
REMAPPING DEBATE

Asking "Why" and "Why Not"

Business interests lauding the welfare state?

Original Reporting | By Mike Alberti | Alternative models, Economy, Role of government

WHY WE SENT ALBERTI TO COPENHAGEN

Remapping Debate was founded in order to try to help expand the extraordinarily narrow range of policy choices that are treated by most mainstream media sources as falling within the realm of the “practical” or “realistic.”

One manifestation of the problem is the assumption that neither central elements of the social safety net nor extensive governmental regulation is compatible with a modern economy seeking to operate within today’s global environment.

According to this assumption, alternative conceptions of the role of the state exist only in the province of unrealistic dreamers — or in the wreckage of failed or failing states.

Conceptions of the public interest arising from different historical periods or by different political systems are often ignored (unless providing an example of learning the lesson that what might have been affordable in the past is no longer), or trivialized (how many articles have there been that can be summarized as “the French just don’t realize that they need to work more”?).

But right now, in real life, in a country that is not failing, there is not only a markedly different set of public policies in place — unmistakably those of a full-blown welfare state — the entire range and tenor of debate is altogether different from that which is permitted to be heard in the U.S.

Starting with the very different views of those in the business world, we thought a cross-national look at Denmark might help create a sense that a far greater range of alternatives exist — not only in terms of particular economic, labor, health, and education policies, but in terms of what kind of society one chooses to create and nurture.

— *Editor*

Sept. 7, 2011 — While liberal and conservative pundits alike in the United States have long been issuing fatalist warnings about the “unsustainability” of the European welfare state, business leaders and economists in Denmark — a country with one of the most generous welfare states in the world — insist that, in fact, it is the U.S. model that may prove to be a dead end.

“If you come back five years from now, I guarantee that the welfare state is going to be even larger,” Ove Kaj Pedersen, an economist at the Copenhagen Business School, said in an interview in Copenhagen last month. “Why? Because for Denmark, the welfare state is our main competitive advantage.”

“Business Interest Organizations” in Denmark — whose analogues in the United States have long pushed for deregulation, lower taxes, less government spending, and less generous social benefits — agree with Pedersen: “There is a general consensus about the welfare state in Denmark,” said Steen Muntzberg, director of the Confederation of Danish Employers, which advocates on behalf of over 28,000 businesses in Denmark. “We have come to see it as a crucial part of what makes us competitive in the global economy. There is some debate around the margins, but it would be hard to find companies who don’t support the bulk of government programs.”

Stine Bosse, who until recently served as the group chief executive officer of TrygVesta, Denmark's largest insurance company, and now serves on the board of several Danish companies, described a "symbiotic relationship" between the private and public sector in Denmark: "It's obvious that in Denmark, both the public and business leaders regard the state as a partner," she said. "A strong state is not just something you have to live with...it's something we reckon is pretty important, a positive thing for business."

"Flexicurity"

Denmark and its Nordic neighbors have developed a distinctive response to the pressures caused by globalization by combining relative flexibility in the labor market with strong social security provided by the state into a system they call "flexicurity."

According to the Organization for Economic Co-operation and Development (OECD), Denmark has some of the loosest requirements in the world when it comes to an employer's ability to hire and fire workers, (though on the OECD's scale, it still provides eight times as much security as the U.S. does).

At the same time, Denmark's generous unemployment benefits and social assistance programs ensure that few people fall through the cracks.

The OECD defines poverty as having a household income of less than 50 percent of median household income. Denmark has the second lowest rate, at 6.1 percent, in the OECD in the late 2000s. Using the same OECD measurement, the U.S. rate in that period was 17.3 percent, higher than any country in Europe and more than 6 percent higher than the OECD average.

Additionally, Denmark has the strongest system of worker re-training in the world. When a person becomes unemployed, he or she is required, after six months of looking for a new job, to become enrolled in a job training program, which is tailored to the local job market and the individual's skills and aspirations. Training programs range from simple job-search skills to nurse licensure to apprenticeship programs at manufacturing companies.

The adoption of the flexicurity model in the mid-1990s caused many Danes to shift their sense of security from being rooted in a particular job, trade, or industry to being one based on a more general, but fundamental, expectation of continuing employment. According to Danish employers, the flexibility in the labor market has been a great boon to them.

"It makes it very easy to shed workers when sales are down," Muntzberg said, "which is important because it allows businesses to adapt easily to changing situations."

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Remapping Debate spoke with several unemployed people at a “jobs center” in Copenhagen — where the unemployed come for help searching for jobs and for retraining classes — who said that, notwithstanding their status, the flexicurity model was good for them, as well.

“We don’t think it’s important to stay with the same employer for a long time,” said Johannes Pedersen, who had recently lost his job as a car salesman. “Now, I have a chance to get some new skills, new education, and I think the next job I get will probably be better.”

The flexicurity model was much touted in Europe and abroad before the recession as a model to follow, but has received some criticism since the recession. John Schmitt, an economist at the Center for Economic Policy Research, a left-leaning think tank based in Washington and London, said that the recession shows that there are some advantages to having job security.

“I think that the (flexicurity) system worked very well when there was abundant demand in the economy,” Schmitt said. “But it’s not surprising that a system that is trying to guarantee you a job, not necessarily your job, is not going to fare that well when you have a collapse in demand.”

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— Stine Bosse, ex-CEO of TrygVesta, Denmark’s largest insurance company

Schmitt compared Denmark’s labor market policy to that of Germany, which has fared unusually well in the recession. Germany offers employees strong labor protections, making it more costly for German employers to fire them. Since it was harder to fire employees when demand slackened, Schmitt said, Germany instituted a system called work-sharing, in which firms reduced the hours of all workers instead of eliminating some altogether. That has resulted in a net decrease in unemployment in Germany since the recession, whereas in Denmark, the unemployment rate has increased by about 2 percent since 2009, to about 5.5 percent.

Still, Schmidt said, the Danish system works very well on the whole. “Even when you have this collapse in demand, it still works well in terms of giving workers income supports and training them for something down the road,” he said. Those supports have served to buoy demand somewhat, mitigating the effects of the recession.

According to Muntzberg, in an economic downturn, the government-provided security aspect of the flexicurity model becomes more important.

“We have created this triangle between flexibility and social security and active labor market policies, and all three points are dependent on the others,” he said. “If you lose the security, then the flexibility will only lead to a downward spiral,” as workers who lose their jobs also lose their buying power and their skills over time, further depressing the economy and making it more difficult to rebound.

The challenge, Muntzberg said, is to maintain an adequate level of social security in the face of increasing pressure on both public and private finances.

“Some companies might favor a reduction of social benefits in the short term because it would reduce costs,” he went on, “but in the long term most of them understand that it’s essential to have a strong safety net, because that is what keeps your labor force competitive over time. What happens when you want to hire people again and you can’t find people with enough skills for the job?”

The welfare “burden”

Stine Bosse said that she is often surprised to hear American businesses complain about the “burden” of the welfare state, or the tax rates that finance it.

“The welfare state in Denmark provides many things that are benefits to business,” she said. For example, Bosse said that free higher education, extensive vocational programs, and well-paid teachers all provide businesses with an educated and high-skill workforce to draw from. Additionally, many of the services provided by the Danish government actually relieve the burden from businesses to supply the service themselves, she added.

“Many businesses have long realized that it’s important to have a healthy workforce, because that reduces turnover and raises productivity,” Bosse said. While in the U.S. private health insurance benefits are often provided through the employer (see box below), Bosse said that that responsibility has been “lifted” in Denmark, so that some of the security, which in the U.S. is often the responsibility of employers to provide, is instead provided by the government. “The government is doing businesses a favor,” she said.

In addition to health care, Bosse pointed out that free and universal childcare, which is provided by the government, also relieves stress on businesses because it allows workers to stay in the workplace. Denmark also offers one year of paid maternity leave to women after having a child, and six months of paternity leave to men.

“It’s obvious that if you want the female workforce to come in and participate at the same level as men you need those policies in place,” she said. “I have never understood why the U.S. would not have those policies, because you’re denying businesses a big share of the labor force.”

Søren Friis Larsen, vice-director of the Danish Chamber of Commerce, which also serves as an advocacy organization representing over 20,000 Danish businesses, agreed, and added that maternity

Danish Chamber of Commerce said that it was not appropriate to base a discussion about the welfare state on the high tax rates that finance it. “The question you need to ask first is, ‘what kind of welfare state do we want?’” he said. “Then you ask, ‘how do we pay for it?’”

and paternity leave and free or subsidized care for the elderly in the form of in-home caregivers or nursing home also has a positive effect on the work environment.

“Businesses and the government have both been working for a long time to make the workplace more family-friendly, because we recognized that giving parents leave will actually increase the chance that they will come back into the workforce later. And if employees don’t have to worry about taking care of their parents, they can be more focused on work. Those things are very good for businesses in the long-run.”

And what about the high cost of those programs and the relatively high tax rates necessary to do so?

“That’s not the right question to be asking,” Friis Larsen said. “The question you need to ask first is, ‘what kind of welfare state do we want?’ Then you ask, ‘how do we pay for it?’”

Denmark has a relatively low corporate tax rate, which is compensated for by one of the world’s highest income tax rates and a 25 percent value-added tax on most goods and services. “Yes, ideally we would like to have lower taxes, of course,” Muntzberg said. “But you have to be careful. We know that usually when you cut taxes you also have to cut some programs, which could be bad for business.”

“We better smarten up”

Ove Kaj Pedersen from the Copenhagen Business School said that, because Denmark is a small country and lacks a large market for domestic consumption, it was forced to adapt to the changes wrought by globalization earlier than some other countries.

Health care costs that Danish businesses don’t have to pay

The Bureau of Labor Statistics [estimated](#) in March 2011 that private employers in the United States paid \$2.12 per every hour worked on health benefits, or 7.5 percent of total compensation. Many American companies have claimed that the health care system in the U.S., in which most health insurance is provided by employers, has been a drag on their businesses, leading some — such as the Big Three automakers, Ford, Daimler-Chrysler, and GM — to [advocate](#) for a single-payer health insurance system provided by the government, such as Canada’s or Denmark’s.

According to the Kaiser Family Foundation, which conducts an annual survey of about 1,800 businesses, most of which provide health benefits, the average annual premium that U.S. businesses pay per-employee for family health insurance coverage was nearly \$10,000 in 2009, more than twice what it was in 2000. The high burden that providing health insurance costs businesses — especially small businesses — has caused an increasing number of them to simply stop providing it in recent years. Kaiser found that the percentage of employers providing health insurance fell from 69 to 60 between 2000 and 2009.

“We do not have the same ability to influence the global market like the U.S. does,” he said, “so we’ve always had to adapt.”

The challenge, Pederson said, was how to balance a strong national commitment to equality and social security with new obstacles, like increasing immigration and wage competition. “It took us a couple of decades to get the combination right,” he said. “We’re constantly in the process of making changes and adapting, but it looks like, for the most part, we’ve found a model that works for everyone.”

“If you come back five years from now, I guarantee that the welfare state is going to be even larger,” said Ove Kaj Pedersen, an economist at the Copenhagen Business School. “Why? Because for Denmark, the welfare state is our main competitive advantage.”

Friis Larsen agreed, adding that it did not take long for Danish employers to realize that they were not going to be able to compete with other countries, like India, China, and, closer to home, eastern European countries like Poland.

“I think when people started to see what was beginning to happen in terms of outsourcing, we realized that we had to concentrate on those industries where we are competitive, and those are generally high-skill industries, like IT and health care. We are only 5 million people, and we’re not going to be able to run on oil forever, so we said, ‘If we are going to survive we better smarten up.’”

Niels Ploug, an economist and the head of social statistics at Statistics Denmark, the statistical arm of the Ministry of Economic and Business Affairs and the Danish equivalent to the U.S. Bureau of Labor Statistics, said that there was a conscious decision made in the 1990s to promote full employment

without using low-wage work (to be discussed in a future article in this series). “The only other alternative, that we knew of then or that we know of now, is to increase the qualifications of the workforce and then try to mold the private sector around those qualifications,” he said.

Ploug said that both businesses and politicians keep a weather eye on education statistics in Denmark, because it’s the most telling measure of what the prospects are for the economy. “When we see dips in education scores, that is very concerning,” Ploug said. “It will often lead to an evaluation of how much we are spending, and where we could be more effective.”

As of 2007, the last year that statistics were available, Denmark [spent more as a percentage of its GDP on education](#) than any other OECD country. The World Economic Forum’s Competitiveness Index, which is compiled from a combination of national statistics and survey data, ranks Denmark fourth out of 213 countries in terms of its high school education enrollment rate. On the same measure, the U.S. ranked 45th in 2010.

Business leaders and advocates emphasized that Denmark still faces substantial challenges in the coming years, which have been exacerbated by the global financial crisis, the European debt cri-

sis (Denmark's currency is pegged to the euro, though it is not in the euro zone), and an increasing downward pressure on wages due to immigration from eastern European countries like Poland. According to Muntzberg, these challenges will require an increased commitment to creating high value-added jobs and educating the workforce to fill them. "It has never been more important to have a well-educated workforce," he said. "It becomes more vital every year."

"Education reform is constantly on everybody's lips," Bosse said. Despite the high public investment and high enrollment rates in Denmark, falling scores in math and reading have businesses worried.

"It's very difficult to recruit the best educated workers from other countries, because of the high taxes," Muntzberg said. "So we need to be sure that we're training competitive workers here."

Proposals have recently been floated to lengthen the school day to accommodate more math and science class-time without cutting back on other areas of instruction, like arts and sports. Some, like Bosse, believe that schools need to employ greater use of technology in the classroom to encourage learning and to facilitate interaction between students and teachers outside the classroom.

But others, like Ploug, caution against reading too much into test scores in Denmark's case, because the country has such a strong tradition of vocational work.

"I worry sometimes that if we focus too much on improving academic performance, we might result in diverting funds from job-skills training that we do very well," Ploug said.

Though views are mixed about what the best policies are for continuing to increase educational attainment over time, there is one thing that Danes from all sectors seem to agree on — whichever methods are employed, they will not be cheap.

Jennifer Blanke is director of the Centre for Global Competiveness and Performance at the World Economic Forum, which produces the annual Global Competitiveness Index, on which Denmark consistently ranks highly. In a phone interview, Blanke said that Denmark is a testament to the fact that you can provide social protection without losing competitiveness, but that Denmark's example hinges on maintaining high educational attainment.

"The Danes have been very successful at this, generally," she said. "The system of education does seem to work quite well. It's an important example, but it's also very expensive, which may explain why more countries have not adopted the Danish model."

But Danish business leaders emphatically insist that the investment is worth it.

The only reasonable alternative to relying on low-wage labor, said Niels Ploug, director of social statistics at Statistics Denmark, "is to increase the qualifications of the workforce and then try to mold the private sector around those qualifications."

“I don’t think we would last very long if we didn’t have these policies,” Bosse said, referring specifically to Denmark’s system of worker training and free higher education. “We would begin to lose ground pretty fast.”

Race to the top

According to Pedersen, the constant need to increase educational performance is indicative of the way that relationship between the Danish state and Danish businesses facilitates a “race to the top,” in terms of living standards and well-being.

“You could say that there is a kind of virtuous circle at work,” he said. “The welfare state generates a high-skilled, healthy workforce which contributes to successful businesses and higher wages, which then go to finance the welfare state for the next generation,” he said.

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Friis Larsen agreed. “We always have to look to the future to continue to be competitive, to hold up our end of the bargain,” he said. “It’s very important for Danish businesses to make sure that each generation is getting better off.”

The only way to do that, he went on, was to increasingly invest in the kinds of programs that have helped make Denmark competitive in the last few decades, albeit modifying them as conditions and evidence dictate. “You think in 10 years we will be making textiles in big factories and paying low wages?” he asked. “If that is how things happen, it will be a disaster.”

Larsen explained that trying to compete on wages with developing countries would inevitably force a “race to the bottom,” which would risk undermining the Danish middle class and take the emphasis off of education. The result, he said, was that Denmark would eventually lose its status as a nation with a high standard of living.

Of course, not every government program in Denmark has the business community’s wholehearted support (see box at the bottom of the next page). For example, several business leaders spoke of the need to reduce the amount of assistance that unemployed workers receive, because that would incentivize them to return to the labor market faster.

Muntzberg shares this view, but added that now is not the right time to make any changes to the level of unemployment benefits, because Denmark is still experiencing a modest surplus of labor after the financial crisis. “We are not trying to punish people,” he said, “but we need to always make sure that working is the natural thing for people to be doing.”

Kim Nøhr Skibsted, the group vice-president and head of corporate communications at Grundfos, which is the world's largest manufacturer of pumps and one of Denmark's largest employers, agreed. "It's not good for the state, the businesses or the individual if you have a lot of people on the monthly dole," he said. "The first priority should be to protect people from hardship, but the second priority should be to make sure everybody is contributing."

Trimming the welfare state?

While Danish employers stressed that most of the features of the welfare state benefited their businesses, some elements generated opposition. For example, Steen Muntzberg of the Danish Confederation of Employers said that he would like to see a program commonly referred to as "café money" eliminated. That program grants higher-education students who live at home with their parents about \$500 dollars a year for miscellaneous expenses. (Café money is provided in addition to free tuition, subsidized transportation costs, and a government living stipend which is directed to the students' parents.)

Søren Friis Larsen of the Danish Chamber of Commerce added that state subsidy of a student's living expenses for six years has contributed to the fact that Denmark has one of the highest median graduation ages in the OECD, at about 26 years. "I think it's nice for everybody to enjoy their studies," he said. "But we need to get people out into the labor market sooner."

Friis Larsen also complained about a special unemployment system that exists for workers in Denmark who are disabled or otherwise unable to work. "Basically, you prove to the government that you can't work, and then you get unemployment assistance for the rest of your life," he said. Friis Larsen does not dispute that many people benefit from this program, but he said that there should be a "reevaluation," especially of people who qualify for mental health reasons. "If you are in a car accident and you are paralyzed, of course you should get the money," he said. "But if you have depression and can't work, that's something that can be fixed, so maybe we need to check in every year."

And perhaps the least popular program among business leaders is the one for early retirement, called efterløn ("after wage"). The program was instituted in the 1990s in order to incentivize older people — especially those working in manual labor occupations — to leave the workforce to make room for younger workers, who were having trouble finding jobs. But because the general population has aged during that time, it is no longer affordable, according to Muntzberg.

But both Muntzberg and Friis Larsen stressed that these were relatively small changes. "We like the system we have," he said. "Sometimes you have to do some work under the hood, but nobody wants to replace the whole engine."

Skibsted said that these responsibilities should not be limited to the state, however, and that businesses need to play their part. Grundfos, for example, has long had a policy in place requiring that at least three percent of its workforce be comprised of people who would not otherwise be integrated into the labor market, such as people with mental and physical disabilities.

“Businesses are also part of the society and should act as a responsible part of it, as well,” he said. “We all have to do our part.” The partnership between the state and the private sector, Skibsted said, “has created a stable and calm labor market where it’s been easy to recruit people to work for us, and an atmosphere between businesses, unions, and politicians where we can say, ‘this is our goal, to make the whole society better off, and this is what I’m going to do and this is what you’re going to do.’”

To that end, Skibsted said that he could not understand why American businesses were so antagonistic toward the government. For example, he said that the recent battle over financial regulations, in which the financial services industry pushed against the attempt by the government to regulate parts of the industry that had led to the financial crisis, was misguided.

“If I’m a financial company, wouldn’t it be better for me to avoid another crisis in the future than to make a little more profit next week?” he asked.

Other Danish business leaders questioned the dynamic between the private sector and the government in the U.S., as well. “Sometimes it seems like they are biting the hand that feeds them,” Bosse said.

Pedersen, who has lived in the U.S., said that while he admires many things about the American system, particularly its entrepreneurial nature, he does not think the current political climate, which is so focused on reducing the role of the state, is going to help business in the future. “Actually,” he said, “I am dead-pan serious when I say that you are destroying yourself.”

Remapping Debate asked Skibsted whether he would rather run a business in Denmark or in the U.S. “In the U.S., I might be richer,” he said. “But I don’t think I would be better off.”

“You think in ten years we will be making textiles in big factories and paying low wages? If that is how things happen, it will be a disaster.” — Søren Friis Larsen

This content originally appeared at <http://remappingdebate.org/article/business-interests-lauding-welfare-state>