
REMAPPING DEBATE

Asking "Why" and "Why Not"

Recent reforms leave Denmark's welfare state firmly in place

Story Repair | By Mike Alberti | Alternative models, Government services, New York Times

WHAT IS STORY REPAIR?

In this feature, we select a story that appeared in one or more major news outlets and try to show how a different set of inquiries or observations could have produced a more illuminating article.

For repair this week: "[Danes Rethink a Welfare State Ample to a Fault](#)" (The New York Times, Apr. 21).

We were struck by the story because it bore no relation to the reality our chief correspondent found when he did extensive reporting in Copenhagen for Remapping Debate back in 2011.

That reporting had resulted in articles that highlighted differences between prevailing Danish and U.S. attitudes towards the [appropriate role of government](#), the [importance of high-wage jobs](#), and the [meaning of citizenship](#). Even many centrist and conservative U.S.-based economists and policy experts, we found, agreed that the [Danish experience might offer some valuable lessons for the United States](#).

The recent article in the Times, as this press criticism points out, appears to have been the product of a mindset that can't accept the idea that Danes continue to support the fundamental elements of their existing model even while the particulars of how that model is implemented are contested within Danish society.

With nuance so lacking in the original piece, we thought a Story Repair was in order.

— *Editor*

May 7, 2013 — As it struggles to escape from the broad economic stagnation that has plagued Europe for nearly half a decade, the Danish government has recently agreed to a series of policy changes that will affect students and people living on social assistance, as well as spending increases and tax cuts intended in combination to spur economic growth.

The reforms come on the heels of other, broader policy changes that have been enacted in Denmark since the recession, [leading some observers to characterize the changes](#) as a radical rethinking of the Danish welfare state, often seen as the most generous in the world.

Yet despite those attempts, Danish experts are nearly unanimous in the opinion that the reforms are better characterized as modest tinkering that is broadly consistent with the time-honored Danish welfare state model, which combines a generous social safety net, robust educational and training system, high taxes and a strong emphasis on the obligation to work.

Nevertheless, the recent changes have provoked controversy within Denmark. Some observers on the left worry that the modifications have gone too far in pushing to ensure that all Danes are working, undermining the strong sense of solidarity that has long characterized Danish society.

Recent reforms and the “Nordic model”

In the last month, the Danish government has agreed to two significant changes to the welfare state.

The first relates to a program known as the “student allowance” system. In addition to receiving free higher education, all Danes who are studying have long been entitled to a monthly stipend intended to cover books and living expenses. In response to data showing that Danes on average take significantly longer than other European students to finish their university degree, last month the government agreed to roll back the duration that students will be eligible for the allowance to five years from six.

Second, in an effort to create incentives for people who are receiving social assistance to go back to school, the new reforms will cut the level of income assistance that Danes under the age of 30 who don’t have a college degree can receive down to the level of the student allowance, which in some cases will mean a significant drop in income. There will be some exceptions for individuals who are deemed unable to pursue higher education.

“Before, if you were a young person on welfare, it would be perfectly understandable for you not to get an education,” said Ane Halsboe-Jørgensen, a member of parliament from the Social Democratic party, which currently shares governing power. “You would look at your friend who is in university and see that he is getting less money, so we tried to equalize these two groups.”

These two changes follow upon several other reforms that were undertaken by the previous, conservative government. In 2011, for example, the government reduced the amount of time that Danes are eligible for unemployment assistance to two years from four years.

Additionally, in what is perhaps the most drastic and controversial change, the government agreed to increase the retirement age to 67 in 2027 and index it to life expectancy thereafter. Though special arrangements will be made for workers in some industries like construction, this change means that many Danes born after 1970 will be work five or more years or more longer than their parents did.

According to Jørgen Goul Andersen, a political scientist at Aalborg University, raising the retirement age was “a very big change that many of us argued that the government did not need to make.” The policy “is going to mean hardship for a lot of workers” and may increase inequality, as well, because workers with better jobs and higher incomes who are able to save more for retirement may be more likely to retire early, Goul Andersen said.

Bent Greve of Roskilde University said that Denmark has long pursued a “social investment” model, in which the government plays a large role in producing highly skilled workers who go on to work in highly paid jobs and pay high taxes, which are then used to finance the welfare state.

However, according to numerous experts inside and [outside of Denmark](#), all of the recent changes are broadly consistent with what has been termed the “Nordic model” — a particular blend of social and economic policies distinctive to Scandinavian countries.

Bent Greve, a professor at Roskilde University, said that Denmark and other Scandinavian countries have long pursued a “social investment” model, in which the government plays a large role in producing highly skilled workers who go on to work in highly paid jobs and pay high taxes, which are then used to finance the welfare state.

“We’re all in agreement about the general goals — creating a high-skill, high-wage economy with low levels of inequality and a large role for the government,” said Ove Kaj Pedersen of the Copenhagen Business School. “The disagreements are just about the best way to achieve those goals.”

“In this model the welfare state is not just a cost, it’s also an investment,” Greve said.

According to Dean Baker, an economist and co-founder of the Center for Economic and Policy Research, a left-leaning think tank in Washington, D.C., this model has performed remarkably well since the recession. “Denmark and the other Nordic countries have come through all this turmoil in much better shape than most other European countries and the United States,” Baker said.

But Danes have always understood that sustaining their high level of public investment and a generous safety net mean both high taxes and the obligation to work, said Lisbeth Pedersen, an economist at the Danish National Centre for Social Research.

All of the recent reforms, Pedersen said, stem from that understanding. “The driving idea behind all of these reforms is to get people educated and working in high-skill, high-wage jobs as quickly as possible,” Pedersen said. “The Danish model has always been about providing a generous level of social support, but also making sure that people are working in good jobs and paying taxes to sustain it.”

The future of the Danish welfare state

According to Arthur Daemrlich, an assistant professor of business administration at Harvard Business School who [has written](#) about the Nordic model, while it may be tempting to see the changes that have taken place since the recession as a slow dismantling of the Danish welfare state, the truth is perhaps closer to the opposite.

“Denmark has a long tradition of renegotiating and tinkering with the welfare state model,” Daemrlich said. “They are always trying to find the right balance between work incentives, economic security, and competitiveness.”

In that sense, the policy debate now going on in Denmark, like those that have generally taken place in that country, are much more about the best way to administer and govern the welfare state than about whether or not to abandon it altogether, said Christian Albrekt Larsen, a professor at Aalborg University. “Nobody is talking seriously about abandoning the Danish model,” he said. “Our elections are about who can run the welfare state most competently. These latest debates are about how to make it function most effectively.”

Ove Kaj Pedersen, an economist at the Copenhagen Business School, agreed. “We’re all in agreement about the general goals — creating a high-skill, high-wage economy with low levels of inequality and a large role for the government,” he said. “The disagreements are just about the best way to achieve those goals.”

One reason for the remarkable consensus about the welfare state, Kaj Pedersen said, is that both business and labor groups recognize that it is Denmark’s primary competitive advantage.

Erik Simonsen, the director of the Danish Confederation of Employers, the largest trade association in Denmark, said that while some business leaders believe that the government should go further in cutting social assistance, there is no significant resistance to the welfare state.

“Businesses recognize that the government is doing them a favor” by pursuing policies that promote economic security, Simonsen said. That the government provides free health care “allows businesses to focus on competing,” and the robust system of higher education and training “is what makes our workforce one of the most skilled in the world,” he said.

According to Lisbeth Pedersen of the Danish National Centre for Social Research, another reason for the widespread support for the Danish welfare state is that Danes have always placed a high value on equality and social solidarity. The recent reforms, she said, proceed from the belief that working is an essential part of participating and being included in society.

“So when a lot of people are not working we see that as a social problem” as well as an economic problem, Pedersen said. “Making sure people can work is seen as part of social justice.”

SPENDING INCREASES AND TAX CUTS COMBINED

The recent reforms to the Danish student allowance and social assistance systems are estimated to save the government 3.4 billion Danish kroner, or nearly \$600 million, by the year 2020. Those savings will contribute to a wide-ranging package of spending programs and tax cuts meant to stimulate the economy.

The package, which has been dubbed the “Big Bang,” will cost 15.1 billion Danish kroner (\$2.7 billion) by 2020. Included in the plan are a cut in the corporate tax rate, to 22 percent from 25 percent, costing an estimated 4.1 billion kroner (\$720 million). Oil companies drilling in the North Sea and financial services companies will be excluded from this tax cut. The plan also included some smaller, more targeted tax cuts, such as a reduction in the value-added tax on hotels that is meant to spur tourism.

New spending comprises about 55 percent of the “Big Bang.” That spending totals almost \$1.5 billion, including 2.3 billion kroner (\$403 million) for the renovation of public housing, 4 billion kroner (\$701 million) in aid to municipalities, and 1 billion kroner (\$175 million) to expand adult education programs.

Ove Kaj Pedersen of the Copenhagen Business School said that observers should be careful not to mistake the reforms for a shift toward the American model. “These reforms are in no way based on the principles of deregulation, outsourcing, or privatization,” he said. “They’re about making the public sector more and more responsible for private issues, and figuring out how the public sector can best solve problems.”

And several experts pointed out that, in addition to the changes that have made cuts in social programs, there have been many reforms to the Danish welfare state in the last several years that have actually *expanded* it. For example, the number of weeks that many Danes are entitled to paid vacation has increased to six from four over the last decade. Subsidies for child care have been expanded, as well, and restrictions on the eligibility of immigrants for government benefits have been rolled back.

When the broader context is considered, Kaj Pedersen said, the narrative of the decline of the Danish welfare state quickly falls apart. “There is always this effort to say the Danish welfare state has no future, that it’s too big, too extensive,” he said. “But that kind of discussion has been happening for fifty years now, and the welfare state is still around and still continuing to deliver high competitiveness and high equality.”

The widely shared sense that political alternatives and political action are available — perhaps startling to many Americans — helps ensure that a high level of societal trust remains in Denmark — a crucial requisite for continuing support of the welfare state.

Resistance to the reforms

While most Danes agree that the recent reforms do not herald the decline of the welfare state, those reforms have nonetheless provoked some significant resistance. According to Rune Stubager, a professor of political science at Aarhus University, the current left-of-center governing coalition is widely perceived as having departed from the platform that they ran on in the most recent elections — a platform that included reversing some of the previous cuts.

“The government is really suffering in the polls,” Stubager said. “They have lost a lot of support to the far-left party that opposes the recent reforms.”

In recent weeks, students have rallied to protest the cuts in the student allowance, and the Red-Green Alliance, the far-left political party, has been increasingly vocal in calling for a new millionaire’s tax to replace the revenue saved from the latest cuts.

Particularly controversial is a recent cut in the corporate tax rate, said Lars Andersen, the director of the Economic Council of the Labour Movement, a union-affiliated think tank in Copenhagen. Though the cut is so small as to be primarily “symbolic,” he said, “this has created the impression that the Social Democratic government is cutting welfare so that they can cut taxes for corporations. Even though it is quite a small amount of money, it is seen as a dangerous step.”

Even critics, however, described the controversy as a normal part of the political process in Denmark.

“The nice thing about our political system is that when one party does something we don’t like, we can switch to a different party,” said Jørgen Goul Andersen of Aalborg University who opposed the recent reforms.

Daemmrigh of Harvard Business School agreed: “If [the latest reforms] don’t work, they will be changed later...If there’s a problem, it will be solved. Danes are problem solvers.”

That widely shared sense that political alternatives and political action are available — perhaps startling to many Americans — helps ensure that a high level of societal trust remains in Denmark — a crucial requisite for continuing support of the welfare state.

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