

Between economic constraints and popular entrenchment –
the development of the Danish welfare 1982 to 2005

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1. Introduction

The year of 1982 was in many ways a path-breaking year for the Danish welfare state. The problems of the Danish economy, which had been mounting since the first oil crisis, had turned into a severe economic crisis with high unemployment, high inflation, government budget deficit and a huge current account deficit. Denmark was at the brink of the economic abyss (Nannestad and Green-Pedersen forthcoming). In September, a centre-right wing government replaced the social democratic government and came into office with a strong determination to get the Danish economy back on track and implement the measures necessary, including cutbacks in the welfare state.

The year of 1982 is therefore a natural starting point for assessing the development of the Danish welfare state. As is the case for most welfare states, the Danish one forfeits simple conclusion in terms of its development. A number of reforms and retrenchment have taken place since 1982, but their significance depends very much on the analytical perspective from which they are evaluated. Still, it is hard to argue that the Danish welfare state in general has experienced a major roll-back since 1982, as the welfare state also has been further expanded during the last 20 years. The Danish case is very much in line with Paul Pierson's (1994 and 1996) view of welfare state retrenchment as the politics of blame avoidance. As we will show below, the Danish welfare state enjoys strong support from the electorate - it is highly politically entrenched - and suggestions of retrenchments with no further justifications than an ideological protest against the universal welfare state and its high tax-levels are among the least politically viable policy initiatives in Denmark.

However, the economic problems that existed in 1982 and continued a long way into the 1990s provided, as we will show in the following, opportunities to justifying reforms and retrenchment. Controlling public expenditures have moreover been an important pre-occupation of Danish governments, which also affected welfare state schemes -- especially when it provided possibilities of retrenchment "by stealth". This has been the case with for instance welfare-state services due to their decentralized governance structure.

Further, focusing only on the changes made directly to public welfare state schemes can conceal important developments, which in the longer run may have important consequences for public schemes. This is a central point made in power-resources theory (Korpi and Palme 2003) with its focus on the ability of public schemes to crowd out private alternatives, and a point Hacker (2002) recently has shown to be crucial in understanding the development of the American welfare state. In connection with the Danish case, it is especially central in relation to the pension scheme. Thus, the picture of welfare state continuity is only part of a story that also includes genuine institutional changes with long-time consequences.

In the following, we develop these points by first taking a brief look at the Danish welfare state in 1982 and the development of dilemma between economic constraints and popular entrenchment in the period. We then present an aggregate picture of the developments since 1982 before going into depth with the most notable policy-changes during the entire period namely the changes executed in the pension system and in labour market policy – broadly understood. We close the chapter by offering a general explanation for the strong, although varying, reform-capacity of the Danish welfare state since 1982, and with some reflections over the present political and institutional dynamics in the Danish welfare state and its likely future.

2. Denmark 1982: A Universal Welfare State with Deviations

In 1982, the Danish welfare consisted of a range of universal, tax-financed cash benefits such as the public pension scheme, unemployment benefits, early retirement benefits, and sickness insurance and highly developed, public, tax financed and universal welfare services within health-care, child care, and elderly care. Especially child care and elderly care have facilitated high levels of female labour market participation in Denmark – one of the hallmarks of the universal welfare states in Scandinavia. But there were also deviations from the idea of a universal welfare state (cf. Esping-Andersen, 1990).

One deviation was the existence of means-testing in the public pension scheme system and means-testing of the child-allowance, but more important was the fact that some cash benefit schemes, especially the public pension system, were not generous enough to crowd out private alternatives. The fact that Denmark had not introduced a second-tier pension system like the Swedish ATP is a main reason for Korpi and Palmes (1998) classification

of Denmark as a basic security system like the UK and not as an encompassing welfare state as the other Scandinavian countries.

Another aspect of the Danish welfare state in 1982 worth noticing was the passive character of labour market policy. High levels of persistent and long term unemployment are a serious threat to the financial viability of welfare states in general and the political legitimacy of universal welfare states in particular (Klitgaard, forthcoming). This explains why Scandinavian countries traditionally spend a relatively large proportion of labour market policy expenditures on active measures and why active labour market policy is also seen as part of the Scandinavian model (Esping-Andersen & Korpi 1986), though seeing it as an example of “de-commodification” is difficult. In Denmark active labour market policies in the early 1980s were limited and oriented at securing the eligibility of unemployed persons to receive unemployment benefits, rather than bringing people back to regular jobs. Hence, whether or not Denmark was a universal welfare state in 1982 depends on which aspects of the welfare state one focuses on and whether or not active labour market policies are seen as part of the universal welfare model.

In terms of the political origin, few would deny the Social democratic party a key role, yet other political parties as the liberals, social-liberals and conservatives have played crucial roles as well (Baldwin, 1990). Basic features such as universalism, principles of funding and administrative structures were established years before the Social democratic party became a significant political actor. The modern Danish welfare state has in fact bourgeois roots in core-areas as old-age pensions (established in 1891), sickness insurance (1892) and unemployment insurance schemes (1907) (Nørgaard, 2000). Also, the expansionist social reforms from the late 1950s through the 1960s were executed with parliamentary support from the right-wing parties, but as a result of political compromises rather than consensus (Baldwin, 1990; Christiansen & Petersen, 2001). However, rather than drawing a picture of a Social Democratic party being just one among “fathers” of the welfare state, it can be seen as an illustration of Social democratic agenda-setting power. The welfare state project, as articulated in various Social democratic party-programs in the post war period was popular with the electorate, difficult to oppose and hence accepted by the right-wing parties (Petersen, 1998: 53-75).

As already mentioned the centre-right government that came into power in 1982 faced dire economic straits. The economic situation was characterized by public deficits, current

account deficit (3.9 % of GDP), high inflation (10.1%) and high unemployment (8.4 %). When the last of a series of bourgeois governments resigned in 1993, it had coped with these economic challenges except the high unemployment and the public deficit resulting from it. These challenges were, however, handled by the series of Social Democratic led governments from 1993 to 2001, and from the late 1990s and on, the picture of an economic “miracle” emerged (cf. Schwartz 2001 and Green-Pedersen 2003). However, it is important to notice that despite the miracle label and declining official unemployment, broad unemployment was significantly higher in 2004 than in 1982 and had only declined marginally when the Danish miracle unfolded. Thus, the Danish welfare state today has a significant “welfare without work” problem.

Table 1

Macro-economic indicators for Denmark 1982-2004

	Current account balance (percentage of GDP)*	Inflation (Change in consumer prices) *	Standardized unemployment (percent)*	Broad Unemployment #	General government financial balances (as percentage of GDP)*
1982	-3.9	10.1	8.4	21 [⊠]	-9.1
1993	3.3	1.3	10.1	25	-2.9
2004	6.0	1.2	5.4	24	1.7

*Source: OECD, Economic outlook, various years.

This includes people aged 18-66 receiving unemployment benefits, social assistance and rehabilitation, disability pension, early-retirement benefits and transitional allowances, leave allowances, and people taking part in active labor market measures as percentage of the broad labor force; i.e. employed people plus broad unemployment. The figures for the years 1987-1998 are from Danmarks Statistik, Statistisk tiårsoversigt 1999, 2000 and 2005. The figures for the years 1984-1986 have been provided by Danmarks Statistik.

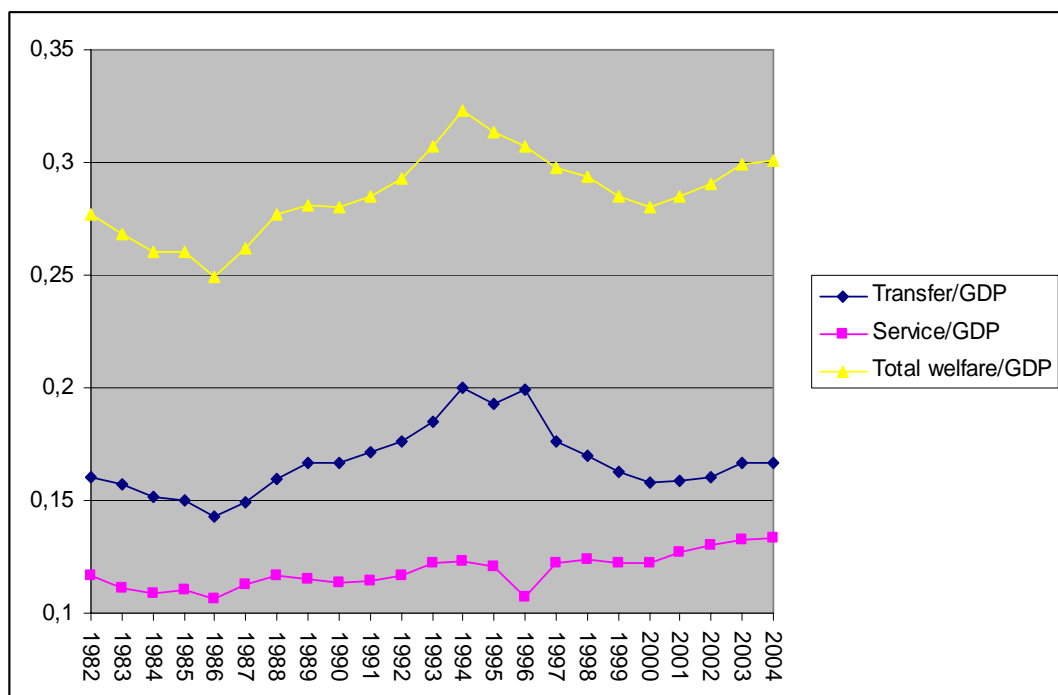
⊠ Figure for 1984

To understand the difficulties the new government in 1982 had in pursuing a row of harsh economic policy-measures, it is important to be aware that the political room for manoeuvres was constrained by a stable and comprehensive electoral support toward the welfare state. The land-slide election of 1973 is the only election in recent times that can be interpreted as a protest against the high taxes and expanded public sector. Political support since the early 1980s has been at a very high level, especially for universal schemes such as health care, education and public pensions and less so for means-tested programs as for example social assistance and housing assistance (Goul Andersen, 2003). Strong support should however not be misunderstood as uncritical support. The question of economic viability has constantly caused popular scepticism and offered a potential way of justifying retrenchments (Goul Andersen 2005, Green-Pedersen 2002).

3. General welfare state developments, 1982-2004

A way to get a first overview of the development of the Danish welfare state is to look at the development of social expenditure as a percentage of GDP.¹ The Danish welfare state has grown slightly between the early 1980s and 2003 from 28% of GDP to almost 31 % of GDP. However, such general figures can be misleading, for instance, due to effect of the level of unemployment on spending. Breaking down expenditure on services and transfers is therefore useful. Spending on services, which are only limited affected by the level of unemployment, have grown in the period from 12 to 13% of GDP, a growth that has mainly taken part from 1996 and on.

Figure 1: Welfare spending in Denmark as percentage of GDP 1982-2004



Spending on services as a percentage of GDP actually decreased in the mid 1980s, and this spending control or retrenchment was politically possible due to the decentralized

¹ Social expenditure includes public spending on transfers such as old-age-pensions, unemployment benefits, early retirement benefits child allowance etc. and social services such as health care, elderly care and child care. Spending on education is not included and the same is the case with spending on social housing due to a lack of consistent time series on expenditure. Data is taken from the national account statistics, functional distribution of public expenditures, Statistisk Tiårsoversigt, various years.

governance structure of Danish welfare services. Welfare services such as health care, child care and elderly care are governed by local governments in Denmark, but they operate within a national economic framework negotiated between central and local government (Blom Hansen & Pallesen 2001). This means that the central government to some extent can push on the problem of controlling public finances to local governments which have to make hard choices between spending on different programs.

Possibly related to these costs control measures, public dissatisfaction with the health care systems mounted in the late 1980s, particularly related to waiting lists. As a reaction, the social democratic led governments from 1993 to 2001 and their bourgeois successor started to deliberately put more money into the health care system (Pallesen and Pedersen forthcoming). The same development, though in smaller scale has taken place with regard to elderly care, just as child care has been expanded due to a “care guarantee” issued in the late 1990s (Blom-Hansen 1998). In terms of the organisation of public services, this has been characterized by stability. Thus, though there at times have been heat discussions about for instance contracting out of social services, little has so far happened (Green-Pedersen 2002).

Spending on transfers is more difficult to interpret as directly related to policy decisions, as they are influenced by other factors, especially the business cycle and to a lesser extent demography. Denmark experienced a rapid improvement of its economy in the years following the take over of the first bourgeois government in 1982, causing a decline in spending on transfers. But the bourgeois government implemented also cutbacks in for example unemployment benefits and early-retirement benefits which also helped to bring down transfer spending. From 1987, the economy turned around with rising unemployment, which caused a significant increase in transfer spendings from 14% of GDP in 1986 to 20% in 1994. However, also here policy decisions played a role. The economic crisis in the early 1980s had made it possible for the bourgeois government to justify retrenchments, which were accepted by the electorate as necessary to save the economy, and thus the welfare state (Green-Pedersen 2002, 111-124). However, when the economy improved, the government came under political pressure to improve the welfare state, and from 1985 and on, it responded partly by rolling back earlier retrenchments and also by implementing expansion of welfare programmes. In connection with a tax-reform in 1985, a universal and generous child allowance was thus re-introduced, and the public pension

was also improved several times as will be described below. Already in 1984, the maternity leave had been extended and a new and generous disability pension scheme had been introduced. In the remaining period of bourgeois rule further expansions of transfer programmes happened which in effect withdrew unemployed from the labour market. The consequence was rising transfer costs but also a significant rise in broad unemployment.

The social democratic led government taking over in 1993 started out by continuing the strategy of withdrawing people from the labour force, but then made a significant policy shift implying a number of significant retrenchments of transfer schemes related to the labour market. Decreasing unemployment and cut-backs in various transfer schemes helped to bring down spending on social transfers to around 16 % of GDP in 2000. The new right-wing government that came to power in 2001 has so far only made minor changes to transfer programmes except for a significant expansion of maternity leave from 6 to 12 months.

The development of the Danish welfare state follows in other words the “growth to the limits” finding of many studies of social spending (e.g. Kittel & Obinger 2003 and Castles 2002). Underlying this development is a fairly different development of different parts of the welfare state. Service were kept within tight fiscal control during the 1980s, but were then allowed to grow during the latter part of the 1990s. Transfers relating to the labour market have seen a number of retrenchments, which will be discussed below. Transfer schemes less related to the labour market have generally seen either expansion as is the case with the child allowance and maternity leave or a fairly balanced mixture of retrenchments and expansion as is the case with the national pension.

The major part of the policy changes conducted during the period has been incremental and can be characterized as quantitative changes in the economic flow to the welfare programs with consequences for generosity and replacement rates. Most reforms have to a much lesser extent involved institutional principles with possible long term consequences for the Danish welfare model (cf. Hacker, 2002). This should come as no surprise as it follows the conclusions about western welfare states being rather difficult to change (Pierson, 1994; 2001). However, even if institutional changes are rare they do occur, and have actually occurred in such central Danish welfare policies as the public pension system and labour market policy. Institutional reforms in pension and labour market policy constitute

the most significant and controversial changes in the Danish welfare state since the early 1980s and are thus given extra attention in this depiction of the Danish welfare state.

4. The final settlement of the Danish pension system

As in most other EU-countries the pension system has in Denmark been a central theme on the policy-agenda. The main reason is that Denmark, as mentioned, not introduced a second tier earnings-related pension scheme as many other countries, including the other Scandinavian countries, did in the late 1950s and 1960s. The Danish pension system that existed in 1982 was consequently characterized by first of all a duality between people having only the national pension and people having in addition either a labour market pension – especially well-educated public employees like doctors, teachers etc. – or a private pension (Vesterø-Jensen 1982). Secondly, the pension system was still open in the sense that most blue-collar workers had only the private pensions they had established on a purely individual basis besides the national pensions and for especially high-earning groups like metal workers, this did not provide acceptable replacement rates.

Danish pension politics in the 1980s and on has thus been a question of finally settling the pension issue, i.e. what second tier pension scheme should be established for the groups not already covered by occupational pensions. It is, however, crucial to be aware that the choices available were quite few in the 1980s. Especially, the introduction of a large public pay-as-you-go second tier pension scheme as found in many west European countries was completely out of the question for two reasons. First, it was politically impossible to introduce the additional taxes or social contributions that could finance such a scheme. Second, the fact that large groups on the labour market already had established funded occupational pension schemes made any other pension solution highly difficult (Green-Pedersen & Lindbom 2006). Thus, the pension debate in the 1980s was in reality centred on the question of how exactly to organise occupational pensions for the groups not already covered and this debate also spilled-over into the changes made to the national pension.

The solution that came about was occupational pensions introduced through collective agreements and with different pension funds for different occupational groups following the lines of collective agreements. Further, no legislation has been passed providing groups not covered by collective agreements with a second tier pension.

The development of the national pension was influenced by the development of occupational pensions, but also by the fact that the national pension has traditionally been among the most popular welfare schemes in Denmark. The national pension consists of a basic amount with no means-testing and a means tested pension supplement. When the pension supplement was eased in the mid 1980s, the scheme thus became more universal, but it also facilitated the introduction of occupational pensions. The means testing implies that part of the savings made through occupational pension will be wasted as part of or the entire pension supplement is lost. Less means-testing, therefore, means more incentive to save, i.e. introduce occupational pensions.

Denmark today has a three pillar pension system, which the World Bank in many ways would love (Green-Pedersen 2006). There is an extensive second pillar of funded, defined contributions occupational pension to which people can add third pillar private pensions. The first pillar consisting of the pay-go based national pension is however probably too generous from a World Bank perspective. One of the economic advantages of this system is how it handles for instance rising costs due to rising life expectancy. As occupational pensions are funded, defined contributions schemes, the result of rising life expectancy is lower pensions, but it is not easily noticed as the pension funds only guarantee a fairly low minimum pension, which will not be effected by increases in life expectancy unless they are dramatic. The pressure on pension systems, which in many other countries is “high politics” thus only becomes political in Denmark with regard to the national pension.

5. The transformation of labour market policy in the 1990s

The right-wing government inherited in 1982 an economy in deep recession from its Social democratic predecessor, and unemployment was indeed a major element of the problem. To combat unemployment the right-wing government relied mainly on a policy-strategy aimed at restructuring the Danish economy implying anti-inflationary policy, priority to the balance of payment and policies to improve the competitiveness of the Danish economy. The currency was linked to the German Mark and fixed budgets for the public sector caused a zero growth or even decline in public employment (Nannestad and Green-Pedersen forthcoming). During the period 1982-1993 there were also several political conflicts between the government and the Social democratic opposition over especially un-

employment benefits. The government tried by more occasions to execute retrenchment policies in unemployment benefits and other social security schemes, and had some initial success as the level of unemployment, sickness, and early retirement benefits was frozen between 1982 and 1985. This was due to a political compromise with the social liberal party and met with sharp criticism from the Social democrats and trade Unions. In 1984, the government also tried to bring an end to the right to job-offers which in reality made unemployment benefits unending, but had to give up after fierce criticism from the Social Democrats (Green-Pedersen, 2002: 114-15). This was the end of the government's ability to capitalize on the crisis-awareness of the population to retrench unemployment benefits and other schemes. As already mentioned the government was then forced into giving up earlier retrenchments and expanding several schemes. With regard to the schemes related to the labour market such as unemployment benefits and early retirement benefits, the freezing of the benefits were partly compensated by increases in benefits. Further, a number of possibilities of withdrawing people from the labour market were introduced in the late 1980s, for instance a transitional allowance for those aged 50 to 59 (op. cit.).

When Social democrats came back to power as the leading party of a majority coalition in 1993, it faced one significant macro-economic problem, namely unemployment. After a minor decrease between 1983 and 1987, unemployment rates had again become double-digit. This provided the incentive for a transformation of Danish labour market policy initiated with a labour market reform in 1993. This reform introduced various leave-schemes in order to "break the curve" of unemployment before the Social democratic government should meet the electorate in the autumn of 1994. The reform also put an end to the durability of unemployment benefits which in practice was endless as unemployed could re-qualify to new periods of benefits by fulfilling a demand for employment in 26 weeks though subsidised work or participating in certain labour market programmes (Rosdahl, 2003). With the 1993 reform the durability became restricted to seven years and beneficiaries of unemployment benefits were obliged to participate in active labour market programmes for the last three years. If unemployed did not enter into real jobs after activation, they were left to the much lesser generous social assistance scheme.

The durability of unemployment benefits was further reduced to five years in 1995, as a result of a compromise over the public budget between the Social democratic government and the Conservative party. Other notable elements of this compromise was that the job-requirement to be eligible for benefits was increased from 26 to 52 weeks of regular employment, just as a 50 percent benefits cut to people younger than 25 years were undertaken. Also, in 1995, that is one year after the election of 1994, the government began to phase out the sabbatical leave-scheme introduced in 1993, as well as the possibility of participating in educational programmes while receiving unemployment benefits (Klitgaard, 2002).

The final step was taken in connection with the negotiations over the public budget in 1998 and based on a political agreement between the government and the conservative and liberal party. The period for receiving unemployment benefits was now restricted to a maximum of four years in which the unemployed were obliged to participate in labour market programmes for the last three years. In this connection, the early retirement scheme was also retrenched by increasing the demands of years people should have been members of an unemployment fund to become eligible for early-retirement benefits with five years, introduction of an individual early-retirement contribution and a reduction of the compensation rate for those exploiting the scheme before they turn 62 years old (Larsen & Andersen, 2004: 241).

Other transfer programs than unemployment benefits and the early retirement scheme were also exposed to employment stimulating policy-measures during the 1990s. The influx of 50-59 year olds to transitional allowances and extended rights to unemployment benefits for 50-54 year olds were abolished in 1995 respectively 1998. Regarding social assistance, municipalities became in 1993 obliged to use a wider range of active measures in order to bring social assistance recipients back to the labour market, and the idea of an “active social policy” was settled in 1998 with a new law. With this, the general principle of social assistance became that to be eligible for benefits a “fair” offer of work, activation, re-education or job-training should be accepted (Larsen & Andersen, 2003: 90). Furthermore, the political responsibility of awarding disability pensions was gradually delegated to municipalities during the 1990s, which also became more responsible for its funding and obliged to assess the work-ability of potential recipients before pensions are awarded. This reform has caused a decline in the number of awarded

pensions (Green-Pedersen 2002, 77-80). As in the case of social services, delegation of unpopular political choices to local governments has thus increased the cost-control capacity of the system.

Altogether, during the 1990s the Social democratic led government managed to transform the passive character of labour market policy into a more genuine active policy, which also included retrenchments of unemployment benefits and other labour market related cash-benefits. Although there were some protests especially from the unskilled workers union, Danish labour market reforms and retrenchment policies were implemented without any sharp resistance in the 1990s. But there were limits to the Social democratic reform-capacity. When the government in 1998 - as part of a deal with the right-wing parties - retrenched the early-retirement scheme, the Social democratic party experienced a decline in the opinion polls from approx. 30 percent to just above 20. To a large extent, this was due a promise from the PM in the electoral campaign in the spring 1998 not to retrench especially this scheme, which the electorate had not forgotten – they simply felt betrayed (Green-Pedersen, 2002: 129).

The political effects of this reform have been quite visible in the attempts of the new right-wing government after 2001 to undertake new labour market and welfare state reforms. The government have managed to downsize expenditures on active labour market policy and implement another labour market reform, which is in good keeping with the reforms undertaken in the 1990s. This new reform introduced a ceiling in social assistance in order to increase recipients job-incentives, and to secure, that social assistance always is lesser attractive than employment and unemployment benefits. It also reduced the generosity of social assistance for young under 25, and made it comparable to the level of student allowances, strengthened the control of whether unemployed was at the disposal for the labour market, and aimed at facilitating a stronger degree of contracting-out of public employment services (Beskæftigelsesministeriet, 2002).

6. From the brink of the abyss to miracle country: The Danish welfare state in 2006

Economic restructuring during the 1980s and labour market reforms in the 1990s has caused that Denmark in a growing amount of literature is exposed as one of the so-called miracle countries, that is, countries which have managed to combat unemployment without sacrificing a generous welfare state and thus a high level of economic equality (cf.

Schwartz, 2001). The Danish welfare state at the present is thus in a relatively good economic shape and far from the deep crisis of the early 1980s.

Despite the many reforms Denmark has accomplished during more than 20 years, the Danish welfare state continues to render a number of fairly diverse cash benefits and welfare service. The basic amount of the national pension continues to be paid to everyone from the age of 65 regardless of income from other pension schemes or from personal assets. Pensioners with no other significant income, for example from an occupational pension, receive an incomes-tested pension supplement as well. Child allowances became a true universal scheme in the 1980s and goes out to all families without income-tests although the level of this benefit depends on the age of child.

Labour market reforms in the 1990s did not include changes in the administrative structure of unemployment insurance schemes. Eligibility to unemployment benefits requires membership of an unemployment fund, which is voluntary and only about 77 percent are members. Members pay a fee, but the lion shares of expenses are paid by the government which also carries the marginal risk as fees are fixed. The unemployment funds are administered by the trade unions, though formally independent. This “Ghent-system” of unemployment insurance leads to a high level of unionization though membership of a trade union is not required to be member of an unemployment fund (c.f. Rothstein, 1992). Neither did the labour market reforms include changes in the maximum replacement rate which formally is equal to 90 percent of former wage. A ceiling cause however that the real replacement rates for even low incomes groups is about 70 percent. For average income groups it is only around 43 percent.

Today, there are two ways to early retirement in Denmark. The first one is the before mentioned early retirement scheme, which is administered in the same way as unemployment benefits. Recipients must have been enrolled as members of the unemployment fund in 25 years to be eligible for benefits which are obtainable from the age of 60 to 65. After the 1998 reform the generosity depends on the age at which recipients enter the scheme. If you enter at the age of 60, benefits are 91 percent of the maximum unemployment benefit whereas it is 100 percent if you enter at the age 62 (Larsen & Goul-Andersen, 2004). The other early-retirement scheme is the by now a local government administered disability pension. After the cost cutting decentralization in the 1990s, a new scheme was introduced

in 2002, where benefits in principle are equal to the maximum level of unemployment benefits but are means-tested based on both the income of the recipient and spouse. They can be given at any age and last until the age of 65. Other cash benefits such as sickness benefits and maternity benefits are government run and tax-financed and offer benefits along the same principles as found in the unemployment benefit scheme. However, many employees have the right to pay during sickness and maternity leave as part of their contracts. Maternity leave has recently been extended to one year.

With regard to welfare services, health care is a citizenship based and generally for free service, provided and administered by the regions. Local governments have also the responsibility of making contracts with family doctors and specialists operating on a private basis. Elderly care – residential home, sheltered housing, cleaning assistance etc. – is offered for free by the municipalities to all pensioners having a need. The coverage rate of elderly care for 80+ aged persons was in Denmark around 60 percent in 2000, which was significantly higher than in any other Scandinavian country (Rauch, 2005). The child care system includes kindergartens, crèches and child minders. In the case of the first two, pedagogues dominate the staff and the institutions have only limited elements of pre-schooling – an element that however is sought strengthened by the current government. In 2003 about 87 percent of all 1-5 years children were minded by this public system, which means that as in elderly care, child care in Denmark is the most expanded of the Scandinavian welfare states (Rauch, 2005).

Altogether, the Danish welfare state still has many “Scandinavian features” such as the universality of the basic amount of the national pension, child allowances and not least the highly expanded social services. But it has also significant “non-Scandinavian” elements as means-testing in the national pension and the disability pension scheme, and the fairly low replacements rates for employees with average or higher income.

7. Outlook – New Political and Institutional Dynamics: A Prospect for the Future

In some policy-areas more than 20 years of continuity and change have adapted Denmark further to the Scandinavian type of welfare states. In others there have been institutionalised new political dynamics which may put universalism under pressure in the future. In this final section of the chapter we are conducting a broad discussing about the political

dynamics that have been institutionalised during the various reform-processes, and also what policy impacts they might have in the future.

The reform-developments have in some ways adapted the Danish welfare state further to the universal ideal or Scandinavian type of welfare state. This is mainly the case in relation to labour market policy and the introduction of active labour market policies in the 1990s. It may be seen as a paradox that this accommodation implied significant retrenchments in unemployment benefits, early retirement, social assistance and disability pensions. And it has been argued that the labour market reforms breaks with the idea of a universal welfare state (Loftager, 2004: 95-102). It is on the other hand indisputable that universal welfare states traditionally have been oriented at full employment – partly by an extensive use of active labour market policy – and that the Danish welfare state in the beginning of the 1990s was seen as unsustainable in economic and not least political terms due to a long lasting unemployment problem. Prior to the reforms, Danish unemployment benefits were extremely generous and probably as close to a genuine ‘citizen-wage’ as any western democracy has ever been, which was recognised as a fundamental threat to the strategic solidarity and thus political legitimacy of the universal welfare state (Klitgaard, forthcoming).

But a political system enjoying a strong capacity in transforming proposals into real policies also face the risk of implementing policies with long term and perhaps unintended consequences. That is probably what we are witnessing in relation to the new Danish pension system where the undertaken changes may have established political dynamics toward lesser universalism in the future. Although the World Bank probably would love the three-pillar pension system in Denmark (Green-Pedersen 2006), it is, evaluated from a welfare model and power resource perspective, quite problematic. Even though occupational pensions under the control of trade unions are a central element, it is in essence what Korpi and Palme (1998, 2003) describe as a basic security scheme. The main task for the national pension is to provide benefits for those not being able to save for their pension through the occupational pensions such as people witnessing long-time unemployment, or people that are dependent on disability pension. Power-resource theorists would argue such basic security schemes to come under political pressure as large groups are not attached to them and some signs of this are already visible. Public support to the public pension scheme has experienced a decline during the 1990s (Goul Andersen, 2005), which is

the period where occupational pensions have expanded, just as there has been limited political interest in securing pension savings for those not covered by occupational pensions. Hence, the big issue of the future is whether the national pensions will continue to enjoy enough public support to be politically impossible or at least dangerous, to retrench. The prospects are not, again evaluated from a power resource perspective, promising as occupational pension during the next decades become central not just for people saving for a pension but also for pensioners who discover that the national pension is of limited importance to them.

As Hacker (2002) has pointed out, welfare state developments also need to be evaluated in relation to the development of societal context. Here it worth noticing that economic inequality was comparatively low and quite stable in the 1980s and 1990s (Goul Andersen 2003), recent years have been characterized by growing economic inequality (Arbejderbevægelsesens Erhvervsråd 2006). This is mainly due to the very unequal distribution of capital gains from stock markets and not least a booming housing markets. Such developments raise a question of whether the universal welfare state will also in the future be bale to secure low economic inequality.

Regarding social services Denmark has not experienced significant market-oriented reforms or retrenchments during the period (Christiansen, 1998; Green-Pedersen, 2002). In areas as especially health care and child care we have in fact witnessed a further expansion of the Danish service welfare state. Social service institutions in a Scandinavian welfare state is the work place for well-organised, professional and resource-full groups as doctors, nurses, and care-personnel, why this dimension of the welfare state is entrenched by concentrated interests having strong incentives to preserve the system. If we add to this, that the degree of public support toward social services as health care and care-facilities for children and elderly is attained with a higher degree of electoral support than various schemes for social protection, we do have at least one likely explanation for why – despite the blame avoidance opportunities provided by the decentralized governance structure – the social services have faired well during the last decades and gone free from radical cut-backs. It is reasonable to suggest that social services are protected against drastically retrenchment also in the future. Not least because public support toward these schemes are likely to be strong also in the future, as all households practically depends on care facili-

ties for children and elderly. Without the provision of such services the extremely high labour market participation rate for especially Scandinavian women would be unattainable.

It is on the other hand not impossible that recently institutionalised policy dynamics on the welfare states service dimension means that private entrepreneurs will get a stronger foothold and become more responsible for service provision in the future. When the government in 2002 decided to put more money into the health care system in order to combat waiting lists for operations in public hospitals, people who had waited more than two months for an operation was given a right to make use of a public financed but private alternative. The number of people operated on private hospitals has thus seen more than a three-fold increase since 2002 though from a very low starting point (Indenrigs- og Sundhedsministeriet, 2006: 37). The government enacted furthermore upon a major structural reform of the public sector in 2004, which is to be fully implemented by the end of 2006. One of the motivations for this reform was that provision of public services should be more exposed to competition from private service producers. It was for example argued, that large municipalities is a more attractive market for private entrepreneurs, why the reform also is believed to facilitate a stronger degree of contracting-out. This believe has proven difficult to substantiate in empirical research (Pallesen, 2004), but it can not be foreclosed that private entrepreneurs becomes more involved in the service provision. It is at least a spelled out intention of the current government to facilitate a stronger mix of private and public in relation to social service provision.

Reform-measures as freedom of choice and contracting out have different effects across different service areas and constitute in some cases, but not in others, a problem for the universal welfare states ideal of equal treatment of all citizens. Freedom of choice in areas where the contact between users of welfare services and the welfare institutions lasts a long time as for example in kindergartens and schools seems to be a problem. The main reason is that the social composition of users affects the quality of the services delivered. If the contact between users and the institution is ad hoc, irregular and does not involve contact between users, as for example in hospitals and in relation to home-based elder-care, the conflict between freedom of choice and securing universal and uniform high quality services is lesser (Christensen, 2004). Contracting out and market based production of social services are generally not a threat to the universal welfare state as it is unimportant whether public welfare services are produced in-house or by private entrepreneurs

– at least as long also private provided services are public financed. Expectations about for example the improved cost-efficiency and savings that can be gained from enhanced public-private competition are however often exaggerated (cf. Andersen & Serritzlew, 2005).

Hence, recent developments in the public sector may lead to a universal welfare state in Denmark that is able to handle a situation where citizens have differentiated demands of high quality services. But also a welfare state, again considering the developments in the pension scheme, that on the other hand have stronger difficulties in achieving an almost sacred goal of the model; equal treatment of all citizens.

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