

## **A Danish solution for Europe?**

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See also: Lundvall, B.-Å. (2002) *Innovation, Growth and Social Cohesion – The Danish Model*, Elgar Publishers, London.

Europe is in disarray and torn between the classical ideological poles pro-state and pro-market. The British do not like the way continental Europe imposes state regulation on their economy and regard the German and French stagnation as rooted in rigid labor markets and over-ambitious social security systems. At the European level the Commission calls for 'structural reform' especially in these countries.

In France, on the right as on the left side of the political spectrum, EU is seen as an institution that carries privatization and liberalization on its back. National state regulations that the EU-commission sees as rigidities are seen as safeguards against the social consequences of globalization. This is the rational background for the majority declaring that they will vote 'no' to the European Constitution (irrational grounds are nationalism tout court and the 'non a Giscard/Chirac').

At the root of the conflict are national ideologies regarding the role of respectively professional work on the one hand and the role of clients/customers on the other. To caricature: In the ideal market-dominated state the consumer is king and the professional worker the adaptive servant. In the ideal republican state the professional worker is king and the client/consumer has to adapt to the needs of the profession. This applies both to private and public sector activities.

### **State or Market?**

In the UK the bias is in favor of the consumer while in France it is in favor of the professional producer. Is it not true that French state regulations privilege insiders versus outsiders and give advantage to the professional rather than to the consumer/user? Who is protected most effectively by these regulations the elite coming out of les Grands Ecoles (ENA) now at the top of state-owned companies or ordinary workers? And the regulations leave little space for active participation of citizens and users to influence the quality of public services. They are certainly French in their historical roots but are they really based on the revolutionary principles of 'Fraternité, Egalité et Liberté'?

The EU-Commission is right in defining some of the regulations as 'inefficient' in the current context where rapid change and engagement in life-long learning is a key to competitiveness for people, firms and nations. Regulations imposing barriers between professions and organizations slow down learning processes in the French society and economy. In the current 'learning economy' mobility as well as networking across professions, sectors and organizations has become a necessary prerequisite to absorb and efficiently use new technology and new organizational forms.

But the critical view on 'structural reform' that inspires the resistance to the European Constitution is also well founded. Dismantling all protective regulation with the aim to

increase competition in commodity and labor markets might create a major crisis in the French society (and the same would to a lesser degree be true for Germany). The French institutions – including trade unions, the banking system and public sector organizations - are not prepared to handle such a situation. New forms of inequalities and new divides would open up and the power of the ‘raw’ capitalist interests would get a freer reign. The individual rights introduced by the constitution – progressive as they are - could not compensate for the massive redistribution of power and income that would follow.

## **The Danish Model**

There are no single best ways to organize the national socio-economic systems. What works well today did not do so yesterday and today’s ideal might be proven to be highly problematic tomorrow. The fascination of the Japanese model a decade ago is one reminder of this but there are many others including the fascination of the German *Wirtschaftswunder*.

So when we introduce ‘the Danish model’ it is to be taken as a heuristic exercise rather than literally as a ‘best practice’ to be copied by others. The point to be made here is that the Danish social and economic system has developed some characteristics that indicate possible solutions to the European tensions between market and state regulation. Also, we would argue that the Danish innovation system has developed institutions that are well adapted to the current era – ‘the learning economy’.

This is most obvious in relation to the labor market. It is not difficult to fire workers in Denmark and the mobility in the labor market is as high or higher than in the US. But the common social security net financed by unemployment insurance and direct taxes is designed in such a way that employees on average express less insecurity than their colleagues in for instance Germany and France where there is a more contractual security. There is a willingness to move across organizations and professions and the public investment in adult training makes this kind of mobility less difficult for the individual worker.

If the Commission were interested in following up the Lissabon declaration in enhancing competitiveness while preserving social cohesion they should explicitly give ‘structural reform’ a social dimension. They could ask member countries to offer those workers who would see their contractual security reduced through ‘structural reform’ a different kind of security less binding to a specific profession and combine that with massive investments in training and re-training of all categories of workers.

## **Who should be the King - the professional/worker or the client/consumer?**

Another area where the Danish model gives an alternative to the European stalemate has to do with competition policy and state ownership. According to the pro-market ideology the only way to make producers listen and adapt to the needs of the consumer is to install private ownership and competition.

This is not completely wrong. When Air France, France Telecom and other French major state companies get exposed to international competition employees at all levels will be affected and experience a speed up of change. Some are not able to respond quickly enough and lose their jobs. Others have to become much more service-minded and flexible. But, as a positive result, the services delivered might become less expensive and better adapted to users. It is not obvious that being employed by a state-owned monopoly firm automatically should give the employee authority over customers and allow for rigid behavior when confronted with user problems.

But the pro-market ideology goes further than dismantling public monopolies. There is a tendency that the European court extends the rule of competition law to more and more activities that historically have been seen as 'legitimate' core public activities. Among the more controversial are health and education. In Denmark these activities still remain in public hands and the need to give consumers/clients/users a say has been solved not by market but by local democracy (especially in the school system where the parents have a voice in discussions with the education professionals). It is well known that the market (exit) is less effective in enhancing the quality of services than direct democracy (voice) in areas such as education.

Again the commission should spell out explicitly that in fields of major social concerns the alternative to state monopoly could be local democracy rather than market solutions. And perhaps the European Court should be reined in to make sure that it does not treat fundamental political issues as problems to be solved on the basis of competition law.

This double 'clarification' would make 'structural reform' less of a threat and more of a promise for ordinary people in Europe. And the outcome of the referendum might come out differently in France if this was made clear. The commission might argue that the many references to social cohesion in documents and declarations produced over the last decade should be taken as guarantee for the good intentions in these respects. But while the vagueness of the term 'structural reform' seems to hide a clear economic agenda the vagueness of the term 'social Europe' seems to hide fundamental disagreement and lack of commitment.

### **The Danish exception and structural reform**

The Danish model cannot be copied by other countries for the simple reason that it has its roots far back in history and reflects unique characteristics in the field of education, working life and democratic practice as well as in its industrial structure. The economy is small and open and this has required the construction of institutions that give security in change.

Early on small peasant interests were combined with working class interests in building an ambitious welfare state. The pre-dominance of small and medium-sized firms makes inter-firm mobility a necessary element in the economy. Poujadist-like political movements supported by small scale producers in the beginning of the 1970s did not undermine the willingness to pay taxes as much as they put pressure on developing the efficiency and quality of public services.

The education system, as in France, has always been at the core of building the Danish society. But in Denmark the ideal for education has been decentralization and diversity with a focus on the individual development of children. Today the school is a place where children use as much time to learn democracy as they use to learn to write and do mathematics.

This is reflected in a working life characterized by small-scale organizations with low power distance between the top and the bottom and by wide participation in processes of change, even including workers without professional training. The income after tax is more equally distributed than in any other country in the world.

It is interesting to note that the normally pro-market weekly the Economist, through its analytical unit, recently pointed to Denmark as the most attractive country in the world for investment. The liberal version of 'structural reform' is based on the idea that a small public sector, weak trade unions and a high degree of income inequality are prerequisites for economic growth. Denmark seems to negate this idea and therefore calls for giving 'structural reform' a different and much broader content.

(Nothing is perfect and neither is, of course, the Danish model. It may be seen as a kind of village economy where there is high degree of trust and effortless communication among the villagers. The most problematic negative side is that 'strangers' – especially those coming both with different cultural values and different language – become excluded. The integration of ethnical minorities is extremely difficult and today it represents a real threat to the model as a whole).