Denmark. The Resilience of Welfare State Support

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# 1. Introduction

Measured by government revenues in percentage of GDP, Denmark took over lead position in the OECD from Sweden by 2002.[[1]](#footnote-1) During the great recession, the gap between Denmark and Sweden even became quite substantial. Total tax receipt in Denmark peaked at 58.5 per cent of GDP in Denmark by 2014 while the corresponding figure in Sweden was only 51.0 per cent (see Figure 1). While comparative revenue or expenditure figures should be read with great reservations[[2]](#footnote-2), in Danish public debates they were largely taken at face value. Still, the exceptionally high taxes and public expenditures did *not* spark off any widespread voter dissatisfaction with taxes, and even less with welfare spending. Since a fierce, but short-lived outbreak of tax protest in 1973, political promises of tax relief in Denmark have mainly had to be justified by arguments about potential impact on economic growth, rather than appeals to voters’ self-interests in lower taxes.

It should not be forgotten, however, that support for the welfare state is always contingent (Rothstein, 1998; Svallfors, 1989; Goul Andersen, 2008). In addition to being contingent on fair and transparent allocation of taxes, and on low levels of tax fraud and social abuse, it is also contingent on the perception that the welfare state is economically sustainable. This not only means that there has been increased willingness to cut back on public expenditures during economic crises (Goul Andersen, 1991, 1992, 1994); voters have reacted similarly to recurrent claims about long-term sustainability such as the challenge of ageing populations (Goul Andersen, 2011a).

This opinion climate has facilitated proactive government measures to overcome challenges of ageing or globalization. Further, since the 1980s there has been a political consensus regarding prudent economic policies. Accordingly, the Danish welfare state entered the great recession with a large budget surplus (5.0 per cent of GDP in 2005-07). This was actually too little – fiscal policy should have been tighter, but after all, maintaining a large surplus before 2008 contributed to keeping public deficits in Denmark below the 3 per cent of GDP threshold during the recession[[3]](#footnote-3). Gross public debt is well below the 60 per cent, and net debt has remained close to zero.

As regards long-term sustainability, pension and retirement reforms ensure that current welfare programmes can be maintained without increasing taxation. Finally, despite questions as to Danish competitiveness in the face of globalization during the crisis, Danes have remained “globalization optimists” (see e.g. Eurobarometer). And for good reasons: After three decades of balance of payment deficits, Denmark entered a period of permanent current account surplus in 1990[[4]](#footnote-4). During the great recession, the current account surplus grew to about 7 per cent of GDP[[5]](#footnote-5).

Source: OECD (2015), Annex table 26.

# 2. Economic, social and political context

From the mid-1990s until the great recession, Denmark almost experienced a second “golden age” of the welfare state. Public consumption increased with an annual growth rate of some 2 per cent, adding up to a cumulative growth of 45 per cent in real terms from 1992 to 2010 (Goul Andersen, 2012). This allowed for a significant catching up for the health care system, for an expansion of education, and for closing the remaining gaps in child care (full inclusion of the children of unemployed and immigrants, and of the youngest school children after school).

Despite this expansion, total public expenditures as proportion of GDP declined by 11 percentage point from 1993 to 2007[[6]](#footnote-6), due to even higher economic growth rates, decline of unemployment-related expenditures, and elimination of net public debt (Goul Andersen, 2012).

After two decades of mass unemployment 1975-1995, removing the structural imbalance of a permanent current account deficit which had haunted the Danish economy for three decades allowed the economy to expand. This was further catalysed by increasing oil production. Since 1993, Denmark has been a net oil exporting country, and from 1996 to 2012 Denmark had a net export of energy altogether (Energistyrelsen, 2014: 4-5). Even though oil production by 2013 had declined 53 per cent since it peaked in 2004, it contributed to maintaining a permanent current account surplus from 1990 until the time of writing, with the exception of a negligible deficit in 1998. Foreign debt was paid back, and Denmark’s NIIP (Net International Investment Position) turned positive from the mid- 2000s. As payments on foreign debt have been replaced by substantial revenues from net foreign investments, GNI (Gross National Income) has seen a substantially larger increase than the GDP (Gross Domestic Product) (Goul Andersen, 2013: 63).

National figures: Register data; net unemployment: not including activated. [www.statistikbanken.dk](http://www.statistikbanken.dk) (table AULAAR)

Eurostat figures: European Labour Force Surveys. Including active job seekers, whether registered or not (table tsdec450).

The Danish employment miracle lasted until 2008 and ended with the first experience of full employment since 1973. National and Eurostat figures provide a somewhat different picture, however. Presumably because of a large number of “discouraged workers”, the survey based figures from the 1990s were considerably lower than the official figures. From 2007 it was the other way around. According to the national figures, unemployment remained rather low during the great recession; according to the labour force surveys, unemployment approached the peak value of the early 1990s. From 2009 the main official figure has included unemployed who were activated, bringing the (gross) unemployment rate about two percentage points higher than the official net unemployment rates in Figure 2. Still, a discrepancy remains vis-à-vis the figures from the labour force survey. Around the 2011 election, this brought quite some confusion: Was the unemployment rate rather low, around 4 per cent (official net unemployment rate), was it around 6 per cent (official gross unemployment rate), or was it alarmingly high (close to 8 per cent, and the highest for nearly 20 years, according to the labour force survey)?

**Table 1. Current Account surplus as per cent of GDP, 2005-2014.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2005-2008 average**  | **2009**  | **2010**  | **2011**  | **2012**  | **2013**  | **2014**  |
| **Denmark**  | **2,8** | **3,4**  | **5,7**  | **5,7**  | **5,6**  | **7,3**  | **6,3**  |
| **Sweden**  | **8,5** | **6,3**  | **6,0**  | **6,9**  | **6,6**  | **7,3**  | **6,3**  |
| **Finland**  | **3,6** | **1,8**  | **1,2**  | **-1,8**  | **-1,9**  | **-1,8**  | **-1,9**  |
| **Norway**  | **15,3** | **11,9**  | **10,9**  | **12,4**  | **12,4**  | **10,0**  | **8,5**  |
| **Iceland**  | **-20,2** | **-11,7**  | **-6,4**  | **-5,3**  | **-4,4**  | **5,8**  | **3,6**  |
| **Germany**  | **6,2** | **5,9**  | **5,4**  | **6,1**  | **6,9**  | **6,6**  | **7,8**  |
| **Netherlands**  | **7,0** | **5,2**  | **7,5**  | **8,8**  | **11,0**  | **11,0**  | **10,3**  |
| **Belgium**  | **1,2** | **-0,8**  | **1,8**  | **-1,1**  | **-0,7**  | **-0,2**  | **1,8**  |
| **France**  | **-1,0** | **-1,3**  | **-0,8**  | **-1,0**  | **-1,5**  | **-1,4**  | **-1,0**  |
| **Italy**  | **-2,4** | **-1,9**  | **-3,5**  | **-3,1**  | **-0,4**  | **1,0**  | **1,8**  |
| **Spain**  | **-9,0** | **-4,8**  | **-3,9**  | **-3,2**  | **-0,3**  | **1,4**  | **0,8**  |
| **Greece**  | **-12,1** | **-11,1**  | **-9,9**  | **-9,9**  | **-2,5**  | **0,6**  | **0,9**  |
| **Portugal**  | **-10,9** | **-10,9**  | **-10,1**  | **-6,0**  | **-2,1**  | **1,4**  | **0,6**  |
| **Switzerland**  | **9,8** | **10,4**  | **14,0**  | **6,8**  | **9,9**  | **10,7**  | **7,0**  |
| **Ireland**  | **-4,5** | **-2,3**  | **0,6**  | **0,8**  | **1,6**  | **4,4**  | **6,2**  |
| **U.K.**  | **-1,9** | **-1,4**  | **-2,6**  | **-1,7**  | **-3,7**  | **-4,5**  | **-5,5**  |
| **USA**  | **-5,2** | **-2,6**  | **-3,0**  | **-3,0**  | **-2,9**  | **-2,4**  | **-2,6**  |
| **Japan**  | **3,9** | **2,9**  | **4,0**  | **2,2**  | **1,0**  | **0,8**  | **0,5**  |
| **Turkey**  | **-5,4** | **-1,9**  | **-6,1**  | **-9,6**  | **-6,1**  | **-7,9**  | **-5,8**  |
| **Brazil**  | **0,3** | **-1,4**  | **-2,1**  | **-2,0**  | **-2,3**  | **-3,4**  | **-3,9**  |
| **China**  | **8,5** | **4,9**  | **3,9**  | **1,8**  | **2,5**  | **1,6**  | **2,1**  |
| **Russia**  | **8,3** | **3,8**  | **4,1**  | **5,1**  | **3,5**  | **1,7**  | **3,3**  |

Source: OECD Economic Outlook June 2015.

At any rate, full employment and massive shortage of labour power had suddenly reappeared in the years before the great recession. Year by year, this had generated slightly higher wage increases than in neighbouring countries, and as productivity simultaneously declined, Denmark experienced a decline in wage competitiveness. This had not really been noticed because of the large current account surplus, but during the crisis, not least under the Social Democratic government 2011-15, it became a top political priority to repair the declining wage competitiveness.

**Figure 3. Danish Terms of Trade, 1948-2012 (1948=100).**

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However, due to a constant improvement in the terms of trade – higher price increases on exports and lower increases on imports (see Figure 3) – it was rather misleading to base calculations of competitiveness on fixed prices, and a few years after the outbreak of the great recession it was agreed, at least among economists, that competitiveness was not so bad – or even quite good.

It should also be noticed that Denmark (like the other Nordic countries) has experienced a smooth de-industrialization, swiftly replacing declining industries with more competitive branches – facilitated by the Danish “flexicurity” that has traditionally provided good protection for the unemployed in return for very limited employment protection legislation. The government has not sought to protect declining industries, and there are almost no instances where factory closures have implied long-lasting unemployment problems. Until the recession, there was political consensus that outsourcing of production to low-wage regions should not be considered a problem; on the contrary, this allowed Denmark to specialize in production at a higher level in the value chain.

In short, product market liberalization has for decades been part and parcel of the Danish economic growth model, and outsourcing or investments abroad were only welcomed until the great recession. By and large, this was also the experience of the other Nordic countries.

Credit market liberalization, on the other hand, has caused severe problems for all the Nordic countries. In Sweden, Finland and Norway the liberalization of the 1980s generated housing and credit bubbles that caused a Nordic banking crisis in the 1990s when the states were forced to nationalize some of the major banks. Iceland and Denmark escaped such problems in the 1990s, but during the great recession the Nordic countries had changed roles. Needless to say, Iceland was the radical case, but the mechanisms behind the Danish crisis were basically the same: Explosion of debt, and housing bubbles. In Denmark, the governments of the 1990s and 2000s had allowed for a liberalization of credit policy for homeowners, introducing interest-only loans at the worst possible time in October 2003. This lead to a virtual explosion in house prices (on average more than 60 per cent over three years) adding to substantial increases in the previous years (Figure 4). Altogether,

Source: Realkreditraadet.

Fat line: Owner-occupied apartments; fat dotted line: Ordinary family houses; thin dotted line: Summer cottages.

house prices nearly quadrupled from 1995 to 2007, and mortgage loans for homeowners increased from 40 to 80 per cent of GDP over a short span of years (Goul Andersen, 2011b). When Denmark was hit by the international economic recession, the country was already approaching the burst of a housing and credit bubble. This generated a rather peculiar economic situation which was seemingly not adequately understood by political decision makers during the great recession (see below).

# 3. Pre-crisis policies and issues

Politically, the traditional Social Democratic approach of the 1960s and 1970s, assigning first priority to employment, had been replaced in the 1980s by more neoliberal ideas assigning first priority to competitiveness and to combating the “uncontrollable” increase in public expenditures. When a centre-right government took over in 1982, it was somewhat inspired by Thatcherism and announced a “bourgeois revolution”, but after 3-4 years the government resorted to more consensual policies. After a short revival of neoliberal ideas in the late 1980s (which never

**Table 2. Budget surplus/deficit and net public debt, as per cent of GDP.**

|  |  |  |
| --- | --- | --- |
|  | **Budget surplus/deficit**  | **Net public debt (OECD)**  |
|  | **2007**  | **2011**  | **2012**  | **2013**  | **2007**  | **2011**  | **2012**  | **2013**  |
| Denmark  | 4.8  | –2.0  | -3.9  | -0.9  | +3.8  | –2.6  | -7.5  | -5.9  |
| Sweden  | 3.6  |  0.0  | -0.7  | -1.3  | +20.9  | +18.7  | +21.3  | +24.1  |
| Finland  | 5.3  | –1.0  | -2.2  | -2.5  | +72.6  | +54.3  | +55.4  | +59.6  |
| Norway  | 17.3  | 13.6  | 13.9  | 11.1  | +137.9  | +157.9  | +167.7  | +205.1  |
| Iceland  | 5.4  | –5.6  | -3.8  | -2.1  | +21.1  | –28.1  | -30.0  | -30.7  |
| Germany  | 0.2  | –0.8  | 0.1  | 0.0  | –42.6  | –50.5  | -50.5  | -49.1  |
| France  | –2.7  | –5.2  | -4.9  | -4.3  | –35.7  | –62.3  | -70.3  | -73.6  |
| Netherlands  | 0.2  | –4.3  | -4.0  | -2.4  | –27.8  | –38.8  | -42.2  | -44.4  |
| Belgium  | –0.1  | –4.0  | -4.1  | -2.7  | –73.1  | –81.5  | -82.4  | -84.1  |
| Italy  | –1.6  | –3.6  | -2.9  | -2.8  | –90.8  | –97.8  | -113.2  | -116.5  |
| Greece  | –6.8  | –9.6  | -8.9  | -12.7  | –86.5  | –142.5  | -103.3  | -122.7  |
| Spain  | 2.0  | –9.6  | -10.6  | -7.1  | –17.8  | –48.2  | -59.2  | -70.7  |
| Portugal  | –3.2  | –4.3  | -6.5  | -5.0  | –49.7  | –75.2  | -84.4  | -91.8  |
| Ireland  | 0.2  | –13.0  | -8.1  | -7.0  | +0.3  | –65.3  | -83.4  | -90.3  |
| U.K.  | –3.0  | –7.9  | -6.3  | -5.9  | –26.2  | –66.5  | -66.1  | -65.4  |
| USA  | –3.7  | –10.7  | -9.3  | -6.4  | –44.3  | –76.1  | -80.0  | -81.2  |
| Switzerland  | 1.0  | 0.7  | -0.2  | 0.1  | –8.8  | -8.1  | -8.2  | -8.0  |
| Japan  | –2.1  | –8.8  | -8.7  | -9.3  | –80.5  | –127.3  | -129.5  | -137.5  |
| Eurozone (15)  | –0.7  | –4.1  | -3.7  | -3.0  | –43.4  | –60.7  | -65.9  | -68.5  |

Source: Stats.oecd.org. Read Nov. 2014

materialised) the government basically maintained status quo, but throughout the ten years of Conservative-Liberal governments 1982-1993, it managed to curb public consumption.

The centre-left governments 1993-2001 allowed the public sector to grow at a higher level, it assigned higher priority to employment, and it introduced ALMP as an alternative to market liberal solutions to the alleged structural unemployment problems. However, prudent economic policies were continued, carefully avoiding a deterioration of current accounts, and systematically reducing the public deficit. By and large, the emphasis on providing adequate social protection for the unemployed was maintained, even though the maximum duration of unemployment benefits was cut from some 8-9 years to only 4 years.

The Conservative-Liberal government which took over in 2001 changed emphasis from adequate social protection and activation/education towards a work first-approach with emphasis on disciplinary measures and the use of ALMP as one such measure.

Ironically, the Danish Conservative-Liberal Government 2001-2011 was the first centre-right government for 80 years that was able to rule without the support from the social-liberal Radical Liberal party. This massive turn to the right in party political terms was only possible, however, because of three concomitant changes:

(1) A strong mobilization on the issue of immigration, not only for the anti-immigration Danish People’s Party, but also by the Liberal party;

(2) A significant turn away from “minimal state” ideas towards pro-welfare policy as regards the Liberal Party. After the electoral defeat in 1998, the new party leader Anders Fogh Rasmussen systematically searched for issues of symbolic importance (preferably with moderate costs) where he could overtake the Social Democratic-Radical Liberal government to the left.

(3) At the same time, the Danish People’s Party quickly abandoned its welfare sceptical and neoliberal ideas (a legacy from the Progress Party) in favour of a centrist, but welfare chauvinist, stance, giving priority to welfare improvements that benefited workers and the elderly.

The mobilization on the issue of immigration enabled the Danish People’s Party and the Liberals to attract substantial shares of working class voters. The pro-welfare stance enabled the two parties to *maintain* support from this segment of voters.

Apart from significantly more restrictive policies towards immigrants (admission as well as social rights, see Goul Andersen, 2007) the government basically continued the consensual and prudent economic policies of the previous government. It did pursue some liberal political goals, but mainly the least politically dangerous liberal ideas of outsourcing, vouchers and consumerism in the public sector. This was successfully presented as an extension of citizens’ rights.

Social policies during the Liberal-Conservative reign increasingly emphasized employment in favour of social security; one could speak of an “activation” of the entire social security/tax system with the purpose of extracting as much labour power as possible. In labour market policy, conditionality was strengthened, and a “work first” approach replaced the emphasis on improving qualifications among the unemployed. Accordingly, activation was increasingly used as a works test. Still, it is difficult to speak of a definitive break with the policies of the 1990s until 2010. After all, duration of unemployment benefits remained four years, and the proportion of (ordinary) unemployed receiving social assistance rather than unemployment benefits remained below 20 per cent (Goul Andersen, 2012b).

Tax cuts was provided on two occasions, in 2003/04 (unfinanced, but justified as a countermeasure against the dot com-recession) and in 2007 (justified by the large surplus on the state budget, but implemented in 2009 and tacitly financed in 2010 via a so-called “reconstruction plan” that should neutralize growth initiatives of 2009). The 2003/04 reform was the first reform to provide tax cuts targeted at those employed, via a (universal) “employment deduction” for those employed. The 2007 reform (later to be followed by a 2009 reform) significantly lowered marginal tax rates for middle and high incomes. Gradually, Denmark had become one of the EU countries with the lowest taxes on labour, with the exception of marginal taxes for high incomes (56 per cent) being slightly higher than the average for the 21 OECD members of the EU (Goul Andersen, 2012a; see also appendix table 2).

As regards the long-term challenges, the challenge of ageing had been addressed by labour market pensions from 1991 (extending collectively negotiated pensions to almost the entire labour market). Further actions were taken in a Welfare Reform in 2006, indexing the age brackets in the retirement system to life expectancy at the age of 60, taking 1979-1995 as basis. This implied that ageing was only a minor challenge.

As regards the challenge of globalization, this was largely addressed in an offensive manner, as a challenge to work smart rather than work hard. A “Globalization Council” working in close cooperation with the government 2005-06 allocated substantial resources to research and development infrastructure with the purpose of enhancing competitiveness. Throughout the period, the Danish population has maintained the most optimistic perceptions of globalization in the EU, according to recurrent Eurobarometer polls.

In these surroundings, it is hardly difficult to explain why there was widespread consensus over the welfare state, and why political trust increased. Unemployment disappeared as a political issue, restrictive immigration policies more than satisfied demands in the population, the economy was apparently doing well, and apart from side effects of rising house prices (causing higher imputed rent in calculations of inequality), outcomes in terms of equality remained basically unchanged. On closer inspection, there was an increase in poverty among immigrants receiving reduced social assistance, and the upper one per cent tended to have higher increases in income. Economic and political pressure for change were small.

As regards long-term sustainability of welfare (without increasing taxes), this was almost achieved; however, because of improved life expectancy at the age of 60, the goal of long-term sustainability was not completely met. The consensual pro-welfare course was significantly challenged, however, when the great recession emerged as a tsunami in 2008.

# 4. The Great Recession: A window of opportunity for structural reforms

In Denmark, tsunami is perhaps a misleading metaphor for the arrival of the great recession, since it had equally strong domestic sources. Like in the other Nordic countries two decades earlier, credit liberalization had boosted a credit and house price bubble. Denmark and Iceland had largely avoided the Nordic bank crisis in the early 1990s, but both countries had basically the same experience from 2008 onwards. To be sure, the expansion of bank credits was much more radical in Iceland, but the same mechanism of borrowing money cheaply at the international interbank market and lending out more money than allowed by the savings deposit was also followed by the Danish banks, building a deposit deficit of some 50 per cent of GDP from 2004 to 2008.

House prices had peaked already in 2006/07, and consumer confidence and economic growth had declined markedly already from the beginning of 2008. When the Lehman Brothers collapsed on Sep. 15 2008, the largest Danish bank soon found itself in a dire situation, but it was lucky to avoid a collapse before the Danish government provided an unlimited guarantee (amounting to 200 per cent of GDP) for all bank deposits in early October 2008. The banks themselves provided most of the money for bailout of suffering banks, and the state provided extra security for most Danish banks, but at an interest rate close to ten per cent. Altogether, six subsequent “banking packages” were adopted, but the Danish state avoided losing any money on the banking crisis.

|  |
| --- |
| **Overview: Danish welfare state reforms during the crisis****Continuity until May 2010*** 2009 Tax Reform; reducing marginal taxes, increasing employment tax credit
* 2009 Keynesian crisis response; Basically continuity until May 2010

**Path breaking reforms from May 2010*** **May 2010 “Recovery plan”**: Austerity (+financing 2007 tax reform)

 - **zero/negative growth in public consumption** from 3.Q.2010 - **Labour market reform** dramatically tightening duration & requalification  for unemployment insurance - **cumulative limit for child benefits**: Benefits for 2-3 children; zero benefits for subsequent children (repealed 2012 alongside other measures targeted at non-western immigrants; the child benefit limit actually missed the target; it was based on a miscalculation)* **2011 Retirement reform** de facto abandoning voluntary early retirement (*efterløn*) over a

 short span of years* **2012 Tax Reform**: Tax relief for the employed (in particular increasing tax credits of the

 employed; co-financed by cutbacks in the indexation of social transfers;  De-universalisation (income testing) of child benefits* **2012 Disability pension reform + flex job reform**. Access to **disability pension** requires a long

 testing period to find out whether the claimant has *any* employability left (this is taken very literally and tends to make a disability pensioner ineligible for public office. During the testing period the claimant receives a lower support such as social assistance;  In the first year this caused a 60 per cent drop in granting of disability pension. **Flex job reform:** Previously the employer was compensated so that the employed could maintain an ordinary wage. Changed into a small income-tested subsidy for the employed making it possible only to maintain a low wage. * **2013 Growth reform**: Corporate taxes reduced from 25 to 22 %, for the first time *not* co-financed by

 any broadening of the tax base* **2012-2014 Successive packages to alleviate the impact of the 2010 labour market reform**, securing social assistance-level support for most dropouts from the unemployment benefit system
 |

Nonetheless, economic growth declined substantially, by 5.8 per cent in 2008-2009. This was in fact the largest setback in the Danish economy in peacetime since 1820, but unlike in most other countries, the Danish economy did not really begin to recover until 2014.

In 2009, all countries were Keynesian for a short while, but the imbalances of the Euro system and the political preferences of the German government triggered a turn to austerity in Europe, and Denmark followed the German course. In May 2010, the government alongside with the Danish People’s Party (and supported by the Radical Liberals) adopted a “reconstruction package” including a strong tightening of unemployment insurance and an immediate stop for public expenditure increases leading to a negative growth in public consumption of 1.4 per cent in 2011. The retrenchment of unemployment insurance reduced duration of benefits from four years to two years, and at the same time doubled the requalification requirement from six to twelve months of full-time employment.

Allegedly, the 2010 reform should “clean up” after the initiatives to stimulate consumption in 2009; however, it also provided financing for the tax relief of 2007 which only became effective from 2009. In a large number of adjusted future budget deficits projections – always coming too late – the government ended up with a projection of a deficit of some 5 per cent of GDP. This contributed to release a formal recommendation from the EU Commission to reduce the deficit to less than three per cent of GDP. Actually, the deficit never exceeded three per cent of GDP, but the EU recommendation was used to legitimize unpopular reforms.

Among these reforms were the retirement reform one year later (2011). This changed the age brackets for voluntary early retirement (“efterløn”), reduced duration to three years and significantly reduced the size of the allowance. In return, people could claim their contributions back. This retrenchment led to an “artificial” increase in public sector deficit in 2012.

The retirement reform did not receive support from the majority, but it did not only mobilize resistance; it also mobilized support among an increasingly crisis conscious population (Goul Andersen, 2015x). In the 2011 election, the Social Democratic coalition only won by the smallest possible margin as the Liberals had successfully campaigned on a crisis agenda and had gained some four per cent from the centre-left coalition. Besides, the Radical Liberals nearly doubled their share of the vote after campaigning on a similar agenda. As the Radical Liberal controlled the majority, they forced the Social Democrats to comply with the economic policies of the previous government; it was even written into the government manifesto that the government would largely continue the economic policies of the previous Liberal-Conservative government.

It certainly did – and the Social Democratic government managed to implement most of the plans that had been lying in departmental disk shelves for a long time, waiting for a window of opportunity to be carried through politically. The crisis provided such a window, alongside a weakened Social Democratic party that was forced to give up most of its election programme and actually made a virtue out of necessity. According to the Danish prime minister, the government went “reform frenzy”, which is a quite accurate description. In fact, the centre-left government 2011-2015 did little to counteract the crisis in the short run. Instead, it carried through a series of long-term reforms of social assistance, early retirement, disability pension, the flexible jobs programme – as well as providing tax relief for income taxes and for corporate taxes (Dølvik et al., 2015; Goul Andersen, 2015).

## Political discourse

Political discourse changed during the crisis towards suspicion of the unemployed – as an indirect effect of continuing discussion about incentives to work. But it did not have much impact on voters. Media outbreaks of suspicion of the unemployed were followed by some short-term reactions, but a few months later, they were gone.

# 5. The welfare state strikes back

The reforms of 2010-2013 contained a certain potential for becoming self-reinforcing as the Social Democratic government had paved the way, institutionally as well as discursively, for more to come. In New Zealand the Labour Party had embarked on a neoliberal reform path in the 1980s; disappointed Labour voters defected to the National Party in the 1990 election; and – rather surprisingly – the National Party carried through a considerable transformation of the NZ welfare state during its first two years in office.

Nowadays, social services are usually found to enjoy more support, not least among middle class voters, than cash transfers. One could stipulate from attitudes surveys, and from the experience during the crisis of the 1980s, that voters would accept retrenchment of services in a period of high crisis consciousness, but only until the economy turns. Cutting cash transfers would be easier to defend as they affect a smaller segment of voters and could be justified in terms of incentives even during an economic upswing.

However, the cuts in the duration of unemployment benefits contributed to serious legitimacy problems for the Social Democrats, and during its last year in office, the government abstained from further neoliberal reforms and announced a change in unemployment insurance after the next election. This strengthened the Social Democrats in the polls, and the party actually obtained a small improvement of voter support in the 2015 election. But political distrust remained high, and voters defected in large numbers from the governing parties. The 2015 election became a light version of the 1973 landslide election, with the second highest electoral (net) volatility ever recorded. Voters did not turn to the Liberal and Conservative parties but rather to the Danish People’s Party which had been in opposition to most reforms after the 2011 election, including the reform of unemployment insurance which the party had supported in 2010. The Danish People’s Party is a welfare chauvinist party, but as far as welfare for the Danes is concerned, the party has increasingly supported “traditional” Social Democratic policies (while at the same time trying to prevent immigrants from gaining access to welfare benefits).

### 5.1. Distrust and Protest

From the mid-1990s to the years of prosperity before the 2008 crisis, Danish voters exhibited increasing political trust, but this trend was soon reversed, and around 2010/2011 trust declined rapidly.[[7]](#footnote-7) After a short-time increase around the 2011 election, political trust declined to a record low in 2013. By 2015, political trust had not significantly improved.

Another indicator is the support for what we might call “non-government parties”, i.e. for parties that have never joined a government and do not assign priority to this goal. Taken together, these parties increased their support from 12.5 per cent in 1998 and 18.9 per cent in 2007 to 41.2 per cent in 2015 (Table 2).

**Table 3. Support for “non-government parties”, elections 1998-2015. Per cent.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **1998** | **2001** | **2005** | **2007** | **2011** | **2015** |
| Unity List (radical left) | **2.7** | **2.4** | **3.4** | **2.2** | **6.7** | **7.8** |
| Danish People’s Party (pop.right) | **7.4** | **12.0** | **13.3** | **13.9** | **12.3** | **21.1** |
| Progress Party (pop.right) | **2.4** | **0.6** | **.** | **.** | **.** | **.** |
| Liberal Alliance (neolib.) | **.** | **.** | **.** | **2.8** | **5.0** | **7.5** |
| The Alternative (green)  | **.** | **.** | **.** | **.** | **.** | **4.8** |
| Non-government p., total | **12.5** | **15.0** | **16.7** | **18.9** | **24.0** | **41.2** |

Source: Statistics Denmark. Per cent of valid votes.

### 5.2. Support for improved social protection for the unemployed

Since 2013, a huge number of opinion polls have shown widespread support for modifying the 2010 labour market reform one way or another, to ensure against dropout from the unemployment benefit system. Usually considered an issue with limited voter appeal, this issue turned out to be one of the issues where not only Social Democrats, but even a substantial proportion, and often a majority, among the non-socialist voters supported longer duration, less strict requirements for requalification for benefits, or other measures to prevent ordinary unemployed workers from falling through the safety net and having to rely on means-tested social assistance (which often means zero support if the spouse of the unemployed happen to be employed. A case in point is a survey carried out by the Unemployment Fund’s Association/Statistics Denmark (AK-Samvirke, June 15, 2015) which showed that 64 per cent supported less tight rules in order to reduce the number of people losing their unemployment insurance. A similar proportion supported less tight rules for requalification for benefits. Another survey by Avisen.dk/Analyse Danmark revealed that 69 per cent agreed that it should be easier to qualify and re-qualify for unemployment benefits (Avisen.dk, May 30, 2015). This survey also revealed a majority of supporters among all parties except the Liberal Alliance. With negligible variations, the message has been the same in more than a handful of surveys in 2013 and 2014.

### 5.3. Declining support for parties endorsing neoliberal reforms

Yet another indication of voter resistance is the dramatically declining support for the parties endorsing further reforms: the Liberal Party, the Radical Liberals, the Liberal Alliance, and the Conservatives. Support for these parties peaked in April 2012 with 52.1 per cent. In the 2015 election, the joint support for these parties was as low as 34.9 per cent.

**Figure 5. Declining support for parties endorsing neoliberal welfare reforms, 2011-15. Quality-adjusted weighting of monthly polls, and election results. Percentages.**

Reform parties: Liberals, Conservatives, Liberal Alliance, Radical Liberals

Anti-reform parties: Unity List, Socialis People’s Party, Social Democrats, the Alternative, and Danish People’s Party.

Source: Risbjerg Thomsen (2014, 2015).

### 5.4. Public attitudes towards welfare in general

Public attitudes to welfare are basically *contingent* (Rothstein, 1998; Svallfors, 1989; Goul Andersen, 2008). In the first place, attitudes depend on perceptions of the economy and on affordability of welfare. Secondly, they follow the prisoners’ dilemma logic in two respects: (a) people must be confident that everybody pay their fair share in terms of taxes, and (b) that abuse of social benefits is not very widespread. In the landslide election of 1973 which is usually considered a tax protest, anti-welfare election, the latter criteria were not fulfilled at all. As a remarkable consequence, the highest proportion of voters demanding more heavy taxation of people with high incomes was recorded exactly in 1973 when the anti tax Progress Party suddenly entered the Danish Parliament with 15.9 per cent of the voters behind them. The party leader Mogens Glistrup had not only compared tax evasion with the resistance movement during the German occupation 1940-45; he had also demonstrated that as a tax lawyer, he was able to escape income taxes himself.

The Danish income taxes are the most visible in the world since there are virtually no social contributions. High visibility could be expected to generate criticism, but this is not the case: Taxes and tax deductions, except corporate taxes, are highly transparent, and at least among ordinary citizens, the opportunities for tax evasion have become virtually non-existent, except in the shape of network-based moonlight work. The state has almost any thinkable information about people’s income as employers, banks and others are obliged to report any information they have.

As to abuse of social benefits, this was largely not an issue from the 1980s until recently. The Danish flexicurity system may also contribute to trust in recipients of cash benefits as it means that the experience of unemployment is extremely widespread whereas long-term unemployment, on the other hand, is much more rare than in the Continental European systems. Even in a situation with moderate unemployment as in 2011, as many as 45 per cent of the adult population had experienced unemployment within the last year themselves, or for some members of the closest family (spouse, parents or children) within the last 12 months (Goul Andersen, 2014).

As regards macroeconomic conditions, welfare state support in Denmark has tended to follow the business cycle. During the short-lived prosperity in the mid-1980s, support for welfare increased, and this was repeated in 2005 and 2007. This was probably also supported by the fact that the Liberal Party made a virtue out of necessity and declared itself as a pro-welfare party – which it was to a considerable extent, as measured by the increase in public service expenditures. At any rate, there was a small decline in 2011, but support remained substantially higher than in the 1970s or the 1990s – or at the same level as the first “golden age” measurement in 1969.

**Figure 6. Support for maintaining social welfare at least at the current level. PDI. Percentage points.**

Source: Danish Election Surveys

**Figure 7.A and B. Voter support for increasing user charges and for improved welfare rather than tax relief. PDI. Percentage points. (positive=majority of pro-welfare preferences).**

Source: Danish Election Surveys

This is also confirmed by a long-term increase in resistance against extra user charges, and in preference for improved welfare rather than tax relief if the economy allows one of these possibilities.

As regards the underlying support for equality, this has declined a bit since the peak values of 1969, 1973/74 and 1985. But it is remarkable that the debate about the impact of crisis policy on equality in the 1980s generated a steep increase in support for equality from 1984 to 1985 when the economy prospered more than anticipated. At least some notion of “fair share” seems to be very strong. It is worth adding also that, despite the enormous decline in class-based voting, the class differences in attitudes towards inequality have remained almost the same throughout the 40 year period (Goul Andersen, 2015).

**Figure 8. Support for higher equality in incomes. 1969-2011. PDI (percentage points)**

Source: Danish Election Surveys

However, the crisis did have an impact on the attitudes (as will also be revealed below). Expectations were substantially modified, and much fewer people considered welfare to be sustainable in the long run. The proportion considering welfare unsustainable increased from 19 per cent to 38 per cent.

**Table 4. Can we afford the welfare state? 2007 and 2011. Percentages and PDI (in percentage points: Disagree minus agree).**

|  |  |  |
| --- | --- | --- |
| In the long run, we cannot afford to maintain the welfare state as we knew it | 2007 | 2011 |
| Fully agree | 4 | 13 |
| Mostly agree | 15 | 25 |
| Neutral, don’t know | 32 | 27 |
| Mostly disagree | 33 | 23 |
| Fully disagree | 17 | 12 |
| Total | 100 | 100 |
| PDI: Disagree minus agree (percentage points) | +31 | -3 |

## Source: Danish election surveys.

### 5.5. Welfare Chauvinism and Blaming the Poor: Attitudes towards specific programmes

Even though the Social Democrats sought to mobilize on security in the 2015 and liberated itself from the constraints imposed in 2011 by the co-governing Radical Liberals, the coalition of parties supporting a Liberal government won the election. One of the main reasons was perhaps the Liberal party’s successful change of the agenda towards questioning the work incentives of social assistance claimants, and towards criticising the government for not preventing an increasing number of asylum seekers. It is difficult to tell how much was caused by the actual number of asylum seekers, and how much was caused by party rhetorics, but the Liberal party was under pressure to promise welfare improvements, especially as regards health care, and this was solved not least by suggesting big savings on foreign aid and on asylum seekers. At the same time, the Liberal party was questioning the incentives of social assistance recipients, calculating how much a family with three children could receive altogether in public support under the best possible conditions.

As revealed by the following table on attitudes towards specific welfare issues, there has been a very significant decline in the willingness to pay for foreign aid and for support for refugees and immigrants during the crisis. Not to entirely unprecedented levels, but certainly a significant decline since 2007.

On the other hand, we find no decline in demand for “social investment” expenditures like kindergartens and education.

**Table 5. Attitudes towards welfare spending, 1979-2015. Balance of opinion (percentage points).**

|  |  |  |
| --- | --- | --- |
|  | Balance of opinion: Spend more minus spend less | 2015YouGov\*) |
|  | 79 | 85 | 90 | 94 | 98 | 00 | 01 | 03 | 05 | 07 | 11 | 2015 |
| Defence | -45 | -35 |  | -35 | -35 |  | -19 |  | -27 | -37 | -50 | -24 |
| Health care | 28 | 61 | 61 | 73 | 77 | 75 | 67 | 49 | 55 | 76 | 57 | +71 |
| Home help care | . | . | . | 73 | 69 | 70 | 69 | 61 | 70 | 71 | 70 |  |
| State pension | 56 | 64 | 57 | 51 | 42 | 58 | 46 | 38 | 41 | 49 | 36 |  |
| Education | 22 | 44 | 45 | 42 | 39 | 50 | 46 | 46 | 65 | 57 | 64 |  |
| Kindergartens | 20 | 24 | 29 | 32 | 36 | 42 | 33 | . | . | 54 | 59 |  |
| Unempl.Benefits (level) | -42 | 17 | 2 | 0 | -7 | 5 | -1 | . | . | 10 | 14 | +10 |
| Social Assistance (level) | . | +30 | -11 | -11 | -19 | -8 | -13 | . | . | 8 | 3 | -3 |
| Cultural purposes | -30 | -12 | -19 | -34 | -39 | -34 | -32 | . | . | -21 | -34 |  |
| Foreign aid | . | . | -26 | -35 | -40 | -32 | -32 | -12 | 5 | -7 | -22 | -27 |
| Refugees and immigrants. | . | . | -30 | -35 | -41 | . | -33 | -13 | -1 | -2 | -16 | -20 |

Wording “Now, I’ll ask about your view on public expenditures for various purposes. I should like to ask whether you think government spends 1) too much, 2) appropriate, or 3) too little money on these tasks.”

YouGov is based on web panels. As this has a small selection bias in favour of political distrust and savings for foreign aid and refugees, we have eliminated this bias by comparing two identical YouGov samples of 18-65 years old in 2011 and 2015. Subsequently, this observed difference between the two YouGov surveys og 2011 and 2015 is added to the balance of opinion in (the election surveys) of 2011. This provides less dramatic, but probably realistic figures on the change from 2011 to 2015 (The “true” figures for YouGov respondents in 2015 are -29 as regards defence, +68 as regards health care, +11 for unemployment benefits, -11 for social assistance, -45 for foreign aid, and -42 for refugees and immigrants. It is the last mentioned three figures that are probably exaggerated by some selection effect in the web panel.

# 6. Future perspectives

Economic challenges to the Danish welfare state are few. The financing of ageing is secured – without cutbacks or tax increase – in the long run, apart from a short-term “hammock effect” from the 2020s till the 2050s (possible 2060s), mainly reflecting the ageing of the large birth cohorts in the 1940s, 1950s and 1960s, and the maturation of the pension system.

As regards globalization, this is really nothing new. Globalization has always been a challenge to a small, open economy and Denmark has always favoured the highest possible liberalization of trade etc.

What remains are political challenges. Including political challenges linked to immigration.

As to the political challenges, the weakening of the unions is perhaps the most serious challenge. So far, employers have remained relatively satisfied with the institutionalized class compromise that has characterized Danish society for more than a century. But this could change, and one should not ignore the weakening of trade union power. No governments have so far found it strategically convenient to launch a frontal attack on the trade unions (this would also be disastrous for the pension system), but some governments couldn’t resist the temptation to undermine unions financially by reducing tax deduction for union fees (and contributions to unemployment insurance). It should be added, though, that some of these changes took place while a Social Democratic government was in office; it simply overlooked the fact that reducing the tax value of a particular category of tax deductions would make union membership much more expensive. At any rate, union membership rates are declining, especially among manual workers. Partly for financial reasons, but perhaps also because young people take minimum wages and other rights for granted and fail to recognize that in accordance with the “Danish model”, they typically rely on collective agreements, not on laws adopted in Parliament. Finally, a declining sense of working class solidarity, and rather negative feelings towards the unions among their own members may have contributed (ironically, unionism among white collars and professionals does not seem to be threatened at all).

As to immigration, the impact for the welfare state is a complex matter. Needless to say, immigration does not undermine support for a welfare state that provides security and services for the overwhelming majority of the population (as claimed by some of the readers of Alesina & Glaeser, 2004). Even if it may be difficult to build a welfare state in a context of ethnic or racial heterogeneity, it does not follow that it is equally difficult to maintain a welfare state in such a context. Sequential order is essential here: What comes first – the welfare state or multiculturalism.

Next, it has also emerged that social capital has increased very substantially in the Nordic welfare states exactly during the decades where they have become substantially more ethnically heterogeneous (Albrekt Larsen, 2013). Rather, the challenge is one of welfare chauvinism: Welfare for the Danes. Ethnic minorities are typically considered the least “deserving”; this does probably not constitute a problem *per se*, but if it enables political decision makers to introduce de jure or de facto discrimination based on ethnicity, this could gradually undermine the notion of full citizenship that has never been very pronounced in public debates, but, none the less, has served as an implicit normative foundation of a welfare state with very high social minima by comparative standards.

Finally, one should not ignore the impact of economic crisis. Economic crises may open windows of opportunity for reforms which can be exploited by political entrepreneurs – and for new ideas which could not be predicted. For instance, it was completely unpredictable that the Danish Social Democratic party leadership would seriously consider a break with universalism as it did in its so-called 2032 strategy. It was turned fiercely down by party members who happened to mobilize on the issue – but this is a rather unusual situation in most Danish parties and was perhaps even less predictable. It is worth to notice that the economic crisis did not come (only) from abroad, and the crisis did not arrive from any structural imbalances in the Danish economy, let alone problems caused by the welfare state. The crisis depended on irresponsible political decisions in the mid-2000s to liberalize credit policy and ignore the consequences. And the prolonged crisis depended on incapacity to diagnose and handle the crisis problem – the burst of a bubble economy was not even mentioned in the almost 90-page long government manifesto of 2011.

The most predictable element is voter support for the welfare state. This has sometimes been weakened in extraordinary situations, but so far the situation has always returned to “normal”. Still, voters preferences are institutionally conditioned, and they are also depending on political discourse which, in turn, are conditioned by economic policy failures.

This could look like a Danish peculiarity. However, it is remarkable that the Nordic welfare state also came under attack in Sweden, Finland, and Norway in the 1990s, following a quite similar policy disasters generating housing and credit bubbles (Tranøy, 2002; Dølvik et al., 2015). The welfare state was not only victim in terms of necessary efforts to balance the economy; it also came under ideological attack even though the crisis could be attributed almost exclusively to imprudent credit policy liberalization that got out of hand.

# Appendix tables & figures

**Appendix Table 1. Cumulative Growth Rates in Denmark and Sweden, 2007-2013. Per cent**

|  |  |  |
| --- | --- | --- |
|  | DENMARK | SWEDEN |
| GDP  | -4,0 | +6,0 |
| Imports  | +1,8 | +4,5 |
| Exports | +4,6 | +3,4 |
| Private Consumption  | -3,4 | +9,3 |
| Public Consumption  | +4,2 | +8,7 |
| Gross investment \*) | -17,0 | -1,4 |
| Source: Statistics Denmark + SCB, read 1.3.2014. \*) Difference in gross investments mainly due to differences in housing investment. |

**Appendix Table 2. Taxes on Labour in Denmark and in the EU countries being members of the OECD.**

|  |  |  |
| --- | --- | --- |
| 2014  | **Single, no children(income as per cent of average worker - AW)**  | **Familiy with** **two children**  |
| Low wage 67 % AW.  | Average100 % AW  | High wage167 % AW  | 100+67 % AW.  |
| **Average** **tax**  | Top (Belgium)  | 49.9 | 55.6 | 60.8 | 48.4 |
| EU 21  | 38.2 | 42.1 | 46.8 | 36.3 |
| Denmark  | 36.4 | 38.1 | 43.6 | 33.6 |
| **Diff.** **Denmark – EU 21**  | **-1.8** | **-4.0** | **-3.2** | **-2.7** |
| **Marginal****tax**  | Top (Belgium)  | 66.3 | 66.3 | 68.5 | 65.5 |
| EU 21  | 48.7 | 51.3 | 53.1 | 49.2 |
| Denmark  | 40.1 | 42.5 | 56.2 | 42.5 |
| **Diff.****Denmark – EU 21**  | **-8.6** | **-8.8** | **+3.1** | **-6.7** |

Source: OECD (2015). *Taxing Wages, 2013-2014.*

**Appendix Figure 1. Net International Investment Position, NIIP (foreign debt/assets), as per cent of GDP.**

Iceland: -621.6

**Appendix Figure 2. Denmark. NIIP as per cent of GDP, 1998-2013. Quarterly figures.**

**Appendix Figure 3. Sovereigns Rating List. 2015.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Moody's**  | **S&P**  | **Fitch**  | **Fail (=sum)**  |
| **Switzerland**  | **Aaa** | **AAA** | **AAA** | **0** |
| **Denmark**  | **Aaa** | **AAA** | **AAA** | **0** |
| **Sweden**  | **Aaa** | **AAA** | **AAA** | **0** |
| **Norway**  | **Aaa** | **AAA** | **AAA** | **0** |
| **Germany**  | **Aaa** | **AAA** | **AAA** | **0** |
| **Australia**  | **Aaa** | **AAA** | **AAA** | **0** |
| **Canada**  | **Aaa** | **AAA** | **AAA** | **0** |
| **Singapore**  | **Aaa** | **AAA** | **AAA** | **0** |
| **Luxembourg**  | **Aaa** | **AAA** | **AAA** | **0** |
| **Netherlands**  | **Aaa** | **AA+** | **AAA** | **1** |
| **United States**  | **Aaa** | **AA+** | **AAA** | **1** |
| **Finland**  | **Aaa** | **AA+** | **AAA** | **1** |
| **Austria**  | **Aaa** | **AA+** | **AAA** | **1** |
| **United Kingdom**  | **Aa1** | **AAA** | **AA+** | **2** |
| **Hong Kong**  | **Aa1** | **AAA** | **AA+** | **2** |
| **New Zealand**  | **Aaa** | **AA** | **AA** | **4** |
| **France**  | **Aa1** | **AA** | **AA+** | **4** |
| **Belgium**  | **Aa3** | **AA** | **AA** | **7** |
| **China**  | **Aa3** | **AA-** | **A+** | **9** |
| **Chile**  | **Aa3** | **AA-** | **A+** | **9** |
| **South Korea**  | **Aa3** | **A+** | **AA-** | **10** |
| **Taiwan**  | **Aa3** | **AA-** | **A+** | **10** |
| **Japan**  | **A1** | **AA-** | **A+** | **11** |
| **Poland**  | **A2** | **A-** | **A-** | **17** |
| **Ireland**  | **Baa1** | **A** | **A-** | **18** |
| **Mexico**  | **A3** | **BBB+** | **BBB+** | **20** |
| **Spain**  | **Baa2** | **BBB** | **BBB+** | **23** |
| **Italy**  | **Baa2** | **BBB-** | **BBB+** | **24** |
| **Brazil**  | **Baa2** | **BBB-** | **BBB** | **25** |
| **Iceland**  | **Baa3** | **BBB-** | **BBB** | **26** |
| **India**  | **Baa3** | **BBB-** | **BBB-** | **27** |
| **Russia**  | **Ba1** | **BB+** | **BBB** | **28** |
| **Portugal**  | **Ba1** | **BB** | **BB+** | **31** |
| **Hungary**  | **Ba1** | **BB** | **BB+** | **31** |
| **Greece**  | **Caa1** | **B-** | **B** | **45** |
| **Ukraine**  | **Caa3** | **CCC-** | **CCC** | **54** |

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1. By 2015 this position is probably passed on to another Nordic country, Finland, due to Finland’s problem of recovering from economic slump. [↑](#footnote-ref-1)
2. 2014 was extraordinary since the government provided opportunities for withdrawing savings from a so-called capital pension scheme, or changing the capital pension into another pension scheme, with (reduced) tax payments here and now, resulting in a budget surplus of 1.2 per cent of GDP. As regards gross public expenditure (“total outlays”),Denmark only topped among OECD countries twice, in 2011 and 2012. More generally, when the Danish figures are compared to other countries, it should be noted that Denmark had a persistent budget surplus preceding the great recession, peaking at 5.0 per cent of GDP 2005-2007 (OECD, 2015, Annex table 27). Besides, as revealed by OECD’s calculations of net social expenditures, the figures for the Nordic countries are inflated by the fact that cash benefits for income replacement (unemployment benefits, social assistance, pensions etc.) are fully taxed (in the Danish case with a small exception of a tax deductible so-called “labour market contribution” of 8 per cent – de facto a gross tax rather than a social contribution). Finally, the large increase in Danish taxes and public expenditure during the great recession is mainly due to negative and/or zero GDP growth – where Denmark experienced a cumulative setback vis-à-vis Sweden of some 10 per cent from 2008 to 2014. This is also the case with Finland which became the country with the highest government outlays from 2013 and the highest taxes from 2015. Finland suffered larger and much more severe economic problems from 2008 onwards than Denmark because the country’s exports have failed. [↑](#footnote-ref-2)
3. In 2012, the deficit reached 3.7 per cent of GDP because of repayments of contributions to a voluntary early retirement scheme which had been significantly cut. In return, people could claim their contributions back. [↑](#footnote-ref-3)
4. Due to over-heating of the economy, there was a negligible deficit in 1998. [↑](#footnote-ref-4)
5. The current account surplus was affected by oil revenues from the North Sea, by very low levels of private consumption and investments, and by revenues from considerable net investments abroad (after decades of foreign debt, Denmark’s NIIP (Net International Investment Position) turned positive just before the crisis; by 2015, NIIP had grown to about 40 per cent of GDP. However, even though the size of the surplus may be temporary, it remains that oil production had peaked in 2004 and oil revenues shortly after that. The gains from a positive NIIP are considerable, but are by their very nature likely to be enduring, at least for a long time. [↑](#footnote-ref-5)
6. This figure is corrected for the 1994 tax reform which changed several cash benefits to taxable income but increased the benefits correspondingly. [↑](#footnote-ref-6)
7. Unfortunately there are no Danish data on political trust from the 2007 election survey until May/June 2011, shortly before the 2011 election. However, Eurobarometer data on trust in the national government reveal a significant decline during 2010, roughly coinciding with the political turn towards a harsh retrenchment policy. [↑](#footnote-ref-7)