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**The Development of Danish  
Flexicurity and Possible Lessons for  
America**

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## **Abstract**

*An article in the Economist earlier this year mentioned interest among certain political circles in Washington in the Danish Flexicurity Model. With this in mind, the aim of this exercise is two-fold. First, to explore not only the current Danish system but how it has evolved into flexicurity, and second, to address the possibility of policy transfer or lessons it may offer the United States. By taking into consideration the broader context in which Danish flexicurity has developed, a more realistic appraisal of policy transfer is possible along with a clear understanding of the flexicurity concept.*

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## **1. Introduction**

The term ‘flexicurity’ was first coined by Hans Adriaansens, a member of the Dutch Scientific Council for Government Policy and a sociologist, in 1995 (Wilthagen & Rogowski, 2002, p251). According to Adriaansens, the concept is a “shift from job security towards employment security and makes the case for a different attitude towards flexibility (among workers) and for a flexible and activating social security system” (Wilthagen & Rogowski, 2002, p251). In 1998, Ton Wilthagen framed flexicurity as “a concept that combines or even reconciles and (re) balances (the need for) increased labour market flexibilization on one the hand and (social and employment) security on the other hand” (1998, p1) or as stated by Per Madsen, “the fundamental idea behind the concept of flexicurity is that flexibility and security are not contradictory to one another, but in many situations can be mutually supportive” (2006b, p4).

The idea of flexicurity has and still is gaining prominence for its ability to bring together two concepts often perceived as being at opposite ends of the labor relations spectrum; flexibility and security. Together they are seen as prerequisites for or key components of labor market adaptability (Wilthagen & van Velzen, 2004). Adaptability of labor markets is increasingly important as world markets continually become more integrated and face greater competition. As a result of globalization, world market integration and technology advances economies must be able to adapt and direct capital in an efficient manner. The vulnerable situation states are placed in when faced with these factors is not a new idea (Katzenstein, 1985), but since the advent of the flexicurity concept or the “flexibility-security-nexus”, as articulated by Wilthagen and Tros (2003), it has received a good deal of attention, notably within the EU (Wilthagen & Tros, 2003; Wilthagen & Tros, 2004; Bredgaard et al, 2005; Madsen, 2006b; Seifert & Tangian, 2006; Andersen & Mailand, 2005).

Aside from flexicurity’s possible applications within Europe, as an American, the concept also provides an interesting paradigm from which to examine the increasing need for a flexible and adaptable labor market and the security needs required to foster this. As I have learnt in numerous economic classes, increasingly open markets

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will inevitably create winners and losers, but the ‘the winners win more than the losers lose’. However, the equity of those gains falls to government. Inequitable gains and disenfranchised persons on the lesser end of open policies will likely wish to renege on an open market agenda or enact barriers of some type to maintain the status quo. In his 1985 book, *Small States in World Markets*, Peter Katzenstein states: *Liberal countries such as the United States rely on macroeconomic policies and market solutions. Lacking the means to intervene selectively in the economy, the United States, in those extraordinary situations where the traditional market approach appears to fail tends to export the costs of change to other countries through the adaptation of a variety of limited, ad hoc protectionist policies. Such policies often create a temporary “breathing space” for producers hard pressed by international competition, but they rarely address long-term structural shifts in international competitiveness.* (1985, p23)

As mentioned in *The Economist*, “last November brought in a clutch of lawmakers deeply opposed to freer trade” (*in the United States*) (2007, p31). It is in this context that the following paper wishes to examine the appeal of flexicurity and its conciliatory function as a means to achieve the best of both worlds – a win-win. It would, however, be nonsensical to assert a flexicurity model, such as that in Denmark, could be implemented holistically across the Atlantic, and that is not the determination of this work. Rather, as stated by Madsen, “one real-life example tells more than a torrent of abstractions” (2006b, p13). The Danish model clearly differs from what is found in the United States, but as stated above, the goal is not to find a holistic policy fit but rather to draw lessons from the Danish model and assess the plausibility of transferring applicable policies for the enhancement of adaptability and improved international competitiveness.

The Danish model provides an idyllic case from which lessons may be extracted. Madsen states, “in the flexicurity literature, the Danish system is often referred to as a prime example of a labour market with a well functioning flexicurity arrangement even to such a degree that the ‘Danish model’ and ‘flexicurity’ are seen as almost identical” (2006b, p8). In this vein, Denmark is thought of as a “textbook example” for the way it has been able to “combine a dynamic economy, high employment and social security” (Bredgaard et al, 2005, p5). Flemming Larsen contends, that if in fact

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the Danish “flexicurity strategies have stood the test of practicability ... there is every reason to investigate and evaluate what can be learned from the Danish experience; with particular focus on which of the experiences are transferable to other countries” (2004, p3).

The differences between Denmark and the United States are perhaps most conspicuous with respect to social benefit levels, however, the manner their respective economies are organized may have the largest impact on transferability. The literature on corporatism and varieties of capitalism are central to developing an appropriate grasp of these differences. Denmark has corporatist roots which are still present today and are central to the developments which have lead to flexicurity. Varieties of capitalism literature in the same vein, albeit at the firm level, presents the difference between the United States and Denmark in terms of liberal market economies and coordinated market economies respectively.

Although the Danish system is very different from that of the United States, there are similarities. Andersen and Mailand have pointed out that, according to the World Bank, Denmark ranks third out of 130 countries for having the most flexible labor market, only behind the USA and Singapore (2005). In the average year around 30% of the Danish workforce switches jobs (Stinson, 2007). Equally important, according to the World Economic Forum’s Global Competitiveness Index ranking for 2006, Denmark ranked fourth and the United States sixth (2007). Additionally, as has been presented by Campbell and Pedersen, during the 1990s the two countries “on a range of socioeconomic measures, such as state budget surplus/deficit, unemployment, labour productivity, GDP per capita, and economic growth, ... were generally more successful than average when compared to the other advanced capitalist countries” (2006). Finally, the selection of the Danish model as the exemplary case in this work is the apparent interest it is receiving from “Democratic wonks in America”, as they are referred in the article *In the Shadow of Prosperity* (Economist, 2007). If indeed the Danish flexicurity model has drawn the attention of certain policy circles within the United States, are there applicable lessons to be learned or is this simply an exercise in futility?

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In pursuing this topic, the purpose of this paper is two-fold. Initially, the purpose is to explore not only the current state of the Danish system but also to create a clear understanding of its beginnings and evolution. As the Danish system is not the result of a specific policy strategy, but rather the serendipitous outcome of struggles among policy makers (Madsen, 2006b), this broader approach is important to gain a complete understanding. The second, of the two-fold purpose, is to explore whether there are lessons to be taken from the Danish case for the United States. Is it possible to replicate aspects of the Danish system in the US or is the Danish model just that – Danish – and particular to the historic and institutional peculiarities of Denmark?

The following framework will be utilized for achieving the above stated aims of this exercise. First, will be a review of work on flexicurity and additionally on relevant literature concerning corporatism and varieties of capitalism, which are central to developing a complete and comprehensive basis for understanding flexicurity and its evolution. Following this theoretical depiction of flexicurity and related concepts will be an overview of the United States' model. The overview of the American model will not be as involved as that of the Danish system; rather, it aims to present the state of the system and the various features central to it. The subsequent section, covering the Danish model, will be broader in its scope and begin by taking into account the historical underpinnings of the Danish flexicurity model and continuing forward to the current situation. Finally, with a theoretical base and an understanding of the origins and current Danish model, the analysis will look for lessons or elements of the Danish model which may be transferable to the United States. These will be examined in terms of their ability to be replicated in the United States and the possible impact they could have on adaptability of the labor market in the face of growing competitive demands.



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## **2. Literature Review**

As mentioned in the introduction, the term ‘flexicurity’ was first coined by Hans Adriaansens, in 1995 (Wilthagen & Rogowski, 2002). Since that time, the concept has gained considerable recognition, predominantly within Europe but also to a lesser extent among some policy circles within the United States. The following section is a review of the concept of flexicurity and aims to establish a theoretical backdrop for later examination within the Danish context and the possibility of transferability.

Flexicurity has gained prominence of late for the way in which the concept is able to reconcile the demands for both greater flexibility within labor markets and also meet the security needs of workers within the economy. In this regard, flexicurity is seen as a win-win situation. This is a new concept different from what has been the traditional train of thought in the past. As stated by Bredgaard et al, “economists have often tended to take a one-sided view at the positive consequences of flexibility for labour markets, enterprises and employees, and have tended to see social security and employment security as impediments to competitiveness and economic growth. On the other hand, labour market and social policy researchers leaning more towards political science and sociology have usually chosen to focus more on the positive consequences for distribution and welfare, but have rarely taken into account its consequences for the flexibility of the labour market or enterprises.” (2005, p19) The concept of flexicurity brings together or melds flexibility and security, and is based on the perception that they are not necessarily contradictory in nature but rather mutually supportive (Madsen, 2006b; Bredgaard et al, 2005).

### **2.1 Defining Flexicurity**

Aside from the general definitions of flexicurity provided in the introduction, narrowing the concept into a more precise definition is needed. As pointed out by Bredgaard et al, “the exact meaning of flexibility and security, and especially the contraction of them in to ‘flexicurity’, still seems rather elusive” (2005, p21). Bredgaard et al adds that, “An important reason for the increasing popularity of the concept is, however, probably the very fact that it is so hard to define, consequently

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different actors can mould the concept to fit their own interpretations and interests” (2005, p21). Therefore, an exacting of the concept and its definition is appropriate in moving forward.

For many researchers, flexicurity is best refined into three main understandings. (Bredgaard et al, 2005; Madsen, 2006b; Wilthagen & Tros, 2004) First, flexicurity has been defined as “a policy strategy that attempts, synchronically and in a deliberate way, to enhance the flexibility of labour markets, the work organization and labour relations on the one hand, and to enhance the security – employment security and social security – notably for weak groups inside and outside the labour market on the other hand” (Wilthagen & Tros, 2003, p6 – see also Wilthagen & Rogowski, 2002). In this regard, flexicurity is a ‘political strategy’ and works ‘synchronically and in a deliberate way’, and aptly applies to the Dutch case (Bredgaard et al, 2005), where in 1995, the Dutch Minister of Social Affairs and Employment put forth a memorandum called ‘Flexibility and Security’ (Wilthagen, 1998; Seifert & Tangian, 2006). Although no agreement was immediately reached on this proposal, later bargaining among employee and employer confederations resulted in a renewed agreement on ‘flexibility and security’, which was passed by the Lower House of the Dutch Parliament in 1997 (Wilthagen, 1998; Wilthagen & Tros, 2004; Seifert & Tangian, 2006).

A second and broader understanding of flexicurity, put forth by Wilthagen and Tros in 2004, addresses flexicurity as a “state or condition of the labour market” as opposed to a specific policy strategy. In this manner, they have defined flexicurity as: “(1) a degree of job, employment, income and combination security that facilitates the labour market careers and biographies of workers with a relatively weak position and allows for enduring and high quality labour market participation and social inclusion, while at the same time providing (2) a degree of numerical (both external and internal), functional and wage flexibility that allows for labour markets’ (and individual companies’) timely and adequate adjustment to changing conditions in order to maintain and enhance competitiveness and productivity.” (Wilthagen & Tros, 2004, p5) This second definition is important to understand the Danish model, where there appears to have been no political or deliberate strategy in place (Bredgaard et al, 2005). As pointed out by Madsen (2006b, p5), “in some cases a state of flexicurity

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has over the years not been reached through implementing a deliberate strategy, but through a gradual process of political struggles and compromises with a strong element of path dependency”.

The final understanding of flexicurity is as an analytical tool or matrix upon which individual countries can be charted and used as a means of comparison (Madsen, 2006b). Wilthagen and Tros have developed a matrix identifying four forms of flexibility and four forms of security (2003, 2004). Their matrix and the forms of flexibility and security have been widely cited by other authors in discussing the topic (Wilthagen & van Velzen, 2004; Anderson & Mailand, 2005; Bredgaard et al, 2005). The matrix depicts what Bredgaard et al calls “the groundbreaking aspect of the flexicurity concept, ... the linking of these four forms of flexibility with four forms of security” (2005). In this regard, “flexicurity policies can be analyzed as types of trade-offs”... which “can involve individual workers, groups of workers or entire workforces, sectors of business or national governance systems as a whole, depending on the level where the trade-offs are made” (Wilthagen & Tros, 2004, p6).

Bredgaard et al refers generally to flexibility as “the idea that there exist some mechanisms of adjustment in the labour market, which can lead to a (desired) change if the labour market is hit by outside shocks, e.g. a fall in demand or changes in the exchange rate” (2006, p8). To narrow the concept of flexibility and utilize it within an analytical setting, Wilthagen and Tros have identified four forms of flexibility, as follows:

- 1 – *External-Numerical Flexibility: the flexibility of hiring and firing*
  - 2 – *Internal-Numerical Flexibility: working hours, overtime, part-time work, etc.*
  - 3 – *Functional Flexibility: multi-employability, flexible organization of work*
  - 4 – *Wage Flexibility (flexible or variable pay): performance or result-based pay*
- (Wilthagen & Tros, 2003)

With regard to security, Wilthagen and Tros state the following four forms:

- 1 – *Job Security: the certainty of retaining a specific job with a specific employer*
- 2 – *Employment Security / Employability Security: the certainty of remaining in work (not necessarily the same employer)*
- 3 – *Income Security: income protection in the event that paid work ceases*

4 – *Combination Security: the certainty of being able to combine paid work with other social responsibilities and obligations. This last form of security cannot be traced back to the other forms of security.* (Wilthagen & Tros, 2003)

**Figure 1** - Flexibility Versus Security Trade-offs

<b>Security Flexibility</b>	Job Security	Employment Security	Income Security	Combination Security
External-Numerical Flexibility				
Internal-Numerical Flexibility				
Functional Flexibility				
Flexible or Variable Pay				

Wilthagen & van Velzen, 2004 - also similar to Wilthagen & Tros, 2004

The matrix can be used as a tool to “either identify different flexicurity policies or combinations of flexibility and security in certain schemes, or to identify stylized relationships between flexibility and security in different national labour market regimes” (Bredgaard et al, 2005, p23). There are, however, limitations with respect to what countries may be placed on the matrix. For example, the United States, which places great emphasis on numerical and pay flexibility over security facets, is “impossible to place on the matrix, as there is no synchronous attention to flexibility and security aspects” (Madsen, 2006b, p8).

## 2.2 Transitional Labor Market Theory (TLM)

With regard to flexicurity as an analytical framework it has been compared to the concept of *transitional labor markets (TLM)* (Bredgaard et al, 2005). Günther Schmid, who developed the theory of transitional labor markets (Wilthagen, 1998), has identified “the need for collectively organized and negotiated arrangements to cope with critical transitions between various forms of productive activities during the life cycle, especially those transitions related to family work” (Schmid, 2002, p187). Wilthagen and Tros have also highlighted the similarities of the two concepts in their work, commenting that “flexicurity strategies and policies ... are strongly connected

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to the transitions people make (or do not make) in the labour market and especially in moving to and fro between the labour market and other realms of life” (2004, p7).

TLM theory more precisely deals with the blending or the opening up of the traditional boundaries “between the labour market and other social systems ... and will allow for the creation of transitory states between paid work and gainful non-market activities, which will preserve and enhance future employability” (Muffels et al, 2002, p2). In the same respect, Bernard Gazier, describes TLM as “‘mobility insurance’, supplementing and combining with other risk-spreading or risk-mitigating devices in the labour market” (2002, p220). The emphasis on ‘risk-spreading’ or ‘risk-mitigating’ is a central component of both flexicurity and TLM. Lack of security hampers workers will to “engage in transitions, as they will fear that changing status will bear significant risks and might become a change for the worse” (Wilthagen & Rogowski, 2002, p233).

Both concepts, possessing the same goal, combining flexibility and security, make differentiating between them appear more a matter of semantics at times. However, Ton Wilthagen addresses the issue of defining flexicurity in light of TLM, identifying two possible conceptions. First, he identifies flexicurity “as a political policy and strategic concept that can be used to induce legal and policy innovations (also in the area of collective bargaining) ... If the concept catches on in these circles new policies could be developed that remove certain legal barriers to transitional labour markets and new opportunities, while at the same time enhancing business performance” (1998, p22). Wilthagen refers to this as a ‘type of Trojan horse strategy’ or as defining flexicurity as a door-opener to further overarching reforms of transitional labor markets. In Wilthagen’s second definition, “flexicurity might more accurately define the preconditions for transitional labour markets” (1998, p22). In this way, he refers to the inability of top down policies to spur the transitions identified in TLM theory, rather, “catalyst are required to set off transitions” (1998, p22). Flexicurity, as defined here, is the impetus required to bring about the transitions identified in TLM.

Wilthagen’s definitions of flexicurity, under the umbrella of TLM, produce a rather coherent picture of the interrelationship between the two concepts; however, there

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appears to be a bit of ‘the chicken and the egg’ in comparison to other definitions offered. Bredgaard and Larsen write that “TLM is regarded as an implementation strategy, whose goal is to provide flexicurity” (2006, p19). By this meaning the TLM strategy is the impetus for what will result in flexicurity. Despite the slightly different perceptions on the matter, flexicurity can still be understood to be a part of a broader and more holistic TLM concept (Bredgaard & Larsen, 2006).

## **2.3 Corporatism**

Having defined flexicurity and illustrated its relationship to the theory of transitional labor markets, it is important to examining theory which outlines the context and the interplay of actors within the economy and society in which flexicurity has developed. Wilthagen and Tros have cited coordinated decentralization as a precondition to flexicurity in both the Netherland and Denmark (2003), the two most illustrious and cited examples of flexicurity. Coordinated decentralization relates to latitude given to “collective agreement parties, local organizations, companies and individual employers and employees ... for tailor-made solutions with regard to flexibility and security wishes and needs ... coupled with strong coordination at a central level” (Wilthagen & Tros, 2003, p29). “Decentralized though coordinated labour market policies and the involvement of social partners”, as stated by van Velzen and Wilthagen (2004, p15), therefore leads to the concept of corporatism as a theoretical base for examining the interactions or interplay of these actors within the scope of the economy. The concept of corporatism has also been directly cited in the literature for the role it has played in flexicurity arrangements in the Netherlands and Denmark. Flemming Larsen, in describing the Danish case, states that “economic and welfare considerations are balanced in the corporatist framework” (2004, p18) and Bredgaard et al state that “Dutch legislation on flexicurity is thus a typical example of the tradition for corporatist coordination” (2005, p20).

Paul Windolf has described the early development of corporatism or the corporate network structure within Europe, using Germany as an example, in comparison to the development of pluralism within United States at the beginning of the twentieth century. He cites the actions of both governments when faced with an environment of

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cartels. In Germany, cartels were not seen in the same light as in the United States, where legislation (e.g. the Sherman Act and Clayton Act) was enacted to bust large trusts that had developed because of the view that they were undermining the efficiency of the ‘invisible hand’. On the other hand, Germany viewed this cooperation among business as a means “to correct the way the market was divided among competitors, then the results were not only more efficient but also more equitable” (Windolf, 2002, p6).

In 1965, Andrew Shonfield asserted that in the postwar world there were “new forces making for increased instability” (1965, p230). He cited two main factors for this instability: “the acceleration of technological change and the removal of barriers to international trade” (Shonfield, 1965, p230). From this situation, Shonfield identified corporatism, among others, as a way to make the “sudden jolts”, caused by technological change and freer trade, “less sudden”. He moves on to offer the following definition of corporatism (Shonfield, 1965, p231) (also cited in Molina & Rhodes, 2002, p307):

*The major interest groups are brought together and encouraged to conclude a series of bargains about their future behavior, which will have the effect of moving economic events along the desired path. The plan indicates the general direction in which the interest groups, including the state in its various guises, have agreed that they want to go.*

In other words, within corporatist systems “interest groups work together and with the state in formulating and implementing their own strategies and those of the state”; this is in contrast to pluralist systems in which “isolated interest groups pressure their own interests and exert pressure on governments” (Armingeon, 2004, p223).

The ideas of corporatism have traditionally been tied to Keynesian ideology and with the end or movement away from Keynesian economic policies there were expectations corporatism was bound to the same fate. This was based on the belief that new pressures from globalization and requirements of the European Monetary Union would render corporatism inefficient and led to its eventual atrophy. (Armingeon, 2004; Molina & Rhodes, 2002) The end of corporatist institutions, however, never came to fruition despite a belief they were no longer efficient.

Armingeon has addressed this by stating that “institutions are sticky, the costs of change are high, and advantages of institutional change are not guaranteed” (2004, p226). Although institutions may be viewed as no longer efficient in economic terms, the social cost of change also must be considered. If these costs are considered too high institutions will remain and “influence development paths in the future (path dependency)” (Windolf, 2002, p22).

In addressing the idea of corporate structures remaining in place, Jens Blom-Hansen, albeit from a different angle, contends that corporatist decision making begins to “make a lot of sense” when understood as a means by which politicians may legitimize policies (2001, p409). “If protecting public policy from future reversals is accepted as an important incentive for politicians, then corporatist decision making begins to make a lot of sense. Formal policy safeguards such as comprehensive laws and detailed administrative regulations are never reliable in parliamentary systems. A future majority can always reverse policy choices. Consequently, formal regulation cannot be relied upon for future protection. Protection must come from informal and extraparliamentary institutions, e.g., corporatist structures.” (Blom-Hansen, 2001, p409)

Molina and Rhodes have also addressed the issue of corporatism’s demise. Unlike the literature which looked to “globalization, deindustrialization, and new post-Fordist paradigms as undermining forces” of corporatism, they hold that “perhaps there was also something in this turbulent environment that triggered the search for new modes of concertation” (Molina & Rhodes, 2002, p315). “This interpretation suggested, in turn, the possibility of an evolutionary, transformative understanding of corporatism, rather than one that saw it as cyclical but essentially unchanging” (Molina & Rhodes, 2002, p315).

Molina and Rhodes have not offered a new definition of corporatism but rather suggest “their structures and actors should be understood in terms of networks; their logics in terms of the processes that underpin them; their fate in terms of the evolution of integration and the changing ‘currency’ of exchange” (Molina & Rhodes, 2002, p326).



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## 2.4 Varieties of Capitalism

Closely related to the topic of corporatism is the concept of varieties of capitalism presented by Peter Hall and David Soskice. The two have advocated that “national political economies can be compared by reference to the way in which firms resolve the coordination problems they face in these five areas” (Hall & Soskice, 2001, p8) – those being: *industrial relations*, “how to coordinate bargaining over wages and working conditions with their labor force, the organizations that represent labor, and other employers”; *vocational training and education*, “the problem of securing a workforce with suitable skills, while workers face the problem of deciding how much to invest in what skills”; *corporate governance*, the sphere in which “firms turn for access to finance and in which investors seek assurances of returns on their investments”; *inter-firm relations*, “the relationships a company forms with other enterprises, and notably its suppliers or clients, with a view to securing a stable demand for its products, appropriate supplies of inputs and access to technology”; *employees*, “ensure that employees have the requisite competencies and cooperate well with others to advance the objectives of the firm”.(Hall and Soskice, 2001, p7)

With reference to the ways in which firms resolve these coordination problems, Hall and Soskice contend that political economies, of the developed world, reside on a spectrum upon which Liberal Market Economies (LMEs) represent one end and Coordinated Market Economies (CMEs) the opposite (2001). Around these two poles of the spectrum, “which constitute ideal types”(Hall & Soskice, 2001, p8), developed economies are posited to cluster to a certain degree (Hall & Soskice, 2001; Gingerich & Hall, 2004).

Liberal market economies or LMEs have been defined as follows by Hall and Soskice: *firms coordinate their activities primarily via hierarchies and competitive market arrangements. ... Market relationships are characterized by the arm’s-length exchange of goods and services in a context of competition and formal contracting. In response to the price signals generated by such markets, the actors adjust their willingness to supply and demand goods or services, often on the basis of the*

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*marginal calculations stressed by neoclassical economics. In many respects, market institutions provide a highly effective means for coordinating the endeavors of economic actors.* (Hall & Soskice, 2001, p8)

Coordinated market economies or CMEs, on the other hand, have been defined as follows: *firms depend more heavily on non-market relationships to coordinate their endeavors with other actors and to construct their core competencies. These non-market modes of coordination generally entail more extensive relational or incomplete contracting, network monitoring based on the exchange of private information inside networks, and more reliance on collaborative, as opposed to competitive, relationships to build the competencies of the firm. In contrast to LMEs, where the equilibrium outcomes of firm behavior are usually given by demand and supply conditions in competitive markets, the equilibria on which firms coordinate in CMEs are more often the result of strategic interaction among firms and other actors.* (Hall & Soskice, 2001 p8)

With respect to the purpose of this exercise, Denmark and the United States are the countries of most concern. According to Hall and Soskice's arrangement of countries along the spectrum of LMEs and CMEs, the two countries fall into different categories. The United States is placed in the group of LMEs while Denmark is among the countries classified as CMEs. (Hall & Soskice, 2001)

In 2004, Peter Hall with Daniel Gingerich revisited the topic of varieties of capitalism with an empirical analysis. In addressing one of their hypotheses - "It is possible to identify a distinctive set of liberal market economies that make extensive use of market coordination and another set of coordinated market economies that make extensive use of strategic coordination" (p13) - they developed a coordination index "assessing the overall balance of strategic coordination relative to market coordination in the political economy" (Gingerich & Hall, 2004, p13). The index is arranged whereby the larger the value assigned to each country the greater the importance strategic coordination, relative to market coordination, is within the specific political economy; with a score on 1 corresponding to the highest possible value and denoting a pure CME. In the same regard, an index value of 0 denotes a political economy representing a pure LME. (Gingerich & Hall, 2004) According to this analysis the

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classifications offered by Hall and Soskice in 2001, are supported. Denmark received a coordination index score of 0.70, backing the contention that its economy can be classified as a CME, and the United State received a score on 0, identifying it as a pure LME.

The assertion of varying forms of capitalism is, however, not unique to Hall and Soskice and is also not without dissent with regard to the classifications of specific countries. To the first comment, John Groenewegen has credited economists, such as Karl Marx, Clarence Ayres, John R. Commons and Thorstein Veblen, for looking at capitalism in the context of an institutional conception, stating that “history and institutions matter and because of that capitalism is not one universal result of an equilibrating process; specific histories and cultures lead to many varieties of capitalism” (1997, p335). He continues on to identify a typology of capitalism, consisting to four types of capitalism; the Anglo American, two varieties of the Continental European System (social market capitalism and state capitalism) and the Japanese capitalism. (Groenewegen, 1997)

The two relevant to the case at hand are the Anglo American Model and the Continental European System of social market capitalism. The Anglo American Model, as the name implies, relates to among others the United States. This form of capitalism is characterized by the centrality of shareholder interests and is based on an individualistic value system. The government, within such a model, “makes it difficult for firms to protect themselves against hostile takeovers, the information management it has to provide to shareholders is strictly regulated, and cross-stockholdings are strongly discouraged” (Groenewegen, 1997, p336). Additionally, relationships among actors within the arena are centered on contracts within this setting.

The Continental European system of social market capitalism, in which Groenewegen places Denmark, is based not on an individualistic value set but rather “focuses on cooperation and consensus building ... (where) strong organizations of labor and employers negotiate at the national level about wages, social security, work conditions and the like” (Groenewegen, 1997, p336). As opposed to the shareholder centered Anglo American model, the social market model reflects a duality in its

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focus; shareholders and employees. In this setting, great emphasis is placed on reciprocity and consensus building while “cross-stockholding and interlocking directorates are supposed to strengthen long-term commitments” (Groenewegen, 1997, p337).

In the same vein, Michael Albert has classified two types of capitalism; Anglo-Saxon capitalism and the Rhineland model (Gooderham & Nordhaug, 2003). The Anglo-Saxon model, as the Anglo American model, maintains a focus on shareholders and their interests. The Rhineland model, also similar to the social market capitalism described by Groenewegen, is a so-called ‘stakeholder economy’ in which cooperation among the various actors is the norm as “competition and confrontation are avoided in the belief that it undermines sustainable, stable economic growth” (Gooderham & Nordhaug, 2003, p182).

Although various authors and researchers, such as those just mentioned, have addressed the issue of differing forms of capitalism, the approach taken by Hall and Soskice in *Varieties of Capitalism* deviates from these in its point of departure. “This literature distinguishes among capitalist economies by reference to the means firms and other actors use to coordinate endeavors” (Gingerich & Hall, 2004, p6). “However, this is a firm-centered political economy that regards companies as the crucial actors in a capitalist economy. They are the key agents of adjustment in the face of technological change and international competition whose activities aggregate into overall levels of economic performance.” (Hall & Soskice, 2001, p6)

Finally, in reference to the previously mentioned statement that not all researchers are in agreement with regard to the classification of countries into LMEs and CMEs, Per Madsen has labeled the Danish system a ‘hybrid’(2006c). Madsen, in reference to varieties of capitalism literature, contends that Denmark has features which seem to contradict a clustering of it to either the CME or the LME end of the spectrum. (Madsen, 2006c) In his view, Denmark may offer “an interesting case of a variety, which does not fit well with the idea of regimes clustering either around the LME or the CME (Madsen, 2006c, p155). The argument has also been made at a more general level, suggesting that LME and CME could be an oversimplification and that indeed more countries fit into the category of a hybrid of the two (Campbell et al,

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2006). Further discussion on this matter, however, will be more detailed in a later section.

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### **3. The United States' Model**

The purpose of the following is to outline the United States' labor market. Aspects of the system have been raised previously in the literature review, such as pluralism and liberal market economies. This section will highlight these features of the system and detail the current situation in the United States.

Paul Windolf has looked at the events which took place around the start of the twentieth century to gather an understanding of the divergence between pluralism and corporatism. In the US, with the passing of legislation such as the Sherman Act and the Clayton Act, it asserted that close cooperation and development of large trusts was a threat to market efficiency and undermined the 'invisible hand' of the market (Windolf, 2002). With regard to pluralism, cooperation between groups within the economy is not the norm, as it is with corporatism, rather "isolated interest groups pressure their own interests and exert pressure on governments" (Armingeon, 2004, p223).

Croucher has described the system in the United States as a 'compartmentalized business system'. "In these systems, 'laissez-faire' governments have played less of a role in legislating on the employment relationships than in cooperative business systems. The result is that different parts of the economy have very different types of employment relationship" (Croucher, 2007 p19). Compartmentalization is considered a feature of Anglo-Saxon or Anglo American capitalism. They are characterized by individualistic values and its emphasis on shareholder interests as opposed to broader coordination of interests among actors in the economy. (Groenewegen, 1997) Within such a system competition is placed at the fore while cooperation among actors is discouraged.

In the varieties of capitalism work by Hall, Gingerich and Soskice, the United States has been placed firmly within the liberal market economies (LMEs) grouping; ranking as a pure LME (Coordination Index - Gingerich & Hall, 2004).

*The US state has refrained from trying to coordinate economic activity at the level of industries or particular firms. And at no time has there been an effort to coordinate a*

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*broad range of economic, welfare, educational, and other policies in order to enhance US competitiveness. Instead, the state's preference has been to rely on market forces, corporate decision making, and, when necessary, the manipulation of aggregate level macroeconomic fiscal and monetary policies, trade and tariff policies, and limited forms of economic regulation, notably antitrust law, which has prevented the sort of cooperation among firms that is found in CMEs. (Campbell & Pedersen, 2006, p17-18)*

In essence, the dominant features of the US system relate to the prominence given to market forces in regard to organizing market activities and the government's antipathy towards coordination; viewing it as an obstacle to the efficiency of the 'invisible hand'. As outlined by Edward Bierhanzl, the US labor market is defined by "decentralized decision-making, few institutionalized job protections, low minimum wage and limited unemployment insurance" (2005, 17).

### **3.1 Functionality of the US System**

Mentioned in the literature review, the US system is impossible to place on the security / flexibility matrix due to the imbalance of emphasis placed on matters of flexibility over those of security (Madsen, 2006b). In an Anglo-Saxon setting, such as the US, "social assistance is considered a favour rather than an entitlement" (Daguerre, 2004, p51). In the same vein, Daguerre notes that US welfare programs can be placed into two categories; "routinized social security programmes (old-age and security pensions) and stigmatized welfare policies (food stamps, temporary assistance for needy families)" (2004 p51). The latter group is traditionally weak within the political environment and therefore the programs are rather open to attack both politically and ideologically (Daguerre, 2004). Flexibility within the US labor market on the other hand is considered paramount. As a means of describing the flexibility of the US labor market, the same areas as highlighted by Bierhanzl in his article 'Lessons from America' will be used, albeit it with a contrary motive; unemployment insurance, employment protection legislation and active labor market policies (2005). Because in the US there is not "synchronous attention to flexibility and security aspects" ... elements of flexibility "rank prior to elements of security" (Madsen,

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2006b, p8), therefore reviewing these three areas of security provides an ample overview of US labor market flexibility.

### **3.2 Unemployment Insurance**

The unemployment insurance system in the US is premised, by in large, on the belief that “recipients are opportunistic and willing to use any means possible to get the most out of the system” (Sørensen, 1998, p364) or as Bierhanzl states; “we know for certain that countries with long-lasting and generous benefits have higher unemployment, and it is clear that at some point the UI (unemployment insurance) system becomes an alternative to work” (2005, p18). As such, the US has both modest duration and benefit levels for the unemployed. The replacement rate is around 50-60% of previous wage on average and the duration available is normally six months (Bierhanzl, 2005). Eligibility for UI is limited and in the five years prior to 2004, “only one-third of unemployed workers received assistance under the UI program” (Kletzer & Rosen, 2004, p3).

There is, however, a more generous unemployment package, started under the Kennedy administration, Trade Adjustment Assistance (TAA), available for persons displaced from jobs as a result of ‘import competition’ (Butcher & Hallock, 2005). Under the TAA, eligible persons are entitled to “up to two years of unemployment benefits while retraining, temporary subsidies to help pay medical insurance and, for those over 50, a short-term top-up to any lower paying new job” (Economist, 2007, p30). An important note to the program, though, is that in 2005, less than 120,000 workers qualified for the TAA program (Economist, 2007).

### **3.3 Employment Protection Legislation**

According to a 1999 ranking of all OECD countries (Madsen, 2006a) and to a 2004 ranking of 26 selected OECD countries and EU accession countries (Bierhanzl, 2005), the US ranked as the least restrictive country with regard to employment protection legislation. “In the USA there is no legal obligation to notify individuals in advance of dismissal or provide severance pay, and no administrative requirements for



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individual notice and dismissal. For large layoffs or dismissals there is only a limited 60-day notice period” (Bierhanzl, 2005, p19). Employment protection legislation is largely viewed as a hindrance to the efficient allocation of resources. Legislation which restricts the markets ability to best redistribute those resources will result in less flexibility and create barriers to remaining competitive and adjusting to new technologies. (Bierhanzl, 2005)

### **3.4 Active Labor Market Policy**

Anne Daguerre identifies US active labor market policy in the group characterized by the ‘work first approach’; in that, “it emphasizes rapid job placement regardless of the quality of the work” (Daguerre, 2004, p42). As a proportion of GDP, the US spends very little on active labor market policies; 0.16% (Economist, 2007). Through reforms in 1990s, changes have been made to the US system, however mostly aimed at flexibility through further decentralization and greater individualization, with the aim of moving people to employment as quickly as possible (Daguerre, 2004). Active policy discourse is largely based on providing information while modestly providing for training programs through a voucher system; whereby, “a wide variety of private companies compete for workers’ funds by offering training services that create value”, and very little in the way of direct job creation or subsidized employment (Bierhanzl, 2005, p21). With such modest spending on active labor market policy, “training and job search assistance are only available on a first-come, first-served basis, and availability is limited by funding caps. States often exhaust their federal allocation of funds well before the end of the fiscal year. As a result, very few workers receive meaningful training.” (Kletzer & Rosen, 2004, p3)

### **3.5 State Control and Overarching Features**

The US system grants a large amount of control to individual states, in which case the specifics are difficult to layout. However, general themes or aspects of the system are possible to identify. Bierhanzl cites individualism, decentralization and market orientation as the ‘important characteristics’ of the US system (2005). During the Clinton administration welfare reform became a central topic. Through reforms to the

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system during the 1990s, the federal government took on the role of putting forth a general policy framework while implementation and policy specifics have been put under individual states' control (Daguerre, 2004). In addition to decentralization, greater emphasis has been placed on the individual through the establishment of 'One-Stop' employment services, the goal of which is to provide tailor-made solutions at the individual level (Bierhanzl, 2005). The market orientation characteristic, however, may be the most pertinent or overarching feature of the US system. Flexibility is high while benefits are low based on the argument "that once the incentives for the unemployed to find work becomes too small, the wage factor loses some of its weight in creating a balanced labour market" (Larsen, 2004, p11). A flexible labor market therefore allows adjustments to easily take place, while the 'work first' approach and low benefit levels "seeks to use the market to supplement a basic public safety net" (Daguerre, 2004, p53).

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## **4. The Danish Model**

This section sheds light on specific historical developments which have impacted Danish society and led to certain institutional developments which have helped to shape the country and its institutions. Since the crux of this academic exercise is not to methodically examine Danish history in minute detail, but rather to develop an understanding of the roots of the Danish welfare state and the institutional environment in which it evolved, only selective events will be highlighted.

### **4.1 Historical Developments in Denmark**

Aage B. Sørensen, in this paper *On Kings, Pietism and Rent-seeking in Scandinavian Welfare States*, points to the pre-industrial past of Denmark for the impetus of the development of the modern Danish welfare state (1998). Sørensen contends “that basic elements were created in 18-century absolutism and its spiritual support system: Lutheran Pietism. ... The conflation of absolutism with Pietism also provided the model for the relationship between king and subject that was to become the model for the relationship between state and citizen in the modern Scandinavian welfare state” (1998, p364). Martin Luther, as Sørensen states, “might be said to be the ultimate father of the modern welfare state” (1998, p367). Luther believed it was the state which should provide for the less fortunate in society, replacing the Catholic Church (Sørensen, 1998).

Absolutism came to the double monarchy of Denmark and Norway (*Norway remained under the Danish control until 1814, when it was ceded to Sweden as a result of the Napoleonic Wars (Feldbæk & Leksikon, 2006)*) in 1660, when Frederik III assumed absolute power and is considered the first absolute monarch of the kingdom (Østergård, 2006 and Sørensen, 1998). The merger of pietism and absolutism, however, developed in Prussia, “which developed the best known and purest model of society based on obedience and well-ordered administration” (Sørensen, 1998, p365). This merger involved the combining of pietistic values and institutions with the regime of the absolute monarch. Although the roots of this development are Prussian in origin, similar developments occurred in the Danish state

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(Sørensen, 1998). Prior to the 1864 war with and subsequent loss to Prussia, the Danish Kingdom included Holstein and Schleswig, both German speaking duchies (Campbell & Hall, 2006). Of the two duchies “Holstein was completely German and supplied many of the leading royal advisers and civil servants” (Sørensen, 1998, p368). The close ties between the double monarchy and its German speaking duchies and their influence on the state apparatus is also highlighted by the fact that Denmark’s second oldest university is actually Kiel University; established in 1665, after Copenhagen University; established in 1479 (Østergård, 2006, p57). Kiel University, despite having German as the language of instruction, educated state officials of the double monarchy (Østergård, 2006). These close ties between the double monarchy and German states, particularly Prussia, fostered many parallel developments in the 18<sup>th</sup> century.

During the course of the 18<sup>th</sup> century the double monarchy took many steps considered to be the foundation of the modern welfare state in Denmark. Though many reforms were not fully implemented, these actions were important steps for the country and led Denmark to become the “main model for the development of the welfare state in the other Scandinavian counties” (Sørensen, 1998, p365). Along with the impact of pietism on the development of the Danish state there were also other important developments during the 18<sup>th</sup> century. Despite being a time of absolutism, it was in this environment that the consensus building and cooperative nature, now considered a hallmark of Danish society, developed. During the 1700s, absolutist Danish Kings sought the advice and council of “social elites”. “These consultations eventually led to state reforms that included civil service and tax reform and the expansion of civil rights and education. They also led to land reforms and the dismantling of feudalism” (Campbell & Hall, 2006, p23).

The 19<sup>th</sup> century led to many changes in Denmark. In 1814, following the bankruptcy of the country in 1813, and being a member of the Continental System during the Napoleonic Wars, Denmark ceded Norway to Sweden. (Feldbæk & Leksikon, 2006) Then in 1864, following the Second Schleswig War with Prussia, both Schleswig and Holstein were lost, reducing Danish territory by a third (Andersen, 2006). Within fifty years the Danish monarchy had gone from a multinational and multilingual state, consisting of three parts: Denmark, Norway and Schleswig and Holstein, to a small

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state.(Sørensen, 1998) Denmark was no longer a large power within Europe and the country was faced with a new vulnerability. This new realization chaperoned in what has been coined the ‘internal front strategy’ (Campbell & Hall, 2006). “This was a strategy designed to bolster the defense of the nation by providing for the welfare of the population in ways that would unite it as a people – encouraging a unity that would help the nation resist future geopolitical threats should they arise” (Campbell & Hall, 2006, p23).

In this new environment of susceptibility to geopolitical threats, the ‘internal front strategy’ rallied people around the motto “What is lost externally shall be regained internally” (Andersen, 2006, p3) or “Outward losses must be made up for by inward gains” (Østergård, 2006, p 71). The situation within Denmark at this time led to what Østergård considers unprecedented – that is – the Danish state was rendered so weak by external events “that it allowed first the peasant movement and later the worker’s movement to gain control over the state ... it was quite unprecedented that they were able to gain a cultural, economic – and eventually political – hegemony within a sovereign state”(Østergård, 2006, p 71).

In addition to the ‘internal front strategy’, the mid-nineteenth century ushered in other important developments which would prove to have substantial implications for the development and direction of Denmark. The tensions with and anxious relationship between Denmark and Germany fostered a reorientation of the Danish economy toward Britain and internationally. This reorientation, first as a response to German hegemony in the region, led to greater openness and integration of Denmark into the international economy, an aspect which has essentially remained.(Kaspersen, 2006) Another important influence during this period was the clergyman, author and politician, Nikolaj Frederik Grundtvig. Grundtvig formed a grassroots movement and unlike many national movements throughout the continent, with a top-down approach to defining nationalism, he and his supporters worked from the ground up to delineate the Danish national identity.(Campbell & Hall, 2006, p22) “The Grundtvigian movement cut across social classes and stressed the importance of individual freedom, classical liberalism, volunteerism, free association, popular education, and the development of civil society and social solidarity”(Campbell & Hall, 2006, p22). The ideals of Grundtvig, and the Danish welfare state for that matter, may be best

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summarized with a song he wrote about the country – “a country has progressed far when ‘few have too much and fewer too little’” (Andersen, 2006, p2).

In 1891, a watershed in many respects, the Danish budget for the first time included an account for expenditures on social concerns. (Kaspersen, 2006) “The Danish welfare reform reintroduced two important principles from the 18<sup>th</sup> century reform: the state was responsible and obligated to support the system, and benefits were not limited to certain groups” (Sørensen, 1998, p371). In Kaspersen’s view the influence of the reforms can be seen as two-fold; “on the one hand, the acts reinforced political stability from that point forward; on the other, they led to the establishment of a strong set of national institutions designed to reduce inequality and class differences and to further unite the people of the nation” (Campbell & Hall, 2006, p23). It was these nascent institutions which provided the foundation for the augmentation of the Danish welfare state.

On the heels of the 20<sup>th</sup> century, Danish employers and employees reached an agreement by signing what has been called the September compromise. “Hardly any other event in recent history has contributed more than the September compromise to the development of Danish society as a ‘consensus society’, in which conflicts between groups and classes are resolved through compromises on the basis of mutual respect” (Jørgensen, 1999). Unions first began to organize in Denmark in the 1870s and 1880s, although they faced a great deal of resistance from employers and the state in their attempts to win the right to “organize in economic and political associations” and to “enter into legally binding collective agreements with employers” (Pedersen, 1993, p280). By the 1890s employees had gained the right to unionize and in the period “from 1896 to 1898 employees and employers alike were organized in nationwide peak organizations” (Pedersen, 1993, p280) (Peak organizations – federation of other organizations or umbrella organizations, Pedersen, 1993, p278). The September compromise laid the ground work for the way in which capital, labor and the state relate. Features of the Danish system, such as “employers’ right to freely hire and dismiss their workers”, trace their origin back to the compromise as well (Madsen, 2006a, p331).

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As mentioned previously, the internal front strategy was a result of outside threats to the sovereignty of the Danish state. The beginning of the twentieth century ushered in another period of uncertainty for Denmark, and with it, a certain impact on domestic politics. As Kaspersen states, “In the short run the state may wither away, but in the long run it will survive if the Danish society and community prove to be strong and coherent enough” (2006, p114). The turbulent external environment in this regard, had a large influence on domestic policy aimed at creating a stronger society and as a result the shift towards a welfare state was more a response to this outside environment (Kaspersen, 2006).

In addition to the impetus external vulnerability placed on certain domestic policy, it is also posited to have created a situation within Denmark where great emphasis was placed on consensus building and compromise. “Willingness to compromise, the ability to listen to one’s opponent, and a consensual culture are elements of a political culture which, in the Danish case, were more an outcome of necessity than the natural product of a good-hearted people. The tough choices and hard compromises require a sense of urgency.” (Kaspersen, 2006, p116) This sense of urgency has been a reoccurring theme at various times throughout Danish history; the war of 1864 with Prussia and once again with on the onset of World War I (Kaspersen, 2006).

Denmark remained neutral during World War I, but the conflict still had a large impact on the country economically. Trade was affected and rationing along with a system of income distribution was introduced (Leksikon & Rerup, 2006; Kaspersen, 2006). These programs of course meant state intervention, which was handled by means of corporate arrangements. Following the start of the war a commission, presided over by the Minister of Interior Affairs, was established with “representatives from all major organizations, interest groups, and social classes in Denmark” (Kaspersen, 2006, p116). Kaspersen acknowledges that other states also intervened broadly into societal concerns during the period, however, what set Denmark apart was that “the intervention took place through an extensive corporatist strategy” (2006, p117).

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*This process gave the organizations considerable influence and transformed them into more stable and strongly institutionalized entities. They became indispensable organizations, co-responsible for societal development in Denmark.*

*It would be no exaggeration to say that World War I became the point of crystallization of the Danish welfare state, the Danish model of 'effective corporatism', and the organizational society in Denmark.*

(Kaspersen, 2006, p117)

Following World War I, there was a rather brief return of more liberal economic policies, but by the early 1930s and the onset of economic crisis there was again a shift towards state intervention and corporatist ideals. The early 1930s were a time of tremendous economic stress and by 1932 unemployment rates exceeded 40%. (Kaspersen, 2006) "The desperate situation gave rise to one of the most epoch-making compromises of modern Danish history, called the Kanslergade Agreement" (Jespersen, 2004, p168). The agreement was reached in January of 1933 and contained among other things a simplification of the previous social legislation from 1891-1892 and one of many extensions to collective labor agreements (Kaspersen, 2006; Jespersen, 2004).

In many regards, these situations worked to concrete or solidify corporate arrangements and the efficiency of government to operate within their framework. With the onset of World War II and renewed tumult, the model of "state regulation and state intervention, supported and legitimized by all major social classes and economic interests, and implemented by civil servants and the major organizations in a corporatist system, were repeated during this war" (Kaspersen, 2006, p119). The system became institutionalized to such a degree that following the government's resignation in 1943, the remaining actors continued operating without a government the remaining years of the war (Kaspersen, 2006).

World War I, the economics crisis of the 1930s and World War II all provided a sense of urgency among political parties within Denmark and resulted in consensual and cooperative policy creation. As a result, there was the creation and institutionalization of a corporate system which was legitimized by housing participants from various social and economic interests. Following the Second World War, the Danish



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corporatist system would remain and have a large impact on the direction and overall appearance of the Danish state in the future.

## **4.2 Post World War II**

Following the Second World War, it has been argued the Danish welfare system took on a two-fold purpose. On the one hand, the welfare state was a ‘social project’, while on the other hand, it was a ‘defense project’. As a defense project, the welfare state was an attempt to subdue or subvert communism. In this regard, the welfare state provided for the disadvantaged so to reduce the appeal of the communist movement. (Kaspersen, 2006) Danish foreign policy also shifted after the war, and Denmark abandoned its long stance as a neutral country and allied itself with the US joining NATO. Additionally, Denmark accepted Marshall Aid. There were large demands placed on Denmark in connection to NATO and Marshall Aid to such an extent that the country was “even forced to raise taxes, ... a step which had not even been taken by the European Union” (Kaspersen, 2006, p123).

The subsequent years were stable for Danish economic growth and continued growth of the welfare state. In 1964, “the commission for Social Reform was established ... with the main objective of reforming the administrative machinery of the old social insurance system” (Kaspersen, 2006, p124-125). Consequently, during the 1970s the Danish Parliament put through a number of acts creating, what Kaspersen refers to as “the world’s best welfare state” (2006, p125). Flemming Larsen has also cited the 1960s as a “formative period for Danish labour market policy, starting with introduction of the unskilled workers’ training programme in 1960, and the institutionalization of continuing education of skilled workers in 1965” (2004, p8). It was however, the public employment service, started in 1969, which Larsen describes as the ‘most significant event of the decade’ (2004). The public employment service was founded for the purpose of promoting labor mobility, especially during times of economic booms as a means to ease upward pressure on wages and inflation. (Larsen, 2004) Furthermore, the service was a means by which the “state guarantees support for workers who are temporarily unemployed ... (and) to facilitate the matching of supply of and demand for labour” (Larsen, 2004, p9).

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These reforms in the 1960s, specifically the establishment of the public employment service and the reforms of the old social insurance system, set the stage for the trade-off between flexibility and security presently found in the Danish system (Bredgaard et al, 2005). As outlined by Larsen, “already in 1969 fairly wide frames for support were adapted” (2004, p9).

*Unemployment benefits and the state’s share of financing these benefits were raised, eligibility for insurance and unemployment benefits was eased, and high compensation for loss of income secured. In return, the employers were exempt from compensating the people made redundant, a responsibility taken over by the state. Consequently, as the employers have never had to secure employment and pay for redundancies, the hiring and firing costs for Danish businesses have been very low. This could be called a mix of welfare state protection and low employment security, and in fact be seen as an early version of a flexicurity arrangement.*

(Larsen, 2004, p9)

Moreover, these changes marked a shift in labor market policy. Prior to the 1960s the government had a rather passive role with regard to labor market policy. The September Compromise, mentioned before, “laid the foundation for the practice of leaving it to the labour market parties themselves to regulate most matters of importance for the labour market” (Larsen, 2004, p5). However, the prior mentioned reforms of the 1960s placed the government in a more active role with regard to the labor market, albeit within the framework of now well developed corporatist structures (Larsen, 2004).

### **4.3 Turbulence of the 1970s and 1980s**

During the 1970s, to large extend as a result of outside circumstances, the Danish system was stressed with rising levels of unemployment. The two oil shocks during the decade, the collapse of the Bretton Woods system and the resulting international economic conditions among other things strained the Danish model (Kaspersen, 2006). “Danish unemployment rose from 2% of the labour force in 1973 to 7% at the end of the 1970s, and to approximately 9% in the 1980s” (Larsen, 2004, p9).

In reaction to the events in the 1970s, “the right to employment and financial support became central elements of the labour market policy” (Larsen, 2004, p10). The government supported the right to employment through ‘government-initiated employment-creation programs’ and additionally introduced an early retirement scheme in 1979, to reduce the supply of labor (Bredgaard & Larsen, 2005; Larsen, 2004).

Under the unemployment insurance scheme, managed by trade unions within Denmark, an unemployed person was “entitled to up to 90% of his former income”; ... “non-insured received approximately 80% of the insured level” (Larsen, 2004 p10). To be eligible for the rather generous insurance scheme one year’s membership was required, the unemployed must be actively seeking employment and have been employed 26 weeks within the past three years (Larsen, 2004). Higher unemployment created additional incentives for individuals to join the insurance system and “access to insurance was expanded until 1979” (Larsen, 2004, p10) The connection between unemployment insurance and trade unions also resulted in increased union membership during the period, contrary to the trend in many countries at the time (Larsen, 2004). Additionally, the government-initiated employment-creation programs played an important role in keeping unemployed individuals within the insurance scheme, “offers of employment, and later on training, were tailored to meet the requirement for 26 weeks employment after 21/2 years unemployment, and the unemployed could thus remain in the insurance system almost indefinitely” (Larsen, 2004, p10).

The Danish system was very generous in the support it offered and therefore costly as unemployment was on the rise. The very passive nature of the system was also a point of contention, especially for employers who saw the system as potentially impacting the motivation of the unemployed in Denmark. In the mid-80s, steps were taken to add training and education to the existing employment scheme, however, the system remained very passive and the training and education schemes “were designed to secure the rights of the individual in the system rather than active skill enhancement or disciplining” (Larsen, 2004, p12). In addition to this, from 1985 to 1986 Denmark experienced an economic recovery for a short period of time which

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revealed a number of ‘bottlenecks’ despite the rather high rates of unemployment. “The structural problems in the labour market apparent at that time point to some of the inherent problems connected with the transitional labour market in general: it is difficult to get unemployed people who have for years been secured a high financial compensation (and training schemes primarily geared towards earning the right to continued unemployment benefits) back on the regular labour market. Even in times of lots of vacancies.” (Larsen, 2004, p12)

The Danish system throughout the 1970s and 1980s is best described as passive and placed most emphasis on securing the rights of the unemployed. Concern over these structural problems in the labor market, which were highlighted in 1985 and 1986, and its very passive nature led to reforms in the 1990s and eventually created the Danish model of ‘flexicurity’.

#### **4.4 Reforms and ‘Flexicurity’**

The early 90s were once again a time of rising unemployment in Denmark; reaching 12.4% in 1993 (Madsen, 2006a). The system was highly criticized, particularly for its ‘passive and extensive employment schemes’; however, “it quickly became abundantly clear that actual cuts in the unemployment benefit level were not politically feasible” (Larsen, 2004, p13). Instead, efforts were focused on creating a more active system, to a certain degree building on the training and educational reforms added in the mid-80s.

In accomplishing this goal, the tripartite Zeuthen committee was set up by the government and “proposed making the policy more active by introducing more individual and tailor-made skill-enhancement efforts and a reduction in the insurance period” (Larsen, 2004, p13). The tripartite committee was a central element in the reforms to labor market policy throughout the 1990s and facilitated compromise acceptable to all stakeholders. “Therefore corporatist structures play an important role in explaining the development and robustness of the particular Danish version of ‘flexicurity’” (Madsen, 2006b, p10).

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In January of 1994, a set of labor market reforms were introduced with the following elements:

- *The introduction of a two-period benefit system, with an initial passive period of four years and a subsequent activation period of three years; during the passive period, an unemployed person receives benefits and is also eligible for twelve months of activation;*
- *A change in the assistance provided to individual long-term unemployed persons from a rule-based system to a system based on an assessment of the needs of the individual (with the introduction of individual action plans as an important instrument);*
- *The decentralization of policy implementation to regional tripartite labour market councils, which are empowered to adjust program design to fit local needs;*
- *The abolition of the connection between participation in labour market measures and the unemployment benefit system, with the effect that employment with a wage subsidy would no longer prolong the period for which the unemployed are eligible for unemployment benefits;*
- *The introduction of three paid leaves arrangements for childcare, education, and sabbatical leave to encourage job rotation by allowing employed (and unemployed) persons to take leave while receiving a benefit paid by the state and calculated as a fraction of unemployment benefit.*

Madsen, 2006a, p336

Following these initial reforms in 1994, further reforms of the system continued. Most notable perhaps, were the continued changes to the ‘passive period’ for unemployed persons. By 1999, the passive period had been reduced to one year for unemployed adults and six months for unskilled young people (Madsen, 2006a). In 2003, another set of large reforms directed at active measures were introduced. Included in the reforms were the following:

- *The number of individual programs of the active labour market policy was reduced from thirty-two different schemes to only three main types of instruments covering: a) guidance, training, and education, b) practical introduction to the enterprises, and c) wage subsidies.*

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- *Higher priority was given to early guidance and other forms of personal contact with the individual unemployed at least every three months. The demands on the unemployed for active job search and mobility were increased.*
  - *The whole administrative system for active labour market policy and benefits was modernized applying an extensive use of digital technologies.*
  - *Other actors (private firms and organizations, including unemployment insurance funds) were to become more involved in implementing active employment policies at all stages.*
  - *All adult unemployed should still take part in an active program after one year of unemployment. However, the exact extent of activation was now specified more vaguely than under the previous system, which had a rule stating that activation should be on a full-time basis.*
  - *A long-term target of the reform goal was to fully integrate the two tiers of the present Danish system, which now handles insured and non-insured unemployed separately. Here, an important step is to be taken in 2006, where joint job-centres located in the municipalities will take over the responsibility for both the insured and the non-insured unemployed.*

Madsen, 2006a, p337

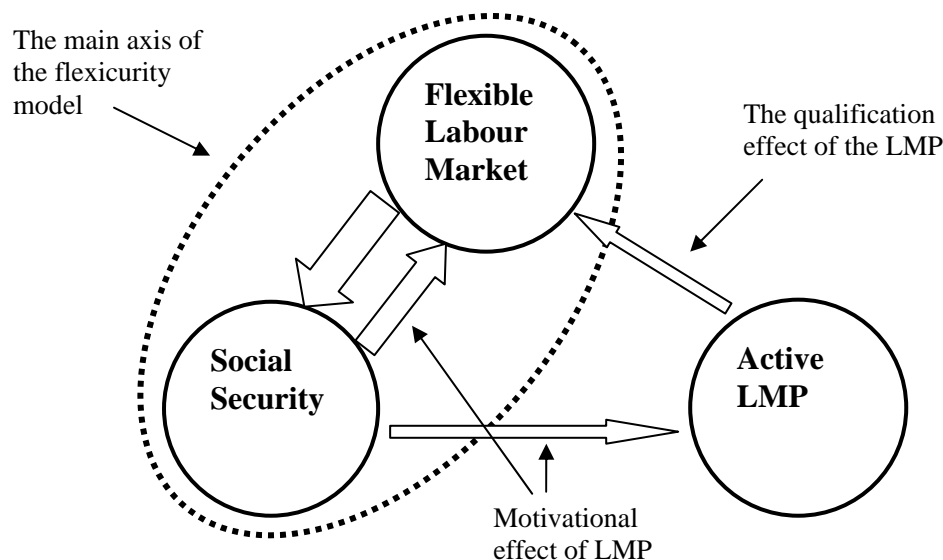
As mentioned by Larsen, “it is interesting to note that the policy is made more active through skills-related initiatives, and not through cuts in the employment offers or financial support” (2004, p11). Throughout the 1990s and into the twenty-first century, the Danish system has evolved primarily through changes to the activation system as opposed to cuts in benefits or at the expense of flexibility. In doing so, the ‘third leg’ of the ‘golden triangle’ was added (Bredgaard et al, 2005). The ‘Golden Triangle’, as sometimes referred, is used to describe the Danish flexicurity model; consisting of flexible labor market, generous social security and active labor market policies (Madsen, 2006a, 2006b).

## 4.5 The Danish Flexicurity Model

In Denmark, the results of the reforms and the new Danish ‘flexicurity model appear to be remarkable. Since having an unemployment rate of 12.4% in 1993, the rate dropped to 5.2% in 2001 (Madsen, 2006a). Hans Jensen, the President of the Danish Confederation of Trade Unions, and Jørn Neergaard Larsen, CEO of the Confederation of Danish Employers, describe the model not as the result of a preconceived design, “but rather the outcome of a long tradition of cooperation between the social partners. This cooperation has been characterized by mutual respect and supported by a political system which allows the social partners to work out their problems for themselves, without government intervention” (Jensen & Larsen, 2007).

The Golden Triangle of the Danish flexicurity model is highlighted below and illustrates the different interaction which occurs in the Danish system.

*The Danish ‘Flexicurity Model’ – ‘Golden Triangle’*



Taken from Madsen, 2006b

*The arrows indicate flows of persons between positions within work, welfare and active labour markets programmes. Thus the two arrows linking the flexible labour market and the generous welfare system indicates that large number of workers are affected by unemployment every year, but that most of them return to employment*

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*after a short spell of unemployment. Those who do not quickly go back into employment, are assisted by active labour market programmes, before re-entering a job.* (Madsen, 2002)

The ‘golden triangle’ depicts the ‘hybrid’ Danish system, which creates a balance between “high numerical flexibility (liberal hiring-and-firing rules) and the generous Scandinavian welfare regimes of high social security (relatively high benefit levels)” (Madsen, 2006b, p8). The active labor market policies serve two functions within the triangle; allow for the unemployed to upgrade their skills and employability through various training and educational programs and to serve as motivation for unemployed persons to intensify their job search before entering the activation period, if viewed as a negative course of action (Madsen, 2006b). The Danish system is therefore seen to allow employers the necessary flexibility to adjust to economic needs within the global economy, while employees are granted income security and have the opportunity to retool themselves to meet changing employer requirements.

## **4.6 Functionality of Danish Flexicurity**

### **4.6.1 Flexibility**

As one of the main legs or cornerstones of the Danish system, flexibility plays an important role. While defining flexicurity earlier, the role of flexibility was stated as: “a degree of numerical (both external and internal), functional and wage flexibility that allows for labour markets’ (and individual companies’) timely and adequate adjustment to changing conditions in order to maintain and enhance competitiveness and productivity” (Wilthagen & Tros, 2004, p5). Compared to most other industrialized countries, employment protection in Denmark ranks at a low level. With regard to another important indicator of labor mobility - average tenure - Denmark ranks on the low end close to the United Kingdom and the United States. (Madsen, 2002; 2006a)

Using the four forms of flexibility, offered by Wilthagen and Tros, the following will outline the flexibility present in the Danish system.



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External numerical flexibility relates to flexibility in hiring and firing practices. High external numerical flexibility has been a longstanding element of the Danish system, in large part dating back to the September Compromise in 1899 (Madsen, 2006b) and for the most part “over the past fifty years, there have been no significant changes in Danish rules and regulations on dismissals” (Andersen & Mailand, 2005, p12). The overall strictness of protection against dismissals in Denmark is rather close to that of the United Kingdom, while protection in Sweden and Germany is roughly twice that of Denmark (Andersen & Mailand, 2005).

The second form of numerical flexibility is internal. Internal numerical flexibility relates to working hours, overtime, and part-time work. In Denmark, issues related to this topic have, for the most part, been handled by means of collective agreements, aside from a number of EU directives which have been legislated. Collective agreements allow for more variation at the sectoral or local level for issues such as working hours than would be the case with legislation. (Andersen & Mailand, 2005) In many cases, this involves “sector-specific agreements, which are framework agreements that can be further negotiated and adopted locally” (Andersen & Mailand, 2005, p13).

Functional flexibility refers to multi-employability of employees – within the same workplace and with respect to different workplaces or types of jobs – and is closely related to continuing education or training programs (Andersen & Mailand, 2005). In 2003, a survey of the EU – 15, Norway and Iceland indicated that “more than half of the Danish population reported that they had taken part in supplementary training or education over the past 12 months” – identifying Denmark “as the nation most engaged in training and education out of the surveyed nations” *The European Centre for the Development of Vocational Training* (Andersen & Mailand, 2005 p14). However, the degree to which the training has increased functional flexibility is unclear and according to a survey conducted by the Danish Confederation of Trade Unions in 1998, 93% of all shop stewards “agreed ‘totally’ or ‘to some extent’ with a statement that continuing/further education and training is an area where the trade union movement must work harder to improve the opportunities of its members” (Andersen & Mailand, 2005, p15). The results of the latest round of collective

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agreements, however, confirm that the issue has been taken up, and continuing education and training for employed members has been secured (Madsen, 2007).

The final form of flexibility, wage flexibility, relates to flexible wage and variable pay agreements. Wage bargaining between the Danish Confederation of Trade Unions (LO) and the Confederation of Danish Employers (DA) takes place within the framework of four wage systems: *standard pay*, *minimum wage*, *minimum pay* and *no fixed pay rate* (Andersen, Mailand, 2005). Of the four wage systems, standard pay is the least flexible. Employees covered by this system have their wages set by central bargaining with no allowance for local negotiations. The proportion of employees within the LO/DA area covered by *standard pay* agreements fell from 34% in 1989, to 16% in 1993, and has remained relatively unchanged since (Andersen & Mailand, 2005). Under the *minimum wage* and *minimum pay* agreements, the minimum pay rate is negotiated at the central level with pay negotiated at the local level. The final wage system is no fixed pay rate. Employees within this category have risen from the early 1990s, when only 4% of employees within the LO/DA area were included, to around 22% in 2004. (Andersen & Mailand, 2005) The general trend in Denmark towards less centralized bargaining and more negotiation at the local level has also included an increase in variable pay or performance related pay. (Andersen & Mailand, 2005) Additionally, the decentralization of bargaining has been cited as a moderating influence on wages and contributed to low inflation levels during the 1990s while unemployment fell sharply (Bredgaard et al, 2005; Bredgaard & Larsen, 2006).

#### **4.6.2 Security**

As with flexibility, four dimensions of security were identified previously while defining flexicurity. Those dimensions, as articulated by Wilthagen and Tros, are “a degree of job, employment, income and combination security that facilitates the labour market careers and biographies of workers with a relatively weak position and allows for enduring and high quality labour market participation and social inclusion” (2004, p5).

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The first form of security, job security, is secure employment with the same employer. As just mentioned in the flexibility section, a key feature of the Danish model is the low level of job security and liberal hire-and-fire practices. Paradoxically, despite Danish employees' low level of job protection and high mobility, Denmark as a country, ranks one of the highest with regard to employees' feeling of security in their jobs (Andersen & Mailand, 2005; Madsen, 2002; Larsen, 2006).

Employment security is central to the flexicurity system and the shift from job security to employment security, or security of remaining in work regardless of employer, is widely cited as a major factor in the development of flexicurity (Wilthagen & Tros, 2004; Madsen, 2006b; Wilthagen & Velzen, 2004; Bredgaard et al, 2005; Bredgaard & Larsen, 2006). Therefore, the decrease in job security as a result of high external numerical flexibility is balanced by increased employment security, which is supported by the third leg of the 'golden triangle'; active labor market policy (Bredgaard & Larsen, 2006; Bredgaard et al, 2005).

Income security is "income protection in the event that paid work ceases" (Wilthagen & Tros, 2003 p7). Denmark has a very generous unemployment benefits in comparison to other OECD countries (Andersen & Mailand, 2005). Income replacements rates in Denmark are as high as 90% for lower income groups and may be claimed for up to four year with inclusion of activation periods, as spelled out in the active labor market policy (Madsen, 2006a). The high levels of income security in Denmark also play an important role in balancing high external numerical flexibility and trade unions' and ultimately employees' demands for security (Andersen & Mailand, 2005).

The final security dimension is combination security and is "the certainty of being able to combine paid work and other social responsibilities and obligations" (Wilthagen & Tros, 2003 p8). The reforms enacted in 1994, contained three notable elements of combination security, establishing paid leave for childcare, education and sabbatical (Madsen, 2006a). However, since then educational and sabbatical leave elements have been eliminated; yet maternity leave remains and was extended from 6 to 12 month (Andersen & Mailand, 2005). Despite the cuts to educational and sabbatical programs, benefits still remain for adult education (Stinson, 2007).

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### 4.6.3 Active Labor Market Policy

The third leg of the 'Golden Triangle', to a large extent, was the focal point of reforms which began in 1993. As stated previously, many of the reforms which came into force in January of 1994 concentrated on making the Danish system less passive and introduced measures to make the system increasingly active. The active labor market policies are central to increasing employment security and moving away from job security. The Danish active labor market policies can be considered a 'human capital approach', "which aims to reskill the labour force in order to improve long-term employment prospects" (Daguerre, 2004, p41). Denmark, with respect to share of GDP spent of passive and active labor market policy, is ranked at the top of OECD countries and in 2003 only the Netherlands spent a larger proportion on active measures than Denmark (Madsen, 2006a).

An interesting note to the 'Golden Triangle' and the direction of active labor market policy in Denmark is the goal of adding an additional point. As part of the latest collective agreement between the Danish Confederation of Trade Unions (LO) and the Confederation of Danish Employers (DA), an agreement was reached to make two weeks of training available each year to employees in the LO/DA area. During the training period employees will receive compensation for 85 to 90% of standard wage. The goal of this latest addition to the Danish model is to place active labor market policy focus not only on the unemployed but also on the employed. (Madsen, 2007)

The impact of Danish active labor market policies, positive and negative, have been summarized by Madsen. The motivational effect as Madsen states, "implies that an unemployed person seeks work more actively in the period immediately before she or he has to participate in a mandatory activation program"(2006a, p338). The second outcome is described as the lock-in effect or reduction in job search activities while an unemployed person is taking part in an activation program. The final effect outlined by Madsen, is the training effect. This relates to increased probability of an unemployed person finding paid employment following activation and skill or qualification upgrades. (Madsen, 2006a)

Another important aspect of changes to active labor market policy following the 1994 reforms was the “decentralization of policy implementation to regional tripartite labour market councils, which are empowered to adjust program design to fit local needs” (Madsen, 2006a, p336). As will be outlined in more detail in the subsequent section, granting more control to regional bodies has not only instilled greater flexibility into the Danish system but also has allowed for programs to be structured in a way that better meets local demands.

#### **4.6.4 Coordinated Decentralization**

Wilthagen and Tros state that in the case of both Denmark and the Netherlands, the two most cited examples of countries with flexicurity arrangements, “decentralization of labour market policy has (had) a beneficial effect on the introduction of flexicurity”. “Decentralization has been pursued under central control, ... as a result of this, collective agreement parties, local organizations, companies and individual employers and employees have been given more leeway for tailor-made solutions with regard to flexibility and security wishes and needs” (Wilthagen & Tros, 2004, p16). The authors also note that “the nature of legislation and national agreements should be less substantive (let alone detailistic) and more generally controlling, procedural and facilitating in nature” (2004, p17) (see also Wilthagen & Tros, 2003). Within the Danish system, the trend towards great control at the regional level has increased not only flexibility, notably with respect to wage flexibility, but also employment security. Important in this regard, is also the overall role the government plays with respect to labor market policy. In the Danish system, the government has traditionally been in a supportive role “which allows the social partners to work out their problems for themselves, without government intervention” (Hans Jensen, the President of the Danish Confederation of Trade Unions and Jørn Neergaard Larsen, CEO of the Confederation of Danish Employers; Jensen & Larsen, 2007).

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## **5. Discussion**

The purpose of this exercise, as set forth in the introduction, has been two-fold. The first objective was to detail the development and current state of the Danish flexicurity system, and the latter being a discussion of possible lessons which could be gleaned from the Danish system and applicable in an American context. The following section is a discussion of possible elements and or lessons from the Danish system which could be applicable and transferable to the United States.

### **5.1 Lessons for the United States**

As mentioned previously, both Denmark and the United States have had similar economic performance since the mid 1990s, however, there are differences. During the period Denmark has enjoyed “much less income inequality, gender-based wage inequality, poverty, and illiteracy than the United States” and according to the World Economic Forum, in 2003, ranked first in the world with regard “government’s effectiveness in reducing income inequality” (Campbell & Pedersen, 2006, p9). Additionally, a recent report from the Pew Charitable Trusts’ Economic Mobility Project mentions that; “many countries including Denmark ... offer far more economic mobility than in the United States when measuring by the income difference between generations” (MSNBC.com, 2007). Important to note as well, is the fact that Denmark has accomplished this with a markedly more open economy than the United States. (Campbell & Pedersen, 2006; Campbell & Hall, 2006) Yet in the United States, with a less open economy than Denmark, the rhetoric from politicians is generally aimed at globalization and international competition, in spite of the fact that “most economists have long held that technology, rather than globalization, is the main cause of the rising gap between the pay of the high and low skilled” (Economist, 2007, p31). The focus on globalization, however overblown, may be slightly more understandable when considering that “the average American who loses his or her job due to trade stands a one-in-two chance of making less money in a new position, assuming he or she can get one” (Strokes, 2006).

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From comparison of the Danish and the American systems, it appears as though the ‘work first’ approach taken in the US leads the unemployed to work, however, often times with a decrease in wages. Whereas, the Danish system, with more of a ‘human capital’ approach, has led to similar economic successes with far less inequality. The manpower policies, as stated by Peter Hall, have placed greater emphasis on skill formation to train unemployed persons (2006). The gulf between Denmark and the United States with respect to spending on active labor market policies, not to mention benefits in general, is pronounced. The 0.16% of GDP spent of active labor market policies in the United States pales in comparison to the almost 2% Denmark spends (Economist, 2007).

Developed countries such as the US and Denmark can expect to see fewer and fewer low-skill jobs as markets continue to open up and technology advances, however, the government can assist those displaced. As the Danish example shows quite well, active measures have reduced unemployment and done so without the same increase in inequality as in the US. Adaptation of such active labor market policies would likely work to reduce inequality within America and lessen the burden of change placed on the individual, in the way of wage reduction when reentering the workforce, while not restricting flexibility. This equates to greater employment security for workers and helps to meet demand for a more skilled workforce in a dynamic environment. To the question of cost, it is estimated that the US currently spends around one billion dollars a year helping workers displaced by trade while the estimated gains from freer trade reach one trillion dollars (Economist, 2007). The amount spent currently is scant, and it is obvious that spending would need to be increased for any realistic policy implementation, yet, the exact means for that are outside the scope of this paper. But, the developments toward greater inequality do suggest the gains from trade have not been disbursed equally while workers appear to shoulder the costs of a flexible labor market.

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## 5.2 Transferability

In considering transferability, the subsequent discussion will examine the interrelated topics of state size, corporatism / pluralism and CME / LME. To meaningfully address the plausibility of any transfer of policy from Denmark to the United States these topics need consideration.

Denmark is a fraction of the size of the United States, which alone calls into question whether transferring any policies would be possible. Aside from this obvious hurdle, work by Peter Katzenstein also raises a number of issues related to size and corporatism. Katzenstein points out how policy choices and state size are related (1985, 2003). Denmark, like stated prior, has a more open economy than the United States and can trace its tradition of openness back to the nineteenth century (Kaspersen, 2006). The vulnerable situation a small state is in, whether perceived or real, economically or geopolitically, as has been the case in Danish history, has “acted like a glue for the corporatist politics of small European states” (Katzenstein, 2003, p11). The impact of vulnerability on a large liberal state like the US, as stated in the introduction, tends to produce policies in the way of protectionism with the aim of creating “temporary ‘breathing space’ for producers hard pressed by international competition, but they rarely address long-term structural shifts in international competitiveness” (Katzenstein, 1985, p23). Denmark, as shown in this paper, has within a corporatist framework developed a more adaptable economy as a means to face the vulnerability discussed by Katzenstein.

The divide between pluralism and corporatism is also an important element for consideration in addressing transferability. The Danish system has strong corporatist roots, which have played an integral part in the formation of its version of flexicurity (Wilthagen & Tros, 2003; Madsen 2006b). Whereas the United States is pluralistic, meaning “isolated interest groups pursue their own interests and exert pressure on governments” (Armingeon, 2004, p223). The divide between corporatism and pluralism appears to create a number of problems for any type wholesale policy transfer. In the Danish system, tripartite corporate bodies are largely responsible for not only policy formation but also implementation of policy. The US, lacking



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institutionally in this respect, does not have similar arrangements upon which transferred policies could function. In the same regard, not only is policy formulated and implemented in different fashions, but the general interactions among social partners in each system is markedly different. Corporatism relies on cooperation and bargaining among partners, whereas pluralism is identified with greater amounts of conflict between partners (Armingeon, 2004). Countries lacking a tradition of negotiations and consultations between social partners, normally associated with corporatist systems, are disadvantaged as it relates to flexicurity policies (Wilthagen & Tros, 2004).

Denmark has been identified as a coordinated market economy and the United States as a liberal market economy by varieties of capitalism literature (Hall & Soskice, 2001). The varieties of capitalism train of thought is closely connected to that of corporatism and pluralism, however, it examines the subject in the perspective of strategic interaction closer to the firm level. As briefly visited earlier, the argument that Denmark offers a 'third way' or is a hybrid and does not fit into either category neatly has been made (Campbell et al, 2006; Madsen, 2006c). With respect to liberal hire-and-fire practices which are associated with LMEs and a central element of the Danish system, the argument holds. However, that is only a portion of the broader picture and when comparison continues between the US, a pure LME, and Denmark the levels of coordination found in Denmark lessen the claim.

Peter Hall has addressed the Danish question and in doing so has highlighted features of the Danish system which differentiate it from LMEs. Denmark can therefore be better understood as a variant of a CME, as opposed to a hybrid of the two; "like individuals, every nation is unique in some respects but impossible to understand without a comparative frame of reference" (Hall, 2006, p442). Central to the areas covered in this exercise, Hall cites the way in which wage setting is coordinated by trade unions and labor associations, very extensive system of unemployment protection and coordination of active labor market policies in both policy direction and application (2006). The coordination in these areas is very different than the approach used in the United States, which relies predominantly upon market solutions (Bierhanzl, 2005).

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Whether an economy is considered a LME or a CME, each has institutions which support the coordination of activities either through the market or strategic interaction (Hall & Soskice, 2001; Gingerich & Hall, 2004). The types of interactions these institutions support are obviously very different in the context of CME and LME. Therefore, as mention earlier, the US lacks or rather has different institutional arrangements than Denmark, and policy transfer is likely not optimal considering the institutional setting in which these policies have developed and the setting to which they may be transferred.

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## **6. Conclusion**

At the outset of this exercise, the dual purpose was to examine the Danish model of flexicurity and its development, and the second, was to explore whether any aspects of the Danish model would be transferable to the US or lesson to be learned from it. In the first regard, the chapter covering Denmark has examined the roots of the Danish model and moved forward to the current situation. It is my hope that the description has offered insight into how Denmark has arrived at its current model and also the fact that it is a dynamic model. Labor and employer associations along with the government continue to make adjustments and adapt their model to better fit Danish needs and remain competitive.

The chapter on the US system was brief and was not intended to be as inclusive as the Danish section. Rather, the purpose was to examine the possibility of policy transfer or lessons to be learned. In discussing the matter, it seems as though policy transfer from Denmark would be difficult at best. The two countries vary greatly in the organization of their economies and the institutions upon which that organization is based. However, I do believe there are lessons to be gained from the Danish example. First, the Danish case offers a rebuff to the often made argument that generous welfare states and the coinciding high taxes will drive away investment and lag more liberal countries with lower taxes and fewer welfare benefits (Bierhanzl, 2005; Campbell & Pedersen, 2006). In Denmark this has not been the case. Denmark has performed on par with the US and has done so without the increase in inequality present in the US (Campbell & Pedersen, 2006). Second, the Danish case offers a rebuff to the all too often political rhetoric aimed at freer trade and calls for protectionism. Denmark is more open economically than the US, and as just stated, has performed on par with greater equality.

Peter Katzenstein has drawn a distinction between small states and large states, and in doing so makes mention of policy choices when countries are faced with vulnerability (1985, 2003). In small states such as Denmark, this has reinforced corporatist arrangements, whereas in large states such as the US, the tendency has been towards

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protectionism. Hopefully the Danish example shows a different path; away from protectionism and inequality.

The idea of direct transfer of policy is in my opinion is not an option, but as stated by Madsen, “one real-life example tells more than a torrent of abstractions” (2006b, p13). Using the lessons offered by the Danish case can assist in approaching the topic of reforming the US system. Perhaps, as suggested by Kletzer and Rosen (2004), the best approach is through incremental expansion of the more generous Trade Adjustment Assistance (TAA) program, which is closer to the Danish active labor market policies than other programs found in the US. However, in the United States’ pluralistic or compartmentalized system, as stated by Croucher (2007), most assistance programs, the TAA included, are directed at specific groups. In this case, the corporatist Danish system provides a much better platform for overarching policy formation. Ultimately, I do not believe examining the Danish case is an exercise in futility for the so-called ‘Democratic wonks’ in America. The case aids in addressing the topics at hand and provides arguments for each side of the aisle in Washington.

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