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Policies and Outcomes in the 1990s

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# A Danish welfare miracle? Policies and outcomes in the 1990s

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## INTRODUCTION

Danish welfare in the 1990s had a bad start, but a happy end, at least compared with the situation in Sweden and Finland (1, 2). In the early 1990s Denmark still suffered from its economic crisis of the 1980s. Unemployment was high and budget and trade deficits large. From 1994 and onwards the situation improved markedly. Trade surpluses were followed by budget surpluses. And the problem of unemployment gradually made a U-turn so that lack of labour is now perhaps the most pertinent challenge on the political agenda. The favourable economic climate was partly facilitating and partly the result of fundamental changes to Danish welfare policies that underwent a silent revolution in at least four respects.

First, the scope of services for children and the elderly was extended quite significantly, although partly at the cost of the quality of these services. Second, the social security system was changed in a twofold manner. More supplementary coverage through collective agreements was introduced in case of, especially, disability and old age. Increased activation also characterized the transformation of the social security system, perhaps most notably in unemployment insurance and social assistance but also in sickness benefit and disability pensions. Third, decentralization marked the decade: the expansion of social services took place at the level of municipalities and increased activation efforts were to a large extent planned and implemented on the regional local level in collaboration between most notably the municipalities, the labour market exchange and the social partners. Fourth, these reforms reflect higher political ambitions, with a greater emphasis on securing everybody a place in society. In Danish political life this has become nearly synonymous with a place in the labour market, whilst providing a decent standard of living for those who are unable to work.

However, not everybody found a place in the labour market despite these welfare reforms and despite the positive economic climate. Around 26% or some 900,000 persons of working age (15–64) received social security benefits at any one time.

As in Finland and Sweden, Danish developments were to a large extent driven by economic considerations. But the policy goals and changes differed. When Finland and Sweden were cutting benefits to ease public budgets, Denmark expanded her policies to get as many people as possible into work, first to fight unemployment and in more recent years to meet the rising demand for labour.

## BALANCING ECONOMIC, EMPLOYMENT AND SOCIAL POLICY

Not least in Denmark the 1970s and 1980s were characterized by high unemployment and increased internationalization as well as technological advances, especially in information technology. Some population groups experienced greater income opportunities whilst other groups found it increasingly difficult to keep track. This underlying societal pressure towards increased inequality is the perhaps greatest challenge for contemporary welfare policy in Denmark as well as in the other Nordic countries. The question is how to maintain social protection for the weaker groups, at a time when the demand for services of middle- and high-income groups is increasing in tandem with their earnings, without hampering the general economic growth. In the eight years from the end of 1993 to the end of 2001 shifting coalition governments between the Social Democrats and the Social Liberal Party (*Radikale Venstre*) and other parties were convinced that economic growth and welfare are not adversaries, but that they can go hand in hand.

Although benefit levels were not cut directly, except

for young unemployed, there has been a gradual erosion of benefit generosity for large groups of claimants (3). This is primarily due to indexation mechanisms and changes to the tax system, most notably the introduction and expansion of labour market contributions, i.e. social security contributions, also for many claimants of social security. With hindsight, however, one can see that the generosity of social security remained high for events that are difficult to predict and for persons who are unlikely to save up themselves. Thus, the generosity in case of disability and for unemployed low-income groups remained high.

Hence, in the 1990s the guiding idea was not so much to cut benefits to save money or increase work incentives, but rather to target benefits to the needy and to invest in equality-promoting policies like childcare, education, and active labour market and social policies, now known as employment policies.

The so-called activation line in employment policies was made up of a big expansion in activation measures and a greater emphasis on the obligation of social security claimants to accept work and activation offers (4, 5). The dual aim was to deter the able-bodied (including the unemployed low-income groups receiving the generous benefits mentioned above) from drawing social security and to enhance the qualifications of claimants so that they could get back into work and become self-supporting. In subsequent revisions activation measures were offered still earlier in the unemployment spell and much energy was put into making individual action plans.

Material poverty has not been high on the political agenda, but rather non-monetary deprivation framed in terms of social exclusion and marginalization from the labour market. The mentally ill, the homeless, and drug addicts have been perceived as the most vulnerable groups, although political action lagged behind its rhetoric. For most other groups the goal of self-support has been salient, as evident in the activation line described above.

However, there is one exception to this rule, that of voluntary early exit from the labour market. Early retirement benefit (*efterløn*) was originally intended to allow a dignified exit possibility for unskilled labourers worn down by hard and monotonous work. However, it has become a popular way of leaving the labour market at age 60, rather than at the official retirement age at 67, for all groups in society – even the privileged groups. In fact, it is the social security scheme with the biggest increase in participants in the 1990s and today there are more early retirees than unemployed. Despite the costs and a shortage of labour, politicians have refrained from undertaking major reforms or abolishing the scheme.

In a Scandinavian perspective, Danish priorities in

the 1990s were special compared with Swedish and Finnish concerns in four respects. First, benefits were not cut across the board; generosity remained high for disabled and low-income groups. Second, social citizenship was transformed by pursuing the social right to self-support and firmer social obligations. Third, the coverage of social services for children and the elderly were massively expanded. At the same time, fourth, public subsidized early exit from the labour market was not stopped. The current government that came into office in 2001 has signalled some changes. For example, it has cut benefits for (new) immigrants and doubled the length of maternity leave to one year at the same time as abolishing the parental leave scheme.

## TAKING THE TEMPERATURE ON WELFARE

The combination of an under-financed tax-benefit reform and an active labour market reform contributed to higher economic growth from 1994 and nearly 200,000 more people gaining employment in the next six years. This is reflected in other indicators of welfare. From peaking at 12.4% in 1994 the unemployment rate went down year by year to reach 5.4% in 2000, which is equal to 145,000 persons or half the number of unemployed in 1990.

However, this apparent success story masks three important developments. First, the total number of working-aged persons claiming social security benefits remained around 900,000 throughout the decade. Hence, the fall in unemployment is not only due to a growth in employment, but also simply to some people moving from unemployment benefits onto other types of social security benefits. For this reason the size of the labour force, that is the stock of both employed and unemployed, remained stable at close to 2.8 million people throughout the 1990s. In the first years after 1994 the leave schemes for educational, parental, and sabbatical purposes enjoyed tremendous popularity. Escalating costs together with emerging bottlenecks in the labour market made politicians cut the generosity of these leave schemes markedly, and hence their take-up went down. The activation line, on the other hand, meant that an increasing share of the unemployed were activated. Towards the end of the decade around one in three unemployed were activated at any one time.

But, second, with an 80% increase, the growth of persons on the early exit benefit was perhaps the most spectacular. In 2000 there were 180,000 claimants, more than in any other scheme, even traditional, numerically large schemes like unemployment insurance and social assistance.

Thirdly, there has been a shift in the composition of

beneficiaries, most notably perhaps in a growing share of social assistance claimants being persons with a non-Danish ethnic background. In other words, the growth of the economy and in employment did not benefit everybody equally. The ethnic division primarily between ethnic Danes and persons from non-European countries is to a large extent a reflection of the less privileged socio-economic background of the latter (6).

Social divisions of welfare thus persist but sometimes in new ways. Age has traditionally been a pronounced social division in the past, with old people tending to be poor people. This is no longer the case as old people, in general, tend to be better off than previously with improved health and bigger pension packages as well as enjoying favourable housing and tax policies and free access to a comprehensive scope of social and health services. The young were at the beginning of the decade suffering high and persistent unemployment. As a result of the economic upturn, a drastic reduction in benefits and tougher demands on activation, youth unemployment plummeted and is now below unemployment for other age groups.

The economic situation of families with children has improved, not least because a significant share of part-time work for women has been converted into full-time jobs. Households such as single parents and cohabiting couples are now so widespread that they can hardly be seen as atypical any longer. Importantly, the relative poverty rate of 9% of single-parent households does not deviate much from the general level at 8% (7). However, there is a deficit on the welfare account when using the measure of fertility. At around 1.8 children per woman Danish fertility is both below the reproduction rate of 2.1 and the self-reported wish for 2.4 children on average (8). Nevertheless, the rate is today higher than in the 1980s and higher than in other European countries, except France and Ireland.

Although inequality measured by income has been on the rise worldwide, Denmark was an exception. But using a broad definition including wealth, inequality has increased slightly between homeowners and tenants due to escalating housing prices in the latter half of the 1990s (9).

## MORE WEALTH – BETTER HEALTH

A quarter of a century ago wealth in Denmark was about the OECD average, but is now some 15 percentage points above – nearly the opposite development to that in Sweden. The increase of wealth is partly reflected in better health as visible in various indicators. Life expectancy is nevertheless still shorter in Denmark than the other Scandinavian countries. Danish women can on average expect to live between

2½ and 3 years less than their other Nordic sisters. Danish men can expect to live as long as Finnish men, but some 2 and 3½ years less than in, respectively, Norway and Sweden. But the development in the 1990s has been favourable in that life expectancy for both sexes, in particular for women, has gone up more rapidly than in other European countries, including Finland, Norway, and Sweden (10).

The increased life expectancy is partly reflected in a decrease in mortality during the same period. The number of deaths per 100,000 persons fell from 1,538 in 1990 to 1,372 in 1998 – a decrease of 11% (10). As the population became larger and older, the composition of causes of death changed. For both men and women the most common cause of death became malignant tumours, taking over from heart diseases. Together they account for around half of all deaths.

Even though most health indicators demonstrate positive development during the 1990s, social divisions persist. Marked differences across socioeconomic groups continue for life expectancy, mortality, diseases, and other aspects of health (11). This is also reflected in the most comprehensive study of health and sickness where Kjølner and Rasmussen (12), for example, find that self-perceived good health varies positively with education, socioeconomic status and negatively with age. More men than women report their health to be good or really good, as do more married than non-married persons. An overall stable situation of 78–79% reporting good or really good health between 1987 and 2000 masks favourable development for middle-aged (45–66) and old (67+) and negative development for the young (16–24) (12).

The same social divisions can be found in long-term sickness, which is one of the areas where there has been negative overall development. Hence, the share of persons with one or more long-term sicknesses increased from 32.4% in 1987 to 41.1% in 2000 (12). Within Scandinavia, Denmark and Finland have considerably less absenteeism from sickness than Sweden and Norway (13). Nevertheless, the human costs as well as the costs involved for the public purse and employers have resulted in sickness absenteeism receiving increased political attention in Denmark during the 1990s, just as in Sweden and Norway (1, 14). The Danish Federation of Employers, itself taking a vivid part in the debate, estimates that the scope of total sickness absence equals some 150,000 persons being away from the labour market during a whole year (15).

## ACTIVATING PERSONS WITH REDUCED WORK CAPACITY

Combating long-term sickness has thus become a major point of political discussion, and interventions

in Denmark with increased emphasis on activation for the unemployed described earlier has been paralleled for the sick and disabled. At the end of the 1980s those sick-listed had disincentives to participate in vocational rehabilitation and municipalities did not a good job either in following up on cases of sickness or in establishing sufficient vocational rehabilitation (16). To address these problems and to curb increasing expenditure on work injuries, sickness benefits, and disability benefits (*fortidspensioner*) a number of measures were introduced from 1990 onwards affecting particularly claimants and municipalities and, to a much lesser extent, employers.

To engage employers in creating better working environments their responsibility for financing periods of sickness was increased from one to two weeks in 1990, when public employers were also made responsible for paying sickness benefits for their employees. In comparison with the situation in other Scandinavian countries, Danish employers have little responsibility for financing social security and few obligations to re-integrate the work-disabled.

Claimants' incentives for participation in vocational rehabilitation have been increased by, for example, replacing means-tested benefit with non-means-tested (*bruttorevalideringsydelsen*) of the same size as sickness benefits.

Economic, legal, and organizational measures have, together with revised integration schemes, aimed to change municipal behaviour. In 1990 state reimbursement to municipalities for social security benefits was harmonized at 50%; disability pensions and sickness benefits were no longer favoured over other benefits such as vocational rehabilitation. And in 1999 the tables were turned in that state reimbursement for disability pensions was reduced to 35%, making it more costly for municipalities to award disability pensions and thus making vocational rehabilitation and other measures financially more attractive.

Legally, municipalities became obliged in 1990 to draw up a rehabilitation plan for the sick-listed that, since 1997, must be prepared before six months of sickness benefit receipt. To secure earlier follow up in cases of sickness the sickness benefit period was limited to one year within 36 months in 1990.

Organizationally, there has been gradual decentralization in the award of disability pensions from 15 state committees to the municipalities (16). As a result municipalities have since 1998 had the complete capability to award disability pensions, and the following year it was made compulsory for municipalities to exhaust all reintegration measures before awarding disability pensions.

Finally, a number of integration schemes have been introduced or revised to curb the number of disability

pensioners, together with a series of campaigns (17). Perhaps most importantly, the previous 50–50 scheme providing a 50% wage subsidy to employers for hiring persons with permanently reduced work capacity of 50% or more was replaced with the so-called flexible job scheme in 1998. Flexible jobs involve wage subsidies at 50% and 67%, depending on the degree of reduced work capacity, and cover more jobs. This makes the scheme more attractive for employers and disabled participants than its predecessor. And the popularity of the flexible job scheme was increased when in 2000 it became allowable to move from one municipality to another without losing this type of job and when its take-up did not result in losing rights to unemployment benefits.

## MANAGING HEALTH AND SOCIAL SERVICES

The development in the 1990s towards more activation of the sick-listed and disabled is being continued in the reform of the disability pension that takes full effect from 2003. The reform aims to reduce the number of disability pensions awarded and increase the number of persons in employment, including flexible jobs and other integration schemes. Besides the already implemented reductions in state reimbursements and visitation procedures described earlier, the reform implies that there are no longer five benefit levels but one level equal to unemployment benefit, although at only 85% for married and cohabiting persons. Perhaps most importantly, the capacity to work (*arbejdsevne*) replaces occupational work capacity (*erhvervsevne*) as the basis for awards. To be awarded benefit the client must be unable to work in a flexible job, meaning that work ability should be reduced by more than 67%.

Currently, a commission (*Strukturkommissionen*) is exploring the possibilities of reforming the public sector. Since counties have responsibility in particular for the hospitals and municipalities for social services this may have major implications for the management of health and social services. This will most probably result in fewer and bigger counties and municipalities.

New public management was a mantra of health-care reforms in the 1980s and 1990s that has survived to the present day (18). Until now this has, among other things, entailed change of management structures and principles for budget allocation and has attempted to create quasi markets and involve citizens as 'users'. Most recently, the idea of user choice has been central to the Liberal-Conservative government from 2001 as signalled in the title of their reform program "Welfare and Choice – A Reform Program" (*Velfærd og Valgfrihed – et reformprogram*). "Users"

already had in 1992 the possibility of choosing hospital treatment outside the county they live in, but in 2002 this choice was extended to private hospital and foreign hospitals (for more see [www.im.dk](http://www.im.dk)) – a principal break with the idea of national public hospitals. So-called free choice, or more free choice, has also been introduced by the new government for general practitioners, home care, private sector home nursing, old-age nursing homes, and other institutions for the elderly and for persons with handicaps and mental illness. And the new government is also experimenting with setting standards on the quality of treatment, various forms of monitoring, and disseminating information on results and waiting lists on websites, to mention but a few of the initiatives.

A final aspect of managing and organizing health and social services is the process of de-institutionalization. This started in the 1980s in the area of social care for the elderly under the slogan “as long as possible in your own home”. As a result, home care and home nursing has increased considerably just as the elderly in institutions have become increasingly frail. De-institutionalization of elderly care has spread not only to Norway (14) but also to other areas of the Danish welfare state such as psychiatry (*distriktspsykiatri* and *ACT*), albeit with mixed results.

## CONCLUSIONS

Overall the welfare situation *in toto* had a happy end in the 1990s: Denmark remained one of the richest and most healthy countries in Europe with all-encompassing welfare policies at the same time as inequality did not increase. Whereas the 1980s was generally a decade of adverse development or status quo, the 1990s witnessed progress in most aspects. Nevertheless, there are at least two causes for concern. First, despite the improved employment situation and fundamental welfare reforms there are still groups who have difficulties getting work and social divisions in health and welfare persist to a large extent. Second, it may be that equality in the short term has been too much of a priority compared with equality over the medium and long term. The question is whether there is space enough to develop the wealth to finance future welfare. Indeed it has been, and still is, difficult to identify the political will and guts to make priorities for the future welfare society. This means steps to improve the health and welfare of today's children and youth – tomorrow's breadwinners. Rather than giving increasingly privileged and healthy groups money to leave the labour market still earlier, efforts

may be devoted to raise the quality of childcare and education. Such social investment strategies have so far not been at the top of the agenda.

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