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# REMAPPING DEBATE

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Asking "Why" and "Why Not"

## The high road to high wages: Denmark's answer to the U.S. model

**Original Reporting** | By Mike Alberti | Alternative models, Economy, Employment

Sept. 14, 2011 — In the last few decades, Denmark has succeeded in substantially reducing its reliance on low-wage work. The absence of low-paying jobs — a sharp contrast to the employment situation in the United States — is a source of pride among Danes: “Danes do not like to see other Danes struggling,” said Lars Andersen of the Economic Council of the Labour Movement, a union-affiliated think tank in Copenhagen. “We are very sensitive about that.”

### DIFFERENT VALUES, DIFFERENT STRATEGIES

Last week, we started a series on how the Danish experience challenges the conventional American narrative that worker-friendly, state-friendly policies are outmoded and impractical.

The first article [looked at the distinctly more positive view of the role of the state that those in the Danish business world take as compared with their counterparts in the U.S.](#)

This week, we continue by examining Denmark's approach to low-wage jobs: one that rejects the assumption that an ever-increasing number of such jobs is the inevitable price to pay when competing in a globalized economy.

Once again, the cross-national look at Denmark suggests 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*

The Organization for Economic Cooperation and Development (OECD) defines a low-wage job as one that pays less than two-thirds of the median annual wage in a country. By this measure, about 8 percent of Danish workers are employed in a low-wage job. Researchers estimate the U.S. rate, by contrast, as [being as high as 33 percent](#).

That difference has led some American economists to study the organization of the Danish labor market. John Schmitt, an economist at the left-leaning Center for Economic and Policy Research (CEPR) in Washington, has been comparing the U.S. to Denmark and other European countries for years.

“What the Danish example proves is that there are two distinct ways to organize your labor market,” he said. “There is a low road,” which relies on low-wage labor, “and there is a high road.” Schmitt said that both methods of organization can power an economy, but they result in societies in which basic aspects of life are experienced very differently by their respective citizens.

## Taking the high road

In the 1970s, Denmark and most other industrialized nations struggled with a period of high unemployment that coincided with the transition to a service economy, as businesses began to outsource manufacturing operations.

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 (BLS), said that, when faced with these dual challenges, the Danish government made a conscious decision to avoid reliance on low-wage work.

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“It was a specific policy of the unions and the Social Democratic Party to say that we don’t want a low-wage labor market as the solution to unemployment,” he said. “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.”

An elaborate system of training programs was put in place to raise the qualifications of Danish workers. Currently, Denmark spends more on these policies, known formally as “active labor market policies,” than any other country in the OECD. When a worker loses employment, he or she is required, after a period of six months, to enroll in a state-financed jobs training program, which is customized to both the worker’s skills and aspirations and the condition of the current job market.

“If the government sees that there are a lot of openings in a sector, say in health care, then it will push people toward getting trained in that sector to fill the gap,” Ploug said.

If workers are still not able to find a job, the government will often subsidize their pay to encourage businesses to hire them for a time, which Ploug said more often than not leads to an unsubsidized position.

According to Andersen, Denmark has also chosen to concentrate its economic growth as much as possible in high-wage sectors such as electronics, specialty manufacturing, and health care, which are currently among its largest industries. Consequently, there are fewer low-wage service jobs than in many other countries. “There are some jobs that we just don’t want a lot of if we can help it,” he said.

Andersen was quick to add that sustaining high wages also requires high taxes on the upper end of the income spectrum. Danes pay anywhere from 50 to 63 percent of their income in taxes to the government, one of the highest rates in the world. The revenue from those taxes is used, in part, to finance the worker training programs and educational system.

But according to Andersen, many businesses don't seem to be dissuaded by the tax rates from operating in Denmark. A recent, prominent example is the U.S.-based, Fortune 500 manufacturing firm SPX, which recently purchased three smaller Danish firms. In an [interview on Danish television](#), SPX CEO Chris Kearney said that, instead of relocating to a different country where wages were lower, “we bought the companies because of the expertise that come with them.”

## **The education factor**

It is rare for students to drop out of high school in Denmark, which also consistently boasts one of the [highest college completion rates in the OECD](#). It appears that the result is in part a function of structural safeguards.

According to Anna Mae Allerslev, the Copenhagen official in charge of employment and integration issues, students who do not finish high school are more likely to be unemployed as adults. and structures are in place to quickly funnel dropouts back into the education system.

“If someone comes to the jobs center” — which Danes are required to do in order to collect unemployment benefits — “and they haven't finished high school, he will be required to take those classes,” she said. “It's difficult to fall through the cracks here.”

## **Aren't some industries necessarily low-wage?**

In the United States, low-wage labor has typically been concentrated in a few industries; specifically, retail, hospitality, food service, food processing, and other service sectors like personal care and childcare that, as currently operated, do not require workers to be highly skilled.

These jobs exist in Denmark — albeit labor economists believe they make up a much smaller share of the labor market — but they are often unionized or covered by a collective bargaining agreement, and they generally pay significantly higher wages than their U.S. counterparts.

Remapping Debate spoke with Diana Ranile Baluyos, who works as a hotel cleaner in a large hotel in Copenhagen. She explained that, in addition to a livable hourly wage, her job provided her with six weeks of vacation time a year and allowed her flexible hours so that she can spend time with her children and study.

“It's a good job,” she said. “I make more than enough to live on. We never struggle.”

Lars Esbjerg, a professor at Aarhus University, has spent much of his career studying the sectors of the economy that are often prone to low-wage work. “There are very few jobs that you would consider low-wage in Denmark,” he said.

## Retail and food processing

In the retail industry, Esbjerg found that entry-level jobs are often paid low wages by Danish standards, but, when compared to other countries, the wage is relatively high, starting around \$19 per hour for workers older than 18 (collective bargaining agreements often stipulate that workers younger than 18 may be paid less). The average wage for retail salespersons in the United States is about \$12 an hour.

Milk and meat products are two large Danish exports, and Esbjerg has also studied this industry, noting that food production workers in other countries often suffer low-wages and very poor working conditions. But Esbjerg concluded that low-wage work is not a problem in the Danish food production sector.

“We really don’t see a lot of low-wage workers there,” he said. “What we see is that there has been a lot of on-the-job training by employers, so that food processing workers have become very skilled in certain functions, and Danish workers in that industry are very productive.”

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In slaughterhouses, for example, Esbjerg found that the minimum hourly wage in 2006 was \$15.30; the comparable rate for U.S. slaughterhouse workers was \$10.55, according to BLS.

## Job satisfaction and mobility

Esbjerg also found that workers in many traditionally low-wage industries reported a high degree of job satisfaction. “They enjoy their jobs because they think of them as temporary,” he said. “The majority of people doing those jobs are students, who value the flexible work schedule. [Working in those occupations] is generally a choice...They are not forced into it by circumstance.”

Entry-level jobs in the service industry are also characterized by a very high degree of mobility, Esbjerg added. This is partly due to the fact that, in most low-wage occupations, employers have implemented a system through which employees can enter the “management track” after a certain period of time. If someone without a college education works for a year in a supermarket, for example, he or she would then automatically be eligible to train for a better-paid management position, Esbjerg said.

Additionally, collective agreements usually stipulate that the employer must provide training for employees, either on-the-job or through the general education system. “We have always thought it was very important to include training in the agreements,” said Jan Kærra Rasmussen, chief economist at the Confederation of Danish Trade Unions. “That has always been a part of the deal.” Rasmussen said that the training component helps to ensure that employees have more options, so that they have the ability to leave their current jobs if they do not like them. That, in turn, puts pressure on employers to pay higher wages in order to retain employees.

“For those few workers who do make low wages, they will generally not make them for very long,” said Esbjerg.

## Unions

More than 65 percent of Danish workers belong to a trade union, and the collective bargaining agreements negotiated by those unions effectively cover 80 to 90 percent of Danish workers. (In the United States, by contrast, only 11.9 percent of workers belong to unions.)

John Schmitt of CEPR and Esbjerg agreed that the high union density in Denmark was the largest factor contributing to high Danish wages.

### WHAT ABOUT MCDONALD’S?

A very high-profile example of social pressure being exerted by both employee and employer unions for the purpose of maintaining high labor standards occurred in the 1980s, when McDonald’s opened several franchises in Denmark but refused to sign a collective bargaining agreement with the union, the only fast-food chain to do so.

Unions demonstrated and called “solidarity strikes,” in which members of other unions were called upon to boycott the restaurants.

Additionally, the Danish employers’ association for the hotel and restaurant sector refused to let McDonald’s join the association until the company negotiated with the unions.

In 1989, McDonald’s relented, joined the employers’ association, and signed an agreement with the union. Rasmussen said that, while there have been some disputes over time, particularly about overtime pay, in general the collective agreements ensure that McDonald’s workers are paid a living wage.

“The key starting point has to be the unions,” Schmitt said. “That changes almost every political and economic calculation that you can make.”

Danish union leaders said that raising wages had been a long process. “We don’t expect wages to go up if companies are not making a profit,” said Lars Lyngse, international council at the United Federation of Danish Workers, another large Danish union. “But when they do make a profit, we are always sure that workers are getting a piece of that cake.”

Schmitt added that employers’ unions — large groups made up of individual employers that bargain collectively with the unions — also played a large and overlooked part. “There is a social pressure that comes into play,” he said. “If a business wants to join the employers’ organization but they pay low wages, then the organization might force them to pay higher wages because they are undercutting the other members” (see sidebar).

Though Denmark has no official minimum wage, the collective agreements often instate a de facto minimum for different types of workers, and are renegotiated ever two or three years. Additionally, several employers said that the high compensation that is offered through the unemployment system

(which is also generally administered by the unions) force them to raise their wages in order to attract workers.

“There is always a discussion about whether we should have a minimum wage,” said Lyngse. “It makes sense for you to have it in the United States, but the unions are worried that it will become a maximum wage for the low-skill occupations here. We don’t want that. We want to be able to go up as high as we can.”

## An underground economy?

Economists in both Denmark and the United States said that, contrary to some economic dogma, the high wages, high taxes, and high union density in Denmark have not had a negative effect on employment or economic growth. Denmark’s unemployment is currently well below the U.S. levels, and before the recession it had hovered around 4 percent for several years.

“The Danish economy has been quite healthy, at least since the early 1990s,” said Lane Kenworthy, a political scientist at the University of Arizona who has focused on making comparisons between the U.S. and European economies. “I don’t have any sense that wages or taxes have impeded the Danish economy or their competitiveness.”

Nevertheless, Kenworthy warned that there are some costs associated with the Danish labor market model. In particular, he said, certain services such as housecleaning or personal care become unaffordable for some people, which can end up creating an underground economy where workers, often immigrants, perform these jobs off the books.

“One obvious issue this raises is the true absorption of immigrant persons,” Kenworthy said. “If they’re working in an underground economy, I think at the very least it slows down the process of integration. The second big issue is that it reduces the tax base, since these people are working outside of the tax system.”

Niels Ploug admitted that Denmark has some problems with underground labor, but added that it constituted a relatively small part of the labor market. “I think this is an unfortunate feature of all economies,” he said. “It’s relatively small in Denmark, but it’s possible that it could grow in the future.”

Denmark has dealt with the issue primarily in two ways. In the case of some occupations, such as housekeepers, the Danish government has chosen to subsidize employees’ wages when bearing the full cost would put these services out of reach of many Danes. The other major solution has simply

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“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.”

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been to bring those jobs into the public sector. In Denmark, most childcare and eldercare providers, and most home-health aides (typically jobs that pay workers low-wages in the U.S.) are paid by the state.

Kenworthy also recommended caution when comparing the wages of American and Danish workers, because many low-wage workers in the U.S. receive tax benefits from the government, such as the Earned Income Tax Credit, while Danish workers pay much more of their income in taxes to the government. This serves to equalize take-away income somewhat, he said, but still doesn't account for the benefits that all Danes receive from the government — like free and guaranteed health care, childcare, and education, along with paid vacation time, sick leave, and parental leave — which Kenworthy said “are probably beyond the wildest dreams of American workers in the same jobs.”

## “Maybe you should come here”

But many Danes emphasized that there are disadvantages to the U.S. labor market, as well.

“You have created a very unequal system,” said Lars Lyngse of the United Federation of Danish Workers. “In Denmark we have been able to maintain a national identity, a national unity. A big reason why we have been able to do this is because we don't have a lot of people falling through the cracks.”

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(Denmark is in a three-way tie among OECD countries for lowest income inequality; the U.S. has the second highest level of income inequality, behind only Mexico among OECD countries).

The Danish system has economic benefits, as well, Ploug said. “Most of Denmark is what you would call the middle-class,” he said. “There are not as many people buying yachts and personal jets, but workers who earn a decent wage are not excluded from they economy. They are able to spend more and contribute in that way.”

Diana Ranile Baluyos said that she had spoken to hotel workers in the United States who were often surprised to hear how much she made. “Many of them are working two or three jobs,” she said. “I tell them, maybe you should come here.”

This article originally appeared at <http://remappingdebate.org/article/high-road-high-wages-denmarks-answer-us-model>