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**Seminario: "Comparación analítica de los modelos de desarrollo a partir de 1950 de los países de pequeña escala de Europa y América Latina"**

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**DENMARK**  
**Land of Social Consensus?**

## **Denmark**

### **Land of Social Consensus?**

By

**Peter Nannestad**  
Political Science

**Martin Paldam**  
Economics

Aarhus University  
8000 Aarhus C  
Denmark

☎ +45-86-13 01 11  
Fax: +45-86-13 63 34

| <b>Content:</b> |  |    |
|-----------------|--|----|
| I.              | Introduction with some Background            | 1  |
| II.             | An Overview - Four Main Periods              | 2  |
| III.            | The Big Compromise and the Welfare State     | 11 |
| IV.             | The Two Phases of the Demographic Transition | 17 |
| V.              | The Free Trade Tradition and Markets         | 24 |
| VI.             | Industrial Development and Policies          | 30 |
| VII.            | Some Lessons                                 | 32 |
|                 | Appendix: Parties and Governments 1945-92    | 33 |
|                 | References                                   | 35 |

The Denmark chapter in the ECLAC-IDB sponsored project:

**A Comparative Analysis of the Development Models of  
Small European and Latin American Countries since 1950**

The paper has benefitted very much from the discussion among the European participants in the project at Sandbjerg Slot in November 1992.

## I. Introduction and some Background <sup>1)</sup>

Most foreigners and also, occasionally, many Danes hold a *bright view* on Denmark. It focuses on Denmark's economic prosperity, social tranquility and the stability of the political system. Recently, the economy has begun to appear as one of the best behaved in the World. It has virtually no inflation, a large balance of payments surplus and a stable exchange rate.

However, a *bleak view* often seems to dominate the minds of Danes, and some foreign observers as well. It focuses on indicators of grave imbalances in the economy, especially the high and persistent unemployment (see Figure 2) and the large internal and external debt. In addition, the party system has been fragmented since 1973, making it very difficult to form parliamentary majorities and steer the economy. Further, it has proved difficult to control the runaway welfare expenditures in the 1960s and 1970s. They have created a rather extreme tax pressure, leading to increasing problems of tax evasion and a growing shadow economy.<sup>2)</sup>

Table 1. *Some Basic Data about Denmark*

|  |   |      |      |
|--|---|------|------|
| Name: Kingdom of Denmark.  |   | 1950 | 1990 |
| Political system: King/Queen, since year 800, and Prime Minister, elected by one chamber Parliament, since 1849. <sup>a)</sup>                       | GDP in fixed BS: <sup>b)</sup>                          | 25   | 100  |
| Party System: 5 parties till 1973, 14 to 9 since then. Social Democrats by far biggest getting 40% of votes. But Conservative coalitions since 1982. | Export share: <sup>c)</sup>                             | 38%  | 42%  |
| Population: 1950 4.3 mill, 1990 5.1 mill. No important ethnic or religious minority. However, 0.1 mill recent immigrants mainly from Middle East.    | Biggest trade partners:<br>Germany, UK, Sweden, Norway. |      |      |
| Trade block. EFTA till 1972, since then EEC. Also, many agreements with other Scandinavian countries (p.t. not in EEC).                              | Sector shares: <sup>d)</sup>                            |      |      |
|  | Public (i) Consumption:                                 | 8%   | 23%  |
|  | (ii) Transfers (+interest):                             | 7%   | 32%  |
|  | Total   | 15%  | 55%  |
|  | Industrial:   | 32%  | 28%  |
|  | Primary:  | 18%  | 6%   |

- a) The PM was chosen by the King till 1901, by the Parliament since then. Constitution changed from having two chambers to having one chamber in 1953.
- b) GDP in 1990-fixed prices at factor costs/base prices. BDkr is billions (10<sup>9</sup>) Danish Crowns {Kroner}. The mean exchange rate 1950/90 is 7 Dkr per \$.
- c) Export of goods and services in % of the GDP, all in current (factor/base) prices.
- d) As before in % of GDP in current (factor/base) prices.

Puzzling enough, both the bright and the bleak view on Denmark can be justified. In order to discuss these views, we shall tell the story of Denmark during the latest half century in **two** ways: The first is along the *time dimension*. Section II tells broadly what happened. The second is in the form of a set of sections covering the *most important topics*. It tries to explain

1. A bigger setting is provided in Paldam (1990; 1991), covering 150 years by an interpretative essay as the present one. Even though the following spans a much shorter period, we are still able to cover a tiny fraction only of the available material. Consequently, we had to be very selective in choosing what to include and what to leave out. More detailed studies are found in Olsen (1970), Kærgård (1982), Hansen (1972, 1973), and in the two multivolume standard references: Politikens Danmarkshistorie and Dansk Socialhistorie.

2. The tax evasion and the shadow economy are estimated to be in the orders of magnitudes of 3-5% and 5-8% respectively. These numbers are tiny in an international light; but they are growing and show that small cracks are opening in the Danish model.

why these things happened. The two ways to tell the story ought to run simultaneously, but as this is not possible, we shall start by a survey of the topics to be covered in Sections III to V. The reader should keep these topics in mind when reading the historical account in Section II. The political history of the country is complex and tends to baffle the foreigner. We have therefore provided an Appendix, with Tables A1 and A2 listing parties and governments.

Denmark is a member of a small group of countries that have followed the Scandinavian/Dutch model. The basis for the whole model is a *Big Compromise*: The combination of a welfare state and an economy with strong property rights as regards trade, industry and agriculture and free trade. Section III tells the story of how the compromise came about. The two main steps were (1) the early integration of labor almost 100 years ago, and (2) the co-operation between all main social groups in the 1930s. The Big Compromise thus has an old story; but the really rapid build-up of big government occurred in the two decades from 1958 to about 1980. An important part in the rapid development of the welfare state is the profound change in family patterns/lifestyle we shall term the *Phase II* of the Demographic Transition. It leads towards a situation where neither young nor old people live with their families and where housewives have disappeared. The Phase II transition would not have been possible without the development of the welfare state and vice versa, but we have chosen to divide this big double topic in Sections III and IV.

Sections V and VI deal with the other half of the Big Compromise. Denmark's strong tradition for *free trade* is discussed in Section V. Here the story of the participation of the country in the *European Economic co-operation* is also told. The Story of the European Economic integration looks remarkably different from two perspectives. From the outside, it often looks like the ongoing construction of the protectionist Fortress Europe. However, seen from the Danish perspective, it looks like a large step forward for free trade. Finally, the short Section VI looks at the *industrial development* and the industrial policies pursued. The main point to be made is the absence of most such policies.

## II. An Overview - Four Main Periods

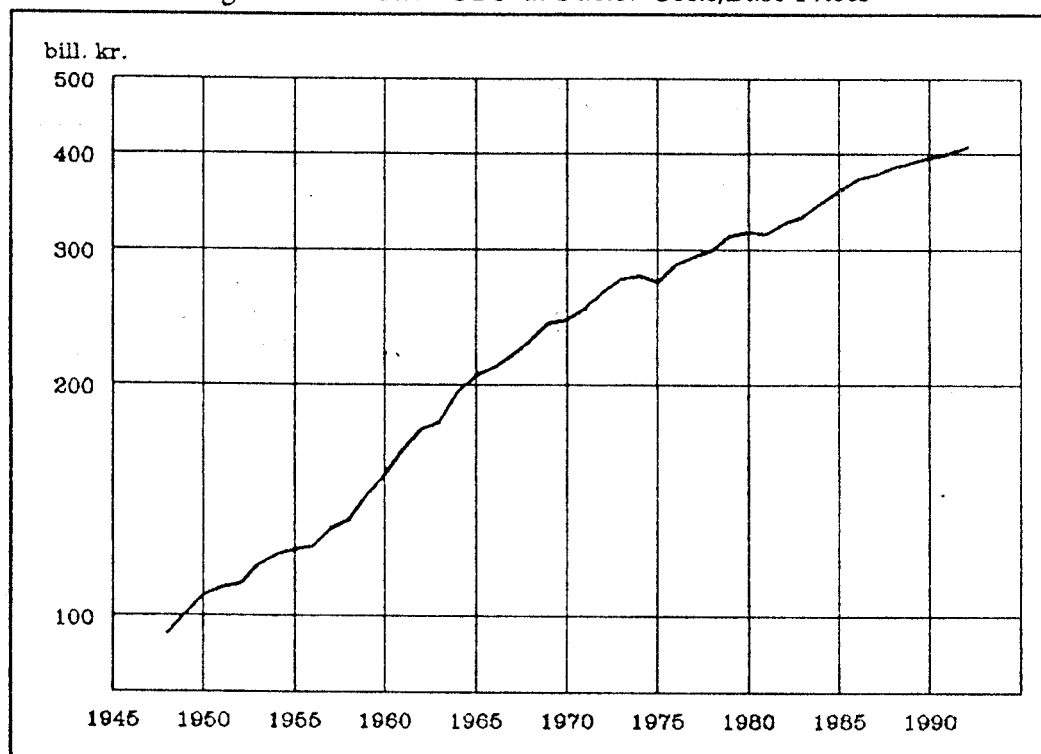
Denmark is a *rich country* by any standard. Throughout the period covered, it has been one of the richest countries in the world, despite its utter lack of mineral wealth. Until recently, it was totally dependent on imported energy. Today, it has the highest GDP per capita in the EEC, although Germany, the Netherlands, Belgium and France are only slightly behind. It looks as if it will stay in this privileged group in the foreseeable future.

It is very likely that the main factor behind Denmark's wealth has been the country's *fortunate geographical location*. It lies where two big trading routes cross: the one connecting Eastern and Western Europe and the one running from Central to Northern Europe. The good position has for centuries been combined with a strong tradition for free trade. This has led to high trade shares as discussed in Section V. As a natural consequence of this interest-based commitment to free trade, Denmark has also been an active participant in the process of forming free European markets and liberalizing European trade.

The first five years after the second world war and the German occupation of Denmark 1940-45 were fairly hard years with many restrictions. There was an attempt to ration the demand for basic food and housing. Imports were partly regulated, with quotas for luxury goods. The currency, Dkr {kronen}, was remade convertible only in several steps. The worst corruption scandals of the latest century belong to these years. The restrictions (except the rent control) became increasingly unpopular and associated with trouble in the minds of many

Danes.<sup>3)</sup> Time and the Marshall Aid finally helped getting a reconstruction upswing going throughout Western Europe, including Denmark.

Figure 1. *The Real GDP at Factor Costs/Base Prices*



Note: The GDP data used are from the ADAMb data file. The file is made by Danmarks Statistik for the official econometric model used by the Ministry of Finance. The base year is 1980, and the vertical axis is in logs.

### *II.1. The Pattern of Growth and Unemployment*

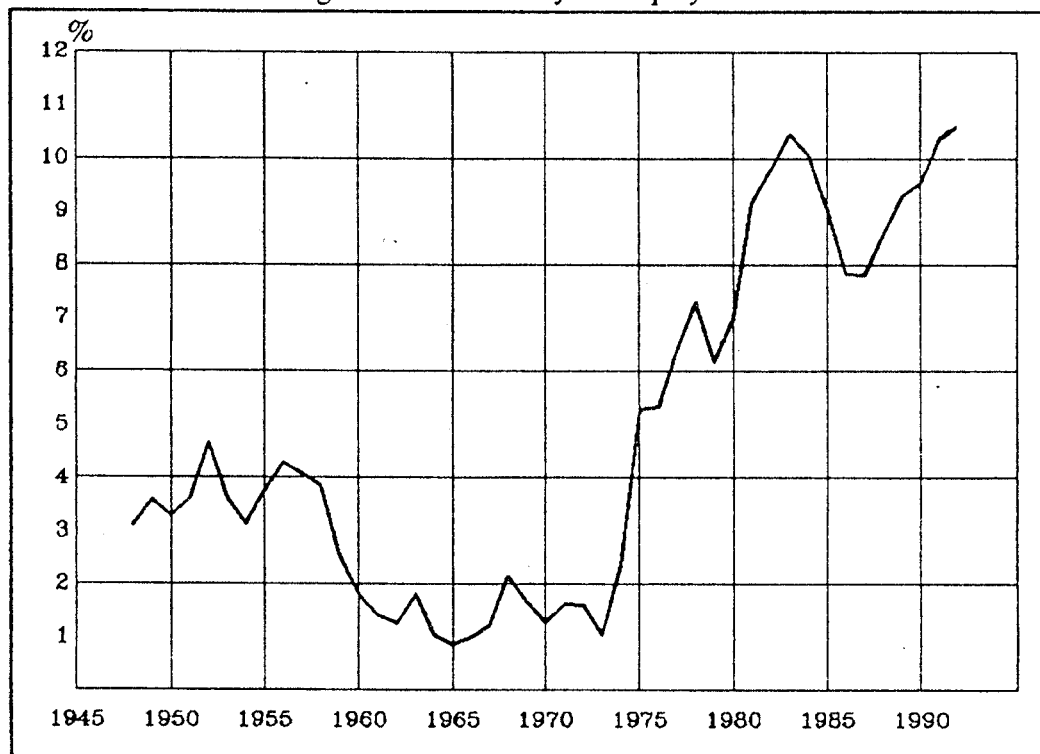
The main growth pattern of the Danish economy after 1950 is displayed on Figures 1, 2 and 3. The figures show why most interpretations agree on the periodization we, too, shall be using. Below we shall discuss each period in turn.

When the graphs on Figures 1 & 2 are compared, it is clear that there are periods of low growth at both ends and a high growth period in the middle. The low growth (around 3.1% p.a.) till 1958 gave an unemployment rate around 3 to 5%. The even lower growth rate (just below 2% p.a.) since 1975 has caused the unemployment rate to grow to 9% to 10%. Well, perhaps there has been an upward trend ever since growth was brought down below 3%. There

3. In addition to the special conditions at the time, these policies of planning also had an ideological socialist foundation. However, they were seen as desperate measures that quickly became unpopular. In 1950 the SDP (Social Democratic) minority government was overthrown in Parliament on the question of the rationing of butter, and had to give way to a bourgeois minority cabinet, the first since 1929. Note that we stick to the Danish usage of terming Conservative/Liberal governments "bourgeois", as explained in the Appendix.

is a much higher growth rate (of about 4.2% p.a.) between the early 1960s and 1973 where the unemployment stood at 1.2%. Early in the period growth was as high as 6%. However, when unemployment went below 1.5% the growth rate fell to about the same level as before 1958. These numbers are easy to make sense of using Okun's Law and a Minimum Dynamic Phillips Curve (see Paldam, 1983, 1987, for the econometrics).

Figure 2. *The Rate of Unemployment*



Note: Unemployment is in percent of the labor force as per the OECD definitions.

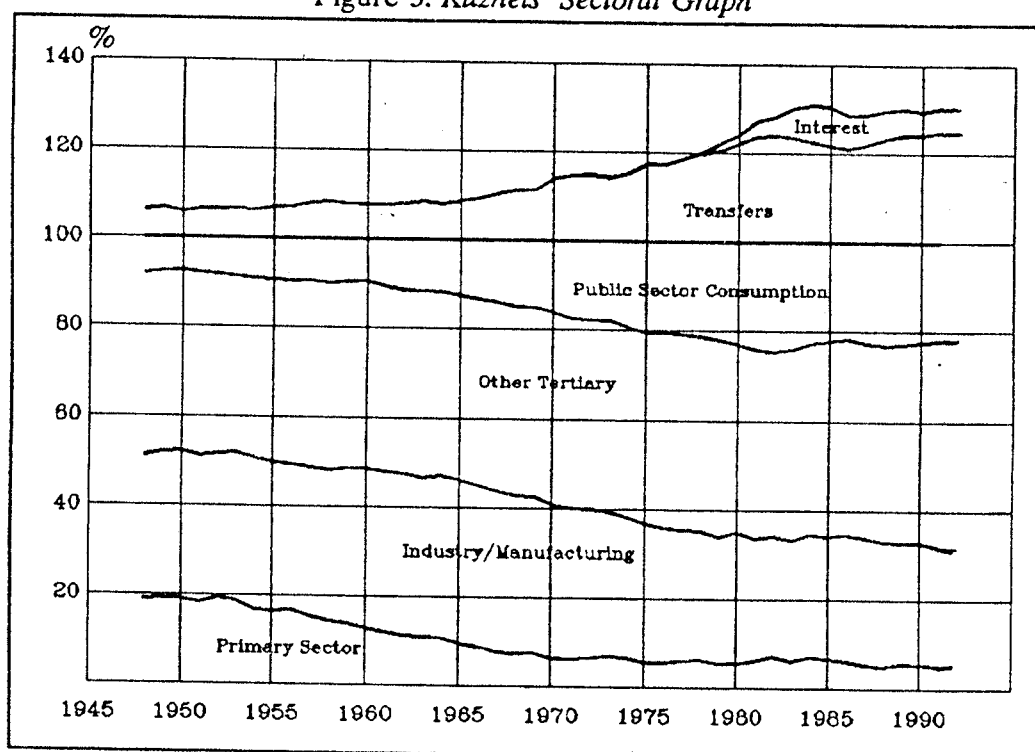
*Okun's Law* is a simple and robust approximation that is easy to justify within the frames of elementary growth theory. [Formally it is  $\Delta u = g(y - z)$ , where  $u$  is unemployment and  $y$  is the real growth rate. For Denmark the two constants are:  $g \approx 0.3$  and  $z \approx 3$ ]. Verbally it says that to keep unemployment constant, growth has to stay constant around 3%. Each percent of growth over (below) the 3% decreases (increases) unemployment by one quarter to one third of a percentage point. The extra growth of 8% between 1958 and 1964 reduced unemployment by 3.5% to 1.2%. Since 1973, Denmark has lost about 1% growth per year or almost 25%. This neatly explains the increase of about 7.5% in unemployment.

The *Minimum Dynamic Phillips Curve* says that there exists an unemployment rate, the *NAIRU*, that has the constant inflation property. The *NAIRU* separates accelerating and decelerating price levels. If unemployment is above the *NAIRU*, inflation keeps falling. If unemployment is below the *NAIRU*, inflation keeps rising. The models are here much less simple and robust than the ones of *Okun's Law*. The *NAIRU* is neither very well defined nor stable, as it contains some medium run inertia (often termed hysteresis). However, wage rises did increase throughout the period where unemployment was below 3.5%. Since unemployment

got above 6%, inflation has kept decreasing. So the unemployment rate consistent with a stable inflation rate (in the long run) probably lies somewhere between 3.5% and 6%.

Denmark has known unemployment rates around 1%, so many think of such rates as full employment. Unfortunately, it appears that such rates are too low for the politico-economic system to handle. It would be a great step towards realism for all Danes to recognize that full employment is an unemployment rate around 5%

Figure 3. *Kuznets' Sectoral Graph*



Note: Shares in % of the GDP at factor cost/base prices. Calculated from the ADAMb data file. Manufacturing contains the construction sector, while various other small manufacturing firms of repair-workshops are found in the Other Tertiary sector.

## II.2. The Main Sectoral Shifts

On Figure 3 it appears that the primary sector (it is to more than 90% agriculture) fell by 2/3 between 1955 and 1970. The other even bigger change has been the very rapid growth of the public sector between the late 1950s and the early 1980s. Note that we have added transfers and interest on the public debt *above 100%*. This is a shortcut allowing us to see the non-production part of the public sector at the same graph as the production. The reader will see that total public expenditures constituted 20% of the GDP as late as 1964, but then they increased to 55% in 1982. They have since stayed at that level.

Table 2 gives the sizes of the changes in the structure of production that have occurred in the period. Most readers will probably agree that these changes are quite dramatic, given that Denmark was already a rich and advanced economy in 1950. In addition, there have been

the large changes in labor supply caused by the changing family patterns and lifestyles that will be discussed in Section IV as the Phase II of the demographic transition.

All these changes can be summarized as done in Table 2. They have meant that the urban sectors in the economy have had to create *40% more jobs* between 1950 and 1990. The reader will note that the urban sectors only managed to create 34% more jobs.

Table 2. *Changes in Labor Supply and Demand 1950 to 1990*

| Labor Supply       | Number | %    | Labor Demand              | Number | %     |
|--------------------|--------|------|---------------------------|--------|-------|
| Potential Supply   | 770    | 23.9 | Agriculture               | -425   | -12.0 |
| Under education    | -212   | -6.6 | Industry and construction | 105    | 3.0   |
| Participation up   | 252    | 7.8  | Other non-public services | 290    | 8.1   |
|                    |        |      | Public sector             | 620    | 17.4  |
| Increase of Supply | 810    | 25.1 | Increase of demand        | 590    | 16.6  |
|                    |        |      | Growth of unemployment    | 220    | 6.2   |

Notes: The Table is calculated from Table 4. Numbers in 1'000 Persons. The % columns are in percent of the *potential* supply (the population between 16 and 69) of 3'227'000 in 1970. To reach the *actual* supply, one has to deduct the increase in people (>16) under education and the increase in the number of pensioners (<70). Finally, one has to add the large effect of more (married) women entering the labor force.

It is likely that there will be *much smaller changes* in the coming four decades. The population is now stable, and the potential labor force will probably decline marginally. The number of people under education will probably rise almost as much as the (small remaining) increase in participation. Agriculture has almost run out of people it can release to the rest of the economy. Finally, the public sector will probably not increase its labor force by more than at most a few percent.

### II.3. *Groping for a Course: 1950/58*

In 1950 most of the direct controls were gone, with rent controls as the main exception. Export shares reached their old level from the 1920s. There were, however, problems for Danish agricultural export, which still made up 60% of total exports (as seen on Figure 6 below). Many Danes dreamed of a Scandinavian Economic Union, where Denmark would be the big supplier of agricultural products, but as discussed in Section V.2 negotiations about a Scandinavian Common Market collapsed in 1951, as the Nordic defence pact negotiations had done before. These two breakdowns took Denmark into the NATO together with Norway, and into the EFTA together with the other Scandinavian countries including the neutral countries Sweden and Finland.

In the following years shifting governments saw the balance of payments as the main constraint. They therefore kept a tight hold on aggregate demand, so unemployment stayed at about 3.5%. The main rationale of this policy was that a rapid growth of the industrial sector was necessary. Agricultural production did not decline, but productivity increased. Foreign restrictions prevented exports from absorbing the large potential increase in production. The industrial sector was seen as the *only* one that could absorb the labor gradually set free in the agricultural sector and provide tradables. The policy was largely successful and competitiveness gradually improved, though a large part of the growth of the T-Sector (for Tradables) took

place *outside* the industrial sector.<sup>4)</sup>

In the late 1950s the economy came to look bright to the economic team of the ruling SDP (Social Democratic Party), headed by the dynamic MoF Viggo Kampmann. Maybe the triggering factor was a small terms-of-trade improvement in 1958. Maybe the change was due to the optimism from having - for once - a majority government.<sup>5)</sup> In any case, the result was a deliberate *change of economic strategy*.

#### II.4. Full Speed Ahead: 1958/73

The new strategy aimed at generating higher growth and employment by expanding the public sector and boosting housing construction. This meant a growth generated by expanding the S-sector producing non-tradables. The government was careful to keep a budget surplus throughout 1958 to 1973. The expansionary forces from the large expansion of the S-sector were, however, far stronger than the contractionary pull from the budget surpluses. As seen on Figure 1, the growth rate turned from an old level of 3% to a new level of almost 5%, as already discussed.

The export sector continued to do well; but as shown in Section V.1 it is clear that the additional push came from domestic sources. The overly rapid growth of the S-sector gradually undermined the expansion of the T-Sector. From the mid 1960s the S-Sector came to be the wage-leader.

The development led to a strong increase in employment. Minimum unemployment (much below the NAIRU) was reached already in 1960. Then the economy quickly became overheated. Inflation and b-o-p deficits were problems that constantly threatened to get out of control. Five factors helped to keep the threats at bay and prolong the good times:

- (i) Experiences of high to moderate unemployment in the not so distant past initially made many decision makers cautious.
- (ii) The centralized and highly legalistic system of wage contract slowed the growth of wage increases.
- (iii) The Labor Movement (SDP and the CTU) recognized in principle the need to restrain wage increases in order to keep minimum unemployment. So for some time a moderate wage policy was pursued.
- (iv) Much the same overheating process took place in the economies of Denmark's main trade partners.
- (v) However, the most important factor was probably the dramatic rise in the labor supply discussed in Section IV.

The pressures of inflation from having 1% unemployment were strong, and the wage restraint policies were often vague. They are therefore hard to quantify, and estimates of their efficiency vary. It appears that Denmark did manage to combine very low unemployment with

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4. The Latin American reader will note that the premises were much the same as the ones behind the Latin American structuralism; but the policy conclusions drawn were quite different as the basic economic model was different. It was the Scandinavian model (often termed the *efo-model*), distinguishing between the sheltered S-Sector producing non-tradables and the T-Sector producing tradables (see Edgren, Faxén & Odhner, 1968, 1973).

5. The majority was obtained by including the right/populist Justice Party into the SDP/Radical coalition government. This came as a surprising termination of a three week long government crisis after the confusing outcome of the election in 1957, see Kårsted (1969). The leading negotiator for the SDP was the MoF Viggo Kampmann, who soon succeeded the PM, H.C. Hansen, who became seriously ill. At the next election the voters deserted the Justice Party.

wage increases that were only a little too high, compared to Denmark's main trade partners. Nevertheless, Danish competitiveness was gradually undermined. The real exchange rate revalued by 20% between 1960 and 1973 (documented in Paldam, 1989).

### II.5. *Politics: Things Fall Apart: 1968/75*

During the late sixties signs appeared with increasing frequency showing that the system could take no more overheating. This period has often been termed the period where expectations got out of hand. In the standard theory of the expectation augmented Phillips curve the process appears simple and clear. In reality, it was nothing of the kind, as already mentioned. The attitudes and behavior that adjusted had a far broader scope than the ones of inflationary expectations. The most dramatic adjustment occurred in the *political field*.

It includes the youth revolution and the dramatic rise of the idealistic left that started among the students after 1968. The Conservatives were the largest party among students as late as in 1966 (Thomsen, 1987). Then the winds of fashion blew. In the course of two years a whole new set of extreme left wing parties managed to attract most of the student support.<sup>6)</sup> The new left vigorously fought the moderate policies of the labor movement. From the universities the left spread to the trade unions, creating a wave of strikes, forcing the CTU into less moderate stands. The same development did occur throughout the Western World; but special Danish conditions allowed an unusually strong growth of two major single issue mass movements and some smaller movements.

At about the same time occurred the trauma of the Danish Entry into the EEC in 1972 as discussed in Section V. Here, the SDP and the other big old parties took the country into the EEC after they had won a clear majority in a referendum (63% "yes"), but against the vote of most SDP voters. The result became a strong *Anti EEC movement*. Moreover, a shift occurred at the helm of the governing SDP. The pragmatic PM J.O. Krag resigned the day after the Danish "yes" in the EEC-referendum for which he had fought so hard. He was replaced by a more leftist union leader, Anker Jørgensen, with very limited parliamentary experience and no cabinet experience at all.

Secondly, the "Crazy Genius" Mogens Glistrup started an *Anti-Income-Tax movement* that soon became the chaotic Progress Party.<sup>7)</sup> It thrived on a general mood of popular discontent with certain aspects of the social and political development. Glistrup's supporters focused on rising taxes, growing bureaucracy and red tape, and there was undoubtedly a rapid growth in tax pressures. It was particularly important to the success of the Progress Party that the largest growth in tax pressure took place under the sole non-SDP government in the boom years, as will be further discussed in III.5.

Finally, various protest minor protest movements and parties emerged. Some christians formed a party against pornography and abortion as a reaction to the passing (under the bourgeois government 1968-71) of more liberal legislation on these issues, as discussed in

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6. For most groups some basic interests provide a framework that allows the researcher to model their party support and the policies of their parties. It is not so easy when it comes to students. Their short run interests as students are different from their long run interests as graduates. They are more likely than other groups to follow the winds of fashion, because interests are weaker. In addition they are young and looking for new ideas.

7. Mogens Glistrup was the biggest tax lawyer in the country when he started his crusade, following a memorable television interview. He here compared tax evaders with the heroes of the resistance movement against the German occupation during the war. Later he was jailed for tax fraud after a mammoth lawsuit. He later returned in triumph to the parliament. But soon he started to fight his own party. He was finally expelled, and created a new party that formed an union with the Sailors Socialists. This alliance did not, however, appeal to the voters.

Section IV.2. Right-wing Social Democrats rallied around a new party (the Center Democrats) founded by an old politician, Erhard Jakobsen. They protested against the alleged turn to the left of the SDP under the new leadership of Anker Jørgensen.

The new right, left and center protest parties were soon to reach 40% of the vote. This happened at the *Landslide Election* of 1973. Here the stable old party system collapsed and the number of parties in the parliament doubled, see Table A1 (and the detailed analysis in Nannestad, 1989). The pattern in the election outcome had become gradually more visible in the polls during 1972; but that it actually came about was a great shock to most observers. Moreover, the new pattern stayed more or less unchanged during the following, frequent, general elections. There has only been a very slow return towards the pre-1973 situation in the Parliament. The formation of governments in the subsequent years was therefore very difficult. Most governments formed had weak minorities, so they had to be on a never-ending hunt for parliamentary support for their policies. This happened at almost exactly the same time when the Danish economy had to face new, grave problems.

## II.6. *The Ostrich Policy: 1973/83*<sup>8)</sup>

The Oil Shock and the international economic crisis came only a few months after the Landslide Election of 1973. So the country met the crisis with a weak government, commanding only 22 out of 179 seats, a highly fragmented parliament, and an economy which has been weakened by the feast of the 1960s. Many responsible Danes first believed that the crisis was temporary. In the spirit of the reigning version of Keynesianism it was met with big new public expenditures and wage increases. The wage share jumped upward with no less than 5% in 1974/75, while the public sector budget turned from a surplus into a deficit that soon grew to more than 5% of GDP.

With hindsight it is likely that the best policy would have been a policy of *structural adjustment of the IMF/IBRD-type*.<sup>9)</sup> Such a policy would surely have meant that the crisis would have been harder in the short run; but the country would not have needed 20 years of high unemployment and low growth. Also, it would have been a temporary retreat from the welfare state policies that were the goal of the SDP. To pursue such a policy would probably have demanded that the main parties had formed a National Emergency Coalition with a majority across the center.

However, most top politicians repeatedly refused to form coalition governments across the center, apart from a brief unsuccessful experiment 1978-79. The SDP leader Anker Jørgensen returned to power in 1975 and stayed as PM until 1982. There were few signs that either the population or Anker Jørgensen recognized the need for major policy changes. Instead, the SDP's constant theme was the need to preserve the welfare state.<sup>10)</sup> Moreover, the labor movement (of the SDP/CTU) frequently tried to obtain the acceptance of a far

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8. A detailed description of the policies in these years, and how unfavorably they compare with the policies of other European countries headed by Social Democratic governments is given in Nannestad (1992).

9. The policy should have improved competitiveness and increased business profits allowing an increase in investments. The S-Sector should have been reduced, allowing the b-o-p to improve.

10. After his semi-voluntary retirement as party leader in 1986, Anker Jørgensen has published three volumes of dairies, that show no signs that he cared about long run economic strategies. The same applies to his successor Svend Auken, who was the SDP leader 1996-92. He soon managed to convey an impression of a highly intelligent opportunist, who gave no thought to the longer run, and his popularity was constantly below the one of his party, till he was finally replaced as leader.

reaching reform scheme with the appealing name of *Economic Democracy*.<sup>11)</sup> The other parties did not want to enter into negotiations about this reform as a part of other crisis policies so it was a major obstacle in majority formation. The SDP government was, under these circumstances, unable to pursue policies with anything but a very short time horizon.

So the b-o-p deteriorated rapidly, causing the foreign debt to increase almost as rapidly as the domestic one. The SDP kept public spending at a high level, and attempts at bringing about wage restraint were inconsistent and insufficient.<sup>12)</sup> Several (half-hearted) attempts were made to change the course, but in the end they came to nothing (good).<sup>13)</sup> Gradually unemployment grew to 10%, and the budget deficit increased, and the foreign debt burden grew to 45%. The economy was clearly on an *unsustainable path*. The respected SDP MoF Knud Heinesen declared that the economy was at the "brink of the abyss", and shortly later he left politics.

Finally in 1982, facing the prospect of a 80 BDkr (about 15% of the GDP) budget deficit, the SDP government gave up and resigned. The new government became a minority bourgeois coalition of four parties. For the first in time this century the PM became a Conservative: Poul Schlüter.

## II.7. *Back to Sustainability: 1983/92*

Right from the beginning most observers were inclined to consider the bourgeois government just a political parenthesis. The composition of the government has shifted over the years. However, the PM could recently celebrate his 10 years anniversary in office.

It is also hard to deny that under the reign of the bourgeois government the Danish economy was brought back into a reasonable state, though unemployment has remained at 10%. The main economic-political successes of the bourgeois government after 1982 have been that public expenditures have been stabilized and public sector wages have come to lag behind private sector wages. The budget deficit was closed; but it has reappeared during the last two years. Inflation has been reduced from 5% to 2% to become among the lowest in the OECD area. Most remarkable is the fact that by 1991 the seemingly permanent Danish b-o-p deficit has finally been turned into a large surplus. The foreign debt that in the late 1980 reached a maximum of 45% of GDP has already fallen to 35%.

Three of the key policies of the Schlüter governments have been:

- (i) A determined effort to keep public expenditures stable relative to GDP and the budget balanced. The policy has not succeeded fully, but almost.
- (ii) An rigid fixing of the exchange rate to the German Mark. This has worked, and it has served to reduce the very high interest rates to near the German level.

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11. The idea was to turn wage increases into forced saving. That could be used to create a large fund directed by the CTU. This fund was to gradually take over ownership of all equity capital. It was therefore a clear break with the Big Compromise. However, the project soon mellowed to versions with more funds, which were only to take over only a part of the equity capital. Now these ideas seem to have vanished.

12. For example, ceilings on general pay raises were occasionally imposed in connection with collective wage agreements, but the right to negotiate wage increases at plant level was left untouched. The main income policy was however to make arbitration proposals, which were rejected by one of the parts, into wage contracts by law. This made it safe for everybody to vote against arbitration proposals, so it is unclear if it had any effect on wage/price rises.

13. The most ambitious Social Democratic policy innovation was the policy of a "demand twist" tried in 1977. The main idea was to replace more import-demanding private consumption by presumably less import-demanding public consumption. As everywhere else where this idea was tried it proved not to work.

- (iii) All wage agreements used to include an automatic mechanism adjusting wages by the increases in the CPI (the consumer price index). In 1982 such clauses were suspended and later they were outlawed.<sup>14)</sup>

Apart from these policies there has been little consistency in the economic policies of the Schlüter governments. The economic team has changed four to five times, and the various teams have often been defeated in parliament when they proposed more far-reaching policies. The Danish economy has probably so much basic health that it is able to pull itself together if only macroeconomic management is minimally responsible.

Now, after having outlined what has happened, it is time to discuss some of the key reasons why this development took place. If we look at the development in a comparative perspective, it appears that the foundation for the economic system of the country - the Scandinavian-Dutch model - is the Big Compromise between socialist redistribution and capitalist business. The next section will therefore try to trace the origin and the development of this compromise.

### III. The Big Compromise and the Welfare State

As mentioned in the introduction, the SDP never obtained the support of more than 45% of the voters. Together with the various left wing parties, the SDP stood at 48-51% of the vote when it was strongest. This has been too weak a popular support for a change to socialism and, furthermore, it is dubious how radical the SDP ever was (Togeby, 1968). It was a more solid solution for the SDP to co-operate with the social-liberal party, the Radicals, on the policy of a big compromise, that over the years came to be accepted by parties of the moderate right as well. To understand what happened, it is necessary to draw a few lines back to the turn of century.

#### III.1. *The Early Political Integration of Labor*

While the capital/labor cleavage remains politically salient (Nannestad, 1989), it was never socially disruptive in Denmark. Politically the working class was integrated early. The Social Democratic Party (SDP) was founded in 1871, and after a rocky start it gained its first parliamentary representation in 1884. As early as in 1916, when Denmark led a precarious policy of neutrality during the First World War, the leader of the SDP was appointed "control" minister in the cabinet. At that time already nearly all blue collar workers were members of a union. Most of these unions were members of the Central Trade Union {LO}. The board of the CTU was always dominated by members of the SDP. 1924 saw the first government led by the SDP. The early political integration of the working class and its exposure to government responsibility contributed to ideological moderation. It molded the SDP into a party committed to piecemeal social reform rather than to drastic socialistic changes, not to say revolutions. It grew to be the largest party in the Danish party system, but the SDP never obtained a

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14. The SDP protested, as it had to, when the anti-CPI law was passed. However, when the SDP leader was challenged by the left wing to promise to repeal the law, he made no promise. It is likely that the unions were secretly happy when the law was passed. The job of a Union is to provide wage increases to its members. Automatic wage increases when the CPI goes up are not something the Union provides, so it must provide something on top of that. This becomes a big problem when everybody (including all responsible union leaders) knows that there are narrow limits to the wage increases possible.

parliamentary majority of its own.

In the labor market Denmark became a low conflict country in the late 1920s. As early as in 1899 the Employers Union and the CTU reached the *September Accord*. It established a framework for employer/worker relationships, and rules of the game for wage negotiations and disputes. The employers recognized the unions, while the unions accepted the employers' right to direct and distribute the work. The two parts also agreed to mutually recognize a system of wage contracts, and the obligation to refrain from strikes and similar measures during wage contracts. This has led to a whole system of labor law.

The social tranquility is reflected in the *political stability* which used to characterize Denmark. Contrary to what happened in other European countries, even the transition to constitutional democracy in 1848-49 was not accomplished through a violent revolution. The conflict between left and right over the parliamentary principle in the last quarter of the Nineteenth Century was not without violent episodes. However, in the end everybody peacefully accepted parliamentarism in 1901.

Extremist political movements have always been weak. As mentioned above, the SDP gave up revolutionary socialism very early. A communist party was founded in 1919 (it went bankrupt in 1991, but some little sect seems to remain). It was never able to compete with the SDP, not even during the depression of the 1930s, when unemployment in one year reached 32%. From time to time, other revolutionary socialist parties have made an appearance on the political scene, normally only for a short period and with limited success. Danish politics also proved largely immune to fascist and nazi ideas in the 1930s. In the terms of Easton (1965), the Danes are obviously strongly committed to the political community and to the democratic type of regime.

### III.2. *The Big Compromise*

It should be understood that the big compromise is a figure of speech. It was never formalized in a document. Nobody ever signed anything, but an implicit agreement developed over time. The term therefore refers to a broad consensus within the range of political parties from B to D in Table A1. The agreement covers all levels from the elite to mass. The compromise has two main sides:

- A: The building of a welfare state, with (i) a large scale public production of public goods (except defense) and (ii) a high level of redistribution of income between people.
- B: A rather strict delimitation between the public and the private sector, with no selective policies towards the private sector. Here competition, property rights and free trade were the rules of the game.

Thus, squarely, the big compromise constitutes the ambitious attempt at combining a capitalist mode of production and a socialist mode of distribution.

### III.3. *Building the Compromise*

The big compromise can be traced back to the economic crisis in the 1930s and the policies of the SDP/Radical coalition government, 1929-40. The crisis had a deep impact on the major social segments of the society: trade, industry, agriculture, and labor. In order to improve the situation of their clients, the political and organizational actors did manage to cooperate on a large scale attempt to find workable compromises {Kanslergadeforliget m.v.}.

The advantage gained by labor in the process was that it became accepted that the government has some responsibility for the employment situation. As a consequence, the state became obliged to shoulder a greater part of the costs of the social problems created by the Crisis. Unemployment insurance remained *de jure* private, unemployment funds were, and still are, run by the trade unions. However, the financing of the insurance was gradually taken over by the state. Already in 1933 the state had come to cover about 50% of total expenditures on unemployment benefits. Furthermore, the rules providing social assistance to the unemployed outside the insurance coverage were broadened. The Social Reform Act of 1933 codified these first ventures in the direction of a welfare state. It brought together in a much more consistent way all legislation about unemployment insurance, health insurance, old age pension, work accident insurance and job provision. Income limits were still preserved with respect to certain kinds of social assistance; but the old stigmatizing consequences of such help, like the loss of political rights, were done away with. The term insurance was retained for most of the provisions under the Social Reform Act, but the relationship between the contributions paid in and the benefits paid out was greatly weakened, as mentioned.

This was not a liberal policy in the traditional sense. Nevertheless, it was accepted by the Liberal Party (which mainly represented farmers), although a united opposition could have greatly delayed the reform. In return, farm interests gained a devaluation of the Danish crown relatively to Sterling. This increased the farmers' incomes, as Great Britain was the main market for agricultural products. This greatly reduced the need for a more detailed regulation of the agricultural production in order to stabilize prices on the British market - an anathema for the Liberal Party. In the end, bacon production became (mildly) regulated. Thus agriculture "bought" itself the acceptance that farming was a "free enterprise" and that direct regulation of production should be the method of last resort.

The Conservatives were opposed to both the general principles of the Social Reform Act, and to the devaluation policy extracted by the Liberal Party as its price. However, there was something for the interests in industry and trade they mainly represented, as well. Instead of selective industry policies with direct state interference with investment decisions etc., Danish industry became protected by a general import control based on a license system.

The various measures introduced during the crisis in the 1930s also laid the foundations for the frequent and intense involvement of interest organizations in the implementation of state policies in "their" fields. As mentioned already, the unemployment insurance system was run by the trade unions, despite increasing state involvement. So was part of labor exchange. About every organization from industry and trade got an active share in the implementation of the foreign currency license system used to control imports. Likewise, the farmers' organizations became involved in the administration of the regulation of agricultural production. This "corporatist" trait of the emerging welfare state made interest organizations a strong actor in Danish politics. However, this trait has remained far less institutionalized than it became in the social partnership system in Austria as discussed in Hackl & Schneider (1992).

Although all parties had shown willingness to compromise under the impact of the economic crisis, the bourgeois parties retained a sceptical attitude to the philosophy of state involvement in the economy. As the crisis eased, their opposition to further steps in the direction towards a welfare state stiffened. In the end, the outbreak of the second world war and the German occupation of Denmark 1940-45 put different topics on the top of the agenda.

### *III.3. The Big Spurt 1958 to 1982*

As the reader already knows, the second big spurt in the direction of the welfare state came

after the change to a SDP-led majority government in 1957. Contrary to the 1930s, this time the basis for the expansion of the welfare state was increasing wealth, not an imminent economic and social crisis. Two views confronted each other. The SDP wanted to use the growing wealth to increase public spending in order to turn growing wealth into growing (state-supplied) welfare. The bourgeois parties argued that growing wealth must mean that increasingly people were becoming economically able to look after their welfare themselves. Consequently, state provision of welfare was becoming increasingly more superfluous. The Social Democratic view came to prevail, at one election after the other. By about 1960 already it was rapidly becoming the accepted doctrine of bourgeois parties as well. The main provider of welfare to the individual had to be the state, which had to undertake large-scale redistribution. On the other hand, state interference in the sphere of production remained a rather low-key affair.

The Danish welfare model, as it emerged during the late 1950s and the 1960s, exhibits several distinct traits.

- (i) An unusual high proportion of welfare expenditures is used for providing *institutions for social care*. That is institutions for the young, the very old and others who can't care for themselves. In child care, for example, the emphasis is on making heavily subsidized kindergartens available rather than on paying child allowances. Thus parents wanting their offspring looked after in their own home are disadvantaged relative to those who want to use a kindergarten.<sup>15)</sup>
- (ii) It is based on the idea of *universal coverage* with little regard for peoples' needs and means. Though there are some exceptions to the principle, even a millionaire does receive the minimum level of the "peoples" old age pension (about Dkr 4.000 monthly), free hospital treatment, etc.
- (iii) It is almost exclusively based on *tax financing*. There is only a minor element of insurance involved. This makes for an extreme level of taxation.
- (iv) As a consequence of offering services free or below market value, allocation problems have to be solved by rationing. The rationing is often done by *semi queuing*, where an administration allocates the order of people in the queue.<sup>16)</sup> There are queues for hospital treatment of non-life-threatening diseases, queues for places in day care institutions and old age homes, queues for entry of non-brilliant high school graduates into universities, etc.

In 1960, public expenditure in Denmark still stood at 25% of GDP, about the same as the OECD-average. Then public sector growth exploded. The welfare state expanded in all directions. New provisions were introduced and old ones improved. Institutions were built and staffed. The educational and the health care system were expanded dramatically. By 1970,

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15. There are few general principle guiding the choice between which of the institutional services are provided free of charge and what is only subsidized. For example, day care is (only) subsidized. Parents pay about 1/3 of the expenditures for their childrens day care institutions. Education, on the other hand, from basic to university level, is free. So is hospital treatment and medical treatment with general practitioners, while you have to pay part of the dentists bill or medicine expenditures yourself.

16. The semi-public system of family doctors is used to order entry of patients into hospitals. In the same way the national exam systems in the high schools is used to determine an ordering for entry into the universities, where those with high marks have no problems, those with too low marks are excluded, and a middle group has to queue. It is often discussed how good these semi-queuing systems are. So is the extent to which they are susceptible to manipulation by insiders.

public expenditure had grown to 40% of GDP. In the macro data the expansion progressed with an extraordinary smoothness and speed (see Kristensen, 1987, and Paldam & Zeuthen, 1988). Nothing seemed able to stop this process. In the early 1980s public expenditures had crossed the 60%-mark.

It is obvious that the relative growth of the welfare state had to end, and that a balance had to be found, but this has proved a very painful process.

### III.4. *The Character of the Braking Process*

In a general perspective one may see any structural change as a transition where a share goes from an old level to a new level. This is likely to be the case for the public sector, too. The old level was the one of 9-10% of the GDP that prevailed for the century between the Napoleonic War to the First World War.

Figure 4.a. *Smooth Transformation*

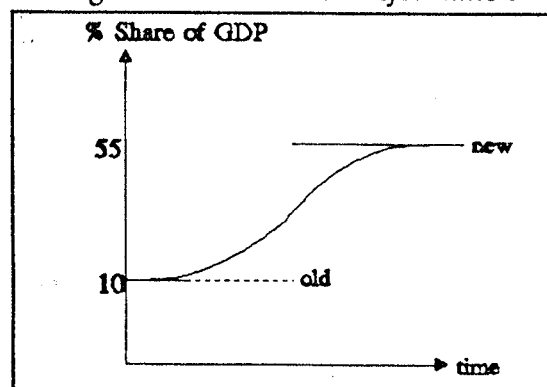
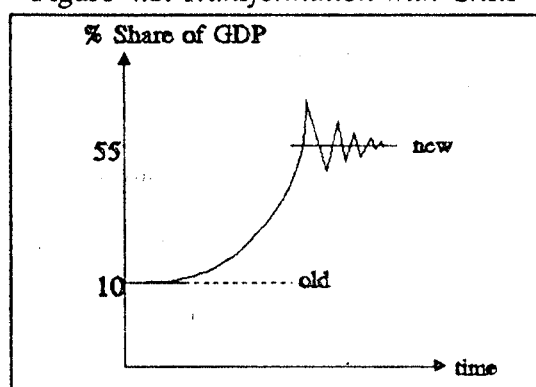


Figure 4.b. *Transformation with Crisis*



The expansion was particularly rapid between 1958 and 1982/83. But the new level since then has not been reached by a smooth convergence process as drawn on Figure 4a. What has happened looks much more like the crisis braking drawn on Figure 4b. It is furthermore a fact that the braking has been made under a durable bourgeois government. It may not be to a level that the next Labor government will accept. It was much easier to have the Big Compromise accepted when everything expanded and people got more and more public services and growth and a very low unemployment.

Now the problem is to find a more permanent balance between the size of the public welfare state and the tax pressure it entails and the private sector. This raises a big question.

### III.5. *Will the Big Compromise Hold?*

There is one particularly vulnerable spot in this construction of the Danish welfare model. It is the near-total severance of the link between what one pays for the welfare state and what one gets in return. In terms of public choice, the Danish welfare state model is the near-ideal setup if you want to encourage free riding.

This need not be obvious from the beginning. The system works very well as long as people have either a welfare ideology or a welfare illusion. That is those, who pay more than

they get in return, do so willingly or without noticing what is going on. However, once people come to doubt the ideology or to realize what they pay, popular support of the welfare state is in danger of *erosion*. Then enforcement costs go up. It is unpleasant to be submitted to enforcement. This may further erode peoples' sympathy with the welfare state. Therefore, the erosion easily enters a dynamic process, that might lead to a genuine *welfare backlash*.

There are many signs that the erosion started in the early 1970s. It has got gradually stronger ever since. Therefore, cracks have begun to become visible in the Big Compromise. The most dramatic highlighting of the erosion process came with the landslide election of 1973 (as discussed in II.5) and its widespread popular support for the openly anti-welfare state platform of the Progress Party. What shocked observers most was that the support for the Progress Party was not drawn from some particular segment of the Danish population. The social composition of the electoral base of this party almost exactly corresponded to the social composition of the Danish society. The Progress Party managed to appeal to attitudes that were widely dispersed throughout the electorate.

Why should this process of erosion start at the beginning of the 1970s when the "happy 1960s" were coming to an end? Maybe it was finally beginning to dawn on a growing number of people that, after all, the welfare state was not a game with a clear positive sum. Two critical experiences probably contributed to such a re-assessment.

The first one was the great disappointment of many right of center voters by the bourgeois government 1968-71. It was formed by the Conservatives and the Liberals, who lured the Radicals into the coalition by making the Radical Hilmar Baunsgaard PM. It was the first non-socialist government in 15 years.<sup>17)</sup> While in opposition, the three parties in the coalition had criticized - harshly at times - the ever-increasing tax level that accompanied the expansion of welfare services. "Money is best kept in the pockets of the citizens" was a catchy conservative slogan. Once in government, the parties came to preside over the most rapid increase in the level of taxation seen yet. Thus people could no longer believe that high and ever-rising taxes were due to the ineptitude for handling money or the unsatiable lust for taxation of the Social Democrats. A high tax-pressure is endemic to the welfare state.

The second critical experience was the publication in 1971 of a voluminous work on the development of the public sector until 1985 and the associated perspectives {Perspektivplanredegørelsen, 1971}. Its authors were top civil servants from the ministries dealing with economic affairs. With merciless candor they argued that the present growth rates of the welfare state were unsustainable. The period where conflicts over priorities could be avoided or covered up by just expanding public services and programs had gone. The report led to a large scale discussion in the mass media. As with all best sellers a second version followed {Perspektivplanredegørelsen II, 1974}. It likewise called for better planning and priority setting in the public sector.

If priority setting in the public sector was to mean anything, it had to imply that some interests would have to be left unserved by the welfare state. Some would have to pay without receiving their money's worth. Thus, by the beginning of the 1970s it was becoming clear that there was a price tag attached to the welfare state and its services. A bill had to be footed by someone. Not many volunteered.

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17. A widespread interpretation of the policies of the Hilmar Baunsgaard government was that the Conservatives and the Liberals, had been in opposition for too long. They had reached a level of desperation that made them pay just about everything to get power. The Radicals managed to obtain both the leadership of the government and an unchanged continuation of all policies of the previous SDP/Radical governments. In certain fields the Bourgeois government probably even went further than a SDP government would.

During the 1980s there has been much and heated debate about the welfare state. It has been criticized both from the left and from the right. However, there has been no general roll-back of the welfare state in the 1980s, which has been the decade of bourgeois governments in Denmark. The growth of the public sector has been curtailed, but the process has been uneven: some fields have been severely squeezed, while others have been allowed to continue their expansion. Many attempts at weeding out have been effectively blocked by articulate coalitions of suppliers of institutional welfare services and their clientele.<sup>18)</sup>

#### IV. The Two Phases of the Demographic Transition

Standard demographic theory describes a Demographic Transition where first mortality and then fertility falls from a traditional high to a modern low level (see the discussions of e.g. Chenery & Syrquin, 1975 and Birdsall, 1988). The process appears to be rather universal. This transition - we shall term it Phase I - was almost finished in Denmark as our story starts. ~~etc.~~

However, the many *institutions for social care* that characterized the Danish welfare state (as just discussed) have made the first phase to be followed by second phase. Here the socio-economic role of the family is reduced toward a new low level. A large part of the social care for the young, the (very) old and the disabled is largely taken over by public institutions. The labor supply increases to the maximum attainable. The result is a radical change in lifestyle and family patterns. There are limits to the process, as people do want to enjoy the company of their children, their old parents etc. But once there is an alternative to having the family do everything, *a new equilibrium* has to be found.

One can think of a scale of such equilibria where the two ends are: *A Market Solution* where the family pays all costs of having commercial institutions doing the social care, and a *Welfare State Solution*, where the all costs are covered by the general tax revenue. Phase II of the Demographic Transition is surely going to be stronger in the latter case. Once a country starts to move in that direction, the transition quickly becomes a dynamic process as we shall see. However, let us first look at the end of Phase I.

##### IV.1. The End of Phase I: Stabilizing the Population

From 1950 to 1973 the Danish population grew from 4.3 million to 5. Since then it has only increased to 5.1 million. Most of the last increase is due to temporary causes (the age cohorts of the post war baby boom getting into the fertile years) and immigration. Most projections estimate that the population will remain stable between 5 and 5.2 million in the future.

Mortality has fallen gradually for a long time. The fall that really changed the average living expectations was the big fall in infant mortality. It took place in the 19th Century already. From 1948 to 1988 average life expectancy in Denmark increased from 69.0 to 74.8 years. The increase has almost ceased now.

The most dramatic change has occurred with respect to fertility which has dropped as shown in Figure 5. The level was quite low (half the African level) already at the start of the period. Since then the fall has progressed in two steps - as it has in most NWE countries:

Fall I, 1945/55 - the fall after the Baby Boom of 1942/50.

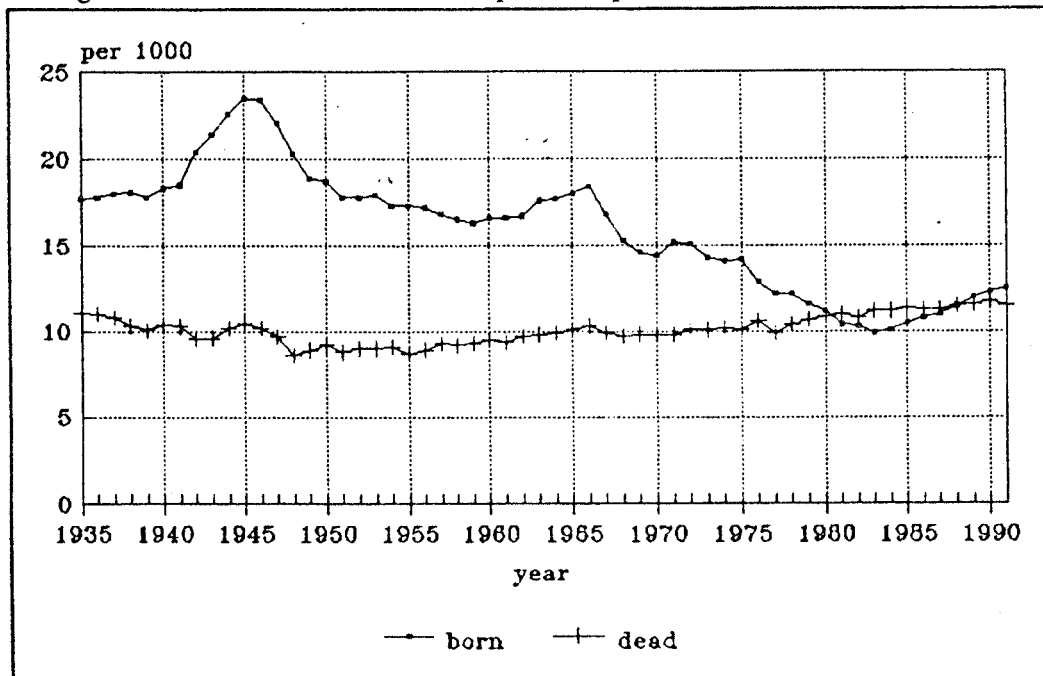
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18. This has been most visible in health care where doctors and nurses have often been able to enlist the support of patient organizations.

Fall II, 1966/75 - which is a part of Phase II.

The Baby Boom in 1942/50 is a fairly universal phenomenon in all countries that participated in the war. It started during the War and lasted through the first couple of Post War years. It is interesting to consider the combination of biological and economic reasons behind the baby boom and the subsequent fall (I). These considerations will be left to the reader, as fall (I) proved a singular phenomenon that will hopefully not be repeated.

Figure 5. *Net Movements in the Population per 100'000 Danes, 1935-1990*



Note: The numbers used to be based on the censuses, made every five years. Now the numbers are based upon annual runs of the CPR-computer file, where all persons are registered. The gradual increase in the death frequency hides two contrary trends, the relative increase in the number of old and the continued small fall in the mortality.

#### IV.2. *Aspects and Consequences of the Changes in Lifestyle*

The Lifestyle Effects on the demographic development are of a more general and permanent character. They involve a whole complex of factors that keep popping up throughout our story. Table 3 shows the main structure of the complex of the changing lifestyle. We know most of the factors that enter into the whole pattern, but we are surely dealing with a typical dynamic simultaneity complex. The interaction of the different factors takes place over considerable time and generates strong dynamics. The following mechanisms are involved:

When incomes and productivity grow, time becomes more expensive. Also, jobs become more specialized, requiring more and more education. Besides, work becomes more and removed from the homes. Children therefore can take less and less part in production, and thus become more and more expensive. They change from being a production good to become

a more and more expensive consumption good. This generates a downward pressure on fertility and creates a demand for contraceptives that generates a supply. With few children and little to do at home women increasingly demand education and supply their labor to the market. This creates a demand for institutions caring for children and the very old. The working women generate incomes paying for these institutions, and the new institutions generate jobs (mainly for women in the first place) as well.

In the welfare state the costs to the family for using these institutions are a small fraction of price so a large political pressure for building more develops.

Table 3. *The Changing Lifestyle Complex*

| Welfare State Policies  | Family and Labor Supply   | Economy   |
|---|---|---|
| Transfer payments:<br>General social safety net, including public pensions, unemployment and sick pay, and state support for students | From extended → to core families<br><br>Young and old become independent and partly institutionalized<br><br>Female labor supply up | Incomes up<br><br>Public spending and taxes up → short run expansion of economy<br><br>Splitting of taxes between spouses |
| Institutions:<br>State homes for the old, and disabled, kindergartens from the age of 6 months  | Fertility down and divorces up<br>Contraception and free abortion<br>More permissive society  | Changes in housing stock and construction of institutions   |

Note: Into this comes the large expansion of education to be discussed.

Some observers see the pill and the advent of (virtually) free abortion in 1973 as central factors in the whole process. No doubt they did play a role, but a lot of evidence suggests that it was a minor one. This especially applies to the liberalization of abortion, that took place in 1971/72 and largely seems to have moved abortion from quacks to hospitals.

A more demonic version of the theory exists, ascribing a central role to the pill and abortion. It also includes the liberalization of pornography, the dissolution of the family, the immorality of the youth, and the general permissiveness during the 1960s and 1970s as causal factors behind the demographic changes of that time.<sup>19)</sup> There was some small backlash against these trends in the form of the creation of a Christian Peoples' Party in 1970; but the party never rose above 4% of the vote. It soon became a very moderate party, speaking nicely and vaguely about christian values and the protection of the family.<sup>20)</sup> Also, the consumption of pornography soon reached a stable equilibrium level, and ceased to be a political issue.

#### IV.3. *Female Participation in the Labor Market*

In the 1950s most women in the Danish labor market constituted a low skill group of unstable

19. These trends are probably all true: the society did become more permissive, divorce rates did go up etc. However, many sociological studies have shown the increases to be very gradual indeed. The big change was that people came to hide certain facts of life less than they did before.

20. The Christians were an ecumenical party, which never had a special connection to the church. For some time the leader was a Catholic. However, he did not exactly stress that fact.

labor. This gives a self-reinforcing mechanism: It doesn't pay for firms to invest in unstable labor. Women consequently kept getting poor jobs that they got little attached to. With more human capital women became more and more permanent labor market participants, who refuse to stop working when having children. Then firms start investing in the female workforce. This causes family sizes to fall. Etc. We can perhaps see the labor shortage in the 1960s as a decisive factor starting this development. The inertia of the whole complex of factors has then caused the process to continue even after the rise of unemployment in the 1970s which hit women harder than men.

Table 4. *Population and Labor Supply 1950/90*

| In 1'000 persons             | 1950  | 1960  | 1970  | 1980             | 1990             |
|------------------------------|-------|-------|-------|------------------|------------------|
| Population                   |       |       |       |                  |                  |
| All                          | 4'251 | 4'565 | 4'907 | 5'122            | 5'135            |
| Below 16 <sup>a)</sup>       | 1'231 | 1'326 | 1'299 | 1'245            | 1'024            |
| Above 69 <sup>a)</sup>       | 235*  | 303   | 381   | 489              | 556              |
| Potential labor force        | 2'785 | 2'936 | 3'227 | 3'388            | 3'555            |
| Of the potential labor force |       |       |       |                  |                  |
| Under formal education       | 200*  | 250*  | 330*  | 373              | 413              |
| Employed                     | 2'063 | 2'137 | 2'313 | 2'625            | 2'650            |
| Of which men                 | 1'369 | 1'455 | 1'470 | 1'430            | 1'438            |
| women outside homes          | 423   | 518   | 733   | 1'031            | 1'212            |
| in homes <sup>b)</sup>       | 271   | 129   | 110   | 90               | 60               |
| Unemployed                   | 58    | 31    | 25    | 184              | 280              |
| Rest <sup>c)</sup>           | 464   | 518   | 559   | 206              | 212              |
| Of the employed              | %     | %     | %     | %                | %                |
| Agriculture <sup>d)</sup>    | 27    | 18    | 11    | 8                | 5                |
| Industry and construction    | 36    | 38    | 38    | 33 <sup>e)</sup> | 32 <sup>e)</sup> |
| Non-public service sector    | 28    | 32    | 30    | 30 <sup>e)</sup> | 33 <sup>e)</sup> |
| Public sector                | 8     | 10    | 18    | 28               | 30               |

Notes: \* indicates assessed data.

- The limit for the compulsory schooling is (about) 16, and the compulsory pension age (in public sector) and most labor contracts is 70. People can however choose to retire earlier; but few retires before 67.
- Exclude housewives with no other job, include wives who assist in husbands' business and domestic help.
- Housewives, and people on permanent public assistance and a few small groups.
- Agriculture includes other primary sector employment; but agriculture is more than 90%.
- From 1980 onward the manufacturing sector is defined to exclude many small firms previously included. To make the data comparable, we have, rather arbitrarily, moved 6% from non-public service sector to industry and construction.

Various other factors contributed further to this inertia. For one, there was a "catch 22-effect": High female participation rates in the labor marked force the socialization of a number of functions previously fulfilled within the family, primarily the ones of looking after the youngest and the old. Thus it creates pressures for the expansion of the public sector: daycare institutions, homes for the elderly, etc. have to be built and staffed. In order to pay for this,

taxes have to be raised. In order to be able to pay the rising taxes and keep a decent standard of living, two incomes per family generally became necessary. This effect was reinforced through the introduction of a splitting of income taxes in Denmark, so that each family member was taxed (almost) separately for her or his income. With strongly progressive income-taxes this made a family with two breadwinners better off than a family with only one, even if the combined incomes were the same in the two families.

Related to the changing family pattern of the Phase II Demographic Transition is the explosion in education.

#### IV.4. Education - the Tradition for Many Separate Systems

The law on universal and compulsory primary education is from 1801, so full literacy has been a fact of life for many generations. However, when Denison (1967) compared the human capital of 9 OECD countries between 1950 and 1962 he found that Denmark was behind most of the other countries. The difference was particularly large to the USA. In some statistical comparisons the last 40 years therefore appear as a period of a very rapid catching up.

Table 5. *The Education System 1950 and 1990*

| Student stock in 1'000                    | 1950 | 1990 |
|---|------|------|
| 1. Elementary school                      | 511  | 580  |
| 2. High school                            | 16   | 75   |
| 3. Skill training/schools <sup>a)</sup>   | 97   | 147  |
| 4. Shorter higher education <sup>b)</sup> | 18*  | 22   |
| 5. Longer higher education                | 17   | 130  |

\* Dubious assessment.

a. Used to be an apprentices training with a final exam; but it has developed into a skill oriented secondary school system

b. Likely to be much too low.

However, Denison (and others with him) did not consider that Denmark for many years has had a large and complex set of parallel educational systems (lines 3 and 4 in Table 5) with two characteristics: (A) specialized skill training in many fields, with (B) tracks into separate systems of medium and higher level education of decent quality:

- (i) For many years half of the blue collar workers have passed through a four years skill system. The system grew from the old apprentice system, but has gradually come to include more formal training as well. On the top of that is an optional system of about 10 engineering schools {Teknikum} with theoretical training for four more years.

The resulting teknikum engineers are in many ways better suited than the "polytechnical engineers" from the Technical University {DTH} for jobs in industry. They combine a theoretical training with such practical skills that they can actually do the jobs. Separate schooling systems exist in agriculture, forestry, sailing, aviation etc.

- (ii) A similar multi-level skill school system exists for white collar workers. It continues into a commercial high school system with tracks into the business schools and various more

specialized schools.

Related to this system is the training of nurses and different kinds of medium level medical staff, the staff in banks etc.

- (iii) Teacher training for the basic schools (of the first 9-10 years) is made by a separate system of Teacher Training Colleges, with no track into the universities. Teachers in the high schools (where students go for the last three years) must be university graduates who are trained for 8 years in average.<sup>21)</sup>
- (vi) There is finally a large system of voluntary adult education in all subjects. Some of this is in the form of evening classes and some in the form of two to three month full time adult boarding school {Folkehøjskoler}.

This whole education system with its long historical roots gradually grew into great complexity. The growth has been influenced by several factors: (i) Many unions fought for the rents they could get from having certain jobs reserved for their people. Only people with a very particular education controlled by the insiders were allowed to do it. Also, of course, all the many separate institutions have fought for their existence. This has meant a continuous pressure to keep all parts of the complex system alive. (ii) The Educational authorities of the ministry, local authorities and all those demanding skilled people have tried to make the system more transparent and flexible, allowing many cross-over options. This has gradually increased the formal component in most educations. It has also caused a very rapid increase in the number of people passing through the high schools, while all the parallel systems have expanded far less. The result has been that Danish educational system has been gradually becoming more americanized.

A final point as regards education is that Danes are the only people speaking Danish. Danish is as close to Norwegian and Swedish as Spanish is to Portuguese (or British is to Texan), but it is not closer to German than Spanish is to French. It means that Danes are forced to learn languages. All Danes know that fact, since they often travel and meet foreigners who don't speak Danish. The result is a high level of motivation, and a language teaching of a generally high quality. In the television and cinemas only programs for pre-school are dubbed. Foreigners often find it surprising that almost everybody is able to communicate in English, and that many know some German. However, the command of Latin languages is much less widespread.

Before we leave the large field of demography, it is worth to look at two side stories. One that matters surprisingly little, and one that is becoming increasingly important.

#### *IV.5. The Small Role of the Peoples Church*

The church plays a considerable role in the social controls over the reproduction of population in many countries. It often influences the rules of marriage and divorce, the acceptability of abortion and contraception etc. This is not the case in Denmark, where the role of the dominating Lutheran church is small and largely void of moral or legal authority. Interestingly, state

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21. This is a part of the tradition for very long and rather tough university studies in Denmark. The bachelor degree has till now only existed at the business schools, but it has recently been introduced; but it will take time for it to be accepted, and the schoolteachers will fight to prevent a bachelor in history from being allowed to teach history in a primary school, etc. The Ph D was only accepted a dozen years ago to replace an old doctoral system in the German tradition.

and church are only partly separated by a complex compromise. The church is not a state church, but a peoples church. This means that if people do not take the active step of opting out they are automatically members. This is the case with 86% of the population. It means paying a church tax of 1% of your income, which finances about 50% of church expenditures. The welfare state also means that the Church has a very limited social role.

However, while 86% remain members, only about 1% of the population attend services regularly, though many go to Church in the afternoon of the 24th of December, while the goose is broiling in the oven. About 60% still marry in the church, and 90% are buried from the church. So there is still work to do for the increasingly female clergy.

The Danish church has a loose organizational structure, and nobody can and does speak on its behalf. Thus it has no role in politics and is not the object of political disagreement either. The SDP started as an anti-religious party; but it made peace with the church already around the turn of the century on a program of religious tolerance. This has all created an atmosphere where religion plays a very small role in everyday affairs.

#### IV.5. *Old and New Minorities*

The high degree of *social stability* in Denmark rests mainly on two pillars. There is the early defusion or containment of the labor-capital cleavage, as already discussed. Besides, there is the near-total absence of ethnic, cultural and religious cleavages in the society, at least until recently.

For quite a long time, the only sizeable minority group was the German minority in Southern Jutland along the border, corresponding to a Danish minority south of the border.<sup>22)</sup> Relations were strained by the border revision after the First World War, and by the German occupation of Denmark 1940-45. However, time and a fair treaty with West Germany (from 1955) regulating the rights of both minorities have made the majority-minority relations in Southern Jutland disappear as a political issue. The German minority lives at the border and has the same standard of living, education level, etc., as everybody else, so most Danes rarely notice its existence.

The popular Danish poet Benny Andersen describes how good he can manage to be, especially when he is all alone. This gives a precise description of the relation between the average Danes and the minorities. As long as very few were different, there was a very relaxed atmosphere and great tolerance. This, e.g., applied (and still applies) to the small Jewish minority of about 5'000. They are well absorbed, are largely irreligious and intermarry to a large extent. There are only a couple of Synagogues. Much the same story applies to the (larger group of) catholics.

However, as a result of the perceived great Danish tolerance two new groups of immigrants were accepted from the mid-1960s onward:

- (i) *Migrant workers*, mainly from Turkey, who initially came during the period of very low unemployment. The policy as regards this group was mainly one of letting some in and pretending they were immigrants. It has gradually grown to about 75'000 persons. Liberal Danish policies with respect to uniting families and high birthrates mean that the group keeps growing, even though a stop of immigration has been the official Danish policy since the 1970s. When unemployment increased, it hit the "migrant

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22. The history of these minorities and the Schleswig-Holstein question is as long, complex and bloody as the history of most such mixed minorities. However, it is a story that seems to have had a happy ending.

workers" groups particularly hard. Also, it did not help that not a few members had difficulties in becoming absorbed, looking with disapproval at Danish lifestyles. These persons also tend to have as little contact with the educational system as possible.

- (ii) *Political Refugees*. The first waves were Polish Jews (after 1967), Chileans (after 1973), Vietnamese/Chinese Boat People (a little later). They were easily absorbed, but then came Iranians and Palestinians, who were more numerous and less easily absorbable, for cultural reasons, because of a gradual hardening of Danish attitudes, and due to the increase in unemployment.

Various estimates suggest that the new Muslim groups consist of a little more than 100'000 people. They are confronted with considerable linguistic and cultural problems. Many are poorly educated and have a high risk of unemployment, so they have to live of social benefits. Women hardly work, and they tend to have little contact with ethnic Danes.

Over the years, assimilation problems have gradually increased, and Denmark has ceased to be an easy country to enter as a refugee. The right wing (of the Progress Party) is trying to exploit the existing tensions. At the moment little points to an easy solution and absorption of the new minority.

## V. The Free Trade Tradition and Markets

For a small, resource poor country a large trade appears the only possibility for a high standard of living. There is little a small country can do to induce others to free trade; but it can at least be at the front when restrictions are cut. The free trade policies that we are to discuss therefore originated in the 19th Century already.<sup>23</sup> They were only changed temporarily during the crisis in the 1930s as a defense against foreign restrictions, and during the World Wars. After World War II it took some years before the restrictions could be lifted.

All Danes see *one freely convertible currency* as the natural state of affairs. Import restrictions are something that is applied only to booze and cigarettes. To cross a border is an everyday affair that only involves a change of language. Danish borders are crossed no less than 140 million times annually. Multiple exchange rates, import restrictions and the filling in of forms when crossing a border is something connected with crises and the extinct world of the East Block.

### V.1. Trade Shares and Trade Partners

Figure 6 shows the development in the trade. It shows the export share (of GDP) and various components, as well as the balance of payments. The reader can see the import share by subtracting the b-o-p share from the export share. We also show some components of export. Several points emerge from Figure 6.

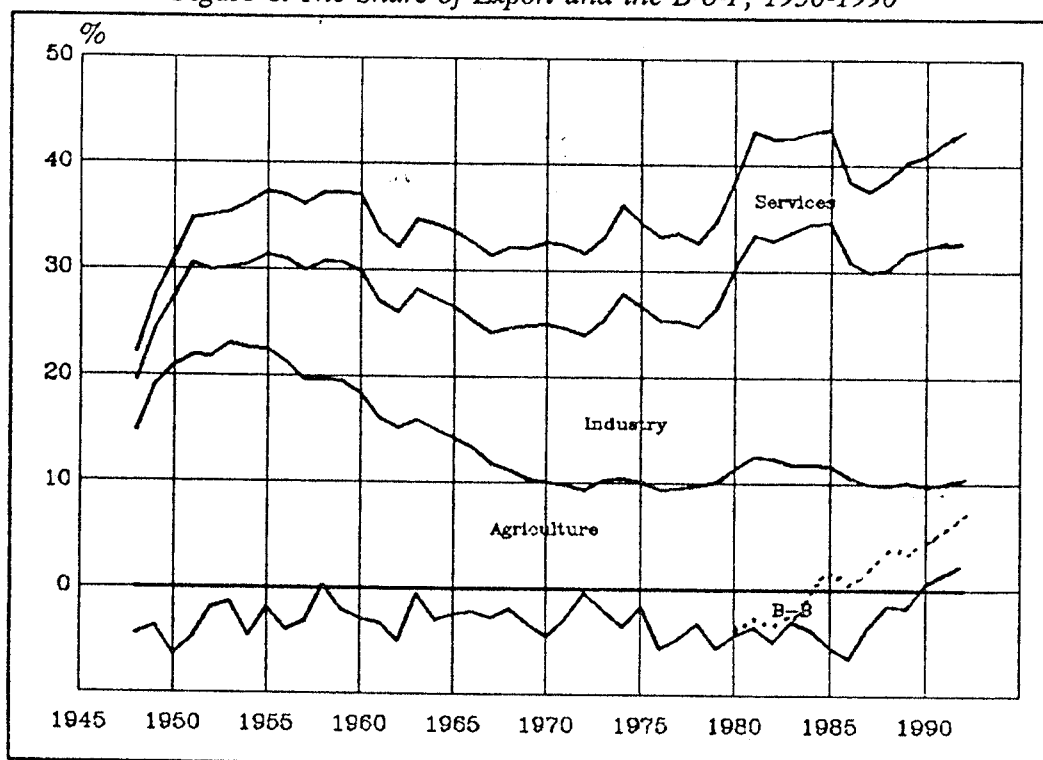
- (1) The post war return to the normal high trade shares (the same as from 1900 to 1930) was over in 1952.
- (2) The fall in the share of agricultural exports ceased when Denmark joined the EEC.

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23. Nobody in Denmark has ever seriously suggested that it would be advantageous to close the Danish economy to the world market. In the 1930s where trade was seriously hampered by foreign restrictions this was seen as a tragedy for the country.

- (3) There is an upward trend in the b-o-p till the key year when economic policies were changed in 1958. When the change occurred in 1958 this led to a fall in the export share and a rapid return to a negative b-o-p. The figure therefore supports our description in Section II.4 of the economic boom of the 1960s as domestically generated.
- (4) The b-o-p has been negative, but rarely very much so, till the end when it improves by no less than 7% of GDP. It is clear that a major part of that improvement is due to an increase in export. Most of the rest is caused by savings of energy import.

Figure 6. *The Share of Export and the B-o-P, 1950-1990*



Note: The shares are calculated in percent of the (current) GDP at factor/base prices. The b-o-p is an abbreviation for the current balance of payments. The dotted line shows the goods and services balance, so the difference is interest paid on the external debt that has mattered after 1980.

When the rapidly growing non-agricultural trade is considered, several points are important to note. The trade is largely with neighboring countries and in related products. Import of necessary resources (in commodity form) is hardly 20% of the trade. What counts is the trade in closely related products: Denmark exports electronics made by foreign and Danish components, and imports electronics and components.

It often happens that the trade flows are puzzling and complex. IBM Denmark has been reported to be a net exporter. The country imports all cars; but has a fairly large export of car components, etc. The biggest single exporter (measured in value added) is LEGO, producing plastic bricks to kids by high tech robots. The export of thermostats is, however, almost as large. Medicine, diesel engines for ships, cookies, cement factories are other large export

products. The point to notice is that it is very hard to find a clear pattern in the export products.

The need for a large trade has made Denmark a keen participant in the process of European economic integration; but with big stress upon economic.

### *V.2. The Nordic Dream and the EFTA Solution*

The decisive years were 1945/50 and 1970/73. The first period was the one of the failed Scandinavian Dream. Many factors help to explain the failure. Sweden was not interested in being involved in the defense of Denmark deemed to be hopeless from the outset. Also, Norway and Denmark had tried to be occupied and were much more sensitive to the plight of the Checks, Poles and Balts than the Swedes were. Consequently, Norway and Denmark saw NATO as an alternative to neutrality. When it came to trade there was little Denmark could offer in exchange for the opening of the other Scandinavian countries to Danish agricultural products. Sure enough, when all the Scandinavian countries joined EFTA (Finland joined in a special way) there soon developed a completely free market in most non-agricultural products.

However, in the early 1970s UK (& Ireland) decided to join the EEC. The other EFTA countries were therefore forced to choose. What Denmark wanted was free trade including agriculture. The farming sector was already small by then, but it did like the high agricultural prices in the EEC. It was calculated that the increase in the value of Danish agricultural export if it could be sold to EEC prices instead of World Market prices was 700 mill Dkr. This amounted to an increase of almost 1% of GDP of export, and it would close the b-o-p deficit.

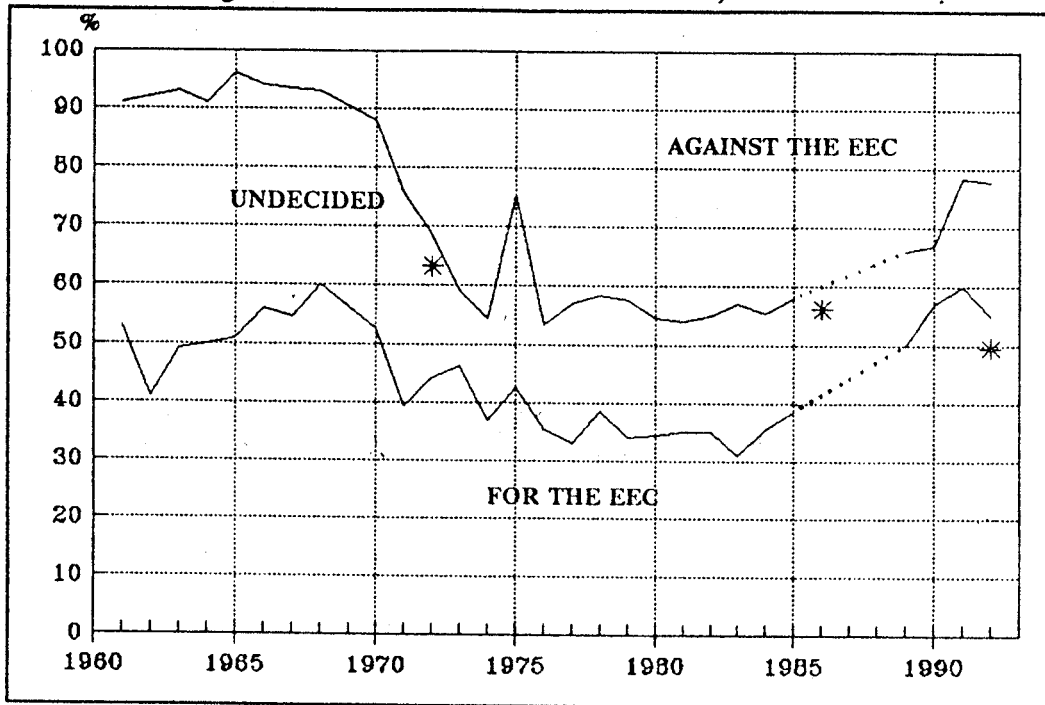
Large majorities in the Danish and the Norwegian parliaments decided that the two countries should enter negotiations about joining together with the UK and Ireland. The negotiations were successfully concluded towards the end of 1971.

### *V.3. Joining the EEC - the Trauma of a Referendum*

As appears on Figure 7, few were against the EEC as long as nobody thought we were going to join. However, as the negotiations progressed, so did the resistance to the idea that Denmark should join an attempt to form a *politically integrated* Europe. Very few Danes were against free trade and higher prices for agricultural exports. However, most felt uneasy, or hostile, to the high ideals of one Europe permeating the Treaty of Rome. For a small country with a long history of independence it is a problem to melt into a big supercountry. To this unease soon came chauvinism, the historical fear of Germany, fears of a large scale invasion of poorer South Europeans wanting to share our wealth, our jobs and our social security. A threatening invasion of garlic gnashing catholics chasing our nice blond girls, the end of our beautiful language and old culture, etc.

The resistance to the EEC quickly became an organized movement, a Rainbow Coalition where the (new) Left Wing played a big role. The Communists and the Justice Party got their first chance in many years to play a leading part. Many studies have been made of the composition and the extent of the Anti-EEC movement. Figure 7 shows the aggregate numbers.

Issues involving a *transfer of national sovereignty* has to be submitted to a referendum according to the Danish constitution. This clause was applied to the EEC treaty negotiated. The consequence was a big campaign that took place from the fall of 1971 till the vote in October 1972. This campaign is the most emotional political event that has taken place in Denmark since 1945.

Figure 7. *Pro and Anti EEC Sentiments, 1970-1992*

Note: The question posed is: Assume you had to vote tomorrow about the Danish EEC membership. Would you vote for or against? There has been between 1 and 7 polls per year, with gaps in 1969 and from 1986 to 1989. The last gap is so large that it has not been bridged on the figure. The three asterisks are the votes at the three EEC related referenda. In 1972 people voted on the treaty, so the question was the same as the one in the poll. The other two referenda are on more limited questions as discussed in Section V.4. The data are made by the Danish Gallup Institute for Berlingske Tidende, and kindly provided by the Institute.

During 1970-73 the Anti-EEC movement grew from 10% to 40% of the population, while the Pro-EEC group fell from 50% to 40%, so the group of the lukewarm fell from 35% to 20%. In the Parliament there has constantly been about 75% for the EEC, including all *establishment parties*, who have participated in a government since 1960. This group consists of the SDP, the Liberals, the Conservatives, and all small Center parties, except the Justice Party. The establishment politicians have mostly been able to sway the undecided when need arose, but not always, and only with great effort. The gulf between the parties and their voters in the EEC question is strongest for the SDP. The voters of the moderate right tend to agree with their parties that we should be in the EEC. The debates during the big campaign in 1971-72 were strange in the sense that the two sides kept addressing different issues at different levels.

The politicians from the big pro EEC parties argued at a low emotional level. They stressed the short-run economic advantages. They took great pain to explain that the big words in the treaty were the typical hype of Latin Europe. They should not be taken seriously. EEC was going to be an even bigger free trade area than EFTA, and we would be paid twice as much for our bacon as before.

The Anti-EEC front argued at a much more emotional level. They stressed the big words about a European Union in the Pact, and found many quotations from leading EEC politicians about One United Europe. Here Denmark would obviously be an insignificant province. However, as the Front was a motley group, it also included everything the country had to offer of a lunatic fringe, as already suggested. Many things of strikingly blatant chauvinism were said which most people would normally feel ashamed even to think.

The prime minister was the cold and unpopular but respected economist J.O. Krag. He was personally strongly committed to the EEC. As he encountered the flood of emotions and outright hatred at the meetings across the country, he became convinced that the country would vote no. It was probably as much the prominence of the lunatic fringe and the communists in the Anti-EEC front as it was the establishment politicians that swayed the undecided. In the end 2/3 voted for the EEC treaty, and Denmark had joined the EEC. After he had announced the result to the parliament, the PM resigned.

Norway had no short run advantage in joining the EEC, so the referendum result became much closer. Also, Norway only became fully independent in 1914, so flag waving became even bigger there. The referendum result therefore went the other way with a tiny margin, and Norway stayed outside the EEC.<sup>24)</sup>

In the short run the EEC-issue had two consequences: (i) During and immediately after the referendum campaign, it caused a *wage feast* of reckless increases. The feast wiped out *all* the short run improvement in the b-o-p, that resulted from joining the EEC.<sup>25)</sup> (ii) It caused many SDP voters to vote for other parties at the next election. It was therefore one of the reasons for the Chaos Election in 1973, as discussed in Section II.5.

#### V.4. EEC - Living With a Gulf Between Politicians and People

The gulf between the establishment parties and the voters in the EEC question has not started to decrease till 1985 as shown of Figure 8. The Anti-EEC Front has therefore faded away much slower than most observers expected, whether they feared or hoped for such an outcome.

Denmark has rarely managed to be decisive in the big questions; but it has obtained many small exceptions like the other small members. In spite of all crisis and haggling, the inertia of the organization as such has worked. There has been a slow, but relentless push towards more integration. The big words on European integration has not only been words.

Twice already the parliament has decided that a new referendum was necessary. In 1986, for no obvious reasons,<sup>26)</sup> and again in 1992 on the Maastricht Treaty, which speaks explicitly about an economic and monetary union. The treaty text reeks of the ambiguities made necessary by many hard fights; but it is clear that the treaty did provide the basis for one European currency.

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24. Soon after Norway discovered oil in the North Sea in such quantities that all short run economic problems disappeared. Denmark also has its share of the North Sea oil bonanza, but it is a much smaller share - just enough to cover domestic consumption now one and a half decade later.

25. The years 1971-74 were the years of inflation rates between 10 and 25% throughout the OECD area. The countries which managed to hold inflation at 10% got a large improvement in their competitiveness compared to the ones which had 25% inflation. These years therefore caused large shifts in relative competitive positions. Here Denmark did badly.

26. The reason for the referendum in 1986 had to do with the relation between the new Conservative government and the SDP opposition that tried to patch up the gap between the leadership of the party and their voters by becoming more ambiguous in the EEC question.

In 1986 the majority of 1972 once more emerged; but in 1992 the result was different. The referendum rejected that Denmark ratified the Maastricht Treaty by a tiny margin. The consequences are still not fully visible; but few think that result of the referendum signals a decisive break between Denmark and the EEC. For at the same time as the Maastricht process has been going on, the dissolution of the East Block and the collapse of the Soviet Union has finally started a process that most Danes have long wanted. The rest of Denmark's non-marginal *present and future trade partners* in Europe have applied or are likely to apply for EEC membership: Austria is soon in, Sweden has applied, and Finland is ready. Norway is likely to come next. Czechoslovakia (as one or two countries) and Hungary are likely members as well. Then come Poland and the three small Baltic countries, etc.

#### V.5. *A Note on Foreign Investment* <sup>27)</sup>

Danish firms often invest abroad, and many foreign firms invest in Denmark. The statistics are well known to be full of pitfalls; but most attempts to interpret the data show that the flows are negative in the long run, so Danish firms invest a little more abroad than vice versa. Normally nobody cares, and the issue just sleeps. However, sometimes foreign investment appears as an issue, though rarely a big one. The four main types of cases are:

(i) When a new foreign firm wants to establish a production in Denmark, it is seen as something very positive. (ii) When a foreign firm buys a Danish firm, there are always some voices against. However, it is somehow demonstrated that if the Danish firm was in difficulties, it is generally taken as positive that the foreign buyer saves the Danish firm. (iii) The only occasion where foreign ownership becomes a problem is when multinationals move their Danish production abroad. There has been no cases where such steps have been stopped. No law exists allowing the government to interfere.

The last case is different: (iv) It occurs when (large) public contracts are awarded and there are bidders from abroad as well as from Denmark. According to the Common Market Rules all should be treated equal. It is probably fair to say that any government and municipality tends to choose the local bidders. However, some countries have been better in hiding that fact of life than others, and it appears that Danes have a tradition for being blunt. So there have been cases.

It is a national issue that Danish firms participate prominently in the construction of the big bridge/tunnel projects linking the Danish islands to each other and the continent.<sup>28)</sup> However, Danish engineering firms are so competitive that they are large scale exporters, of exactly such projects, so they will be keen bidders.

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27. Few Danes would probably think this issue worth a section in a paper as the present.

28. 2/3 of the population live on islands, notably Zealand, where Copenhagen lies. There are already many bridges; but the three largest (in the 20-25 Kms range - costing 4-5 Billion \$ each) are still missing: (i) Right now a 22 Km 4 lane highway plus a train connection is being constructed between the islands of Zealand and Funen {Storebælt}. (ii) The decision has been made and in a couple of years the bridge from Zealand to Sweden {Amager/Malmø} will be up for tender. (iii) The last Bridge connecting Zealand to Germany {Rødby/Fehmarn} will then probably follow.

## VI. Industrial Developments and Policies

The main point to be made about Danish industrial policies is that there has been very little of it (Sidenius, 1989). There has nevertheless been a fairly strong industrial development. The key feature probably is that Denmark has no industrial structure in the sense of key industries structured around a special resource or a policy-generated basic industry. The Ministry of Trade and industry has never been an important ministry (except just after the war). Its budget has always been one of the smallest of all ministries, p.t. only four ministries have smaller budgets. Even the Ministry of Culture spend more than the Ministry of Industry. At present, the Minister herself is an *outside* expert and no *inside* politician. However, two main policy areas should be mentioned:

The first area is *monopoly controls*. It is clearly a problem in a country with a small market that there is not sufficient space for having enough firms for real competition. The result has been two policies: (i) A State Monopoly Commission with an administration that, at its heydays, reached about 500 people, had to control prices of products of all firms that dominate a particular market. A whole little legal profession developed here; but some years ago the Commission was abandoned, and there appears to have been no effect on prices or monopoly profits.<sup>29)</sup> (ii) In practice, monopoly control has always been handled by the free trade policies. It does not matter that there is a domestic monopoly when there is free trade.

The second policy area is *regional development*. There is a council of regional development administrating some funds to support industries wanting to move out from Copenhagen, where for a long time a relatively large fraction of the industry was concentrated. In the last 15-20 years there has been a marked shift in the voluntary location of the industrial development, so these funds are not really needed any more.

### VI.1. Multinationals

Few Danish companies are large by international standard. Only two Danish firms appear on the lists of the largest European Companies. They are both shipping lines that have branched out to trading-industrial conglomerates of the Japanese "Zaibatsu" type: Maersk {A.P. Møller} and EAC {ØK}. Both employ 30'-40'000 people worldwide, and for both companies the Danish employment is only 1/4 to 1/3 of the total. Both companies were formed before the turn of the century and both are fairly secretive. Especially EAC likes to hide its companies overseas under the names of local companies. It appears that Maersk is doing much better than EAC for the time being.

The next size of companies are 4-6 firms in the range of 5'-10'000 employees (F.L. Smith, Danfoss, MD Food, Carlsberg/Tuborg and LEGO). All are exporting a major part of their production and all own production facilities abroad; but they have the majority of their production in Denmark.

This all means that the great majority of total manufacturing output in Denmark is in firms with less than 1'000 employees.

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29. It has proved difficult to dismantle the administration, so it still exists, though it is hard to say what it is doing under its new name of the Bureau of Competition. The reader will, no doubt, recall similar cases, as described by Parkinson.

## VI.2. *Special Sectors*

There are a couple of deviations from the dominating liberalistic policies. The main ones are railways, utilities, the sugar industry, shipyards and the new oil/gas sector.

The first group of firms to be mentioned are the natural monopolies. The railways are, by and large, organized as one public company {DSB}, running with a deficit amounting to about 1/4 of the total turnover.<sup>30)</sup> Most utilities such as water, electricity and telephone are organized as private companies; but the State and the municipalities own the shares. They are by and large well run, generating profit, much as any other company.

The second group consists of the Sugar-sector and the Shipyards, which are private. But here public regulation is an established fact of life. In both sectors the regulations are old and an answer to regulations abroad, and the Danish subsidies/regulations are now being replaced by EEC regulations. The sugar regulations were complex and supported by a tariff, that has now gone. The shipyards used to be supported by two regulations: (1) A special finance arrangement for new ships reducing the interest rate. (2) A special tax-deduction/write-off scheme that caused a lot of medium sized ships to be built. So a lot of Danish coasters are now ploughing the seven seas trying to find just any business.

So the small experiences Danes have had with state subsidies to business have not convinced many that the government is particularly good at steering the production of private goods. It appears that even the Peoples Socialists - the most leftist party in the Parliament at present - have ceased to speak of state firms as something desirable in itself.

Finally, there is the new North Sea Oil/Gas sector. The exploration started in the 1970s. For some time it proved hard to find firms which wanted to explore, so the rights to explore were given to the largest company in the country, Mærsk Line. It formed a consortium with a couple of multinational oil companies. During the late 1970s, several small oilfields were found, and now the domestic production of fossil fuels has just become equal to consumption. It has been estimated that given the likely further deposits to be found, the country will be self-sufficient in energy for the next two to three decades. The main public regulation on the oil sector is a (high) tax on the difference between the world market price of crude oil and the production costs.

However, in connection with the new oil sector a public sector natural gas project has been instigated. It was decided by the Parliament, after a big debate, that the natural gas from the field in the North Sea should be used to *secure* the Danish energy supply, and not sold for a profit. The result has been a very expensive gas net from the ocean bottom into many Danish homes. The best estimate is that the capitalized deficit in that project is in the order of magnitudes of 25 bill Dkr. This can probably be taken as an indication of the way other Parastatals would have worked, if Denmark had based its economic development on an Import Substitution Strategy.

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30. The Railroads have a total annual turnover of about 10 BDkr (in 1989) and received 2.5 BDkr in subsidies. Other public transport (municipal busses) received 1.5 BDkr in subsidies. So collective transport is subsidized by about 4 DBkr. Private cars are more heavily taxed in Denmark than in any other EEC country (and any Latin American country). In 1989 individual car transport paid about 25 DBkr in taxes, so even if we take that total expenditures to roads and other traffic related items are 10 DBkr, there are net private transport taxes of 15 bill. Nevertheless, there is constantly a larger increase in private transport relative to public.

## VII. The Lessons

It is a risky game to extract lessons from the experiences of a country. One can never cover everything, so there are missing links in all causal chains, and to be sure one would need a large number of counterfactual experiments. Nevertheless, it would be a sad world if one did not try to learn from experiences. So let us try:

- (1) In the Patterns of Development literature (see Syrquin, 1988), the big theme is the *transition* from a traditional to a modern economy.<sup>31)</sup> Denmark was already one of the richest countries in the world in 1950. One should therefore have expected that the transition was over at the time where our story starts. However, it shows that the transition has continued rather strongly till recently. Structural changes have leveled off only in the last decade.
- (2) The basis for the Danish Welfare State is the Big Compromise. It means that a rather strict market solution is applied to the sphere of production and a socialist solution is applied to distribution. This combination did work remarkably very well in the first half of the period covered.

If our story had stopped twenty years ago it would therefore have been a story from which very optimistic lessons would have emerged. However, when we look at the last twenty years some qualifications have to be added. Once the welfare state started its rapid growth it turned out to grow so large that the production sector became squeezed.

- (3) The Danish experience shows that from a certain point onwards the development of a welfare state becomes a highly dynamic process which is difficult to control politically and even harder to stop.<sup>32)</sup>

In the Scandinavian-Dutch model the state interferes in the personal distribution, and lets the market decide production. In the Latin American Import Substitution Industrialization model the roles are the reverse. Maybe that difference is the main reason for the different development of the two country groups. At least there are signs that the outcome looks similar when the same policies have been pursued.

- (4) There are only few parastatals in Denmark. Experiences with those we have are mixed, but several have run into the typical efficiency problems. It seems likely that only the free market/free trade tradition of Denmark has made it possible to reach a welfare state without doing irreparable damages to economic efficiency.

Our main conclusion probably has to be that up to a point a welfare state can coexist with general efficiency; but then it has to be combined with a fairly dogmatic free market economy in all matters of production. Also, it appears from the Danish experiences that it is difficult politically to reach balances for a welfare state.

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31. One sees the economy as having two steady states: a no/low growth *traditional* steady state, and a moderate growth *modern* steady state. In between is the high growth *transition*, where all proportions change: The composition and growth of the population, the degree of urbanization, the sectoral composition of the economy, etc., in short almost everything one can think of changes. Maybe even religion vanishes.

32. One of the main contributing factors is the development of strong spending coalitions in many fields. A welfare state based on tax financing and emphasis on institutional benefits gives rise to groups of professionalized welfare providers. They easily form the core of such spending coalitions.

## Appendix: Parties and Governments 1945-1992

The Danish political system is very complex and puzzling to the foreigner. Table A1 and A2 may make the reader more confused or help to give some order in the chaos.

Table A1. *The Two Structures of Political Parties.*

| Before 1973   | After 1973  |
|---|---|
| <p><b>LABOR PARTIES 45-50%:</b></p> <p><b>A: Left Wing 1-10%</b><br/> <i>Communists</i> {Kommunister} &lt;3% *<br/> <i>Peoples Socialists</i> {Socialistisk Folkep} 5-10% <sup>b)</sup></p> <p><b>B: Moderate Left 40-42%</b><br/> <i>SDP</i> {Socialdemokrater}</p>  | <p><b>LABOR PARTIES 45-50%:</b></p> <p><b>A: Left Wing 10-15% <sup>a)</sup></b><br/> <i>Left Socialists</i> {Venstresocialister} &lt;4% *<br/> <i>Communists</i> {Kommunister} &lt;3% *<br/> <i>Sailors Socialists</i> {Fælleskurs} &lt;3% short lived<br/> <i>Peoples Socialists</i> {Socialistisk Folkeparti} 5-10%</p> <p><b>B: Moderate Left 24-40%</b><br/> <i>SDP</i> {Socialdemokrater}</p>  |
| <p><b>BOURGEOIS PARTIES 50-55%:</b></p> <p><b>C: Center 5-10%</b><br/> <i>Radicals</i> {Radikale Venstre} 5-10%<br/> <i>Justice</i> {Retsforbundet} &lt;3% <sup>c)</sup> *</p> <p><b>D: Moderate Right 35-40% <sup>e)</sup></b><br/> <i>Liberals</i> {Venstre, Dk's Liberale P}<br/> <i>Conservatives</i> {Konservative}</p> <p><b>E: Right &lt; 3%</b><br/> <i>Independents</i> {Uafhængige} *</p> | <p><b>BOURGEOIS PARTIES 50-55%:</b></p> <p><b>C: Center 5-10%</b><br/> <i>Radicals</i> {Radikale Venstre} 5-10%<br/> <i>Liberal Center</i> {Liberalt Centrum} &lt;3% short lived<br/> <i>Christians</i> {Kristeligt Folkep} &lt;4%<br/> <i>Center Democrats</i> {Centrumdemokrater} 4-8% <sup>d)</sup><br/> <i>Justice</i> {Retsforbundet} &lt;3% *</p> <p><b>D: Moderate Right 20-40% <sup>e)</sup></b><br/> <i>Conservatives</i> {Konservative Folkep}<br/> <i>Liberals</i> {Venstre, Dk's Liberale P}</p> <p><b>E: Right 6-18%</b><br/> <i>Progress Party</i> (Anti Tax) {Fremskridts} 6-18%</p> |

Notes: Greenland and the Faroes each elect 2 MPs, bringing the number of MPs from 175 to 179. The North Atlantic MPs may join Danish parties. A small regional German party was sometimes represented.

To keep track of the parties almost everybody agrees upon the left to right scale used. There is sufficient pull from the median voter so that the parties from groups B to D are closer together than the ones in A and B and in D and E. The distinction between Workers' and Bourgeois (borgerlige) Parties is often used to compress the scale into two parts.

\* Parties with \* are around the cut off limit at 2% - sometimes in and sometimes out of the Parliament.

a. The story of the Left Wing is complex. It includes 3 to 5 more small parties of student-workers and now red/green parties below the cut off limit. There are also many splits and now mergers. The Sailor's Socialist are headed by the populist boss of the Sailor's Union.

b. The PSP was formed 1959 by an expelled Communist leader. The Party has alternated between being a left-SDP party (compromises) and an ideologically pure socialist party.

c. The (old) Justice Party follows the Single Tax ideas of Henry George.

d. A breakaway right wing of the SDP headed by a colorful politician, Erhard Jacobsen, and his daughter.

e. As the farm population decreased the Liberals became smaller and the Conservatives bigger. At the same time the Liberals moved more and more towards purer right wing positions to catch the ideological vote.

Comment: Note the use of ideological terms. Socialists are for redistribution, controlling business, for a large production of public goods, and, finally (though increasingly less), for public ownership. Liberals and Conservatives are against all this, though only moderately so. Radicals take balancing positions, but are against public ownership. Social Democrats go along with traditional socialists, but tend to stop at public ownership to the means of production of private goods.

Table A2. *Governments 1950 to 1992*

| Years | Composition and support                       | Premier       |
|-------|---|---------------|
| 45    | Liberation Coalition                          | V. Buhl       |
| 45-47 | Liberal minority                              | K. Kristensen |
| 47-50 | SDP minority                                  | H. Hedtoft    |
| 50-53 | Liberal/Conservative minority                 | E. Eriksen    |
| 53-55 | SDP minority                                  | H. Hedtoft    |
| 55-57 | SDP minority                                  | H.C. Hansen   |
| 57-60 | SDP/Radical/Justice majority                  | V. Kampmann   |
| 60-62 | SDP/Radical majority (of 1 MP)                | J.O. Krag     |
| 62-64 | SDP/Radical minority                          | J.O. Krag     |
| 64-68 | SDP minority (with Peoples Socialist support) | J.O. Krag     |
| 68-71 | Radical/Conservative/Liberal majority         | H. Baunsgaard |
| 71-72 | SDP minority                                  | J.O. Krag     |
| 72-73 | SDP minority                                  | A. Jørgensen  |
| 73-75 | Liberal (small) minority                      | P. Hartling   |
| 75-78 | SDP minority                                  | A. Jørgensen  |
| 78-79 | SDP/Liberal minority (technically)            | A. Jørgensen  |
| 79-82 | SDP minority                                  | A. Jørgensen  |
| 82-87 | Conservative/Liberal/Center                   | P. Schlüter   |
| 87-90 | Democrats/Christians minority                 | P. Schlüter   |
| 90-   | Conservative/Liberal/Radical minority         | P. Schlüter   |
|       | Conservative/Liberal minority                 |               |

Notes: During the 1953-68 SDP dominated period the PM changed four times. The changes were all due to illness and they only roughly follow the changes in the government composition as indicated.

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