

The cultural closeness to Finland also helped. We were able to watch Finnish TV. No territory under the Soviet Union had this opportunity. After regaining our independence, it was very easy for the government to proceed with Western ideas.”

NATIONS MAY OR may not get the governments they deserve, but Estonia’s has been stable and occasionally inspired. Its first independent president, the reform-minded Lennart Meri, did much to create Estonia’s vaunted democratic transparency. Meri, who died in 2006, referred to politicians who got rich while in office as “scum on the surface of the state cauldron” and once held an apologetic press conference within a public toilet when he learned that a Japanese diplomat had complained about Estonia’s then-appalling (though typically Soviet) public restrooms. Meri’s 2001 successor, Arnold Rüütel—a former communist widely renowned for the snores he pulled from audiences while speaking—had a mildly scandal-plagued tenure as president, but, even under his decrepit hand, Estonia joined the European Union and its economy grew at a rate of around 6 percent per year. Ilves, the current president, is widely admired, and his fondness for polymathic rhetoric has made it clear there will be no looking back. The Estonian economy, Viirg told me, especially in terms of foreign investment, “is very strong.” Most of this investment—eleven billion euros between 1992 and 2005—has come from Sweden and Finland. “If we start calculating foreign investment per capita,” Viirg went on, “Estonia is [one of the very] strongest performers among the new EU member countries.” Estonia’s GDP growth is currently running at 10 percent per year, which places it in the ranks of China and India, with virtually none of those countries’ festering social ills.

It should be said that, even during Soviet times, Estonia had what was by far the highest standard of living among all the Soviet republics; it was where Aleksandr Solzhenitsyn went to complete *The Gulag Archipelago* in peace and quiet. Its success, then, is not really all that surprising. What is surprising is that Estonia suffered occupation by two of the twentieth century’s most monstrous regimes and, rather than succumb to the sickness of totalitarianism, developed some rather potent antibodies. In Estonia, the secret police basically no longer exist; most of the investigations headed by KAPO, its internal security force, are focused on software piracy rather than dissidents’ e-mail. Beyond the velvet ropes of its exclusive nightclubs, Estonia might not be the most exuberant place on earth, and its winters may be the atmospheric equivalent of a Bergman film, but it is blessed in many more important areas. Estonia’s greatest blessing might well turn out to be the degree to which its hard-won liberty has heightened the awareness of what its people can now freely achieve in this world. In the decidedly unmessianic Estonian air is something I have not sensed in my own country in a long time. It feels, in a word, sane. ■

Neoliberal utopia awaits. Great Danes

BY JONATHAN COHN

IF YOU WANT a lower standard of living,” conservative policy experts Grace-Marie Turner and Robert Moffit wrote in an op-ed last week, “the Europeans have the right prescription.” The topic of discussion was universal health care, but it just as easily might have been government-sponsored child care or generous unemployment benefits. The failure of the European welfare state is, after all, an article of faith among conservatives, from Robert Samuelson (“Europe is history’s has-been”) to Jonah Goldberg (“Europe has an asthmatic economy”) to David Brooks (“[T]he European model is flat-out unsustainable”).

The argument generally goes like this. Nowadays, every nation faces a stark but straightforward choice: It can admit that globalization demands a fluid economy—in which people will lose jobs frequently and incomes are bound to be more volatile—and adapt by slashing taxes, government benefit programs, and trade barriers. Or it can try to hold on to old-fashioned notions of lifetime job security and guaranteed incomes by blocking out trading partners, closely regulating business activity, and maintaining a generous welfare state—a formula sure to produce sluggish growth, chronic unemployment, and crippling government debt.

Given their political agenda, it’s easy to see why conservatives would be attracted to this analysis. But, even as the pundits wring their hands at Europe’s economic decline, a growing number of American economists have begun looking across the pond for inspiration—to Scandinavia and, especially, to Denmark. Over the last decade, the Danes have turned the conventional wisdom on its head by boasting not only one of the world’s most expansive welfare states, but also one of its most robust economies. Given the way average American workers’ wages continue to stagnate even as their burden of risk—of losing a job, of losing medical insurance—continues to rise, it looks increasingly as though the conservative triumphalism has been misplaced: It may be that Europe has something to teach us after all. And Democrats, who have come back into power promising to address economic insecurity, should be sure to listen.

AS IN MOST of the developed world, Denmark’s welfare state traces its origins to the Great Depression—specifically, to a dank January morning in 1933 when Prime Minister Thorvald Stauning called several of the country’s political leaders to his apartment for a private session to discuss the nation’s growing economic crisis. As Eric Einhorn and John Logue recount in a forthcoming essay on Danish history, nearly

half the population was out of work and farm foreclosures were widespread. With communism and socialism gaining popularity among the increasingly distressed population, Stauning and his colleagues were desperate to take actions that would not only alleviate the widespread suffering but also save capitalism itself.

Stauning's apartment was on a small, quiet street named Kanslergade. And the resulting "Kanslergade compromise," as it came to be known, would give birth to the contemporary Danish welfare state. Denmark always had an egalitarian tradition, rooted partly in its strong ethnic identity. But, prior to the 1930s, fulfilling that guarantee was largely the responsibility of private associations, organized around jobs or communities. The Kanslergade compromise changed all that. Henceforth, the government would take primary responsibility for making the economy work—and making sure that it worked for everybody—by, among other things, providing a set of social insurance programs that protected against illness and unemployment.

The strategy succeeded. Denmark's political center held, Danes got back to work, and, on the eve of World War II, the economy was back on track. The country continued to thrive after the interlude of Nazi wartime occupation and, from the 1950s through the 1970s, it generally had steady, strong growth. The more the economy grew, the more money the government collected through taxes—allowing it to provide, in turn, even more generous services. By the '70s, Denmark had developed a well-earned reputation for providing what was arguably Europe's most comprehensive and lavish set of welfare benefits.

But the Danish economic model—like those across Europe and in the United States—was challenged by "stagflation" in the '70s and globalization in the 1980s. Denmark's economy, like those in most of Europe, started lagging behind that of the United States. While Americans were going back to work—and, in some celebrated cases, getting fabulously rich—millions of Europeans were joining the ranks of the chronically unemployed, living off of generous welfare payments. Meanwhile, businesses, hamstrung in some countries by rules that made it difficult to hire and fire new workers, weren't investing or creating new jobs.

But, while most of Europe continued staunchly to resist change, the Scandinavians began to embrace it—led, once again, by Denmark. In the early '80s, with unemployment in double digits and the economy slowing to a crawl, voters threw their support behind the Danish conservatives, enabling them to oust the Social Democrats who had run the country for most of the postwar period. Although the conservatives were not very far to the right by U.S. standards, they had run on a platform of rescuing the Danish economy, which they vowed to do by privatizing some government services, modestly reducing welfare benefits, and bringing down government deficits. And, for a few years, they made some headway, particularly when it came to trimming the pension system and bringing the government budgets back into balance.

By the early '90s, the economy had recovered enough—and the public's enthusiasm for the conservatives had waned enough—to swing politics back in the other direction. The Social Democrats took power once again, this time under the leadership of Poul Nyrup Rasmussen, a close ally of Denmark's organized labor movement. But, contrary to the expectations of some supporters, Rasmussen didn't abandon the conservative reforms. Instead, in a classic Nixon-to-China move, he undertook some of the very measures that the conservative coalition had proposed but could not enact on its own.

One of these was the sale of Denmark's state-owned telephone company, which, relative to the size of the country's economy, represented one of the largest efforts at privatization in Europe for the entire decade. Rasmussen also remained committed to balanced budgets, making more low-level spending cuts to keep the budget in line. But perhaps most important were the reforms Rasmussen's Social Democrats introduced to the Danish unemployment system. Previously, unemployment benefits had been not only very generous—equal, in some cases, to 90 percent of lost wages—but also essentially unlimited. Under a new scheme pushed through by the Social Democrats, the government began limiting assistance to four years—and, even then, only on the condition that beneficiaries worked or enrolled in job training.

Essentially, Rasmussen was triangulating between the two main poles of the country's political debate, in a manner much like the one Bill Clinton was employing in the United States at roughly the same time. But, because politics in Denmark were generally far to the left of the United States, the resulting compromise actually looked quite different. Relative to Clinton's welfare reform, Rasmussen's invested much more money in worker-counseling and training. The explicit goal was to recognize a social compact: Just as the unemployed were obligated to find new jobs, so the government was obligated to make sure the jobs were there (even if it meant creating them on the public payroll) and that the unemployed received proper training to succeed. Today, largely as a result of Rasmussen's reforms, Denmark spends more than 4 percent of its GDP on its labor market programs—the most of any country in the Organization for Economic Cooperation and Development (OECD) and more than 20 times what the United States spends on its worker-training programs.

In some respects, though, what was most significant about Rasmussen's agenda was what it did not include: radical changes to the welfare state. And that explains why, today, the country has programs that remain among the most generous in the developed world. There is universal health care and child care. Lengthy maternity and paternity leaves are available. And, despite the time limit, unemployment benefits are still worth up to 90 percent of lost wages. In all, Denmark spends nearly one-third of gross domestic product on government-run benefits—among the highest in the developed world and more than twice what the United

States spends. Naturally, Denmark has a tax burden to match: Half of the country's annual economic output goes through government in the form of taxes—again, among the highest in the developed world and well above the U.S. rate of just under 30 percent.

IF YOU BELIEVE the conservative rhetoric on economics, this combination of high taxes, a large public sector, and lavish welfare benefits ought to be killing the Danish economy. But it's not. In fact, Denmark's economy has thrived. And nowhere is that more apparent than in the job market. By the time Rasmussen left office in 2001, the unemployment rate had fallen from a 1994 peak of 9.6 percent to 4.3 percent; in 2002, it fell below the U.S. rate, where it has remained ever since. For the most recent quarter of 2006, Denmark's standardized unemployment rate was 3.6 percent, compared with 4.7 percent in the United States. Moreover, while Europe has a reputation for fostering cadres of idle youth (a reputation that, in countries like France, has at least some basis in reality), in Denmark, a mere 3 percent of its 15- to 19-year-olds are neither in

school nor working—the second-best rate in the developed world. (Tiny Luxembourg is first.) In the United States, by comparison, the figure is about 7 percent.

Another important measure of overall economic health is GDP per capita, which in effect approximates the wealth generated per person per year. Here, the United States remains near the top of the developed world, at \$39,732. Denmark, though also in the top fifth of the OECD, is at just \$31,932. It's a significant difference, but one that reflects, in part, the fact that Americans simply work more hours, don't get as much vacation, and can't take such generous pregnancy or sick leaves. GDP per capita is also an average, pulled up by the extraordinary wealth of America's elite. Once you consider the distribution of income and material goods, it becomes apparent that typical citizens in Denmark are doing as well as—and quite possibly better than—their American counterparts.

Nearly 80 percent of Danish households have access to a home computer, the second-highest proportion in the world; just 62 percent of U.S. households can make the same claim. And, while the United States scores a bit higher than



Denmark on the U.N. “Human Development Index,” which combines financial standard of living with measures like knowledge and life expectancy, Denmark bests the United States on the “Quality of Life” index, which the Economist Intelligence Unit devised to measure a similar combination of factors. One reason Denmark scores so well is that programs like universal health care and day care mean middle-class Danes don’t carry around the same sort of anxieties that their American counterparts do. The existence of such programs also helps explain the most obvious economic difference between Denmark and the United States: America’s poverty rate of 17.1 percent is the second-worst in the OECD, behind only Mexico. And Denmark’s? It’s 4.3 percent, tied with the Czech Republic for the best on the planet.

To critics, the trouble with large welfare programs isn’t so much what they do today as what they promise to do tomorrow: Since aging populations will eventually claim more in benefits than younger generations of workers are projected to generate, the programs appear unsustainable. In the general sense, this claim has some truth. The money Denmark owes its future retirees, in the form of pensions and health benefits, will indeed put a huge claim on its treasury—one it’s not yet fully prepared to meet. But Denmark is in a far better position to meet those obligations than many other countries, including, yet again, the United States. As it has for several years, Denmark is presently running a small budget surplus, equal to around .65 percent of its GDP. The United States, of course, is running large deficits, in the neighborhood of 4.5 percent of GDP—which is one reason our long-term financial liabilities are more severe, too.

SO WHAT HAVE the Danes figured out that conservative American pundits haven’t? “High taxes don’t hurt [by themselves],” says Harvard’s Richard Freeman, a highly respected labor economist who has studied Europe extensively. “It depends on what you are getting for the money.” Medical care is the most obvious example of this. Danes have lower infant-mortality rates than Americans and, statistically speaking, live just as long. You can’t pin that completely on the medical system (a lot has to do with poverty, diet, and so on), but it certainly suggests Danish health care is no worse than the U.S. version. Yet we Americans pay far more for our system, because it’s riddled with inefficiencies as insurance companies compete with one another to enroll healthy beneficiaries, rather than finance good care.

Another thing the government does well is spend money on projects whose benefits are too long-term, or too spread-out, to attract sufficient private investment. Worker-training is a case in point. One of the great virtues of Denmark’s worker-retraining program is the way it enables even middle-aged workers to shift gears and pick up a new profession: If, for example, you’re an unemployed textile worker whose best prospect for a new job in two years lies in

health care, then the Danish government will pay to train you as a physician’s assistant.

Just as a well-educated workforce attracts foreign investment, so does strong infrastructure—whether it’s in the form of good roads or a speedy information highway. Here, too, Denmark excels. And here, too, government can take considerable credit, as the Economist Intelligence Unit noted in its glowing write-up: “High public spending also translates to an excellent infrastructure. . . . Denmark has emerged as a global leader in the development of information and communications technology infrastructure, and a pioneer for wireless technologies, including Bluetooth, among others.”

Of course, infrastructure is only part of the story—and a modest one at that. A bigger reason, ironically enough, is the tax code. The high rates on personal income, which max out at 63 percent, mask relatively low rates on investment capital and corporate earnings. That relative balance—with investment taxed less than wages—is what many economists prefer, since, theoretically, low taxes on corporations will encourage them to invest more, creating more jobs, and so on. The reason Danes tolerate such high income taxes, even while corporate taxes are low, is that they feel like they’re getting something for the money: good public services. In effect, the generosity of the welfare state creates political room for economic policies that foster higher growth.

That’s also true in the larger sense, when it comes to the rules—or lack thereof—about hiring and firing. Studies have shown that Danes change jobs more frequently than their counterparts elsewhere in Europe and that, on the whole, they have the shortest tenures. With such a volatile job market, you might expect the Danes to clamor for the same kinds of protections as, say, the French or Germans. But they haven’t. The main reason, everyone seems to agree, is that the combination of welfare programs and job-training means that the newly unemployed needn’t fear becoming destitute. Indeed, in some cases, losing a job is actually a way to get a step up. Polls show that, despite the high rates of job turnover, Danes are among the most optimistic about their prospects for finding work again. As Stein Kuhnle, an expert on Denmark who now teaches at the Hertie School of Governance in Berlin, explains: “One may say that the Danish system is one promoting *employment security* rather than *job security*” (my italics).

Earlier this year, an article in *The Wall Street Journal* on the closure of a Danish meatpacking plant illustrated how fluid labor markets and generous welfare supports produce a virtuous cycle. As soon as the factory was shuttered, the famous Danish job placement and training system went to work. Counselors met with each of the newly unemployed workers, drawing up individual plans of action for each and then monitoring the “clients” to make sure they followed through on their plans. Then, using both state money and some contributions from the old employer, they financed classes to retrain the workforce. The results were impressive: After having spent ten years slicing up pig carcasses,

Suzanne Olsen now had a position as a golf landscaping apprentice. Finn Larsen was enrolled in classes to become fully trained as a math and science teacher. Indeed, of the 500 workers the company had laid off, within ten months only 60 were still collecting Denmark's generous unemployment benefits.

TALKING UP ONE region's, or one country's, economic model is a recurring phenomenon in politics—and a tricky one. At various times in the last 50 years, the opinion elite has swooned over the Anglo-American countries, the Far East, continental Europe, and even the communist bloc because their economies were in the middle of a temporary boom. But even “successful” countries often have problems that admirers either overlook or willfully ignore. And Denmark has its share of those. To take one obvious example, because the generous unemployment benefits and job-training means nobody wants to work in low-wage jobs, the country's service sector is lackluster. Positions like housekeepers and nannies tend to be filled by immigrants operating as part of an underground economy. “We have a vibrant public sector,” says Christoffer Green-Pedersen, a professor of public policy at the University of Copenhagen. “But I've never seen a shoe shiner. It'd be too expensive.”

A bigger issue for those who might want to import the Danish model—particularly for a country like the United States—is that Denmark is a small, ethnically homogenous country with a tradition of marked cooperation. Labor and management enjoy one of the least adversarial relationships in the developed world, enabling them to pursue mutually advantageous arrangements. Many experts think the strong sense of common enterprise among Danes improves government services by promoting a strong sense of duty among civil servants.

Still, nobody is suggesting that other countries could—or even should—import the Danish model whole. (Among other things, the strong sense of common purpose has an uglier side: relatively harsh treatment of foreigners and immigrants.) The idea, rather, is to take broad lessons from Denmark's experience. And the broadest lesson would seem to be the most obvious one: that it is entirely possible to have a large welfare state, with generous benefits, without choking the economy. Data from the rest of Scandinavia, which all use variants of the same economic model, support this argument. In a recent *Scientific American* column focusing on the performance of these Nordic countries, Columbia University economist and best-selling author Jeffrey Sachs blasted the right's anti-tax, anti-government conventional wisdom, concluding that “a generous social-welfare state is not a road to serfdom but rather to high levels of satisfaction, fairness, economic equality and international competitiveness.”

Nor is Sachs the only prominent economist who has taken notice of Scandinavia's success. So have Harvard's Richard Freeman and Nobel Prize-winner Joseph Stiglitz,

the former chief economist for the World Bank. Even some relatively conservative economists—like the American Enterprise Institute's Kevin Hassett, who has been an adviser to John McCain—will concede that the Nordic model works, although they are dubious that the United States could copy it: “The Scandinavians,” Hassett says, “show that you don't have to have a terrible economy if you have a big welfare state and high taxes.”

SCANDINAVIA'S SUCCESS HAS particular relevance today, when the Democratic Party suddenly finds itself with real political power again—and a mandate to address the rising economic insecurity that many American workers feel. The problem for the Democrats, as my colleague Jonathan Chait recently noted (“Freakoutonomics,” November 6), is that the solutions they've pushed for in the last decade suddenly seem inadequate. For most of the 1990s, the Clinton administration pursued a relatively conservative set of economic policies that focused on efforts to improve overall growth, such as free trade and balanced budgets. Most economists believe Clinton's economic policies did, in fact, strengthen the economy as a whole. But it's also becoming apparent that the poor and middle class didn't benefit from the subsequent period of growth as much as the administration had hoped—and that both groups remain surprisingly vulnerable to economic dislocation today.

Of course, even back in the early '90s, not every member of the Clinton administration was so sanguine about the policies it was pursuing at the time. Among those dissenting was then-Secretary of Labor Robert Reich, who proposed that “if we blended our flexible labor markets with [Europe's] investments in human capital and put the safety net somewhere in between ours and theirs, you would have the best system in the world.” Reich's argument famously lost out to those of Clinton's more conservative advisers—among them former National Economic Council Chairman Laura Tyson and former Treasury Secretary Robert Rubin.

And so it was a little ironic that, a few weeks ago, it was Tyson and Rubin, along with some other former Clinton advisers, who found themselves discussing Denmark at a panel on economic policy co-sponsored by THE NEW REPUBLIC and the Brookings Institution. Tyson, who just completed five years as dean of the London Business School, first raised the possibility that Denmark might be a model for the United States, noting that “there is nothing in the growth rates to suggest that Denmark is paying a penalty for having a high level [of taxes and government spending]. . . . This is not to mention in addition the fact that health care coverage in Denmark is universal, and it is not to mention the fact that, actually, Denmark has one of the lowest poverty rates in Europe and has the lowest poverty rates for children in all of the OECD countries.”

Upon hearing that description, Rubin quipped, “I think I would like to move to Denmark.” That, surely, isn't necessary. But a fact-finding visit might be worthwhile. ■