



Denmark's Difference.

High taxes, a welfare state, strong unions: how an unlikely formula delivers for the Danes

BY JUSTIN FOX/COPENHAGEN

LAST YEAR DANISH TOYMAKER LEGO ANNOUNCED plans to outsource most of its manufacturing to Eastern Europe and Mexico. Of 1,200 blue-collar jobs at Lego's headquarters in the town of Billund, only about 300 would remain.

You might think this would make union leaders at Lego hopping mad. You'd be wrong. "We thought it was the best way to keep as many workers' places in Denmark as possible," maintenance man and union shop steward Poul Erik Pedersen tells me. "We aren't against the management. We want to make sure that they make money and we make money." Then, unprompted, he takes the argument a step further: "There are some good things about outsourcing. Where the jobs go, the standard of living is growing, and then they can afford to buy more Lego or other things from the West."

In most of the developed world, globalization is a deeply fraught topic. Not in Denmark. There, 76% of respondents in a recent

poll said globalization was a good thing. And why shouldn't they? Living standards in Denmark are among the highest in the world. Per capita income trails that of the U.S. but is distributed far more equally. Unemployment is just 3.1%. The country exports more goods and services than it imports. And while only two Danish corporations (shipper A.P. Moller-Maersk and the Danske Bank) are big enough to make the *FORTUNE* Global 500 list, Denmark has more than its share of smallish, nimble, outward-looking firms well positioned in growth areas ranging from alternative energy to health care to high-end furniture.

All that adds up, according to the latest rankings from the World Economic Forum (WEF), to the third most competitive economy on the planet. But while economic competitiveness has often been sold as something that requires long hours, low taxes and minimal government—a litany often heard in the U.S.—Denmark doesn't fit that bill at all. Denmark has the second

highest tax burden in the capitalist world (after Sweden, which is just behind it in the competitiveness rankings), a generous welfare state, a heavily unionized workforce and at least five paid weeks off every year.

It's all part of a trade-off, the Danes say. By largely banishing the financial insecurity that plagues so many American workers, Danish politicians and business leaders have won public support for all manner of business-friendly policies. Corporate taxes are lower than in the U.S., and capital gains are taxed at a much lower rate than ordinary income. There are few restrictions on trade. That, and it's easier to fire people in Denmark than anywhere else in Europe.

Then again, most of these things were true 14 years ago, and Denmark's welfare-state model seemed exhausted, beset by stagnant growth and double-digit unemployment. Some on the political right—including current Prime Minister Anders Fogh Rasmussen, who wrote a book in 1993 called *From Social State to Minimal*

We're all alike Denmark's homogeneity affords a unique combination of flexibility and cohesiveness

State—were convinced that taxes and spending had to be cut dramatically. But that was never in the cards politically, and Social Democrat Poul Nyrup Rasmussen (there are a lot of Rasmussens in Denmark), who became Prime Minister that year, crafted a compromise that kept the high taxes and most of the social protections but cut unemployment benefits (which replace about 90% of earnings) from nine years to four and beefed up job-retraining programs in a big way. This approach, which over the years came to be known as "flexicurity," seemed to work. Unemployment fell; the economy grew. There's still much debate over how effective Denmark's job-retraining programs really are, but it's undeniable that they foster the kind of political environment in which union workers like Pedersen at Lego advocate outsourcing even as their company cuts jobs.

And so in 2001, when a right-leaning government led by the author of *From Social State to Minimal State* took power, it barely changed a thing. Says Employment Minister Claus Hjort Fredriksen, also a former advocate of big cutbacks in the welfare state: "I have to admit now, 15 to 20 years later, that the model we have found here—free education, free health care, a good financial situation if you lose your job, together with a flexible labor market and the size of Danish companies—somehow has struck something that is the answer to the challenges of globalization."

The way Denmark has achieved its success has made it a darling of European social democrats and American liberals, and the country has been overrun lately with visiting journalists, academics and politicians looking for insights. One of the things a visitor discovers, though, is that Denmark's size and homogeneity—5.4 million people, of whom all but 478,000 are of Danish ancestry—are crucial to how the economy works. "We've been one small

DENMARK

Population: 5.4 million

GDP per capita (PPP): \$37,000

Major industries:

Agriculture, chemicals, machinery

WEF ranking: 3

Top tax rate: 59%

nation for 1,000 years," says Hans Skov Christensen, who as director general of the Confederation of Danish Industries negotiates the nationwide bargaining agreements between management and labor every few years. "We're basically a clan."

Informality, disputation and disrespect for authority are core Danish traits. But there are limits, and Danes seem to know in their bones just how far they can push them. The result is an economy that looks like something out of an enlightened management textbook. There are a few clear goals and lots of leeway to achieve them. In one fascinating study, two American sociologists found that Danish line workers have nearly as much job autonomy as supervisors do in the U.S., while supervisors in Denmark have about as much autonomy as upper managers in the U.S.



Globalists Workers at Lego don't sweat job losses to lower-cost countries. The Danes retrain well

John Strand runs a consulting firm that does work for most of the world's big wireless carriers and gets 95% of its revenue outside Denmark. It could be based pretty much in any city with a good airport. He says he keeps Strand Consult in Copenhagen largely because his Danish employees are so willing to argue with him and confront conventional wisdom. "Danes can think out of the box," he says.

So perhaps some of Denmark's success has to be chalked up to, well, Danishness. And there's no guarantee that it will continue. Business leaders say they face worsening labor shortages and can't attract skilled foreigners to a country that has such high taxes (not to mention dreary weather and an incomprehensible language). But the fact that Denmark has combined a dynamic economy with a tax burden almost double that of the U.S. gives the lie to many economic arguments made over the past quarter-century. There's more than one way, it turns out, to be competitive. ■