

The Change of Unemployment Benefits in Denmark – A Social Investment Transformation?

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Introduction

The Danish unemployment benefit scheme has a central role in the Danish labor market system. It is one of the three foundations of the “golden triangle” making up the Flexicurity system heralded as being a role model for how welfare states should design their labor market policies (Larsen & Goul Andersen, 2009: 248). However the unemployment benefit scheme has undergone dramatic changes in the last decades (Alves, 2015: 11). From being a scheme with no limit to the eligibility period it is now down to two years. The following paper will investigate the development of the Danish unemployment benefits and how they came about. It will more specifically answer the research question:

How has the Danish Welfare State changed from the 1970s to 2000s in the area of unemployment benefit policies and which role have ideas had in driving this transformation?

To answer the question the paper will perform a diachronic analysis of two decades namely 1970-1980 and 2000-2010. The choice of these periods is made on the ground that unemployment benefits and labor market policies are different in central aspects as the entitlement period. The paper’s main argument is that Danish unemployment benefits displays a shift in the Danish welfare state from a Keynesian welfare state towards a social investment. The paper further argues that the dominant paradigm in labor market policies has been extended from being about securing unemployed financially to also incentivizing them to find work faster.

To investigate and analyze the two different time periods the paper will use Anton Hemerijck’s Welfare State Transformation scheme. The choice of this theory is due to its ability to identify and explain changes over time in specific policy areas. To supplement Hemerijck’s scheme and identify the ideational drivers for change it will utilize Peter Hall’s constructivist theory of three orders of change. This perspective will be employed on the intermediate period in the 1990s. The first section of the paper will describe and explain the theories used. Next, a diachronic analysis will be performed followed by a short discussion. The

third section of the paper contains a constructivist analysis of the unemployment benefit policies in the 1990s and specifically on the labor market reform of 1993. This will be followed by a conclusion summarizing the findings from both analyses.

Choice of theories

Several other theories would provide interesting answers to the research question. Esping Andersen's welfare typologies would let the paper categorize the Danish welfare state in the two periods. However, Andersen's typologies are static and provide a snapshot of the welfare state whereas the theory chosen provides a better account of the internal changes. VoC was not chosen since it is mainly useful in synchronic comparisons and does not hold a lot of tools for performing diachronic analysis. Further, the focus of the paper is on political changes and the influence of ideas, which VoC does not leave much room for. Finally, Social Structures of Accumulation (SSA) could have provided an interesting diachronic analysis. The crisis in the 70s could be viewed as the result of rising wages and profit squeeze leading to a crisis for the SSA at the time. But SSA's focus on capitalism as a contradictory system and how institutions stabilize it, does not match the paper's focus on policy changes in the welfare state as well.

Theory

A. Hemerijck's Welfare Transformation Scheme

Anton Hemerijck aims to identify the general nature of transformation in welfare states over time. He argues that the welfare state has been in three different phases that replaced each other due to socio economic challenges and crisis (Hemerijck, 2012: 33). These phases are the Keynesian welfare state, the neoliberal turn and the social investment phase.

The Keynesian welfare state was dominant in European welfare states in the post-war period. Keynes viewed the capitalist economy as unstable and driven by cycles of booms and busts. Unemployment was the result of these cycles and the number of ordinary jobs could not be changed in the short run. Therefore

workers needed to have economic security both when employed and unemployed. The state's function was to tame the capitalist economy through counter cyclical means (Hemerijck, 2012: 37) and the economic goal for the state was full employment. The state could pursue this goal by creating demand for labor through fiscal spending and creation of jobs in the third sector. In short Keynes let the government assume political responsibility for achieving full employment and social protection without affecting the free market economy (Torfing, 2004: 37).

When crisis hit in the 1970s due to the break down of the Bretton Woods system and the oil crisis, welfare states faced high inflation and unemployment at the same time. Keynesianism could not explain nor propose a feasible answer to these problems, as fiscal spending would only increase inflation. Neoclassical economics became the answer to the crisis with supply side policies and a view of unemployment a structural problem instead of cyclical. It was believed to be a result of a rigid labor market and mismatches between the labor force and labor market of macro economic factors (Hemerijck, 2012: 52). The state's role was to address these issues and create a more flexible labor market along with a more favorable business environment. The result in many countries was more liberal employment relations and lower unemployment benefits resulting in increasing inequality and poverty (Hemerijck, 2012: 45).

Social democrats struggled throughout the 1980s to present an answer to the neoliberal turn. The result was the social investment state that aimed to transform welfare states from passive providers into activating and capacity building social investment states (Hemerijck, 2012: 46). The idea is that social expenditure should not be an economic burden but an investment that improves social protection and productive potential to increase economic growth. Like Keynes, the belief is that a strong economy requires a strong welfare state. But at the same time it is recognized that the market is a superior mechanism for certain outcomes (Green-Pedersen et al, 2011, 320). Three areas of public policy stand out in social investment. The first, *human capital improvements*, is focused on enabling learning for citizens throughout life as continuous learning of new

skills is imperative for sustainable economic growth (Hemerijck, 2012: 52). Further, it emphasizes active labor market policies that up qualifies labor and restricts access to unemployment benefits to increase the motivation for job seeking. The second, the *family's relation to the economy*, is a focus on ensuring women's participation in the economy. The final area is *employment relations*, with a focus on how policies support transitions between jobs and self-employment to create a dynamic and flexible labor market (Hemerijck, 2012: 53).

B. Hall's Three Orders of Change

Peter Hall's three orders of change is a framework that helps identify how ideas may affect different levels of policy. Such a framework is needed since "like subatomic particles, ideas do not leave much of a trail when they shift," (Hall, 1993: 290). Hall is interested in discovering how social learning occurs. Learning happens when a policy changes because of a process (Hall, 1993: 278). He identifies three variables, or orders, that can signify change at different levels. *The first and simplest level* is the setting of the instruments used. In this paper it would be the length of the entitlement period or the level of unemployment benefits. *The second level* is the instruments used to pursue the overarching goal of the policies. In regards to securing unemployed financially this would be unemployment benefits. *The third and highest level* is the overall goals of the policies. Hall also calls this the paradigm. This is the level where ideas really begin to matter. The paradigm is the framework policymakers maneuver within. It creates and constrains the ideas, goals and instruments seen in politics and also constitutes the nature of the problems addressed (Hall, 1993: 277).

Danish labor market policies

Having outlined the theory used, the following section will now examine the characteristics of the labor market and unemployment benefits in the two decades. The paper argues that development in the policy areas from the 70s to the 2000s display a shift from a Keynesian welfare state towards a social investment state. Thus, the Danish welfare state fits the welfare state transformation scheme in this policy area.

1970-1980

Labor market policies and unemployment benefits in the 1970s were to a large extent characterized by a focus on demand-side and a central role of the state pursuing full employment (Torfing, 2004: 26). Throughout the 60s unemployment had been low and in the end of the 1960s the state undertook the marginal risk of unemployment. This manifested its role of protecting citizens against market failures (Mailand, 2010: 5). It was done in relation to a larger reform of the benefit system extending the recipient group and raising the compensation rate to 90 % of the former income (Torfing, 2004: 23). To be eligible for benefits the recipient only had to be member of an unemployment fund for at least one year and had had a minimum of 26 weeks of employment within the last three years. The entitlement period was de facto unlimited (Mailand, 2010: 6), without obligations to take training or education in order to receive the benefits. However, only a few years after the Danish state took on the marginal risk for increasing unemployment, Denmark was hit by a crisis resulting in low growth and high unemployment (Torfing, 1999: 12).

Unemployment was viewed as a cyclical problem why the labor force's skills had to be maintained to be ready when growth returned (Torfing, 2004: 32). The government tried to increase demand for labor through wage subsidies to private firms, increased public employment and job creation in the 3rd sector. However, none of these measures prevented unemployment rising from 2 % in 1973 to 9 % in the beginning of the 1980s (Torfing, 1999: 12). When it became evident that growth would not return any time soon the unemployment benefits were expanded to cover the 16-18 year old and business owners as well. On top of that job offers of nine months of work were made to all who had been unemployed for more than two years to reduce long term unemployment and let them retain eligibility to unemployment benefits resulting in a de facto unlimited period. The state essentially extended the scheme in its effort to protect as many citizens as possible because unemployment was viewed as a macro economic problem.

2001-2010

The 2000s were characterized by very low unemployment. In 2001 Denmark had an unemployment level of 5 % (DST, 2001), which was decreased to only 3 % in 2007 (DST, 2007). After big reforms in the 1990s the unemployment benefit policies did not change much in spite of a few efforts of reform (Mailand, 2010: 6). But when the financial crisis hit in 2007 unemployment increased to 6,2 % in 2010. The liberal-conservative government's reaction was a reform of the unemployment benefits in 2010 aimed at increasing unemployed peoples' incentive to find jobs. The argument was that the reform would "contribute to reducing the structural unemployment" (Ministry of finance, 2010). The central parts of the reform was halving the entitlement period from four years to two and a doubling of the time people had to be employed to qualify for benefits from a half year to a year within the prior three years (Ibid.).

The shorter entitlement period and tougher qualification requirements caused people to fall out of the program. While the government in the 1970s had extended the unemployment benefit scheme to avoid this, the government in 2010 pointed to strong activation instruments as the solution (Ministry of finance, 2010). Activation is one of three components making up the Danish Flexicurity system, central in the Danish labor market in the 2000s. The system is the reason why the Danish labor market is one of the most flexible in the world (Cevea, 2013: 5). The two other Flexibility components are a very liberal labor market and generous unemployment benefits (Mailand, 2010: 7). Flexicurity lets firms hire and fire as a reaction to demand while securing unemployed financially in the transition between jobs and help them find a job again. In contrast to the 1970s, unemployment benefits and labor market policies were further characterized by high requirements to the beneficiaries. As a general rule all recipients must accept activation measures as internships and up qualification through vocational training or education after six months of unemployment (borger.dk). If you reject or if the job center assess you are not available to the job market you will lose the benefits.

Reflections

The overall job strategy in the 1970s was passive and based on the states commitment to provision of welfare. When the crisis proved to be persistent the unemployment benefits were extended and made more inclusive. At the same time the right to receive unemployment benefits was never linked to an obligation to take a job or be trained – there were only made offers which extended the right to benefits potentially indefinitely. This was because unemployment was seen as cyclical and the state saw it as its job to provide for the unemployed until the economy came back on track. In short the Danish economy in the 70s to the beginning of the 80s has strong Keynesian traits in the quest for full employment, demand management and as the provider for its citizens.

It is clear that the Danish welfare state has undergone a transition from a Keynesian provider to a social investor in the area of unemployment benefit policies. This resonates with Hemerijck's welfare state transformation scheme. In the 2000s unemployment had come to be seen as structural instead of a cyclical problem. In less than 20 years the Danish state has gone from having de facto unlimited unemployment benefits to an entitlement period of two years with strict demands to job seeking and participation in activation schemes. In other words, the state has increasingly abandoned passive welfare and embraced active workfare with a focus on rights in combination with duties and on getting unemployed integrated in the labor market again through activation (Torfing, 2004: 25). Even though the changes from 1970-2010 may seem stark it is important to highlight they were complemented by activation and a focus on building human capital. Instead of lowering wages and benefits, the politicians tried to address the mismatch between labor market and unemployed by building competencies (Larsen & Goul Andersen, 2009: 250). The state in other words invests in the unemployed to get them integrated into the labor market again and contribute to economic progress. The Flexicurity system ensures that companies have a favorable environment where they can adjust the employed labor to what is needed. At the same time employees are supported by benefits

and schemes that helps them find new jobs if they are fired. They are in other words helped financially and professionally during the transition from job to job.

The influence of ideas

Having argued that the Danish unemployment benefit policy displays a move from a Keynesian welfare state to a Social Investment state the paper will now focus on the ideational drivers for this change. It will utilize Peter Hall's three orders of change to identify on what levels policy changes are seen and how ideas affected these changes. Hall's framework will be applied to the 1990s with a special emphasis on the labor market reform of 1993 since this reform constitutes a shift in the approach to the labor market policies (Torfing, 2004: 39). The paper will argue that an ideational change in the perception of activation and workfare was central for the embracement of activation policies and workfare.

The labor market reform of 1993 was one of the first large reforms the Social Democratic government made when they took office. The reform heralded the shift from a passive provider approach and a shift towards activation and workfare, which became the main thrust in creasing unemployment in the 1990s (Andersen & Svarer, 2007: 391). This was seen in that the reform introduced mandatory activation for unemployed (albeit, after four years of unemployment) and put a cap on the unemployment benefit entitlement period of seven years. The entitlement period was gradually reduced throughout the 1990s and in 1998 it was down to four years (Larsen & Goul Andersen, 2009: 242). In the same time period Denmark went from being one of the most liberal to one of the most strict countries in Europe when it comes to obligations for being available for the labor market (Ibid.). In other words, it seems the Social Democrats accepted the neoliberal idea that unemployment was structural and labor market policies needed to be adjusted accordingly. The changes can be identified as both first and second order change; the entitlement period to benefits was reduced and at the same time new instruments – activation and requirements - was used to get the unemployed into work faster.

Throughout the 1980s the Social Democrats were reluctant towards activation. They feared that it would be accompanied by lower benefits and in general a work first approach to workfare (Torfing, 2004: 134). So why did they impose activation measures in 1993? The answer is to be found in the recommendations from two commissions: The Zeuthen Commission from 1992 and the Social Commission from 1991. The Zeuthen Commission aimed to find a solution to the still high levels of unemployment. The commission established a consensus around the cause of the problem as structural unemployment instead of insufficient demand for labor. The agreed solution in the commission was activation to raise productivity and qualifications without lowering benefits and wages such as neoliberalism would prescribe (Larsen & Goul Andersen, 2009: 250). The Social Commission's conclusions further backed this. They argued that failure to reduce structural unemployment would result in loss of human capital and long-term unemployment. In this way active labor market policies aimed at reducing structural unemployment became an answer to social issues as well (Larsen & Goul Andersen, 2009: 248).

When workfare and activation became a question of human capital and new qualifications instead of neoliberal cuts there was an ideational change. Now, the policies were seen as having a positive impact on the unemployed. When the Social Democrats started embracing activation as a solution to the unemployment issues in combination with the rest of the Flexicurity model, the Social Democrats at the same time began emphasizing rhetoric of "rights and duties". As the wording implies they highlighted that unemployed had a right to financial support but *also* a duty to find a job as fast as possible. At the same time the state had a right to set demands but also a duty to help improving job prospects (Andersen & Svarer, 2007: 403). This shows the ideational change from a state acting as a passive provider to a state that provides but at the same time makes requirements to the beneficiaries to make the transition between jobs as short as possible.

The question is if this change is strong enough to be called a paradigm shift? Hall's claims that a paradigm is embedded in the way politicians communicate

about their work and the things that are taken for granted (Hall, 1993: 279). From this definition it can be argued that on one level there has been a shift from viewing unemployment as being a cyclical problem to a structural perception of unemployment. This has created new cause-effect beliefs such that reducing unemployment is a matter of motivating people to find work and up-qualify their competencies. These new beliefs changed the state's role from pursuing passive provision to active workfare with a human capital emphasis. Figuratively the state transformed from a safety net into a trampoline (Green-Pedersen et al, 2011: 318). However, this was done without actual reductions in the level of benefits why the Danish state still has a very generous unemployment scheme with an overall goal to secure the unemployed financially. This goal was complemented with a sub goal of motivating the unemployed to find work faster to minimize the number of unemployed. The argument against a paradigm shift as such is supported by the fact that two of the three pillars of the Flexicurity – generous unemployment benefits and a liberal hire-fire labor market – have been around since the 70s (Larsen & Goul Andersen, 2009: 248). The activation instruments was added to this in the 1990s, why this paper argues that the overall paradigm has not changed but been supplemented.

Concluding remarks

The paper set out to investigate how the Danish welfare state has changed and which ideas that have driven this change. The first part of the paper found that the Danish unemployment benefit policies' development displays a shift in the Danish welfare state from Keynesianism towards embracing social investment. The turn is manifest in human capital development and an active labor market. The state still secures unemployed people financially but incentivizes them to find a job fast, making the period more of a transition instead of a long period of passive providing. The second part of the paper applied Hall's three orders of change to examine the ideas driving this transformation. It found the shift came about after an ideational change in the perception of activation and workfare. The policies gained traction after becoming a matter of helping the unemployed and making a positive social impact instead of being an excuse for cutting benefits. However, this shift cannot be said to be a paradigm shift per se. The

overall goal of unemployment policies is still to secure the unemployed financially – the goal has just been complemented by policies aimed at getting people into work faster. It should be noted that the changes in the Danish welfare state can not be explained only by looking at unemployment benefit policies as many other factors and institutions have a central role in the Danish welfare state. However, the findings of the paper are still relevant as they may be reflected in other institutions in Denmark, why it is fair to suggest the shift is part of a tendency in the Danish welfare state.

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