FAOS

Teacher’s pet in trouble

A review of Danish policies during crisis

ANALYSIS

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Summary
The article analyses and discusses the current economic crisis in Denmark, its effects and the responses taken by government and social partners. Special attention is made to the Danish labour market and the employment situation before and during the crisis. In order to do so, the article tries to unfold the underlying dynamics of the Danish economic system by presenting some explanations for success during the past 15 years. Two set of interrelated explanations are outlined: institutional competitiveness and flexicurity. This is followed by a review of the specific pressures of the crisis on the Danish economic system in general and the labour market in particular. The article goes on to present the responses of governments, social partners and companies which link into the first section on the dynamics of the Danish economic system. It is argued that responses have been in line with policies up until the crisis but that the crisis, nevertheless, has brought new dynamics at play. Finally, the article concludes on the responses to the crisis and reflects on the sustainability of the current policies for the Danish employment situation.

Introduction
The current financial and economic crisis has broken an impressive record of performance in Denmark. For nearly 15 years, the small country in the north of the European Union (EU) has lived up to the Lisbon targets and the Economic and Monetary Union’s (EMU) convergence criteria with ease and this without belonging to the latter. Thus while other larger economies like France, Germany and to some extent Sweden, the Scandinavian neighbour, have suffered from persistently higher unemployment rates, lower employment rates, public budget deficits and to some extent inflation, Denmark has consistently performed well on all these indicators. In a time of bench-marking, the apparent success thus

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spurred increasing interest in the dynamics of the Danish economy with explanations concentrating on the labour market and welfare state institutions. Both in academic and political circles Denmark was the teacher's pet. At least until the crisis came.
In mid 2008, however, the country went into recession as one of the first industrialised countries and has subsequently seen a relatively larger increase in unemployment than in the above mentioned countries. Public budget deficit has skyrocketed due to the increase in payment of unemployment benefits and as the government tries to stimulate the economy primarily through tax reforms. Export shares have fallen and companies are reporting wage freezes in 2010 due to increased competition. In other words, it would seem that the teacher's pet is in trouble.
The purpose of this article is to review the responses of adjustment to the financial and economic crisis as it hit Denmark in 2008. Special focus will be on labour market and the employment situation before and during the crisis. In order to do so, we firstly try to unfold the underlying dynamics of the Danish economic system by presenting some explanations for success during the past 15 years. This is followed by a review of the specific pressures of the crisis on the Danish economic system. In the third section, the article presents the responses of governments, social partners and companies which link into the first section on the dynamics of the Danish economic system. Finally, the article concludes on the responses of adjustment to the crisis and reflects on the sustainability of the current policies for the Danish employment situation.

Why was Denmark successful?

Denmark has in recent years repeatedly been heralded for its impressive economic performance in various international bench-marking exercises[1]. Indeed, the main indicators with direct relevance to the employment situation show an admirable development (table 1).

Table 1: Key economic indicators for Denmark 1995 - 2007

	1995	2007
Employment rate (ILO-definition)	75,6 %	77,1 %
Unemployment rate (ILO-definition)	12,4%	3,4 %
Inflation rate (harmonised indices of consumer prices)	2,1 %	1,7 %
Public budget (percentage of GDP)	- 2,4 %	2,7 %
Trade balance (percentage of GDP)	3,6	2,9

Source: Eurostat and Statistics Denmark

At a glance, the Danish success might seem paradoxical: 1) Denmark is a small country without huge endowments of natural resources with the important exceptions of oil and natural gasses in the North Sea 2) Denmark has one of the biggest public sectors in the world which is financed through one of the heaviest tax burdens of the world. 3) The Danish labour market is heavily regulated through collective agreements between strong trade unions and employers associations. 4) Denmark has opted out of the EMU principally in order to retain its own the currency and monetary sovereignty.

[1] Martin Marcussen, *La comptétitivité institutionelle européenne : Des lecons à tirer du Danemark ?* Nordiques, No 15, Hiver 2007-2008

Starting on the latter point, the adverse effects of the EMU opt out (e.g. pressure on the crown, loss of export orders) should not be overrated since in reality the Danish central bank follows the low-inflationary and monetary stability dispositions of the European Central Bank (ECB) and has done so since the 1980s[2]. On the first point, economic literature seems to have established, that endowment of natural resources by no means is neither a necessary nor sufficient factor for economic success. Quite the contrary, endowment of natural resources might halt economic development as seen some developing countries. Instead, many analysts have turned their attention to the economic system or rather the institutions regulating the Danish economy, in other words the apparent paradox of Denmark's success concerning points 2 and 3.

By far the most dominant economic policy discourse of the 1980s to 2000s has been that of neo-liberalism and its stress on liberalisation, privatisation and deregulation of markets[3]. The story – told by so many scholars – takes it point of departure the global oil crises in the 1970s when the inaptness of Keynesianism and 'dirigisme' were exposed and replaced by monetarism and the neo-liberalism. Crudely put, the invisible hand of the market should reign instead of the political control seen in 'les trentes glorieuses' of the post-war economies.

The argument furthermore goes that in the concomitant processes of internationalisation of trade and capital movements the state should retire from its role as a regulator, service provider and owner of business as this will deter capital investment and present deadweight losses in general. In less crude presentations of neo-liberalism the changing role of the state is, however, not unidirectional (i.e. state minimalism)[4]. Instead states should facilitate business by supply-side policies that would control inflation through tight monetary policies decided by independent central banks, foster innovation and increase the labour supply in order to curb structural unemployment [5]. Especially on the latter point, the Danish success still becomes paradoxical. How could a country characterised by an enormous welfare state financed through heavy income taxation and comprehensive labour market regulation through collective agreements prosper in an ever increasingly competitive global economy demanding flexibility and dynamism? For example, the OECD consecutively identified the adverse effects on the economy of these elements and recommended comprehensive reforms of the Danish welfare state under the notion of New Public Management. And indeed Danish governments embarked on NPM inspired reforms that aimed at changing the face of welfare provisions, although this did not change the core of the social-democratic system of tax-financed universal and comprehensive welfare services[6]. Similarly, other countries, especially the United Kingdom, initiated an unorganised decentralisation that has meant an almost complete erosion of industrial relations going first from sector level collective bargaining, through company level bargaining to finally no bargaining whatsoever. Full flexibility in the labour market was the keyword and trade unions seemingly stood in the way. In Denmark, industrial relations structures are by and large intact via an

[2] Ibid.

[3] Susan Strange, *The Retreat of the State: The Diffusion of Power in the World Economy*. Cambridge, Cambridge University Press, 1996

[4] Linda Weiss, *The Myth of the Powerless State*, Ithaca, Cornell University Press,1998

[5] John L. Campbell & Ove K. Pedersen, *Institutional competitiveness in the global economy: Denmark and the United States*, working paper, 2006

[6]Christian L. Ibsen, Trine P. Larsen, Jørgen Steen Madsen & Jesper Due, *Challenging Scandinavian Employment Relations : The Effects of New Public Management Reforms*, paper presented at IIRA 2009, Sydney

organised decentralisation of terms and conditions to the company level where sector level agreements set the frame[7].
The question thus remains if the success of Denmark came about because or despite these elements. One explanation offered by scholars stresses that the Danish success is actually *because* of the so called institutional competitiveness of Danish policies and regulation[8] . In line with the Varieties of Capitalism (VoC) theory[9], this strand of literature argues that firms derive their competitive advantages (and disadvantages) from the institutional context in which they are placed. More specifically, the way firms do business – or rather the way corporate interactions are coordinated – is conditioned by for example the educational system, the industrial relations system, employment policies, industrial policies and welfare systems in general of a country. According to the VoC-thesis, two ideal types of capitalism can be identified based on the way countries coordinate economic interactions: Liberal Market Economies (LMEs) which coordinate interactions through markets and corporate hierarchies primarily and Coordinated Market Economies (CMEs) where the main coordination mechanisms are informal networks and corporatist arrangements. The former type of countries has favoured neoliberal policies, while the latter type has preferred large welfare states and more state intervention into the economy.
By comparing Denmark (a typical CME) and USA (a typical LME) Campbell and Pedersen (2006) find that the two countries have performed similarly well in the 1990s and early 2000s but in distinctive manners which underlines the idea that different types of capitalisms can achieve similar results. According to this literature, the institutional competitiveness of Denmark in fact lies in its comprehensive welfare services, its corporatist wage bargaining system and its corporatist vocational system which together has provided Danish firms with an environment conducive to high-quality/high-price niche markets[10]. This has been flanked by a series of structural policies aiming at improving the supply side of the economy through e.g. educational policy, industrial policies, R&D instead of demand-side Keynesian macro-economic policies. In contrast to for example the UK these policies have been decided in close negotiations with stakeholders, including government, trade unions and research communities. Similarly, from HQ down to the shop floor level, the direction of Danish business is to a large extent determined in negotiated deliberation between these stakeholders[11]. The success of the Danish wind mill industry, for example, came about in close collaboration between researchers, local business initiatives and government funding policies. Campbell and Pedersen, however, also stress that Denmark is not aptly captured by the CME ideal type as it contains elements of LME.
This brings us to the second explanation offered: Flexicurity. The notion became famous exactly because of Denmark's economic success as it apparently showed that labour markets can be both flexible and secure at the same time, thus bridging the traditional opposites of demands for flexibility and security.

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[7] Jesper Due & Jørgen Steen Madsen, *Fra storkonflikt til barselsfond: Den danske model under afvikling eller fornyelse*, Copenhague, Jurist- og Økonomforbundets Forlag, 2006
[8] John L. Campbell & Ove K. Pedersen, Op. Cit.
[9] Peter A. Hall & David Soskice (eds.), *Varieties of Capitalism*. New York, Oxford University Press, 2001
[10] Martin Marcussen, *Op. Cit.*
[11] Peer Hull Kristensen, *The Danish Business System Transforming Towards the New Economy*, dans John L. Campbell, John A. Hall, and Ove K. Pedersen (eds.), National Identity and the Varieties of Capitalism: The Danish Experience, Montreal, McGill-Queen's University Press, 2006

The Danish flexicurity model – also called the 'Golden Triangle' contains firstly relaxed employment protection legislation and thus relative ease of hiring and firing. Secondly, the ease of hiring and firing is balanced with high spending on unemployment insurance which ensures high income security during spells of unemployment. Thirdly, considerable spending of active labour market policies contributes to employment security through a highly employable labour force which minimises the risk of long-term unemployment[12]. The triangle is believed to have created a highly dynamic labour market and mobile labour force which in turn is thought to have contributed to the remarkable labour market performance of Denmark in the 1990s and onwards[13]. Moreover, later flexicurity studies on Denmark have shown that the collective agreements regulating terms and conditions of employment also contribute significantly to the internal flexicurity of workers. Agreements in Denmark contribute on one hand to working time flexibility, wage flexibility, functional flexibility (that the worker can take on different kinds of work), and on the other hand to employment security, income security and combination security (work-life balance)[14].

Both strands of literature thus stress that economic success has come about exactly because of the institutions that traditional neoliberal accounts would deem detrimental to a country's performance. However, they also stress that institutions are only one contributing factor among others, including a stable monetary system and sound fiscal policies[15]. Moreover, scholars again and again reiterate Katzenstein's[16] famous argument about the flexible adjustment of small open economies that have to navigate in internationalised markets that are ruled by bigger players. In the 1980s and 1990s, this form of flexible adjustment has come about in different guises, including the 'Common Declaration' of social partners in 1987 to adjust wage bargaining to international wage developments[17]; the structural policies of government that bridge welfare, education, employment and industrial policies for the common good of Danish competitiveness; and the involvement of shop stewards and workers on the shop floor to improve product quality and production processes. These processes demand a flexible labour force that move from different jobs, different tasks and at different hours of the day. However, flexibility has not come at the expense of security but rather the two complement each other. Hereby comprehensive welfare provisions, high wage levels, good work-life balance have been retained thus facilitating a social compromise on flexible adjustment to the international economy. Numerous surveys show that Danish workers have the highest feeling of job security despite high turnover rates and that they fear the crisis to a lesser extent than their European peers. Similarly, trade unions are playing an active role in the process of adjustment as they endorse high-performance work practices both at federate level and the shop floor[18]. Of course, these compromises are greatly facilitated by the externalisation to the state of social costs emanating

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[12] Per K. Madsen, How Can It Possibly Fly? *The Paradox of a Dynamic Labor Market in a Scandinavian Welfare State*, dans John L. Campbell, John A. Hall, and Ove K. Pedersen (eds.), National Identity and the Varieties of Capitalism: The Danish Experience, Montreal: McGill-Queen's University Press, 2006

[13] European Commission, *Employment in Europe 2008*, Bruxelles, European Commission, 2008

[14] Christian Lyhne Ibsen & Mikkel Mailand, *Flexicurity and Collective Bargaining: Balancing Acts across Sectors and Countries*, Copenhague, FAOS, 2009

[15] Per K. Madsen, *Op. Cit.*

[16] Peter J. Katzenstein, *Small States in World Markets: Industrial Policy in Europe*. Ithaca: Cornell University Press. 1985

[17] Jesper Due & Jørgen S. Madsen, *Op. Cit.*

[18] Peer Huul Kristensen, Op. Cit.

from adjustment processes[19] and this comes at a high price in the form of taxes. Corollary, scholars warn about drastic cuts in tax levels together with competition on wages as this could endanger the complementarity of the system[20].

How did the crisis hit Denmark?

An account of possible reasons for the specific impact of the crisis on the Danish economy is far beyond the scope of this article and indeed, this will be the focus of economists and social scientists for years to come. Nonetheless, it seems well established that 1) Denmark was one of the first European countries to be hit; 2) the negative impacts have been relatively more severe on key socio-economic indicators and 3) the bounce back of the Danish economic (in terms of growth) might be somewhat slower than in other countries[21]. Evidently, it is way too early to make any firm conclusions on these points, but it is fair to state that Denmark is a country where the crisis has hit hard.

It seems appropriate to start with the financial sector even though this is not our primary focus. After all, the global recession was in large part spurred by a financial melt down starting on the US sub-prime loan market. Denmark has not been without her own – albeit minor – collapses on the credit market as banks have crumpled from insolvency due to a high risk business strategy. However, although there were some spectacular collapses, most notably Roskilde Bank where the Danish central bank (Nationalbanken) had to step in, the Danish financial sector did not collapse all together as for example seen for example in Iceland. Aiding to save the financial sector has also been government policies directed at the sector which we shall return to in the next section.

Turning to real economic effects of the crisis, table 1 shows the development in seasonal adjusted GDP for Denmark, Germany, Sweden and the Euro-Area.

Table 2: Seasonal adjusted GDP

	GDP growth from 2008 2nd quarter to 2009 2nd quarter
Denmark	- 6,5
Germany	- 5,8
Sweden	- 5,8
Euro area	- 4,8

Source: Finansministeriet, 2009

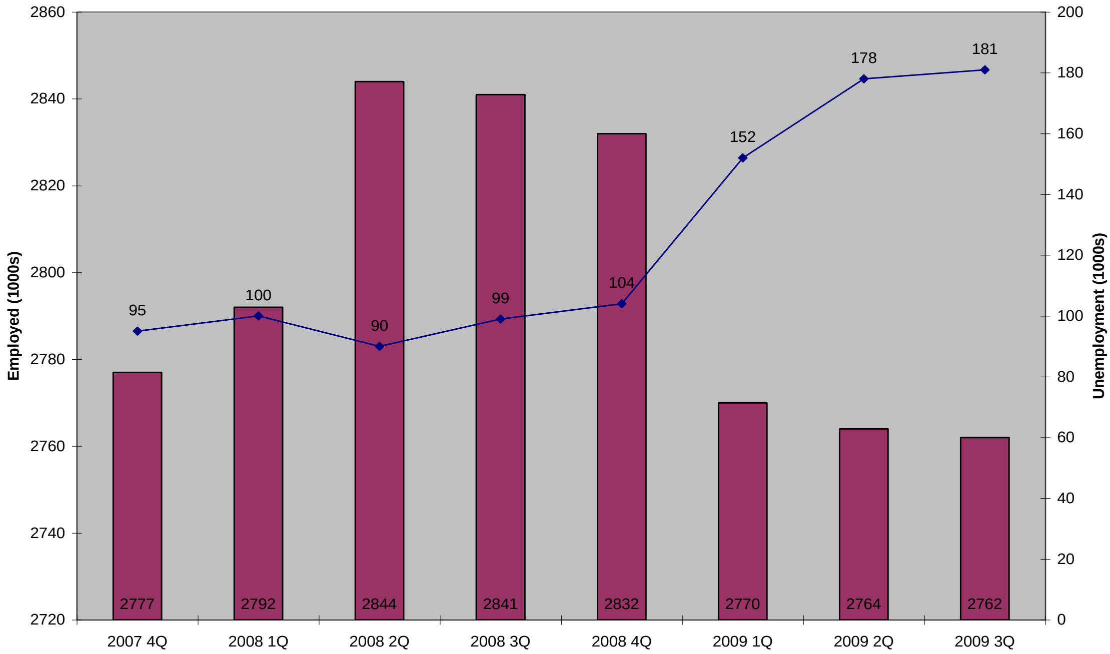
While the Danish recession therefore generally has been strong, reflecting decreasing exports and a considerable drop in domestic private consumption by 7 %, it is not considerably different from that of its neighbouring countries. However, the crisis has hit harder when looking at the development in employment indicators (see figure 1) that lagged somewhat after negative growth but then gain speed from the 3rd quarter of 2008.

Figure 1: Employment and unemployment in Denmark (ILO-definitions)

[19] Peter J. Katzenstien, *Op. Cit.*

[20] John L. Campbell & Ove K. Pedersen, *Institutional competitiveness in the global economy: Denmark and the United States*, working paper, 2006

[21] Finansministeriet, *Økonomisk Redegørelse*, Copenhague, December 2009



Source: Labour Force Survey from Statistics Denmark, 2010

What is remarkably is the rapid rise in unemployment, not the level of unemployment which in fact is still relatively low by European standards (DK = 7,2 % and EURO-16 area = 10,0 %). When comparing to for example Germany and Sweden, Danish unemployment rates have sharply increased from 4,1 % in the last month of 2008 to 7,2 the same time next year. In Germany and Sweden, the increase in this period has been from 7,1 % to 7,6 % and from 7,0 % to 8,9 %, respectively. We will discuss these figures more critically in the next section as many German workers are placed on work-share schemes.
As in other countries, unemployment has blue collar (skilled and unskilled) workers in construction (business cycle sensitive) and manufacturing (export-oriented) first and hardest. As an indication of this, table 2 shows unemployment rates for trade union members of 3F (unskilled workers) and AC (academics), in September 2008 and 2009, respectively.

Table 3: Unemployment rates according to skill levels

	2008 (Sept.)	2009 (Sept.)
Unskilled workers	4,1	10,4
Academics	2	3,7

Sources: www.3f.dk and www.ac.dk

While it might seem natural that Denmark, with record breaking low unemployment rates in the second quarter of 2008, has experienced more rapid increase in unemployment, the parallel sharp decline in Danish employment adds to concerns. According to a recent analysis[22], employment has fallen by 4,5 % from the 3rd quarter 2008 to 3rd quarter 2009. Thus, in this period some 104.200 full time employed have exited employment, and since “only” 59.200 of these are unemployed this means that 45.000 have effectively left the labour market

[22] Arbejderbevægelsens Erhvervsråd, *Beskæftigelsen falder dobbelt så meget som arbejdsløsheden stiger*, Copenhague, Novembre 2009

all together[23]. This could potentially be catastrophic in view of the demographic pressures on the welfare state due to an ageing population. Who will finance the comprehensive welfare services in the future?
Being a small export oriented economy it is hardly surprising that especially Denmark would be hit hard by a global economic crisis and the Danish government has been quick to blame external events. However, there might be other reasons why Denmark has been hit harder than – or perhaps differently from – her neighbouring European countries. As already mentioned, there was a considerable drop in domestic private consumption of 7 % since the beginning of 2008[24]. Danish consumption had persistently increased during the upturn from 2004 to 2008 driven partly by increasing salaries due to low unemployment but also because of the so called "taxation stop" that has frozen tax rates in 2001 – this of course has an intrinsic stimulating effect on private consumption. According to the Danish Economic Council the effect of the taxation stop on domestic demand in addition since real estate taxes are capped by a nominal amount despite rising housing prices[25]. This led to an inflated real estate market which – aided by low interest rates – eventually would blow up and exacerbated the negative effects on the economy. Indeed, some Danish economists refer to the pre-crisis economy as a "double-bubble" in which both labour market and real estate markets were heavily inflated and at the limits of capacity due to the cocktail of taxation stop, low interest rates and general economic upswing[26]. The 'double-bubble" thesis also helps to explain why Denmark has suffered relatively more and will bounce back relatively slower than other countries as labour market adjustments and housing market adjustments start from an inflated level.
Another source of concern relates to the competitiveness of Danish companies as they struggle to gain speed in the international recovery. Again this links into the perceived bubble in the labour markets as evidence shows that Danish wage cost (not just wage levels) have since 1996 persistently been above countries that Denmark compete with[27]. In 2008, Danish wage costs increased by 4,3 % in export oriented manufacturing companies, while the increase was 3,3 % in neighbouring countries, which ceteris paribus reduce Danish competitiveness.

How are the Danes responding?

Similarly to the note of caution about identifying reasons for the specific impact on Denmark, we should be cautious in our analysis of the Danish responses to the crisis as their impact are still unfolding in the moment of writing. Instead, this section reflects on some expectations about how a small flexicurity country responds and adjusts its policies and strategies to changed economic circumstances. In other words, what responses should we expect from the Danish government and social partners? Two non-exhaustive hypotheses about responses are suggested:
Firstly and connected to the above points on structural policies and institutional competitiveness, we should expect the Danish government to be relatively passive in their crisis management approach, thus keeping the focus on long term goals and supply side policies despite the crisis. As a corollary, this includes a rather conservative fiscal policy which refrains from embarking on grand expansionist stimulus packages like the ones seen in the United States of America.

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[23] Please note that these figures are according to Danish conventions and are therefore not identical to the Labour Force survey figures used in figure 1.
[24] Finansministeriet, *Op. Cit.*
[25] Det Økonomisk Råd, *Dansk Økonomi. Efterår 2009*, Copenhague, Octobre 2009
[26] Det Økonomiske Råd, *Op. Cit.*
[27] Statistikudvalget, *Statusrapport, 4. kvartal*, Copenhague, 2009

While expansionism could also go for monetary policies, it seems prudent to expect the Danish central bank to stick with ECB policies despite Denmark being outside the EMU. The hypotheses are summarised below.
Secondly and in accordance to the flexicurity model, we would expect quick adjustment of labour costs as companies slim down their organisation. Since the Danish system is based on a high wage and high income security nexus we should therefore primarily expect massive job losses instead of agreements to cut labour costs through wage concessions or work share arrangements. Related to this, we should expect that trade unions and their members by and large accept the need for companies to restructure – i.e. no strikes because of redundancies – as the social costs of restructuring are born by the welfare state. This also includes union acceptance of the permissive rules for firing in the country.

Table 4: Hypothesised response

Sets of hypotheses	**Policy domain/actors**	**Hypothesised response**
Macro economic policies	Structural policies	1) Government sticks to focus on structural policies including labour market policies to avoid structural problems in the economy
	Fiscal policies	2) Government sticks to conservative fiscal policy and does not embark on grand expansionist stimulus packages
Flexicurity model	Employer policy	3) Companies restructure quickly and employers prefer external numerical flexibility (firing) over wage flexibility and work share programmes which gives sharp rise in unemployment
	Trade union policy	4) Trade unions and employees accept redundancies due to externalisation of social costs related to unemployment
		5) No resort to industrial action due to crisis

As noted above, these five hypotheses are by no means exhaustive of the kinds of responses that actors can decide and as the crisis is still evolving our analysis can only be patchy and provisory. Nonetheless, we will try to treat each response in turn on the basis of actions and policies thus far taken in Denmark.
Turning to the first set of hypotheses which evidently falls within the domain of government it seems fair to state that the response has been careful so far. The situation up until the 2nd quarter of 2008 in Denmark was – as noted above – quite extraordinaire as unemployment was record breaking low. In the meantime Denmark is projected to suffer significantly from an ageing population thus putting extra pressure of labour supply shortages and thereby financing

problems for the welfare state. Indeed, a government sponsored commission (Arbejdsmarkedskommissionen) had been put into place to analyse the situation and come up with recommendations to solve the issue. The recommendations made public in August 2008 were principally – if not wholly – structural policies aimed at making workers work longer and more via – among other – things cut-backs on early retirement schemes (efterlønnen), cutbacks on duration of unemployment benefit schemes (dagpenge), financial incentives to finish education earlier and attraction of foreign work immigration[28]. At first, the Government rejected any calls for structural policies arguing that the crisis did not invite for large reforms. However, as the budget deficits grew bigger, in a quite surprising move, the Government launched the Recovery Plan (Genopretningsplanen) in 2010 which among other elements included a halving of the unemployment benefit period from four to two years. Trade unions were outraged and called for massive opposition to the plan but the Government stood tall. Even more controversial, the Government subsequently proposed elimination of the early retirement schemes (efterlønnen) making reference to the dual aim of curbing costs and restoring labour supply in times of an ageing population. The schemes had long been a hotbed for political and academic discussions and the proposal will have a hard time being realised as the minority Government needs the populist Danish People's Party (Dansk Folkeparti) to concede changes which they have more or less rejected. As such, the plans to eliminate the schemes can be viewed critically since the parliamentary support is non-existing for the present being. While reluctant at first, the Government has put *structural policies on the agenda and we can thus give a provisory backing to the first hypothesis.*

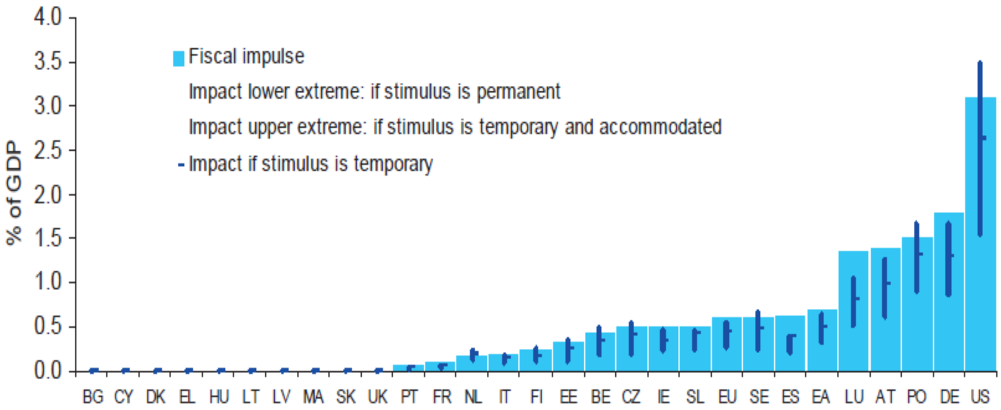
Turning to fiscal policy (see annex 1 for overview), Denmark had for many years sound public finances with budget surpluses used to pay of public debts. Evidently, this all changed with the crisis, as private consumption and thus tax revenue decreased. Adding to deficits, the government passed policies aimed at the financial sector including rescue plans for banks and liquidity support packages to help credit markets survive the financial crisis. Furthermore, subsidies to the unemployment insurance system increased as more and more filed for benefits. Almost by default, the comprehensive unemployment insurance system has a stimulating effect on the economy as money is being pumped out into the economy, but it is of a rather passive and automatic nature and can hardly be used to reject our second hypothesis. Moreover, the overall stimulating effects of high benefits might be dampened by the negative incentives to take up work again[29]. The release of investment funds for sustainable construction and local government projects and release of a mandatory saving scheme (SP) was of a more active nature and targeted directly to increase both public and private consumption. But perhaps much more important was the tax reform (Forårspakken 2.0) which restructured the income tax system by removing the middle tax bracket and rose the high tax bracket. The aims of the tax reform were multiple. Firstly, it should stimulate private consumption and thus the economy as a whole. Secondly, the question about structural policies become relevant once more as the incentives to work more become stronger because of the new structure of the progressive income taxation. Indeed, government claims that labour supply will be enhanced by the equivalent of 19.300 full-time employed which

[28] Arbejdsmarkedskommissionen, *Velfærd kræver arbejde – kort fortalt*, Copenhague, 2009)

[29] European Commission, *Economic Crisis in Europe: Causes, Consequences and Responses*, European Economy 7, Bruxelles, 2009

adds to the positive effects on the economy and the public budget[30]. The tax bill should be seen in conjunction with an already expansionist budget plan which on the whole eased fiscal policies by approximately 55 billion DKK in 2009 and 2010 corresponding to 3 % of GDP (measure by direct revenues) and together with the release of SP, the estimated positive effects are of a increase 2 % in GDP[31]. What is remarkably missing though is an actual stimulus package of temporary spending shocks that have an immediate effect on the economy such as government investments in infrastructure as the ones seen in for example the US. The problem with the tax reform is that it is permanent making agents expect some kind of bill to be paid in the future. As such the multiplier effect[32] of the Danish fiscal policies might in fact be rather small as seen in figure 2 by the EC Commission which measures fiscal impulse of various countries in 2010.

Figure 2: Fiscal stimulus of various developed countries in 2010



Source: Taken from European Commission, *Economic Crisis in Europe: Causes, Consequences and Responses, European Economy 7*, 2009, p. 68.

The European Commission furthermore notes that Denmark is one the countries with the biggest fiscal space to stimulate and the smallest fiscal stimulus packages. Thus while the Danish government claims to be highly expansionist, it is argued that needed direct measures to combat the crisis might be missing. A view shared by the Danish opposition. The fiscal policies of Denmark can thus be characterised as mixed. Although the grand stimulus package is missing, the unemployment system contains automatic stimulus which dampens government desires to embark on expensive packages. Nonetheless, the tax reform has its own expansionist agenda while pursuing a structural problem of labour shortage in the future. Time will tell if more initiative will be launched but judging by the current discourse, the focus is now on finding ways to cover deficits in 2011 and 2012[33] (Finansministeriet, 2009). *Taken together, it seems – despite government claims of the opposite – that fiscal policies remain rather conservative despite the crisis and we can thus confirm the second hypothesis with some reservations.*

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[30] The Danish Government, *Denmark's National Reform Programme, First Progress Report*, October 2009
[31] The Danish Government, *Op. Cit.*
[32] The effect change in fiscal policy will have on for example GDP.
[33] Finansministeriet, *Op. Cit.*

Turning to the second set of hypotheses, we arrive at the actual dynamics of the flexicurity model when exposed to an economic crisis. We have already presented the trends in unemployment which rose sharply at the outset of the crisis although staying at a modest level compared to other European countries. At first sight this might confirm our third hypothesis. However, the picture is perhaps not as clear-cut with employers, unions and workers trying to mitigate the adverse effects on employment through alternatives to redundancies.

Firstly, the work-share schemes make it possible to introduce reduced working time whereby work is shared between employees due to reduction in production. Work-share means lower labour costs for companies while the wages of employees are being subsidised by the state for maximum 2x13 weeks. This practice is well-known in other European countries like France (*chômage technique*) and Germany (*kurzarbeit*) where governments have extended the periods up to maximum 28 weeks and 24 months, respectively. When compared to German use of work-share (approx. 1,4 million workers in June 2009) the Danish take-up of the option (approx. 30.000 workers between January and September 2009) seems rather modest and is perhaps an indication of the different practice of firing versus work-share in the two countries[34]. Of course, the proof of the pudding here will be whether the Germans are just postponing unemployment and will suffer from a 'ketchup' effect when the schemes run out.

Another example of initiatives to save employment has been wage freezes or wage reductions to cut labour costs and allow for retention of employees. This measure is more controversial since trade unions have traditionally been very reluctant to adjust wages as an alternative to lay-offs. Indeed, the dominant discourse within the labour movement used to be one of flexible labour markets in which wage levels should be kept even if it meant job-losses in the face of competition with low-wage countries. While the slogan used to be that 'some jobs just aren't worth keeping', the current crisis indicates a somewhat different attitude. According to DI, the main business and employer association in the country, approximately 25 % of their member companies have this year negotiated wage freezes in local wage negotiations that usually tops up general wage rates in sector level agreements[35]. Depending on inflation, this could be a *de facto* reduction of real wages for workers.

Despite the pressures on employment, Danes remain remarkably optimistic when asked about fear of losing their jobs. According to a recent Eurobarometer study done by the EU-Commission only 7 % of Danes are 'very concerned' or 'concerned' that they might lose their jobs. When compared to e.g. France or Spain where 32 % and 65 % of the samples, respectively, answered this, the impact on feelings of employment insecurity seems modest in Denmark.

Looking at the two flexicurity hypotheses together, it seems clear that employers in Denmark – like in any other country – make use of a variety of measures (firing, work-share, wage freezes to name a few) to restructure their company. But while work-share and wage flexibility is happening to save employment, there are indications that theses measures are less preferred in Denmark than in some other countries – notably German. This gives some backing to the third and fourth hypotheses.

Going back to the pressure on wages, this is a key issue in the ongoing (January 2010) collective bargaining rounds that will renew collective agreements for approximately 600.000 workers in the private sector. The current agreement applied for 2007 to 2010 and the timing of renewal has nothing to do with the

[34] Carsten Jørgensen, *Les conséquences de la recession économique*, Chronique Internationale de l'IRES, no. 121 – Novembre 2009

[35] Per Geckler Møller, *0-regulering til hver fjerde*, DI Business, No. 40, 30. November 2009

crisis. Equally, the risk of conflict is always immanent in negotiations – not just during crisis.

Nevertheless, there could have been more reason to expect conflict in 2010 than normally. Employers were quick to call for zero wage increases as the competitiveness of companies is essential to get out of the crisis. As noted above, comparative wage studies show that Danish wages have increased relatively more than in neighbouring countries and this is of course heavy ammunition for employers. Conversely, unions argued that they did not exploit the favourable times to ask for unwarranted wage increase when unemployment was low, so employers should refrain from doing the same. Similarly, productivity is projected to increase by 5 % in the next year, which should give some room for wage increases[36]. At least- union leaders argued – the agreements should ensure a status quo in real wages.

The final settlements introduced very modest wage increases in a two-year agreement and union leaders succeeded in putting other (non-expensive) items on the agenda such as measures to combat wage dumping and social dumping. However, the crisis did impinge on the settlements as a new redundancy payment was introduced for senior workers. While modest right now, the provision might prove to be a Trojan horse to flexicurity if future collective bargaining rounds increase the payment thereby internalising the cost of firing for employers.

The settlements were peacefully accepted by trade union members in the final ballot and social partners steered clear of industrial conflicts that no one wanted. The only exception was the clerical and commerce workers union (HK Privat) who had fought to get a special provision on bargaining coverage lifted for their members. The provision requires that at least 50 % of the employees in a company are members of the union if the trade union wants to establish bargaining coverage. However, the internal coherence in the union movement was not impressive and employers collectively opposed any changes.

Despite a few wildcat strikes that were quickly put to an end, there has been almost no resort to industrial conflict during the crisis giving backing to the last hypothesis. However, renewal of collective agreements is soon up in 2012 and it is doubtful whether union leaders and members will accept another modest wage increase despite the still dire prospects for the Danish economy. Moreover, the Government plans to cut in welfare schemes (especially early retirement schemes and unemployment benefit period) might enrage members to vote no in the upcoming ballot.

Conclusion

For over a decade, Denmark was the teacher's pet when it came to economic performance and – as shown here – labour market performance. However, no serious analysis of Denmark ever pretended that the success would last forever. For one, business cycles generally change inevitably making it a question of when and how bad the bad times will be. More specifically, Denmark is a small export-oriented economy which in many ways is at the mercy of events occurring outside of its borders. In other words, when the international economy suffers, Denmark suffers.

However, the explanations about Denmark's success are not so much about favourable business cycles but more about how the country adjusts flexibly to changing circumstances in a well-coordinated way and via a welfare state that entails minimal social costs for its citizens. This has been called "institutional competitiveness" with reference to the institutional mix leading to a high-quality/high-wages knowledge economy with sound public finances and low

[36] Det Økonomiske Råd, *Op. Cit.*

inflation. Similarly, Danish labour market policy has been characterised by the cause-célèbre flexicurity that propose a marriage of labour market flexibility and social security, although these have been viewed as opposites. The state plays an active role here in terms of financing unemployment insurance and active labour market policies, thus negating neo-liberal accounts that these policies are detrimental to the labour market flexibility.

The article show how the crisis challenged this rosy picture as unemployment sharply increased since mid 2008 and how this has put pressure on policies of governments and social partners. Admittedly, Denmark still fares well when looking at it neighbouring countries, like Germany and Sweden, but relative increases have been worrying and there are signs that Denmark might suffer longer than elsewhere.

In light of the crisis, the article tries to test some of the recipes for success by reviewing responses from government and social partners so far. It seems clear that needed structural reforms – most notably concerning future labour supply problems – have not been hampered by the crisis. Moreover, the government has tried to address the issue and stimulate the economy simultaneously with a comprehensive tax reform. However, tax reductions have smaller stimulating effects than temporary measures and fiscal policies appear comparatively conservative as Denmark has refrained from direct stimulus packages except for release of investment funds and release of mandatory saving funds. In other words, while it is definitely not business as usual for the government Denmark has not experienced radical changes.

And perhaps for good reasons… Inherent in the flexicurity logic, labour markets should adjust itself and unemployment is actually tolerable as it allows companies to quickly adjust to the business cycle. While other countries with stricter employment protection try to mitigate the negative effects on employment through work-share arrangements and wage flexibility, Danish social partners should generally agree not to choose this path. This is not entirely the case since both work-share and wage-freezes have surfaced in many local agreements – especially in manufacturing. However, social partners have opted for these solutions to a smaller extent than elsewhere. Whether this consensus can withstand the crisis is a different matter as the collective bargaining round of 2012 for the private sector begins. Undoubtedly, Government reforms to consolidate the budget and increase labour supply have stirred unrest in union ranks. This puts extra pressure on social partners to find viable solutions in a bargaining round with small resources to distribute.

As the political actors scrambled to find appropriate response, the economy is slowly showing signs of recovery with a forecasted growth in GDP of 1,1 % in 2010[37]. However, this will be job-less growth to begin with and unemployment is predicted to decline not before 2012. Similarly, public finances are suffering from lower tax revenues and increased social expenditures leading to demands for financial consolidation. All this will affect the bounce back of the Danish economy and whether or not the country will once more assume the role of teacher's pet.

[37] Det Økonomiske Råd, *Op. Cit.*

Annex

Governmental initiatives (selection by author)

Fiscal Policies	**Objectives**
Fiscal bill of 2009 reflecting an expansionary economic policy through increased public expenditures and tax reductions	Stimulus of domestic aggregate demand and thus employment Increase of labour supply
Tax reform (Spring Package 2.0)	Stimulus of private domestic demand and thus employment Increase of labour supply
Release of mandatory SP-savings	Stimulus of private domestic demand and thus employment

In total fiscal policies are eased by approximately 55 billion DKK in total in 2009 and 2010 (measured by direct revenues, corresponding to 3 per cent of GDP. The positive effect on employment is estimated to be 40.000 to 45.000 persons compared to a scenario with neutral fiscal policy.

Policies directed at financial sector	**Objectives**
Bank Rescue and Credit packages	Guarantee for creditors in banks to avoid losses connected to financial institutions Provision for capital injections and thereby avoid tightening of credit conditions
Liquidity support packages	Ease access to liquidity for financial institutions and firms Increased export loan funds to support firms in international markets Increased loan funds for SMEs
Financial regulation (pending)and tightened supervision	Strengthening openness and capital base/solvency requirements Variable wage shares for managers in financial companies restricted

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