

STATE POWER AND THE INSTITUTIONAL CHALLENGES TO
COORDINATING INDUSTRIAL ADJUSTMENT:
INDUSTRIAL AND LABOR MARKET POLITICS IN DENMARK IN THE 1990s

by

DAMON C. MORRIS

A dissertation submitted to the Graduate Faculty in Political Science in partial fulfillment of the requirements for the degree of Doctor of Philosophy, The City University of New York.

2005

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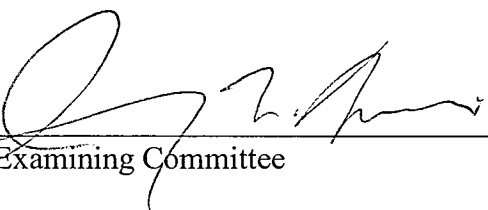
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This manuscript has been read and accepted for the Graduate Faculty in Political Science in satisfaction of the dissertation requirements for the degree of Doctor of Philosophy.

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Professor Howard Lentner

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THE CITY UNIVERSITY OF NEW YORK

AbstractSTATE POWER AND THE INSTITUTIONAL CHALLENGES TO
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by

Damon C. Morris

Advisor: Professor Irving Leonard Markovitz

This work addresses the capacity of state actors in advanced industrialized welfare states characterized as “coordinated market economies” to exploit comparative institutional advantages and induce cooperation among strong state and non-state actors in order to coordinate economy-wide or even sectoral industrial growth and adjustment efforts that draw on and utilize resources from several distinct policy spheres. In particular, this work focuses on the different institutionalized relations and roles of important political-economic actors, especially those of civil servants as state actors, business actors, and interest organization actors, in the Danish industrial policy sphere and the Danish active labor market policy sphere and their impact on industrial policymakers’ efforts to coordinate industrial adjustment in the 1990s in response to globalization-related processes.

Based on an analysis of industrial and labor market politics in Denmark, I argue that the particular power relations among relevant state and non-state actors, the particular roles the actors have to play, and the particular priorities among these actors in distinct policy spheres are likely to result in institutional variation not only across national political economies, but across policy spheres within national political economies. Even if effective coordinating institutions are established within distinct

policy spheres, the particular roles, relations, and priorities among important political-economic actors within any given policy sphere are likely to lead to unique policies and institutions that are not necessarily predisposed to coordination across policy spheres. Furthermore, these roles, relations, and priorities will impact not only the content of policies and the form and function of coordinating institutions, but the manner in which state actors may increase their autonomy and lead adjustment processes. The extent to which state actors will be able to purposefully manipulate and exploit comparative institutional advantages and establish effective coordinating institutions is therefore likely to be much more limited than envisioned in theoretical debates on coordinated industrial adjustment.

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Introduction

The apparent acceleration of economic and technological processes associated with globalization has led to considerable debate on the nature of the state not only as an analytical concept, but also as an institutional structure or set of institutional structures capable of providing a basic foundation for political governance and economic stability. This study engages the debate as to whether advanced industrialized welfare states have the capacity to effectively control and regulate domestic political and economic processes in the context of global processes associated with globalization, such as increasing flows of capital, trade, and information. In particular, this study will focus on the capacities of advanced industrialized welfare states characterized by what Peter A. Hall and David Soskice refer to as “coordinated market economies” to exploit comparative institutional advantages and induce cooperation among strong state and non-state actors in order to coordinate economy-wide or even sectoral industrial growth and adjustment efforts that draw on and utilize resources from several distinct policy spheres.¹ Industrial and labor market politics in Denmark, an advanced industrialized welfare state identified by Hall and Soskice as a coordinated market economy, will serve as case studies to explore some of the implications of coordinating such industrial adjustment efforts.

This work will focus on the different institutionalized relations and roles, especially those of civil servants as state actors, business actors, and labor actors, in Danish industrial policy and active labor market policy and their impact on efforts to coordinate industrial adjustment in the 1990s in response to globalization, including what

¹ Peter A. Hall and David Soskice, “Introduction,” in Peter A. Hall and David Soskice, eds., *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford, U.K.: Oxford University Press, 2001), 8.

Linda Weiss refers to as sectoral, industrial-technological transformation that involves “the creation of new branches of production, the shift to new products, the adoption of new technologies, and the diffusion of innovation.”² It will be primarily concerned with Danish industrial and business development policies and policymaking institutions in connection with state efforts to enhance the competitiveness of its productive economic base in order to sustain high standards-of-living and extensive social protections. Since the quality and supply of labor is a crucial ingredient to industrial adjustments of this type, Danish active labor market policy is used here to illustrate the challenges to coordinating efforts across identifiably distinct policy spheres. This is not to suggest that active labor market policy is of more or less significance to industrial adjustment than other policy spheres, such as education policy, energy policy, or fiscal policy, etc., only that it is one of many significant policy spheres potentially impacting industrial adjustment.

A “policy sphere” or “policy area” in this context refers to the complex of political actors, organizations, and institutions devoted to specific policy issues, such as industrial policy, labor market policy, fiscal policy, education policy, etc. One important aspect of policy spheres as used in this work is the bureaucratic organization of executive government power most easily identified with particular government ministries and its associated agencies, offices, and divisions, such as a ministry of business or a ministry of labor. This aspect does not preclude non-governmental actors from the discourse on policy issues under the executive authority of government actors, only that the implementation of official government policies requires the authorization, or at least the tacit approval, of executive political authorities. Another important aspect of a policy

² Linda Weiss, *The Myth of the Powerless State* (Ithaca: Cornell University Press, 1998), 66–67.

sphere, therefore, is the existence of a policy community of state and non-state actors contributing to the discourse on issues of direct relevance to that policy sphere and perhaps even the implementation of official government policies. A policy sphere or policy area is thus broadly characterized by the bureaucratic organization of a legitimate recognizable government authority mandated to govern delimited policy issues and the institutionalized relations among state and non-state actors impacting relevant policy issues under that authority. These characteristics of a policy sphere are not intended to give a complete account of a policy sphere, but rather to provide some basic boundaries. A policy issue may overlap more than one policy area, fall under the jurisdiction of more than one executive authority, involve different state and non-state actors, or even involve the same state and non-state actors playing different roles in different policy spheres. These are, in fact, the kinds of complexities that will be addressed in this work.

Since Danish policymakers were well aware of the potential challenges presented by globalization-related processes before the 1990s, the main issues to be explored are not if Danish state actors tried to respond to increasing global competition, but how and with what consequences. Based on an analysis of industrial and labor market politics in Denmark, I question the assertion that globalization-related processes have been the primary cause for a weakening of state institutions, the capacity of state actors to respond proactively to challenges presented by globalization, or the capacity of state actors to balance competitiveness in the global economy with extensive economic and social support for the most vulnerable members of society. I also question, however, the feasibility of effectively coordinating broad industrial adjustment, but not because of any hypothesized constraints on state autonomy or capacity engendered by globalization. The

grounds on which I question the feasibility of effectively coordinating industrial adjustment are the complexities of different institutionalized relations and roles among relevant political and economic actors in distinct policy spheres that would need to be coordinated.

In short, I argue that power relations among relevant state and non-state actors, the roles they play, and their priorities in distinct policy spheres are likely to be different and this will result in institutional variation not only across national political economies, but across policy spheres within national political economies. Coordinated industrial adjustment may depend not only on how relations and roles are institutionalized among theoretically-favored actors in just industrial policy or just labor market policy, for instance, but how these institutionalized relations may affect the potential for coordination across such policy spheres and achieve enduring structural change that sustains competitiveness and extensive social protections in the context of globalization. The policies, strategies, priorities, and institutions in any one particular policy sphere are likely to reflect the influence various state and non-state actors exert on policymaking processes; and there is no reason even to assume that either state or non-state actors, such as civil servants, business actors, and labor actors, will have the same kinds of roles to play or influence to exert in different policy areas. Even if a particular state is characterized by a “coordinated market economy,” coordination is considered a desirable policy goal by important state and other important political-economic actors, and effective coordinating institutions are established within particular policy spheres, the differences in roles, relations, and influence among relevant actors within these specific policy spheres are likely to lead to unique policies and policymaking institutions that are

not necessarily predisposed to coordination across policy spheres. Such policies and policymaking institutions may not even be complementary and, in the worst case scenario, these differences may even lead to policy and institutional isolation.

This work is nevertheless also intended to lend evidence to the contention that advanced industrialized welfare states characterized by extensive social protections, corporatist institutions, and strong interest organizations are not necessarily any more vulnerable to globalization than any other form of advanced industrial state, social-democratic, neoliberal, or otherwise. I reject notions that national institutions and policies are necessarily homogenized by globalization or that every state must inevitably converge toward a neoliberal model in order to remain competitive in the global economy. Although I do not discount the potential negative effects of globalization on state autonomy or state capacity, I also reject deterministic arguments that state autonomy and capacity are necessarily weakened and that welfare benefits and social protections must be abandoned in order for states to remain competitive in the global economy. There is no reason to assume *a priori* that state autonomy and capacity are only weakened by globalizing processes, that international competitiveness and extensive social protections are antithetical, or that one could only be achieved at the expense of the other.

Instead, I argue that state autonomy and capacity may be mutually reinforcing by building on comparative institutional advantages and establishing coordinating institutions that enhance the capacity of states with coordinated market economies to achieve desired policy goals. In turn, autonomy may be increased by expanding the menu of potentially achievable policy options available to policymakers if such coordinating

institutions can be established. For example, industrial policies that promote innovation and higher value-added production and services and complementary active labor market programs that increase the skills of labor provide an alternative to production based on labor-intensive, lower valued-added production. Higher value-added production provides greater returns on productive activity that could then be redirected to other priorities. The challenge therefore is to establish institutions that effectively coordinate the policies and resources that make higher-value added production strategies possible, including, but not limited to, industrial and labor market policies and resources. Complementary institutions may help close the divide, but the challenge to policymakers is purposefully establishing institutions that effectively coordinate all the elements that contribute to innovative, higher value-added production. These institutions must therefore span the divides among policy areas impacting industrial adjustment, such as industrial and labor market policies. The question turns on what kinds of institutions induce cooperation and coordination in distinct policy spheres within coordinated market economies and thereby enhance capacity; and how such coordinating institutions might be effectively established across policy spheres given differing internal logics and power relations in each sphere.

Ultimately, I argue that the greatest challenges to coordinating industrial adjustment in Denmark, and hence the strengthening of state autonomy and capacity in the face of globalization, were not policy constraints imposed by globalization. Instead, the greatest challenges were more related to mundane political and institutional issues internal to the Danish state and society. Although civil servants' autonomy was enhanced and coordinating institutions were established in the industrial policy sphere and the labor market policy sphere to coordinate adjustment efforts in their respective spheres, the

ability to translate state capacity in these separate policy spheres into coordinated comprehensive adjustment policies was hampered by those same institutionalized power relations among political leaders, civil servants, interest organizations, and business leaders peculiar to the specific policy areas that made it possible to enhance state actors' autonomy and capacity in each policy sphere in the first place. Different priorities, different roles and relations among relevant actors, and different strategies in the industrial and labor market spheres led to different policies and different institutions. Industrial and labor market policies and institutions may have been complementary to some degree, seen from certain perspectives, but they developed independently of one another according to unique logics and relations within specific environments. In the case of Denmark, these logics and relations led to a lack of coordination between industrial and labor market policies and institutions.

I am not arguing that the lack of coordination between industrial and labor market policy areas is the only or necessarily even the most important factor obstructing coordinated industrial adjustment; or that the inhibiting elements identified here were the only barriers to coordination in Denmark. I am also not arguing that coordinated industrial adjustment and the potential for enhancing state autonomy and capacity is impossible to achieve. I am arguing, however, that institutional variations are likely to occur within national political economies and that these political and institutional complexities need to be taken into account if coordinated industrial adjustment and transformation is to be successful. If the point of identifying national comparative institutional advantage is to be able to draw on these advantages to support distinctive economic and social policies, the practical and concrete challenges as well as the

analytical challenges must be acknowledged and resolved. If one may reasonably assume that industrial adjustment relies on policy coordination across multiple spheres—including competition policy, trade policy, technology policy, labor market policy, education policy, fiscal policy, finance policy, social policy, health policy, energy policy, etc.—the experience of Danish policymakers in coordinating just industrial and labor market policies should give pause for thought on the practical possibilities for implementing effective coordinated economic adjustment strategies, even in coordinated market economies.

In chapter one, I lay out the framework of analysis. I begin with a review of the debate on state power and globalization. It has been hypothesized that structural changes in the nature of the wider political economy from an international economy to a global economy have catalyzed structural changes in states and state institutions, significantly impacting state autonomy and capacity. Some scholars contend that these changes are merely cosmetic. Others contend that free-flowing finance capital undermines national fiscal and monetary policies and free-flowing industrial capital and trade undermines the productive capacity of national industrial bases. According to one set of views, states are impacted by globalization only to the extent that they choose to be impacted; the other set of views asserts that states are at best able only to react to, not control, global movements of capital and information and the ensuing disruptions in national political and economic governance processes, including finance, industrial, and labor market policy. For some, globalization is more or less irrelevant to state power, but to others globalization not only restricts independent state policymaking to a short menu of neoliberal options, but also forces a homogenization of states and state institutions through that menu in order to

adapt to the dictates of global capitalism. These polarized views seem to exclude another option concerning the relationship between globalization and state power, however, namely that globalization-related processes do impact state autonomy and capacity to some degree, but that states may use what autonomy and capacity they do have to reinforce autonomy and capacity rather than lose it or sacrifice it for the sake of maintaining competitiveness. In other words, if it is legitimate to ask under what conditions states might lose policymaking autonomy and the capacity to effectively achieve desired policy goals in the face of globalization, it is also legitimate to ask under what conditions states may strengthen autonomy and capacity.

I draw on Hall and Soskice's work on the comparative institutional advantages of coordinated market economies,³ Peter Evan's work on embedded autonomy and industrial transformation,⁴ and Linda Weiss' work on selective embedded autonomy, governed interdependence, and industrial transformation⁵ to explore these issues. While Hall and Soskice provide a useful theoretical framework outlining important contours of national comparative institutional advantages, Evans and Weiss provide useful insights into how state actors might exploit such advantages in effectively promoting industrial adjustment and growth. Hall and Soskice suggest that the key challenge to policymakers in a coordinated market economy is exploiting comparative institutional advantages that induce cooperation and coordination among important political-economic actors. Although writing much earlier, Evans suggests that industrial transformation in developing countries may be best accomplished through the institutionalization of close

³ Hall and Soskice, *passim*.

⁴ Peter Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton: Princeton University Press, 1995), *passim*.

⁵ Weiss, *passim*.

public–private contacts, especially among private-sector business leaders and civil servants. Drawing on Evans and earlier works by Soskice and similar scholars, Weiss suggests that selective institutionalized public–private contacts among civil servants and private-sector business actors can provide the means to effectively coordinate industrial transformation efforts in advanced industrialized states.

While focusing on Danish industrial and business policy, I use the example of Danish active labor market policy to explore some of the more concrete challenges to the exercise of state power in terms of inducing cooperation among important political-economic actors and coordinating industrial adjustment, particularly those associated with inducing cooperation and coordination across policy areas. In contrast to some scholars' emphasis on state–business relations in the industrial policy sphere, such as Hall and Soskice and Weiss, I expand on Evans' acknowledgement of state, employer, and labor actors as potentially constructive or obstructive actors, and examine their roles in coordinated industrial adjustment efforts. In particular, I explore the differing roles played by strong state actors, strong labor actors, and strong business actors in establishing coordinating institutions in the industrial and labor market policy spheres. I argue that different policy spheres are likely to function according to their own internal logics and power relations among significant political-economic actors and these logics and relations will be reflected in policymaking institutions. Therefore, institutionalized embedded autonomy is only one way of inducing cooperation and coordinating industrial adjustment, and is not necessarily always the most appropriate mechanism to promote adjustment. Furthermore, I argue that important political-economic actors, including civil servants and business actors, may play different roles and have different degrees of

influence to exert in different policy spheres, and not always in ways conducive to coordination. Finally, even if some important political-economic actors, for example, labor groups, are not directly involved in coordinated public-private industrial adjustment efforts, they cannot be ignored due to their potential impact on other policy areas that are crucial to coordinated industrial adjustment, for example, labor market policy.

In Denmark, despite the existence of strong state actors in the Danish Ministry of Labor and the Danish Ministry of Finance leading labor market policy as well as strong state actors in the Danish Ministry of Business leading industrial and business policy, civil servants, employer organizations, and labor organizations manifested their influence in the establishment and steering of active labor market policy institutions that in effect prevented the coordination of active labor market strategies and industrial development strategies. Due to the different roles and degrees of influence of state actors, business actors, and labor actors on industrial policy and labor market policy, the policies, priorities, strategies, and institutions established in the labor market sphere were at considerable odds with the policies, priorities, strategies, and institutions established in the industrial policy sphere, and hence coordinated industrial adjustment. Although each set of policymaking institutions was intended to induce cooperation and coordination among important political-economic actors within their respective spheres, significant differences in priorities, policies, and policymaking institutions presented more, not fewer barriers to coordinated industrial adjustment in Denmark.

In the case of Danish industrial policy, the dominant employer organizations played a generally obstructive role in pursuing industrial development policies, while

labor organizations played relatively minor roles. Other private-sector business leaders, however, played important roles in establishing public-private networks and partnerships. Direct but selective contacts were institutionalized by progressive civil servants and individual private-sector actors to enhance cooperation and coordination in the industrial policy sphere despite the existence of strong business groups, not because of them. Institutionalizing direct but selective public-private contacts was not only a practical tactic pursued by civil servants to enhance their policymaking autonomy, but, given the opposition of conservative employer organizations and political leaders, a politically necessary one. This tactic, however, also served to limit contacts between state actors and strong organizational actors who had considerable influence over other policy areas, such as labor market policy. Industrial policies were internally coherent and coordinated, but they were not coordinated with labor market policies.

In the case of Danish labor market policy, the dominant employer organizations and the dominant labor organizations both played significant constructive roles. However, due to the nature of the Danish labor market system, and especially the special roles reserved for employer and labor organizations in this consensus-based system, both employer and labor organizations used their influence to prevent issues that were not of direct and immediate relevance to labor market policy from penetrating the labor market policymaking process. Coordinating institutions in the form of a corporatist National Labor Market Council (*Landsarbejdsrådet*) and fourteen corporatist regional labor market councils (*arbejdsråderne*) were established to implement active labor market policies through the full cooperation of state, employer, and labor actors; but the form and function of these councils effectively isolated active labor market policy from

industrial development efforts. In the case of active labor market policy, given the importance of interest organizations to the Danish labor market system, including the unemployment benefits system, state actors could not out-manuever employer and labor organizations by institutionalizing direct public–private contacts as they did in industrial policy. State actors in the labor market policy sphere resorted to different tactics than their counterparts in the industrial policy sphere to enhance their autonomy, namely legislating the frameworks within which the labor market councils overseeing active labor market programs would operate. As in the case of industrial politics, state and non-state actors contributed to policy and institutional harmony within the labor market policy sphere, but whereas active labor market policies were internally coherent and coordinated, they were not coordinated with industrial development policies.

In chapters 2–4, I analyze the political processes through which coordinated industrial adjustment policies were conceived and coordinating institutions established to implement them. I analyze Danish industrial politics and the institutionalized relations among state and non-state actors, including the inclusion and exclusion of important actors in the policymaking process, and the policies, strategies, and significant programs that led to the Danish coordinated industrial development policies in the 1990s. In chapter two I describe the basic framework for industrial policy that was set out in the 1973 *Law on Technological Services (Lov om teknologisk service)* and remained in force until 1990, but quickly jump to the more relevant industrial policy environment following the election of a Conservative-led coalition in 1982. I describe the general contours of Danish industrial policies under this government, roles of relevant state actors, especially civil servants, business interest organizations, and private-sector actors, and relationships

among them that set the stage for industrial politics in the 1990s. During the period between 1982 and 1990 industrial policy was largely interpreted in terms of technological development and dispersion among Danish firms. Political leaders were split between laissez-faire industrial policies and “picking-the-winners” policies. Business actors and industry experts were likewise split between employer organizations supporting laissez-faire policies and other business leaders and industry experts promoting coordinated active industrial development policies. For their part, civil servants found navigating these extremes difficult. Politically-acceptable active industrial development strategies were elusive and support among employer organizations for such endeavors virtually non-existent. In sum, the industrial policy environment during this period was not particularly conducive to cooperation and coordination or the establishment of new coordinating institutions.

I also show, however, the coalescence of a community of progressive civil servants, business leaders, professional associations, and industry experts around common coordinated industrial development strategies in response to perceived inadequacies of the laissez-faire industrial policies supported by the governing conservative coalition and employer interest organizations. While civil servants were developing a structural policy that included the integration of industrial policy, technology policy, education policy, and labor market policy, private-sector industry experts and business leaders were developing industrial development strategies based on industrial complexes or clusters that also emphasized the coordination of resources from several policy spheres. At the turn of the decade, these actors eventually converged on a cluster approach to industrial development, which was predicated on close public-private

cooperation. Nevertheless, neither the minister nor employer organizations supported such strategies because many political and business leaders associated a cluster strategy with a picking-the-winners strategy. Despite the emergence of a coherent industrial development strategy and support for the strategy among many civil servants and private-sector business leaders and industry experts, conservative political leaders and employer organizations hindered its adoption and implementation. The tenuous links established between progressive civil servants and private-sector business leaders and industry experts during this period were not sufficient to significantly change the course of industrial policy or induce greater cooperation among all the important political-economic actors.

Chapter three begins in 1990 with the replacement of the 1973 *Law on Technological Services* with the 1990 *Law on Business Promotion (Lov om erhvervsfremme)*, which had far-reaching implications for Danish industrial politics in the 1990s. The “rationalization” of the ministry of industry and its associated agencies included the replacement of the Technology Council (*Teknologirådet*) that provided advice on industrial-technological issues to the government with a Business Development Council (*Erhvervsudviklingsrådet*) that was mandated to provide advice on much broader issues of industrial and business development. While members of both of these councils were nominally independent of interest organizations, they were in practice selected and appointed by interest organizations. Civil servants working in the secretariat of the council who were also familiar with business leaders and industry experts within the progressive community seized the opportunity to filter a coordinated cluster-based industrial development strategy through the Business Development Council in 1991.

Although the Business Development Council was essentially only an advisory board, it bestowed several benefits to supporters of coordinated active industrial policies. First, as an official advisory organ, the council served as a political platform to promote coordinated industrial development strategies. Second, it provided civil servants a sanctuary in which Danish clusters could be further explored without drawing the ire of conservative political and business leaders. Since an important aspect of this industrial adjustment strategy was extensive cross-policy coordination based on close public-private contacts between civil servants and private-sector actors, especially business leaders, a third benefit was the deepening and strengthening of the contacts among civil servants, independent private-sector business leaders, and other industry experts that had been developing over the previous several years. The patronage of the Business Development Council and the willing participation of private-sector business leaders endowed the strategy with a veneer of legitimacy that could not be summarily dismissed by conservative political and business leaders.

During this period, civil servants took their first tactical steps towards embedding themselves in the private sector through the council-sponsored “Resource Areas Analyses” project. Although the emerging cluster strategies were predicated on close public-private cooperation to enhance the basic business conditions in Danish clusters, civil servants also saw such contacts as a means to increase their policymaking autonomy from interest organizations and dampen political resistance to such strategies among more conservative political and business leaders. Interest organizations had some authority over the cluster project by virtue of their positions on the Business Development Council, but the day-to-day management and direction of the project was

firmly in the hands of civil servants working in the council's secretariat. In fact, the civil servants and private-sector industry experts leading the examination of Danish clusters tried to limit the participation of the major employer and labor organizations in their endeavors. Still, it was not until a fortuitous shift of government in 1993, the ensuing establishment of a ministry for business policy coordination, and the appointment of many of these progressive civil servants to senior positions in this ministry that the strategies were adopted as government policy.

I begin chapter four with the change of government in 1993 from a Conservative-led coalition to a Social Democrat-led coalition, after which civil servants re-exerted their policymaking autonomy with the tacit support of a disinterested minister of business policy coordination and an expanded community of private-sector business leaders and industry experts. Civil servants immediately began issuing annual industrial policy guidelines without seeking the advice of interest organizations or the Business Development Council. Although the new policy guidelines were based on many of the lessons learned through the Business Development Council's Resource Areas Analyses project, the new industrial policies were written exclusively by civil servants. Instead of drawing legitimacy for their policies from interest organizations or corporatist institutions, civil servants sought to draw legitimacy directly from the private-sector. Indeed, while the Business Development Council provided a safe-haven for civil servants to develop a coordinated cluster-based industrial development policy and establish denser ties to private-sector actors under a conservative government, once these civil servants were placed in senior positions at the Danish Ministry for Business Coordination (*Ministeriet for Erhvervspolitisk Samordning*), they rescinded the council's authority over

the Resource Areas project in 1994 and continued direct contacts with private-sector actors outside the confines of the Business Development Council through the ministry's "Dialogue with Resource Areas." Ministry officials increasingly ignored the council, which also eroded support for the council among interest organizations. Eventually, the Business Development Council faded into irrelevance. By the mid-1990s, civil servants had increased their autonomy by institutionalizing direct but selective public-private contacts. They drew support and policy advice from private-sector business leaders and industry experts willing to follow their lead on coordinated industrial adjustment efforts and distanced themselves from business organizations opposed to such efforts, as well as interest organizations more generally.

However, I show in chapters five and six that the establishment of new coordinating institutions based on institutionalized direct but select public-private contacts in the industrial policy sphere was not sufficient to induce coordination among actors, policies, and institutions across the industrial policy sphere and the labor market policy sphere. The coordinated industrial adjustment policies and institutions that were established in the industrial policy sphere were the result of the internal logics and relations specific to the industrial policy sphere. Likewise, the policies and institutions established in the labor market policy sphere were the result of the internal logics and relations specific to the labor market policy sphere. State and non-state actors in the labor market policy sphere had different priorities, different roles to play, and different degrees of influence to exert than their counterparts in the industrial policy sphere. For example, even though business organization actors played a generally obstructive role and labor organizations played a very minor role in coordinated industrial adjustment efforts, they

both played essential constructive roles in designing, coordinating, and implementing active labor market policies and institutions to reduce double-digit structural unemployment rates. The policies that were adopted and the coordinating institutions that were established in the labor market policy sphere were consequently far from purposefully coordinated with those in the industrial policy sphere.

In chapter five I provide a brief background of Danish labor market politics, policies, and institutions from the perspectives of labor market actors, including civil servants and interest organizations. I begin with a brief description of the important roles of employer and labor organizations, particularly the Danish Confederation of Employers (*Dansk Arbejdsgiverforeningen*, DA) and the Danish Confederation of Trade Unions (*Landsorganisationen i Danmark*, LO), and state actors in the labor market policy sphere. In contrast to the often divisive relations among state actors and business actors in the industrial policy sphere, I show that relations among the “social partners,” including state actors, employer organization actors, and labor organization actors, in the labor market policy sphere have been generally congenial and cooperative. Most labor market issues have been consensus-driven and traditionally negotiated between employer and labor organizations, especially DA and LO, with a special “umpire” role reserved for the state in cases where employer and labor organizations are unable to reach an agreement. Unlike other countries where relations between employer groups and labor groups have often been antagonistic, relations among the Danish social partners have largely been cordial and collegial throughout the post-World War II era. However, I also show that, by the early 1990s, state actors were becoming increasingly skeptical about interest organization’s abilities to resolve high structural unemployment rates through wage

negotiations. The apparent failure of wage agreements to resolve the unemployment problem led to a reorientation of labor market policy away from incomes policy and towards active labor market policies.

I begin the analysis of Danish active labor market politics in the 1990s with a review of the 1992 government-sponsored Committee on Structural Labor Market Problems (*Udredningsudvalget om arbejdsmarkedets strukturproblemer*) and the coordinating institutions set up by this corporatist committee in 1993 to reduce high structural unemployment rates, the equally-corporatist National Labor Market Council (*Landsarbejdsrådet*) and fourteen corporatist regional labor market councils (*arbejdsråderne*). I provide a description of the active labor market system set up by this committee and the role of state and interest organization actors in its governance, particularly their participation in the labor market councils governing active labor market policy implementation. Significantly, unlike the members of the Technology Council and the Business Development Council who were appointed by interest organizations but formally served in their personal capacities, the members of the labor market councils formally represented their appointing interest organization. The politics of establishing the labor market councils will not be deeply explored because the more relevant inquiry is how the form and function of these existing labor market institutions hindered or promoted coordinated industrial adjustment strategies in the 1990s. In other words, the labor market councils are independent variables affecting the dependent variable of coordinated industrial adjustment. After describing the active labor market system, I describe the basic elements of the active labor market laws passed in 1993-94, 1995, 1996, 1998, and 1999.

In chapter six, I examine how the priorities, policies, and roles and relations among state and interest organization actors during the period of active labor market reforms beginning in 1993–94 impacted the manner in which state actors could seize the policymaking initiative, as well as the form and function of the specific active labor market policy coordinating institutions, namely, the National Labor Market Council and the fourteen regional labor market councils that implemented the reforms. I then examine how these priorities, strategies, institutions, and roles and relations affected the potential for coordinating active labor market policies and policymaking institutions with industrial policies and policymaking institutions. I show that active labor market policies and coordinating institutions were based on fundamentally different roles, relations, and priorities among state actors and interest organization actors than had been the case in industrial politics. Due to the influence wielded by employer and labor organizations on labor market policy, I show that the options open to civil servants to recapture the policymaking initiative and induce cooperation and coordination in the labor market policy sphere were considerably different than the options open to civil servants in the industrial policy sphere. Unlike civil servants in the industrial policy sphere who distanced themselves from interest organizations and cultivated public–private contacts to legitimize their policies and strategies, civil servants in the labor market policy sphere needed the cooperative participation of interest organizations, who not only represented the vast majority of employers and workers and managed unemployment funds, but were also given the responsibility for implementing the active labor market reforms through the labor market councils.

I show that, despite the tradition of “social partner” governance by employer, labor, and state actors and any expectations that the Social Democrat-led government elected in 1993 might favor labor groups at the expense of employer groups, political leaders and civil servants introduced a “new style” of labor market policymaking that was based on legislating changes to active labor market policies in parliament rather than negotiating with DA and LO. Nevertheless, the active labor market system was still essentially driven by consensus among state, employer organization, and labor organization actors and considerable implementation authority had been invested in the labor market councils established in 1993, which were dominated by employer and labor organizations. The smooth functioning of the active labor market system therefore depended on the cooperative participation of state, employer, and labor actors. In this system, the labor market councils induced coordination among these actors, but the consensus-making process induced cooperation. While coordinating institutions in the industrial policy sphere closely resembled Weiss’ selective embedded autonomy, coordination in the industrial policy sphere more closely resembled what William Coleman has termed “associational governance.”⁶ In short, different relations, roles, and priorities in different policy spheres resulted in different policies and different kinds of coordinating institutions.

Following this analysis, I analyze how the specific priorities, strategies, and roles and relations among state actors and interest organization actors in the Danish labor market policy sphere that led to the successful establishment of coordinating institutions in the labor market policy sphere also contributed to the isolation of active labor market

⁶ William D. Coleman, "Associational Governance in a Globalizing Era: Weathering the Storm," in J. Rogers Hollingsworth and Robert Boyer, *Contemporary Capitalism: The Embeddedness of Institutions* (Cambridge: Cambridge University Press, 1997), 127–53.

policies and policymaking institutions not only from industrial policy, but from other policy spheres, as well. This isolation was not the result of conscious attempts among important political-economic actors to undermine coordination efforts, per se, but it was nevertheless the result of the same specific internal logics and relations in the labor market policy sphere that led to the successful establishment of the active labor market coordinating institutions. First, the top priority among political leaders and interest organizations in the early 1990s was double-digit structural unemployment rates, not coordinated industrial adjustment. Second, and related to the first, in order to reduce high unemployment levels, the policies pursued by civil servants and interest organizations in the labor market sphere were concerned primarily with reducing quantitative employment rates by providing incentives and disincentives to unemployed workers to return to the normal labor market, as evidenced in the laws adopted in the 1990s regarding active labor market policy. Simply put, although education, training, and placement programs were important aspects of Danish active labor market policy, the over-riding concern was quantitative reductions in absolute unemployment levels, not the qualitative supply of high-skilled workers to complement capital- and technology-intensive, higher value-added production as envisioned in industrial policies.

Political leaders, civil servants, and interest organization actors ensured that the active labor market policies and institutions would not deviate from this singular goal of reducing quantitative unemployment levels through a restructuring of the unemployment benefits system. Issues that were not of immediate and direct relevance to this singular goal were precluded from discussions on active labor market policy. On the one hand, civil servants at the ministry of labor saw no fundamental contradiction between their

long-term unemployment reduction efforts and the efforts of civil servants at the ministry of business to promote industrial adjustment. For example, civil servants in the labor market policy sphere saw efforts to resolve bottle-neck problems on the labor market as long-term structural policies that could satisfy firms' demand for labor. Therefore, they saw no need for greater coordination and were not pressed by political leaders to do so, despite the establishment of a ministry for business policy coordination in 1993. Furthermore, although education and training offers were essential aspects of the activation system, the content of education and training programs were issues to be resolved by education policymakers, not labor market policymakers. On the other hand, national interest organizations fiercely defended their rights to determine their own positions on particular policy issues. For example, national employer organizations refused to allow discussions on industrial policies in the labor market councils while national labor organizations refused to allow discussions on the content of education and training programs. For state actors and interest organization actors alike, policy issues such as industrial adjustment or the content of education and training programs fell outside the framework of the labor market councils. The priorities, strategies, and roles and relations among state, employer, and labor actors that were institutionalized in the labor market councils thus inhibited coordination between active labor market policy efforts and industrial adjustment efforts.

Finally, in chapter seven I draw some conclusions from the Danish case on the potential for exploiting and manipulating comparative institutional advantage in pursuit of coordinated industrial adjustment. I suggest that an unexpected but practical consequence of the different policies, strategies, and institutional designs in Danish

industrial politics and labor market politics that were generated by the different roles, relations, and priorities among state, business, and labor actors was the virtual absence of any links or coordinating institutions across the industrial and labor market policy spheres. Paradoxically, the processes by which coordinating institutions were established in each policy sphere resulted in significant barriers to coordination across them, including the processes by which state actors sought to increase their policymaking autonomy. Furthermore, even though industrial and active labor market policies and policymaking institutions were complementary in the sense that they did not work at cross purposes, this institutional complementarity had little to do with important state, business, and labor actors' conscious attempts to purposefully exploit and manipulate comparative institutional advantages in order to induce coordination and cooperation across policy spheres. Instead, the different policy spheres functioned according to different logics and power relations and these logics and power relations manifested themselves in particular policies and institutions. The extent to which state actors could manipulate and exploit comparative institutional advantages was impacted by other important political-economic actors, such as business and labor groups, but in different ways and to different degrees in the different policy spheres. Ultimately, enhanced policy autonomy and the capacity to coordinate adjustment efforts within the industrial policy sphere and the labor market policy sphere came at the expense of coordination across them.

I therefore suggest that, at least in the case of Denmark, the exercise of state power in the face of globalization had little to do with increased movements of capital, trade, and information and more to do with controlling for all the factors internal to the

state and society that impacted effective implementation of coordinated policies in response to increased movements of capital, trade, and information. Although I do not argue that cross-policy coordination is impossible, I argue that purposefully exploiting and manipulating comparative institutional advantages for any policy goal that requires the coordination of resources from distinct policy spheres is unlikely to be an easy task even under the best of circumstances. While identifying comparative institutional advantages at the national level may provide a general starting point for examining potentially effective economic adjustment strategies, the crucial comparative institutional advantages may in fact lie within distinct policy spheres that comprise a national political economy. The greatest challenges may therefore be not in exploiting and manipulating a singularly-defined national comparative institutional advantage, for example, coordinated or liberal market institutions, but exploiting and manipulating several distinct national comparative institutional advantages within the same political economy that may or may not function according to the same political and economic processes.

Chapter 1
State Power and the Institutional Challenges to
Coordinating Industrial Adjustment:
Industrial and Labor Market Politics in Denmark in the 1990s

Globalization and the State: Erosion or Endurance?

Some proponents of the globalization thesis have argued that globalization leads to the denationalization of economic activities, essentially leading to a loss of political control over economic processes.¹ Instead of nationally identified economies linked through state-to-state trade and investment arrangements, the spatial reorganization of production, the interpenetration of industries across borders, and the spread of financial markets have led to a global economy, in contrast to an international economy, beyond the regulation of a territorially defined authority.² Structural changes in the international political economy over the last three decades have resulted in a global or world economy rather than an international political economy. According to Cox, the “international economy was what classical economic theory had concerned itself with: movements in trade, investment, and payments crossing national frontiers which were regulated by states and by international organizations created by states. The world economy, in contrast, [is] the sphere in which production and finance [are] being organized in cross-border networks which could largely escape national and international regulatory powers.”³ By

¹ James H. Mittelman, “The Dynamics of Globalization,” in James H. Mittelman, ed., *Globalization: Critical Reflections. International Political Economy Yearbook, Vol. 9* (Boulder: Lynne Rienner Publishers, 1996), 2.

² Ibid.

³ Robert Cox, “A Perspective on Globalization,” in James H. Mittelman, ed., *Globalization: Critical Reflections. International Political Economy Yearbook, Vol. 9* (Boulder: Lynne Reinne Publishers, 1996), 46.

liberalizing their trade policies, deregulating their economies, and privatizing their enterprises, national governments have lost significant amount of control over their own territory. One scholar claims that these processes have strengthened transnational corporations at the expense of the nation-state because the interests of such corporations are no longer contingent on the interests of states.⁴ The chain of causality runs from the internationalization of trade, finance, and production to the eventual disappearance of relevant political borders between national economies and the erosion of effective regulation within them. Collectively, “these shifts entail an intensification of previous patterns...but also a quantum transformation of a system lacking the staying power of effective means of regulation.”⁵

At the forefront of these processes is increasingly mobile finance capital. Beth Simmons has outlined some of the potential consequences of this mobility.⁶ Liberalization has provided multinational corporations a viable exit option through foreign direct investment to their home countries, thus providing multinational firms with greater leverage over tax policy, regulatory policy, and employment policy in both foreign host and home countries. Locales compete for productive investment while workers compete with foreign labor. The growth of highly liquid portfolio investment may undercut long-term investment because liquid assets are more flexible and potentially more profitable in the short term. The growth of such investment presents a three-pronged dilemma to governments: capital mobility, monetary autonomy, and a

⁴ Vivien A. Schmidt, “The New World Order, Incorporated: The Rise of Business and the Decline of the Nation-State,” *Daedalus* 124, no. 2 (Spring 1995): 76–77.

⁵ James H. Mittelman, “How Does Globalization Really Work?” in James H. Mittelman, ed., *Globalization: Critical Reflections. International Political Economy Yearbook, Vol. 9* (Boulder: Lynne Rienne Publishers, 1996), 231.

⁶ Beth A. Simmons, “The Internationalization of Capital,” in Herbert Kitschelt, *et al.*, *Continuity and Change in Contemporary Capitalism* (Cambridge: Cambridge University Press, 1999), 36–69.

fixed exchange rate are impossible to maintain at the same time. Attempts to stimulate economic growth by lowering interest rates may only lead to capital flight as investors seek greater returns on the world market. Attempts to fight inflation by raising interest rates may backfire because capital would flow into the country as investors seek to take advantage of the high interest rate. Since interest rates affect the value of national currencies, capital mobility forces a trade-off between fixed exchange rates and monetary policy autonomy. Exchange rate stability is only secured at the expense of control over interest rates. “In effect, interest rates are determined in world markets, and are no longer available for policy (or political) manipulation.”⁷

Moreover, since expansionary fiscal policies would require borrowing on international markets, international interest rates factor into government decisions. If interest rates are too burdensome, fiscal policy is no longer a useful mechanism to stimulate growth. Even under conditions of low interest rates, governments still have to convince investors their economic policies will not undermine future returns on investments. “The liberation of once captive national capital suggests that, increasingly, democratic governments have to sell their policies not only to electorates, but to international investors, who are usually presumed to be leery of public sector growth.”⁸ Generally, high mobility and greater capital market integration erodes governments’ abilities to use monetary or fiscal policies to govern economic activity. Sassen argues that globalization entails a “partial denationalization” of territory and a partial shift of some components of sovereignty to other institutions, including supranational political

⁷ Ibid., 63.

⁸ Ibid., 64.

institutions and the global market.⁹ One reason for this shift is that "[investors] can vote governments' economic policies down or in; they can force governments to take certain measures and not others"¹⁰ by simply removing their money and investing it elsewhere virtually instantaneously.

Following greater investment opportunities, liberalization of finance and trade has provided greater opportunities for diffused production systems that take advantage of different input costs globally, reduce inventories, and respond quickly to changing consumer demand. The importance of mass production of consumer goods as the leading growth engine has been considerably reduced.¹¹ Niche-marketing has become both possible and necessary. The traditional Fordist system of production that relied on standardized, capital intensive mass-production has been replaced by the fragmented and diverse batch-production system of post-Fordism, supported not only by the freeing of financial capital, but also associated services such as legal, accounting, and marketing services.¹² Post-fordist production is a generic term for a variety of flexible systems of production that diverge from standardized systems of mass production. Prominent among Post-fordist systems are flexible specialization production (FSP) and diversified quality mass production (DQMP).¹³ Post-fordist systems seem to have emerged among local economies in advanced industrialized countries, but have spread to other parts of the

⁹ Saskia Sassen, *Losing Control? Sovereignty in an Age of Globalization* (New York: Columbia University Press, 1995).

¹⁰ *Ibid.*, 42.

¹¹ Saskia Sassen, *The Global City: New York, London, Tokyo* (Princeton: Princeton University Press, 1991), 328.

¹² *Ibid.* 331.

¹³ J. Rogers Hollingsworth and Robert Boyer, "Coordination of Economic Actors and Social Systems of Production," in J. Rogers Hollingsworth and Robert Boyer, eds., *Contemporary Capitalism: The Embeddedness of Institutions* (Cambridge, U.K.: Cambridge University Press, 1997), 21.

world as new microelectronic production technology has made integrating such systems convenient, efficient, and, in some cases, necessary.

This shift in production systems has influenced both large- and small-scale producers. The “high flexibility of microelectronic equipment and the speed with which it can be shifted to a variety of products have permitted previous mass producers to engage in customized quality production and producers with only small batches of specific items to shift to larger batches of production.”¹⁴ While these forms of production coexist with Fordist systems of production, two different Post-fordist trajectories have become evident. One is the increase in volume of craft production without sacrificing the high quality of customized goods; the other is the increase in quality of mass produced goods. Unlike standardized systems of Fordist production, FSP and DQMP require workforces with broad levels of skills and knowledge, and the ability to adapt quickly to changing production methods, including technological innovation and organizational innovation. These types of integrated global production systems, it is argued, make nationally identified manufacturing irrelevant.¹⁵ Whereas Fordism was founded on national economies, post-Fordism is founded on the global economy. In essence, “Post-Fordism is congruent with the globalization trend towards greater interdependence not only among countries, but in the operations of individual production organizations. (Globalized production operations include not only multinational corporations, but also production systems constructed ad hoc to link many individual producing units in different countries providing components and assembly of a particular product.) It thus implicitly contradicts

¹⁴ Ibid., 20.

¹⁵ Sassen, *The Global City*, 328.

the territorial principle that was congruent with Fordism.”¹⁶ In effect, the liberalization of trade and capital and complementary post-fordist production systems make any territorial understanding of the state meaningless from a production perspective.

Consequently, according to this view, the scope, reach, and intensity of transnational capital erode territorially defined space and regulatory institutions at both the macro- and micro-levels. At the macro-level, cross-border networks of production and finance can escape not only national regulation, but international regulation, as well. Barriers to the flows of goods, services, and the means of production between and among distinct national economies are eliminated. At the micro-level, as transnational corporations centralize decision-making and coordination, production units spread over increasingly internationally dispersed production sites. Aided by post-fordist production methods and advances in communications and transport technologies, multinational firms reduce costs by taking advantage of differences in factor endowments, locating particular component elements of production in the most cost-effective countries or regions. These processes have implications for all firms, whether internationally active or not. Regardless of whether domestic firms produce, market, and sell their products and services on the international market, international competitors will eventually challenge domestic firms in their home markets.

Technology plays a significant role in these processes. Investment and administrative decisions are made easier through virtually instant communication; the integration of more capital-intensive systems makes production more efficient; and advances in the means of transportation reduces exchange costs. Technological advances

¹⁶ Robert Cox, “Production and Security,” in Robert Cox and Timothy Sinclair, eds., *Approaches to World Order* (Cambridge: Cambridge University Press, 1996), 285.

have led to an apparent paradox of centralization and decentralization of economic activity. As economic processes become more global and decentralized, the need for centralized control becomes more important. Global cities and the transnational corporations headquartered within them become more important as administrative centers supporting globally-dispersed activities.¹⁷ Political decisions to liberalize domestic financial markets and international capital flows play an important role in this denationalization, but the growth of computer networks and telecommunications gives economic actors the power to tightly control economic activity far beyond the state within which they are based. Sassen fears that economic citizenship, and the mechanisms for influencing government policies, has to some degree been usurped by firms and markets.¹⁸ Economic citizenship is shifting from individuals to global economic actors. What this means, then, is that as states relinquish control in particular areas, control in that area is wielded not governments on behalf of their citizenry, but by actors that transcend national political and economic structures.

According to Strange, the accelerating pace of technological change has been crucial in the shift from state-based power to market-based power.¹⁹ While technology allows for greater control of production processes, it also raises the stakes in global competition. As production becomes more capital-intensive and less labor-intensive, the costs associated with technological innovation become more important in production strategies. The integration of technological advances, in terms of both information-sharing and productive capacities, and financial liberalization have accelerated the

¹⁷ Sassen, *The Global City*, passim.

¹⁸ Sassen, *Losing Control?*, ch. 2 passim.

¹⁹ Susan Strange, *The Retreat of the State: The Diffusion of Power in the World Economy* (New York: Cambridge University Press, 1996).

integration of national economies into one single global market economy, weakening governmental authority. Strange concludes that power has flowed from weaker states to stronger states. It has also shifted sideways from states to markets and other economic actors. And still some power, particularly regulatory power, is being contained or exercised by no one. Accordingly, states can no longer make the kind of claims to absolute authority and responsibility that it could in the past.

These claims, however, must be tempered by the substantial counter-arguments put forward by critics of the globalization thesis. For many of these critics, the attention given to globalization and its effects on state power are misleading at best and pure nonsense at worst. Some reject globalization as a process at all, while others reject the causal logic behind the globalization thesis. And still others reject the contention that, even if globalization is occurring, it has had little impact on the fundamental nature of state power. For Hirst and Thompson, the impact of an internationalized economy on the state is vastly different than the impact a hypothesized global economy would have on the state. In an internationalized economy, national policies remain not only viable, but crucial in order to preserve the distinct styles and strengths of the national economic base and the companies that trade from it; in a global economy national policies would be futile since economic outcomes are determined by market forces and transnational corporations.²⁰ They present evidence emphasizing the national base of multinational corporations and the concentration of foreign direct investment and trade among developed countries. In fact, they argue, the elements that globalization proponents identify as unique to the post World War II era presaging globalization were already

²⁰ Paul Hirst and Grahame Thompson, *Globalization in Question: The International Economy and the Possibilities of Governance* (Cambridge, U.K.: Policy Press, 1996), 185.

present at the turn of the twentieth century.²¹ The greater economy, they argue, may have become more internationalized through more state-to-state contacts, but it has not made national borders irrelevant. States play a significant, if not dominant, role in governing economic processes at both the national and international levels, and not merely as facilitators of capitalist expansion. They contend that there has been perceptible governance by states of the international economic system throughout the twentieth century.²² In other words, the present system is by no means unique or unprecedented.

Similarly, Wade contends that evidence supporting notions of globalization are highly ambiguous. For example, he points out that about ninety percent of goods is produced and consumed domestically, leaving only about ten percent for trade. Moreover, domestic investment by domestic capital exceeds both direct investment overseas and foreign investment at home. Such investment is financed largely through domestic savings, not foreign. In addition to the national nature of transnational corporations, Wade adds that the mobility of such capital is greatly inhibited once these corporations have invested. Capital's mobility is anchored to host states through sunk costs associated with investment. Furthermore, the rate and pattern of technological activities among OECD countries have shown consistent differences rather than similarities since the late 1960s. According to Wade, "Governments can do a lot to enhance the advantages of immobility and proximity, through public policies for education, infrastructure, business networks, and targeted industrial support. The overwhelming bulk of a nation's resources that are not mobile...give governments

²¹ Ibid., 15.

²² Ibid., 34.

leverage to work with.”²³ Consequently, Wade is skeptical that the world economy is more global than international.

Moreover, Boyer contends that equating globalization with convergence of national political economies is logically flawed.²⁴ To begin with, interest rates continue to exhibit considerable differences, reflecting different national monetary policies and systems of savings and investment. And since domestic savings are the foundation of investment, national policies setting up regulatory frameworks covering savings and investment leaves a wide discretionary area for governments. Another problem for Boyer involves the assumption that prices for the same product in a perfect market will eventually converge. Perfect global markets, however, do not exist. Instead, local conditions often result in different prices across and within countries. Finally, technology may affect productivity and affect strategic investment choices (and therefore also prices), but the diversity of production schemes and how technology is integrated into production systems reveals the lack of converging technological and organizational transfers. Accordingly, Boyer sees no convergence at either the macro- or micro-level.

Such critics do not deny that the state and state power is changing, but they do not accept that such change is a fundamental transformation of the international system away from the centrality of states or of states' central governing roles. Changes in the international political economy are neither unprecedented nor globalization-specific. For instance, Hirst and Thompson see a shift from a pure government function to that of a governing function. They identify five levels of governance of the economy, ranging

²³ Robert Wade, “Globalization and Its Limits,” in Suzanne Berger and Ronald Dore, eds., *National Diversity and Global Capitalism* (Ithaca: Cornell University Press, 1996), 87.

²⁴ Robert Boyer, “The Convergence Hypothesis Revisited: Globalization but Still the Century of Nations?” in Suzanne Berger and Ronald Dore, eds., *National Diversity and Global Capitalism* (Ithaca: Cornell University Press, 1996), 29–59.

from agreements among the major industrialized advanced states, to state-created international regulatory agencies, to trade blocs, to national policy, to sub-national regional policies servicing industrial districts. The new role of the state is to provide legitimacy for and ensuring accountability of supra-national and sub-national governance mechanisms. The state remains a central institution because it retains a unique characteristic—sovereignty. In the words of Hirst and Thompson:

If 'sovereignty' is of decisive significance now as a distinguishing feature of the nation state, it is because the state has the role of a source of legitimacy in transferring power or sanctioning new powers both 'above' it and 'below' it: above, through agreements between states to establish and abide by forms of international governance; below, through the state's power and authority between central, regional and local governments and also the publicly recognized private governments in civil society. Nation states are still of central significance because they are the key practitioners of the art of government as the process of distributing power, ordering other governments by giving them shape and legitimacy. Nation states can do this in a way no other agencies can: they are pivots between international agencies and sub-national activities, because they provide legitimacy as the exclusive voice of a territorially bounded population.²⁵

From this perspective states remain at the center of the international system, even if power is diffused to other actors. Howard Lentner argues further that the present international economic system rests specifically on the material power of the United

²⁵ Hirst and Thompson, 190.

States and its allies.²⁶ This coalition of powerful and wealthy states forms a military and economically productive base, while individual states within this coalition collectively “furnish the security and stability, legal frameworks and administration of justice, management and regulatory regimes, policies to sustain social peace, and foreign policies for dealing with other states in order for complex markets to operate.”²⁷ Trade, finance, and development are governed by these states through a host of international institutions, including the World Trade Organization, the World Bank, and the International Monetary Fund. These institutions do not act autonomously outside the control of states; instead, the international institutions that were created by the major powers are managed and used by them to pursue their own interests. Moreover, states retain considerable control over the national economy through its administrative and regulatory powers, among other. Lentner also casts aside the implication that the transfer of economic activities from the state to private actors leads to a transfer of power from the state to those private actors. In contrast, states remain essential to the liberal international economic system, both collectively and individually:

...Personal and property security and political stability from the base, and a transparent legal system provides the next layer for retaining investor confidence. Beyond those essential matters, governments manage their currencies and macroeconomic policies, their trade flows, and other so-called economic fundamentals. Then, regulatory regimes must be put into place to create rules for business operations and to insure adherence to legal norms. Behind financial and industrial institutions stand central banks as lenders of

²⁶ Howard Lentner, “Politics, Power, and States in Globalization,” in Henri Goverde, *et al.*, eds., *Power in Contemporary Politics: Theories, Practices, Globalizations* (London: Sage Publications, 2000), 188.

²⁷ *Ibid.*, 190.

last resort and legislatures as protectors of failed industries whose collapse threatens the larger economy. Finally, states negotiate and in other ways deal with other states with respect to economic interactions and to the construction and maintenance of regimes for regulating international commerce.²⁸

Lentner does not deny that processes associated with globalization are necessarily real, but he does reject claims that they reflect fundamental changes in the international system and are beyond the control of states. Globalization presents constraints and opportunities—particularly economic threats and opportunities, cultural challenges, and undesired flows of people, pollution, disease, crime, and drugs—but, according to Lentner, these elements are little different than the invasion, imperialism, colonialism, pollution, disease, crime, and drugs that faced states of earlier eras.

Given both the expansion of the international economy and the continuing importance of the state, it is not unreasonable to expect state actors to pursue policies designed to take advantage of the possibilities for growth and wealth generation, while avoiding the negative consequences presented by this expansion, whether fostering the competitiveness of firms or the labor force. However, Mittelman suggests a scenario that is a warped version of this ideal. The constant attempt to adjust national economies to the dictates of global capitalism is referred to by Mittelman as the “globalization syndrome.”²⁹ For Mittelman, the state facilitates globalization to realize material gain through, for example, liberalization of trade and finance, but this leads to the impotence of decision-makers to enhance national conditions for competing forms of capitalism. The state is reduced to that of a “courtesan” beholden to more powerful market interests

²⁸ Ibid., 194.

²⁹ James A. Mittelman, *The Globalization Syndrome: Transformation and Resistance* (Princeton: Princeton University Press, 2000), 4–5.

in the global economy. Mittelman acknowledges that, while globalization offers the promise of “gains in productivity, technological advances, higher standards of living, more jobs, broader access to consumer products at lower cost, widespread dissemination of information and knowledge, reductions in poverty in some parts of the world, and a release from long-standing social hierarchies in many countries,” there is a down-side to the process: The most politically and economically vulnerable are further politically disempowered.³⁰

Not only are the most vulnerable politically marginalized, but they have few hopes of benefiting from the more benevolent economic gifts bestowed by globalization, especially through the state. Instead, states are less capable of providing social protection against market shocks while decision-makers hide behind a neo-liberal ideology to justify socially disruptive and polarizing consequences.³¹ In this courtesan role, even as states liberalize regulatory structures, they also attempt to reconstitute themselves in ways that influence the character and direction of the globalization process. Although Mittelman points out that the capacities of states to do so differ markedly, “what is nevertheless common in the power differentials are the reduction of regulatory activity, the easing of borders, and the lowering of barriers.”³² What is important in this conceptualization is that, while the state is not impotent, its continual attempts to adjust to the requirements of global capitalism serves to undermine the national conditions that promote both the benefits of globalization and the provision of social protection to the most vulnerable.

There are thus several distinct implications arising from arguments in the globalization debate. One is that individual states have lost the capacity to control global

³⁰ Ibid., 5.

³¹ Ibid., 17.

³² Ibid., 233.

economic processes and autonomy from the actors involved in them. In this case, state capacity and autonomy are fundamentally compromised. Another is that states have been mostly unaffected by globalization-related processes and still retain control through the exercise of their authority and autonomy. In this case, neither capacity nor autonomy is compromised, at least no more than has historically been the case. And a third, pessimistic middle ground suggests that individual states may not have lost all control over economic processes, but in their attempts to maintain control, states sacrifice their autonomy and pursue policies that ultimately dissolve existing institutional structures and make societal goals impossible to achieve, often at the expense of the most vulnerable in society. In other words, the exercise of state power serves only to undermine state capacity and autonomy.

It is curious that, despite considerable theoretical and empirical work on the state's capacity and autonomy in the face of globalization, little mention is made of the possibility that state power can not only be sustained, but increased. State power in terms of capacity or autonomy is often presented as either static or deteriorating. Scholars on both sides of the debate who do qualify their analyses with some reservations eventually reach the same conclusion, that is, that sustaining as well as losing state power is a function of the exercise of state power. On the one hand, even if state power may be compromised, ultimate delegation of executive authority is a political decision that can be rescinded, which reflects the state's continued strength. No real power is in fact lost. On the other hand, state power is only slowly compromised, but it is the very exercise of state power that contributes to its own demise. Even if states retain some measure of capacity and autonomy, it is only a matter of time before they lose both, but as a

consequence of political decision-making. An alternative scenario that seems almost non-existent in these debates is one in which state autonomy and capacity may be initially compromised by globalization, yet states utilize what autonomy and capacity they do have to exploit globalization-related processes in ways that strengthen state capacity to pursue particular policy goals that do not conflict with the broader goals of society. In effect, scholars engaging these debates often ignore the possibility that state autonomy and capacity vis-à-vis globalization may be mutually positively reinforcing, rather than static or mutually degrading.

State Sovereignty as Autonomy and the Potential for Building Capacity

There is at least some agreement that the state remains at the center of the international system. States enjoy a unique characteristic that ensures at least a minimum of autonomy in this system, namely sovereignty. Although sovereignty is not synonymous with autonomy, the concept of sovereignty provides useful parameters within which autonomy can be exercised. Among the qualities sovereignty imparts is a “political organization based on the exclusion of external actors from authority structures within a given territory” and a “formal organization of political authority within the state and the ability of public authorities to exercise effective control within the borders of their own polity.”³³ It is these parameters that allow for the kinds of state power referred to by Lentner, and to which even Mittleman would seem to be implying. It is therefore this sovereignty as autonomy that provides a starting point from which a state can effectively regulate and govern the development of the national economy. The sovereignty afforded

³³ Stephen D. Krasner, *Sovereignty: Organized Hypocrisy* (Princeton: Princeton University Press, 1999), 3–4.

states in the international system assures them of some amount of autonomy, even if in practice some states are more autonomous than others. If states retain some level of autonomy, even if not absolutely, it is legitimate to ask if the exercise of this autonomy serves only to further undermine state autonomy and capacity in all cases as Mittleman suggests. In other words, if one may claim that the exercise of state autonomy further undermines autonomy and capacity, it is just as legitimate to explore the conditions under which the exercise of state autonomy can lead to the strengthening of state autonomy and capacity. In this scenario, state actors may become neither victims nor courtesans, but successful managers and authors of globalization-related processes, including economic adjustment. In essence, the issue may turn on how states use their relative autonomy and capacity, not only whether they have autonomy and capacity.

Even if the state may have lost some measure of authority to regional and global institutions, including the market, it has been argued that the sovereign state has also acquired and consolidated control over national institutions in order to promote national competitiveness. Over a decade ago, Dicken made a similar argument as that made by Lentner. Dicken argues that state autonomy is compromised, but that this does not necessarily weaken states. In fact, despite a loss of autonomy, states still have considerable tools at their disposal to positively adjust their economies to greater competition in the global economy:

“It is certainly true that an individual nation state’s degrees of economic freedom—its economic autonomy—are constrained, both by the actions of TNCs and other nation states. But national governments, whether singly or collectively, continue to play a most important role in shaping the global economic map and, indeed, in either encouraging or inhibiting the global

ambitions and strategies of business firms. National boundaries create significant differentials on the global economic surface. Political spaces are among the most important ways in which location-specific factors (of both supply and demand) are ‘packaged.’ Political boundaries create discontinuities of varying magnitudes in the flows of economic activities. Governments can modify (or even help to create or destroy) comparative advantage.”³⁴

Dicken found that the precise mix of policies has been influenced by many factors including a state’s political and cultural complexion and the strength of institutions and interest groups; the size of the national economy, especially that of the domestic market; the state’s resource endowments, in both physical and human terms; and the state’s relative position in the world economy, including the level of economic development and degree of industrialization.³⁵ Similarly, Schmidt has found widely differing responses to internationalization depending on the state–society relationship within the policymaking process, country size, culture, history, governmental structure, labor history and organization, and business size, organization and orientation.³⁶ These factors have led both writers to conclude that the world economy has become more, not less, politicized. Although “the power of the executive may be enhanced, autonomy will be diminished as governments must negotiate with others on the formation of policies that in the past had been their purview alone.”³⁷ Where Lentner diverges from this line of thought is that autonomy is in fact not diminished, or at least that state actors’ relative power position in relation to the other actors that are involved in these negotiations—and

³⁴ Peter Dicken, *Global Shift: Industrial Change in a Turbulent World* (London: Paul Chapman Publishing Ltd., 1988), 149.

³⁵ *Ibid.*, 161–162.

³⁶ Schmidt, 85.

³⁷ *Ibid.*, 76–77.

who could impinge on state autonomy—is any different than it has been at any other time in the state’s history.

In either case, even if the menu of possible policy choices are limited, and hence state actors’ autonomy to pursue particular policy goals is compromised, there is no reason to assume that this diminished autonomy will necessarily and inevitably lead to a self-perpetuating cycle whereby the menu of policy options constantly shrinks and state actors’ capacity to achieve policies even within this narrowed menu weakens. Skocpol asserts that “‘state autonomy’ is not a fixed structural feature of any governmental system. It can come and go. This is true not only because crises may precipitate the formulation of official strategies and policies by elites or administrators who otherwise might not mobilize their own potentials for autonomous action. It is also true because the very structural potentials for autonomous actions change over time....”³⁸ One may therefore suspect that policymaking autonomy may depend on the capacity of state actors to mobilize their own potentials to achieve particular policy goals. In the context of globalization, external pressures include the freer flows of capital, information, and trade that could potentially lead to the relocation of production capacities through which welfare expenditures are financed to foreign production sites. The worst-case potential crisis is the “globalization syndrome.” Sovereign states are free to choose their own policies, but policies that do not complement freer flows of capital, information, and trade may be accompanied by painful costs. It is continual bowing of state actors to the pain incurred by these costs that leads to the globalization syndrome.

³⁸ Theda Skocpol, “Bringing the State Back In,” in Peter B. Evans, Dietrich Rueschemeyer, and Theda Skocpol, eds., *Bringing the State Back In* (Cambridge, U.K.: Cambridge University Press, 1985), 14.

Even though globalization may constrain the pursuit of certain policies, however, institutions that enhance capacity may also expand the set of possible policy alternatives that avoid these costs altogether by increasing state and social actors' effectiveness in implementing them. In other words, such institutions may make policies that would otherwise be unachievable achievable. Autonomy is thereby enhanced by virtue of this larger set of potentially achievable policies. For example, rather than seeking to maintain competitiveness among firms and workers by lowering wages and cutting welfare provisions, institutions that effectively promote competitiveness through the development of higher value-added production and the competencies of the workforce, which in turn support welfare provisions, provides an alternative to lower value-added, labor-intensive production. State actors may not be able to completely shield society from globalization, but they do have alternatives to policies that only serve to undermine state power and broader societal goals. While autonomy provides the potential for establishing institutions that enhance capacity, enhancing capacity may provide the potential for greater policy autonomy, even under conditions of diminished autonomy. A critical issue therefore is how state actors can use what autonomy they do have to establish effective institutions that enhance capacity in a manner that broadens the possible menu of achievable policy alternatives, rather than limits it.

Building and reinforcing appropriate and effective institutions depends on multiple factors, of course, including the abilities of state and societal actors to overcome obstructive elements of pre-existing national institutions and associations, and enhance those elements that promote adjustment. These remarks thus admittedly beg the question, how do state actors find the right institutional mix to build institutions that

enhance capacity, especially if there exist powerful non-state actors? Work on the “varieties of capitalism” and comparative institutional advantages offer a useful starting point. For some scholars, the capacity of any state to induce industrial adjustment and transformation for particular ends depends on the extent to which a state’s economic structures are functionally coherent. Peter Hall and David Soskice provide an interesting and useful dichotomy of “liberal market economies” and “coordinated market economies.”³⁹ Without championing one or the other, Hall and Soskice and their colleagues examine national institutional variations among industrially advanced states and find that states may gain comparative advantage through their institutional infrastructure. On the one hand, liberal market economies are characterized by “the arm’s length exchange of goods or services in a context of competition and formal contracting” in which “firms coordinate their activities primarily via hierarchies and competitive market arrangements.”⁴⁰ In essence, the market is the institution that coordinates economic activity. On the other, coordinated market economies are characterized by “extensive relational or incomplete contracting, network monitoring based on the exchange of private information inside networks, and more reliance on collaborative, as opposed to competitive, relationships to build the competencies of the firm,” in which “firms depend more heavily on non-market relationships to coordinate their endeavors with other actors and to construct their core competencies.”⁴¹ In this case, strategic

³⁹ Peter A. Hall and David Soskice, “Introduction,” in Peter A. Hall and David Soskice, eds., *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford, U.K.: Oxford University Press, 2001), 8.

⁴⁰ Ibid.

⁴¹ Ibid.

interaction among firms and other actors often determines the extent and depth of economic coordination.⁴²

Neither model is inherently superior, but adjustment strategies will have to be implemented in the context of specific institutional structures. Accordingly, Hall and Soskice “focus on the kinds of institutions that alter the outcomes of strategic interaction”⁴³ among relevant economic actors, especially firms. It is argued that adjustment in a coordinated market economy is unlikely to be successful if built on competitive market arrangements whereas adjustment in a liberal market economy is unlikely to be successful if built on non-market relationships. In any case, they argue that firms will gravitate toward the mode of coordination for which there is institutional support.⁴⁴ The implications are that institutional differences in national political economies condition economic performance and social well-being and, hence, a homogenization of state structures in a neoliberal mold is not predetermined. Similar to questions related to finding the “right” institutional mix, they ask what types of organizations and institutions support the distinctive strategies of economic actors.⁴⁵

To Hall and Soskice, institutional complementarities have special relevance for the study of comparative capitalism because they point to differences between liberal and coordinated market economies and, thus, a way of identifying the organizations and institutions supporting distinctive strategies. According to them, “nations with a particular type of coordination in one sphere of the economy should tend to develop

⁴² Ibid.

⁴³ Ibid., 5.

⁴⁴ Ibid., 9.

⁴⁵ Ibid.

complementary practices in other spheres as well.”⁴⁶ Moreover, in some cases, “the institutions sustaining coordination in one sphere can be used to support analogous forms of coordination in others.”⁴⁷ And indeed they provide stylized evidence of statistical clustering among liberal and coordinated market economies. The structure of economic institutions has significant meaning for policymakers. In coordinated market economies, including Denmark, “where norms and institutions supporting effective cooperation already exist, policymakers may be able to improve its operation with complementary regulations, but it is difficult to induce such cooperation *ex nihilo*.”⁴⁸ The principal problem facing policymakers is not inducing economic actors to cooperate more effectively with just state actors, but “inducing economic actors to cooperate more effectively with each other.”⁴⁹ Nevertheless, they surmise that “coordination-oriented policies should be more feasible in nations with both a coordinated market economy and a political system in which producer groups enjoy substantial structural influence.”⁵⁰ They suspect that institutional complementarities should play an important role in the adjustment processes. Although institutional reform in one sphere of the economy may encourage similar reforms in other spheres, institutional complementarities also may “generate disincentives to radical change.”⁵¹ As they readily admit, “each economy displays specific capacities for coordination that will condition what its firms and government do.”⁵²

⁴⁶ Ibid., 18.

⁴⁷ Ibid.

⁴⁸ Ibid., 46.

⁴⁹ Ibid., 45.

⁵⁰ Ibid., 48.

⁵¹ Ibid., 63–64.

⁵² Ibid., 35.

According to Evans and Weiss, one way of establishing effective institutions that enhance the capacity of states to promote industrial adjustment and growth may be through dense public-private contacts. Peter Evans provides evidence that “embedded autonomy” has had significant benefits to industrial development in Brazil and Linda Weiss has applied Evans’ concepts to advanced industrial states. Linda Weiss ambitiously attempts to dispel the “myth” of the powerless state by applying similar concepts and frameworks to coordinated industrial transformation as those found in the varieties of capitalism approach espoused by Hall and Soskice.⁵³ In fact, much of her theoretical framework draws on earlier works of Hall, Soskice, and their colleagues. Her focus, like that of Hall and Soskice, is on the role played by business interests in industrial adjustment and builds on Evans’ concept of embedded autonomy as a means of establishing effective state-business coordination. Weiss’ argument starts with the notion that state capacity in a general sense is an analytically useless concept. She asks a significant question: Capacity for what? She is concerned with the “transformative capacity” of advanced industrial states, that is, “the ability of a state to adapt to external shocks and pressures by generating ever-new means of governing the process of industrial change.”⁵⁴

Weiss draws heavily on Peter Evans work on developing states’ capacities for industrial change. Linking a Weberian-type bureaucracy with dense social ties, Evans suggests “embedded autonomy” can provide the conditions under which industrial development can be successfully managed.⁵⁵ Embedded autonomy refers to the

⁵³ Linda Weiss, *The Myth of the Powerless State* (Ithaca: Cornell University Press, 1998), passim.

⁵⁴ *Ibid.*, 4.

⁵⁵ Peter Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton: Princeton University Press, 1995), ch. 1 passim.

combination of a bureaucracy based on highly selective meritocratic recruitment and long-term career rewards that create commitment and a sense of corporate coherence with a concrete set of social ties. Embedded autonomy thus “binds the state to society and provides institutionalized channels for the continual negotiation and renegotiation of goals and policies.”⁵⁶ The extent of state involvement in the economy is not so important as how and where the state intervenes. Embedded autonomy provides a mechanism by which state actors can learn how and where to do so by institutionalizing dense state–society contacts. Evans is aware that how autonomy and embeddedness are combined depends on the historically determined character of the state apparatus and the nature of the social structure, although state actors retain considerable maneuverability in encouraging or hampering the construction of a “developmental state.”

Evans’ “developmental states” help formulate projects that go beyond responding to the immediate demands of politically powerful constituents. Yet while autonomy is a necessary condition, it is not sufficient. “The ability to effect transformation depends on state–society relations as well. Autonomous states completely insulated from society could be very effective predators. Developmental states must be immersed in a dense network of ties that bind them to societal allies with transformative goals.”⁵⁷ Still, autonomy complements embeddedness, “protecting the state from piecemeal capture, which would destroy the cohesiveness of the state itself and eventually undermine the coherence of its social interlocutors. The state’s corporate coherence enhances the cohesiveness of external networks and helps groups that share its vision overcome their own collective action problems. Just as predatory states

⁵⁶ Ibid., 12.

⁵⁷ Ibid., 248.

deliberately disorganize society, developmental states help organize it.”⁵⁸ The most obvious societal group with whom state actors would interact in a transformative development project would be local entrepreneurial groups. As Evans himself points out, embedded autonomy initially implies dense links not with society in general, but specifically with industrial capital. A developmental project based on state–business links carries risks, though. From the point of view of other societal actors, such as labor groups, the state can be repressive since capital is connected and labor is excluded. “Viewed from the perspective of conflict between labor and capital, embedded autonomy increases the coherence of capital at labor’s expense.”⁵⁹ Thus, building state–business links is a delicate political task as well as an economic one.

Weiss credits Evans with providing a useful starting point from which to analyze state-society relations for developmental projects, but criticizes his work for not fleshing out the implications of the pre-existence of both a strong state and strong private-sector actors in industrially-advanced states, particularly business actors. She puts forward the concept of “governed interdependence” to rectify this oversight. “‘Governed interdependence’ (GI) refers to a negotiated relationship, in which public and private participants maintain their autonomy, yet which is nevertheless governed by broader goals set and monitored by the state. In this relationship, leadership is either exercised directly by the state or delegated to the private sector where a robust organizational infrastructure has been nurtured by state policies.”⁶⁰ She continues, “while ‘embedded autonomy’ solves conceptually the problem of how, when the state is strong, to control the state’s autonomy without compromising its effectiveness, GI solves the problem of

⁵⁸ Ibid.

⁵⁹ Ibid., 231.

⁶⁰ Weiss, 38.

how conceptually to preserve state effectiveness, when capital is strong, without compromising autonomy.”⁶¹ For Weiss, governed interdependence is an apt description of a developed-country system centrally coordinated through government and industry cooperation, best exemplified by the Japanese and German states.

These approaches to state–society relations offer interesting starting points for the examination of the institutional foundations for remaining competitive in the global economy while preserving social well-being. Although they have many merits, the frameworks as they stand are in some cases too narrow and in others too broad to provide rich enough detail for understanding what exactly economic adjustment entails or how economic structures can be purposefully adjusted or coordinated. The frameworks do not yet provide much insight into the institutional dynamics of actually carrying out policies through coordinating institutions. To be fair, the “varieties of capitalism” approach is still a work in progress and the scholars working on this framework offer it only as a starting point for exploring the institutional conditions affecting strategic interaction among relevant economic actors. However, before developing such a framework too much, it is helpful to examine some of the potential weaknesses in the approach in order to draw policy-relevant knowledge from it and avoid potentially counterproductive economic and industrial adjustment policy initiatives. Weiss’ work on industrial transformation is a good case in point.

To begin with, the emphasis on firms and firm strategy excludes important other actors in policymaking processes. While accepting the importance of economic actors other than firms, the framework suggested by Hall and Soskice emphasizes the centrality of firms to economic adjustment. They are the “key agents of adjustment in the face of

⁶¹ Ibid.

technological change or international competition whose activities aggregate into overall levels of economic performance.”⁶² Although this may be true, the emphasis on firms seems unjustified. Firms may be as important as other economic actors, but there is no reason to assume that they are more important than the other actors to which they refer, including employer and business organizations, trade unions, and state actors. Policies that promote innovation and adjustment among firms may be desirable to business interests, but actually reaching a political consensus among other strong economic actors for implementing them will not necessarily follow from the preferences of business interests. This line of thought would suggest the necessity of “state capture” by business interests. Policies in each policy area are likely to be needed to be tailored to the needs of firms, but it would seem unlikely that business interests would have the necessary political influence in every policy sphere to determine the specific design of policies. Indeed, there is no reason to assume that any actor or group of actors, including business actors, will have the same interests or play the same roles in different policy areas. If the greatest challenge facing policymakers is inducing cooperation among relevant economic actors, including but not limited to firms, this challenge is especially daunting if coordination across policy spheres is to be successful. Many scholars working within this framework seem to be unconcerned with, or simply ignore, the implications of an industrial adjustment project that relies on the coordination of multiple policy spheres, each of which is likely to have its own institutional variations. A policy-relevant question is not only how, but if policymakers can build coordinating institutions given the fact that each policy sphere is likely to function according to its own internal dynamics and power relations.

⁶² Hall and Soskice, 6.

This contention leads to a second shortcoming of such frameworks. While Hall and Soskice and colleagues accept that there are likely to be a wide range of regional or sectoral institutions that affect firm behavior, they focus on variation among *national* political economies without delving deeply into the elements that make up the aggregate. Comparative institutional advantages at the national level only give us a general pattern of relations among relevant political economic actors. The focus on the national level means little attention is given to the contribution a variety of different policy areas make to economic adjustment. At the policy level, economic adjustment will most likely depend on the coordination of multiple policy spheres. These policy spheres may include, for example, industrial and business policy, fiscal policy, monetary policy, education policy, technology and research policy, labor market policy, and social policy, among others. Where they and their colleagues do explore specific policy areas, they limit their analysis to issue-specific institutionalized relations within policy spheres that directly affect firm strategy. They give short shrift to other intervening institutionalized relations in other policy spheres that can either positively or negatively affect the effectiveness of their primary institutionalized relations. For example, these scholars present a convincing argument linking financial structures and firm strategies regarding employment and training policies, but do not sufficiently flesh out how these financial and labor market institutions may interact with other relations and policy institutions in other policy spheres. It would be interesting to know how this coordination affects or is affected by, say, the tax scheme or the secondary education system or technology subsidies, which fall into fiscal, education, and technology policy areas respectively. Each of these policy areas is likely to be driven by its own internal logics and power relations. Thus, the

framework is too broad in the sense that comparative institutional advantage at the national level says very little about how relations are institutionalized among its component parts; the framework is too narrow in the sense that institutionalized relations within policy areas are likely to function according to unique logics and relations that cannot be generalized to the national level. Political economies are likely to exhibit institutional variation not only across national political economies, but within them.

In the case of Weiss' coordinated industrial transformation, despite attempts to answer how and if policymakers can induce coordination and cooperation among relevant economic actors, similar weaknesses surface more explicitly. Weiss explicitly states her desire to arrive at a useful concept to make sense "of a range of different situations which involve different forms of government–business cooperation, thus reflecting the changing tasks of economic management."⁶³ This search for a useful concept underlies her notion of governed interdependence. Weiss suggests that the institutional arrangements of the transformative state reflect a distinctive kind of government–business relationship, whereby governed interdependence, coordination and cooperation go hand-in-hand. "Economic projects are advanced by public–private cooperation, but their adoption and implementation are disciplined and monitored by the state."⁶⁴ In many industrially developed states, however, other actors have developed strong institutional strength in the course of national development, the most obvious being labor associations. Weiss suggests that Evans' idea of embedded autonomy can be useful in illuminating transformative capacity of developed states because, "while all (or most) industrialized states have developed a generalized insulation and embeddedness, only some states have

⁶³ Weiss, 38, italics in original.

⁶⁴ Weiss, 45.

developed these features also in a form and degree of particular benefit to the industrial economy. In these settings, state–civil society linkages are tight but often highly selective, with structured access points for particular groups and exclusion of others from access: hence *a selective embeddedness.*⁶⁵ There is nothing particularly objectionable to this statement except that, in some particularly relevant cases of developed countries, including Denmark, she ignores the fact that the political underpinnings of those developed democratic states wherein both the broader goals and the organizational infrastructure to which she refers have also depended on the cooperation of organized labor groups.

In her analysis of state–business relations and the role of the state as a coordinating actor in industrial transformation, Weiss seems to also have a blind spot when it comes to the political and organizational conditions for that coordination. For Weiss, governed interdependence relieves firms of four major risks: raising capital, developing new products and technologies, finding new markets, and training skilled engineers and workers.⁶⁶ Each of these risks, however, arguably can be categorized within or overlap distinct policy areas, each with its own peculiar organization of state and non-state institutions that may or may not be compatible with coordinated state-led industrial transformation. Again, this policy distinction is further complicated by the fact that state and social actors, including employer and labor groups, often have different capacities to affect different policy areas and policymaking institutions. For example, strong labor organizations have enormous influence over labor market policies and institutions in social democratic states, many of which are coordinated market economies.

⁶⁵ Weiss, 36, italics in original.

⁶⁶ Ibid., 48.

Weiss does an admirable job of pointing out how different aspects of industrial policy can contribute to industrial transformation, but, like Hall and Soskice and company, fails to delve further into the conditions for effective state coordination across distinct policy spheres that are characterized by different forms of institutionalized state–civil society contacts in different policy spheres and the relative power state and non-state actors have in those different policy spheres.

Instead, Weiss heavily implies that state–civil society relations based on selective embeddedness and governed interdependence in the industrial policy sphere are sufficient to induce industrial transformation. She seems to ignore the likelihood not only that relative power relations among the various state and non-state actors in one policy sphere are likely to be different than in others, but also that these power relations are likely to be manifested in different institutionalized forms. Since the power relations among state and non-state actors are likely to vary from one policy area to another, there is no reason to assume that selective embeddedness and governed interdependence, or any other form of institutionalized contact, in the industrial policy sphere will be replicated in other policy spheres crucial to coordinated industrial transformation. Indeed, selective embeddedness and governed interdependence may not even be a viable option in institutionalizing state–civil society relations in any given policy sphere. There is no reason to assume that selective embeddedness and governed interdependence in only the industrial policy sphere will be sufficient to induce industrial adjustment and transformation.

The importance of non-business groups is one area where Evans certainly shows a more sophisticated understanding of industrial adjustment and transformation. Indeed, he at least leaves open the possibility that reconstructing state–society relations could be

based on ties around multiple social groups, including labor. His analysis of Austria is instructive for further fruitful examination of developed states with highly developed labor organizations. In the Austrian case, the links between labor and the state were as intricate as those between capital and the state. The Austrian state enticed entrepreneurial groups into particular industrial sectors, as would a developmental state, but the existence of an organized working class reinforced the process, rather than hampered it. Evans concludes, "If labor cannot be marginalized or ignored, a dependable arena for centralized bargaining between capital and labor is essential. A competent, corporately coherent state apparatus provides that arena. Far from making the state irrelevant, the comprehensive organization of class interests makes it essential."⁶⁷ Indeed, in this environment, neither state actors nor independent societal actors can impose their own projects on one another. Thus, in a situation in which state actors are autonomously embedded among multiple societal actors, the result can be either a truly encompassing transformative project or stalemate among actors with competing interests.

This point is buttressed by William Coleman who provides another framework for understanding the roles interest associations, including labor groups, can play even in the face of internationalization. According to Coleman, interest associations such as labor organizations can constructively engage the state in governing economic activity, but they must be able to order and coordinate information and activity relevant the demands placed upon it, particularly by its members and other recognized actors, such as the state.⁶⁸ At the same time, they must also be autonomous from its members and the state,

⁶⁷ Evans, 241.

⁶⁸ William D. Coleman, "Associational Governance in a Globalizing Era: Weathering the Storm," in J. Rogers Hollingsworth and Robert Boyer, *Contemporary Capitalism: The Embeddedness of Institutions* (Cambridge: Cambridge University Press, 1997), 129–31.

enabling them to rise above short-term particularist interests of their members or resist the dictates of state actors that diametrically contradict their own goals. Such associations play critical roles as governance mechanisms “by defining and procuring public goods through organizing and enforcing cooperative behavior among their members, by engaging in collective contracts with other associations, and by securing delegations of state authority to be used to the advantage of their members.”⁶⁹ According to Coleman, associational governance will always involve an interpenetration of state and society and a transfer of public functions to recognized private actors. “Associations are closely consulted in the formulation of policy and are involved in its implementation. They are normally embedded in informal networks that include research institutes, training organizations, and local government agencies. In exchange, the state receives a measure of freedom to intervene in the definition of the structure of the association and in the organization of [a] sector. As such, associational governance is not only an affair of members of the association but also of the state itself.”⁷⁰

A significant shortcoming in work on coordinated industrial and economic adjustment is therefore the under-specification of the political and institutional conditions required for successful coordination, especially given a host of strong state and non-state actors across multiple but distinct policy spheres that are necessary to industrial adjustment. Weiss admirably points out the importance of the organization of social groups, the organization of the state, and the importance of the state as a central coordinating device, while still acknowledging that the state is very rarely the “sole

⁶⁹ Coleman, 129.

⁷⁰ *Ibid.*, 147.

source of its transformative capacity.”⁷¹ She correctly raises a “key” question when she asks, “what are the attributes that enable public policy-makers to pursue industrial adjustment strategies relatively *effectively*, and thus to succeed more often than fail?”⁷² Since the ability to “shape and coordinate resources across a broader spectrum than that of ‘industry’ policy proper,”⁷³ serves as an important pillar in industrial transformation strategies, the real question is, what are the attributes that enable public policymakers to pursue industrial adjustment strategies relatively effectively by shaping and coordinating resources across multiple policy spheres? Coordinating resources across a broader spectrum than that of industry policy proper would require policymaking institutions and industrial adjustment strategies to be harmonized across several distinct policy areas. Yet it is likely that different patterns of institutionalized state–society relations will result in different policymaking institutions, priorities, and policies. Even if coordinating mechanisms are identified, we are still left with the question of how, or if, they can be utilized to induce coordination and cooperation among multiple relevant economic actors in multiple policy spheres.

If comparative institutional advantage is the key to economic adjustment, then policymakers need to know how to identify, develop, and exploit these advantages. This is of special importance to a social democratic state characterized by a coordinated market economy if it is to remain competitive in the global economy while still retaining an extensive welfare system. If strategic non-market interaction among firms and other actors determines the extent and depth of economic coordination in a coordinated market economy, rather than markets, the kind of coordination envisioned in a coordinated

⁷¹ Weiss, 8.

⁷² *Ibid.*, 19, italics in original.

⁷³ *Ibid.*, 7.

market economy would seem to require a higher standard of purposeful institutional complementarity across policy spheres. Yet such frameworks do not explain how much and what kind of coordination would be required for successful adjustment. Presumably, state-led welfare provisions in a coordinated market economy penetrate much deeper in more policy areas than in liberal market economies. One may suspect that the level of purposeful human agency is considerably higher in a coordinated market economy than in a liberal market economy. Remaining competitive as well as retaining its welfare system would therefore require policymakers to induce many more actors in many more areas to cooperate and coordinate. Comparative institutional advantage may be identifiable, but developing it and exploiting it effectively may be a more challenging endeavor.

If these assertions are valid, Hall and Soskice's contentions that "nations with a particular type of coordination in one sphere of the economy should tend to develop complementary practices in other spheres as well"⁷⁴ and that "the institutions sustaining coordination in one sphere can be used to support analogous forms of coordination in others"⁷⁵ lead to two important questions and two corollaries that bear re-emphasizing. First, how can nations with a particular type of coordination in one sphere of the economy develop complementary practices in other spheres as well? Second, how can the institutions sustaining coordination in one sphere be used to support analogous forms of coordination in others? As already implied, one corollary that is curiously under-emphasized is that comparative institutional advantage is actually an agglomeration of coordinating institutions across spheres. A second, more potentially negative corollary is

⁷⁴ Hall and Soskice, 18.

⁷⁵ Ibid.

that, if institutions sustaining coordination in one sphere can be used to support analogous forms of coordination in others and institutional complementarities may generate disincentives to radical change, there is also the distinct possibility that such institutions can work against coordination, whether intended or not. One cannot assume that comparative institutional advantage is equally robust across policy areas and in the same ways.

Thus, despite impressive work on coordination, institutional complementarity, and industrial transformation, such frameworks fail to resolve the problem of how to preserve state effectiveness and autonomy and induce cooperation and coordination among relevant economic actors when capital is strong and other social actors whose goals may be in conflict with those of a state–capital complex are strong. It fails to deal with the likelihood that strong state actors, strong employer actors, and strong labor actors, and perhaps other important political-economic actors, will impact different policymaking institutions in different policy spheres in different ways. These variations in institutionalized strategic interaction will have varied impacts on firm behavior, many of which may be unintended or unforeseen consequences in one or another policy sphere. It would seem that such variation is unavoidable. Many of the institutional characteristics identified in coordinated market economies or successful dual transformative states would be difficult to sustain without the cooperation of strong labor groups, especially among the majority of industrialized democracies, with a few notable exceptions. This is true not because strong labor groups dominate economic activity, but because they have important roles to play in specific policy areas on which economic activity is dependent. Despite any decentralizing trends, successful governance of economies characterized by

strong labor organizations has by necessity included the efforts of these groups. This is not to say business groups are not important, or perhaps even the most important, but it would be difficult “to transform the instruments of policy that go to the heart of state capacity”⁷⁶ without the cooperation of these other socio-economic groups.

Establishing coordinating institutions in a coordinated market economy may provide a mechanism that supports public policymakers’ relatively effective pursuit of industrial adjustment strategies in accordance with the broader goals of society. But, if we are to better understand the conditions for successful coordinated economic or industrial adjustment, and hence a strengthening of state autonomy and capacity, we must delve deeper into the elements that comprise that transformation. The insights of Hall and Soskice, Evans, and Weiss provide us with a promising starting point. But given the host of different strategies, priorities, institutions, and roles and relations among important political-economic actors involved in specific policy areas, we must also be aware that the “right institutional mix” is likely to change from area to area. Identifying comparative institutional advantage within policy areas is just the first step. Effectively developing and exploiting comparative institutional advantages to coordinate resources across distinct policy areas that function according to their own power relations and internal logics, including different roles and relationships among relevant actors, would seem to be a much more daunting task under even the best of circumstances. Indeed, different policy spheres may require unique forms of coordinating institutions. Even if coordinating institutions are established in every relevant policy sphere, there is no guarantee that they will be functionally coherent or that such coherence can be imposed. For example, direct but selective public-private contacts may be an appropriate,

⁷⁶ Weiss, 33.

desirable, and feasible institutional form in the industrial policy sphere, but this is not necessarily the case in other policy spheres, including labor market policy spheres heavily impacted by organized business and labor groups. An understanding of how state–society relations are institutionalized is therefore needed not just for individual policy spheres—such as industrial policy, labor market policy, fiscal policy, finance policy, education policy, and even social policy, among others—but of how these different institutionalized relations may affect the potential for coordination and promote or inhibit the ability of “public policymakers to pursue industrial adjustment strategies relatively *effectively*.”⁷⁷

Institutionalized Barriers to Coordination: The Case of Denmark

State power vis-à-vis globalization may depend to a great extent on how state actors use their autonomy to effectively transform their capacity. In a coordinated market economy, building on or establishing new coordinating institutions to make adjustment strategies more effective may be one method of doing so. Such institutions enhance autonomy by expanding the menu of achievable policy options. Industrial and labor market politics in Denmark provides an interesting case of how new industrial and labor market institutions were established in response to globalization-induced shocks. These institutions were established precisely to increase the effectiveness of industrial and labor market strategies. However, the Danish case also shows the difficulties involved in coordinating strategies and policymaking institutions across policy spheres, especially when different policy spheres function according to their own institutionalized dynamics and logics.

⁷⁷ Ibid., 19, italics in original.

Denmark is grouped with what Hall and Soskice refer to as coordinated market economies. They base their groupings according to employment protection and stock market capitalization. According to Hall and Soskice, “a highly developed stock market indicates greater reliance on market modes of coordination in the financial sphere, and high levels of employment protection tend to reflect higher levels of non-market coordination in the sphere of industrial relations.”⁷⁸ But Hall and Soskice also show that Denmark lies on the periphery of coordinated market economies. This may be because Denmark seems to have both coordinated and liberal qualities. Despite falling in the coordinated market economy category, the Danish business and industry environment is very liberal. Denmark has one of the lowest rates among OECD countries for state ownership of firms, but the vast majority of Danish firms are small- or medium-sized enterprises that are unlikely to list on a stock market.⁷⁹ Denmark’s stock market may not be as developed as that of the United States, the United Kingdom, Canada, or Australia, but its private-sector is otherwise very liberal. Comparing Denmark with the United States, one senior official of the Danish Confederation of Employers (*Dansk Arbejdsgiverforeningen*, DA) remarks that, “I have seen many industrial policy programs which we would never accept in this country, which involve a very active local government, which simply is unthinkable here. In terms of industrial policy, this is a very liberal and free-market oriented economy.”⁸⁰ Furthermore, Denmark’s high level of employment protection reflects high replacement rates for unemployed, not employment

⁷⁸ Hall and Soskice, 19–20.

⁷⁹ Cf. Steen Scheuer, “Denmark: A Less Regulated Market,” in Anthony Ferner and Richard Hyman, eds., *Changing Industrial Relations in Europe* (Oxford, U.K.: Blackwell, 1998), 147–48.

⁸⁰ Interview with official from the Danish Confederation of Employers, Copenhagen, Denmark, June 28, 2002.

protection, per se, as acknowledged by Estevez-Abe, Iversen, and Soskice.⁸¹ Even though wage-bargaining covers a large portion of the workforce, employees have few protections against dismissal.⁸² But as one employer organization official points out, it “is to a large extent accepted by the labor organizations, who say they accept this system because the level of compensation is quite high.”⁸³ According to this observer, neither labor nor employer organizations want the kinds of labor market regulation found in other European countries. Denmark’s economy is thus characterized by an interesting mix of liberal and coordinated industrial and labor market structures, buttressed by bargaining among employer and labor groups and extensive social protections.

Danish policymakers in the industrial policy sphere successfully established new institutions to coordinate industrial adjustment through direct but selective public-private contacts that provided structured access points to the policymaking process for some actors while excluding others. Danish policymakers in the labor market policy sphere also successfully established new institutions to coordinate labor market adjustments. But the labor market coordinating institutions were established according to very different processes than industrial coordinating institutions, especially due to the existence of strong state actors and strong employer and labor organizations. Consequently, the form and function of labor market institutions diverged considerably from those of industrial policy. These differently-situated coordinating institutions hindered effective

⁸¹ Margarita Estevez-Abe, Torben Iversen, and David Soskice, “Social Protection and the Formation of Skills: A Reinterpretation of the Welfare State,” in Peter A. Hall and David Soskice, eds., *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford, U.K.: Oxford University Press, 2001), 153–54.

⁸² Per Kongshøj Madsen, “The Danish Model of ‘Flexicurity’—A Paradise with Some Snakes.” Paper presented at conference on “Patterns of Danish Development: Seminar on Danish Success in the Global Political Economy.” Department of Political Science, University of Copenhagen. December 2, 2002. 4.

⁸³ Interview with official from the Danish Confederation of Employers, Copenhagen, Denmark, June 28, 2002.

coordination of broader state-led strategic industrial adjustment strategies. Policymakers and policymaking institutions were effectively isolated from one another. This lack of coordination was not the result of active attempts to undermine coordinated industrial adjustment, but rather reflected the fact that the respective policymaking institutions in each policy sphere were based on and functioned according to different priorities, strategies, and roles and relations among different sets of important political-economic actors. Despite the fact that the coordinating institutions established in each policy sphere were internally coherent, important political-economic actors were induced to cooperate in different ways and through different kinds of coordinating institutions that were not predisposed to coordination across the policy spheres.

Through the 1990s, civil servants in the industrial policy sphere established direct public-private contacts with private-sector business leaders and industry experts and provided these private-sector actors with structured access points to the policymaking process. They also for the most part excluded interest organizations. These policies and institutions were very much the result of industrial policy-specific debates, conflict, and cooperation. In the early years of contemporary Danish industrial policy, technology policy played the major role since it was one of the few areas in which a consensus could be built across the political-ideological spectrum. In 1973, a Technology Council (*Teknologirådet*) was established that was mandated to support the technological development of Danish firms. Although the law establishing this council stipulated that the members serve in a private capacity, they were in practice selected and appointed by interest organizations. The duties carried out by this council were a significant part of Danish industrial policy until the early 1990s, especially their oversight of “approved

technological institutes.” Despite the initiation of the large-scale Technology Development Program in 1983–84 and the formulation of a comprehensive, coordinated “structural” policy in 1986, industrial policy was essentially laissez-faire, which was supported by the major employer organizations. Notable exceptions to this policy orientation included the subsidization of strategic industries, such as shipbuilding and agriculture, and technology development programs, but through the 1980s the Conservative-led government resisted intervening in the private-sector to promote industrial development. In 1989, the ministry was “rationalized” and its budget cut, including funds devoted to technology development programs. With important political and business leaders resisting industrial development policies, industrial policy, or at least the analytical exploration of industrial policy, had been privatized by private-sector organizations such as the Forum for Industrial Development (*Forum for Industriel Udvikling*) and ad-hoc conferences sponsored by small but professional associations, such as the Danish Association of Engineers (*Dansk Ingeniørforeningen*). Many of these new industrial strategies focused on the development of industrial complexes or clusters.

In the aftermath of the budget cuts adopted in 1989 for the 1990 fiscal year, non-ministerial advisory policymaking institutions were also reorganized. One of the more important changes was the establishment of the Business Development Council (*Erhvervsudviklingsrådet*) to replace the Technology Council through the 1990 *Law on Business Promotion (Lov om erhvervsfremme)*. The *Law on Business Promotion* centralized the advisory responsibilities of non-governmental actors in the Business Development Council and expanded the council’s mandate to investigate and initiate programs dealing with broader industrial development issues confronting Danish firms,

rather than purely technological development issues. One of the council's first projects was an examination of how the development of Danish industrial clusters could be promoted, especially by enhancing the underlying business conditions in which clusters thrive. The project emphasized multi-policy responses in particular clusters, or "resource areas." The strategy, however, was not a product of the council or the government, but of the civil servants working as the council's secretariat and private-sector business and industrial policy experts who had been working on such issues over the previous years.

By the early 1990s, progressive civil servants at the Danish Ministry of Industry and the Danish Agency for Industry and Trade (*Industri- og Handelsstyrelsen*) had become intimately acquainted with private-sector business leaders and industry experts involved in exploring different industrial development strategies. Together they crafted the industrial development framework based on the development of Danish clusters. The civil servants who provided the secretariat to the Business Development Council presented this framework to the council in 1991. The council subsequently adopted this framework, which was to become the Resource Areas Analyses project. The analyses and policy proposals were based on public-private working groups comprised mainly of civil servants, business leaders, and other private-sector industry policy experts. Although members of the Business Development Council participated in these groups and had ultimate authority over the project, the project was in fact run and controlled by civil servants. The Resource Areas Analyses project provided an opportunity for progressive civil servants at the ministry of industry and agency for industry and trade to establish a tenuous connection between private-sector initiatives and official industrial policy. However, this connection was fragile and the Business Development Council, the civil

servants guiding their work, and private-sector business leaders and industry experts participating in the Resource Areas Analyses project were not sufficiently influential to overcome the then-conservative government's and dominant employer organization's opposition to any kind of state-led active industrial development policy.

The institutional design of the Resource Areas Analyses project reflected a conscious attempt to evade this opposition by initiating direct contact with willing business leaders, to the exclusion of influential employer and labor interest organizations. Progressive civil servants had few other options to pursue industrial development strategies than to cultivate support outside the established political hierarchy by establishing direct contacts with private-sector actors. The Business Development Council made such a political tactic possible. As an experiment carried out under the council's supervision, the original Resource Areas Analyses project was not an apparently threatening alternative to official government policy since the council was essentially only an advisory board; nor was it an apparent threat to interest organizations' influence, since interest organizations in practice appointed the members of the council. Moreover, the supervision by the council and the participation of willing business leaders in resource areas-related work deflected potential criticism that civil servants were ignoring the needs and demands of the business community. Civil servants crafted the project in a way that would not only provide access to the most immediate policy-relevant knowledge of the conditions facing firms from business leaders, but that would also dilute the influence of interest organizations on industrial policymaking in the process.

Although the Resource Areas Analyses project never received unqualified support from the conservative minister, when a new government sympathetic to the strategy was installed in late 1993, civil servants were already in place to draw on the support they had cultivated with private-sector actors and forcefully re-exert their authority over the policymaking process to the detriment of the Business Development Council and interest organizations alike. Many of the civil servants familiar with the Business Development Council's work on resource areas were appointed to senior positions in the newly established ministry for business policy coordination (*Ministeriet for Erhvervspolitisk Samordning*). The council's authority over the Resource Areas Analyses project was rescinded and civil servants at the Danish Ministry of Business Policy Coordination (later simply the Danish Ministry of Business, *Erhvervsministeriet*) took full and formal control of the project. Civil servants at this ministry then carried out direct "Dialogues with the Resource Areas" to inform their policymaking, consciously excluding interest organizations from participation. Due to a sympathetic new government and the strong links cultivated between civil servants and private-sector business leaders and industry experts through the Resource Areas Analyses project, civil servants no longer needed to depend on the Business Development Council or interest organizations to legitimize their work.

The institutionalization of direct but selective public-private contacts in the industrial policy sphere was impacted by the political environment in which the network of progressive civil servants, business leaders, and industry experts operated. In the case of Danish industrial policy, if civil servants at the Danish Ministry of Business were to enhance their autonomy and recapture the policymaking initiative to promote their vision

of industrial development, direct but selective public–private contacts were not only a theoretical necessity, but a political one. While enhancing basic “framework conditions” of Danish clusters was predicated on close public–private cooperation, civil servants were also forced to seek support directly in the private sector because the resistance of a conservative minister and strong conservative business leaders closed off traditional avenues for policymaking. Even though civil servants did eventually re-exert their authority over industrial policy and initiate an industrial development policy, they had to find ways of doing so according to the constraints (such as a hostile conservative minister and hostile business organizations) and opportunities (such as the intellectual development of clusters, the establishment of the Business Development Council, and the willingness of business leaders to participate) unique to the industrial policymaking sphere. Accordingly, the industrial development strategy and the institutions through which it would be pursued were products unique to the industrial policy sphere. The peculiar circumstances of Danish industrial politics and the policymaking institutions they engendered were unlikely to be replicated in other policy spheres.

How labor is integrated into production processes, whether firms are getting the kind of workers they need, whether workers receive the training and education firms require, and how these factors impinge on industrial productivity, innovation, and competitiveness are all important framework condition issues impacting firms’ development strategies. Yet, in the case of Denmark, these issues are less affected by industrial policy than by labor market policy, an area in which employer and labor interest organizations have had enormous influence. Even a cursory examination of Danish labor market politics in the 1990s shows that the processes of policymaking and

institution-building in the labor market policy sphere were conditioned by distinctly different priorities, strategies, and roles and relations among important political-economic actors than those in the industrial policy sphere, which resulted in distinctly different policies and policymaking institutions that were not predisposed to coordination. The central role of strong employer and labor organizations, notably the Danish Confederation of Employers (*Dansk Arbejdsgiverforeningen*, DA) and the Danish Confederation of Trade Unions (*Landsorganisationen i Danmark*, LO), in labor market policy has meant that the political environment in which civil servants in the labor market policy sphere operated and the constraints and opportunities that they faced in enhancing their policymaking autonomy and establishing coordinating institutions were vastly different than those faced by civil servants in the industrial policy sphere. Accordingly, the manner in which state actors' autonomy was enhanced and the form and function of the coordinating institutions that were established in Danish labor market policy were vastly different than the manner in which state actors' autonomy was enhanced and the form and function of the coordinating institutions that were established in Danish industrial and business policy. Not only were the form and function of these labor market policy coordinating institutions different, but their very structure tended to isolate them from other coordinating institutions, including industrial policy coordinating institutions.

To begin with, at the same time industrial policymakers were trying to reorient industrial policy towards coordinated cluster development, labor market policymakers—including political leaders, civil servants at the ministry of labor, and employer and labor interest organizations—were focused on a policy priority other than industrial development, namely reducing double-digit structural unemployment rates. Political

leaders, civil servants, and interest organizations were all in agreement that the reduction of double-digit structural unemployment should be the main consideration of labor market policy and, indeed, finance and economic policy. The strong presence of employer and labor organizations, particularly DA and LO and their member unions, were indispensable to creating this consensus through a corporatist committee mandated to restructure active labor market policies and institutions, the Committee on Labor Market Structural Problems (*Udredningsudvalget om Arbejdsmarkedets Strukturproblemer*). The work of this committee resulted in the establishment of a new active labor market governance system in 1993–94 based on a very different form of coordinating institutions than direct selective public–private contacts: a corporatist central-level National Labor Market Council (*Landsarbejdsrådet*) and fourteen corporatist regional labor market councils (*arbejdsmarkedsråderne*), the members of which were to be appointed directly by ministers and interest organizations. Given the priorities and roles and relations among the most important political-economic actors in the labor market policy sphere, this form of coordinating institutions was the most desirable and feasible.

Labor market policy in Denmark has traditionally been negotiated between the major employer and labor organizations. Since the “September Accord” of 1899, the employer and labor groups that eventually coalesced into DA and LO have recognized each other as legitimate bargaining partners and relations between employer and labor interest organizations have largely been characterized by cooperation rather than conflict in the post-World War II era. More significantly, the state has recognized these employer and labor interest organizations as legitimate bargaining partners and has intervened in

employer–labor disputes only in the most serious of circumstances. As one civil servant puts it, “the ministry of labor has had a long, very strong tradition of always corporative integration of LO and DA, to such an extent that some observers say that as long as LO and DA agree, then also the ministry agrees.”⁸⁴ One of those observers claims that, over the past fifty years, “those two organizations, if they could agree, it was virtually writing the policy of the government. The minister sitting for labor market affairs had nearly delegated the power to formulate and make priorities to those two institutions.”⁸⁵ In effect, labor market policy in Denmark has, for much of the past century, been characterized by what Coleman calls “associational governance.”⁸⁶

Although not monolithic actors, DA and its affiliates represent significant portions of employers in Denmark and LO and its affiliates represent the vast majority of unionized workers in Denmark. In the mid 1990s, DA represented about 150 employers’ associations whose members accounted for about 40 percent of private-sector employment⁸⁷; LO and its member associations represented 70 percent of unionized employees, more than 1.5 million workers out of a total of a little over 2.6 million.⁸⁸ Moreover, fifty-two percent of employees in the private sector were covered by collective bargaining agreements.⁸⁹ In addition to their roles as the main negotiating partners on incomes policy, they and their affiliates have been the executors of the unemployment benefits and pension systems and sponsors of training, education, and employment placement programs. If state actors were to establish new active labor market

⁸⁴ Interview with official from the Danish Ministry of Business, Copenhagen, Denmark, February 27, 2002.

⁸⁵ Interview with official from the Danish Association of Local Governments, Copenhagen, Denmark, September 4, 2002.

⁸⁶ Coleman, 129–31.

⁸⁷ Scheuer, 156.

⁸⁸ *Ibid.*, 155.

⁸⁹ *Ibid.*, 165.

coordinating institutions, they would have to be established through constructive cooperation with these employer and labor organizations.

The indispensable role interest organizations played in the labor market policy sphere meant that civil servants could not maneuver them out of the labor market policymaking process the way civil servants maneuvered them out of the industrial policymaking process. The pervasive influence of interest organizations on labor market policy, including their roles in managing unemployment benefits, and the strict vertical organization of labor market policy institutions from the central level to the local level meant that there were no potential partners outside the traditional political hierarchy to whom civil servants could turn. Civil servants in the industrial sphere could turn to individual business leaders and industry experts, but since labor market issues were often dominated by employer and labor organizations, civil servants in the labor market sphere could not turn to individual firms or workers. Moreover, such a political tactic would serve only to alienate the interest organizations that controlled vast labor market resources. Accordingly, in order to resolve the structural unemployment crisis, state actors cooperated with interest organizations through the Committee on Structural Labor Market Problems to establish the labor market council system. This system gave formal responsibility for implementing active labor market policy to the labor market councils, which meant, in effect, it gave formal responsibility for implementing active labor market policy to interest organizations.

With the role of interest organizations in active labor market policy formally recognized in the labor market councils, political leaders and civil servants had to pursue different tactics to enhance their autonomy that were more appropriate to their specific

circumstances. Beginning with the change of government from a Conservative-led coalition to a Social Democrat-led coalition and the establishment of the labor market councils in 1993, state actors increasingly relied on legislated labor market reforms to recapture the policymaking process. Active labor market legislation passed in 1994, 1995, 1996, 1998, and 1999 determined the parameters within which the corporatist labor market councils, and hence the interest organizations, would discharge their active labor market policy duties. Although interest organizations participated in on-going discussions with ministry officials on active labor market policy, the laws were drafted by civil servants and adopted by political leaders without the direct participation of interest organizations. Legislated active labor market policy was to be the “new style” of labor market policymaking for much of the 1990s. Nevertheless, state actors were still constrained by virtue of interest organizations’ positions on the labor market councils, which had significant authority over the means for implementing the government’s active labor market policies. Consequently, the extent to which state actors could determine the content of active labor market policies depended to some extent on the willingness of the labor market councils to implement them. Hence, not only were the form and function of the active labor market coordinating institutions impacted by the specific priorities and roles and relations among important political-economic actors in the labor market policy sphere, but so too was the manner in which state actors could enhance their autonomy.

This arrangement among state, employer, and labor actors provided a relatively congenial, stable environment in which they could collectively tackle the unemployment problem. It also made coordinating active labor market policies and institutions with industrial adjustment policies and institutions virtually impossible. Despite the fact that

the labor market councils had significant influence over the quality and supply of labor, the labor market councils would not even approach industrial development-related issues. At its most basic level, the activation strategy was based on an economic correlation between high education and high employment rates. While the working assumption was that increasing the education and training levels of unemployed in general would result in higher employment levels, the strategic provision of human resources to firms was considered a matter of industrial policy and the specific content of education and training programs was considered a matter of education policy. Since the labor market councils were seen by state and interest organization actors alike as inappropriate forums in which to discuss broader strategic labor market policies, such issues were excluded as topics for consideration. In a sense, active labor market policy was quarantined from almost every other policy issue, the most notable exception being finance policy. To the extent that the relevance of active labor market policy to other economic issues was debated among state and interest organization actors, this was done mostly through informal contacts outside the councils. In any case, state, employer, and labor actors all ensured that these debates did not intrude upon the formal structure and mandate of the labor market councils.

The active exclusion of interest organizations that had immense influence over human resources from industrial development initiatives, on the one hand, and the restricted scope of active labor market policies and the restricted mandate of the labor market councils, on the other, contributed to the lack of coordination between industrial and active labor market policies and institutions. These institutionalized barriers to coordination stemmed from the particular power relations and internal logics prevailing in each policy sphere. Just as the nature of industrial policies and policymaking

institutions were conditioned by the political context of industrial policymaking, the nature of labor market policies and policymaking institutions were conditioned by the political context of the labor market policymaking process. These different internal logics and power relations thus had significant implications for the exploitation and manipulation of comparative institutional advantages by policymakers pursuing state-led coordinated industrial adjustment. New coordinating institutions were established and state actors gained greater policymaking autonomy in both the industrial policy sphere and the labor market policy sphere, but each in very different ways and in complete isolation from one another. Policymakers in the industrial and labor market policy spheres reacted to constraints and opportunities, and pursued and supported strategies, priorities, and institutional designs unique to their respective policy areas. The policymaking institutions that resulted from these processes were coherent and coordinated within each sphere, but the institutional variations specific to each policy area inhibited cross-policy coordination. Ultimately, direct but select public-private contacts in the industrial policy sphere were insufficient to induce cooperation and coordination with all the important political-economic actors that could potentially impact state-led coordinated industrial adjustment.

Conclusion

The increasing flows of capital, trade, and information associated with globalization may indeed present significant challenges to policymakers seeking to maintain distinctive forms of political and economic governance. Although perhaps a real threat to states and societies, the “globalization syndrome” is only one of many potential outcomes. Building

on comparative institutional advantages and establishing coordinating institutions in a coordinated market economy, as suggested by the varieties of capitalism approach, provides a potentially useful analytical framework for enhancing the autonomy and capacity of such states to achieve specific policy goals if an appropriate “institutional mix” can be found. However, building on and exploiting comparative institutional advantages present their own challenges. Focusing on national comparative institutional advantages would seem to necessitate a perspective that sees a state as a singular institutional entity functioning according to a singular process of policymaking and institution-building based on identical priorities, strategies, and roles among important political-economic actors throughout a political economy. If, on the other hand, one may presume that a state is an amalgam of institutions reflecting different roles and relations among a host of important political-economic actors in different policy spheres, as well as different degrees of influence to exert on policymaking processes, rather than a unified rational actor, the process of establishing coordinating institutions that impact overall levels of economic performance is likely to be much more complicated than a national level-of-analysis would suggest, simply because the right institutional mix must be found not only in one set of institutions in any given policy sphere, but among many, each with their own peculiarities. Furthermore, since any policy sphere is likely to function according to its own internal logics and relations, if desired policy goals require the coordination of resources from more than only one policy sphere, controlling for all the factors that result in increased cooperation of important political-economic actors and increased coordination across several distinct policy spheres naturally becomes more difficult the more policy spheres that must be coordinated.

For instance, industrial adjustment is likely to require not only increased cooperation and coordination among strong state and business actors within the industrial policy sphere, but other actors in other policy spheres that impact firms' capacities to acquire and effectively use the resources necessary for growth and competitiveness, including human resources. At the risk of over-generalizing, in many advanced industrial states, including Denmark, the development of human resources is not strictly, or even primarily, an industrial development issue. In many advanced industrialized states, the development of human resources may very well be more relevant to the labor market or education policy spheres or perhaps even the social policy sphere. Nor is the development of human resources often an issue of importance only to business interests, especially in advanced industrialized states that have strong labor actors, as well as strong state and business actors. Accordingly, the successful adjustment of firms to a changing global economic environment is unlikely to be dependent only on the policies emanating from a single policy area, such as industrial policy, or the strategies, priorities, and preferences of business interests, however strong. This is likely to be the case in coordinated market economies in which strong state actors, strong business actors, and strong labor interests are found, especially given the fact that strong state, employer, and labor actors have different priorities and roles to play and different degrees of influence to exert in different policy spheres. Inducing cooperation and coordination among important political-economic actors in one policy sphere is a daunting task. Inducing cooperation and coordination among important political-economic actors across policy spheres would seem to be an even more daunting one even if a state is characterized by a coordinated market economy at the national level.

The effectiveness of coordinating institutions in enhancing autonomy and capacity are beyond the scope of this study, but the complexities of establishing institutions that induce cooperation and coordination among important political-economic actors across a variety of policy spheres impacting industrial and economic adjustment suggest that much more detailed attention must be given to the conditions under which they are established if they are to be, in fact, effective. Concepts such as embedded autonomy and governed interdependence may be useful guides to enhancing autonomy and capacity in the industrial policy sphere, but in practice they may not be appropriate or viable institutional forms in all cases and in all policy spheres, especially when policymakers must take into account different logics and political relations in different policy spheres that impact broad industrial adjustment efforts. This is not to say that embedded autonomy and governed interdependence are not useful analytical tools in some cases, but it does suggest that different policy areas may require different kinds of institutions to induce cooperation and coordination. Moreover, there is no guarantee that these differently-situated institutions will induce cooperation and coordination across policy areas. Indeed, it is conceivable that successfully established coordinating institutions in one policy sphere may undermine coordinating institutions in another. It would seem that coordinating institutions must be, at a minimum, complementary, but this acknowledgement merely brings us back to the issue of how specific comparative institutional advantages can be purposefully exploited and manipulated by policymakers to establish effective complementary coordinating institutions.

Industrial and labor market politics in Denmark provides a poignant case. Due to the importance of employer and labor organizations to Danish labor market governance,

an examination of labor market politics sheds some light on the implications of failing to take into account how different roles and relations among state, business, and labor actors across policy spheres may complicate the coordination of the resources necessary for industrial adjustment. State, employer, and labor actors have important roles to play in promoting or retarding industrial adjustment, but not always in expected or predictable ways. In industrial policy, business interests were split between business organizations that resisted state leadership and other private business leaders and industry experts that willingly participated in the government's development strategies. Embedded autonomy was an appropriate and perhaps even necessary means of institutionalizing coordinating mechanisms. While the institutionalization of embedded autonomy in the industrial policy sphere strengthened public-private contacts and partnerships, however, it also excluded and alienated important employer and labor organizations that had enormous influence over the quality and supply of labor in the labor market policy sphere. In labor market policy, employer organizations were generally cooperative partners in designing and implementing coordinated active labor market policies. Although labor organizations may not have had much direct influence on industrial policy, they too have been essential cooperative partners in designing and implementing coordinated active labor market policies. But the logics and relations prevailing in the labor market sphere also exacerbated coordination problems, although in a very different way. The coordinating institutions that were appropriate and viable in the labor market policy sphere established by strong state actors and strong employer and labor organization actors—the labor market councils—effectively isolated active labor market policy from industrial policy.

The case of Denmark, an advanced industrialized welfare state identified as a coordinated market economy, reveals that different priorities, strategies, roles, and relations among state and non-state actors in different policy spheres may result in different policies and policymaking institutions. Concepts such as national comparative institutional advantage do little to resolve crucial coordination problems, such as how to build and exploit effective coordinating institutions across policy areas when state, capital, and labor actors have varying degrees of influence and different roles to play in each of those policy areas. In sum, the issues that must be kept in mind are, first, that industrial adjustment is likely to involve more than just the industrial policy sphere. Second, each policy sphere contributing to industrial adjustment is likely to function according to its own peculiar internal logics and relations among important political-economic actors. Third, important political-economic actors will not necessarily play the same roles, have the same relations with other important political-economic actors, and have the same degrees of influence to exert in every policy sphere. Following this logic, coordinating institutions will have to be specifically tailored not only according to national comparative institutional advantages, but institutional advantages specific to each policy sphere, as well. Finally, if cross-policy coordination is to be successful, cross-policy coordinating institutions will also have to be specifically tailored, taking into account the institutional advantages specific to each policy sphere. In the chapters that follow, these contentions will be explored in more detail.

Chapter 2

The Roots of Danish Industrial Policy in the 1990s

Introduction

In this chapter I describe the general environment of Danish industrial politics and the more notable industrial policy frameworks, initiatives, and institutions of the 1980s. The intent is not to provide a comprehensive and detailed account of Danish industrial politics during this period, but to provide an account of the more relevant policies, strategies, and roles and relations among important political-economic actors in the industrial policy sphere that led to the industrial policies and policymaking institutions in the 1990s. The path to coordinated industrial adjustment efforts in Denmark in the 1990s can be traced back to 1973, but more concretely to 1983. Although Danish industrial politics in the 1970s bears little relevance to Danish industrial politics in the 1990s, it is a convenient starting point due to the passing of the 1973 *Law on Technological Service (Lov om teknologisk service)*, which served as the general framework for industrial policy throughout the 1980s and established the primary corporatist advisory organ through which interest organizations participated in the industrial policymaking process, the Technology Council (*Teknologirådet*). The *Law on Technological Service* remained the main point of reference for industrial policy until 1990, when it was replaced by the *Law on Business Promotion (Lov om erhvervsfremme)*, and the Technology Council was replaced by the Business Development Council (*Erhvervsudviklingsrådet*).

After I provide a basic description of the *Law on Technological Service* and the Technology Council, I move on to the more directly relevant strand that begins in 1983

with the initiation of the relatively large-scale Technology Development Program shortly after the election of the Conservative-led government in 1982. The initiation of this program seemed to indicate that the government would enthusiastically promote technology-industrial development. Nevertheless, despite the initiation of the Technology Development Program in 1983 and the formulation of a comprehensive structural policy in 1986, the government promoted few industrial development policies.¹ Moreover, employer organizations such as the steel industry's employer organization, *Jernets Arbejdsgiverforeningen*, and the Industry Council (*Industrirådet*) (which would later merge into the Danish Confederation of Industry, *Dansk Industri*, DI) were opposed to state-led industrial development policies. Civil servants at the ministry of industry found it difficult to induce such organizational actors to cooperate on active industrial policy issues.

I also show in this chapter the emergence of an epistemic community of progressive private-sector business leaders and industry experts who became increasingly dissatisfied with the conservative government's liberal approach to industrial policy. Toward the end of the 1980s the insufficiency of technology policy-as-industrial policy exemplified by the Technology Development Program was becoming clearer, at least to this nascent epistemic community of progressive civil servants, industry experts, and business leaders, who encouraged private-sector industrial development efforts. Many of these efforts revolved around one form or another of industrial complexes or clusters, which implicitly and explicitly called for public-private partnerships to coordinate resources from several policy spheres. This embryonic community provided the private-

¹ Cf., Peter Munk Christiansen, *Teknologi mellem Stat og Marked: Dansk teknologipolitik 1970–87* (Copenhagen: Forlaget Politica, 1988).

sector partners with whom civil servants could potentially establish direct but selective contacts.

In the period roughly from 1983 to 1990, proponents of a more active industrial policy, including civil servants and business leaders, were faced with significant political-ideological and intellectual challenges. Analytical rationales as to why and how state actors should lead private-sector actors in industrial development efforts in a free-market economy that were convincing and politically-acceptable to conservative political and business leaders remained elusive. With no consensus on industrial policy beyond technology-related issues, a conservative government opposed to intervening in the private-sector to actively promote industrial adjustment and development, and no organized private-sector partners with whom to corroborate, civil servants were in a very weak position throughout the 1980s to induce cooperation among important political-economic actors and coordinate any state-led industrial development strategy.

The extent to which civil servants in the industrial policy sphere would be able to pursue coordinated industrial development policies and establish effective coordinating mechanism would be dependent on the priorities, strategies, and roles and relations among many important political-economic actors, not just their own. The content of the policies and the specific kinds of coordinating institutions established would also be dependent on this constellation of factors. Thus, the extent to which they could intentionally and purposefully design coordinated industrial development policies and establish specific kinds of effective coordinating mechanisms to make these policies more feasible is questionable. Furthermore, since the content of these policies and the form and function of the coordinating mechanisms would be a product of the priorities,

strategies, and roles and relations among important political-economic actors in the industrial policy sphere, and since the policies and institutions of other policy spheres impacting industrial adjustment and development, such as the labor market policy sphere, would most likely function according to their own internal logics and power relations, it was far from certain that these policies and institutions could be purposefully coordinated or even complementary.

Increasing global competition has played a prominent role in the Danish discourse on industrial policy for decades. For example, the legal industrial-technology policy framework that was established in 1973 and remained in force until 1990 was based on the acknowledgement that competition in the international economy had increased in the 1960s and the expectation that this competition would continue to increase in the 1970s. The sustainability of the Danish welfare state was linked to the capacity of Danish firms to adjust to these competitive pressures and keep pace with increasing internationalization. As inscribed in the 1973 *Law on Technological Service*: “Demands such as a steadily increasing living standards and the development of the welfare society will necessitate that business productivity and competitiveness steadily increase with the increasing internationalization of business and other social functions.”² Towards the end of the 1980s, perceptions of how Danish industrial policies should be adjusted to promote international competitiveness among Danish firms in response to such processes began to change and converge among important political leaders, civil servants, academics, and business leaders.

² Denmark, Folketinget, “Bemærkninger til lovforslaget: Forslag til lov om teknologisk service.” 121. årgang. January 18, 1973. *Folketingstidende: Tillæg A, Folketingsåret 1972–73*, vol. 2. Section 1, col. 3535.

These perceptions were not, however, universally shared, especially by the Conservative-led government, which enjoyed uninterrupted government from September 10, 1982 to January 25, 1993, and major industry employer organizations, such as the steel industry's employer organization *Jernets Arbejdsgiverforening* and the Industry Council. As one senior civil servant remarks, during this period a significant gap lay between the right wing of parliament that supported a "hands-off" industrial policy and the left wing of parliament that supported a "picking-the-winners" industrial policy.³ This view was also held by many other former and current civil servants and outside observers. A significant barrier to inducing cooperation among important political-economic actors and coordinating industrial adjustment in Denmark during the 1980s was thus the lack of a political consensus within the industrial policy sphere on what form any kind of active industrial policy could or should take.

Since the right wing of parliament that led the government and the dominant employer organizations supported a liberal industrial policy, industrial policy was essentially one of *laissez-faire*, despite a few notable government initiatives, such as the Technological Development Program begun in 1983–84 and a "structural" policy framework drafted in 1986, and sector-subsidy arrangements, such as those provided to the shipbuilding sector. To the extent that industrial development policies were pursued during this period, this was done primarily through the promotion of technology dispersion among private-sector firms. The 1973 *Law on Technological Service*, which dealt primarily with such technology dispersion, provided the framework for industrial policy until 1990. A significant part of this law was the establishment of a corporatist

³ Interview with official from Danish Ministry of Economics and Business, Copenhagen, Denmark, April 19, 2002.

Technology Council to advise the government on business-related technology issues and promote technological development in the private-sector through “technology service institutes.” The members of the Technology Council were independent industry experts, but in practice were appointed by interest organizations. Accordingly, the council was one of the main forums through which interest organizations participated in the industrial policymaking process. Still, the council dealt primarily with technological development in the private sector, not with industrial development issues more broadly.

During this period, progressive civil servants seeking a more active industrial policy were not alone. Some academics, private-sector organizations, and business leaders were turning their attention to industrial complexes, development blocs, and clusters as new analytical concepts on which to promote private-sector initiatives. These on-going discussions provided the nucleus of a rising epistemic community from which a broader network of similarly-minded actors could germinate. Since the industrial policy community in Denmark is relatively small, which partly has to do with the country’s relatively small population of about 5.3 million inhabitants, the emergence of this community played an important role in exploring active industrial development strategies. This community included business leaders and institutional investors, notably those business leaders whose firms were perhaps members of strong employer organizations like the employers’ Industry Council, and the Danish Federation of Small and Medium-Sized Enterprises (*Håndværksrådet*), but did not completely share these organizations’ perspectives or organizational interests; relatively small but professional interest organizations and research institutes such as the Danish Association of Engineers (*Dansk Ingeniørforeningen*) and the Labor Movement’s Business Council

(*Arbejdsbevægelsens Erhvervsrådet*); and academics at Danish universities and business schools and other industry experts, who were exploring new strategies based on Denmark's historically-established industrial structure.

By the end of the 1980s, the participants in the debates on industrial complexes and clusters had expanded to include sympathetic civil servants at the Danish Ministry of Industry's policy planning division and the Danish Agency for Industry and Trade (*Industri- og Handelsstyrelsen*), which also provided the secretariat to the Technology Council. Nevertheless, this fledgling community was neither organized nor had the political influence to turn its strategies into official policy. Many conservative political and business leaders associated a clusters-based strategy with a "picking-the-winners" strategy and refused to embrace it. Instead, the government decided in 1989 to significantly reduce the ministry of industry's appropriations in 1990 for state-supported industrial development initiatives, including the Technology Development Program. There remained a significant gap between the state-led industrial development strategies and their adoption as government policy. Moreover, there were few if any coordinating mechanisms in the industrial policy sphere, especially by the time of the budget cuts in 1990. If civil servants in the industrial policy sphere were to induce cooperation and coordination among important political-economic actors, they would have to invent new institutions and do so under the unique circumstances prevailing in the industrial policy sphere.

Coincidentally, the appointment of an extremely conservative minister of industry, relatively large budget cuts at the ministry of industry, and the "rationalization" of the ministry in 1990 led to an expanded mandate but smaller role for industrial policy

with the adoption of the *Law on Business Promotion* and the establishment of the Business Development Council. The *Law on Business Promotion* replaced the *Law on Technological Service* and the Business Development Council replaced the Technology Council. Rather than focus singularly on business-related technological developments, the Business Development Council was mandated to examine a far broader range of factors impacting Danish business. Although the neoliberal stance of the new minister and the budget cuts to state-supported technology and business development programs were disappointing to many civil servants and private-sector actors, as well as some political leaders, the establishment of the Business Development Council ironically provided a new avenue by which civil servants could introduce and promote a coordinated industrial adjustment strategy in official policy debates. And the coalescence of the community of progressive private-sector actors dissatisfied with government policy provided potential partners with whom civil servants could institutionalize direct but selective public-private contacts in order to enhance the effectiveness of that strategy.

The second part of the analysis of Danish industrial politics therefore begins in chapter three with an analysis of the adoption of the *Law on Business Promotion* and the establishment of the Business Development Council in June 1990. I then skip to January 1991, by which time progressive civil servants at the Danish Agency for Industry and Trade, who also provided the secretariat to the council, and industry experts had developed a proposal for the examination of an industrial development strategy based on Danish industrial clusters. Because civil servants had to find a politically-acceptable middle-ground between “hands-off” and “picking-the-winners” strategies, they focused on what would eventually be called the “framework conditions” of economic areas that

had historically comprised a large portion of the Danish economy. This refinement deflected criticism from conservative political and business leaders that the strategy was essentially to “pick the winners” or to fabricate “national champions” because the improvement of the basic underlying business conditions would help all firms within the identified economic areas. The strategy also called for strong public–private partnerships, which would ensure that any policies implemented by state actors would be acceptable to private-sector business leaders.

Since the minister of industry was opposed to active industrial policies and industrial complexes, civil servants at the ministry of industry and the agency for industry and trade working with the Business Development Council took advantage of the council’s expanded mandate and recommended that the council adopt their proposal. In fact, the proposal was written specifically for the council. The council agreed, with one important change. Terms such as “clusters,” “industrial complexes,” and “strongholds” were politically unacceptable. Such terms were simply replaced by “resource areas.” Despite the references to “resource areas,” the “Resource Areas Analyses” project was based directly on Michael Porter’s industrial cluster framework.⁴ The minister of industry was not convinced such a strategy was necessary or desirable, but acknowledged the council’s right to investigate it. Civil servants had finally found a way to evade the opposition of conservative political and business leaders and introduce their ideas on industrial development into official policy debate, largely due to the conservative government’s own attempts to reduce the role of the state in the private sector.

Despite its questionable impact on Danish industrial policy, the Business Development Council played an important passive role as an incubator for new ideas.

⁴ Michael Porter, *The Competitive Advantage of Nations* (London: Macmillan Press, 1990).

Under the patronage of the Business Development Council, which thereby instilled the strategy with a certain political legitimacy and protection, civil servants in the council's state-appointed secretariat were able to explore and experiment with the coordinated cluster-based strategy through the "Resource Areas Analyses" project. The Business Development Council played another important role, though. The civil servants seeking a more active industrial policy sought to explore the new strategies and build mechanisms to carry them out through selective public-private contacts under the council's broadened mandate. As part of the experiment to enhance the business framework conditions within Danish clusters, civil servants were able to initiate direct, but arms-length dialogues with business leaders in these clusters through the Resource Areas Analyses project to inform their policy proposals.

The process of "embedding" and the laying of the foundations of coordinating institutions began to take on a more concrete form through this project. Initially, embeddedness was shallow and transitional. The intermediating role of the Business Development Council prevented civil servants from penetrating deeply into the private sector. Civil servants' policy autonomy was also restricted by the council's ultimate authority over the final policy proposals. Nevertheless, to civil servants, the initiation of close public-private contacts served a political as well as theoretical purpose. Theoretically, the strategy would succeed only if state actors instituted direct contacts among individual private-sector actors from whom they could draw the most immediate and policy-relevant information. Politically, close public-private partnerships dovetailed nicely with civil servants' desires to avoid "interference" from interest organizations, particularly employer organizations, in the policymaking process. Civil servants had

begun a process of enhancing their autonomy while at the same time establishing coordinating mechanisms that could potentially make their policies more effective.

The third part of the analysis of Danish industrial politics begins in chapter four with the shift from the Conservative-led government to a Social Democratic-led government, which was largely sympathetic to the coordinated cluster-based industrial development strategy. When the government changed in 1993, several of the civil servants familiar with the Resource Areas Analyses project were appointed to senior positions in the newly-established Danish Ministry for Business Policy Coordination (*Ministeriet for Erhvervspolitisk Samordning*) (later the Danish Ministry of Industry and Business Policy Coordination [*Industri- og Samordningsministeriet*] and eventually the Danish Ministry of Business [*Erhvervsministeriet*]). Consequently, they were well-positioned to promote a cluster-based policy, buttressed by the lessons they had learned and the relations they had cultivated with private-sector actors through the Business Development Council's Resource Areas Analyses project. Not only had the industrial development strategy reached full policy maturity, but it had been absorbed by civil servants who assumed senior positions in this new ministry and who had already established contacts with private-sector partners willing to participate in their endeavors. With the dismissal of the conservative government, the support of a centrist minister of business policy coordination, and the support of private-sector business leaders, civil servants re-exerted their policymaking autonomy not only from the Business Development Council, but the interest organizations, as well, that civil servants saw as part of the political structure that had led to the impasse of the 1980s.

When the industrial development strategies born in the private-sector and promoted by progressive civil servants, industry experts, and business leaders in the 1980s were adopted as official government policy by a new government in 1993, civil servants took firm control of the policymaking process. The Business Development Council played an important role in facilitating the adoption of a more active industrial development policy, but it also contributed to its own demise and the dissolution of interest organizations' influence over the industrial policymaking process. Although the council was instrumental in promoting a clusters-based industrial development strategy, once the initial Resource Areas Analyses was completed, the council's authority over the project was rescinded. In order to avoid interest organization "interference," civil servants continued the Resource Areas Analyses project, but institutionalized direct contacts with private-sector business leaders and industry experts through the "Dialogue with Resource Areas" initiative to inform their policy prescriptions outside the confines of the Business Development Council. Although some members of the council continued to participate in the dialogues, civil servants kept tight control over the project and consciously excluded the largest employer and labor organizations, such as the Confederation of Danish Industry (DI) and the Danish Confederation of Trade Unions (LO). Over the course of the 1990s, civil servants increasingly ignored both the Business Development Council and interest organizations, at least where the design of industrial development policies were concerned.

From the mid 1990s, civil servants became very much "selectively embedded" in the sense that civil servants determined to a great extent the private-sector actors within targeted strategic economic areas with whom they would initiate direct public-

private contacts. In the language of Weiss, state–civil society linkages were tight but highly selective, with structured access points for particular groups and exclusion of others from access.⁵ Civil servants maintained their autonomy from the Business Development Council, interest organizations, and even the business leaders among whom they were embedded. According to several civil servants, interest organization representatives, and even members of the Business Development Council, while civil servants at the ministry of business policy coordination drew advice from several sources, the industrial development policies and guidelines issued in the government’s annual business policy reports were designed exclusively by civil servants with little deference given to any non-governmental actors on issues on which they disagreed. By 1994, the fortuitous coincidence of the maturation of a politically-tenable coordinated industrial development strategy, the coalescence of a network through which direct state–private sector dialogue to enhance industrial development efforts could be institutionalized, and a minister who accepted both the strategy and the mechanisms for achieving it opened the door to state-led coordinated industrial adjustment efforts in Denmark.

Regardless of whether globalization is a proven phenomenon or not, and despite disagreement on what globalization actually means or implies, actors in both the public and private spheres in Denmark approached industrial policy in the 1990s as if globalization was a process to be managed, not merely a theoretical term to be debated. In fact, the primary annual government policy reports setting out industrial policy throughout the 1990s consistently and explicitly held globalization as a central theme.⁶

⁵ Linda Weiss, *The Myth of the Powerless State* (Ithaca: Cornell University Press, 1998), 36.

⁶ Denmark, Ministeriet for Erhvervspolitisk Samordning, *Erhvervsredogørelse 1993* (Copenhagen: Ministeriet for Erhvervspolitisk Samordning, 1993); Denmark, Industri- og Samordningsministeriet,

Increasing global competition may have played a role in provoking more active and strategic industrial policies in Denmark, but the policies were not predetermined, and state actors were able to establish new institutions in their attempts to enhance the effectiveness of such policies. The ultimate adoption of a coordinated cluster-based industrial development strategy as government policy in Denmark in the 1990s and the manner in which it was adopted and implemented reveals a process in which progressive civil servants eventually but firmly took the lead on industrial development policy by institutionalizing direct contacts with private-sector actors, even while working through a corporatist institution. However, the process of institution-building in the industrial policy sphere followed its own unique trajectory and had its own peculiar consequences.

One of the more noteworthy consequences was the contradictory effect state-led coordination efforts in the industrial policy sphere had on the actual potential for effective coordination within the industrial policy sphere and across other policy spheres. In the industrial policy sphere, the determination of civil servants to regain the policymaking initiative and the emphasis on direct but selective contacts between civil servants and private-sector business leaders and industry experts served to exclude other important political-economic actors, such as employer and labor organizations, whose influence over human resource development would most likely require their participation and cooperation in industrial adjustment efforts. In short, the strengthening of civil servants' autonomy and the institutionalization of dense public-private contacts, on the one hand, and the exclusion of interest organizations, on the other, were products of the same process. Ultimately, despite the establishment of coordinating institutions within the

Erhvervsredegørelse 1994 (Copenhagen: Industri- og Samordningsministeriet, 1994); Denmark, Erhvervsministeriet, *Erhvervsredegørelse 1995-99* (Copenhagen: Erhvervsministeriet, 1995-99).

industrial policy sphere and the strengthening of cooperation and coordination among some important political-economic actors, cooperation and coordination was not strengthened among all the important political-economic actors that could potentially impact industrial adjustment.

With regard to other policy spheres impacting industrial adjustment, the establishment of dense public-private contacts in the industrial policy sphere exacerbated coordination problems with other policy spheres, such as the labor market policy sphere. Some of the most relevant economic actors in the labor market sphere that had immense influence on the development of human resources, such as business and labor organizations, were increasingly excluded from directly participating in the policymaking process. This exclusion was a conscious tactic pursued by civil servants. In addition, although coordinating institutions were established in the industrial policy sphere, because they were products of industrial politics, they did not penetrate very deeply into other policy realms, including labor market policy, which heavily impacted the “framework conditions” regarding human resources. Since state, business, and labor actors had different priorities, played different roles, and had different degrees of influence to exert in the industrial policy sphere than in the labor market policy sphere, different policies and different kinds of coordinating institutions were established in each policy sphere. Consequently, the extent to which industrial and labor market policies and mechanisms for implementation were coordinated was also limited, despite the importance of human resource development to the coordinated cluster strategy promoted in the 1990s. These issues will be addressed in chapters five and six.

Precursors to Contemporary Danish Industrial Policy, 1973 and 1983–90

Since the state-led industrial adjustment policies and coordinating institutions established in the 1990s were very much a reaction to the industrial policies and institutions that had preceded them, Danish industrial policy in the 1990s cannot be understood without reference to the framework that was established in 1973 and the events that took place in the 1980s. Hence, 1973 provides a useful starting point for two reasons. First, it was in this year that the *Law on Technological Service* was adopted in the Danish parliament detailing the path Danish industrial policy would follow over the next twenty years. Second, and related to the first, it was this law that established the primary quasi-governmental corporatist institution through which interest organizations could formally participate in industrial policymaking, the Technology Council. The purpose here is not to delve into the events leading up to the enactment of this law, but simply to use this law as a convenient starting point because this law, and the institutions it established, was one of the main points of reference for industrial policy in the 1980s.

The Law on Technological Service and the Technology Council

The *Law on Technological Service (Lov om Teknologisk Service)*, was passed regarding not industrial policy, per se, but as is self-evident in the title, technology policy. This law set out the parameters of a technology policy revolving around the dissemination of technology and technological competence to the business community at-large. At the core of this law laid “technological services” intended to promote the development, collection, and adaptation of practical technology that could be used by firms to enhance their

economic and management circumstances in practice.⁷ The Technology Council, which was also established by this law, would oversee these services primarily by distributing public funds to approved institutes to partially, or in some cases wholly, cover operating and project expenses in these endeavors. The council also had the authority to extend loans for the acquisition of work spaces and equipment.⁸ As made clear in the *Comments to the Proposed Law (Bemærkninger til Lovforslaget)* attached to the *Proposed Law on Technological Service (Forslag til Lov om Teknologisk Service)*, the law was heavily influenced by a report submitted by a government-sponsored committee⁹ that included representatives from the trade ministry, the housing ministry, the education ministry, the Industry Council (the predecessor to the Danish Confederation of Industry), the Labor Movement's Business Council, the Danish Engineering Association, the Federation of Small and Medium-Sized Enterprises, the Academy for Technical Science, and the Danish Technical-Scientific Research Council.¹⁰ The committee defined "technological services" as a broad category of activities "through which knowledge is collected, cultivated, developed, and dispersed for practical use within business-life, the public sector or society in general."¹¹ Technological service activities generally referred to the promotion of technical-, financial-, and management-related knowledge through advice and consultation support, information collection and dispersal and documentation

⁷ Denmark, Folketinget, *Lov om teknologisk service*. 121. årgang. March 21, 1973. *Lovtidende A 1973*, vol. 1, hæfte 13, 291–93. Article 2, Section 4.

⁸ *Ibid.*, Section 5.

⁹ Denmark, Folketinget, "Bemærkninger til lovforslaget: Forslag til lov om teknologisk service." Section 3, col. 3538.

¹⁰ Denmark, Handelsministeriets udvalg vedrørende teknologisk servicevirksomhed, *Teknologisk Service* (Copenhagen: Handelsministeriets udvalg vedrørende teknologisk servicevirksomhed, 1972), 5.

¹¹ *Ibid.*, 8.

activities, and supplementary and up-dated education together with new education methods, including new education materials.¹²

In its report, the committee sought to show the need for such technological services and noted that state-supported technological institutes played an increasingly significant role in Danish business life. The committee's results showed that larger and often more advanced firms took advantage of the services offered by such institutes, not least because the institutes provide services that complement such firms' production methods. Even small and medium size firms had great need for and use of technological services. These firms had much more varied technical and technological needs and tended to use technically-educated persons to a more limited extent and used more traditional production techniques and equipment. Moreover, they also composed the largest portion of the Danish business structure and thus represented a significant portion of Danish business potential. Technological services in this area were expected to enhance the technological sophistication of small firms and exploit their growth potential. The committee concluded that a rationalization of technological services "benefits society and therefore should be allowed to be carried out centrally instead of each firm making special investments therein."¹³

According to the committee, "for continuous business-related development that moves away from labor-intensive and more routine production toward the typical technology-based (also in fashion or design-based professions) production processes, it is a central business policy task to ensure that technical knowledge and advice is not just

¹² Ibid.

¹³ Denmark, Folketinget, "Bemærkninger til lovforslaget: Forslag til lov om teknologisk service," Section 4. col. 3538.

available, but also that it is easily accessible to be effectively utilized by smaller firms.”¹⁴ Given this view, the committee strongly endorsed the idea that public authorities support extensive active administrative activities on the part of the service institutions to provide technological services in a way that did not inhibit firms from actually using such services. This could be accomplished through cooperative planning, directing, and financing of combined technological service resources.¹⁵ The committee also saw as desirable that tasks related to the planning and financing of state institutions involved in technological service provision should be better coordinated among state-supported institutes and private firms.¹⁶

The civil servants drafting the law pointed out that Danish business in the 1960s was characterized by adjustment and restructuring processes. These processes were expected to continue and intensify in the 1970s. If a steadily increasing standard of living and the further development of the welfare society were to be ensured, the increasing internationalization of business life and other “social functions” would have to be met through increased productivity and competitiveness. In addition, greater attention would have to be given to the development of special production, trade, and consumption conditions demanded by human and environmental concerns.¹⁷ A vital element for business and social issues to be resolved under these conditions was seen to be the continuous transfer of knowledge for practical use. Thus, technological service referred to a kind of help-function “by which new knowledge and familiarity with new materials, new instruments, and new methods of production, marketing, planning and management

¹⁴ Ibid, col. 3539.

¹⁵ Ibid.

¹⁶ Ibid., Section 5, col. 3540.

¹⁷ Ibid., Section 1, col. 3535.

becomes collected, developed and formed for practical utilization in business-life and other places....”¹⁸ Significantly, this policy was not designed to deal with pure research, but with commercially applicable technology.

Despite the liberal business environment and the wariness with which employer organizations viewed state intervention, particularly the Industry Council (later the Danish Confederation of Industry), the inclusion of non-state actors in carrying out this technology-industrial policy was deemed vital. Consequently, following the committee’s suggestion, the government formally suggested in the *Proposal for the Law on Technological Service* of 1973 that these functions—channeling of state resources into research institutes, coordination of state efforts and institution efforts to disseminate technological achievements, and guiding and planning of such efforts—should be guided by a Technology Council (*Teknologiråd*) composed of state actors appointed by the government and non-state actors appointed by select interest organizations. In this regard, it was essential that private-sector actors with expertise in particularly technical areas would participate in the council’s activities. It was expected that such expertise would help resolve technological and business-related problems as well as other issues with the potential to impact industrial development, such as legislative and administrative issues and international industrial and business cooperation, which were not necessarily directly impacted by purely technical or technological concerns.¹⁹ The civil servants drafting the *Proposal* also intended the law to create an institution upon which the public and private sector could draw for the practical utilization of technological advice to further

¹⁸ Ibid.

¹⁹ Ibid., Section 10, col. 3546.

development.²⁰ However, the council was not supposed to merely wait for barriers to technological development to surface, but would actively promote technological development by carrying out independent initiatives.²¹ Although technically an advisory council, this institution was given significant authority and latitude in carrying out its mandate, particularly through its oversight of the technological services system and the distribution of funding to the institutions that composed this system.

The Technology Council was not to be completely separated from state actors, but rather closely linked to existing state institutions. The minister of trade would reserve the right to deny a proposed member from sitting on the council and set the principle issues and overall direction of the council's agenda. In other words, the council was intended to be a semi-autonomous institution with guidance coming from government officials. A significant concern was apparently that more detailed handling of the council's work, such as the approval or termination of contracts with individual institutes providing technological services, by the minister would result in unnecessary administrative burdens.²² In addition, civil servants recommended in the *Proposal* that the trade ministry provide a professional secretariat to the council. This secretariat would have a significant role in the work of the council, primarily as the organ given responsibility for advising the council on programs and projects as well as implementing them. The secretariat would give the council the freedom to concentrate on more fundamental issues relevant to technological development by managing the planning and directing of program-related tasks. Rather than the council wasting its time dealing with detailed tasks, including grant administration to approved technological institutes, the secretariat was to stand prepared

²⁰ Ibid.

²¹ Ibid., col. 3547.

²² Ibid., col. 3549.

to organize and carry out support functions, whether administrative, organizational, or analytical. Thus, while the secretariat itself was to support the council's work with a professionally competent staff, it was also to be given a certain amount of independence from the council to carry out its tasks.²³

The responsibilities of the Technology Council were to be relatively broad within the narrow area of technological development. In sum, "it is the Technology Council's task to orient itself toward technical and business-related developments domestically and internationally to assess the possibilities and challenges this development poses for business and society in general."²⁴ The council was to encourage growth within the broader Danish national economic context yet it was to do so specifically through the dispersion of technological and scientific knowledge to private firms. Since the Technology Council was to play a leading role in this dispersion, it would have to centralize functions and responsibilities that were previously spread among several councils and institutions regarding industrial policy tasks, such as the Technological Institute Supervisory Council and the Danish Technical-Scientific Research Council (*Tilsynsrådet for de Teknologiske Institutter* and *Danmarks Teknisk-Videnskabelige Forskningsråd*). Many of these institutions were to be superseded by the Technology Council.²⁵

Therefore, it was recommended that the council should consider ways to promote technological development throughout the country and either carry out programs itself to this effect or establish administrative organs to carry out such programs, approaching its responsibilities through outward-oriented advising activity with a broad perspective, and

²³ Ibid.

²⁴ Ibid., col. 3546.

²⁵ Ibid., Section 7, col. 3542.

aiming to create the best possible foundations for business development and promotion policy.²⁶ The council was also given the task of hiring paid consultants, with the approval of the minister, to carry out programs and projects that required special expertise outside its own competence. Significantly, in pursuit of this end, the “council may therefore establish *committees* and *working groups* within the scope that will be appropriate to secure the necessary support from the broader expertise which the Council can use to carry out its work.”²⁷ This broader expertise could be drawn from the business sector as well as from within the different groups of technology-related institutes that were already actively working in areas under the council’s authority.²⁸ In effect, the council would act as a board of directors overseeing a vast array of activities devoted to promoting business-oriented technological development throughout Denmark. Perhaps more significantly, the council could pursue programs and projects that would otherwise be prohibited in official government circles.

Up to this time, the various state-supported institutes providing technological services received state-funding through various channels and according to different standards. The centralization of support to these institutes would be to facilitate easier and standardized access to funding. Moreover, by being the depository of collected information on the technological needs of business and society in general, the council would be able to play a coordinating role in technological development activity.²⁹ These responsibilities would also include oversight of a smooth functioning of public-private partnerships between government supported technical and research institutes and private

²⁶ Ibid., Section 10, col. 3546.

²⁷ Ibid., col. 3550, italics in original.

²⁸ Ibid.

²⁹ Ibid., cols. 3546–3547.

sector firms. Much of this activity would be channeled through what would eventually be referred to as the Approved Technology Institutes (*Godkendte Teknologiske Institutter*), but included a broad array of institutes associated with the Danish Technological Institutes, the Academy of Technical Science and Denmark's Technical School, and other self-standing institutes, such as Dansk Standard and the Danish Fire Technical Institute.³⁰

These directives and tasks as propounded in the *Proposal on the Law on Technological Service* were formally handed over to the Technology Council with the passing of the 1973 *Law on Technological Service*. It is significant to note that the persons appointed to participate in the Technology Council were not formally representing interest organizations, but rather serving in a personal capacity as experts of one sort or another. The Council should take care to ensure that “business-related, technological and society-related insights are represented in the council.” Article 3, Section 2 of the law requires that members are appointed according to their expert knowledge and not their organizational affiliation, in order that “[s]pecific organizations or institutions are therefore not given a direct preference.”³¹ In practice, however, the members were appointed by interest organizations after approval by the ministry. Close government participation in the council through the minister's final approval of the council's broad agenda and the state-appointed secretariat was also enshrined in the law as recommended in the *Proposal*. Although the chairman of the council was often suggested by the employers organizations, the vice-chairman of the Technology Council was government-appointed. In essence, the establishment of the Technology Council

³⁰ Jens Frøslev Christensen, et al., *Teknologisk Service: Tendenser og Udfordringer—en Diskussion af GTS-Institutternes Værdi for Danmark* (Copenhagen: Institutrådet og Erhvervsfremme Styrelsen, 1996), 14–15.

³¹ Denmark, Folketinget, *Lov om teknologiske service*, Article 3, Section 2.

provided an officially-recognized corporatist industrial development forum external to the ministry, yet still under the ultimate jurisdiction of the ministry.

As is made clear in the *Proposal on the Law on Technological Service* and the *Law on Technology Service*, industrial development was seen through the narrow lens of technology development. Despite the acknowledgement of intensifying international competition, sustaining a high standard of living was to be achieved almost exclusively through technological adjustment and restructuring that led to increased internationalization, productivity, and competitiveness in the private-sector. In other words, although sustaining a high standard of living through international competitiveness was the end, the primary means to achieve it was almost solely technological development, not a broader industrial policy that drew on multiple natural and material resources, human resources, and capital resources. To the extent that such resources were to be utilized, they were to be directed to the development of firms' technological capabilities. This emphasis on technology-related industrial development did not substantially change through most of the 1980s.

Still-born Industrial Development Policies, 1983–90

The path towards industrial transformation in Denmark in the 1990s actually begins about 1983–84, shortly after a change of government in 1982 from a Social Democrat-led government to a Conservative-led government. The Conservative party was among the staunchest defenders of the liberal business environment and resisted most kinds of active industrial policy. Indeed, one senior civil servant suggests that, during the 1980s,

industrial policy in Denmark was non-existent.³² As another former senior civil servant sums up the policy environment in the 1980s: “We have a firm belief in liberal forces and each time in the 1980s where we had discussion about steering the economy, the employers’ organizations and the right-wing of parliament just rejected it. It was really difficult to get the discussions started in the old ministry of industry. It was a very conservative ministry where the only sectoral policy was aid to shipbuilders. It was very difficult to establish industrial thinking. There were several tries to do it in the early 1980s.... It was very difficult to find a political consensus platform, for a formulation of...broad-scope industrial policies.”³³ Apparently, most industrial policymakers saw industrial policy merely as a reflection of macroeconomic policy and the only area that related to industrial policy on which there was consensus was that of technology policy.³⁴

Although the Conservative-led government opposed active industrial policies, industrial-technology policy—and the Technology Council—was strengthened by this government when it deviated from its norm of non-intervention and established the Technological Development Program in 1983–84. According to one senior civil servant, this program was perhaps the first significant step since the *Law on Technological Service* toward a more comprehensive industrial policy. It was, in this senior civil servant’s word, “the first...initiative that was kind of structural.”³⁵ In tandem with the Technology Council, the Technological Development Program was to promote technological development in three particular areas: microelectronics, data-

³² Interview with official from the Danish Ministry of Economics and Business, Copenhagen, Denmark, April 17, 2002.

³³ Interview with former official from the Danish Ministry of Industry and Danish Ministry of Business, Copenhagen, Denmark, March 6, 2002.

³⁴ Ibid.

³⁵ Interview with official from the Danish Ministry of Economics and Business, Copenhagen, Denmark, April 19, 2002.

administration, and communication technology. Civil servants saw these three areas as developing particularly quickly and their cumulative effects were seen as having great potential for private firms' competitiveness. Such information technology in the form of micro-electronic components could be built into products better suited to customers' needs; it could be harnessed to manage production, internal distribution, and inventories; it could contribute to the effectiveness of firms' own restructuring efforts; and it could be used to automate statistical, accounting, and planning work and even perhaps give new possibilities for new tasks that were hitherto too difficult or complicated to carry out in the absence of new technologies.³⁶ It was expected that "Danish firms' competitiveness in the next 5–10 years will be completely dependent on the degree to which one can utilize the new possibilities."³⁷ Accordingly, the program was not designed to promote general technological development, but rather "to increase the *use* of new technology" in firms and "carry out the necessary [technological] transformation quickly and effectively."³⁸ It was expected that the adoption and dispersal of more sophisticated technology would thereby fundamentally alter the way Danish firms operated, making the industrial structure in general more competitive.

This move by the new conservative government was surprising to many practitioners and observers, including senior civil servants at the Danish Technology Agency (*Teknologistyrelsen*) (later a part of the Danish Agency for Industry and Trade), which was given responsibility for overseeing the new technology program. As a former leader of the Danish Agency for Industry and Trade explains, the new prime minister

³⁶ Denmark, Teknologistyrelsen, *Det teknologiske udviklingsprogram: En oversigt* (Copenhagen: Industriministeriet, 1985), 1.

³⁷ *Ibid.*

³⁸ *Ibid.*, italics in original.

Poul Schlutter wanted a new technology policy that acknowledged that technology was a decisive competitive factor and was told: “Technology development. Those two words. Come up with something.”³⁹ Perhaps even more surprising were the sums of money appropriated to the embryonic program. “Normal” activities were often relatively small and had appropriations between 100–200 million dkk (roughly 15–30 million US\$ at current rates).⁴⁰ Yet the technological development program was somehow perceived to be of a completely different order. When the new government approached the Technology Agency for this “something,” the agency leadership hesitantly suggested a program that would cost about 700–750 million dkk, fearing that the proposed program would be rejected on the grounds of its enormous cost. Instead of rejecting the program, the government doubled the amount to 1.5 billion dkk.⁴¹ Senior civil servants were astounded at the sums appropriated to the new program and could only surmise that the new government wanted to show it was actively engaging the problems Danish firms were experiencing when parliament reconvened that October.⁴² The program was to be supported by an additional 500–600 million Danish kroner contributed by private-sector firms in addition to government funds. The program was initially intended to run for only four years, but this operating period was extended to 1990. It was to be appropriated 21.3 million Danish kroner in 1984, 160.1 million Danish kroner in 1985, 208 million Danish

³⁹ Interview with official from the Danish Ministry of Economics and Business, Taastrup, Denmark, September 9, 2002.

⁴⁰ Ibid.

⁴¹ Interview with official from the Danish Ministry of Economics and Business, Taastrup, Denmark, September 9, 2002; interview with official from the Danish Ministry of Economics and Business, Copenhagen, Denmark, April 19, 2002.

⁴² Interview with official from the Danish Ministry of Economics and Business, Taastrup, Denmark, September 9, 2002.

kroner in 1986, 276 million Danish kroner in 1987, 280 million Danish kroner in 1988, 280 million Danish kroner in 1989, and 160 million Danish kroner in 1990.⁴³

The Technology Development Program was essentially directed towards private firms in the form of state-guaranteed loans or subsidies to individual firms' own product development, production process development, and production system development or to broader activities that covered multiple firms' needs.⁴⁴ More concretely, the program provided support to firms for product and production-process development, including software development, consultant services at a discounted rate, acquiring technical knowledge from abroad, demonstration models to encourage the adoption of information technology, purchases of new high-technology instruments, and analyses to determine the technological needs of individual firms. For example, firms could receive subsidies of up to 40 percent of direct costs incurred in developing product and production processes or receive venture-capital loans covering 50–70 percent of those costs. Consultant services costs could be offset by a special arrangement in which firms paid 25 percent of the first 10,000 dkk and thereafter paid 50 percent, up to 50,000 dkk. The costs of acquiring expertise from abroad could be offset by a 50 percent subsidy. Other initiatives included support to common technology projects among firms and education and training programs in the use of new technologies.⁴⁵

Still, Denmark's meager industrial policy for much of the 1980s revolved around traditional export and technology subsidies in response to macroeconomic hardships. Despite the apparent acceptance among politicians, civil servants, and private-sector actors of the importance of technology to industrial development, as illustrated by the

⁴³ Munk Christiansen, *Teknologi mellem Stat og Marked: Dansk teknologipolitik 1970–87*, 133.

⁴⁴ Denmark, Teknologistyrelsen, *Det teknologiske udviklingsprogram: En oversigt*, 1.

⁴⁵ *Ibid.*, 2–3.

enactment of the *Law on Technological Services* and the establishment of the Technology Council, the provision of “technological services,” and the initiation of the Technological Development Program, this consensus did not extend to industrial policy more broadly and even the effectiveness of Danish technology policy was questioned. While both Social Democratic- and Conservative-led governments supported the principles contained in the *Law on Technological Service* and the Technology Development Program, in practice industrial policy was largely characterized by the continuing subsidization of certain crucial sectors, such as ship-building. Moreover, the funds devoted to the ministry of industry, and hence its associated agencies and councils, were paltry in terms of overall government spending. In 1982, the ministry of industry was appropriated about 1.8 billion dkk out of a total of almost 122 billion dkk. By contrast, the labor ministry received over 28 billion dkk and the social ministry received almost 53 billion dkk.⁴⁶ In 1983, the respective appropriations were 1.9 billion dkk, 33.2 billion dkk, and 57.4 billion dkk out of a total of 131.3 billion dkk.⁴⁷ In 1986, the respective appropriations were 1.8 billion dkk, 29.3 billion dkk, and 69 billion dkk out of a total of 202 billion dkk.⁴⁸ In 1988, the respective appropriations were 1.7 billion dkk, 33.2 billion dkk, and 69 billion dkk out of a total of 208.6 billion dkk.⁴⁹ The ministry of industry was clearly not a high priority.

The establishment of the Technological Development Program was somewhat of an anomaly in an otherwise “nonexistent” industrial policy and its impact on the further

⁴⁶ Denmark, Finansministeriet, *Statsregnskab for finansåret 1982* (Copenhagen: Finansministeriet, 1983), 7.

⁴⁷ Denmark, Finansministeriet, *Statsregnskab for finansåret 1983* (Copenhagen: Finansministeriet, 1984), 7.

⁴⁸ Denmark, Finansministeriet, *Statsregnskab for finansåret 1986* (Copenhagen: Finansministeriet, 1987), 7.

⁴⁹ Denmark, Finansministeriet, *Statsregnskab for finansåret 1988* (Copenhagen: Finansministeriet, 1989), 7.

development of broader-scope industrial policies is questionable. It was, after all, a continuation of government subsidization, even if devoted to technological development in the private-sector. According to Christiansen, a leading analyst of Danish industrial policy of the 1980s, “almost nothing happened in the ministry of industry”⁵⁰ even after the establishment of the Technology Development Program, an assertion that is shared among many civil servants. The Technological Development Program itself initiated only a few large projects, such as in the food and new materials sectors,⁵¹ and few other technology-industrial programs on this scale would be initiated in the 1980s. Despite the consensus on technology policy and higher levels of funding, the Technological Development Program “was not sufficient in itself to transform technology policy,”⁵² much less the larger area of industrial policy. In the apparently ignored and lowly-funded area of industrial development policy, the lack of government interest catalyzed progressive civil servants, business leaders, and private-sector institutes to seek out their own industrial development strategies.

During this period, progressive civil servants in the ministry of industry and the Danish Technology Agency (and afterwards the Danish Agency for Industry and Trade), which provided the secretariat to the Technology Council, clung to the consensus on technology policy while searching for a political rationale to expand technology policy into industrial policy. In the academic field, industry policy experts at Danish universities, business schools, and private research institutes approached the technological-industrial development issue from the other end of the spectrum. While

⁵⁰ Munk Christiansen, 235.

⁵¹ Interview with official from the Danish Ministry of Economics and Business, Taastrup, Denmark, September 9, 2002; interview with official from the Danish Ministry of Economics and Business, Copenhagen, Denmark, April 19, 2002.

⁵² Munk Christiansen, 235.

conservative political leaders and interest organizations were devoted to a strict understanding of technology development in terms of R&D and non-targeted dispersion of technological competence through the private sector, academics were focusing on the conditions for development within “industrial complexes” and how technology could be applied to these specific cases. In this latter conception, technology was but one relevant factor impacting competitiveness and the extent to which the utilization of technology could promote competitiveness was dependent on other factors specific to any given industrial complex. In the private sector, private business leaders and institutional investors created their own “private politics” institutions from which interested firms could try to influence the development of Danish industry.⁵³

A significant milestone was reached in 1985 when employer and professional interest organizations concerned over the low-technology content of Danish products and production processes began paying closer attention to falling Danish competitiveness in terms of R&D efforts, notwithstanding the Technological Development Program. In this year, the Danish Industry Council, the Danish Engineers’ Association, and the Danish Technical College promoted a study of Danish competitiveness that revealed that Denmark was falling behind other OECD countries in terms of R&D investments.⁵⁴ Devoting only 1 percent of gross national product to R&D, Denmark was behind even those small countries, such as Norway, Sweden, and Holland, with which Denmark was often compared. The author pointed out that government money devoted to promoting Danish industry was misplaced, noting in particular that the vast majority was directed to

⁵³ Ove K. Pedersen, et al., *Privat Politik: Projekt Forhandlingsøkonomi* (Copenhagen: Samfundslitteratur, 1992), passim.

⁵⁴ Niels Hoffmeyer, *Forsknings- og industripolitik i Danmark og udlandet* (Copenhagen: Dansk Ingeniørforening, 1985).

subsidies for the shipbuilding sector. In 1981, of a total of 3.4 billion dkk provided by the state, about 1.4 billion dkk was directed to shipbuilding subsidies, about 900 million dkk to export promotion, about 400 million dkk to technology programs, and the rest going to “other” promotion schemes. In 1982, out of 3.4 billion dkk, shipbuilding received about 1.7 billion dkk, export promotion about 1 billion dkk, technology development about 4.5 million dkk, and “other” about 2.5 million Danish kroner. In 1983, money devoted to business development dropped precipitously to about 2.5 billion Danish kroner, although the share devoted to technology development grew in relation to the other categories. Shipbuilding receiving about 2.3 billion dkk, export promotion 600 million dkk, technology development about 500 million dkk, and “other” about 300 million dkk. This trend continued in 1984 and 1985, with funds devoted to shipbuilding falling to about 800 million dkk in 1984 and about 700 million dkk in 1985, while funds devoted to technological development increased from about 600 million to 700 million dkk respectively.⁵⁵

Much of this growth in funds directed towards technological development was the result of the building up of the Technological Development Program. The use of such funds was not, in author’s opinion, wisely spent, partly because too much emphasis was given to the shipbuilding sector with dubious effects, and partly because the implementation of industrial policy was too complicated and spread out among too many organizations and institutions, including the industry and education ministries, the Academy for Technical Sciences, and the technological services institutes. Within the ministry of industry alone, research and product development policies were being

⁵⁵ Ibid., 27.

supported financially by at least seven or eight different public or semi-public organs.⁵⁶ The Technology Council alone distributed 400 million dkk to the various technology institutes, technology service institutes, and institutes affiliated with the Academy for Technical Sciences, which were among the most important elements of Danish technology policy.⁵⁷ According to another observer, by the time of the establishment of the Technological Development Program, about 45 percent of the Technology Council's activities were in the form of subsidized services from technological service institutes to firms. Another 30 percent supported new public projects, the results of which were to be distributed freely among interested firms. The remaining 25 percent were directed to strengthen and enhance knowledge in the institutes themselves.⁵⁸ The conclusion to be drawn was that the then-current use of funds and the organizational mechanisms designed to oversee their use had no positive impact on increasing Danish technological R&D efforts and hence the technological development of Danish firms, products, and services. If the situation were not corrected, Denmark was likely to become increasingly less technologically competent and less internationally competitive respective to other OECD countries. The author suggested that what was required was a rationalization and better coordination of industrial and technology policy efforts and closer cooperation among public and private actors.

How this rationalization and coordination of industrial and technology policy efforts and closer cooperation among public and private actors could be carried out was left largely unanswered, but in September 1985 the Danish Engineers' Association hosted a conference on "Business-life and Technology Policy" to present this report. Participants

⁵⁶ Ibid., 34.

⁵⁷ Ibid.

⁵⁸ Jens Frøslev Christensen, et al., p. 30.

in this conference, among many others, included senior members of the ministry of industry, the ministry of education, the ministry of finance, the ministry of energy, the Danish Environmental Agency, the Danish Technology Agency, the Danish Technology Institutes, the Danish Research Secretariat, the Danish Metal Workers' Union, the Danish Engineers' Association, the Danish Confederation of Employers, the Industry Council (the Danish Confederation of Industry Employers), as well as university representatives from the Academy of Technical Science, the University of Copenhagen, Roskilde University, Aalborg University, Aalborg Business School, Copenhagen Business School, and the Danish Technical College. The participants even included the vice-chairman of the European Community Commission and a Section Chief of the Nordic Council of Ministers. In addition, senior management from some of the largest corporations active in Denmark participated, such as Novo Industri, DanTransport, SAS, Siemens, Ericsson, Norsk Data, and the institutional investment firm PKA (*Pensionskassernes Administration*) as well as members from leading newspapers and industry journals.⁵⁹ Clearly, how technology and industrial policy could contribute to competitiveness was taking on greater saliency to an increasing number of public and private actors who held doubts about the wisdom of current efforts.

In the bureaucratic realm, a major attempt by civil servants to forge a consensus on industrial policy during this period occurred shortly after this dismal report on Danish attempts to promote technological industrial development. In 1986, civil servants from the ministries of industry, finance, labor, and education forwarded a proposal that went far beyond a technology-defined industrial policy. Whether provoked by the earlier report

⁵⁹ Dansk Ingeniørforening, Conference on "Erhvervsliv og teknologipolitik," Ingeniørhuset, Copenhagen, Denmark, September 2, 1985.

or not, it was clear that at least some political leaders and civil servants were becoming aware of some of the shortcomings of the then-current industrial policy the report pointed out. In March of 1986, a new industry minister was installed. As a former businessman, Niels Wilhjem shunned the kind of subsidy schemes typical of Danish industrial policy, but was seen by civil servants and outside observers as also appreciating the potential value of a more comprehensive, if not interventionist, approach to industrial policy. Shortly after Wilhjem's appointment in March of 1986, this sweeping re-evaluation of Danish structural policy was released in May by the ministry of industry in close cooperation with the ministry of finance, but also with the participation of the ministry of labor and education entitled, *Debate Proposal on Growth and Change: Requirements for Structural Policy (Debatoplæg om vækst og omstilling: Krav til Strukturpolitikken)*.⁶⁰ According to a former civil servant in the policy planning division of the ministry of industry, "this was the first time that there was established a foundation for coordinating policies by these four ministries.... They should all work in the same direction, promoting quick adaptation of industrial structures so Danish industry could continue to be competitive."⁶¹

According to a former civil servant who was intimately involved in the drafting of the proposal as well as organizing the multi-ministerial effort, the proposal was a defining moment in the shift away from policies favoring sector-subsidies and focusing on the underlying conditions for economic growth. Civil servants began with an analysis of the effectiveness of the distribution of state resources, but the inquiry led to other

⁶⁰ Denmark, Arbejdsministeriet, Finansministeriet, Industriministeriet, Undervisningsministeriet, *Debatoplæg om vækst og omstilling: Krav til strukturpolitikken* (Copenhagen: Arbejdsministeriet, Finansministeriet, Industriministeriet, Undervisningsministeriet, 1986).

⁶¹ Interview with official of the Danish Ministry of Economics and Business, Taastrup, Denmark, January 7, 2004.

questions. A major consideration was finding an alternative to a hands-off approach, sectoral subsidy policies, and a “picking-the-winners” strategy. On the one hand, instead of subsidies promoting the competitiveness of firms, civil servants were convinced that they actually had a retarding effect. As this former civil servant explains, “What really happened in that period of time was that we became aware that the sectoral policies were themselves conservative in the sense that they prevented structural adaptation.”⁶² On the other hand, “None of us believed [picking-the-winners] was a possibility, for the technocratic reason that we didn’t have the information.”⁶³ The new policy proposal was intended to remedy the inadequacies of ineffective sector subsidies and avoid picking the “wrong” winners by concentrating on the smooth interaction of all the factors impacting structural adjustment among Danish firms.

Although a political document, the proposal implied a significant break with the current industrial policy that focused almost solely on technology policy and acknowledged the need for integrated policies covering separate but crucial policy areas as a necessary requirement for future economic growth and stability in an expanding and increasingly competitive global economy. The civil servants drafting the proposal argued that economic policies to revive continuously high economic growth had to be supplemented by a distinctive structural policy that included active and goal-oriented efforts within and across the technology, research, education, and labor market policy areas.⁶⁴ Such a structural policy was meant to address three issues: adapting to the accelerating technological change and transformation in Danish business-life, the creation

⁶² Ibid.

⁶³ Ibid.

⁶⁴ Denmark, Arbejdsministeriet, Finansministeriet, Industriministeriet, Undervisningsministeriet, *Debatoplæg om vækst og omstilling: Krav til strukturpolitikken*, 7.

of new strongholds within growth areas, and the strengthening of adjustment in the education system and on the labor market.⁶⁵ The cooperation and coordination that such an ambitious policy required would by necessity include all the actors with an interest in its success. This kind of cooperation and coordination would therefore require not only cooperation and coordination among government ministries and other state actors, and between state and business actors, but among all the social partners—the plethora of ministerial departments and agencies, private corporations, and interest organizations.⁶⁶

The goals set out by the government were certainly ambitious and were important in helping to set the terms through which debate and policy decisions would turn in the not-too-distant future. In the technology and research policy area, efforts were to be focused on increasing joint R&D efforts to the level of R&D efforts in other developed countries. The proposal suggested doubling expenses in both the public and private sector as a percentage of GNP by 2000. In quantitative terms, this meant an increase in R&D by 2 percent. On the public sector side, this increase would be accomplished through quantitative and qualitative strengthening of public research, research educations, and research institutions. On the private sector side, Danish industry would have to increase R&D investments. At the time of the proposal, Danish industry devoted less than 3 percent of profits to R&D. The government suggested that, if Danish firms were to rise to the level of their competitors, this amount would have to be more than doubled over the next fifteen years. Other policy recommendations were encouraging new production methods throughout Danish industry; a more active strategy to intensify interaction among research, development, and marketing areas and improve

⁶⁵ Ibid.

⁶⁶ Ibid., 11.

monitoring of developments on international markets; and increased research and technology development cooperation between the public and private sectors.⁶⁷

The goals set out for education and labor market policy efforts revolved around creating and enhancing new competencies, creating possibilities for life-long learning, and easing administrative burdens. New competencies and skills would be promoted by adjusting the education system accordingly. It was seen as crucial that developments in business were not restrained by the need for an educated workforce, especially if the aforementioned R&D goals were to be reached. Life-long learning and adjustment to new business demands required a general improvement of educational quality that established flexible education structures. It was expected that such flexible structures would provide newly educated persons with the competence and motivation to continually up-grade their qualifications. Following this expectation, and noting that 75 percent of the people that would be in the labor force in ten years' time were already on the labor market, higher priority would be given to continuing training and education. In 1982, only 1 percent of work-time was devoted to training activities. The authors contended that, if international opportunities were to be seized, training activities would have to be at least doubled and directed at the entire workforce, not just industry-specific workers. Administrative transformation within the education ministry and the labor ministry was seen as a way to more easily manage the change process, particularly if such transformation was to include greater degrees of decentralization and market-driven direction.⁶⁸

⁶⁷ Ibid., 8–9.

⁶⁸ Ibid., 9–10.

The main elements of structural policy were thus quite expansive. Basic research ensuring the highest quality was to be supported, while new, promising research fields were to be explored, “provided that we dare choose and that we dare aim meaningful resources early to build up a national competence in the field.” International and national research cooperation among firms and research institutes was to be strengthened to ensure early involvement of the innovation process and the importation of new knowledge. Danish firms were to be encouraged to pursue far-sighted R&D projects and take advantage of European-wide R&D programs, such as EUREKA, the pan-European network for market-oriented R&D. Common research projects, exchange of personnel, and the common use of research facilities were to be used to build cooperation among business and research institutes in all areas. Coordinated R&D programs, including support to different phases of the innovation process within particular technology areas, such as biotechnology, would be established. Efforts to assist organizations that work with new technologies would be strengthened. The technological services would be built up in new, promising technology areas. Furthermore, the Public Employment Service would increase its efforts to predict what qualifications would be needed in the future and the connections between employment guidance, education efforts, and the Public Employment Service would be strengthened. Continuing education and training programs would receive more resources and the quantity of education offers would be planned in closer cooperation with education institutions and the business sector. Engineering and technical education would be expanded. Finally, long-term education planning would be better coordinated so as to become more harmonized with the long-term needs of business.⁶⁹

⁶⁹ Ibid., 10–11.

The Debate Proposal on Growth and Transformation did not result in any enduring “institutional manifestation” of an official structural policy.⁷⁰ However, it did represent a paradigm shift of sorts. With strong support for this new if abstract and still ill-defined orientation from the four largest ministries, as well as the prime minister and the ministry of economics, and the civil servants supporting them, the proposal marked the acknowledgement that “sectoral policy is dead.”⁷¹ Recalling the impact this proposal had on official policy, a former civil servant remarks, it was not absorbed by the government “in the sense that there was an established structural policy. You couldn’t find such a thing. But whenever we were talking about labor market policy, education or whatever, we were always thinking of the structure.”⁷² Civil servants were thus becoming much more aware of the necessity of coordinating several policy areas in response to increasing competition in the global economy.

Nevertheless, industrial development initiatives such as structural policy and the Technology Development Program were dismissed by a new conservative minister in 1989. Rather than sharing her predecessor’s views on structural policy, the new minister Anne Birgitte Lundholdt was, as described by one observer, a “more old-fashioned liberal, meaning government money is no good,”⁷³ and was seen as taking the position that “internationalization means no room, or very little room, for national industrial policy.”⁷⁴ Many civil servants, academics, and other industry policy experts claim that Lundholdt saw no need for industrial policy at all and was more interested in restraining

⁷⁰ Interview with official of the Danish Ministry of Economics and Business, Taastrup, Denmark, January 7, 2004.

⁷¹ Ibid.

⁷² Ibid.

⁷³ Interview with private-sector consultant, Copenhagen, Denmark, May 1, 2002.

⁷⁴ Ibid.

the state's reach into the market. "She was," one observer remarks, "really the non-national industrial policy minister."⁷⁵ The only technology development efforts she grudgingly supported were those policies being pursued at the level of the European Union, particularly the four-year EUREKA research and technology development framework programs. One observer laments, "To me, it is a little bit strange that she was so uninterested in developing industrial policy measures. Even if you are a neoliberal, you can say we have to look at research and development, cooperation between firms and universities, you have to strengthen infrastructure, and so on. But she was sort of denying everything...[if you] keep taxes down, inflation, interest rates down...firms will be doing what's best for them and the country."⁷⁶

Lundholdt was apparently also a convenient replacement whose ideological positions complemented the government's decision to cut funding to the ministry of industry. As revealed in parliamentary debates, there were two rationales for these cuts. The more practical reason was that Denmark was experiencing high levels of government debt. The other reason was more ideological. As Minister Lundholdt expressed it in parliament, the overarching business policy was "to create the best opportunities for firms themselves to adjust and to create the best possibilities for a free business-life. We will create the best opportunities so that the structural adjustment that will occur in Danish business-life will also occur under consideration of the opportunities that exist and their willingness to carry out their own investing." The best way to ensure adjustment was not by increasing public financial support, but by "removing the obstacles and the economic burdens that lie on our firms so they are able to compete as free western industry and

⁷⁵ Ibid.

⁷⁶ Interview with Danish scholar, Aalborg, Denmark, June 22, 2002.

trade firms.”⁷⁷ In 1989, the ministry of industry devoted over 1.57 billion dkk to business promotion programs, including export promotion, regional development, co-financing of firms’ own development projects, and technology infrastructure. In 1990, these funds were cut to a little over 1.12 billion dkk.⁷⁸ In all, over 470 million dkk, almost one-third of previous funding, was cut from business development programs. Significantly, the cuts also included the remaining 100 million Danish kroner devoted to the Technological Development Program in 1990.⁷⁹ Although fiercely pro-market, even the Industry Council referred to the cuts as “a massacre” and the Confederation of Small and Medium-Sized Enterprises called it a “horrible fright.”⁸⁰ More important than the sums of money involved, however, was the clear and unyielding repudiation of state-led industrial development by the ultimate political authorities. This stance put the government in direct opposition to the intellectual movement towards industrial complexes and structural policy among progressive civil servants and private-sector business leaders and industry experts.

⁷⁷ Denmark, Folketinget, Minister of Industry Anne Birgitte Lundholdt, *Forespørgsel nr. F 14: Forespørgsel til industriministeren vedr. en dansk active erhvervs politik*. 141. årgang. March 6, 1990. *Folketingstidende: Forhandlingerne i Folketingåret 1989–90*, vol. 5, 6678.

⁷⁸ Denmark, Finansministeriet, *Statsregnskab for finansåret 1989* (Copenhagen: Finansministeriet, 1990), 77; Denmark, Finansministeriet, *Statsregnskab for finansåret 1990* (Copenhagen: Finansministeriet, 1991), 74.

⁷⁹ Interview with official of the Danish Ministry of Economics and Business, Taastrup, Denmark, September 9, 2002.

⁸⁰ Denmark, Folketinget, Bjørn Westh, Social Democratic member of parliament, *Første behandling af lovforslag nr. L 132: Forslag til lov om erhvervsfremme*. 141. årgang. January 17, 1990. *Folketingstidende: Forhandlingerne i Foketingsåret 1989–90*, vol. 4, 5523.

The Convergence on Industrial Development Strategies in the Public and Private Sectors

Although the government was relatively inactive in the industrial sphere in the 1980s, it is clear that there was a movement among some civil servants, business leaders, and other industry experts toward some kind of more active industrial policy, despite the appointment of Industry Minister Lundholdt. Attention in the academic community was focused on industrial complexes while civil servants explored structural policy. In the private sector, the glacial movement among government ministers as evidenced in the late acknowledgement even of the need for a structural policy also encouraged business leaders to try to find their own solutions to industrial adjustment. Ove Kaj Pedersen, et al., describes this process as “private politics,” in which a range of private-sector actors created a kind of epistemic community around issues of Danish industrial politics that state actors seemed unwilling or unable to address.⁸¹

An important institution drawing this community together was the Forum for Industrial Development (*Forum for Industriel Udvikling*), a nongovernmental, private-sector organization established in 1988 on the initiative of three of the largest institutional investors in Denmark: Baltica, the Workers Pension Fund (*Lønmodtagernes Dyrtdisfond*) and PKA (*Pensionskassernes Administration*). According to Pedersen, et al., the Forum served several important functions to the policymaking process in the late 1980s. First, the Forum served a discourse function that connected business structural ideals with factual structural diagnoses. A second policy function was the voicing of policies that could be accomplished given factual structural norms.⁸² In short, the Forum explored

⁸¹ Pedersen, et al., *passim*.

⁸² *Ibid.*, 93–94.

what could be accomplished given the actual state of the Danish business structure. A final and third function was that of a campaign function that sought to broaden the understanding of the business structure and the necessity to live up to demands required by the business structural norms.⁸³ Among the issues explored by the Forum were the conditions for creating an agricultural industry “locomotive” and an environmental industry “locomotive”; administration policies for organizing the public sector; and the development of the Storebælt and Øresund regions of Denmark.⁸⁴

The Forum consisted of a business political panel, a management group, a project management group, an analytical group, and symposiums drawing together a large group of influential private-sector and public-sector actors. The business political panel included representatives from institutional investors, employee groups, and business leaders. Its function was to discuss perspectives, plan analyses, and establish a dialogue among public and private actors to identify opportunities and constraints regarding closer cooperation among them. The management group had the overall responsibility for the Forum’s projects, while the project management group had the responsibility for managing the development of the projects as determined by the business political panel and the management group. The analytical groups, of course, consisted of researchers and experts that actually carried out the analyses. Finally, the Forum sponsored symposia where the results of the Forum’s work were presented to a wide range of important actors, including investors, employees, business-leaders, and public sector actors in the hopes of transforming their ideas and analyses into practice.⁸⁵ Civil servants participated

⁸³ Ibid.

⁸⁴ Ibid., 94.

⁸⁵ Forum for Industriel Udvikling, *Har Danmark en fremtid som industrination?* (Copenhagen: Forum for Industriel Udvikling, 1988), 11.

in discussions, but only a couple of civil servants were directly involved in the Forum's work.

Among the participants directly involved were the presidents, chairmen, vice-chairmen, or directors of ISS A/S, Baltica, Gutenburgus, Privatbanken, the Wage Earner's Pension Fund, Radiometer, Sophus Berendsen, Danochemo, and McKinsey & Co. Several chairmen, vice-chairmen, or directors from several interest organizations also participated, including those from the Confederation of Danish Trade Unions (LO), the Danish Metalworkers Union, the unskilled workers union SiD (*Specialarbejderforbundet i Danmark*), the Danish Confederation of Professional Associations, the Danish Bank Workers Association, and the steel industry's employers association (*Jernets Arbejdsgiverforening*). Scholars from the Copenhagen Business School and the University of Copenhagen also participated in the discussions, as did the finance ministry's head of department and the director of the Danish Environmental Agency.⁸⁶

This forum's self-described goals were "...to bring forth a documentary and focused knowledge of internationalization's consequences for the Danish business sector and establish a dialogue between institutional investors, leaders in the public and private sector and employees regarding the possibilities Danish corporations have to play a more active role in international industrial development."⁸⁷ This task included defining the capital and management demands of Danish industry, as well as assessing how institutional investors could contribute to the development of internationally competitive industry. The Forum for Industrial Development was particularly interested in the structure of Danish business and the microeconomic conditions affecting Danish

⁸⁶ Ibid., appendix to introduction.

⁸⁷ Ibid., 10.

competitiveness. The organizers of the Forum saw macroeconomic indicators such as GDP growth, trade and current account balances, inflation, etc. as insufficient in accurately describing the strengths and weaknesses of Danish business. According to one of the Forum's leaders, one goal was to "escape the tyranny of the OECD," meaning economic analyses based on such macroeconomic indicators.⁸⁸ The focus was therefore on the microeconomic conditions prevailing in Denmark, not the macroeconomic conditions.

In 1988, the Forum released a report on the potential for industrial development in Denmark entitled, *Does Denmark Have a Future as an Industrial Nation?* The Forum's work had as one of its starting point that "internationalization is an unavoidable process."⁸⁹ According to the Forum, the western industrialized societies were going through massive restructuring, requiring increasing investment in research, product development, and marketing. A serious deficiency in Denmark pointed out by the Forum was the dearth of large competitive industry locomotives, especially in comparison to other small countries like Sweden, Switzerland, and Holland. Unlike these other small countries, Denmark had not gone through a restructuring phase within its key industries. The lack of large, competitive "industrial units" hampered Denmark's international competitiveness more generally. "This is the development that Danish industry has an acute need to set in motion...."⁹⁰ and the development the Forum hoped to catalyze. Another serious concern of the Forum was that internationalization could mean the dominance of Danish markets and productive activity by foreign corporations, which could in turn determine industrial development in Denmark without regard to the needs

⁸⁸ Interview with private-sector consultant, Copenhagen, Denmark, October 27, 2002.

⁸⁹ Forum for Industriel Udvikling, 9.

⁹⁰ Ibid.

of Denmark to develop its own industrial complexes and innovative environments.⁹¹ Thus, participants in the Forum were concerned that internationalizing processes posed challenges to Danish firms on both international and domestic markets. The response to such challenges laid in strategic promotion of Danish “industrial units.”

The Forum suggested industrial policy should revolve around adjusting the Danish business structure away from traditional industrial production to service-based production because “it is the markets’ needs for services that decide industry’s development—and what industry will produce.”⁹² For example, the food sector could benefit from providing food products that meet specific nutritional needs to different groups; the construction sector could benefit from including extra amenities and utility services in their constructions, rather than merely providing a building in which to live or work; and firms working in the environment sector could benefit from responding to consumers’ demands for environmental protection.⁹³ Another suggestion was to build the business structure upon large market-oriented business complexes, or industrial locomotives, based on new cooperation patterns among private and public actors. Among the more important immediate concerns were that new and more market-oriented business structures should lead to increased market-oriented education and training, government business promotion initiatives should be directed to the needs that are created by such new business structures, and that negotiation of labor market agreements should be appropriate to the conditions found within business complexes.⁹⁴ A final suggestion focused particularly on the agricultural sector, which had been, and continues to be, one

⁹¹ Ibid.

⁹² Ibid., 69.

⁹³ Ibid., 70.

⁹⁴ Ibid., 73.

of Denmark's largest sectors. The Forum determined that a radical policy was needed to internationalize this sector and make it more efficient and effective in order "to make it one of Denmark's most important international growth areas."⁹⁵ Following the theme set out in the Forums' report, examples of initiatives that could be taken to transform the agricultural sector were the development of food products that satisfied customer demands for high-quality foods and/or specific nutritional needs and the development of close cooperation with large international food corporations.⁹⁶

While civil servants were not often directly involved in academic and private-sector initiatives, such as the Danish Engineers' Association conference on "Business-life and Technology Policy" and the Forum for Industrial Development, they did have frequent informal contact with those who were. Moreover, the debate within government circles on structural policy indicated that civil servants were moving along parallel lines as these private-sector actors and the consensus that was forming around industrial complexes among private-sector actors seemed to indicate that active industrial policies would not meet wholesale resistance among business and industry leaders. Still, the broader consensus that was emerging produced mostly broadly-defined development strategies and policy proposals. Moreover, the strategy and policy ideas circulating in academic and private-sector circles lacked a politically acceptable framework for carrying out the development of industrial complexes. Indeed, many civil servants were wary that, to many conservative political and business leaders, a policy supporting industrial complexes would amount to special treatment of one industry or sector over another, essentially a "national champion" or "picking-the-winner" policy.

⁹⁵ Ibid., 67.

⁹⁶ Ibid., 75.

Any strategies or policy proposals would therefore have to be set within a framework that convinced the government, first, that there was a need for industrial development policies; second, that industrial complexes did not amount to “picking-the-winners” or promoting “national champions”; and third, that government actors could effectively intervene in the market without negatively distorting it. Civil servants were acutely aware of these political considerations, perhaps even more than their private-sector counterparts. As one former senior civil servant recalls, “We realized that we were faced with the problem of finding a conceptual platform which allows us to formulate a coherent industrial policy without immediately being cut because we were too Stalinistic or wanting to interfere too much in the economic machinery.”⁹⁷ Intent on finding such a conceptual platform, “we looked around for where we could find some help.”⁹⁸ This help came in the form of Michael Porter’s *The Competitiveness of Nations*,⁹⁹ an extensive study of industrial clusters and the conditions under which they develop and thrive. This work melded many of the same kinds of issues approached in the 1986 structural policy proposals as well as the ideas about industrial development blocs prevalent among industry experts. Significantly, among the cases in Porter’s work was Denmark. In the words of a former senior official in the industry ministry’s policy planning division, Porter’s work was “like sent from heaven.”¹⁰⁰

Based on the notion that international trade allows a nation to increase its productivity by focusing on its competitive advantages, a basic premise of Porter’s work

⁹⁷ Interview with former official of the Danish Ministry of Industry and Danish Ministry of Business, Copenhagen, Denmark, March 6, 2002.

⁹⁸ Ibid.

⁹⁹ Michael Porter, *The Competitive Advantage of Nations* (London: Macmillan Press, 1990).

¹⁰⁰ Interview with former official of the Danish Ministry of Industry and Danish Ministry of Business, Copenhagen, Denmark, March 6, 2002.

is that “*no nation can be competitive (and be a net exporter of) everything.*”¹⁰¹ Since a country’s human and other resources are necessarily limited, the challenge is to use these resources in the most efficient and effective manner possible. Porter makes the case that the only meaningful concept of competitiveness at the national level is national productivity, yet even this abstraction can have meaning only at the firm level. The level of analysis must therefore be the microeconomy, not the macroeconomy. To understand the factors that contribute to productivity and the rate of productivity growth “we must focus not on the economy as a whole but on *specific industries and industry segments.*”¹⁰² Assessments of aggregate productivity growth on the national level, he claims, focus on factors that are so broad and general so as to be insufficient to guide company strategy or public policy. Such assessments do not address the issues of “*why and how* meaningful and commercially valuable skills and technology are created.”¹⁰³ According to Porter, these issues can only be understood at the level of particular industries.

According to Porter’s analysis, the determinants of national advantage relate to one another in what he refers to as the national “diamond,” which represents four broad characteristics of a national economic system that shape and influence the environment in which local firms must operate. This environment determines to a large extent how firms promote or inhibit the creation of competitive advantage. The first of these characteristics is factor conditions, referring to the nation’s position in factors of production, such as skilled labor or infrastructure, necessary to compete in a given industry; the second is demand conditions, referring to the nature of home demand for the industry’s products or services; the third is related and supporting industries, referring to the presence or

¹⁰¹ Porter, 7, italics in original.

¹⁰² Ibid., 9, italics in original.

¹⁰³ Ibid.

absence in the nation of supplier industries and related industries that are internationally competitive; and the fourth is firm strategy, structure, and rivalry, referring to the conditions in the nation governing how companies are created, organized, and managed, and the nature of domestic rivalry.¹⁰⁴

The various factors interacting within a “diamond” scheme often result in the clustering of a nation’s competitive industries through a mutually reinforcing dynamic process. Although the basic unit of analysis for understanding national advantages is the industry, a single isolated industry is insufficient to build competitive national advantages. Rather, advantages arise from clusters of industries connected through vertical and horizontal relationships. In any given national economy, a mix of clusters is to be found.¹⁰⁵ Porter expands on this cluster concept by suggesting a process in which a competitive industry spurs activity among those supplying it with the resources it needs, thus helping create competitive advantage among supplier industries, which in turn help promote downstream industries that provide technology, stimulate transferable factor creation, and foster competition as new entrants to the market. The internationally competitive industry creates new related industries, providing new industries with ready access to transferable skills, related entry by already established firms, and/or stimulating entry indirectly through spin-offs.¹⁰⁶ According to this conceptualization, “once a cluster forms, the whole group of industries becomes mutually supporting. Benefits flow forward, backward, and horizontally.”¹⁰⁷ Aggressive rivalry in one industry, according to the theory, spreads to other industries in the cluster through bargaining, spin-offs, and

¹⁰⁴ Ibid., 71.

¹⁰⁵ Ibid., 73, italics in original.

¹⁰⁶ Ibid., 151.

¹⁰⁷ Ibid.

diversification. Up-grading is spurred by the ensuing stimulation of diverse approaches to R&D, strategies, and skills. Moreover, information flows more freely, especially among suppliers and customers with multiple competitors, making the diffusion of innovation more rapid and smooth. The interconnections cultivated within the cluster “lead to the perception of new ways of competing and entirely new opportunities. People and ideas combine in new ways.”¹⁰⁸ By creating “outsiders’ from within” that compete in new ways, national industries are able to sustain advantage rather than lose it to other more innovative nations with similar industries. From this perspective, the process of cluster formation is a naturally occurring, market-driven economic phenomenon.

In this formulation, government has a special role to play. Government can enhance national competitiveness by reinforcing existing clusters or infant industry clusters rather than trying to create entirely new ones.¹⁰⁹ Thus, while the notion of naturally-occurring clusters stands at the center of his system, the focus of inquiry is actually the conditions under which they develop and how these conditions can lead to increased national competitiveness. For Porter, the decisive qualities leading to a nation’s high and rising levels of productivity requires “relentless improvement and innovation in existing industries and the capacity to compete successfully in new industries,”¹¹⁰ not wage rates, interest rates, and exchange rates.¹¹¹ Thus, in Porter’s terms, the proper role for a government’s industrial policy is not to target specific firms but to improve the cluster-relevant conditions identified in his diamond by which all firms in an established cluster can up-grade existing competitive advantages. However, since the “decisive

¹⁰⁸ Ibid..

¹⁰⁹ Ibid., 655.

¹¹⁰ Ibid., 617–18.

¹¹¹ Ibid.

factors are specialized and anticipate the emerging needs of industry,”¹¹² Porter acknowledges that “government cannot pick the right factors or create them very effectively by itself.”¹¹³ Government efforts at improving business conditions would therefore be critically dependent on the active participation of private-sector actors in identifying and creating the right factors.

The Danish contribution to Porter’s work was led by Henrik Pade of Pade & Partners, a business consulting firm, and Kim Møller of the Copenhagen Business School. This work identified nine potential Danish clusters. These clusters did not necessarily represent sectors in which Denmark held competitive advantages, but were more descriptive of where Danish clusters had already formed. First presented at the Danish Engineer Association in 1988 as *Industrial Success: Competition Factors in 9 Danish Branches*,¹¹⁴ the statistical information accumulated for the analysis was meticulously thorough and extensive, based on more than 300 indicators of international competitiveness, although not each analysis made use of all 300 indicators. The authors focused on Danish product groups that collectively accounted for at least 1 percent of industrial countries’ exports in 1985. In all, the authors found 130 Danish product groups, 60 of which were comprised of closely connected sub-groups whose aggregate totals met or exceeded the 1 percent requirement.¹¹⁵ The research team found that the dairy, foodstuffs, agricultural machinery, medical, furniture, telecommunications, electronics, environmental technology, and engineering consulting sectors had special significance to the Danish economy.

¹¹² Ibid., 620.

¹¹³ Ibid.

¹¹⁴ Kim Møller and Henrik Pade, eds., *Industrial Succes: Konkurrencefaktorer i 9 Danske Brancher* (Gylling, Denmark: Narayana Press, 1988).

¹¹⁵ Ibid., 17.

Shortly after the presentation of the Danish case, the Danish Association of Engineers sponsored a follow-up conference on “Denmark’s International Competitiveness” featuring Michael Porter and his Danish colleagues, drawing considerable attention again from many of the academic, state, interest organization, and private-sector actors in the broader network searching for active industrial development policies. Participants included individuals from the industry ministry, agriculture ministry, finance ministry, foreign ministry, the prime minister’s office, and parliament, as well as other government-affiliated organs and institutions, such as the Danish Industry and Trade Agency, the Danish Research Secretariat, the Danish Research Directorate, the technology institutes, the State Social Science Research Council, and the Academy for Technical Science Institute Council. Interest organizational participation included the Danish Engineering Association, the Academic Central Organization, the Union of Danish Metalworkers, the Danish Industry Council, the Danish Confederation of Labor, the Labor Movement Business Council, the Danish Women’s Union, the Danish Construction Workers Union, the unskilled workers union SiD, the Danish Confederation of Employers, and the Confederation of Salaried Employees and Civil Servants. They were joined by academics from the Copenhagen Business School, Aalborg University, Roskilde University, and other academic research institutes. Such participants were evenly balanced by wide participation of firms and institutional investors, including A.P. Møller, Danfoss, Dantec Elektronik, Hewlett-Packard, Mærks Oil and Gas, Dronningborg Maskinfabrik, Carlsberg, Norsk Hydro, Baltica Holding, the Wage Earners’ Pension Fund, DanVenture Invest, PKA (*Pensionskassernes Administration*), and Danske Bank, among many others. Many of these participants had

in fact participated in the Forum for Industrial Development. Finally, the participants included media representatives from *Telebørsen*, a leading industry journal, and *Information*, one of the largest newspapers in Denmark.¹¹⁶

Although an academic work, the financial support given to this project provides further indications of the network that was coalescing around such cluster-based active industrial strategies. The Danish scholars contributing to the Porter work were funded by several institutions, including the Technology Council and the Planning Council for Research (*Planlægningsrådet for Forskning*), and crucial support came from the Danish Engineers' Association, which had supported the 1985 evaluation of Danish competitiveness, and the Wage Earners' Pension Fund, whose president from 1986–88, Poul Nyrup Rasmussen, also participated in the Forum for Industrial Development. From 1988 to 1992, Nyrup Rasmussen was also a Social Democratic member of parliament and the parliamentary business committee. In 1993, he would become prime minister. Porter's work had apparently provided a rallying point around which progressive state actors, academics, and private-sector actors finally converged regarding a coherent industrial development strategy, at least in theory.

To civil servants, the significance of Porter's work went further than the insights on industrial development and dynamic innovation. Porter's work provided civil servants a potential framework that could resolve the political dilemmas presented by conservative ministers, politicians, and business leaders. First, by focusing on the conditions represented in Porter's diamond of all firms found in a naturally occurring cluster, rather than individual firms or artificial clusters, civil servants could argue that such a strategy

¹¹⁶ Dansk Ingeniørforening, Conference Program, Danish Association of Engineers conference on "Danmarks internationale konkurrence," Copenhagen, Denmark, February 4, 1988.

would not pick-the-winners or designate national champions. Second, since government efforts to enhance these conditions would depend on close private-sector involvement, private-sector actors would restrict unnecessary or undesirable government intervention. In effect, government policy would be guided just as much by business leaders as civil servants. In sum, by focusing on the elements of Porter's "diamond," or "framework conditions" as they would be called in Danish policy circles, civil servants could legitimately claim to be seeking only to improve the business environment in which firms operated, not firms themselves, according to the natural development of the Danish market. And the extent to which the government would intervene in the market would to some extent be determined by market actors themselves. Civil servants had discovered a potentially politically acceptable industrial development strategy as well as a potentially politically acceptable mechanism for turning those strategies into policies. By virtue of their participation in these debates on industrial complexes, civil servants had also already begun to identify potential private-sector partners, even if the form of that partnership was still undetermined. However, by the end of the 1980s, and especially after the appointment of industry minister Lundholt, civil servants still had not met a third requirement, i.e. convincing conservative political leaders that an industrial development policy was necessary, desirable, and feasible. If the ideological opposition of the government was to be overcome and a cluster-based industrial development strategy expanded, civil servants would have to seek out more subtle means of promoting the strategy, while strengthening their ties to private-sector actors.

Conclusion

By the end of the 1980s, important political-economic actors within the industrial policy sphere were highly fractious, presenting unique barriers to inducing cooperation and coordination among them. A new analytical orientation towards microeconomic analysis, the business environment, and clusters had gathered considerable attention among many public and private actors, but the impetus behind this movement came primarily from a select group of industry experts in the non-governmental sector. There was still considerable doubt at the highest levels of the government over what exactly industrial blocs or clusters implied and what kinds of policies should follow, if any. Among state actors, political leaders were still split between a “hands-off” and “picking-the-winners” strategy; the ruling conservative coalition was unwilling to intervene in industrial policy and instead demoted even the technology-development aspects of industrial policy through budget cuts; the Technology Council’s contribution to industrial policy was limited to guiding technology policy through the subsidization of technological services; and progressive civil servants who saw existing government policy towards industrial development as insufficient had to observe ministerial prerogatives. Since the minister of industry was the “no national industrial policy” minister, progressive civil servants found themselves in an awkward position. While sympathizing with private-sector ideas of industrial adjustment and development, they still had to work within and through government institutions.

In the private sector, business actors were likewise not monolithic in their attitudes towards active industrial development strategies. Individual firms and business leaders seemed to show some support for a shift in industrial policy, as evidenced by their

participation in the Forum for Industrial Development and conferences sponsored by the Danish Engineers' Association. But the most important industry employer organizations, including the Danish Industry Council (the predecessor to the Confederation of Danish Industry), voiced only hesitating support.¹¹⁷ While many employer and business organizations were extremely disturbed by and vociferously opposed to the cuts to government subsidies, in one former senior servant's account, the Industry Council was often "reactionary" where state-lead industrial development efforts were involved.¹¹⁸ These stances put progressive business leaders in opposition to the organizations that existed to promote their interests. Despite some convergence around this new analytical orientation, there were still remarkably few links between "private politics" and official government policy. Developing and strengthening links between "private politics" and official government politics, and convincing skeptical political and business leaders that an active industrial policy was necessary and desirable, were significant hurdles to putting into practice what had taken years to forge.

If the cluster approach to industrial development was to go any further in terms of government policy, the business leaders, industry experts, and civil servants promoting it would have to work within this specific political environment. A crucial missing ingredient in introducing the new analytical framework to government-backed policy was a politically salient institutional platform from which the champions of this framework could voice these views. Existing platforms were clearly insufficient. The most influential political actors in the industrial policy sphere, the minister of industry and the

¹¹⁷ Interview with official of the Danish Ministry of Economics and Business, Taastrup, Denmark, January 7, 2004.

¹¹⁸ Interview with former official of the Danish Ministry of Industry and Danish Ministry of Business, Copenhagen, Denmark, May 31, 2002.

dominant employer organizations, such as the Industry Council, were either hostile or indifferent to active industrial policies. Private-sector institutions, like the Forum for Industrial Development, were largely ad-hoc private-sector initiatives without a formal political base, especially given the opposition of employer organizations. And the Technology Council, the only government-recognized business-related tripartite institution, was restricted to business-related technology issues and therefore lacked the mandate to delve into the kind of deeper-penetrating industrial policy that would be required to support development blocs. As the nascent network of progressive civil servants, industry experts, and business leaders coalesced, a window of opportunity opened in 1990 with a re-evaluation of the 1973 *Law on Technological Service*.

Chapter 3

Bridging the Public–Private Divide, 1990–94

Introduction

In this chapter I analyze what may be considered the turning point in Danish industrial politics from *laissez-faire*-oriented industrial policies to state-led coordinated industrial development policies. I begin with an analysis of the adoption of the 1990 *Law on Business Promotion* and the establishment of the Business Development Council, which replaced the 1973 *Law on Technological Services* and the Technology Council, respectively. I then analyze how progressive civil servants at the Danish Ministry of Industry and Danish Agency for Industry and Trade exploited the Business Development Council's mandate to explore wide-ranging industrial development issues and filtered the private-sector-inspired cluster strategies into official debate. Finally, I describe how these civil servants designed the strategy not only as a theoretical guide to coordinate industrial development in Denmark, but as a means by which civil servants could develop closer contacts with select private-sector actors and thereby enhance their policymaking autonomy from interest organizations, especially conservative business organizations, if not necessarily from conservative political leaders. Since conservative political leaders, particularly the minister of industry, refused to embrace any strategy that even implied "picking-the-winners," it was not until a change of government in 1993 and the completion of the Business Development Council's "Resource Areas Analyses" project in 1994 that civil servants could pursue the cluster-based strategy as official policy and establish direct but selective public–private contacts, which they did without hesitation.

Nevertheless, despite the opposition of conservative political and business leaders, during the period between 1990 and 1994 civil servants successfully managed to introduce a coordinated cluster-based industrial development strategy into official debate and begin building coordinating institutions based on public-private contacts to enhance the effectiveness of this strategy, as well as their policymaking autonomy.

The political environment of Danish industrial policy in the late 1980s and early 1990s was not conducive to the effective cooperation of important political-economic actors, despite Denmark's categorization as a coordinated market economy. There were attempts in both the public and private spheres to emphasize the need for coordinating several policy areas that affect the economic conditions of firms at the microeconomic level. On the one hand, progressive civil servants from the ministries of finance, labor, industry, and education collaborated to produce a structural policy framework that included a coordinated approach to technology policy, research policy, education policy, and labor market policy. On the other hand, private-sector actors such as the participants and supporters of the Forum for Industrial Development and the Porter research were converging on the microeconomic characteristics that supported industrial "locomotives" and clusters, which implicitly and explicitly called for greater coordination and cooperation among state and private-sector actors. Despite this convergence and the expansion of new contacts within a particular community of progressive civil servants, business leaders, and other industry experts, however, they were not in and of themselves sufficient to change the direction of official Danish industrial policy, induce greater coordination and cooperation, or establish coordinating institutions.

Support for coordinated industrial development strategies was fractured in both the public and private spheres. In the public sphere, progressive civil servants at the ministry of industry were at considerable odds with the minister of industry. While the conservative-led government was very much in favor of stable macroeconomic factors and efficient markets, a policy of manipulating the microeconomic business conditions of selected industrial sectors was not something into which the minister wished to delve. As the former finance official working on the structural policy framework and later the head of the ministries of business policy coordination and business recalls, in the broader sense of macroeconomic policies, such as stable inflation levels, interest rates, and wage rates, there was no conflict between civil servants and the government and the minister of industry, all of whom supported macroeconomic stability “100 percent.” Civil servants were approaching broader economic development in terms of microeconomic structural policies, however, which the minister did not support. In essence, the minister and her supporters “didn’t know what it was and they didn’t believe in it and they were very against it.”¹ Promoting macroeconomic stability and dynamic growth was not so controversial, but manipulating the microeconomic business conditions of clusters, on which dynamic growth was theorized to rest, continued to be held in suspicion by government leaders.

While coordination was espoused by political leaders on both the right side and left side of the political spectrum, there was considerable disagreement among political leaders in the Danish parliament on what this meant, on the instruments to be used, and, especially, the use of funds to further adjustment in the private sector. While the left side

¹ Interview with official of the Danish Ministry of Economics and Business, Copenhagen, Denmark, June 4, 2002.

of parliament, notably members of the Social Democratic party, argued for a reinstatement of government funding to firms' adjustment efforts that were cut in 1990, the right side of parliament, notably members of the Conservative-led government, held fast to their goal of cutting industrial development funds from the industry of ministry's budget. To the conservative industry minister, "coordination" primarily referred to the efficient use of reduced business promotion funds. Furthermore, notions of industrial locomotives was rejected outright by Industry Minister Lundholdt, who argued in parliament that the largest Danish firms had absolutely no need for state help in adjusting to international competition.²

In the private sphere, business interests were also split. While some business leaders participating in the private-sector forums supported more active industrial policies, other influential private-sector actors, especially employer organizations, supported the conservative minister's free-market approach to industrial development. One official from the Confederation of Danish Industry (DI) explains that DI's purpose is and has been "to help create the best environment for industry and service activity in Denmark,"³ but from the point of view of many former and current civil servants and industry experts active during this period, employer organizations—and the Industry Council (DI's predecessor) in particular—were obstructive, intransigent, and even reactionary where active industrial policies were concerned. Employer organizations accepted government policies providing for financial support to complement their own efforts, as revealed by their dismay to the budget cuts planned for 1990, but rejected any notions of state-led

² Denmark, Folketinget, Minister of Industry Anne Birgitte Lundholdt, *Forespørgsel nr. F 14: Forespørgsel til industriministeren vedr. en dansk active erhvervspolitik*. 141. årgang. March 6, 1990. *Foketingstidende: Forhandlingerne i Folketingåret 1989-90*, vol. 5. 6727.

³ Interview with official of the Confederation of Danish Industry, Copenhagen, Denmark, April 5, 2002.

industrial adjustment. The attitudes of conservative political and business leaders may be surmised from the perspective of one employer organization leader and former member of parliament from a conservative party who was also a member of the parliamentary business committee. Speaking in a personal capacity, this leader says: “When we talk about business policy, I am sure that representatives of the ministry of trade and industry, or whatever it is called now, they will say they have a great importance in creating the industrial environment of the way the Danish economy has evolved. To my mind, being rude, they have had absolutely no serious influence on anything. This is a liberal economy and the major Danish companies have evolved in the way they have evolved [even if] the government hadn’t been there at all. Thank God, because civil servants, to my mind, can only interfere and mismanage if they try to get too much involved in the way the business sector works in this country.”⁴ Serious reservations were obviously held by some influential actors not only regarding the necessity of state intervention in the market, but also the competence of state actors to effectively carry out active industrial development policies.

The opposition of important political and business leaders to coordinated industrial development efforts did not necessarily mean that supporters of cluster-based coordinated industrial development efforts had no means of influencing industrial policy, but if they were to do so, they would have to do it within the particular context and political circumstances prevailing in the industrial policy sphere. A potentially important window of opportunity opened in 1990 with the revision of the 1973 *Law on Technological Service*. The passing of the 1990 *Law on Business Promotion* was the result of a confluence of factors in the industrial policy sphere related to budgetary and

⁴ Interview with official of the Confederation of Danish Employers, Copenhagen, Denmark, June 28, 2002.

organizational issues as much as shifting perceptions of industrial policy. A senior civil servant at the former Danish Agency for Trade and Industry, who was involved in the drafting of the law, estimates that the reasons for the passage of the law were 60 percent organizational, 20 percent budgetary, and 20 percent political.⁵ These factors were, of course, intertwined. A reading of parliamentary debates reveals that the Conservative-led government was concerned by high levels of government debt, but also held a very liberal approach to industrial policy.⁶ The cutting of funds to the ministry of industry served two purposes. The first purpose was to reduce government debt; the second was to reduce the state's role in the private sector by reducing subsidies. These two factors led to the reorganization of the ministry of industry and its associated agencies. As the minister of industry explained in parliamentary debate, the law was proposed with two goals in mind, "for the first, of course, to adjust our business promotion structure to the budget that was adopted in the parliament; for the second, and no less significant, to modernize the structure so that hopefully exporting firms will collectively benefit in the long term."⁷

The budget-cutting and a reorganization of the ministry of industry resulted in both centralizing and expanding the technology-related advisory responsibilities of the Technology Council that had been established nearly two decades earlier. The

⁵ E-mail correspondence with official of the Danish Ministry of Economics and Business, September 13, 2002.

⁶ Denmark, Folketinget, *Først behandling af lovforslag nr. L 132: Forslag til lov om erhvervsfremme*. 141. årgang. January 17, 1990. *Folketingstidende: Forhandlingerne i Folketingsåret 1989-90*, vol. 4, 5520–5537; Denmark, Folketinget, *Forespørgsel nr. F 14: Forespørgsel til industriministeren vedr. en dansk aktiv erhvervspolitik*; Denmark, Folketinget, *Forespørgsel nr. F 16: Forespørgsel til industriministeren vedr. regeringens industripolitik*. 142 årgang. April 2, 1991. *Folketingstidende: Forhandlingerne i Folketingsåret 1990-91*, vol. 9, 6110–6162; Denmark, Folketinget, *Forsættelse af anden behandling af lovforslag nr. L 132: Forslag til lov om erhvervsfremme*. 141. årgang. May 22, 1990. *Folketingstidende: Forhandlingerne i Folketingsåret 1989-90*, vol. 7, 10100–10117; Denmark, Folketinget, *Tredje behandling af lovforslag nr. L 132: Forslag til lov om erhvervsfremme*. 141 årgang. May 30, 1990. *Folketingstidende: Forhandlingerne i Folketingsåret 1989-90*, vol. 7, 10752–10776.

⁷ Denmark, Folketinget, Minister of Industry Anne Birgitte Lundholdt, *Første behandling af lovforslag nr. L 132: Forslag til lov om erhvervsfremme*, 5532.

Technology Council was replaced by the Business Development Council, the structure of which was virtually unchanged from the Technology Council, including a secretariat based at the agency for industry and trade. The 1990 *Law on Business Promotion* that established the Business Development Council unambiguously transformed the council from a merely technology development organ into, as the name itself proclaims, a business development organ. The Business Development Council was still essentially an advisory board, but it was in any case a government-recognized institution officially mandated to offer advice on a very broad range of issues related to technological, industrial, and business development policies in Denmark. Although the members of both the Technology Council and the Business Development Council were nominally independent of interest organizations, they were in practice selected and appointed by interest organizations with the approval of the minister of industry.

When the Business Development Council was established in 1990, civil servants at the Danish Agency for Trade and Industry and the ministry's policy planning division presented the Business Development Council with a proposal to further explore a coordinated cluster-based strategy based directly on Michael Porter's *Competitiveness of Nations*, entitled *Internationalization and Business Development: A Debate Proposal on Future Danish Business Policy*.⁸ As a quasi-governmental institution, a political platform, and a source of government funds, when the Business Development Council adopted the proposal, it gave the cluster-based exercise the veneer of legitimacy and raised its political profile. Moreover, since the hypothesized cluster-based strategy required close public-private cooperation, the Business Development Council could also serve as an

⁸ Bent Dalum, et al., *Internationalisering og erhvervsudvikling: Et debatoplæg om fremtidig dansk erhvervspolitik* (Copenhagen: Industri- og Handelsstyrelsen, 1991).

important bridge between civil servants in their official policymaking roles and private-sector actors. In the short period 1990–94 civil servants began more actively embedding themselves in the private sector through council-sponsored dialogues with business leaders in identified Danish clusters, or “resource areas.” These dialogues were the first steps toward building coordinated institutions that bridged “private politics” and official government policy. The establishment of closer contacts between civil servants and private business leaders and industry experts also built support in the private sector for coordinated industrial development policies, giving civil servants more autonomy from interest organizations.

Still, the period from 1990–94 was only a transitional phase in two senses. First, the Business Development Council was still only an advisory body and the minister was under no obligation to heed the council’s advice. Referring to the *Internationalization and Business Development* proposal, Industry Minister Lundholdt pointed out that it was only one of many proposals circulating in the Business Development Council. Although the minister accepted the council’s right to bring up the kinds of issues included in the report and was open to further discussion, she also re-emphasized the government’s business policy of free competition and no government support to single firms or especially threatened industries.⁹ She also expressed some skepticism regarding Porter’s work, saying, “We can be inspired by theory, but it isn’t always the case that theory can set up a schedule that shows how things will go five years from now.... From time to time it is nice to be led by theory but also to have a finger in the practical soil.”¹⁰

Although the council functioned as an incubator for developing a coordinated cluster-

⁹ Denmark, Folketinget, Minister of Industry Anne Birgitte Lundholdt, *Forespørgsel nr. F 16: Forespørgsel til industriministeren vedr. regeringens industripolitik*, 6112.

¹⁰ *Ibid.*, 6156.

based strategy, the strategy was still a considerable distance away from being adopted as official government policy. A second reason why this period was only transitional was that, while private-sector actors were approached and encouraged to work with civil servants in identifying problems and solutions to industrial development in Denmark, this interaction was possible only through the Business Development Council as the executing authority, the members of which were selected by interest organizations. Civil servants therefore were not autonomously embedded in the private sector yet, but they were nonetheless beginning the process of establishing coordinating institutions through selective public-private contacts.

In the 1980s, inducing cooperation among relevant political-economic actors in response to globalization and the apparent decline of Denmark's international competitiveness within the industrial policy sphere was complicated by the government's focus on removing subsidies to the private sector and employer organizations' refusal to accept any kind of state-led industrial adjustment efforts beyond those subsidies. Significantly, this lack of coordination and cooperation in the industrial policy sphere was the result of the internal logics and power relations specific to this policy sphere under specific circumstances. These internal logics and power relations, however, also conditioned the possibilities in the 1990s for the community of progressive civil servants, business leaders, and industry experts to lay the groundwork to shift perceptions in broader policymaking circles, to begin building coordinating institutions, and to seize the policy initiative away from interest organizations and the Business Development Council should the political climate change. The success of none of these endeavors was predetermined, but if any of them were to be successful, this community would have to

work within the constraints, such as the opposition of the minister and employer organizations to state-led industrial adjustment programs, and opportunities, such as the enactment of the *Law on Business Promotion* and the establishment of the Business Development Council and the coalescence of progressive business leaders and industry experts, prevailing in the industrial policy sphere.

The specific form and content of the state-led active industrial policies and coordinating institutions that would eventually emerge were thus conditioned by the specific internal logics and power relations within the industrial policy sphere. Yet the cluster-based strategy was predicated on cooperation among important political-economic actors and the coordination of policies and resources of several distinct policy spheres, including the labor market policy sphere. The success of the coordinated cluster-based industrial development strategy and the extent to which coordinating institutions could effectively induce cooperation among important political-economic actors in pursuit of industrial development and adjustment would therefore also likely be impacted by the form and content of policies and coordinating institutions in these other policy spheres. However, just as the form and content of industrial policies and coordinating institutions reflected the particular priorities, strategies, and roles and relations among important political-economic actors in the industrial policy sphere, the form and content of the policies and institutions in other policy spheres, for example, active labor market policy policies and coordinating institutions, reflected the particular priorities, strategies, and roles and relations among important political-economic actors in the labor market policy sphere, which were quite different. Consequently, progressive civil servants in the industrial policy sphere pursuing state-led coordinated industrial development strategies

were faced not only with the challenge of establishing effective coordinating institutions in the industrial policy sphere, but in other policy spheres over which they had little or no influence.

The Law on Business Promotion and the Business Development Council

In 1990, the legislative bedrock on which Danish industrial policy had been based, the *Law on Technological Service* of 1973, was altered with the passage of *Law on Business Promotion* on June 13, 1990. Among the analytical reasons for this review was the changing nature of international competition, but a more mundane reason was also the aforementioned cutting of funds to the ministry of industry to reduce the bureaucracy. As explained in the *Comments on the Proposal for the Law on Business Promotion*, the law was intended to simplify the administration of business promotion activities and so make such activities more flexible and effective.¹¹ According to one senior civil servant who participated in the drafting of the proposal, the sprawling complex of councils, agencies, institutes, and other organs required better coordination and rationalization.¹² The budget for 1990 was to “save” 6.5 million Danish kroner by reducing the bureaucracy of the Industry and Trade Agency alone.¹³ Nevertheless, the *Law on Business Promotion* took a decisive turn away from defining industrial development simply in terms of technological development, although technological development still played an important role. The passing of this law was, arguably, the defining moment shifting weight away from technology policy as the core of industrial policy and towards a structural policy that saw

¹¹ Denmark, Folketinget, “Bemærkninger til lovforslaget: Forslag til lov om erhvervsfremme.” 141. årgang, January 17, 1990. *Folketingstidende: Tillæg A, Folketingsåret 1989–90*, vol. 11, Section 2, col. 3558.

¹² Interview with official of the Danish Ministry of Economics and Business, September 9, 2002.

¹³ Denmark, Folketinget, “Bemærkninger til lovforslaget: Forslag til Lov om erhvervsfremme,” Section 6, col. 3561.

technology policy as only one element of industrial policy. No longer was business policy to be defined by technology policy.

Similar to the *Law on Technological Service*, the broad purpose of this law was to strengthen business development in Denmark specifically to increase Danish international competitiveness. This aim was to be achieved through several broad policy directions. First, the law aimed to promote the development and utilization of technological, managerial, and market knowledge. Second, it aimed to promote Danish exports and the internationalization of Danish firms. Third, it aimed to promote R&D efforts. Fourth, it aimed to readjust the Danish business structure to the demands of competition, taking into consideration “society-related developments” in general.¹⁴ State-supported activities in pursuit of these goals were extensive but vague. Specifically, the law called for co-financing of particularly risky development projects; support for business-related utilization of knowledge in the public sector and business-related demand for merchandise and services; initiatives to promote the start-up of new firms; support of initiatives designed to adjust the business structure; initiatives to advance the internationalization of firms; export-promotion measures; the development, collection, distribution, and utilization of technical, financial, and managerial knowledge; the establishment of facilities for assessing techniques, testing, certification, etc.; promotion of regional and local business development programs; and temporary initiatives for business-development programs in regions where such development is especially lacking. The instruments to be used to achieve these goals included grants, capital investments,

¹⁴ Denmark, Folketinget, *Lov om erhvervsfremme*. 142. årgang. June 13, 1990. *Lovtidende A 1990*, vol. 2, hæfte 63, 1300–1303, Article 1.

loans, “development contracts,” and project guarantees.¹⁵ While based on the *Law on Technological Service*, the activities prescribed in the *Law on Business Promotion* went well beyond technological services. In particular, the inclusion of managerial- and market-related knowledge rather than just technological knowledge, the promotion of internationalization rather than just exports, and the readjustment of the Danish industrial structure rather than adjustment among individual firms were considerable expansions of the scope of the previous technology-industrial policy.

Again similar to the *Law on Technological Service*, a rationalization of administrative organs—the ministry of industry, its agencies, and the councils under its purview—was called for. This reorganization would in effect broaden the responsibilities of new institutions, since there would be fewer of them. Most prominently, the Business Development Council was established to replace the Technology Council and its affiliated institutions administering the technological service programs. A prime task of this new institution was to consider the broader issues confronting Danish industry, including but not limited to, technological development. Also created through this legislation were the Export Promotion Council, and the Appropriations Committee (*Eksporfremmerådet* and *Bevillingsudvalget*). For the purposes of this analysis, the Business Development Council is the focal point since it was the organ intended to provide strategic guidance on broad issues of development. The Export Promotion Council and the Appropriations Committee were, as their names imply, devoted to specific areas and not directly involved in industrial development initiatives. However, all three of these organs were important aspects of the new business promotion structure,

¹⁵ Ibid, Article 3.

since these three organs would replace nine pre-existing organs and “coordinate” the efficient use of government funding.

Throughout the 1990s, the Business Development Council was to be the primary government-recognized corporatist forum through which governmental, academic, private sector, and interest organization actors interacted in the industrial policy sphere. While interest organizations appointed members to the Business Development Council, the *Law on Business Promotion* stipulated that these members serve in a personal capacity, rather than as representatives of the appointing organization. This system was to ensure that people with first-hand knowledge of business’ needs, rather than the organizations themselves, would provide relevant advice to the minister. As one former senior civil servant recalls, the “background for government thinking itself has been, if you only ask the traditional organizations, you will also get only traditional answers, well-known answers. If you want to have a forum to discuss more innovative issues, you should talk to industrialists themselves.”¹⁶ Similar to the Technology Council, the individuals sitting on the Council came from a broad background of Danish society, including the major confederations and national organizations representing workers, employers, and other professionals, and local and regional government actors. In fact, the architecture of Business Development Council was virtually carbon-copied from the Technology Council.

Although the Business Development Council’s structure was essentially the same as the Technology Council, the Business Development Council had a significantly different emphasis, reflecting the respective laws on which each was based. While the

¹⁶ Interview with former official of the Danish Ministry of Industry and Danish Ministry of Business, Copenhagen, Denmark, May 31, 2002.

Technology Council's mandate focused on technology-induced competitiveness, the Business Development Council was to focus its advice on "circumstances of significant meaning for firms' production conditions and for business development in general."¹⁷ To carry out this function, the Business Development Council was given three main mandates. First, it was granted the power to initiate and carry out analyses and make proposals regarding the conditions under which firms carried out their production activities, including firms' technological development, and make suggestions as to how such conditions could be improved. Second, it was given the power to "coordinate, assess and organize" efforts affecting regional and national business conditions, particularly efforts involving research and development and structural adjustment that affected society as a whole. Third, it acted as an oversight institution determining the principles through which funds would be dispersed by the Appropriations Committee to areas under its authority, such as the co-financing of individual firms' activities.¹⁸ Although not a completely independent organ, the Business Development Council would assume some policy-making responsibilities in the execution of its mandate. The administration of technological services was not specifically mentioned in the law, but it was understood that the council's mandate under section 2 of the law to pursue activities directed toward the development, collection, and adoption of technical-, economic-, and management-related knowledge included the administration of technological services.¹⁹

Still, according to the law, and following earlier precedents, the minister of industry retained ultimate jurisdiction over industrial policy and the Business Development Council. The minister of industry broadly determined the council's agenda

¹⁷ Denmark, Folketinget, *Lov om Erhvervsfremme*, Article 5.

¹⁸ *Ibid.*, Article 5, Section 2.

¹⁹ Denmark, Folketinget, "Bemærkninger til lovforslaget: Lov om erhvervsfremme," Section 2, col. 3558.

and activities, including “rules for co-financing of projects and control and supervision related to such projects, development and maintenance of a technological service structure, standardization and norm-setting activities, [and] certification...”²⁰ The council’s decisions and activities had no formal authority over governmental administrative authorities, but it was given wide latitude to carry out its work. In cases of “fundamental importance,” the council was given the right to present its case directly to the ministry of industry. Moreover, as with the earlier Technology Council, members, including the chairman, were appointed by interest organizations as private citizens after approval by the government. Finally, the secretariat of the Business Promotion Council would be housed in the industry and trade agency and staffed by civil servants.

Despite the many references to coordination, there was heated debate in the Danish parliament over what the government meant by “coordination” and the specific instruments that would be used to ensure such coordination. Such issues that were mostly pursued by members of the opposition Social Democratic party and Socialist party, who saw the proposed law as a disingenuous means to cement budget cuts and centralize decision-making in the minister’s office. The spokesman for the Social Democratic party asserted that the proposed law was “an expression of centralization in the highest degree.”²¹ Even the establishment of the Business Development Council, the Export Promotion Council, and the Appropriations Committee was held in suspicion by some members, who questioned whether these three business promotion organs could

²⁰ Denmark, Folketinget, *Lov om Erhvervsfremme*, Article 5, Section 3.

²¹ Denmark, Folketinget, Bjørn Westh, Social Democratic member of parliament, *Fortsættelse af anden behandling af lovforslag nr. L 132: Forslag til lov om erhvervsfremme*, 10101.

effectively replace the nine pre-existing ones.²² The minister's responses to these charges were simple, if somewhat evasive. The minister reminded members of parliament that the determination of which instruments were to be used and how were to be dealt with in parliamentary negotiations on the annual budget. She rejected assertions that she alone would be making decisions and suggested a better way of dealing with such issues was to first establish the organs called for in the proposed law, which could provide the overall direction for business policy, and from there determine which initiatives were realistically plausible to pursue.²³ The proposed law, she insisted, was not about money, but was to provide "a structure to advise the government on business policy, and based on this advice, appropriations will naturally be put through the budget."²⁴ Indeed, "the whole goal of carrying out this law is coordination...and an overarching advising structure, where we both discuss business policy and ensure combined advice to the government on related issues."²⁵

In the end, the law was passed with the support of all the parties in parliament except the Social Democratic party and the Socialist party. Perhaps somewhat ironically, government initiatives to restrain industrial policy through budget-cutting and organizational rationalization actually increased the scope of responsibilities of a quasi-state corporatist institution. The Business Development Council, in "coordination" with the Export Promotion Council and the Appropriations Committee, would be the preeminent advisory council to the government on all issues of business development. In

²² Denmark, Folketinget, Bjørn Westh, Social Democratic member of parliament, *Første behandling af lovforslag nr. L 132: Forslag til lov om erhvervsfremme*, 5521.

²³ Denmark, Folketinget, Ministry of Industry Anne Birgitte Lundholdt, *Første behandling af lovforslag nr. L 132: Forslag til lov om erhvervsfremme*, 5536–5537.

²⁴ Denmark, Folketinget, Minister of Industry Anne Birgitte Lundholdt, *Tredje behandling af lovforslaget nr. L 132: Forslag til lov om erhvervsfremme*, 10773.

²⁵ *Ibid.*

its advisory capacity, the Business Development Council was given the mandate to initiate its own analyses and projects with the aid of a ministry-appointed secretariat. Although this mandate appears rather mundane, it was this clause that provided progressive civil servants the opportunity to insert their cluster-based strategies into official debate. The secretariat was staffed by those very same civil servants who had been working on a cluster-based policy framework, putting them in strong position to guide the council's projects in a manner that did not overstep their responsibilities to the minister. The council was given the mandate to explore business development strategies and the civil servants in its secretariat were given the mandate to support those endeavors.

From Clusters to Danish Resource Areas

The passage of the *Law on Business Promotion* provided an important political platform in the form of the Business Development Council from which those seeking a more active industrial policy could promote their views. The government's decision to downgrade industrial policy by cutting the ministry of industry's budget and "rationalizing" its offices and associated agencies and councils had the side-effect of centralizing some non-ministerial executive power in the Business Development Council. Rather than weakening industrial policy, though, the creation of the Business Development Council and the expansion of its mandate beyond that of the Technology Council's shifted industrial policy exploration from the minister's office to a quasi-political, corporatist organ with a secretariat staffed by the very civil servants who had become increasingly involved in the cluster discussions. The potential significance of this

new institution was not lost on the civil servants championing the industrial strategies that had been maturing over the previous several years.

Shortly after the establishment of the Business Development Council, civil servants at the Danish Agency for Industry and Trade commissioned a project proposal in 1991 that was based on the Porter research. A senior civil servant sums up the situation thus: "The meaning with the Business Development Council was to have a broad context to look at policy, not with money as such, but guiding the government what to do... Our plan as we saw it was to say, 'There is a kind of lock-in situation in the Danish political context because the right side of parliament said hands-off policy and left side said picking-the-winners.' Neither of them was the solution and there was a lock-in. We couldn't do anything. Therefore we developed the 'resource area' concept based on Michael Porter's way of thinking."²⁶ With support from such civil servants, the proposal was written by Bent Dalum of the University of Aalborg, Kim Møller and Finn Valentin of the Copenhagen Business School, and Ulrik Jørgensen of the Danish Technical Institute, all of whom had written extensively on business and technology development in Denmark. Kim Møller and Ulrik Jørgense were directly involved in the Porter research. The proposal was written specifically for the Business Development Council, which would play a primary role in the implementation of this proposed project. According to the authors, the *Law on Business Promotion* "is an excellent foundation for the implementation of such a business development policy."²⁷ The authors suggested that the Business Development Council choose the development blocs that would be examined

²⁶ Interview with official of the Danish Ministry of Economics and Business, Copenhagen, Denmark, April 19, 2002.

²⁷ Bent Dalum, et al., *Internationalisering og Erhvervsudvikling: Et Debatoplæg om Fremtidig Danske Erhvervspolitik*, 7.

and that the council establish program committees for each of the blocs,²⁸ thus providing a broad framework for policy, but leaving it to “the more detailed design to point out the combination and prioritizing of instruments that will be used....”²⁹ The program committees established by the Business Development Council would include members of the council, civil servants, and business leaders and industry experts. Using Porter’s framework as a starting point, including his “diamond,”³⁰ the authors focused on the concrete policy implications for Danish development blocs.

The authors of *Internationalization and Business Development: A Debate Proposal on Future Danish Business Policy* continued the path already marked by earlier insights, making several points to bolster their case for a new direction in industrial policy. A starting point was that Danish demand was not a significant factor in the development of international markets. However, it was expected that the 1990s would entail great changes. The expansion of European markets and the opening of Eastern Europe would perhaps provide the necessary impetus for European growth. The development of the EC market pointed towards European concentration, entailing further demands on large-scale operations able to manage international competition in mass markets. The demands on large-scale operations coupled with heightened competition in traditional labor-intensive sectors required “a meaningful business restructuring and a general technological up-grading of production processes.” If such processes were not strengthened, Danish firms’ competitiveness would not merely remain static, but be weakened relative to its competitors. The authors pointed out that state policies would

²⁸ Ibid.

²⁹ Ibid.

³⁰ Ibid., 19.

play a crucial role in adjusting to globalization and, in particular, the development of the industrial “environment” emphasized by Porter:

“Increasing globalization of competition is not synonymous with lessened meaning of the national technological and industrial ‘environment’—quite the contrary. Starting with Porter’s study emphasizing the significance of the latter, nations have specialized in distinctly different business branches, summed up in the idea of ‘development blocs.’ As a rule it is specific historical explanations that determine the starting point in unique national paths. A strengthening of these national characteristics through business development policies will be a central theme of these challenges in a time where national ‘boundaries’ in increasing degrees are removed in step with the internationalizing process.”³¹

The authors sum up the unique potential and problems arising from the Danish experience. According to the authors, Danish industrial development in the 1960s was driven by the “catching-up” effect, leading to fast growth in industry, but also cultivating some of the problems that were to complicate further Danish development in later years. When Denmark had “caught up” to the OECD average in the early 1970s, by 1973 Danish exports were concentrated in natural resource-based and traditional products whose growth potential on world markets were declining. This process was illustrated by the development of the Danish food industry. The dynamic effect of clustering had positive as well as negative consequences for Danish industrial development. On the one hand, the dominance of the food industry developed into a competitive sector that led to a competitive machine industry. On the other hand, this development led to a dependence on a sector whose growth potential was seen to be limited. This realization also seemed to

³¹ Ibid., 21.

confirm the authors' suspicions that there are only a relatively few development blocs that impact a country's industrial competitiveness.³²

The authors noted two significant challenges facing Danish industrial development. First, as mentioned, Danish firms specialized in exports dominated by products in sectors in which growth in international demand was presumed to be low. Second, the weaknesses of large Danish firms were unlikely to be resolved in the short term and could likely take more than ten years. These facts emphasized the need for sustained, stronger development efforts to release the potential within Danish business. Development of Danish industries would be dependent on tying together the firms with great product and technological growth potential, drawing on the potential from both large firms and small- and medium-sized firms comprising the "middle segment." Growth potential would be bound to internationally unique competencies in areas where Denmark had historically had particularly advanced production factors or particularly advanced demand, built up through private-sector partnerships as well as through partnerships between private-sector firms and research institutions. In other words, growth potential would be determined by the successful promotion of Danish development blocs.³³ The authors identified eighteen product groups in which Danish industry was specialized. Of these eighteen, fourteen were characterized as development blocs as well as a large portion of Denmark's research-intensive products. Unfortunately, international demand in three of the four largest development blocs—agricultural and forestry products, building materials, and transport—was stagnating.³⁴ The fourth

³² Ibid., 42.

³³ Ibid., 5–6, italics in original.

³⁴ Ibid., 6.

important bloc, medical and biotechnical products, was noted as the only major bloc that showed increases in international demand.³⁵

In addition, the development of Danish development blocs faced unique problems stemming from the industrial structure itself. The authors noted that Danish industrial development growth is generally found within two types of firms. One type was the large, internationally aggregated firms with more than 500 employees, which are relatively few in number in the Danish economy. The other type was the small- or medium-sized firms that dominated the Danish industrial structure. These firms were seen to have significant technical and market-development potential, but lacked critical mass to exploit their potential.³⁶ Large firms had to overcome their “middle-class” status, compared with other large international firms, perhaps through greater cooperation with Danish firms or cultivating a broader international network. Small- and medium-sized firms had to overcome the “critical mass” problem by drawing on market demand to exploit their innovative and market capabilities.³⁷ The different needs of different-sized firms would therefore require distinctive policies, including varying partnership schemes with public actors. The common vantage point was therefore their placement within their respective development blocs: “At the firm level it is central to focus on combining existing and new ‘industrial locomotives’ and the described ‘middle segment’ of small and medium-sized innovative firms.”³⁸ A central element of business development policies should therefore be directed toward connecting the large and small firms within development

³⁵ Ibid., 37–40.

³⁶ Ibid., 42.

³⁷ Ibid., 6.

³⁸ Ibid., 42.

blocs in order to restructure and up-grade existing development blocs and/or constitute new ones.³⁹

The authors focused on the four most significant development blocs in particular. The first, a broad category to which they refer to as a “food bloc,” comprised a wide range of food- and food-related products, including not only food but also industrial products geared towards the food industry. The second bloc formed around the construction sector and included traditional wares such as wood products, but also new materials. The third bloc formed around the medical industry and the fourth formed around the transport sector.⁴⁰ The authors pointed out that these development blocs played central roles in post-World War II Danish economic history—for good and bad—and expected them to continue to play central roles. Given the importance of restructuring and upgrading development blocs, the existence of relatively few development blocs, the prevalence of small firms, and the importance of both large and small firms in the evolution of development blocs, the authors suggested a central issue to be dealt with would be “how the accelerating ‘locomotive formation’ can contribute to the ‘middle segment’s’ internationalisation [sic.] possibilities. Or expressed another way: If ‘locomotives’ in fact pull some cars with it or not.”⁴¹ The authors suggested concentrating business development policy on programs to build up these development blocs, focusing in particular on cooperation opportunities, new products, and new marketing.⁴²

³⁹ Ibid.

⁴⁰ Ibid., 38.

⁴¹ Ibid., 40–41.

⁴² Ibid., 7.

Following Porter's recommendation to include private-sector actors in the design of policy, all firms within identified blocs should, in principle, be given the opportunity to participate in the conceptualization and implementation of policies designed to strengthen the development bloc's competitiveness. Accordingly, the authors suggested the *Law on Business Promotion* would make it possible for the Business Development Council to identify development blocs and influence the business environment according to analyses and information-collection initiatives under its purview. These activities would focus not only on technological and market potential, but also on an assessment of potential result-oriented programs and precise definition of effort-areas and activities.⁴³ Afterwards, program committees and administrative units composed of experts on technical and management issues from the private sector, the public sector, and relevant research institutes for each development bloc would negotiate and mediate the necessary interaction among firms and institutions to overcome barriers to successful implementation of business development programs. Each unit would be specialized for its own development bloc. This would mean, among other things, that the choice of policy instruments would be determined by the structure of the business development bloc, starting with the firms' own development activities, their reciprocal cooperation, and their client-producer relations.⁴⁴ This negotiation/mediation would play an especially important role in connecting large firms with the "middle segment" of small- and medium-sized firms, both nationally and internationally.⁴⁵

Since the secretariat was charged with carrying out the administrative and organizational aspects of the council's work, this project would require civil servants to

⁴³ Ibid., 78-79.

⁴⁴ Ibid.

⁴⁵ Ibid., 8.

establish links directly with business leaders and industry experts in the private sector. Those involved in the *Internationalization and Business Development* report specifically sought to take advantage of the momentum of the new legislation to transform the manner in which the Industry and Trade Agency managed its programs and public-private partnerships, particularly in the exchange of personnel between the agency and private-sector firms. Just as a project devoted to development blocs would need to draw on special technical and managerial expertise from the private sector (and private research institutions) relevant to the individual development blocs, it would also need to draw on detailed knowledge of the program itself and its objectives from the public sector (and public research institutions) for implementation.⁴⁶ Furthermore, it was suggested that task forces be created within the industry and trade agency to specifically handle the programs' operations. These task forces would include agency staff members "borrowed" for the programs as well as specialists hired from the private sector and research institutions. Each task force would operate under the continual guidance of a program committee, made up of individuals from the public, private, and research areas with management and technical expertise. All of these activities, however, would come under the authority of the Business Development Council. "While the operational unit should be employed by the agency on contract conditions based on the individuals' experience and competence within the chosen program area, the program committee is appointed by the Business Development Council, which at the same time appoints and defines the development blocs to be worked with."⁴⁷ In effect, though, many of these responsibilities

⁴⁶ Ibid., 78-79.

⁴⁷ Ibid.

would be handed over the secretariat, so as not to “burden” the council with unnecessary administrative matters.

The Business Development Council was willing to adopt this project, but civil servants continued to be confounded by the references to clusters and development blocs, which conservative politicians still associated with a picking-the-winner or national champion policy. As a former member of the council notes, “Early on it was...Porter vocabulary on clusters. In Danish we called them *styrkepositioner*, strongholds within industry, strategic growth sectors, and stuff like that. That turned out to be words that were not allowed to be used by people from the ministry because it was too much of the state and too little of the market under the conservative government.”⁴⁸ Despite the support of the chairman of the council, Mogens Granborg, a progressive and influential director of one of Denmark’s largest firms, Danisco, the Business Development Council and civil servants were confronted by the familiar ideological opposition and would have to yield to political correctness. Consequently, rather than abandon the analytical concepts on which so many had worked so long and so hard to bring to the fore of industrial policy, the terminology was simply changed from “clusters” and “development blocs” to “resource areas,” a term attributed to Granborg himself.⁴⁹ A former senior civil servant who was involved in the project admits, “the way we had approached it in the first years was to develop a concept that we called ‘resource analysis.’ And ‘resource areas’ was a homemade notion for it. But the real notion of resource areas was, in fact, taken from the Porter notion of clusters.... So that was just to find a Danish version of

⁴⁸ Interview with former member of the Business Development Council, Copenhagen, Denmark, May 2, 2003.

⁴⁹ Interview with former official of the Danish Ministry of Industry and Danish Ministry of Business, Copenhagen, Denmark, May 31, 2002.

it.”⁵⁰ With this final modification, the Business Development Council was prepared to begin exploring a cluster-based policy based on close public–private contacts and supported by a secretariat staffed by civil servants at the agency for industry and trade.

The Danish Resource Areas Analyses

In May 1992, after commissioning the *Internationalization and Business Development* report, the Danish Agency for Trade and Industry, acting on the direction of the Business Development Council, began organizing the “Resource Areas Analyses” project, with the explicit goal of providing a basis for the council’s advice to the Danish government on aspects of industrial policy.⁵¹ This project was initially estimated to cost between 7–9 million dkk.⁵² The project directly incorporated the main themes that had been circulating among progressive civil servants and private-sector actors for the past several years, but which had been opposed by the government and employer organizations. The project emphasized the importance of naturally-occurring clusters and microeconomic analyses rather than macroeconomic analyses emphasized by private-sector business leaders and industry experts, the elements of structural policy emphasized by civil servants, and the coordination and utilization of economic resources from a variety of sources and policy areas emphasized by both groups.

Significantly, though, the framework laid out a method for industrial policymaking that could be presented as politically neutral. The logic of the analysis followed apparently self-evident historical developments of national competitive

⁵⁰ Interview with former official of the Danish Ministry of Industry and Danish Ministry of Business, Copenhagen, Denmark, March 6, 2002.

⁵¹ Erhvervsudviklingsrådet, “Udbudsmateriale: Erhvervsøkonomiske Perspektivanalyser af Ressourceområder I Dansk Erhvervsliv,” Copenhagen, Industri- og Handelsstyrelsen, 1992, 1.

⁵² *Ibid.*, 3.

advantages. The impetus behind such work was not to pick industrial sectors or firms for special treatment, or “picking-the-winners,” but simply to acknowledge that Denmark’s economy rested on actually-existing, historically-developed economic structures. By focusing on and refining these structures, industrial policy would benefit the Danish economy as a whole. Thus, although the purpose of the analyses was to “establish new and updated knowledge of the general market conditions in which Danish companies operate and develop,”⁵³ this was to be done with particular reference to naturally-occurring Danish resource areas. Eight areas were identified by the council for further investigation: food products, construction/housing, pharmaceuticals/health, transport/communications, tourism/leisure, energy/environment, light industry (consumer goods), and services. In order to maintain a non-interventionist policy, the analyses were to focus on the basic conditions of Danish business at-large and “to comprise the bulk of the Danish business sector and therefore not merely a fraction or specially selected sectors and problem areas.”⁵⁴ Bowing to political realities, “a fundamental characteristic of the analytical study into resource areas is the policy not to select any individual area at the expense of others.”⁵⁵ In other words, the research design carefully avoided any reference to or implication of picking-the-winners, and instead sought to classify resource areas according to common features among Danish industries as a first step to more in-depth analysis.

These resource areas were not necessarily those areas in which Denmark had an already-existing competitive advantage. Rather, the aim of the analyses was to take a more strategic look at those sectors that were most significant to the Danish economy,

⁵³ Ibid., forward.

⁵⁴ Ibid., 1.

⁵⁵ Ibid.

whether competitive or not. The factors taken into consideration were the areas' production value, employment, and exports, using 1987 as the base year. At the time, the eight named resource areas comprised almost 60 percent of private-sector production, over 50 percent of private-sector employment, and about 80 percent of exports. The significance of these areas is further highlighted by the fact that the Danish public sector accounted for approximately 30 percent of employment, meaning that less than 20 percent of Danish private sector employment was excluded.⁵⁶

Following earlier arguments that microeconomic factors and the business environment were more decisive than broad macroeconomic factors impacting the competitiveness of Danish firms, the analyses were to take issue with how industrial development had been traditionally viewed and build on this knowledge. In the minds of those laying out this new direction, terms such as "industry," "trade," or similar traditional distinctions were no longer appropriate. They were seen as no longer accurate descriptions of new forms of interconnections among industries and business areas, largely as a result of technology-driven diversification of productive activities. Such diversification into varied activities and markets as well as the production of multiple products rather than single products reflected the understanding that any individual company could be represented in more than one sector. In addition, this diversification also made it difficult to determine from which sector earnings were derived and which sector provided the fundamental strengths on which success or failure might depend. Therefore, the analyses were to hold as a central principle that a comprehensive approach

⁵⁶ Ibid., 5.

was necessary. The analyses were not to be restricted to individual sectors or industries, but were to cut across the traditional boundaries.⁵⁷

Since the resource areas were by definition somewhat ambiguous and ill-defined, great care had to be taken for each resource area individually. As pointed out in the tendering document, the resource areas overlap and any business activity is not necessarily restricted to only one resource area. Moreover, individual firms, industries, or sectors within a business area might be of strategic relevance to several other business areas at any given time. "There are wide disparities from one area to the other. The fact that the resource areas for food products, construction/housing, transport/communications, tourism/leisure time and pharmaceuticals/health carry considerable weight—both relatively and compared to international standards—scarcely requires any clarifying explanation. The same hardly applies to the energy/environment area, though."⁵⁸ Consequently, each resource area was to be delimited according to their historical backgrounds and traditional development as well as the relative weight of individual business areas within the broader business sector. Thus, the purposes of the analyses were to provide a codified and systematic knowledge of the internal and external business environment in which Danish firms found themselves, but in a manner that did not explicitly or arbitrarily pick specific industries or firms. With the decisive turn away from traditional dominance of macroeconomic and industrial-level analyses, the project was to follow more microeconomic analysis of the "business-economic infrastructure" that posed opportunities and constraints to firms.

⁵⁷ Ibid., 8.

⁵⁸ Ibid., 11–12.

The analysis of the resource areas was based on exploring how the business-economic infrastructure directly impacted firms' performance and therefore required the direct participation of business actors. Since the council expected that such conditions would play a dominant role for firms' development of new technology, new products and services, new markets, staff training, the raising of capital, etc.—in parallel with companies' own future-oriented efforts,⁵⁹ the project called for scenarios in which the business sector's collective experience and knowledge could contribute to the Business Development Council's understanding of the basic business-economic conditions and the analysis of cross-cutting connections among Danish business sectors that lied outside traditional connections. Following the logic of clusters, this was particularly important in "areas which are coherent and related in terms of needs and market structure, technology, infrastructure...because they draw upon joint resources and qualifications and/or business areas that are interdependent in conjunction with the development of a future business and competitive strategy."⁶⁰ In carrying out the analyses, therefore, the continuing close participation of private-sector actors was seen to be a crucial aspect of determining such strategic business policies "for the purpose of obtaining access to their knowledge of and experience in the competitive position of the individual resource area."⁶¹

Accordingly, the project emphasized the coordination of economic resources to enhance structural and microeconomic factors through stronger and denser public-private contacts. Private-sector participation was crucial theoretically as well as politically. Theoretically, policymakers would have access to the most relevant and timely information on which to base policy. Politically, the Business Development Council and

⁵⁹ Ibid., 2.

⁶⁰ Ibid., 1-2.

⁶¹ Ibid., 12.

close private-sector participation provided some reassurance that the policy proposals would be acceptable to the business community. A third, but much more subtle aspect of the project's design was that close participation with individual private-sector business leaders meant civil servants could avoid dealing directly with interest organizations and build support for the policies directly in the private sector. Despite the resistance of the conservative government and employer organizations to active industrial development strategies in the 1980s, the Resource Areas Analyses project was in effect the institutional manifestation of structural policy built on industrial development blocs and close public-private cooperation.

The project was organized around eight analytical teams, each with a corresponding "reference group," working in close cooperation with a secretariat based in the Danish Agency for Industry and Trade's own planning secretariat. A management group, made up of the chairman and deputy chairman of the Business Development Council, along with other members of the council, and the managing director and planning manager of the business promotion agency, were to oversee the whole project. The analytical teams were to have close and regular contacts with the planning secretariat of the agency as well as their counterparts in the agency-established reference groups. In fact, the chairman of each group was the chief of the policy planning department at the agency, who would later become its director. All in all, the Resource Areas Analyses project included over 200 individuals, including civil servants from several ministries, private-sector business leaders, academics, and interest organization representatives.⁶²

⁶² Denmark, Erhvervsfremme Styrelsen, *Notat om Styrelsens Årsberetning 1993—Erhvervsudviklingsrådet*, April 20, 1994.

Through the joint efforts of the Business Development Council and the Danish Business Promotion Agency (formerly the Industry and Trade Agency) eight major resource areas had been identified and further refined by 1994. The initial report was to set the framework for further investigation with the explicit acceptance that this first step of the analyses was not to identify strongholds, but to describe the competencies and interrelations that could lead to further understanding of Danish strongholds.⁶³ To the extent that this “mapping” was descriptive, it provided a solid foundation upon which further investigation could continue. “The Resource Areas Analyses have not had as a goal to map strongholds...but it appears they confirm that Denmark’s strongholds lie in the areas that have been pointed out.”⁶⁴ The eight broad resource areas examined were: food products, construction, medical and health products, transport and communication, consumer goods, tourism/leisure, environment and energy products, and services. This revised accounting of Danish resource areas covered 55 business sectors and in 1990 accounted for about 90 percent of both Danish exports and employment.⁶⁵

The first general overview of the resource areas work was presented in the Business Development Council’s annual report of 1994.⁶⁶ The Business Development Council saw the maintenance and strengthening of business competencies in these strongholds to be of great significance to the development of growth and employment. An important element in business policy would therefore be creating “framework conditions” that enhance the competitiveness of Danish firms that were at least as good as

⁶³ Denmark, Ministeriet for Erhvervspolitisk Samordning, *Erhvervsredegørelser 1993* (Copenhagen: Ministeriet for Erhvervspolitisk Samordning, 1993), 181.

⁶⁴ *Ibid.*, 163.

⁶⁵ *Ibid.*, 165.

⁶⁶ Erhvervsudviklingsrådet, *Erhvervsudviklingsrådets Redegørelse 1994* (Copenhagen: Erhvervsudviklingsrådet, 1994).

in those countries in which Danish competitors were found. The council emphasized several factors as being of special importance, notably long-term strategies, the general business environment, public-private partnerships, coordination among the many actors involved in production, and innovation. The council made a point of emphasizing that the “*historic development is important*” because the business and economic framework conditions of a country are often the result of long-term development formed by cultural, political, and economic relations.⁶⁷ This development was seen to be extremely relevant for the resource areas, based as they are on strongholds specific to the development of the Danish economy and, taken one step further, the specific internal characteristics of each individual stronghold. The implication of this perspective, however, is that strongholds are developed over years. Thus, the council promoted a long-term coordinated, multifaceted business and industrial policy.⁶⁸

The coordination of policies and relevant political-economic actors played a major role in the council’s recommendations. The focus on general business environment emphasized the need to target the interaction between firms, between firms and their surroundings, as well as firms’ internal characteristics. Such interaction would require coordination on several levels, including the governmental level. Just as there was seen to be a need for interaction among actors in the private sector, a successful business policy would require interaction from a host of ministries, with the Business Development Council pointing out that “the analyses have shown that the business political tasks are not gathered in a single or even just a few ministries, but on the contrary there is a very large number of players within business politics.” The council goes on to assert that “a

⁶⁷ Ibid., 7.

⁶⁸ Ibid.

*significant coordinated effort is therefore needed to get the influence of all these players on the business economic framework conditions—for each resource area—to pull in the same direction....*⁶⁹ The acknowledgement of the various actors and processes involved in production also led to an acknowledgement that innovation must also take a central role in business policy, especially in regard to expanding the potential for the distribution of knowledge among business firms. Such distribution, it was expected, can then lead to the exploitation of “state-of-the-art” knowledge built on both Danish and foreign experiences. It was suggested that state actors could facilitate this process by providing a better R&D infrastructure allowing for the exploitation of national and international research.⁷⁰ The success of this ambitious business development strategy was thus dependent on the ability of state and non-state actors to coordinate all of the factors affecting the physical infrastructure, “knowledge-factors,” market factors, demand, goods and services markets, and partnerships among firms.

The recommendations on the eight resource areas analyses provided a working framework within which coordinated private and public efforts could improve the competitiveness of Danish industries and ensure a continued high standard of living within Denmark. The Business Development Council’s focus throughout the analyses lay on recurring themes. Market solutions, both domestically and internationally, internationalization of Danish business activities, innovation, infrastructure, public-private and private-private partnerships, and education, training, and general competence enhancement ran throughout all of the resource areas analyses.⁷¹ These themes were to be

⁶⁹ Ibid., italics in original.

⁷⁰ Ibid., 8–9

⁷¹ Erhvervsudviklingsrådet, *Erhvervsudviklingsrådets redegørelse 1994: Bilag* (Copenhagen: Erhvervsudviklingsrådet, 1994), passim.

more fully explored in complementary “horizontal analyses” on “Business’ Qualifications Needs, Human Resources, and the Education System”; “Innovation in Danish Business”; “The Tax System and Business Development”; “Public–Private Partnership in a Business Development Perspective”; “The Environment in a Business Development Perspective”; “National Business Development”; “The Interplay between the Business Structure, Capital Investment, and Leadership”; “Denmark’s Role in World Trade after the Uruguay Round”; “Basic Technology: Biotechnology”; “Basic Technology: Material Technology”; “The Public Infrastructure in a Business Perspective”; and “Basic Technology: Information Technology.”⁷² The project was intended to be a truly comprehensive, coordinated approach to business development.

Through the active participation of the council, the groundwork was laid for a new direction in Danish industrial policies that called for active state participation, but without any “picking-the-winner” implications. The new industrial policy would try to develop competencies in those areas where Danish industry already had deep roots, encouraging the growth of dynamic industrial networks and technological dispersion. The underlying motivation to create better business framework conditions was to meet global competition head-on by competing in Danish resource areas, increasing production and extending their shares in international markets. Rather than rejecting globalization, this strategy embraced it. The initial Resource Areas Analyses report was only a first step, though. The policy goals identified through the Business Development Council would have to be pursued in a coordinated manner, through continual dialogue at the national,

⁷² Denmark, Erhvervsfremme Styrelsen, *Notat ved.: Orientering om horisontale analyser*, October 14, 1994.

regional, and local levels, involving state actors and private-sector business leaders and industry experts.

Between 1991 and 1994, the seeds of a coordinated industrial development policy had been planted, built on coordinated efforts among a host of public and private actors across several policy spheres to enhance the business conditions within Danish resource areas. Following the precepts set out by Porter in the *Competitive Advantage of Nations*, developing these conditions would involve close public-private interaction and cooperation. Civil servants followed these precepts and institutionalized indirect contact with private-sector firms through the Business Development Council, which had ultimate authority over the project. However, it is important to note again that, in a policy sphere dominated by a minister of industry and employer organizations opposed to active industrial policies, the process of building bridges directly to independent private-sector actors through the Business Development Council served not only a theoretical necessity, but a practical political one. Due to the specific political environment of Danish industrial policymaking, it was one of the few means by which progressive civil servants and business leaders and industry experts could potentially effect a change in official business and industry policy. In this environment, only the Business Development Council could provide the conditions under which such contacts could be institutionalized and still recognized by executive authorities in the government. Hence, this form of coordinated institutionalized contact between public- and private-sector actors was conditioned by the internal dynamics and power relations specific to the industrial policy sphere as they had developed over the past several years. The extent to which coordinating institutions could be established within and across policy spheres in pursuit of industrial adjustment would

be tested from 1993 when the political environment changed drastically with a shift in government in January 1993 from the Conservative-led government to a Social Democrat-led government, just six months prior to the Business Development Council's first—and only—report on the Danish resource areas. Unlike its predecessor, the members of this government had few qualms about coordinated state-led industrial development and the Resource Areas Analyses project was absorbed into official government policy.

Conclusion

Between 1991 and 1994 Danish civil servants at the ministry of industry, scholars at Danish universities and business schools, and private-sector industry experts had formulated a coherent coordinated industrial development strategy. By filtering this strategy through the Business Development Council, civil servants had moved it from the realm of “private politics” to the realm of official policymaking, even if on the periphery of the policymaking process. This process was not predetermined, but it was conditioned by the specific political environment and policy debates of Danish industrial politics, especially in the late 1980s. The impasse on laissez-faire and picking-the-winners strategies, firm resistance from a conservative minister and employer organizations to state intervention in the economy, private-sector industrial development initiatives, and the exploitation of the *Law on Business Promotion* and the Business Development Council by progressive civil servants were part of specific political dynamics within the industrial policy sphere. Despite the dissatisfaction with the government's laissez-faire approach to industrial policy among many state and non-state actors, progressive civil

servants and business leaders had few means of changing the direction of official industrial policy. Coordination among all of the most important and relevant political-economic actors was impossible to achieve in this environment because some actors, notably the minister of industry and employer organizations, refused to do so. The industrial-business policy sphere reflected more liberal market economy qualities than coordinated market economy qualities. That is, important state and business actors preferred “the arm’s length exchange of goods or services in a context of competition and formal contracting” in which “firms coordinate their activities primarily via hierarchies and competitive market arrangements.”⁷³

The political resistance to coordination from some important actors and the lack of coordinating institutions in the industrial policy sphere in the late 1980s to early 1990s was not petrified, though, and the same processes that led to this lack of coordination also led to new possibilities. In particular, the Conservative-led government’s attempts to strengthen a liberal approach to industrial policy through budget cuts and a rationalization of industrial policy institutions led to the replacement of the Technology Council by the Business Development Council, the mandate of which was much broader than its predecessor. The establishment of the Business Development Council in 1990 provided a potential window of opportunity to civil servants to promote a different approach to globalization-related challenges. The role of civil servants at the Danish Agency for Trade and Industry as an independent secretariat to the council certainly did not give civil servants the power to tell the council members “what to think,” but certainly made strong

⁷³ Peter A. Hall and David Soskice, “Introduction,” in Peter A. Hall and David Soskice, eds., *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford, U.K.: Oxford University Press, 2001), 8.

suggestions as to “what they should think about.”⁷⁴ Since the Business Development Council acted as a kind of board of directors, each with great responsibilities outside the council, the day-to-day functioning of its work, including the exploration of topics relevant to the council’s mandate, was the responsibility of the semi-independent secretariat.

Danish civil servants exploited their positions in the secretariat to guide the council’s work toward the Danish resource areas. In turn, this tactic bore two beneficial consequences. On the one hand, the Business Development Council’s adoption of the Resource Areas Analyses project gave added political legitimacy and added impetus behind a shift in industrial policy. On the other hand, because the methodology of the Resource Areas Analyses project required public-private cooperation, civil servants were afforded an opportunity to establish stronger contacts with private-sector business leaders and industry experts. Progressive civil servants and private-sector actors reacted to the political realities predominating in the industrial policy sphere. One of the results of this situation was a pattern of relations among some state and non-state actors that approximated selective embedded autonomy. Although public- and private-sector actors were split on active industrial development policies, progressive civil servants and business leaders and industry experts were able to continue their work without the direct support of the minister or employer organizations. The Business Development Council was only an advisory council and the cluster-based strategy was still just a strategy, but the contacts between civil servants and private-sector business actors provided a foundation on which potential coordinating institutions could be built.

⁷⁴ Interview with official of the Danish Ministry of Economics and Business, Copenhagen, Denmark, February 27, 2002.

A second aspect of this process bears emphasizing. Although the approach to industrial development was predicated on coordination and cooperation among several ministries and many state and non-state actors, the strategy itself was a product of industrial policymaking and the effort was led by actors within the industrial policymaking community. The point of reference of the *Law on Business Promotion*, the Business Development Council, and the emerging industrial development strategy was industrial policy, not labor market policy, fiscal policy, social policy, or any other policy. While the coordination of several policy areas was considered crucial, the ultimate goal was increasing the competitiveness of Danish firms. Despite the fact that coordination laid at the center of the new strategy, this coordination was presumably to be led by the ministry of industry. It is true that several of the resource areas working groups were to be chaired by civil servants from other ministries, including the agriculture ministry, the housing ministry, the traffic ministry, and the communication and tourism ministry,⁷⁵ but in any case the analyses fell under the authority of the Business Development Council, which, in turn, fell under the authority of the ministry of industry. Moreover, the priorities, strategies, and policies pursued and the institutions established in the industrial policy sphere were not necessarily those of the other policy spheres with which the ministry of industry would have to coordinate, including the labor market policy sphere, had the minister even been inclined to do so.

⁷⁵ Denmark, Industri- og Samordningsministeriet, *Notat om opfølgning på Erhvervsudviklingsrådets ressourceområdeanalyser og tidsplan for udarbejdelse af forslag til FFL95*, April 20, 1994.

Chapter 4

State-led Industrial Adjustment in Denmark, 1994–2000

Introduction

In this chapter I describe the final phase of Danish industrial politics that resulted in the adoption and implementation of a state-led coordinated industrial adjustment policy. This chapter begins with the change of government in 1993 from the Conservative-led coalition to a Social Democrat-led coalition, although the beginning of this phase actually spans 1993–94 because of the overlap of the Business Development Council's Resource Areas Analyses project and the change of government in January 1993. The analyses were begun in 1992, but the council's recommendations were not completed until June 1994. I describe how civil servants intimately familiar with Danish resource areas and framework conditions who had been appointed to senior positions in a newly-established ministry for business policy coordination (later the ministry of business) exploited the Business Development Council's Resource Area Analyses project to institutionalize direct but selective contacts with private-sector business leaders and industry experts. By 1996, civil servants at the ministry of business had used these institutionalized contacts not only to coordinate their industrial development efforts, but also to seize the policymaking initiative and peripheralize the Business Development Council and interest organizations. By institutionalizing direct but selective contacts with private-sector actors, civil servants enhanced their policymaking autonomy while also strengthening coordinating institutions that could potentially make their policies more effective.

However, I also intend to illustrate in this chapter that, although civil servants in the industrial policy sphere were ultimately able to pursue a coordinated industrial development strategy as government policy and establish coordinating institutions based on direct but selective public-private contacts, the content of the policy and the form and function of the coordinating institutions were the products of the specific priorities, strategies, and roles and relations among important political-economic actors within the industrial policy sphere, especially as they had played out over several years. While civil servants were able to exploit the opportunities presented to them, including the coalescence of a community of progressive private-sector business leaders and industry experts, the establishment of the Business Development Council under the Conservative government, and the appointment of an acquiescent minister for business policy coordination under a Social Democratic government, they had little control over other important events and processes, such as the change of government and the establishment of the ministry for business policy coordination. Moreover, they had little or no direct influence over the prerogatives of political and business leaders, as evidenced by the conservative minister's and employer organization's opposition to active industrial policies. The extent to which civil servants were able to control for such factors and intentionally and purposefully establish this specific kind of coordinating institution, that is, selective embedded autonomy, or any other specific kind of coordinating institution to induce effective cooperation among important political-economic actors must therefore be questioned. In the end, in fact, important political-economic actors were consciously excluded from the policymaking process, particularly employer and labor organizations.

Finally, since these policies and coordinating institutions were the result of unique logics and power relations within the industrial policy sphere, and since other policy spheres that could impact industrial adjustment efforts, such as the labor market policy sphere, are most likely to function according to their own unique logics and relations, the extent to which civil servants in the industrial policy sphere were able to purposefully establish complementary coordinating institutions and induce cooperation among important political-economic actors across policy spheres must also be questioned. Inducing such coordination and cooperation is all the more interesting and relevant in the Danish case because the important political-economic actors that were consciously excluded in the industrial policy sphere, namely employer and labor organizations, were crucial partners in the labor market policy sphere that could not be excluded. These issues will be further explored in the remaining chapters.

The shift of government in January 1993 from a Conservative-led government to a Social Democrat-led government had far-reaching implications for the implementation of the coordinated active industrial adjustment policies promoted by civil servants working with the Business Development Council. Among the fortuitous circumstances was the fact that the new Social Democratic-led government was headed by Poul Nyrup Rasmussen, a former member of the parliamentary business policy committee and a former director of the Workers' Pension Fund, which had supported both the Forum for Industrial Development and the Danish contribution to Michael Porter's work. The new prime minister was not only familiar but sympathetic to the private-sector initiatives on active industrial policy. In fact, the new government established a new ministry for a minor coalition partner, the centrist *Centrum Demokraterne*, which was intended to

spearhead a coordinated, concerted cross-ministerial effort to reinvigorate Danish competitiveness in the global economy. The name of this new ministry itself is indicative of the new tone of industrial politics: the Danish Ministry for Business Policy Coordination (*Ministeriet for Erhvervspolitisk Samordning*). Another fortuitous circumstance was the fact that many of the civil servants who had been working with the Business Development Council and the Resource Areas Analyses project were assigned to senior positions in this new ministry.

The new minister for business policy coordination, Mimi Jakobsen, would serve as minister of coordination from January 25, 1993, and minister of industry from January 28, 1994, to February 8, 1994, after which the two ministries were combined and renamed the ministry of industry and coordination (*Industri- og Samordningsministeriet*) until September 27, 1994, when the ministry was rechristened yet again simply as the ministry of business (*Erhvervsministeriet*). From September 27, 1994, to the end of the 1990s, the ministry of business would keep its name if not its ministers. For the sake of simplicity, this ministry will simply be referred to as the ministry of business, except in cases where a clearer distinction is necessary. Jakobsen served as minister until December 1996, after which two successive Social Democratic ministers were appointed. Although the ministry of business policy coordination disappears over only a short time, the minister of business policy coordination and the civil servants initially appointed to the ministry of business policy coordination assumed leadership over the combined ministry of business, providing continuity to the strategic orientation originally established by the ministry for business policy coordination.

The strategic orientation of the ministry for business policy coordination was essentially determined by the very civil servants intimately familiar with the Resource Areas Analyses project and “framework conditions.” Among the more notable civil servants leading this ministry were the most senior civil servant, head of department Jørgen Rosted, who was the former finance director at the ministry of finance and the lead finance ministry official in the drafting of the 1986 policy proposals on structural policy. Civil servants at the Danish Agency for Industry and Trade (*Industri- og Handelsstyrelsen*), which was renamed the Danish Agency for Business Promotion (*Erhvervsfremme Styrelsen*), and the Danish Ministry of Business who were interested in promoting comprehensive industrial policies based on Danish resource areas found a powerful and sympathetic ally in Rosted. Rosted had become increasingly convinced of the importance of microeconomic framework conditions during his time at the finance ministry and as a participant in the Business Development Council, but was firmly opposed to traditional subsidy arrangements. Although the second-ranking professional civil servant at the ministry of finance, he agreed to leave the ministry of finance to lead the ministry of business policy coordination.¹ In turn, he assigned many of the progressive civil servants who had patiently cultivated the Resource Areas Analyses project in the Business Development Council at the agency for industry and trade into senior positions at the ministry of business policy coordination, including two former policy planning chiefs within the ministry of industry. While Rosted had briefly participated in the council as a member, the latter two had, in fact, served as vice chairmen of the council. And one of these had been Industry Ministry Niels Wiljhelm’s

¹ Interview with Jørgen Rosted, former Head of Department, Danish Ministry of Business, Copenhagen, Denmark, January 16, 2002.

personal secretary and a leader of the initial Resources Areas Analyses project. With the establishment of the ministry for business policy coordination and the appointment of progressive civil servants to senior positions within the ministry, the transfer of a coordinated cluster approach to industrial policy from “private politics” to official government policy had finally been achieved.

Shortly after the installation of the new government, officials of the ministry for business policy coordination signaled their “decisive acceptance...that the *business economic frameworks* are decisive for firms’ competitiveness.”² Under Rosted the ministry of business began publishing its own annual industrial policy reports extensively detailing the government’s strategy for an active business policy that was compiled exclusively by civil servants. The drafting of these policy reports was a new function assumed by Rosted, who sought to elevate business policy to the same level as finance policy. Civil servants sought little advice from either the Business Development Council or interest organizations. According to civil servants and former members of the Business Development Council, to the extent that the Business Development Council and interest organizations were included in policy discussion, civil servants entertained suggestions only insofar as they complemented the government’s policy. The establishment of the ministry for business policy coordination, the appointment of progressive civil servants in senior positions at the ministry, and the government’s focus on the framework conditions of strategic economic sectors as central policy concerns marked a significant turn from an official laissez-faire policy supported by conservative political and business leaders to the

² Denmark, Ministeriet for Erhvervspolitisk Samordning, *Erhvervsredogørelser 1993*, (Copenhagen: Ministeriet for Erhvervspolitisk Samordning, 1993), 164, italics in original.

emergence of an active industrial policy led by strong autonomous state actors supported by progressive business leaders and industry experts.

The strategy and organization that followed the establishment of the ministry of business policy coordination was part of a concerted attempt by civil servants to overcome the stalemate in industrial policy and lead a more active industrial development policy independent of non-state actors, especially interest organizations. Once a new government was formed and civil servants reappointed, these civil servants lost no time in distancing themselves from the Business Development Council and interest organizations. Based on discussions with former and current civil servants and outside observers, two explanations for distancing the council from the policymaking process emerge. First, since civil servants now had the backing of the minister for the policies civil servants had filtered through the Business Development Council, the council had served its purpose. In other words, civil servants no longer needed the council's political patronage. Second, civil servants' experiences with the initial Resource Areas Analyses project had impressed upon them the need for better and more direct public-private cooperation to arrive at better and more concrete policy proposals. Many civil servants saw the Business Development Council and interest organizations more generally as unnecessary—and in some cases counterproductive—burdens interfering with their dialogues with private-sector actors.

Given the Resource Areas project's focus on clusters and framework conditions and the links to the private-sector it had begun to establish, it was not coincidentally a perfect vehicle through which civil servants could recapture industrial policy in practice as well as design. While business leaders and other private-sector actors were included in

the policymaking process, the civil servants leading the new ministry used their strong positions to avoid the largest interest organizations by building on the channels of contact with private-sector actors that had been initially established through the Business Development Council. Shortly after the Business Development Council completed its first and only report on the resource areas in June 1994, Rosted removed the entire project from the council and the business promotion agency and placed it in the ministry, through which civil servants initiated direct "Dialogues with Resource Areas." Through these "dialogues," civil servants from the ministry of business communicated directly with business leaders outside the constraints of Business Development Council and even interest organization influence to continue the development of the framework conditions of Danish clusters identified in the Resource Areas Analyses project.

Civil servants sought advice from independent private-sector business leaders and research institutes through the dialogues, from which they culled policy-relevant knowledge of framework conditions. After the shift of government in 1993, the completion of the first Resource Areas Analyses report in 1994, and the initiation of the ministry-led "dialogues" immediately thereafter, the Business Development Council was pushed into irrelevance by civil servants at the ministry of business. Civil servants in the council's state-appointed secretariat kept tight control over the council's agendas and policy contributions, and increasingly ignored the council. Ministers and civil servants quickly lost interest in any contribution such an institution could offer to official government policy beyond the already-appropriated Resource Areas Analyses. By the late 1990s, the Business Development Council's irrelevance to policymaking was clear

even to interest organizations that supported its work. Eventually, the council was ignored not only by government officials, but by interest organizations as well.

By reaching out to business leaders and other private-sector policy experts rather than interest organizations through these dialogues, civil servants attempted to avoid undue organizational influence while also avoiding accusations that the government was ignoring the concerns of the business community. Through the mid to late 1990s, civil servants became selectively embedded in the private sphere through the “Dialogue with Resource Areas” in the sense that direct public–private contacts had been established with selected business leaders and industry experts in specific economic sectors. Again in the language of Weiss, state–civil society linkages were tight but highly selective, with structured access points for particular groups and exclusion of others from access.³ These institutionalized contacts supported the governing of industrial development interdependently with business leaders in order to “to shape and coordinate resources across a broad spectrum” of policy areas.⁴ Nevertheless, the institutionalized contacts supporting these coordinated adjustment efforts did not induce cooperation among all the relevant political-economic actors, such as employer and labor organizations. In fact, interest organizations were for the most part consciously excluded from participation, including the Confederation of Trade Unions (LO) and the Confederation of Danish Industry (DI).⁵

The government’s acceptance of framework conditions as decisive for firms’ competitiveness explicitly acknowledged that this strategy “concerns, among other

³ Linda Weiss, *The Myth of the Powerless State* (Ithaca: Cornell University Press, 1998), 36, italics in original.

⁴ *Ibid.*, 7.

⁵ Interview with former leader of the Resource Areas Analyses project, Copenhagen, Denmark, August 29, 2002.

things, the development of new technology, products, markets, education and upgrading of the labor force, and the procurement of capital. The frameworks, together with firms' own efforts, forms a long-sighted foundation that will ensure Danish business future growth capability."⁶ This new industrial policy orthodoxy entailed elements from several policy areas, including industrial policy, technology policy, finance policy, education policy, and labor market policy. The institutionalized public-private contacts in the industrial policy sphere, however, did not induce cooperation among relevant political-economic actors across policy spheres, for example, between actors in the industrial policy sphere and actors in the labor market sphere, despite the apparent importance of human capital to the smooth interaction of the various framework conditions. Although coordination and cooperation among state and private-sector actors were major foci of the emerging industrial development strategies in the mid-1990s and public-private contacts were institutionalized to induce better coordination and cooperation, these developments in the industrial policy sphere were not enough to induce encompassing coordination and cooperation across the policy areas, such as labor market policy, that were deemed essential to the effective implementation of the new coordinated development strategies.

One important reason for this lack of cross-policy coordination was that the development of the policies and the institutions established to implement them reflected specific internal logics and power relations of industrial policymaking. The priorities, policies, institutions developed in the industrial policy sphere and the roles played by important political-economic actors had little to do with the priorities, policies, and institutions and the roles played by important actors in other policy spheres, such as labor

⁶ Denmark, Ministeriet for Erhvervspolitisk Samordning, *Erhvervsredogørelser 1993*, 164, italics in original.

market policy. The development of resource areas as analytical concepts may be understood as an evolution of ideas among industrial policy experts; but the processes by which the resource areas and their framework conditions were adopted as official government policy and public-private contacts were institutionalized were conditioned by the industrial policy environment. Civil servants caught between right-wing and left-wing political leaders had to look for an alternative to laissez-faire and picking-the-winners policies. The development of a strategy focusing on the framework conditions of naturally-occurring clusters among private-sector actors served as a potential middle-ground. Nevertheless, they still lacked a political platform to promote their strategies and introduce them into official industrial policy until the passing of the 1990 *Law on Business Promotion*. Although the law dealt specifically with the issue of industrial development, the political background to its adoption had more to do with budgetary and ideological issues than comprehensive coordinated active industrial policies. In turn, progressive civil servants exploited the opportunities presented by the law, particularly the establishment of the Business Development Council. The Business Promotion Council provided a sanctuary wherein progressive civil servants and private-sector actors could develop new coordinated adjustment strategies and strengthen public-private contacts.

This sequence of events did provide an opportunity to introduce the cluster-based strategy into official policy debates, further develop the strategy, and establish closer public-private contacts, but it was not until after a change in government that civil servants were able to officially pursue their coordinated industrial development strategies. After the change of government in 1993, civil servants used the contacts they

had established through the Business Development Council and the Resource Areas Analyses project to legitimize direct “Dialogues with Resource Areas” and peripheralize the Business Development Council as well as interest organizations. The coordinated industrial adjustment policy in Denmark was a reaction to a political dead-lock between antithetical industrial development perspectives; institutionalized close public-private contacts were a response to the refusal of conservative political leaders and business organizations to support active industrial development policies. Still, despite these institutionalized public-private contacts, policymakers were unable to induce cooperation and coordination among all the important political-economic actors in the industrial sphere. In fact, the tactics pursued by civil servants to regain the policymaking initiative and induce cooperation and coordination among a select group of important actors came at the expense of excluding others.

In any case, the policies and institutions established in the industrial policy sphere developed independently from other policy spheres according to the internal logics and power relations unique to the industrial policy sphere. One may suspect that the policies and institutions established in other policy spheres also develop independently according to their own unique internal logics and power relations, and that important political-economic actors in one policy sphere may play significantly different roles in other policy spheres. The case of Danish labor market policy, which will be dealt with in the following chapters, lends credence to this suspicion. Accordingly, policymakers intent on consciously fabricating effective coordinating or even complementary institutions across policy spheres that draw on apparent comparative institutional advantages to induce coordination and cooperation among important

political-economic actors in a coordinated market economy may find that such endeavors are much more complicated in practice than suggested by the “varieties of capitalism” perspective.

The Forceful Re-emergence of State Authority

According to several observers, the new minister of business policy coordination, Mimi Jakobsen, was perceived as being relatively uninterested in industrial policy. The new head of department, Jørgen Rosted, the most senior civil servant in the ministry of business policy coordination (and afterwards the ministry of business), was previously the second-ranking civil servant at the finance ministry. Rosted was convinced that the key to Danish competitiveness lay in the microeconomic conditions affecting business development rather than macroeconomic conditions. Indeed, Rosted was the finance ministry’s lead participant in the drafting of the 1986 *Debate Proposal on Growth and Change: Requirements for Structural Policy*. Rosted notes that, by the early 1990s, the macroeconomic situation in Denmark had been stabilized and points out that Denmark was the first country to fulfill the EU’s Maastricht criteria. But he was not convinced that macroeconomic stability was enough to ensure continued Danish prosperity, nor were efficient markets. He goes on to say, “I could already see in the late 80s that [the microeconomic elements of business policy were] very important, how the universities function and the interplay between universities and the private sector and all the other areas. I could in some way feel this was very important, but I was 100 percent against subsidizing the private sector.”⁷

⁷ Interview with Jørgen Rosted, former Head of Department, Danish Ministry of Business, Copenhagen, Denmark, June 4, 2002.

This sentiment was shared among other civil servants in the business ministry who were already convinced that what would make a difference to Denmark's competitiveness were framework conditions. As one former senior business ministry official recalls, "that was very difficult to get through to the traditional macroeconomic people because they had a blind spot on that. For them, the world is composed of only four elements, the interest rate, the balance of payments, and so on. It is not in their mind."⁸ One of the greatest contributions of the new head of department was therefore his insights that "it was not enough to look at the interest rate and the balance of payments and those traditional macroeconomic figures."⁹ It was to some degree this reluctance on the part of finance ministry officials to acknowledge non-macroeconomic factors that spurred business ministry officials, including Rosted, to focus deeper on business framework conditions. In fact, it was one of the reasons Rosted left the finance ministry to lead the ministry for business policy coordination. Consequently, Rosted and the ministry of business set out to elevate business policy based on framework conditions to the same level as macroeconomic policy.

Unlike the ministry of industry under the conservative-led government, the ministry for business policy coordination released extensive annual business policy reports setting out the government's policies and activities.¹⁰ There were two reasons for this, according to both current and former civil servants. First, civil servants at the ministry of business were trying to make their mark as a policymaking ministry, not

⁸ Interview with former official of the Danish Ministry of Industry and Danish Ministry of Business, Copenhagen, Denmark, May 31, 2002.

⁹ Ibid.

¹⁰ Denmark, Ministeriet for Erhvervspolitisk Samordning, *Erhvervsredogørelse 1993*; Denmark, Industri- og Samordningsministeriet, *Erhvervsredogørelse 1994* (Copenhagen: Industri- og Samordningsministeriet, 1994); Denmark, Erhvervsministeriet, *Erhvervsredogørelse 1995-99* (Copenhagen: Erhvervsministeriet, 1995-99).

merely an administrative or regulatory ministry. Second, and perhaps more importantly, it was a clear message to interest organizations and other interested parties what the government's industrial policy was and who was in charge of it. Civil servants did not completely exclude the Business Development Council and interest organizations from policy discussions, but they were all held at arms' length. Rosted himself recalls, "I said that these [reports] are the government strategy and if you would like to advise the government you have to accept that this is the strategy. You can criticize it, you can ask for changes...but if you come up with advice for the government which shows you have never seen this strategy, it's irrelevant."¹¹ One reason for this attitude, as expressed by another civil servant, is that "it cannot be right that the productivity in formulating the strategic vision should be in the hands of the trade associations. Yes, of course, they can do it on their behalf at home, but the ministers, the government, should have their own strategic visions and framework and then others can respond to that."¹² By extension, these visions and frameworks were the domain of government civil servants, not interest organizations. Current and former civil servants have implicitly and explicitly suggested that Danish employer organizations were major obstacles to pursuing active industrial policies in the 1980s and early 1990 and they had no intention of returning to the industrial policy malaise that characterized that period.

The Industrial Policy Orthodoxy of the 1990s

¹¹ Interview with Jørgen Rosted, former Head of Department, Danish Ministry of Business, Copenhagen, Denmark, June 4, 2002.

¹² Interview with official of the Danish Ministry of Economics and Business, Copenhagen, Denmark, February 27, 2002.

The ministry of business released its first annual industrial policy report in 1993. This report set out the main guidelines that would be followed over the next several years. One of the main points of departure for policy coordination coming from this ministry was the assumption that the extensive technological changes experienced over the previous twenty-five years would not only continue, but increase in speed and scope.¹³ Policy-makers accepted that these globalization-related processes would affect both Danish and foreign firms in such a way that knowledge-intensive production would remain in the developed countries, while labor-intensive production, including production requiring a well-trained workforce, would increasingly be located in countries with lower wages.¹⁴ Although this process was not seen as necessarily threatening Danish prosperity in the short term, policy-makers were not so sanguine over the long-term implications. Danish policy-makers pointed to the likely development of losing market shares in traditional products at a faster pace, faced with increasing low-wage competition from Asia and East Europe. Consequently, "in the short view, labor-intensive production sites may remain in low wage areas, but in the longer view it threatens wealth development in West Europe and makes it even more difficult to resolve growing social and environmental problems."¹⁵ However, competing in low-wage, labor-intensive production was not seen as a viable means of competition, nor was increased protectionism. Instead, focus was put on actively exploiting Danish competitive advantages in knowledge-based products and production.

The orientation towards a more active industrial policy was a marked shift away from the hands-off policies of the previous government. As evidenced in the report, top

¹³ Denmark, Ministeriet for Erhvervspolitisk Samordning, *Erhvervsredogørelse 1993*, forward.

¹⁴ Ibid.

¹⁵ Ibid., 16.

Danish policy-makers viewed this more active policy orientation as necessary, rather than irrelevant, in the context of globalization. "Globalization does not mean that business policy has less meaning for economic growth. On the contrary, the competition to create the best conditions between countries and regions in Europe is becoming increasingly harder."¹⁶ Therefore, the state would play an active role in creating a business environment conducive to economic growth and employment. Pure, unfettered markets were not seen as a desirable substitute for the state, which provided a very secure safety net. But the apparent embrace by the minister and senior civil servants of markets and globalization rather than their rejection signaled their belief that markets could be harnessed to provide the conditions under which economic growth, employment, and the welfare state could be sustained. The state would contribute to a "lasting rise in prosperity" by influencing firms' capabilities to compete in international markets and the incentives for firms to develop these capabilities.¹⁷

Set out in its series of annual industrial policy reports from 1993 to 1999, the ministry of business provided the basis for a broad, strategic vision of Danish industrial policy. One of the greatest concerns at this time was an unsustainably high structural unemployment level in Denmark and how the productive capacity in the Danish economy could contribute to lower unemployment. As stated in the first annual business policy report released in 1993, the "goal of business policy is to contribute to higher employment and higher prosperity. The starting point for business policy must be a consideration of what we will live off and to what we will employ ourselves in the

¹⁶ Ibid., 37.

¹⁷ Denmark, Ministeriet for Erhvervspolitisk Samordning, *Erhvervsredogørelse 1993*, 35.

Danish society of the future.”¹⁸ The simplicity of these statements belies a radical shift in industrial policy, not least because they were a significant redefinition of ministerial prerogatives. One former senior civil servant describes the former ministry of industry under the conservative government as “a kind of bread and butter machine,” explaining that, while the ministry of industry covered very large areas of the economy and was responsible for the many legal aspects of business, it “always considered itself a very regulatory ministry and only to a very small part a policy-formation ministry.”¹⁹ When the government changed and the ministry for business policy coordination was established, this position changed dramatically. The new ministry would not be merely a passive administrative organ, but an actively-engaged policy-making state institution given the specific mandate to coordinate a policy designed to take advantage of globalization. Politicians and civil servants hardly saw state policy as irrelevant in the face of globalization and instead were taking steps to manage it. The ideas that had been coalescing for the previous ten years had finally found their expression in government policy. The first annual business policy report provided the first clear policy guidelines for the new direction in Danish industrial politics, focusing on how the business environment could be improved within sectors such as the “resource areas.” The two guiding principles were to “employ ourselves to that at which we are already good—and become even better at it” and the development of public–private partnerships, which added “to both growing dynamism and create the foundation for new work places.”²⁰ The

¹⁸ Ibid., Forward.

¹⁹ Interview with former official of the Danish Ministry of Industry and Danish Ministry of Business, Copenhagen, Denmark, May 31, 2002.

²⁰ Denmark, Ministeriet for Erhvervspolitisk Samordning, *Erhvervsredogørelser 1993*, forward.

success of civil servants to include all they learned and contributed to over the past decade was finally borne out in the new policy guidelines.

The overarching Danish economic policy was to revolve around three foundations: macroeconomic stability, well-functioning markets, and a good business environment, also referred to as macroeconomic policy, structural policy, and business policy, respectively.²¹ Within this context, macroeconomic policy dealt with rents, wages, and business taxes that affected firms' production factors.²² Macroeconomic policy was to provide low and stable inflation and control over the state's deficits and debts so as to ensure that the Danish krone would not be overvalued and that wage levels reflected the labor force's qualifications and productivity. A stable macroeconomic environment had far-reaching implications, not least for the unemployment problem. "If stability is put in a precarious position through high expenses or unmanageable public deficits, it will be impossible to secure stable gains in investments and therefore in production and employment."²³

Structural policy simply referred to the efficient allocation of resources.²⁴ Well-functioning markets were to ensure that society's resources were to be used in the most efficient way. One important element, for example, was the tax system. Another, perhaps more important element given double-digit structural unemployment rates, was labor market policy. State actors attempted to promote as flexible a labor market as possible, but they were also aware that a fit between the needs of industry and the qualifications of the labor force was a necessary requirement for economic stability and the creation of

²¹ Ibid., 46.

²² Ibid.

²³ Ibid., 18.

²⁴ Ibid., 46.

more jobs. There were also concerns that wage levels should reflect qualifications, but also noticed that the high unemployment rate reflected a somewhat dysfunctional labor market, especially in consideration of the fact that unemployment had been especially high among those workers with poor or no education.²⁵

Creating a good business environment through “business policy” by promoting production and employment depended on several factors, including “investing in physical infrastructure, education and research, public demand, public regulation, and business promotion activities.”²⁶ Thus the ministry’s approach to this task would by necessity be multifaceted, focusing on improving education, research efforts, infrastructure, communications systems, public service, and public business promotion, particularly through public-private partnerships at the national, regional, and local levels. This aspect of the policy was intended to ensure that these elements were complementary to one another, if not completely integrated.

Within the overarching guidelines of macroeconomic policy, structural policy, and business policy, the focus of civil servants in the ministry would be the last of these, particularly because of its significance for what were to be the cornerstones of the new policy—the framework conditions, or more specifically, the “conditions that have significance for firms’ competitiveness and development possibilities,”²⁷ which had already gained currency among senior civil servants. This was, in fact, a return to the ideas first explored in the 1986 *Debate Proposal on Growth and Transformation*. The main framework conditions impacting firms were identified as production factors, partnerships with other firms, well-functioning markets, and quality-determined demand,

²⁵ Ibid., 19.

²⁶ Ibid., 46.

²⁷ Ibid., 38.

and public administration and services. These framework conditions had been extensively explored in the Business Development Council's Resource Areas Analyses project, and all of them, except well-functioning markets, were directly based on Porter's diamond. Even Porter's diagram was incorporated directly into the published policy report.²⁸

While macroeconomic policy affected production factors and structural policy affected production factors and the functioning of the market, business policy would touch on all four of the most important elements of the framework conditions, that is, production factors, the functioning of markets, partnerships among firms, and quality-driven demand. Macroeconomic policy and structural policy were assumed to have relatively similar effects on firms of all kinds while business policy was much more complicated in that different business policies would affect different firms in different ways. The ministry's new strategies would therefore focus on "goal-oriented initiatives to strengthen firms' framework conditions in areas where there are especially good prospects for growth and employment. In the 1990s such efforts will include, among others, new and small firms, the large international firms, and firms within strongholds."²⁹ In other words, the ministry's primary domain would be a business policy that strengthened the framework conditions of strongholds within resource areas.

The most significant aspects of production factors were the labor force's qualifications, knowledge content in both new products and production methods, and the physical infrastructure, including communication and distribution systems. In such a system, high-value-added production would be dependent on enhancing the labor force's qualifications for knowledge-intensive production. Another significant concern for

²⁸ See figure 2.1, Denmark, Ministeriet for Erhvervspolitisk Samordning, *Erhvervsredogørelser 1993*, 39.

²⁹ Denmark, Ministeriet for Erhvervspolitisk Samordning, *Erhvervsredogørelser 1993*, 47.

increasing knowledge-intensive production was the ability of firms to commercialize publicly-supported research. Physical infrastructure such as harbors, motorways, and airports would be a crucial aspect for achieving fast market access with the lowest possible costs. Communication and distribution systems were noted as particularly important within a globalization context because “an increasing spread of activities requires greater coordination and more effective access to suppliers and markets.”³⁰

The focus on firm partnerships drew heavily on the Business Development Council’s Resource Areas Analyses project, based as it was on a certain understanding of industrial clusters. A critical element of the structural and business policy was to promote development within Danish strongholds, especially those existing within resource areas. Such strongholds were seen to have an impact far beyond their immediate impact on a single distinct industrial sector. Echoing the themes addressed in Porter’s work, the report on *Internationalization and Business Development*, and the Resource Areas Analysis project, the ministry adopted the position that the “firms in the individual strongholds are often tied together in a network that can include many branches. Partnerships can, for example, exist in supplier relations or the utilization of related technology. Danish and foreign experience shows that it takes a long time to build strongholds, but that they can continue for a very long time if the right business frameworks are in place.... Strongholds are characteristic of particular competencies that are often achieved through long development.”³¹ As shown by the Resource Areas Analyses project, such clustered strongholds comprised a significant amount of Danish exports and having the potential for greater future growth. Encouraging partnerships was seen as an important way to

³⁰ Ibid., 40.

³¹ Ibid., 63.

ensure that potential was realized. Of special relevance was the facilitation of R&D and export efforts among smaller firms lacking extensive research and marketing resources through network cooperation. Such cooperation could include investing in common facilities, technology development, and collection of marketing information. Just as important were networks between firms and suppliers and strategic alliances with foreign firms, with the latter providing access to new technology that had not yet found its way to Danish firms.

Well-functioning markets was an addition by civil servants to Porter's diamond. Just as in its broader implications, it simply referred to the efficient use of resources, on both firms' supply side (products and services) and demand side (labor, capital, and raw materials). The liberalization of Danish markets meant that Danish firms would have to adapt to increasing competition in sectors that were previously protected. Moreover, firms would have to be domestically competitive if they were to be competitive in international markets. Thus, well-functioning supply and demand markets were essential to strengthening the competitiveness of Danish firms in national and international markets. Quality-driven demand on the home market was seen as an important element to the development of firms' growth conditions because it impacted the range and character of product development within the firm. The existence of clients and customers demanding high quality products and services was seen as a positive influence on firms' activities by providing a test-market before seeking out larger markets. In this regard, the public sector's impact on firms' activities could be significant, owing to the fact that the state was a major customer of many of the products and services being produced by Danish firms, such as health and energy services. The final element, public

administration and services, were seen as a secondary but significant part of the framework conditions. Unlike the previous framework condition, public administration and services dealt more with the state as supplier rather than the state as a customer. In this regard, the state plays a significant role in providing export services, technological advice, and public supply firms. It is therefore important that such state services are cheap and effective as well as appropriate to firms' needs. The role of the state as a supplier would also impinge on the regulatory environment, patenting, and quality certification.

Ultimately, these framework conditions are not isolated, but connected as a dynamic system. According to the ministry, the "possibilities to exploit national benefits within one of the five factors depends on the other factors." The ministry explains, for example, that quality-driven demand will not lead to better products unless firms have the necessary knowledge and a labor force with sufficient qualifications to develop the products. Moreover, all five factors have to be of high international standards. Ministry officials saw good possibilities to affect business development in areas where the conditions are already good or in areas where one of the framework elements is easily identifiable as less developed and presenting a barrier to growth.³² With the change of government in 1993, the main business and industrial strategies throughout the 1990s would give room to a business policy devoted to strengthening and coordinating the framework conditions for new and small firms, large international firms, and firms within identified Danish strongholds. These themes of globalization, framework conditions, and

³² Ibid., 45.

strongholds, as well as other considerations such as innovation, were consistently central foci of government policy.³³

This policy orientation heralded the convergence of the elements of a coordinated industrial development policy that had been circulating among civil servants since the mid-1980s. Indeed, framework conditions were the intellectual successors to the structural policy proposed in 1986 and the on-going debates on industrial development blocs and clusters. Moreover, the focus on resource areas provided a compelling rationale to focus on specific sectors, even while avoiding the kind of subsidization associated with sectoral policy and a picking-the-winners strategy. The identified resource areas provided civil servants with a means to operationalize the theoretical concepts developed in the *Debate Proposal on Growth and Transformation* and the debate proposal on *Internationalization and Business Development*. In sum, although the coordinated structural policy of the 1980s was brushed aside by Industry Minister Lundholt, progressive civil servants had not abandoned it. When Rosted and his colleagues took up the most senior positions in the ministry of business policy coordination, they were ready to return to the theorized underlying conditions for industrial competitiveness and had test cases with which to experiment.

Coordinated Industrial Adjustment through Public–Private Partnerships:

From “Resource Areas Analyses” to “Dialogue with Resource Areas”

Effectively implementing these policies required new patterns of private–public contact and a reorganization of policymaking institutions. In theory and policy strategy,

³³ Denmark, Ministeriet for Erhvervspolitisk Samordning, *Erhvervsredegørelse 1993*, passim; Denmark, Industri- og Samordningsministeriet, *Erhvervsredegørelse 1994*, passim; Denmark, Erhvervsministeriet, *Erhvervsredegørelse 1995–99*, passim.

improving framework conditions required direct participation of private-sector actors. Intermediating actors such as interest organizations were seen by civil servants as an unnecessary and undesirable barrier to culling information on the most immediate and relevant challenges faced by firms. The framework that had been developed by civil servants through the Business Development Council's Resource Areas Analyses project was designed for exactly this purpose. Ministry officials had a well-established foundation upon which to build their knowledge and their policies and were well-positioned to seize the policymaking initiative. Indeed, the Resource Area Analyses project seemed a perfect fit with the new government strategy, both as an analytical foundation and a plan of action. Given the importance attached to the themes addressed in the ministry's annual policy reports and their clear references to resource areas, this was not coincidental. It is clear that ministry officials already had plans for the Resource Areas project, even while it was being nurtured by the Business Development Council. In the Ministry of Business Policy Coordination's first policy report in 1993, even before the completion of the first council report on the Resource Areas Analyses project, it was stated: "It is the government's intention to include business actively in the preparation of this advisory structure and in forming concrete initiatives. When the respective resource area analyses are completed, *the government* will therefore initiate a continuing dialogue with the firms, organizations, and research institutions, etc."³⁴ By the time the Business Development Council finished its first preliminary report on resource areas in 1994, the conditions were ripe for a reversal of civil servants' apparent position of weakness to one of strength, carrying out the government's proclamation, which was written by civil servants, without hesitation.

³⁴ Denmark, Ministeriet for Erhvervspolitisk Samordning, *Erhvervsredogørelse 1993*, 67, italics added.

When the ministry for business policy coordination was integrated into the much larger ministry of business in 1994, head of department Rosted, who had significant latitude in restructuring the ministry's organization, including its subsidiary agencies, removed the Resource Areas project from the Business Development Council and the agency for industry and trade and placed it directly within the ministry. This reorganization was accompanied by the reappointment to the ministry of key people who had been working on the Resource Areas Analyses project and held similar views on framework conditions. For example, the planning chief of the Danish Industry and Trade Agency, who was intimately familiar with the *Debate Proposal on Internationalization and Business Development* and the Resource Areas project, was moved to a senior position in the ministry of business responsible for business policy strategy and coordination, and internationalization. This civil servant would lead the resource area-related dialogues and even acted as the vice-chairman of the Business Development Council for several years. The director of the policy planning division of the former ministry of industry who had also served as the vice-chairman of the Business Development Council remained as policy planning chief at the ministry of business. Civil servants in the most senior leadership positions at the business ministry were thus well-established to move forward on their cluster-based strategies and exert their autonomy from non-state actors, whether they be a collegial, corporatist organ like the Business Development Council or interest organizations.

This move by civil servants at the ministry of industry reflected a conscious attempt to recapture industrial policymaking from the Business Development Council and interest organizations alike. On the one hand, the council was reduced to near irrelevancy.

Civil servants, with the backing of the minister, simply began to ignore it. The council, which had filled the policymaking vacuum under the previous conservative industry minister, was now being replaced by civil servants working with independent private-sector business leaders and industry experts. The institution that had been the analytical incubator for the resource areas and, more significantly, provided a channel by which civil servants could begin to institutionalize direct public-private contacts without drawing the ire of a disapproving minister, had served its purpose by 1994. On the other hand, precisely because the Business Development Council had taken the resource areas project so far, civil servants had not only a clear and coherent policy, but an institutional blueprint for carrying it out. This blueprint allowed civil servants to avoid dealing directly with interest organizations. Dialogue with private-sector actors would indeed continue according to virtually the same framework with one important exception: private-sector actors would be talking directly to representatives of the State, not representatives of the Business Development Council. A senior civil servant noted that, rather than the Resource Areas Analyses project making the Business Development Council more relevant, it had the opposite effect. According to this civil servant, "it was the work of the council, and it was in some kind of way like a baby was born. And this baby was very much a product of industrial policy..... The ministry took the baby and said, 'In fact, it's not up to the council to formulate policy. We are the ones who formulate policy. So thank you very much and we are taking over.'"³⁵ Civil servants were also encouraged to take the project in-house partly because of their perceptions that the process of identifying concrete policy proposals within the Business Development

³⁵ Interview with former official of the Danish Ministry of Industry and Danish Ministry of Business, Copenhagen, Denmark, March 6, 2002.

Council was a “disaster”³⁶ and that the policy proposals themselves were impossible to implement.³⁷ The council itself remained, but “de-facto, the reality of it” was that the ministry was firmly at the helm of the policymaking.³⁸ One former senior civil servant who worked with Rosted put it in starker terms: “Jørgen Rosted wanted to put out the policy himself and didn’t need a council to do it.”³⁹

Although the Business Development Council provided a willing and convenient platform to express the new ideas about resource areas and framework conditions, once the government shifted and a new and energetic staff was installed in the ministry of business, state actors, including both the minister and senior civil servants, virtually ignored it. As one long-time observer and participant in Danish industrial policy provocatively puts it, “now that you have your civil servants who actually have a minister that supports their policies...why do you need the Business Development Council? Now the Business Development Council had become a barrier.”⁴⁰ On strategic policy issues, civil servants were reluctant to accept that the council was even an appropriate forum for such discussions, justifying selective use of the council on the basis of the *Law on Business Promotion*. When asked if contributing to strategic policy issues was not the explicit role of the Business Development Council, one civil servant responded, “That is open for discussion because if you look in the text of law, you could say they could actually take that discussion up if they wanted to. You are completely free to do it. As a

³⁶ Interview with official of the Danish Ministry of Economics and Business, Copenhagen, Denmark, April 19, 2002.

³⁷ Interview with official of the Danish Ministry of Economics and Business, Copenhagen, Denmark, June 4, 2002.

³⁸ Interview with former official of the Danish Ministry of Industry and Danish Ministry of Business, Copenhagen, Denmark, March 6, 2002.

³⁹ Interview with former official of the Danish Ministry of Industry and Danish Ministry of Business, Copenhagen, Denmark, May 31, 2002.

⁴⁰ Interview with private-sector consultant, Copenhagen, Denmark, May 1, 2002.

secretariat, we have rarely put it on the agenda. But that has not been to manipulate it, but because we have had the experience that it is rarely very successful” And when asked what functions such councils do play, the response was simply, “Well, that’s a good question.”⁴¹

The government’s industrial strategies as expressed in the annual industrial policy reports were written in their entirety by civil servants with no contribution from the Business Development Council or interest organizations. “The final paper was sent to them, of course, but they had no chance of discussing [it] during the process [of] writing the report.”⁴² Individual chapters were sometimes presented to the council to elicit their comments, but this was largely a courtesy provided to the council by the ministry.⁴³ As one civil servant explains, over the 1990s, “we...put less and less through the Business Development Council and more and more in the framework of the [annual business policy report].”⁴⁴ Although the Business Development Council’s Resource Areas Analyses project was a major point of departure for the government’s strategy, after the expropriation of the Resource Areas Analyses project in 1994, civil servants, and hence the government, drew little if any inspiration from the council for their strategic guidelines.⁴⁵ A blunt appraisal by the former head of department encapsulates civil servants’ attitudes towards the council: “If they had done what they should have done, the

⁴¹ Ibid.

⁴² Interview with official of the Danish Ministry of Economics and Business, Copenhagen, Denmark, April 17, 2002.

⁴³ Interview with official of the Danish Ministry of Economics and Business, Copenhagen, Denmark, April 19, 2002.

⁴⁴ Interview with official of the Danish Ministry of Economics and Business, Copenhagen, Denmark, May 31, 2002.

⁴⁵ A significant exception was a project on the Danish innovation system (DISKO). Bengt-Åke Lundvall, *Det danske innovationsystem—et forskningsbaseret debatoplæg om innovationspolitiske udfordringer og handlemuligheder* (Copenhagen: Erhvervsfremme Styrelsen, 1999).

government would have listened more. But they didn't."⁴⁶ Consequently, as far as advice coming from the council was concerned, civil servants and the minister more often than not simply ignored it. Throughout the 1990s, the Business Development Council's agendas and reports were strictly controlled by civil servants, a fact corroborated by civil servants as well as former council members. According to one former member, "We had no influence at all. We had this [annual policy report] presented in the Business Development Council. In the first step we had the chapters...and later on we had some of the text presented, but we had no influence. We could express our opinion, but it didn't mean anything. The ministry was doing this as they liked."⁴⁷

It had become clear that the strength and relevance of the Business Development Council depended on the extent to which ministers and civil servants thought it could be useful, which was not much. The attitude of civil servants toward the Business Development Council was not lost on the council's members, who clearly recognized that the council was being marginalized. Many council members and civil servants saw even the appointment of the council's chairman in 1994 as a politically-motivated attempt to weaken the council. The first chairman, Mogens Granborg, was a director of Danisco, one of the largest Danish companies with considerable clout even within the major employer organizations, giving him extra leverage vis-à-vis the minister of industry. Without his enthusiastic support for the Resource Areas Analyses project, it may very well have been scuttled. His successor, Poul Skovgaard, on the other hand, was a recently retired president of a medium-sized cement firm with very little real influence. One civil

⁴⁶ Interview with Jørgen Rosted, former Head of Department, Danish Ministry of Business, Copenhagen, Denmark, June 4, 2002.

⁴⁷ Interview with former member of the Business Development Council, Copenhagen, Denmark, April 5, 2002.

servant who worked with the Business Development Council explicitly suggested that the appointment of Skovgaard was indeed a strategic decision to dilute the influence of the council, a strategy “saying we didn’t want a chairman with that kind of strength within the organization.”⁴⁸ Coincidentally or not, Skovgaard was appointed chairman of the council in 1994, the same year the ministry of business policy coordination was integrated into the ministry of business and the Resource Areas Analyses were taken away from the council. While confirming the Business Development Council’s lack of independence and the ministry’s control over its agenda, one former member adds, “I would say, in a way, [the leadership of the business promotion agency] is partly dangerous because they ran that shop. Skovgaard...nice man, but he was too weak up against these kinds of people here.... He was very discreet and very diplomatic because he would be told to ‘fly off’ if he didn’t follow the rules....”⁴⁹

Members of the Business Development Council became increasingly aware that not only were they being ignored, but that the council’s semi-independent secretariat, based at the Business Promotion Agency, was becoming increasingly compromised by its close connection to the ministry. One former council member explains that, once Rosted had seized the policymaking initiative, both the agency for business promotion and the Business Development Council suffered. “The council was diminished to be an advisory board, to discuss the topics and look into some of the analyses coming from the ministry itself. The initiative was moved. At the same time, you had a secretariat that was not an independent secretariat,” because it was merely a department under the ministry’s

⁴⁸ Interview with official of the Danish Ministry of Economics and Business, Copenhagen, Denmark, April 17, 2002.

⁴⁹ Interview with former member of the Business Development Council, Sorø, Denmark, April 9, 2002.

authority.⁵⁰ This former member saw this lack of independence greatly impinging on the council's ability to carry out its work because the secretariat reported directly to the ministry. "We sometimes in the council had some bad things to say to the government. They were afraid to formulate it in the letters and reports.... We had meetings with points where afterward if we didn't decide what they wanted us to decide, they said, 'OK, it was a failure that we placed it on the agenda because it is not necessarily your decision. We shouldn't have done it because we didn't get the decision we wanted you to give us.'"⁵¹ Apparently, the Business Development Council was becoming more and more dependent on the business promotion agency as an extension of the business ministry rather than as its own secretariat housed within the business promotion agency. As one former member laments: "It's a long discussion because...it is perhaps a little bit strange that we wanted our own secretariat. Our own secretariat would be independent, but now we could see more and more that we were very dependent on the *Erhvervsfremme Styrelse* [business promotion agency]. Of course, we couldn't do much in the council when the secretariat does [what the ministry wants]. You can say we want the work done, but the people who make the papers have the power."⁵² Perhaps symptomatic of the Business Development Council's precarious position, the council's discussions as to whether they should request a secretariat not provided by the ministry was inconclusive. Ultimately, a former member of the council appointed by the Confederation of Danish Industry says of the relationship between the ministry and council by the mid to late 1990s, "they didn't really know what to do with us." Council members were sent the annual policy papers because ministry

⁵⁰ Interview with former member of the Business Development Council, Copenhagen, Denmark, April 22, 2002.

⁵¹ Ibid.

⁵² Interview with former member of the Business Development Council, Amager, Denmark, May 17, 2002.

officials were obliged to do so. However, "I myself consider this body as without any influence in this period because there was no serious attempt to take anything from it from the ministry...the government, the ministry didn't want to hear what we said."⁵³

Thus, by the mid-1990s, the Business Development Council had become virtually irrelevant to business and industrial policy in Denmark. Civil servants were running the "Dialogue with Resource Areas" directly from the ministry and formulating industrial policies through the annual business policy reports; the secretariat's independence was increasingly compromised; and the chairman's leadership and effectiveness was questionable. Moreover, this downward trend in the Business Development Council's influence was further reinforced in 1995–96 by the formal removal of its authority over technology development and technological services. Although the minister did not directly assault the council's political position, the government resuscitated the Technology Council with the passing of the *Law on the Technology Council* on August 1, 1995 under the authority of the minister for research and given a mandate closely mirroring that of the Business Development Council, namely to follow technological development, to carry out work to seize the possibilities offered by technological development, and to organize independent technology assessments.⁵⁴ This Technology Council's structure was significantly different than the Technology Council created in 1973. First, the new Technology Council reported to both the government and the parliament. Second, although the chairman is to be selected by the minister of research, the council would have control over its own agenda and the council would choose its own secretariat, ensuring their work was likewise self-

⁵³ Ibid.

⁵⁴ Denmark, Folketinget, *Lov om teknologirådet*. 147. årgang. August 1, 1995. *Lovtidende A 1995*, vol. 3, hæfte 84, 1685–1687. Article 1.

determined. Finally, the council was made up of an executive board with eleven members (including the chairman), but included a representative board of up to fifty, considerably expanding the participation of interest organization representatives.⁵⁵

Shortly afterwards, on March 27, 1996, the Business Development Council's responsibility for the technological service programs which was a core responsibility of the council, had been transferred to yet another new council, the Council for Technological Service, with the passage of a new *Law on Technological Service*.⁵⁶ The Council for Technological Service was kept under the purview of the minister of business and its secretariat would be provided by the business promotion agency. The council's mandate, however, again echoed the responsibilities initially entrusted to the Business Development Council—to contribute to the strengthening of technological, management, and market-related competencies and strengthen innovation among Danish firms through the supervision of technological services; and promote, plan, coordinate, and evaluate technological service development in Denmark to that effect.⁵⁷ With these legislated changes of responsibility, the Business Development Council was unambiguously reduced to an isolated advisory council with little or no formal power. By 1998, according to civil servants and former members of the council, the Business Development Council was merely a facade, a fact made brutally clear when minister of business Pia Gjellerup informed the chairman of the council that she had no intention of

⁵⁵ Ibid.

⁵⁶ Denmark, Folketinget, *Lov om teknologisk service*. 148. årgang. March 27, 1996. *Lovtidende A 1996*, vol. 2, hæfte 47, 1458–1460.

⁵⁷ Ibid., Article 1, Sections 1 and 2.

using the council for anything, “not in so many words, but the meaning (and the later actions) could not be misunderstood.”⁵⁸

By the mid to late 1990s, many organizations saw little point in expending political capital in such a hobbled institution. Several former members noted that internal discussions within not only the Business Development Council but also their respective appointing organizations turned on whether participating in the council was worthwhile. One member confides that, unlike the Technology Council that had a narrow, yet concrete function with extensive financial resources, the Business Development Council was “not so appreciated” by the government, especially with the rise of Jørgen Rosted. “I actually suggested several times we close it because it was no use.”⁵⁹ One former member goes so far as to regret his participation in the council.⁶⁰ As one observer from the Danish Confederation of Trade Unions remarks, “even from our point of view, our politicians look at it and say, ‘Is there any influence in this one? No. OK, we have to be there, but there is no influence in it, so we don’t put any energy into it.’ That is the way it is.... they will cooperate with it if there is influence in it. If there is not, they will just sit there. They don’t make a contribution to it. They just sit there. They don’t work against it, but they don’t give it anything, either.”⁶¹ Thus, the Business Development Council was thoroughly disempowered and demoralized by state actors who ignored its advice and tightly controlled its activities through the ministry-appointed secretariat.

⁵⁸ E-mail correspondence with Poul Skovgaard, former chairman of the Business Development Council, March 7, 2002.

⁵⁹ Interview with former member of the Business Development Council, Copenhagen, Denmark, April 5, 2002.

⁶⁰ Interview with former member of the Business Development Council, Sorø, Denmark, April 9, 2002.

⁶¹ Interview with official of the Danish Confederation of Trade Unions, Copenhagen, Denmark, July 9, 2002.

In their campaign to re-invent the ministry and promote business policy, civil servants obviously had little use of the Business Development Council after the initial work on the resource areas had been completed. The shift of government in 1993 and the new government's apparent adoption of the council's advice as expressed in the annual business policy reports would seem to indicate that the council was on the verge of achieving an authoritative policy-making position aside governmental authorities. This scenario was not to be the case. Instead, civil servants, led by Jørgen Rosted and with the assent of Mimi Jacobsen and successive ministers of business, resumed ministerial prerogatives and actively disenfranchised the Business Development Council from any policymaking role. Over the course of only a few years, state actors in the ministry of business slowly stripped away any vestiges of power in the council. While the Resource Areas Analyses project was a critical turning point in Danish industrial policy, the "Dialogue with Resource Areas" was the turning point in the re-emergence of state actors. The Resource Area Analyses project provided a fruitful starting point to analyze the Danish industrial landscape, but once the initial report was completed, it was integrated into the civil servants' work on framework conditions. Further, once the ministry for business policy coordination was established and the new head of department drew those civil servants who had guided the project from the trade and industry agency directly into the ministry, they began to carry out their own independent public-private dialogue.

Civil servants were able to expropriate the resource areas project not only because they had a supportive minister, but because they had also established close links to private-sector actors and interest organizations throughout the initial resource areas

project. With the structure for dialogue already in place, the Business Development Council's mediating role was seen by civil servants as no longer necessary or desirable. As a legitimizing institution, the council had lost its usefulness. One civil servant expresses it thus: "I think [the Business Development Council] had no purpose. But in a world of policy, it is quite difficult to end the council because then you have all the organizations calling the minister saying we have to have these kinds of organizations to advise the minister, even though it had no impact."⁶² Yet because the ministry and the agency for business promotion agency had been developing much closer connections to firms and organizations directly, "we didn't need the council to legitimize some of these things because the dialogue and the discussions were coming directly from the ministry to different kinds of organizations and companies."⁶³ Thus, the Danish state's renewed policymaking autonomy and potential capacity for coordinating an active industrial development policy, including overcoming the influence of a prominent corporatist institution and interest organizations, was made possible by institutionalizing closer public-private contacts.

The Dialogue with Resource Areas

With the initiation of the Dialogue with Resource Areas project, contact between civil servants and business leaders representative of the resource areas was set up at decentralized levels. As a coordinated effort, civil servants from other ministries also participated in relevant resource area discussions, with some even leading particular dialogues. Although the dialogues also included representatives from interest groups and

⁶² Interview with official of the Danish Ministry of Economics and Business, Copenhagen, Denmark, April 17, 2002.

⁶³ Ibid.

universities, the leaders of the dialogues did exclude the larger interest organizations like the Confederation of Trade Unions and the Confederation of Danish Industry from participation.⁶⁴ This new structure set up even closer dialogue than would have been possible through the Business Development Council. Through working groups and steering groups for each resource area, government actors interacted directly with a range of business leaders, interest groups, academics, and other experts to inform the content of their policies. Numerous reference groups and working groups were established within each resource area and covered issues including research and development, education and training, private-public partnerships, standardization, technical services, and marketing and product development.⁶⁵ The reference groups and working groups represent only the formal structure of the dialogues, since discussions were held with numerous public- and private-sector actors over the course of the project.

As evident in the Business Ministry's first report on "Dialogue with the Resource Areas" in 1996, coordination, innovation, and the general business framework conditions in the midst of increasing global competition remained an essential aspect of the dialogues. Following the notions set out earlier on framework conditions, a business policy that focused on general inflation, infrastructure, and labor market relations was seen as no longer sufficient to ensure a thriving business sector and continuing prosperity for Danish society. Information technology, globalization, and competition from low-wage countries demanded continuous innovation resulting in new and better products and services that were not based on price-competition. At the same time, the opening of new

⁶⁴ Interview with former leader of the Dialogue with Resource Areas project, Copenhagen, Denmark, August 29, 2002.

⁶⁵ Denmark, Erhvervsministeriet, *Dialog med Ressourceområderne: Status, Februar 1996* (Copenhagen: Erhvervsministeriet, 1996), 36–51.

markets and heightened consumer demands required increased efforts to develop more sophisticated distribution and marketing methods.⁶⁶

Discussion among the various reference groups and working committees were grouped under four broad headings. First, discussions on *knowledge* included discussions on education, advising/technological services, research, and interaction between the research community and firms. Second, discussions on *market demands* included public-private interaction and the division of work, tender rules, standardization, market information, and export promotion. Third, discussions on *public infrastructure* included public services rendered to firms, public versus private governance, the marketing of public offers to firms, administrative easing, and coordination among public authorities. Fourth, discussions on *financing* included taxes, deductions and donations, development financing, start-up arrangements, and export credits.⁶⁷

Each of the eight resource areas dialogues was led by a reference group with broad participation. These reference groups provided the forum for the dialogue and formulated challenges for the areas' firms and identified the framework conditions critical to business development through the resource area analytical work. After the critical framework conditions were identified, working groups were set up to formulate concrete proposals to strengthen these conditions.⁶⁸ According to the business ministry report, the dialogue included areas which far exceeded traditional business promotion policies and the business ministry's formal sphere of responsibility. The ministry attempted to provide a single forum through which private sector actors could engage

⁶⁶ Ibid., 3.

⁶⁷ Ibid., 4-5.

⁶⁸ Ibid.

state actors, the basis being that all the involved ministries worked closely together.⁶⁹ More specifically, on one level, identification of relevant business areas were based on both general business conditions and resource area-specific framework conditions provided by the analyses carried out by researchers and the dialogues. Dialogue was carried out directly with firms who wished to actively participate in the dialogues and had special interests in utilizing the results for their particular circumstances. Discussion included the interplay among different elements within the resource areas as well as the challenges facing firms' competitiveness and capacities for employment and wealth creation due to technology, markets, and regulations, and strongholds within the resource area that contributed to growth.⁷⁰ The starting points of the more political aspect were the constraints and opportunities for business stemming from technology, market demands, financing, and regulation. With the business ministry at the center, reference groups included experts from key ministries, firms, and other organizations within the resource area.

At another level was the presentation by the working groups of concrete suggestions to improve critical aspects of the general business environment. In these work committees, the business ministry gathered representatives from firms and other organizations, ministries with special interests in the resource area, and other experts who could contribute to an understanding and improvement of the framework conditions. However, the forming of reference groups and working groups was carried out with advice with private-sector actors and tried to ensure the participation of a broad spectrum of firms, including suppliers, producers, and distributors, both large and small. It is

⁶⁹ Ibid.

⁷⁰ Ibid., 10.

significant to note that, despite these attempts at broad participation, the “business ministry manages the chairmanship and secretariat for the reference groups. The work committees will be based, where the highest expertise in the selected subject is present, often in the relevant agencies of the business ministry.”⁷¹ The ministry also left open channels for actors not represented in the reference groups or working groups to contribute to the debates, including experts from other countries and organizations, such as the OECD. The ensuing debates were to contribute to four types of initiatives: “initiatives that the players themselves finance and plan, initiatives that draws upon existing instruments, initiatives that create needs for new instruments, or initiatives that change public regulation or administration.”⁷²

The final step in this process was the governmental announcement and implementation of the initiatives. There was no set pattern as to how suggestions resulting from the dialogues would be carried out. As much responsibility was given to the private-sector actors as to the government in carrying out the accepted proposals. Some aspects of implementation therefore reflected a certain amount of self-regulation and self-help. As acknowledged by the business ministry, some suggestions could be implemented without new appropriations or changing regulations, while other suggestions required a political stance. Those suggestions requiring political promotion would be carried by the business ministry, but suggestions touching on areas of specific concern to other ministries would be carried by those ministries. It was, nevertheless, the business ministry that followed the implementation of the initiatives. The business ministry also took on the responsibility of ensuring that other authorities and businesses

⁷¹ *Ibid.*, 12–13, italics added.

⁷² *Ibid.*

could follow the business policy work and that these other actors could continue participating in the process. In addition to publishing the analyses and proposals of the work, the business ministry would also handle press releases and ministerial news letters, contacts with branch media and journalists, and maintain web-based information.⁷³

By 1996, twenty-two working groups and eight external analyses were created. At least one working group was formed for each resource area. Of the eight resource areas, only the building/construction, consumer goods, and tourism/free-time resource areas had not yet embarked on external analyses, although each had at least one working group.⁷⁴ There was a total of 232 suggestions in all eight of the original resource areas analyses, spanning from general political objectives to new concrete initiatives as well as maintaining certain existing initiatives. The business ministry considered ninety-eight suggestions to have been implemented, corresponding to about 42 percent of the total number of suggestions, which means that “the aim seems met by new or existing initiatives or if the aim is part of the government’s political objectives....” Thirty-five suggestions were partially implemented, meaning that “the suggestion [is] partially met by initiatives, or that the suggestion consists of a range of initiatives, wherein some are implemented....” Fifty suggestions were rejected on the grounds that they lay “outside the government’s priorities, or because the working groups, organizations, etc. do not consider the suggestion to be relevant.” Finally, in 1996, forty-three suggestions were still being considered. Six suggestions were considered too complex on which to report any status.⁷⁵

⁷³ Ibid., 14.

⁷⁴ Ibid., 8.

⁷⁵ Ibid., 8.

By 1997, the government had established working relationships among 513 individuals from firms, organizations, research institutes, ministries, and other public institutions. The business ministry alone had established working relationships among 365 such individuals.⁷⁶ Among the more notable initiatives were the appropriation of 10 million dkk yearly from 1995 to 1999 to establish a center for clinical pharmacology; 14 million dkk yearly from 1996 to 2000 for neurological research; 130 million dkk over a four-year period to establish an IT research center; 47 million dkk over the same period to establish a multimedia center; and 2 million dkk yearly from 1995 to 1998 to disseminate information on rules for raising the quality of Danish food products. Other initiatives included standardization efforts in the IT-area, the construction and housing area, and the environment/energy area; and the establishment of continuing education programs in logistics and transport, which were begun in 1997.⁷⁷ In the tourism resource area, a Tourism Development Center was established in 1996 and appropriated 25 million dkk over a three-year period.⁷⁸

Whether or not these initiatives had a positive impact on the resource areas or not is beyond the scope of this study. The more relevant fact is that, over the course of the 1990s, Danish civil servants ultimately established structured access points to the policymaking process for particular groups and excluded others in order to coordinate efforts to enhance the framework conditions of Danish clusters. In other words, Danish state actors institutionalized selective embedded autonomy in pursuit of coordinated industrial adjustment. Although globalization-related processes, such as increasing global

⁷⁶ Denmark, Erhvervsministeriet, *Dialog med Ressourceområderne: Status februar 1997* (Copenhagen: Erhvervsministeriet, 1997), 11.

⁷⁷ Denmark, Erhvervsministeriet, *Erhvervsredegørelse 1997*, 368–69.

⁷⁸ *Ibid.*, 371.

competitive pressures on national firms, catalyzed a reevaluation of Danish industrial policies, they did not lead to a disintegration of policymakers' autonomy or their capacity to pursue those policies. Policymakers were not forced to adopt neoliberal policies of minimal state intervention in the economy. Budgetary constraints did lead to the elimination of subsidies and sectoral policies, but the neoliberal industrial policies of the 1980s were for the most part perceived to be inadequate in an increasingly globalized international economy and rejected in favor of state-led industrial adjustment efforts in the 1990s. Moreover, policymakers built new coordinating institutions to enhance the effectiveness of these state-led efforts through direct public-private partnerships. Civil servants' efforts to enhance their policymaking autonomy and capacity were mutually reinforcing. The establishment of dense public-private contacts legitimized progressive civil servants' efforts to coordinate state-led industrial adjustment efforts, while at the same time providing mechanisms through which such efforts could be coordinated. To the extent that policymakers were obstructed in these efforts, the most significant obstacles originated from within the Danish state, not globalization-related processes.

More specifically, to the extent that policymakers in the industrial policy sphere were able to coordinate industrial adjustment efforts, the greatest barriers emanated, first, from the internal logics and power relations among important political-economic actors within the industrial policy sphere that either hampered or promoted such efforts, and thus impacted the form and content of industrial adjustment policies and institutions; and, second, the internal logics and power relations among important political-economic actors in other policy spheres that were crucial to industrial policymakers' industrial adjustment efforts, such as labor market policy, and thus either hampered or promoted

coordination with industrial adjustment efforts. Since the effectiveness of coordinating institutions to promote industrial adjustment and development would logically be predicated on their establishment, a relevant issue is not only how or if important political-economic actors in the industrial policy sphere can be induced to cooperate and coordinate, but if and how important political-economic actors in other policy areas that contribute to industrial adjustment, such as labor market policy, can be induced to coordinate and cooperate with actors in the industrial policy sphere. Thus, a significant issue is if or how coordinating institutions can be established not only within the industrial policy sphere, but across policy spheres that impact industrial adjustment efforts.

For example, the development of human resources was a crucial element of the framework conditions of every Danish cluster. One may therefore expect that labor market policy would be closely coordinated with industrial policy. However, as will be illustrated in the following chapters, despite the importance of human resources to the coordinated industrial adjustment strategies in the 1990s, industrial policy and labor market policy were not coordinated. This lack of coordination had as much to do with the internal logics and power relations among important political-economic actors in the labor market policy sphere as in the industrial policy sphere. Different priorities, strategies, and roles and relations among important political-economic actors in the different policy spheres resulted in different policies and different institutions to achieve different policy goals in each policy sphere. Selective embedded autonomy, while effective and perhaps politically expedient in inducing coordinating and cooperation among some important political-economic actors in the industrial policy sphere, was

inadequate to induce coordination and cooperation among important political-economic actors across the industrial policy sphere and labor market sphere.

Conclusion

From the early-mid 1990s to the end of the 1990s the ministry of business pursued active industrial policies based on inducing coordination and cooperation in the private-sector to enhance the smooth interaction of framework conditions in Danish clusters, the elements of which drew on resources from the industrial, technology, finance, education, and labor market policy spheres. These industrial development policies and the institutions established to implement them were, however, the product of industrial policymaking. Both the theorized strategies and the institutionalized mechanisms to carry out these policies were driven by the internal logics and power relations internal to the industrial policy sphere. Although public-private dialogues were a hypothesized benefit to enhancing framework conditions, they also served progressive civil servants as a pragmatic political ploy to oust entrenched interest organizations from the policymaking process. With a conservative minister and hostile business organizations effectively blocking any movement on industrial development policies in the late 1980s and early 1990s—the former slashing government subsidies and the latter objecting to state-led industrial adjustment programs—progressive civil servants had to search out alternative venues of influence. One of the few potential means of influencing industrial policy presented to these civil servants was the exploitation of the Business Development Council to promote a cluster-based strategy and direct public-private dialogues. The passing of the 1990 *Law on Business Promotion* and the establishment of the Business

Development Council and the maneuvering of progressive civil servants within this legal framework were unambiguously products of the industrial policy environment.

Furthermore, the emergence of a community of business leaders and industry experts in the private sector, the members of which were dissatisfied with laissez-faire industrial policies, apparently ineffective technology development policies, and an apparent over-reliance on macroeconomic indicators, was likewise a reaction to the prevailing industrial policy environment. The coalescence of this community made selective public-private contacts more plausible. Without the Business Development Council, civil servants would most likely have been unable to cultivate the clusters-based strategy and institutionalize direct public-private contacts to support the strategy, given the opposition of conservative political and business organizations to policies that even implied picking-the-winners. Without the emergence of a community of progressive business leaders and industry experts, civil servants would most likely not have had private-sector partners with whom they could institutionalize contacts and from whom they could draw support.

Coordinating important political-economic actors to achieve particular policy goals as suggested by scholars of comparative institutional advantages would seem to require the participation of a vast number of controlled actors and institutions. Given the fluidity of relations among important political-economic actors, it would seem unlikely that state actors could, in fact, control for all the factors impacting desired policy goals and implementing mechanisms to effectively achieve them. Moreover, where broad policy goals that require coordination across policy spheres are concerned, such as industrial adjustment, state actors would have to control for multiple factors in multiple

policy areas. Coordinating the framework conditions of resource areas were a core focal point of Danish industrial policy orthodoxy in the 1990s. But as made clear in the ministry's adaptation of Porter's diamond, there are at least five groups of framework conditions—production factors, partnerships among firms, market efficiency, quality-driven demand, and public administration and services—and the competitiveness of a cluster is dependent on the smooth integration and coordination of all of the framework conditions. Yet because each element of each framework condition impacts different clusters in different ways, coordinated policy responses for the various elements within each framework condition were required according to a specific cluster's needs. To make this coordination even more daunting, each framework condition potentially spanned across industry policy to other policy areas, including but not necessarily limited to fiscal and tax policy, education policy, technology and research policy, energy policy, and labor market policy. For example, the framework conditions generally referred to as production factors include the qualifications of the workforce, the technological sophistication of firms, and infrastructure. Although important elements of production factors that must be integrated into industrial development policy, the qualifications of the workforce is an issue more directly related to labor market policy and education policy, while technological improvement and infrastructure span still other policy areas, such as research and education policy, on the one hand, and transportation, on the other.

Different internal logics and power relations within any particular policy sphere will likely produce specific kinds of coordinating institutions that reflect these logics and relations. There is no guarantee that policymaking institutions in distinct policy spheres will be coordinated, or even complementary, or that state actors will be able to control the

development of institutions that induce cooperation and coordination among important political-economic actors. For example, in the industrial policy sphere, the pursuit of selective public-private contacts to enhance the framework conditions of Danish clusters by civil servants was a reaction to a political stalemate between a “hands-off” policy and a “picking-the-winners” policy and the desire of civil servants to distance interest organizations from the policymaking process. Moreover, the fortuitous coalescence of the community of progressive private-sector business leaders and industry experts around a cluster-based strategy made this tactic feasible. The specific form of the policies and policymaking institutions were as much a product of political realities and fortuitous coincidence as conscious design. Not only did state actors in the industrial policy not have complete control over the development of these industrial policies and institutions, but they had no control over the development of policies and institutions in other policy spheres, such as labor market policy, that could potentially impact the achievement of their policy goals. In fact, “selective embedded autonomy” may have complicated coordination efforts because, in the process of building tight but selective public-private contacts, civil servants in the industrial policy sphere alienated important political-economic actors that would be necessary to coordinating industrial policy and labor market policy, namely employer and labor interest organizations.

Despite a broad network and coordinating institutions in the industrial policy sphere, there existed few counterparts to the industrial policy network and no corresponding institutional mechanisms in the labor market policy sphere to coordinate labor market policy with industrial adjustment efforts. In the labor market policy sphere, the over-riding priority in the 1990s was the reduction of long-term structural

employment, not industrial adjustment. As will be shown in the following chapters, the strategies pursued and institutions established in the labor market policy sphere to effect this reduction were the product of vastly different internal logics and power relations, including very different roles for political leaders and civil servants, interest organizations, and other private-sector actors. Just as the priorities, policies, and institutions in the industrial policy sphere were the product of industrial policymaking and reflected the specific roles and relations among important political-economic actors in the industrial policy sphere, the priorities, policies, and institutions in the labor market policy sphere were the product of labor market policymaking and reflected the specific roles and relations among important political-economic actors in the labor market policy sphere.

Chapter 5

Danish Labor Market Politics and Institutions in the 1990s

Introduction

In this chapter, I examine Danish active labor market policies and institutions since 1993–94, when new coordinating institutions governing the implementation of active labor market policies were established, namely the National Labor Market Council (*Landsarbejdsrådet*) and fourteen regional labor market councils (*arbejdsrådene*). I focus primarily on how the most important political-economic actors in the labor market policy sphere, including political leaders, civil servants in the ministries of finance and labor, and interest organizations, responded to structural unemployment problems and the institutions that were established to coordinate an effective response. The purpose of this chapter is not to delve deeply into the circumstances that led to the establishment of these institutions, but simply to describe the active labor market system with which industrial adjustment efforts in the 1990s would have to be coordinated. For the purposes of this analysis, the active labor market system is an independent variable impacting the dependent variable of coordinated industrial adjustment. I begin with an analysis of the traditional roles of state actors, employer organizations, and labor organizations in the governing of Danish labor market policy and the structural unemployment problems faced by policymakers in the late 1980s and early 1990s. I then examine the new active labor market policy institutions established in 1993–94, especially the roles played by state actors and interest organizations in their governance. After providing a description

of these active labor market policy institutions, I provide a general overview of the major elements of the labor market reforms in 1994, 1995, 1996, 1998, and 1999.

In chapter six, I explore state actors' efforts to enhance their policymaking autonomy while inducing cooperation among other important political-economic actors in the labor market policy sphere during the active labor market reforms of the 1990s. I also explore the practical consequences of the priorities, strategies, roles and relations among important political-economic actors, and coordinating institutions in the labor market policy sphere in relation to coordinated industrial adjustment efforts. Given that the restructuring of the Danish active labor market system and the labor market reforms occurred around the same time that the coordinated industrial adjustment and development policies were being launched by Danish policymakers in the industrial policy sphere, the peculiarities of the active labor market system, including the coordinating institutions and the roles and relations among important political-economic actors, succinctly illustrate the challenges posed to policymakers seeking to exploit purposefully comparative institutional advantages. In short, state actors were able to establish coordinating institutions and lead adjustment efforts in both the industrial policy sphere and the labor market policy sphere. However, state actors in both spheres had to react to the opportunities and constraints produced by the internal logics and relations specific to their respective policy spheres, which resulted in specific kinds of internal coordinating institutions that were not necessarily predisposed to effective coordination across policy spheres.

In the industrial policy sphere, progressive civil servants at the Danish Ministry of Business and the Danish Agency for Business Promotion (previously the Danish

Ministry of Industry and the Danish Agency for Industry and Trade) established direct but selective contacts with important private-sector business leaders and industry experts within Danish clusters, or resource areas, to potentially enhance the effectiveness of their cluster-based industrial development policies. This institutionalized contact provided structured access points to the policymaking process for some important political-economic actors, such as private-sector business leaders and industry experts, while excluding others, such as employer and labor organizations. Industrial adjustment was to be promoted through the coordination of resources that were to enhance the competitiveness of firms in Danish resource areas. More specifically, industrial adjustment was to be promoted primarily by improving the underlying “framework conditions” of these resource areas, which included production factors, partnerships with other firms, well-functioning markets, quality-determined demand, and public administration and services. This industrial development strategy was very complex. Each of these framework conditions was composed of several other elements, each of which would have to be tailored to the specific requirements of the particular framework conditions in each resource area. Production factors, for example, included the labor force’s qualifications, knowledge content in both new products and production methods, and the physical infrastructure, including communication and distribution systems. Many of the framework conditions therefore would presumably depend on inducing cooperation among important political-economic actors and coordinating policies and resources across policy spheres. Enhancing the labor force’s qualifications, for example, would presumably involve cooperation and coordination with important political-economic actors in the labor market policy sphere, including employer and labor organizations.

These industrial development policies and coordinating institutions, however, were very much a product of the priorities, strategies, and roles and relations among important political-economic actors in the industrial policy sphere, not the priorities, strategies, and roles and relations among important political-economic actors in other policy spheres from which resources would have to be drawn and coordinated, such as the labor market policy sphere. The fact that employer and labor organizations, which were crucial political-economic actors in the labor market policy sphere, were distanced from the policymaking process would seem to bear this contention out. In any case, the coalescence of a community of progressive private-sector business leaders and industry experts stemmed from their disappointment with the conservative government's liberal industrial policies. The adoption of the 1990 *Law on Business Promotion* and the establishment of the Business Development Council was the result of political leaders' industrial policy priorities, particularly their desires to reduce state involvement in the private sector. To civil servants at the ministry of industry and the agency for industry and trade, direct but selective public-private contacts was not only a theorized means of enhancing the competitiveness of firms within Danish clusters, but also a means by which civil servants could potentially break the impasse between "hand-off" and "picking-the-winners" policies and seize the policymaking initiative from conservative political and business leaders opposed to state-led industrial development efforts, as well as interest organizations more generally. The success of these endeavors was dependent on several factors over which civil servants had little direct control, but which they nonetheless exploited. These factors included the timely formation of a community of progressive business leaders and industry experts with whom they could establish direct but selective

public-private contacts; the establishment of the Business Development Council, which provided a suitable mechanism through which such contacts could be legitimately and officially established; and the change of government in 1993 that led to the dismissal of a conservative minister of industry and the appointment of a sympathetic minister for business policy coordination, which removed the last remaining political obstacle to state-led industrial adjustment efforts.

In the labor market policy sphere, the new active labor market policymaking institutions—the labor market councils—reflected vastly different processes and relations among important political-economic actors. Political leaders, civil servants, and employer and labor organizations had significantly different priorities, strategies, roles to play, relations with each other, and degrees of influence to exert than in the industrial policy sphere. To begin with, Danish labor market governance has been consensus-based and, for the most part, relations among the “social partners” have been cooperative since the “September Accord” of 1899.¹ Since this agreement, employer and labor organizations have recognized each other as legitimate bargaining partners on labor market issues and the state has acknowledged and accepted this relationship. The over-riding priority among all of these actors in the early 1990s was unsustainably high structural unemployment rates, not industrial development. Labor market policy was directed toward lowering quantitative unemployment levels through a redefinition of rights and obligations regulating access to unemployment benefits, not qualitative improvements in the skills of the workforce or the shifting workers out of “sunset” industries and into

¹ See Steen Scheuer, “Denmark: A Less Regulated Model,” in Anthony Ferner and Richard Hyman, eds., *Changing Industrial Relations in Europe* (Oxford: Blackwell Publishers, 1998), 149–51; Henning Jørgensen, “Danish Labour Market Policy Since 1994—The New ‘Columbus’ Egg’ of Labour Market Regulation?” in Paul Klemmer and Rüdiger Wink, *Preventing Unemployment in Europe* (Cheltenham, U.K.: Edward Elgar, 2000), 112.

“sunrise” industries. Furthermore, state, employer, and labor actors in the labor market policy sphere had very different roles and relations with each other than in the industrial policy sphere. Since employer and labor organizations represented a vast portion of employers and workers, respectively, and labor organizations held enormous influence over unemployment insurance funds, they had significant impact on the content of labor market policies and the manner by which they could be pursued. They could not be excluded from the labor market policymaking process as they had been in the industrial policy sphere. Indeed, whereas state actors in the industrial policy sphere tried to distance interest organizations from the policymaking process, state actors in the labor market policy sphere drew them closer.

The different priorities, strategies, and roles and relations among important political-economic actors in the labor market sphere were reflected in a very different set of policies and coordinating institutions than those in the industrial policy sphere. In the industrial policy sphere, the establishment of direct select public-private contacts came at the expense of excluding some of the most important political-economic actors in the labor market policy sphere, namely employer and labor organizations. In the labor market policy sphere, such exclusion was simply not possible. The labor market councils governing the active labor market system were established through consensus by a state-led committee set up under the Conservative-led government. The Committee on Labor Market Structure Problems (*Udredningsudvalget om arbejdsmarkedets strukturproblemer*), also known as the Zeuthen Committee, was dominated by representatives from state ministries and interest organizations. The membership of the resulting councils was, not surprisingly, dominated by interest organization

representatives. This process more closely resembled “associational governance,” by which interest organizations have defined and procured public goods “through organizing and enforcing cooperative behavior among their members, by engaging in collective contracts with other associations, and by securing delegations of state authority to be used to the advantage of their members.”² Moreover, such associations have been closely consulted in the formulation of policy and have been involved in its implementation.³ In fact, among the labor market councils’ most important responsibilities were the implementation of new active labor market policies and the surveillance of the results. “Selective embedded autonomy” in the industrial policy sphere may have been an appropriate and politically expedient way for policymakers to institutionalize coordination and cooperation among important political-economic actors, as well as seize the policymaking initiative, in that particular policy sphere, but in the case of Danish labor market politics, it was not appropriate, desirable, or even feasible.

Just as civil servants in the industrial policy sphere had to work through a particular set of constraints and opportunities specific to the industrial policy sphere to recapture the policymaking initiative and lead adjustment efforts, civil servants in the labor market policy sphere had to work through a particular set of constraints and opportunities specific to the labor market policy sphere, including the central role of the labor market councils and the strong position of employer and labor organizations within them. In essence, as will be further illustrated in chapter six, political leaders and civil servants instituted a “new style” of labor market governance that rested on legislated

² William D. Coleman, “Associational Governance in a Globalizing Era: Weathering the Storm,” in J. Rogers Hollingsworth and Robert Boyer, *Contemporary Capitalism: The Embeddedness of Institutions* (Cambridge: Cambridge University Press, 1997), 129.

³ *Ibid.*, 147.

reforms to frame active labor market policies and provide state actors with stricter oversight over use of state-provided unemployment funds, but still depended on the interest organizations represented in the labor market councils to implement the policies. Because these policies and institutions were the products of the specific priorities and roles and relations among important political-economic actors in the labor market policy sphere, they had little relevance to the policies and institutions in the industrial policy sphere. In fact, state actors and interest organization actors effectively quarantined active labor market efforts within the labor market councils, the reasons for which will be analyzed in chapter six. To the extent that these institutions may have been complementary, any complementarity was not a result of the purposeful exploitation of comparative institutional advantages. Despite the potential merits of establishing structured access points to the policymaking process by institutionalizing direct but select public-private contacts in the industrial policy sphere, and despite the importance of human resource development to the framework conditions of Danish clusters, state actors leading industrial adjustment efforts were not able to exploit comparative institutional advantages to induce coordination and cooperation among all the important political-economic actors that could potentially impact industrial adjustment efforts.

The Foundations of the Danish Active Labor Market System in the 1990s

As with any national regulatory system, Danish labor market regulation has its own peculiar features, including a liberal approach to state intervention in labor markets, despite extensive welfare provisions, including generous unemployment benefits. Citing statistics from the Organization for Economic Cooperation and Development (OECD),

Madsen shows that Denmark actually ranked among the bottom of OECD countries in the 1990s in terms of job protection, above only Canada, Ireland, the United Kingdom, and the United States.⁴ Workers are not left to the mercies of employers and market turbulence, however. The apparent callous dismissal of workers is softened by generous unemployment benefits among the highest in the OECD, which comprise significant elements of the Danish welfare state. According to the OECD, between 1996 and 1999 Danish public expenditures on labor market programs averaged 5.34 percent of gross domestic product, which included labor market training and unemployment compensation.⁵ This amount was the highest among OECD countries. Although one may suspect that this figure reflects increased spending to deal with a large pool of unemployed, this suspicion is not borne out by other OECD statistics. By 1999 the OECD calculated that Denmark devoted 4.9 percent of GDP to labor market programs, still the highest rate among OECD countries, while the unemployment rate was 5.5 percent of the labor force, one of the lowest rates among OECD countries.⁶ The peculiar combination of liberal hiring and firing rules and generous social benefits has resulted in a highly flexible and mobile labor force, the rationale being that productivity and ultimately employment can be increased if employers are able to adjust the workforce to fluctuating business cycles without incurring large costs. Although a large number of workers do experience unemployment throughout their working lives, both job destruction and creation are high.⁷

⁴ Per Kongshøj Madsen, "The Danish Model of 'Flexicurity—A Paradise with Some Snakes," Paper presented at the conference on "Patterns of Danish Development: Seminar on Danish Success in the Global Political Economy," Department of Political Science, University of Copenhagen, December 2, 2002, 5–6.

⁵ Organization for Economic Cooperation and Development, *OECD Employment Outlook 2000* (Paris: Organization for Economic Cooperation and Development, 2000), 223–30.

⁶ *Ibid.*, 15.

⁷ Madsen, 4.

In this hybrid system, labor market governance in Denmark relies heavily on the cooperation of interest organizations, particularly the Danish Confederation of Trade Unions (LO) and the Danish Employers' Association (DA), the two central-level umbrella organizations for labor and employer organizations, respectively. While interest organizations largely accept free-market principles and the prerogatives of employers and business leaders in the industrial sphere, and thus limit their participation in industrial policy, this is far from the case in the labor market sphere. In 1899, DA and LO accepted and recognized each other as legitimate bargaining partners in the "September Accord" of 1899, which was also accepted by the Danish state. Centralization, and hence unionization, was accepted by employers seeking more manageability of industrial relations.⁸ Both employers and employees assumed responsibility for enforcing agreements between employers and unions; clauses for industrial peace throughout the life of an agreement were also included in the accord. In the following years, legal backing was given to an industrial court system, "together with the various arbitration arrangements and the procedures for the renegotiation of expiring agreements."⁹

The system set up in the September Accord was subsequently codified in the "Main Agreement," the overarching framework for industrial relations and negotiations in Denmark. Accordingly, most work-related issues, such as overtime, shift-work, notice of redundancy or lay-offs, and maximum and minimum working hours, are regulated through collective bargaining, not government legislation. Labor market regulation through peaceful negotiation was seen to be more flexible and effective than legislation,

⁸ See Peter Swensen, "Brining Capital Back In, or Social Democracy Reconsidered: Employer Power, Cross-class Alliances, and Centralization of Industrial Relations in Denmark and Sweden," *World Politics* 43 (July 1991), 513-44.

⁹ Scheuer, 150.

allowing for quicker adjustments to changing circumstances or to specific sectoral or local conditions. In addition, an Industrial Court was established to provide quicker and more efficient recourse to dispute settlement to covered workers than might civil litigation. While state actors restricted their intervention in industrial development due to Denmark's liberal economic tradition, state actors restricted their intervention in labor markets due to the relatively peaceful and cooperative relations between worker and employer groups. In a sense, the agreements between LO and DA substituted for state-enacted legislation. At least until the early 1990s, labor market governance in Denmark could arguably be labeled a traditional corporatist governance system.

Relations among the major employer and labor organizations and state actors have therefore largely been characterized by cooperative, rather than conflictive, negotiation for most of the 20th century, and certainly in the post-World War II period. Unlike some other countries where employer and labor interests collide, the Danish system is grounded more in the search for consensus through compromise. As the administrative director of DA expresses it, the "basic thing about the Danish economy is that we are on friendly terms with each other. If you compare it with England, they treat themselves madly in the companies. They really hate each other. They are like opponents. Things do not work like that in Denmark. Obviously, the companies want to earn a lot of money and the workers want to have high wages, but somehow we have managed to have those conflicting interests. The potential gains of working together heavily outweigh the conflicts...."¹⁰ Although employers and employees naturally have conflicting interests, the ultimate goal is to manage conflict in order to arrive at a win-win situation. Given the

¹⁰ Interview with official of the Danish Confederation of Employers, Copenhagen, Denmark, June 28, 2002.

legitimacy conferred on LO and DA at an early stage of industrial development in Denmark, they have had a very strong position in regulating and governing labor markets. Moreover, their influence on labor market issues also extends to labor market-related welfare issues, such as unemployment benefits. Consequently, the Danish labor market system and, by extension, labor market-related welfare provisions, such as unemployment benefits, are based on a partnership model between employer and labor groups “that stresses participation by organisations [sic] and a collective culture.”¹¹

While the state has recognized the social partners’ legitimacy and authority in the sphere of labor markets, it also reserved for itself a special “umpire” role.¹² The relatively cordial relationship between the central employers’ and employees’ organizations has meant the state has intervened in labor market negotiations only in the most dire of circumstances, notably when the social partners’ normally cooperative relations have deteriorated to a point where agreements have proven impossible to conclude. In such cases, a state-appointed mediator has extensive authority and power to nudge the social partners towards an agreement. This mediator can postpone strikes and lock-outs twice for two weeks if employers and employees cannot reach a new agreement. State actors can then propose a new agreement and require employer and employee organizations to present the proposal to their respective members for a vote.¹³ If the mediator’s proposals fail, parliament may intervene to end the conflict, either by prolonging the recently expired agreements for a two-year period unchanged, or by adopting the state mediator’s proposals through parliamentary legislation. One last option is that of parliament creating its own new agreement. “In all cases the effect is to

¹¹ Jørgensen, 112–13.

¹² Ibid.

¹³ Scheuer, 151.

introduce a new and binding collective 'agreement' for the following two years, together with a built-in peace obligation on the parties."¹⁴ According to one analysis, between 1933 and 1991, with the exception of the years 1940–45, the state intervened only ten times in connection to general collective agreement bargaining and about twenty interventions affecting single-issue areas.¹⁵ Significantly, several of these interventions occurred in the 1970s and 1980s. The rise of unemployment and associated unemployment benefits burdens from the late 1960s to the late 1980s increasingly tested the legitimacy and competence of the labor market partners. In 1975, 1977, and 1979, the government intervened to force an agreement between LO and DA.¹⁶ In 1981, decentralized negotiations were successful, but two years later DA and LO resumed centralized negotiations to avoid industry-level conflict. In 1985, parliament was forced to intervene again. And in 1987 a major four-year agreement was reached, albeit at the industry level.¹⁷ In any case, as many observers and policymakers have noted, if LO and DA agree on a labor market issue, then the other political actors in parliament often accept this agreement.

In this context, it was not until the end of the 1980s and beginning of the 1990s that the structure of the labor market became a high political priority in which active labor market policy became strongly endorsed. Policy debates up through the late 1980s were mostly occupied by concerns over large macroeconomic imbalances, average wage

¹⁴ Ibid.

¹⁵ Jesper Due, et al., "Adjusting the Danish Model: Towards Centralized Decentralization," in Colin Crouch and Franz Traxler, eds., *Organized Industrial Relations in Europe: What Future?* (Aldershot, UK: Ashgate, 1995), 137.

¹⁶ Ibid., 138.

¹⁷ Scheuer, 162.

costs, and exchange rates.¹⁸ As seen by one finance ministry official, “[w]ages [were] by-and-large thought to be a policy instrument potentially set by incomes policy or at least something which could be appropriately set by ‘responsible’ labour [sic] market parties....”¹⁹ The folly of this perspective was apparently illustrated by the government intervention in 1985 when negotiations between DA and LO broke down. In response to the inability of the social partners to reach a compromise, the government passed a law intended to fix wage increases to 1.5–2.0 percent over the following two years. What actually resulted were wage increases of 4–5 percent in 1985 and 1986 and 10 percent in 1987.²⁰ Moreover, this agreement had virtually no effect on unemployment rates. The dramatic miscalculation of wage increases was an important factor in convincing policymakers to shift attention away from wages as a pivotal policy instrument and take a closer look at the underlying structure of the labor market.²¹ Therefore, by the late 1980s, the “overwhelming focus [in labor market policy] was on replacement rates and the structure of these in the benefits system.”²²

By 1992, government calculations revealed real unemployment to be between 9–11 percent and structural unemployment was calculated at about 9 percent.²³ Subsequent government calculations put the percentage of registered unemployment closer to 11 percent.²⁴ However, at the time, according to one labor union economist, there was considerable debate as to what levels unemployment had actually attained, suggesting

¹⁸ Per Callesen, “The Policy Experience of Structural Reforms in Denmark.” Paper presented at the conference on The Effects and Policy Implications of Structural Adjustments in Small Open Economies. Amsterdam, The Netherlands. October 23–24, 1997. 10.

¹⁹ Ibid.

²⁰ Ibid.

²¹ Ibid.

²² Ibid.

²³ Denmark, Finansministeriet, *Finansredogørelse 1993* (Copenhagen: Finansministeriet, 1993), 186.

²⁴ Denmark, Finansministeriet, *Finansredogørelse 2000* (Copenhagen: Finansministeriet, 2000), 338.

that structural unemployment could even have been as high as 15 percent.²⁵ Dealing with this threat was perhaps the single most important issue on the political economic agenda. As emphasized in the finance ministry's 1992 annual policy report, "*The goal for economic policy in the 1990s is to ensure full employment and that growth in Denmark becomes at least as great as in other EU countries.*"²⁶ From the perspective of the government and civil servants, full employment and prosperity were not mutually exclusive. Indeed, an important starting point for the civil servants writing the annual policy report was that "there is a clear connection between economic growth and growth in employment."²⁷

Although finance ministry officials did not explicitly mention globalization as a point of reference, they were clearly aware of the implications technology and international trade had on the supply of labor and the potential for increasing growth and employment. In fact, in the finance ministry's annual policy report for 1993 a special appendix was included to delve deeper into these implications.²⁸ Productivity was expected to increase, but it was not expected that productivity growth would significantly impact employment because changes in the pace of productivity were seen to be related to changes in productivity at the international level. If Denmark was to achieve higher productivity growth in the short term, this growth would most likely have a significant effect on the structure of the labor market, with net negative effects on employment. In effect, there would be fewer jobs for workers with low education and skills, but more

²⁵ Interview with official of the Danish Confederation of Trade Unions, Copenhagen, Denmark, May 2, 2002.

²⁶ Denmark, Finansministeriet, *Finansredegørelse 1992* (Copenhagen: Finansministeriet, 1992), 5, italics in original.

²⁷ *Ibid.*, 8.

²⁸ Denmark, Finansministeriet, *Finansredegørelse 1993*, 37–45.

jobs for workers with high education and skills.²⁹ Competition from newly-industrialized lands could serve to aggravate this problem. International trade with developing countries was not seen as a threat to overall macroeconomic stability, but it did pose potential “transformation problems,” notably a shift from production based on a workforce with basic skills and low education to production based on a labor force with better developed skills and high education.³⁰

The apparent inability of the main labor market interest organizations to effectively resolve these structural unemployment issues through wage-bargaining gave rise to pressures for a gradual shift in the power relations between and among state and interest organization actors. By the early 1990s, it was become clearer to civil servants that labor market agreements negotiated by DA and LO that focused on wages as a “pivotal policy instrument” were insufficient to resolve underlying labor market structural problems. The traditional manner of labor market governance by which DA and LO negotiated wages and working conditions for the employed became overshadowed by a need to deal with workers who were unemployed, not the wage levels or working conditions of those already employed. Unemployment was already in double digits in Denmark and had become the new “red threat.”³¹ The trend of increasing unemployment led to concerns that the Danish welfare state was under threat. For example, civil servants at the ministry of finance noted that public expenditure on welfare services as a percentage of gross national product had increased from 50 percent in 1975 to 64 percent in 1994, much of which was directed to persons who were in one way or

²⁹ Ibid., 38.

³⁰ Ibid., 42.

³¹ Interview with former official of the Danish Ministry of Industry and Danish Ministry of Business, Copenhagen, Denmark, March 6, 2002.

another excluded from the labor market.³² Public expenditures were seen to be manageable—if private sector employment could be increased by about 200,000 persons.³³ Since policymakers' experiences in the 1980s had been that unemployment remained stubbornly high even over several years of positive economic growth,³⁴ the consensus that arose in by the turn of the decade was that the money supporting passive unemployment benefits would be put to better use if labor market policies aggressively pushed for higher levels of employment rather than patiently waiting for a cyclical upturn in the business cycle. It was this shift away from incomes policy, which had been dominated by negotiations among the labor market partners, toward a more robust state-led active labor market policy that set the context for a revision of the active labor market system in the 1990s.

The difficulty in resolving these problems was in formulating a policy that was economically feasible, yet at the same time was politically acceptable, especially to the central labor market partners, DA and LO, and their member organizations. The role of labor organizations, in particular, was important to changing the system of unemployment benefits because the disbursement of unemployment funds has been closely connected to such organizations. Although the unemployment insurance funds that manage unemployment benefits are private corporations and much of the insurance contributions come from employees, they are based on trade or occupational fields and also manage government-appropriated unemployment funds through advance payments

³² Denmark, Finansministeriet, *Finansredegørelse 1994* (Copenhagen: Finansministeriet, 1994), 21.

³³ *Ibid.*, 23.

³⁴ Interview with official of the Danish Ministry of Finance, Copenhagen, Denmark, April 4, 2002.

and refunds from the state for the payment of unemployment benefits to their members.³⁵ In effect, they have had the informal role of determining to a large extent how state-provided unemployment benefits would be distributed to unemployed persons. Moreover, in 1990, private-sector placement activities were allowed. This has meant that “organizations [sic.], enterprises, individuals, etc. may now engage in placement activities without prior approval and without restrictions of any kind.”³⁶ Labor organizations thus played central roles in providing unemployment-related welfare benefits as well as helping unemployed persons return to the labor market. Given the central role of interest organizations regarding the distribution of unemployment funds and placement activities, which would be crucial aspects of the new active labor market system, state actors could not unilaterally revise the system without their cooperative participation.

The starting point for this labor market adjustment was an evaluation in 1992 of active labor market policies, e.g. education and training programs, in relation to generous unemployment welfare benefits through a government-led committee called the Committee on the Labor Market Structural Problems (*Udredningsudvalget om arbejdsmarkedets strukturproblemer*). Initiated by the Conservative-led government, this committee was chaired by the Danish state’s chief auditor (*rigsstatistiker*) Hans Zeuthen, after whom the committee was informally named the Zeuthen Committee. The primary institutional innovation was the establishment in 1993–94 of a central National Labor Market Council (*Landsarbejdsrådet*) and fourteen regional labor market councils

³⁵ Denmark, Arbejdsministeriet, *The Unemployment Insurance Scheme* (Copenhagen: Arbejdsministeriet, 2001), 3.

³⁶ Denmark, Arbejdsministeriet, *The Public Employment System* (Copenhagen: Arbejdsministeriet, 2001), 2.

(*arbejdsmarkedsråder*), composed of state and interest organization representatives to coordinate and implement active labor market efforts. The consensus on the new active labor market system is revealed by the fact that the committee was established under the Conservative-led government in 1992, but the councils were established under the Social Democratic-led government in 1993–94, with the full acceptance of the dominant employer and labor organizations.

Beginning in 1993–1994, a series of labor market reforms were passed that were intended to recalibrate the balance between rights to unemployment benefits and responsibilities for seeking normal employment, with the prime responsibility for implementing these reforms handed over to the corporatist labor market councils. Under the pre-1994 system established in the early 1970s, activation offers—i.e. education, training, and placement offers—were typically offered to the unemployed just before the expiration of a two-year unemployment benefit period.³⁷ Yet even brief participation in activation programs re-qualified unemployed persons for a new two-year unemployment benefits period. In practice, this system had the effect of offering virtually unlimited unemployment benefits with very few responsibilities required of the unemployed to actually complete training programs or actively seek normal employment. As one finance ministry official describes the atmosphere in the early 1990s, the “marriage” between an economic rationale and a politically acceptable policy was ultimately the result of an acknowledgement by both state actors and interest organization actors that a system that allowed for unlimited passive benefits was unsustainable.³⁸ Indeed, this civil servant noted that there were individuals who had been unemployed for twenty years and yet still

³⁷ Denmark, Arbejdsministeriet, *The Labour Market Reforms: A Status* (Copenhagen: Arbejdsministeriet, 1999), 8.

³⁸ Interview with official of the Danish Ministry of Finance, Copenhagen, Denmark, August 21, 2002.

received unemployment benefits. Such apparently dysfunctional labor market policies “makes a feeling both among those people going around doing nothing and the rest of us that this is stupid.”³⁹ By recalibrating the balance between these two elements of labor market policy and introducing an element of responsibility on the part of the unemployed, the councils were intended to oversee a system that provided workers significant protection against immediate hardships arising from unemployment as well as provide them with training and education programs to help them re-enter the normal labor market and avoid long-term unemployment in the future.

The establishment of these councils, however, also marked the beginning of state actors’ efforts to recapture the policymaking initiative from interest organizations in the 1990s. Yet with the role of interest organizations officially recognized in the labor market councils in 1993–94, ministers and civil servants were forced to pursue different tactics to induce cooperation and recapture the policymaking initiative in the labor market sphere than their counterparts in the industrial sphere. After several years of apparently ineffective policies devised by the social partners in the 1970s and 1980s, from 1993–94 the state was not only umpire in interest organizations’ wage negotiations, but also increasingly constrained the maneuverability and influence of interest organizations on active labor market policies and the unemployment benefit system. State actors took the lead on resolving the unemployment crisis by enacting legislation stating the terms under which the labor market councils would manage unemployed persons’ unemployment benefits and activation responsibilities without directly consulting the labor market partners, a considerable shift in the Danish system of social partner-governance. This shift in the labor market system did not mean that the labor market partners were

³⁹ Ibid.

unequivocally weakened. On the one hand, state actors, particularly in the ministries of finance and labor, forcefully exerted their authority over active labor market policy by determining for themselves through legislation how the strategy would be carried out and the parameters within which the labor market partners were to implement labor market policy through the labor market councils. On the other hand, in exchange for their acceptance of state leadership on active labor market policy issues, interest organizations were given formal responsibility for implementing the labor market reforms. In short, state actors designed active labor market policies through legislation and interest organizations implemented them through the councils. In order for the new activation system to function smoothly, it required the cooperation and dedication of both state and interest organization actors.

The Zeuthen Committee and the Labor Market Councils

The Committee on Labor Market Structure Problems, also known as the Zeuthen Committee, was led by finance ministry officials, but was corporatist in the most literal of terms. It was supported by virtually all employer and employee organizations, the government, and the other parties sitting in the Danish parliament.⁴⁰ This committee led to the most far-reaching labor market policy and institutional changes since 1969–70, when the first laws on active labor market policy were enacted. The primary goal of these “reforms” was to introduce more efficiency and flexibility into active labor market policy, in terms of measures and instruments and governing institutions.⁴¹ The labor

⁴⁰ Udredningsudvalget om arbejdsmarkedets strukturproblemer, *Rapport fra udredningsudvalget om arbejdsmarkedets strukturproblemer* (Copenhagen: Udredningsudvalget om arbejdsmarkedets strukturproblemer, 1992), 1.

⁴¹ Callesen, 10.

market councils established under this system gave oversight to a reinvigorated activation system, shifting labor-market related welfare expenditures devoted to passive unemployment benefits to education and training programs. While the government and civil servants retained ultimate control over labor market policy and how resources devoted to the activation system would be used, for example, the duration of unemployment benefits and the balance between education and training offers, the system itself was created and sustained through the active cooperation among government and interest organization actors.

The Framework for Danish Active Labor Market Policy in the 1990s

The Zeuthen Committee focused primarily on two aspects of Danish labor market policy: active labor market policies and financing of the unemployment system. Active labor market policies are of most interest for the present study, partly because of its relevance but also, according to participants in the committee's work, because it was the one issue on which some kind of consensus could be reached. Financing the unemployment system, particularly contributions made by employers, remained a contentious political issue throughout the 1990s. The committee assessed the system of work offers, education offers, and adult education support and sought to create a more efficient and flexible utilization of public funds in those efforts, as well as a simplification of the rules governing the system.

The establishment of a more flexible system would necessitate the decentralization of decision-making authority and competence to facilitate better matching between specific work and education offers and specific desires and needs of

the individual on local labor markets. The committee was particularly engaged in strengthening employment efforts for the most vulnerable groups of unemployed, which typically included workers who were long-term unemployed and who had low levels of education and training.⁴² As one LO economist participating in the Zeuthen Committee explains, “the discussion in the Zeuthen Committee was [how] we could identify ‘Mr. Petersen’ already at the beginning of unemployment. What characteristic was connected to ‘Mr. Petersen’ that could tell us already here [beginning of unemployment period] that he would be unemployed after seven years?”⁴³ The characteristics that appeared to be most telling were formal levels of education and vocational training. Not surprisingly, economic analyses showed unskilled workers to be among those experiencing the highest unemployment rates and for the longest periods. Academics, on the other hand, were among those experiencing the lowest unemployment rates and for the shortest periods. Since highly educated and skilled workers experienced relatively low levels of unemployment for short periods of time, “it had no meaning to start with job-training and so on for the person who has a high education from the university and so.”⁴⁴ The conclusion drawn by some observers in the committee from the economic model was that, if unemployment was to be eased, job-training would have to be at least supplemented by more long-term education. Higher education and better training, it was presumed, would then lead to lower unemployment.

In this scenario, the committee saw generic efforts to bring the most vulnerable workers back to the labor market as insufficient. For example, published information of

⁴² Ibid., 15.

⁴³ Interview with official of the Danish Confederation of Trade Unions, Copenhagen, Denmark, May 2, 2002.

⁴⁴ Ibid.

job and training offers and collective guidance, on which previous efforts were based, appeared sufficient for some workers. However, this was often not the case with the most vulnerable unemployed, who may require more intensive guidance. The committee emphasized the need for more robust efforts to create tailored activation efforts for this latter group of individuals, notably through “personal action plans.” According to the committee’s report, the “main principle in a new activation system is that the local/regional institutions throughout the entire course of unemployment have the possibility to give custom-made offers that, according to a concrete assessment of the unemployed person’s desires and qualifications and the labor market’s needs, give the best possibilities to find regular employment. In such a system, a flexible effort is set up that must consider the principle that equal needs should be treated equally.”⁴⁵ Naturally, special consideration in these efforts were to be given to those unemployed who faced high risk of long-term unemployment, that is, those with low education and poor skills. In an attempt to remedy long-term unemployment, the committee suggested that such “personal action plans” be designed after three months of unemployment. Specific requirements would be avoided in the formulation of the personal action plans, but this did not imply a general formula would be exercised. Rather, the plan would provide a framework that would allow the needs and qualifications of the unemployed person to fill out the steps that would be required. Based on this more specific information, it was expected that the plan would provide reasonable recommendations on what types of offers are relevant for the individual and when offers should be given during the course of unemployment.⁴⁶

⁴⁵ Udredningsudvalget om arbejdsmarkedets strukturproblemer, 16.

⁴⁶ Ibid., 57.

Activation instruments for this needs-oriented system identified by the committee included the announcement of jobs for the ordinary labor market; information, guidance, and individual plans; education offers; offers for paid job training—to both individuals and firms; support for more use of job-rotation—again to both individuals and firms; support for start-up firms; and the establishment and financing of employment projects.⁴⁷ The committee hoped to encourage development of areas that they saw as crucial, particularly better guidance, earlier and more goal-oriented activation offers, better incentives to elicit more offers in the private sector, the use of job-rotation, education, and better incentives for education planning within firms.⁴⁸ Activation efforts, in other words, would be directed toward the individual's needs and strengthened in both the public and private sectors.

The Labor Market Councils

Greater flexibility and more effective activation instruments efforts would also necessarily involve a reorganization of administrative mechanisms. Among the greatest reorganization requirements would be more autonomy for regional labor market authorities to financial resources appropriated for activation efforts. An appropriations framework was to be set within the yearly finance budget and funds were to be distributed to fourteen regional labor market authorities according to a set of objective criteria. Thereafter, regional labor market authorities would be given the responsibility of designing labor market policies according to the special circumstances of the regional labor market. The committee explicitly accepted that this decentralization would result in,

⁴⁷ Ibid., 17.

⁴⁸ Ibid., 18.

and indeed require, that the labor market partners have a decisive role in future activation efforts.⁴⁹ This need was especially relevant since trade unions to a large extent control unemployment funds. Such decentralization would give greater autonomy to regional actors, but it also placed greater responsibility on their shoulders. Both state and non-state actors at the central level would continuously assess regional actors' efforts and results.⁵⁰

Following this logic, one of the most significant institutional innovations was the suggestion to terminate the national and regional labor market boards (*Landsarbejdnaevn* and *arbejdsnaevne*) established in 1969–70, the primary responsibilities of which were administration and mediation. These labor market boards more closely resembled tribunals and had little influence on the design or implementation of active labor market policies. In an attempt to enhance flexibility and promote active participation of the labor market partners, the committee suggested the boards be replaced by a National Labor Market Board and fourteen regional labor market boards that would play key roles in the design and implementation of active labor market policy. Since enhancing effective flexibility was perceived to require greater decentralization, regional labor authorities would be given the freedom to adapt local/regional labor markets according to local/regional needs. These efforts would be complemented by state-empowered regional authority structures, such as the Public Employment Service (*Arbejdsformidlingen*). The regional labor market councils would therefore be given as wide latitude as possible in arranging region-specific policies to respond to regional labor market conditions.⁵¹

While the regional labor market councils would exercise considerable autonomy, the National Labor Market Council would oversee the work of the regional labor market

⁴⁹ Ibid., 15–16.

⁵⁰ Ibid.

⁵¹ Ibid., 97.

councils and act as a coordinating institution at the central level. The National Labor Market Council would also provide advice to the government and parliament on labor market policy for the coming year. These advisory responsibilities would include advising the minister of labor on prioritizing of labor market instruments, identifying target groups, the utilization and design of new instruments, and the Public Employment Service's activities, as well as issues related to unemployment benefits questions, especially in relation to activation efforts.⁵² The National Labor Market Council would have the responsibility to forward suggestions to the minister of labor on appropriations, goals, and result requirements in preparation of the national annual budget. These suggestions would also include criteria for the distribution of funds to the regions.⁵³ In essence, as the institution responsible for overseeing active labor market policy, the council would assume a central role in the planning of overall labor market policy efforts. Its responsibilities would include the setting of goals and the prioritizing of effort areas; announcing appropriations, goals, and result requirements for the regional labor market councils; following-up on the work of the regional labor market councils; organizing testing and development activities in the labor market policy sphere; and examining developments on the labor markets, such as bottle-necks or structurally vulnerable groups. Surveillance of regional labor markets was seen as an especially important aspect, since it was this capacity that was to provide the council its starting point for future labor market initiatives.⁵⁴

At the regional level, the fourteen regional labor market councils corresponding with the fourteen Danish counties would replace the labor market boards and be given

⁵² Ibid, 99.

⁵³ Ibid.

⁵⁴ Ibid.

expanded powers. While the National Labor Market Council would be given the responsibility for general guidance of active labor market policies, the regional labor market councils would be given the responsibility of designing specific and concrete plans for dealing with insured unemployed workers.⁵⁵ Mirroring the responsibilities of the national council at the central level, the regional councils' plans would include the overall goals, budget frameworks, and result requirements for the individual regional labor markets. It was envisioned that the regional labor market councils were also to serve as regional coordinating institutions among labor market authorities in their activation efforts, including the Public Employment Service and private unemployment insurance funds, which had responsibility for insured workers and the municipalities, which had responsibility for non-insured workers. And like the central National Labor Market Council, the regional councils were to carry out surveillance of labor market activities on which to base their goals, budget frameworks, and result requirements.⁵⁶

The Zeuthen Committee saw the design and prioritizing of regional activation efforts to be decisive in a needs-oriented system, but it was also acutely aware that needs would vary from region to region. The prioritization and support of activation efforts would run the full gamut of guidance, ordinary placement and counseling, employment projects, job rotation schemes, education leaves, training programs, wage offers, and self-starter grants. Therefore, it was to be left to the regional labor market council to determine the nature of activation instruments, including "the designing of efforts where there is taken a position on, for example, length of education or the variations and levels

⁵⁵ Ibid., 99–100.

⁵⁶ Ibid., 100–101.

of job-training within the different areas.”⁵⁷ Thus, the importance placed on the various possible labor market instruments would necessarily flow from analyses of the specific needs of the labor market and business conditions in the respective regions. In this regard, the regional labor market councils were seen to hold the keys to successful regional labor market policy efforts.

This new system would seem to give the regional labor market councils considerable latitude in arranging and coordinating concrete labor market policy instruments in their respective regions “with the starting point in overall goals, frameworks and result requirements.”⁵⁸ The responsibility to set goals, budget frameworks, result requirements, and priorities for activities would even give the councils some jurisdiction over educational activities in the region, so long as they applied strictly to activation efforts. Otherwise, the councils had no authority over educational institutions. In addition, not only were the regional councils to assume the powers and responsibilities of the former regional labor market boards, but they would assume the powers and responsibilities of other pre-existing labor market institutions, as well, such as professional education committees, regional coordinating committees on guidance, and regional information forums.⁵⁹ The regional labor market councils’ tasks and responsibilities would therefore include regional analyses and prognoses for employment, education needs, and “other factors”; regional labor market policy in their respective regions; design and prioritize activation measures; coordination of education efforts for

⁵⁷ *Ibid.*, 101.

⁵⁸ *Ibid.*, 100–101.

⁵⁹ *Ibid.*, 100.

the unemployed; and ensuring well-functioning labor markets that were better organized to avoid distortions on the labor market.⁶⁰

In addition, the regional labor market councils' responsibilities as coordinating institutions were to include not only efforts immediately impinging on the council's work, but also on the general environment within which labor markets were embedded, including firms' own search for appropriate workers. The committee noted that a multitude of institutions were active in such "out-reach" programs, such as education committees, business schools, and employment services, but the committee also saw benefits to entrusting the councils with a coordinating role. A significant benefit would be a clearer information provision and the avoidance of duplication of efforts and confusion among the actors on both the demand and supply side of the labor market. While some institutions outside the council were not to be absorbed or replaced by the regional labor market councils, the information on which they all drew was to be coordinated under the regional labor market councils' competence.⁶¹ The regional labor market councils would therefore have a significant role to play in the overall guiding of labor market efforts outside its immediate domain of designing and implementing specific labor market policies, including the collection and distribution of relevant information regarding the short-term and long-term needs of the labor market to interested actors.⁶² These shifting responsibilities were to herald a "completely new labor market policy concept" built upon a needs-oriented activation system.⁶³

⁶⁰ Ibid.

⁶¹ Ibid., 101.

⁶² Ibid.

⁶³ Ibid., 102.

In sum, the central elements of the committee's proposals in this new system were the design and announcement of goals and result requirements, the exercise of surveillance of efforts, including the reporting of results and following-up the regional labor markets authorities' activities and results, and the creation of a simplified resource distribution system with built-in economic incentives.⁶⁴ The overall goals and results indicators would be set by the labor minister after recommendation by the National Labor Market Council, which would be advised by the regional labor market councils on their specific conditions. Such "goal and framework steering" would be supported by follow-up activities, "where the measures and objectives in the widest possible dimensions build on real result measures to production measures."⁶⁵ It was acknowledged that the indicators must be based on objective goals reflecting the effect of labor market policy efforts. The indicators were to be revised each year on the basis of the results from the previous year's efforts. In general, labor market policy was to focus on such efforts as securing effective placement of unemployed workers, preventing bottlenecks, counteracting long-term unemployment, and integrating the unemployed into the labor market.⁶⁶

Design, prioritization, analysis, and follow-up work were to address whether the goals and perspectives were appropriate to changing condition in the regions, whether the designed measures met the needed prioritization of the labor efforts and the distribution of resources, whether the organizational arrangements made possible the most effective activities, whether these activities led to expected results and effects, and whether the information gained from labor market activities is sufficiently and clearly presented in

⁶⁴ Ibid., 103.

⁶⁵ Ibid.

⁶⁶ Ibid.

order that the labor market authorities can carry out their work.⁶⁷ The concrete activation aspects focused on better guidance, earlier and more goal-oriented offers, incentives to the private sector to participate in activation efforts, greater use of job-rotation, and greater emphasis being placed on education inside and outside the individual firm, “a series of instruments that go into a new needs-oriented activation effort, where the main message is that there is equal weight put on a strengthening of the ordinary efforts as well as an integrated parallel effort in relation to the ‘regular’ labor market.”⁶⁸ That is, “ordinary efforts” such as education and job-counseling would be supplemented by activation instruments such as job-training, special education programs, job-rotation, and employment projects.

After the Zeuthen Committee: The Active Labor Market Reforms

The Zeuthen Committee’s work was intended to provide a framework for a new active labor market system, but it was only a framework. As the finance official overseeing the Zeuthen Committee’s work writes: “The goals with labor market reform should be to decrease structural unemployment so that the benefits gained by increasing employment levels are not slowed by the need for certain kinds of work or wage-inflation with an employment level that goes over full employment. On the contrary, the committee should not propose suggestions to increase employment. It was not an employment-committee. But this task and these boundaries should...create a greater common understanding of structural problems on the labor market and good ground for politicians afterwards to be

⁶⁷ Ibid., 104.

⁶⁸ Preben Buchholdt, “Zeuthen i Praksis: Skrivebordsarbejde eller et bud på en stærkere arbejdsmarkedspolitisk indsats,” in Henning Jørgensen and Morten Lassen, eds., *Efter Zeuthen-Rapporten, CARMA-Årbog 1992* (Aalborg: Center for Arbejdsmarkedsforskning ved Aalborg Universitetscenter, 1992), 24.

able to agree on a labor market reform.’⁶⁹ In June of 1993, the government enacted sweeping changes to the labor market system by adopting the Zeuthen Committee’s proposals virtually unchanged through the *Law on Active Labor Market Policy (Lov om en aktiv arbejdsmarkedspolitik)*, which came into force January 1, 1994, after being revised in late December.⁷⁰ As foreshadowed by this senior civil servant, the enactment of this law shifted the momentum away from the social partners’ traditional manner of governing labor markets toward state actors’ dominance through legislation. The social partners continued negotiating most work-related issues, such as overtime, shift work, notice of redundancy or lay-offs, and maximum and minimum working hours. However, active labor market policy was an area in which state actors would assume the lead in strategic policymaking.

The changes contained in the *Law on Active Labor Market Policy* were simple yet profound. One of the most significant aspects of this law was that re-qualifying for unemployment benefits simply by participating in an activation programs was abolished. Although not ruling out future access to unemployment benefits, “the benefit-generator” of the previous system was laid to rest.⁷¹ Unemployment benefits could not be renewed through subsidized work, as was the case under the previous system. However, the benefit period was increased to seven years—a benefit period of four years and an activation period of three years.⁷² To soften the impact of restricted unemployment benefits, the law also gave unemployed persons the right to Personal Action Plans to

⁶⁹ Jørgen Rosted, “Udredningsarbejde om Arbejdsmarkedets Strukturproblemer,” in Henning Jørgensen and Morten Lassen, eds., *Efter Zeuthen-Rapporten, CARMA-Årbog 1992* (Aalborg: Center for Arbejdsmarkedsforskning ved Aalborg Universitetscenter, 1992), 13.

⁷⁰ Denmark, Folketinget, *Lov om en aktiv arbejdsmarkedspolitik*. 145. årgang. June 30, 1993. *Lovtidende A 1993*, vol. 4, hæfte 87, 2343–2353; Revised: Denmark, Folketinget, *Bekendtgørelse af lov om en aktiv arbejdsmarkedspolitik*. 145. årgang. December 27, 1993. *Lovtidende A 1993*, vol. 9, hæfte 196, 6425–6435.

⁷¹ Interview with official of the Danish Ministry of Finance, Copenhagen, Denmark, August 21, 2002.

⁷² Denmark, Arbejdsministeriet, *The Labour Market Reforms: A Status*, 8–9.

better place them among available jobs in the local labor market. Institutionally, the law established the National Labor Market Council, which was responsible for advising the labor minister on labor market issues and coordinating overall labor market efforts, and the fourteen regional labor market councils, which were given the responsibility for the planning of local activation measures within the framework and guidelines set out by the National Labor Market Council at the central level.⁷³ Moreover, the labor market councils were given the authority to determine the relative weight placed on different aspects of active labor market policy, i.e., the communication of work opportunities, information and guidance, individual action plans, job training, education, and job rotation.

Unlike the Business Development Council, in which members were nominated by interest organizations but served in personal capacities, members of the National Labor Market Council were to be appointed directly by and formally represent interest organizations and state and municipal authorities, significant employers in their own right, after approval by the minister of labor. The council includes, by law, eight members from the Danish Employers' Federation, eight from the Confederation of Labor Organizations in Denmark, one from the Administrative and Civil Service Joint Association, one from the Academic Central Organization, one from the Main Organization of Managers and Technical Administrators in Denmark, one from the Association of Danish Counties, three from the Association of Municipalities, and, given the special weight of the capital region, one from the Copenhagen and Frederiksberg Municipalities' Common Association. The chairman and deputy chairman were to be appointed by the minister of labor after recommendation from the council's members. Moreover, three representatives from the ministry of labor, one from the finance ministry,

⁷³ Ibid.

and one from the education ministry would also sit on the council. Finally, the labor ministry would provide the council's secretariat. The regional labor market councils were established according to a similar manner. The main exceptions are that the Association of Counties was given three seats and the Association of Municipalities, four; the councils themselves would appoint their chairmen and deputy chairmen, and the secretariats would be handled by a state-appointed regional chief, rather than directly by the ministry of labor.⁷⁴

The labor market councils were therefore not fully independent and were expected to work in cooperation with state authorities. According to the *Law on Active Labor Market Policy*, the labor ministry remains the highest administrative authority for employment services and the National Labor Market Agency (*Arbejdsmarkedsstyrelsen*) within the labor ministry directs the activities of the Public Employment Services. The Public Employment Service, in turn, administers the labor market efforts according to the rules and guidelines set out by the labor market councils. Regional offices were established by the labor minister, who appoints a regional chief, who, in turn, administers employment services in his or her region. The regional chiefs, furthermore, as employees of the labor minister, were to be completely independent of employer and employee influence. The Public Employment Services' other personnel were to be employed by the Labor Market Agency after recommendation from the regional chief.

The National Labor Market Council functions primarily as an advisory group to the labor minister. As suggested by the Zeuthen Committee, the council may submit recommendations on such issues and efforts as the planning of activation measures, appropriations, goals and results requirements, and other laws and rules for the labor

⁷⁴ Denmark, Folketinget, *Lov om en aktiv arbejdsmarkedspolitik*. Article 6, sections 19 and 20.

market policy area. The National Labor Market Council analyzes and follows up regional efforts and informs the minister on these efforts and other regional labor market developments. The National Labor Market Council submits reports and recommendations on these issues annually, which include regional labor market councils' reports and recommendations. In tandem with the National Labor Market Council, the National Labor Market Agency presents its own assessment of goals and results requirements. Importantly, although the councils recommend how to distribute funds to the regions, appropriations to the Public Employment Services are ultimately decided and provided by the state. Moreover, the law explicitly states in Article 58, section 6, that the National Labor Market Council's activities are to be set within the annual budget determined by the government and the more detailed guidelines of the labor minister. Although the law states that the labor minister's decisions are to be informed by the recommendations of the National Labor Market Council, the labor minister is under no obligation to set policy according to these recommendations.

Similar to the organization of the National Labor Market Council, the advisory role of the regional labor market councils mirrors that of the National Labor Market Council, although the regional councils play a more direct role in actual implementation. The regional councils make recommendations on appropriations for labor market efforts and how those appropriations should be used. The *Law on Active Labor Market Policy* gave the regional councils the right and responsibility to participate in the planning of regional efforts, including the setting of goals and results requirements; surveillance of labor market efforts; designing and prioritizing labor market policy instruments; coordinating the employment services' and county/municipal handling of labor market

efforts, including job-training and job-education; coordinating educational and professional guidance and firms' searches for workers; and determining which and what kind of analyses shall be carried out regarding developments and responses on regional labor markets as well as how those developments should be treated. In the case of regional labor market efforts, the regional chief of the public employment services is intended to serve the regional labor market council. Although he or she manages the operation of the employment services, this management must be done according to the labor market council's priorities and designs. The regional chief does maintain some autonomy, though. The regional chief must also take care that the council's decisions are legal and the regional secretariat presents its own budget proposals for the operation of employment services. These proposals are coordinated with the regional labor market council's budget proposals for regional labor market efforts before being presented to the National Labor Market Council.

In practice, according to a leader of the ministry of labor, the National Labor Market Council holds discussions in the spring of each year to set out individual guidelines for the regional labor market authorities. In the spring of each year, negotiations among actors from the labor ministry, the National Labor Market Agency, and the National Labor Market Council at the central level, and actors from the regional administration and the regional labor market councils at the regional level result in a proposed "contract" for the coming year. A detailed contract is negotiated directly between the regional labor market councils and the director of the National Labor Market Agency. Meetings are held between the minister and each regional council in the fall, in which the members of the National Labor Market Council also participate. Once the

minister of labor and the National Labor Market Council agree and the guidelines are approved, the ensuing contracts are approved and signed at the end of the year or the beginning of the next. The approved contracts are then sent back to the regional councils to be implemented. After the agreed-upon efforts are in put in motion, the process is renewed with each regional council beginning new surveillance activities regarding labor market conditions to determine what adjustments are to be included in the coming year's guidelines. The contracts are not binding agreements in a legal sense, but rather agreements among central and regional actors on labor market policies for the respective regions. This system gives a central role to the National Labor Market Council, "but, of course, also to the minister and the ministry, in this case the director of the [National Labor Market] Agency."⁷⁵ The process of setting guidelines is thus a perpetual process engulfing central and regional actors, in which previous knowledge gained from past labor market experience is constantly integrated into future planning.

After the *Law on Active Labor Market Policy* was adopted in 1994, successive legislated labor market reforms were enacted in tandem with annual budgets in 1995, 1996, 1998, and 1999. Since the reform of 1994 had already set out the framework of the new system, most of the changes in the labor market reforms dealt mostly with tightening eligibility requirements for unemployment benefits and activation responsibilities. For instance, while the 1994 reforms ended the link between activation and renewal of unemployment benefits, the major contribution of the 1995 reform was the introduction of activation as a right and a duty after four years of unemployment. Previously, no specific time-table was set within the seven-year period before an unemployed person was required to enter an activation program. The 1995 reforms also contained elements

⁷⁵ Interview with official of the Danish Ministry of Employment, Copenhagen, Denmark, June 19, 2002.

for stricter rules on availability for work, and leave schemes and sabbaticals were adjusted. In 1996, the maximum period of unemployment benefits was reduced to five years, with a significant reduction of the unemployment benefit period from four to two years, leaving the three-year activation period intact and activation became a requirement after two years of unemployment. Moreover, the employment requirements for gaining new unemployment benefits was lengthened, from twenty-six weeks of employment to fifty-two weeks of employment.

The 1996 reforms also extended significant rights and responsibilities of people under the age of twenty-five. Young unemployed persons without formal education or vocational training were required to participate in education or training activation programs after being unemployed for six months in a nine-month period. The programs had to be at least eighteen months long. In 1997–98, among other things, the mix of activation and unemployment benefits was further adjusted. Unemployed persons had the duty to accept a “reasonable” work offer within six months of a twelve-month period. Previously, the timeframe was twelve months within a fifteen-month period. By 1999, the maximum benefit period was reduced to four years, with one year of unemployment benefits and three years of activation. Unemployed persons had the right and duty to activation after one year of unemployment, educational leave for unemployed persons was limited to six weeks, and the obligation to accept reasonable work was reduced to three months. The special provisions covering uneducated or unskilled unemployed persons under the age of twenty-five was expanded to include all young persons under the age of twenty-five.⁷⁶

⁷⁶ Denmark, Arbejdsministeriet, *The Labour Market Reforms: A Status*, 9.

As expected, these reforms shifted considerable resources away from the passive elements of labor market policy to the active elements. Passive expenditures for unemployment benefits and early retirement consumed about 75 percent of labor market-related government spending since 1979. In absolute terms, this meant that Denmark spent almost 6 percent of GDP on passive support. Since the reforms of 1993–94 and the up-grading of active labor market instruments, expenses on passive support were reduced to less than two-thirds of labor market-related government spending over the next several years,⁷⁷ largely due to the shortening of the passive unemployment period. In 1996, the passive period was reduced to two years for adults over twenty-five and six months for adults under twenty-five. In 1999, the passive period for adults over twenty-five was further reduced to one year. After the passive period expires, the activation period continues for three years. However, if an unemployed person does not obtain an “ordinary job” during the full-time activation period, unemployment benefits are lost. In such cases, unemployed persons are then shifted into means-tested social assistance provided by the county and municipal authorities.⁷⁸

Between 1994 and 1999, Denmark experienced undeniably positive results on the labor market in terms of economic unemployment statistics, lending credence to the contention that the policies and coordinating institutions established in 1994 were effective. They provided a foundation on which Danish labor market policy could be effectively designed to meet the changing context of international competition. In 1992, a total of about 800,000 persons were affected by unemployment annually, including those who left the labor market due to company-financed early retirement, publicly-financed

⁷⁷ Jørgensen, 111.

⁷⁸ Madsen, 7–8.

early retirement, and cash benefits. However, the significance of this figure is made clearer if one notes that, although the annual full-time unemployment average was about 330,000 persons, about 80–90,000 of these persons were long-term unemployed. Of these 80–90,000 unemployed persons, about 70,000 had unemployment insurance, and thus were included in the target groups of the labor market councils, while the remainder, who fell outside the new system, did not.⁷⁹ By 1994, the number of full-time unemployed had reached about 343,000, corresponding to roughly 12 percent of the labor force.⁸⁰ Between 1994 and 1998, the number of employed increased by about 114,000 and the number of full-time unemployed had been reduced by nearly 50 percent to about 183,000, corresponding to roughly 6.6 percent of the labor force.⁸¹ A longer time-frame illustrates even more dramatic improvements on Danish labor markets. Madsen has shown that unemployment fell from an unemployment rate of 10.2 percent in 1993 to 5.2 percent in 1999. This 1999 figure was the lowest unemployment rate Denmark had experienced since 1976. In addition, the employment rate stood at 76.5 percent in 1999, which was the highest employment rate among EU countries at the time.⁸² These results were accompanied by rising surpluses for public budgets and yet unaccompanied by deficits on the external balance-of-payments, except for 1998, or increases in wage-inflation.⁸³ The labor market reforms and the new system of activation would seem to have achieved the specific goal of reducing double-digit unemployment.

⁷⁹ Niels Westergård-Nielsen, "Strukturproblemer på det Danske Arbejdsmarked," in Henning Jørgensen and Morten Lassen, eds., *Efter Zeuthen-Rapporten, CARMA-Årbog 1992* (Aalborg: Center for Arbejdsmarkedsforskning ved Aalborg Universitetscenter, 1992), 85.

⁸⁰ Jørgensen, 118–19.

⁸¹ *Ibid.*, 119–20.

⁸² Madsen, 2.

⁸³ *Ibid.*

Conclusion

The recommendations of the Zeuthen Committee and the ensuing labor market reforms have been the frame of reference for Danish active labor market policy since 1993–94. Due to the importance of employer and labor groups on all labor market issues, including labor market-related welfare benefits, and the importance attached to consensus-building among state, employer, and labor actors, the coordinating institutions established in this period—the labor market councils—necessarily included employer and labor interest organizations. The labor market councils institutionalized employer and labor groups' influence over labor market policy in a formal and coherent system in order to reduce double-digit unemployment. It is clear in both the Zeuthen Committee's final report and the *Law on Active Labor Market Policy* establishing the councils that the labor market council system gives interest organizations represented on the councils significant responsibilities to determine, in collaboration with the Danish Labor Market Agency and with the approval of the minister of labor, what activation instruments would be most appropriate to reduce unemployment in each of the fourteen counties. This translates into formal responsibility for distributing state-provided unemployment funds, deciding the mix between education and training programs, and monitoring and reporting the progress of activation efforts, but within the guidelines set out by the ministries of finance and labor. The labor market councils were not given authority over the level of government-provided unemployment funds, the content of education and training programs, or active labor market policy, more generally. While the social partners were given the responsibility for implementing active labor market policy through the councils, active

labor market policy and the appropriations to active labor market programs have been the reserve of the government.

As will be explored in more detail in the following chapter, the labor market councils actually played relatively minor roles in active labor market policy, partly due to the fact that their responsibilities in reducing structural unemployment were superseded by legislation driven by political leaders and civil servants insisting on greater oversight of state-provided unemployment funds, on the one hand, and restricted by state actors' and interest organizations' interpretation of the councils' framework, on the other. The consensus-building process in Danish labor market policy resulted in active labor market policy institutions that, while internally coordinated, further isolated active labor market efforts from other policy issues. While DA and LO have had the authority to negotiate general frameworks and represented employers and workers in their dealings with central-level state actors on issues such as wages and working conditions, national employer and labor organizations, for example, the Confederation of Danish Industry and the Danish Union of Metalworkers, as well as professional interest organizations, have retained authority over the specifics of those frameworks, including the specific content of the short-term training and education programs. Such issues were thus not within the framework of the councils. Long-term educational issues were completely precluded from discussion because they were perceived to be education policy issues, and hence not in the framework of the labor market councils.

As for the impact worker competencies could contribute to industrial adjustment, employer groups' considered such issues to be matters of industrial policy and, like educational issues, not within the framework of the labor market councils. The

councils could only work from the assumption that the demand and distribution for specifically-qualified labor would be determined by the market and the immediate needs of local firms. The new active labor market system was designed to provide a framework within which labor competencies *in general* could be increased without any inflationary side-effects, not increase any particular kind of competencies in any particular productive activity. The strategy employed was essentially a quantitative supply-side driven policy, not a qualitative demand-side driven policy.⁸⁴ Nowhere in the Zeuthen Committee's final recommendations, the *Law on Active Labor Market Policy*, or successive reforms are there references to how labor should be distributed and virtually no attention was given to the specific qualifications that would support industrial development efforts. Since the reduction of double-digit unemployment was the highest labor market policy priority, it should perhaps come as no surprise that selective use of the activation tools and instruments to shift unemployed workers back to the normal labor market took priority over strategic placement of the unemployed among local industry.

In sum, the institutions set up by the *Law on Active Labor Market Policy* were restricted in the scope of their activities to purely quantitative active labor market questions; the responsibilities of the councils in this regard were restricted to providing unemployed workers with minimal qualifications that could potentially lead them back to the normal labor market through the distribution of funds devoted to either education or training programs in general. The threat of the loss of unemployment benefits was intended to ensure unemployed actually participated in these programs. Ultimately, the priorities, strategies, and roles and relations among state, employer, and labor actors led

⁸⁴ See Morten Lassen, "Uddannelse og Arbejdsløshedspolitik," in Henning Jørgensen and Morten Lassen, eds., *Efter Zeuthen-Rapporten, CARMA-Årbog 1992* (Aalborg: Center for Arbejdsmarkedsforskning ved Aalborg Universitetscenter, 1992), 57-72.

to a coherent and coordinated active labor market policy system. These priorities, strategies, roles, and relations also led to a strictly demarcated system that isolated active labor market policies and policymaking institutions from policies and policymaking institutions in other policy spheres, including the industrial policy sphere. Because the active labor market policy system was established through consensus among state, employer, and labor actors, they all played roles in reinforcing this isolation.

These assertions are borne out by a closer examination of the politics of the legislated active labor market reforms and the functioning of the labor market councils. Political leaders and civil servants in the labor market policy sphere did enhance their policymaking autonomy and induced cooperation among important political-economic actors, but in very different ways, through very different institutions, and with a different set of political-economic actors than their counterparts in the industrial policy sphere. In the industrial policy sphere, strong resistance among conservative political and business leaders to state intervention in the private-sector led civil servants to institutionalize industrial policy networks through direct but selective public-private contacts, a horizontal institutionalization of contacts that allowed civil servants to avoid working directly with interest organizations. In the labor market policy sphere, the pervasive presence of interest organizations led civil servants to reach for a consensus with the plethora of interest organizations covering virtually the entire work force. In the industrial policy sphere, interest organizations were distanced from the policymaking process; in the labor market policy sphere, interest organizations were drawn closer. The different priorities, adjustment strategies, and roles and relations among important political-economic actors resulted in differently-situated coordinating institutions. Neither

of the institutional forms that emerged in the industrial and labor market policy spheres were necessarily inherently superior, the point is only that they were inherently different and not predisposed to coordination. Despite the establishment of coordinating mechanisms that induced cooperation among important political-economic actors within the industrial and labor market policy spheres, there was a significant lack of coordination between them.

Chapter 6

Active Labor Market Policy and Industrial Adjustment in Denmark

Introduction

In this chapter, I analyze some of the concrete barriers to coordinating active labor market policy and policymaking institutions and industrial policy and policymaking institutions in Denmark in the 1990s arising from the specific priorities, strategies, institutions, and roles and relations among important political-economic actors in the labor market policy sphere. In the first section of this analysis, I analyze the active labor market reforms in the 1990s and civil servants' attempts to enhance their autonomy from interest organizations and lead the active labor market reform process. I describe the manner in which the active labor market reforms were adopted and the roles and relations among civil servants and interest organizations in their design and effective implementation, including the significance of the labor market councils. In the second section of this analysis, I analyze the more nuanced foundations of cooperation and coordination among state and interest organization actors within the labor market policy sphere, despite the apparently overwhelming strength of state actors in leading the active labor market policy reforms. I show that these more nuanced foundations of cooperation and coordination, particularly the premium placed on consensus-making among state and interest organization actors, heavily impacted not only the manner in which state actors could enhance their autonomy on active labor market policy, but also the form and function of the active labor market coordinating institutions. Again, the intention is not to delve deeply into the foundations of cooperative relations among state and interest

organization actors, but rather to provide further insight into how these relations were reflected in a particular set of coordinating institutions specific to the labor market policy sphere in the 1990s. Based on this analysis of Danish labor market politics in the 1990s and the foregoing analysis of Danish industrial politics, in the third section of this analysis I examine some of the more concrete challenges to coordinating active labor market policies and policymaking institutions with industrial development policies and policymaking institutions in Denmark stemming from the particular priorities, strategies, and roles and relations among important political-economic actors in the labor market policy sphere. In essence, the internal logics and power relations among important political-economic actors in the labor market sphere that led to the successful establishment of coordinating institutions also led to the isolation of active labor market policies and policymaking institutions from those in other policy spheres, including the industrial policy sphere.

The purpose here is not to dismiss the potential theoretical merits of comparative institutional advantage or judge the effectiveness of any particular form of coordinating institution. I merely intend to point out some of the more practical challenges that may face policymakers in coordinated market economies trying to exploit comparative institutional advantages and establish effective coordinating institutions, especially when policymakers will have to induce cooperation among important political-economic actors and coordinate resources across policy areas to achieve broad policy goals, such as industrial adjustment. These challenges stem from the likelihood that the manner in which important political-economic actors are induced to cooperate, the manner in which coordinating institutions are established, and the specific form and function of these

institutions will reflect the specific priorities, strategies, and roles and relations among a range of important political-economic actors within distinct policy spheres. Inducing cooperation among important political-economic actors and establishing effective coordinating institutions within any policy sphere are likely to depend on many factors beyond the control of any one group of actors, including strong state actors; establishing specific forms of effective coordinating institutions is also likely to be beyond the control of any one group of actors, including strong state actors. Moreover, these priorities, strategies, roles and relations, and perhaps even the set of important political-economic actors are likely to be different in different policy areas. Consequently, even if policymakers successfully induce cooperation among important political-economic actors and establish effective coordinating institutions within particular policy spheres, because these institutions are likely to reflect the priorities, strategies, roles and relations among a potentially different set of important political-economic actors within particular policy spheres, they will not necessarily be coordinated with or even complementary to the specific coordinating institutions established in other policy spheres.

While globalization-related pressures were cited by Danish policymakers as reasons for adjusting the labor market system, the response was a proactive strengthening of labor market coordinating institutions, not a weakening of them. The manner in which active labor market policy reforms were effectively implemented; the manner in which important political-economic actors in the labor market policy sphere were effectively induced to cooperate; the manner in which active labor market coordinating institutions were effectively established; and the specific form these institutions took were all very much the product of the specific priorities, strategies, and roles and relations among

important political-economic actors within the labor market policy sphere, including interest organizations. The processes by which coordinating institutions were established and the specific form and function of the institutions, however, tended to inhibit coordination across policy areas. As will be illustrated, the priorities, policies, and coordinating institutions in the labor market policy sphere were impacted very little by the priorities, policies, and coordinating institutions in the industrial policy sphere.

Employer and labor organizations were essential partners in planning and designing the labor market council system that was established under the *Law on Active Labor Market Policy*, which included the decentralization of authority to the corporatist labor market councils, especially in terms of implementation. As one scholar puts it, the councils “within certain relatively broad, centrally-established frameworks...set priorities as to who should receive an offer of activation, and what types of activation options will be made available (e.g., job training, education, etc.).”¹ The labor market councils therefore had considerable influence over human resources, a crucial aspect of industrial adjustment. “Centrally-established frameworks” is an ambiguous term, however. There have been, in fact, two separate processes of establishing central frameworks in the realm of active labor market policy and two very different political processes. This distinction is important because it helps explain how state actors were able to regain policymaking autonomy in overall labor market policy, but did not, or could not, use this autonomy to fundamentally alter the structure of policymaking institutions in a policy sphere heavily impacted by strong employer and labor organizations. It also helps explain why active labor market policy and active labor market policy institutions supported by

¹ Henning Jørgensen, “Danish Labour Market Policy since 1994—the New ‘Columbus’ Egg’ of Labour Market Regulation?” in Paul Klemmer and Rüdiger Wink, eds., *Preventing Unemployment in Europe* (Cheltenham, U.K.: Edward Elgar, 2000), 130–31.

policymakers in the labor market policy sphere were not coordinated with industrial adjustment policies and policymaking institutions supported by policymakers in the industrial policy sphere. In short, both forms of centrally-established frameworks were consensus-driven, even if state-led, and the coordinating institutions that were established reflected this drive for consensus among state and interest organization actors. The policymaking processes within the labor market policy sphere had significant implications for the coordination of active labor market policies and policymaking institutions with policies and policymaking institutions outside the labor market policy sphere, including industrial adjustment policies and policymaking institutions.

One set of frameworks is the “contracts” negotiated by the National Labor Market Council and the fourteen regional labor market councils and approved by the minister of labor, which determine the guidelines for regional and national activation efforts. Where the labor market councils have been concerned, negotiations between the councils and civil servants from the ministry of labor and the Danish Labor Market Agency on targets, instruments, and appropriations have been collegial, cooperative, and consensus-based. Political leaders and civil servants depended on the interest organizations represented in the labor market councils to implement their active labor market policies. The strength of state actors’ leadership therefore depended on the extent to which state actors could induce cooperation among employer and labor organizations through politically-acceptable contracts that the councils, and hence the interest organizations represented therein, would implement. While the labor market councils played only a peripheral role in the legislated reform process, the legitimacy they

conferred on the government's activation efforts by agreeing to implement them was indispensable.

The other set of frameworks is the legislated frameworks, which determined the parameters within which activation efforts would be carried out, especially the funds devoted to active labor market policies through the government's annual budget. It was state actors' dominance in determining these legislated frameworks that reflected the state actors' new-found autonomy. Where ministers and civil servants disagreed with the labor market partners such as the Danish Confederation of Employers (DA) and the Danish Confederation of Trade Unions (LO) on the overall direction of active labor market policy or perceived the need for further adjustments to the system, they turned to legislation, not negotiation. Where systemic changes were made through legislated reforms, the attitudes of politicians and civil servants were of indifference towards interest organizations' potential contributions to the final form of the laws. This strategy was an unwelcome surprise, especially to the Social Democrats' traditional supporter, the Danish Confederation of Trade Unions, but it ensured that active labor market policy would remain in the hands of the ministries of finance and labor, supported by civil servant-generated labor market analyses and political compromises in the parliament, rather than in the hands of interest organizations. The legislated frameworks constrained the maneuverability of the councils by explicitly stating the terms of activation and unemployment benefits, for example, the activation and unemployment benefit periods and the amounts of money appropriated to the regional authorities for activation programs. This reliance on legislation was the "new style" in Danish labor market politics, a significant turn away from the tradition of labor market governance by the

social partners. It is perhaps surprising that these reforms were carried out under a Social Democratic-led government. As one senior civil servant remarks, “One must admit all the dreams that [the former Conservative prime minister] Mr. [Poul] Schlutter dreamt, and especially his ministers of employment and labor market policy, on the one hand, and finance and economics, on the other hand, dreamt were realized by the next government, by the Social Democratic government.”²

Nevertheless, although ministers and civil servants first and foremost trusted in their own analyses of labor market developments during the drafting of proposed legislation, the purposes of the legislation, if not the specific terms of the legislation, were often informed by continual informal dialogue among government officials, interest organization representatives, and other labor market experts. Among government officials are counted not only ministers but also the permanent secretaries and division chiefs of relevant ministries as well as directors of associated agencies, such as the Danish Labor Market Agency. These state actors have direct counterparts within interest organizations, and include organization presidents, administrative directors, division chiefs, and analysts. Dialogue among political leaders, civil servants, and employer and labor organization leaders maps out the “political landscape” of labor market issues and contributes to the formation of shared perspectives among state and interest organization actors. It is this continual dialogue that lies at the heart of Danish consensus-building and labor market governance, whether in the legislative process or negotiations covering activation efforts. Thus, while state actors garnered some added measure of autonomy through legislation, this autonomy was not absolute. State actors could only introduce systemic changes around which some kind of consensus had formed among state,

² Interview with official of the Danish Ministry of Employment, Copenhagen, Denmark, May 28, 2002.

employer, and labor interest organization actors. This informal decision-making process was reflected in the particular form and function of the active labor market policy coordinating institutions—the labor market councils.

The particularly close-knit network of official institutional actors in the labor market policy sphere has had strengths as well as weaknesses. Its strength has been that large-scale conflict between the government and interest organizations has often been avoided on labor market issues and changes to the system often reflected at least some level of consensus among state and interest organization actors. Although interest organizations were often at odds with the government during periods of new legislation, the government did not introduce any legislation in the active labor market policy sphere that provoked widespread outrage. Its weaknesses have been that actors in this network are relatively few and have concentrated only on single issues at any given time. The actors in this small but devoted network have reinforced the isolation of related, but distinct policy issues, such as active labor market policy and education or industrial policy. Indeed, the consensus that emerged on the new active labor market policy system essentially restricted the councils' authority to distribute government-approved funds devoted to unemployment benefits and training or education programs, an authority that was increasingly constrained by government legislation. The councils had little authority over how funds appropriated to training or education programs were actually to be used. Contacts among institutional actors engaging specific policy issues have often been strong, but there have been very few intersections connecting or coordinating offices engaging related but distinct policy issues. This system has resulted in what one labor

official describes as “policy islands.”³ On the one hand, contacts among policymakers engaged on a particular policy issues are likely to be strong. On the other, even within policy spheres, specific policy issues are delimited and isolated from other specific policy issues. The labor market councils represented only one of these policy islands. In the labor market sphere, this lack of contact and coordination was reinforced by state actors as well as interest organization actors.

The strategies, policies, and institutions promoted by important political-economic actors, including political leaders, civil servants, and interest organizations, in the labor market sphere were thus far from coordinated with the strategies, policies, and institutions promoted by important political-economic actors in the industrial sphere. A reason for this lack of coordination has already been suggested, namely the different priorities, strategies, and roles and relations among important political-economic actors that resulted in specific forms of coordinating institutions designed for specific purposes. In the industrial policy sphere, civil servants were able to forcefully guide and coordinate industrial development policy by drawing on direct but selective public-private contacts. These institutionalized contacts also led to the exclusion of interest organizations from the policymaking process. In the case of active labor market policy, while political leaders and civil servants could forcefully guide the direction of the policy through legislation, the tradition of consensus-building, the participation of interest organizations in labor market policymaking, and interest organizations’ importance to the provision of unemployment benefits meant that state actors could not unilaterally impose any strategy on interest organizations or exclude them from the policymaking process without

³ Interview with official of the Danish Confederation of Trade Unions, Copenhagen, Denmark, April 3, 2002.

sacrificing the legitimacy or the smooth functioning of the labor market system. The active labor market system, particularly the role of the labor market councils, that was collectively agreed upon by state and interest organization actors in the labor market policy sphere were purposefully limited in their scope. In turn, these constraints inhibited the effective coordination of policies and resources that could potentially lead to enhanced qualifications of the workforce in tandem with industrial development. In effect, irrespective of the fact that state actors in the industrial and labor market policy spheres recaptured the policymaking initiative and established coordinating institutions in their respective spheres, industrial development policies and active labor market policies were not only not coordinated, but were isolated from one another.

State Autonomy in Labor Market Policy

In the 1990s, legislated labor market reforms were instituted in Denmark in 1993–94, 1995, 1996, 1998, and 1999. The fact that changes to activation and unemployment rights and benefits were made through legislation and not negotiations between the main employer and labor organizations, DA and LO, had significant implications for the power balance between the minister and civil servants on the one hand and interest organizations on the other. Where the content of the labor market reforms was concerned, the balance was clearly in favor of the civil servants drafting the legislation and the political leaders adopting it in parliament. In all cases, the legislated reforms were driven by civil servants, especially those in the ministry of finance in partnership with those in the ministry of labor, often with very little direct contribution from interest organizations. According to one former senior civil servant, state actors' rather forceful leadership of the

active labor market reform process actually began even before the first proposed labor market reforms in 1993–94. The Zeuthen Committee was “a good example of the finance ministry taking over the labor market reform process.”⁴ Despite the inclusion of experts drawn from a broad array of public authorities and interest organizations, a senior civil servant within LO who participated in the Zeuthen Committee points out that “the secretariat for the Zeuthen committee was the minister of finance and the minister of labor, but it was minister of finance who had the role to lead this committee.”⁵ As the finance ministry official’s remarks that the committee’s mandate was merely to provide a starting point for the government to initiate the reforms implied, state actors would lead the reform process, not interest organizations.⁶

Shortly after the Zeuthen Committee’s report was released, the newly-elected Social Democrat government, which was installed on January 25, 1993, adopted the *Law on Active Labor Market Policy*. However, while the Zeuthen Committee was the catalyst for the labor market reforms of the 1990s, labor union economists and civil servants have both remarked that the Zeuthen Committee’s recommendations provided the foundation for government policy for only a few months. The *Law on Active Labor Market Policy* was first adopted on June 30, 1993 and was closely based on the committee’s recommendations, but the law was revised on December 22, 1993, and came into force on January 1, 1994.⁷ The quick death of the committee’s work was primarily engineered by civil servants at the finance and labor ministries, who were convinced that the

⁴ Interview with former official of the Danish Ministry of Labor, Frederiksberg, Denmark, May 21, 2002.

⁵ Interview with official of the Danish Confederation of Trade Unions, Copenhagen, Denmark, May 2, 2002.

⁶ See Chapter 5, p. 249.

⁷ Denmark, Folketinget, *Lov om en aktiv arbejdsmarkedspolitik*, 145. årgang, June 30, 1993. *Lovtidende A 1993*, vol. 4, hæfte 87, 2343–2353; Revised: Denmark, Folketinget, *Bekendtgørelse af lov om en aktiv arbejdsmarkedspolitik*, 145. årgang, December 27, 1993. *Lovtidende A 1993*, vol. 9, hæfte 196, 6425–6435.

activation duties of unemployed persons and the mix between short-term vocational training and long-term education programs outlined in the committee's report could not work in practice. When the initial *Law on Active Labor Market Policy* was passed, much more emphasis was placed on—and many more financial resources directed towards—longer-term education efforts. When the *Law on Active Labor Market Policy* was rewritten, the emphasis on education was replaced by an emphasis on job training. Education still played an important role, but it was demoted to a secondary position in the activation measures and long-term educational programs were dismissed. More important than the actual content of the law was the fact that these changes were made unilaterally by the government. As one senior civil servant explains, the revised bill was presented to parliament in the spring of 1993 but the civil servants who drafted the proposal “didn’t consult one minute with the social partners.”⁸ This handling of labor market policy was, according to another former senior civil servant, “the new style” of labor market policymaking.⁹ This new style signaled a dramatic change in the manner in which labor markets would be governed.

To the labor market partners this new style amounted to a clear breach of the traditional understanding of tripartite cooperation and labor unions in particular were angered over the government’s unilateral changes to the education/training mix.¹⁰ Yet according to civil servants, these changes were made through legislation because ministers and civil servants were skeptical of the intentions of both the unemployed and the unions and doubted they could convince DA and LO to willingly readjust the mix

⁸ Interview with official of the Danish Ministry of Employment, Copenhagen, Denmark, May 28, 2002.

⁹ Interview with former official of the Danish Ministry of Labor, Frederiksberg, Denmark, May 21, 2002.

¹⁰ Interview with official of the Danish Confederation of Trade Unions, Copenhagen, Denmark, May 2, 2002.

between education and job training. One former senior civil servant goes so far as to say the unions, and especially LO, were “not mature.” In contrast to notions that interest organizations were “responsible partners,” they did not “take the responsibility that they were given in the spirit in which it was given to them.”¹¹ From the perspective of civil servants, the emphasis on education over training was prone to abuse by altering the incentive structure in the activation schemes and encouraging unemployed to choose the longest and most expensive activation instrument regardless of its potential effectiveness. From a financial viewpoint, education instruments were twice as expensive to use as job-training instruments.¹² Civil servants perceived a tendency for unemployed, especially the young, to choose education programs to receive benefits higher than they would otherwise have received in job-training programs. Unemployed workers could enter education programs through activation after three months of unemployment and receive double the amount an average student would receive through normal educational support. As one finance ministry official remarks, providing new skills to the unemployed to “re-load” the labor market is a good idea. The problem with the new system was that unemployed individuals apparently chose to enter education programs that were too expensive to enter when they were younger while at the same time receiving disproportionately high benefits. The risk, according to one finance ministry official, is placing a lot of people in the education when “they simply shouldn’t be there. They are not skilled or prepared to go through such an education. It is just a waste of money and a waste of time.”¹³

¹¹ Interview with former official of the Danish Ministry of Labor, Frederiksberg, Denmark, May 21, 2002.

¹² Ibid.

¹³ Interview with official of the Danish Ministry of Finance, Copenhagen, Denmark, August 21, 2002.

Civil servants apparently feared that the interest organization-dominated labor market councils would inappropriately place unemployed persons in expensive education programs. This fear grew from the suspicion that labor unions were against job-training instruments not because it would fail in increasing long-term employment, but because firms might receive subsidized employees, which could lead to downward pressures on wages.¹⁴ In other words, civil servants were suspicious that labor unions were selfishly protecting their own parochial interests to the detriment of the unemployed as a whole and to the detriment of state finances. This conflict had far-reaching implications for the governing of active labor market policy through the labor market councils. According to a former senior civil servant, “[w]hen you saw these changes from the government point of view, when they withdraw some of the freedom that the regional labor market councils have had, it was due to that development.”¹⁵ Since the government’s trust in the labor unions had been shaken, its method for ensuring balance between education and job-training offers was to limit the authority of the labor market councils by explicitly stating the terms for each in the legislated reforms. Ultimately, according to both civil servants and interest organization representatives, the changes made to the activation system were made through negotiations with the political parties in parliament, not interest organizations. This “new style” set a precedent that would be followed in all the successive labor market reforms.

In 1996, when significant changes were made to youth unemployment benefits, civil servants employed the same tactic. As one senior civil servant describes the policy-making process: “...if you are asking who put forward the first framework for discussion,

¹⁴ Interview with former official of the Danish Ministry of Labor, Frederiksberg, Denmark, May 21, 2002.

¹⁵ Ibid.

then it was us, officials from the ministry of finance in close cooperation with officials from the ministry of labor.... We came with our colleagues hand in hand from the ministry of finance with our active labor market proposals.... This was not the social partners.”¹⁶ By 1996 even this norm was discounted in the context of the new style. Discussions among policymakers in the ministries of labor, finance, and education took place over the summer and autumn of 1996 and passed in parliament again as legislation, which was not discussed at all with either the social partners or the opposition. And once again, the social partners were shocked. “They knew we were sitting there and they were, ‘GASP!’”¹⁷ Since the social partners were traditionally consulted prior to the introduction of a proposed law to parliament, this maneuver once more upset the social partners, especially LO. But state actors had other concerns, especially regarding the youth unemployment benefits. Realizing that they would not be able to garner the support of LO for changes to youth unemployment benefits, politicians and civil servants determined it would be better to introduce the changes in parliament where the proposed legislation would have a better chance of being accepted.¹⁸ The reforms of 1999 and 2000 exhibited similar processes, whereby government officials proposed what adjustments they thought were necessary and the suggestions were taken directly to the parliament. A frank admission is made by a senior civil servant in the labor ministry: “On some points [the social partners] agreed, on other points they disagreed. But we didn’t negotiate. [We] were just telling them what government wanted to do and having their comments and

¹⁶ Interview with official of the Danish Ministry of Employment, Copenhagen, Denmark, May 28, 2002.

¹⁷ Interview with former official of the Danish Ministry of Labor, Frederiksberg, Denmark, May 21, 2002.

¹⁸ Ibid.

then went directly to the political parties and negotiated directly with the political parties.”¹⁹

The government did make a slight departure from the new style in 1998, although the first steps of the 1998 reforms seemed to follow in the tracks of the reforms in 1994 and 1996. The “2005-Committee on the Continuation of the Labor Market Reforms” (*2005-udvalget om videreførelse af arbejdsmarkedsreformerne*) that was established to review active labor market policy and propose an agenda for further reforms was comprised exclusively of civil servants from the prime minister’s office, the ministry of labor (which chaired the committee), the ministry of finance, the ministry of economics, the ministry of social policy, the ministry of business, and the ministry of education.²⁰ The committee held fifteen meetings between August 1997 and June 1998. Although the labor market partners were invited to formally submit comments on the direction of the committee’s work when it began in August 1997, discussions with the labor market partners were done through informal meetings. According to one senior civil servant, the government very much wanted the backing of the social partners, but the government insisted on room for maneuver in the parliament.²¹ The committee’s evaluation of the labor market system was released in May 1998 and its proposals for further reforms released in July 1998.²² On July 8, 1998, the government, which was already prepared to set the legislative process in motion, presented the *Announcement of the Law on Active Labor Market Policy (Bekendtgørelse af lov om en aktiv arbejdsmarkedspolitik)* to

¹⁹ Interview with official of the Danish Ministry of Employment, Copenhagen, Denmark, June 19, 2002.

²⁰ 2005-udvalget om videreførelse af arbejdsmarkedsreformerne, *Status for arbejdsmarkedsreformerne*, (Copenhagen: 2005-udvalget om videreførelse af arbejdsmarkedsreformerne, 1998), forward.

²¹ Interview with official of the Danish Ministry of Employment, Copenhagen, Denmark, May 28, 2002.

²² 2005-udvalget om videreførelse af arbejdsmarkedsreformerne, *Status for arbejdsmarkedsreformerne*; 2005-udvalget om videreførelse af arbejdsmarkedsreformerne, *Videreførelse af den aktive arbejdsmarkedspolitik* (Copenhagen: 2005-udvalget om videreførelse af arbejdsmarkedsreformerne, 1998).

parliament without formally consulting with employer or labor organizations. The government put forward the *Announcement of the Law on Unemployment Insurance* (*Bekendtgørelse af lov om arbejdsløshedsforsikring m.v.*), the other major part of the 1998 reforms, on August 10, 1998.²³

When the committee's work was released and the *Announcements* were presented, the main labor market partners, LO and DA, responded to the government's proposals with dismay. Much of this reaction was grounded in the fact that state actors did not directly include the labor market partners in the "2005-committee." Several current and former senior civil servants remarked that the labor market partners were very angry at being excluded from the process. With stiff resistance coming from both LO and DA to the government's handling of the proposed reforms, LO and DA negotiated between themselves and presented an agreement to the government that could substitute for the government's proposals. The senior civil servant heading the negotiations explains the process as a three-stage process. First, the government set out the agenda in the 2005-committee's report in the summer of 1998. Shortly thereafter, LO and DA entered into private negotiations. In September 1998, the government entered negotiations with the labor market partners on the final form of the proposed legislation. With the backing of the government, the social partners, and the opposition, the proposed legislation was passed virtually unaltered.²⁴

This slight divergence could be partly explained, suggests one civil servant, by a minority-government in the parliament in 1998. After elections in March of 1998, the

²³ Denmark, Folketinget, *Bekendtgørelse af lov om en aktiv arbejdsmarkedspolitik*, 150. årgang, July 8, 1998. *Lovtidende A 1998*, hæft 107, 3138–3154; Denmark, Folketinget, *Bekendtgørelse om ændring af lov om arbejdsmarkedsforsikring m.v.*, 150. årgang, August 10, 1998. *Lovtidende A 1998*, hæft 120, 3507–3537.

²⁴ Interview with official of the Danish Ministry of Employment, Copenhagen, Denmark, June 19, 2002.

Social Democratic-led government was left without a clear majority in parliament and was willing to entertain alternatives offered by DA and LO to bolster support in parliament. The divergence was also accounted for by the fact DA and LO had only recently emerged from an unsuccessful wage-negotiation in which the government was forced to intervene. “And this of course for...the social partners was extremely unfortunate. It weakened them...therefore there was a very strong wish among the organizations in the fall, so to say, to produce a result, to show they could reach agreement in the labor market policy area.”²⁵ From the viewpoint of several former senior civil servants, the 1998 agreement was the only example to be found in the 1990s in which the social partners were able to agree on the labor market reforms. “Until that all the long-term changes had gone through the government because they were not able to make the compromises. It was too difficult for them.”²⁶ Even a senior DA official remarks, “I am sure that, in ‘98, the fact that the partners could get together and make such a comprehensive reform was probably beyond the expectations of everybody, perhaps even the partners themselves.”²⁷

The results of these discussions contributed to the passing of the *Law on Changing the Law on Active Labor Market Policy (Lov om ændring af lov om en aktiv arbejdsmarkedspolitik)* and the *Law on Changing the Law on Unemployment Insurance (Lov om ændring af lov om arbejdsløshedsforsikring m.v.)* on December 16, 1998.²⁸ Nevertheless, one senior civil servant points out that, even though LO and DA were able

²⁵ Ibid.

²⁶ Interview with former official of the Danish Ministry of Labor, Frederiksberg, Denmark, May 21, 2002.

²⁷ Interview with official of the Danish Confederation of Employers, Copenhagen, Denmark, June 28, 2002.

²⁸ Denmark, Folketinget, *Lov om ændring af lov om en aktiv arbejdsmarkedspolitik*, 150. årgang, December 16, 1998. *Lovtidende A 1998*, hæft 182, 5174–5177; Denmark, Folketinget, *Lov om ændring af lov om arbejdsløshedsforsikring m.v.*, 150. årgang, December 16, 1998. *Lovtidende A 1998*, hæft 182, 5178–5180.

to compromise and agree on a number of issues, and the government accepted the compromise, the agenda was nevertheless set-out in the 2005-Committee's report. "What they negotiated was a response, so to say, to the government invitation, the government agenda."²⁹ Thus, although the reforms of 1998 exhibited greater interest organization participation, it had in fact followed the same pattern of earlier state-led reforms. The inclusion of employer and labor organizations in the 1998 reforms was an anomaly in an otherwise consistent pattern of state-led reform and based not on any desire to return to the traditional manner of labor market governance, but a political calculation that support from DA and LO would give the government more leverage in parliament to pursue their agenda. Essentially, the labor market reforms were the result of the policies of the government, not the social partners, and were pushed through parliament with very little discussion with the social partners.³⁰

It is clear that state actors had already managed to recapture the policymaking initiative in the early 1990s through legislation. This narrative begs the question, however, of how state actors were able to recapture the initiative in the 1990s from such strong employer and labor interests, when they were apparently unable to do so previously. Part of the answer lies in civil servant's new-found distrust of interest organizations and the willingness of the Social Democratic government to listen to civil servants rather than labor organizations. But this explains why state actors decided to turn to legislation, not how state actors were able to replace the traditionally negotiated labor market policy with a legislated labor market policy. The answer to this question partly lies in the new institutional structure of the active labor market system, namely the labor

²⁹ Interview with official of the Danish Ministry of Employment, Copenhagen, Denmark, May 28, 2002.

³⁰ Ibid.

market councils. Although the establishment of the labor market councils was agreed upon by all the major interest organizations and political parties through the Zeuthen Committee, once they were established and formally recognized through legally-binding legislation as the primary active labor market policy institutions, state actors now had a mechanism through which to contain the influence of interest organizations on active labor market policy. In short, if interest organizations wanted to participate in active labor market policymaking, they would have to do it through the labor market councils; yet as a legal entity, the mandate of the labor market councils was determined by the legislation that established and governed them. Since legislation is the responsibility of government, not interest organizations, the interest organizations found themselves “locked-in” a government-controlled institution.

Labor Market Politics and the Role of the Social Partners

State, employer, and labor actors established a robust active labor market system in which the labor market partners were given more, not less, formal responsibility for governing the active labor market system and managing unemployment funds. However, this is only one aspect of the issue of labor market governance and perhaps not even the most significant one. Throughout the 1990s in Denmark, active labor market policy ran on two tracks: a legislated track, which determined the parameters of active labor market policy, and a social partner governance track, which governed the labor market councils’ implementation of the legislation. In each legislated reform, state actors initiated the process and further refined the framework for active labor market initiatives, especially in terms of unemployment benefit periods and activation offers. Only in 1998 did DA and

LO play significant roles in determining the new parameters within which the councils were to carry out their duties. Regarding the labor market councils, although the new labor market system provided framework mechanisms for the administration of active labor market policies, the National Labor Market Council and the regional labor market councils were severely restricted in contributing to the content of labor market policy. By 1994, activation efforts, which had become the new pivotal policy instruments in labor market policy, led by political leaders and civil servants had overtaken the traditional corporatist mechanisms on which Danish labor market policy had been based since 1899.

The labor market councils, at both the central and regional levels, were given responsibility for the overall coordination and implementation of active labor market policy under the strong guidance of ministry officials. Labor market policy itself was still determined by ministry officials and these officials used the labor market councils to constrain the influence of interest organizations on active labor market policy and unemployment benefits. While the National Labor Market Council set the general guidelines for the regional councils and provided oversight to their activities, and the regional labor market councils designed and implemented region-specific active labor market policies, the overall labor market strategy and the terms for receiving unemployment benefits were determined by state actors in the government through legislation based on civil servants' analyses. In other words, state actors made the policy, and the social partners, through the councils, implemented it. And where the social partners were deemed to be irresponsible or incompetent, further modifications were made with more legislated reforms.

Despite the National Labor Market Council's prominence as the primary labor market institution implementing active labor market initiatives, it is first and foremost an advisory council. According to "Article 22: Interaction between the collegial organs and the state Labor Market Authorities at the central level," section 56 of the *Law on Active Labor Market Policy*, the "National Labor Market Council takes part in the arrangement of labor market policy by *advising* the labor minister and submitting *recommendations* on planning labor market efforts, including the Public Employment Service's ordinary activities, as well as setting goals for the coming year's efforts and prioritizing effort-areas; announcing appropriations, goals and result-requirements in the labor market efforts for the labor market council; following up the regional labor market efforts; surveillance of the development of the labor market; and suggestions for laws and other rules for the labor market policy area."³¹

Where major restructuring of labor market policy were concerned, including the active labor market reforms, the National Labor Market Council and the regional labor market councils stood outside the process. When a new reform was discussed, it was done without involving the council. Essentially, the councils were established to rationalize the activation system's implementation, not to take the lead on long-term labor market strategy or engineer a fundamental shift in the competencies of the labor force. According to the former chairman of the National Labor Market Council, although the National Labor Market Council had an opportunity to comment on proposed modifications to the activation system, it was not possible for the social partners to have

³¹ Denmark, Folketinget, *Lov om en aktiv arbejdsmarkedspolitik*, article 22, section 56 (italics added).

great influence on the proposals because it was so late in the legislative process.³² He goes on, “It couldn’t be the meaning that the [National Labor Market Council]...creates the labor market reforms. That is the government and the parliament.”³³ The labor market councils were unequivocally superseded by the active labor market policy legislation and primarily provided information on regional labor markets to civil servants seeking further modifications to the existing frameworks.

Moreover, ministers, civil servants, and even interest organizations seldom used the council as a forum for policy discussion. Policy discussions have typically been carried out among civil servants, and perhaps the minister, and the labor market organizations directly on ad-hoc, informal basis.³⁴ According to a senior official of the ministry of employment (formerly the ministry of labor), the council has a number of specific tasks tied to the management of the system, such as determining the quantitative goals to be reached and negotiating the contracts between the central and regional levels. As an advisory board, the council is asked to give an opinion on new legislation or new rules proposed by the government, but the National Labor Market Council “is supported by the ministry. Whatever statistics we give to [the council], legislation and so on, are products the ministry produces.”³⁵ Perhaps not surprisingly, a senior civil servant describes the relationship between the National Labor Market Agency and the labor market councils as one very much state-led. Civil servants at the National Labor Market Agency “are in effect providing [the council] with the basis for their decisions” and, as an

³² Interview with Palle Simonsen, former chairman of the Danish National Labor Market Council, Copenhagen, Denmark, June 6, 2002.

³³ Ibid.

³⁴ Interview with former member of the Danish National Labor Market Council, Copenhagen, Denmark, June 6, 2002.

³⁵ Interview with official of the Danish Ministry of Employment, Copenhagen, Denmark, June 19, 2002.

advisory body, the council is “basically an addition to the quality of our implementation of the policy.”³⁶ This civil servant points out that, while the council has full rights to air its recommendations and opinions and even criticize government policy or goals, it has in fact very few formal rights to take decisions.

The question still remains, though, as to why powerful employer and labor interests would allow themselves to be “locked-in” to state-dominated institutions like the labor market councils. The answer lies in the fact that, although the active labor market councils have few formal powers, the labor market system, and relations among state, employer, and labor actors in general, is driven by consensus. The greater significance of the labor market councils is therefore not its formal legal functions, but its role in formalizing constant informal negotiation and dialogue. The number of people involved in labor market policy discussions is in fact quite limited to key persons in the major labor market organizations and the political system, at both the central and regional levels. Indeed, discussions regarding even the guidelines issued by the National Labor Market Council are often not carried out in the council. One DA representative, comparing the National Labor Market Council to a company board of directors, suggests that to discuss what the guidelines should be in the council would be poor management by its members. It is extremely important, therefore, that when guideline proposals are presented to the National Labor Market Council, government actors, labor union actors, and employer association actors can all be assured that these proposed guidelines will be accepted.³⁷ “When things are put in front of the [National Labor Market Council], they should be well thought-out, well-prepared. If we have done our work properly, everybody

³⁶ Interview with official of the Danish Ministry of Employment, Copenhagen, Denmark, May 22, 2002.

³⁷ Interview with official of the Danish Confederation of Employers, Copenhagen, Denmark, June 28, 2002.

will say, ‘This is a good suggestion.’”³⁸ These processes are mirrored at the regional-level labor market councils. The most important function, then, of the labor market councils is not their advisory roles or even their implementing roles, but their legitimizing roles.

State actors thus had to work with the social partners within carefully balanced situations, despite the dominance of state actors in enacting labor market reform legislation. State actors certainly led the labor market reforms, but their freedom of maneuver was not absolute, particularly given the peculiarities of Danish parliamentary politics, which more often than not is characterized by minority-coalitions, and the government’s reliance on interest organizations to implement the policies. Just as important was the cultivation of support among interest organizations to legitimize the government’s strategies. In contrast to the industrial development strategies of the 1990s, whereby policymakers no longer needed the Business Development Council by 1994 to legitimize their industrial development initiatives due to their “dialogues” with private-sector business leaders, the labor market councils provided an essential legitimizing institution. The Zeuthen Committee work was indeed led by officials from the ministry of finance, but as one LO economist who participated in the Zeuthen Committee says of the committee, one of the biggest benefits of the committee was that it gave all of the labor market partners a common view of the problems on the labor market. “And that’s the importance of the Zeuthen [Committee].... It was a good strategy because...you read a lot of literature about the problems, you did a lot of statistics about the problems. We all

³⁸ Ibid.

owned this material.”³⁹ Unlike industrial policy, this legitimacy could not be garnered from any other actors, private or otherwise.

Formally, the process of legislated reform began with government proposals on labor market reform, usually within the context of the finance ministry’s proposed budgets. Yet as an on-going process, the proposals submitted by the government often reflected virtually continuous discussions among ministerial officials and interest organization representatives inside as well as outside formal channels. Formally and technically, the labor market reforms were state-led and political leaders and civil servants often ignored employer and labor organizations while the labor market reforms were being drafted into legislative bills. Informally, state actors have been deeply integrated with other non-state labor market actors. As one senior civil servant remarks, the “formal meetings [negotiations between the government and the social partners] are few and quite short. The real negotiations take place in informal groups of the central actors from the central organizations. We have meetings outside the official meetings where we meet people from LO, DA, the municipal organizations and try to find out whether, in this group, we can reach agreement. And if we can, we will present it to the larger formal group.”⁴⁰ It is the on-going contact among key persons, especially within LO and DA, on the one hand, and key persons in the government and the ministries and ministerial agencies, on the other, that actually “informs the intentions of policy.”⁴¹

Indeed, it is the creation of a broad consensus over labor market policy that provided the opportunity to initiate such sweeping legislation in the first place. Although

³⁹ Interview with official of the Danish Confederation of Trade Unions, Copenhagen, Denmark, May 2, 2002.

⁴⁰ Interview with official of the Danish Ministry of Employment, Copenhagen, Denmark, June 19, 2002.

⁴¹ Ibid.

there was contention over the specifics of the activation system, the basic framework was agreed upon by all the actors participating in the Zeuthen Committee. This framework has provided a common starting point for all active labor market initiatives. As one senior DA official explains, employer groups, trade unions, and governmental actors all share a common picture of the political-economic scene. In effect, all actors address the same reality. This official remarks, “You cannot say that the Danish system implies that it will always be the government or the ministry of finance or the ministry of employment who will take the lead or the social partners. Those who are able to work together and put up the agenda, they can lead the way things develop. Obviously, it will be significant who takes the lead, but we are still operating within the same sort of agenda.”⁴² Moreover, irrespective of whether labor market policy shifts are spurred by the government or the social partners, the ensuing policies “have always engulfed 80 percent of parliament.”⁴³ As explained by this senior participant, “there is a very broad base for this consensus policy. ...I don’t take more credit than I deserve because everybody can contribute to this and everybody more or less accepts the same framework, which is a precondition for a consensus-based system.”⁴⁴

The “common picture” at the beginning of the 1990s was the growing understanding that globalization had to be met with an improvement of the skills of the Danish labor force. The “marriage” of rational yet politically acceptable changes in the labor market system depended very much on this consensus. According to one observer, while the reforms were made possible by a growing dissatisfaction with the previous

⁴² Interview with official of the Danish Confederation of Employers, Copenhagen, Denmark, June 28, 2002.

⁴³ Ibid.

⁴⁴ Ibid.

unemployment benefit system and the focus on incomes policy, just as importantly was the shift of attitude on the part of the unions, which accepted that, “if we don’t do anything about the qualifications of the workers, then we will end up seeing that a lot of the work that was done in Denmark, or in West Jutland, now they can do it in India or somewhere else and there will only be a fraction of the labor force that is able to get a well-paid job and the rest, they are either unemployed or low-paid work.”⁴⁵ A consensus had formed between employers’ and employees’ organizations that the welfare of private industry and that of workers were not mutually exclusive. “That was a change because they were very traditionally fighting each other, mostly in the 70s but also in the 80s. They reached a consensus that actually our enemies, competitors, [are] not [defined by] the borderline between employers and employees, but globalization.”⁴⁶

Moreover, despite the suspicion civil servants held towards labor unions, disagreement between civil servants and labor organizations largely revolved around the specific policies of how the challenges of globalization were to be met, not the overall strategy. Labor organizations were very much aware of the need for change and adopted proactive stances in official union policy. For instance, in 1991 LO released an “idea-proposal,” focusing on new production principles and the consequences for labor.⁴⁷ Among the basic assumptions was that fordist mass-production was coming to an end in Denmark which would result in a “transformation away from the traditional ways to steer and coordinate work.”⁴⁸ Acknowledging stagnating industrial production in the 1980s despite increasing use of technology, the new production principles would revolve around

⁴⁵ Interview with official of the Danish Ministry of Finance, Copenhagen, Denmark, August 21, 2002.

⁴⁶ Interview with official of the Danish Ministry of Employment, Copenhagen, Denmark, May 22, 2002.

⁴⁷ Landsorganisationen i Danmark, *Idé-oplæg: Det udviklende arbejde* (Copenhagen: Landsorganisationen i Danmark, 1991).

⁴⁸ *Ibid.*, 4.

market flexibility that shifted production away from the kind of labor-intensive mass production in which Denmark could not compete with developing countries, new technology, and new ways of organizing work.⁴⁹ LO expressed an acceptance of the need to shift to post-fordist production methods requiring a competent, flexible workforce. LO therefore saw possibilities for influencing development in the direction of “developing work,” which referred to “work that at all times contributes to a positive development of the individual, workplaces, and the society we live in. A professional policy for the developing work includes the development of work, products, the environment, and ‘life.’ Thus, the developing work is not a condition to be achieved, but a goal towards which we strive.”⁵⁰ Four years later, LO’s “plan of action” for 1995–99 placed special emphasis on personal development possibilities as expressed in this “developing work” concept.⁵¹ Developing workers’ responsibilities and competencies in the face of increasing global competition was not an empty or fleeting policy platform for the trade union movement. Quite the contrary, LO continued pushing vigorously for worker development throughout the 1990s (and beyond). By 1998, competence-building to deal with this competition was a central concern of LO.⁵² Increasing the competencies of Danish workers to compete in the global economy lay at the heart of the labor movement’s strategy, not insulating them from the harsh realities of global competition.

In any case, consensus-building provided not only a common framework from which to pursue a concerted effort, but also strengthened the commitment of politicians,

⁴⁹ Ibid., 9–10.

⁵⁰ Ibid., 3–4.

⁵¹ Landsorganisationen i Danmark, *Handlingsplan for 1995–99* (Copenhagen: Landsorganisationen i Danmark, 1995), 14.

⁵² Landsorganisationen i Danmark, *Strategi for kompetenceløftet i Danmark* (Landsorganisationen i Danmark, 1998).

civil servants, employers, and labor leaders to these efforts. Consensus-building was extremely important to employer and labor organizations if they hoped to have any real influence on policy. Central-level state actors were not necessarily interested in receiving advice from the councils if the advice was considered by state actors to offer no significant contribution to government policy, especially given state actors' demands for room for maneuver. Individual responses to government proposals from DA, LO, or the municipalities, for instance, may garner very little interest from the central government, although for formal reasons such responses are presented.⁵³ The more important, and more powerful, impact comes from the consensus arrived at by the partners. "Then it is interesting to the government. It is interesting because the social partners have a responsibility to implement it in the right way."⁵⁴ The degree to which the social partners and the labor market councils wield influence therefore depended on the extent to which the main organizations can agree, not because the councils have any formal power, but, as one policymaker asserts, because they represent the major interests in society.⁵⁵

In turn, this consensus provides powerful leverage to the government within parliament. Given the tendency for Danish governments to be minority governments, agreement among the government, LO, and DA is a powerful incentive for opposition parties to support the government's labor market policies. In effect, "they take it to the political opposition in parliament and say, 'Will you really destroy the consensus we have with those near partners and institutions and organizations on the labor market? Are you

⁵³ Interview with former member of the Danish National Labor Market Council, Copenhagen, Denmark, June 6, 2002.

⁵⁴ *Ibid.*

⁵⁵ Interview with official of the Danish Ministry of Employment, Copenhagen, Denmark, June 19, 2002.

really sure you know better than they do, than we do, when we have made this?''⁵⁶ Such a system plays to the benefit of both governmental and organizational actors. State actors garner legitimacy and leverage vis-à-vis other political parties, whereas the social partners garner some influence over the content of the policy. "You could say, the social partners, they always have consensus focus because they know that their power towards the government is dependent on their ability to create compromise between themselves. And if they can create compromise between themselves, then the government wants to take their suggestions, of course, because then the government can be rather sure that they will be able to pass it through parliament. In a minority government, that will always be the situation."⁵⁷

Importantly, although decision-making is often made by a select group of individuals, all interested parties, including state and interest organization actors, are keenly aware of their limitations as well as the limitations of their negotiating partners. The exchange of information provides a common understanding among interested actors and sets out the boundaries for negotiation. As one finance ministry official puts it, the decision-making process is indeed limited to a few influential individuals, but it is true only to the extent that the decisions are more widely acceptable. "Those few people who are actually making the decision, they can only make a decision they know all the other people will accept. They are very influenced by all the other actors. When it comes to taking a decision, there are only a few people who are actually taking the decision, but they are constrained by all the other actors' points of views."⁵⁸ Such constraints translate

⁵⁶ Interview with official of the Danish Association of Local Governments, Copenhagen, Denmark, September 4, 2002.

⁵⁷ Interview with former official of the Danish Ministry of Labor, Frederiksberg, Denmark, May 21, 2002.

⁵⁸ Interview with official of the Danish Ministry of Finance, Copenhagen, Denmark, August 21, 2002.

into a limited number of actually possible paths for action. While influence is often illustrated by the aggressive promotion of certain policies, at other times, “the influence is sometimes that people don’t dare make a proposal in a certain direction because they know if we make a proposal like this or that, there will be a very strong reaction.”⁵⁹ Through this process, all the relevant decision-makers come to be familiar with the points of view from the different actors involved. “It’s like a restaurant. The chef is making the last part of it, but you can’t say he is making the whole dinner.”⁶⁰ Such connections draw in a wide array of interested parties not necessarily to discuss or negotiate specific political proposals, but to determine the degree to which a consensus can be formed. As a leading civil servant of the labor ministry explains, discussions are often held with LO, DA, and the municipalities, among others, to discuss “what kind of reform, what elements would be acceptable to them, testing whether, if government presents this or that, would government meet strong resistance or would it be acceptable.”⁶¹ Hence, state and non-state actors are informed of the “political landscape,” “what is acceptable and what is not acceptable before we go into negotiations.”⁶²

This consensus-building network naturally extends to the labor market councils. As the head of the employment ministry explains, “If they can agree, they have considerable influence. The [National Labor Market] Council gives advice to the minister. They are an advisory board. They cannot decide very much. But if they agree, ‘This should be done,’ and they advise the minister to do this, it takes very strong reasons

⁵⁹ Ibid.

⁶⁰ Ibid.

⁶¹ Interview with official of the Danish Ministry of Employment, Copenhagen, Denmark, June 19, 2002.

⁶² Ibid.

for us not to follow that kind of advice....”⁶³ Within the confines of the National Labor Market Council, it is the executive committee that comprises this small group of decision-makers, but similar to the consensus-making process more generally, members of this five-member group are acutely aware of their partners’ and their constituencies’ positions. It is, in fact, in the executive committee where final decisions on labor market guidelines and agendas are given final approval. In order to ensure that the guidelines and agendas will be accepted by the other interests represented on the council, however, intense informal dialogue is carried out between state actors and the central interest organizations, as well as between the central interest organizations. One DA representative explains that “there has been a long process where the unions and we have prepared our members in this process and we have found out what they emphasize, the unions have done that. We talk to the unions.” One LO official echoes this attitude, mentioning that, if there is an issue of potential conflict, LO and DA will talk with each other to gauge one another’s position. “We know why DA is reacting, why they say so, and so on.... There is always debate, but we know why the other parties say what they say.”⁶⁴

This process is not exclusive to the central-level National Labor Market Agency. As explained by the director of the National Labor Market Agency, there is constant negotiation between this agency and the regional labor market councils to arrive at acceptable goals, instruments, and result benchmarks.⁶⁵ As the regional labor market councils analyze their respective labor markets, the National Labor Market Agency, in

⁶³ Ibid.

⁶⁴ Interview with official of the Danish Confederation of Trade Unions, Copenhagen, Denmark, April 3, 2002..

⁶⁵ Interview with Lars Goldschmidt, Director, Danish Labor Market Agency, Copenhagen, Denmark, May 22, 2002.

conjunction with the regional labor market authorities, carries out a parallel process. The National Labor Market Agency negotiates with the regional labor market councils to arrive at an acceptable contract for reaching the targets set by the National Labor Market Council. Based on the overview of Danish labor markets from regional analyses and other statistical sources, centrally- and regionally-defined targets are then presented to the National Labor Market Council for approval. The targets, therefore, are a negotiated combination of the targets set by the National Labor Market Agency and the labor market councils in a virtuous cycle of negotiation and target-setting at the regional and central levels. As one DA official asserts, “Sometimes you ask yourself when you are a member of the [National Labor Market Council], ‘Where are decisions actually taken? Where did this idea come from? Why are we meeting? Did we do anything today?’ You can’t really tell where things happen. Not that you don’t have any influence, but this is an on-going process. You can hardly ever say, ‘We started this thing right now,’ because you’ve always talked about this on several earlier occasions. It’s an on-going creative process and the labor market circumstances change all the time.”⁶⁶

This dialogue did not ensure complete consensus, but it did give a better sense of what was politically feasible, and it provided a way to avoid major conflict when new legislation was proposed or when new contracts between the National Labor Market Council and the regional labor market councils were being negotiated. According to one LO official, organizations represented in the National Labor Market Council will always try to reach a compromise position on proposed labor market reforms.⁶⁷ If disagreements arise, each organization may present its own views independently of the National Labor

⁶⁶ Interview with official of the Danish Confederation of Employers, Copenhagen, Denmark, June 28, 2002.

⁶⁷ Ibid.

Market Council, but every organization knows why each organization has taken the position it has. The optimal situation, of course, is to reach a consensus, a task which falls primarily to the executive committee. Thus, both LO and DA extend considerable effort reaching out to one another through a long process of dialogue. “There is not this kind of conflict area in the [National Labor Market Council] because most of the things are cleared before the meeting, so it is more like [a] ritual [to discuss] the bigger issues.”⁶⁸ Although discussion in the councils is often brief, ritualistic, and not particularly groundbreaking, the councils are the formal manifestation of informal consensus-making.

Indeed, one senior civil servant, while again mentioning that the labor market councils are only advisory bodies with very few formal rights to take decisions, also explains that it “is a way to formalize the informal negotiations that are constantly going on. I would say, the way the social partners are influencing the policy is in the constant dialogue....”⁶⁹ The former chairman of the National Labor Market Council agrees. While acknowledging that even discussions with the minister did not necessarily result in significant initiatives, this former official nevertheless placed a high value on the dialogue process “even if there are twenty-five members of this council. It’s very important because the dialogue in the long run gives results.”⁷⁰ The attitudes of civil servants and interest organization representatives regarding the councils is neatly summed up by a DA participant:

“Obviously, things do not start during the meetings in the [National Labor Market Council] and end there. This is sort of the end of a long process where you have had informal discussions, then after informal discussions then

⁶⁸ Ibid.

⁶⁹ Interview with official of the Danish Ministry of Employment, Copenhagen, Denmark, May 22, 2002.

⁷⁰ Interview with Palle Simonsen, former chairman, the Danish National Labor Market Council, Copenhagen, Denmark, June 6, 2002.

perhaps [the National Labor Market Council] asks the ministry to please make a paper on this and that. After that, we have a discussion and slowly ideas are generated and slowly ideas are framed into new legislation. In this process, it's difficult to tell who started it, whose idea is this. We don't need to have the copyright to the good ideas. Obviously, we think that if things are carried through by the social partners, we will feel more obliged by the ideas. That is in itself an argument for giving the social partners a more active role. But the normal thing is that, if we agree on something then it has to go through parliament afterwards. Then everybody owns it, which is the best situation.... This is an eternal, on-going process. Where does it start? Where does it end? It's an on-going discussion. It combines the guidelines set out by the [National Labor Market Council], they are the result of hard work on both the employer and union sides.”⁷¹

Hence, the deeper significance of the labor market councils is their usefulness as consensus-making institutions and in turn legitimizing institutions. As the former chairman of the National Labor Market Council asserts, “you have a council where you have collected all the important parts of the social partners, in order, I would say, to get a responsibility from the social partners.”⁷² Another senior participant in the council agrees that what happens in the council is not important in itself. Indeed, cooperative relations are not dependent on the council, “but the council is a sort of formalization of a lot of things that are going on.”⁷³ The labor market councils provide a focal point for decision-making on labor market policies and instruments, which encourages close cooperation

⁷¹ Interview with official of the Danish Confederation of Employers, Copenhagen, Denmark, June 28, 2002.

⁷² Interview with Palle Simonsen, former chairman, Danish National Labor Market Council, Copenhagen, Denmark, June 6, 2002.

⁷³ Interview with official of the Danish Confederation of Employers, Copenhagen, Denmark, June 28, 2002.

among local authorities and employer and labor union representatives, and in turn provides a basis for mutually acceptable labor market policies and instruments at the central level. Since the labor market councils are essentially advisory bodies, they have no way to enforce their will, but as one participant emphasizes, “If you take sort of a view on how ideas have developed, then I am sure we have had discussions on some things that have been turned into law later.”⁷⁴ Despite the apparent weakness of the social partners vis-à-vis state actors regarding legislated labor market reforms, cooperative relations among state and non-state actors have been crucial elements in bringing those reforms to fruition in form and content, as well as implementation.

In sum, despite the fact that civil servants recaptured the policymaking initiative from interest organizations, they had to do so according to the specific conditions internal to the labor market policy sphere, which included the entrenched positions of interest organizations on labor market issues and the legitimacy conferred on their policies through the consensus-making process. State actors could not reform the active labor market system without the participation and cooperation of employer and labor interest organizations. Unlike the strengthening of industrial policy in the 1990s where civil servants sought to exclude interest organizations from the policymaking process, the strengthening of labor market policy required the inclusion of interest organizations in the policymaking process. Even a Conservative-led government accepted that interest organizations had to be included in reforming the active labor market system, as evidenced by the fact that the Zeuthen Committee was initiated under the Conservative-led government. State actors had to take into consideration interest organizations’ priorities and demands, which impacted the form and function of the new active labor

⁷⁴ Ibid.

market institutions. Ultimately, the form and function of the coordinating institutions that were established in this environment in 1993–94—the labor market councils—reflected the priorities, strategies, and roles and relations among state, employer, and labor actors in the labor market policy sphere. Once the framework was adopted by state actors and interest organizations, the government and civil servants constrained the maneuverability of interest organizations by further restricting the responsibilities of the labor market councils through legislation, but the institutions also constrained the maneuverability of political leaders and civil servants. In short, state, employer, and labor actors all consented to be “locked-in” the labor market councils, knowing full well that their success would depend on the full participation and cooperation of each. On the one hand, interest organizations were constrained in the labor market councils by government legislation, but state actors were constrained by the willingness of employer and labor organizations to faithfully execute the terms of that legislation. Constant dialogue among these actors ensured that an acceptable compromise could be reached.

Institutionalized Active Labor Market Barriers to Coordinated Industrial Adjustment

It may indeed be the case that the pressures of globalization in the form of budgetary constraints forced a reevaluation of Danish labor market policies and labor market-related welfare benefits, but Danish state actors were not fundamentally weakened in their capacity to respond or forced to adopt policies that were at odds with the Danish state’s traditional welfare structure, such as drastically reducing generous unemployment benefits. Rather, these pressures encouraged important domestic political-economic

actors, including state, employer, and labor actors, to establish new institutions that could potentially enhance the effectiveness of policies designed to sustain this structure. State, employer, and labor actors in the labor market policy sphere all played important roles in this process, impacting the manner in which state actors could potentially lead the reform process and the form and function of the coordinating institutions. Given the importance of interest organizations to the functioning of Danish labor markets and their importance to the unemployment benefits system, it is doubtful that the active labor market system could have been adjusted at all without their participation. The importance of interest organizations to the labor market system in general and their importance to the labor market councils on which the active labor market system was founded in particular meant that the effective implementation of state-led policies required the cooperation of interest organizations. Even though the government pursued its own prerogatives when it came to turning labor market analyses into further adjustments to the active labor market system, state actors were constrained by the willingness of interest organizations to implement them. While coordination was enhanced through the labor market councils, cooperation was induced through constant dialogue among political leaders, civil servants, and interest organizations. This dialogue ensured that the government's forceful re-exertion of policy autonomy did not fatally alienate strong employer and labor interests who were charged with implementing the policies. Although the active labor market reforms were state-led, they were not state-controlled. In short, state actors led the active labor market reform process, but state, employer, and labor actors all played critical roles in ensuring that the active labor market system functioned smoothly.

As the regulators of the supply and quality of labor, this set of actors had the potential to powerfully promote or hinder coordinated industrial development efforts that relied on the development of human resources. Due to the specific priorities, strategies, and roles and relations among them that led to the specific form and function of the labor market councils, however, active labor market policy was also effectively isolated from other policy areas, except finance policy. While state and other important political-economic actors in the labor market policy sphere enhanced their autonomy in the face of globalization by establishing institutions that were potentially capacity-enhancing, the same internal logics and power relations within the labor market sphere that led to the establishment of these institutions also complicated efforts to effectively coordinate active labor market policies, institutions, and resources with industrial development policies, institutions, and resources. The political leaders, civil servants, employer organizations, and labor organizations who established new coordinating institutions in the labor market policy sphere contributed to this lack of coordination by collectively establishing an active labor market system that was strictly demarcated. Efforts to enhance state autonomy and capacity were therefore complicated by the logics and political relations internal not only to the Danish state, but internal to specific policy spheres and institutions that collectively comprised the Danish political and economic structure.

Because the highest political priority in the 1990s was given to reducing structural unemployment, the three ministries most relevant to labor market policy and economic policy more generally—the prime minister's office, the finance ministry, and the labor ministry—were focused on labor market issues and little attention was given to

the coordination efforts of the relatively minor ministry of business, despite the fact that this ministry had been given the explicit mandate to coordinate industrial development and the earlier participation of the prime minister in exploring new development strategies. The attention given to labor market policy and the resources devoted to it, especially from the ministry of finance, crowded out concerns in other policy areas, including industrial policy. It is telling that labor market developments and policies were reported by the finance ministry, not the labor ministry.⁷⁵ Reflecting on his experience with coordinated industrial development efforts, the director of the Dialogue with Resource Areas project and former member of parliament remarks, “Maybe it’s too ambitious a concept to make a total coordination of industrial policy between all the ministries because the only way to ensure state coordination is through the money the state uses. The coordinating ministry is the ministry of finance and not the ministry of industry.”⁷⁶

Labor market policy had become so salient an issue that misguided labor market policy or ill-functioning labor markets were seen to be potentially anathema to all other options in economic and financial policy. As one finance ministry official puts it, the ministry of finance “was very focused in the 1990s on doing something with the labor market so you could get more flexibility for the general economic policy” because, in the absence of well-functioning labor markets, “all your options in economic policy are just gone.”⁷⁷ This sentiment is acknowledged and shared by senior civil servants in the ministry of labor. The ministry of finance “has been and will always be extremely

⁷⁵ See Denmark, Finansministeriet, *Finansredegørelse*, various (Copenhagen: Finansministeriet, various).

⁷⁶ Interview with director of the Dialogue with Resource Areas project, Copenhagen, Denmark, August 29, 2002.

⁷⁷ Interview with official of the Danish Ministry of Finance, Copenhagen, Denmark, August 21, 2002.

concerned with what happens in the ministry [of labor]”not only due to the importance of labor market policy to the general performance of the economy, but also because the ministry of employment manages a large portion of transfer payments and therefore has the second largest ministerial budget.⁷⁸ “The way the economy looks today, whether we have a successful labor market policy creating a good balance in the labor market and making it possible to have a low level of unemployment and still avoiding an inflationary development is perhaps *the* crucial question in the general economic policy.”⁷⁹ This was even more the case during the 1990s, resulting in a “very, very close” relationship between the ministries of finance and employment.⁸⁰ This overriding concern of high unemployment in the early 1990s meant that civil servants’ and interest organizations’ attention to labor market policy could not be distracted by concerns over notions of industrial adjustment, however defined. “Business policy is not and has not been high on the political agenda.”⁸¹

At the core of the new active labor market policy was not the shifting of labor out of “sunset” industrial sectors and into “sunrise” sectors, but simply changing the incentives to shift people out of unemployment and back onto the normal labor market. As one former senior civil servant remarks, “The focus [of the Zeuthen Committee] was on implementing changes that could have an impact on the structural unemployment rate. *That* was the focus of the committee.”⁸² State actors and interest organizations perceived activation to be the best solution to competitive pressures and high unemployment, but

⁷⁸ Interview with official of the Danish Ministry of Employment, Copenhagen, Denmark, June 19, 2002.

⁷⁹ *Ibid.*

⁸⁰ *Ibid.*

⁸¹ Telephone interview with official of the Danish Ministry of Business and Economics, Copenhagen, Denmark, August 1, 2002.

⁸² Interview with former official of the Danish Ministry of Labor, Frederiksberg, Denmark, May 21, 2002.

civil servants also depended on the unemployed person's fears of being drafted into the active labor market system to encourage labor market participation.⁸³ According to several current and former civil servants, ministers and civil servants were determined to avoid the situation experienced in the 1980s when, despite economic growth and unfilled jobs, unemployment remained stubbornly high. "Really, the focus was on changing the incentives and that was changing the period of time you were entitled to the unemployment benefit rate and on the other hand—that was the compromise—that when you [reduce] this period of time you have to be sure you really have an effort in increasing people's employability. That was the active labor market policy thinking."⁸⁴ Although this strategy was harsher than many labor interest organizations might have liked, especially where the mix between education and training offers were concerned,⁸⁵ but the conclusions drawn by civil servants pushing the legislated active labor market reforms from this experience was that unemployment was caused by weak incentives to encourage unemployed workers back onto the normal labor market.⁸⁶

It was this strategy that became the analytical cornerstone of active labor market policy, which was eventually accepted by interest organizations represented on the councils. Accordingly, active labor market policy as carried out through the National Labor Market Council was not based on the development of internationally-competitive industrial sectors by providing skilled workers to these sectors, but on the expected benefits that lower quantitative unemployment levels would have on the economy in general. As the former chairman of the National Labor Market Council and a former

⁸³ Ibid.

⁸⁴ Interview with former official of the Danish Ministry of Labor, Frederiksberg, Denmark, May 21, 2002.

⁸⁵ Interview with official of the Danish Confederation of Trade Unions, Copenhagen, Denmark, May 2, 2002.

⁸⁶ Interview with official of the Danish Ministry of Finance, Copenhagen, Denmark, August 21, 2002.

finance minister explains, shifting workers into growth sectors, while lurking in the backs of the minds of council members, was not the primary concern of the council. “I think what is important when you look at labor market policy is to get people jobs, to prevent bottlenecks... that is the important thing. That’s the most important thing.... If you look at the prognosis from the previous government and the present government, you know that up to 2010 you have to get about 90,000 more people on the labor market. How is that possible? I think that is a more important subject than trying to move people from one sector to another.”⁸⁷ Education and training programs were important instruments in lowering high structural unemployment rates, but little attention was given to how education and training could contribute to lower unemployment levels other than the econometric expectation that higher education would result in lower unemployment. One LO economist who participated in the Zeuthen Committee says, “You have this discussion in the Zeuthen [Committee], what kind of education should you give the unemployed, but the decision was that you just give them education, because if you have education you will not be long-term unemployed.”⁸⁸

The active labor market policy-coordinating institutions were established by important political-economic actors to enhance the effectiveness of this strategy to resolve the specific problem of high structural unemployment. Since state, employer, and labor actors played important roles in the governing of Danish labor markets and relations among these actors were consensus based, the specific form and function of these coordinating institutions ultimately reflected their shared priorities and strategies.

⁸⁷ Interview with Palle Simonsen, former chairman, Danish National Labor Market Council, Copenhagen, Denmark, June 6, 2002.

⁸⁸ Interview with official of the Danish Confederation of Trade Unions, Copenhagen, Denmark, May 2, 2002.

The specific form and function of these institutions, however, also revealed where state, employer, and labor actors did not share priorities and strategies. The form and function of the labor market councils, based as they were on consensus, were limited by the extent to which these actors could reach an agreement on the specific goals to be pursued, the specific policies to be implemented, and the specific role the labor market councils would play in achieving these goals. Given the importance of consensus to labor market policy in Denmark, the labor market councils were based on the lowest common denominators on which all the important political-economic actors could agree. Consequently, issues that were not perceived by state, employer, and labor actors to be of direct relevance to the specific priority of immediately reducing quantitative unemployment levels through the specific framework established in the Zeuthen Committee were precluded from active labor market policy discussions, which resulted in the effective isolation of active labor market policies and policymaking institutions from policies and policymaking institutions in other policy spheres.

It is important to note that, due to the specific roles and relations among state actors, employer actors, and labor actors in the labor market policy sphere, they all contributed to the effective isolation of active labor market policy from other policy issues. For example, civil servants at the labor ministry did not see any fundamental contradiction in their activation goals and the goals of industrial policy and consequently were not convinced of the need to strongly coordinate labor market policy with industrial policy. From the viewpoint of civil servants in the ministry of labor, labor market policy supported industrial policy through the promotion of an extremely flexible workforce.⁸⁹

According to one former senior labor ministry official, "At the strategic level, there were

⁸⁹ Interview with official of the Danish Ministry of Employment, Copenhagen, Denmark, June 19, 2002.

no contradictions [between labor market strategies and industrial strategies] because that very high focus on [reducing the] structural unemployment rate was also to implement a framework for the companies to create growth. I do not see that on a macroeconomic strategic level there were contradictions.”⁹⁰ This official points out, for example, that textile workers facing extinction in the western regions of Denmark were given training and education to move to other sectors of the economy.⁹¹

Moreover, civil servants at the ministry of labor were reluctant to predict what skills would be needed to support industrial development and therefore focused on short-term activation efforts. As one senior civil servant says, “Actually we don’t have the data to make advice. If we are looking at what we are able to predict, we are able to predict main areas of qualification and the demand for these qualifications. But specific areas, if we are trying to say this kind of job with this kind of education in a five year perspective, if you are looking at historical data, you may say every prediction is wrong.”⁹² This official explains further, “If we take pharmaceuticals that we know will expand very much in the next 10 years, we don’t know how much, but it will expand. We are saying, ‘How can that help us in identifying the demand for qualified labor and how can it show us that we should have this kind of labor and not another kind?’ Rather limited.”⁹³ Coordinating active labor market policy with industrial development policies was clearly not a priority among political leaders and civil servants. Civil servants, in particular, saw no need to coordinate their active labor market policies with industrial development policies and were not pressured by political leaders to do so. A former senior official at

⁹⁰ Interview with former official of the Danish Ministry of Labor, Frederiksberg, Denmark, May 21, 2002.

⁹¹ Ibid.

⁹² Interview with official of the Danish Ministry of Employment, Copenhagen, Denmark, May 22, 2002.

⁹³ Ibid.

the Industry and Trade Agency (and later Business Promotion Agency), the agency spearheading the Resource Areas project, laments, the ministers “could have forced us to work together. They could have forced us to adapt to the problems in the labor ministry, and vice versa, in a way that went up to a higher degree. But this was not the case.”⁹⁴

An even more striking example concerns education and training policies, which were the primary activation instruments in the activation system. Despite the importance attached to education and training in the activation system, civil servants were concerned that activation through long-term education infringed too much on the formal education system. Long-term education was within the realm of education policy, not labor market policy, and state actors in the labor market policy sphere limited their roles, and the roles of the labor market councils, to supporting short-term education and training programs. While many labor organization representatives saw long-term education as a solution to long-term structural unemployment, state actors saw active labor market policy as something that could, at the most, start up a transition process to longer-term education, after which the ordinary education system takes precedence.⁹⁵ As one senior civil servant explains, active labor market policy is concerned with education of up to one year. “That’s from the intention not to make a competition [between the formal] education system and the...far better financial support we are giving to the unemployed.”⁹⁶ As for encouraging individuals to study or train in expanding or new economic sectors, “active labor market policy can’t solve that problem at all. It has to be solved in the educational

⁹⁴ Interview with official of the Danish Ministry of Business and Economics, Taastrup, Denmark, September 9, 2002.

⁹⁵ Interview with former official of the Danish Ministry of Labor, Frederiksberg, Denmark, May 21, 2002.

⁹⁶ Interview with official of the Danish Ministry of Employment, Copenhagen, Denmark, May 22, 2002.

system.”⁹⁷ Long-term education was not within the framework of the council and council members assured that this issue would not intrude on their more immediate goals.

Industrial policy, in particular, was further precluded from discussion by employer organizations. One former senior labor market actor gives the example of employer organizations refusing to discuss industrial policy in the National Labor Market Council because employer organizations would not accept that industrial policy was within the council’s framework.⁹⁸ It has been the experience of a prominent member of the National Labor Market Council that discussion in these cases had to be limited because it made no sense to debate an issue on which no agreement was likely to be found.⁹⁹ This perception is buttressed by a DA council member who remarks, “If the problem is that we think that in ten years time we will need 10,000 engineers more than we have now, then we do not deal with that question in the established labor market bodies. The [National Labor Market Council] would never deal with aspects like that. That would be considered aspects of industrial policy.”¹⁰⁰ Consequently, “they never come there.”¹⁰¹ Echoing civil servants’ doubts on their ability to predict the needs of industry in the future, this council member remarks that the labor market councils simply do not know, but adds, “In fact, it’s not our business.”¹⁰²

From the perspective of employer organizations, the role of the councils is, instead, to facilitate close contact and cooperation among local companies and regional

⁹⁷ Interview with former official of the Danish Ministry of Labor, Frederiksberg, Denmark, May 21, 2002.

⁹⁸ Interview with former member of the Danish National Labor Market Council, Copenhagen, Denmark, June 6, 2002.

⁹⁹ Interview with former member of the Danish National Labor Market Council, Copenhagen, Denmark, June 6, 2002.

¹⁰⁰ Interview with official of the Danish Confederation of Employers, Copenhagen, Denmark, June 28, 2002.

¹⁰¹ Interview with official of the Danish Ministry of Employment, Copenhagen, Denmark, May 22, 2002.

¹⁰² Interview with official of the Danish Confederation of Employers, Copenhagen, Denmark, June 28, 2002.

and local labor market authorities in order to collect market signals that indicate the immediate needs of firms and what can be done to modify the qualifications of the unemployed to meet those needs, regardless of the sector in which those firms operate. Describing the National Labor Market Council's responsibility to firms, this DA representative says, "We should, on the local level, be on very close and confident terms with the companies, so perhaps if we are very successful the companies will be so happy with us they will tell us something about their plans which will allow us to plan the future supply of labor in order to meet the local companies' demands. That's as far as you can go in the local labor market."¹⁰³ Since state and labor actors had to accept employers' positions on industrial policy to sustain the consensus on active labor market policy efforts, "the strategy about industrial policy is not on the agenda in the [National Labor Market Council].... Sometimes a member of the council has proposed that we discuss these kinds of things. But that is not possible. That is not in the framework of the [National Labor Market Council]."¹⁰⁴

Many of the restrictions applied to the labor market councils' framework, and hence their relevance to other policy spheres, stemmed from political relations within the employer and labor confederations, as well as relations between them. National labor unions and business organizations, such as the Danish Metalworkers' Union (*Dansk Metal*) and the Confederation of Danish Industry, often defer to LO and DA on major labor market issues, particularly negotiations at the central level, but they retain their independence on other crucial policy areas, such as education, industrial, or social policy. These reservations mean that the only topics discussed in the labor market councils are

¹⁰³ Ibid.

¹⁰⁴ Interview with former member of the Danish National Labor Market Council, Copenhagen, Denmark, June 6, 2002.

those that, first, are explicitly provided for in the legal framework of the councils and, second, those that no employer or labor organization refuses to discuss. Since the councils work by consensus, this severely limits the range of topics. To make the case clearer, one LO representative explains, “If you talk about [long-term strategies] you talk about tax, wages, and so on and you are not allowed to discuss that in the [labor market councils] because...it is not a LO question. It is a question with the unions themselves.”¹⁰⁵ Referring to comprehensive structural policies, this representative adds, “It’s a little bit LO-area. But the metalworkers don’t want LO to do anything.”¹⁰⁶ Another example comes from the employer side, where, according to many civil servants and interest organization officials, there is a clear but informal understanding between the Confederation of Danish Industry (DI) and DA, of which DI is a member, that DI is the undisputed employer leader on industrial policy issues. In fact, DI represents more than half of the firms falling under the DA umbrella. Accordingly, DA defers to DI on all questions of industrial policy.

These priorities, strategies, and roles and relations filtered down to the actual day-to-day work of the labor market councils. Although the broad purpose of the labor market councils was to enhance cooperation and coordination among the “social partners” and collectively resolve high structural unemployment rates, in practice, state, employer, and labor actors not only defended their own interests and prerogatives on specific policy issues, but their interests on the specific terms of activation. According to a former member of the council, the agenda was often over-crowded with details and was necessarily restricted to immediate labor market issues. The primary reason for this over-

¹⁰⁵ Interview with official of the Danish Confederation of Trade Unions, Copenhagen, Denmark, April 2, 2002.

¹⁰⁶ Ibid.

crowding is that the social partners are so interested “in knowing everything about what happens in the regional part of labor market policy.”¹⁰⁷ One LO economist explains that the National Labor Market Council requires very detailed analyses of goals, instruments, and results impacting a diverse set of target groups from the regional labor market councils to make its recommendations.¹⁰⁸ The national unions’ demands for detail often lead to complicated trade-offs. For example, if unskilled workers are given benefits of one sort or another, skilled workers will also demand similar or comparable benefits. “And then you have this detailed discussion where you have to do that for this group, this group, and this group. And there were results for all groups. It doesn’t work.”¹⁰⁹ Consequently, the councils’ members “have become bookkeepers instead of policymakers”¹¹⁰ The cumulative effect of the structure and functioning of the councils has meant that that the National Labor Market Council “is like an island” with little or no contact with other policymaking institutions and too focused on short-term issues to contribute to long-term strategic issues.

The priorities, strategies, and roles and relations among state actors, employer organizations, and labor organizations in the labor market policy sphere were thus manifested in a very specific set of coordinating institutions, in terms of both form and function. In form, these active labor market institutions reflected the importance of employer and labor organizations to labor market policy, including labor market-related welfare benefits, and the premium placed on consensus among state, employer, and labor

¹⁰⁷ Interview with former member of the Danish National Labor Market Council, Copenhagen, Denmark, June 6, 2002.

¹⁰⁸ Interview with official of the Danish Confederation of Trade Unions, Copenhagen, Denmark, May 2, 2002.

¹⁰⁹ Ibid.

¹¹⁰ Interview with official of the Danish Confederation of Trade Unions, Copenhagen, Denmark, April 3, 2002.

actors. In function, the shared priority among these actors of reducing high unemployment levels and the premium placed on consensus to resolve this singular issue served to enhance cooperation and coordination among the most important political-economic in the labor market policy sphere. These logics and relations, however, also severely restricted the scope of these institutions, and by extension, the extent to which they could be coordinated with other policymaking institutions. Although state actors seized the policymaking initiative in the labor market policy sphere, exerting policy leadership had to be done according to the specific circumstances prevailing in the labor market sphere, not the least of which were the specific roles state, employer, and labor actors played. Regardless of the effectiveness of these coordinating institutions, they were the most appropriate, desirable, and feasible.

Despite the success of civil servants in the industrial policy sphere to seize the policymaking initiative and establish direct but selective public-private contacts to coordinate industrial adjustment, they failed to establish any coordinating institutions that reached across to the labor market policy sphere. One may speculate that part of this failure was the result of the manner in which civil servants seized the policymaking initiative, namely, the exclusion of interest organizations from the industrial policymaking process. However, other significant factors were that important political-economic actors in the labor market policy sphere did not share the priorities and strategies of important political-economic actors in the industrial policy sphere, nor did these actors have the same roles to play, influence to exert, and relations with their respective counterparts. The specific internal logics and relations among these actors resulted in institutions that coordinated the implementation of active labor market

policies, but also insulated these institutions and policies from any other policy issues that could potentially distract policymakers from their singular goal of reducing high structural unemployment rates. Policymakers in the industrial policy sphere could not induce cooperation and coordination among important political actors across the industrial and labor market policy spheres because their priorities, policies, and institutions were largely irrelevant to the priorities, policies, and institutions of important political-economic actors in the labor market policy sphere.

Conclusion

Active labor market policy in Denmark, like almost every other aspect of labor market policy, has been based on cooperative, consensus-based relations among state actors, employer groups, and labor groups. Given the special positions of employer and labor organizations in the functioning of labor markets, governmental authorities needed their participation to legitimize their active labor market initiatives. Although the Danish active labor market reforms of the 1990s were state-led, they were not completely state-controlled. And despite the fact that state-actors used legislation to frame the content of active labor market policies often without the direct participation of employer and labor groups, state actors were nevertheless constrained in the extent to which they could fundamentally alter the terms of activation, either through legislation or the labor market councils. Since employer and labor groups could not be excluded from systemic changes to the labor market system in 1993–94, the participation of these groups in the establishment of the new active labor market system influenced the form and function of the new labor market institutions.

Significantly, the form and function of the labor market councils at the heart of the new activation system and driven collectively by state actors, employer organizations, and labor organizations reflected a single over-riding priority—the reduction of high structural unemployment. Even if political leaders and civil servants had desired to coordinate active labor market policy with industrial development policies, the political necessity of creating a consensus-based active labor market system drawing in the major employer and labor organizations would quite likely have made such coordination impossible. Such coordination would likely have been especially challenging since industrial policymakers had prevented such organizations from directly participating in the policymaking process. The politics of the active labor market reforms suggests that state actors, employer groups, and labor groups all played active roles in ensuring that these coordinating institutions did not stray from the singular agreed-upon goal of reducing quantitative unemployment levels. Indeed, the testimony of civil servants and interest organization representatives suggests that state, employer, and labor actors were more concerned with limiting any spill-over to other policy areas than encouraging it. Although state autonomy was enhanced and coordinating institutions were established in the labor market policy sphere, these institutions hindered rather than promoted coordination with other policies and policymaking institutions in other policy spheres, including the industrial policy sphere.

The complexities of coordinating distinct policy spheres that function according to distinct priorities, strategies, and roles and relations among important political-economic actors forces a reevaluation of the roles of state, business, and labor actors within and across these policy spheres and the ability of state actors to purposefully

exploit comparative institutional advantages and establish effective coordinating institutions. In the Danish case, state, business, and labor actors acted as facilitators and barriers to coordination, but in different ways in different policy spheres. In the industrial policy sphere in the late 1980s, conservative political and business leaders resisted state intervention in the private-sector. Over the course of the following years, civil servants increasingly laid more emphasis on direct public-private contacts and less on organizational contacts, distancing business organizations, and interest organizations more generally, from the policymaking process. While business organizations were loath to adopt state-led industrial development efforts, by the early to mid 1990s civil servants had institutionalized contacts with individual private-sector business leaders who willingly participated in state-led coordinated adjustment efforts. Obviously, not all important political-economic actors in the industrial policy sphere were induced to cooperate and contact between state actors and private-sector business leaders was indeed direct but selective.

In the labor market policy sphere, state actors drew interest organizations closer to the policymaking process, particularly in terms of implementation. Employer and labor interest organizations managed to work together in a collegial atmosphere and significantly reduce high unemployment levels through a very well-coordinated labor market council system. However, the price of consensus among these actors was a strictly-defined framework through which active labor market policies were designed and implemented. Most of the important political-economic actors were induced to cooperate, but this cooperation resulted in institutions that were effectively isolated from other policy spheres. In sum, due to the significantly different priorities, strategies, roles and

relations among important political-economic, and institutions in the labor market policy sphere, policymakers in the industrial policy sphere pursuing coordinated industrial adjustment through direct but selective public-private contacts could not induce cooperation and coordination among important political-economic actors in the labor market policy sphere that had enormous influence over a critical element of the framework conditions of Danish clusters, namely, human resources. Although this analysis is restricted to Danish industrial and labor market politics, one may suspect that other policy spheres impacting industrial adjustment also function according to their own internal logics and relations and would therefore pose their own unique challenges to policymakers attempting to induce cooperation and coordination among important political-economic actors across policy spheres in pursuit of state-led coordinated industrial adjustment.

Chapter 7

Coordinated Industrial Adjustment Reconsidered:

Some Complexities in the Exploitation of Comparative Institutional Advantage

Introduction

I began this analysis with the argument that advanced industrialized welfare states characterized by coordinated market economies such as Denmark have at least some level of policymaking autonomy by virtue of the accepted norms of sovereignty afforded states in the international system. While I did not summarily dismiss the cumulative effects of increasing flows of trade, capital, and information on state actors' economic policymaking autonomy and their capacity to achieve particular policies, I rejected notions that state actors are necessarily limited only to a short menu of liberalization policy options that requires the dismantling of distinctive state structures and policies, such as extensive welfare provisions, to remain competitive in an expanding global economy. Instead, I have argued that states may remain competitive in the global political economy while also sustaining distinctive state structures and policies by utilizing what autonomy they do have to establish institutions that make particular policies more feasible and achievable. I have argued that, by autonomously establishing domestic institutions that make alternative policy options achievable, this enhanced capacity may, in turn, enhance autonomy by broadening the menu of potentially achievable policy options, including policy options that have a strong emphasis on welfare provisions. Following arguments made by Peter Hall and David Soskice, I have suggested that catalyzing this virtuous cycle in a coordinated market economy may depend on the

establishment of institutions that facilitate cooperation and coordination among important domestic political-economic actors. I have therefore argued that the greatest challenges to sustaining distinctive state structures and policies are not increasing flows of trade, capital, and information, but establishing effective domestic coordinating institutions.

Although the concept of comparative institutional advantage provides an interesting theoretical starting point, I argued that exploiting and manipulating comparative institutional advantages may be more difficult in practice than in theory because the priorities, strategies, and roles and relations among important political-economic actors, and perhaps even pre-existing institutions, within a state would not necessarily be easily manipulated or controlled by policymakers trying to establish new coordinating institutions for particular purposes. Even if policymakers are successful in establishing effective coordinating institutions, policymakers may have little control over the final form and function of these institutions. Moreover, I have argued that, because any given policy sphere is likely to function according to its own internal logics and relations, exploiting comparative institutional advantages and establishing effective coordinating institutions for particular goals would be especially difficult if these goals required actors, policies, institutions, and resources to be coordinated across multiple policy spheres. I have argued that the priorities, strategies, and roles and relations among important political-economic actors within any given policy sphere are likely to be different, resulting in institutional variations across policy spheres. Although I made no claim that these different internal logics and relations would necessarily result in uncoordinated, non-complementary, or dysfunctional institutions across important policy spheres, I suggested that, if policymakers are to establish coordinating institutions to

effectively implement policies that draw resources from multiple policy spheres, they would have to take into account the priorities, strategies, and roles and relations among important political-economic actors within the distinct policy spheres from which resources would be drawn.

In this vein, I analyzed coordinated industrial adjustment efforts in Denmark in the 1990s, which were intended to promote the competitiveness of Danish firms in the global economy and sustain the Danish welfare state. Denmark was chosen because it is an advanced industrial welfare state grouped among coordinated market economies by Hall and Soskice. Coordinated industrial adjustment was analyzed because such adjustment would presumably require the purposeful coordination of actors, resources, and institutions from across several policy spheres outside the industrial policy sphere, perhaps including the fiscal, finance, labor market, and education policy spheres, among others. In this work, I analyzed the coordination of only industrial and labor market policies, actors, resources, and institutions. I made no claim that the labor market policy sphere is more important to industrial adjustment than other policy spheres, only that it is one of many potentially important policy spheres. I drew extensively on Hall and Soskice, Evans, and Weiss to analyze the potential merits of coordinating policies, actors, resources, and institutions across the industrial and labor market policy spheres through direct but selective public-private contacts in the industrial policy sphere. Although these scholars do not work within the same exact theoretical framework, Weiss' work relies heavily on the broad literature of political-economic coordination, including previous research by Hall and Soskice, and on Evans' work on industrial transformation. Since direct but selective public-private contacts are put forth by Weiss as an ideal institutional

form for coordinating industrial transformation in her ideal “transformative” states of Germany and Japan, which Hall and Soskice identify as coordinated market economies, it would seem not altogether inappropriate to more closely examine some of the overlapping issues related to purposefully establishing this or any other particular institutional form to coordinate industrial adjustment in coordinated market economies.

I have focused on several specific issues relevant to both sets of literature. First, I questioned whether a focus on broad patterns of coordination and cooperation at the national level presents a sufficient guide to policymakers who might wish to establish coordinating institutions to achieve concrete policy goals. Second, I questioned the extent to which policymakers would be able to purposefully exploit comparative institutional advantages and establish specific forms of coordinating institutions for specific purposes within distinct policy spheres. Third, I questioned the extent to which policymakers would be able to purposefully exploit comparative institutional advantages and establish coordinating institutions not only within, but across multiple policy spheres contributing to industrial adjustment. Fourth, I questioned whether the institutionalization of direct but selective contacts among state and business actors within just the industrial policy sphere would sufficiently support “the ability to coordinate industrial change to meet the changing context of international competition,”¹ especially when such coordination is dependent on the capacity of states to “shape and coordinate resources across a broader spectrum than that of ‘industry’ policy proper.”²

Unlike the national-level “varieties of capitalism” approach taken by Hall and Soskice and the industrial policy sphere-specific “selective embedded autonomy”

¹ Linda Weiss, *The Myth of the Powerless State* (Ithaca: Cornell University Press, 1998), 7.

² Ibid.

approach taken by Weiss, both of which emphasize state–business relations, I took a slightly different approach. First, rather than look to the national level for clues about the conditions under which effective coordinating institutions might be established, I looked to distinct policy spheres that comprise the national state structure. Second, rather than look to institutionalized contacts between just strong state actors and strong business actors in just the industrial policy sphere to illuminate the challenges of coordinating industrial adjustment, I looked at the different priorities, strategies, and roles and relations among different sets of important political actors in the Danish industrial policy sphere and another policy sphere, the labor market policy sphere. In this analysis, I examined how the different priorities, strategies, and roles and relations among strong state, business, and labor actors in the industrial policy sphere and the labor market policy sphere impacted the form and function of coordinating institutions and the potential for state actors to lead adjustment processes. I also examined how institutional variation within these policy spheres impacted the capacity of state actors in the industrial policy sphere to effectively coordinate industrial adjustment policies and institutions with active labor market policies and institutions. In sum, I examined Hall and Soskice’s contention that “each economy displays specific capacities for coordination that will condition what its firms and government do,”³ but instead of examining such capacities at the national level, I examined the specific capacities for coordination within particular policy spheres and the implications of institutional variation at the policy level for national-level coordination. More concretely, I examined the potential of Weiss’ “selective embedded

³ Peter A. Hall and David Soskice, “An Introduction to Varieties of Capitalism,” in Peter A. Hall and David Soskice, eds., *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford: Oxford University Press, 2001), 35.

autonomy” to “shape and coordinate resources across a broader spectrum than that of ‘industry’ policy proper.”⁴

Since the development of human resources played an important role in Danish industrial adjustment efforts, yet was an issue more relevant to Danish labor market policy, labor market policy was chosen as an independent variable to more closely examine some potential shortcomings regarding national comparative institutional advantage and coordinated industrial adjustment based on direct but selective public-private contacts. As already implied, the first shortcoming stems from the level of analysis. On the one hand, a national level of analysis tells us little about the concrete conditions under which comparative institutional advantages can be exploited for particular ends. On the other hand, an examination of a singular policy sphere tells us little about how coordinating institutions in that policy sphere might be established, what form may be most appropriate for a particular policy sphere, how they might function, and how they might interact with coordinating institutions in other policy spheres. Neither framework on national comparative institutional advantage or selective embedded autonomy in the industrial policy sphere resolve the crucial dilemma of establishing effective coordinating institutions across multiple policy spheres that function according to different internal logics and relations among important political-economic actors. If enhancing capacity, and thereby autonomy, in a coordinated market economy depends on establishing effective coordinating institutions within and across distinct policy spheres comprising the national state structure, policymakers will have to take into account how the different priorities, strategies, and roles and relations among important political-economic actors within those distinct policy spheres might impact the

⁴ Weiss, 7.

potential for effective coordination. Otherwise, even if effective coordinating mechanisms are established in particular policy spheres, institutions in different policy spheres may not be coordinated or even complementary.

Expanding on this first shortcoming, a second shortcoming relates to an inappropriate importance attached to strong state actors and strong business actors in the industrial policy sphere, and the roles and relations among important political-economic actors within distinct policy spheres more generally. While the importance of strong state and business actors in the industrial policy sphere to industrial adjustment is not in dispute, what is in dispute is any expectation that strong state and business actors, or any other set of actors, will have the same roles to play, the same influence to exert, and the same relations with other important political-economic actors in other policy areas that contribute to industrial adjustment. There is no reason to assume that any set of important political-economic actors, including state, business, or labor actors, in any given policy sphere will exert the same degree of influence, play the same roles, and have the same relations in every other policy sphere. Indeed, it would seem inappropriate to ascribe particular roles and priorities to any set of particular actors *a priori*. For example, business actors may not always facilitate industrial adjustment and labor actors may not always obstruct labor market adjustment. The set of important political-economic actors may even shift from policy sphere to policy sphere. In short, state, business and employer, and labor actors, among others, may play different roles depending on the policy sphere in which they interact and may hinder or promote the coordination of resources across policy spheres necessary for industrial adjustment. Furthermore, these internal logics and relations may condition not only the form and function of coordinating

institutions, but also the manner in which state actors may increase their autonomy and lead adjustment efforts.

If policymakers in the industrial policy sphere pursuing efforts to establish coordinating institutions that enhance the effectiveness of industrial adjustment policies do not take into account how different roles and relations among important political-economic actors across policy spheres can impact their capacity to actually coordinate actors, institutions, policies, and resources across those policy spheres, the extent to which coordinated industrial adjustment efforts are successful may be quite limited. A conceptualization of coordinated industrial adjustment that ignores these political concerns risks elevating a theoretical ideal beyond practical policy possibilities; and pursuing a preferred institutional form that is not appropriate to the circumstances prevailing in any given policy sphere may be counter-productive, regardless of its theoretical merit. Danish industrial politics and labor market politics in the 1990s provide poignant cases that illustrate some of the complexities involved in establishing institutions that effectively coordinate actors, policies, and resources, even if led by strong state actors.

In the industrial policy sphere in the 1990s, state actors were focused on coordinating industrial adjustment efforts that drew resources from several distinct policy spheres, including the labor market policy sphere. Due to significant opposition from conservative political and business leaders, including employer organizations, to state intervention in the economy, officials of the Danish Ministry of Business institutionalized direct but selective contacts with private-sector business leaders and industry experts willing to participate in their endeavors. This tactic served two purposes. First, civil

servants had immediate access to business leaders' knowledge and experience to inform their policies. Second, the participation of private-sector business leaders conferred legitimacy on their industrial adjustment efforts. By drawing legitimacy directly from the private-sector, state actors distanced conservative employer organizations, and interest organizations more generally, from the policymaking process to recapture the policymaking initiative. Contrary to expectations that strong business interests would play a constructive role in coordinating industrial adjustment, direct but selective public-private contacts were institutionalized because of the opposition of strong, organized business interests, not their willingness to cooperate. In other words, coordinating institutions based on direct but selective public-private contacts were established despite strong business organizations, not because of them. This tactic, however, also served not only to alienate important political-economic actors in the industrial policy sphere, but important political-economic actors who had enormous influence over the quality and supply of labor.

In the labor market policy sphere, the highest priority among state, employer, and labor actors was double-digit structural unemployment, which led to the reorientation of Danish labor market policy away from incomes policy traditionally negotiated among employer and labor organizations and towards active labor market policies legislated by state actors. Nevertheless, given the importance of employer and labor organizations to the smooth functioning of the labor market system, including the management of unemployment benefits, and the well-established tradition of consensus-making, political leaders and civil servants could not exclude interest organizations from the policymaking process by establishing direct but selective contacts with individual private-sector actors.

Instead, they cooperated with interest organizations and established a very different set of coordinating institutions in 1993–94 based on corporatist labor market councils to implement active labor market policies. Once these institutions were in place, political leaders, supported by their civil servants, legislated a series of labor market reforms governing active labor market policy and the labor market councils to seize the policymaking initiative.

Although the formal legal framework of the active labor market policy system gave state actors a mechanism through which to constrain interest organizations, the formal responsibility already given to interest organizations for the implementation of the government's active labor market policies through the councils also meant that the government could lead labor market adjustment efforts through legislation only to the extent that interest organizations were willing to implement them through the councils. The labor market council system collectively agreed upon by state, employer, and labor organizations required the active cooperation among all of these actors if it was to be effective. The consensus-making process among state, employer, and labor actors, which instilled the active labor market reforms with legitimacy, was not fundamentally altered, even though the reforms were state-led. Contrary to expectations that interest organizations would present only obstacles to adjusting Danish labor markets, both employer and labor organizations greatly contributed to reducing quantitative unemployment levels in Denmark from one of the highest in Europe at the beginning of the 1990s to one of the lowest by the end of the 1990s.

The different priorities, strategies, and roles and relations among different actors internal to each policy sphere conditioned not only the manner in which state actors could

lead adjustment efforts (for example, exclusionary versus co-optive tactics), but the form and function of the coordinating institutions (for example, direct but selective public-private contacts versus formal corporatist organizations) established in each policy sphere. These different priorities, policies, roles and relations, and institutions also had significant implications for coordinating industrial adjustment and labor market adjustment in Denmark. In the industrial policy sphere, despite the emphasis laid on coordination and the successful institutionalization of direct but selective public-private contacts in the industrial policy sphere, these contacts were not sufficient to induce cooperation and coordination with all the important political-economic actors in the industrial policy sphere or the labor market policy sphere. On the one hand, perhaps somewhat surprisingly, direct but selective public-private contacts were used by policymakers to exclude strong, well-organized business interests, not induce them to cooperate. On the other hand, the exclusion of interest organizations from the industrial policymaking process deprived state actors in the industrial policy sphere of potentially crucial labor market partners in coordinating industrial adjustment efforts with labor market adjustment efforts.

In the labor market policy sphere, coordinating institutions were based on consensus-making among state actors and interest organizations, which were manifested in the more formal labor market councils. Because consensus lay at the core of these institutions, only issues of direct relevance to reducing quantitative levels of unemployment and on which a consensus could be reached broached the active labor market system, namely the distribution of education and training offers as elements of the unemployment benefits system. State, employer, and labor actors did not accept that the

strategic placement of human resources or the content of education and training programs were within the active labor market framework. Institutionalized direct but selective public-private contacts in the industrial policy sphere did not induce cooperation and coordination with important labor market actors because their form, function, and purpose were simply irrelevant to important labor market actors at the heart of the labor market system.

The different priorities, strategies, roles and relations among important political-economic actors in the different policy spheres led to significantly different policies and institutions. This institutional variation inhibited cross-policy coordination and, by extension, coordinated industrial adjustment. Political leaders, civil servants, business actors, and labor actors all contributed to the lack of coordination between industrial and labor market policies and institutions, but in different ways in the different policy spheres. There may well have been other significant factors impacting the capacity of state actors to induce cooperation and coordination across these two policy spheres, but it is clear that direct but selective public-private contacts were insufficient “to shape and coordinate resources across a broader spectrum than that of ‘industry’ policy proper.”⁵ Furthermore, industrial and labor market policies may have been more complementary at some level than this analysis suggests, but it is clear any cross-policy complementarity was not the result of state actors’ intentional, purposeful exploitation of comparative institutional advantages. In fact, state actors in the industrial policy sphere excluded important employer and labor actors from the policymaking process and state actors in the labor market policy sphere colluded with employer and labor actors to insulate active labor market policies and institutions from other policy considerations. Ironically, the

⁵ Ibid.

coordination of actors and resources within each policy sphere came at the expense of coordination across them.

The Internal Logics and Relations in the Industrial Policy Sphere

State-led coordinated industrial adjustment efforts through direct but selective public-private contacts in Denmark were not initiated until about 1994, but the process of initiating this project and institutionalizing these contacts actually began several years earlier. This process can be divided roughly into three different phases. The first phase, which I examined in chapter 2, spans roughly from 1982 to 1990. The second phase, which I examined in chapter 3, spans roughly from 1990 to 1994. The third phase, which I examined in chapter 4, spans roughly from 1994 to 1998. The process by which civil servants were ultimately able to establish this particular form of coordinating institution and seize the policymaking initiative was thus a long, slow process and was conditioned by shifting priorities, strategies, and roles and relations among important political-economic actors specific to the industrial policy sphere. Although state actors exploited opportunities to pursue direct but selective public-private contacts and coordinate industrial adjustment policies, the extent to which they were able to consciously manipulate comparative institutional advantages in these pursuits was determined as much by other actors' priorities, strategies, and roles and relations as their own.

During the first phase, which spans roughly 1982 to 1990, political leaders were polarized between a "hands-off" liberal industrial policy and a more interventionist "picking-the-winners" industrial policy. Yet since parliament was controlled by a Conservative-led coalition, and the major employer organizations resisted state

intervention in the economy, industrial policy was characterized more by the former than the latter. Danish industrial policy generally followed the industrial framework set out in the 1973 *Law on Technological Services*, which established a system supporting Danish firms' practical utilization of technology through state-approved and state-funded technology service institutes. This law also established the Technology Council, an advisory board comprised of state and private-sector industry experts. Although the private-sector members served in their personal capacities, they were in practice appointed by interest organizations. Even at this relatively early period, increasing international competition was a major concern among Danish political and business leaders. Overseeing efforts to increase international competitiveness among Danish firms was the prime mandate of the Technology Council. As many former and current civil servants and outside observers readily acknowledge, Danish industrial policy was nevertheless characterized mainly by the subsidization of strategic industries, such as shipbuilding, throughout the 1980s, notwithstanding the Conservative-led government's adherence to liberal industrial policies. One of the few areas in which a consensus could be reached was that of technology promotion, which led to the relatively large-scale Technology Development Program in 1983–84 shortly after the election of a Conservative-led government in 1982.

Despite the apparently renewed vigor given to industrial development policies through the Technology Development Program, serious concerns were being raised by private-sector industry experts as well as civil servants regarding the wisdom of hands-off strategies, picking-the-winners strategies, and even technology-promotion strategies. In the private sector, the respected Danish Association of Engineers released a dismal report

on Danish technology promotion efforts in 1985, which criticized not only the effectiveness of technology promotion programs, but the use of funds devoted to them. The Conservative-led government's focus on sectoral and technology promotion policies in an otherwise liberal industrial policy framework seemed not to be able to resolve Danish industry's apparently chronic weakness in high-technology production methods and products, as reflected in relatively small amounts of money directed to research and development efforts among Danish firms. While the dominant employer organizations, the Danish Confederation of Employers and the Danish Industry Council (later the Danish Confederation of Industry), strongly supported a liberal industrial policy, other industry experts and business leaders had begun exploring industrial development strategies based on industrial complexes and industrial blocs, such as agricultural and construction complexes.

Yet many civil servants had come to regard sectoral policies with which industrial complexes were associated as too conservative in the sense that state-support of particular industrial sectors inhibited adaptation to increasing competitive pressures, but also lacked the information to pick the "right" winners. In any case, civil servants were acutely aware that any strategy that implied picking the winners would be rejected by the conservative government. Instead, civil servants at the ministries of industry, finance, education, and labor collaborated to introduce a "structural" policy in 1986, which put forth a view of an overarching coordinated, integrated policy subsuming several policy areas, including industry policy, technology policy, finance policy, education policy, and labor market policy, to enhance the competitiveness of Danish firms. The proposal explored ways in which policies in these different policy areas could potentially support

firms' own endeavors, such as public-private research partnerships and education and training programs directed towards high-technology production. Although the proposal was not very rich in detail, it was a significant step towards an alternative to "hands-off," "picking-the-winners," and technology-defined approaches to industrial development.

Through private-sector initiatives such as the Forum for Industrial Development and projects supported by private-sector firms, institutional investors, and industry consultants, a small but influential private-sector epistemic community had begun coalescing over the latter years of the 1980s, which gradually expanded to include civil servants at the Danish Ministry of Industry. Critical mass was achieved in 1988 when actors in this community converged on the cluster strategy formulated by Michael Porter in his research for *The Competitive Advantage of Nations*.⁶ Significantly, among the case studies included in Porter's work was Denmark. This strategy was seized upon by civil servants at the ministry of industry, including those at the Danish Agency for Industry and Trade who provided the Technology Council with its secretariat, who saw it as a perfect framework that could potentially break the impasse over "hands-off" and "picking-the-winners" strategies. Since the strategy was predicated on enhancing the underlying conditions that contributed to dynamic, synergistic growth among related industries within naturally-occurring clusters, civil servants could reject criticisms that such a strategy would favor one firm or sector over another. Moreover, because improving the underlying conditions was predicated on close public-private contacts, civil servants could also rebuff claims that state actors would inappropriately interfere in the market and ignore the needs and demands of the business community. By the close of the 1980s, civil servants had identified a potentially politically-acceptable industrial

⁶ Michael Porter, *The Competitive Advantage of Nations* (London: Macmillan Press, 1990).

development framework and a group of sympathetic private-sector actors other than reticent employer organizations with whom they could potentially build public–private partnerships. The analysis of Danish industrial politics in the 1980s reveals the slow formation of a coordinated industrial development strategy and a community of like-minded civil servants and private-sector actors. However, this analysis also reveals that this process was very much the product of the internal logics and relations within the industrial policy sphere, notwithstanding the collaboration of civil servants from several ministries on the 1986 structural policy proposal.

In chapter three, I analyzed the second phase, which spanned roughly from 1990 to 1994. I showed that unique obstacles in the industrial policy sphere were presented to civil servants pursuing coordinated industrial adjustment at the outset of the 1990s, despite the convergence of a community of civil servants and private-sector actors around a common industrial development policy. I also showed that a unique opportunity to overcome these obstacles was presented to these actors. In late 1989 a new conservative industry minister was appointed, Anne Birgitte Lundholdt. Unlike her predecessor, Niels Wilhjelm, who promoted the 1986 structural policy proposal, this minister shunned virtually any notions that the state had a role to play in the private sector. Under this new minister, significant cuts were made to the ministry of industry's budget for the 1990 fiscal year, including the remaining appropriations for the Technology Development Program, which shocked even employer organizations. The administrative rationalization of the ministry of industry following the budget cuts included the replacement of nine industrial and technology development advisory councils, including the Technology Council, by a centralized Business Development Council. The Business Development

Council was, in fact, the direct successor of the Technology Council, but was mandated to explore a much wider range of issues affecting Danish industry than just technology issues. Significantly, its secretariat would be provided by civil servants at the Danish Industry and Trade Agency, which fell under the authority of the Danish Ministry of Industry.

While the new minister and the leading business organizations resisted notions of state-led industrial development efforts, suggesting the drive towards coordinated industrial development policies would fall by the wayside, the members of the Business Development Council established in 1990 were willing to entertain alternatives to the government's laissez-faire approach. Indeed, the council was legally mandated to explore broad issues of industrial development in its advisory role to the minister. Shortly after the Business Development Council's establishment, civil servants at the Danish Agency for Industry and Trade proposed the council undertake a study of Danish clusters, the framework of which was taken directly from Porter's work. Subsequently, the council commissioned a study of Danish "resource areas" based explicitly on a cluster-development strategy, which included a heavy emphasis on direct public-private contacts and partnerships. Under the patronage of the Business Development Council, the Resource Areas Analyses project that followed was in effect the operationalization of the 1986 structural policy, with eight identified Danish clusters providing laboratories to conduct coordinated industrial development experiments with willing private-sector business leaders and industry experts. Although the project was nominally under the authority of the council, it was civil servants who ran the day-to-day operations and chose the business leaders and industry experts who would participate. Importantly, civil

servants for the most part excluded participants from the dominant employer and labor organizations from the project.

Operating under the authority of the council, civil servants began establishing direct contacts with private-sector business leaders and industry experts, laying the groundwork for a broader shift in industrial policy and mechanisms to implement it. The reasons for initiating the Resource Areas Analyses project through the Business Development Council were both conceptual and practical. Conceptually, policymakers had to learn directly from private-sector entrepreneurs how and under what conditions firms interacted in order to improve the conditions that would facilitate synergistic and dynamic growth within any given cluster. Practically, since the conservative industry minister and major employer groups opposed state-led industrial development efforts, civil servants had to find other partners and channels by which they could introduce their strategies to official government policy. Responding to these circumstances, civil servants circumvented the opposition of conservative political leaders by filtering the strategy through the Business Development Council and circumvented conservative business organizations by establishing contacts with individual private-sector business leaders and industry experts.

By 1992, civil servants had managed to introduce a coordinated industrial development strategy into official debate, even if on the fringes, despite the opposition of conservative political leaders. They had also begun institutionalizing contacts with private-sector business leaders and industry experts to coordinate industrial adjustment efforts, despite the opposition of conservative business organizations. Nevertheless, civil servants were still operating under the ultimate authority of the Business Development

Council, which played an intermediating role between civil servants and private-sector actors and constrained civil servants policymaking autonomy. Moreover, the Business Development Council was still only an advisory organ and its prescriptions for industrial development could not be forced into official government policy. Just as the period between 1982 and 1990, the period between 1990 and 1994 reveals very specific circumstances that conditioned the manner in which civil servants in the industrial policy sphere could potentially enhance their autonomy and the form and function of institutions that could potentially contribute to coordinated industrial adjustment efforts.

The third phase, which I examined in chapter four, begins in 1993–94. It was during this period that civil servants institutionalized direct but selective contacts with private-sector business leaders and industry experts, seized the policymaking initiative, and adopted coordinated industrial adjustment as official government policy. When the government shifted to a Social Democratic-led government in 1993, a sympathetic prime minister was installed and a new ministry of business policy coordination established. The new ministry, which eventually absorbed the ministry of industry and was ultimately named the ministry of business, was led by a weak minister but staffed by the very civil servants convinced of the need for a coordinated industrial development policy. Among the leaders of the ministry was a former senior finance ministry official who participated in the drafting of the 1986 structural policy proposal, the policy planning chief of the ministry of industry, and the policy planning chief of the agency for trade and industry. All of these officials had participated in the Business Development Council, with two of them serving as the vice chairmen. Moreover, one of them was the chair of the Business Development Council's Resource Areas Analyses project. Although they incorporated

the Resource Areas Analyses into their policy guidelines, these civil servants, especially the head of department, deftly used their positions to further distance interest organizations, especially conservative employer organizations, and the Business Development Council from the policymaking process.

In 1994, the Business Development Council presented its first, and only, report on the Danish resource areas. The adoption of “resource areas” and “framework conditions,” as the elements of structural policy were to be called, by the government would seem to imply that the Business Development Council would attain even more significance to Danish industrial development efforts. Quite to the contrary, many civil servants at the ministry of business policy coordination were disappointed with the Business Development Council’s handling of the Resource Areas Analyses project and, with the tacit approval of the minister, rescinded the Business Development Council’s authority over the project in 1994. By virtue of the contacts they had already established with private-sectors actors, civil servants were confident that they no longer had to depend on the Business Development Council and interest organizations to legitimize their industrial development efforts initiated a “Dialogues with Resource Areas” directly from the ministry. With the acquiescence of the minister of business policy coordination, civil servants increasingly set out the government’s industrial policies without seeking the advice of interest organizations, including the dominant business organizations, or the Business Development Council. Interest organizations and the Business Development Council could comment on the government’s policies, but often only after the policy guidelines had already been drafted. Moreover, comments that were not directly relevant to the ministry’s guidelines were more often than not simply ignored. By the mid to late

1990s, civil servants had taken firm hold of industrial policy and initiated a coordinated industrial development project by institutionalizing direct but selective contacts with private-sector business leaders and industry experts.

The process of establishing this particular form of coordinating institution reflected the specific internal circumstances and conditions of the industrial policy sphere from the late 1980s through the 1990s. Progressive civil servants exploited opportunities, such as the coalescence of a community of business leaders and industry experts around a cluster-strategy and the establishment of the Business Development Council, but also had to work within specific constraints, such as the opposition of conservative political leaders and business organizations. Direct but selective public-private contacts among state and business actors may well have been a political necessity if civil servants were to regain the policymaking initiative and lead coordinated industrial adjustment efforts, but the institutionalization of such contacts obviously had other negative consequences in terms of effectively inducing important political-economic actors to cooperate and coordinate, particularly the exclusion of employer and labor organizations from the Resource Areas-related projects and the industrial policymaking process more generally. These negative consequences were just as much a product of the priorities, strategies, and roles and relations among important political-economic actors in the industrial policy sphere as the positive consequences. The extent to which the exclusion of employer and labor actors from the policymaking process actually impacted the effectiveness of coordinated industrial adjustment efforts was beyond the scope of this study, but it is in any case clear that direct but selective contacts among important state and private-sector business leaders and industry experts were far from sufficient to induce cooperation and

coordination among all the important actors in the industrial policy sphere. The brief analysis of Danish labor market policy in the 1990s shows that such institutionalized contacts were also insufficient to coordinate actors and resources in the industrial policy sphere with actors and resources in the labor market policy sphere.

The Internal Logics and Relations in the Labor Market Policy Sphere

In chapters five and six I examined the potential difficulties of establishing effective coordinating institutions across policy spheres by analyzing the priorities, strategies, roles and relations among important political-economic actors, and institutions in the Danish labor market policy sphere in the 1990s. In chapter five I provided a brief description of the roles and relations among state, employer, and labor actors in this consensus-based policy sphere, the overriding priority of reducing double-digit structural unemployment rates, and their active labor market strategies for resolving the unemployment crisis. I also provided a brief description of the primary labor market policies and institutions established in 1993–94, which were based on these roles and relations, priorities, and strategies. I did not delve deeply into the establishment of these coordinating institutions, but rather offered them as an example of institutional variation across policy spheres that might present particular coordination problems to policymakers seeking to exploit comparative institutional advantages at the national level to achieve particular policy goals, as well as the inadequacy of direct but selective public–private contacts in the industrial policy sphere to coordinate actors and resources across policy spheres.

The existence of these labor market institutions was particularly instructive because they were established almost at the same time state actors in the industrial policy

sphere began institutionalizing direct but selective public–private contacts, which might suggest that this period provided a unique opportunity to establish cross-policy institutions that were at least complementary. Nevertheless, the brief analysis of the Danish active labor market reforms and the specific form and function of the coordinating institutions in chapter six shows that they were conditioned by very different priorities, strategies, and roles and relations among important political-economic actors in the labor market policy sphere, and virtually untouched by actors, events, and processes in the industrial policy sphere. The capacity of state actors in the industrial policy sphere to establish institutions that could potentially coordinate actors and resources across the industrial and labor market policy spheres were thus impacted not only by the priorities, strategies, and roles and relations among important political-economic actors in the industrial policy sphere, but the labor market policy sphere, as well.

In chapter five, I showed that, in the early 1990s in the labor market policy sphere, a nearly universal consensus arose among the most important political-economic actors, including political leaders, civil servants at the ministries of labor and finance, and employer and labor organizations, that the highest labor market policy priority was to reduce double-digit structural unemployment rates. This priority was seen not only as a labor market policy priority, but, indeed, as a finance and economic policy priority. Industrial policy was far from a high priority among these actors. The ineffectiveness of negotiated wage agreements among employer and labor organizations to reduce these high rates shifted attention away from incomes policy and towards active labor market policy, particularly among civil servants at the ministries of labor and finance, who had little confidence that wage negotiations would resolve the unemployment problem.

Nevertheless, since labor market governance in Denmark traditionally has been, by and large, governed through consensus among employer and labor organizations, with the state playing a subsidiary role, state, employer, and labor actors cooperated through the Committee on Labor Market Structural Problems (the Zeuthen Committee) in 1992 and establish a new active labor market policy system in 1993–94. This committee was supported by virtually every political party, employer organization, and labor organization.

A core issue in the new active labor market system was a more efficient and effective use of unemployment benefits to bring long-term unemployed back to the normal labor market. As pointed out in chapter five, the state provides significant funds for unemployment benefits, but these funds are often either directly or indirectly managed by private, trade-affiliated unemployment insurance funds. Any changes made to the unemployment benefits system would therefore have to include the active cooperation of interest organizations managing unemployment benefits. Moreover, as representatives of large sections of the business community and employees on labor market issues, the legitimacy the participation of interest organizations conferred on the new labor market system was indispensable. The entrenched roles of employer and labor organizations in governing the labor market system and the legitimacy they conferred on it meant that state actors could not exclude them from the policymaking process, as had been the case in the industrial policy sphere. Ultimately, not only were they not excluded, but they were given the formal responsibility of carrying out active labor market efforts through a corporatist National Labor Market Council and fourteen regional labor market

councils. The labor market policy sphere was essentially characterized by what Coleman describes as associational governance.⁷

In chapter six, I showed how the institutionalization of the priorities, strategies, and roles and relations among state, employer, and labor actors in the labor market councils impacted the manner in which state actors could assume leadership of the active labor market reforms. With the establishment of the labor market councils in 1993–94 through legislation, and hence the formal appointment of interest organization actors in the active labor market system, state actors exerted their leadership through the 1990s by working within the specific legal parameters of the active labor market policy system initially negotiated with employer and labor organizations. The independent evaluation of local labor market developments by the Danish Labor Market Agency running in parallel with the labor market councils' own efforts set the pace of the legislated reform process, not the labor market councils or negotiations with employer and labor organizations. When changes to the active labor market laws were under consideration, the specific terms of the reforms were determined by ministers and their civil servants and negotiated among political parties in the Danish parliament. This process was a significant deviation from the traditional norm of negotiated labor market policymaking, but it served to shift the policymaking initiative to state actors.

Still, the underlying foundations for governing the active labor market system relied heavily on cooperation and consensus among state actors, employer organizations, and labor organizations, which was buttressed by the formal labor market council system. In order to coordinate labor market adjustment efforts effectively and lead the

⁷ William D. Coleman, "Associational Governance in a Globalizing Era: Weathering the Storm," in J. Rogers Hollingsworth and Robert Boyer, *Contemporary Capitalism: The Embeddedness of Institutions* (Cambridge: Cambridge University Press, 1997), 127–53.

policymaking process in the 1990s, state actors had to work within a set of constraints and opportunities specific to the labor market policy sphere. While the establishment of the labor market councils provided state actors with a mechanism through which they could constrain the influence of interest organizations and lead the policymaking process, the strong role of interest organizations, including their positions on the labor market councils, constrained state actors' policymaking autonomy. Although state actors held ultimate authority over the content of the active labor market reforms, they were dependent on the interest organizations represented in the labor market councils to implement them. To ensure a smooth functioning of the active labor market system, state, employer, and labor actors therefore cooperated through the National Labor Market Council and the regional labor market councils to determine appropriations for active labor market efforts, set goals, determine the use of active labor market instruments, identify target groups, and guide placement activities. Although the legal foundations of the labor market council system shifted the balance among the main labor market partners—especially finance and labor ministry officials, and DA and LO, but also including local authorities, strong national associations, like the Confederation of Danish Industry and the Danish Union of Metalworkers, and professional associations—it did not fundamentally alter the consensus-based labor market system and the understanding that, on labor market issues, employer and labor organizations were the legitimate representatives of employer and labor groups, respectively, and therefore had a vital role to play in labor market governance. In the case of active labor market policy, associational governance through tripartite institutions was appropriate and politically necessary.

I also examined in chapter six how the priorities, policies, institutions, and roles and relations among important political-economic actors in the labor market policy sphere resulted in institutionalized barriers to coordination across the industrial and labor market policy spheres. The overwhelming concern among political leaders, civil servants in the finance and labor ministries, and interest organizations on lowering high unemployment levels crowded out other policy concerns. The strategy for reducing high unemployment levels was based on providing long-term unemployed persons with the skills necessary to return to the normal labor market. Underlying this strategy was the redefinition of an unemployed person's rights and obligations regarding unemployment benefits. Unemployed retained the right to generous unemployment benefits, but were obligated to participate in activation programs. In short, the core of Danish labor market policy in the 1990s revolved around the labor market council system, which was formally and legally established to resolve a specific issue in a particular manner: the reduction of quantitatively high structural unemployment levels by determining the amounts of money to be devoted to education, training, and placement programs *in general*. The levels of unemployment benefits were largely left intact, but tightened restrictions on access to these benefits put greater pressure on the unemployed to participate in activation programs.

Although the form and functioning of this system would seem to lend support to the virtues of comparative institutional advantage in a coordinated market economy, it also had significant drawbacks. Because the system relied so heavily on consensus, any issues that were not of immediate relevance to this negotiated mandate, such as the supply of labor to particular economic sectors or the content of education and training

programs, were considered outside the framework of the councils by civil servants, employer organizations, and labor organizations alike. Among state actors, civil servants in the labor market policy sphere saw no fundamental contradictions between their employment strategies and industrial development efforts. No efforts were made to coordinate more closely with their industrial policy counterparts. Moreover, although the active labor market system was devoted to reducing unemployment through education and training programs, the content of education and training programs were issues to be handled by their counterparts in the education policy sphere. Among interest organization actors, employer organizations saw the supply of labor to particular economic sectors as an issue of industrial policy, and therefore not within the framework of the councils. And in any case, both employer and labor organizations at the national level held to their own prerogatives regarding industrial development issues and education and training issues, precluding any examination of such issues in the labor market councils. In short, although the labor market councils that laid at the center of Danish labor market policy in the 1990s were extremely well-coordinated internally, the extremely restricted mandate of the labor market councils negotiated among state, employer organizations, and labor organizations was reinforced by all of these actors, which in effect isolated active labor market policies and institutions from policies and institutions in other policy spheres, including the industrial policy sphere.

The active labor market policies and institutions were, like those of the industrial policy sphere, based on unique circumstances. Important political-economic actors in the labor market policy sphere had significantly different priorities, strategies, and roles and relations than those in the industrial policy sphere, resulting in significantly different

policies and institutions in the 1990s. In the industrial policy sphere, relations among state and employer organizations, and interest organizations more generally, were conflictual. Because employer organizations played an obstructive role in the industrial policy sphere, state actors attempted to exclude them from the policymaking process and established particular kinds of institutions to do so. Whether or not this particular form of institution also facilitated coordinated industrial adjustment is questionable, given that political-economic actors important to both the industrial policy sphere and the labor market policy sphere were excluded. By contrast, in the labor market policy sphere, relations among state and interest organizations were cooperative and collegial. Both employer and labor organizations played crucial cooperative roles in the labor market policy sphere. Ministry officials had willing partners in the strong, well-established employer and labor organizations and well-established contacts with them. Because employer and labor organizations had such important roles to play in the labor market councils and could not be excluded from the policymaking process, state actors pursued a different tactic for seizing the policymaking initiative. Whether or not this particular form of institution facilitated coordinated industrial adjustment is also questionable, but given that these institutions were established for very different purposes, the point would seem to be moot. Despite strong state actors leading adjustment efforts in both the industrial and labor market policy spheres in the 1990s, the extent to which these actors could purposefully exploit any comparative institutional advantages and establish effective coordinating institutions depended not only on their priorities and strategies, but the priorities and strategies of other important political-economic actors and how all of these actors interacted.

Conclusion

The different logics and power relations within the industrial and labor market policy spheres in Denmark suggests that exploiting comparative institutional advantages “to shape and coordinate resources across a broad spectrum”⁸ “to meet the changing context of international competition”⁹ may be much more complex and difficult than theorized. Indeed, the cases of industrial and labor market politics in Denmark suggests that, even if all the theorized preconditions for coordinated industrial transformation set out by Weiss are present in the industrial sphere, these conditions may be insufficient to achieve the broader coordination across multiple policy areas necessary to achieve industrial transformation. Since specific policy spheres function according to their own internal logic and power relations, including relations between and among political leaders, civil servants, private-sector business leaders, and interest organizations, the coordinating institutions that are established in these policy spheres are likely to be unique, as well.

It may certainly be the case that institutional coordination is not necessary to effectively achieve industrial adjustment, but the case of Denmark illustrates how the priorities, strategies, and roles and relations among important political-economic actors in different policy spheres can serve to complicate coordination efforts. Hall and Soskice’s contention that a national economy displays specific capacities for coordination fails to account for the fact that each policy sphere within that economy may very well display specific capacities for coordination. The internal dynamics and power relations among political leaders, civil servants, private-sector business leaders, and interest organizations in the particular policy spheres and the consequent structures of the new Danish

⁸ Weiss, 7.

⁹ Ibid.

coordinating institutions actually reinforced the isolation of important political-economic actors and institutions. Policymakers in the industrial and labor market policy spheres institutionalized contact with important political-economic actors, but in different ways and even with different sets of actors. In the end, the manner in which cooperation was induced and coordinating institutions established in the different policy spheres also resulted in the institutionalization of coordination barriers.

This analysis suggests that, even if ideal coordinating institutions are established under strong state leadership in particular policy spheres, they may not contribute to sustaining distinctive state structures or policies at the national level if policymakers ignore the specific circumstances prevailing in policy spheres that may impact their capacities for coordination across policy spheres. The effectiveness of coordinating institutions in the Danish industrial and labor market policy spheres was beyond the scope of this study, but the case of Denmark suggests that harnessing a state's capacity is dependent on a great many more actors interacting under varied circumstances resulting in more institutional variation than implied by notions of institutional comparative advantage. It also suggests that pursuing any particular institutional form, such as selective embedded autonomy, without due consideration of these varied circumstances may, in fact, be counterproductive. What is an appropriate, desirable, and feasible institutional form in one policy sphere may not be appropriate, desirable, or feasible in another. While Hall and Soskice note that institutional complementarities may generate disincentives to radical change,¹⁰ an equally troubling possibility is that the successful establishment of coordinating institutions in one policy sphere may actually obstruct coordination with others.

¹⁰ Hall and Soskice, 63–64.

Furthermore, despite their importance to inducing cooperation among important political-economic actors, state actors may actually contribute to a lack of coordination across policy spheres, even while promoting it within a given policy sphere. This ambiguity of roles among state actors extends to other important political-economic actors, including business and labor actors, as well. At least in the case of coordinated industrial adjustment in Denmark, any theoretical favor bestowed upon business groups would be misplaced. And at least in the case of coordinated labor market adjustment in Denmark, any theoretical prejudice against labor groups would be equally misplaced. How institutional barriers to coordination might be avoided is also beyond the scope of this study, but in future efforts to map out comparative institutional advantages and identify the conditions under which policymakers might establish effective coordinating institutions that enhance state autonomy and capacity, it may be useful to give more attention to institutional variations within national political economies and the roles and relations among a much wider set of important political-economic actors than state and business actors.

Appendix:

Interview Methodology

Interviews for this work were carried out between October 2001 and January 2004. All interviews, except where noted, were confidential. The interviews were open-ended discussions. No questionnaires, for example, were used. In all, forty-seven interviews were carried out, including interviews with fourteen civil servants, seventeen interest organization representatives, and twelve academic or private-sector consultants. All individuals interviewed were selected due to their leadership positions within relevant organizations, including government ministries, interest organizations, and other private-sector organizations; their participation in institutions and organizations under consideration in this study, such as the Business Development Council (*Erhvervsudviklingsrådet*) (chapters three and four), the Committee on Labor Market Structure Problems (*Udredningsudvalget om arbejdsmarkedets strukturproblemer*) (chapter five), and the Danish National Labor Market Council (*Landsarbejdsrådet*) (chapters five and six); and/or their participation in the projects and reports under consideration in this study, such as the *Debate Proposal on Growth and Change: Requirements for Structural Policy* (*Debatoplæg om vækst og omstilling: Krav til Strukturpolitikken*) (chapter two), the Resource Areas Analyses project (chapter three), the Dialogue with Resource Areas project (chapter four), and the 2005-Committee on the Continuation of the Labor Market Reforms (*2005-udvalget om videreførelse af arbejdsmarkedsreformerne*) (chapter 6).

Of twenty-eight individuals interviewed for research on Danish industrial politics, seven were current or former senior civil servants from the Danish Ministry of Industry (*Industriministeriet*), the Danish Agency for Industry and Trade (*Industri- og Handelsstyrelsen*), the Danish Ministry for Business Policy Coordination (*Ministeriet for Erhvervspolitisk Samordning*), the Danish Ministry of Business (*Erhvervsministeriet*), or the Danish Agency for Business Promotion (*Erhvervsfremme Styrelsen*). Fourteen were participants in the Business Development Council (*Erhvervsudviklingsrådet*), including government-appointed and interest organization-appointed members. Eight academic scholars and private-sector consultants and business leaders were also interviewed, among them senior participants in the projects and reports documented in this study.

Of seventeen individuals interviewed for research on Danish labor market politics, eight were current or former senior civil servants from the Danish Ministry of Finance (*Finansministeriet*), the Danish Ministry of Labor (*Arbjedsministeriet*), the Danish Ministry of Employment (*Beskæftigelsesministeriet*), or the Danish Labor Market Agency (*Arbejdsmarkedets styrelsen*). Five individuals participated either directly or indirectly in the Committee on Labor Market Structure Problems (*Udredningsudvalget om arbejdsmarkedets strukturproblemer*), two as interest organization-appointed participants and three as government-appointed participants. Ten individuals participated either directly or indirectly in the National Labor Market Council (*Landsarbejdsrådet*) and/or the regional labor market councils (*arbejdsråderne*), six as interest organization-appointed participants and four as government-appointed participants.

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