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Denmark – An Ongoing Experiment

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History

This book is premised on the notion that history matters.¹ But what are the implications of this insight? Can the future be projected on the basis of the conditions of the present? Will the conditions that the past has set for the present also have significance for the future? Will the long history of Denmark, as elaborated in the first part of this book, continue to have significant effects or will the more recent short history of the last twenty or thirty years, as discussed in the rest of the volume, matter more? Does the short history provide the same basis for making predictions, as does the long history? In other words, does the short history lead to the same sort of positive expectations for Denmark as the long history? The main question I want to discuss in this essay is whether the Danish negotiated economy will still be capable of delivering the same sort of successes in the future that it did in the 1980s and 1990s. Is Denmark at the end of the past? Are we witnessing the beginning of something new?

In several of the contributions to this book, it is clear that describing Denmark involves a choice between understanding Denmark as a success or as a failure. For example, does Rasmussen (in this volume) have grounds for describing Denmark as a “democratic monstrosity” or a “democratic role-model” when liberal ideals regarding constitutional rule and individual freedoms are rendered subordinate to geopolitical survival and international competitive position. Or does Abrahamsson (in this volume) provide evidence for Denmark as a “social pioneer” or a “social pathology,” as aggregated data about social equality can be countered with data indicating that the Danes have a low average life expectancy, that the incidence of diagnosed depression is more widespread in Denmark than in comparable countries, and that the same is the case for the suicide rate? Or what about Denmark as a “closed” as opposed to an “open” society, as cultural and linguistic homogeneity give rise to xenophobia and a restrictive immigration policy (Hedetoft in this volume)?

Denmark has always had two sides: The positive side is that of political stability, social equality, high growth rates, industrial modernism, and a consensus-oriented tradition for dealing with social conflicts through negotiations and compromise. The negative side is that of relatively high mortality rates, low fertility rates, stress-related illnesses, and problems related to the different lifestyles of those who are socially included as opposed to those who are socially excluded.

I started to think about these issues as I read Peter Katzenstein’s epilogue. I was born in Skagen a few years before Katzenstein started taking his summer vacations there. And I was likely one of the many locals who curiously observed the invasion of foreigners and Danes alike who occupied Skagen every summer. I have probably also stared with envy at the big boys from out of town as they ate ice cream, flirted with the girls and held vacation while the entire town – and many of its children and youth – worked in the stores,

¹ This essay has benefited from comments from good colleagues at the International Center for Business and Politics, Copenhagen Business School. Special thanks goes to John L. Campbell, Lars Bo Kaspersen, Anker Brink Lund and Peer Hull Kristensen.

restaurants, and hotels to earn money. Skagen is one of the beautiful places of the world. It lies between two seas – the North Sea on the one side and the Kattegat on the other. The northern tip of Denmark stabs between the two seas like a curved bough, with England to the west, Norway to the north and Sweden to the east. At Skagen's widest point, there are only a few miles between the two seas; at Skagen's tip, the two seas collide with violent force. Nothing is more beautiful than the sun rise at Skagen. Nor is anything more breath taking than when a storm howls and the roars from the two seas colliding can be heard throughout the entire town. Artists, authors and royal families have been drawn to Skagen for more than a century in a romantic celebration of the sea and the sky.

Skagen – as example

Skagen is more than sea and sky, however. For centuries, Skagen has been at the center of the geopolitical conflicts of the great powers. The Skagerrak Sea has represented the gateway to the Atlantic for German and Russian fleets, and to the Baltic Sea for French, British and American fleets. The mightiest navies in the world have sailed past and weighed anchor. Similarly, fishermen from around the world have landed their catches and come in to rest after long journeys on the Atlantic Ocean or Norwegian Sea. Long before there was any talk of globalization, Skagen was home for a plethora of languages and international trade; and as long as Denmark has been nestled in the midst of one of the world's most explosive geopolitical centers, The Skagerrak has played a central role in international conflicts. This was where fishermen could report on how Admiral Nelson's British fleet had course towards Copenhagen during the Napoleonic Wars; and this was where Hitler's Wehrmacht constructed the most fortified part of his "Festung Europa" with heavy artillery, armored bunkers and anti-aircraft batteries. From this vantage point, the entire population could follow the British and American war planes as they came in from over the North Sea and turned south in the direction of their bombing targets in Berlin, Hamburg or Kiel. And this was the spy-hole from which NATO could observe the Soviet fleet on its way up the Norwegian coast towards the Norwegian Sea and the Arctic Ocean. Today, one can watch Russian tankers transporting oil from St. Petersburg to the global market as well as convoys and containerships from all over the world carrying goods to the growing markets in Poland, the Baltic and Russia.

My own memories of Skagen are mixed. In the 1950s and 1960s, Skagen was one of Europe's largest fishing towns. The city was home for roughly 500 fishing boats and trawlers from Norway, Scotland, the Soviet Union and Sweden that were landing fish from the North Sea, the Norwegian Sea and the Arctic Ocean. The massive fishing industry created jobs and wealth for the town. In the town there was a stink of fish, which was commonly referred to as "the smell of money." This wealth also created class divisions. A few "fishing barons" accumulated fortunes. They built ostentatious mansions and bought big American cars. My memories from that period are mostly of rotting fish and an awareness of the difference between "the others," who were rich, and the ordinary people like me, who were not. Today, Skagen is little more than a ghost town, at least in winter. Only approximately twenty fishing boats remain (Stensgård 2003) and the fishing industry has almost disappeared. Skagen nevertheless still remains a global meeting place. Large

quantities of fish continue to be caught, but now they are processed and frozen and ready for delivery to dining tables throughout Europe before the boat has even docked. Instead of fishing boats, the inner harbor is jam-packed with luxury yachts; more than 15,000 every summer. Skagen is a good example of how Western Europe has undergone great change in the course of a short period of time. And one can hardly find a more illustrative example than Klitgården.

From 1914 to 1996, Klitgården was the summer residence for the Danish Royal Family. Until the Nazi occupation of Denmark on April 9, 1940, the Danish Royals spent every summer vacation here (Hvidt 2003). In 1996, Klitgården was put up for sale, and today the place is owned by a foundation consisting of Danish universities and professional associations. For the last seven to eight years, Klitgården – the very site where I am writing this essay - has served, as a retreat for researchers, journalists, authors and other opinion-makers. Throughout my childhood, I never got within 300 meters of Klitgården even though I was born a mere 500 meters from the royal room. Every time the royal family was staying at Klitgården, the King's flag was hoisted and there was no admittance to the entire area. Upon the Royal Family's return to Copenhagen, the flag was removed, but the "No Trespassing" signs remained. At the table upon which I am now writing this essay, the Danish King sat some sixty years ago and prepared to return to Copenhagen in the certainty that the Nazi invasion would occur within a few days. In a moment I will be enjoying my lunch at the same dining table that the European elite and royal families did in years gone by. Along with the Danish Royal Family, the European upper class has disappeared from this place. Moreover, the class base of Danish society has changed and Skagen reflects this change. Today the elite of the negotiated economy – politicians, organization leaders, industrialists, researchers, and CEOs – have rendered Skagen their summer residence, and in the summer, most of Denmark's political and financial powerbrokers gather there. In the same way that the royals and the European elite did in the past, this new elite is celebrating the notion of the romantic meeting between nature and culture (Stensgård 2003).

Market and politics

While Katzenstein is fascinated by small states and their capacity to survive and prosper, Peter Hall has long been interested in the role that knowledge plays in macroeconomic politics (Hall 1989). The Danish negotiated economy motivates him to raise the question of how negotiations and ideas play a role in how small states deal with strategic interaction. At the same time, it is apparent that the very concept of a negotiated economy constitutes a challenge for Hall and the theoretical distinction he has developed with David Soskice between "liberal market economies" and "coordinated market economies" (Hall and Soskice 2001). I agree with Hall that history matters, *but experience does too*. Although one might argue that deep historical roots are crucial to the success of a negotiated economy, one can not conclude that such roots will always cause strategic interaction to be based on negotiations, or that such negotiations will automatically lead to macroeconomic success. In the case of a negotiated economy it is important – and probably more so than in other economies - to distinguish between the short and the long history. A negotiated economy has a built-in aspect that, for lack of a better word, can be referred to as *gambling*. Every economy of course

involves gambling. Households are gambling when they deposit their savings in pensions schemes; investors are gambling when they invest in bonds and shares; and CEOs are gambling when they make strategic choices. But in a negotiated economy gambling is different in three ways. First, the stakes are higher - the survival of an entire nation including the population's economic growth and welfare is at stake. Second, decision-making depends on the capacity of the elite to interpret contemporary economic and other conditions for action, and to do so in a manner that will lead to successful national strategies. Third, being a small state Denmark is forced by circumstances to adjust to geopolitical decisions taken by big states and to adapt to economic trends influenced by multinational concerns and international organizations. So, perhaps more than in liberal and coordinated economies a negotiated economy is operates in a high-risk environment—the future fate of a whole economy is based on the capacity of the elite to develop national strategies for adaptation.

I agree with Peter Hall that a negotiated economy is not identical to a "market economy" and that the Danish negotiated economy is a particular and contingent way of regulating and conducting a market economy. The question is whether this sort of contingency is also true for other economies – coordinated and uncoordinated alike? Does the liberal economy represent a particular economic regime, or do liberal and coordinated economies have the same common foundation in being coordinated? In particular, can we assume that market mechanisms are the same in liberal market economies as they are in coordinated and negotiated economies? Do market mechanisms vary according to their context? And, conversely, do liberal and coordinated market economies both contain significant elements of coordination such that the issue is not whether one is more or less coordinated than the other, but rather whether different mechanisms of coordination operate in each? What I am wondering is whether the distinction between liberal and coordinated economies that Peter Hall adopts is too stark and extreme. That is, is it possible to determine if the Danish negotiated economy is a hybrid containing elements of both market and coordinated economies, as Katzenstein and John Campbell and John Hall emphasize in their contributions to this volume, or is it simply one variant of a coordinated economy, as Peter Hall claims.

In this essay I cannot fully answer this question. But answering it requires that we consider the opposition between economic market mechanisms and political mechanisms, both understood as a modes of coordination, and whether the two are fundamentally different. I am not sure we really know or that anybody has given a convincing answer. Yet determining whether Denmark is a hybrid or something else requires further thought about this issue. That said, it is important to remember that one of the most tenacious myths in political science as well as economic theory is the belief that market forces are static as well as universal (e.g. Dahl 2001) and that it is reasonable to talk about market mechanisms as if they have taken the same form and have operated in the same way everywhere even if we are constantly reminded by culture theory, anthropology, economic sociology, and comparative-historical sociology that markets emerge under varying contextual conditions, are created through varying historical processes, and change over time (Polany 1944; Edelman 1978; Reddy 1984; Biernacki 1995; Fligstein 2001). Are market mechanisms universal or contingent? The question, of course, is open for debate. I agree with Katzenstein that contemporary

comparative political economy is stretched out between two theoretical ambitions that can help us resolve the issue – the one being the deductive, where the ambition is to make it possible to advance sophisticated theoretical explanations, the other being the inductive, where the aim is to conduct thick empirical descriptions. But if market mechanisms are contingent, then where does that lead us regarding the distinction between liberal and coordinated economies and the idea of a negotiated economy being a hybrid of the two? In this light, let us take another look at the development of the Danish negotiated economy.

The genealogy of the negotiated economy

In Denmark, the most important requirements for a negotiated economy were established historically prior to the spreading of the market economy, including the creation of a labor market. This occurred more than 110 years ago when representatives for labor and capital signed The September Agreement (*Hovedaftalen for Arbejdsmarkedet*) in 1899. The September Agreement is the first of three historical compromises, which created the prerequisites for a negotiated economy (Pedersen 1993). In the following, I will present a brief genealogy of the negotiated economy with the purpose of offering a double thesis. First, in the Danish case market mechanisms have been constituted through political mechanisms. Second, the nature of these political mechanisms influenced the kind of market mechanisms that were created. The main issue to be answered is this: If the development of a negotiated economy has had an impact on what Dahl (2001:4) refers to as market systems, then maybe market mechanisms do not have the same character in a negotiated economy that they do in a liberal economy, where “...no central authorities, coordinate the society” (ibid, p. 4).

Three types of political institutions were important in this regard: polity agreements, policy agreements, and negotiation games. All were involved in the development of market mechanisms. The three institutions have emerged from historical compromises, that is, formal or informal agreements between class representatives about the distribution of economic and political power in a society (Korpi 1978: 350f.).² Historical compromises are historical in the sense that they impact the distribution of economic and political power and do so by determining what are market mechanisms (and are thus left to business, laborers and consumers to exercise) as well as what are political mechanisms (and are subsequently left to politicians and political institutions to exercise). They are also historical in the sense that looking back from the present they can be seen to have established a legacy or a path followed subsequently by important actors whether involved in macro or micro economic decisions.

The September Agreement was devised in the 1890s (Pedersen 1993: 280ff.) and had three decisive consequences for the distribution of economic and political power. First, the Danish labor market became collectively organized. Central organizations were appointed to serve as legal subjects with the authority to sign and enforce collective agreements on behalf of their members. The price of labor and requirements

² Class representatives may operate either in their capacity as peak organizations at the labor market or as class-based political parties.

regarding working conditions were subject to negotiation between the collective bodies. Second, industrial conflict became institutionally isolated. And an independent arena pertaining to labor legislation was created for determining how to enter, terminate, and maintain agreements and for how to distinguish between industrial (legal) and political (illegal) conflicts. Finally, authority was delegated from the Parliament to the labor organizations to regulate, judge, and sanction the relations between employers and employees. The September Agreement was established and enforced *prior* to the actual establishment of a liberal labor market based on individual contracts. Until 1910, wages and working conditions were set by law. Compulsorily wage-setting came to an end when peak organizations, through the agreement system, could regulate price setting for labor. From the beginning, then, individual contracts were embedded in collective agreements. Hence, the September Agreement was not merely an agreement about how to distribute economic and political power in society. It also involved the constitution of the market mechanisms that were to function in the labor market. Obviously, one can elaborate on which mechanisms we are talking about; but that is not the purpose here. What is more important is the claim that market mechanisms came to be of a particular type – collectively negotiated, agreed upon and based on a norm for wage-differentiation between skilled and unskilled labor, males and females, sectors and branches and the seniority of the individual worker. The individual wage agreement emerged from within the context of collective agreements. Not the other way around.

A second historical agreement was worked out in the 1940s during and immediately subsequent to the German occupation of Denmark. The Post-War Agreement entailed that the Danish economy would be opened to the world outside and that this opening would be followed by the establishment of a welfare state directed at facilitating the geographic and functional mobility of the labor force. Labor market policy became the most important policy in the welfare state. And the coordination of collective agreements with policies to fight unemployment was to be conducted via negotiations between the government and peak organizations. The neo-corporatist integration of politics and organizations took off. The agreement was not formalized, but the central organizations and several of the most important political parties implemented the compromise through a number of public commissions in which legislation for the labor market as well as social and education policy was agreed upon. However, the Post-War Agreement was not merely an agreement about how political power ought to be coordinated with economic power. It also involved a constitution of the market mechanisms that were to function in the labor market. They were negotiated collectively and agreed upon. They were also coordinated with labor market policy incentives for mobility and social policy guarantees in relation to unemployment. The individual wage agreement remained embedded in collective agreements; now, social and other guarantees were merely added to every agreement.

The third historical compromise occurred at the end of the 1980s. The Monetarist Agreement dealt with the overall monetary and fiscal stability of the Danish economy vis-à-vis other selected countries. The Monetarist Agreement involved the peak organizations' de facto acceptance of the policy that the non-socialist parties had started in 1982 "...by pegging the currency to the Deutschmark, liberalizing capital markets, and initiating a radical program for fiscal retrenchment" (Iversen and Swenson 2000: 15). It also involved the de

facto acceptance of the notion that, “the effect of these policies was a gradual reduction of inflation and (real) interest rates” (ibid.) and that being unable to effectively control inflation, interest rates, and the like would result in unemployment. Once again the market mechanism was changed in the labor market.³ It was still collectively coordinated, but subject to monetary agreements outside the immediate control of government, peak organizations, and also (partially) the central bank. The market mechanism remained embedded in collective agreements, and continued to include social and other welfare-related guarantees, but now it was also being subjected to supranational monetary regulation.

The establishment of new types of negotiation institutions followed each of the three compromises. The first compromise created conditions for polity agreements, e.g. between the Social Democratic and Social Liberal parties. Katzenstein refers to these as “the post-imperial Danish model of combining security with welfare...” (see also Korsgaard in this volume; Korsgaard, 2004: 384ff; and Højrup 2002: 332-39). In my definition polity agreements encompass lasting interpretations of the conditions for maintaining Danish national independence and serve as the foundation for stable party alliances in the Danish parliament. As such, the post-imperial Danish model included an understanding of Denmark as being unable to defend itself militarily against any possible German aggression. Hence, it involved being forced to “...form a society and construct a culture that makes it possible to survive as a people, despite territorial occupation” (Korsgaard 2004: 384, my translation). In this way the first historical compromise included an interpretation of the independence⁴ of the Danish state as limited. If necessary, Denmark would have to accept its inability to defend its own sovereignty, for which reason military neutrality was to be countered by an internal consensus. Similarly, the second compromise created the conditions for polity agreements to open up the Danish economy by removing trade and other barriers for international competition. The Post-War Agreement was implemented by joining the OEEC and receiving Marshall Plan help (1948). It also involved Denmark’s admission to NATO (1950) and early efforts to gain admission to the EEC (1960-61) (Lidegaard 2001: 333-64). The Post-War Agreement involved the coupling of economic policy integration and security policy integration. And although Danish independence continued to be regarded as limited, attempts were made at enlarging it by integrating the Danish state simultaneously in NATO and the EEC. The third historical compromise was implemented by linking the Danish currency to the Deutschmark (1982); by Danish participation in the Inner Market Project (1986); and by entering the first two phases of the European Monetary Union (1993). The period from the end of the 1980s to today is characterized by a change in the interpretation of Danish independence. This independence is now taken for granted in the sense that increased European integration and the crumbling of the Soviet Empire gives Denmark a political and economic autonomy that the country has not enjoyed since the crushing military defeat to the Germans in 1864.

³ For more about monetary policy and its consequences for collective bargaining, see Franzese and Hall 2000.

⁴ The concept of independence is based on a crude distinction between a country’s formal sovereignty (see Krasner 2001:5-7 for the set of attributes normally bound up in the understanding of sovereignty) and the *interpretation* that governments have or have had of their autonomy to act according to their own reading of national interests. In this essay we are only dealing with how public authorities in Denmark have interpreted its autonomy and not how it has been able to control transborder movements or what Krasner calls its interdependence sovereignty.

From adaptation to independence

The paradoxical coupling of geopolitical independence and economic integration is immediately recognizable in how the concept of competitiveness (competitive position) has been defined by governments from 1945 to the present (see Pedersen in this volume). From admission to the OEEC in 1948 to the beginning of the 1980s, the Danish economy has been measured in terms of its *international competitive position*. Behind this lies a conception of how Danish industry and agriculture must adapt to international economic conditions, and how labor market policy, together with other welfare policies, must be aimed at rendering the economy “adaptable.” From the beginning of the 1980s, this concept was expanded to include the industrial sector’s *technological competitive position*, which included the notions that Danish industry should adapt to technological developments, that the state should develop industrial policy programs, and that the state should facilitate reorganization of the financial market. The reactive notion that Danish industry should adapt was combined with a proactive strategy for technological adaptation (Pedersen et al. 1992). From the end of the 1980s, the concept of technological competitiveness was expanded to encompass the structural competitiveness of the economy. The stage was set for a supply-oriented policy in which a large number of policies – including technology, labor market, training and employment – were to be coordinated for the purpose of proactively promoting comparative advantages for selected regions, sectors and businesses. National strategies for the pursuit of these goals were put on the political agenda. So were proposals for a new set of negotiation institutions.

After the Post-War Agreement of the 1940s, discussed above, a number of policy agreements were negotiated in corporatist bodies dealing with labor market issues but separately from social, educational, and other policy issues. However, after the Monetarist Agreement of the late 1980s, this sort of policy agreement was largely abandoned, traditional corporatist structures were reorganized, and a number of *social pacts* were developed and later transformed into language and negotiation games (Pedersen in this volume). These negotiation games and social pacts were efforts to link incomes policies, which had been traditionally the province of corporatist bargaining, to broader social bargaining by involving political parties and a broader set of interest organizations in on-going attempts to coordinate a wide variety of policies (e.g., incomes, social welfare, education, training, etc.) (Rhodes 2003).

All of this reveals three things. First, issues of the independence of the Danish state and the national distribution of economic and political power have always been linked. Second, the understanding of the state’s vulnerability has changed over time. Third, these developments have come to be expressed in the form of historical compromises that have laid the foundation for a variety of negotiation institutions through which the economic and political distribution of power has become institutionalized and organized. Though it is unlikely that this is a uniquely Danish phenomenon, Danish history surely has its own legacy. Nevertheless, comparable events and processes can be observed in Norway and Sweden, later in Finland and Austria, and later still in the Netherlands and other western European small states, such as Ireland. In all of these cases, small states have had to deal with two big problems: state vulnerability and class struggle.

As I have shown for Denmark, the two are often linked. And the way in which they are linked—that is, the way in which states seek to protect themselves and civilize the class struggle—has important consequences for how market mechanisms and political mechanisms are constituted. Each influences the other. Indeed, through historical compromises and through the operation of negotiation institutions the distributions of economic and political power are set and reset, just as market mechanisms and political mechanisms are constituted and changed. In the Danish case, these historical compromises and linkages lay the foundation for a particular societal model – a negotiated economy.

The negotiated economy – process

Peter Hall is right that the negotiated economy is a particular kind of coordinated economy. How particular is still an open question. He is also correct that history matters, but so does experience. How contemporary experience matters is another open question. It is one that requires us to think carefully about how societies organize the interpretation of their experience. For Denmark, the question is how is the interpretation of experience organized in a negotiated economy?

To shed some light on this issue, let me add a new dimension to the discussion of the varieties of capitalism. Specifically, consider *knowledge regimes*. A knowledge regime consists of three parts: (1) the knowledge process—how knowledge is formed and changed; (2) knowledge organization—how the formation of knowledge is organized; and (3) knowledge content—the kind of knowledge being produced. The point is that there are likely to be particular knowledge regimes belonging to liberal as well as coordinated and negotiated economies. Moreover, the type of knowledge regime in place influences which economic paradigms (knowledge content) serve as the foundation for macroeconomic and microeconomic decisions and which market and political mechanisms have the most influence in various production regimes. Consequently, there are several reasons why knowledge regimes are important – but especially in a negotiated economy. First, I believe that negotiated economies are more error-prone than are other economies due to the fact that they include a particular element of gambling and risk, as I explained earlier. Second, I am convinced that this element of gambling reveals itself in the way that knowledge is organized and formed. Third, I also believe that the negotiated economy is characterized by a particular knowledge regime that makes the short history more important than the long history. Fourth, this is all important because it relates back to my argument that market and political mechanisms are influenced heavily by contemporary shifts in the understanding of the vulnerability of the state.

Knowledge regimes involve three processes. First is *learning*. Learning is all about interpretation and monitoring. In Denmark it also includes how such interpretations and monitoring of things like the international competitiveness of the Danish economy have developed slowly and over many years into a socioeconomic frame of meaning to which all the important economic and political decision-makers refer when making decisions (Pedersen in this volume). If the Danish negotiated economy is equipped with mechanisms that facilitate change and adaptability, then it is probably because learning within the Danish

knowledge regime is collective and includes all of the most important actors; because the knowledge gained is cumulative and, as a result, experiences are stored in the collective memory; and because knowledge is utility-oriented and stored in macroeconomic and microeconomic databases, which are always updated and always accessible for all decision-makers. The important point is that a negotiated knowledge regime—in contrast to an ideal typical liberal knowledge regime—is not individual, but collective; not private, but public; and not contemporary, but filtered through the collective experiences of the past.

Leading is the second process. Leading is about how knowledge is utilized. In the Danish negotiated economy the collective memory is constantly used to make decisions in which collective interests are combined with special interests. This is the first reason why leadership is important in a negotiated economy – the array of special interests must be united in one common interest. A second reason why leadership is important in Denmark is that this common interest is always formulated on the basis of an interpretation of what it takes for the nation to adapt to contemporary developments in the global economy and the geopolitical environment. In the negotiated economy, this involves considerable gambling on the part of leaders, as I suggested earlier. And the stakes are very high. Not only does it involve an explicit effort to provide for the collective well being as knowledge is used in negotiations between the government and other actors, but, given the orientation of Danish policy making nowadays, it is very much future oriented insofar as leaders seek to anticipate how the very open and vulnerable Danish political economy can best adapt to changing international economic and political circumstances. Hence, leadership in Denmark is a collective art form, not one based on personal experience or intuition alone, but on a collective memory that is used to develop aggregated and systematic policy prescriptions. Indeed, making decisions for an entire economy, with consequences for an entire population, via the aggregation of an array of different interests, and by coordinating a number of different policy instruments, such as through an all-encompassing set of structural policies, and doing so on the basis of information that is fundamentally uncertain involves considerable gambling, which may make leadership even trickier in Denmark than in other types of society.

Finally, the third process is *linking*. Linking is the ultimate purpose of learning and leading. Linking occurs when an increasing number of policies are coordinated and when several policies are linked in social pacts or through negotiation games to become strategies for national action. In the Danish negotiated economy, linking operates on many levels. National strategies combine many policies. Negotiation systems link many levels of decision-making. Indeed, policy making increasingly requires simultaneous attention to the supranational, national and local levels as well as the level of individual corporations (see Hull Kristensen and Martin in this volume; also Martin and Swank 2004). And, as discussed above, knowledge is used to help link and coordinate policies in order to improve Denmark's comparative advantages by devising and taking advantage of various institutional complementarities.

Hall and Soskice define institutional complementarities in the following way: "...two institutions can be said to be complementary if the presence (or efficiency) of one increases the returns from (or efficiency of) the other" (Hall and Soskice 2001: 17). The Danish negotiated economy is an example of an entire societal

model that has been developed for the purpose of institutionalizing and organizing institutional complementarities. For years, Danish politicians and others have sought to establish and fine tune such complementarities. As a result, the Danish economy is today organized around a common goal, that is, to establish comparative advantages and to discover and eliminate comparative disadvantages. In fact, one of the most important features of the negotiated economy is precisely this capacity. This capacity is a driving force behind the development of new forms of negotiation institutions. Social pacts, just like negotiation games, are developed in order to link policies as well as levels of decision making for the promotion of comparative advantages and the eradication of disadvantages. All the major social actors are involved and the entire societal model is organized to promote institutional competitiveness throughout the economy.

Institutional competitiveness

The negotiated economy may be a bit difficult to decipher, but especially if it is regarded through liberal spectacles, or from the point of view of conventional microeconomic theory. But the fact that institutional complementarities can be promoted politically and that the Danish negotiated economy constitutes a societal model for this very purpose illustrates why all economies – coordinated and un-coordinated, negotiated and un-negotiated – must be understood either as hybrids or as different variants of coordinated economies. As I have shown, Denmark was a coordinated economy prior to becoming a negotiated economy. It was first with the establishment of a general system of political exchange that different parts of the economy came to function in ways typically recognized in liberal theory (Pedersen in this volume; Pedersen 1993). The paradox is that it was through the slow creation of a negotiated economy that the individual labor contract became widespread (even if it is still embedded in collective agreements) and the walls around the domestic market were torn down and the national economy was opened up for international competition (even if there are still trade, tariff and other barriers protecting Danish business).

The negotiated economy is hardly a perfect comprehensive societal model and it is hardly a perfect liberal economy. To the contrary, it is constantly driven by efforts to detect and advance comparative advantages; to discover and eradicate comparative disadvantages; and to seek a better mix of institutional complementarities (Hall and Soskice 2001: 17ff.). And it is not always successful. For example, Kristensen (in this volume) points out that there are currently many problems in linking structural policy at the national level with corporate policy at the level of individual firms. Conversely, there are also problems in linking the interpretations that corporate managers have of their firm's competitive position with the interpretations of competitive position as understood by national policy-making elites. On the other hand, there have been notable successes, such as the ability to link labor security policy with labor flexibility policy (Madsen this volume). In any case, every effort is bound to be temporary. This is because global circumstances are dynamic and business is confronted with new forms of global competition, particularly as the economy continues to open up. And for this reason social pacts and negotiation games will never be all encompassing or successful permanently. Furthermore, every intervention is bound to create unintended consequences and create new and unforeseen problems (or opportunities). As such, the negotiated

economy is highly dynamic and is not easily classified as a liberal economy, a coordinated economy, or a hybrid of the two.

In my view it is only in theory that we can conceive of liberal economies. In the real world every economy is constituted and coordinated in one way or another by political and other mechanisms. If all economies are contingent upon time and place, and if market mechanisms need to be understood in historical and political context, then the juxtaposition of coordinated and liberal (i.e., un-coordinated) economies is both logically and historically wrong. The important lesson of the Danish case in this regard is that the difference between economies is not based on them being more or less liberal, but by which political, economic, organizational, and other mechanisms they are coordinated. So Peter Hall is right – a negotiated economy is a coordinated economy. But Katzenstein as well as Campbell and John Hall are right too—a negotiated economy is neither a liberal nor a coordinated economy, but a somewhat unique blend of mechanisms found in both. In this sense, it is a variant of a coordinated economy. But then every capitalist economy is—to put a sharp point on the argument—a variety of a coordinated economy.

Then what is characteristic of a negotiated economy as one of several varieties of coordinated economies? First, it is a small state economy—interpretations of vulnerability lie behind the formulation of national strategies. Second, it is a dynamic economy—adaptation can never rest but is an on-going process that seeks to eliminate competitive disadvantages and create competitive advantages. Third, it is an experimenting economy—knowledge is never complete and never fully trustworthy, and so every effort of creating institutional and policy complementarities is based on a trial-and-error logic, which makes monitoring and evaluation especially important. Fourth, it is a risky or error-prone economy—much gambling is involved and it is never clear which strategies will work or not.

In sum, what matters for the success or failure of a negotiated economy—and maybe for every other capitalist economy in the context of global competition—is the short history and the institutional factors that are involved. Indeed, the success or failure of all economies—including negotiated economies—is based on their institutional competitiveness, the capacity to launch competitive advantages and discover competitive disadvantages by enhancing coordination. To reiterate, the institutional competitiveness of a negotiated economy is based in large measure on its capacity to ensure growth and wealth by promoting comparative advantages for specific industrial branches and businesses through national strategies for adaptation.

Skagen – in the afternoon

The streets of Skagen are deserted this afternoon. It is early winter and in the middle of the week. It is cold and the days are short. In the winter Skagen is like a museum of days long gone. The hospital has been closed as has the police station. There are not many fishing boats, but on the horizon it is possible to catch a glimpse of the container ships that serve the global economy. The tourists are gone and few people remain. Those working are few. Most of the town has been excluded and rendered dependent on social benefits.

Now the welfare state is the town's single greatest employer as well as the town's most important source of income. The "included" and "excluded" live in harmony on the surface, but with considerable differences in terms of their quality of life. Transfer payments stream from the profits generated in the big cities to Skagen, Denmark's most northern tip. The social desperation is not visible, but the mean life expectancy is lower here than it is for the average Dane. Most work here is only during the summer months. And the town only starts to breathe when spring arrives and the yachts sail into the harbor, the houses fill up again with tourists, and the elite from the main cities go to Skagen. In Skagen, the long history meets the short history, sometimes in ways that reflect the new class structure—and even sometimes the class conflict—of the negotiated economy. Indeed, during the summer, Skagen is hectic and occasionally violent—at least when local youth confront the rich out-of-towners. "No big problem", as they say in Skagen. Perhaps. But one wonders whether Skagen provides a glimpse of how the short history may affect the future of the negotiated economy. Will it make it or not?

In the old days, the waters around Skagen were among the most dangerous in the world. There are thousands of shipwrecks lying in the sea off of Skagen—ships that "didn't clear the point," as they say, meaning that they did not make it past the point where the two seas crash in foaming waves. Will Denmark clear the point?

There is pressure on the negotiated economy elite—constant and ever-present because power has been granted to them. They are obliged to interpret the global conditions for competition, analyze them in the light of past experiences, and convert this knowledge into national strategies. At the same time, they must do so while obtaining legitimacy from the population and maintaining a majority in Parliament. They decide which regions are to be excluded. They also decide how the unemployed are to be activated and how the unemployable are to be compensated through welfare benefits. In the short history, social appeasement is associated with economic engineering; and the enhancement of legitimacy is linked to the never-ending search for comparative advantages. Denmark is an experimenting economy. And its economic growth and welfare depend on the ability of the elite to make the right choices. As I have said, there is no doubt that a negotiated economy includes an important aspect of gambling. If things go wrong, they go very wrong. If things go well, they go very well. In the 1980s and 1990s, things went well thanks to good (or lucky?) producers of knowledge and decision-makers. And every Dane must be grateful!

Yet the decision makers in small states must gamble under different conditions and with different consequences than must decision makers elsewhere. Maybe that is also the reason why small states have developed a different distribution of economic and political power than elsewhere; why geopolitical independence and macroeconomic decisions are two sides of the same coin for small states; and why market mechanisms are not the same in Denmark as elsewhere. The long history matters, especially in sensitizing Danes to the vulnerability of their small country. But the ways in which its vulnerability can be managed—and the nature of that vulnerability itself—have been changed dramatically by the short history. In the negotiated economy, the short history has become more important than ever before. The interpretation

of independence has changed leaving room for national strategies negotiated in social pacts and through language and negotiation games. By the same token, knowledge has come to be collectively not just privately utilized. Knowledge failures therefore also have greater significance than is the case in other types of economies.

And soon dinner will be served at the dining table at Klitgården—just like in the old days but for the elite of new times.

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