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Denmark: Globalization and the Welfare State

On April 5, 2009, Lars Løkke Rasmussen was named prime minister of Denmark following the appointment of Anders Fogh Rasmussen, prime minister since 2001, as secretary general of NATO. Though not related, Lars Løkke had worked in Anders Fogh's government, first as interior and health minister and then as minister of finance. As he formed a new government, Lars Løkke sought to develop a set of long-term economic and social plans that would keep Denmark internationally competitive, despite its large public sector and costly welfare spending. However, short-term reaction to the worldwide economic downturn dominated policy discussions. A long-standing debate about joining the Eurozone was given new saliency when the European Central Bank lowered its rate on "refinancing operations," which provided liquidity to the Eurozone, just days before Lars Løkke took office. Denmark was a member of the European Union but had retained its own currency, the krone. Likewise, plans formulated a year ago to expand the Danish workforce by loosening labor rules and reducing welfare benefits had become unpopular as unemployment increased.

Anders Fogh Rasmussen had left a mixed legacy. Denmark benefited from a balanced government budget, little public debt, and low unemployment. But its international reputation had suffered from controversies over immigration. As the longest ruling Liberal Party (*Venstre*) prime minister in modern Danish history, Anders Fogh had led a center-right coalition government that developed strict immigration policies. These policies made it relatively easy for foreigners to work in Denmark, but difficult for them to stay in the country and benefit from world-class education, skills training and job transfer programs; generous unemployment, disability and sick leave benefits; and government-supported pensions. A ruling by the European Court of Justice in mid-2008 held that EU member states had to grant residency permits to non-EU spouses and immediate family members of EU citizens.[1] Denmark had delayed implementing the rule, but opting out would only further isolate the country from its EU trading partners, who had not forgotten that Danes nearly scuttled the Maastricht Treaty in 1992. At one point considered a candidate for the EU presidency, Anders Fogh's eventual appointment as NATO secretary general became controversial in early 2009 when Turkey threatened to veto the choice, citing concerns over the Danish government's support of a newspaper that had published satirical depictions of the Prophet Mohammed. Only high-level intervention by U.S. President Barack Obama smoothed the way for Anders Fogh to assume the new role.[2]

Restive unions also played into Lars Løkke Rasmussen's planning for his new government. Denmark had the world's leading union membership rate, with more than 80% of all workers belonging to a union. Unlike other heavily unionized countries, Denmark had a history of arriving at national agreements between unions and employers through cordial, consensus-oriented negotiations. Danish unions had long welcomed new immigrants into their organizations, and offered members benefits that included language education, skills training, and cultural counseling. Nevertheless, unions were anxious about the scale of immigration in the 2000s. Employers

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Professor Arthur A. Daemmrich and Benjamin Kramarz (MBA 2009) prepared this case with the support of Research Associate Jonathan Schlefer. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

increasingly advertised jobs as requiring "fluent Danish," and discrimination cases had grown in frequency.[3]

Denmark was attractive to immigrants for its unique combination of high welfare spending, a large but efficient public sector, and a thriving private sector. Two decades of labor market reforms and prudent fiscal policy had contributed to low unemployment of 3.3% (up from the previous year's record low of 1.6%), a positive current account, and a GDP per capita of $60,800 in 2008 ($34,700 at purchasing power parity), making Denmark the seventh wealthiest country in the world.[4] Progressive taxes and redistributive policies meant that Denmark had the world's most equal income distribution. In 2007, the Economist Intelligence Unit ranked the country as the best place in the world to do business, and an international survey in 2008 revealed that Danes were the happiest people in the world.[5] For the past 30 years, more than 60% of Danes consistently had rated themselves as "very satisfied" with their lives on Eurobarometer surveys, between 20 and 50 points higher than other Europeans.[6] Denmark was one of the easiest countries in the world in which to start a new business and its economy was integrated internationally, with Danish firms operating subsidiaries and affiliates abroad. Its flexible labor market made Denmark an attractive location for firms from North America or Asia who wanted a European presence.

A combination of latent internal and external forces, however, threatened this success story. Denmark was an extremely homogeneous country until the mid-1970s, but had since experienced a net influx of working immigrants and refugees from developing countries. As demographics shifted, Danes began questioning who benefited from their high taxes and Social Security payments, which started at 42% and reached 68% for top earners. Political cartoons depicting the Prophet Mohammed published in several Danish newspapers in 2005 and 2006 sparked protests by Muslims around the world and revealed tensions about core values held dearly by most Danes. A country that prided itself on freedom of expression and open public debate leading to collective decision making now faced external criticism for its supposed xenophobia. To many Danes, the transition from a close-knit community to a more diverse society threatened the loss of democratic values.

Likewise, Danes were concerned about the sustainability of their welfare state in the face of international economic pressures. Denmark was the first developed nation officially to enter a recession in 2008. A national strike by nurses lasted several months in the spring of 2008 and underscored dissatisfaction with government liberalization of health care. With the unions on edge and public support for privatization waning, Lars Løkke Rasmussen considered how Denmark had found a way to balance openness to globalization and its social welfare state. Would this balance among competing forces continue to underpin economic growth? What welfare and immigration reforms would keep Denmark internationally competitive?

Country Background

Covering 17,000 square miles of land on 400 islands (78 inhabited) and the peninsula Jutland (which connects to northern Germany), Denmark was the smallest country in the Nordic region (see **Exhibit 1**). Largely flat, Denmark had fertile agricultural land and easy access to the sea. To foster trade domestically and internationally, Danes had invested in infrastructure, including bridges and tunnels linking many islands and a combined bridge-tunnel across the Øresund Strait connecting Copenhagen to Sweden's third largest city, Malmo (see **Exhibit 6** for government infrastructure spending). The country was able to sustain a high level of wealth with few natural resources, and even became a net energy exporter in 1996 thanks to the discovery of minor oil fields in the Danish part of the North Sea and domestic investments in wind technology.[7] After the global energy crisis of the early 1970s, Denmark actively subsidized innovation in alternative energy, a policy maintained by successive governments. With high electricity feed-in rates and topography conducive to wind technology, the country emerged as a major turbine producer and used wind to supply 19.7% of domestic electricity in 2007.[8] Underscoring the government's support for transition to a "green economy," Lars Løkke Rasmussen spearheaded a reform shortly before becoming prime minister that reduced personal income taxes while raising pollution taxes. He emphasized Denmark's commitment to environmentally sustainable growth in a series of speeches ahead of the 2009 United Nations Climate Change Conference in Copenhagen, explaining that "over the last 25 years our economy has grown by 75% while energy consumption has remained broadly stable."[9]

With a stable and consensus-oriented political system, Denmark had one of the world's most extensive welfare systems. But academics and investment analysts alike worried in the 1980s and 1990s that as globalization proceeded a decline in demand for unskilled work—as labor-intensive production was relocated to lower cost locations—would put a significant burden on countries like Denmark. The economist Paul Krugman argued that shifts in the relative demand for skilled and unskilled labor increased unemployment in Europe and created tensions for welfare state policies that discouraged or prevented low-wage work.[10] Yet when the political scientist Peter Katzenstein examined the economic disruptions that confronted small states operating in world markets, he found that they had repeatedly adjusted policies in ways that sustained both openness to globalization and their unique welfare states.[11] Denmark and other small countries had firms that nimbly filled niche markets; government monetary and fiscal policies that were flexible, reactive, and incremental; and predictable politics resulting from compromises among labor, industry, and political parties. Katzenstein argued that "exposed to global markets that they cannot control, the small European states have accommodated themselves to a situation that Americans are now beginning to experience as a crisis."[12] A further dilemma emerged in the 1990s and 2000s when a combination of new communications technologies, greater heterogeneity of work and management, and geographic decomposition of value chains further disaggregated employment. When white collar jobs were moved to other countries, education and skills alone stopped determining globalization's winners and losers.[13] Some economists argued that welfare states now had to "enhance adaptability" in the workforce, rather than traditional unemployment benefits and back-to-work programs.[14]

History from the Vikings to WWII

Modern Denmark reflected a long history of independence, but a notable decline in geographic size since the country's peak of military power in the 15th century (see the chronology in **Exhibit 2**). Perhaps unique among contemporary government descriptions of their nation's history, Denmark's website described the country in terms of lost wars and lost territory: "The present configuration of Denmark is the result of 400 years of forced relinquishments of land, surrenders, and lost battles."[15] Yet over the course of this history, Denmark transformed itself from a large northern European superpower to a small and prosperous nation of traders with little social disruption.

From the 8th to the 11th centuries, the Vikings employed advanced shipbuilding techniques and superior navigational skills to invade, conquer, and collect tribute from Britain, France, and Russia, with satellite colonies established in Iceland, Greenland, and briefly in North America. Although the Vikings were widely feared for warfare and looting throughout this period, they also developed expertise as merchants and fostered trade along Northern European coasts and rivers, with artifacts from the time suggesting regular contact with the Near and Middle East.

Between the 11th and 16th centuries, Danish society and government evolved from loosely defined Viking tribes to a European nation with a powerful monarchy supported by influential nobility. In the 14th century, Queen Magrethe I united Denmark, Norway, Sweden, Finland, the Faroe Islands, Iceland, and Greenland under the Danish crown. The Lutheran reformation begun in 1536 further unified Danes through a shared religion.

The 16th and 17th centuries were characterized by stability and economic growth; Denmark grew wealthy from taxes levied on expanding sea trade among Western and Northern Europe and the Baltic. Denmark subsequently lost a series of conflicts with Sweden, Britain, and Germany during the 18th and 19th centuries, leading up to a major defeat and territorial loss in 1864 to a joint Prussian-Austrian alliance. With the government bankrupt in 1813, a new framework emerged under the motto "What is lost externally shall be regained internally."[16] A national identity was forged based on commonalities across social and economic classes, belief in modesty and decency as embodied by rural Denmark, and the shunning of grand territorial aspirations. Public works projects and a focus on internal growth led to a new era of prosperity with employment in agriculture, fishing, and light industry.

Within a short time, however, what had been "regained internally" came to rely on external trade. As competition from markets in North America and Eastern Europe grew during the latter third of the 19th century, Denmark kept open borders and built international trade networks. Employment shifted within agriculture to higher profit sectors and from agriculture to manufacturing and shipbuilding. Denmark thus went from a net exporter of grain to a net importer as farmers switched to more intensive and profitable products such as butter, cheese, and meat. The country, which otherwise had suffered from a comparative lack of raw materials and heavy industry, now was able to benefit from internationalization in food processing and other industries. In the period from 1880 to 1914, Denmark economically outperformed most other European countries while it kept tariffs low, profited from exports, and served as an attractive location for capital investments, which Danes used to upgrade production facilities.[17]

Despite claiming neutrality in both World War I and II, the country was impacted considerably by their global reach. Territory was gained from Germany under the treaty of Versailles in 1919, while Iceland became an independent republic in 1944. Occupied by Germany starting in 1940, Denmark was the site of resistance to the Nazis and a famous rescue operation that relocated the Jewish population to Sweden in 1943, successfully averting their deportation to concentration camps.[18]

Denmark after World War II

After WWII, Denmark abandoned its neutrality policy and joined the North Atlantic Treaty Organization (NATO) in 1949. Continuing its pro-trade approach, Denmark was a founding member of the European Free Trade Association (EFTA) in 1960 and joined the European Economic Community (EEC) in 1973.[19] Like other European countries, Denmark experienced rapid economic growth and improved living standards during the post-war boom period. The country also changed between 1950 and 2000 as women increased participation in the workforce from 33% of all employees to nearly 50%, and jobs lost in agriculture and industry were offset by gains in the service sector.[20]

Reliant on imported oil and gas, Denmark was hit hard by the first oil crisis in 1973–1974, which drove up inflation and unemployment and led to economic stagnation. Collective bargaining agreements had locked in automatic cost-of-living increases, which further exacerbated inflationary trends. Seeking a solution in exports, the Danish government devalued the currency relative to major trading partners in the 1970s and again in the beginning of the 1980s. Mogens Lykketoft, a member of the Danish parliament and minister of finance during the 1990s, commented: "The problems associated with this policy were that the international markets would expect Denmark to repeat the devaluations at short intervals. This made interest rates rise drastically. And the employment rate declined even further when the second oil crisis erupted in 1980."[21]

Adopting a fixed exchange rate (first to the German mark and later to the euro), the Conservative government of Poul Schlüter elected in 1982 brought greater macroeconomic stability. The new government also eliminated automatic cost-of-living wage adjustments and stabilized government finances, partly through growth resulting from lower interest rates and partly through new taxes on pension funds and insurance companies. But growth in the 1980s was not accompanied by new jobs and by the early 1990s, Denmark was experiencing all-time high unemployment that peaked at more than 12% in 1994. (**Exhibit 8** provides employment data for Denmark from 1990 through 2008.) Higher taxes and government austerity measures had come at the wrong point in the business cycle. A new Social Democrat government came into power in 1993 with Poul Nyrup Rasmussen as prime minister. The government embarked on an agenda of reforming the welfare state and sought to calibrate government spending to run counter to business cycles.

Known as reluctant Europeans, Danes initially rejected the Treaty on European Union (commonly termed the Maastricht Treaty) in 1992, and then approved it in 1993 only when Denmark was exempted from common defense, common currency, EU citizenship, and a variety of legal accords. As the EU gained traction in the late 1990s, Poul Nyrup Rasmussen brought the issue of converting to the euro to a public referendum in 2000. More than 53% of Danes voted "no," preferring to keep the krone. As a result, Denmark retained domestic control of interest rates and in theory could manage inflation better than other small European countries. However, some economists were concerned that the country might have to offer premiums to attract capital; this could slow growth over the long term. Likewise, a global economic downturn could result in Denmark paying a risk premium for keeping the krone in the form of higher interest rates or depletion of foreign reserves.

By the turn of the millennium, growing immigration had put stress on the welfare system and on the long-standing political consensus that supported open borders. The issue became sufficiently contentious that the Danish People's Party (*Dansk Folkeparti*, or DPP), a new political party, won 13 seats (out of 179 total) in the parliament starting in 1998. When a new coalition government led by Anders Fogh Rasmussen was forged in 2001 between Liberals and Conservatives, it came to rely on the DPP for votes to pass new legislation.

Featuring political stability and economic growth averaging close to 3% since the mid-1990s, Denmark's trade surplus produced a positive current account and contributed to a stable currency policy. (See **Exhibit 3** for Denmark's income account and **Exhibit 4** for the balance of payments.) Its main trading partners were the European Union and the United States, though trade with Asia and the Middle East was growing. Denmark exported industrial machinery and transportation equipment, chemical products, furniture, pharmaceuticals, foodstuffs (including bacon, butter, cookies, and fish), wind turbines, and toys and plastic blocks (from the LEGO Group).

Demography and Identity Politics

Despite its long history of international contacts, Denmark was not a significant immigration destination until the latter part of the 20th century. In addition to its remote location, Denmark had a distinctive, vowel-rich language with pronunciation that was difficult to deduce from the printed word, though speakers of Danish, Norwegian, and Swedish typically could understand one another. Despite their ethnic homogeneity, Danes defined themselves primarily around shared values rather than ancestry, religion, or racial composition. Political, workplace, and many social activities were carried out through organized associations, with more than a million unions and associations registered in Denmark. The country was noted for its equality, social responsibility, and personal involvement in the good of the community. For most Danes, the welfare state was an integral part of that self-conception and democratic values were seen as part of the Danish identity. Danes considered democracy not just a form of government, but also a way of life.[22]

In the initial post-WWII growth period, immigrants were invited to Denmark from Turkey, Pakistan, Morocco, and Eastern Europe to work in manufacturing. In the early 1970s during the first oil crisis, a backlash in the form of restrictions on residency permits led to a significant slowing of immigration. A second wave of immigration began in the 1980s with refugees from Iran, Iraq, and Palestine, and continued in the 1990s with refugees from Somalia and Bosnia. As a result, people with a refugee background comprised nearly 40% of the Muslim population in Denmark.[23]

Denmark's population by the early 1990s had grown to 5.1 million, with the vast majority identifying themselves as having Danish ethnic heritage. Yet an influx of immigrants working in blue collar jobs and agriculture that had started in the 1980s accelerated in the 1990s. With a domestic fertility rate during the past two decades of 1.7 (below the 2.1 needed to maintain a constant population), Denmark came to rely on immigration for population growth and to fill undesirable jobs. By the mid-2000s the population composition had changed and immigrants and their offspring made up more than 9% of the country's 5.4 million inhabitants (see **Exhibit 9**).[24]

Academic studies of welfare states suggested that homogeneity was critical to popular support for redistributionist policies.[25] In line with this finding, immigration also became politically contentious in Denmark, even though in both absolute and relative terms it was on par with other European countries, and even lower than some. The DPP, whose share of the popular vote grew from 7% in 1998 to nearly 14% in 2007, used strong rhetoric during campaigns, arguing at one point that foreigners should be sent home immediately and that Denmark could barricade the Øresund Bridge to prevent Muslims from entering via Sweden.[26] Once in parliament, the DPP introduced a distinctively anti-multicultural discourse into Danish politics with warnings that "Denmark is a paradise for fanatics who, with human rights in hand, will turn Denmark into a multi-ethnic society."[27]

While the Social Democrats and other left-of-center parties adopted proimmigration platforms, a series of controversies over free speech and democratic values put them on the defensive. Though defending the principle that "Solidarity … means automatic rejection of racism and animosity towards foreigners," Social Democrats grew concerned about the failure of recent immigrants to integrate into Danish society and adopt progressive values concerning, among others, the role of women in society.[28]

The issue came to a head in the wake of political cartoons depicting the Prophet Mohammed and other icons of Islam that were published in the Danish paper *Jyllands-Posten* in 2005. Reprinted in early 2006, they set off protests throughout the Muslim world. At their most violent, crowds of protesters set fire to Danish embassies in Syria, Iran, and Lebanon. More than 70,000 Pakistanis took to the streets in protest in February 2006, and eight people were killed in 2008 when a powerful bomb ripped through Denmark's embassy in Islamabad.[29] To many Danes, these protests suggested that Muslims—including immigrants to Denmark—held views on freedom of speech and press that were irreconcilable with Danish values. In mid-2008, the DPP reignited controversy with a proposal to prohibit judges from wearing headscarves in courtrooms.[30] Dismissed by many as symbolic politics, especially since there were no Muslim women in line for judicial appointments, the proposal nevertheless ensured that national identity and immigration remained prominent in Danish politics.

The State, Unions, and Welfare

Historically, social welfare states sought to moderate the impacts of industrialization on workers. By the late 20th century, their guiding philosophy included promoting social cohesion and equality through child care, health care and pensions, and fostering equal opportunity through education. Found across Northern Europe and to a lesser degree elsewhere around the world, welfare states funded social services and benefits through high progressive taxes. As a result, in 2008 Denmark was the world's most equal developed country as rated by the United Nations Development Program; other social welfare states dominated the top rankings.[31]

Denmark's social welfare state was largely the product of a political and organizational link between the trade union movement and Social Democrats dating to the 19th century. Although the origins of Danish welfare programs can be traced to "poor laws" enacted in 1708, the formal institutions of the welfare state were established starting in the late 19th century to reduce tensions among an emerging urban industrial working class.[32] Welfare programs then shifted from the "deserving poor" to insure broader swaths of the population against the loss of livelihood due to old age (1891), sickness and chronic disease (1892), unemployment (1907), and disability (1921). Development of the welfare state continued through the interwar period, but accelerated after World War II with expanded social benefits and free education. Universal coverage of retirement (*folkepension*) was approved in 1956 for people over age 65, independent of former employment and income.[33] In 1973, a compulsory health insurance program funded through government tax revenue replaced "sickness funds" and other forms of health insurance. An extensive safety net became the norm; even conservative politicians and industry rarely challenged the fundamental principles of redistributionist policies.

Underpinning support for the welfare state, the unions and employers' associations negotiated wages, working hours, working conditions, and other aspects of employment through a centralized collective bargaining process. A spirit of give and take had characterized negotiations since the famous "September Compromise" of 1899. As unions gained strength at the close of the 19th century, they employed a "turn screw" tactic of sequential strikes in a particular region. However, when a small strike was initiated by carpenters in several Jutland towns in April 1899, employers responded with a nationwide lockout. By the end of May, workers from 11 trades were physically locked out of their workplaces. Lengthy negotiations ensued, culminating in an agreement that formalized labor negotiations and set the stage for collective bargaining to act as the primary mechanism for resolving disputes, rather than turning to the courts or government intervention.[34]

Since the September Compromise a scheduled, sequential negotiation process between employers and employees was governed by cooperation agreements, which also were subject to periodic renegotiation. Cooperation agreements established a variety of rules, including when employees were allowed to strike.[35] As a result, the government was only rarely drawn into the collective bargaining process. In a notable exception, in 1998 one-fifth of the Danish workforce struck at once, paralyzing industries across the country. Demanding six weeks of paid vacation, a 6% pay raise, and a six-hour working day for anyone on a production line, the strike included construction, transportation, sanitation, and other critical sectors. By the strike's second week, the Danish currency was under pressure and foreign firms announced they were considering pulling out of the country.[36] The government then intervened with a legislated compromise conceding two additional vacation days to all workers (three for those with children under age 14), a pay raise of 4.25% in 1998 and another 4% in 1999, and reduced pension and health care payments from employers. Labor strife was infrequent after 1998, although a strike by nurses in 2008 again raised the specter of government intervention in the labor market before bargaining between the union representing public sector employees and the employer association found a compromise.

Three large unions represented nearly 90% of the total unionized workforce. The Danish Confederation of Trade Unions (*Landsorganisationen i Danmark*, or LO) at 65% covered a wide range of factory workers, unskilled laborers, and other blue collar employees; the Joint Council of Salaried Employees and Public Servants (FTF) at 17% covered white collar workers, including finance workers, teachers, nurses, and civil servants; and the Danish Confederation of Professional Associations (AC) at 8% covered a variety of professionals and academics. Representing employers, the three biggest organizations were the Danish Employers' Confederation (DA), the Federation of Employers in Finance, and the Federation of Agricultural Employers.

Flexicurity

Starting in the mid-1980s and continuing into the early 1990s, greater international competition and the emergence of offshoring strategies combined to raise unemployment in Denmark. With little political momentum to reform welfare benefits, the government instead enacted programs that shrank the labor supply, including increased parental leave, fully funded early retirement, and paid education leave.[37] Spending on health and social protection (including pensions) grew from DKK 28 billion in 1971 to 233 billion in 1990 (see **Exhibit 5**). Government interventions to reduce the labor supply were outpaced by firms shutting down or moving operations out of the country.

Calling for a different strategy, the newly elected Social Democrat, Poul Nyrup Rasmussen, introduced a package of reforms later termed "flexicurity."[38] Intended to create a more flexible economy without undermining the security offered by the welfare state, reforms enabled employers to fire workers on short notice but also increased education and retraining programs for the unemployed. Though incremental, the reforms included changes to the tax code, labor market policies, educational system, and parental leave policies with the goals of creating greater coordination between the public and private sectors and providing incentives for investment. Poul Nyrup described flexicurity as relying on rights and duties: "People have the right to education and social protection and a duty to work and contribute to society."[39] Based on four interconnected pillars, flexicurity helped attract employers from overseas, encouraged the founding of new firms in Denmark, and fostered greater risk taking by Danish workers.

First, to promote job creation, the government further reduced its regulation of the workplace. Following the 1994 reforms, Denmark had no official national minimum wage, no defined number of vacation days, and no formally regulated working hours. Negotiations on these and other aspects of the workplace took place between workers and their employers, typically through the collective bargaining process. The right to strike was limited to occasions when the confederation of employers and confederation of trade unions failed to reach agreement.

Second, to protect employees, the government developed wage insurance that extended beyond a worker's current job. Every employee in Denmark had the option to take out subsidized unemployment insurance cosponsored by the state and the employer. Depending on the income level, employees received up to 90% of their prior wages for up to four years following a layoff.

Third, to avoid creating a permanent class of welfare recipients, the government established a set of obligations for the unemployed. These included participation in "activation" programs that matched unemployed workers with open private or public sector jobs and mandated vocational training programs or retraining for emerging sectors. The government thus offset high benefits with "action plans" to prepare the unemployed for work. Increased demand for education had the additional benefit of elevating the quality of training at technical schools, and new "day schools" were established for unskilled workers to gain the technical skills needed by firms in Denmark.[40]

Fourth, to attract new industries and establish education and employment programs, the government committed to a high level of public spending on infrastructure and welfare and on the macroeconomic stability important to export-oriented firms. Tax reforms included modest reductions in corporate and personal income taxes, along with limits to individual deductions and new taxes on energy and water consumption.

As the flexicurity reforms took hold in the mid-1990s, unemployment shrank even as turnover in the job market remained high. Denmark provided employers with a labor pool that could be drawn on as needed. As a particular sector experienced a downturn, firms could fire. But even though 200,000 jobs disappeared each year, 230,000 new ones were created. Overall, Denmark had a high job turnover, with 700,000 workers (25% of the workforce) changing positions in any given year.[41] For Danes, training programs and generous unemployment benefits offset involuntary workplace volatility. (See **Exhibit 10** for a graphic illustration of Denmark's cycle of employment, unemployment, and activation.) In a virtuous cycle, the right to fire workers attracted firms and brought down unemployment, whereas high turnover in the workplace contributed to shorter periods of unemployment than in other OECD countries.[42]

Employment and Security

In contrast to unions in many countries that opposed free trade, open borders, and the offshoring of jobs to lower wage countries, Danish unions adopted a strikingly different strategy in the 1990s. Opting not to confront industry or the government about workplace changes arising from globalization, they embraced flexicurity as a way to protect employment in Denmark through new job creation. While warning that "the focus must remain on flexibility *for* the employees not the flexibility *of* the employees," unions educated their members about the benefits of trade and which sectors would likely change the most.[43] In contrast to other European countries, Danish unions maintained membership even as employment changed from manufacturing to service jobs and Danes retained union membership even while unemployed. Unionization rates declined significantly in Great Britain (from 53% in 1980 to below 30% by 2005), France (from 19% in 1980 to below 10% by 2005), and Germany (from 35% in 1980 to 20% by 2005). In Denmark, by contrast, unions continued to represent 80% of the workforce (see **Exhibit 7**).[44]

Yet the movement of labor across national borders that accompanied globalization posed a challenge for union representation of workers. Officially, the unions walked a fine line between social integration and limits to immigration. LO, for example, issued a policy statement on globalization that argued: "Foreign labour should be welcome … provided that their employers observe the rules on pay and working conditions agreed between the social partners."[45] Immigrants to Denmark, however, had notably higher unemployment levels and participated in training and education programs at lower rates than Danes.

Rather than demanding employment for life and the retention of uncompetitive manufacturing sectors, Danish unions instead pushed for on-site skills enhancement, retraining of unemployed workers to make them attractive to new industries, and combined employer and government support for education. A 2007 LO report on employee-driven innovation thus emphasized: "It is widely agreed that a substantial part of Denmark's solution to globalization consists of a greater emphasis being placed on training, research, high technology and innovation.… If it hadn't been for globalization, Denmark would never have been able to maintain its position as one of the richest countries in the world at a time when competition grows increasingly fierce."[46] Even on more controversial issues such as outsourcing, unions came to see workers' interests as aligned with the success of the country. If firms prospered, there would be more jobs even as some manufacturing moved to lower cost locations.

Vocational training centers and worker education programs became a core feature of the Danish welfare state. When the government of Anders Fogh Rasmussen sought to loosen regulations and lower taxes after 2001, it nevertheless continued to support flexicurity policies. Claus Hjort Frederiksen, the minister of employment, thus argued in 2007: "It is no secret that in Denmark we see flexicurity as an important response to the challenges presented by globalization. It means that enterprises can easily adapt to the changing needs and requirements resulting from globalization. Workers achieve a high degree of employment security and social security."[47]

Danish workers largely embraced the education programs, with more than half of the population taking part in some form of supplementary training or education each year.[48] Unions helped define a new concept of job security as globalization changed the kinds of industries that prospered in Denmark. The outgoing head of LO argued in an October 2007 speech at the annual party congress:

> When I was young, security meant having a good, solid job. This was not very exciting—but in a way, it was very safe. This security disappeared as globalization emerged. Security is no longer to hold on desperately to the same job throughout your life. Security is to stay cool when you hear rumours of outsourcing from the boardroom. Because deep down you know that you have solid skills and that you will quickly be able to find a new job if the old one is relocated. Security is not to be able to stay on. Security is to be able to move. It is precisely this new security through training and education that we have now embarked on creating for every worker.[49]

Echoing their union leaders and government officials, Danes felt secure that if they lost their jobs, they could find employment again quickly. Whereas workers in Spain, Portugal, France, and other European countries predominantly answered an OECD poll question "Do you worry about the possibility of losing your job?" with "I worry a great deal," Danes instead chose "I don't worry at all."[50] In another poll, more than 70% of Danes agreed it was "good for people to change jobs every few years," in contrast to fewer than 30% of Germans, Austrians, or Poles.[51] The positive attitude toward globalization in the Danish population meant that a Eurobarometer poll in mid-2008 found 78% of respondents in Denmark agreed globalization was a good thing for domestic companies and would foster job growth, compared to a European average of 39%.[52]

Planning for the Future Labor Market

By 2007, Denmark's embrace of globalization had benefited the country by most measures. But record low unemployment also raised a number of challenging questions. Could Denmark train or attract sufficient numbers of employees for sectors like health care that were growing internationally? Could the labor pool be expanded when analysts expected a wave of retirement in coming years? In December 2007, the government established a "Labour Market Commission" to plan for the future Danish workforce. Although the official retirement age was 65, early retirement benefits meant that most Danes left work at age 60 or 61. A technocratic solution to the politically hot-button issue of retirement age had been passed in June 2006. The pension age would increase to 67 by 2027, while the early retirement age would rise to 62 by 2022. After 2025, age limits would be indexed to the mean life expectancy of people aged 60 using a formula that ensured an average of 19 years retirement.[53] As the population lived longer, workers would have to retire later. Nevertheless, experts predicted these changes would only modestly reduce Denmark's longer term workforce shortages.

The commission therefore looked beyond official retirement age to consider other ways to increase the size of the workforce. Led by Jørgen Søndergaard, director of the Danish National Centre for Social Research, the commission observed that many Danes ages 18 to 65 were outside the workforce, with nearly 20% on some form of public support (see **Exhibit 11**).[54] On the "front end," university students receiving free education, stipends, and housing allowances were not entering the workforce until age 28, later than in most other countries. Even students in vocational programs often did not complete their training until age 23. In the "middle," people outside the workforce on disability or sickness benefits included those with psychiatric diagnoses or mild disabilities that did not physically prevent them from working. Under the current system, however, they had few incentives to seek employment. Unemployment benefits still ran for longer than in many other OECD countries, though they were shortened in the 1990s from seven to four years. Many Danes worked part-time, half or less of the typical 37-hour workweek. On the "back end," early retirement benefits initiated in the early 1990s remained popular even though the government now encouraged people to stay in the workforce longer. Reform of any one of these aspects would face political opposition, yet the alternative of greater immigration was even less appealing to the current government.[55]

Danish Industry: Global Niche Players

Taking advantage of the country's combination of protrade policies and an educated and mobile workforce, Danish firms found success as global niche players. For example, rather than make a large variety of toys, the LEGO Group built an international business around simple plastic bricks that could be combined in myriad ways. Rather than fund discovery research and testing on treatments for a variety of diseases, Novo Nordisk focused on diabetes worldwide. Nevertheless, firms in Denmark faced complex strategic choices regarding the outsourcing of manufacturing to lower cost locations and employee recruitment within the country and internationally. Firms supported vocational training and had agreed to two weeks of paid retraining for blue collar workers every year. Company decisions, including plans for outsourcing and offshoring, involved unions at an early stage in deliberations, which signaled to employees how to prepare for the future and built consensus for otherwise controversial decisions. Nevertheless, as the examples of the LEGO Group and Novo Nordisk illustrate, the movement of labor that accompanied the movement of goods as globalization accelerated in the early 2000s created novel dilemmas that pushed the Danish consensus model to its limits.

LEGO Group, from an abbreviation of Danish for "play well" (*leg godt*), was founded in 1932 and expanded into a global firm making interlocking plastic blocks sold in more than 130 countries.[56] According to Danish mathematicians, six 8-stud LEGO bricks could be combined in more than 900 million different ways, fitting with the company's mantra that its products encouraged the skills of creative thinking and problem solving from multiple angles.[57] In the early 2000s, the LEGO Group's executives needed those very skills themselves. Competitors such as Mattel and Hasbro had outsourced manufacturing to China, bringing down prices. LEGO Group's single product line appeared outdated to children playing with increasingly sophisticated toys and computer games. Facing declining sales, the company undertook a strategic evaluation of its partnerships and manufacturing footprint. Opening up to new collaborations, the LEGO Group began working with an animation firm in the United States and a game developer in England to launch web-based games. It also enabled customers to design and order custom sets of blocks through an interactive "LEGO factory." In its manufacturing analysis, the company focused on lead time, proximity to markets, and intellectual property protection. Although unit labor costs in China were a fraction of those in Europe, the key to future success was the ability to ramp up production of a successful toy and respond quickly to changing consumer demands.[58]

Deciding against China, LEGO Group's CEO, Jørgen Vig Knudstorp, opted instead to outsource manufacturing to Eastern Europe and Mexico. To enact this plan, however, Knudstorp first built consensus at regular meetings of a "company council" that included union representatives. Council members, according to Knudstorp, sought to "make LEGO the best place to work and make it the most collaborative workplace in Denmark."[59] Outsourcing then proceeded in a staged sequence. First, the company expanded contracts with Flextronics, a Singapore-based electronics manufacturer that had begun making LEGO bricks in Hungary in 2006. Manufacturing also was shifted from the United States to Mexico. As of early 2008, however, 65% of LEGO bricks still were made at a factory near company headquarters in Billund. This largely automated high-tech site produced 19 billion pieces per year, with quality controls setting tolerances to 0.002 mm.[60] Nevertheless, outsourcing continued to factories in Hungary, Poland, and the Czech Republic.

Finding the transaction costs of having a supplier produce its unique product overly high, the LEGO Group terminated contracts with Flextronics and took over manufacturing in Eastern Europe. By 2010, the company intended to keep only "specialized and skills-related" manufacturing in Denmark, finding it important to maintain "skills in moulding, processing and packing within the company's own organisation."[61] As part of the same overall strategy, the LEGO Group developed a "production technologies R&D unit" with new opportunities for retrained workers whose previous positions were outsourced. Balancing outsourcing with the creation of new jobs meant that employment at the firm grew in 2008 after four years of cuts.[62] Reflecting on the changes, Knudstorp stated, "We had to get away from the parts of the business that other firms can do for us, which was a painful and difficult process; but at the end of it we became a knowledge-driven company."[63]

Novo Nordisk, created through a 1989 merger of two Danish companies that had competed in insulin production since the early 1920s, faced a complex mix of geographic and staffing decisions related to its pharmaceutical business. With 73% of its sales coming from diabetes treatments, the company anticipated demand growth worldwide, but especially outside of the United States and Europe.[64] Looking to lower costs, competitors were outsourcing the production of active pharmaceutical ingredients—including biological drugs—to small companies in India and China.[65] Concerned with maintaining product quality (even miniscule amounts of foreign biological material can produce a life-threatening allergic reaction), Novo Nordisk elected to focus operations in Denmark on its core fermentation production and to shift assembly, product packaging, and finishing steps to China, Brazil, and other lower cost countries. Like the LEGO Group, the company engaged its workers throughout the decision-making process, including in broad discussions of what globalization meant for the company and more specific conversations about product supply chains. After these dialogues, the company established programs to increase production worker competencies so that blue collar employees could fill any one of many different jobs as manufacturing evolved.

Observing the growing availability of talented research scientists and expanding markets in Asia, Novo Nordisk also established drug discovery, research, and clinical testing sites in China. Tapping the talent and patient pools in Asia was seen as complementing growth in Denmark. Lise Kingo, an executive vice president and chief of staff, explained: "By 2025, an estimated 80% of all people with diabetes will live in developing countries. Improving these people's access to proper care is a moral obligation. Finding commercially viable solutions to curb the diabetes pandemic is a business imperative."[66]

However, even though 61% of Novo Nordisk's sales came from outside Europe and by 2007 the number of employees outside Denmark outnumbered those in the country, the company's leadership had strong Danish roots. Every member of the executive team was born in Denmark; all but two members of the board of directors were Danish nationals.[67] To understand disease in different national and cultural contexts and to foster innovation among an increasingly diverse pool of research scientists, the company adopted programs intended to promote women and non-Danes in top management. Novo Nordisk's executives felt that future success for the company required embracing a flow of scientists and business executives between Denmark and the rest of the world; Kingo observed that for Novo Nordisk, "Diversity and innovation are closely linked."[68]

A Small Country in the Global Economy

The old grandfather talked of the Danish lions and the Danish hearts, emblems of strength and gentleness, and explained quite clearly that there is another strength than that which lies in a sword, and he pointed to … a collection of Holberg's plays. "He knew how to fight also," said the old man; "for he lashed the follies and prejudices of people during his whole life." Then the grandfather nodded to a place above the looking-glass … and said "Tycho Brahe … ma[d]e the way of the stars of heaven clear, and plain to be understood."

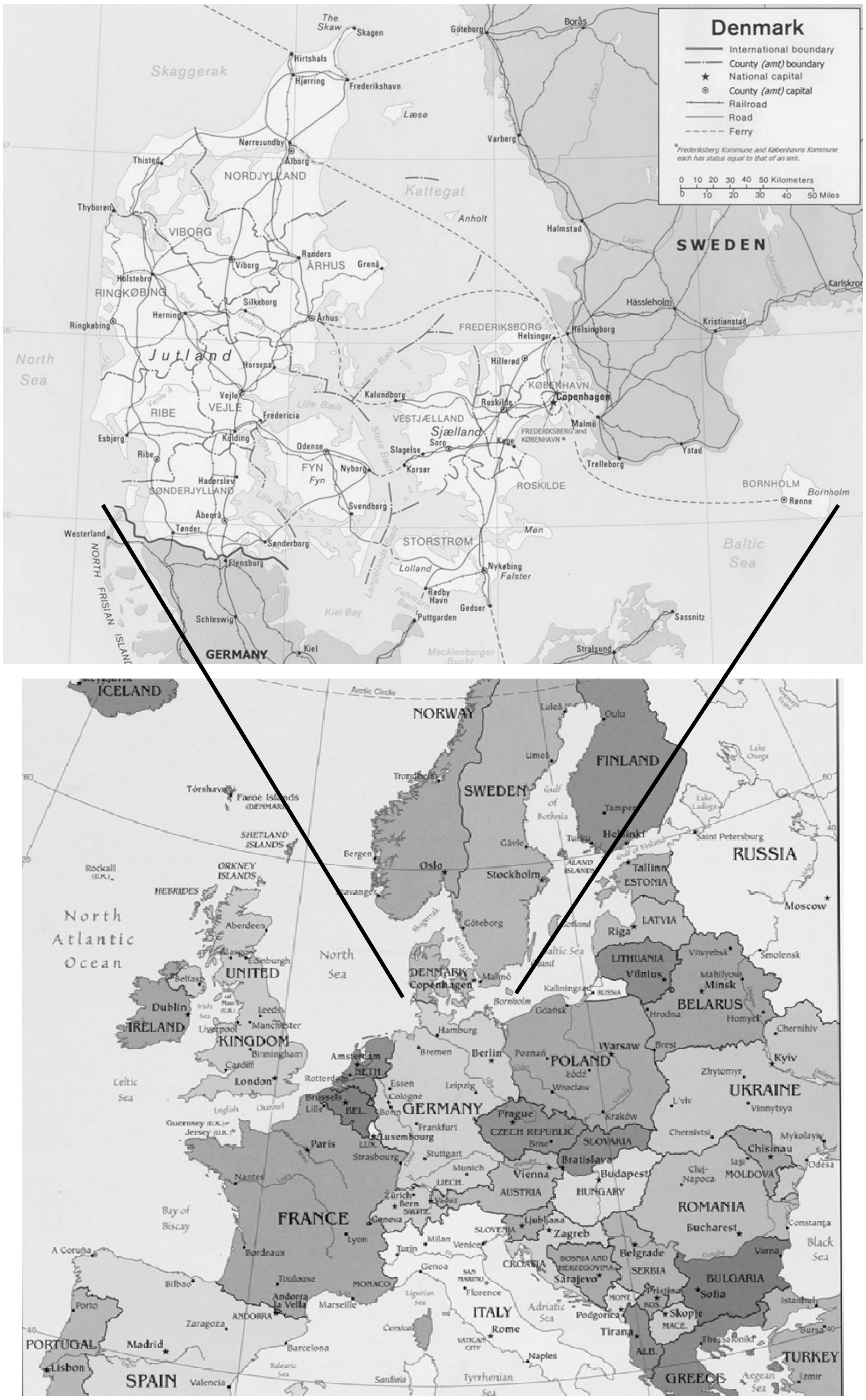
—Hans Christian Andersen, Holger Danske (1845)

Danes were justifiably proud of their national transition from a warring people to leaders in creative and knowledge-based sectors including architecture, design, life sciences, information technology, and toys and gaming. Analysts had worried in the 1980s and 1990s that small countries like Denmark would fare poorly as globalization intensified. With China and India emerging as international manufacturing centers and the United States leading science-based industries, media, and entertainment, a heavily unionized but lightly populated country with high taxes and extensive welfare benefits looked fundamentally uncompetitive.[69] Yet Denmark had proven its critics wrong. Its unique combination of probusiness, prounion, and proeducation policies had brought unemployment to record lows, sustained real GDP growth, and fostered a “creative class” that appeared well positioned for the future.[70]

Nevertheless, Denmark faced difficult choices. Government leaders and economists were questioning whether Danes’ reluctance to convert to the euro was sustainable. After the euro’s introduction in 1999, the Danish Central Bank switched from a peg to the German mark to a fixed exchange rate of 7.42 krone/euro. To maintain the fixed rate, Denmark typically offered a 0.25% interest premium above the Eurozone. An emerging global financial crisis forced Denmark’s Central Bank to raise rates several times in 2008, as investors moved funds to large secure holdings. Interest rate hikes were painful, because they came just as the country entered a recession. On April 2, 2009, the European Central Bank announced it was reducing the discount rate to 1.25% and signaled that even lower rates were likely in the near future, reigniting discussion in Denmark about joining the Eurozone.[71]

Several other political and economic issues also were attracting attention and played into Lars Løkke Rasmussen’s deliberations upon becoming prime minister. A committee on the sustainability of the Danish welfare state had documented the need for more than 100,000 additional skilled employees (including scientific and technical workers) during the next 10 years. Could that many more employees be found in a population of 5.4 million? Politically fraught reform options included increasing the retirement age, shortening the time it took for students to graduate, or attracting foreign workers with the necessary skills. But could Denmark continue to attract foreigners as it tightened immigration policies? Or would more immigrants undermine its uniquely successful welfare state? Rasmussen considered that policy responses to the global economic crisis of 2007–2009 might derail longer term planning, especially to expand the workforce either through domestic liberalization and cuts to welfare programs or through greater openness to immigration.

Exhibit 1 Map of Denmark and Europe



Source: Courtesy of the University of Texas Libraries, The University of Texas at Austin.

Exhibit 2 Timeline of Denmark's Political and Economic History

1016	Danish King Knut II defeats King Edmund to become king of Denmark and England
1028	Denmark conquers Norway
1350	Black plague (*Svartedauen*) sweeps Scandinavia, killing one-third of the inhabitants
1397	Union of Kalmar unites Denmark, Sweden, and Norway under a single monarch; Denmark is the dominant power
1814	Denmark loses Norway in the Napoleonic Wars
1849	First Constitution; King surrenders absolute power
1899	"September Compromise" establishes national collective bargaining
1901	Parliamentary majority rule instituted
1915	Constitution amended to reduce landowner advantages and introduce universal suffrage
1940	Occupation by Nazi Germany
1945	Liberation from Nazi Germany; initiation of privatization programs
1949	Founding member of NATO
1953	Constitution amended and unicameral parliament established (abolishing the *Landsting*, a parliamentary body characterized by requirements of high wealth)
1956	National pension system instituted
1960	Sickness compensation system instituted Free trade agreement (EFTA) among Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the United Kingdom
1965	Disability insurance instituted
1973	Denmark joins EEC
1974	First oil crisis
1979	Second oil crisis and currency devaluation
1982	Poul Schlüter becomes first Conservative prime minister in nearly a century and introduces economic reforms and new taxes
1992	Danish voters reject Maastricht Treaty
1993	Denmark approves Maastricht (with specific opt-outs) New Social Democratic government with Poul Nyrup Rasmussen as prime minister
1994	Flexicurity reform agenda of labor market, tax, and industrial policy changes
1998	Poul Nyrup Rasmussen returned to office in general election
2001	Center-right coalition led by Anders Fogh Rasmussen wins general election
2005	Anders Fogh Rasmussen wins second term as prime minister
2006	Cartoon depictions of the Prophet Mohammed, first published by a Danish newspaper in 2005, spark protests and boycotts of Danish goods
2007	Government of prime minister Anders Fogh Rasmussen wins third term after early elections
2009	Lars Løkke Rasmussen forms new government following Anders Fogh Rasmussen's appointment as secretary general of NATO

Source: Casewriters.

Exhibit 3 Denmark's National Income Accounts and Monetary Policy Indicators

	1990	1995	2000	2005	2008	2009
Nominal GDP (US$ billions)	135.8	182.0	160.1	257.7	340.8	309.3
Real GDP (US$ billions, 2005 prices)[a]	187.7	210.3	242.1	257.7	268.6	255.0
Nominal GDP (DKK billions)	840.6	1,019.6	1,294.0	1,545.3	1,737.5	1,657.9
Real GDP (DKK billions, 2000 prices)	1,001.4	1,124.1	1,294.0	1,377.2	1,435.5	1,362.7
Avg. Annual Real GDP Growth Rate[b]	1.2%	2.3%	3.5%	2.4%	-0.9%	-5.1%
Deflator (2005 = 100)	74.8	80.8	89.1	100.0	107.9	108.4
Per Capita Real GDP (DKK, 2000 prices)	194,995	215,512	242,315	254,148	261,283	247,314
Per Capita Real GDP (US$)	36,484	40,322	45,336	47,550	48,885	46,272
Per Capita Real GDP (PPP, US$, 2005 prices)	25,688	28,391	31,922	33,481	34,421	32,580
GDP Components (%nominal):						
Private Consumption	50.3%	51.2%	47.7%	48.2%	48.7%	49.3%
Government Consumption	25.1%	25.2%	25.1%	26.0%	26.7%	29.6%
Gross Fixed Investment	19.9%	19.5%	21.2%	20.8%	22.0%	17.8%
Exports	37.2%	37.6%	46.6%	49.0%	55.0%	47.1%
Imports	32.6%	33.5%	40.5%	44.1%	52.3%	43.8%
Gross National Savings Rate	20.9%	20.5%	22.6%	25.1%	24.2%	21.4%
Labor Productivity Growth	2.0%	1.5%	3.1%	2.0%	-2.6%	-2.8%
Total Factor Productivity Growth	0.4%	0.9%	1.9%	1.1%	-2.9%	-4.0%
Average Real Wage Index (2005=100)	80.9	85.0	91.6	100.0	104.6	107.8
Central Bank Discount Rate[c]	8.50%	5.75%	4.25%	2.25%	4.25%	1.75%
Lending Interest Rate[d]	14.1%	10.3%	8.1%	5.2%	6.9%	5.3%
M2 Growth Rate[e]	6.5%	6.2%	-5.2%	16.1%	7.8%	-2.8%
Exchange Rate (DK krone : U.S. dollar)[f]	6.19	5.60	8.08	6.00	5.10	5.36

[a] GDP at constant market prices, rebased to 2005 constant prices and translated into US$ at 2005 exchange rate.

[b] Average annual real GDP growth rate for provided time series (1990 is avg. annual growth for 1985–1990).

[c] Midyear, as reported by Denmark National Bank, www.nationalbanken.dk, accessed July 2009.

[d] Average lending rate, including nonperforming loans.

[e] Percent change in M2 over the previous year.

[f] Exchange rate is calculated as the average for the calendar year.

Source: Unless otherwise noted, adapted from the Economist Intelligence Unit, http://www.eiu.com, accessed July 2009.

Exhibit 4 Denmark's Balance of Payments

US$, millions	**1990**	**1995**	**2000**	**2005**	**2006**	**2007**	**2008**	**2009**
Current account	**1,372**	**1,855**	**2,262**	**11,104**	**8,218**	**4,769**	**7,549**	**12,606**
Trade balance	4,875	6,528	6,641	7,333	3,048	391	-645	6,789
Goods exports	36,072	50,348	50,084	82,486	90,732	100,720	114,741	91,211
Goods imports	–31,197	–43,821	–43,443	–75,153	-87,684	-100,329	-115,386	-84,422
Services balance	2,612	1,267	2,659	6,369	7,076	7,968	10,036	4,037
Services credit	12,830	15,307	23,721	43,372	52,308	61,965	72,468	55,127
Services debit	–10,218	–14,040	–21,063	–37,002	-45,232	-53,998	-62,432	-51,091
Income balance	–5,708	–4,549	–4,024	1,598	2,854	1,738	3,892	8,045
Income credit	6,011	28,433	11,883	24,929	27,764	34,639	37,413	31,634
Income debit	–11,719	–32,982	–15,907	–23,331	-24,910	-32,901	-33,520	-23,589
Net transfers	–408	–1,391	–3,014	–4,196	-4,760	-5,329	-5,734	-6,264
Capital account	**0**	**0**	**–11**	**518**	**6**	**50**	**73**	**72**
Financial account	**4,420**	**–432**	**–3,311**	**–10,578**	**-8,609**	**-4,169**	**9,741**	**26,641**
Net direct investment	–350	1,171	7,632	–3,372	-5,726	-8,194	-11,929	-7,832
Direct investment inflow	1,132	4,139	36,013	12,834	2,420	11,800	3,111	7,712
Direct investment outflow	–1,482	–2,969	–28,381	–16,206	-8,146	-19,994	-15,041	-15,544
Net portfolio investment	2,900	6,316	–17,799	–11,955	-16,846	-7,510	10,843	18,035
Net financial derivatives	0	0	326	2,161	2,636	136	2,947	2,994
Net other investment	1,870	–7,918	6,529	2,588	11,328	11,399	7,881	13,443
Errors and omissions	**–2,407**	**1,075**	**–4,460**	**–2,550**	**-5,604**	**-861**	**-9,941**	**-5,649**
Change in reserves	**–3,385**	**–2,498**	**5,521**	**1,506**	**5,988**	**211**	**-7,423**	**-33,670**

Source: Compiled based on data from the International Monetary Fund, International Financial Statistics, www.imfstatistics.org, accessed April 2010.

Exhibit 5 Denmark's Central Government Revenue and Expenditures

DKK, million (current prices)	1990		1995		2000		2005		2007		2008	
Revenue (and % Total Tax and Duty):												
Personal income taxes	209,409	53.2%	268,505	53.7%	331,550	51.8%	385,230	48.9%	425,459	51.6%	442,872	52.7%
Corporate taxes	14,660	3.7%	23,808	4.8%	42,279	6.6%	60,663	7.7%	61,031	7.4%	59,422	7.1%
Environmental (emissions) taxes	0	0.0%	0	0.0%	0	0.0%	6,203	0.8%	9,446	1.1%	11,754	1.4%
Social security contributions, total	7,897	2.0%	10,917	2.2%	23,145	3.6%	17,138	2.2%	16,805	2.0%	16,840	2.0%
Taxes on wealth, real property, etc.	16,466	4.2%	18,357	3.7%	23,969	3.7%	29,955	3.8%	33,093	4.0%	36,627	4.4%
Taxes on goods and services, total	130,067	33.0%	159,714	31.9%	204,841	32.0%	254,744	32.3%	278,944	33.9%	273,361	32.6%
Total tax and duty revenue	393,685		500,194		640,557		787,819		823,936		839,633	
Revenue from oil and other sources	65,345		77,042		85,349		109,149		119,393		120,471	
Expenditures (and % Total):												
General public services	94,322	20.1%	109,350	18.0%	112,390	16.1%	105,600	12.9%	107,933	12.5%	112,290	12.5%
Defense	16,683	3.5%	18,447	3.0%	20,472	2.9%	23,118	2.8%	26,583	3.1%	26,584	3.0%
Public order and safety	8,974	1.9%	10,039	1.7%	12,221	1.8%	15,772	1.9%	17,050	2.0%	18,058	2.0%
Economic affairs	38,883	8.3%	44,064	7.3%	48,572	7.0%	55,535	6.8%	56,691	6.6%	59,586	6.6%
Environmental protection	2,389	0.5%	5,576	0.9%	7,581	1.1%	8,606	1.1%	10,015	1.2%	9,754	1.1%
Housing and community	4,552	1.0%	6,917	1.1%	9,530	1.4%	9,340	1.1%	10,067	1.2%	8,719	1.0%
Health	55,796	11.9%	70,457	11.6%	85,718	12.3%	109,042	13.3%	123,125	14.3%	131,650	14.6%
Recreation, culture, and religion	12,798	2.7%	16,701	2.8%	20,254	2.9%	24,912	3.0%	26,211	3.0%	27,468	3.1%
Education	58,568	12.5%	76,191	12.6%	103,259	14.8%	123,020	15.0%	124,609	14.4%	132,555	14.7%
Primary education	25,695	5.5%	30,807	5.1%	41,465	5.9%	54,062	6.6%	57,338	6.6%	60,888	6.8%
Youth-level education	12,859	2.7%	16,714	2.8%	19,352	2.8%	24,028	2.9%	22,990	2.7%	24,561	2.7%
Higher education	10,743	2.3%	15,227	2.5%	21,778	3.1%	25,389	3.1%	28,240	3.3%	31,109	3.5%
Adult and supplementary education	7,991	1.7%	10,817	1.8%	17,467	2.5%	15,725	1.9%	12,267	1.4%	11,744	1.3%
Social protection	177,042	37.7%	249,242	41.1%	277,893	39.8%	344,458	42.0%	360,448	41.8%	373,632	41.5%
Sickness and disability	36,389	7.7%	46,705	7.7%	53,329	7.6%	71,829	8.8%	79,191	9.2%	84,155	9.3%
Old age	49,801	10.6%	68,964	11.4%	81,727	11.7%	105,629	12.9%	121,807	14.1%	127,102	14.1%
Family and children	34,274	7.3%	47,934	7.9%	64,708	9.3%	78,986	9.6%	83,208	9.6%	87,412	9.7%
Unemployment	36,409	7.7%	55,755	9.2%	44,407	6.4%	48,635	5.9%	37,271	4.3%	35,321	3.9%
Total	470,007		606,983		697,890		819,404		862,732		900,296	
Budget balance	-10,977		-29,747		28,016		77,564		80,597		59,808	

Source: Adapted from Statistics Denmark, http://www.dst.dk/homeuk.aspx, accessed July 2009.

Exhibit 6 Infrastructure and Research and Development (R&D) Investments

DKK, million (current prices)	1990	1995	2000	2005	2007
Road Network	4,828	6,643	8,239	12,601	13,028
Rail Network	3,607	5,320	4,203	1,795	1,729
Sea Ports	313	449	424	531	698[a]
Airports	138	351	880	255	268[a]
Pipelines	642	823	733	433	403
Total Infrastructure Spending	9,528	13,586	14,479	15,615	16,126
Government Outlays for R&D, Total	5,947	8,524	9,994[b]	11,042	13,571
Nominal GDP	840,648	1,019,545	1,293,964	1,545,257	1,628,630

[a] Figure is from 2006. [b] Figure is from 2001.

Source: Adapted from Statistics Denmark, http://www.dst.dk/homeuk.aspx, accessed July 2009.

Exhibit 7 Comparative Indicators

	Income Equality (Gini Coefficient), 2008	Government Debt/GDP, 2007	Government Effectiveness, 2008[a]	Days to Start a Business, 2009	Entrepreneurial Activity, 2006[b]	Corporate Tax Rate, 2008	Income Tax and Social Security, 2009[c]	Union Density, 2006[d]	Collective Bargaining Coverage, 2003	Trade-to-GDP Ratio, 2008	Enabling Trade Index (Global Rank), 2009[e]	Global Ranking (of 121 Countries) for Tariff/Nontariff Trade Barriers
Denmark	.24	22.2%	2.19	6	5.3%	25%	42%	80%	87%	107%	5.44 (4)	3 / 71
France	.28	64.1%	1.54	7	4.4%	33%	35%	8%	95%	55%	5.02 (17)	3 / 74
Germany	.28	62.6%	1.65	24	4.2%	33%	35%	20%	63%	88%	5.24 (12)	3 / 75
Japan	.38	184.3%	1.46	31	2.9%	41%	26%	19%	24%	34%	4.78 (23)	40 / 88
Netherlands	.31	44.8%	1.86	11	5.4%	26%	40%	24%	82%	146%	5.27 (10)	3 / 72
Singapore	.43	39.8%	2.50	6	4.9%	18%	15%	19%	n/a	362%	5.97 (1)	2 / 38
United Kingdom	.34	44.8%	1.74	13	5.8%	28%	32%	28%	35%	56%	4.93 (20)	3 / 65
United States	.45	63.2%	1.65	6	10.0%	35%	24%	12%	14%	29%	5.02 (16)	30 / 29

[a] Compiled by the World Bank, the "Government Effectiveness Index" combines into a single score ranging from –2.5 to + 2.5 the quality of public services and bureaucracies that provide them, the competence and independence of civil servants, and the credibility of the government's commitments to its policies.

[b] Percentage of population ages 18–64 who have taken action toward creating a new business within the past year or are new business owners with paid employees for more than 3 but less than 42 months.

[c] Rate calculated as total income tax and social security over gross income of $100,000 prior to any deductions for married couple, no children.

[d] Union membership as a proportion of employed wage and salary earners.

[e] Index on scale of 0–6 of institutions, policies, and services that enable trade, with subindexes measuring market access, border administration, transport and communications infrastructure, and the business environment.

Sources: The World Bank, "World Development Indicators," http://www.worldbank.org; The World Bank, "Governance Indicators for 1996–2008," http://info.worldbank.org/governance; The World Bank, "Doing Business," http://www.doingbusiness.org; KPMG, "Individual Income Tax and Social Security Rate Survey," www.kpmg.com; N. Bosma and R. Harding, *Global Entrepreneurship Monitor 2006* (Babson College, 2006): 7; IMD, "World Competitiveness Online," http://www.imd.ch; J. Visser, "Union Membership Statistics in 24 Countries," *Monthly Labor Review* (January 2006): 38–49; OECD, "Globalisation," http://stats.oecd.org; World Economic Forum, "The Global Enabling Trade Report 2009," http://www.weforum.org; all websites accessed July 2009.

Exhibit 8 Employment in Denmark

	1990	1995	2000	2005	2008
Workforce (in 1,000)	2,794	2,783	2,854	2,888	2,858
Employed in the private sector	1,734	1,692	1,768	1,756	1,737
Employed in the public sector	826	910	966	1,012	1,070
Unemployed	234	181	120	120	51
Persons outside the workforce (ages 15–66)	686	824	795	804	827
Private sector employment (% of workforce)	61.2%	58.3%	61.2%	59.8%	60.8%
Public sector employment	29.1%	31.3%	33.4%	34.5%	37.4%
Unemployment	9.7%	10.4%	5.4%	5.7%	1.8%

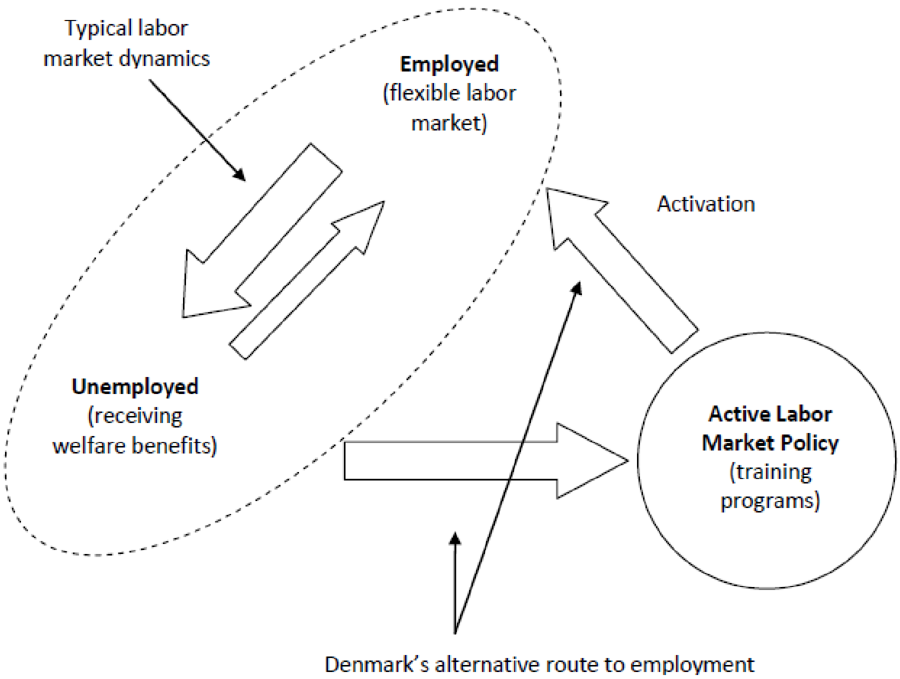
Source: Adapted from Statistics Denmark, www.dst.dk/homeuk.aspx, accessed July 2009. Due to a break in the employment data series between 1990 and 1995, data for 1990 reflect interpolation from discontinued data series BESK1.

Exhibit 9 Demographics

	1990	1995	2000	2005	2008
Total Population	5,135,409	5,215,718	5,330,016	5,411,405	5,475,791
Persons of Danish Origin	4,920,838	4,937,259	4,951,854	4,959,310	4,977,829
Immigrants from					
EU countries	68,549	75,061	83,520	88,220	107,670
Europe (non-EU)	46,277	54,261	86,537	96,001	102,120
Africa	8,724	16,224	26,837	29,942	30,855
North America	6,099	6,573	7,064	7,380	8,288
South and Central America	3,990	4,808	5,945	7,219	8,283
Asia	46,085	65,899	84,458	110,459	118,520
Oceania	673	1,017	1,261	1,501	1,915
Stateless & unknown	712	1,152	1,302	2,645	1,014
Descendants from					
EU countries	7,423	8,946	10,429	12,057	11,985
Europe (non-EU)	13,402	20,372	29,620	37,646	41,283
Africa	2,111	4,206	9,058	13,240	14,707
North America	918	946	983	1,061	916
South and Central America	340	449	564	749	770
Asia	9,107	18,248	30,201	43,102	49,136
Oceania	84	121	123	155	155
Stateless & unknown	77	176	260	718	345
Total Immigration	40,715	63,187	52,915	52,458	72,749
Total Emigration	32,383	34,630	43,417	45,869	43,490
Asylum Applications to Denmark					
Western countries	927	206	391	78	23
Non-Western countries	4,491	4,905	9,958	2,203	2,386

Source: Adapted from Statistics Denmark, http://www.dst.dk/homeuk.aspx, accessed July 2009.

Exhibit 10 Flexicurity



Source: Casewriters.

Exhibit 11 People in Activation Programs

	2007[a]	2008	2009
Central Government			
Guidance and clarification activities	775	1,494	1,647
Special projects and educational activities	77	42	2,743
Ordinary education	9,443	7,494	3,360
Business in-service training	450	478	722
Employment subject to wage subsidies	7,350	5,410	6,184
Activation by Central Government Total	18,096	14,919	14,656
Local Governments			
Guidance and clarification activities	9,347	8 704	10 058
Special projects and educational activities	15,735	18,933	21,858
Ordinary education	4,787	5,792	5,523
Special activities upgrading skills	151	289	838
Business in-service training	5,952	6,474	7,573
Employment subject to wage subsidies	1,760	1,828	1,283
Danish lessons	1,682	2,355	2,265
Experiments	0	43	35
Activation by Local Government Total	39,413	44,417	49,433
Total in Activation Programs	57,509	59,336	64,088

[a] Number of legal residents in activation programs; data are from the end of the first quarter of each year.

Source: Adapted from Statistics Denmark, www.dst.dk/homeuk.aspx, accessed July 2009.

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