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## Denmark in the Global Economy

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# THE VARIETIES OF CAPITALISM AND HYBRID SUCCESS: DENMARK IN THE GLOBAL ECONOMY

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**The Varieties of Capitalism and Hybrid Success: Denmark in the Global Economy**

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**Abstract**

## THE VARIETIES OF CAPITALISM AND HYBRID SUCCESS: DENMARK IN THE GLOBAL ECONOMY

Proponents of the varieties of capitalism literature maintain that capitalist countries whose institutions best fit either the liberal market economy or coordinated market economy types will perform the best. Countries whose institutions are more mixed will perform less well. This paper challenges that assertion by focusing on Denmark—a country that has performed at least as well as many other advanced capitalist countries during the 1990s, including those that fit much more closely either the pure CME or LME types. Denmark has recently developed a more hybrid form than is generally recognized. The dynamic interaction of elements found in both liberal and coordinated types of capitalism have contributed to its success. This is demonstrated by analyses of the institutions that coordinate Danish labor markets, vocational training, and industrial policy.

Many researchers have shown recently that there is more than one way to organize capitalism in order to achieve socioeconomic success in today's global economy (e.g., Biggart and Guillén 1999; Guillén 2001b; Hollingsworth and Boyer 1997; Hollingsworth and Streeck 1994). Notably, proponents of the well known varieties of capitalism approach, best represented by Peter Hall, David Soskice, and their colleagues (Hall and Soskice 2001a), argue that there are two basic types of capitalism and that each one can perform successfully although for different reasons. Liberal market economies (LME), such as the United States, coordinate economic activity through markets and corporate hierarchies and compete successfully on the basis of low costs and major product and technological innovations. Coordinated market economies (CME), such as Germany and Sweden, coordinate economic activity more through non-market mechanisms, such as informal networks or corporatist bargaining, and compete on the basis of high quality products and innovations in production processes (Hall and Soskice 2001b; Soskice 1999).

This is not to say that all advanced capitalist economies perform equally well and that institutional differences in the organization of the political economy are irrelevant. To the contrary, the varieties of capitalism literature predicts that socioeconomic performance is typically better in countries that best fit one or the other of these two types. Countries that fall somewhere in between these poles and represent hybrids will not perform as well (Hall and Soskice 2001b, p. 45; Hall and Gingerich 2004).

This paper challenges that assertion by focusing on the case of Denmark—a country that has performed at least as well as many other advanced capitalist countries during the 1990s and early part of the twenty-first century, including those that fit much more closely either the pure CME or LME types. Indeed, Denmark's socioeconomic performance was impressive during this period (Campbell and Hall 2006). Thus, Denmark poses a paradox for the varieties of capitalism literature.

We argue that although Denmark is typically classified as a CME in much of this literature, it has recently adopted some important aspects of the LME type and, therefore, has become more of a hybrid than the varieties of capitalism literature has recognized. To be sure, Denmark still retains many features of the CME type and if we were forced to put it in either the LME or CME category, we would have to choose CME. But we are reluctant to make that choice because the LME characteristics that it has developed have been important for its strong socioeconomic performance during this period. We will show that Denmark's impressive record stemmed in large part from the dynamic interaction of its market and non-market coordination mechanisms.

Our argument is anticipated by other literatures not directly related to the varieties of capitalism literature. For instance, much research on developing economies shows that either an excessive reliance on either the market or non-market forms of economic coordination, notably state planning, will not ensure satisfactory development and modernization for particular industries. Rather, something in between is required where public and private sectors interact strategically—not to override market signals, but to identify market externalities and ways to overcome them (e.g., Evans 1995; Rodrik 2004). Similarly, economic sociologists have found that optimal economic performance among certain organizations, such as stock markets, garment manufacturers, or insurance providers, requires traders, firms, or other private actors to develop a mixture of competitive arms-length market relationships, such as formal spot contracts or short-term outsourcing agreements, and cooperative embedded non-market relationships, such as associative forms of governance and close interpersonal ties (Abolafia 1996; Baker 1984; Schneiberg 1999; Uzzi 1996).

The paper proceeds as follows. To begin with, we review the argument from the varieties of capitalism literature to clarify why it predicts that hybrid forms of capitalism will under perform relative to purer types. We also argue, based on important measurement innovations by other researchers, that Denmark is less closely associated with the purer CME cases than the varieties of capitalism literature has acknowledged. Then, using a number of indicators we show that Denmark's socioeconomic performance generally matched or exceeded that of several purer examples of capitalism: Sweden and Germany, two classic examples of CMEs, and the United States, the prototypical LME. Next we explore some of the reasons why Denmark performed so well. Specifically, we discuss the institutional coordination of labor markets, vocational training and skill formation, and industrial policy. We do not claim that these are the only factors that led to strong socioeconomic performance in Denmark. But they are certainly among the important contributing factors.

We focus on Denmark not just because it represents a significant challenge for the varieties of capitalism literature. In contrast to the United States, Germany, and other large countries, Denmark is a small country and, therefore, represents a certain class of countries that face unique and sometimes more severe problems when it comes to coping with the challenges of economic globalization (e.g., Katzenstein 1985). Given their small domestic markets, small countries tend to be more open economically than large countries. That is, they are more engaged in international trade and commerce relative to the size of their economies. Moreover, large countries can define and bend the rules of the international political economy to suit their purposes, but small countries cannot. Hence, small countries are more vulnerable to the vicissitudes of the international political economy and must be capable of flexible adjustment in order to respond to international challenges, such as today's more volatile markets, shorter product life-cycles, rapidly changing production and information technologies, and increased international competition. In turn, flexible adjustment requires political and economic actors in small countries to engage in much policy learning. Unless small countries can do this they are not likely to be successful economically (Katzenstein 1984, 1985, 2003; Senghass 1985). In view of the greater vulnerabilities that small countries face in the global economy, Denmark's success vis-à-vis larger countries is all the more noteworthy.

## THE POSSIBILILTY FOR HYBRID SUCCESS

According to the varieties of capitalism literature, LMEs coordinate economic activity primarily through competitive markets, characterized by arms-length relations and formal contracting, where actors respond to price signals and make strategic decisions accordingly. LMEs also subscribe to neoliberal policies—that is, economic deregulation, low levels of taxation and government spending, especially for welfare, privatization of government functions, decentralization of government authority, and in general only limited forms of state intervention into the economy.[1] In LMEs success is based, for example, on the ability of firms to keep production costs low and pursue radical product innovations. In contrast, CMEs coordinate economic activity primarily through non-market mechanisms that are characterized by embedded relations, strategic interactions, and credible commitments among firms, unions, suppliers, and other actors. CMEs tend to eschew neoliberal policies and favor more extensive forms of state intervention into the economy. Success in CMEs is based more on the ability of firms to produce high quality products and devise incremental innovations in products and production processes. Different institutional arrangements lead to different yet relatively stable systems of industrial relations, labor markets, vocational training, technology innovation, investment, inter-firm relations, and customer relations (Hall and Soskice 2001b; Soskice 1999).

Both LMEs and CMEs have institutional capacities—albeit <u>different</u> capacities—for being successful (e.g., Albert 1993; Crouch and Streeck 1997; Hall and Soskice 2001a).[2] For instance, firms in LMEs tend to compete on the basis of low cost and radical product innovation because they have institutions like weakly regulated labor markets as well as financial systems that impose short-term investment horizons but allow high risk taking. These enable firms to keep labor costs down, shed labor and close plants quickly, shift capital rapidly from one industry to another, and invest in risky but potentially revolutionary and lucrative research and development projects. In contrast, firms in CMEs compete more on the basis of quality and incremental innovation, such as adopting breakthrough technologies developed elsewhere or by improving production processes. This is because CMEs have institutions like cooperative industrial relations systems within firms, coordinated wage bargaining across firms, nationally coordinated vocational training programs, and financial systems that allow for long-term investment horizons. These produce highly skilled managers and workers who tend to cooperate in planning, trouble shooting, and the introduction of the latest technologies in ways that enhance product quality and improve production processes. Furthermore, LMEs tend to promulgate policies that sharpen market competition, such as by limiting corporate cross-shareholdings or passing stringent antitrust laws, whereas CMEs tend to promulgate policies that reinforce the capacities of actors for non-market coordination, such as by supporting corporatist bargaining, co-determination, and works councils (Hall and Soskice 2001b; Soskice 1999).

The point is not just that there is more than one way to achieve success in the global economy and that these routes are to a degree institutionally determined, but that success depends on how well these institutions are integrated with each other. Specifically, the varieties of capitalism literature suggests that the capacity of any country to perform well depends on its <u>institutional</u> <u>complementarities</u>. By institutional

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[1] For general discussions of neoliberalism and the policy recommendations associated with it, see (Babb 2001; Block 1996; Campbell 2004, chap. 5; Campbell and Pedersen 2001; Fourcade-Gourinchas and Babb 2002; and Vogel 1996).
[2] Other researchers are less sanguine about this. For example, some have argued that, on balance, CMEs tend to outperform LMEs (e.g., Hicks and Kenworthy 1998; Kenworthy 2004; Lindberg and Maier 1985). Others see it the other way around (McKenzie and Lee 1991; Ohmae 1990, 1995). However, addressing this issue is not our principle concern here—we are more interested in hybrid forms.

complementarity scholars mean that a country's institutions fit together such that the functioning of one depends on and enhances the functioning of the others. For instance, the returns from a stock market trading in corporate securities are likely increased by regulations requiring a fuller exchange of information about companies than by regulations that require less corporate transparency (Hall and Soskice 2001b, pp. 17-18). Institutional complementarities can exist within and across many areas of economic activity, including labor markets and industrial relations systems, vocational training and education systems, corporate governance systems, inter-firm relations, and relations with employees. According to this literature, the greater the complementarity among institutions governing the economy, the more institutionally coherent the economy is as a whole and the better it will perform. In other words, the more closely a country resembles either the pure LME or CME type, the more institutionally coherent it is and the better it will perform. Conversely, the more a county consists of a mixture of elements from both the LME and CME types, the less institutionally coherent it is and the worse it will perform (Hall and Soskice 2001b, p. 45; Hall and Gingerich 2004).

Categorizing countries into types is not always easy. However, to our knowledge the most thorough and encompassing scheme yet devised to measure institutional coherence is that developed by Lane Kenworthy (2006). His measures of coherence capture the degree to which a country's institutions either conform to the LME or CME types or consist of a more heterogeneous mixture. For example, in his scheme Sweden, Germany, and the United States have high levels of coherence. Thus, the United States is a relatively pure example of the LME. Sweden and Germany are relatively pure examples of the CME. Italy has a low level of coherence. As such, it does not fit either the CME or LME type well at all and has a rich mixture of coordinating institutions from both types.

Other scholars have constructed similar indexes, notably Peter Hall and Daniel Gingerich (2004) from the varieties of capitalism tradition. But, as Kenworthy argues convincingly, their index does not well represent the full range of institutions that are important for coordinating economic activity and is, therefore, potentially misleading. Denmark is a case in point. Hall and Gingerich place Denmark squarely in the CME category (see also Hall 2006). But when Kenworthy transforms their index into a linear form with scores ranging from 0 to 1, such that the more coherent countries have higher scores regardless of type and the less coherent countries (i.e., the hybrids) have lower scores, he finds that the Danish case is much less clear cut. Denmark scores only .40 whereas, for example, the United States and Germany score 1.0 and .90, respectively. Similarly, using his own criteria, Kenworthy classifies Denmark as having only an intermediate level of coherence. In other words, while Denmark may still be a marginal member of the CME family, it has adopted a significant number of LME features. Hence, Denmark is more of a hybrid than is often recognized.

But what is perhaps even more surprising from the varieties of capitalism perspective is how successful Denmark was during the 1990s and early part of the twenty-first century in terms of its socioeconomic performance relative to more institutionally coherent countries. Remember that the varieties of capitalism literature predicts that less institutionally coherent countries should not perform as well as more coherent countries. Denmark defies this prediction. Let us take a closer look.

## DANISH SUCCESS IN THE 1990s

Socioeconomic performance has many dimensions. We focus on several using standard measures that are generally accepted by researchers working in the area of comparative political economy. When taken together these give a good over all picture of a country's socioeconomic performance.

Table 1 compares Denmark's performance on several social, economic, and fiscal measures during the 1990s and early twenty-first century with the performance of three countries that Kenworthy ranks as having much higher institutional coherence: the United States, Germany, and Sweden. To reiterate, proponents of the varieties of capitalism literature identify the United States as a classic LME case and Germany and Sweden as classic CME cases (Hall and Gingerich 2004, pp. 8-9). Among the social indicators in table 1, GDP per capita in Denmark, while a few thousand dollars less than in the United States, was still among the very highest in the world. It was also a few thousand dollars more than it was in either Sweden or Germany. All four countries were extremely prosperous, particularly in view of their very high scores on the U.N. Human Development Index. However, Denmark outperformed the United States in terms of income and gender inequality, poverty rates, and illiteracy rates, all of which were lower in Denmark than in America. It also outperformed Germany on all of these indicators, except poverty. Still, there was less than one percentage point difference between the Danish and German poverty rates. Sweden performed a bit better than Denmark on the gender inequality, poverty, and illiteracy measures, which is not surprising since Sweden has a reputation for being among the most egalitarian societies in the world. Nevertheless, Denmark was recently ranked first in the world in terms of the government's effectiveness in reducing income inequality (World Economic Forum 2003, Danish country profile, p. 42).

**Table 1 about here**

Among the economic indicators, table 1 reveals that Denmark's performance was again impressive. Danish growth in GDP was roughly the same as in Sweden and better than in Germany. The United States performed the best although its growth rate was surely inflated due to the dot-com bubble during the late 1990s that eventually burst and reduced growth rates after that. Productivity growth rates were virtually identical for Denmark, Sweden, and the United States whereas Germany experienced a slower growth rate. Similarly, unemployment was about the same in Denmark, Sweden, and the United States, but higher in Germany. Note, however, that the official unemployment rate in America fails to take into account the fact that a comparatively large number of poor, uneducated, young, males—that part of the population most likely to be unemployed—were in prison in the United States and, therefore, were not counted among the officially unemployed. Indeed, the rate of incarceration in the United States was roughly eight times greater than the incarceration rate in Denmark during the 1990s. Accounting for the incarceration phenomenon could add as much as two percentage points to the U.S. unemployment rate, which would mean that Denmark and Sweden actually did better than the United States in minimizing real unemployment (Western and Beckett 1999). Inflation was about the same in Denmark and the United States and somewhat higher than in either Sweden or Germany. However, at 2.3 percent annually, Danish inflation was well under control.

Finally, among the fiscal indicators in table 1, Denmark had the largest government budget surplus of the four countries although it had more national debt as a percentage of GDP than either Germany or the United States.[3] Nevertheless, Denmark continued to pay down its debt, which had ballooned during the 1970s and 1980s, and maintain a budget surplus of about 1 percent of GDP through 2004. In notable contrast, the United States, largely through a combination of income tax reductions and expansive military spending, managed to replace its budget surpluses of the 1990s with deficits running as high as 4.4 percent of GDP by 2004—deficits that have contributed to a skyrocketing national debt somewhere in the vicinity of 7 trillion dollars, which some economists predict could have disastrous long-term consequences for the American economy (The Economist 2005, p. 97). Similarly, in 2004 and 2005, as a result of sluggish economic performance and the continuing costs associated with reunification, Germany's fiscal performance deteriorated and exceeded the budget deficit limit of 3.0 percent of GDP required of members of the European Monetary Union to which it belongs.

Over all, then, the performances of Denmark, Sweden, and the United States were all strong and largely similar to each other. Germany's performance was less impressive. Indeed, the World Economic Forum (2005) ranked Denmark, Sweden, and the United States among the top five most competitive economies in the world in 2004. Germany was ranked thirteenth. This ranking is based not just on quantitative indicators, such as those found in table 1, but also on a survey of several thousand top business executives and entrepreneurs around the world. It confirms the findings reported in table 1.

Note that Denmark achieved strong socioeconomic performance with very high levels of government spending and taxation. Table 2 shows that the level of central government spending as a percentage of GDP was higher in Denmark than it was in the United States and Germany. Of these four countries, only Sweden spent more as a percentage of GDP. But in terms of social expenditures (i.e., welfare state spending), Denmark spent roughly the same as a percentage of GDP as Sweden, but considerably more than Germany and especially the United States. Indeed, the Danish welfare state is among the most generous in the world. Moreover, the level of taxation, including the tax burden on capital, was virtually the same for Denmark and Sweden and considerably higher than it was in either Germany or the United States. Over all, the level of taxation and state spending in Denmark was very high by OECD standards and had been for many years (Abrahamson 2006; Campbell 2004, tables 5.1-5.3; Goul Andersen 2005; Swank 2002, pp. 142-47).

[3] Comparable government debt figures were not available for Sweden.

This is important because some scholars have argued that in advanced capitalist countries, high taxes, large state budgets, and generous welfare states will drive away the investment capital that is needed for developing new technologies, products, and industries, improving labor productivity, stimulating economic growth, controlling inflation, and otherwise enhancing socioeconomic performance (McKenzie and Lee 1991; Ohmae 1995, 1990). Following this logic, calls for steep cuts in taxes and spending have become the political mantra for neoliberal politicians in Europe and North America since the late 1970s. Yet the Danish case suggests that countries can have both high taxes and spending and still achieve impressive socioeconomic performance. Indeed, Denmark's performance as represented in table 1 is comparable to that of the United States—a country with much lower levels of taxation and spending. We will return to this point later.

**Table 2 about here**

In sum, what all of this tells us is that a country like Denmark, with only a moderate level of institutional coherence—that is, with tendencies toward a mixture of CME and LME characteristics—can perform as well or better than countries with much higher levels of institutional coherence. Furthermore, despite scholarly and political predictions to the contrary, Denmark's socioeconomic performance was not compromised by its fiscal policies.

Researchers have sought through quantitative analyses to establish associations between types of capitalism and institutional coherence, on the one hand, and socioeconomic performance, on the other (e.g., Hall and Gingerich 2004; Hicks and Kenworthy 1998; Kenworthy 2004, 2006; Western 2001). They have also suggested that we need to know much more about hybrid varieties of capitalism (Katzenstein 2006; Molina and Rhodes 2005; Zeitlin 2003). Some have even suggested that hybrid forms may have their own unique dynamics that can produce socioeconomic performance that is just as good as LMEs and CMEs (e.g., Kenworthy 2006). However, as Kenworthy (2006, p. 18) has lamented, although quantitative comparisons of aggregate data for many countries are useful for establishing associations between institutions and socioeconomic performance, they are less helpful for teasing out the causal mechanisms that link institutions to performance. One way to address this issue is to examine the relationship between institutional arrangements, coordinating mechanisms, and socioeconomic performance through more qualitative case studies. We turn now to such an analysis for Denmark.

## HYBRID ROOTS OF DANISH SUCCESS

This section of the paper examines the institutions governing labor markets, vocational training and skill formation, and industrial policy in Denmark. We select these three cases because they have contributed significantly to Denmark's ability to respond flexibly to global economic pressures and engage in the sort of policy learning that others have deemed essential for small countries to achieve success. The institutional coordination of activity in labor markets, vocational training, and industrial policy are areas that have received considerable attention within the varieties of capitalism literature (e.g., Estevez-Abe et al. 2001; Hancké 2001; Thelen 2001; Wood 2001). In each one we show how elements typically found in LMEs have been incorporated into the Danish CME structure in ways that have enhanced its socioeconomic performance.

## Labor Markets

In Denmark, almost all workers belong to unions and are covered by collective bargaining agreements reached through corporatist institutions. In the mid-1990s, more than 76 percent of Danish workers belonged to unions—one of the highest rates of union density in the world (Iversen and Pontusson 2000, p. 9). In this regard, Denmark clearly exhibits traits associated with CMEs. However, the Danish approach to unemployment and labor market policy has recently involved some elements of the LME model as well. Danish labor market policy during the 1990s has been described as a system of "flexicurity," which consisted of three basic elements (Madsen 2004, 2006; see also Ferrera et al. 2001; Wilthagen and Tros 2004).

First, Danish employees in the private sector had rather limited levels of employment protection.[4] Hence, employers had much latitude to hire and fire workers in response to market signals as is typical of LMEs. In this regard, Denmark had one of the most flexible labor markets in the European Union (Wilthagen and Tros 2004; Wilthagen 1998; World Bank 2004, p. 36). Among the advanced capitalist economies the over all level of employment protection in Denmark was well below that of the classic CMEs, Sweden and Germany, and much closer to the LMEs, Britain, Canada, New Zealand, and Australia (Estevez-Abe et al. 2001, p. 165). As a result, job mobility was quite high in Denmark compared to many other countries. During the early 1990s the median job tenure in Denmark was a relatively short 4.4 years—virtually the same as it was in the United States and Britain and about half of what it was in Germany (10.7 years) and Sweden (7.8 years) (Estevez-Abe et al. 2001, p. 170; see also Auer and Cazes 2003, table 2.1.; Culpepper 2005).

Second, however, workers were not left alone to manage such employment uncertainties. Denmark offered generous unemployment policies, health insurance, and other welfare benefits on a universal basis, as is typical in CMEs, to ensure that when workers became unemployed they would have a social safety net that was substantial enough to protect them and their families from some of the worst problems associated with unemployment. Unemployment policies were generous in Denmark compared to most other EU and OECD countries, including those with large welfare states, such as Sweden, Germany, and the Netherlands (Hansen 2000, p. 33). Indeed, during the early 1990s Denmark's level of over all unemployment protection was greater than any other advanced capitalist country (Estevez-Abe et al. 2001, p. 168). That said, during

[4] Employment protection includes things like: employment protection legislation, the notice period required before terminating an employee; the severance pay and compensation for unfair dismissal mandated by law; the level of protection for collective dismissals; and the level of regulation of temporary employment (e.g., Estevez-Abe et al. 2001, p. 165; Rubery and Grimshaw 2003, pp. 164-67).

the 1990s these policies were reformed insofar as unemployment benefits were tied much more closely to requirements for employment seeking (Abrahamson 2006; Goul Andersen 2002). These so-called activation policies are common among LMEs, such as the United States where welfare benefits are contingent in many states on recipients seeking work (e.g., Weir 1998).

Third, and again reminiscent of CMEs, Denmark developed in the early 1990s an extensive set of active labor market policies established in law that helped unemployed workers obtain new skills and training so that they could return to work. They also received assistance and encouragement in locating job opportunities for which they could apply. As a percentage of GDP, Denmark spent more on active labor market programs since 1993 than any other OECD country except Sweden (OECD 2004b).

Insofar as today's global economy requires greater reliance on skills, learning, and labor market flexibility (Powell 2001; Thurow 2000), the flexicurity system was especially well equipped to help Denmark perform successfully in the global economy.[5] Indeed, studies show that the flexicurity system contributed significantly to Denmark's relatively low unemployment rate during the 1990s (Madsen 2006).[6] It allowed employers flexibility in hiring and firing; it helped to retrain workers and find them jobs when necessary; and it cushioned the blow incurred in the event of job loss. Hence, the flexicurity system was a vital component of Denmark's socioeconomic success.

The Danish labor market benefited from additional sources of flexibility—many having to do with institutional decentralization. To begin with, in recent years, as a result of labor market reforms and corporatist bargaining, important elements of the welfare programs, active labor market policies, and some aspects of collective bargaining agreements were decentralized to the regional level and sometimes to the level of single firms. For example, job retraining programs were tailored at the regional and local levels to fit the needs of local employers. This was accomplished through decentralized negotiations among unions, employer groups, municipal authorities, educators, and other relevant actors at the regional and local levels over curricular and other issues (Martin 2006). As discussed in the next section of the paper, the labor market benefited from a work force that was highly skilled due to this sort of well institutionalized and flexible training and skill formation system. Because workers were highly skilled, they could move with relative ease among different jobs across and within firms further enhancing labor market flexibililty (Kristensen 1996).

[5] Some might question the importance of weak employment regulations insofar as other countries, such as Sweden, have achieved comparable employment performance with much tougher employment protections (Kenworthy 2004, p. 133). Remember, however, our point is not that limited employment protection is a necessary condition for success. All we are suggesting is that, when coupled with the sorts of active labor market, activation, and welfare programs found in Denmark, this combination is one possible route to success among others—a position that is entirely consistent with the varieties of capitalism argument that there is no one best practice when it comes to organizing capitalist institutions.

[6] Even skeptical studies concur that these institutional arrangements likely contributed to Denmark's improved unemployment profile during the second half of the 1990s (e.g., Goul Andersen 2002, p. 149).

In addition, since 1965, provisions for flexible working hours (i.e., flextime) have been part of the general labor agreements. These provisions were expanded after 1995. This made it easier for workers to negotiate work schedules with employers at the firm level. It also made it easier for families to juggle the demands of work and family, which enabled more people, especially women with young children, to enter the labor force. On the one hand, this provided employers with a larger pool of workers from which to choose. On the other hand, it gave workers more opportunities for employment. As a result, the Danish labor market was among the most flexible in Europe in terms of work scheduling (EIRO 1998).

The important point here is that although Danish union density ratios remained among the highest in the world, employers remained well organized through business associations compared to many other countries, and the vast majority of workers were still covered by collective bargaining agreements—conditions that were typical of CMEs—decentralization of bargaining regarding job training, work scheduling, and the like, especially to the level of individual firms, represented another move in the direction of LMEs (e.g., Lash and Urry, 1987, chap. 8). Moreover, decentralization of this sort infused the system with an additional element of institutional flexibility that better fit the needs of employers, many of whom were small and medium sized companies trying to adjust to the global economy (Wilthagen and Tros 2004).

Over all, then, Danish labor market institutions have performed well insofar as they helped manage unemployment effectively and afforded firms the flexibility required to respond effectively to market signals in ways that can boost productivity and socioeconomic performance. Corporatist bargaining, generous welfare programs, and active labor market policies—all typical of CMEs—were all part of the story. But so too were low levels of employment protection, more stringent activation requirements, and decentralized bargaining over issues like work schedules and vocational training programs—features more closely related to LMEs, particularly insofar as they occurred at the local or firm level.

One big difference, however, between Denmark and the LMEs is how labor market policies affected wages and income inequality. Consider the United States. While average hourly compensation for workers in the manufacturing sector was virtually the same in Denmark and the United States during the 1990s, average real wages grew 0.9 percent per year in the United States and 1.5 percent per year in Denmark (Mischel et al. 2005, tables 7.6-7.8). And Danish income inequality, while growing slightly during the 1990s, remained much lower than in the United States. This was a typical story for most CMEs relative to most LMEs during the period (Kenworthy 2004, p. 24).

Vocational Training and Skill Formation

An important institutional support for Danish socioeconomic success was an extensive vocational training system that equipped Danish workers with a high level of industry-specific skills. Denmark has long had an extensive apprenticeship program for high school students dating back to the 1890s as well as programs to continuously up-grade the skills of workers—especially low-skilled workers. The initial creation of publicly financed national apprenticeship programs involved political compromises between journeymen and masters over various rights and duties. These compromises were facilitated by promises from the state of aid to vocational schools under joint control of both parties (Sabel 1994, p. 134). This lay the foundation for today's national vocational training system in which the curriculum is worked out through corporatist negotiations between unions and employers with the state shouldering many of the costs involved.

During the late 1980s and the beginning of the 1990s, the vocational training system underwent three important changes that resulted in the adoption of elements typically found in LMEs. First, as noted in the previous section, negotiations over the organization of curriculum and some other aspects of the system were decentralized (Martin 2006). Second, unions and employers negotiated training agreements through which they collaborated in upgrading the skills of blue collar workers. Training agreements permitted workers to spend more time away from work in academic courses and training programs of various sorts, often with state subsidies for tuition, wage supplements, and the like. These greater opportunities for training increased the level of competition among technical schools—another move in the direction of LMEs insofar as it infused the system with a degree of market competition. In turn, this elevated the quality of training being offered with effects that reverberated through the economy. Better training enabled firms to introduce new and more flexible types of work organization, such as project teams and lean production techniques. And this enabled firms not only to introduce and adapt quickly to new information technologies, but also to search for continuous improvements in production processes themselves without enlarging administrative hierarchies (Kristensen 1996, 2006).

Third, in conjunction with the active labor market and activation policies discussed above, vocational training was made available to the <u>unemployed</u> on a wide-spread basis so that they could upgrade their skills while they were out of work. This enabled them to return to employment equipped with new skills and a better understanding of the new flexible forms of work organization that they were likely to encounter on the job. By creating a system that allowed workers to improve their skills during downturns in the business cycle, firms compete more effectively when the economy improves and workers are called back to work (Martin 2006; Kristensen and Zeitlin 2005, chap. 3). The advantages of this system are especially clear in comparison to Germany, which is also known for its high skilled labor force (Thelen 2004). When the German economy experiences a downturn and unemployment rises, vocational training and skill up-grading for those who have lost their jobs is jeopardized. This is because the German vocational training system focuses on workers who are currently employed—not those who are unemployed. By sending unemployed workers for further training Denmark uses cyclical economic downturns in a more dynamic and creative way (Kristensen 2006).

Insofar as LMEs stress vocational training for the unemployed rather than the employed, Denmark again bears a partial resemblance to LMEs. For instance, in the United States the state's role in vocational training and skill formation has always been quite limited except for its funding of general public education. Vocational training, such as it is, has been left up largely to high schools and community colleges (Thelen

2004). The federal government never really made a strong commitment to job training programs. And when modest experiments with job training occurred, as they did in the 1970s and again in the 1990s in conjunction with welfare reform, they focused on the bottom of the labor market and targeted the unemployed (Weir 1991, 1998).[7]

In any case, workers are typically very well trained in Denmark. Indeed, they spend more time in training and skill formation programs than do workers in any other member of the European Union (EUROSTAT 2003). The benefits of this system are many. To begin with, it affords Danish firms the ability to leave much decision-making discretion to its workers rather than having to supervise them closely in rigidly bureaucratic ways (Dobbin and Boychuk 1999). Similarly, high levels of training enable workers to develop and make use of their own ideas and take independent initiatives in their jobs to a much greater degree than is typically the case in other countries (Goul Andersen 2003). For instance, shop stewards in the metalworking industry invented new payment, training, and job classification systems to increase the flexibility of production and increase the general skill level among workers (Sabel 1994, p. 136). Such independence improves firm efficiency and productivity. Furthermore, having a well-trained work force facilitates flexibility, cooperation, and collective brainstorming among shop-floor workers, engineers, managers, and others (Kristensen 1986; Kristensen and Høpner 1994). Finally, a high level of general skill training enables workers to move easily among different jobs within and across firms, which also facilitates efficiency, productivity, and labor market flexibility.

The implications for innovation and socioeconomic success are considerable. The Danish vocational training system enables workers to acquire new skills faster and more broadly than in many other countries. This creates incentives for firms to modernize technologically and to constantly improve their production processes and strategies if they want to prevent their most skilled workers from leaving for more interesting and promising jobs. As a result, business development and skill acquisition go hand in hand within Danish firms. This system enables firms to learn and adapt quickly to changing market opportunities and technologies. In turn, this allows them to capitalize on specialized niche markets. This capacity for learning also makes it easy for them to work with a wide variety of customers—both domestically and internationally—and to innovate in response to the demands and requests of these customers (Kristensen 1996).

The development of Danish wind turbines is a good example of how a highly skilled work force can help firms capitalize on niche market opportunities in the global economy. Denmark is a world leader in the production of wind turbines. Its success stems largely from incremental innovations in wind turbine technologies that Danish firms developed through close collaborations with their customers, production

[7] Formal vocational training for employed workers in the United States is highly sporadic; is left to the discretion of individual firms; is found almost entirely in large firms rather than small and medium sized ones; and involves mostly on-the-job training rather than the combination of on-the-job and classroom training found in CMEs, such as Germany (Cappelli et al. 1997; Rubery and Grimshaw 20203, pp. 112-24).

workers, and engineers who continuously experimented with and developed improved blade and turbine technologies over the years.  This was very much a process based on a well trained labor force that learned quickly through trial and error experimentation and practical experience.  Much of the learning was collective in the sense that it involved considerable group brainstorming and information sharing among shop-floor workers, engineers, scientists, managers, and customers (Karnøe 1995).

In sum, two things are especially significant.  First, insofar as Denmark has decentralized the negotiation over curriculum and other features of the vocational and training system, infused the system with more competition among technical schools, and  emphasized training for the unemployed, it has taken on characteristics more commonly associated with LMEs.  Second, this has enhanced the ability to continuously upgrade the skills of workers, which is one way that Denmark has met the challenges of globalization and the emergent knowledge economy so successfully (Kristensen and Zeitlin 2005, part 2).

Industrial Policy

Consistent with many CMEs, Denmark embraced industrial policy and, more recently, what we call structural policy.  By structural policy we mean the coordination of policies across a broad range of areas (industrial, welfare, regulation, environment, labor market, vocational training, etc.) in ways designed to improve the performance of the economy as a whole.  This should not be confused with industrial policy, which is more limited in scope and relies typically on instruments like government loans, credits, and tax incentives targeted narrowly to improve the performance of specific industries or firms and facilitate industrial restructuring (Rodrik 2004, p. 2).  In fact, the development of structural policy in the last twenty years is one of the most important aspects of Denmark's recent socioeconomic success (Kjær and Pedersen 2001).

The development of structural policy in Denmark has a rather long history.  At the end of the 1970s, assuming that Denmark's economic performance was suffering from inadequate technological development, the government tried to devise a technology policy aimed at improving the technological capacities and, therefore, the competitiveness of Danish firms in world markets.  Consistent with traditional forms of industrial policy, this consisted of programs targeted either at particular industries, such as encouraging them to adopt new production technologies, or at the development and improvement of technologies per se.  These programs often involved various forms of cooperation between the public and private sectors, such as joint research and development initiatives.

However, beginning in the 1980s a broader definition of Denmark's competitive problems developed.  Central to this was the concept of structural competitiveness whereby the competitiveness of Danish industry was seen as being linked to a much wider set of problems and policy areas.  These involved not just inadequate levels of technological modernization and research and development, but also a debilitating orientation on the part of Danish firms to produce for low-growth markets (e.g., processed meats, dairy) rather than high-growth markets (e.g., furniture, business services, medical equipment, information technology) as well as a general lack of adaptive and innovative capacities in Danish industry. Many people argued that in order to resolve these problems coordinated efforts were needed in areas other than just industrial policy (Kjær and Pedersen 2001).

In line with this view, people also believed that there was a need to reform state administrative and regulatory structures in several policy areas. In particular, it was felt that the policy formation process and especially the policy implementation process needed to be decentralized and otherwise streamlined to reduce the sort of bureaucratic sclerosis that many people believed had previously prevented public policy from being more effective. Furthermore, the Ministry of Industry, which had been primarily responsible for industrial policy, became increasingly sensitive to the possibility that the state's industrial subsidies had created disincentives that undermined the ability of Danish firms to adapt successfully to international competition. The ministry also began to realize that its own inefficiency, lack of professionalism, and need for modernization had contributed to problems in the Danish economy. Thus, this ministry and eventually others became increasingly interested in improving the efficiency of both the state as well as the economy. In many cases this entailed an increased reliance on outsourcing or contracting out of state services to the private sector (Kjær and Pedersen 2001). Of course, political decentralization, contracting out, and improving efficiency and competitiveness were central concepts to the neoliberal programs that many LMEs adopted during the 1980s and 1990s (Block 1996; Fourcade-Gourinchas and Babb 2002). Now they also became watchwords for the state and policy makers in Denmark, although they did not result in the same sort of radical deregulation that occurred in LMEs, such as the United States and Britain.

All of this was made possible by the unique institutional arrangement of Denmark's political economy—an important yet often neglected type of CME that has been referred to as a negotiated economy (Kjær and Pedersen 2001; Pedersen 2006a; see also Traxler et al. 2001; Visser and Hemerijck 1997). Negotiated economies evolved within CMEs over the last twenty years, share many of their basic characteristics, but also have at least two unique features. First, the old centralized form of CME corporatism was transformed into a more <u>decentralized</u> form. This involved the development of a multi-level system of interest groups and firms participating in policy learning, policy formation, and policy implementation at both national and now sub-national levels. It also represented a move in the direction of LMEs, which favor decentralized economic decision making (e.g., Lash and Urry 1987, chap. 8). Second, the corporatist policy process was opened up in to a wider array of organized interests. In contrast to traditional tripartite corporatism found in many CMEs, which includes business, labor, and government, the negotiated economy included these actors as well as regional interests of various sorts depending on the policy issue in question, experts and professions in various working groups, and, to an increasing extent, a dense framework of informal contacts between public authorities and this melting pot of interests (Marcussen 2005, p. 47; 2002, p. 142). This more <u>inclusive</u> form of corporatist dialogue and bargaining helped mobilize political consensus around structural policies. Over all, then, given the importance of political consensus for orchestrating this sort of policy (e.g., Green-Pedersen 2003, p. 412), the result was what we might call a lean form of corporatism that improved the capacity to develop collectively shared understandings of international competition as well as improved capacities to formulate, implement, and fine tune the structural policies deemed necessary to help firms and industries adapt to this competition.

The important thing to recognize here is that by reforming corporatist institutions in this way, Denmark improved its capacities for policy learning of the sort that can facilitate socioeconomic success. Specifically, these capacities entailed an improved process of information exchange between public and private actors that helped them identify both the significant obstacles to economic performance and possible remedies. The system is not one where an autonomous state intervenes to pick industrial winners and losers and then targets them by applying taxes or subsidies, as is often the case with traditional forms of industrial policy. To the contrary, it is an institutionalized strategic collaboration between various actors from the private sector and government—a discovery process where firms, unions, other interest groups, experts, and the state learn about costs and opportunities and then engage in strategic coordination. This is precisely the sort of institutional process that has been so successful in improving socioeconomic performance elsewhere in the recent past (e.g., Evans 1995; Rodrik 2004).

As a result, during the late 1980s there was an increase in local and regional structural policy initiatives (Amin and Thomas 1996; Pedersen et al. 1992). These often involved the coordination of industrial policy with policies in other areas, such as labor market policy, research and development policy, vocational training policy, employment policy, and administrative reforms in the public sector, although often in relatively decentralized ways (Madsen 2003). In other words, this was a double movement. On the one hand, there was more non-market coordination across policy areas, as one would expect to find in a CME. On the other hand, the mechanisms of coordination were less centralized and more inclusive, as one would expect to find in a LME. In turn, Denmark's institutional complementarities were strengthened.

For instance, consider the flexicurity system discussed above. Here various aspects of welfare policy were reformed and integrated with other policy areas. As we have seen, receipt of unemployment benefits after a period of time was made conditional on seeking both vocational training and job placement assistance. In other words, welfare and vocational training policies were coordinated with each other and with the needs of employers. This was all worked out through rather inclusive decentralized corporatist negotiations among the local employers associations, unions, municipalities, educators and other relevant professionals as well as representatives from the national government (Abrahamson 2006; Madsen 2006). Similarly, industrial restructuring policies were linked locally to expansions in vocational training and reskilling programs for workers who would lose their jobs as a result of plant closings or downsizing. This linkage was often forged at the insistence of unions during corporatist negotiations as a quid pro quo for their acquiescence to restructuring in the first place. The effect of these sorts of structural policies was to refocus Danish industry and augment the skills of the work force in ways that helped to improve the country's socioeconomic performance, such as by facilitating the development of a patchwork of rapidly growing textile, garment, furniture, machine tool, ship building, and other types of industrial districts in the poorer agricultural regions of western Denmark (Sabel 1994, pp. 107, 144).

In sum, although LMEs typically reject industrial policy and other forms of state coordination or planning (e.g., Shonfield 1965; Albert 1993), Denmark embraced it in typical CME fashion and extended it in the direction of even broader structural policies. However, the Danes translated certain aspects of neoliberalism—the ideological cornerstone of many LME policies during the 1980s and 1990s—into traditional Danish CME practice. Corporatist negotiations were retained, but decentralized and made more inclusive; the state coordinated policies across policy areas in order to improve economic performance, but reduced many of its industry subsidies thereby allowing more space for market forces to operate; state functions were also decentralized and sometimes contracted out to the private sector; and policy makers as well as the ministries paid greater attention to improving the efficiency of both public and private sectors. Judging from Denmark's performance profile during the 1990s, it seemed to work.

## A NOTE ON FISCAL REGIMES AND INSTITUTIONAL COMPLEMENTARITY

We noted earlier that taxation and state spending are considerably higher in Denmark than in most other advanced capitalist countries. This is one area where Denmark very closely fits the CME profile. Recall that neoliberals and some scholars have argued that high taxes and government spending are a recipe for socioeconomic disaster, especially for countries with very open economies. This does not seem to have happened in Denmark so far. In fact, one could argue that high levels of taxation and state spending have actually <u>contributed</u> to Denmark's success insofar as they helped finance the development and maintenance of flexicurity labor market institutions, vocational training and skill formation institutions, and the institutional reforms associated with structural policy. As a result, the existing taxation and state spending systems, including Denmark's generous welfare programs, can actually be viewed as <u>positive</u> contributions to socioeconomic performance. Why?

The Danish fiscal regime interacts with these other institutions in ways that provide another source of institutional complementarity within the Danish system. After all, by supporting flexicurity, training, and these other institutions, the fiscal system has helped Denmark achieve considerable socioeconomic success, including low unemployment and high GDP per capita. In turn, this has provided a strong tax base from which the state can extract revenues and finance its spending.[8] Indeed, the interaction between the fiscal regime and these other institutions is such that each one benefits from the other in symbiotic fashion. Although scholars have long recognized that small, economically open, advanced capitalist countries seem to require high levels of taxation and spending in order to compensate for the fact that they are often buffeted by the currents of the global economy (e.g., Cameron 1978; Garrett 1998; Swank 2002), the varieties of

[8] Additionally, this system of taxation and spending has paid for the public transportation, telecommunication, information technology, research and development, and other infrastructures upon which firms operating in Denmark depend so heavily. The Danish national health care system is a good example. Other more recent examples include such projects as the Øresund regional development project south of Copenhagen, the Øresund bridge to Sweden, new renovations to Copenhagen airport, the Great Belt Link bridge that connects eastern and western Denmark, and the new Copenhagen metro system.

capitalism literature has virtually ignored the importance of fiscal systems in their analysis of institutional complementarities. The Danish case brings this to the forefront.

Business seems to understand this in Denmark. High taxes are not a deterrent for business, at least insofar as business recognizes that high taxes underwrite a variety of state subsidies, infrastructure, and other institutional benefits that they enjoy. For instance, according to the head of Microsoft's European division, the company recently picked Copenhagen for its headquarters in part because of these sorts of public infrastructures; high taxes were neither a serious consideration, nor a deterrent.[9] This attitude is consistent with recent scholarship, which suggests that taxation is often not as important when it comes to business investment decisions as neoliberals and others have assumed and that business may not resist high taxes as long as they recognize that they will reap benefits from them (Campbell 2004, chap 5; Swank 2002; Kiser 2001).

Evidence also suggests prima facie that the Danish population appreciates the institutional complementarities associated with their fiscal regime. Surveys suggest that about 85 percent of Danes are now content with their taxes—even though they are among the highest in the world. More important, roughly two thirds of the population would prefer improved public services rather than lower taxes. The population seems to realize that cuts in taxes could undermine some of the other institutions that have contributed to Denmark's high standard of living and socioeconomic performance (Goul Andersen 2005). Certainly there has been no groundswell of support for neoliberal reforms of either the tax system or state spending. The same is true of other European countries that are preserving their high corporate and other tax rates in order to continue funding social welfare programs (e.g., International Herald Tribune 2005, p. 14; Kenworthy 2004, pp. 134-36).

That Denmark's economic performance was so similar to that of the United States is worth further comment in this context. First, not only is the United States a classic example of an LME, but it has been on the forefront of neoliberal tax, welfare, and regulatory policy reforms since the early 1980s (Campbell 1998; Pierson 1994; Vogel 1996). From a neoliberal perspective, one would expect the United States to considerably outperform Denmark because Danish taxes and government expenditures are much higher than they are in the United States and because Denmark is a much more open economy than the United States.[10] Second, the United States is a large state and world power. It has the capacity to shape the rules of the global commerce. It did so at the Bretton Woods conference after the Second World War; it did so in 1971 when it abandoned the Bretton Woods fixed exchange agreement; and it has done so at other times since then. Denmark does not have the capacity to shape these rules. Third, the United States enjoys the benefits of seigniorage: the dollar has been the principle reserve and transaction currency for much of the

[9] Personal communication with the authors, June 10, 2005.
[10] In 1999, trade in goods was 67.8 percent of GDP in Denmark compared with only 19.8 percent in the United States. Gross foreign direct investment was 13.3 percent of GDP in Denmark and only 5.2 percent of GDP in the United States. And gross private capital flows across its borders were 25.4 percent of GDP in Denmark and only 13.6 percent in the United States (World Bank 2001, Table 6.1).

world since the Second World War. This has enhanced America's global economic and political position because, unlike other countries, it could print dollars for all sorts of economic purposes; go deeply into debt without fearing negative consequences, at least in the short term; and enjoy fewer economic restraints. Indeed, even after the Cold War, the role of the dollar as the world's key currency allowed the United States to live well beyond its means (Gilpin 2000, pp. 60-61, 120-21). Insofar as Denmark was at a three-fold disadvantage compared to the United States, the fact that she has performed so well vis-à-vis America is particularly impressive.

## CONCLUSION

To summarize briefly, the varieties of capitalism literature draws a broad distinction between two types of capitalism, LME and CME. Denmark is typically classified as a CME. We have shown that this classification is misleading in light of recent changes in the Danish political economy. In particular, in three areas central to socioeconomic performance (labor markets, vocational training, and industrial policy), Denmark has considerably more LME characteristics than the varieties of capitalism literature has recognized. The blending of features from both the LME and CME types, as illustrated in Denmark, is something that has been neglected in the literature so far insofar as it may create institutional dynamics that enhance rather than undermine national socioeconomic performance. Our findings do not support the prediction of the varieties of capitalism literature that relatively pure types of capitalism will outperform hybrid types. As such, we agree with those who have called for more attention to hybrid forms of capitalism (e.g., Katzenstein 2006; Zeitlin 2003; see also Crouch and Streeck 1997; Hollingsworth and Boyer 1997). We have also found, contrary to neoliberal and other warnings, that high taxes and government spending do not necessarily undermine socioeconomic performance. To the contrary, in the Danish case they seem to have provided a positive source of support for other institutions and policies that contributed to her success.

Skeptics of our view might argue that the sources of Denmark's success are not institutional at all (e.g., Green-Pederson 2003). For example, beginning in the mid-1980s Denmark began to discuss and eventually pursued sound monetary policies (e.g., stable exchange rates, low inflation) and sound fiscal policies (e.g., low deficits and debt repayment) (Marcussen 2000). Certainly this helped create an environment that was conducive to growth insofar as it provided a supply of relatively inexpensive capital for consumers and investors. But this does not guarantee success. Notably, Germany pursued these same policies and did not perform nearly as well as Denmark. That is where labor market, training, and industrial/structural policy come in. Or one might argue that the extraordinarily high level of ethnic and cultural homogeneity found in Denmark provided a certain social cohesion and cooperative ethic that facilitated the sort of flexibility and learning that we have described. Yet recent studies show that homogeneity was important historically precisely because it contributed to the formation of institutions, such as those discussed here, that we hold to be so important (Campbell and Hall 2006). We do not claim that institutions are the only source of Denmark's success—or any country's success for that matter. But they are an important part.  Of course, exactly how important relative to these and other factors is a potentially fruitful avenue for future research.

The varieties of capitalism literature has provided a theory of how in different ways CMEs and LMEs can achieve socioeconomic success.  LMEs do it by largely by coordinating economic activity through the market.  CMEs do it largely by coordinating economic activity through non-market mechanisms.  What about hybrids?  What is the key to success for them.  It is, of course, dangerous to generalize from a small number of cases, so what follows is rather speculative.  Nevertheless, the Danish case suggests that two factors may be involved for hybrids—at least small, economically open hybrids.  First, firms need to enjoy enough <u>flexibility</u> to move expeditiously in shedding labor, redirecting resources, retraining workers, and pursuing new niche markets.  In the Danish case, it appears that this has been accomplished by exposing firms more to the market than had been the case previously, such as by limiting employment protections and reducing state subsidies.  An earlier literature on small states suggested that flexibility was achieved largely by political means, notably corporatist negotiations driven by the knowledge that small states were vulnerable to international political and economic forces beyond their control (Katzenstein 1985).  This has certainly been important in Denmark historically and continues to be so today (Campbell and Hall 2006).  But achieving flexibility by opening up more to the market has also been important.

Second, hybrids probably also need an effective means of <u>collective</u> <u>learning</u> so that the important private and public sector actors can identify the economic challenges and devise remedies that are politically acceptable to them.  This involves a set of institutions that facilitate processes of information sharing, discussion, and consensus building.  Again, the small states literature has pointed to this in the past (Katzenstein 1985).  What is different now, however, is the level at which such learning takes place.  Where this was once believed to be important at the national level, again through centralized corporatist bargaining and the like, it may be the case that collective learning today needs to be decentralized, as it has been in the Danish case.  Why?  The heightened volatility and uncertainty associated with today's global markets may require small hybrid countries to respond to such conditions even more quickly than was the case twenty or thirty years ago.  Decentralization of the collective learning process, such as through the devolution of authority over vocational training or structural policy to the regional or local levels, may facilitate faster learning and, in turn, enhanced flexibility.  Whether the capacity for greater flexibility and collective learning are more important in hybrids than purer types of capitalism is something that also requires further research.

Finally, we have provided evidence that supports the varieties of capitalism argument that there is no one best way to organize a country's political economic institutions in order to be successful in today's global economy.   We have seen that countries with both high levels of institutional coherence of either the LME or CME variety, specifically the United States and Sweden, as well as countries with more hybrid forms, such as Denmark, performed quite well.  However, there seems to be one exception to this rule.  Recall that Denmark has less income and social inequality than most other advanced capitalist countries in the world—particularly the United States where, despite moderate growth in average real wages during the 1990s, income inequality persisted.  Sweden and Germany also had less inequality than the United States.  In the Danish case, this is due in part to the effectiveness of Denmark's welfare, educational, labor market, and other institutions as well as the fiscal system that helps to finance them.  While there may be more than one route to economic success, the same may not be true when it comes to the issue of income equality, gender equality, and poverty.  In this case, the CMEs—and hybrids that have the right CME and LME elements—may be better than the LMEs at reducing inequality, as others have shown (e.g., Hicks and Kenworthy 1998).  It is often suggested that there is a trade off between economic growth and social equality.  Our findings support those who have argued that this is not necessarily the case (e.g., Kenworthy 2004).  Denmark seems to have accomplished both.