic prosperity. In some respects, policies have entered new trajectories that could perhaps lead to more profound changes. This includes, inter alia, such important policies as taxation and pensions and unemployment policies. Besides, the declining emphasis on budgetary constraints since 1993 means that spending could get out of control if economic prosperity should unexpectedly come to an end. This is aggravated by expensive active labour market policies. The problem of controlling public budgets remains a major challenge even in the future. But to the extent major change will take place, it is because of political choice, not because of external or internal pressures.



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## 1. Introduction: Happy Days Are Here Again?

The story of the Danish welfare state in the 1990s appears as a successful one, at least since 1994: Economic growth is high, inflation is low, and the balance of payment is positive. Unemployment has declined to a comparatively low level; public consumption is increasing; and large-scale public deficits have turned into a small surplus. Throughout the 1980s and 1990s, poverty has remained at an unusually low level, and economic inequality even seems to have been reduced (see below). The level of taxation has remained comparatively high but there are only small visible side effects on competitiveness, on migration, on excessive trade over the borders, on willingness to work, etc. (Pedersen 1993; Goul Andersen 1992; Goul Andersen & Munk Christiansen 1991; Smith & Pedersen 1995) - and there are no signs of tax protest among a population that enjoys the highest level of private consumption in the EU next to Luxembourg, alongside extensive social services and social protection.

So what's the problem? The Danish experience seems to contradict the welfare scepticism among many economists and others, according to whom there is, at best, a trade off between welfare and equality on the one hand, and economic efficiency and economic growth on the other, because disincentives of welfare disturb the smooth functioning of the market. In most respects, this should place the Scandinavian welfare states in a particularly vulnerable situation. At present, this seems to be contradicted not only by Norwegian but also by Danish experience.<sup>1</sup> A similar argument could be made with regard to some sociologists' fears of paternalism, alienation, moral crises or legitimacy problems. Briefly, we find few observations that may support any notion of crisis of the Scandinavian welfare model as such; it seems likely that this argument may even be confirmed by Sweden and Finland in the near future. Finally, even though some Scandinavian social scientists have been concerned about the consequences of European integration for the Scandinavian welfare model(s), we may add that such fears have never been well-grounded: There are few *de jure* or *de facto* pressures for significant adaptations. Scandinavian welfare systems may be different but they are not incompatible with European integration.

Taking into account the severe economic problems of the Danish welfare state in the early 1980s, one may ask: How was it possible to overcome these problems; how much was sacrificed during the retrenchment policies of the 1980s? This is described in the following section. Next, we may ask whether the glamorous description above holds if we scratch a little

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1) As Norway's success may be explained by her huge oil resources, it could be argued that the Norwegian counter-evidence is less convincing, however.

more in the nicely polished surface. This is assessed in section 3. Even if the Danish welfare state has overcome short-term economic pressures, we still have to ask whether this Danish welfare model is likely to survive well into the 21st century. This requires a consideration of its capacity to meet the long-term challenges that face all European welfare states in terms of *globalization, ageing, individualization, and externalities of a large-scale welfare system* (section 4) but also an analysis of potential new trajectories associated with recent policy change under the Social Democratic government (section 5). As we shall see, a case can be made that the bourgeois governments of the 1980s who were aiming at a "bourgeois revolution" unintendedly came to consolidate the "Social Democratic" welfare model in Denmark whereas under the Social Democratic government since 1993, some policies and problem definitions seem to have entered new trajectories and evoked new dynamics that may unintendedly lead to more fundamental change.

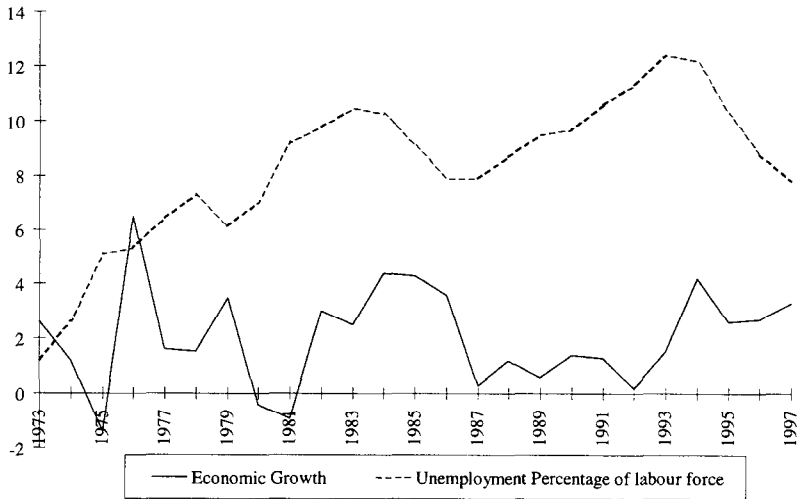
## **2. Retrenchment Policies in the 1980s and their Effects**

### *The Economic Background*

Stated briefly, the overriding problem of the Danish welfare state in the 1980s was to improve the Danish economy in general and the public economy in particular as total expenditures were too large and total revenues were too small. Otherwise there was little demand for policy change. Since the "welfare backlash" in 1973 when the Progress Party demanding that all income taxes should be abolished gained support from 15.9 per cent of the voters, there has been little tax protest, and support for the welfare state soon recovered from the mid-1970s.

However, the Danish response to the first oil crisis in 1973/1974 was mainly inflationary Keynesian policies that apparently contributed only to reinforce the economic problems. Public expenditure increased rapidly, and so did the level of taxation. But visible effects on unemployment were small. In spite of attempts to switch private consumption for public consumption which was more labour-intensive and less detrimental to the balance of payment, unemployment continued to increase, and even the attempt in 1979 to fight unemployment by providing very generous exit opportunities from the age of 60 provided only short-term relief. Unemployment continued to increase until it reached a peak of 10.5 per cent of the labour force in 1983 (figure 1).

Figure 1. Economic Growth (percentages) and Unemployment (as percentage of labour force), 1973-1997.



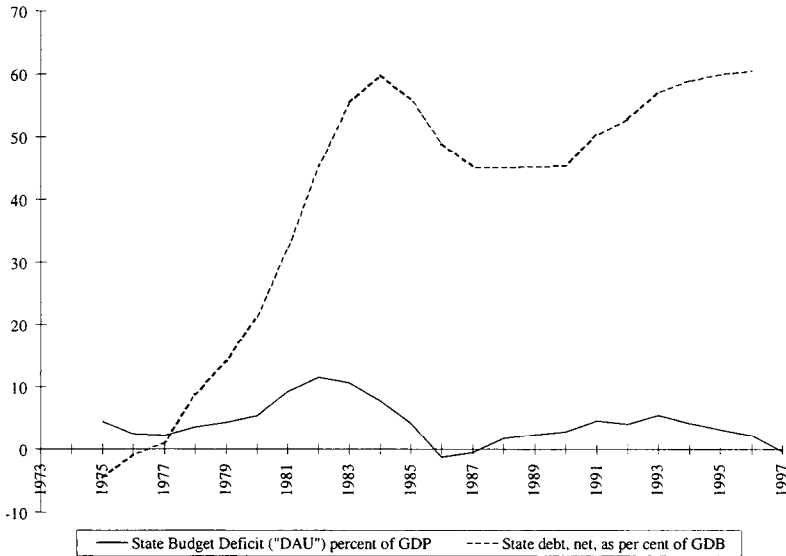
Economic Growth: real growth rate in GDP (preliminary figures 1993ff)

Unemployment: National definition ("Registered unemployed", calculated as full-time unemployed). This figure is substantially higher than comparative EU figures because some of the unemployed are not actively interested in having a work right now.

Source: Statistisk Tiårsoversigt, Statistiske Efterretninger, Estimates by AER (1997) for 1997.

At the same time, there were serious side effects of these inefficient attempts to fight unemployment: The budget deficit of the state increased, and when the country was hit by the second oil crisis in 1980, it exploded to 11.5 per cent of GDP in 1982 (figure 2). From 1979 to 1983, (net) state debt increased from 14 to 55 per cent of GDP. Still, among economists and politicians, state debt was not acknowledged as a 'really' serious problem until the 1990s.

Figure 2. Budget Deficit of the State (left scale) and State Debt (right scale), as per cent of GDP, 1973-1997.



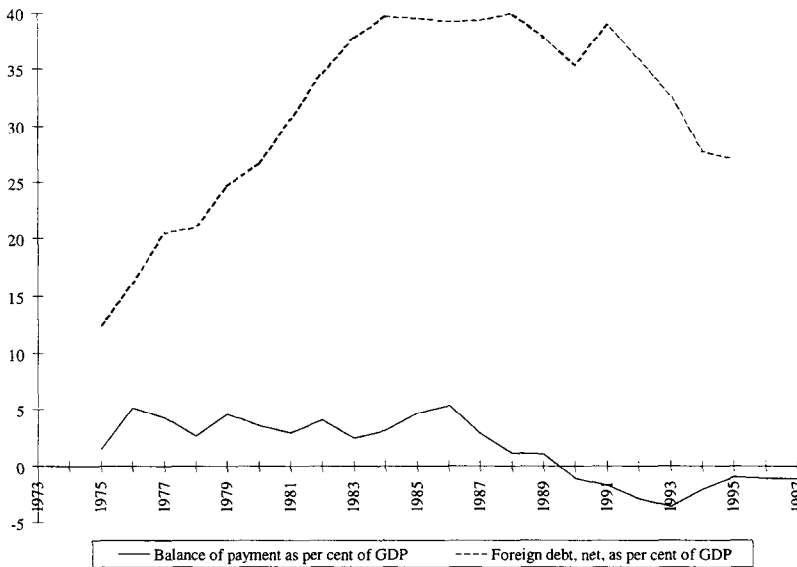
Sources:

Goul Andersen & Munk Christiansen (1991; see source for corrections to make the data for the 1970s commensurable); Nationalbanken (1996); Statistisk Tiårsoversigt; Statistiske Efterretninger.

Budget deficit of the State is the so-called "Drifts- anlægs- og udlændoverkud". It deviates substantially from the deficit of "General Government", mainly because this includes the accumulation in two pension funds which are formally included in the public sector: Lønmodtagernes Dyrtidsfond (LD) and Arbejdsmarkedets Tillægspension (ATP). 1997 Budget affected by extraordinary incomes at about 1.5 per cent of GDP (the "normal" level of extraordinary incomes (*sic!*) is about 0.5 per cent of GDP).

State debt is calculated as gross debt minus the assets of the entirely state-controlled "Social Pension Fund" in which earmarked income taxes were accumulated from 1970 to 1982 in order to finance future improvements of pensions. By 1996, some 150 bill.Dkk was accumulated in the Fund Statedebt. Not corrected for an "artificial" increase by some 40 bill. DKK in 1991 because of changed accounting practices.

Figure 3. Balance of Payment (left scale) and Denmark's Foreign Debt, as per cent of GDP, 1973-1997.



Sources:  
 Calculated from Statistisk Tiårsoversigt; Statistiske Efterretninger.

And indeed, Denmark's chronic balance of payment-deficit was an even more alarming problem as the country's foreign debt was becoming a serious burden (figure 3)

In short, the early 1980s witnessed a threatening accumulation of economic problems. In 1982, inflation was 10.1 per cent, interest rates on long-term bonds were above 20 per cent, unemployment was 9.8 per cent, the balance of payment deficit was 4.1 per cent of GDP, and foreign debt had increased to 34.5 per cent of GDP. The deficit of the state had increased to 11.5 pct. of GDP, and state debt was reaching impressive high levels.

### *New Economic Policies*

In the autumn 1982, this paved the way for a bourgeois government. Its main aim - and its main justification among voters having developed a very high crisis awareness and willingness to make sacrifices (Petersen et al. 1987) - was to "reconstruct the economy". A cornerstone was the abolition of restrictions to free capital movements and the adoption of a fixed currency policy -

irreversible changes that institutionalized tight economic policies (at the same time, the fixed currency policy attained high symbolic importance and overwhelmingly voter support - unlike the welfare policies; see Goul Andersen 1988: 22-23). Other means were the principle of zero growth in public expenditures and a new budgetary system.

In fact, the first goal was to obtain a balance of payment surplus whereas budget deficits had only second priority. However, because of an unexpected rise in private consumption the state budget showed a surplus already by 1986 (figure 2) but at the expense of a further increase in the balance of payment deficit (figure 3). This forced the government to adopt contractive policies (credit restrictions and fees). At the same time, however, the government was weakened after the 1987 election and was forced to give large concessions in the negotiations over the 1988 budget. Even though budget policies was unusually tight in the following years, state deficits again began to increase. The recession lasted for seven years, culminating in an all-time high unemployment rate of 12.4 per cent in 1993.<sup>2</sup> but in that time the balance of payment improved from a deficit of 5.4 per cent of GDP to a surplus of 3.5 per cent (figure 3), enabling the new centre-left government headed by the Social Democratic prime minister Poul Nyrup Rasmussen to adopt an expansionary economic policy from 1993 onwards.<sup>3</sup> Broadly speaking, the economic boom from 1993 to 1997 was a mirror of the the mid-1980s, catalyzed by lower interests rates and large capital gains among homeowners and shareholders, only this time the point of departure in terms of balance of payment was much better; a surplus was maintained even though public and private consumption increased.

- 
- 2) In 1990, the government in fact sought to stimulate the economy by giving (income) tax relief (justified by its "dynamic effects" rather than stimulation of demand, however). But the initiative was blocked by the opposition, and the government suffered a serious defeat on the issue in the 1990 election.
  - 3) The description is phrased in a conventional "steering language". However, an important point is that governments have only to a rather limited degree been able to steer the macroeconomic development in this period. With fixed currency and free capital market, there is little left of monetary policy apart from regulation of credits. During the period, incomes policy, once the preferred instrument of most Danish economists, was gradually buried; since 1985, there has been little interference by the state in wage negotiations, tripartite negotiations have almost been absent since the early 1980s (except occasionally as lip service to the trade unions in the 1980s). And fiscal policies often appear more as a post hoc registration of the calculated effect of the state on aggregate demand. It was never intended to limit private consumption to the extent that turned out to be the case from 1986-1993; in fact, the measures taken in 1986 were quite modest and de facto undermined or even formally abolished in the following years.

Table 1. Public Consumption, Transfers, and Capital Accumulation, 1980-1997. Per Cent of GDP, and in Fixed Prices (Index 1982=100).

|        | Public Consumption |                     | Transfers to households <sup>1)</sup> |                     | Interest on State Debt |                     | Other transfers and subsidies |                     | Capital Accumulation |                     |
|--------|--------------------|---------------------|---------------------------------------|---------------------|------------------------|---------------------|-------------------------------|---------------------|----------------------|---------------------|
|        | per cent GDP       | index: fixed prices | per cent GDP                          | index: fixed prices | per cent GDP           | index: fixed prices | per cent GDP                  | index: fixed prices | per cent GDP         | index: fixed prices |
| 1980   | 26.7               | 94.5                | 16.6                                  | 90.9                | 3.9                    | 65.0                | 4.9                           | 95.8                | 3.4                  | 120.9               |
| 1981   | 27.8               | 97.0                | 17.8                                  | 94.9                | 5.3                    | 87.5                | 4.8                           | 90.6                | 3.0                  | 113.2               |
| 1982   | 28.2               | 100.0               | 18.1                                  | 100.0               | 6.0                    | 100.0               | 5.1                           | 100.0               | 2.8                  | 100.0               |
| 1983   | 27.4               | 99.9                | 17.8                                  | 101.4               | 8.1                    | 138.5               | 5.2                           | 104.3               | 2.3                  | 81.5                |
| 1984   | 25.9               | 99.5                | 17.0                                  | 100.6               | 9.6                    | 170.8               | 5.2                           | 109.4               | 1.9                  | 73.6                |
| 1985   | 25.3               | 102.1               | 16.3                                  | 100.3               | 9.9                    | 182.6               | 5.0                           | 108.4               | 2.2                  | 84.4                |
| 1986   | 23.9               | 102.7               | 15.5                                  | 99.6                | 8.8                    | 170.6               | 5.2                           | 118.6               | 1.6                  | 67.9                |
| 1987   | 25.2               | 105.3               | 16.2                                  | 105.4               | 8.3                    | 161.4               | 5.3                           | 121.5               | 1.8                  | 71.8                |
| 1988   | 25.7               | 106.1               | 17.3                                  | 112.6               | 8.0                    | 155.8               | 5.8                           | 134.3               | 1.9                  | 77.2                |
| 1989   | 25.6               | 105.4               | 18.3                                  | 118.8               | 7.5                    | 146.6               | 5.9                           | 135.8               | 1.7                  | 72.0                |
| 1990   | 25.3               | 105.0               | 18.4                                  | 121.6               | 7.3                    | 145.4               | 5.7                           | 133.5               | 1.6                  | 67.2                |
| 1991   | 25.5               | 104.8               | 19.0                                  | 126.9               | 7.4                    | 148.2               | 6.0                           | 141.3               | 1.2                  | 54.1                |
| 1992   | 25.6               | 106.3               | 19.6                                  | 132.3               | 6.8                    | 139.0               | 6.5                           | 155.8               | 2.0                  | 87.8                |
| 1993*  | 26.3               | 108.9               | 20.4                                  | 139.0               | 7.8                    | 159.2               | 6.7                           | 161.0               | 2.0                  | 84.9                |
| 1994*  | 25.8               | 111.1               | 22.0 <sup>1)</sup>                    | 155.8 <sup>1)</sup> | 7.2                    | 152.6               | 6.5                           | 162.7               | 1.9                  | 87.0                |
| 1995** | 25.2               | 111.5               | 21.5 <sup>1)</sup>                    | 156.0 <sup>1)</sup> | 6.7                    | 146.1               | 6.3                           | 161.2               | 1.9                  | 85.4                |
| 1996** | 25.2               | 114.2               | 20.9 <sup>1)</sup>                    | 155.6 <sup>1)</sup> | 6.5                    | 146.5               | 6.3                           | 166.0               | 2.1                  | 95.4                |
| 1997E  | (25.2)             | (116.0)             |                                       |                     |                        |                     |                               |                     |                      |                     |

\* Based on preliminary GDP figures (as of June, 1997).

\*\* Based on preliminary GDP and public expenditure figures (as of June, 1997).

E AER estimate (as of June, 1997).

1) A major change took place in 1994 when some transfers (mainly social assistance and pensions for single persons) which had previously been paid as (completely or almost) taxfree incomes became normal taxable income but at the same time formally raised in order to make the effect neutral. This implies an "artificial" increase in transfers (and in total public expenditure) of about 19 bill. DkK in 1994, that is, 2 per cent of GDP. Thus a corrected figure for transfers to households in 1994 would be 20.0 per cent of GDP and an index value of about 141.1; similar adjustments should be made for subsequent years. In OECD statistics, different taxation of income transfers is one of the major sources of misinterpretations; for instance, Denmark has moved towards paying nearly all transfers as taxable incomes whereas Germany has moved in the very opposite direction. This may explain perhaps some 6-7 per centage points of the difference in OECD figures on taxation or public expenditure (as per cent of GDP) between Denmark and Germany in the mid-1990s.

Sources: Own calculations on basis of Statistiske Efterretninger (1986:5; 1987:1; 1990:4; 1993:10; 1994:20 and 1997:11), and Statistisk Tiårsoversigt. Public Consumption is deflated by public consumption deflator; Capital Accumulation is deflated by deflator for fixed investments; Transfers are deflated by the consumer price index. Capital transfers are omitted. Public consumption is calculated net of user charges etc. (these have increased far more than public consumption throughout the period), (Net) Capital Accumulation is calculated less of sales of land and intangible assets.

Table 2. Total Public Expenditure, 1980-1997. Per Cent of GDP, and in Fixed Prices (Index 1982=100).

|        | Total Public Expenditure |                           |
|--------|--------------------------|---------------------------|
|        | per cent<br>GDP          | index:<br>fixed<br>prices |
| 1980   | 55.6                     | 91.8                      |
| 1981   | 58.6                     | 95.6                      |
| 1982   | 60.2                     | 100.0                     |
| 1983   | 60.7                     | 103.8                     |
| 1984   | 59.6                     | 106.7                     |
| 1985   | 58.6                     | 109.3                     |
| 1986   | 55.0                     | 108.6                     |
| 1987   | 56.8                     | 110.8                     |
| 1988   | 58.7                     | 114.1                     |
| 1989   | 59.0                     | 114.6                     |
| 1990   | 58.4                     | 114.7                     |
| 1991   | 59.2                     | 116.6                     |
| 1992   | 60.5                     | 120.8                     |
| 1993*  | 63.1                     | 126.4                     |
| 1994*  | 63.4                     | 132.0                     |
| 1995** | 61.5                     | 131.4                     |
| 1996** | 61.0                     | 133.5                     |
| 1997E  |                          |                           |

Sources and footnotes: As table 1. Figures are not corrected for an artificial increase of about 2.0 per cent of GDP in 1994ff, due to changes in some transfer payments from net/taxfree to gross/taxable payments. Without this change, total expenditure would amount to around 59.2 per cent in 1996.

Total public expenditure is "total outlays" less capital transfers. Total expenditure in fixed (1980) prices are calculated on the basis of the addition of the fixed price figures for all types of expenditures in table 1 (i.e. it is based on different deflators for different types of expenditures).

### *Public Expenditures in the 1980s*

We return to the welfare policies of the 1990s below. First we take a closer scrutiny upon the figures of the 1980s. In periods, the retrenchment policies were quite harsh even though a genuine decline in aggregate public spending in real terms was never obtained (see table 2). Still, the government managed to keep zero growth in public consumption except in 1984-1988 and in 1992, and throughout the entire period 1982-1992, cumulative growth in public consumption was

as low as 6.3 per cent;<sup>4</sup> when the Social Democrats were reinstalled, the growth in public consumption was resumed - only in the four years from 1992 to 1996, cumulative growth was as high as 7.5 per cent.<sup>5</sup>

Transfers to households were constant from 1982 to 1986 (not least because of the decline in unemployment-related spendings). But then transfers exploded: From 1986 to 1989, transfers increased by 20 per cent in real terms, mainly because of political reforms such as a new system of child allowances, improved pensions, students' allowances, unemployment benefits and social assistance (see also below). In the following years, unemployment-related expenditures made transfers increase even further. By 1993 when unemployment was just above the level in 1982, *transfers to households had increased by 40 per cent in real terms in spite of eleven years of retrenchment policies*. This triggered off the belief that transfers were "uncontrollable"; however, expenses related to unemployment, early retirement and ageing only accounted for about one-half of the increase (Goul Andersen 1997), and this even includes the significant improvements of pensions etc. in 1988/1989. In short, the main explanation is political rather than structural.<sup>6</sup>

From the late 1980s, state debt again began to climb both in absolute and relative terms until it culminated in the mid-1990s at about the same (relative) level as in the mid-1980s, just around the 60 per cent of GDP-level. Consequently, interests continued to swallow a relatively large share of GDP.<sup>7</sup> "Other transfers" have also increased rapidly. They include, inter alia, payments to the EU, other transfers to abroad and subsidies for active labour market policies. All these expenditures have increased at a quite impressive speed.

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- 4) Due to the "Baumol effect" (Baumol 1967), public consumption nevertheless remained pretty high as per cent of GDP. For instance, in spite of economic growth from 1987 to 1991 alongside declining public consumption in real terms, public consumption as per cent of GDP in fact increased.
  - 5) As user charges and fees etc. increased by 50.0 per cent from 1982 to 1992 and by 31.9 per cent from 1992 to 1996 (in 1980 prices), the production value of public consumption increased more: By 9.2 and 10.0 per cent in the two periods, respectively.
  - 6) In the short run, there is a connection between early retirement and public employment expenditures on the one hand and unemployment expenditures on the other - the extra costs of early retirement, or of employing more people in the public sector are very small. However, this way of thinking ignores the dynamic effects on the economy. Including the dynamic effects, it has been estimated that the long-term net replacement rate in connection with early retirement allowance is as low as 20 per cent; presumably, similar figures apply to public employment, depending on the type of labour power in question (for instance, the net costs of expanding the employment of unskilled service workers in the public sector may be small).
  - 7) Net interests are considerably lower, not least due to the ATP and LD pension funds which are formally included in the public sector (unlike the formally private pension funds controlled by the unions).

Not surprisingly, from a rational choice perspective at least, the type of expenditure that came to suffer mostly in the 1980s was capital accumulation which affected employment mainly in the private sector rather than public sector employment.

In short, despite hard efforts, the bourgeois government did not succeed in bringing expenditure down. From 1982 to 1992, expenditure relative to GDP remained the same, and in real terms, they increased by 21 per cent. What the bourgeois government did was mainly to prevent state debts from getting entirely out of control while at the same time solving the balance of payment problem. In spite of economic prosperity which reduce spendings for unemployment-related transfers, public expenditure increased by some 10.5 per cent in real terms from 1992 to 1996, and as per cent of GDP, it was only marginally lowered by about 1.5 percentage points (corrected figures)<sup>8</sup>.

### *Little institutional change*

The most important fact about the retrenchment policies in the 1980s was, however, that in institutional terms, only few changes took place. From the very beginning in 1982, the bourgeois government had great plans of a "bourgeois revolution". A number of new words were invented for the Government's attempts to "modernize" the welfare state. But little happened apart from the introduction of some "new public management" techniques and more exit and voice opportunities in the public service sector. More or less proportional budget cuts was the preferred mean to keep budget increases low; privatization was often used mainly as "window dressing" of budgets (it should be added that government-owned companies always were unusually few in Denmark); the idea of introducing new user charges on a broad scale was buried almost immediately; contracting out was not carried very far (Greve 1997: 40-58).

Taxes were not lowered, either: Corporate taxes were raised from 40 to 50 per cent from 1986 and then lowered to 40, 38 and 34 per cent from 1990, 1991 and 1992, respectively. The uniform VAT ("moms") was raised from 22 to 25 per cent (as from 1988/1992).<sup>9</sup> The highest marginal income tax was increased from 70 to 73 per cent in 1982 and lowered to 68 per cent in 1987 alongside a broadening of the tax base (the tax value of many deductions was reduced to about 50 per cent, others were abolished). Social contributions to unemployment insurance was

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8) As mentioned in the tables, public expenditures are artificially inflated by the changes in the transfer system from 1993 to 1994 when a number of transfers were made (fully) taxable and increased according to neutralize the effect.

9) Originally, the VAT increase was masked as a so-called "Labour Market Contribution" (AMBI) which was not approved by the EU, however. But in reality is was a hidden VAT.

raised but unemployment insurance remained mainly state-financed. A few taxes on "luxury goods" were reduced in order to avoid too much trade over the Danish-German border as restrictions on border trade was phased out. Indeed, the government had many plans to reduce income taxes but they didn't succeed.

If we look at the results rather than the intentions, the policies of the bourgeois government must be described as a continuation of Social Democratic welfare policies under less favourable economic conditions. In fact, the major institutional reforms may be described as a continuation of a "creeping universalism": As compensation for the tax reform which lowered the tax value of interest deductions (some 85 per cent of all two-parent families with children are homeowners)<sup>10</sup>, generous, universal child allowances were introduced by 1986 (by the mid-1990s, they amounted to nearly 1 per cent of GDP); 1988 witnessed the introduction of universal and very generous support for students independently of parents' incomes from the age of 19/20 years; in 1991, user charges for home aid given on a permanent basis was abolished for better-off pensioners. Finally, maternity leave was substantially improved, from 14 to 28 weeks from 1984/85.<sup>11</sup> Average compensation rates for the unemployed declined because of a somewhat lower ceiling but the compensation level remained 90 per cent, and eligibility criteria remained very soft.<sup>12</sup> The only major institutional reform (to which we shall return below) was the introduction in 1990 of new principles of regulation of transfer incomes.

As a whole, retrenchment in the 1980s was felt mainly within the field of services, less so in the field of transfers. In fact, even the 1980s, the main history of the welfare state was one of steady improvements, only at a much lower speed than previously. However, that proved (almost) sufficient to overcome the economic difficulties of the welfare state.

### *Economic inequality, poverty, and marginalisation*

Against this background, it is perhaps not so surprising that we find were few, if any, indicators of increasing inequality etc. in Denmark in the 1980s. Poverty (according to the standard EU definition) remained the lowest in the EU (European Commission 1994:139-141; Goul Andersen 1997a), and even among households in which head of household was unemployed, only three per

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10) Including a few percentages who own their apartment.

11) Maternity allowances are equal to unemployment benefits but full compensation is ensured for a majority in collective agreements between employers and trade unions.

12) Average wage-benefit replacement ratio was lowered from about .70 to just below .65 (Pedersen, Pedersen & Smith 1995: 41). Until 1966, replacement ratio was about .45 but then increased to a peak of .75 in 1972/73.

cent fell below the poverty level in 1988 (as compared to an EU average of 38 per cent and 22 per cent even in the Netherlands which came second to Denmark in the ranking).

By the same token, Denmark was among the very few countries to experience slightly *less* inequality in disposable incomes in the 1980s (Ministry of Finance 1995; Goul Andersen 1997a). Even political participation became more evenly distributed in the 1980s (Goul Andersen & Hoff 1995). And although there are some indices of an accumulation of serious problems among the most weak groups of unemployed (Nygaard Christoffersen 1996), large groups of unemployed seem to cope surprisingly well with unemployment.<sup>13</sup> For instance, in a representative survey from november 1994 of people who had been unemployed for at least half a year at the time of interviewing, only 34 per cent indicated a decline in general well-being during unemployment whereas 28 per cent indicated an improvement; 44 per cent "would welcome" a longer period without work provided that they could receive unemployment benefits as long as they wished; and 29 per cent indicated that they "could adapt to the situation" (Goul Andersen 1986).

No doubt, the relatively high level of economic security and the relatively low level of stigmatization associated with unemployment at the time of interviewing play an important role. The ceiling was rather low (11.000 DkK per month in 1994) but the high compensation rate of 90 per cent of previous earnings was sufficient to maintain an acceptable standard of living. The period of support was 7 years (of which the last three years on activation); and only 26 weeks of ordinary employment was required to enter a new seven-year period. Besides, as unemployment was very high, control with active job-seeking was limited.

Besides, the almost complete integration of women at the labour market (only some 2-3 per cent of adult women are housewives without an income of their own) contributes to alleviate the economic consequences at the family level as there is rarely more than one unemployed in a family. Consequently, among those who were married, more than one half of those who had been without regular employment for 10 years were homeowners (Goul Andersen 1986).

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13) The effect may perhaps be compared to that of divorce: Having divorced parents is statistically correlated with nearly all sorts of social problems but this does not mean that divorce always leads to social problems.

Figure 4. Major reforms under the Bourgeois Government, sep.1982-jan.1993.

| Time               | Reform   |
|--------------------|--|
| 1982               | Automatic Cost-of-living adjustment of wages suspended (abolished in 1987)   |
| 1982-1985;<br>1988 | Freezing of maximum amounts of unemployment benefits, early retirement allowance, and social assistance; compensation levels for unemployment benefits and early retirement allowance remained 90 per cent.<br>As from 1988, these amounts were extraordinarily raised by 10 per cent (from July)  |
| 1983               | Special tax on pensions savings; all interest above 3½ per cent above inflation is paid as tax to the state. This was originally the proposal that forced the previous Social Democratic government to resign.   |
| 1982 and later     | Higher members' and employers' contributions to unemployment insurance (came to cover one-third of the expenses)   |
| 1980s              | Various minor changes in sickness insurance, employers' payments for sickness and first day of unemployment, etc.etc.  |
| 1984/85            | Improved maternity leave to 24 weeks after birth.<br>Same compensation as unemployment benefits but full compensation increasingly included in collective agreements at the labour market.   |
| 1988               | Extraordinary regulation of old age pension and early retirement pensions by 5 per cent (singles) or 7 per cent (married couples) (from July)  |
| 1987               | Generous universal Child allowance introduced (from July)<br>Introduced as compensation for reduction of interest deduction to 50 per cent in the 1987 tax reform; Later on, it became a habit to compensate for various tightenings by increasing child allowances. By 1997, universal child allowances amounted to about 1 per cent of GDP (beyond means-tested child allowances)  |
| 1988               | Generous universal students' allowance introduced.<br>granted independently of parents' incomes from the age of 20 (also universal but graduated for the 19 years old)   |
| 1991               | Universal home aid: Home aid free of user charges for all pensioners who are granted home aid on a permanent basis   |
| 1982-1993          | Highest marginal income taxes:<br>1982: From 70 to 73 per cent<br>1987: From 73 to 68 per cent<br><br>Corporate taxes:<br>as from 1986: from 40 to 50 per cent<br>as from 1990: From 50 to 40 per cent<br>as from 1992: From 40 to 38 per cent<br><br>Indirect taxes:<br>1988: Various social contributions of employers abolished and replaced by a "labour market contribution" (AMBI) which was, in effect, a VAT in disguise.<br>1992: AMBI banned by the Commission and replaced by VAT increase from 22 to 25 per cent.<br>1989-1992: A number of taxes on various commodities from alcohol to televisions etc. abolished or reduced in order to avoid border trade. |
| 1990               | New regulation of all transfer incomes to households by annual wage for manual worker, less increasing contributions to pensions savings etc.  |
| 1992               | Introduction of new leave arrangements but based on employers' approval and replacement with unemployed.   |
| 1982-1993          | New Public Management increasingly introduced in public services   |

### *Conclusion: Consolidating the Welfare State and Living With Unemployment*

The bourgeois government gave second priority to the goal of unemployment but maintained a very generous (at least by comparative standards) level of social security for the unemployed.<sup>14</sup> This means that the social costs of retrenchment did not grow to intolerable levels. In fact, to some extent it was demonstrated how a Scandinavian welfare model, contrary to some predictions, is able to live with relatively high levels of unemployment even at a long-term basis without undermining its economic foundations and without sacrificing its basic principles. In terms of institutional change, the dominant impression of the 1980s is one of maintenance of existing structures, not least including the universalism which was even expanded in that period. Furthermore, as a result of the high level of unemployment, the Danish society *de facto* moved further towards the "ultimate universalism" in the shape of a sort of citizens' wage, at least in the sense that nearly anybody without paid employment were able to maintain a basic income - and in the sense that the formal duty to seek employment actively was practiced in a very liberal manner.

Basically, what the bourgeois government did, then, was to consolidate the Social Democratic welfare state by slowing down the speed of social reforms and by rationalizing service production (sometimes at the expense of decline in quality). Actually, this turned out to be nearly sufficient to overcome the economic problems of the welfare state; with the increasing balance of payment surplus it was only a matter of time before increasing private consumption would bring the recession period to an end and stabilize the state budget through increasing revenues.

### **3. Are the problems really solved?**

Now, the picture above of the well-functioning welfare state resting on healthy economic foundations does not hold without qualifications. It may be argued that there is quite a lot of "window dressing" in the unemployment statistics as well as in the figures on state budgets above. And it may be argued that structural problems at the labour market as well as problems with a structural budget deficit have not quite been solved.

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<sup>14)</sup> This must be seen in relation to the extremely liberal rules with regard to firing people, see also section 4 below.

To begin with unemployment, the growth in private employment is much lower than one could assume on the basis of the unemployment figures above. In fact, the Danish economy has been unable to produce any long-term growth at all in private sector employment

*Table 3. Public and Private Sector Employment, 1948-1992 (full-time employed, in thousands).*

|                | 1948 | 1950 | 1960 | 1970 | 1980 | 1985 | 1990 | 1996 | 1997 |
|----------------|------|------|------|------|------|------|------|------|------|
| Private sector | 1782 | 1830 | 1915 | 1938 | 1751 | 1780 | 1788 | 1760 | 1789 |
| Public sector  | 151  | 156  | 222  | 403  | 691  | 752  | 785  | 786  | 800  |
| Total          | 1933 | 1986 | 2137 | 2341 | 2442 | 2532 | 2574 | 2546 | 2589 |

Sources: *Danmarks Statistik. Specialkørsel, ADAM databank, and ADAM databank (AER/June 1997).*

over the last 50 years. In 1948, 1,78 million people were employed in the private sector; in 1990, the figure was 1,79 million; and in 1997, it is estimated to be 1.79 million. At the same time, public employment has increased from 150.000 to 800.000 full-time employed.

Part of the explanation of the decline in unemployment from about 350.000 to about 200.000 is that there has been an increase in nearly all sorts of exit from the labour market:<sup>15</sup>

- \* Transitional allowance (introduced in 1992; entrance closed from jan, 1996) enabled long-term unemployed aged 50-59 years to leave the labour market and receive 80 per cent of previous benefits until early retirement allowance from the age of 60. By the end of 1995, nearly 45.000 had exploited that opportunity, the majority because of a hoarding effect when it was announced that the programme would come to an end.
- \* Early retirement allowance enables 60-66 years old who have paid contributions to unemployment insurance for at least 20 years to leave the labour market on conditions similar to unemployment benefits (though benefits are reduced to 80 per cent after 2½ years). Figures have increased from 102.000 in 1992 to 125.000 by January 1997.
- \* Early retirement pensions (previously disablement pensions): For decades, there has been an almost uninterrupted increase in the number of early retirement pensioners. From January 1992 to January 1997, figures increased from 257.000 to 271.000.

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15) Sources: statistisk 10 års oversigt, S.E. Social Sikring og retsvæsen (virious iss.). S.E. Arbejdsmarked (various iss.). Arbejdsmarkedsstyrelsen: Efterlønsstatistik

\* Leave arrangements: Parental, educational and sabbatical leave was introduced by 1992 and extended in 1993.<sup>16</sup> These rights are also given to the unemployed who constitute about one-half of the 50-60.000 people (calculated as full-time persons) who are on leave. As educational leave provides 100 % of maximum unemployment benefits (as against 60 per cent for parental leave), more and more people choose educational leave. Education is not restricted to vocational training; formal requirements are few.

Depending on the exact delineations, some 900.000 full-time persons aged 15-66 years live on transfer income from the state. This "nearly one million living on transfer incomes" has been a contested issue in political debates in Denmark in the mid-1990s, used as an argument against the welfare state in general and against the government's performance in particular. Even the government is keen to reduce the figures, however.<sup>17</sup>

At any rate, people on early retirement allowance or on leave are generally very satisfied with their situation; that is, from a social point of view, it clearly does make a difference that they are not formally unemployed. From an economic point of view, it may be argued that the "burden of support" for people outside the labour market has not increased (rather the opposite) but only changed from a private to a public support. But at least to some extent it must be acknowledged that in a dynamic perspective it does not lead to much reduction in aggregate unemployment to increase the number of exit opportunities; the major long-term effect is a reduction of the labour force and thus an upward pressure on taxation; the question then becomes one of balancing taxes and welfare.

The second reservation as to the picture of welfare state recovery above is the question if there remains a structural imbalance between expenditures and revenues. In 1997 and 1998, it is estimated that there will be a small surplus of state budgets. But it is obtained by "window dressing" - in 1997 by changing the transfer of taxes etc. from municipalities to the state (which allows the state to have revenues from 13 months in one year), and in 1998 by selling off shares in partly government-owned companies. In both years, this improves the balance by about 1.5 per cent of GDP, that is, the balance would otherwise be negative. Besides, much capital accumula-

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16) Sabbatical leave is phased out, and parental leave is increasingly becoming an extension of maternity leave as municipalities exploit the opportunity to reduce provision of childcare to children aged less than one year. Compensation level was originally 80 per cent of maximum unemployment benefits (some 144.000 DkK by 1997) but was reduced to 70 per cent in 1996 and 60 per cent in 1997. Some municipalities provide some additional compensation but far less frequently than a few years ago.

17) It is difficult to escape the suspicion that the extension of the leave arrangements were partly motivated by wish to improve reelection chances by being able to present improved figures on unemployment. Later, it was of course rationalized as a new philosophy of work and welfare.

tion (especially building of bridges) has taken place in 100 per cent government-owned companies which means that the building expenses are not registered as a public expenditure. Finally, as mentioned above, user charges and fees have increased at a much higher speed than public consumption (which figures as net expenditure). The fact is that even in 1998, i.e. the fourth or fifth year of prosperity, there remains a state deficit if budgets are cleaned from "window dressing". This indicates that state deficit is structural although not to the same extent as fifteen years earlier. This brings us to the question of long-term challenges.

#### **4. New Welfare Challenges into the 21st Century**

##### *Budget Controls*

The challenges of controlling budgets and ensuring efficiency ("value for money") are ever-lasting ones, neither old or new. Not least in welfare states as the Scandinavian ones with a very large public service sectors and, consequently, with very large numbers of public employees (roughly one-third of the labour force), there will be a permanent pressure for higher budgets; in the absence of tight budget controls, e.g. budgetary systems ensuring that priorities are made, the sum of decisions concerning individual expenditures will almost inevitably add up to larger total expenditures than desirable (Kristensen 1980; 1987). The softening of such controls is in fact a main explanation of the somewhat unintended increase in public expenditures after 1993. At the revenue side, the tax reform of 1993 (see below) is responsible for somewhat lower revenues. Even though the net costs of budget increase or tax relief are small in the short run because of increasing employment it follows that the main explanation of the remaining structural budget deficit is political; the structural deficit is *not* an inevitable consequence of the welfare model operating in new societal surroundings.

All European welfare states do, however, face a number of new long-term challenges due to societal change towards the end of the 20th century. Perhaps most of these changes may be summarized in four words: globalization, demographic change, individualization - *And* the development of large-scale welfare states. At a very general level, we may hypothesize alongside with Esping-

Andersen (1990, 1996) and others that the challenges facing the European welfare states are very much alike<sup>18</sup> but that the responses are different, depending not least on institutional preconditions.

### *Globalization*

At least two aspects of globalization needs consideration here: One aspect is the increasing international trade and the new global division of labour. Another is immigration. Both aspects are highly contested. As Krugman (1996) has pointed out, foreign trade as proportion of GDP was in fact as large or even larger before World War I than it was in the mid-1990s. This warns against a too deterministic view of the future of the welfare state (Hirst 1997) and underlines the fact that political decisions rather than economic determinism is the main force behind changing patterns of international trade. Furthermore, as shown by Cameron (1978), the countries with the most *open* economies experienced by far the most dramatic increase in public expenditures from 1960-1975.

However, there remains a mutually reinforcing relationship between the nation-state and the welfare state as the latter developed in a period with unusually closed economies (1930-1970), partly rooted in national solutions to economic crisis problems caused by depression and war. This expanded the capacity of the nation-state: Politics was possible (Ringén 1987). But it does not necessarily follow that the welfare state is vulnerable to increasing international trade. It may in principle reduce the capacity of the nation-state to interfere with the market, e.g. in terms of minimum wages, redistribution etc., but as long as trade is mainly between countries at roughly the same level of development (as in the EU), practical effects are small.<sup>19</sup> The question is whether trade between very different countries makes a difference. Specifically, the question is whether global competition between European countries with compressed wage structures and newly industrialized countries (and to some degree even the USA) generates structural unemployment among the lowest-skilled, i.e. a low-skilled "surplus population".

Esping-Andersen (1996) to some degree accepts this problem description and describes four strategies which he identifies with his three welfare regimes: Increase of service employment in the public sector; raising qualifications through vocational training; exit arrangements in order

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18) Recent contributions of Esping-Andersen (1996) also emphasize the challenges of globalization. In earlier works, his main emphasis, in accordance with his theoretical model of explanation, was class structural change, in particular the growth of the new middle class. Esping-Andersen (1993) also theorizes over new class structural change but this time, class structural change is more a consequence of welfare regimes than a cause.

19) With increasing openness, however, deficit budgeting in order to improve employment becomes an increasingly "altruistic" behaviour as the additional jobs are increasingly created outside the country's border.

to reduce labour supply; lowering minimum wages in order to expand low-productive employment mainly in private services. To these may be added the fifth possibility of accepting that unemployment is unavoidable and seek to make the best of it (as citizens' wage proponents would have it, see e.g. Offe 1996).

In fact, Denmark has applied all of these strategies and even added a sixth one: A "home service" arrangement where the government subsidizes (by 50 per cent) services for private households delivered by certified firms. This is a growing business but still employs probably less than 10.000 persons. In the 1990s, emphasis is increasingly on the strategy of education and vocational training, and active labour market policies are absorbing huge amounts of money, second only to Sweden. A labour market reform in 1993 introduced the principle of making "individual plans of action" for long-term unemployed, in cooperation between the unemployed and the employment office (In practice, plans are not always that "individual" or negotiated). It remains to be seen how effective this and other new initiatives will be. According to a large number of evaluations, the experiences of active labour market policies from the 1980s and the 1990s have not been too convincing up till now - as is also expressed in the sentence popular among civil servants: "Education is the solution - what is the problem"? Apart from the cost/benefit problem of such arrangements there is furthermore the problem that this activation could become extremely costly in recession periods.

So far, it is difficult to assess to which degree the low-skilled may become more "employable"; it is also difficult to assess which strategies are the best; and as far as the strategy of lower-minimum-wages-plus-private-services is concerned, even new values may reduce demand among the unemployed to have less "meaningful" jobs. However, as information about the well-being of the unemployed reminds us, fighting unemployment is a means rather than a goal: It is a means of securing a healthy economy, and it is a means of avoiding social exclusion or decline in full citizenship. But the unemployed are highly different, and one should perhaps not strive to obtain full employment at any price. The Danish welfare model has not proved that it is possible to avoid unemployment and marginalisation on the labour market. But from the Danish experience it does seem that it is to some degree possible to alleviate or even avoid further negative consequences for citizenship and to live with a relatively high level of unemployment without deteriorating the economy.

It remains a contested issue whether globalization has a negative or positive impact on aggregate employment, and it is even contested whether there is at all any negative effects on the employment of the lower-skilled. Similar disagreement is found also when it comes to the effects of globalization (and of European Integration) on taxation policies: Taxes on capital, property,

and perhaps even on mobile parts of the labour force may come under pressure, and high commodity taxes may lead to too much border trade. However this may be, Denmark is not very likely to come under pressure. As far as capital is concerned, property taxes have been abolished, and corporate taxes have been lowered to 34 per cent. Commodity taxes have been slightly adjusted to avoid border trade. Taxes on labour (combined income taxes and social contributions) are about the European average (Lassen and Nielsen 1996), and language still constitute a barrier to migrations (since Denmark's entry into the EU in 1973, migrations to other EU countries have doubled but remained at a very low level). Besides, there are few incentives for young people to move because of the favourable support for children families and the young in the Danish welfare state. Furthermore, a special low tax has been introduced for managers, experts and others working in Denmark on a temporary base and unable to exploit the welfare opportunities.

An even more controversial aspect of globalization is increasing immigration, especially immigration from so-called "third countries" (outside Western Europe, North America and the Antipodes). Like other European countries, Denmark has experienced an rapid increase in the number of refugees and asylum-seekers, and in family reunion. This has tended to generate new ethnic conflicts in previously homogeneous European countries like Denmark that were unacquainted with multiethnicity (Gaasholt & Tøgeby 1996). More importantly here, if integration fails, it constitutes a very serious challenge to the welfare state ideal of full citizenship (vanStenberg 1994; Hoff 1997). Furthermore, it is sometimes claimed (but so far not empirically justified) that exactly the advanced welfare state with its high minimum wages and generous social security unintendedly tends to work against integration of immigrants as citizens because it prevents them from having a job. In Denmark, unemployment rates among immigrants with "third country" citizenship is in fact (on average) about three times as high as general unemployment rates, and during the recession in the early 1990s, unemployment rates were above 50 per cent for some nationalities. However, there is no research to illuminate to which degree this is an effect of insufficient qualifications, employers' prejudices, or unintended effects of the welfare system, leaving the field open for speculations (and prejudices!). By the same token, only political parties hostile to immigration have so far tried to estimate the costs of immigration which have even in Denmark moved beyond insignificance (this has also contributed to "welfare chauvinism" among certain segments of the population) although the economic aspects are clearly the least worrying so far.<sup>20</sup>

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20) The xenophobic "Danish People's Party" has recently asked Statistics Denmark to make an analysis of the *gross* costs of immigration (less taxes paid by immigrants), including also immigrants with Danish (continued...)

### *Demographic Change*

The second common challenge to European welfare states is the challenge of *ageing populations*. However, some welfare systems are more vulnerable to this challenge than others. In the Danish case, flat-rate public pensions are modest, providing acceptable compensation only for low-income groups. Besides, fertility rates in Scandinavia are fairly high (between 1.7 and 2.0). This may reflect the unusually generous provisions for children families and for young people that are built into the Scandinavian welfare model. Or it may reflect a "culture gap" between Scandinavia and the rest of Europe: Around 1970, Sweden was the first country in Europe to experience fertility rates below 2.0. Then in the 1980s, the decline in fertility reversed, and in the 1990s, Sweden is the only European country apart from Ireland, Turkey and Iceland having experienced fertility above 2.0 (Goul Andersen & Munk Christiansen 1991: 224; Council of Europe 1997).

Alongside with immigration, this means that demography is likely change less in Scandinavia than in several other European countries. Taking Germany as an extreme counterpoint, the population prognoses of the 1990s indicate that in Germany, the proportion of the population aged more than 60 years will increase from just above 20 per cent to some 33 per cent whereas in Denmark it will increase from slightly below the German level to little more than 25 per cent.

Accordingly, calculations of the future costs of ageing populations have provided smaller and smaller estimates alongside with increasing fertility. In 1996, it was estimated that total increase in costs associated with changing age composition of the population, including services, would amount to some 3-4 per cent of GDP around 2025 (Ministry of Finance, 1996, ch.8). Furthermore, it is not clear whether these calculations have included future savings on public pensions which are highly likely if the system of labour market pension is expanded as intended. As about one-third of a standard old-age pension is income-tested pension supplements, a labour market pension will provide some relief to public expenditures. In short, in the Danish case the fear of the "pension bomb" is misleading; if anything, it is the increasing tendency to retire at about the age of 60 in order to enjoy a long "third age" that might be worrying, not ageing as such.

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20)(...continued)

citizenship as well as second-generation immigrants (!). This analysis concluded that the total gross costs amounted to about 3 per cent of GDP. As a calculation of the costs of a random sample of native Danish citizens of the same size would probably conclude that the costs were about 1-1½ per cent of GDP it is clear that the economic aspects are the least important so far.

### *(Post-)modern Individualization*

The third cluster of new challenges is centered around the *individualization* associated with (post-)modernity. As Giddens, Bauman and many others have pointed out, individualization is one of the core changes in modern (Giddens)/late modern (Hall)/postmodern (Bauman) societies. We shall deal here with only two aspects: Changing family relations and increasing demand for influence and autonomy.

The breakdown of traditional family relations in favour of more individualized ones imply a loosening of the bonds between generations (including economic obligations for children, caring responsibilities for parents, etc.). Idealtypically, it also includes increased economic independence between spouses and the inclusion of women into the labour force. This, in turn, implies that childcare functions must be shared between the family and others - be it welfare institutions, market-based childcare or other actors.

In Scandinavia, these challenges have typically been met by expanding the scope of the welfare state. As illustrated by the universal students' allowance referred to above, the individual rather than the family is the basic unit. In Denmark, public childcare is provided for most children above one year, even more than in Sweden, and to a much larger extent in kindergartens.<sup>21</sup> Besides, childcare after school is increasingly provided also for schoolchildren in their first grades.<sup>22</sup>

As far as women's integration at the labour market is concerned, this is almost complete. In the 1960s and 1970s, the provision of large numbers of part-time jobs enabled the inclusion of large numbers of former housewives. In fact, the additional number of women in the labour force, the total increase in the labour force, and the increase in the number of part-time jobs were almost identical from 1965 to 1980 (despite the strong opposition from unions demanding full-time occupation). However, from 1980 when housewives had almost disappeared except in the oldest age cohorts, the increase in part-time jobs reversed and began to decline. In the mid-1990s, there are very few women left that work less than 30 hours (table 4); in fact, the transition into (almost) full-time jobs has been just as rapid in the 1980s and 1990s as the entrance in the labour market in the 1960s and 1970s (in spite of the fact that unions have now accepted part-time jobs!).

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21) Because of age classifications, some Nordic statistics have been misleading at this point (see Tøgeby 1989; Goul Andersen & Munk Christiansen 1991: 132). The total number has increased from 212,000 in 1985 to 284,000 in 1995 (of which 68,000 day-care mothers; the rest in institutions). This covers 5-5½ one-year birth cohorts, numbers varying between just above 60,000 to about 70,000. People on parental leave have to take their children out of public day-care.

22) Total numbers have increased from 52,000 in 1987 to 134,000 in 1995. A one-year birth cohort was about 60,000 in the relevant age groups.

Clearly, part-time jobs was only a transitory stage on the way to full employment; it is likely that other European countries will experience the same within the next couple of decades. All this means, however, that in comparison with other countries, Denmark and the other Scandinavian countries have very small labour force reserves.

*Table 4. Proportion of part-time employed among employed female wage earners, 1982-1995.*

|             | 1982 | 1985 | 1989 | 1993 | 1995 |
|-------------|------|------|------|------|------|
| All women   | 33.3 | 29.8 | 27.9 | 24.2 | 20.9 |
| 16-19 years | 53.6 | 55.8 | 67.4 | 75.5 | 74.8 |
| 20-24 years | 17.3 | 17.6 | 19.4 | 26.1 | 27.1 |
| 25-29 years | 21.0 | 14.5 | 10.2 | 10.2 | 9.3  |
| 30-34 years | 32.5 | 24.3 | 14.3 | 9.1  | 6.1  |
| 35-39 years | 36.7 | 31.6 | 22.7 | 14.9 | 9.9  |
| 40-49 years | 38.7 | 34.2 | 27.8 | 22.4 | 15.9 |
| 50-66 years | 40.4 | 38.2 | 34.1 | 31.9 | 22.1 |

Part-time employment is defined as less than 83 per cent of normal working hours (typically 37 hours a week).

Source: Statistics Denmark: Statistiske Efterretninger: Arbejdsmarked (various iss.), register-based labour force statistics.

A second change related to individualization is the demand for more influence and autonomy. As pointed out by Inglehart (1990), new values include a demand for more say in government which logically includes also welfare institutions. Other things being equal, paternalistic and bureaucratic welfare institutions must be assumed to face increasing dissatisfaction among users in a postmodern society. However, in Denmark, user influence is highly institutionalized in kindergartens (as from 1993), schools (as from 1989) and even in the shape of a council for the old at the municipal level (as from 1997). Besides, informal user influence seems even more important, and users are generally very satisfied with their influence (Hoff 1993).

Inglehart (1990) assumed that voice was the only possibility to have more influence and control. However, increasing demand for exit opportunities - freedom of choice - is an equally obvious consequence of changing values. Even at this point, much has changed as patients have (in principle) free choice between hospitals and parents free choice between schools and institutions for their children. Besides, a quite large private school sector (rooted in a variety of

ideas but rarely having the upper classes as their clientele)<sup>23</sup> strongly subsidized by the state provides exit opportunities outside the public school system at a very small cost.

As far as decentralization, user influence and exit opportunities is concerned, Denmark has been a forerunner in institutional change in Scandinavia whereas Sweden is more of a "laggard" - depending on how one would judge on the Swedish arguments that it is important to maintain political responsibility and not just leave the service institutions to the users.

### *Distortion effects on markets*

The last major change in the last part of the 20th century is the *development of large-scale welfare states* in itself. This involves, by definition, also an accumulation of whatever side effects there may be. It is debated to which degree taxes, social security, and regulations impose distortions upon the market but other things being equal, they must be assumed to grow with the level of taxation. This may perhaps help explain the "Copernican turn" among many economists from advocating state solutions to market imperfections to advocating market solutions to state imperfections. Besides, inefficiency in public service "production" is far less tolerable in countries having about one-third of their labour force employed in the public sector. However, despite frequent attempts to demonstrate the distortion effects of the welfare state, empirical findings have not been very encouraging so far (Pedersen 1993).

At this point, however, institutions are probably more important than levels of taxation. More than often recognized, the Scandinavian welfare states act in more conformity with the market than indicated by such terms as "decommodification". Thus it is well-known that in several respects, universal (i.e., general) programmes are less likely to generate "poverty traps" than selective (i.e. means-tested) ones. Besides, the very incentive to present oneself as "needing" or "deserving" may perhaps easier lead to "welfare dependency".

A particular Danish welfare mix should also be mentioned (Jensen 1989; Goul Andersen and Munk Christiansen 1991:90-93, 177-80): Danish wage earners enjoy a very limited protection against being fired, as compared to wage earners in most other European countries. At the same time, the unemployed have (at least until recently) enjoyed a very generous support while being unemployed. Clearly, this mix of high protection during unemployment with low protection against unemployment has its shortcomings (too few incentives or even abuse among employers). But on the other hand, it has contributed to an extremely flexible labour market where

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23) By 1994, 11.1 per cent of the pupils of the first 10 (11) grades attended a private school. Most of these are small and based on alternative pedagogical ideas, often rooted in the 19th century high-and free school movement.

unemployment is highly dispersed (e.g. over the age groups) and where the "insider/outsider" problem is small: The "insiders" will easily become "outsiders" if they push their demands too far and because of the "Gent model" of unemployment "insurance" 85 percent of the unemployed are minimized. As far as protection against unemployment is concerned Danish institutions have been under-developed, reflecting the legacy of a society dominated by small employers, but have come out as being quite well-adapted to new market surroundings where flexibility is a strong requirement.

A broad assessment of some major new challenges to the welfare state associated with globalization, ageing, individualization and side effects of a very large welfare state, does not immediately point towards any unsurmountable problems for a Scandinavian-type welfare state. Indeed, with a few exceptions and a few question marks, they generally seem to have found a way that is "workable" (without necessarily being any ideal for others). At least, there is little to suggest that the Danish or Scandinavian model as such face particularly difficult problems in the foreseeable future.

## **5. New Dynamics and New Trajectories**

One question is whether it will be possible to maintain the Danish type of welfare state in the future. Another question is whether it is desirable. And a third question - on which we shall concentrate here - is whether it is likely that it will. The suggestion here is that it is possible to maintain the basic institutional structures of the Danish welfare state, and from several criteria perhaps also desirable in many instances. However, it is far from certain that they will be maintained. This may depend on public opinion (which is generally favourable but in some respects sceptical to universalism - in particular among workers and the young); it may depend on political will (which, at least in the Social Democratic government, is favourable in principle). But perhaps most of all, it may depend on unintended side effects which may evoke new dynamics and consequently more fundamental change. Decision-makers are not always aware of long-term effects and side-effects of their decisions, and institutional change may often be antecedent to both elite and mass opinion.

From this point of departure, we may briefly address some of the major institutional changes in the 1990s. In its very first year, the government came close to entering an entirely new trajectory of the welfare state. The introduction of new leave arrangements - parental leave, educational leave and (not the least) sabbatical leave could have been the beginning of very

fundamental change.<sup>24</sup> These new arrangements soon became very popular, especially among the younger generations, and it would not have taken long time to develop something like vested interests preventing a reversal; indeed it seems that parental and educational leave has come to stay but that further experiments with sabbatical leave are dropped. However, the new leave arrangements probably contributed to a backlash among one of the governing parties (the Radical Liberals) which began to speak loudly about uncontrollable transfers, "dependency culture" - and against the "citizen wage" that was in fact introduced as an idea in Denmark in the 1970s by one of the party's own prominent figures.

Instead of a citizens' wage trajectory, Denmark has since 1993/95 rather faced the very opposite change, almost a workfare policy path. Whereas control with the unemployed was relatively little developed in the 1980s and early 1990s, the idea of "activation" has been expanding from the mid-1990s. A modest beginning was taken with a Labour Market Reform in 1993 which divided the total unemployment period of seven years (to this could be added up to two years of leave for some categories of unemployed) into two periods, the last period being an activation period of three years. In this period, the unemployed should be on permanent activation and did not gain the right to a new period on unemployment benefits.

Two years later this was significantly tightened as part of an agreement over the State budget with the Conservatives. Entitlement to unemployment benefits was restricted to five years, of which three years on permanent activation. Access was somewhat restricted. And for people aged less than 25 years, unemployment benefits are obtained only for half a year before they have the duty to accept 18 months of education on highly reduced benefits. People on social assistance can receive support only for six months; then they must have made an individual plan of action and subsequent activation.

This "active line" is interpreted as a considerable success, at least in the sense that most of the unemployed aged less than 25 years turned out to be able to find a job in order to avoid activation. Besides, activation itself has been a success for some groups. And more generally, people who run the risk of dropping out from the unemployment benefit system seem surprisingly able to find a job, at least for the 26 weeks necessary to begin a new unemployment period. Even though people do have an impressive ability to find a job when they have to, however, economic prosperity has without doubt contributed much to the apparent success.

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24) In fact, these arrangements were introduced already by 1992 but with restricted access which meant that they were used only to a very limited extent.

Because of the success of the 1995 reform, suggestions have been made to shorten the unemployment period even further or extend the new rules to older age groups. Besides, the idea of workfare has been built into a revised law about social assistance (1997) although the practical effects are so far unclear. At any rate, the active line marks a quite definitive break away from the last 20 years' unemployment policies (active labour market policies is not a new phenomenon but the stress on duties is rather new). It is unclear how this has affected the stigmatization of the unemployed, the well-being among the unemployed, and how this (rather expensive) system will work under a recession.

Another change which took place alongside with the Labour Market Reform in 1993 was a tax reform introducing a new type of tax called "labour market contributions" but labelled "gross tax" by the political opposition (the latter word is adopted by the general public). It is a formally earmarked (and deductible) social contribution, so far paid mainly by wage earners and only to a negligible extent by employers. Until now, the Danish tax system has been unique in Europe as it is almost entirely based on income taxes rather than a mix of income taxes and social contributions/or employers' taxes. Formally, the new tax system marks an approachment to other European tax systems although it is a strange hybrid.

The government's motives (apart from obtaining a revenue from low-income groups such as pupils and students with part-time work) are unclear. Probably they were mainly tactical. Apparently, the government had hoped to make income taxes less visible (in the first year, it even sought to remove these contributions from the tax accounts). The most important motive was probably to broaden the tax base by reducing the tax values of interest deductions. Finally, the reform increases the tax base of the state and limits the tax base of municipalities - a welcome side effect from a government's point of view.

It is not very clear what are the further ideas but at least the government has sought on several occasions to reach agreement with the opposition to increase these contributions even further by formally introducing new funds for other types of social expenditure. In a purely formal sense, this represents to some extent an accommodation to a Bismarckian insurance-based system but it is unclear if the government (or some of its ministers) have any ideas of also changing the system more substantially.

Among other changes of the tax system since 1993 may be mentioned a lowering of marginal taxes at all levels (which implies that the highest combined income tax as from 1998 is to be some 62-63 per cent) in return for increasing taxes on energy, water etc - so-called "green taxes". As such indirect taxes were already much higher than in any other EU country, this marked a further substantial deviation from the average EU-tax system also indicating that

accommodation to some sort of "EU average" has not been any important motive behind the reform. Finally, property taxes was abolished in the 1995 agreement between the government and the Conservatives. Not surprisingly, this aroused some protests among the traditional working class base of the Social Democratic party who felt they had already suffered from the regressive "green taxes". The Danish income tax system has remained probably the most progressive in Europe, and the highest marginal tax which is scheduled to be lowered to 62-63 per cent in 1998 remains among the very highest. But the high VAT and the "green taxes" pulls substantially in the other direction.

Finally, the pension system is undergoing fundamental change. In the 1960s, Denmark failed to introduce an income-related superannuation scheme as in Sweden and Norway, mainly because of ideological resistance within the labour movement where the rank-and-file members preferred the citizenship-based, flat-rate old age pensions. However, catalyzed by governments' often desperate attempts to support any form of private savings in order to improve the chronic balance of payments deficits, a dual pension system had emerged by the early 1980s where two-thirds of the population (less so among present pensioners) had no pension coverage other than their basic ("people's") pension. Now, it must be acknowledged that basic pensions (and various supplements) had been improved to a level where the compensation rate was coming close to 100 per cent for single, low-income wage earners, allowing more than 60 per cent of all old-age pensioners (67 years or more) to remain homeowners. But partly because of fears of the future "pension bomb", partly because of the interests of the Unions in having some collective funds to control in the aftermath of the breakdown of the Economic Democracy project, they made collective agreements with employers on a formally private "labour market pension". In the 1990s, this has been extended to almost the entire labour market, and at the same time the bourgeois government had made a single institutional change which may be quite important in the long run as it exempted wage increases devoted to pensions from the annual regulation of old-age pensions and other transfers. In connection with the income-tested pensions supplements, this means that the Danish flat-rate pension system could gradually be replaced with with an income-related pension without any maximum. From the governments' point of view, the new labour market pension which may end up placing the Danish system somewhere in the middle between a residual and a corporatist model has the additional advantage that contributions to labour market pensions are not counted as taxes, unlike obligatory social contributions.

Still, the future of the labour market pension is unclear. Basic pensions remain very generous by comparative standards, and so far, contributions for labour market pensions are very small. As with the other changes, it is as yet uncertain whether we face the beginning of very

fundamental changes or only slight modifications, perhaps even of a temporary character. Still, somewhat paradoxically, we encounter what may be the beginning of more profound change of the Danish welfare system during the years of Social Democratic government than during the 10-11 years of bourgeois rule, even if the latter was intended to be a bit of a bourgeois revolution. It remains to be seen whether the tendency towards higher equality has also been reversed under the Social Democratic government but it does not seem unlikely, given the prosperity as well as the tax reform.

## 6. Conclusion

Beyond these considerations, however, it remains that the Danish welfare system has been able to overcome the severe economic difficulties of the early 1980s without any fundamental changes. In fact, the "Social Democratic" model was consolidated. At present, there is little to indicate that this welfare model should come under any hard pressures that necessitate more fundamental change. Rather, it seems that the main risk is insufficiently tight budget controls which could make the welfare state too vulnerable if prosperity should come to an end - however unlikely this scenario appears among political decision makers at present. Should more profound changes occur, it will not be because of economic pressures but rather because of political choice -- but not necessarily *conscious* political choice.<sup>25</sup>

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25) The history of the Danish welfare state is very rich of examples of profound changes as a result of unintended side effects. In fact, when Denmark as the second country in the world introduced an old-age pension (by 1891), it consciously adopted a model that differed from the Bismarckian insurance model (Petersen 1990). The Danish model was citizenship-based and tax-financed (and means-tested: in the first few years, only some 20-25 per cent of people aged more than 60 years received the old-age benefits). This was the beginning of a quite different path (and in the end, of a quite different welfare regime) than the German one. But in fact, the leading political forces behind the 1891 a few decades later regretted that they had not chosen an insurance-based old-age pension instead, only they recognized that it was too late and that they had to formulate their interests within the framework of the new institutional structure that had emerged. In turn, alongside with changing ideas in the Social Democratic party, this was one of the forces behind the universalism so characteristic of the welfare state in Denmark (and in the other Scandinavian countries).

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