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DENMARK'S NEGOTIATED ECONOMYⁱ

The political economy of Denmark is of particular interest in the contemporary debate on small advanced industrial states and their capacity to react to changes in the international context, economic and otherwise. As a small nation with a population of 5.2 million people, Denmark sits with the most prosperous nations of the world and has done so for more than 35 years. Its economy rests on high wages, narrow income disparities, investment in skills and education, and high levels of taxation to fund an advanced welfare state. Compared with other small countries like Sweden and Norway, Danish political history is characterized by a number of distinct traits. First, a long history of lost wars and territories carving into the public mind a sense of national vulnerability (see Kaspersen in this volume) making it possible for elites to implement national identity policies and to establish a homogenous *demos* based on a common understanding of national identity (see Korsgaard in this volume). Secondly, a long history of state authority being centralized in the hands of a small elite enabling the elite to build up capacities (resources and legitimacy) to rule the country based on national strategies and interests (see Østergaard in this volume). Thirdly, a history of being a small and open economy emphasizing the need for politicians to base their conflicts on a politics of pragmatism rather than on a politics of ideals or ideologies (see Rasmussen in this volume). Fourthly, a political culture marked by institutionalized class cooperation and a high proportion of organized wage earners (Wallerstein and Western 2000) creating possibilities for governments and peak organizations to institutionalize macro policy concertation in the form of routinized bargaining (Pedersen 1993).

Based on these distinct traits derived from the long history of Denmark a new institutional order emerged in the course of post-war developments (Kjær and Pedersen 2001; Jørgensen 2002). In a number of policy areas the organizing principles shifted from those of either a mixed or market economy to those of a *negotiated economy* (Kjær and Pedersen 2001; Nielsen and Pedersen 1996; Pedersen 1993). Whereas both the mixed and market economy are based on a clear division of labor between the sovereign state and an autonomous market, the negotiated economy entails political and economic processes and relations that are neither strictly public nor private but are situated between public authority and private autonomy. Thus, the negotiated economy became a system of governance where economic coordination is achieved through organized negotiations among autonomous actors in both the public and the private sector. At one level, Denmark developed governance through the decentralization of decision making and the spread of autonomy and authority across private and public institutions. At another level Denmark remained committed to policymaking through negotiations and trust in collective solidarities (Amin and Thomas 1996).

This paper will describe the negotiated economy as a generalized political system of negotiations (Crouch 1990; Marin 1990, 1996) where adjustments to international challenges are an everyday feature of the system. It will be emphasized that a negotiated economy is characterized by a combination of institutionalized learning and organized negotiations and that the learning capacity of the system is influenced by the articulation of a shared and mutual understanding of Denmark's socioeconomic problems. It will also be shown that the flexibility of the economy is influenced by the gradual development of a generalized political system of negotiations as an evolutionary form of governance.

The generalized system can be seen as the institutional precondition for a negotiated economy and a negotiated economy, then, will be defined as a structuring of society where an essential part of the allocation of resources is conducted through organized negotiations between independent decision making centres in the public sector, private interest organizations and financial institutions, including the central bank. Unlike decisions made by public authorities, negotiation-based economic decisions are reached on the basis of interaction between independent agents, and the relevant public authority is just one of several participants. Unlike market decisions, which are made by individual agents acting on the basis of given preferences and resources, negotiation-based economic decisions are made through a process characterised by the deliberate shaping of preferences. And unlike mixed economies where action is taken by sovereign market agents precluded or followed by supplementary or corrective measures by the state, in a negotiation-based economy decisions are made in a generalized political system of negotiations where the deliberate shaping of preferences and the mutual understanding of socioeconomic problems put limits to and set targets for multiple arenas of negotiations between public as well as private, and centralized as well as decentralized collective actors.

In Denmark, negotiations have been - and still are - widely used as instruments for decision making in relation to both allocation and (re) distribution. The classical example is the labor market. Wages, working hours, and other conditions of work are generally determined by individual market agents and by legislation, as well as through organized negotiations – at the macro-, meso-, and micro-level – between collective organizations (Nielsen and Pedersen 1991). In the Danish case negotiation appears as an appropriate instrument for solving conflicts of interest, especially because none of the involved social partners are in full control of the implementation due to the spread of autonomy and authority across private and public institutions. This is also because none of the partners are able to choose exit as an option due to the long history of institutionalized class cooperation in the labor market and cross-party coalition making in Parliament. Thus, negotiation is not only an instrument to resolve conflicts; it is also an instrument for achieving mutual understanding. It is not only a technique for decision-making; it also involves communication, learning and the development of a shared mutual meaning of Denmark's socioeconomic problems.

In the following the Danish case of a negotiated economy will be presented. The objective is to show how organized negotiations and institutionalized learning (Cox 2001; Hall 1993) are used as instruments to handle the changing conditions in European and global markets while recreating national political structures in a flexible way. The key point is that the development of a particular socioeconomic discourse and the founding of a generalized system of negotiations facilitate collective learning and policy flexibility. It will be argued that the Danish case is of special importance for the theory of corporatism because it shows that during the 1980s and 1990s the post-war neo-corporatist wage and incomes policy bargaining system, so aptly described by Peter Katzenstein (1985) and others (Schmitter 1974, 1982; Therborn 1998), was adapted rather than undermined (Molina and Rhodes 2002). It will also be argued that the Danish case is of importance for comparative political economy because it shows how an important and often neglected case of policy learning and flexibility occurs, and points to some of the conditions that facilitate that learning and flexibility (Hemerijck and Schludi 2000, Teague 2000, Katzenstein 2002). Finally it will be argued that the

Danish case is especially well chosen for highlighting the discursive as well as the governance side of institutions (Campbell and Pedersen 1996).

DISCURSIVE PREREQUISITES FOR INSTITUTIONALIZED LEARNING

How a socioeconomic discourse is institutionalized in Danish politics is important because this discourse contributes to the mixture of high learning capacity and consensus making that has enabled Denmark to adjust so well to shifting international economic currents. The particular Danish economic discourse is built around the ongoing deliberative process of establishing a common understanding of *socioeconomic problems*. While macroeconomic phenomenon, such as inflation, deficits, productivity, growth, unemployment, are objective in the sense that they can be demonstrated by economic statistics and by social events, in contrast socioeconomic problems are subjective given that they are based on interpretations of statistics and perceptions of events. But even if interpretations are subjective and based on individual interests in the first place, they are not exogenous forces with autonomous causal powers. Rather than being exotic to existing frames of meaning they are formed by a discourse that structures in advance actors' experiences of macroeconomic phenomenon and set frames for what counts as a socioeconomic problem in the first place and an appropriate interest (individual or common) in the second (Kögler 1999). Hence, even if socioeconomic problems are based on objective economic phenomenon they are framed by discourse and formed into perceptions of individual as well as common interests.

This discourse is a particular Danish understanding of the Keynesian paradigm built around an ideal conception of socioeconomic balance through negotiated coordination of policies among various autonomous actors in the national economy. It constitutes a blend of liberal and social democratic principles. It is liberal in the sense that it respects the autonomy of economic actors and organized interests; it downplays direct state intervention into the economy, preferring negotiated settlements instead; and it views the Danish economy as an open economy that is exposed to international competition that must find ways to become and remain internationally competitive. It is social democratic in the sense that it portrays the national economy as a "community of fate" of a multiplicity of social interests, and attempts to secure the interests of the whole by inducing the parts to act responsibly with respect to the overall socioeconomic balance (Pedersen 1999). To illustrate briefly, the gradual articulation and stabilization of this discourse is reflected in three overlapping phases of policy articulation and institution building in the post-war period (Pedersen 1993; Kjær and Pedersen 2001) by which not only a particular Danish reading of the Keynesian paradigm was created but also a set of complementary institutions was developed.

First, from 1945 through the 1960s there was a period during which wage formation and labor markets were of concern. In this phase, the key problem of the Danish economy was conceptualized not only as a problem of macroeconomic management but also as one of socioeconomic coordination between wage formation and the overall development of the national economy. Wage structures and labor markets, it was believed, needed to be maintained in ways that better facilitated economic growth. In this view responsibility for economic coordination lay both with the state and with the peak organizations in the Danish labor market. This problem of coordination was articulated in a series of public investigations and official blueprints that defined labor market organizations as being responsible for the resolution of the wage and labor market coordination problem but also emphasized the autonomous status of these organizations thus pointing to the

need for voluntary coordination and mutual restraint in the labor market. From the early 1960s, there was gradual organization building in relation to this coordination problem. A complementary set of negotiation and arbitration organizations was established and an Economic Advisory Council (EAC) of economic experts was designed to create a common awareness of coordination problems in the economy. The biannual wage negotiations between employer federations and the trade unions were to become *negotiation organizations* and *arbitration organizations* and the EAC became the first example of a *campaign organization* with the purpose of communicating socioeconomic conceptions to the broader public and to engage in processes of persuasion to create focus on particular socioeconomic problems in order to get them onto the political agenda and the agenda of negotiations between labor and capital. There was also experimentation with active labor market and incomes policies that became stable parts of Danish economic policy making during the 1970s mainly based on proposals formulated by the EAC and implemented through negotiation and arbitration organizations.

Second, from the 1970s through the 1980s there was concern with the increasing size and growth of the public sector. This problem was first articulated by public commissions in two major reports on long term planning in 1971 and 1973 and was further articulated in later publications from the Ministry of Finance (Finansministeriet 1971, 1972). From the 1950s public commissions were the major arena for political exchange between governments, trade unions and employers associations. Since then, tri-partite public commissions developed as the ideal type of *policy organization* where socioeconomic problems were identified and related to particular policies (e.g., social security, training and education) and general guidelines for their resolution were formulated. From the 1960s to the 1970s public commissions called for the founding of welfare measures and the creation of a welfare state. From the 1970s the increasing public sector became the most important problem and commissions called for a significant degree of public sector decentralization by granting the municipalities responsibility for a constantly growing part of public expenditures. The question was how to ensure fiscally responsible municipalities while maintaining their autonomous status vis-à-vis the national government. This was resolved by defining public expenditures as a problem and gradually institutionalizing this idea through the creation and use by the state of new economic models and budgetary systems, and through the creation of a system of budget negotiations between the Ministry of Finance and the municipalities that was governed by the goal of limiting total public expenditures. This system was implemented during the late 1970s and early 1980s.

Third, beginning in the mid-1970s, Danish economic problems were conceptualized as stemming from the structure of the Danish economy itself. The structural problem entailed a concern with the competitiveness of the national economy, a preoccupation with the supply side (i.e., the conditions of production rather than demand and consumption), and a focus on structural as opposed to conjunctural barriers to competitiveness. Initially, the competitiveness problem was viewed as having to do with a large public sector that put severe constraints on the cost-competitiveness of exporting firms. However, it gradually came to be associated with a number of problems inherent in the structure and organization of the private sector, such as low levels of technological development and an inability of firms to adequately adapt and innovate. During the 1980s analytical units in The Ministry of Finance and The Ministry of Trade and Industry formulated this change in the overall understanding of socioeconomic problems. These units came to

function as *discourse organizations* with the purpose of creating the theoretical and empirical discourse of socioeconomic problem solving through the development of socioeconomic models and statistics that could depict and predict causal relations and dependencies in the economy as a systematic basis for the ongoing identification of socioeconomic problems. From the 1980s a more coherent structural policy framework was articulated that first involved industrial policy and later public expenditure policy. The emergent conception of structural policy was one that emphasized the continuous and voluntary restructuring of the Danish economy through the creation of various private and public policy-making and implementing bodies. Linking industrial, labor market, education and public administration issue-areas through negotiations gradually institutionalized this approach.

So, whereas policy formation and implementation in both market and mixed economies are centred on state hierarchy, notably the legislature and the executive branches, in the Danish case a more complex set of complementary institutions were developed. Policy organizations (e.g., public commissions) identified socioeconomic problems, related them to particular policies (e.g., wage or labor market policy problems) and formulated general guidelines for their resolution. Campaign organizations (e.g., the Economic Advisory Council) communicated socioeconomic conceptions to the broader public and engaged in processes of persuasion to create a focus on particular socioeconomic problems in order to get them on the political agenda. Discourse organizations (e.g., analytical units in the Ministry of Finance and universities) created the theoretical and empirical language of socioeconomic problems and negotiation. And arbitration organizations (e.g., the biannual wage negotiations between employer federations and the organizations of labor) facilitated policy negotiations, adjudicated settlements and resolved disputes. In this set of complementary organizations a shared socioeconomic discourse was gradually articulated enabling governments, trade unions and employers associations to interpret macroeconomic phenomena as socioeconomic problems; to formulate policy frames and to enter into negotiations that entailed problem solving via institutionalized learning. Policy formulation and campaigning were to become major elements in a generalized political system where negotiations mixed power; persuasion and learning in a hybrid way without automatic recourse to authoritative state intervention (Mansbridge 1992).

STRUCTURAL POLICY: A POLITICAL PROJECT

The development of a structural policy in the last 20 years is one of the most conspicuous aspects of modern Danish economic policy making (Kjær and Pedersen 2001). What began as a complement to existing forms of policy and policy making has gradually come to constitute an overarching political project and a generalized political system of negotiations in the context of which policies and institutional arrangements are positioned, given meaning and coordinated through negotiations. So far, I have emphasized the structural elements of a negotiated economy. In the following the evolutionary aspect of a negotiated economy will be underlined. I will describe the process through which a structural policy was developed in terms of policy formation and institutionalization. The changing institutional order of structural policy will be illustrated and the emergence of a generalized political system of negotiations linking different issue-areas will be identified.

Danish economic policymaking was traditionally viewed as involving a trade-off between employment and balanced budgets that could be solved through the management of aggregate demand. In this

perspective economic imbalance first and foremost reflected conjunctural trends in the economy, notably vacillation in the business cycle that could be dealt with effectively through fiscal or incomes policies. However, following the first oil crisis in the later half of the 1970s this conjunctural interpretation of the economic crisis was challenged by a view that stressed that Denmark's economic problems were rooted in the structure of the economy itself. This structural conception was formulated in response to the evident failure of various short-term and demand oriented policy responses to the international recession. In particular, several actors, including organized labor and the Danish Federation of Industry, saw the problems of crisis management as an expression of structural problems on the supply side rather than on the demand side of the Danish economy. Whereas labor saw the problem as having to do with the basic organization and orientation of Danish industry, the Federation of Industry viewed the problem as stemming from the constraints on export oriented firms caused by a large public sector that tended to favor industries oriented primarily towards domestic markets. As a result, labor called for stronger industrial policy, but capital called for wage restraint and public expenditure policies designed to improve the international competitiveness of Danish industry. The key implication of the debate, however, was a common focus on structural problems in the national economy and a common linking of macroeconomic problems and problems of industrial competitiveness (Pedersen et al. 1992).

As it turned out, the formulation of a more structural view of the problems of Danish industry led quickly to a revitalization of industrial policy, which was now seen as a tool for socioeconomic reconstruction. This led to attempts to formulate a technology policy aimed at improving the technological competitiveness of Danish firms through programs targeted at particular industries or technologies, or at public-private cooperation in the area of technological development. In the technology policy interpretation of structural problems, the key problem was the low level of technological development in industry, partly due to the small size and limited financial strength of Danish firms. The key actors in developing this interpretation were policy organizations within the Ministry of Industry and the network of public and semi-public discourse organizations (research and development (R&D) organizations) under the auspices of the Ministry. Inside the policy organizations but outside the discourse organizations both the Federation of Industry and organized labor represented by LO were involved in a number of conflicts together with major political parties (the Conservative Party, the Liberal Party and the Social Democratic Party) about how to organize research and interpret research results. Main conflicts were on the subject of the overall strategy. Industry together with the Liberal Party wanted the strategy to be based on liberal principles not targeting particular industries or branches. The Conservative and Social Democratic Parties on their side argued for a more interventionist policy. In the end, the idea of using industrial policy, to foster structural adjustment and thus international competitiveness became of foremost importance for all parties. Moreover, the development of sectorally oriented technology policy signalled a move away from a traditional non-selective and non-interventionist industrial policy toward an industrial policy that involved a greater directive role for the government. This shift was also reflected organizationally in the fact that significant changes had been made in the Ministry of Industry and elsewhere that led to the establishment of policy organizations oriented towards the development of industrial policy programs which again led to the formulation of new, more active and project

oriented policy programs, in the development of which industry, organized labor and the most important political parties took part.

In the mid-1980s a broader definition of structural problems developed whereby discourse and policy organizations within the Ministries of Finance and Industry adopted the concept of “structural competitiveness” in which the competitiveness of Danish industry was seen as being dependent on a much wider variety of structural problems in the Danish economy that resulted not just in low R&D but an orientation toward producing for low-growth markets and a general lack of adaptive and innovative capacities in Danish industry. It was argued - mainly by The Ministry of Finance - that in order to resolve these problems coordinated efforts were needed in areas other than just industrial policy. There was also a need to reform state administrative and regulatory structures in several policy areas.

Furthermore, in 1986 a process of reorganization started in the Ministry of Industry. Several subsidy programs were terminated much against the will of LO and the administrative structure of the Ministry was changed to more closely approximate a corporate structure, that is, an administrative form based on the management principles of private corporations and intended in part to improve the efficiency of industrial policy. Initiatives to these changes were taken by higher ranked public servants inside the Ministry of Finance and Industry many times in conflict with organized labor and the Social Democratic Party then in opposition. A few years later and in tandem with these changes in the Ministry, several private and semi-public industrial and structural policy organizations began to emerge in an effort to expand the scope of structural policy. This time members of the Social Democratic Party were to become active participants in developing a new and more interventionist industrial policy strategy. For instance, the Forum for Industrial Development was founded in 1988 and comprised of representatives from firms, institutional investors, trade unions, and other private organizations as well as civil servants known for their social democratic leanings and members of the inner circle of the Social Democratic Party. It sought to put issues of industrial restructuring on the agenda and later also pushed for broader issues, such as welfare state reform. Indeed, during the late 1980s there was an explosive growth in local and regional industrial and structural policy initiatives that were favored by groups representing a broad selection of actors, including public agencies, industrial associations, R&D institutions and private firms (Pedersen et al. 1992; Amin and Thomas 1996).

Throughout this period a number of neoliberal ideas and distinctions were introduced into the structural policy debate. One was the notion that state subsidies to industry presented “barriers” to adaptability and therefore competitiveness. Another was the idea pushed forward by The Federation of Industry that public regulation had adverse effects on private firms. Still, it was not public regulation per se that was seen as the problem, but rather a particular form of regulation that posed barriers to industrial adaptation and competitiveness. As a result, ministries, policy agencies and other administrative bodies relevant to industrial performance were not to withdraw from their activities, but to reorganize according to the needs and practices of industry and other relevant economic actors. Thus, on the one hand, implementation of the corporate model in the Ministry of Industry was designed not so much to liberalize or deregulate industrial policy but to improve its efficiency. On the other hand, public bodies were to become more goal and market oriented, and open to dialogue with a more inclusive group of private actors as well as other public bodies.

Discourse organizations within the Ministries of Industry and Finance as well as the the Economic Advisory Council, a campaign organization, took part in formulating the framework for a structural policy that transcended the area of industrial policy, which had preoccupied policy makers during the previous period, and entailed the coordination of industrial policy with other policy areas, such as labor market and R&D policy, administrative reforms in the public sector and changes in issue-areas like training and employment policies (Kongshøj Madsen 2003). In a series of policy publications the need for economic growth and structural adjustment was linked to initiatives that emphasized much closer coordination between various issue areas and between public and private actors with respect to industrial development, research, education, labor mobility, etc. The key problem of Danish industry in this interpretation was not only its low degree of technological development but also its inability to adjust to new positions of strength in the international competitive environment. In order to develop policy to facilitate this end increased dialogue between various public and private actors was called for. The key actors in this regard were several sector ministries and a variety of firms, industries and other private actors.

Around 1990 the conception of structural problems shifted from being oriented toward barriers to growth and adaptation in Danish industry to being oriented toward the adaptation of Danish society as a whole—both the public and private sectors—to a challenging future in a world of European integration and economic globalization. The new conception of structural policy was one of a much more continuous, simultaneous and, importantly, integrated structural adaptation of the public and private sectors. This was foreshadowed by the development of public sector and structural policies since 1985 and points to how participants in the ongoing deliberation learned from past conflicts and experiences to develop strategies through incremental and pragmatic changes in already formulated common understandings. New socioeconomic problems were seldom formulated. Instead, old ones were reformulated. Insofar as the public sector was concerned, specifically public expenditure policy and public sector modernization, the long term development of the public sector was now seen as the most important socioeconomic problem and was increasingly to be connected with the overall structural development of Danish society. Neither one could develop effectively without the development of the other. For instance, it was no longer enough to limit public expenditures and to make the public sector more efficient; one also had to consider the relationship between the public and private sector and the overall dynamics of development of society. In the context of structural policy the government became increasingly aware of the role of the public sector in facilitating the restructuring of industry.

The key actors were a multitude of both public and private actors at the national and local level that all shared responsibility for the continuous development and adaptation of the Danish economy. For a short period of time the Ministry of Finance came to play the important role of policy organization as well as campaign and discourse organization (Jensen 2003) with organized labor and organizations representing public employees pushed aside. With public sector modernization in focus, industry as well as labor became marginalized, and fights developed between the government and groups of public servants. Hence, between 1985 and 1993, policy conflicts often emerged between organized public employees and the central state's top managers. Structural policy now merged with public sector modernization policies and was oriented toward restructuring the boundaries between issue-areas and institutions on the one hand, and between the

public and private sectors on the other. The objective of creating an efficient and adaptive public sector, which had been articulated in 1984 through the Administrative Modernization Program, was now linked to the goal of creating an adaptive and future oriented industrial structure in the private sector. The key problem and object of attention became the adaptation of Danish society to future developments in the European Union and the international economy. As a result, structural policy gradually became more macro oriented in the sense that it entailed not only coordination and restructuring in and between policy sectors but also a continuous restructuring of the entire Danish economy.

This was perhaps clearest in the area of public sector modernization policy. Here policies were institutionalized that attempted to consider the role and boundaries of the entire public sector. First, starting in 1990 Fiscal Policy Statements that were published by the Ministry of Finance began to treat questions of structural transformation and structural policy making as the overarching consideration toward which most other policies were oriented, including stabilization policies. Second, several programs and plans were initiated to promote experimentation with new types of public sector governance and new relations between public and private bodies (Lægneid and Pedersen 1994, 1996; Jacobsson, Lægneid and Pedersen 1999).

In this third phase of structural policy development, drawing attention to the existing boundaries between state and economy as a socioeconomic problem, the macroeconomic efficiency of the entire public sector became a key ingredient in the formulation of structural problems and, consequently, policy and institutional reform. Of course, changing boundaries was usually seen as part of the new problem of improving structural competitiveness vis-à-vis European political and economic integration. Still, although emphasis on state-economy boundaries was paramount in assessing structural problems, it was often more an issue of how to better coordinate and integrate policies and structures on each side of the boundary rather than sharpen and deepen the divide between public and private. The emphasis on the public sector then did not lead to radical changes in the understanding of socioeconomic problems, instead problems and topics were reformulated including new groups of participants into conflicts. Organizations representing public servants were to become major players together with private interest organizations representing local and regional authorities. As a result, while the structural policy gradually became more macro oriented the number of participants became more encompassing in the sense that the reformulated socioeconomic problems entailed not only coordination and restructuring in and between policy sectors but also a continuous restructuring of the public sector. Eventually, these reforms were institutionalized through experiments in contracting out the provision of public services to the private sector, various forms of public utility privatization, and establishing contractual arrangements between ministries and government agencies. Again, however, these initiatives were articulated as part of a broad program to resolve structural problems by improving the adaptive capacity of Danish society as it coped with increased European integration and competition. For example, the need to liberalize particular regulated industries was motivated by the problem of competitiveness and the potential for development in related industries as well as by the anticipated trend toward liberalization that would eventually be required by the European community. Furthermore, experiments with contracting out were not seen as ends in themselves but as part of a broader set of structural policies (Andersen 1997) following the line of development in the ongoing formulation and reformulation of socioeconomic problems since the 1970s.

STRUCTURAL POLICY: A GENERALIZED POLITICAL SYSTEM OF NEGOTIATIONS

To review briefly, during the 1980s and 1990s a structural policy was formulated. It developed as part of the discursive history of the Danish polity after 1945, and particularly after 1975. In more than 25 years the structural policy gradually became macro-oriented in the sense that it entailed not only coordination and restructuring in and between the private and the public sector, but also a continuous restructuring of the entire Danish economy. First, it came to be distinguished from Keynesian demand-side politics by emphasizing the supply-side as an ideal point of departure for economic policy making. Second, it focused on the boundary between public and private sectors and emphasized liberalization—that is, restoring market relations and removing obstacles to free competition. Third, it entailed attempts to introduce market principles of organization in the public sector either by moving functions from the public to the private sector and removing restrictions on the operation of private markets or by marketizing the public sector through reforms that created or simulated competition among public institutions or depoliticized or individualized decision making in and around public institutions. Fourth, it was distinguished from traditional industrial policy by emphasizing the coordination between industrial restructuring and reforming of the public sector. This conception of structural policy is one of a continuous, simultaneous and integrated structural adaptation of both the public and the private sector. It looks upon the reorganization of the public sector as a prerequisite for restructuring industry; and it looks upon the restructuring of industry as a prerequisite for making the Danish economy internationally competitive.

During the gradual development of structural policy a multitude of both public and private actors at the national and local level were integrated into a generalized system of negotiations making all of them responsible for the continuous development and adaptation of the Danish economy. Based on the socioeconomic discourse a generalized system of negotiations was established enabling multiple actors in the private as well as in the public sector to adjust and change structural elements in the economy and to do it in an unremitting way. During these 25 years of policy development new organizations evolved as a result of deliberations and learning. Policy organizations together with campaign and discourse organizations played an important role in the sense that they enabled actors to read changes in the international environment as socioeconomic problems and to turn specific and individual questions into collective challenges. The ability of these organizations to establish joint interpretations of statistics and events and to translate them into collective socioeconomic problems was paramount for learning and flexibility. The ongoing deliberation made it possible for collective actors: (1) to develop structural policy as a national political project gradually involving more policy sectors and integrating additional public and private actors; (2) to go through several phases of reformulation of a structural policy without radically changing precedent understandings but reformulating these in the view of past experiences and present readings; (3) and to do so in an incremental way by establishing consensus among the most important social partners based on joint interpretations and understandings of socioeconomic problems. Thus, Denmark learned to change to structural policy and learned that it needed to change institutions to do that too.

During this history of learning and flexibility a generalized system of negotiations was established capable of: (1) in terms of content to settle conflicts of distribution between private and public sector, central and local state, labor and capital by establishing nationwide organized negotiations; (2) in terms of process

to link an increasing number of issue-areas by sequencing negotiations at the national level with negotiations at the levels of policy sectors, local state agencies and individual firms; (3) in terms of procedures to allocate representational privileges among social partners by ongoing organizational and institutional reforms; (4) in terms of mechanisms to develop new and reform old means of policy formulation, campaign tactics and negotiation strategies in the light of past experiences, and (5) in terms of agency to establish the prerequisites for strategic games among collective actors (Traxler 1997). Let us look at each of these five issues in turn.

Organizing negotiations: From the end of the 1980s three organized set of negotiations were established involving the parliament, the government, peak organizations and organizations representing local (Kommunernes Landsforening) and regional authorities (Danmarks Amtsrådsforening). The first of these were negotiations concerning public budgets. Here in a first step every minister negotiates budgets for his or her issue-area with the Ministry of Finance but also with institutions beneath the ministry (departments and directorates); in a second step the government negotiates the state budget with parties in the parliament (Finanslovsforhandling) agreeing on long as well as short-term goals for the public sector. The second of the organized negotiations were negotiations concerning distributional packages. Here the state budget sets cost limits for negotiations between the government and the local authorities while deciding productivity goals for public organizations and policy targets for welfare institutions (Kommunaløkonomiske forhandling). Both sets of negotiations take place every year but also set cost limits for a third set of negotiations – wage negotiations taking place every second year between peak organizations in the public and the private labor market. Lower level negotiations are sequenced in accordance with the rhythm of the three organized negotiations which sets limits on and policy targets for issue-oriented negotiations at various levels such as the joint shaping of national policies (labor training, social policy, employment, etc.), sectoral wage bargaining and negotiations at the plant-level regarding working conditions. Hence, by organized negotiations social partners representing all major collective actors link distributional packages (covering incomes policies, pensions, taxation and social security) to productivity goals (for the public but also the private sector) and set long- and short-term cost limits for the whole economy. The Ministry of Finance takes part as a powerful participant in all organized negotiations. The Ministry is also in charge of the arbitration and sanctioning organizations conciliating and sanctioning breaches of agreements.

Interlocking negotiations: Among the issue-areas being linked and sequenced, wage- and incomes policy measures were probably the most important. For year's wage- and incomes policy had been one of the favorite macroeconomic instruments according to the demand-side orientation of the socioeconomic discourse up to the 1980s. From the end of the 1980s a peculiar institutional arrangement in the labor market made it possible for the government and the peak-organizations to manage the wage formation by consensus mobilization, bi- and tripartite negotiations, and inter- as well as intra-organizational control of members. Indirect guidance and control of wage formation rather than discretionary intervention by the government was increasingly used to adjust nominal wages to changing macroeconomic conditions. Negotiations in the public labor market were organized according to the rules of the private market and negotiations for both markets were sequenced so that the Ministry of Finance was able to control and manage wage- and income developments for all employed in the Danish economy within cost limits decided

by state budget negotiations. The institutional flexibility involved was based on the willingness of the organizations (both in the private and the public labor market) to implement wage limits without government interventions. Negotiations dealing with wage formation became closely mixed with issues like cost-of-living escalators, introduction of new technology, work time reductions, decentralization- and individualization of pay-agreements and job security.

A second issue-area to become locked into the generalized system of negotiations was labor market policy. From 1982 to 1989 a new labor market policy was attempted, and in the 1990s four labor market reforms were implemented decentralising policy measures to regional corporatist bodies involving both local and regional authorities, trade unions and employer's organizations and to the plant-level involving firm management, employers organizations and shop-stewards (Jørgensen 2002; Madsen this volume; Martin 2003). The intention was to restructure the composition of the labor force and its flexibility through pre-employment and on-job-training programs. Today education and re-training are considered the primary cure for adjusting the labor force to changes in the global economy. Administrative reforms in the public sector became a third issue to be locked into the system of negotiations. Uncontrolled public expenditures and heavy tax burdens were for years one of the major macroeconomic problems. Expenditures came under control due to strict austerity measures put forward by the government in the 1980s. New models for managing and controlling the public sector were introduced and during the 1990s unions representing public employees were forced to accept austerity and modernization measures and a new set of bi-partite institutions was created making it possible for the government (in several instances in collaboration with the organizations) to develop new means for reorganizing the public sector through programs for privatization, deregulation, out-sourcing, and decentralization of wage formation to public organizations and individual pay agreements (Jacobsson, Læg Reid and Pedersen 1999).

Allocating privileges: Organizing and interlocking negotiations involved the building of new arenas for political exchange and the establishment of new organizational privileges for collective actors. New arenas, like the regional corporatist institutions and negotiations at the plant-level, were established for collective bargaining (Martin 2003; Madsen this volume). New actors, like organizations representing public employees or top managers in the public sector, were included in nationwide negotiations (Læg Reid and Pedersen 2001). In other words, new privileges were established and autonomy and authority was spread across private and public institutions and decentralized to the regional, the local and the plant level. The delegation of power and influence was part of the political exchange in which socioeconomic problems were reformulated; and the discursive shifts, then, were followed by the linking of a number of issue-areas, the building of negotiation organizations covering the national economy, and the integration of a growing number of collective actors able to influence the policy process from policy design (policy-, campaign and discourse organizations), via policy negotiations (negotiation organizations), to implementation. According to Treu (1992), this has led to more developed forms of concertation in the sense that the number of participants involved was increased (quantitative integration) and the number of policy areas linked were amplified (qualitative integration). Compared to the traditional wage- and incomes policy forms of corporatism and collective concertation the generalized system of negotiations is embedded in the collective understanding of more (instead of less) encompassing types of socioeconomic problems and is based on generalized (instead of

isolated) negotiations. In the Danish case the institutional shift from traditional corporatist arrangements towards generalized negotiations was based on the dynamic change of collective understandings. The corporatist arrangements were not reduced or undermined, but were extended and adapted (Molina and Rhodes 2003).

Changing mechanisms: Throughout the establishment of this generalized system three rather basic mechanisms came to play a particularly important role in all the processes we have described above: problem formation, codification, consensus building. These three mechanisms facilitated collective learning and each underwent significant change during the 1980s linked, in part, to the gradual introduction of structural policy into Danish discourse and understanding of socioeconomic problems (Kjær and Pedersen 2001).

First, the collective construction and articulation of socioeconomic problems was to become a central feature of the Danish negotiated economy. This is referred to as the *problem formation mechanism*. During the 1980s and early 1990s there was a fundamental change in how problems were perceived and formulated. During the early 1980s problems were defined in terms of the past. For example, it had long been assumed that policy ought to be directed toward maintaining an ideal socioeconomic balance reflected in measures such as balanced budgets. Under these discursive conditions what was perceived as problematic and requiring explanation, evaluation and policy management were the factors that moved the economy away from the desired balance. However, during the early 1990s problems were defined much more in terms of the future. Specifically, the concern was how the national economy and its position vis-à-vis other national economies related to the future development of markets and political structures, including the development of the unified European market project as well as the more general globalization of economic activity. What had to be articulated now were an imagined future and the associated problems that might be anticipated with it. Consequently, the policy process became more preoccupied with definitions, predictions and anticipatory strategies for future problems than descriptions and explanations of past and present conditions.

Second, in the generalized system actors came to verbalize conflicts and disagreements, articulate interests, coordinate behavior, modify courses of action, create strategies for actions and ultimately codify decisions through negotiation. This is referred to as the *codification mechanism*. Two important developments occurred here. On the one hand, whereas codification initially occurred within fairly stable cognitive and institutional frameworks it now took place within more open-ended bounds due partly to the more future oriented nature of problem formation. On the other hand, codification became professionalized. For example, in order to become a participant in the structural policy debate actors now had to legitimize themselves by reference to being familiar and comfortable, if not masterful, with particular and somewhat exclusive bodies of scientific knowledge. Among other things, this professionalization was mirrored since the late 1980s in the sharply increasing number of discourse, policy and campaign organizations in ministries and interest organizations and financial institutions (pension funds for example). The form of writing in many reports published by these institutions increasingly resembled the style of more scientific publications.

Third, a key element of the system was to become the *consensus mechanism*. Here the formulation of problems and coordination of behavior is made possible and constrained by the continuous production of a

basic and widely shared understanding of the situation — the socioeconomic problem — among all participants engaged in the articulation and negotiation of problems and solutions. In the early 1980s this process was closely linked to a traditional corporatist type of institutional arrangement that included bi-partite or tri-partite consultations in various policy fields. During this time a consensus on substantive policy prescriptions was a precondition for joint action. In other words, only those prescriptive measures to which all parties could agree were enacted as official policy. However, beginning in the early 1990s there was less emphasis on consensus over substantive matters and more on methods and procedures for devising policy prescriptions and delegating power and influence. Hence, there has been a shift from substantive to a kind of procedural consensus marked by the establishment of a generalized political system for negotiations.

Strategic games: The generalized political system of negotiation was constituted in an incremental way by the contribution of many different actors with diverse and often short-term motivations. The system, though, developed to become much more than an instrument for preference formulation and decision-making. More than anything else it developed to become a rationality context enabling actors to validate their specific interests in the view of mutual interests; to evaluate their short-term interest in the view of long-term consequences; and to negotiate social pacts and policy packages based on the rules of log rolling and the like. During the development of the generalized system of negotiations political exchange became embedded in strategic games of inclusion and exclusion of both participants and problems. At some point conflicts developed into the formulation of socioeconomic problems as well as the distribution of organizational and institutional privileges, just as political exchange came to be oriented towards an imagined future more than the reality of the present. The strategic gaming, then, came to be built on three different types of games: language games, negotiation games and round table negotiations.

In *language games* preferences and interest are formulated and reformulated and moulded into a common understanding of the socioeconomic situation based on which the negotiation game of inclusion or exclusion can take place. Language games developed during the 1980s based on the fact that ministries, peak organizations and financial institutions established their own discourse and campaign organizations with the purposes of positioning their specific understandings of socioeconomic problems on the public agenda and influencing the moulding of mutual understandings. During these years there was a fundamental change in how problems were perceived and formulated due to the gradual development of the rationality context for language games; socioeconomic problems came to be constructed, articulated and codified in reports written in a semi-scientific style by discourse organizations.

While language games are about the reading of social events and interpretation of economic statistics and the inclusion and exclusion of problems, *negotiation games* deal with who is to participate in round table negotiations. Again, fundamental changes took place in the 1980s and 1990s. During the days of traditional neocorporatism, inclusion and exclusion was decided by the lawmakers and included actors were delegated influence by law. In the system of generalized negotiations inclusion and exclusion is part of the gaming and the game is based on the rules of coalition making and log rolling.

The same goes for *round table negotiations*. Here the government and local authorities in collaboration with organized interests and financial institutions engage in concrete negotiations developing compromises on problems and solutions based on the outcome of language games and negotiation games. In round table

negotiations bargaining is founded on common understandings of the socioeconomic problems. Those invited are only those who have shown an interest in signing agreements based on a mutual understanding. Excluded actors are left with the possibility to influence negotiations only by lobbying, media campaigns, or other forms of interfering with the negotiations from the outside.

In sum, although negotiated economy has always been a unique form of collective learning that contributed directly to policy and institutional change, key elements of this — content, process procedures, mechanisms and agency - changed as structural policy became a major political project in the Danish context. However, it is important to recognize that these changes were themselves driven, at least in part, by the introduction of the policy. In other words, as a new political project was incorporated into discourse, it began to have significant effects on content, procedures, processes, mechanisms and agency. A generalized system of negotiations was built and neocorporatism transformed. In this way the social partners have proven to be capable of verbalizing experiences and transforming institutions and organizations based on perceptions of changing macroeconomic situations and conditions. Also, they have proven themselves capable of formulating a national strategy for structural change, technological renewal, and modernization of the public sector and of achieving broad acceptance of this among multiple collective actors and in the population in general.

This transformation of neocorporatist arrangements involved the selection and displacement of socioeconomic problems as well as the triggering of shifts in policy orientations and shifts in the distribution of organizational and institutional privileges. For example, the three mechanisms (problem formation, codification and consensus making) contributed to the selection of new political-economic ideas in the sense that they determined what ideas and issues could fit into or become part of the learning process. Notably, the problem formation mechanism ensured that only issues and ideas that could be defined as socioeconomic problems could become part of the discussions about structural policy. Thus, the issue of supply-side structural barriers to industrial growth became part of the existing economic policy discourse because it was possible to formulate this issue as a socioeconomic problem. Once the supply-side orientation had been introduced, it transformed the policy orientation by opening up a whole new range of possibilities for rearranging processes, procedures and agency.

The introduction of structural policy into the Danish policy discourse also displaced certain elements of the learning process. For example, the neocorporatist arrangements were altered by the introduction of a new set of arenas for negotiation and by a new set of collective actors. This led to the expansion of formal procedures of participation in policy negotiation and consensus building. The initial conjunctural perspective on socioeconomic problems, especially that which focused on problems associated with business cycle fluctuations, entailed a stable pattern of bi-partite or tri-partite interest representation in negotiation because these were problems to be dealt with through well-established wage negotiation institutions. However, problems of structural competitiveness were more complex, involved a multiplicity of structural difficulties that could not be handled in one negotiation arena, and required a more integrated approach spanning several arenas as well as multiple levels and departments of government. This precipitated a revision of negotiation organizations, notably the inclusion of a wider and often shifting set of participants, such as representatives from R&D institutes and new government agencies and municipalities, as noted earlier.

Finally the introduction of structural policy triggered a shift in attention toward new aspects of reality, made possible new ways of conceptualizing problems and solutions, and created possibilities for new types of political action and intervention based on strategic games. For example, the emphasis on structural competitiveness shifted policy makers' attention from current to future structural and organizational constraints in the economy. This led to changes in the agency of actors, which increasingly emphasized the strategic aspect of political exchange and the importance of inclusion and exclusion of problems as well as participants. In terms of macro economic policy, attention shifted from conjunctural business cycle fluctuations to the formulation of political projects or national strategies for the structural competitiveness of the whole economy. The formulation and implementation of national strategies became important and key elements of the traditional neocorporatist arrangements — content, process procedures, mechanisms and agency – were changed.

CONCLUSION

To recognize the importance of the negotiated economy is not to suggest that every small country can or will have to develop a similar institutional structure to guarantee economic prosperity. It is not even to suggest that the negotiated approach in the Danish case is the only factor to be credited for positive economic results. Denmark is not only a small country but also a little land with a relatively homogenous population, a developed democratic culture and, in particular, a small policy and political community drawn from a network of known educational institutions and families. A small elite makes up the Danish power networks. Collaborators as well as opponents are linked through common educational experiences and institutions, institutional rotation, and personal acquaintances (Amin and Thomas 1996).

Even then, I maintain that a national strategy has been formulated during the 1980s and 1990s leading to a reformulation of the socioeconomic discourse and profound changes in the articulation of socioeconomic problems. I also maintain that new policy instruments and organizations have been created, and that new possibilities for conflicts and consensus have been established by the creation of a rationality context for strategic gaming. These achievements, however, ought not to divert attention from the problems and ambiguities. The emergence of a structural policy is a rather new phenomenon, and questions remain as to its implementation. Only a patchwork of policies has been implemented. And even if a generalized system of negotiations has been created many policy fields are not (yet) interlocked with these negotiations (see Hull Kristensen in this volume). Also, strained relations have developed between the government and public organizations when distributional packages and productivity goals were to be implemented at the local and regional level. Even the restructuring of the industrial sector has proven to be more difficult than expected mostly due to fierce resistance from certain branches and single companies reacting to being enrolled in the overall strategy of the structural policy.

The overwhelming complexity of a negotiated economy is another of the many reasons why the national strategy is still vague and probably will continue to be. Yet another reason is the particular character of the generalized system of negotiations built as it is on the autonomy of all participants and on deliberation and persuasion as instruments of regulation rather than state authority and state planning. A third reason is the small and open character of the Danish economy. In times of European and global changes small and open economies are forced to enter a period of on-going adaptation and reformulation of perceptions and

restructuring of organized privileges. The very limited size of their industries and their lack of political muscle force them to adapt to changes on the basis of technologies mainly researched and developed by others and within a political agenda generally controlled and formulated by others. Therefore, not only is a time lag between changes and adaptation to be expected, but the question of efficiency in adapting is also raised while the fluidity of institutions makes it difficult to establish the preconditions for how to measure the efficiency of an institutional regime. This helps explain why it is difficult to prove conclusively that the negotiated approach to policy making was primarily responsible for the impressive performance of the Danish economy in the 1990s (Kongshøj Madsen 2003).

In this paper the key point has been that the articulation of socioeconomic problems and the founding of a generalized system of negotiation facilitate collective learning and policy flexibility in the Danish case. It has been argued that Denmark is especially well chosen for highlighting the discursive as well as the governance elements of institutions. It has also been argued that the Danish case is of special importance for the theory of corporatism because it shows that the post-war neocorporatist wage and incomes policy bargaining system described by others (e.g., Schmitter 1974, 1982; Katzenstein 1985; Therborn 1998) was adapted and extended rather than abandoned during the 1980s and 1990s (Molina and Rhodes 2002). Finally, it has been argued that the Danish case is of importance for comparative political economy because it constitutes an important and often neglected case of policy learning and flexibility, and points to some of the conditions that facilitate that learning and flexibility (Hemerijck and Schludi 2000, Teague 2000, Katzenstein 2002).

However, an important question remains: How have the social partners been able to govern national changes through joint policymaking in a situation of on-going changes in the economic and political environment? To answer this question, we have to understand how policy organizations, discourse organizations, negotiation organizations, and other organizations evolved in the 1950s and 1960s to form a particular institutional framework for the evolution of the traditional neocorporatist arrangements to a contingent and emergent system of generalized political negotiations. While a system for generalized negotiations is the discursive and institutional precondition for a negotiated economy, the system itself can only be identified by understanding the discursive as well as the governance side of the system. Indeed, institutions consist of both discursive structures (i.e., cognitive and normative frames for perceptions of social events and readings of economic statistics), and governance structures (i.e., formal and informal rules and compliance procedures), and in order to understand how they function attention must be paid to both (Campbell and Pedersen 1996).

I have subsequently argued that in the Danish case the discursive side of the system is especially important because the socioeconomic discourse makes it possible for actors to interpret and understand social events from the point of view of the same discourse and to come to mutually understand what kind of problems to look for and what kind of solutions to stretch to. The possibility for social actors to differentiate between systems is important for communication to be possible and for mutual understanding to develop (Luhmann 1981). The evolution of a socioeconomic discourse is an important factor in explaining how organized negotiations are part of a generalized system. It enables a special type of social actor (equipped with discourse- and policy organizations) to come to recognize certain social events and problems as

socioeconomic problems. Thus, the socioeconomic discourse is not an overarching frame of meaning but one among several discourses framing social events; neither is it a general frame of meaning able to be portrayed in other than the Danish case. Rather it is a particular discourse evolved under certain historical conditions enabling social partners to act rationally while moulding specific interests into public interests and to implement national strategies while preserving their proper autonomy and authority.

Following the same line of argumentation I have argued that the governance side of the system is important in explaining how organized negotiations are part of a generalized system. In the Danish case the mix of discourse- and policy organizations with negotiation and arbitration organizations makes it possible to combine the reformulation of socioeconomic problems with changes in policy orientation and in the distribution of organizational positions and privileges. The possibility of social partners to enter into strategic games and to mould interests by the mechanisms of problem formation, codification and consensus making enables them, on the one hand, to reach decisions on the basis of interaction between independent agents, where the relevant public authority is just one of several participants. The evolution of organized negotiations enables social partners, on the other hand, to coordinate decisions without hierarchy and to link levels of bargaining involving strong commitments through the sequencing of negotiations and the interlocking of issue-areas.

Hence, the generalized system of negotiations encompass both discursive and governance elements. On the discursive side, it is a system based on a discourse that enables social partners to understand social events from the same cognitive and normative point of view. On the governance side, it is a system that has evolved into a set of arenas for sequenced negotiation, which enable social partners to engage in political exchange through strategic games and to reach decisions based on their mutual autonomy and authority.

In political science theories of pluralism and neocorporatism have been offered to explain policymaking in advanced capitalist countries. The pluralist tradition originates from group theory according to which political groups are autonomous in relation to political institutions and a formal distinction is supposed to exist between the two. The neocorporatist tradition, on the other hand, originated from functional theories where it was assumed that political institutions and private organizations are no longer separated by a formal distinction. Rather, stable and institutionalized relations among the two are established in an effort to make public decisions more efficient (Kastendiek 1981). Neocorporatism and pluralism differ in important ways from the negotiated economy. First, while pluralist as well as neocorporatist theories focus on relations between organisations representing objective societal functions or interests I have stressed that interests in a negotiated economy are created or formed in language and negotiation games and that a generalized political system of negotiation can mould selfish interests into common understandings and, subsequently, into public interests. Second, while pluralist theory stresses the authority of public institutions and the autonomy of private organizations, social partners in a negotiated economy are autonomous but enter into collective decision making based on strong commitments by all participants to a shared socioeconomic ideal. Notable, also, is that fact that the government is only one among several participants in this decision making. Third, while neocorporatist theory focuses on special or single arenas for negotiations I have stressed the systemic and generalized character of organized negotiations that cut across and link these arenas. Fourth, while neocorporatist theories emphasize how state and other organizations are formally integrated, I have

highlighted the often informal character of the strategic games that are involved. Fifth, I have shown how both governance and discursive organizations are important whereas the literatures on neocorporatism and pluralism neglect the discursive side. Finally, while both pluralist and neocorporatist theories point to the stable aspects of relations among social partners, I have underlined the evolutionary and very dynamic character of a negotiated economy, which results in a high degree of institutional flexibility and learning capacity. Especially in this sense, the Danish case is of special interest for comparative political economy because it is an important and often neglected case of policy learning and flexibility that is based on institutional arrangements that are quite different from the neocorporatist arrangements described by Katzenstein (1985) and others.

In describing the Danish case of a negotiated economy I have underlined that social partners have built and transformed their institutional framework following a path-dependent, neocorporatist trajectory changing classic neocorporatism into a generalized system of negotiations (Molina and Rhodes 2002). Even if this resembles what Hemerijck (1995) in the Dutch case has described as a networked variety of economic governance, or what Traxler et al. (2001) have called a development from "classic" to "lean" corporatism, the Danish negotiated economy is a distinct mode of governance because of its systemic and encompassing character. As such, it has to be recognised that complex and important discursive and other institutional differences can exist among the small, advanced capitalist countries that are often described collectively as neocorporatist or coordinated (Hall and Soskice 2002). Indeed, given the right circumstances, some of these countries may evolve into something significantly different and more complex than the simple but telling dichotomy of liberal market economies and coordinated market economies discussed in chapter 1 of this volume. Whether Denmark's negotiated economy will continue to evolve in the face of new challenges, such as globalization and European integration, and especially during a period, in which international organizations like the EU, OECD, and World Bank, among others, strongly advocate neoliberal reform, remains to be seen.

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