Denmark: A Welfare State that Works

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Abstract

Denmark has proved that a welfare state can work. I try to explain what makes it work, based on insights collected during a year's residence in the country.

England is everybody's favorite example of what happens to welfare states. We are told that the Labour Party's indulgence in socialism was close to ruining the British economy when Margaret Thatcher rescued it. The ruin must indeed have been less than total, in view of the fact that the British own a larger slice of America than the Japanese do. But granting that the U.K. has had some serious economic woes, the fact remains that a welfare state doesn't have to be that way. Denmark isn't.

So what do I know about Denmark? Probably more than you, because my family and I lived there during the 1991-92 academic year. On leave from GSIA, I was a visiting professor in the Mathematical Institute at the University of Århus. While living there I came to some tentative conclusions about how the Danes can do it.

I don't say that the U.S. should follow the example of Denmark, and I don't say that a welfare state is possible or desirable on American soil. It is a mistake to generalize uncritically on the basis of either England or Denmark. But if we can learn something from all these lectures we hear about the plight of England, then perhaps you can learn something from my lecture on Denmark.

1 The Travel Theorem.

My opinions on Denmark are not grounded in formal economic analysis. But they have the virtue of growing out of my own firsthand experience.
If this is to carry any weight, I must contend with the Travel Theorem propounded by my colleague Herb Simon. The theorem is aimed at academics who try to justify their globe-trotting on the ground that it is educational. It states that I can’t learn anything from my travel that isn’t already in the local public library—unless I live here for at least a year and become fluent in the language.

So do I pass the test? My 11-month stint almost meets the one-year requirement; perhaps Herb will let me by on this. As for learning Danish, I won’t claim it’s pointless due to the fact that so many Danes speak English. Many Danes with whom we came into contact spoke little or no English, and most of those who did, spoke their mind only in their native tongue. I know enough Danish to read the newspaper and carry on a simple conversation, but I am a long way from fluency. Visiting faculty like myself are expected to teach in English. My wife, however, studied the language intensively while we were there, and the Danes say her facility is fantastisk (a Danish word we can all understand). She carried the conversational ball, and I listened in. My 12-year old son attended a school in which instruction is in Danish and picked up the language in a few months. So if I am allowed to pool the talents of the whole family, we are close to passing Herb’s test.

There are other factors, too. We didn’t live in a typical Copenhagen, but in a suburb of Aarhus, Denmark’s second city in size. Aarhus is a port city on the east coast of Jutland, site of a major university, and in many ways the quintessential Danish city. Unlike so many academics who visit the U.S., we were privileged to associate with people representing a wide range of society—not only our gracious academic hosts, but business people, third-world immigrants, unemployed workers, and ordinary people who hold ordinary jobs. It also helps that we had no car there and got around by bicycle, bus and train.

So I think we were in a position to gather some reasonably accurate impressions about Denmark. My conclusions must be tested against what the experts say, but perhaps I can put some meat on their analytic bones.

2 Is Denmark So Well Off? Yes.

The best news about Denmark is that everyone gets a piece of the action. Poverty is practically unknown. The Scandinavian passion for equality is very real there, as the gap between richest and poorest is much narrower than in the U.S. Comprehensive social services take care of the old, the sick
and the unemployed. Danes don’t have an American-style underclass and so lack the crime rate and blighted neighborhoods that go with it. Visiting Americans risk major culture shock when they find only safe streets and clean, well-maintained neighborhoods. Fortunately, it didn’t take us long to get used to these conditions.

So what is the catch? The income tax rate here would be cause for violent revolution in the U.S.: close to 60%. The prices would send an American bargain hunter into an apoplectic fit. Many run about double U.S. standards, books close to triple, automobiles more than triple. The Danes blame it on value-added tax, which is only part of the story. Prices reflect the cost of maintaining the sort of egalitarian society Danes prefer.

Despite the high taxes and prices, Danes enjoy a standard of living very close to the world’s highest. I could look up the precise figures, but I don’t have to. I could see that people live well.

One wonders how the household budget can manage this sort of affluence, and I can give only a partial explanation. To begin with, the government really does provide services, big and small. One big item is free health care. (Dental care is only partially subsidized.) Think about the size of health insurance premiums in the U.S. As for the quality, I can only speak from experience. I came over with a cast on my leg and received better care than in the U.S., where my orthopedic misdiagnosed the problem and sent Blue Cross a whopping bill for the service.

More generally, government takes care of those big expenses for which the American middle class must accumulate a nest egg. Everyone get retirement and disability benefits and first-class nursing home care. Education for the kids is also free—all the way to the top. The government paid my doctoral students a salary to entice them to get a degree. The first-class infrastructure also helps. My bike there cost twice as much as in the U.S., but I had a magnificent system of bike lanes and trails to ride it on. I wasn’t forced to choose between risking a biking accident and using a more expensive mode of transportation.

These services free disposable income, which incidentally is part of the explanation for high prices; the “demand curve” is higher. So although Danes don’t eat out much (an expensive indulgence because it doesn’t rely on underpaid labor), most enjoy the luxuries of life. Even the unemployed often have thousands of dollars worth of video and hi-fi equipment in the house, and many Danes travel the world.

The deeper question, however, is not a budgetary one. It concerns how the Danes can generate enough wealth to support high taxes and high prices
without sacrificing one of the world’s highest standards of living. Not even the Japanese do this.

I caution that Danes may take issue with my rosy portrait of their economy. They moan and groan about a “stagnant” economy, which did in fact suffer from Denmark’s refusal to join the Common Market for several years. But if this is “stagnation,” perhaps we should try some of it in the U.S. Part of the problem is that the Danish pundits are usually based in Copenhagen, which does have its problems. Despite its name (København, or “merchant’s harbor”), the port facilities are practically shut down, and the tax base is eroding as city services escalate. But Århus and other port cities carry on active trade. Granted, some problems are nationwide. Unemployment, for instance, is about 11%. But keep in mind that they count all their unemployed, and the government stipends are very generous. Unemployment is a problem, particularly because it affects young people and starts many off on the wrong foot. But it simply is not as serious a problem as in the U.S.

So as in any earthly realm, there are real economic and social problems in Denmark. They are just milder here than in most places. The question remains, how can the Danish economy support so generous a welfare state?

3 How They Don’t Do It.

Let me begin by correcting some misconceptions you may have about how the Danes maintain their affluence.

• The Danes work like Germans.

Wrong. Danes are obliged to share a border with Germany, but they don’t share work habits. While aggressive Germans work long hours, Danes call it quits after a short workday, go home, and slapper af (relax). The drive to compete is just not there. No one wears power ties; hardly anyone wears ties. Although there are plenty of swinging singles, I encountered no ambitious yuppies in the American sense. They don’t jog Sunday mornings, and they eschew Brie and Chablis in favor of smørrebrød and warm Tuborg beer. Don’t get me wrong; Danes are not slackers. They get the job done. But they see no need to be in a big hurry about it.

• The Danes exploit “guest workers” from southern Europe, Africa and the Middle East.
Wrong. During the labor-scarce sixties, Denmark tried to entice “guest workers.” But no more. A few Turks and other Middle Easterners hold menial jobs, but they are now unwelcome “foreign workers.” Danes prefer not to have cultural outsiders in their midst, even when they do the dirty work. (Not even Denmark is exempt from the rising level of tribalism and xenophobia in Europe. But that’s another story.)

- Denmark has superior schools.

Wrong. The people who browbeat us about the inferiority of American education never mention Denmark. Although education in this peaceful and ethnically homogeneous country is orders of magnitude easier than in the U.S., Danes admit that it is mediocre.

- Business education deals with practical matters rather than the theoretical material taught in schools like GSIA.

Wrong. The Danish equivalent of an MBA (cand. merc.) is a five-year program that encompasses what we call undergraduate education. At least at the business school (handelshøjskole) in Århus, the curriculum is academic and probably less real-world oriented than GSIA. I saw some masters theses that are every bit as theoretical (and advanced) as those written in comparable fields by Ph.D. students at GSIA. The operations research department I visited is not even part of the business school but lies in an institute that is best known for pure mathematics. An application-oriented thesis is unacceptable. I don’t say that this academic focus helps the economy; only that a practical focus is not necessary for its success.

4 How They Really Do It.

- Danes know how to work the international market.

Danish territory contains only a few nuts and bolts of the economic engine necessary to support Western lifestyle. This means that trade is essential, and Danes are good at it. Business people are cosmopolitan and well-traveled. All business students are expected to speak idiomatic English and be conversant in another foreign language as well, usually German.

I mentioned that Danes shot themselves in the foot by rejecting the Common Market for a few years. This dealt a severe blow to agricultural
trade, despite the advanced state of the industry. Denmark recovered largely through specialized manufacturing, as well as some food processing. You may have heard of MD Foods and Bang and Olufsen electronics, but the typical firm is a supplier to manufacturers elsewhere.

Danes repeated their error just before we left by narrowly rejecting the Maastricht treaty in a referendum, an act that may derail the unification process in Europe. The Folketing (parliament) makes the final decision, but there is little chance it will override the referendum. Danes give a number of reasons for their opposition, but in my opinion one overriding factor influenced Danes as they stood in the voting booth: fear of foreigners. The code words for this are “loss of cultural identity,” which refers to the possibility that a stronger EC will force Denmark to admit Muslims and other minority groups that live elsewhere in the EC. (The border is now essentially closed.) Also, an unsettling invasion of German tourists every summer stirs old war memories and worries Danes that the EC may permit Germans to buy up Danish summer houses. The Danes may eventually return to pragmatism, as they did with the Common Market, but I don’t know when.

- The infrastructure runs like a Swiss watch.

It is not enough to know how to trade. One must have a good product and make it efficiently. Much of Danish efficiency traces to a well-oiled infrastructure, which removes overhead in a thousand small ways that add up. Space heating, for instance, is provided by waste heat delivered from electric power plants through insulated pipes. It is one example among hundreds, but think about what it means: no expensive furnace in every building; only a hot water valve and meter. The network of pipes costs much less than the heating oil, air pollution, and furnaces of a conventional system. The expenditure is public rather than private, but Danes, unlike Americans, do not object to this.

The transportation system is a marvel to behold. Trains and ferries run frequently and on time. Ground transportation to the airport is coordinated with takeoffs and landings, which are on time—except when the fog bank prevents the planes from landing. (It’s just as well that I say nothing more about Danish weather.) The countryside is blanketeted with a dense network of intercity bus routes, and the buses run on time. As a former transportation analyst, I sometimes sat and flipped through the thousand-page schedule book just to admire it. Information is a key part of the system:
instructions about what to do are posted everywhere; all schedules are published and posted at every stop; my book even noted the walking distance in meters between the bus and train stations, so that one knows how far he must carry his suitcase to make a connection. And let’s not forget urban transportation: at least in Århus, the buses are immaculate, well-designed, frequently scheduled, densely and intelligently routed, and on time.

I think I can make a blanket statement here: in Denmark, things work.

- Danes have a genius for design.

The infrastructure is actually only one manifestation of the Danish design genius. Practical and aesthetically pleasing design is their main creative outlet, one well suited to their pragmatic nature and low-key, methodical personality. Americans are familiar with Scandinavian furniture, but this is only the tip of the iceberg. The whole environment is saturated with design forethought. Danish design has a fractal structure: it remains visible as one zooms in, from large scale land use patterns, to public utility systems, to building layouts, to furniture and tools, to the tiniest features on the most insignificant pieces of hardware. I could pick any feature of any artifact, however trivial, and if I contemplated it long enough, I would discover that it’s there for a clever reason. Playing this sort of game was a constant source of delight, and I recommend it if you visit Denmark.

I wanted to believe that my field, operations research, contributes importantly to efficient design. If anyone would be receptive to OR, I thought, it would be the efficiency-minded Danes. But from what I could gather, OR is as underutilized there as in the U.S. Underlying Danish design is not mathematical method but never-ending attention to detail, and we all know that genius is in the details. The attention to detail derives in turn from a passion for neatness and order, one Germanic trait the Danes do share (but don’t tell them I said so).

The economic implications should be obvious. Well-designed products are attractive to buyers, and a well-designed production system is cheaper to run. Neat, clean workplaces save time and improve morale. That, of course, is why I keep my office so neat and clean...

- People cooperate rather than compete.

Scandinavians like to boast about their ethic of cooperation, and Swedish experiments with cooperative work teams are well publicized. There are in fact some measurable differences between work organization in Scandinavia
and elsewhere. Scandinavian firms, for instance, historically have two fewer layers of management than firms elsewhere. And from what I was told, managers typically negotiate with employees rather than direct them.

All this of course squares with what many management consultants are recommending nowadays. Labor/management partnership encourages employees to contribute ideas. It raises their sense of ownership and with it their level of motivation. Excessive competition can also be counterproductive in and of itself. We all know that in a high-powered environment, people spend a lot of time and energy protecting their flanks from the next guy rather than contributing to the firm's output.

It's not as though everyone is nice out of the goodness of his heart. The labor movement carries a big stick in Danish politics. Listening to the political rhetoric is like passing through a time warp to hear the New Deal Democrats of the thirties. People say that the union has its fingers in every managerial decision. Labor/management cooperation takes place against this backdrop.

Still, the union tends to relate constructively to firms, more so than in the U.K. or Italy, for instance. I was told that the union intensively trains its employee representatives in nonconfrontational negotiation techniques. Thus if management needs to staff unpopular weekend or night shifts, for instance, it may work out an arrangement that gives volunteers particularly flexible hours in return for their cooperation.

Another palpable result of the cooperation ethic is a low stress level. Highly competitive employees may become aggressive and hyped-up, work long hours, and use as many buzz words as possible. It's different in Denmark, where slow and steady wins the race. Even the atmosphere in the Handelsøkskole is more relaxed than in GSIA, where students seem to be practicing an aggressive posture. I can't promise you that sales managers over there never give their reps a hyped-up pep talk, but it's so out of character that I can't imagine what it would be like.

Lack of overwork also means more time for stress-relieving exercise. Danes of all ages are sports enthusiasts and have time to stay trim and fit, despite the fact that they eat like horses (sweets and all). They never jog on Sunday mornings, which is Puritanical, but may play a vigorous soccer game in the afternoon. (Danes may of course have a genetic predisposition to being slim. Also, more and more are buying cars, despite the price, and risk gravitating toward a sedentary American lifestyle; most of my neighbors had cars.)
A certain amount of stress is productive, but it has been shown that too much dulls the faculties and impairs health. I'm not sure that the stress level there is right, but it's worth thinking about.

- Finally, Danes have *folkeligheid*.

This untranslatable word denotes a quality that partially underlies the ethic of cooperation. I'll call it solidarity. It means roughly that Danes constitute a big extended family. They have their squabbles, but ultimately they are in it together.

To me, the Danish practice of naming children is symbolic. Although every child is given a number at birth, no child is named until the parents verify that the name appears in a list of officially approved names. If so, the child is registered in the *Kirkebog*, maintained by the state-supported Lutheran church. If not, the parents must apply to an office in Copenhagen, which will refuse permission to use the name if it considers it frivolous or inappropriate. The naming law actually dates from a much-needed reform enacted decades ago. Germans have a similar law, but whereas they at least understand why the practice could strike one as Big Brotherism, Danes see nothing at all peculiar about it. From their point of view, it is only reasonable to consult the family on what to name the baby.

One source of solidarity is that Danes think alike on so many things. They have the same values, and this makes it easier to view themselves as being on the same team. Social mechanisms inculcate uniformity from the beginning. The law provides that soon after a baby is born, a health inspector will start visiting the home to make sure everything is in order. Children are expected to participate constantly in sports teams, scout groups, clubs, etc., which homogenize behavior. And so forth. Danes protest that the sixties revolution brought individualism, and it did indeed relax school discipline and generally remove authoritarianism from society. But the underlying pressure to conform remains.

One can make a case that the Danish welfare state works because of the shared values, and particularly the shared work ethic. People will tolerate generous transfer payments if they believe that recipients are willing to pull their own weight but are down and out at the moment. People are less likely to cheat the government if they believe that others are honest. The streets are safer if everyone is brought up to respect the rights of others.

The level of honesty, for instance, is indeed impressive. To take an amusing example, my wife brought a large, heavy envelope to the post office
for weighing. The clerk remarked that if it were one gram lighter, the rate would be much less. Rather than cheat the government a gram, she asked permission to clip off a corner of the envelope and tape over the hole so as to reduce the weight. (She got permission.)

On the down side, the monochrome sameness and group mentality are stifling, at least to American sensibilities. They also help to explain the obsession with a tiny group of immigrants. To our amazement, for instance, the city of Arhus refused Muslims permission to build a mosque. There are none in the state of Denmark (and only one synagogue, for that matter). Teachers criticize Moslem children for their beliefs, in front of the class. A KKK-like group (Den Danske Forening) harasses immigrants. Most Danes would not go this far, but most have the attitude that if one wants variety, the border is not far away. And in fact I understand that there is a colony of 10,000 nonconformist Danes in England.

Is this sort of conformity the price one must pay for a kinder and gentler society? The Danes themselves seem to think so. Thus they play into the hand of people who insist that a just society requires an unacceptable sacrifice of freedom.

I won’t deny that the shared values help to make the welfare state work. But there is much more to the story than this. To begin with, a welfare state is not simply a state that makes “welfare” payments to the unemployed, etc. It is a state that plays a major role in making society livable. This can happen only if most people are willing to pitch in and make a collective enterprise work, rather than milking it for what they can get out of it. But people will pitch in only if they believe they will get a fair share of the goods. Justice may or may not require a welfare state, but a welfare state sure as shootin’ requires justice.

So I propose the following explanation for what is going on. The basic motivation is pragmatic. Everyone is better off (pragmatism) if everyone works together (solidarity)—provided the payoff is fairly distributed (justice). So pragmatism calls for solidarity, which depends on justice.

Two main factors make this arrangement work psychologically and economically. One is indeed the shared value system, which helps psychologically by reassuring people that others will not be free riders, and economically by inculcating a work ethic.

But another factor is a sense of enfranchisement, which derives largely from equality. People who feel that they are an integral part of a cooperative effort are motivated to participate in it and less likely to cheat. People who feel that they are serving someone else’s system do the opposite. If you
don’t think so, take a look at the inefficiency and corruption among peoples of the world who have been historically oppressed.

Enfranchisement helps economically because it is the basis of workplace cooperation. Equality on the job helps to convince everyone he is part of the firm rather than its servant. Here, a certain degree of equality even permeates that ancient bastion of privilege, academia. In the Mathematical Institute where I worked, the secretaries have offices as large and with as many windows as the professors. In Germany, one says “Herr Professor Doktor” (and it’s always Herr, almost never Frau or Fräulein); titles are never used in Denmark. There are salary differences, but less than in the U.S. Associate and full professor salaries differ by only a few percent.

The uniformity of Danish society is not an option in most places, certainly not in the U.S. (thank goodness). But enfranchisement sounds like a good idea to me, and it alone may be enough for a respectable level of cooperation. Even if cooperation requires agreement on certain key values, does it require a monochrome society, or anything remotely like it? I don’t think so.

In a short article I’ve had to oversimplify a lot and omit still more. If you want to hear the rest of the story, stop by the office. Or visit your local public library. På gensyn.