



Mogens Lykketoft

The Danish Model

- a European success story



ARBEJDERBEVÆGELSENS ERHVERVSRÅD

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Foreword

Denmark has become a role model not just for the European Union, but also on the global arena. Numerous delegations have come to visit this little country which seems to have found an exceptionally successful combination of a dynamic economy and social security. On the one hand Denmark shares a range of features with the other Nordic welfare states consisting of a high degree of economic equality and security for its citizens. However, on the other hand Denmark has a dynamic labour market and a great adaptability for changing external conditions, which is traditionally associated with more liberal market economies.

The interest shown in the Danish model gathered speed when Denmark in the early 1990's stood out from the remaining EU and in a few years reached an unemployment level far below the European average. As a result many foreigners also believe that Denmark at the time invented a unique societal model, which we later began to mark – often headlined as “flexicurity”.

Therefore, the strength in Mogens Lykketoft's writing on “The Danish Model” is that it accentuates the long lines in the development of Danish society. For foreign delegations such a narration may seem disappointing. The Danish model is not to be copied in a quick pull. But when the disappointment is surmounted, they after all realize that there is inspiration to be found in e.g. an emphasis on lifelong learning, an ambitious active labour market policy or an extended public service which won't hamper, but on the contrary contribute to growth and affluence.

For the rest of us the narrative about the long lines contributes to emphasize the strength and cohesion in the Danish model.

It is not a party marquee set up for a shindig in the summer heat but a solid building, which has lasted for many decades.

Thus not said that the Danish model is invulnerable. The many balances between flexibility and security, which marks our society, must constantly be maintained and adjusted. Reforms can be well founded. But they can also cause damage, if they are implemented in a rush or on ideological grounds without respecting the interaction between the different parts of the model. This is where the historic outline will sharpen the awareness as to the value of the institutions and tradition for cooperation, which composes the main pillars in the model.

That is why Mogens Lykketoft's analysis is an important contribution to the debate about the development of the Danish model – also in a forward-looking perspective.

Copenhagen, December 2009

Per Kongshøj Madsen

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The Danish Model

- a European success story

In my capacity of Minister for Finance in 1998 I participated along with former chairman of the European Commission Jacques Delors in a conference in the Danish House in Paris with French politicians on “why the Danish bumble bee can fly”.

The background was the fact that development in Denmark from 1993-94 took a very different, positive turn in employment and economics in comparison with large continental European countries like Germany and France.

Since then I have participated in a multitude of meetings and conferences, in Germany, France, China, Chile and elsewhere, to meet the strong interest abroad in understanding more about the Danish Model.

Neo-liberal and conservative politicians and economists find it incomprehensible that a country with such heavy taxes as Denmark is more competitive and has a higher employment rate than most other countries.

So let me, once again, try to explain – this time in a longer perspective.

Denmark - from past to present

A few facts on recent Danish history, the political structure and the business pattern:

Denmark is a small country with 5.5 million inhabitants and an area of 44,000 square kilometres. Since 1973 we have been member of what is now The European Union (EU).

Denmark has a GDP pr. capita of 35.800 dollars in 2007. That makes us the 11th richest country in the world measured in purchasing power parity – i.e. not translated into official rates of exchange, but with respect to how much can be bought with the money in specific countries.

The World Economic Forum's 2008-competitiveness index ranks Denmark in its Top Three worldwide. And the World Transparency Index ranks us as the world champion in non-corruption. Furthermore it should be noted that other international comparisons nominate the Danes as the happiest people in the world!

For a long time Danes have had no ambitions of dominating other large and small countries. But we do believe that we can contribute with good experience and ideas on how democracy and social relations can enrich a society.

The triumphal progress of democracy – at first the farmers in the lead, then the workers

Democracy came to Denmark at an early stage. Denmark's loss of territory and power – most recently the loss of Schleswig-Holstein to Germany in the 1864-war – made the country a small, homogenous nation state with a distinct cultural, social and democratic development which explains a lot about the strength of the Danish society.

Agriculture, which was long the principal industry in Denmark, was dominated by an independent and confident farming class, which organised a strong cooperative movement and won the political power as of 1901. 'Folk high schools' became a stronghold for development of democratic attitudes and a national feeling founded in Christianity.

Rapid industrialisation towards the end of the 1800s increased growth in the cities and created strong trade unions as a counterweight to private capitalist power. From the beginning, the trade union movement and the Social Democrats were linked politically as well as organisationally. In Denmark, as well as in the other Nordic countries, the interaction between unions and the party became the key driving force in the development of a highly vital welfare model. Economic inequalities were evened out through tax-funded services within education, health care, care for the elderly and the children, and through a system of economic benefits in case of unemployment, illness, disablement and old age.

Social Democrats originally had public ownership of means of production on their political agenda.

But in reality the Danish Model was never about abolishing capitalism, but rather humanising it by insisting on a fundamental structure of society providing more equal rights and strong security for the individual as opposed to the free play of the market forces. The Danish Model is not the result of one big master plan. Creating social progress for ordinary people with lower incomes has been a long and gradual process – fighting and striking balances with employers and centre-right political parties.

It was crucial that the Social Democrats achieved substantial political influence in collaboration with the small Social-Liberal Party at an early stage in the 20th century, and thus set the agenda for social reform. Initially most Liberals and Conservatives were against it, but over time they adopted significant parts of it as it turned out to have huge popular appeal.

The Communists played a significant role on the Danish political scene only for a short period after the end of the German occupation in 1945 – because of their role in the Resistance.

But in 1959 a new left wing party – Socialist People's Party – was established by former communists, breaking with Moscow. That party has established itself as a much stronger factor and one of permanence. Nowadays there are few programmatic differences between Social Democrats and Socialist People's Party.

Only a few times during a total of three years (1967 and 1971-73) a "socialist" parliamentary majority existed, which was represented by the Social Democrats and the Socialist People's Party. These majorities did not give rise to any revival of old socialist anthems. However, in 1967 this ma-

majority managed to ensure the two most significant sources of income of the welfare society – the tax-at-source (or pay-as-you-earn-tax) and the value added tax (VAT).

Between 1924 when the first Social Democratic government came into power and 1982, the party was only outside the government for 12 years.

Since 1982 a Social Democratic government ruled only for 9 years from January 1993 to November 2001. Nevertheless, during this time the Danish Model was renewed and Denmark experienced an- in the European context exceptionally strong economic progress and increase in employment.

The Danish Model: From crisis and war to the great progress of welfare

Naturally, the Danish Model has developed in interaction with the vast changes of economic conditions. The first great challenge – and also the first huge leap forward – was the crisis and mass unemployment of the 1930s.

On the very same day Hitler came to power in Germany in 1933, the Danish Social Democratic Prime Minister Stauning made a huge political settlement with the opposition Liberals. The deal addressed unemployment, consolidated agricultural earnings and laid the groundwork for a social reform that gave social welfare benefits to those in need as a right – not as alms.

During the 1930s Denmark pursued an economic policy with huge public investments with the aim of creating jobs. This was in good conformity with ground breaking ideas of the great British economist Keynes, who said that the state must make capital injections and create employment during

times of crisis. However, it is uncertain whether the decision-makers of the time actually knew of Keynes' theory. But anyway they did the right things.

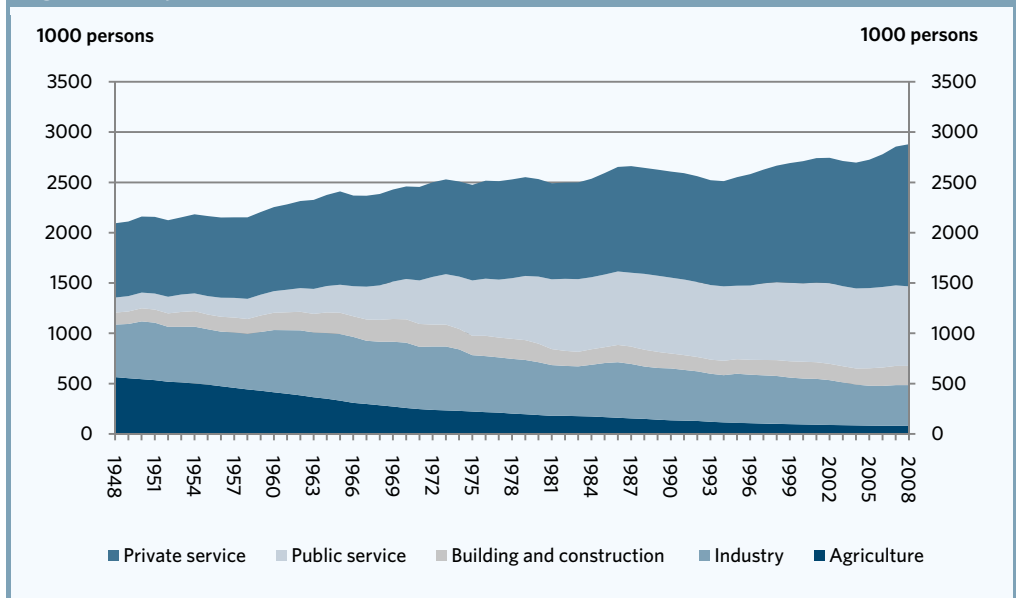
After the liberation in 1945, politicians decided to continue the work that was interrupted by World War II. Society took on a more active part to ensure the way back to full employment. People in Denmark were – along with everyone in the Western world – experiencing how dramatic technological developments and the opening of the markets to the outside world resulted in huge changes in job opportunities and demanded new and other skills. From the 1950s the standard of living exploded. Family pattern experienced a revolution and we still have not seen the end of it. But the fact is that we live and work under totally different circumstances compared to a few decades ago.

Huge changes have happened at a record pace during the past 60 years. These economic and social changes have in particular been generated by two unique revolutions: The very extensive migration from rural areas to urban areas, and women entering the organised labour market.

In 1950, 545,000 people earned a living from farming in Denmark. In 2008 the figure was 83,000. This development resulted in a depopulation in the rural areas and huge investments in housing and infrastructure in big cities. The few remaining people in the agricultural sector produce 14 times as much as back in 1950. And back then they were six times as many!

In 1950, 33% of the workforce was female. In 2008 it was 48%.

Figure 1. Occupational structure 1948 - 2008



Source: AE on the basis of Statistics Denmark.

The employment rate in 2008 was 80 % for men and 74 % for women.

Just a few generations ago, the role of most married women was to take care of their children, the elderly and the ill within the family. Not particularly visible. And without pay.

Now the women of the new generations – also women with young children – are just as much a part of the labour market as their husbands.

But where did they go – all the people migrating from agriculture and from work at home?

The most important migrations are shown in fig. 1.

In rough numbers, the changes are as follows: The agricultural sector has lost a workforce of 460,000 and the industrial sector has lost 170,000. The construction and civil engineering

sector has grown by 60,000, the public service sector by 635,000 (!), and the private service sector by 655,000 employees since 1950.

From 1950-2008, Denmark's gross domestic product in real terms increased by 276% .

It is difficult to quantify the specific factors, which cause this development. But let me stress a few points:

1. A solid general level of education with a high-quality primary and lower secondary school which emphasise interaction with other people – development of social skills and development of the ability to improvise. Furthermore there are strong traditions for vocational training. Finally – as in other European countries – the proportion of a generation that achieves higher education has increased dramatically: From 25% in 1980 to 47% in 2006!

2. Many small, adaptable, individually owned companies represent the majority of private employment. However, there is one single international giant - A. P. Møller / Mærsk - within shipping and oil and gas extraction, to mention but a few things, which represents a substantial and increasing part of value creation and foreign exchange earnings in Denmark

3. A very liberal industrial policy, where government has not come to the rescue of companies in trouble. Denmark does not have large, inflexible subsidy-requiring companies within mining and heavy industry.

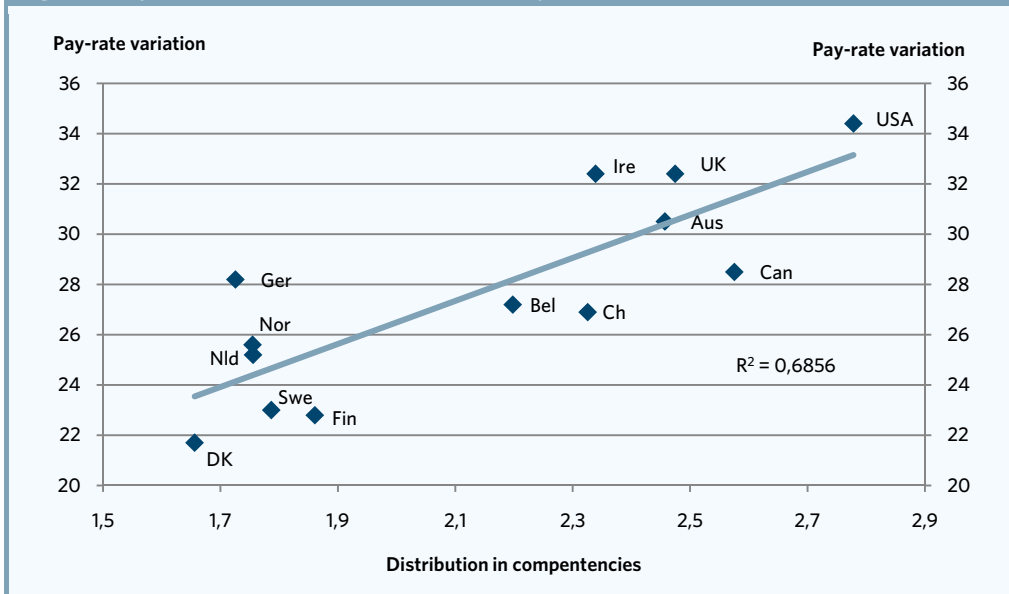
On the other hand, the public authorities have traditionally owned or controlled fields such as telecommunications, electricity, water supply and public transport. Technological development, the demand for a competitive market and more rigor-

ous EU competition requirements have resulted in opening public transport to private competition - and a direct sale of the publicly owned shares in telecommunications. These are the most important examples in some of the traditionally owned public areas. The philosophy being that at present the protection of the consumers from exploitation by private monopolies are handled better through increased cross-border competition and a more effective national and European regulation than through public ownership.

4. The pursued economic policy has supported growth and changes in the private sector.

Beginning from the 1950s tax legislation giving the companies very generous depreciation possibilities on all kinds of machinery made a crucial contribution to the renewal of the Danish industrial sector.

Figure 2. Pay-rate variation and distribution of competencies



Note: Distribution of competencies measured as the best 95% relative to the worst 5%.

Source: AE on the basis of OECD.

Furthermore, the prioritisation of good service to all citizens, for instance within health care, has at an early stage created a domestic market, which has given Danish industry the possibility of becoming market leader in valuable niches on the global market. This accounts for NOVO's leading role when it comes to insulin and similar global positions of other Danish medical products. It is not a coincidence that the late Chinese leader Deng Xiaoping had a highly sophisticated Danish hearing aid from Oticon. Or that another Danish company, Danavox, is mass producing a robust and inexpensive hearing aid for the market of ordinary Chinese and other citizens of the world.

Particularly in the 1990s, demand for more environmentally sustainable energy supply resulted in state sponsoring development of windmill technology with tax preferences and research and development funds. This laid the groundwork for a highly significant export success and positive contributions to employment – not least for unskilled workers in occupationally weak peripheral areas of Denmark. Vestas is the largest and still more international producer of windmills.

Certainly a much greater potential exists of such interaction between public demands and funds for an environmental or socially desirable development on one side and private industrial initiatives on the other. For instance strong focus should be on other types of renewable energy that contributes to less carbon emissions – reaching for the ambitious, but necessary climate goals.

5. Being a small country with a very extensive international trade, already from the end of the 1950s Denmark was a leader in lifting import restrictions and dealing with external competition.

This resulted in large requirements for change, but also in new export opportunities too.

Entire industry branches disappeared at an early stage due as a result Denmark pointing the way to the elimination of import restrictions, – e.g. the conventional production of textiles and clothing.

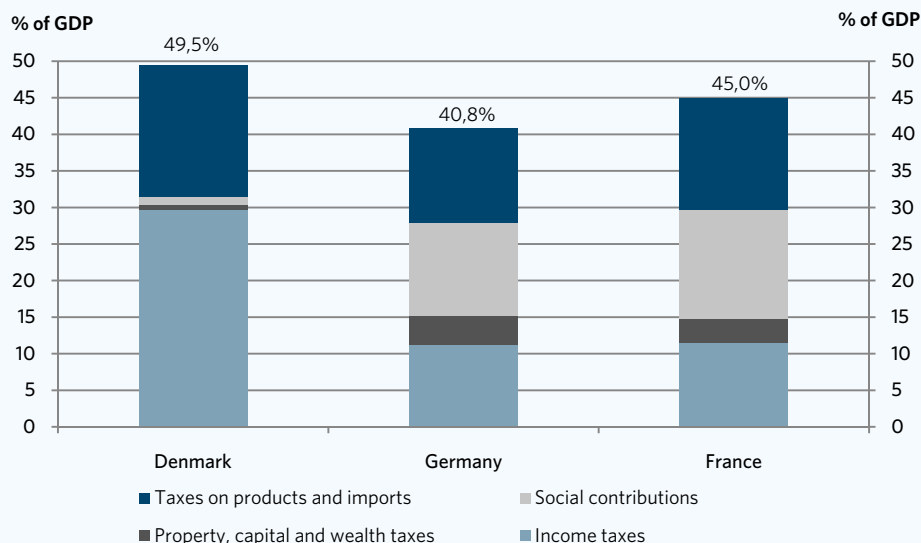
6. In turn, an aim to cultivate new productions which could carry a decent salary was initiated at an early stage. The union movement was a highly active participant in this and made a great effort regarding training in new technology and agreements on new incentive pay schemes.

Rather high minimum wages in the collective agreements also played a significant part in the acceleration of the phased elimination of low-wage trades in Denmark. It was a deliberate tactic. And the development confirmed that supplementary training and education of the workforce and investments in production facilities could create very high employment regardless of the comparatively high minimum wages.

In other words: The relatively narrow wage differentials in Denmark are the result of collective bargaining supported and supplemented by a significant effort in the educational field resulting in a decreasing number of unskilled workers and a rise in the number of well-trained semi-skilled workers. The distribution of competencies is simply smaller in Denmark than in most other countries, cf. figure 2.

7. The agreements on terms of employment combined with the structure of the unemployment insurance system – the so-called flexicurity-model – have supported a development pointing in the

Figure 3. Tax structure of Denmark, Germany and France



Source: AE on the basis of Eurostat.

direction of more and better paid jobs on the Danish labour market:

It has been part of the unwritten social agreement that the trade union movement would not insist on long terms of notice for the workers. Therefore it has been much easier for employers to hire and fire in line with fluctuating market conditions compared to employers in Germany and France – or even in neighbouring Sweden. When employers know that it is possible to get rid of manpower when market conditions change, they will not hesitate to hire new people at an upswing. For instance, Denmark experienced faster and stronger progress than most European countries in private employment in almost 15 years from 1994.

However, another aspect of the social agreement is the unemployment insurance system, where the lowest paid workers from the first day of un-

employment and several years ahead are entitled to benefits equal to 90% of their present wage. There is a maximum amount – to the effect that coverage is significantly lower for the higher paid workers – for instance skilled metalworkers receive only around 60% of their wage in unemployment benefits.

The ideology behind the generous entitlement to benefits for low paid workers is the fact that no one should be forced to give up their home because of unemployment. In turn, in order to be entitled to unemployment benefits, it is a condition that the benefit claimant is fully available to the labour market.

However, it is crucial to such an efficient system that labour market policies and economic policies in general are arranged in such a way that everyone who is affected by unemployment quickly

moves on and receives supplementary skills, job training or a new job. This was not an option in the early 90s, when unemployment rate reached 12%. Thus, the main purpose of the intensification of the active labour market policy under the Social Democratic government in the 1990s was to make all unemployed people a good offer they could not turn down; to realise the availability requirement; to upgrade the qualifications of all unemployed in order to gear them for new job opportunities.

The benefit rate is the same as in unemployment insurance during illness - and at maternity leave, which at present is up to one year long.

The benefits during illness and maternity leave are obtained after a very short period of active employment, while entitlement to unemployment benefits requires 12 months' previous employment and 12 month of membership of an unemployment insurance fund.

If the requirements for unemployment insurance are not fulfilled, the applicant is only- and only perhaps - entitled to a lower amount of cash according to the provisions on social welfare. This allowance depends on the situation of the household; any spouse income and almost all net assets will reduce the cash benefit amount.

The Danish benefits system is funded as follows:

- The total benefit cost at illness and maternity leave as well as cash benefits and most of The cost of unemployment benefits is funded by means of ordinary tax (income tax, value added tax, etc.),

- the employees fund a small part of the benefit cost by means of membership fees,
- the employers do not contribute to the financing of the unemployment insurance system.

8. Furthermore, the Danish corporate tax is relatively low and the possibilities of depreciation deductions etc. are favourable. Recently the corporate tax rate has been reduced to 25%. Also from this point of view, it is attractive to run a business in Denmark. Moreover, there are practically no statutory employers' or company contributions to social insurance (nor to social pension or voluntary early retirement pension schemes).

A dominant part of the welfare state costs are funded by taxes, which are paid by the entire population according to income or consumption, and all groups are guaranteed almost all social rights. That is why both personal income tax and value added tax are high as is expenditure tax on cars, energy, beer, wine, alcohol, tobacco, etc.

There is a significant difference in total level of taxation between Denmark and Germany - due partly to the extensive public financing of care for children and elderly people in Denmark. Even more there is big difference between Denmark on one side and Germany and France on the other concerning the tax structure: In Denmark high personal income tax and small contributions from employers. In Germany and France large contributions to mandatory social purposes are paid by the employers in addition to wages. Thus there has been room for larger wage increases in Denmark. But the state has taken back a much larger share of the wages in the form of direct income tax. The

end result for the individual – the amount left for private purposes – is not particularly different in the three countries.

One of the fundamental differences is that the Danish system leaves the lowest paid workers with more money and the highest paid workers with a little less than in most other countries. However, the effective progression of Danish income taxation is counteracted by the highest paid part of the population getting the largest part of the tax-free capital gains on residential property and having the largest share in tax-privileged pension schemes. But even so disposable incomes are distributed more evenly in Denmark than in most other countries in the world:

The needs of the citizens are not only higher material standards in their daily life – such as better clothes and food, a decent place to live, modern appliances, IT, holidays and adventures. Citizens' demands are just as much directed towards resources and quality when it comes to their children's schools and education, childcare provisions, elderly and health care.

When schools, education, elderly and health care and the major part of childcare are funded by taxes instead of individual payment, distribution of disposable incomes will be more equal.

The most significant features of the Danish model are exactly this:

- Education is free. Even 85% of the expenses to private schools are funded by the public authorities – being an alternative choice to the public primary and lower secondary school. Vocational and academic education

is free. Add to this the fact that Denmark has the most generous grant scheme for students – e.g. with no obligation to pay back. And by statute and agreement there are plenty of options of free supplementary training.

- As regards local childcare – day nurseries, kindergartens and after-school care facilities – the parents share of the expenses is typically less than a third of the revenue expenditure; families with more than one child and low-paid workers even less. Three fourths of the total expenses are funded by taxes. Financially, this has facilitated women's entry into the labour market, which explains why 96% of children between 2 and 5 years are part of childcare arrangements.
- Elderly citizens with trouble handling their cooking and cleaning, etc., receive in-home assistance free of charge after an inspection by local authorities. Large grants reduce the rent on homes for the elderly who are not capable of taking care of themselves.
- It is free to see the doctor as well as being hospitalised.

Few European countries have a matching welfare model. And in comparison with the USA, the differences are dramatic – not least regarding inequalities in income distribution. The reason is obvious: While citizens in Denmark with a low income only pay for welfare relative to income and spending, the situation is totally different in the USA. Wealthy Americans pay very little tax – even less now than they did before George W. Bush became president. In return, families have to save a fortune in order to get their children into good

universities or pay for decent care of elderly family members. The family budget has to cover full price for nurseries, and private health insurances are necessary in order to receive proper medical treatment. User charges and private insurances, where premiums are paid according to the risk of becoming ill or unemployed, are naturally a much heavier burden on a tight family budget than on the large family budget.

Professors John L. Campbell and Ove K. Pedersen from Copenhagen Business School have analysed the differences between Denmark and the USA as follows:

Real income per inhabitant, productivity, unemployment and inflation rate have roughly been at the same level since the second half of the 1990s. Denmark has had a large budget surplus and is bringing down debt, while the USA has developed a new large budget deficit and large indebtedness since the presidential change in 2001.

The UN's Human Development Index 2002 ranks Denmark and the USA on line - in the top group of the world. But the inequalities in the distribution of income are much larger in the USA than in Denmark:

The Gini coefficient, which shows how large a part of the total income must be redistributed in order to obtain an even distribution of income, was 25% in Denmark and 40% in the USA in the middle of the 1990s.

The share of the population with an income less than half of the median income is 9% in Denmark, whereas it is 21% in the USA. (the median income is the income where half of the population is above and the other half is under).

In the mid-nineties the share of the population between 16 and 65 years being functionally illiterate was 10% in Denmark and 21% in the USA.

Taxes and social expenses constitute twice as big a share of the gross national product in Denmark as in the USA.

9. Through the past 40 years, most women have wanted to enter the labour market. And it is a fact that women participate in the labour market to almost as wide an extent as men. However, women still work part-time to a somewhat greater extent than men; women are still carrying out more at-home duties as regards children; they do not make a career to the same extent as men.

But the high female participation is both the reason and the effect of the gigantic expansion of the role of the welfare society in childcare, elderly care and health care. And while women used to be responsible for this care within the family boundaries, it is now mainly women who perform the task outside the family in day nurseries, hospitals, nursing homes, etc.

The interaction between the trade unions and the political system

As previously mentioned, the characteristic social structures created in Denmark made in the 20th century are to a high degree the result of the strong organisation, mutual relations and great political influence of the trade union movement and the Social Democrats.

There has been an efficient, but also highly pragmatic distribution of work between the trade union and the political labour movement.

The trade union movement was acknowledged as a negotiating party to the employers more than 100 years ago, and upon recommendation from the two sides of industry, a no-strike agreement was agreed upon when collective agreements applied. That is why Denmark has rarely experienced “wild” strikes in periods covered by collective agreement. But also most renewals of collective agreements have been settled without conflict.

The trade union movement made real progress in securing better pay and improved working conditions in negotiations with the employers. But where collective agreement was unable to provide adequate possibilities, the political friends of the trade union movement took over. For instance, at an early stage legislation was passed in order to ensure a better working environment. The trade unions’ own unemployment and health insurance system was replaced by legislation on systems ensuring risk sharing across job demarcations, so that there is no higher insurance premium for people being employed in the most risky trades.

In a number of situations legislation was made in a way that expanded improvements, which were initially agreed upon in collective agreements in order to benefit all employees regardless of whether their being members of strong or weak unions or not unionised at all.

However, a distinctive feature of the Danish labour market has been the absence of important competing unions inside the same trades, and the extremely high density of union membership - only marginally outscored by Sweden.

The long existing linkage between trade union membership and unemployment insurance has very much been a contributing factor to the high density of union membership. Still, most of the unemployment insurance is politically and administratively connected with the trade unions, and still most wage earners consider trade union and insurance two sides of the same coin. But since the centre-right government came to power in 2001 it has deliberately weakened cohesion between trade unions and unemployment insurance via legislation and thus contributed to a decrease in trade union membership and in the share of the labour force covered by the unemployment insurance.

The blue collar worker groups are in general all unionised in LO – the Danish Confederation of Trade Unions, which is the trade union movement that historically has been linked to the Social Democrats. Over the past 50 years two other strong confederations have gained strength – FTF (the Joint Council for Salaried Employees and Public Servants), which gathers large groups of employees from the public service sector such as teachers, nurses, kindergarten employees and social educators as well as employees from the financial community, and AC (the Danish Confederation of Professional Associations), which gathers academics from the public and the private sectors. As a main rule a clear demarcation of the member groups exist between unions and confederations. The confederations cooperate in negotiations with employers. They participate in a large number of public boards, councils and commissions with employer organisations, business organisations and public authorities and thus have influence on proposals for new employment legislation, etc.

It should be noted that on several occasions –not least from the 1960s to the 1980s –the trade union movement agreed on a number of so-called ‘income policy’ packages. Simply stated the unions accepted to receive a lower pay increase than the market conditions could provide in return for legislation on social improvements and employment stimulating economic policies. Naturally, such agreements were based on the trade unions having the strength and capacity to provide the agreed slowing-down in the salary increases and governments ability to fulfil their promises of the economic policy.

From the end of the 1980s a new facet was added to the Danish Model. Until that point the large majority of blue collar workers were prepared for retirement mainly based on the relatively low tax-paid social pension scheme, which gives every citizen the same basic amount of money.

On the other hand the large and growing groups of public servants and salaried employees had collectively agreed and financed supplementary pension schemes to which employers and employees together contributed 10-15% of the payroll. It dawned upon LO that this situation was unsustainable in the long run. A working class family in which both spouses had been on the labour market did not have the possibilities of maintaining their living standard at retirement unless a supplementary pension scheme was established through collective agreements. During the past 15-20 years, LO-leaders succeeded in convincing their members to demand a better pension scheme in preference to customary pay increases. Now it is normal that 10% of a typical worker’s salary is put aside for supplementary occupational retirement pension.

The formation of the occupational pension scheme for blue collar workers has had a significant positive impact on the national economy. Savings have accumulated, and – along with very significant increase earnings from oil and gas extraction activities in the North Sea – this contributed to a reversal from a chronic deficit on the balance of payments up to the 1980s to a very significant surplus from the 1990s onwards.

At the same time the low increase of the paid out wages and salaries has contributed to relieving the government finances, because the statutory mechanism for regulating transfer incomes parallel the development in the paid out wages for the employed excludes compensation for the part of the wages that is set aside for the labour marked pension scheme. And in fact the regulation of the transfer income as social pension, unemployment and illness benefits etc. is slightly slower than the development in paid out wages

In the long run, relief of government finances by means of the booming pension savings is even bigger, as a significant part of the social pension scheme is only paid out to citizens with a very small supplementary pension. And in the future, the number of such citizens will decrease.

A growing share of the overall pensions is now based on saving, and Denmark is not remotely experiencing the financing problems with the pension system, which a large number of other western countries will in a few years.

However, we all have the same challenge, more or less:

Over the past decades, fortunately, the average life expectancy has risen significantly. And there

is reason to believe that this development will continue, supported by the fact that most elderly are now healthier and more fit for work at an advanced age than in the past. At the same time we have developed our retirement schemes in such a way that more people are entitled to and have the financial possibility of earlier retirement.

Somewhat simplified the Danish picture is this: In 1970 the Danes typically retired at age 67 and lived to be 73. In 2006 the Danes typically retire at age 62 and live to be 78.

The lowering of the retirement age has strong connection with the formation of the so-called early retirement benefit scheme in 1978. Simply stated, it was made possible for persons that had had a lifelong membership of the unemployment insurance system to stop being available to the labour market from age 60 and still receive an allowance corresponding to unemployment benefits until they retired on social pension at age 67. The added expense was completely funded by regular taxes because the establishment of this extra right was not accompanied by an increase in membership fee.

In the original draft legislation on early retirement benefits that 35,000 people would gradually make use of the retirement offer, especially persons having carried out hard physical labour for 40-45 years. However, it turned out quite differently. In the late 1990s 180.000 persons took advantage of the early retirement benefit scheme, and even though the group of unskilled workers is larger than other groups, large groups with good pension schemes were using the early retirement benefit scheme as supplementary means of paying for early retirement. In 1998, this caused a majority

of the Danish Parliament to adopt an adjustment of the scheme in order to limit the government expenses and the shrinkage in the workforce. Other things being constant, the workforce will decrease in the coming years as the baby boomers of the 1940s retire and the children of the small families of the 1980s enter the labour market.

The 1998 revision had four main points: A separate fee was imposed on those who wanted to subscribe to the early retirement benefit scheme – but only a fraction of the real expenses of the scheme. If a person chooses to accept early retirement benefits before turning 62, the allowance will be reduced relative to other pension rights. If a person refrains completely from using the scheme, a substantial bonus is awarded at the age of 65.

The retirement age in social pension scheme was lowered from 67 years to 65 years. This means that now there are 3 years instead of 7 years with early retirement benefits without deduction for other pension rights. The change must be seen in context with the early retirement benefits rate being higher than the old-age social pension rate and the fact that the vast majority retired before the official retirement age in the social pension system.

Every change in the access to retirement is naturally highly politically sensitive. Furious reactions from amongst many others the trade unions contributed to the weakening of voter-support for the Social Democratic government. Maybe the voter-reactions were due to surprise and anger caused in particular by a number of earlier statements from the prime minister denying any plans of changes in the early retirement scheme.

In spite of the reactions to the 1998-reform further changes in the retirement schemes were actually decided upon already in 2006 in an agreement between the centre-right government and the social democratic opposition. Most importantly the age at which one is allowed to join the early retirement scheme as well as the social pension will increase parallel to the increase in average living age of the Danes – but not before 2019.

After the oil crisis: Unemployment and devaluation strategies

A short backward glance at the economic policy of the past decades might show which experiences were gained and which errors were – or were not – corrected regarding the Danish Model under the fluctuating economic and political conditions.

After years of steady growth, in 1973 like the rest of the world Denmark was affected by an increasing unemployment as a consequence of the first oil crisis. During the first years there was a great deal of uncertainty on how to react, and we experienced the unpleasant combination of inflation and stagnation – with a very high interest rate which only worsened the situation by killing off investments.

In Denmark these problems grew bigger due to the fact that the collective agreements had an automatic “cost-of-living adjustment”, which meant that large wage increases followed in the aftermath of increasing oil prices. In order to stem the ensuing aggravation of the competitive power, the Danish government devaluated the currency relative to our most important trading partners in the 1970s and in the early 1980s.

In any case, the devaluations momentarily reinstated the competitive power to the Danish econ-

omy. In 1979, the largest pre-emptive devaluation combined with a freezing part of the agreed cost-of-living adjustment was implemented.

The problems associated with this policy were that the international markets would expect Denmark to repeat the devaluations at short intervals. This made interest rates rise dramatically. And the employment rate declined even further when the second oil crisis erupted in 1980.

These problems wore out the Social Democratic minority government at the time. It was not able to get support to pursue an adequately coherent employment-stimulating policy and the government finances accumulated an immensely large deficit.

1982-1993: From active reform course to another high unemployment rate

This was the situation when a centre-right minority government came into power in the autumn of 1982 under the leadership of the Conservative Poul Schlüter. Schlüter succeeded in remaining in charge for more than 10 years under changing centre-right coalitions.

Initially, the centre-right government was very proactive and managed to lay down lines which have lasted under changing governments ever since and furthermore have contributed to stability and competitive power in the Danish economy. The necessary switch from devaluation to fixed rate policy was implemented in a credible manner and with full support from the Social Democratic opposition. Ever since then the Danish currency has been glued in a fixed exchange rate to initially the German mark and later the Euro.

The adoption of the fixed rate policy was accompanied by equally necessary final liquidation of the automatic cost-of-living adjustment of the wages.

When the fixed rate policy had gained credibility and wage inflation was under control, an improved investment climate arose, due to a significant drop in the level of interest. This and a tentative international recovery rectified the employment rate nicely from 1983-87.

The government also managed to stabilise its finances by means of transitionally fixing the unemployment and sickness benefits and other transfer incomes in nominal terms – thus cancelling the automatic compensation for inflation.

Finally, the government managed to collect large amounts of money from reducing subsidies to local governments, who then had to raise taxes.

But the most significant and permanent contribution to the stabilising of government finances was the implementation of taxation of the current interest income and capital gains from pension funds and insurance companies which up to then had added a very high interest rate to the citizens' pension receivables. The Social Democratic government had unsuccessfully tried to find support from the centre-right to implement this taxation of the increase in value. Now it was proposed by a centre-right government and implemented with the support of the Social Democratic opposition!

The centre-right government in the 1980s never managed at the same time to get under control the three deficits, which had become chronic in the Danish economy since 1973: The job deficit,

the budget deficit and the balance-of-payments deficit.

Up to 1987 the reduction of the two first deficits was successful. A lot of new jobs were created and automatically contributed to stabilising the government budget. However, concurrently a substantial growth in consumer spending obstructed an early-stage export growth. As a consequence, the balance of payments was dangerously weakened.

Consequently, as of the summer of 1985, an agreement between the centre-right government and the Social Democrats and Social Liberals on a reform of the income tax rules took shape. First and foremost, this reform meant a very significant reduction in the deductible value of interest expenses of residential property, which benefited the well-paid part of the population.

Up to then, people with high incomes had saved 73% of interest expenses over taxes, and inflation paid more than the rest. In other words, the part of the population which were most able to accumulate savings were rewarded for having incurred debt. This was instrumental in increasing property prices during the boom of the 1960s and the 1970s and once again during the economic upturn after 1983.

The consequence was a growth in redistribution that benefited house owners who had been on the market for a long time and especially those with the most expensive houses. It facilitated taking up new loans on increasing property values. This was a recipe for an explosion in private consumption and a strain on the already chronic deficit on the balance of payments.

However, politically it was easy to appeal to the house owners' fear of tax interventions and that is why an intervention was not put in force before 1987. And then it had huge impact, mostly because the government – while it was panic-stricken over the balance of payments – did not await the intervention's effect on behaviour of the citizens. A supplementary intervention against consumer borrowing in the form of austerity measures (the so-called "kartoffelkur") was introduced at the same time as the tax reform was introduced.

The result was a complete standstill in the real estate market during the years up to 1990 including a huge decrease in prices, many compulsory sales and a drastic slowdown in private consumption. The balance of payments was stabilised. But the slowdown contributed strongly to yet another increase in unemployment and - in connection with that – a dramatically weakening of the government finances.

In 1987, Denmark's international competitive power came under pressure again because of the accelerating wage increase. Nobody wanted to ruin the credibility in the fixed rate policy by adjusting the competitive power by returning to the policy before 1983. The solution was that the centre-right government in cooperation with the trade union movement and the Social Democrats implemented an abolition of basically all specific employer's contributions to social schemes and financed the reduction by a 2½% value added tax increase. (A very similar proposal was implemented in Germany by the CDU/SPD-coalition government after the 2005 elections).

The improvement of the competitive power as a consequence of this readjustment lasted in the

years that followed. This owed only partly to the fact that the unemployment rate started to increase and that the market driven pressure on pay rates therefore decreased. In the long run it was of great importance that the trade union movement and the employers in cooperation with the centre-right government and the Social Democrats drafted a "social agreement" in order to avoid pay increases of such an extent that the Danish competitive power would once again be weakened.

As mentioned earlier, at this time the trade union movement was in the process of building occupational pensions in order to ensure that a significant part of the moderate wage increases went to savings and not consumer spending.

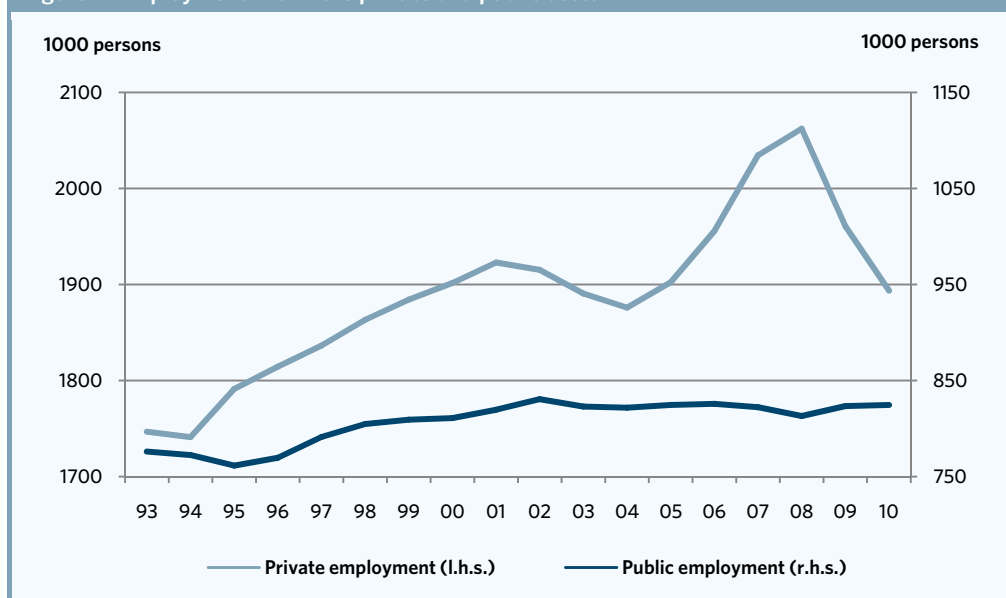
In the last years of the centre-right government's term in office in the beginning of the 1990s, it stayed completely passive in relation to the soaring unemployment rate and making frequent statements that an external upturn was on its way; thus the Social Democrats and the trade union movement was of the opinion that the government failed to keep the renewed social agreement by failing to stimulate employment. The increase in unemployment became a vicious, self-perpetuating process and reached an all time high at 350,000 persons without work before the curve reversed in the summer of 1994.

The renewal of the Danish Model 1993-2001

The new Social Democratic government came into power in January 1993 and had as its crucial success criterion to reverse this development quickly by national Danish political action.

Our approach was as follows:

Figure 4. Employment within the private and public sector



Note: 2009 and 2010 is a prognosis.

Source: AE on the basis of Statistics Denmark.

The employment situation in 1993 dramatically emphasised that it was both necessary and possible to intensively boost employment in order to stimulate production and create more values and more equality – acknowledging that a high unemployment rate is the worst source of polarisation in society.

But we realised that it was just as necessary – and indeed much more difficult from a political point of view – to ensure that the economic stimulus would only be temporary. The economic policy would have to be tightened further when private demand started to increase.

In other words, we wanted to prove that precise cyclical management was possible. The centre-right government's argument for doing nothing to relieve unemployment was that it was impossi-

ble to control cyclical fluctuations and that they would adjust automatically with time!

We – the Social Democrats – think on the contrary that this blind faith in the market forces give rise to an unreasonable large loss, for the individual citizen as well as for society as a whole. Unfortunately unemployment goes up very quickly in time of crisis, but it takes much more and much longer to reverse the situation. Therefore it is so important that governments intervene strongly to fight increasing unemployment. It is in the longer perspective much less costly than to wait and see.

It seems that the dispute about how to react to the global financial crisis is repeating itself in 2009. In our opinion it is possible to a large extend to control cyclical movements but the timing must be extremely precise – and the political system

must be capable of reacting swiftly enough to changing cyclical fluctuations. The main reasons why others attempting to lead a conjectural policy have failed have always been rooted in incomplete analyses of the problems and bad timing – or inadequate political action.

We believe – and with pride – that we made the correct analyses, had the timing right all the way from 1993 to 2001 and were lucky to have the courage as well as the political opportunities to translate our intentions into practical political action.

But our aim was not merely managing cyclical fluctuations. Just as important was the combining of macroeconomic policy with fundamental structural reforms of the labour market and the tax system so that a steady increase in the employment rate would not be curbed by bottleneck problems and a new inflationary pressure.

The policy implemented in 1993-2001 can be summed up as follows:

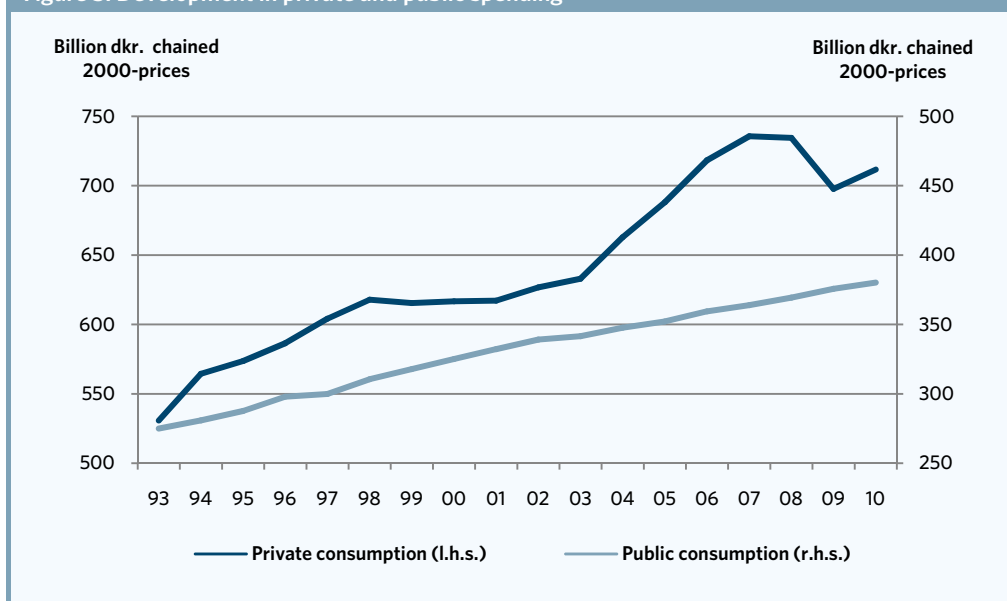
- 1.** A labour market reform which was to restore rights and obligations for the unemployed. Large-scale investments in education and job training, but also stricter rules were introduced – laying down that the unemployed should be fully available for the labour market. The amount of time in which you were entitled to unemployment benefits was shortened, but the size of the unemployment benefits was not reduced apart from one group: Young people under 25 years without an education or training who were and who had been long-term unemployed were forced onto lower benefits. However, the lower benefits were combined with a proper provision of training serv-

es. In the beginning financially favourable terms for leave for training and education and childcare were provided but in step with the development in employment these terms were tightened by targeting leave for training and education.. We also made a temporary expansion of the possibilities of withdrawal from the labour market for long-term unemployed persons in their 50's but then eliminated that possibility again when employment opportunities improved significantly a few years later. In the autumn of 1998 we negotiated – as already mentioned – changes to the early retirement benefit scheme for people over the age of 60, in order to encourage later withdrawal from the labour market. It was a natural continuation of other attempts to expand the workforce in line with the increasing employment opportunities. This process provoked – contrary to previous reforms – fierce criticism of the government and crippled it considerably in its further reform work.

- 2.** A credit reform aimed at the residential property market which made it possible for home-owners to convert old burdensome high-interest loans into lower interest one with a longer loan period. This was decisive in order to hold up compulsory sales and stimulate the real estate market. For a short period this effort was further strengthened by means of a subsidy scheme for repair and maintenance of private homes.

- 3.** A tax reform which started out with a net effect that was supposed to stimulate the economy but which in the course of a few years merely became a structural change with a reduction of the income tax rates, a limitation of deductible allowances and the introduction of extra “green” taxes on energy and water consumption which apart

Figure 5. Development in private and public spending



Note: 2009 and 2010 is a prognosis.

Source: AE on the basis of Statistics Denmark.

from the fiscal contribution were also meant to – and did – dampen consumption of scarce resources. The total tax collection was not meant to decline except for a short period of initial stimulus. But the collection of taxes following the reforms was carried out in a way that encouraged an increased work performance and savings more and discouraged too much environmentally unsustainable consumption. When Denmark faced great export prospects in 1998, which were, however, threatened by heavily debt-funded growth in consumer spending, yet another number of changes in tax legislation were introduced in the form of new austerity measures – the so-called “Pinsepakke” (meaning “whitson-package” as it was introduced around Whitson). The content was a moderate increase in the taxation of property values and a further limitation of the value of interest payment deductibles. The purpose –

and the effect – of the package was to weaken the dramatic growth rate in property prices and thereby limiting the debt-funded consumption as well. The restraints did not give rise to a permanent tax increase but formed the basis for an income tax relief for people on low incomes. In 1993 the total tax burden was 48% of the gross national product and in 2001 – even before the last stage of “Pinsepakken’s” tax reliefs had taken effect it was 48.6%.

4. An active industrial, environmental and energy policy which developed – with help from the new indirect taxes and direct subsidies – renewable energy and in general a more sustainable production structure. An experiment was also initiated, where subsidies to cleaning services in private homes were provided.

5. Public infrastructure investments were moved forward in order to contribute to improve competitive power (traffic, IT, etc.).

The large combined bridge and tunnels between the Danish main islands and between Denmark and Sweden were completed during this period, and an entire new metro was built in Copenhagen.

6. Acceptance of a somewhat higher rate of increase in the public service expenses – not least within training, education and research, childcare, the health care sector and elderly care. Within training, education and research the investment was absolutely necessary in order to ensure future competitive power. And the establishment of 200,000 extra places in kindergartens and nurseries within local authority childcare was e.g. a necessary response to the fact that even more parents with young children were working outside the home.

The figures show that the political goals have been reached and even surpassed. We inherited an unemployment rate of 12% and reduced it to 5%. When the government had to step down after nine years, the unemployment figures had dropped from a peak number of 358,000 to 142,000 and jobs for 200,000 Danes had been created. Two thirds of these new jobs were in private companies.

The employment boost was much greater than in most other European countries. But the figures also comprise a dramatic renewal process as every year in the second half of the 1990's, 200,000 old jobs disappeared and 230,000 new jobs were created – and this is an employment market with

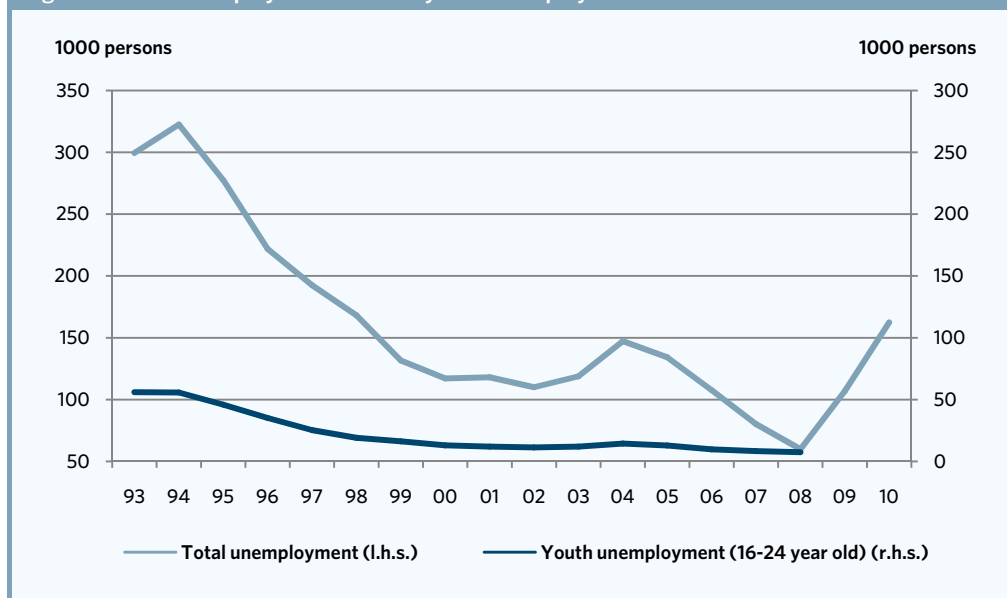
a work force of only around 2,6 million employees! And many of the new jobs had better prospects, improved technology and a higher level of knowledge than the disappearing jobs. The numbers give hope that European countries with the ability and will to implement structural changes on the employment market may come out as net winners as regards full employment in spite of the fact that the global division of labour is changing dramatically and traditional jobs in our part of the world are being moved to China, South-East Asia, India, etc.

I would like to make a very important observation here: When I was appointed Minister of Finance in January 1993, the best minds of the Ministry were of the opinion that the Danish “structural unemployment” was 9%. This meant that we could not get below this level without causing the economy to break down due to the lack of qualified labour. With a strong focus on skill development and supplementary training – perhaps the single most important element of the new policy – we actually succeeded in bringing down the structural unemployment at the same rate as the unemployment figures in the years up to 2001.

Improved employment figures improve equality and harmony in a society. And thus the Social Democratic government continued its improvement of the collective, tax-financed goods, and attempted to protect the tax system against tax evasion through loopholes and fraud. But the new boom in property prices and the major rise in share prices as an isolated factor pointed towards larger inequality.

In the summer of 1998, Denmark found itself in an unusual situation where the members of LO re-

Figure 6. Total unemployment rate and youth unemployment rate



Note: 2009 and 2010 is a prognosis.

Source: AE on the basis of Statistics Denmark.

jected a proposal for new collective agreements, which the union officials had negotiated and recommended. Therefore the government was forced to give legal force to the rejected proposal for collective agreements with a few changes included. The public understanding of the economic policy and the social agreement, which LO had been party to since 1987, was decreasing.

The fierce and non-objective criticism by the opposition of "Pinsepakken" in 1998 – appealing especially to the self-interests of the home-owners – contributed to weakening the support for the government. And the settlement on the early retirement benefit scheme that same autumn only made matters worse.

The criticism of the so- called liberal immigration laws – particularly organised family reunification

from a number of Muslim countries (Turkey, Pakistan, Arab states) – and the concern over the poor integration of the immigrants from these countries became a decisive point of attack against the government.

Thus the scene was set for the election defeat of the government, which had brought about the longest uninterrupted period of economic growth in Denmark since World War II.

Many people on transfer income – but only a small national labour reserve

The decline in the unemployment figures was followed by a slightly smaller decline in the number of citizens receiving transfer income from the public authorities.

The very large number of citizens receiving trans-

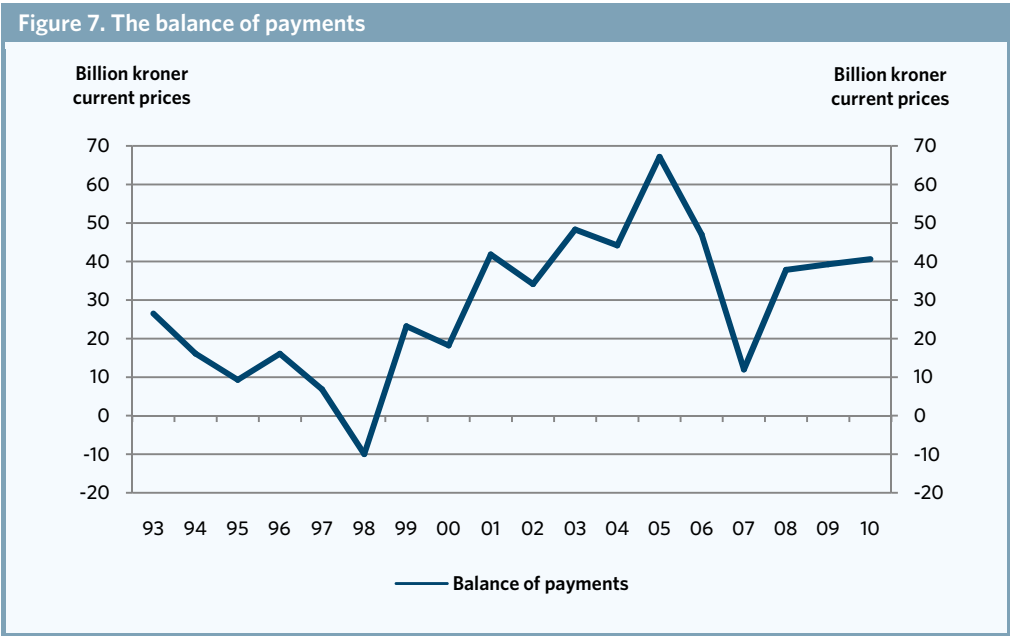
fer incomes often gives rise to misinterpretations of the Danish reality in the Danish debate and in the eyes of other countries. The fact is that in all societies a large part of the population will be temporarily or permanently incapable of contributing to the labour market. The share of such citizens is no larger in Denmark than in other wealthy countries, but the Danish social system has changed during the last 40 years meaning that these people will be supported by the public authorities instead of by their family.

On average 8 out of 10 Danes between the age of 18 to 62 are either working or studying. That is practically a world record. Therefore we do not have several hundred thousand citizens who may once again become part of the employment market by means of a new and different policy. Some people will always be on leave due to maternity or illness and in these cases favourable rules will ap-

ply. Some people will be temporarily between jobs without posing a real social problem. But they will be part of the statistics because we have decided that unemployment benefits shall be payable from day one of unemployment. Many people are granted social retirement benefit due to physical or mental disorders. And of course many people have chosen early retirement as the early retirement benefit scheme has been so attractive.

A long-term change with follow-up action on long-term illness, better rehabilitation, a more successful senior employees' policy and the decided long-term increase in retirement age will some day contribute to a better and longer working life for more people.

It is a special challenge to improve integration of immigrants. From 1993 to 2008, the share of immigrants and their descendants from non-West-



Source: AE on the basis of Statistics Denmark.

ern countries rose from 2,8 to 6,4 per cent of the population, especially due to the inflow of refugees, family reunifications and a high birth rate within immigrant families. Where the employment rate for the Danish population is 79%, it is 59 % for immigrants from non-western countries and 68 % for their descendants.

With increasing employment a growing proportion of the shrinking number of unemployed are of other origin than Danish. Many within this group lack sufficient language skills and other qualifications. But many who actually master the language and have the correct qualifications often encounter unfair mistrust. The climate on the labour market is not totally unaffected by the often tough political discussion on problems related to small groups of immigrants.

But the fundamental fact is that the active labour market policy gradually has been crucial in gradually reducing the structural unemployment from 9 pct. in the early 1990es to 3-4 pct. in 2009- and with room for even further improvement down to 2 pct.

In 2006 – at a point where registered unemployment was a little less than 5 pct. – I predicted, that 80.000 of the recipients of transfer income might get into employment within at shorter period of time by means of a combination of especially favourable market conditions, an extensive effort within active labour market initiatives such as supplementary training, and creation of more protected jobs for people with reduced working capabilities.

Interestingly, we had a decrease in unemployment of precisely that magnitude from spring 2006 to

late 2008, when the financial crises broke through. It was the end of an extremely high growth period – internationally as well as domestically. The high growth was made possible only by mobilising the last reserves on the national labour market and inviting tens of thousands of workers from abroad to primarily the construction sector from neighbouring Poland and the Baltic countries.

We now realize that this extreme boom – driven by private consumption and investment – was based on excessive borrowing on unsustainable high values of shares and fixed property, and it was not accompanied by sufficient investment in the labour force. But we got an impression of how far we can bring down unemployment in times of very high growth with a revival of an active labour market policy.

‘Freedom of choice’ and ‘Tax-freeze’ - The Danish Model under pressure?

At the general election in 2001 a centre-right minority government under the leadership of the Liberal leader Anders Fogh Rasmussen came to power, and the elections in 2005 and 2007 did not change much in the balance of power between the government and the opposition.

The government consists of Liberals and Conservatives, but in all major issues it depends on a majority through the support of the populist Danish People’s Party. This party is based on xenophobic hostility against immigration. It appeals to right-wing nationalism and opposition against the EU. When it comes to economic policies the party represents a loyal support to the centre-right government though with some further demands – not least as regards senior citizens.

The centre-right government and its supporters have created an image of themselves as those being able to slow down Muslim immigration, make cuts in welfare benefits for immigrants and pursuing a tight policy on law and order, but generally preserving the welfare model for the Danes – while freezing and even reducing taxes.

The government has benefited fully from the fundamental improvements of the economic structure and especially on the labour market that was initiated in the 1990s.

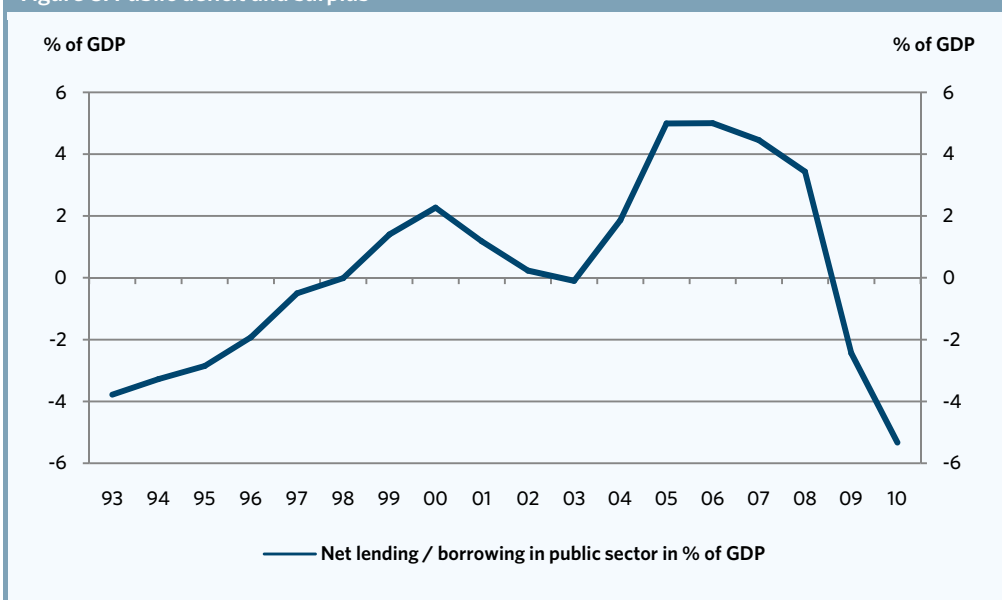
Unemployment increased somewhat in the government's first three years – from 5 to 6½ pct. But then it declined steep to 2 pct., followed by a steady increase since autumn 2008. By the end of 2009 the unemployment rate was 4½ pct.

Up until 2008 the government budget showed an overwhelming surplus as a combined result of a number of extraordinary events: A huge debt-funded private spending spree, good company earnings, a fall in interest rates, capital gains tax on pension schemes and large tax revenues from oil and gas extraction in the North Sea as a consequence of the extraordinarily high energy prices. The latter also contributed decisively to big surpluses on the balance of payments.

In 2009 a large budget deficit has re-emerged, illustrating that the super-boom was very shaky and unsustainable.

The public service expenses – which are mostly paid on municipal or regional level – have been kept by the government within strict growth limits – even in the boom years.

Figure 8. Public deficit and surplus



Note: Net lending / net borrowing reflects the government finance SURPLUS.

Source: AE on the basis of Statistics Denmark.

Under the slogan 'Freedom of choice' the government has managed to cultivate private competition to the public services. This is most expanding in hospitals, because private competitors are been given very high payment for operations. In that way the government encourages the population to transfer tax money from the public system and into private hospitals.

This implies a considerable risk that the middle class in increasing numbers will be turning their backs on the financially strapped public services - taking with them their money and support. The door has opened to a huge increase in private insurances and could dampen the willingness of this group to pay for maintaining good public services for everyone - including the financially and socially weak groups - via their taxes.

In the upcoming crisis it is more obvious that the government has invested all too little in education, research and development in order to maintain Denmark's leading position in the global economy. With increasing unemployment there is a strong need to reverse the cuts from recent years in active labour market policy: The need is urgent for a much stronger educational component for the unskilled workers that are now being thrown into unemployment and the traditional jobs probably will not return to Denmark in the future.

The crisis also puts focus on the fact that many people are in a weaker position, because they were somehow lured into opting out of the unemployment insurance and stopped being organized in the trade unions.

The government's preference for the private sector - and its 'freedom of choice' and tax policy in

accordance with this preference - explains the limitation of resources for important public services.

'The tax freeze' has been the major sales promotion idea from the centre-right government. Primarily it is a promise not to raise income tax rates and to freeze tax on property value of private homes which hitherto followed the development in sales prices. This tax freeze has been supplemented with two minor reductions in income tax rates on middle and higher incomes in the election years 2005 and 2007.

In March 2009 - when the financial crisis struck - the government majority decided a major reform of the tax system, which in the years up to next elections is heavily under-financed and is giving very big tax reductions to the upper ten percent. The theoretical basis for this tax reform is that lower marginal taxes for the high-earning part of the electorate will increase labour supply and avoid a potential brain-drain from Denmark of people with higher education. The empirical evidence for this theory is limited in Denmark. Danes work hard already and most of the Danes that go abroad for education and job return home after some years.

While they decided to send out billions in under-financing the tax reform government parties rejected the alternative proposal from the opposition to introduce a big stimulus package of public investment in infrastructure, hospitals, schools, energy conservation and development sustainable energy supplies. The opposition proposal would create many more jobs for the same amount of money now spent in under-financing the tax reform. In a situation of deep crisis there is strong

reluctance in private households to spend money from tax reductions, because many have lost their job, many more are afraid of losing theirs, and the majority has taken heavy losses in value of pensions and homes.

Naturally, the tax freeze and tax reductions are attractive in itself. But in 2005-2008 the government's tax policy in combination with rising share prices, extremely low interest rate, new possibilities of instalment-free loans in private homes have triggered the explosive rise in property values and a corresponding explosion in private consumption on borrowed money. These were the driving forces in the boom-bobble that burst in the autumn of 2008 in America and much of the rest of the world, including Denmark. In the boom tax reductions contributed to the instability. In the crisis they don't work effectively against rising unemployment!

Denmark is still one of the countries with least inequality. But the overall result of 7-8 years of centre-right government is that inequalities have increased: Between the very few with even more exceptional income and wealth and the increasing number of poor; between house-owners and tenants; between the well-established and the younger, newly established on the housing market; between the big cities and the outer regions; between employed and people on transfer income; between well established Danes and incoming new immigrants.

So there are serious threats against the Danish Model. But the major challenges are not the pressure from globalisation, but a potentially declining support for the model among the electorate as a consequence of the centre-right policy.

Basic characteristics of The Danish Model

1. Fairly even distribution of qualifications, a high labour market participation by both men and women
2. Extensive redistribution through progressive taxation system, paying for public services within education, childcare, elderly care and health care.
3. Uniquely small disparity in living standards compared with other countries
4. The heavy taxation – especially on private income and consumption – does not harm employment however, on the contrary stimulates competitive power through investment in education, research and development, good infrastructure, etc. Low corporate taxes and only small mandatory social contribution from the employers.
5. A public sector which in international comparison is highly effective and citizen-friendly. Corruption is practically non-existent.

**About the author:**

For three decades Mogens Lykketoft (born 1946) has been in the vanguard of Danish politics. He has been a member of the Danish parliament, Folketinget, since 1981, and is at present First Vice-President of the Parliament and vice-chairman of the Foreign Policy Committee. In the 1960s served as leader in the organisation Social Democratic Students. He graduated in economics at University of Copenhagen. In the 1970s he was head of the Economic Council of the Labour Movement, an economic think tank established by LO (The Danish Confederation of Trade Unions) and The Social Democrats. 1981-82 he served as Minister for Taxation. 1982-93 the party was in opposition, and Mogens Lykketoft served as chairman of several parliamentary committees and was the key negotiator in negotiations with the centre-right government on economic policy. 1993-2001 he was Minister for Finance, the longest serving in a century, and the chief architect of economic reform. 2000-01 Mr. Lykketoft was Minister for Foreign Affairs, and 2002-05 he was chairman of The Social Democrats.