

RESTRUCTURING THE DANISH WELFARE STATE: THE SOCIAL DEMOCRATIC PATH FROM WELFARE TO WORKFARE?

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Globalization and the crisis of the welfare state

Once, the welfare state¹ was seen as a solution to most social problems created by market forces, such as a solution to most social problems created by market forces, such as unemployment, inequality and marginalization. Today, there is less belief in its problem solving capacities. The welfare state is rather seen as a victim of such forces in the current era of globalization. Often, the welfare state is even presented as the main problem, i.e. as an obstacle to the smooth functioning of the market economy.

Compared to the «golden age of the welfare state in the 1960s, the nature of the international economy has been fundamentally altered by the liberalization of the flow of capital and goods. The result has been some loss of government control over employment and other broad economic policy objectives. Whether this amounts to a crisis, an impasse, or merely a difficult conjuncture is an intensely debated subject. Globalization is itself a contested concept and its impacts on national policy autonomy and welfare states are fiercely discussed issues².

In another perspective, many problems are endogenous to the welfare state. The economic problems derive from what was earlier seen as one of the main achievements of the welfare state: social rights, which, to some degree, emancipate the individual from the forces of the market. In this perspective, many such rights translate into «disincentives» and «market imbalances». In particular, attention is directed to the inflexibility of labour markets. This includes high minimum wages and compressed wage structures, insufficient incentives of the unemployed to seek employment and the associated emergence of a «dependency culture», disincentives of the «insiders» to allow the «outsiders to gain access to the labour market, et cetera. It is argued that such structures are responsible for structural unemployment and low occupational growth³.

Social democracy and the universalist welfare state

Some features do not seem to confirm the crisis diagnosis; the welfare state is apparently not being «rolled back». Even after the «golden age», the internalization of economics seems to have fueled welfare state expansion rather than driven a process of retrenchment; social programmes of both the passive and active type have borne the cost of higher unemployment and industrial adjustment. Governments have failed to scale down welfare spending, even they set about explicitly to do so as in Reagan's USA and Thatcher's Britain.

Yet, it is hard to deny that the welfare states are in trouble. Internationalization has helped to undermine the traditional welfare agenda of the social democratic left. «That particular project hit its limits in the 1970s and what has occurred since can be likened to a "holding operation". For, while the expansion of spending in response to globalization has created its own difficulties, (...) political inertia and the obstructive power of vested interests have compounded the problems of welfare states. Moreover, despite getting bigger, welfare states are failing in many areas (...). At the same time, although opinion polls continue to indicate wide-spread support for the welfare state, (...) there is a profound loss of confidence in "collective" public-sector solutions in favour of either privatized or 'marketized' solutions»⁴.

Whereas opinions differ in the debates on the crisis of the welfare state, in general there seems to be a widespread consensus that not only has the traditional welfare agenda of the European social democratic left collapsed, but it is also its most advanced project, the universalist welfare state⁵ of the Scandinavian countries, that has suffered most from the disruptive changes in the international economy since the 1970s. These countries appear to have lost their traditional instruments for defending full employment. The liberalization of financial markets have made it impossible to implement tight exchange controls and, accordingly, to prevent capital flight from disrupting expansionary Keynesian economic policies. Liberalization has also made it impossible to maintain traditional low interest rate policies. Furthermore, one of the consequences of the integration of financial markets is that deregulation has become essential for high credit ratings from international agencies. Garrett (1995) argues that the small northern European countries, as an effect of their open trade regimes, are more vulnerable to this pressure for reducing social and economic intervention by states than the larger European economies. Under these circumstances, macroeconomic priorities have been directed away from full employment towards defending the balance of payments and fighting inflation with profound consequences for the welfare state.

Divergent trends in the Scandinavian countries

Events in the early 1990s seemed to confirm the assumption that the Scandinavian welfare states suffer most from the new developments in the international economy. Both Sweden and Norway (and Finland as well) experience financial instability, high interest rates, large public debts, substantial decline in GDP growth, soaring unemployment and, as a result, public expenditures and welfare programmes were cut⁶. The developments were triggered by deregulation, overheating and a banking crisis, but the causes were of a deeper seated nature.

Since then, Sweden has continued on the path of retrenchment and radical restructuring of welfare policies. Also, other elements of the «Swedish model» have been dismantled⁷. Often Sweden is taken as the Scandinavian case. The other Scandinavian countries are seen as less pure cases or as imitators hoping to catch up with the Swedes. The fact that the Swedish welfare state has been proven unsustainable confronted with the contemporary challenges appear to most outside observers as a sufficient proof that the Scandinavian welfare state is in a process of inevitable decline.

However, similar changes have not taken place in Denmark and neither in Norway, after a few minor cuts effected by the disturbances in the early 1990s. The Norwegian case is an exceptional case. North Sea oil has made Norway the Kuwait of Europe, which might explain why the welfare state has not been rolled back in Norway. Such extraordinary factors cannot explain the development in Denmark.

The macroeconomic development has been rather successful in Denmark in recent years: high rates of non-inflationary growth, surplus on the balance of payments despite the toll of repayment of a large foreign debt, balanced public budgets, decreasing unemployment (from 12.5% in January 1994 to 7.5% in September 1993)⁸ and employment growth in a country with already the highest participation rates in Europe. This has happened without real wage reduction and without major cuts in welfare entitlements of compensation levels and no dismantling of any support schemes⁹. Hence, the results have not been founded on the creation of a new underclass of working poor.

It is, of course, difficult to point at clear causes. However, the long-term effects of norm-based macroeconomic policies and the new structural policies, in particular, the new labour market policies, are no doubt part of the reason. Restructuring rather than retrenchment of the welfare state seem to be the order of the day. Denmark is seen by the OECD and other observers as a success story¹⁰. It is remarkable that the Danish success has been achieved by means of poli-

cies which are in some ways contrary to the recommendations of the OECD and much different from the policies followed in the other contemporary success stories¹¹.

The Danish case seems to call for another framework of understanding the current changes than the one presented above. The Scandinavian welfare state is not necessarily unsustainable in the contemporary era. A more appropriate theoretical framework must provide a better understanding of the causes and effects of the on-going restructuring rather than an exclusive focus on maintenance vs retrenchment. Such a framework is sketched in the section below¹².

From the Keynesian Welfare State to the Schumpeterian Workfare Regime

In capitalist societies, the state has two key roles; the first is its involvement in securing the conditions for economic growth (which increasingly entails promoting international competitiveness), and the second is its role in securing the social reproduction of labour. In postwar North Western Europe, the ideal typical form of state management of the twin roles of economic and social reproduction might be termed the «Keynesian welfare state (or KWS). Economically, it aimed to secure full employment in a relatively closed national economy and, to do so, primarily through demand-side management. In this way, it tried to adjust demand to the supply-driven needs of Fordist mass production with its dependence on economies of scale and full utilization of relatively inflexible means of production. And, second, it tried to regulate collective bargaining within limits consistent with full employment levels of growth, to generalize norms of mass consumption, beyond those employed in Fordist sectors, and to promote forms of collective consumption favourable to the Fordist mode of growth. The KWS experienced a crisis in the 1970s and 1980s. This had economic, political and broader causes. The concrete forms of KWS and its forms of crisis naturally varied from case to case, or depending on structural and institutional legacies.

From the early 1980s onwards, at different times and speeds, in different fields in different societies, the KWS has been subject to several changes which are tending to produce a new welfare regime. This new ideal typical form of managing economic and social reproduction can be termed the «Schumpeterian workfare regime». Thus, regarding the conditions for economic reproduction, the SWR can be described as Schumpeterian, in so far as it tries to promote flexibility and permanent innovation in open economies by intervening on the supply-side and tries to strengthen, as far as possible, the structural competitiveness of the relevant economic space. Regarding social reproduction, the SWR can be de-

scribed as a workfare regime¹³, in so far as it tends to subordinate social policy to the requirements of labour market flexibility and structural competitiveness, at least in those policy areas where the present and future working population is the target of policy. More generally, «workfare», in this context, is also associated with downward pressure on public spending and is, thus, effecting other areas of social policy as well. This is so as an effect of internationalization of the economy which has changed the economic role of public spending from a source of domestic demand to a cost of international production. The term «regime» is used rather than «state» to categorize the SWR in order to emphasize the increased importance of non-state delivery mechanisms, in the provision of what often remain state-sponsored economic and social policies. Finally, the SWR also in another respect differs from its KWS counterpart: the increased importance of other spatial scales and horizons of action than the national territory and the nation state.

Towards a Schumpeterian workfare regime in Denmark

Following this theoretical framework, the changes of the welfare state in Denmark, as well as other welfare states, can be studied by exploring the changing mixes along three dimensions: macroeconomic vs. structural, welfare vs. workfare, and government vs. governance¹⁴. Although divergent tendencies are also visible, it appears that the changes in the Danish welfare state clearly point towards a Schumpeterian workfare regime. In the field of economic policies macro-economic demand management has increasing lost momentum and been supplemented / substituted with structural policy. Furthermore, a trend towards «work-farist» subordination of social policy to the requirements of labour market flexibility and structural competitiveness is clearly visible as well. In the following sections of the paper, I shall dwell in more detail on the shift in the welfare-workfare mix, whereas in the next section I shall elaborate a bit on the change in the macroeconomic - structural mix.

From macroeconomic to structural policy¹⁵

Changes in the perception of international competitiveness have been instrumental in promoting the development from a Keynesian to a Schumpeterian economic policy regime. The previously dominant perceptions of competitiveness stressed the primary importance of relative prices and/or comparative advantages.

Competitiveness was seen as a problem associated with the development of prices, costs and exchange rates. Recently, however, competitiveness has been associated not only with these macroeconomic variables, but also with the structures that influence the capacities of firms to compete in technology, delivery, after-sales services and to develop other forms of firm-specific advantages. OECD has termed this «structural competitiveness»¹⁶. Another useful term is «systemic competitiveness», which, in the new context of international competition stresses the importance of the complex institutional embeddedness of market forces¹⁷.

Figure 1 shows the factors determining systemic competitiveness. It is created through the interaction of factors at different levels: the meta-level (e.g. enterprise culture), the macro-level (macroeconomic aggregates), the meso-level (economic structures), and the micro-level (firm management, networks and strategy). These factors can be influenced by various policies. Enterprise culture and firm management, et cetera, can only be influenced indirectly, whereas macroeconomic aggregates and economic structures can be influenced more directly. The new perceptions of competitiveness in the new context of globalization and regional integration have prompted more attention at policy measures which promote what is seen as advantageous in the national enterprise cultures. Likewise, this has given impetus to policies which generally strenghtens firm management. Even more important is the increased stress on measures at the meso-level which accompanies the weakening of the effects of policies at the macro-level. Such measures include various forms of structural policy, e.g. technology policy, education and research policy, active labour market policy, industrial policy, infrastructure policy, regional policy, strategic trade policy and public sector reforms. It would be wrong to ignore the persisting importance of macroeconomic policies. However, these policies are becoming less prominent while structural policies are becoming more important.

During the period 1984-86 a consensus was established in Denmark¹⁸ around a new perception which stressed that technological development and industrial restructuring might have an important impact on the competitiveness of Danish industry, which was seen as threatened by the fact that Denmark was increasingly becoming specialized in moderately growing markets and in standardized goods with low technology content. In 1986, this consensus resulted in important policy documents from the government as well as from the major interest associations, which stressed the need for structural policies of various kinds. At that time, there was a particular emphasis on the need for industrial restructuring by means of measures such as mergers, network formation and capital investment, and on technological renewal, and R&D, whereas the mobility and training of the labour

force and the structure of the labour market received less attention. Industrial policy was promoted to centre stage in the policy plans of the government led by the conservative party. However, the plans were never implemented by the government as the policies were blocked as an effect of the strengthening of the liberal party, the coalition partner of the conservatives. Instead, the focus in governmental policy plans was transferred from industrial restructuring and technological renewal to taxation policy and the structure of the labour market. The supply-side policies took on a more neoliberal stance. However, industrial policy survived in new forms of private governance. Various private institutions (trade and labour market associations, financial institutions, important private companies and individuals) took over, and new forms of public-private cooperation were established at the local and regional levels¹⁹.

The structural policy discourse was reformulated in the early 1990s. The structure of the labour market now moved to center stage. A wide range of issues was raised (mobility and training of the labour force; size, conditionality and financing of unemployment benefits, wage differentiation, industrial and trade union organization, hire and fire rules, et cetera). Major reforms were discussed, but only minor initiatives were implemented, until the labour market reform introduced by the new majority coalition government led by the Social Democrats in 1993²⁰. The structural problems of the labour market have since then been seen as the major structural issue.

In addition, new perceptions of industrial policy have gained ground and new forms of industrial policy are being implemented, if still with somewhat unclear and ambiguous effects. The new policy aims at strategic support for the business environment which is defined rather broadly including business services, education, market efficiency and public-private interaction. The inspiration derives to a high degree from Porter's influential work on the competitive advantage of nations²¹. A central element has been the identification and support of «national strongholds». It is the aim to support the «strongholds» through a multitude of means apart from direct subsidies. New forms of interaction such as «dialogue» groups are established to secure appropriate, targeted and timely support measures.

Another area of major concern in structural policies in the 1990s has been the structure of the public sector. This includes the incentive impacts of the tax structure and transfer payments, the provision of services, the productivity and efficiency in public sector production and public-private interactions.

The structural turn is also reflected in the development of the form of the most important economic policy documents of the government, the so-called

«Finans-redegørelser», published annually by the Danish Ministry of Finance. Whereas earlier these reports were exclusively concerned with the macroeconomic policies and the budget, they are now divided in a macroeconomic and a structural part. The various aspects of the economic structure is not only monitored annually. Regular reports monitor selected structural problems, and an ambitious and «high profile» recent report monitors an extended set of structural features of the Danish economy, in comparison with other Western European countries²².

It is evident that the Danish policy community shows increasing awareness of the structural problems of the Danish economy, in the context of the international economy and the structural policies which might improve the capacities for handling the future challenges. Of course, the awareness is less developed in some parts of the public administration, in some political parties and in some interest associations than in others. However, one can also find political agents and government agencies with an understanding of the contemporary challenges which is literally the same as presented in this paper:

«The challenges of the knowledge-based economy call for new policy actions in at least two ways. First, they increase the importance of the innovative capacity of enterprises and countries while, at the same time, alter the concept of competitiveness. Secondly, they demand strategies to increase the flexibility of the labour market beyond the limits to "wage flexibility"»²³.

Danish social policy prior to 1993: almost a citizen income system

Prior to the recent changes, the Danish welfare state came very close to a universalist ideal type-according to some scholars even more than Sweden (Rold Andersen, 1993). Probably no existing welfare system came as close to a citizens' income system as Denmark did in the 1980s and the early 1990's²⁴. It was (and is) universalist in the sense that access to transfers and services is typically tied to Danish citizenship, not to previous contributions. And it resembles a citizens' income system in the sense that almost all adults who are not gainfully employed are covered by a public transfer income²⁵.

Like in other systems, the Danish welfare system for the unemployed is a dual system consisting of an income replacement system of unemployment benefits and a meanstested social assistance system for those who are not entitled to unemployment benefits. In a formal sense, the unemployment benefit system is an insurance system, but the greater part of its funding is provided by the state. Before 1993, it was rather easy to get access to unemployment benefits and to maintain this right. It required only one year of membership and half a year of (normal)

employment to achieve full entitlements. Secondly, and this is where the Danish system was (and still is) far more generous than other Western European welfare systems, it was also easy to remain in the system for a long time. The unemployed were entitled to receive unemployment benefits for 7-9 years²⁶. After 4 years, the unemployed had to participate in some work programme or attend an education. After 7 years out of employment, it was possible to begin a new unemployment period of 7 years after half a year of normal employment²⁷. The unemployed must formally be actively job-seeking and accept a job, if they are offered an appropriate one. However, these obligations have typically been interpreted in a very liberal way and the control have very lax, and, more so, in recession periods.

Another universalist trait of the unemployment benefit system is the high level of compensation (90% of former wage) in combination with a low ceiling. In practice, it is almost a flat-rate benefit. This is very favourable to low income groups who, as a result, have little or no economic incentive to work.

Furthermore, more recently, a number of relatively generous leave arrangements were introduced as well as rich opportunities to withdraw from a labour market at an early age. The leave arrangements (parental leave, educational leave and sabbatical leave), makes it possible to leave the labour market for a shorter period and achieve from 60 (sabbatical leave) to 100 per cent (educational leave) of maximum unemployment benefits. Parental and educational leave is a right, whereas sabbatical leave is conditional or an arrangement where the unemployed is replaced by an unemployed. The early retirement allowance makes it possible for people aged 60-66 years and receive maximum unemployment benefits the first 2.5 years and 80% thereof for the remaining period. In addition, long-term unemployed people aged 50-59 years can retire and receive a transitional allowance (80% on maximum unemployment benefits).

The Danish unemployment system has not prevented a concentration of unemployment among the few. From 1984 to 1991, 90% of total unemployment was concentrated among less than one-quarter of the labour force, in particular among the unskilled. In this sense, it is evident that there is a considerable labour market marginalization in Denmark. However, this does not mean that it is permanent, nor that it is entirely involuntary for all the unemployed. Recent data show that long-term unemployment decreases much faster than general unemployment during periods of prosperity, contrary to what would be the same if marginalization was tantamount to permanent marginalization. Other data show that the majority of the unemployed do not feel excluded. They respond that they «believe that it would be possible to get a job very soon if they were willing to take any kind of job». They seem to wait to see if something more attractive than just any job turns up.

To summarize, the system of unemployment benefits had moved quite far towards decommodification in the early 1990s. It had seemingly introduced a citizens' income «through the back door», as the opponents claimed in the Danish debate.

In the «golden age», and even until the early 1990s, the Danish welfare state was less capable of ensuring full employment than its Scandinavian counterparts. However, the extreme universalist system has been very successful in preventing labour market marginalization (enduring or recurrent unemployment) from leading to broader social marginalization (loss of social networks, or at least a loss of integration in the standards and way of life of society) and political marginalization (loss of participation and influence). It has also been successful in preventing unemployment from leading to loss of solidarity, that is, political polarization. Below, I shall present a few indicators of these achievements²⁸.

According to the definition of poverty used by the European Commission²⁹, Denmark has far the lowest proportion of households in the European Union living beyond the poverty line - 4% compared to an EU average of 16%. Even more remarkable, only 3% of households where the head of the family is unemployed falls in the category - compared to an EU average close to 40%. Another indicator is home ownership. Although this is clearly less widespread among the unemployed than among the employed, the difference is relatively modest, and even among those married or cohabitating couples where both spouses have been without ordinary employment for more than 9 years, more than half are homeowners. An indicator of political marginalization would be lower participation among the unemployed in elections, political actions, membership of voluntary associations or political parties and user influence (in schools, et cetera). However, the percentage is almost exactly identical to the rates of participation in such activities among the employed, apart from party membership which is significantly less frequent among the unemployed.

There exists a well documented concentration of heavy problems among a small group of the unemployed. However, it would be misleading to associate unemployment with widespread social and political marginalization or with political polarization. The Danish universalist unemployment system has been successful in preventing the emergence of a society of the 2/3. The recent changes have occurred, in spite of this success.

The «workfarist» labour market policy reform

The 1993 reform of labour market policy and later changes has redirected the Danish welfare state from an almost ideal typical universalism, and a resemblance a citizens' income system, towards a specific social democratic version of «workfare».

The main changes of the unemployment benefit system are the following: (a) it now takes a full year (instead of only half a year) to become entitled to employment benefits; (b) participation in an employment or education programme begins after only two years (compared to four years before the reform); (c) the maximum length of support is reduced from 7-9 years to 5 years; (d) after two years, the unemployed is guaranteed either employment or education for the full remaining period of three years; (e) individual action plans must be worked out for all unemployed; (f) young people aged less than 25 years are obliged to take an education (at 50% of unemployment benefits) after only 6 months; (g) restoring benefit eligibility through subsidized work has been abolished; and (h) control with active job-seeking has been tightened.

Another important change involves the recipients of social assistance; they are now subjected to the same rules of activation as the unemployed. The early retirement scheme (for the 60-69 aged) is fully maintained, even if this is a continuous matter of dispute among the social democratic party and its centre-left coalition partner who are against, respectively for, changes. The transitional allowance has been abolished. A more indirect consequence of the changes is additional resources to the education and the development of new training programmes to supply the unemployed with relevant and qualified education opportunities.

The labour market reform which was launched by the new social democratic government in 1993 is the great leap forward in what has been, like other policy-making processes in the Danish «negotiated economy»³⁰, a gradual transition from welfare to workfare³¹. The transition started in the second half of the 1980s with the increasing emphasis on education and the expansion of adults further education. But most important was the paradigmatic reorientation within the official labour market discourse. In several ministerial reports from 1986 onwards, the organization of labour market education programmes were linked to the changes in technology and production systems, and to the need for structural economic policy. In 1989, a government White Paper³² on structural problems within the labour market focused on structural unemployment and linked this to the small wage dispersion, the public financing of not only the bulk of the costs, but also the marginal costs of unemployment, the generous unemployment benefits and the lack of control over willingness to work. The White Paper was followed by a

suggestion that «activation» should be an obligation for the unemployed. The report and the following discussion of policies reflects the agenda setting by the then conservative coalition government. The official discourse of structural unemployment were later modified but the recognition of the fact that unemployment could neither be fought by expansive fiscal policies nor by means of incomes policy but required other structural instruments, was a lasting shift.

The decisive impetus to the Labour Market Reform in 1993, and later the Social Assistance Act in 1997, came from the publication of a series of white papers in the beginning of the 1990s. The most important one was the report from the Labour Market Commission in 1992³³. This so-called Zeuthen-report had great influence due to the representation of the central labour market associations. The report identified the new technologies and production systems, the intensified international competition and the insider-outsider problem as the main challenges. It focused on the problem of structural unemployment and recommended changes in the existing job - and education offer scheme and in the financing of the unemployment insurance system. The skills and qualifications of both the unemployed and the employed should be enhanced and the labour market associations should finance a greater share of the unemployment benefits and payment should vary with the level of unemployment. The report constitutes a decisive break with the safety net model; not by means of lowering the generous unemployment benefits, but because it implied a much more aggressive attempt to get people «off the hook».

Also important was the report from the Social Commission published in 1993³⁴. The report stressed the need for a more active use of social transfer payments in order to combat the increasing marginalization of the young, elderly, women and immigrants, and to reduce the structural problems of the labour market. It recycled the Zeuthen Report's proposal for an activation reform but argued that such a reform should establish a one-track system for both insured and non-insured unemployed. It emphasized the role of job rotation and recommended the creation of an intermediate labour market for those unable to work under normal wage and work conditions.

Finally, the Welfare Commission analyzed the long-term perspectives for employment³⁵. The underlying assumption is that only a high level of employment and thriving economic life can sustain a continued expansion of the welfare state. The report considers it crucial that Denmark learns to master the new technologies and to exploit the new flexible production systems in order to strengthen the competitive position of its national industries, within the increasingly liberalized global marketplace. The double challenge arising from this is to enhance the

flexibility and skills of the labour force and to create enough jobs for those who cannot compete in the future labour market. Functional flexibility is clearly preferred to wage flexibility and numerical flexibility of the labour force. Hence, the challenge is to provide the labour market with high skills and flexibility while, simultaneously, to protect the weak, by means of creation of an intermediate labour market with jobs for those with little or no education. One such initiative has introduced a wage subsidy for private services. The scheme is intended to simulate the US experience of job creation in services without creating a new group of working poor.

The various reports provided the discursive conditions for a transition from welfare to workfare. As such, they all claim that the challenges and pressures to the Danish welfare model, which can be summarized under the headings of structural unemployment and structural competitiveness, force us to make a shift from the traditional social safety net model to a new trampoline model. Since then, this new model has been implemented in actual policy.

The social democratic path from welfare to workfare?

The introduction of workfare policies in Denmark has some resemblance to the workfare strategies implemented in the UK and the USA in the 1980s. However, the Danish workfare policies has become disarticulated from the neoliberal context within which it was propagated in these countries, and has, subsequently, been rearticulated within the tradition of the social democratic legacy and the universalist welfare model³⁶. The process of disand rearticulation is characterized by a significant emphasis on activation rather than benefits and wage reduction, on empowerment rather than control and punishment, and on broad workfare programmes rather than programmes targeting only the unemployed.

Thus, in the existence of a mismatch between qualifications and wages, the Danish workfare strategy aims at raising skills and qualifications in order to reduce differences in qualifications to a level compatible with the relatively small wage dispersion, rather than adapting wages downwards to the level of qualifications. Likewise, although the offer of activation is both a right and a sanctioned obligation, the Danish workfare strategy does not aim to control and punish the unemployed. Rather, or this is at least the intention of the individual activation plans, it aims at involving them in the planning of activities which might empower them, in a way which facilitates their re-entry in the normal labour market, or, at least, facilitates an improvement of their life quality. Furthermore, the Danish workfare strategy is not merely concerned with getting not only for training the

unemployed, but also as an essential element in the survival strategies of the employed and business firms. Finally, it should be mentioned that steps have been taken to create an intermediate labour market, and this is something which will have a high priority in the future.

To summarize, the steps taken might be seen as a specific social democratic work-fare strategy. At least, it seems to be in accordance with the fundamental social democratic principles of solidarity, equality and empowerment, and it allows the continued existence of central features of the universalist model such as high compensation rates and small wage dispersion.

The crucial questions are, of course: will it work? and can it be sustained? So far, we know too little about the implementation problems to answer these questions. But the proper functioning of the system, including the elaboration of individual action plans, requires funds and this might be a problem in a recession period. Changes in political values among, in particular, young people, might challenge the sustainability of the strategy, but it is also in this respect too early to evaluate the prospects for keeping the reform on track.

NOTES

- ¹ I refer in this paper to the West European welfare states.
- ² Compare Ohmae (1991) to Jessop (1993), (Hirst and Thompson (1995) and Hart and Prakash (1997), Rhodes (1996) presents a useful review of the debate.
- ³ This is seen as particularly relevant to the West European welfare states. The phenomena has been termed "euro-sclerosis". The argument may be sustained by comparing the job-generating capacities of USA (+18%) and EU (+5%) in the 1980s.
- ⁴ Rhodes, 1996: 307-8.
- ⁵ Espring Andersen (1990) distinguishes three types: "liberal", "conservative-corporatist" and "social democratic" welfare state regimes. The basic principles of the social democratic welfare states are universalism, equality and "de-commodification". In principle the state promotes equality of the highest standards rather than minimum needs. Benefits and services are provided by the state and financed by general taxation. There is an emphasis on services rather than transfers. High female participation rates are encouraged and supported through the tax system as well as by means of free or subsidized services. Health is organized in a state funded and state organized national health system.
- ⁶ For instance, in Sweden several major adjustments of welfare policies were included in the crisis programme of 1992, put together by the then centre-right government, in cooperation with the social democratic opposition, to maximize political support. Apart from cuts in subsidies and an increase in the retirement age, the most remarkable was the change from a national health insurance system to a system organized by the labour market parties, financed by fees and with benefits linked to contributions.
- ⁷ The traditional corporatist structures have been dismantled because of the withdrawal of employes and big industry. One of the reasons for this, as well as for the decline of the "Swedish model", in general, is the recent tendency for large Swedish firms to relocate in lower-labour cost countries. A representative of Swedish big business has characterized the current state in the following way: "Sweden needs Swedish companies but Swedish companies do not need Sweden" (Furher, 1994: 212). See also Benner (1997).
- ⁸ The introduction of (parental, educational and sabbatical) leave schemes explains part of the reduction in the unemployment rate, but only a part. The overall level of employment increased more than 2.5% in the period from 1993 to 1997.
- ⁹ It should not be ignored that in Denmark in the early 1990s compensation levels were generally lower than in Sweden and Norway, in most areas (for instance, maternity, sickness or old-age pension), in particular, for individuals with higher than average income (Abrahamson, 1994).
- ¹⁰ OECD (1997).
- ¹¹ Often, New Zealand, the Netherlands, and Denmark are mentioned as the contemporary cases of successful restructuring in the OECD area.

- 12 See more elaborated versions in Jessop (1993; 1997) and Jessop, Nielsen and Torfing (1997). See also Burrows and Loader (1994).
- 13 This is perhaps an infelicitous term and it involves the risk of being misunderstood. A widespread usage of it has austere and repressive connotations. In this context, the term is defined in a broader way.
- 14 The third of these dimensions is related to the alleged transition from a nationally-focused government system organized around public regulation, services and transfers to a more de-centred and multi-tiered system of economic governance comprising market and civil society, as well as the state. This dimension is ignored in the remaining part of the paper.
- 15 This section is an abbreviated version of Nielsen (1997).
- 16 Chesnais (1986). See also Jessop, Nielsen and Pedersen (1993).
- 17 Messner, 1996, 48.
- 18 The policy-making process in Denmark is to an exceptional extent based on a tradition for consensus mobilized through a multi-tiered system of institutionalized negotiations. The system has been termed the "negotiated economy" (Nielsen and Pedersen, 1991; Ramstad 1991; Nielsen 1992; Amin and Thomas, 1996).
- 19 Pederson, Andersen and Kjaer (1992).
- 20 See later sections on the substance and the effects on this reform.
- 21 Porter (1990).
- 22 Ministry of Finance, Denmark (1997).
- 23 Ministry of Business and Industry, Denmark (1997), 11.
- 24 This section is a summary of Goul Andersen (1996).
- 25 Only housewives (1.5% of the population) are not covered.
- 26 The maximum period of 7 years could be prolonged with 2 more years, if parental and educational leave opportunities were fully used.
- 27 The relatively generous system of unemployment benefits in Denmark is connected to another peculiarity: the unusually low employment security. This mix is a compromise between labour and business interests. It has, on one, enhanced the flexibility and competitiveness of an economy with a predominance of small and medium-sized enterprises. On the other hand, it is no big deal to become unemployed. It is possible to maintain a tolerate standard of living with occasional, irregular, part-time jobs, or even without employment.
- 28 See more details in Goul Andersen (1996).
- 29 European Commission (1994).
- 30 See note 18.
- 31 The remaining part of this section and the next is an abbreviated version of Torfing (1997), 13-18.
- 32 Ministry of Labour (1989).
- 33 The Labour market Commission (1992).

- 34 The Social Commission (1993).
- 35 The Welfare Commission (1995).
- 36 The selectivity of the Danish approach is obvious from the overview in OECD (1997) of the OECD recommendations and the Danish actions taken (OECD, 1997, 74-75).

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