

ON SOME ASPECTS OF THE DANISH WELFARE STATE FROM 1960S TO 1990S

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THE CONCEPT OF THE WELFARE STATE

The term **welfare state** is of recent origin. The definition included in the Oxford English Dictionary in 1955 goes as follows: "a policy so organised that every member of the community is assured of his due maintenance, with the most advantageous conditions possible for all". Such a definition leaves a lot of space for interpretation. It may be a serious problem how to define the role of the state and its activities which aim at the maintenance and protection of the citizens' welfare. The fact is, that it has always been one of the fundamental responsibilities of the state to protect the physical welfare of the citizens from internal and external threats. Moreover, the term welfare state used today has certainly extended the meaning of personal security beyond mere physical survival to include economic security and a decent standard of living.

THE NORDIC VERSION OF THE WELFARE STATE OR THE SO CALLED SCANDINAVIAN MODEL

The Nordic countries owe their reputation as welfare states primarily to their comprehensive system of cash benefits and extensive public systems of delivery of free services in the fields of health, education and welfare. What also goes together with the Nordic welfare state is an ap-

parent "passion for equality",¹ and what follows, that the provisions are available for all, regardless of the recipients' financial status. One can seldom hear claims for uniformity or conformity, but the very concept of democracy in these countries contains the idea of social and economic, as well as political egalitarianism.

There are three essential features of the Scandinavian model. First, the social policy is **comprehensive** in its attempt to provide welfare. The scope of public intervention is defined broader than in most other nations, and policy embraces an extensive range of social needs. Secondly, the social entitlement principle has been **institutionalised**. There has been constituted a democratic right to a socially adequate level of living. For the third, the social legislation has the **solidaristic** and **universalist** nature. The welfare state is meant to integrate and include the entire population.

The social and political experiment that had been realised in Scandinavia after World War II gave all these countries a special status in Europe and in the world. Many talked of "*laboratories of the world*", "*the middle way*" or "*Social Democratic experiment*". I think Denmark is a good case in point. On the one hand, private enterprise and market economy together with a strong democratic tradition placed Denmark in line with other states of Western Europe where liberalism was the dominating ideology. Hardly anybody doubted it was a capitalist country. On the other hand, the strong Social Democratic Party, well anchored in the political system, openly advocated a planned economy as the best means of just economic development. Social security and equality of the citizens should be the eventual outcome. The two above mentioned and seemingly incompatible patterns of development not only have been applied but also have brought about a society with one of the highest standards of living in the world. In this paper I would like to have a closer look at the processes which in the first place created the "Danish Dream" in the shape of the welfare state, and which later on prevented its apparent destruction. How has it come about?

THE POLITICAL FOUNDATIONS OF THE WELFARE STATE

There is much truth in calling Danish politics of the post-war period a Social Democratic experiment. It is Social Democrats who are often given, and take credit for establishing the welfare state in Denmark. Even though this was not always the case,² it was the government led by

¹ The equality permeating societies is well analysed by Rold Andersen (1983).

² The role of Social Democrats in creating the welfare state in Scandinavia has often been a bone of contention among political scientists. For details see Esping-Andersen & Korpi p. 46, T. Knudsen (1993) pp. 171-185, Torpe (1986), Baldwin (1990).

Social Democrats which already in 1933, at the time of the Depression, designed comprehensive social insurance legislation.³ Many of the solutions provided by the act had been borrowed from Liberals and tried out earlier. By the time the Depression struck with full force, Denmark, like other Scandinavian states, had a safety net of basic social insurance. The benefits were minimal and the coverage left much to be desired but they guaranteed physical survival. It was at that time when the Dane in the street started to trust his state. This was the beginning of the Danish Welfare Dream.

The depth of the crisis in the 1930s forged sufficient political consensus to fight unemployment by means of public expenditure. The Social Democrats together with their political allies, the Radical Liberals, put in place the basic pillar of the welfare state: fiscal stimulus to restore demand and to keep farms and factories producing. The idea that the state should undertake only minimal economic activities was put aside as one of the first steps away from the liberal orthodoxy.⁴ The immediate benefit of this action for the Social Democrats was of a political nature. They committed the industrial working class to a constitutional, reformist programme of pragmatic economic and social change. The principle of capitalism, private enterprise, was accepted. In turn, the bourgeois parties accepted the necessity of state intervention at times of economic emergency. Public spending could revive a stagnant economy and relieve social suffering, and the principle of collective bargaining was admitted to decide how the created wealth would be distributed. In this way the Welfare Dream developed its economic basis.

The economic compromises struck between the Left and the Right of Danish politics before World War II created a strong foundation for further development of the welfare state after the war. A modicum of respect and co-operation between the employers and unions, reinforced partially by social homogeneity, encouraged political and economic co-operation. In the Social Democratic Party a tendency to renounce all talk about socialising and planning the economy became more clear by the end of the 1950s.⁵ The party wanted instead to reach a pragmatic agreement within the parliament. They hoped that through stimulating economic growth and a reasonable social and tax policy, it would be gradually possible to complete the creation of the welfare state in Denmark.

³ K. K. Steincke's Social Reform Act of 1933 provided four sets of laws which included: 1. Accident Insurance Act, 2. Employment Exchange and Unemployment Insurance Act, 3. National Social Insurance Act with disablement insurance and old age provision included, 4. Public Assistance Act. Source: Flora (ed.) (1987) pp. 194-217; see also Haue et al. (1985) s. 151.

⁴ Conf. K. Knudsen et al. (1991).

⁵ See Friisberg (1977) p. 25.

THE DANISH WELFARE STATE AND THE WORLD ECONOMIC CYCLE

A significant, and probably the most important, feature of the Danish economy nowadays is its open character and its dependence on the development of the world economy. Danish production is based upon export to the world market, and a growing part of private consumption is based on import. Since the 1950s the gradual internationalisation of the world economy has made Denmark more dependent on the international business cycle. This could be easily observed both at the time of growth, for example in 1957, when freeing international trade boosted economic growth, and in crisis, for example in 1974, when rising oil prices brought about the recession.

Economic stability has been the condition of political stability and the building of the welfare state. In the 1950s Denmark had relatively low rates of growth in its production of goods and services. Agricultural export alone was not enough to supply sufficient means for financing imports, and industry could not work at its full capacity. The means to finance the Danish Dream were scarce. In turn, the country experienced a very rapid industrialisation process in the 1960s. However, the manufacturing sector never achieved the same important and dominating place in the whole pattern of economic activity as it did, for example, in the neighbouring Nordic countries. It was construction, wholesale, retail and transport sectors that played a more important role in Denmark.

But the most remarkable feature of Danish growth in the 1960s was the explosive growth in the services of the public sector. The Social Democratic Prime Minister, Viggo Kampmann, gave in 1960 the following go ahead signal for the growth of the public sector:

"Its looking up now. The automatic rise of income means that the taxes will flow in. We would like to grasp this historical chance. The money shall not be paid back as tax concessions but it shall be used to give the society goods required by the majority. We will build universities and teacher training colleges. We will build social institutions. We will support arts and culture. We will lift the standards in all fields."⁶

This growth in public consumption of labour and capital was a precondition of the great variety of public services and benefits that were created. This again went hand in hand with the steady growth of private production during the prosperity phase in the 1960s and the first half of the 1970s. The stability of economic growth was a prerequisite of the welfare state and in the 1960s both the government and the citizens cherished the hope that their Dream would still become more real. Unfortunately, the world wide economic crisis of 1974 made some severe cracks in the building.

⁶ Haue et al. (1985) p. 241. My translation.

Table 1. Rates of growth of gross domestic product in per cent of constant prices in Denmark and Sweden 1950-91.

	Ave- rage 1950- 60	Ave- rage 1960- 70	Ave- rage 1970- 80	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	Ave- rage 1981- 86	1989	1991
Denmark	3,2	4,6	2,3	2,4	5,4	3,8	-0,7	-1	6,9	1,9	1,3	3	-0,2	3,6	0,6	1,2
Sweden	3,4	4,6	1,9	0,8	2,2	3,9	4,3	2,2	1,2	-2	1,3	3,1	1,4	2,3	2,4	-1,8
OECD Europe	4,5	4,9	2,5	0,2	0,3	5,8	2,2	-0,9	4,7	2,3	3,1	3,3	1,5	3,2	-	-

Sources: Nordic Council, Yearbook of Nordic Statistics, 1985 and 1993; OECD, Economic Outlook: Historical Statistics, 1960-86; Samfundstatistik 1989.

STEADY GROWTH AND UNEXPECTED CRISIS: IS THERE SOMETHING ROTTEN IN THE STATE OF DENMARK?

From the mid-1950s to the early 1970s, Denmark, like other Western industrial democracies, developed a Keynesian⁷ consensus on how to manage economic policy. It called for the government to use fiscal policy (taxing and spending) not only to meet its obligations, but also to keep the economy running at full capacity. Whenever the economy threatened to overheat (leading to inflation) or to stall (leading to recession), the government applied timely correctives. The role of the state has expanded as a result of the activist role of manipulating the market economy to achieve desirable ends: low rates of unemployment and inflation, high levels of income and wealth, and high rates of investment and growth.⁸ As a result of the application of Keynesian economics, Denmark opted for a collectivist solution: funding massive social programmes through heavy and comprehensive taxation. The government moved toward free-market production and trade, while redistributing the growth through a large public sector financed by income and consumption taxes. As long as the wheels of the economy were rolling properly, the Keynesian system was meeting the challenge of the Welfare Dream.

However, the internationalisation of the world economy in the late 1960s and early 1970s made the small, open Danish economy more dependent on the downward trends of the world market and more vulnerable to recession. Joining the EEC in 1973 made Denmark even more dependent on the European economic development. Therefore, the crisis in

⁷ From John Maynard Keynes, a reformist British economist, whose work "The General Theory of Employment, Interest and Money" from 1936 explained why governmental management of the economy was both necessary and practical.

⁸ See Einhorn & Logue (1989) p. 194.

1974/75 hit Denmark more severely than many other OECD countries. Denmark suffered the most among Scandinavian countries. Lack of national energy resources and a weak industrial sector were not assets that could meet the rise by more than 350% of oil prices in 1974/75.⁹

Furthermore, the country had experienced a long period with balance of payment deficits even during the prosperity phase in the 1960s, and the result was the accumulation of foreign debts. These again were to be repaid in a period of an increasing instability in foreign trade. In consequence the Social Democratic government found it necessary to pursue a tight economic policy with budget restraints, combined with various unemployment programmes and an active labour market policy. The result was increasing unemployment to a very high level, which contrasted brutally with the Social Democratic slogan of full employment in the sixties. Thus, in spite of the properly applied economic measures, it turned out that the government was not able to find proper solutions. Would it mean that there might be something rotten in the very welfare state? People started to look for reasons and became more critical as to the internal mechanisms which suddenly appeared ineffective.

Table 2. Unemployment rates in Denmark and Sweden 1971-1991. (Yearly average of monthly figures, registered unemployment in per cent of employees in the labour force.)

	1971	1973	1975	1977	1979	1981	1983	1985	1987	1991
Denmark	1,3	0,8	4,9	6,5	6,2	9,2	10,5	9,1	8	7,6
Sweden	2,6	2,6	1,7	1,8	2	2,5	3,5	2,8	1,9	2,4

Sources: *Yearbook of Nordic Statistics*, 1981 and 1993, *Samfundsstistik* 1989.

ECONOMIC DEMOCRACY

One of the ways in which the welfare state started to be approached then, was the attempt to introduce economic democracy.¹⁰ A plan was put forward by the trade unions (LO) and the Social Democratic Party in 1973. The idea was to give the workers a chance to influence the economic planning in the factories where they worked. The workers should be able to participate in the investments in their factories and by doing this, lay grounds for more workplaces for the unemployed. The money for the investments should come from the factory's turnover and be placed in a special mutual investments account before it was invested. Neither of

⁹ The state of Danish economy at the time of crisis is well described in Bild et al. (1983).

¹⁰ Einhorn & Logue (1989) pp. 33-39 provide an extensive analysis of stages of democracy in Scandinavia, economic democracy being one of the most important as for the development of the welfare state.

the political parties on the Right or the Left of Danish politics supported the proposal. The bourgeois parties were afraid of introducing socialism through the back door, while the left wing parties feared that the proposal would hide the existing differences in society and be the lifeline for capitalism. The Social Democratic Party, not finding enough supporters for the plan, gave up the idea. Clearly enough, the belief that the welfare state will generate economic equality was put aside. Although the idea of economic democracy has survived in people's minds until the present day, again it remains only a part of the Dream.

THE HUMAN ASPECT OF THE CHANGES AND WHY THE PUBLIC SECTOR CANT STOP EXPANDING ANYWAY?

"There are many aspects of the social changes which took place in Denmark during the recent decades, but a common denominator is the dissolution of a number of social networks, especially families."¹¹

The human aspect of the changes can primarily be observed within families. For example, Danish women gave up their traditional role of housewife and opted for the market as paid labour. From 1960 to the 1980s the number of housewives staying at home decreased from 829,000 to 250,000. This transition have been eased by the changes in technology, and many of the working women took on their shoulders a heavy burden of double work. As illustrated by different studies from the 1970s and 1980s¹² the ability of a family to perform its basic functions has become weaker. Many of the functions have been taken over by the public sector and its professional staff but the less tangible tasks of bringing advice and comfort in critical situations could not be made up for so easily. Technically speaking, the flexibility of the welfare system made it easy to take over family's tasks. The number of places in day institutions for children grew rapidly and so did the number of homehelpers. However, from the psychological point of view the process was not so one-sided. Many people started to doubt whether the basic role of the family should be taken over by the public sector.

The problem is, that the schools have been worked out to provide knowledge and intellectual understanding, and not as substitutes for family care. The hospitals were to provide treatment for conditions classified in medical groups of diagnosis, not to heal conditions following the absence of stable social structures. Therefore, for the last twenty years many people pointed at deficiencies in the public services. These defi-

¹¹ Rold Andersen (1983) p. 40.

¹² For example see Rold Andersen (1984).

ciencies led to public dissatisfaction, which couldn't be made up for by the growing number of social personnel. As these were actually the only tactics the welfare administrators could come up with, the whole situation resembled a vicious circle. On the one hand, the growing number of working women had more work opportunities in the public sector, but also caused the disintegration of the family structure. On the other hand, the public sector did not fulfil its functions of an "institutionalised parent". However, pressure on the public sector to provide the proper service has continued. So... still more personnel have been employed to do the job.

IN WHICH FIELDS WAS THE WELFARE DREAM TO COME TRUE?

Throughout the last 30 years, there were many factors which changed the patterns of life of the Danish citizens. However, two areas of state planning and intervention, in my opinion, namely education and social policy, seem to be the most tangible. At the same time, they are the ones which seem to have succeeded most.

EDUCATION

After World War II there was nobody in Denmark who doubted the necessity of state investment in education. In the years from 1959/60 to 1970 the per cent of GNP for the educational sector rose from 3 to 6 %.¹³ 1958 legislation provided equal chances for children living in towns and in the countryside. Construction of new primary schools, secondary schools and universities characterised the 1960s. Three new universities in Odense, Roskilde and Ålborg were opened, and there were many more students who continued upper secondary and higher education. In 1960/61 there were about 9000 students and in 1970/71 the number was 35,000. The Social Democratic Party saw the development of the educational sector as one of the means to introduce more equality in the society. For Social Democrats it became an ideological issue to provide free admission to as many post-secondary educational institutions as possible. The results of this action can be seen in the following example. In 1956, out of the given year group, there were only 6,5% of children of working class parents who finished upper secondary education. In 1965 the number rose to 10% and in 1974 to 16%.¹⁴

¹³ Haue et al. (1985) p. 242.

¹⁴ Haue et al. (1985) p. 243.

The most important feature of development of the educational system in the 1970s was the growing influence of the parents on what and how their children were taught. At the same time, the school took over many of the tasks which traditionally belonged to the parents and which now could not be fulfilled. The family pattern changed due to economic development. Most often both parents are now at work and there is less and less time to take care of the children. The new educational act of 1975 stressed the parents right to influence the education of their children through tighter contacts with the schools.

THE EDUCATIONAL SITUATION AFTER 1975

Since 1975 the "folkeskole" education has lasted up to 10 years and in general the period of education for an average student has become longer. Industrial development requires better qualifications and a whole range of new vocational and retraining courses has been created. Nowadays there are hardly any students who can count on their education and training being terminated when they finish school.

SOCIAL POLICY

Social policy in a welfare state is a more or less automatically directed towards the citizens. Its primary objective is to increase the welfare of society and to promote equality. Since the 1960s the development of social policy in Denmark has been closely related with the development of the economy. The economic boom of the late 1950s caused the labour market to grow bigger, especially because of the women whose hands were now needed. The number of public institutions and variety of day care centres grew rapidly as there were more and more small children and elderly people to take care of.

In the period of economic prosperity in the 1960s both the economists and the politicians planned and legislated the broader objectives of social policy. Since 1960s security has become the key-word in the Danish society and awareness of social security became an obvious term for everybody. The social policy should not only alleviate real needs, but it should also protect against any substantial loss of income. What is more, it was even expected that social policy should prevent any loss of income happening, and in case it was unavoidable, it should find new work for the unemployed. In order to reach these ambitious goals a whole set of legislation was applied.

SOCIAL LEGISLATION IN THE WELFARE STATE

1961 was the year when the foundations were laid under the present system of social assistance. The New Public Assistance Act (*Lov om offentlig forsorg*) made the benefits non-repayable and took the stigma away from the very act of receiving the assistance. More and more social groups were becoming eligible for help, and public assistance no longer resulted in loss of political rights and restrictions on marriage.

By the end of the 1960s, despite the economic boom, social legislation was split and incomplete and the situation called for a reform. The first element of the comprehensive social reform, the National Health Insurance Act, was enacted in 1973. In the first place the Act abolished sick-benefit associations and the administration of finances was transferred to public authorities (*amtskommunerne*). They had to finance an obligatory health insurance and in this way provide free medical care for all with permanent residence in Denmark. The act was so comprehensive that it has survived until now without any major changes. An important act that protected against loss of income during periods of illness was also introduced in the same year. The Social Assistance Act (*Bistandsloven*) was the third and the most important element of the reform. It came in 1976 and combined various pieces of social legislation under one heading. Its point of departure was a social and medical assessment of the family in order to permit alleviation of a broad range of family problems simultaneously. The Act has aimed at preventive treatment and a visiting scheme. The attention has not been paid to the specific reason for seeking assistance but to the actual and present need for such assistance. For example the Act has, as the matter of right, provided for an advisory service for individuals faced with social hardship. On the basis of an individual evaluation of the persons requirements the authorities can make cash grants covering family care, education, training, rehabilitation, removal to another region or emigration.

MANAGING THE BUDGET

The depression and high unemployment level have put the social system under heavy pressure since the mid-seventies. Downward trends in the economy did not allow the ambitious reform legislation to be fully applied. There have been made numerous cuts in the Assistance Act since 1976. The cash benefits, for example, which to begin with were closely related with family's actual needs were converted in 1987 into fixed rate benefits. Since 1957 the retirement pensions had been fully financed by the state and in principle were a flat-rate payment irrespec-

tive of means. In 1982 the government allowed for adjusting the rate according to the pensioner's means. In 1989 new rules were introduced for reception of unemployment benefits. Generally, there was a tendency to cut back on public spending in the 1980s.

HOW COME THE DANISH WELFARE DREAM IS STILL VALID?

The Pilgrim Fathers of the welfare state in Denmark would probably be satisfied nowadays if they saw the outcome of their plans. It does not matter that there are certain failures of the system.

Originally it seemed that the welfare state could develop without problems supported by constant economic growth. In the 1970s the crisis showed the fragility of this belief for the first time. Since then it has always been feared that there will not be enough means to finance the ambitious welfare policy. The growth of the public sector continued until the early 1980s as if by its own inertia. It just couldn't stop growing.

Due to the growing economic uncertainty the self-destruction of the Danish welfare state was stopped when the bourgeois parties took over in 1982. The system couldn't be allowed to grow bigger and a gradual transformation started. The government started to adjust the public spending to the unfavourable economic conditions, when the unemployment remained high and the wheels of the world's economy were rolling very slowly. It has been a painful process but it made it possible for the Danes to dream on at the time when their Swedish neighbours, for example, were getting a cold shower.

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