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**Institutional Competitiveness in the Global Economy:
Denmark and the United States**

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Abstract

INSTITUTIONAL COMPETITIVENESS IN THE GLOBAL ECONOMY: COMPARING DENMARK AND THE UNITED STATES

Despite high taxes, a large state budget and welfare state, much economic regulation, and a very open economy, Denmark continues to compete successfully against the other advanced capitalist economies. Hence, Denmark presents a paradox for neoliberalism, which predicts that these policies will hurt national competitiveness under conditions of economic globalization. Following the varieties of capitalism literature, this paper argues that Denmark's success has been based in large part on its institutional competitiveness—its capacity to achieve socioeconomic success as a result of the competitive advantages that firms derive from operating within a particular set of political and economic institutions. The institutional basis for successfully coordinating labor markets, vocational training and skill formation programs, and industrial policy are examined for Denmark and the United States—two countries that are very different institutionally. The analysis shows that there is no one best way to achieve success in today's global economy, except perhaps for reducing socioeconomic inequality; that the type of capitalism known as coordinated market economies are oversimplified in the literature; and that high taxes, state spending, and economic regulation can actually enhance socioeconomic performance.

Neoliberals have long argued that in advanced capitalist countries high taxes, large state budgets, generous welfare states, and heavy economic regulation will drive away the investment capital that is needed for developing new technologies, products, and industries, improving labor productivity, stimulating economic growth, and otherwise enhancing national competitiveness. Competitiveness refers to the degree to which a country matches the socioeconomic performance of other nations. This is especially so, they say, in an increasingly global economy where capital, labor, goods, and services enjoy much mobility across national borders. Hence, neoliberals predict that governments must reduce taxes, spending, and regulation or their economies will fail to compete effectively in the global economy (e.g., McKenzie and Lee 1991; Ohmae 1995, 1990). This has been the mantra of conservative politicians for the last twenty five years.

Yet some countries have defied this prediction. Notably, Denmark has extraordinarily high tax rates, a large state budget, very generous welfare benefits, and considerable economic regulation—that is, coordination of economic activity by non-market institutions, such as state policy or corporatist bargains. Nevertheless, during the 1990s and early twenty-first century Denmark competed quite successfully against the other advanced capitalist economies (Campbell and Hall 2006). This was so even though Denmark is a small, very open economy and, therefore, particularly vulnerable to the competitive pressures of globalization. As a result, Denmark poses a paradox for neoliberalism. How did Denmark manage to defy the neoliberal prescription and still be so successful?

This paper explains this paradox by showing that Denmark's success has been based to a significant degree on its institutional competitiveness, by which we mean its capacity to achieve socioeconomic success as a result of its political and economic institutions. Institutional competitiveness stems from the benefits that firms derive from operating within a particular set of institutions—benefits that afford them advantages over their competitors and that enhance national socioeconomic performance as a result (Hall and Soskice 2001b). For example, if firms operate where educational institutions provide nationally coordinated apprenticeship programs rather than just general education, then their employees may be better trained to begin with and have greater opportunities for upgrading their skills later (Thelen 2004). In turn, if having highly skilled workers enhances the ability of firms to compete in global markets, then these firms and the nation within which they operate are institutionally competitive. Institutional competitiveness can also be derived from institutions that govern labor markets, industrial policy, technology development, and finance, among other things (e.g., Dore 2000; Molina and Rhodes 2002; Streeck 1997, 1991; Zysman 1983). This is not to say that institutions are the only source of national competitiveness. But they are an important aspect of it.

As such, this paper is about more than Denmark. It contributes to a growing literature in comparative political economy that emphasizes the importance of institutions for socioeconomic success in today's global economy. To begin with, we argue, as have others, not only that institutions are an important source of competitiveness, but that there is not always one best way to organize these institutions in order to achieve competitive success in today's global economy. However, we also show that the manner in which national institutions are organized is significantly more complex than that portrayed typically in the literature. As discussed below, the literature generally distinguishes between liberal and coordinated market economies. But it fails to appreciate the degree to which coordinated economies may be organized in decentralized and inclusive ways that enhance competitiveness and how a blending of elements from liberal and coordinated institutions may do the same. Finally, we argue that high levels of taxation and state spending—

including welfare spending—may actually improve rather than undermine competitiveness insofar as they bolster the other institutions upon which competitiveness depends. Moreover, efforts to radically cut taxes or spending could be disastrous given the tight linkage between taxes, spending, and these institutions.

The paper proceeds as follows. After briefly reviewing the relevant research on neoliberalism in the comparative political economy literature, we compare the performance of Denmark and the United States during the 1990s and early twenty-first century. We do so to demonstrate that two very different institutional forms of capitalism may both be very successful. Indeed, during the 1990s on a range of socioeconomic measures, such as state budget surplus/deficit, unemployment, labor productivity, GDP per capita, and economic growth, these two countries were generally more successful than average when compared to the other advanced capitalist countries (Campbell and Hall 2006, tables 1.2-1.7). And the World Economic Forum (2005) ranked Denmark and the United States among the top five most competitive economies in the world in 2004. Next, we provide three examples of how institutions helped Denmark achieve its success and how these institutions are much different from those that facilitated success in the United States. Specifically, we discuss the institutional arrangement of labor markets, vocational training and skill formation, and industrial policy. Finally, we discuss the implications of our argument for neoliberal fiscal reform.

We focus on Denmark not just because it represents a paradox for neoliberalism. Denmark is a neglected but important case for the comparative political economy literature—a literature that talks a lot about the Scandinavian model, but that focuses mainly on Sweden, particularly when case studies are involved (e.g., Blyth 2002; Steinmo 1993, 2002; Swank 2002, chap. 4). As several scholars have noted, this is because there is a much larger general English language literature on Sweden available to researchers than there is on the other Scandinavian countries (Sørensen 1998, p. 365; Swank 2002, p. 123). However, Sweden is much different from Denmark in terms of the organization of its economy, politics, and state structure. For instance, Denmark's economy is comprised of more small and medium sized firms whereas Sweden boasts more large firms. Its political system has been governed typically by minority coalition governments throughout the twentieth century whereas Sweden has been governed mostly by governments dominated by the Social Democratic Party. And administratively the Danish state has weak cabinets, strong ministers, and integrated ministries, directorates, and agencies responsible for specific policy areas whereas the Swedish state has strong cabinets and strong autonomous central agencies (Jacobsson et al. 2004, p. 74-75).

We also focus on Denmark because, in contrast to the United States, Germany, France, Britain, and other large countries, Denmark is a small country and, therefore, represents a certain class of countries that face unique problems when it comes to coping with the challenges of economic globalization (e.g., Katzenstein 1985). Given their small domestic markets, small countries tend to be more open economically than large countries. That is, they are more engaged in international trade and commerce relative to the size of their economies. Moreover, large countries can define and bend the rules of the international political economy to suit their purposes, but small countries cannot. Hence, small countries are both more vulnerable to changes in the international political economy and must be capable of flexible adjustment in order to respond to international challenges, such as today's more volatile markets, shorter product life-cycles, rapidly changing production and information technologies, and increased international competition. In turn, flexible adjustment requires political and economic actors in small countries to engage in

policy learning. Unless small countries can do this they are not likely to be successful economically (Katzenstein 1984, 1985, 2003; Senghass 1985). As a result, Denmark is a good case for studying how countries can compete successfully under conditions of increased globalization without resorting to neoliberalism.

Although our primary concern is with the Danish case, in order to highlight its important institutional features we compare it to another successful case in the 1990s, but one that is very different in important respects—the United States. The United States is the prototypical liberal market economy whereas Denmark is often described as a coordinated market economy (Swank 2002). Moreover, the United States has been on the forefront of neoliberal policy reform since the early 1980s. It has pursued neoliberal reforms of its tax, welfare, and regulatory institutions (e.g., Campbell 1998; Pierson 1994; Steinmo 1993, 2002; Vogel 1996). With few exceptions, Denmark has refrained from pursuing these neoliberal strategies. There were modest reductions in some welfare benefits during the 1980s but the system is still very generous, universal, and comprehensive. And tax reform has not been sweeping in Denmark. Indeed, compared to the United States and virtually all other OECD countries the level of taxation and state spending as a percentage of GDP in Denmark is very high and has remained rather stable (Abrahamson 2006; Campbell 2004, tables 5.1-5.3; Goul Andersen 2005; Swank 2002, pp. 142-47). The United States has also been an important source of neoliberal ideas and rhetoric for other countries (Babb 2001; Block 1996; Stone 1996). Denmark has not. Hence, these two very different countries provide an excellent opportunity to examine how the same socioeconomic outcome (i.e., national competitiveness) may be produced in quite different ways. This is not a trivial exercise. Social scientists have only recently taken seriously the idea that a common outcome may be produced in different ways by different social mechanisms (Ragin 1987).

RESEARCH ON NEOLIBERALISM

Neoliberalism has received much attention among researchers who are interested in comparative political economy and institutions. One stream of research has focused on the factors that caused the rise of neoliberalism in the first place. Much of this literature argued that the development of stagflation in the 1970s and early 1980s undermined the credibility of Keynesianism, which, when coupled with emergent conservative governments and declining union movements, provided fertile ground for neoliberal experiments in North America and Western Europe (e.g., Babb 2001; Block 1996; Blyth 2002; Campbell 1998; Campbell and Pedersen 2001; Fourcade-Gourinchas and Babb 2002; Hall 1992, 1993; Heilbroner and Milberg 1995). A second stream of research investigated the degree to which globalization and the diffusion of neoliberal discourse precipitated a convergence toward neoliberal welfare, tax, and regulatory policies across the capitalist countries (e.g., Berger and Dore 1996; Guillén 2001a; Kitschelt et al. 1999; Vogel 1996). Much of this work reported little evidence in support of the convergence thesis and found instead that national policies tended to be path-dependent, sticky, and highly resistant to change (e.g., Campbell 2004, chap. 5; Guillén 2001b; Kenworthy 1997; Swank 2002). This was either because high levels of taxation and spending provide means for compensating workers and others from the hardships that may arise from the vicissitudes of globalization (Cameron 1978; Garrett 1998; Glatzer and Rueschemeyer 2002; Iversen and Cusak 2000; Swank 2002), or because even when some elements of neoliberalism are adopted they are translated into practice in ways that mediate or soften their impact (Hay 2001; Kjær and Pedersen 2001; Pierson 1994; Swank 2002).

This paper is concerned primarily with a third stream of research, which focuses on the effects that neoliberalism has had on socioeconomic outcomes. Much of this work is quantitative, highly technical, and compares socioeconomic performance across the OECD countries. For instance, Hicks and Kenworthy (1998) found that countries with corporatist or other institutions that facilitate cooperation among firms or between firms and workers were more likely to minimize unemployment, economic inequality, and inflation and to experience stronger economic growth than countries without these institutions. They concluded, as have others, that the cooperative form of capitalism performed better than others as a result of institutional differences (e.g., Katzenstein 1985; Kenworthy 2004; Lindberg and Maier 1985; Western 2001).¹ The implication of this argument is that the best way to achieve economic success is by means other than neoliberalism, which holds that market forces largely unfettered by these institutions constitute the key to success.

More recently, however, the inherent superiority of cooperative forms of capitalism has been questioned, perhaps ironically, by researchers working in the same comparative political economy tradition that initially touted the advantages of corporatism. This recent work is often referred to as the varieties of capitalism literature (Hall and Soskice 2001a). Scholars studying the varieties of capitalism have argued that different types of capitalism are organized in different ways and that each type—including the neoliberal variety—has certain advantages and disadvantages when it comes to socioeconomic performance. In other words, there is no one best practice when it comes to organizing capitalism; there are different routes by which countries can compete with roughly the same levels of success in today's global economy (Hall and Soskice 2001b; Hollingsworth and Streeck 1994; see also Biggart and Guillén 1999; Guillén 2001b; Hollingsworth and Boyer 1997).

Within this literature a broad distinction is often made between two basic types of capitalism (Hall and Soskice 2001b; Soskice 1999). Liberal market economies (LME), such as the United States and Britain, tend to favor neoliberal policies. Coordinated market economies (CME), such as Germany, Japan, and the Scandinavian countries, including Denmark, tend to favor much different policies, including higher tax burdens, larger welfare states, and more direct forms of state intervention into the economy. Furthermore, LMEs coordinate their activities primarily through markets and corporate hierarchies where actors respond to price signals and make strategic decisions accordingly. CMEs coordinate their activities more through non-market relationships, such as informal networks and other cooperative arrangements, such as corporatist institutions. Different institutional arrangements lead to different yet relatively stable systems of industrial relations, labor markets, vocational training, technology innovation, investment, inter-firm relations, and customer relations.

According to this literature, both LMEs and CMEs have institutional capacities—albeit different capacities—for being competitive. For instance, firms in LMEs tend to compete on the basis of low cost and radical product innovation. Why? Because LMEs have institutions like weakly regulated labor markets as well as financial systems that impose short-term investment horizons but allow high risk taking. These enable firms to keep labor costs down, shed labor and close plants quickly, shift capital rapidly from one industry to another, and invest in risky but potentially revolutionary and lucrative research and development projects. In contrast, firms in CMEs compete more on the basis of quality and incremental innovation, such as adopting breakthrough technologies developed elsewhere. This is because CMEs have institutions like cooperative industrial relations systems within firms, coordinated wage bargaining across firms,

¹ For comprehensive reviews of this literature, see Molina and Rhodes (2002) and Smith (1992).

national vocational training programs, and financial systems that allow for long-term investment horizons. These produce highly skilled managers and workers who tend to cooperate in planning, trouble shooting, and the introduction of the latest technologies in ways that enhance product quality (Hall and Soskice 2001b; Soskice 1999; Streeck 1991). This is not to say that all LMEs and CMEs perform successfully. Of course, they do not. Some perform much better than others. The point is that there is more than one way to achieve success in the global economy and that these routes are to a degree institutionally determined.

This paper contributes to the third stream of research in several ways. First, we provide an excellent example (i.e., Denmark) that supports the notion that neoliberalism is not the only route to competitive success in today's global economy. As such, this paper reinforces an important argument in the varieties of capitalism literature—there is no one best institutional practice. However, it does so with a much neglected case.

Second, we argue that the distinction between liberal and coordinated types of economies over simplifies the range of capitalist types. Specifically, the literature on the varieties of capitalism fails to recognize the important distinctions between centralized and decentralized forms and between inclusive and exclusive forms of coordinated market economies. We argue that one important institutional advantage that Denmark has enjoyed recently is that the means by which it coordinates economic activity is much more decentralized and inclusive than in many other coordinated capitalist economies. As discussed in subsequent sections of the paper, this decentralized inclusive version of corporatism affords Denmark important capacities for flexibility and learning that have helped to enhance its competitiveness.

Third, and closely related to the previous point, in important ways the Danish case, while still basically a CME, represents a partial blend that contains a few important elements of liberal capitalism. Reminiscent of LMEs, in some ways it very much depends on the market to coordinate economic activity. But in other ways other institutions are responsible for economic coordination. We argue further that it is the dynamic relationship between market and non-market institutions in the Danish political economy that has been another factor contributing to its success. We will show that this is especially true in the labor market.

Finally, Denmark's success has not been hurt by its very high rates of taxation or state spending. In fact, contrary to neoliberal thought, we argue that high taxes and state spending are an important and very positive source of institutional competitiveness for Denmark—not a fetter on competitiveness as neoliberals assume. This is because state spending and the taxes that sustain it enable policy makers to provide the sort of institutional supports that help Danish firms compete effectively in world markets.

DANISH AND AMERICAN SUCCESS IN THE 1990s

The notion that there is no one best practice or single route to socioeconomic success requires some elaboration. Different types of capitalism can achieve comparable levels of success in very different ways. Recent Danish and American experiences illustrate the point. As we have noted, Denmark and the United States are typically described as coordinated and liberal market economies, respectively. Consistent with these descriptions, table 1 shows that the level of central government spending as a percentage of GDP in Denmark was substantially higher than it was in the United States in the 1990s. The same was true for social expenditures. And the level of

taxation, including the tax burden on capital, was also much higher in Denmark than it was in the United States. Nevertheless, both countries exhibited remarkably similar performance during the last decade or so.

Table 1 about here

Socioeconomic performance has many dimensions. We focus on several which, when taken together, give a good overall picture of a country's competitiveness. Table 2 compares Danish and U.S. performance on several social, economic, and fiscal measures. Among the social indicators, GDP per capita in Denmark, while a few thousand dollars less than in the United States, was still among the very highest in the world. Both countries were extremely prosperous, particularly in view of their virtually identical and very high scores on the U.N. Human Development Index. However, Denmark outperformed the United States in impressive fashion in other ways. It had much less income inequality, gender-based wage inequality, poverty, and illiteracy than the United States. In fact, Denmark was recently ranked first in the world in terms of the government's effectiveness in reducing income inequality—a point to which we will return later (World Economic Forum 2003, Danish country profile, p. 42).

Table 2 about here

Among the economic indicators, table 2 reveals that the performance of these two countries was again very similar. The notable exception was a higher GDP growth rate in the United States, although a rate that was surely inflated due to the dot-com bubble during the late 1990s that eventually burst and reduced growth rates. Nonetheless, the Danish growth rate was a very respectable 2.7 percent. And although the official American unemployment rate was slightly lower than the Danish rate, this figure fails to take into account the fact that a comparatively large number of poor, uneducated, young, males—that part of the population most likely to be unemployed—were in prison in the United States and, therefore, were not counted among the officially unemployed. Indeed, the rate of incarceration in the United States was roughly eight times greater than the incarceration rate in Denmark during the 1990s. Accounting for this fact could add as much as two percentage points to the U.S. unemployment rate, which would mean that Denmark actually did better than the United States in minimizing real unemployment (Western and Beckett 1999).

Finally, among the fiscal indicators in table 2, Denmark had a larger government budget surplus than the United States although it had more national debt as a percentage of GDP. Nevertheless, Denmark continued to pay down its debt and maintain a budget surplus of about 1 percent of GDP through 2004. In contrast, the United States, largely through a combination of income tax reductions and expansive military spending, managed to replace its budget surpluses of the 1990s with deficits running as high as 4.4 percent of GDP by 2004—deficits that have contributed to a skyrocketing national debt somewhere in the vicinity of 7 trillion dollars (The Economist 2005, p. 97).

The point is that two countries with extremely different tax and welfare institutions achieved remarkably similar—and impressive—levels of success during the 1990s on most indicators. There does not seem to have been just one way to achieve success during this period. The question, then, is how did Denmark do so well, especially given its high level of taxation and state spending? After all, neoliberals argue that in order to compete successfully in today's global

economy countries must cut taxes and state spending—especially if they are very open to the global economy as Denmark is. In this regard, Denmark’s performance vis-à-vis the United States is all the more impressive in view of the fact that Denmark is a considerably more open economy than the United States.² As noted earlier, we believe that much of Denmark’s success is attributable to its institutional competitiveness.

EXAMPLES OF DANISH INSTITUTIONAL COMPETITIVENESS

A full-blown and systematic comparison of all of Denmark’s institutional capacities for competitive success is beyond the scope of this paper, but a few examples are worth examining. We discuss institutions governing the labor markets, vocational training and skill formation, and industrial policy. We select these three because they have contributed to Denmark’s ability to respond flexibly to global economic pressures and engage in the sort of policy learning that others have deemed essential for small countries to achieve competitive success (e.g., Katzenstein 1985, 2003). In order to highlight the important features of Denmark’s institutional competitiveness, again we contrast the Danish case to the United States.

Labor Markets

The United States represents a classic LME example when it comes to labor markets. Compared to many European countries it has had little interest in labor market policies per se. The federal government eschewed full employment policy after the Second World War preferring to leave employment up to market forces as corrected periodically by Keynesian macroeconomic policies that stimulated or constrained aggregate demand in countercyclical fashion. Experiments with any sort of active labor market policy were sporadic at best and conducted on only very limited terms. For instance, there were some modest experiments with job training and placement policies in the 1970s that focused on the bottom of the labor market, but these did not last long and were poorly funded and understaffed. A notable example was the Comprehensive Employment and Training Act (CETA), which Congress passed in 1973—a program that was soon targeted by conservatives as a bastion of corruption and inefficiency and that was discontinued by the Reagan administration in 1981. Thus, throughout the 1980s and 1990s the government’s role was basically to provide short-term unemployment benefits, which were sometimes extended temporarily if the economy was in particularly bad shape (Weir 1991, 1998).

Even under the relatively liberal Clinton administration during the 1990s, federal employment and job training policies remained essentially unchanged and marginal. This was somewhat surprising given the fact that there was strong support in the administration for creating a more skilled work force, which was supposed to improve the employability of workers in the new global economy. However, political divisions within the Department of Labor, spending limits for new programs imposed by Congress, and the inability of labor and business to agree on key features of the administration’s proposals killed significant reform. Moreover, the level of private sector employment protection in the United States remained among the lowest among the advanced

² In 1999, trade in goods was 67.8 percent of GDP in Denmark compared with only 19.8 percent in the United States. Gross foreign direct investment was 13.3 percent of GDP in Denmark and only 5.2 percent of GDP in the United States. And gross private capital flows across its borders were 25.4 percent of GDP in Denmark and only 13.6 percent in the United States (World Bank 2001, Table 6.1).

capitalist countries.³ In sum, workers were left more or less to their own devices to find suitable jobs with little state assistance or protection from job loss. (Rubery and Grimshaw 2003, p. 166; Weir 1991, 1998).

Nevertheless, the neoliberal approach seemed to work well enough in the United States, at least in terms of keeping unemployment under control. During the 1990s, U.S. unemployment was quite low compared to most OECD countries (Mischel et al. 2005, p. 419). However, two important caveats are in order. First, as noted above, the penal system skimmed off from the labor market those people most likely to be unemployed. Hence, one could argue that the United States engaged in its own peculiar brand of active labor market policy, which was quite effective at least insofar as reducing the official unemployment statistics was concerned (Western and Beckett 1999). Second, the effect of these labor market policies during the 1980s and 1990s were less impressive in terms of wages and income inequality. Median wages fell from the early 1970s to 1995 after which they rose again but began leveling off five years later. However, even as median wages rose during the second half of the 1990s, wage inequality, which began to grow in the 1970s, continued to increase, particularly between middle and low-income workers, on the one hand, and high-income workers, on the other. This was due largely to the absence of strong, well organized unions and encompassing collective bargaining agreements (Mischel et al. 2005, chap. 2). This is one reason why household income inequality rose during the 1990s (e.g., Kenworthy 2004, p. 24).

Things were much different in Denmark. On the one hand, in contrast to the United States, almost all Danish workers belong to unions and are covered by collective bargaining agreements reached through corporatist bargaining.⁴ On the other hand, the Danish approach to unemployment and labor market policy has generally involved a blend of elements from the LME and CME models. Danish labor market policy during the 1990s has been described as a system of “flexicurity,” which consisted of three basic elements (Madsen 2004, 2006; see also Ferrera et al. 2001; Wilthagen and Tros 2004).

First, as in the United States, Danish employees in the private sector had rather limited levels of employment protection. Hence, employers had much latitude to hire and fire workers in response to market signals as is typical of LMEs. In this regard, Denmark and Britain had the most flexible labor markets in the European Union (World Bank 2004, p. 36). And among the OECD countries only Hungary, Switzerland, Ireland, and Britain provided their workers less employment protection than did Denmark (OECD 2004, p. 72). Hence, job mobility was quite high in Denmark compared to many other countries (Auer and Cazes 2003, table 2.1.). However, unlike the United States, workers were not left alone to manage such employment uncertainties. So, second, Denmark offered generous unemployment policies, health insurance, and other welfare benefits on a universal basis, as is often the case in CMEs, to ensure that when workers became unemployed they would have a social safety net that was substantial enough to protect them and their families from some of the worst problems associated with unemployment. Unemployment policies were generous in Denmark compared to most other EU and OECD countries, including those with large welfare states, such as Sweden, Germany, and the Netherlands (Hansen 2000, p. 33). Third, and again reminiscent of CMEs, Denmark developed in the early 1990s an extensive set of active labor

³ By employment protection we mean the notice period required before terminating an employee, the severance pay and compensation for unfair dismissal mandated by law, the level of protection for collective dismissals, and the level of regulation of temporary employment (Rubery and Grimshaw 2003, pp. 164-67).

⁴ In 1993, 76.3 percent of Danish workers belonged to unions but only 15.3 percent of U.S. workers did (Iversen and Pontusson 2000, p. 9).

market policies established in law that helped unemployed workers obtain new skills and training so that they could return to work. They also received assistance and encouragement in locating job opportunities for which they could apply. Insofar as today's global economy requires greater reliance on skills, learning, and labor market flexibility (Powell 2001; Thurow 2000), the flexicurity system was especially well equipped to help Denmark compete globally.

In recent years, as a result of labor market reforms and corporatist bargaining, important elements of the welfare programs, active labor market policies, and system of collective bargaining agreements have been decentralized to the regional level and occasionally even to the level of single firms. Although Danish union density ratios remain among the highest in the world and the vast majority of workers are still covered by collective bargaining agreements—especially compared to the United States—decentralization has infused the system with an additional element of institutional flexibility that seems to better fit the needs of employers, many of whom are small and medium sized companies trying to adjust to the global economy (Wilthagen and Tros 2004). In particular, retraining programs have been tailored at the regional level to fit the needs of local employers. Indeed, studies show that this decentralized flexicurity system has contributed significantly to Denmark's relatively low unemployment rate during the 1990s (Madsen 2006). Hence, the flexicurity system constitutes a vital component of Denmark's institutional competitiveness. It is the basis of one of the most flexible labor markets among the advanced capitalist countries (Estevez-Abe et al. 2001, p. 154; Wilthagen and Tros 2004; Wilthagen 1998).

In addition to the flexicurity system, the Danish labor market has benefited from two additional institutional sources of flexibility. First, since 1965, provisions for flexible working hours (i.e., flexitime) have been part of the general labor agreements. And these provisions were expanded after 1995. This has made it easier for families to juggle the demands of work and family, which has enabled more people, especially women with young children, to enter the labor force thereby providing employers with a larger pool of workers from which to choose. In this regard, the Danish labor market is again among the most flexible in Europe (EIRO 1998). Second, as discussed below, the Danish labor force is highly skilled due to well institutionalized training and skill formation programs. Hence, workers can move with relative ease among different jobs within firms. Firms, therefore, enjoy greater flexibility in deploying workers within their organization than is often the case in other countries. Such flexibility increases the efficiency with which firms can use their workers.

Danish labor market institutions have performed well insofar as they helped manage unemployment about as effectively as the United States during the 1990s (see table 2). One difference, however, between the two countries is how labor market policies affected wages and income inequality. While average hourly compensation for workers in the manufacturing sector was virtually the same in both countries during the 1990s, average real wages grew 0.9 percent per year in the United States and 1.5 percent per year in Denmark (Mischel et al. 2005, tables 7.6-7.8). And Danish income inequality, while growing slightly during the 1990s, remained much lower than in the United States (Kenworthy 2004, p. 24). Denmark's high level of unionization and corporatist wage bargaining were largely responsible. On balance, then, except for Denmark's slightly higher rate of wage growth and much lower level of income inequality, both U.S. and Danish labor markets seemed to have performed about the same although for very different institutional reasons.

Vocational Training and Skill Formation

When it comes to vocational training and skill formation the United States again exemplifies the classic LME model. During the twentieth century, because artisans were never well organized and craft unions were weak, firms implemented mass production techniques and reduced their dependence on skilled labor altogether. There was much conflict among unions and employers over this. But in the end, skilled workers were co-opted by employers, put on salary as foremen, and supervised semi-skilled workers. Apprenticeship suffered and eventually disappeared for the most part. Moreover, firms abandoned broad-based training programs and shifted their attention to training supervisors or hiring college graduates for such positions. They also depended on high schools and vocational programs in community colleges to train workers (Thelen 2004). As a result, the United States became the archetypal example of a decentralized, private system of vocational training. There is little formal structure to national training; there is no national system of accreditation for recognizing vocational skills; and virtually all training decisions are left up to individual firms and workers (Rubery and Grimshaw 2003, pp. 112-14). To the extent that American firms engage in formal job training programs at all, they are found mostly in large firms and involve hiring entry-level workers with few skills, providing them with on-the-job training, and retaining them by creating elaborate job ladders and internal labor markets whereby promotion to the next level carries heavier responsibilities and higher compensation (Cappelli et al. 1997, chap. 4).

The state's role in vocational training and skill formation has been quite limited except for its funding of general public education. As noted earlier, the federal government never really made a strong commitment to job training programs (Weir 1991, 1998). And U.S. firms only engaged in joint training arrangements with the state or unions on a very limited basis (e.g., the CETA program). Moreover, given the woeful state of secondary school education in the United States, employers often have difficulty recruiting qualified entry-level workers.⁵ Indeed, workers in the United States have not been as technically well trained as in places like Denmark and Germany, for example, which developed extensive publicly funded apprenticeship programs for most students not going to college or university. Nevertheless, given the emphasis on low-cost, mass production as the key to competitive success for many American firms, this was not a major problem during the 1990s for the U.S. economy. Whether this will remain true in the future is an open question (Cappelli et al. 1997, chap. 4).

Given the lack of nationally coordinated training programs, the lack of clearly recognizable vocational qualifications, and the spotty quality of secondary education, it is not surprising that the distribution of training and skills among young people is quite uneven. In turn, the transition from non-working student to non-studying worker is often difficult. The time between graduation and obtaining an entry level position is relatively short, but it is often hard to adequately match the person to the job. Hence, particularly among young workers there is often high job turnover, frictional unemployment, and a pattern of intensive job shopping. That said, over half the young people first entering the labor market move into high skilled, high paid work through the system of higher education, which is among the best in the world, at least at the top level colleges and universities. Indeed, the U.S. university system attracts top talent from around the world and generates a healthy stream of new graduates that fuelled the growth of new high-tech start-up companies that provided a huge competitive boost to the American economy during the 1990s.

⁵ Recall from table 2 that over 20 percent of the U.S. population was functionally illiterate during the 1990s.

However, those who did not receive higher education were typically left to a series of low paid, dead end jobs (Finegold 2004; Rubery and Grimshaw 2003, chap. 5). Of course, this was reflected in the high level of economic inequality in the United States.

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

During the late 1980s and the beginning of the 1990s, the vocational training system underwent two important changes. First, unions and employers negotiated training agreements through which they collaborated in upgrading the skills of blue collar workers. Training agreements permitted workers to spend more time away from work in courses and training programs of various sorts—often with state subsidies for tuition, wage supplements, and the like. These greater opportunities for training increased the level of competition among technical schools of various sorts which, in turn, elevated the quality of training being offered. Better training enabled firms to introduce new and more flexible types of work organization, such as project teams and lean production techniques. In turn, this allowed firms not only to introduce and adapt quickly to new information technologies, but also to search for continuous improvements in production processes themselves without enlarging administrative hierarchies (Kristensen 1996, 2006).

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

As a result, workers are typically very well trained in Denmark. Indeed, they spend more time in training and skill formation programs than do workers in any other EU country (EUROSTAT 2003). The benefits of this system are many. To begin with, it affords Danish firms the ability to leave much decision-making discretion to its workers rather than having to supervise them closely in rigidly bureaucratic ways (Dobbin and Boychuk 1999). Closely related to the previous point, high levels of training enable workers to develop and make use of their own ideas

and take independent initiatives in their jobs to a much greater degree than is typically the case in other countries (Goul Andersen 2003). For instance, shop stewards in the metalworking industry invented new payment, training, and job classification systems to increase the flexibility of production and increase the general skill level among workers (Sabel 1994, p. 136). Such independence improves firm efficiency and productivity. Furthermore, having a well-trained work force facilitates flexibility, cooperation, and collective brainstorming among shop-floor workers, engineers, managers, and others (Kristensen 1986; Kristensen and Høpner 1994). Finally, a high level of general skill training enables workers to move easily among different jobs within and across firms, which also facilitates efficiency, productivity, and labor market flexibility.

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

The development of Danish wind turbines is a good example of how a highly skilled work force can help firms capitalize on niche market opportunities in the global economy. Denmark is a world leader in the production of wind turbines. Its success stems largely from incremental innovations in wind turbine technologies that Danish firms developed through close collaborations with their customers, production workers, and engineers who continuously experimented with and developed improved blade and turbine technologies over the years. This was very much a process based on a well trained labor force that learned quickly through trial and error experimentation and practical experience. Much of the learning was collective in the sense that it involved considerable group brainstorming and information sharing among shop-floor workers, engineers, scientists, managers, and customers (Karnøe 1995).

In any case, the point is that the ability to continuously upgrade the skills of both employed and unemployed workers is one way that Denmark has met the challenges of globalization and the emergent knowledge economy so successfully (Kristensen and Zeitlin 2005, part 2). Coordinating industrial policy is another way.

Industrial Policy

The United States has long been averse to industrial policy and other forms of state coordination or planning of economic development (Shonfield 1965; Zysman 1983). As opposed to traditional macroeconomic policy, which influences the economy as a whole at the aggregate level, industrial policy involves the use of regulatory, fiscal, and other policies targeted to improve the performance of specific industries or firms. Policy makers in America have typically left most economic decisions about what products and technologies to develop, how to manufacture them, how and where to market them, what industries to cultivate, and how to finance all of this up to corporate managers who, in turn, make these decisions in response to market signals and competitive pressures. In other words, U.S. policy makers have relied much more heavily on the

market, as opposed to public policy, to influence the course of economic development and competitiveness than have policy makers in most other advanced capitalist countries (Albert 1993; Shonfield 1965; Zysman 1983).

The state did not pursue industrial policy for at least two reasons. First, U.S. policy makers and the courts have long been leery of anything that resembled economic planning because it smacked of socialism and was contrary to the principles of individualism and private property (Dobbin 1994; Scheiber 1980). Second, the state lacked the institutional capacities for conducting industrial policy until after the Second World War. It was hobbled fiscally by an undeveloped tax system that generated relatively few revenues and its administrative bureaucracies were late to develop and were fragmented (Skowronek 1982; Witte 1985).

Of course, there have been some exceptions, usually during times of national crisis. Washington experimented with corporatist industrial policy in the early 1930s during the Depression, but this was quickly ruled unconstitutional by the Supreme Court in its review of the National Recovery Act. The state also experimented with industrial policy during the two world wars. Corporatist war production boards were set up in various industries to plan production during the First World War and public investments were made during the Second World War to quickly develop industries deemed central to the war effort, such as aluminum and aircraft. But these experiments ended as peace returned. After the Second World War the state became more involved in underwriting the costs of infrastructure development, such as the interstate highway system, but never seriously pursued industrial policy per se (Lindberg and Campbell 1991).

During the late 1970s and 1980s industrial policy emerged again as a possible cure for stagflation and decline in a number of key U.S. manufacturing industries, such as steel, automobiles, chemicals, rubber, and consumer electronics. As foreign competition intensified, in these and other industries American manufacturers were experiencing an erosion of both domestic and international market shares. Advocates of industrial policy wanted the federal government to intervene in a variety of ways to help restructure some industries, provide financing for technology development and modernization of promising “sunrise” industries, and cushion the blow to workers and otherwise facilitate the dismantling of “sunset” industries that were believed to be lost causes. However, the state never pursued industrial policy because neoliberals won the political debate as conservatives came to power with the election of Ronald Reagan as president in 1980 (Graham 1992). At most the state provided limited protection to some industries through trade and tariff policies, and occasional investment incentives through the federal tax code, although many of these were abandoned in 1986 when the code was overhauled (Martin 1991).

Brief mention should be made of military spending. Since the Second World War the federal government has spent trillions of dollars on defense related appropriations and technology development projects that served de facto as a kind of limited industrial policy. Certainly technologies that were developed under military contract have helped spawn some of America’s most competitive industries, such as information technology, telecommunications, aerospace, and computing (Markusen 1985). But even in some of these cases the state’s role has been limited, such as in the computer manufacturing industries where the military played a minor role relative to those of venture capitalists, entrepreneurs, and others (Saxenian 1994).

In sum, the U.S. state has refrained from trying to coordinate economic activity at the level of industries or particular firms. And at no time has there been an effort to coordinate a broad range

of economic, welfare, educational, and other policies in order to enhance U.S. competitiveness. Instead, the state's preference has been to rely on market forces, corporate decision making, and, when necessary, the manipulation of aggregate level macroeconomic fiscal and monetary policies, trade and tariff policies, and limited forms of economic regulation, notably antitrust law, which has prevented the sort of cooperation among firms that is found in CMEs (Lindberg and Campbell 1991).

In contrast, Denmark embraced industrial policy and, more recently, what we call structural policy. By structural policy we mean the coordination of policies across a broad range of policy areas (industrial, welfare, regulation, environment, labor market, vocational training, etc.) in ways designed to improve the performance of the economy as a whole. This should not be confused with industrial policy, which is more limited in scope and, as noted above, relies on regulatory, fiscal, and a few other policies targeted more narrowly to improve the performance of specific industries or firms, often through industrial restructuring. In fact, the development of a structural policy in the last twenty years is one of the most important aspects of Denmark's institutional competitiveness (Kjær and Pedersen 2001).

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

However, beginning in the 1980s a broader definition of Denmark's competitive problems developed. Central to this was the concept of structural competitiveness whereby the competitiveness of Danish industry was seen as being linked to a much wider set of problems and policy areas. These involved not just inadequate levels of technological modernization and research and development, but also a debilitating orientation on the part of Danish firms to produce for low-growth markets (e.g., processed meats, dairy) rather than high-growth markets (e.g., furniture, business services, medical equipment, information technology) as well as a general lack of adaptive and innovative capacities in Danish industry. Many people argued that in order to resolve these problems coordinated efforts were needed in areas other than just industrial policy. In line with this view, people also believed that there was a need to reform state administrative and regulatory structures in several policy areas. In particular, it was felt that the policy formation process and especially the policy implementation process needed to be decentralized and otherwise streamlined to reduce the sort of bureaucratic sclerosis that many people believed had previously prevented public policy from being more effective.

All of this was made possible by the unique institutional arrangement of Denmark's political economy—an important yet often neglected type of CME that has been referred to as a negotiated economy (Kjær and Pedersen 2001; Pedersen 2006a). Other examples include the Netherlands, Finland, and Norway (Traxler et al. 2001; Visser and Hemerijck 1997). Negotiated economies evolved within CMEs over the last twenty years, share many of their basic characteristics, but also have at least two unique features. First, the old centralized form of CME corporatism was

transformed into a more decentralized form. This involved the development of a multi-level system of interest groups and firms participating in policy learning, policy formation, and policy implementation at both national and now sub-national levels. Second, the corporatist policy process was opened up in to a wider array of organized interests than just business and labor. This more inclusive form of corporatist dialogue and bargaining helped mobilize political consensus around structural policies for international competitiveness. Given the importance of political consensus for orchestrating this sort of policy (e.g., Green-Pedersen 2003, p. 412), the result was a form of corporatism that improved the capacity to develop collectively shared understandings of international competition as well as improved capacities to formulate, implement, and fine tune the structural policies deemed necessary to help firms and industries adapt to this competition.

As a result, during the late 1980s there was an increase in local and regional structural policy initiatives (Amin and Thomas 1996; Pedersen et al. 1992). These often involved the coordination of industrial policy with policies in other areas, such as labor market policy, research and development policy, vocational training policy, employment policy, and administrative reforms in the public sector (Madsen 2003).

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

The point is twofold. First, during the 1980s as the United States was debating but finally rejecting industrial policy in favor of neoliberalism as a cure for the nation's competitiveness problems, Denmark was not only embracing industrial policy but moving beyond it into the realm of structural policy. Second, both approaches seemed to have been successful at least judging by each country's performance during the 1990s.

THE PERILS OF FISCAL REFORM

We began this paper by noting that taxation and state spending are considerably higher in Denmark than in most other advanced capitalist countries and that this, coupled with Denmark's impressive success during the 1990s, presented a paradox for neoliberalism. Indeed, neither high

taxes nor high levels of state spending seem to have hurt Denmark's socioeconomic performance so far. In fact, one could argue that high levels of taxation and state spending have actually contributed to Denmark's success insofar as they helped foster the development and maintenance of flexicurity labor market institutions, vocational training and skill formation institutions, and the institutional reforms associated with structural policy. It is deeply ironic, then, given the neoliberal argument, that the existing tax and state spending systems, including Denmark's generous welfare programs, can actually be viewed as positive sources of institutional competitiveness. The same can be said for the non-market institutions that regulate economic activity in Denmark, notably corporatism.

Of course, in addition to the things we have discussed already, this system of taxation and spending has paid for the public transportation, telecommunication, information technology, research and development, and other infrastructures upon which firms operating in Denmark depend so heavily.⁶ The Danish national health care system is another important example. The fact that the state provides health care for its citizens means that firms do not have to bear these costs in the form of insurance payments or have to negotiate them during wage bargaining. It is not surprising, then, that high taxes are not a deterrent for business, at least insofar as business recognizes that high taxes underwrite a variety of state subsidies, infrastructure, and other institutional benefits. Indeed, according to the head of Microsoft's European division, the company recently picked Copenhagen for its headquarters in part because of these sorts of public infrastructures; high taxes, he said, were not a deterrent—a remark that is consistent with recent scholarship (Campbell 2004, chap 5; Kiser 2001).⁷

The implication is that cutting back dramatically on either taxes or state spending, as neoliberals urge, could jeopardize Denmark's institutional competitiveness. It could also create political problems insofar as tax cuts, welfare cuts, and other fiscal reforms may be politically unpopular with the population at large. Surveys suggest that about 85 percent of Danes are now content with their taxes. Moreover, roughly two thirds of the population would prefer improved public services rather than lower taxes (Goul Andersen 2005). Certainly there is no groundswell of support for neoliberal reforms of either the tax system or state spending. The same is true of other European CMEs that are preserving their high corporate and other tax rates in order to continue funding social welfare programs (International Herald Tribune 2005, p. 14).

This raises another issue for both the varieties of capitalism literature and policy makers. This literature suggests that all types of capitalism consist of complex sets of political and economic institutions that evolve incrementally over time. Once developed, these institutions fit together such that the functioning of one depends on and enhances the functioning of the others. In other words, institutions evolve in ways that make them functionally interdependent on each other. In short, all types of capitalism develop institutional complementarities (Hall and Soskice 2001b, p. 17). In Denmark, and we suspect other CMEs, these institutional complementarities are quite tightly coupled. The flexicurity system is a good example. The three institutions that constitute the flexicurity system—limited employment protection, welfare programs, and active labor market policies—have succeeded as a whole precisely because they are well integrated with each other. Together they constitute a functionally interdependent institutional system. We also find much

⁶ Examples of such projects include the Øresund regional development project south of Copenhagen, the Øresund bridge to Sweden, new renovations to Copenhagen airport, the Great Belt Link bridge that connects eastern and western Denmark, and the new Copenhagen metro system.

⁷ Personal communication with the authors, June 10, 2005.

institutional complementarity in the area of structural policy insofar as industrial restructuring efforts are tightly linked to vocational training and welfare policies. This is especially important for policy makers to understand because it means that altering one institution—particularly if this is done in a radical fashion—can trigger a series of ripple effects among other institutions, perhaps with unintended and undesirable consequences. Radical tax or welfare reform, for instance, could seriously compromise other publicly supported institutions; deep cuts in vocational training for the unemployed could undermine the effectiveness of the flexicurity system and, therefore, the labor market; and so on. Given the institutional complementarities involved, radical surgery, especially of the neoliberal variety, could have disastrous economic consequences for Denmark's competitiveness.

But radical reform could also have disastrous political consequences. As we have said, the success of small capitalist countries in the twenty-first century depends increasingly on their ability to learn and be flexible. It is important, however, to remember that collective learning, flexibility, and economic success are often rooted in an underlying normative consensus within these countries that enables business, labor, and other groups to work cooperatively together (Green-Pederson 2003; Katzenstein 2000; Putnam and Goss 2002, pp. 5-7; Zak and Knack 2001). Over the decades, Danish decision makers have cultivated consensus and social solidarity among various class, status, and political groups in order to cope with geopolitical and, more recently, international economic challenges that the country has faced. This has involved, in part, the development and modification of an interdependent set of welfare, labor market, and other institutions, some of which we have discussed, that includes and benefits a wide range of interests (Campbell and Hall 2006). Introducing sweeping changes to these institutions also runs the risk of undermining the underlying political consensus and solidarity that have been so beneficial to Denmark in the past.

CONCLUSION

To summarize briefly, we have argued that Denmark's success in the 1990s and early twenty-first century stemmed from a particular set of institutions that facilitated competitiveness in the global economy, of which we have discussed three examples: institutions that coordinate labor markets, vocational training and skill formation, and industrial policy. We have suggested that success in the United States was also institutionally based, but in very different ways.

Skeptics of our view might argue that because Denmark and the United States have very different institutional arrangements yet quite similar levels of success in many cases, institutions do not actually have much to do at all with national competitiveness. That is, both countries might share similar conditions that we have not identified but that have been responsible for success in both countries. For instance, an obvious possibility might be monetary policy. Interest rates were kept quite low during the 1990s in both countries. Might this not have been the key to success rather than institutions? Certainly low interest rates help create an environment that is conducive to growth insofar as it provides a supply of relatively inexpensive capital for consumers and investors. But this does not guarantee success. Notably, low interest rates per se do not ensure that firms will borrow or that, if they do, they will invest wisely in ways that eventually yield success. Furthermore, interest rates were low during this period in many EU countries that did not experience economic performance nearly as strong as that of Denmark and the United States. So, while monetary policy may have contributed to economic success, it is certainly not the only factor. As we said at the outset, we are not arguing that institutions are necessarily the only basis for Denmark's impressive success over the last two decades (see also Green-Pederson 2003). Other

factors may have contributed as well, although without further research we cannot be sure. Nevertheless, it is important for researchers to remember that common social outcomes may be produced in different ways in different places. We should remain open to this possibility rather than assume that common outcomes necessarily have common causes (Ragin 1987).

We promised earlier that our analysis would shed light on the comparative political economy literature that explores the effects of neoliberalism on national competitiveness. Given our analysis, what have we shown? First, we have confirmed that there is no one best way to organize a country's political economic institutions in order to achieve competitiveness in today's global economy. Both the United States, a LME, and Denmark, a CME, performed quite well despite significant differences in their institutions. This is not inconsistent with quantitative research, which reports that coordinated forms of capitalism tend to outperform liberal forms (e.g., Hicks and Kenworthy 1998). After all, quantitative studies often compare average performance outcomes among groups of countries. Within these groups select countries may or may not perform well. Hence, neoliberalism, for instance, can be quite successful in some cases even though on average in most cases coordinated economies may be more competitive, as many researchers have found.

Second, however, there does seem to be one exception. Recall that Denmark has had much less income and social inequality than the United States. This is due in part to the effectiveness of Denmark's welfare, educational, labor market, and other institutions as well as the tax system that helps to finance them. While there may be more than one route to economic success, the same may not be true when it comes to the issue of income equality, gender equality, and poverty. In this case, the CME form may be better than the LME form, as others have shown (e.g., Hicks and Kenworthy 1998). It is often argued that there is a trade off between economic growth and social equality. Our findings support those who have suggested that this is not necessarily the case, at least not for CMEs (e.g., Kenworthy 2004).

Third, the varieties of capitalism literature draws a broad distinction between two types of capitalism, LME and CME. However, this distinction has been criticized for being too broad and, therefore, missing important sub-types of both LMEs and CMEs (Katzenstein 2006; Zeitlin 2003; see also Crouch and Streeck 1997; Hollingsworth and Boyer 1997). Our analysis supports this critique, yet pushes it further. On the one hand, we have shown that Denmark is a particularly decentralized and more inclusive form of CME than that typically recognized in the varieties of capitalism literature, which tends to emphasize the nationally organized corporatist arrangement of business and labor, not the devolution of corporatism to lower levels or the inclusion of other corporate groups. On the other hand, we have shown that in some important areas, notably the labor market, this particular CME actually has elements of a LME—specifically, very low levels of employment protection that enable firms to hire and fire more or less at will. The possible blending of features from both models is something that has been largely ignored in the literature so far, particularly insofar as it may create institutional dynamics that enhance national competitiveness (but see Hall 2006).

Finally, and related to the previous point, there does not seem to be much evidence that globalization is causing Denmark to converge on the neoliberal model. Granted, there is a very low level of employment protection and, as a result, Denmark responds more sensitively to market forces than most CMEs when it comes to deciding when to hire and fire, when to shift jobs, etc. But it has been this way in Denmark for most of the twentieth century—long before economic

globalization took off in the mid-1970s. Furthermore, while there has been some decentralization of coordinating mechanisms, such as corporatist negotiations and vocational training, which might be interpreted as a shift toward neoliberalism, corporatist negotiations remain the rule and vocational training is still coordinated through these negotiations. Hence, although we have not set out to test the convergence thesis, our analysis does not seem to provide much support for those who have predicted that CMEs will eventually transform themselves into LMEs as a result of globalization—even in a very open economy like Denmark. More important, the lack of convergence on neoliberalism reinforces the point that neoliberalism is not the only way to achieve national competitiveness in the global economy.

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Table 1. Danish and U.S. Government Expenditures and Taxes

	Denmark	United States
<i>Expenditures</i>		
Total central government expenditures 1998 (% GDP)	37.3%	19.9%
Government social expenditures 1998 (% GDP)	30.8%	14.5%
<i>Taxation</i>		
Total central government revenues 1998 (% GDP)	38.5%	20.7%
Effective tax rate on capital ^a 1996	52.0%	37.0%

^aThe effective tax rate on capital represents the total tax burden on capital income. This consists of taxes on property income and immovable property plus taxes on unincorporated and corporate enterprise profits plus taxes on capital and financial transactions all as a percentage of operating surplus.

Sources: Central government revenues and expenditures are from World Bank (2001, Table 4.1); social expenditures are from OECD (2005); effective tax rate on capital is from Swank (2004).

Table 2. Danish and U.S. Socioeconomic Performance

	Denmark	United States
<i>Social Indicators</i>		
GDP per capita, 1998 (1990 US\$)	\$22,123	\$27,331
U.N. Human Development Index, 2002 ^a	.932	.939
Income inequality, mid-1990s (gini)	.247	.401
Gender inequality, 2002 (female to male income ratio)	72%	62%
Poverty rate, 2002 (% population below 50% of median income)	9.2%	17.0%
Illiteracy rate, 1994-1998 (% ages 16-65 lacking functional literacy)	9.6%	20.7%
<i>Economic Indicators</i>		
Average GDP growth, 1996-2000	2.7%	4.0%
Average productivity growth, 1996-2000	2.3%	2.2%
Average unemployment, 1996-2000	5.1%	4.6%
Average inflation, 1996-2000	2.3%	2.5%
<i>Fiscal Indicators</i>		
Government budget surplus/deficit, 1998 (% GDP)	+1.7	+0.8
Government debt, 1998 (% GDP)	64.0	42.8

^aThe Human Development Index is a compilation of measures of life expectancy at birth, adult literacy rate, gross school enrollment, and GDP per capita.

Sources: GDP per capita are from Maddison (2001, Table A-1c); gini coefficients are from World Bank (1998, Table 2.8); human development index, poverty rates, literacy rates, and gender inequality data are from the United Nations (2004, pp. 139, 140, 221, 249); all economic indicators are from OECD (2002, Tables 1, 13, 14, 19); all fiscal indicators are from World Bank (2001, Table 4.11).