The Real Danish Model: Building Infrastructure

by Poul E. Rasmussen

During the past year, a strange ghost has haunted the discussions about how to revive the depression-stricken European economies. It has appeared on many occasions in the political debates in France, and it moved across the stage during the Bundestag elections in Germany last Fall. It was presented to the public as the *Wunderwaffen* to end all economic woes in a "humane way"—that is, not through the brutal and bloody austerity which is usually administered to ailing economies, as dictated by the gospel of Anglo-Saxon liberal economics.

The ghost is called "Danish labor market model," and if properly applied to a depressed economy (e.g., in Germany), it is supposed to make it vibrant and highly competitive on the global markets, without uprooting the welfare state. The magic of this "Danish model" is said to be the combination a "flexible labor market," where companies can hire and fire almost as they please, and high labor-union-based unemployment benefits, on top of a generous social welfare system, which removes the fear of economic and social dislocation, in case of sustained unemployment.

In other words, industry is allowed to become highly competitive through an easily adjustable workforce, while the welfare state is preserved. Apparently, the perfect survival kit for the modern welfare state in the brutal world of "globalization." But, as the saying goes: "If it sounds too good to be true, it probably is."

The attractive lure of the "Danish model" stems from the present, apparently miraculous state of the Danish economy. While most European economies suffer from unemployment rates well above 10%, growing deficits of the public budgets, and stagnant or negative economic growth rates, Denmark seems firmly embedded in an upward-flowing economic stream, with official unemployment rates down to around 5% and still falling, permanent and growing surplus of the public budget, solid current account surpluses, and a national economic growth rate expected to reach 3.5% in 2006.

However, a closer look at this fairy tale reveals a somewhat different picture. Three million Danes, out of a total population of 5.4 million, are in the working age between 18 and 66, but only 2.2 million are currently employed in the labor market. Of the missing 800,000, a considerable number are on disability, or on early retirement, more or less voluntarily. The official unemployment rate of 5.1%, or around 140,000 people, is calculated on the basis of an actual workforce of 2.7 million. At least 160,000 people are stuck in artificial make-work programs, or useless job-training programs, and if they were included in the official unemployment statistics, the real figure would be 300,000, or an unemployment rate of almost 11%. Nothing to brag about compared to the rest of Europe.

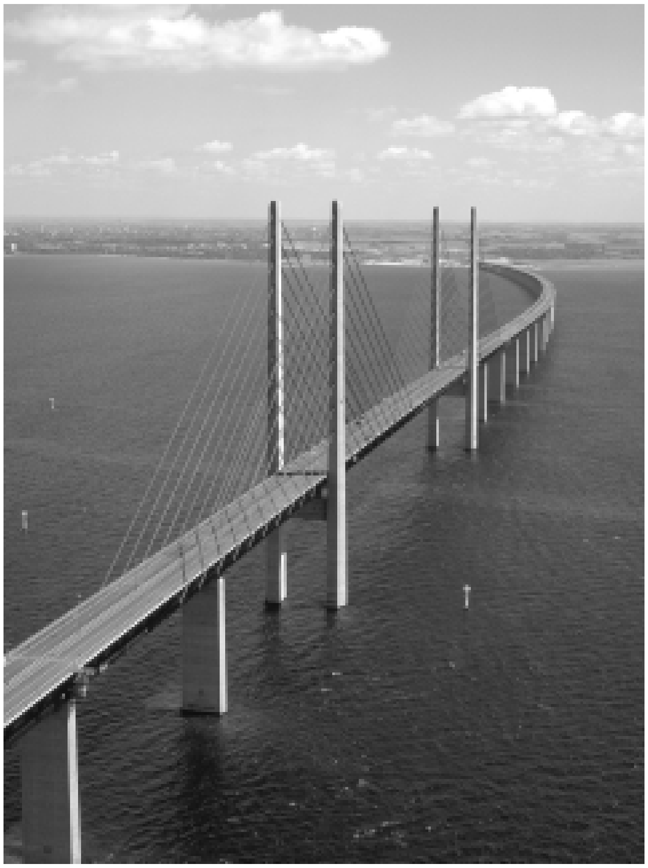
The three huge projects at the heart of the Danish model.

Other parts of the fabled Danish model can't stand a closer look either. Foreign refugees and asylum seekers are forced to live on half the normal minimum social benefit, leaving thousands in ugly poverty, not worthy of a civilized society. And despite the wholesome surpluses on the public accounts, the general social infrastructure—schools, hospitals, and nursing homes—are undergoing the same seemingly unstoppable decay as in the rest of the Western world. The fine figures on the national public budget would shine a little less brightly, if health care and the social infrastructure were maintained at a somewhat decent standard.

On top of it all, the fairy tale about the miraculous Danish economy, is exposed by a housing bubble unlike anything seen in history. Housing prices in Copenhagen and the larger Danish cities are up between 20 and 40% on an annual basis, and some of the popular Summer houses along the coasts have seen prices shoot up above 50%. On paper, more Danes are joining the ranks of the multi-millionaires than ever before. The end, when the bubble bursts, will not be a happy one.

What's the Secret?

Nevertheless, housing bubbles and fairy tales aside, the average Danish household's income is rising faster than dur-



Jan Kofod Winther

Øresund Bridge, opened in 2000, is an 16-kilometer bridge connecting Denmark and Sweden, replacing an hour-long ferry ride. It is the longest combined road and rail bridge in Europe. Shown here is the part of the bridge leading to Sweden.

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The eastern part of the Great Belt Fixed Link consists of a 6.7 kilometer road suspension bridge (the world's second largest suspension bridge), and 8-kilometer twin railway tunnels. Opened to rail traffic in 1997, and road traffic in 1998, it is the largest construction project in Danish history.

ing the economic upswing of the 1960s. Denmark is not caught in the same economic black hole as Germany and the rest of Europe. So, what is the secret? The freedom to fire workers at will? That is a liberal economic fantasy or wishful thinking, rather than a serious answer.

The Danish labor market model, where close to 80% of the workforce is unionized, and minimum wages and working conditions are settled by negotiations and labor market agreements, and not by law, was also fully functioning when Denmark, in the late 1970s and early 1980s, teetered at the bring of national economic bankruptcy. The Danish labor market was no magic solution, when the country, by the end of the 1980s, set a world record, with 27 years of unbroken deficits on the balance of payments, and surpassed most Ibero-American countries in foreign debt per capita.

No, the real Danish model has to be found somewhere else. Go back to the Danish reaction to the fall of the Berlin Wall in 1989. Already by the Spring of 1990, a giant infrastructure plan had been approved by the Danish parliament, centered around three huge projects: 1) the combined rail and road, bridge and tunnel across the Great Belt, integrating eastern and western Denmark, 2) the combined rail and road connection across the Øresund, linking southern Sweden to Denmark, and 3) the combined road and rail bridge across the Fehmarn Belt connection from Denmark to Northern Germany.

The purpose of these projects, together with a general expansion of the national transport infrastructure, was to bring the Danish economy up to a position to take full advantage of the new European economic potential, brought about by the then-anticipated German reunification. This was stated explicitly by the Danish government!

Now, 16 years later, the Fehmarn Belt project has not yet materialized, mainly due to German political foot-dragging, but the two other giant bridges have been operating for several years. In the case of the Great Belt Bridge in particular, the contribution to the national economic process has been significant. From the day the bridge opened, east-west traffic in Denmark has more than doubled, and a national economic integration process was ignited on a much greater scale than anybody had anticipated.

At the same time, the construction of the Øresund Bridge became the spark of a general infrastructure buildup in the greater Copenhagen area, which is still expanding. A new metro subway system is continuously being extended, and a whole new section of the city, the Ørestad, is taking form with breathtaking speed. In December 2005, the parliament passed a new major infrastructure plan for Copenhagen, which will include a highway tunnel system under the entire inner city harbor, running 12.5 kilometers north-south. Deep under ground and under water, right at the mouth of the old city harbour, Nyhavn, a giant parking garage will be constructed, pulling most of the traffic away from the congested inner city.

‘The Woman With the Eggs’

For many Danes, the fairy tale of the “miraculous Danish economy” and the unstoppable housing bubble creating scores of multi-millionaires, evokes childhood memories of a poem by the storyteller Hans Christian Andersen. It was published in December of 1836, under the title “The Woman With the Eggs” with the subtitle “An old Story made to rhyme,” and every schoolchild in Denmark has read it with great amusement.

It is a story about a woman who had a hen that laid an egg—each and every day. When a couple of scores of eggs had been laid, the woman put them in a basket, placing it on her head, and went to the market.

On her way, she started to fantasize about what she would do with all the money she was going to earn from the eggs. Speaking out loud to herself as she was marching down the road, she decided to buy two more hens. With three hens, she would get thrice the amount of eggs.

The extra money from the extra eggs, she would use to buy yet another three hens. Half of the eggs from the six hens she would sell on the market, while out of the other half, new chickens would be hatched, creating a whole chicken yard. “My sweet God, I’m going to be rich,” she exclaimed, and she decided to buy two geese and a sheep, and with the future production of eggs, feathers, and wool, her “moneybag will get full.”

Then she would buy a pig, and a cow—well, maybe even two. And in just a year’s time, she would have a house with servants and cows and sheep. She would be really rich, and maybe someone would come by her door and propose to her. He would kiss her hand, and she would become a Lady, because his farm is bigger than hers.

“I am going to be so high up, so proud and fine, that I am not going to tolerate any gossip. Oh yes, I am going to keep my head up high.” Which she did, and splash! All the eggs fell to the ground.

With the eggs, Hans Christian Andersen writes, all her bliss fell to the ground. And that was not so bad, after all.

While transport infrastructure has been continuously expanding on land, the A.P. Møller Mærsk Group has consolidated and expanded Danish oil and gas production in the North Sea. Denmark has been a net oil exporter for more than a decade, a significant contributing factor to the relatively rosy economic state of affairs in Denmark.

The combined investments in transport and industrial infrastructure, on sea and land, are massive, from any economic standpoint; but seen from the perspective of a tiny economy of only 5.4 million people, they are even more impressive. While it still has a way to go before reaching the goal of 50% of a national economy set aside for public investments, as recommended by the American physical economist Lyndon LaRouche, Denmark is far ahead of any other European nation. How much of the national economic wealth, percentagewise, is actually invested, is not easy to ascertain from the official figures. Construction of regular roads and highways is posted on the national budget, of course, but all the great infrastructure projects are financed through “publicly owned private companies,” removing the direct construction costs from the official national public budget.

If one were to identify, from the complex multitude of human activities that make up a national economy, that one major factor that sets the Danish economy apart from the other national economies of Europe at this moment in time, it would be the level of public and private investments into transport and industrial infrastructure. It is true, that the Danish labor market is flexible. Approximately 15% of the labor force changes jobs every year, the highest rate in all of Europe. But without the basic economic infrastructure in place, this “flexibility” would just create the fastest-growing unemployment line on the planet. So, the “real Danish model” is massive infrastructure investments.

But if Germany and the rest of Europe were to attempt to copy that model, major political changes would have to be implemented. The financing of infrastructure investments on the required scale is not compatible with the European Union’s Maastricht Treaty. And the neat little Danish creation, “publicly owned private companies,” won’t help either. Denmark rejected the Maastricht Treaty in a public referendum in 1992, and rejected participation in the euro in a new referendum in 2000. Therefore, the Danish financing model has not been a subject of scrutiny by the European Central Bank. Were Germany and the rest of Europe to replicate the scale of the Danish infrastructure investments, the Maastricht Treaty would have to go.

Similarly, if the “real Danish model” were to be extended beyond the borders of Europe, the present free-flowing capital markets would have to be replaced by a New Bretton Woods financial system, in which national generation of credit for large public infrastructure projects, would be allowed. And that ought to be the real political discussion concerning how to save the depressed European economies: dumping the Maastricht Treaty, and establishing a New Bretton Woods system. Not maintaining empty fantasies of saving the European welfare states from the predators in the jungle of globalization, by chasing a ghost called the “Danish labor market model.”