

Citizenship Politics: Welfare and Employment in Denmark

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1. Introduction

In the first half of the 1990's, Scandinavian welfare states were in hard times. In Denmark which had been suffering from mass unemployment ever since the mid-1970's, unemployment rose to new record-high levels above 12 per cent (national figures). In Sweden and Finland, the economic situation was even worse. And Norway barely managed due to the country's huge oil resources. It could seem to some that the Nordic welfare states had reached their moment of truth: In the context of globalization and a knowledge-based economy (referred to below simply as "globalization")¹, equality and generous social protection was becoming increasingly dysfunctional. Even the Nordic welfare states could no longer escape the tradeoff between equality and employment.

According to dominant economic interpretations, European welfare states would have to give in on wage equality and social protection in order to avoid unemployment levels that would be even more detrimental to equality and create much more labour market and social marginalisation in the long run. A very pessimistic picture was drawn in OECD's (1997) *Implementing the OECD Jobs Strategy* which claimed that nearly all unemployment in Europe was structural, caused by too high minimum wages, insufficient work incentives, and inflexible labour markets. As unemployment was structural, it could only be remedied by structural reforms - among which market oriented reforms such as "more flexible wage structures" and less generous social protection had first priority. This interpretation seemed confirmed, not least, by a comparison with the dynamic, job-generating American economy. Until the late 1970's, American unemployment was twice as high as in Europe, but from the mid-1980's, it was the other way around - in spite of declining labour supply in Europe (Andersen & Halvorsen, 2002).

However, already by 1999, Denmark had recovered from nearly 25 years of mass unemployment, and chronic deficits on the state budget were turned into a surplus. Few years later, almost the same story was repeated in Sweden and Finland. Moreover, this was obtained without giving too much in on social protection and equality which has remained the highest in the European Union. The Danish (and Scandinavian) welfare states almost seem to thrive on globalisation, rather than being threatened by it.

From a comparative perspective, Denmark is an interesting case as it demonstrates that there is an economically sustainable alternative to market- and inequality oriented strate-

¹ Globalization and knowledge-based economy are competing interpretations with roughly similar implications but they carry somewhat different connotations: A knowledge-based economy calls for more state intervention that adapting to global market forces. Not surprisingly, the European Union prefers to frame challenges in the language of a knowledge-based economy (European Council, 2000).

gies to the challenge of globalisation. This paper begins by describing the Danish “economic miracle” in a little more detail. Next, it presents the Danish economic and labour market strategies of the 1990's and discusses to what extent they should be considered responsible for the apparent change to a “good circle” in the economy. Further, the paper discusses, on the basis of micro-level data, how generous social protection has contributed to alleviate social marginalisation without generating negative incentive effects. Finally, it discusses the political irony to all this: Although the causal connection between Social Democratic policies and economic outcomes remains a matter of dispute, it is a paradox that the government in charge of this economic recovery (1993-2001) was defeated by a landslide to the “new right” exactly among those people with low education assumed to have benefited from improved employment opportunities and living conditions. Is there any connection to post-industrial marginalisation processes?

2. The Danish Economic Miracle in the 1990's

It is hardly an exaggeration to speak of a Danish economic miracle since 1993. Like other countries, Denmark was hit strongly by the oil crisis in 1973, and like in most countries, the main policy response of the Social Democratic governments in the 1970s was expansionary economic policies. But they increasingly turned out to be counter-productive. Deficit financing only lead the state debt to explode, and reducing labour supply by means of early retirement only seemed to have a short-term impact. Around 1980, the Social Democratic Minister of Finance described the country as balancing “at the edge of the abyss”. By 1982, the budget deficit was 11.5 per cent of GDP; the balance of payment deficit had reached 4.1 per cent of GDP; in spite of a deep recession with two-digit unemployment rates, inflation rates remained above 10 per cent; and in the following years, close to 10 per cent of GDP was spent for interest payments on the state debt (Andersen, 2000).

The subsequent Conservative-Liberal governments from 1982 to 1993 switched to a strategy of competitiveness and (moderate) retrenchment.² Inflation was strongly reduced, and from 1990 there was (for the first time since the early 1960's) a stable surplus on the balance of payment. But unemployment continued to increase to an all-time high of 12.4 per cent in 1993 when the Social Democrats returned to office.³

² From 1982 to 1992, public expenditures increased by 21 per cent in fixed prices, roughly corresponding with the cumulative economic growth.

³ This long-term net effect covers many unintended and unexpected short-term effects (Andersen, 2000).

Table 1. Unemployment in Denmark, 1992-2002.

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
1. SUR ¹⁾	8.6	9.6	7.7	6.8	6.3	5.3	5.1	5.2	4.5	4.2	4.3
2. Reg.unemployment ²⁾	11.3	12.4	12.3	10.4	8.9	7.9	6.6	5.7	5.4	5.2	5.2
3. Long term unempl. ³⁾	4.2	4.9	5.5	3.9	3.0	2.7	1.8	1.3	1.3		
4. Unempl. among unskilled	12.7	14.0	14.5	11.9	10.0	8.8	7.2	6.3	5.7	5.6	5.5
5. real wage increase priv.sector				1.5	1.7	1.5	2.4	2.1	0.7	1.3	1.6
6. Econ.growth rate	0.6	0.0	5.5	2.8	2.5	3.0	2.5	2.6	2.9	1.4	1.6
7. Bal.of payment % GDP	2.1	2.8	1.5	0.7	1.5	0.4	-0.9	1.7	1.6	3.0	2.9
8. inflation rate	2.1	1.3	2.0	2.1	2.1	2.2	1.8	2.5	2.9	2.4	2.3

Source: Unless otherwise indicated: Statistics Denmark, Statistisk Tiaarsoversigt.

1) SUR: standardised unemployment rates. (Source: OECD Employment Outlook, various issues.)

2) Registered unemployment by the labour office.

3) Long term unemployment (more than 80 per cent unemployment in calendar year) as per cent of labour force (source: Statistics Denmark: Statistiske Efterretninger)

But then the picture turned. In a few years, from 1994 to 1999, unemployment was reduced from 12.3 to 5.7 per cent. (national figures). Suddenly Denmark was among the small European economic miracles (Auer, 2000). Besides, unlike in previous upturns, low inflation and balance of payment surplus was maintained, reaching an all-time high in 2001.

Moreover, in the early 1990's, long-term unemployment was feared to be immanent due to the loss of employability ("hysteresis", c.f. Blanchard & Summers, 1986). By the same token, it was expected that unskilled workers would benefit less from the economic upturn. However, the opposite happened: Reduction of long-term unemployment and of unemployment among unskilled was a bit delayed, but turned out to be even stronger than the general reduction in unemployment. For instance, long-term unemployment declined from 5.5 per cent of the labour force in 1994 to 1.3 per cent from 1999 onwards, and unemployment among unskilled declined from 14.5 per cent to 5.5 per cent. Thus, it turned out that sustained economic growth was able to bring even the weak groups on the labour market back to work. At the same time, workers were granted relatively stable improvements of real wages.

All this happened without increasing inequality or poverty (table 2). Unlike most European countries, Denmark has *not* experienced any significant change in wage inequality, nor in the distribution of consumption possibilities (as measured by equivalent disposable

incomes). Calculations differ slightly, but the overall picture is typically the same: Denmark is one of the EU member countries, according to several calculations *the* EU member country, having the lowest level of economic inequality in the 1990's, and inequality furthermore seems to have declined rather than increased.⁴ According to some calculations, there has been increasing inequality during the second half of the 1990's but this hinges mainly on the calculation of imputed rent for homeowners and other capital income: Higher real estate prices lead to higher imputed rent. As revealed by table 3, there was virtually no change in market-generated inequalities, nor in redistribution over the tax/welfare system. Extrapolating from this, one feel tempted to suggest that economic factors apparently do not pull towards increasing inequality; it seems that the level of inequality is mainly a matter of *politically* determined redistribution.

Table 2. Economic inequality (equivalent disposable incomes), selected countries. Gini coefficients.

	inequality: Gini coefficients		relative poverty rate (50 % median)
	mid-1990's	change from mid-1980's to mid-1990's	
Denmark	21.7	-1.1	5.0
Sweden	23.0	+1.4	6.4
Finland	22.8	+2.1	4.9
Norway	25.6	+2.2	8.0
Netherlands	25.5	+2.1	6.3
Belgium	27.2	+1.2	7.8
Germany	28.2	+1.7	9.4
France	27.8	+0.3	7.5
Italy	34.5	+3.9	14.2
UK	31.2	+2.5	10.9
USA	34.4	+0.4	17.1

Source: Förster (2000: 74, 95).

1) 'Equivalent disposable income' is calculated as household disposable income divided by the square root of persons in household. That is, the equivalence scale is $(\text{number of persons})^{0.5}$.

⁴ This is not causally connected to the decline in unemployment. On the aggregate level, increasing or lower unemployment no longer has a measurable impact on inequality in the Scandinavian Countries (Gustafsson et al., 1999: 222-25).

Table 3. Gini coefficients: personal income before and after tax, 25-59 years old, 1994-2000.

	1994	1995	1996	1997	1998	1999	2000	1994-2000
Gini personal income	38.6	38.7	38.1	38.2	38.6	38.9	38.7	+0.1
Gini after tax	19.0	19.2	19.1	19.1	19.9	19.3	19.4	+0.4

Source: Ministry of Finance (2002: 48).

The Danish recovery from mass unemployment is quite surprising, considering the claims about the level and the causes of structural unemployment. It's to some extent the history about the bumblebee that managed to fly. Several causal factors have been underlined in competing explanations of the recovery:

- Lower structural unemployment, due to active labour market policies, or to tightened eligibility criteria for benefits
- Danish “flexicurity” - combination of liberal employment protection and generous economic support for the unemployed (Madsen, 2002)
- A public sector providing a large number of service jobs (Esping-Andersen, 2002)
- Employment-friendly financing of welfare almost exclusively through general taxes and virtually no social contributions (Scharpf, 2000)
- Switch to ‘sound’ economic policies in the 1980's (Andersen, 2002)
- Innovative technologies, and modern management
- “Luck” (Schwartz, 2001) - including quite substantial oil revenues

It is difficult to provide a simple explanation of what triggered the turn (we'll expand on the first three factors below). But apart from the “luck” explanation which cannot be totally ignored, the important point remains that there is an alternative to market-oriented reforms; that welfare states are not necessarily pressured by globalization; and that globalization or transition to a knowledge-based economy does not necessarily lead to labour market or social marginalisation.

3. Flexicurity, public employment and new labour market policies

Systematic studies of the impact of labour market regulation have generally confirmed that such regulation does affect the *structure* of unemployment whereas it is uncertain whether there is any effect on the *level* of unemployment (Esping-Andersen & Regini, 2000). Nevertheless, it is a widely shared assumption in Denmark that the combination of an unusually liberal employment protection legislation (comparable to UK) and generous unemployment

benefits is a “flexicurity” model that has positive net effects, at least in the Danish case with a relatively high proportion of small firms (Madsen, 2002). “Easy to fire” means less reluctance to hire, and there are no signs in the Danish case that this leads to an expansion of precarious jobs; on the contrary, Denmark has a low score on all indicators of precariousness (Andersen & Jensen, 2002: 49) such as involuntary part-time, temporary or low-paid jobs. Even though there is no legally enforced minimum wage, strong trade unions ensure a quite high de facto minimum wage (of some 13.5 Euro, all included).⁵

Another important characteristic of the Danish labour market is the high number of public employees, not least in social services such as child care and care for the elderly. This ensures a large number of (upgraded) jobs in the service sector which safeguards against an unskilled “surplus population”. From 1976 to 2000, the proportion of the labour force working as unskilled workers declined from 33 to 21 per cent (Andersen, BH, 2003). Even more importantly, the high level of public service ensures a great labour force as most women work full time or nearly full time (but at rather short working hours for both men and women).

The active line in labour market policies

However, even though increasing public sector employment did contribute to reduce unemployment in the 1990's, the factors above are basic traits of the Danish labour market. What *changed* in the 1990's was the switch from “passive” to “active” labour market policies. The bourgeois governments in the 1980's had switched to export-oriented policies and (moderate) retrenchment. But apart from lowering maximum unemployment benefits (UB) somewhat, it left the unemployment protection system almost untouched. This system granted access to unemployment benefits for 8-8½ years (2½ years plus requalification twice through participation in a job training programme), with 90 per cent compensation of former wage up to a rather low ceiling (which meant that only workers with earnings around the minimum wage or slightly more obtained 90 per cent). As access to the UB system was very easy (it required only 26 weeks of paid employment to obtain full rights), and as the works test appeared in practice to be weak, the system was often referred to as almost a “citizen wage” system (Andersen, 1996).

In its last years, the bourgeois government became increasingly influenced by supply-side oriented philosophies of structural unemployment, but it did not manage to implement any significant market-oriented reforms. Thus it became a Social Democratic government which came to implement strategies building on this problem definition in its path-

⁵ This also applies to pupils and students (who most typically have paid work); wages are lower for 13-17.

breaking labour market reform of 1993. However, rather than market-oriented reforms, the government adopted activation as a sort of functional equivalent: Instead of adapting wages to qualifications, the idea was to adapt qualifications to the high minimum wages and compressed wage structures, and to solve regional qualification mismatch problems.

In the 1993 reform, the unemployment period was fixed to seven years, with requalification only through ordinary employment. During the last three years of the seven-year period, the unemployed were obliged to be on permanent activation. This has sometimes been described as workfare policies. However, activation typically means education, and activation is taking place according to an individual plan of action formally put up in agreement between the employment officer and the unemployed, aiming at transition to employment. Thus, despite some similarities, it is misleading to see activation simply as a kind of workfare (Torfing, 1999; Andersen, 2002a). Workfare elements are somewhat more pronounced in the parallel activation programmes for social assistance clients which are administered by the municipalities.

The workfare elements, or at least the element of works test in the activation requirements also became somewhat more pronounced in subsequent reforms during the 1990's. The unemployment period was gradually reduced to four years, of which the last three years should be on "permanent" activation (operationalised as at least 75 per cent of the time). At the same time, the works test was strengthened, for instance by stronger requirements about transportation time (up to four hours) and , and by tighter obligations to take any kind of job (not just "appropriate jobs") after a shorter and shorter period of unemployment. Finally, people below 25 years - later 30 years - were subject to particular rules granting only half a year of UB before requiring that they should take an education if they did not already have one.

It is worth noting that it was the improved employment situation, not economic crisis, that triggered this tightening of the rules. At the same time, the leave arrangements introduced in 1992/93 (sabbatical, educational and parental leave - of which the two last mentioned were granted on an equal basis to the unemployed) were gradually abandoned and phased out. This also holds for a "transitional allowance" that provided benefits for long-term unemployed between 50 and 59 years until they could receive early retirement allowance from the age of 60 (for a more detailed account, see Andersen, 2002a,b). This scheme was closed in 1996 but will not be entirely phased out until 2006, however.

The stronger works test has provided employment officers with an instrument to discipline the unemployed; to what extent it is used in practice, is less certain. Also, surprisingly few people drop out of the unemployment benefit system after four years; there are few

descriptions of “re-circulation mechanisms”, but as municipalities pay zero per cent of unemployment benefits and 100 per cent of social assistance, they have strong incentives to come up with creative measures. Another factor is of course the very strong incentive of the unemployed to find any kind of job towards the end of the benefit period.

Effects of activation

The introduction of new active labour market policies were designed as a means against marginalisation and coincided with the improvement of the unemployment situation in Denmark. Besides, calculations reveal a simultaneous decline in structural unemployment, that is, the lowest possible level of unemployment that is compatible with stable wage increases (or price increases). The government of course claimed credit for its active labour market policies and saw activation and tightening of rules as the main causes of lower structural unemployment.

Both ideas have been questioned, however. Some have questioned whether there ever *was* a structural unemployment of ten per cent if the changes in Danish labour market policies could reduce structural unemployment that much. If so, the challenge of structural unemployment cannot be said to demand very radical adjustments of welfare. Further, attempts to measure the effect of activation on employment chances at the individual level have been rather disappointing (Ministry of Labour, 2001; Economic Council, 2002). All calculations of effects seem to document that private and to some extent public job training do help somewhat in bringing people back to work. However, private job training is the least used instrument, and even here, the effect is only moderate. As far as education is concerned, the effect is hardly measurable. This may reflect counteracting mechanisms: Other things being equal, education will improve employment chances. But at the same time, participating in an activation programme tend to reduce job seeking, and sometimes, there may even be a prejudice among employers against people who have been on activation. Further, the qualifications that are offered may not be sufficiently relevant to the individual.

From a *short term* economic perspective, the activation system probably does not meet cost-effectiveness criteria. Active labour market policies are very expensive in Denmark (totalling 1.6 per cent of GDP in 2000, the highest OECD figure next to the Netherlands, according to OECD, 2003). Most probably, activation does have an employment impact, not least in the long run, but like elsewhere (Martin, 2000, 2002) it is difficult to measure. Probably there also is a deterrence effect of activation, as well as a signal effect on values: New generations are given a strong signal that they are obliged to work to provide for themselves. Most likely, this has some effect on the willingness of the individual to find a job and to

qualify for a job - even though the image of “passive support” and unemployment/poverty traps in the former system was a wild exaggeration. There is no empirical evidence to indicate that the long-term unemployed in the early 1990's were *that* marginalised - the main problem was an insufficient demand for labour power.

Labour market marginalisation and social marginalisation

Regardless of whether the activation system manage to prevent *labour market marginalisation*, however, it fits into a broader system of social protection for the unemployed which serves to prevent *social marginalisation*. Until the early 1990's, Denmark followed a social protection strategy against social marginalisation: ensuring generous support through the UB system and preventing people from being transferred to means-tested and more stigmatizing social assistance was considered essential to avoid social marginalisation among the unemployed. In the 1990's this was replaced by a new philosophy that labour market inclusion was an indispensable condition of social inclusion, and that labour market marginalisation inevitably leads to social marginalisation. However, even though conflation of labour market marginalisation and social marginalisation is rather typical of government discourse, it is important to maintain that they are separate phenomena. Those who are marginalised on the labour market are not always socially marginalised, and conversely, labour market inclusion does not always entail social inclusion.

4. Marginalisation, social rights and incentives: The heaven of citizenship

Thus, a consideration of marginalisation will also have to consider the effects of the “passive” support systems for the unemployed. This is at the core of what has traditionally been referred to as social citizenship. Even though the Danish social protection system for the unemployed is less generous than in the 1970's, in particular for workers with high wages, it has remained a “heaven of citizenship” by comparative standards. In spite of significant tightening, access remains relatively easy, duration of benefits is long, and minimum levels are extremely high by international comparison. Even social assistance for those not insured against unemployment, or for the few thousands for whom UB has expired, is rather generous by comparative standards. The main characteristics are described in box 1 below.

Like Sweden, Finland and Belgium, Denmark has maintained the so-called “Ghent system” of state subsidized voluntary unemployment insurance largely controlled by the unions. Members finance the administration and pay a minor (tax deductible) contribution of 2822 DKK (750 \$) per year (Ministry of employment homepage www.bm.dk). By 2002, 77 per cent of the labour force (the denominator includes student workers etc.) or some five out

of six full-time employees were insured against unemployment (Statistics Denmark, 2003). As access is relatively easy and duration is rather long (four years), this means that the overwhelming majority among those who are registered as unemployed receive unemployment benefits rather than social assistance. Duration is unrelated to age or seniority, but special rules apply to people aged less than 30 or more than 55. The latter do not lose UB after four years (i.e., UB is de facto life-long for people who become unemployed after the age of 51). Young people are required to participate in activation after only six months (lasting for 18 months) and meanwhile receive a reduced UB of 82 per cent of maximum. If they do not have a formal education, they are required to take a formal education for at least 18 months; meanwhile, they receive only one-half of maximum UB.

Box 1. The Danish Unemployment protection System, 2003

1. Unemployment benefits (about 85 per cent of registered unemployment)
<u>Type:</u> Ghent system. Voluntary state subsidized. Based on membership in (typically) union-controlled unemployment insurance funds. Members pay for administration and a mandatory (tax deductible) annual contribution of 2988 DkK in 2003 (400 Euro).
<u>Access:</u> One year of membership in an unemployment insurance fund <i>and</i> 52 weeks of ordinary employment within last three years No seniority rules but special rules (requirements about education) apply to people aged less than 30 years
<u>Duration:</u> Four years, of which three years on activation (target: at least 75 per cent of the time). Unlimited duration for people aged more than 55 years
<u>Requalification:</u> 26 weeks of ordinary employment
<u>Compensation level:</u> 90 per cent of former income. Ceiling: 162.000 DkK (21.800 Euro) De facto nearly a flat-rate benefit as very few people receive less than maximum UB
2. Social Assistance (about 15 per cent of registered unemployment)
Means tested. Fixed amount, with possibility of supplements. 60 per cent of maximum UB for single person, plus possibility of supplements.

Note: See Goul Andersen (1996) for the Danish benefit system as of 1994/95.

The UB system in Denmark provides an excellent protection against poverty. For low-income groups, it provides 90 per cent compensation of former gross wage; considering transportation costs and taxes of the employed, this de facto means full compensation. This is even more generous than the Swedish system which is resemblant to the Danish but has lowered the compensation rate to 80 per cent. However, for wages above the level of an average production worker (APW), compensation rates are low - much lower than in most Bismarckian systems like Germany or the Netherlands (table 4).

Table 4. Net compensation rates after tax for Average Production Worker (APW), by wage level, in various countries. 1998.

	75 % of APW	100 % of APW	150 % of APW	200 % of APW	difference in compensation level between 75 % and 150 % APW
Denmark	80	63	46	37	34
Sweden	80	70	52	41	28
Finland	66	60	50	45	16
Netherlands	71	71	69	54	2
Germany	59	58	58	49	1
Austria	57	56	56	47	1

Source: Hansen (2000: 33, 60-61)

Poverty and citizenship

As expected, relative poverty is a rare phenomenon among unemployed in Denmark, at least according to the conventional 50 per cent of median equivalent disposable income criterion. According to European Community Household Panel (ECHP) data from 1994, only 8 per cent of the unemployed in Denmark was classified as poor, as compared to 27 per cent in Germany and 49 per cent in UK (table 5). Not surprisingly, the difference is especially pronounced among long-term unemployed. According to the 1994 sample, long-term unemployed even have lower poverty levels than the short-term unemployed. This may be accidental, but the benefit system exactly implies that it is among long-term unemployed that one should expect the largest deviance from other countries. Other calculations have placed even smaller proportions of the unemployed as poor (European Commission, 1995).

On an aggregate level, this corresponds with more positive records of participation

and subjective well-being among Danish unemployed than in most other countries. Thus, according to the ECHP data, subjective well-being as measured by satisfaction with life is clearly higher among unemployed in Denmark than in other (non-Nordic) countries in the EU.

Table 5. Poverty and life satisfaction among unemployed

	poverty 1994	< 6 months c.1995	> 12 months c.1995	satisfaction with life
Denmark	8	9	4	80
Belgium	23			69
Netherlands	25			-
Germany	27	28	48	66
France	28			61
Italy	37			56
UK	49	29	64	62
Source: Poverty rates: Gallie, Jacobs & Paugam (2000). Based on ECHP. Poverty by duration of unemployment: Nolan, Hauser & Zoyem (2000). Based on administrative registers. Satisfaction with life: Whelan & McGinnity (2000). Based on ECHP. Employees without unemployment experience within last five years=100				

The association between economic resources and well-being⁶ is confirmed also by individual-level data from the ECHP (Whelan and McGinnity, 2000). Turning to a Danish representative survey of long term unemployed from a Danish Marginalisation project (1999)⁷, we find a parallel association, not only as far as satisfaction with life is concerned but also for a large number of other dependent variables including social and political participation, which can be conceived of as the fulfillment of citizenship. The findings as far as satisfaction with

⁶ There are many parallel concepts in the field: psychological distress', 'mental health', 'self-confidence', 'satisfaction' or 'happiness' (Halvorsen, 1999; Björklund & Eriksson, 1998; Whelan & McGinnity, 2000). 'Well-being' is an umbrella concept; like happiness and satisfaction, well-being can be positive, not just absence of negative symptoms. We need not discuss the relationship between these concepts here, however, as it is a general experience that associations are pretty similar, regardless of definition and operationalisation of the dependent variable (Winefeld, 1995).

⁷ The study contains representative samples of long-term unemployed, disablement pensioners, early retirement pensioners and the population at large. The project also includes a panel study of long-term unemployed 1994-99. Altogether some 5000 persons were interviewed. See Goul Andersen et al. (2003); (or <http://www.socsci.auc.dk/ccws/projects/BChangingLabourMarkets/b1.htm>)

life is concerned are presented in table 6. Like the ECHP which indicates that satisfaction with life is even more dependent on income and economic hardship in Denmark than in other countries (Whelan & McGinnity, 2000), we find a very strong association between economic hardship and life satisfaction in the 1999 marginalisation survey.

Now, there are two competing perspectives on the effects of unemployment: The first is the so-called “deprivation perspective” which can be traced back to classical studies such as Jahoda, Lazarsfeld & Zeitel’s (1993) *Marienthal* study of the effects of unemployment and the “latent functions” of work in structuring everyday life, providing contacts with others, self-esteem etc. According to this perspective which has served to feed communitarian notions of integration through employment embodied in many third way strategies of activation, the effect of unemployment on marginalisation is unconditional, i.e. it cannot be alleviated much by economic compensation.

According to a competing perspective, the *agency* or *coping* perspective (Halvorsen, 1994), one would still regard unemployment as a severe pressure on the individual but on the other hand emphasize the capacity of the individual to handle or to cope with such a pressure, provided that he or she has adequate resources. According to this perspective, which is more in line with classical notions of social protection and social citizenship (Marshall, 1950), one would expect the impact of unemployment on well-being and participation to be *mediated by* or *contingent on* adequacy of resources. In other words, differences in economic resources should provide a major explanation of the effect of unemployment, or we should at least expect this effect to be much smaller among those who do not experience severe economic problems in addition to the problems of unemployment as such.

The results in table 6 strongly support the coping perspective.⁸ Among people who do not experience significant economic hardship⁹, there is almost as high satisfaction with life among long term unemployed as among employed people (averages 8.10 vs. 8.45 on a scale from 0 to 10) whereas there is much lower satisfaction, and substantial difference between employed and unemployed, among those who experience economic hardship (7.87 vs. 6.81). However, as only 10 per cent of those employed experience economic hardship, as compared to 43 per cent among the unemployed, this mediates a quite substantial part of the effect of unemployment. A similar but weaker pattern is found when it comes to health.

⁸ Controls for social background variables almost do not change these associations as social background variables are weakly related to satisfaction with life.

⁹ Economic hardship is measured by three indicators: having trouble with paying current expenses, being unable to pay an unexpected bill, and being worried about the economic future. These have been combined into an

Even stronger effects are found when we combine health and economic hardship: Among those with good health conditions and who do not suffer from economic hardship, employment status only have a minor influence on well-being: 8.51 vs. 8.32. But 81 per cent of those employed belong to this category as compared to only 43 per cent among the long-term unemployed. Even among those with good economic conditions and not so good health conditions, the effect of unemployment is limited. Much larger effects are found among people with economic hardship - regardless of health conditions.

Table 6. Satisfaction with life (0-10), by employment status, economic hardship and health conditions, 1999.

			employed	long-term unemployed	N1	N2
Total			8.39	7.38	1077	439
Economic hardship	Small/none		8.45	8.10	969	251
	Some/much		7.82	6.45	108	188
Health	Good		8.46	7.67	952	296
	Not so good		7.87	6.81	124	142
Not economic hardship	Good health		8.51	8.32	868	187
	Not so good health		8.00	7.48	101	64
Economic hardship	Good health		7.95	6.58	84	109
	Not so good health		7.34	6.29	24	78

Q."All things considered, how satisfied would you say that you are for the time being. Imagine a scale from 0 to 10 where 10 means very satisfied and 0 means very dissatisfied."

In other words: Economic hardship explains a very large share of the difference between employed and long-term unemployed in satisfaction with life, and there is at the same time an interaction effect indicating that people can manage with one problem (unemployment, economic hardship, bad health) but hardly manage to cope with two or three problems. Even among those employed, the combination of bad health and economic hardship leads to a deterioration of well-being. But this combination is only found among 2 per cent of the employed as compared to 18 per cent of the long term unemployed.

Basically the same applies also to disablement pensioners, and the same pattern is found if we use self-esteem as dependent variable instead of satisfaction with life (Andersen,

2003b). In other words, the predictions of the coping theory is strongly confirmed. This is also the case if we ask people about what they themselves experience as the worst problems about being unemployed: Economic insecurity tops the list of some 10 items whereas “nothing to get up to” (which would be important from a deprivation perspective) is the least important problem on the list. In-between we find such problems as fear of losing qualifications, fear of not returning to work, contact with colleagues, and the feeling of being dependent (Andersen, 2002c).

Moving from the social psychological variables to variables covering basic aspects of participation, we find much of the same pattern: Objective and subjective income conditions are extremely important for participation. At the same time, when it comes to such variables, the social background of those unemployed is important: A major share of differences between employed and unemployed cannot be attributed to economic or social psychological effects of unemployment but rather to the fact that the incidence of unemployment is different among higher and lower classes or status groups (Andersen, 2003b; for a classic study with similar findings, see Schlozman & Verba, 1979).

Incentive problems?

In short, data strongly support the idea that generous social protection is essential for maintaining citizenship and avoiding social marginalisation among those unemployed. But what is beneficial for social citizenship may be detrimental to economic incentives. The Danish system which is close to an optimal system in terms of poverty alleviation (but much less so in terms of income replacement security), is close to the worst thinkable system from the point of view of neoclassical labour market economics: Incentives are small, sometimes even absent, for those low-skilled groups among the unemployed who have access to the least interesting jobs, and who are supposed to be most threatened by globalisation and knowledge-based economy. This could easily generate poverty/unemployment traps and unemployability. In short, one should expect a much larger danger of long-term unemployment and unemployment among the lower-skilled, as compared to countries with strong incentives and less compressed wage structures such as the USA. From a narrow economic point of view, considering only economic incentives, this should be obvious. From a sociological point of view, one would expect that there might be some negative effects of incentives but that there could at the same time be a countervailing positive effect of resources - not only on well-being but also on the propensity to get back to employment. After all, being able to maintain a normal way of life in “mainstream society” and avoid being relegated as a second-class citizen constitute a general resource for getting back to work, as compared to a situation with stronger

incentives but where people become socially marginalised and have to give up their former way of life, lose contact with friends and neighbours, etc.

If we begin by considering macro-level evidence, there are two main indicators. One is the incidence of long-term unemployment (LTU) among those unemployed. Frequently, the low American figures on this indicator are put forward to support the idea about incentives. And indeed, this figure is low. But another indicator is the difference between unemployment rates among low- and high skilled people. Here we should expect such differences to be larger in countries with small incentives and more compressed wage structures. But this is definitely not the case (see table 7)

Table 7. Unemployment by educational attainment and incidence of long-term unemployment.

	unemployment by education, 2001 (age groups: 25-64)				incidence of long-term unemployment, 2002	
	Less than upper secondary education	Upper secondary education	Tertiary level education	low/high ratio	per cent of unemployment	per cent of labour force
US	8.1	3.8	2.1	3.9	8.5	0.5
EU-15	9.3	6.2	4.0	2.3	41.4	3.1
UK	7.6	3.9	2.0	3.8	23.1	1.2
Italy	9.1	6.8	5.3	1.7	59.2	5.3
France	11.9	6.9	4.8	2.5	33.8	2.9
Belgium	8.5	5.5	2.7	3.1	49.6	3.6
Netherlands	3.1	1.8	1.3	2.4	26.7	0.7
Germany	13.5	8.2	4.2	3.2	47.9	3.9
Denmark	5.0	3.3	3.2	1.6	19.7	0.9
Sweden	5.9	4.6	2.6	2.3	21.0	1.0
Norway	3.4	2.7	1.7	2.0	6.4	0.2
Finland	11.4	8.5	4.4	2.6	24.4	2.2

Sources: OECD (2003) Employment Outlook.

However, there is no clear association between LTU and economic incentives. Like US and the UK, Scandinavia has always been relatively low on LTU (even prior to the Danish labour market reform), in spite of long duration of benefits and high minimum levels. And as far as education is concerned, the association rather goes in the opposite direction. In US and the UK, there has always been a great discrepancy between unemployment rates for the low- and high-educated. In Europe, not least in Scandinavia, it is far more moderate. By 2001, unemployment among low-skilled people in the US was nearly at European level and above Scandinavia except Finland. These figures do not even take account of the higher incarceration rates

in the US. From a sociological point of view, it is highly explainable why US have relatively high unemployment rates among lower-skilled, but obviously, “flexible” wage structures cannot prevent this. And very “compressed” wage structures in Scandinavia is no impediment to employment.

The question of incentive effects can be tested also at the individual level, however. The classical job search theory implies an assumption that economic incentives affect wish for a job, which, in turn, affects job search, which finally brings people back to work (figure 1). Oddly enough, however, the last part of the causal model, transition to employment, is rarely studied empirically. The panel survey in the Danish Marginalisation study allows us to follow the entire causal path. In fact, it is one of the few Danish studies to be found (see also Pedersen & Smith, 2003).

Figure 1. Underlying assumptions of search theory: The effect of incentives.

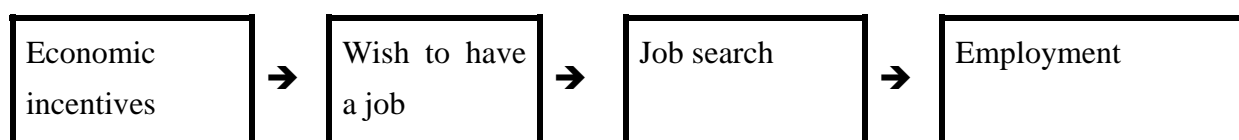


Table 8. Economic incentives, job wish, job search and transition to employment. Panel survey 1994-1999.

Expected wage (in relation to maximum UB)	proportion of long-term unemployed %	want a job %	seek a job %	seek a job actively %	proportion in employ- ment 1999 %
Below max. UB	8	78	50	36	49
100-111 % of max. UB	12	84	63	56	50
112-124 % of max. UB	24	87	60	48	48
>125 % of max. UB	56	84	65	54	50
All	100 (N=1249)	82	61	49	50

Source: Larsen (2003); Danish Marginalisation Survey, 1999. People earning less than 111 % of max. UB will not requalify for max. UB and therefore have an ambivalent incentive to work.

The effects turn out to be surprisingly small. Incentives are indicated by expected wage if

people should become employed, compared to maximum UB. More refined measures does not seem to alter the result. There seems to be a small negative effect for the 8 per cent with negative incentives to find a job - but only on job search; when it comes to transition to a job, there is no difference. For the remaining categories, there is no measurable effect at all (although a small group expecting to earn more than twice of maximum UB can be identified; this group seems to have a higher job search). Those interviewed have also been followed in registers 1996-1999, again with absence of any significant effects on transition to employment (Bach, 1999). The results seem robust to all thinkable statistical controls. Even allowing for sampling errors and undetected effects, it seems safe to conclude that economic incentives (at least in the period 1994-1999) had no or little impact on transition to a job and very limited effect even on job search. The same holds for such variables as economic hardship or well-being during unemployment: There was a minor effect on job search but no effect on reemployment. Not surprisingly, it turns out that even though UB is not related to duration of unemployment, economic hardship nevertheless increases as people are unemployed for a long time.

In a broader sociological perspective, it is less surprising that short-term economic incentives have little impact. In the first place, even if short-term incentives are small, long-term economic incentives are usually quite strong as income mobility in Denmark is high (Aaberge et al., 2002). Next, there are non-economic incentives to work: Norms (“protestant ethic”!), habitus, and fulfillment of needs (social contact, self-realisation) etc. Thus, so-called “non-financial work commitment” (the wish to work regardless of economic need) is high in Scandinavia, as revealed by table 9.¹⁰

¹⁰ To explain why some people are less successful than others in obtaining a job, regardless of the business cycle, qualifications is of course an obvious answer. But effects of the *level* of formal educational status turns out to be surprisingly weak, according to the panel study. Basically, this seems to be in accordance with the macro-level observation that unskilled have managed well since the mid-1990's. Another factor is *barriers*. There is statistical discrimination, especially according to age, to a lesser extent according to ethnicity and to CV, i.e. to the effect of having a record as long-term unemployed (Larsen, 2003). Besides, there is the question of lacking access to informal recruitment channels. as some 75 per cent of all new employees are recruited by informal channels.

Table 9. Non-financial work commitment in various countries.

	Whole population (index 0-100) ISSP 1997	Unemployed (index 0-100) ISSP 1997	Unemployed Eurobarometer (per cent who would work regardless of economic need)
Denmark	73	61	78
Norway	70	63	79
Sweden	67	61	76
Netherlands	62	64	80
Germany	62	54	54
France	56	48	54
UK	56	60	78
Spain	53	56	52
USA	61	54	-
Japan	63	-	-

To sum up so far, it is questionable exactly what explains the current economic and employment success in Denmark. Active Labour Market Policies probably constitute part of the answer but the effects are less straightforward than one might assume. What does remain, however, is that the entire configuration of policies seems to be functional, not only for the economy, but also in terms of maintaining citizenship and avoiding social marginalisation. More specifically, it cannot be established that there are significant negative incentive effects attached to the generous social protection.

But how come, then, that the Social Democratic government had trouble in winning the elections in 1994 and 1998 - and why did it suffer such a marked defeat in the 2001 election?

5. New right, marginalisation and the paradox of electoral defeat

In spite of its unusual success in its economic policies 1993-2001, the Social Democratic government suffered a serious electoral defeat in the 2001 election as the Liberal Party, the Conservative party and the “new right” Danish People’s Party received 52.3 per cent of the votes; in addition, a small “new right” Progress Party (predecessor of the Danish People’s Party) got 0.6 per cent. Taken together, this was the highest proportion obtained by the right since 1920. The defeat is explained partly by the government’s loss of “issue ownership” of welfare, partly by a new cultural or value cleavage in Danish politics, with immigration or

ethnic conflict as the main issue (see Andersen, 2003 for an overview; Andersen & Borre, 2003 for a thorough analysis). The most interesting question in the context of the discussion about marginalisation is the support for the Danish People's Party (12.0 per cent) - to a large extent obtained by defections from the Social Democratic Party. It is noteworthy that the Danish People's Party has a much larger proportion of workers among its voters than even the Social Democrats - in 2001 the proportions were 59 and 48 per cent, respectively (unpublished results from the Danish 2001 Election Project).

The emergence of "new right" parties (we use this neutral label here, rather than "right wing extremist" or "populist") is frequently related to marginalisation processes caused by globalisation or the transition to a post-industrial or knowledge-based economy (e.g. Betz, 1994). However, in a Danish context, such an association is not straightforward.

Clearly, the Danish People's Party belongs to this family of parties; it is strongly opposed to immigration and multiculturalism; it is authoritarian; it is anti-postmaterialist. Its predecessor, the Progress Party, originally emerged as an anti-tax anarcho-liberal protest party in 1972; however, as it found a new rallying issue in immigration in the mid-1980's, the tax issue was gradually downplayed to nothing. When the Danish People's Party was launched in 1995 by Pia Kjaersgaard, former leader of the Progress Party, due to a personal strife, the new party took the opportunity to get rid of most of its former ideological baggage. At least in practical politics, it has deliberately presented itself as a centrist, pro-welfare party - opposed to further EU integration (Bjorklund & Andersen, 2002).

Since the 2001 election, however, the party has cooperated closely with the Liberal-Conservative government on all issues including a big reform package which tightened the rules of immigration very strongly. Indeed, the Liberal-Conservative government's immigration policy comes more close to the preferences of the Danish People's Party than anyone would have imagined. Thus, the dream of the party is fulfilled: It has always sought cooperation with the mainstream right parties and avoided being too extreme or being too much of a protest party to making such cooperation impossible.

As to the party's supporters, it is difficult to establish a link to marginalisation in any straightforward sense. According to the 1999 marginalisation survey, there is no causal link between economic hardship and negative attitudes towards immigrants, nor between labour market marginalisation and negative attitudes towards immigrants. According to numerous election surveys, there is no association between marginalisation on the labour market and support for the Danish People's Party (Bjorklund & Andersen, 2002). In the 2001 election, the Danish People's Party seems to have won a little bit disproportionately among marginalised people (table 10), but the over-representation among unemployed people is mainly ex-

plainable by education and social class. As revealed by table 11, there is no difference between party choice of employed and unemployed workers in this respect; among unemployed white collar-workers, there may be a higher propensity to vote for the Danish People's Party in 2001, but it is well-known, on the other hand, that unemployed white collars have a different composition than employed white collars. To interpret the finding as sign of "middle class panic" or status inconsistency would be going much too far.

Supporters of the Danish People's Party have a low level of political efficacy and social trust (more than expected from low education); and they have a pessimistic view of the *country's* future; but they do not distinguish as being marginalised, and not even by being pessimistic about their own future (which could be a psychological variant of marginalisation).

What explains the increasing importance of the issue of immigration on the political agenda (table 12) is not economic crisis and labour market marginalisation. Apart from the dynamics of party competition and media attention, it is rather the perceived *solution* of the economic problems and the problems of labour market marginalisation that gives room for public attention to the issues of immigration and of welfare - where the public perceives that there are still problems to be solved. Clearly, the emergence of the issue of immigration has meant the mobilisation of old "working class authoritarianism" (Lipset, 1960), as well as a transformation of political identities and the whole Danish party system which today is structured at least as much by a new value dimension as by the "traditional" left-right dimension.

Indeed, the consequences are dramatic: From 1966 to 1990, working class support for socialist parties dropped from 81 per cent to 71 per cent. But in 2001, socialist parties obtained only 41 per cent among manual workers whereas 53 per cent voted for the Liberals, the Conservatives or the new right - an even larger proportion than among white collars (Andersen & Andersen, 2003). At most, the party can be said to represent a rebellion of the less privileged segments of Danish society (at least in terms of education). But in the Danish case there is little to indicate that this is linked to marginalisation in any conventional sense of the word.

Table 10. Support for the Progress Party/Danish Peoples's Party (combined support), by labour market status, 1987-2001. Percentages.

	1987	1990	1994	1998	2001
Election result	4.8	6.4	6.4	9.8	12.6
Employed	5	7	6	5	12
Unemployed	7	6	6	10	15
Disablement pensioners (18-59 years)	2	7	6	12	16
(N)	1905	1508	1885	2064	17334
	156	183	229	174	748
	98	122	165	197	1034

Source: Danish Election Programme. It should be added that the Progress Party obtained between 11.0 and 15.9 per cent 1973-1979, and 9.0 per cent in 1988.

Table 11. Support for the Progress Party/Danish Peoples's Party (combined support), by labour market status and class, 2001. Percentages.

	employed	unemployed
manual workers	18	17
nonmanual employees	7	15
N	6916	336
	9247	235

Table 12. The political agenda of Danish voters, 1971-2001. Percentages of all answers.

	1971	1973	1975	1977	1979	1981	1984	1987	1988	1990	1994	1998	2001
1.Unemployment	3	1	40	42	23	44		16	13	29	24	7	3
2.Economic problems	24	17	32	29	51	28	} 63	31	24	19	15	7	4
3.Taxes	12	24	6	4	5	6	4	2	7	9	2	5	6
1-3.Econ-issues total	39	42	78	75	79	78	67	49	44	57	41	19	13
4.Environment	8	4	1	3	6	2	3	15	9	10	8	9	4
5.Welfare	26	14	4	13	7	8	13	15	6	20	38	47	51
6.Immigration	-	-	-	-	-	-	-	4	2	4	8	14	20
7.Foreign/defence pol.	17	3	1	1	1	2	9	3	15	3	3	5	4
8.Else	10	37	16	8	7	10	8	14	24	6	2	6 ¹⁾	8 ¹⁾
Total	100	100	100	100	100	100	100	100	100	100	100	100	100
<p>Q. "Now I would like to ask which problems you consider most important today for politicians to take care of?"</p> <p>Table shows distribution of all answers. Average number of answers was 2.5 in 2001, 2.4 in 1998, falling to a little below 2.0 answers in the 1970s.</p> <p>1) Of which: Law and order: 3 per cent. in 1998, 2 per cent in 2001.</p> <p>Source: Danish Election Programme (Andersen, 2003c)</p>													

6. Conclusion

Contrary to expectations, Denmark to a considerable degree managed to escape from mass unemployment in the 1990's. Certainly there remains a group of social assistance clients that appear more or less unemployable, often due to a combination of problems such as bad health, alcohol or drug abuse, psychiatric problems etc. To this comes a quite large group of immigrants who face difficulties in being integrated on the Danish labour market.

However, widespread labour market marginalisation among “ordinary” long-term unemployed has to a large extent been overcome. It is uncertain to what extent this can be attributed to the active labour market policies that were introduced in the 1990's but it has undoubtedly had an impact. Equally importantly, however, the Danish welfare system remains efficient in preventing a spill-over effect from labour market marginalisation to social marginalisation. Differences in well-being and in participation between employed and unemployed people are small and to a large extent attributable to differences in social composition. What remains, seem to be crucially dependent on the provision of economic resources and economic security.

This is a very old lesson but a very important one that has too frequently been forgotten in debates about marginalisation and inclusion. Labour market marginalisation is not tantamount to social marginalisation (and labour market inclusion, on the other hand, is no perfect guarantee against social marginalisation). The Danish system of social protection for the unemployed is in many ways an ideal from a citizenship point of view as it provides a very efficient protection against poverty (at least by comparative standards). It could be feared, however, that such a relatively generous system, at least for low-income groups, would be economically detrimental. However, there is little *empirical* evidence that this is a major problem. On the contrary, by comparative standards, the Danish welfare system appears unusually efficient in avoiding long-term unemployment, and even more in avoiding a concentration of unemployment among the low skilled. By the same token, micro-level evidence speaks against the idea of strong disincentive effects. If there are negative effects of incentives on re-employment, they seem at least to be neutralised by a positive resource effect. At the same time, the provision of resources appears essential to the comparatively low level of social marginalisation in Danish society.

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