

### Minority governments and party politics: the political and institutional background to the "Danish Miracle"

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**Minority Governments and Party Politics:  
The Political and Institutional Background  
to the “Danish Miracle”**

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### **Abstract**

The performance of the Danish economy in the 1990s has been successful to the extent that scholars are talking about a “Danish miracle”. The importance of government policies to Denmark’s economic success is taken as a point of departure in investigating why Danish governments have been able to govern the economy successfully in the 1990s. The paper argues that two factors have been important. First, the functioning of Danish parliamentarianism has been reshaped to strengthen the bargaining position of minority governments, which became the rule in Danish politics after the landslide election in 1973. Today, Danish minority governments can enter agreements with changing coalitions in the Danish parliament. The paper thus challenges the conventional wisdom about minority governments as weak in terms of governing capacity. Second, the changed socio-economic strategy of the Social Democrats after returning to power in 1993 has been important because it has created a political consensus around a number of controversial reforms.

### **Zusammenfassung**

Der Erfolg der dänischen Wirtschaft in den 90er Jahren lässt Fachleute von einem „dänischen Wunder“ sprechen. Die große Bedeutung der Regierungspolitik für den wirtschaftlichen Erfolg Dänemarks dient als Ausgangspunkt für eine Untersuchung der Bestimmungsfaktoren der erfolgreichen Wirtschaftspolitik dänischer Regierungen in den 90er Jahren. Der Autor des vorliegenden Papiers sieht hierfür zwei grundlegende Erklärungsfaktoren. Zum einen wurde mit der Neuordnung des dänischen Parlamentarismus die Verhandlungsposition von Minderheitsregierungen gestärkt, die nach dem erdrutschartigen Wahlergebnis von 1973 zur Regel geworden waren. Heute können Minderheitsregierungen im dänischen Parlament mit wechselnden Koalitionspartnern Vereinbarungen treffen. Der Autor stellt mithin die gängige Ansicht in Frage, dass Minderheitsregierungen nur über eine geringe politische Durchsetzungsfähigkeit verfügen. Zum anderen haben die Sozialdemokraten nach ihrer Rückkehr in die Regierung im Jahre 1993 ihre bisherigen sozial- und wirtschaftspolitischen Vorstellungen korrigiert und damit zur Bildung eines politischen Konsenses über eine Reihe bis dato kontroverser Reformen beigetragen.

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## 1 Introduction

During the 1970s, Denmark’s economic situation deteriorated steadily (as revealed by figures 1 to 3; see page 25 and 26) and at the beginning of the 1980s, Denmark could aptly be described as being on the “brink of the abyss”.<sup>1</sup> The 1980s brought some improvements, and since 1993 Denmark’s economic situation has improved steadily. Unemployment has been brought down to around 5 percent, inflation to around 2 percent, public budgets and the current account are in surplus, and, after some years of high growth, the latter has stabilized at around 2 percent. For the first time since the beginning of the 1960s, the Danish economy has no major imbalances and scholars are talking about a “Danish miracle” (Hemerijck/Schludi 2000; Schwartz 2001). The reason for this attention to the Danish case is not least that, within the last 20 years, all of the rich OECD countries have been adjusting their models of welfare capitalism to take account of a changed economic environment (Scharpf/Schmidt 2000b; Regini 2000; Iversen 2000; Kitschelt et al. 1999).

Success stories are interesting from different perspectives. From the perspective of “problem-oriented policy research” (Scharpf 1997: 10–12), the exact policies behind the Danish miracle warrant attention because they might suggest solutions to some of the problems found in other countries. Yet – the Danish case is also interesting from the perspective of “interaction-oriented policy research” (Scharpf 1997: 10–12). From this perspective, the question is why the Danish economy – compared to many other economies – has been governed successfully in the 1990s?

This paper argues that two factors have been crucial for the success of the Danish economy. First, the Danish party system was shaken by what has become known as the landslide election of 1973. The effective number of parties increased signifi-

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1 This was the expression used by the social democratic Minister of Finance before stepping down in 1979.

cantly and minority governments without stable support in parliament became the standard type of government. Since the 1980s, the functioning of Danish parliamentarianism has progressively become adapted to this new and more complicated party system. Most importantly, the bargaining position of minority governments has been strengthened. Today, Danish minority governments can make ad-hoc agreements with changing coalitions in the Danish parliament, a factor that has made it considerably easier to govern the economy.

Apart from being part of the explanation for Denmark’s economic success, the high governance capacity of Danish minority governments in the 1990s is also puzzling for the theoretical literature on minority governments. As described by Strøm (1990; chapter 1), the “conventional wisdom” about minority governments is that they lead to political instability and ineffective governance. The Danish experience in the 1990s provides evidence to the contrary.

Second, the changed socio-economic strategy of the Social Democrats after returning to power in 1993 has been important. In the 1970s, the landslide election, the macroeconomic challenges, and a strong demand for economic democracy from the Danish trade unions caused huge difficulties for the Danish Social Democrats. When the party found itself in opposition from 1982 to 1993, it rejected most of the policy suggestions of the right-wing governments, especially the suggestions relating to structural reforms of social security and labor market policy. This made the implementation of such policies both politically very risky and parliamentarily very difficult for the right-wing governments. Since returning to power, however, the Social Democrats have shown themselves willing to implement exactly such reforms, hence creating a party political consensus around these issues.

The paper is organized as follows. The next section substantiates a premise of the paper, namely that government policies have been an important factor behind Denmark’s economic success. Three subsequent sections analyze Danish party politics from 1973 onwards in relation to socio-economic policy: macroeconomic policy, social security, labor market policy and tax policy. Three sub-periods have been identified according to the major changes of government that took place: from 1973 to 1982, 1982 to 1993, and from 1993 onwards.<sup>2</sup> The following section addresses the implications of the Danish case for the literature on minority governments. The final section concludes the findings.

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2 Table 1 presents Danish governments since 1973.

## 2 Policies and Macroeconomic Outcomes

A premise for the argument stated above is clearly that central government policies have been at least one of the important factors behind the favorable macroeconomic development. Establishing a link between policies and macroeconomic outcomes is not straightforward, but if one looks at the policies implemented and the macroeconomic outcomes in the three above-mentioned sub-periods, there is evidence that central government policies have strongly influenced the development of the Danish economy.<sup>3</sup>

As revealed by figures 1 to 3, the Danish economy deteriorated steadily from 1973 to 1982. Denmark already suffered a current account deficit prior to 1973 but, at the beginning of the 1980s, all macroeconomic indicators were alarming. This macroeconomic disaster was of course related to the two oil crises that had taken place, but as shown by Scharpf (1991), other countries (as, for instance, Austria) managed to overcome the threat of stagflation through a “Keynesian concertation” between wage-restraint and an expansive monetary or fiscal policy. As argued by Nannestad (1991; also Nannestad / Green-Pedersen, forthcoming), such a strategy was never coherently implemented in Denmark, where governments responded in a fumbling manner to the challenges. The most immediate response to the first oil crisis was Keynesian in the sense of an expansive fiscal policy. Later, the governments tried a “demand twist” policy with the aim of replacing import-heavy private consumption with employment-creating public consumption. The idea was to improve the current account without damaging employment. Towards the end of the period, the government repeatedly devaluated the Danish Krone but, unfortunately, the devaluations were combined with a wavering fiscal policy and actually worsened the economic situation (Nannestad 1991: 134–184; Nannestad / Green-Pedersen, forthcoming). Altogether, Nannestad’s description of “too little and too late” (1991: 183) fits the responses of the Danish governments to the two oil crises very well.

The period 1982 to 1993 was one of partial recovery of the Danish economy. The economy, except for the current account, actually improved strongly from 1982 to 1986. However, the upswing proved unsustainable and, from 1986 to 1993, the economy was more or less in recession again. This recession was good for the current account and the rate of inflation, but unemployment rose sharply and growth was limited. The upswing from 1982 to 1986 was strongly influenced by a

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3 The following section draws mainly on Nannestad and Green-Pedersen (forthcoming), which also contains a more detailed overview of socio-economic policies. Overviews can also be found in Benner / Vad (2000), Andersen (2000), and Green-Pedersen / van Kersbergen / Hemerijck (forthcoming).



“crisis-solution” launched by the new government coming into power in 1982. The main elements were:

1. pegging the Danish Krone to the German Mark;
2. suspension and abolition of various indexation mechanisms relating to both wages and social security;
3. some cuts in public expenditure;
4. a tax on the interest gains from private pensions.

The pegging of the Danish Krone to the German Mark, which quickly became credible as the Danish government did not follow the Swedish devaluation in 1982, contributed to bringing down real long-term interest rates, which were the highest among the OECD countries (Scharpf/Schmidt 2000c: 367). The suspension of indexation mechanisms was important for the declining inflation rates, and the tax on private pensions was a very significant contribution to the improvement of public budgets.

In the mid-1980s, the government lost the coherency of its socio-economic policy. Fiscal policy started to waver. On the one hand, the government tightened fiscal policy through the “potato diet”, which introduced a number of taxes on loan-financed consumption. This measure had become necessary due to the rising current account deficit. On the other hand, the government gave up a number of early cutbacks and implemented several significant improvements to social security (Green-Pedersen, forthcoming). Furthermore, by giving large wage increases to public employees, the government contributed to the wage-feast in the round of collective bargaining in 1987 (Due et al. 1993: 363–373). The wavering fiscal policy undermined the credibility of the economic policy, the wage increases damaged foreign competitiveness significantly, and the improvements to social security contributed to the worsening of public finances. The government was also unable to implement social security and labor market reforms that could prevent bottleneck problems on the labor market. Finally, a tax reform introduced as of 1987 limited the right to deduct interest on loans and mortgages from taxable income. This had a very depressing effect on private consumption as it led to falling housing prices.

In the following years, when the Danish economy was in recession, no coherent government response emerged. Several “great schemes”, including a tax-reform and structural reforms, were proposed, but only small parts of the schemes were actually passed. Fiscal policy was fairly tight, partly explaining why public deficits did not reach the same level as at the beginning of the 1980s, but measures to move the economy out of the recession could not be implemented.

As described in the introduction, the period from 1993 onwards has been the most successful for the Danish economy since the 1960s. After some years of economic boom, the Danish economy has now taken what the OECD (2000) describes as a “soft landing”. Growth has slowed down, but unemployment is still low, public budgets are in surplus and, after a deficit in 1998, the current account is in surplus again. Thus, compared with the mid 1980s, the economic upswing has proved sustainable.

This positive development has been very much supported by a coherent socio-economic policy consisting of two parts: First, fiscal policy has been used effectively to smoothen the economic cycle. In 1993, the government made fiscal policy more expansive in order to “kick start” the Danish economy. This was done by a tax reform lowering marginal tax rates and financed through a broadening and greening of the tax base. As the tax reductions preceded the tax increases, the reform implied an expansive fiscal policy for some years.<sup>4</sup> In 1998, another tax reform brought the Danish economy to a soft landing. This tax reform included lower personal income taxes but also tax increases, mainly in the form of a significant reduction of the right to deduct interest on loans and mortgages from taxable income.

Second, the Danish governments since 1993 have implemented the structural reforms that were initially discussed in the 1980s. The tax reforms were by themselves “structural reforms” aiming at reducing the taxation of income from work. With the implementation of a labor market reform in 1993, a much stronger focus was given to active labor market policy. The reform also significantly improved exit possibilities from the labor market such as leave schemes and early retirement schemes (Loftager/Madsen 1997). However, this exit strategy from the labor market was later reversed: In connection with the budget for 1996, a follow-up on the labor market reform was passed that implied a significant retrenchment of unemployment benefits. The exact measures were tighter eligibility, shorter duration and cuts in benefits for young unemployed persons. In connection with the budget for 1999, another follow-up on the 1993 labor market reform was passed with basically the same content. At the same time, a major retrenchment of the early retirement scheme was passed, just as the number of disability pensions being awarded is being reduced dramatically through changes to the administrative set-up around the disability pension scheme (Christiansen 2000). As the OECD argues (2000: 69–107), these structural reforms have reduced structural unemployment, significantly underpinning growth in private sector employment.

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4 Changes to the rules concerning re-financing of mortgages making it possible for home-owners to convert their mortgages and thus benefit from falling interest rates was another important part of the “kick start” strategy (Nannestad/Green-Pedersen, forthcoming).

The focus on government policies does not imply that other factors have been irrelevant for Denmark’s economic development since 1973. In particular, the economic “miracle” of the 1990s. Schwartz (2001) has argued that luck as well as stuck has played a role in the sense of endogenous changes that were not intended to address economic problems. The best example of “luck” is probably German reunification aiding Danish exports and thus contributing to the improvement of the current account at the beginning of the 1990s. An example of “stuck” relates to the “centralized decentralization” that the Danish wage-bargaining system has experienced since 1987 (Due et al. 1993: 333–440; Iversen 1999: 120–151) facilitating wage-moderation (Schwartz 2001). This change was related to developments in the social partners themselves, but it was also strongly influenced by the change of government policy that occurred in 1982 (Due et al. 1993: 333–382). Finally, the high degree of tax financing of the Danish welfare state seems to be beneficial for employment growth, and the same goes for the Danish combination of relatively limited employment protection and generous unemployment benefits (Scharpf 2000a: 75–82, 86–89).

Nevertheless, as shown above, the general development of the Danish economy since 1973 is closely related to government policies. Therefore, this is, if not the most, then at least one of the very central factors behind the Danish “miracle”. This justifies looking at the political factors behind government policies.

### **3 1973–1982: Landslide Election and Economic Democracy**

As described above, the period 1973 to 1982 was one of “fumbling” socio-economic policy, the causes of which relate to Danish party politics. The first is the effect of the landslide election, and the second is about the situation in regard to the Danish Social Democrats.

In 1973, the “landslide election” shook the Danish party system. Two center parties and the right-wing Progress Party gained representation for the first time, the latter gaining about 16 percent of the votes. In addition, the Communist Party and the Justice Party regained representation (Pedersen 1987). Thus, both the effective number of parties (Christensen 2000: table 3) and the number of relevant parties (Bille 1989) increased, which henceforth significantly complicated the building of coalitions in the Danish parliament. An obvious sign of this was that minority governments without stable parliamentary support became the new rule, rather than the exception (cf. table 1).

Table 1 Governments in Denmark since 1973

Years	Position of Government	Member Parties	Type
1973–1975	Right-wing	Liberals	Minority
1975–1977	Social Democratic	SD	Minority
1977–1978	Social Democratic	SD	Minority
1978–1979	Broad Coalition	SD-Liberals	Minority
1979–1981	Social Democratic	SD	Minority
1981–1982	Social Democratic	SD	Minority
1982–1984	Right-wing Centre	Liberals, Conservatives, CD, Christians	Minority
1984–1987	Right-wing Centre	Liberals, Conservatives, CD, Christians	Minority
1987–1988	Right-wing Centre	Liberals, Conservatives, CD, Christians	Minority
1988–1990	Right-wing Centre	Liberals, Conservatives, Social Liberals	Minority
1990–1993	Right-wing	Liberals, Conservatives	Minority
1993–1994	Social Democratic Centre	SD, Social Liberals, CD, Christians	Majority
1994–1996	Social Democratic Centre	SD, Social Liberals, CD	Minority
1996–1998	Social Democratic Centre	SD, Social Liberals	Minority
1998–	Social Democratic Centre	SD, Social Liberals	Minority

SD = Social Democrats  
CD = Centre Democrats  
Christians = Christian People's Party

From the Second World War to 1973, Danish party politics had functioned as a bloc system with governments consisting of either the Social Democratic Party, sometimes in coalition with the Social Liberals and other small parties, or of the two major right-wing parties, the Conservatives and the Liberals, sometimes also in coalition with the Social Liberals.<sup>5</sup> Most of the governments had been either majority governments or minority governments with stable support (Damgaard 1997).

The landslide election resulted in a large majority for the right-wing or non-socialist bloc and the Liberals formed a minority government. However, majority-building among the non-socialist parties proved extremely difficult, as the majority had to include the Progress Party. The other right-wing parties found it hard to accept the Progress Party as a responsible party playing a role in policy-making and basically tried to ostracize it (Nannestad 1991: 138–141). The Progress Party itself was reluctant to follow traditional rules of party behavior. This situa-

5 Overviews of parliamentary developments in Denmark since the Second World War can be found in Damgaard (1992; 1997) and Christensen (2000).

tion was, for instance, the reason behind the failure to form a right-wing government after the 1975 election (Elklit 1999). Instead, a social democratic minority government was formed and was with one exception followed by other social democratic minority governments until 1982. However, these governments were in a difficult situation. Their only possibility of building a majority was to gain support from several of the right-wing parties. In other words, cross-bloc cooperation was needed, but proved very difficult indeed. The major attempt at cross-bloc cooperation was a social democratic/liberal coalition from 1978 to 1979, but this government was very unsuccessful and short-lived.<sup>6</sup>

The most important reason why cross-bloc cooperation proved so difficult was probably the situation of the Danish Social Democrats. The party had never been able to secure itself the same strong position as its Swedish counterpart (Esping-Andersen 1985b), and was one of the big losers in the landslide election. This made the party ill-prepared for the political concessions necessary to secure cross-bloc cooperation. Furthermore, one of the necessary elements in the “Keynesian concertation”, namely income policies, was a very difficult issue for the party. Agreements on income policy between the Social Democrats and the trade unions had always been shaky, and in the 1970s they became impossible (Esping-Andersen 1985a). The Danish trade unions demanded economic democracy based on central wage-earner funds in return for wage restraint, a demand supported exclusively by the Social Democrats (Nannestad 1991: 175–181; Esping-Andersen 1985a). An effective macroeconomic policy thus came to require that the Social Democrats were ready for a major clash with the trade unions. In light of their already weak position and the tensions in the relationship with the trade unions already caused by the forming of the coalition with the Liberals, the Social Democrats were not ready for such a clash.

Altogether, even though the period from 1973 to 1982 resulted in a number of “crisis packages” being passed in parliament, it proved politically impossible to implement a coherent socio-economic policy. Except for a few cases, the non-socialist majority could not be brought together to support a new economic policy, and given their difficult political situation, the Social Democrats were unable to make the concessions necessary for cross-bloc cooperation.

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6 This government was not a majority government, but it almost commanded a majority. Thus, if it could reach internal agreement, it had no major problems having its policy passed in parliament (Damgaard 1989).

#### **4 Right-wing Governments and the First Steps Away from the “Brink of the Abyss”**

The coming to power in 1982 of the right-wing minority government, known as the four-leaf clover government, implied a new socio-economic policy. Proposals such as the suspension of indexation mechanisms and a tax on private pensions, which had been debated before 1982, were now implemented. The reason why a coherent socio-economic policy could now be implemented was not that the new government was in a much easier parliamentary position than the last right-wing government from 1973 to 1975. The government coming to power in 1982 also had to bring together the entire non-socialist bloc, including the Progress Party. However, the new government had no principle reservations against the Progress Party and had thus given up the ostracizing strategy. It was still difficult to negotiate with the Progress Party, but what mattered most was to have the crisis solution passed in parliament. At the beginning of 1984, an election was held. The result was a significant improvement in the parliamentary situation of the government. The new government could base its rule solely on the Social Liberals and hence did not have to strike deals with the Progress Party. In other words, in relation to socio-economic policy, the government from 1984 to 1987 was only a formal minority government. This parliamentary situation allowed the government to continue its austerity policy.

From around 1986, socio-economic policy lost its coherence, due at least in part to the opposition policy of the Social Democrats. They had fiercely opposed the austerity policy and tried to depict it as unfair and a clamp-down against the weakest in society. In the beginning this strategy did not work as the government could capitalize on a “crisis-awareness” among the electorate (Petersen et al. 1996). However, this awareness diminished as the economy improved (Petersen et al. 1996), and the strategy of the Social Democrats now paid off. The government had acquired an “anti-social image” among the electorate (Andersen 1988: 146–154) which needed to be addressed before the next election approached. Several improvements to social security were implemented and earlier cutbacks given up (Green-Pedersen 2000: chapter 9), just as the large wage increases for public employees were accepted (Due et al. 1993: 364–373).

The election in 1987 implied that the government and the Social Liberals lost their majority. The four-leaf clover government was now back to the situation where it either had to bring the entire non-socialist bloc together or try to reach a cross-bloc agreement with the Social Democrats. This was also the parliamentary situation of the other right-wing minority governments that ruled until 1993. The first task of the government after the election in 1987 was to achieve support for its budget for 1988. Here, the situation was difficult because the Progress Party

voted against the budget as a matter of principle (Christiansen 1994). In reality, the government had only one choice, namely to reach an agreement with the Social Democrats. They were willing to compromise, but at a very high price. The result was an agreement implying significant improvements to most social security benefits and thus contributing to the wavering fiscal policy.

After another election in 1988, the new right-wing government made a number of agreements with the Progress Party, thus indicating that it did not intend to govern at the mercy of the Social Democrats (Bille 1998: 36; Damgaard/Svensson 1989: 743). Part of the budget agreement for 1989 was made with the Progress Party and, as far as the budget for 1990 was concerned, the government also reached an agreement with the Progress Party, which then for the first time ever supported a budget. Because they had more than one way of passing the budget, the governments after 1988 thus managed to avoid the situation from 1987 where the Social Democrats could demand excessive concessions in return for parliamentary support.<sup>7</sup>

However, the governments after 1988 also aimed at a number of structural reforms. They tried several times to gain parliamentary support for a tax reform and a reform of unemployment benefits including both changes to the financing of the scheme and retrenchments. Yet they were never successful. Despite the agreements reached over the budgets, bringing the entire non-socialist majority together was still difficult. The Progress Party was unreliable and the small center parties in particular had reservations against striking deals with it. Yet, before 1990, it did seem possible for the non-socialist bloc to reach agreement on at least some structural reforms (Green-Pedersen 2000: chapters 9–10).<sup>8</sup> However, passing controversial reforms of the labor market and social security without the consent of the Social Democrats and the trade unions was dangerous for the government. This was the lesson from the mid 1980s. Thus, the government clearly preferred to reach agreement with the Social Democrats, which, however, proved impossible. Realizing that it was both unattractive and difficult for the government to implement structural reforms without their support, the Social Democrats had little reason to compromise. Thus, despite several rounds of negotiations between the Social Democrats and the government about a major tax reform and a major labor market reform, the results were meager indeed.

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7 The Social Democrats supported the budgets for 1992 and 1993 without the same concessions as in 1987.

8 After the election in the 1990s, the small center parties moved away from the government and this made the non-socialist majority even more difficult to bring together (Green-Pedersen 2000: chapters 9, 10).

Looking at the entire period 1982 to 1993, it was one of partial success or partial failure in terms of macroeconomic outcomes. The same conclusion also fits Danish party politics. Compared to the period 1973 to 1982, adjustments in favor of the new and more complicated party systems resulting from the landslide election did take place. Even though difficulties remained, bringing the non-socialist majority together was more successful from 1982 to 1993 than it had been in the mid 1970s. The non-socialist majority kept the right-wing governments in office for more than a decade, and broke the stalemate around socio-economic policy at the beginning of the 1980s. However, reservations towards the Progress Party still existed, especially among the small center parties, and the Progress Party itself was continuously plagued by strong internal disagreement. Both factors limited the possibilities of passing proposals in parliament without the consent of the Social Democrats.

Apart from the problems of bringing together the right-wing majority in parliament, the other major limitation on the governing capacity of the right-wing governments was the opposition strategy of the Social Democrats. This implied that only in a few cases did the right-wing governments have the option of passing reforms with the support of the Social Democrats. Those few cases related mainly to tax policy: namely, the tax on private pensions passed in 1982, and the tax reform agreed on in 1985. The explanation for the exceptions is evident: Both the taxation of private pensions and the reduction of the tax allowance for homeowners, which was a major element in the tax reform, were changes which the Social Democrats had wanted for a long time, but which the right-wing parties had managed to block while in opposition (Vesterø-Jensen 1985: 252–258; Esping-Andersen 1985b: 185–186).

The right-wing governments also made some changes to the functioning of Danish parliamentarianism which facilitated effective governance. The most important one was the acceptance of what is known as the “alternative majority”. The right-wing governments accepted that a majority consisting of the Social Liberals and the socialist parties passed proposals against the will of the government. This was most clearly the case in relation to security policy, but also affected foreign policy more generally as well as environmental policy and cultural policy. However, the right-wing governments made it clear that they were not willing to accept that the alternative majority should affect socio-economic policy (Damgaard/Svensson 1989).<sup>9</sup> This acceptance of the alternative majority improved the bargaining position of the government because it prevented the opposition from bringing the government to a fall simply by rallying a majority on some issue or

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9 The only exception to this was the introduction of a new and much more generous student allowance (Green-Pedersen 1999).



other. The new situation left it up to the government to determine when its political situation had become so difficult that it should step down.

Finally, one other initiative by the right-wing government in relation to socio-economic policy-making is worth mentioning. The right-wing government took much more effort than its predecessors to coordinate and control local government finances. To some extent, it simply pushed the pain of implementing a tight fiscal policy onto local governments (Blom-Hansen/Pallesen, forthcoming). This coordination was implemented through what is known as the “budget-cooperation” between central government and the organizations of the Danish counties and municipalities. The budget-cooperation, consisting of annual agreements about the spending and taxation of local governments had existed since the beginning of the 1970s (Albæk 1994), and became increasingly important in the 1980s. Implementing part of the austerity policy through this cooperation was attractive for the governments in two ways. First, local governments were left with the task of actually implementing the cutbacks that were often necessary. Second, even though the government sometimes used parliamentary action to apply pressure to the local governments (Blom-Hansen 1999), the government did not need support in parliament to strike deals with local government associations and was thus more independent of majority-building in parliament.

## **5 Social Democratic-led Governments and Effective Governance of the Economy**

The social democratic-led governments that have ruled Denmark since 1993 have clearly exhibited the highest degree of governance capacity since 1973. The first of these governments was the first majority government in Denmark since 1971. It could thus pass both the labor market reform and the tax reform without having to reach an agreement with the opposition. However, after having lost its majority at the 1994 election, the social democratic-led government found itself in the same minority situation as its predecessors since 1973.

Yet, none of these governments has had any major problems in passing their policies in parliament. Most of the major structural reforms have been passed with the right-wing opposition. This relates to the two major retrenchments of the unemployment benefit scheme and the major retrenchment of the early retirement scheme. The tax reform in 1998 was passed with the support of the left-wing opposition. The minority governments since 1994 have thus been very flexible in their choice of coalition partner, and they have managed to govern the economy

with support from parties as different as the Unity List<sup>10</sup> and the major right-wing parties.

Rallying such broad support has partly been possible because the social democratic-led governments have reshaped the norms around the passing of the annual budget. First, the importance of this type of negotiations has increased considerably since important changes in many policy areas are now negotiated in connection with the budget. This has enhanced the position of overall macroeconomic concerns in the negotiations and made it more difficult for organized interests related to specific policy areas to influence the political process (Blom-Hansen, forthcoming). Second, the majority-building around the budget has changed. In connection with several of the budgets in the period, the government relied on what in Danish is known as a “patchwork agreement” where different combinations of parties support different elements of the budget.<sup>11</sup> One “patchwork agreement” even included an independent politician who had gained representation on an image as “political clown”. Of greatest importance to the governments has been the passing of their policies, of lesser importance has been the type of majority. The social democratic-led governments have also continued to focus on coordinating local government finances through the budget cooperation.

The re-entrance of the Social Democrats into government has by itself also been important. The governments after 1993 have passed many of the proposals that were discussed but never agreed upon during the period of right-wing governments, especially in relation to social security (Green-Pedersen 2000: chapters 7, 9). In this connection, the return of power of the Social Democrats has also influenced the strategy of the trade unions. The Danish trade unions did start to change their socio-economic strategy in the mid-1980s, most prominently by the declaration of wage restraint in 1987 (Benner/Vad 2000). However, they have become much more “government friendly” following the regaining of power by their traditional allies; the Social Democrats. This was clearly visible in the autumn of 1998 when the trade unions and the employers quickly reached agreement on retrenchment of unemployment benefits. The government and the right-wing parties then endorsed this agreement in connection with the budget for 1999.

To sum up, it is exactly those two factors which caused the fumbling socio-economic policy in the 1970s that contributed to effective economic governance in

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10 This party is the result of a merger of old anti-system parties, including the Communists.

11 Actually, many of the proposals are not technically part of the budget, but are just normal legislative changes passed in connection with the budget. The government has to have the budget passed in order to survive.

the 1990s. The socio-economic strategy of the Social Democrats in the 1990s is considerably different from that of the 1970s when focus was on economic democracy. Danish parliamentarianism also functions very differently in the 1990s compared to the 1970s, thus making life much easier for minority governments. From a theoretical perspective, the latter development is interesting and deserves some further reflections.

## **6 Minority Governments and Flexibility – Some Theoretical Issues**

As Strøm (1990) argued, minority governments were long an under-researched issue within political science. A recent survey of the literature on minority governments (Damgaard 2000) indicates that more research on minority governments has recently been conducted. Yet, focus has primarily been on investigating why minority governments are formed, their duration etc. The question of their governing capacity is still a very much under-researched issue. What Strøm (1990) describes as the “conventional wisdom” about minority governments refers to their ineffectiveness in terms of policy-making. By way of example, Roubini and Sachs (1989) argue that minority government is the type of government that entails the largest budgetary deficits in times of macroeconomic stress. The high frequency of minority governments in Denmark after 1973 thus constitutes a good case for exploring the question of the governance capacity of minority governments.

The developments in Denmark after 1973 do not provide an unambiguous answer to the issue of the governing capacity of minority governments: Danish minority governments have at times governed very effectively but at times also very ineffectively. One interpretation of this would be to argue that whether a government is a minority or a majority government does not matter much for its governing effectiveness. The question could also be put slightly differently; namely, under what conditions minority governments can govern effectively. Here, the Danish case, as argued by Benner and Vad (2000), suggests the governing effectiveness of minority governments to be crucially dependent on their possibility of being flexible when seeking support for policy proposals.

What a minority government needs is more than one possible way of building a majority behind its proposals. If a minority government has only one way of building a majority in parliament, the opposition party – or parties – necessary to build this majority is in a veto position in relation to the policies which the minority government can pass. As a result, only proposals from governments which

are very close to the ideal policies of this party or parties will be passed. For instance, in parts of the period 1982 to 1993, bringing the non-socialist majority together was difficult, and the right-wing government had only one option, namely to negotiate with the Social Democrats. The Social Democrats were willing to strike deals with the government only when policies close to their preferred policies were suggested. The tax reform in 1985 and the budget agreement for 1988 serve as examples. The governments after 1994, on the other hand, have had two and in some cases even three ways of building a majority. They have passed some policies with the right-wing opposition, some policies with the left-wing opposition and some policies with the major left-wing party, the Socialist People's Party, and some of the small center parties. Once a minority government finds itself in this type of position, the Danish case provides evidence that it can govern very effectively. Due to the flexibility in building a majority, it can have almost all the required policies passed in parliament.

The argument about the power of flexible minority governments raises at least two further issues. The first relates to the Danish case, namely, which developments have brought the minority governments after 1994 in a much more favorable position than that of their predecessors. The second issue is the more theoretical question as to why opposition parties are actually willing to enter into these kinds of ad-hoc agreement with the government.

Concerning the first issue, the flexibility of the minority governments after 1994 is the result of the above-discussed developments in the Danish party system following the landslide election. As concluded by a number of authors (Christensen 2000; Pedersen 1987a; Bille 1989), the landslide election did not fundamentally alter the nature of the Danish party system, but it did make majority-building much more complicated. As argued by Benner and Vad (2000), it seems that the Danish party system has in two ways adjusted itself to the new and more complicated political situation.

First, the role of the parties on the extreme left and right has changed. As exemplified by the ostracizing strategy of the right-wing parties towards the Progress Party, the other parties viewed the extremist parties with great skepticism in the 1970s. This negative attitude towards the extreme wing parties has gradually changed. Despite objections from the small center parties, the Progress Party did gain some influence during the years of right-wing rule. In addition, after the return to power of the Social Democrats, there have also been no reservations towards the Unity List. The extremist parties have changed themselves as well. Despite strong internal fights, the Progress Party did start to behave more in accordance with normal rules of party behavior in the 1980s. Furthermore, the fall of the Berlin Wall has clearly affected the left-wing opposition, especially the Unity

List. Whereas its predecessors focused on the forthcoming revolution, in the 1990s the Unity List has gradually become interested in gaining policy-influence.

Second, the acceptance of alternative majorities in the 1980s and the frequent use of “patchwork agreements” in connection with the budgets are both examples of how the norms governing Danish parliamentarianism have been adjusted to the new political situation.<sup>12</sup> These changes have all contributed to an enlargement of the government’s room to maneuver. With these new parliamentary practices, the increased number of parties may even be considered an advantage because it implies more possible coalitions in the Danish parliament.

Altogether, the political parties have gradually realized that majority governments or minority governments with stable support have become an exception. Especially the four old parties have had to modify their views of what it means to be a “responsible party”. Today, it is not a question of which parties to cooperate with and in what way, but rather a question of having the necessary policy measures passed in parliament.

The answer to the second issue concerning the governing effectiveness of the flexible minority governments since 1994 and the willingness of opposition parties to enter into ad-hoc agreements with the government can be found by drawing on the work on cabinet formation by Laver and Shepsle (e.g. 1996). This work is based on the assumption that political parties are policy seekers, i.e. they want to move government policies as close to their preferred policy positions as possible.<sup>13</sup>

Along these lines, the situation is obviously advantageous for the government parties compared to a majority government with either the left-wing or right-wing opposition. In the minority situation, the government can on each policy question seek the majority that is the closest to its preferred policy. If all policies had to be negotiated with either the left-wing or the right-wing parties, some of the compromises would be farther away from the government’s preferred policy, and some of the government’s proposals would be vetoed by the opposition. This situation would, however, be more favorable for the opposition than the flexible minority situation. Therefore, the theoretical puzzle in the Danish case is why the

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12 In this regard, the fact that the Danish constitution contains few requirements about cabinet formation and legislation has turned out to be conducive to effective governance. It has allowed the political parties to adapt Danish parliamentarianism to a new political situation.

13 Whereas Laver and Shepsle (1996: 262–266; 1993) offer an explanation for the formation of minority governments, they have little to say about the policy-making of minority governments.

opposition parties do not reject participating in ad-hoc coalitions and force the government into choosing sides?

The key to solving this puzzle can be found in realizing that minority governments are equilibrium governments as defined by Laver and Shepsle (1996: 66–69). There is no other feasible government that a majority would prefer. The left-wing parties have supported the governments in the cabinet formation process so, if they withdrew their support, the government would fall. However, an alternative government would most probably be a right-wing government, implying that the left-wing opposition would be without policy influence. Therefore, a threat from the left-wing opposition of bringing down the government is not credible and they are not in a position to force the government into choosing sides. For the right-wing opposition, the situation is very simple; it wants to bring down the government, but it cannot unless the left-wing opposition is willing to cooperate.

For both the left-wing and the right-wing opposition, the situation in relation to the government is basically the same. The government will be in power until, for instance, an election destroys the equilibrium situation. The opposition faces a trade-off between influencing the policy of the government and having a clear opposition profile. Exactly how the opposition parties will weigh these two considerations depends very much on the exact political context. However, if taking a look at the major reforms supported by the right-wing opposition, these are all issues where the right-wing parties had little to lose in terms of electoral competition. The right-wing parties have lost little, if anything, of their opposition profile by supporting retrenchment of social security schemes. This is because they would never have been interested in making a social democratic-owned issue such as social security a major topic in an electoral campaign. On the other hand, the right-wing opposition has not been willing to enter into ad-hoc agreements about tax increases because tax policy is an issue on which the right-wing opposition can focus during an electoral campaign. For the left-wing opposition, the situation is basically the reverse.

Summing up, it is after all not so puzzling as to why the opposition is willing to enter into ad-hoc agreements with the government. When dealing with an equilibrium government, the opposition faces a trade-off between seeking policy influence and having a clear opposition profile. On most issues, either the left-wing or the right-wing opposition will have little to lose in terms of opposition profile by making ad-hoc agreements. Actually, they appear to the electorate as responsible parties contributing to the governance of the country.

Altogether, just as Strøm (1990: 1–22, 238), this paper challenges the “conventional wisdom” about minority governments as ineffective in terms of govern-

ance. When Danish governments have had flexibility in their choice of supporting parties, they have actually been able to govern very effectively. This conclusion is in agreement with a quantitative study of the legislative effectiveness of Danish governments from 1982 to 1998 (Bøss 1999) showing that this can be facilitated by external and internal flexibility. In a comparative study of budget negotiations in Denmark and Sweden since the early 1970s, Mattson (1996, especially chapter 7) also finds that minority governments can be effective if they can negotiate with several possible coalition partners.

## 7 Conclusions

This paper has argued that two political factors were crucial for the “Danish miracle” in the 1990s, namely changes in the functioning of Danish parliamentarianism making it possible for minority governments to govern effectively, and the changed socio-economic strategy of the Social Democrats. The implications in relation to the literature on minority governments were discussed above. The following therefore discusses the changed socio-economic strategy of the Social Democrats and then moves on to discuss the implications of the Danish case for the debate on the adaptation of different countries to a changing economic environment.

After returning to government in 1993, the Danish Social Democrats revised their socio-economic policy strategy. This revision was important because it allowed the implementation of a number of structural reforms to the Danish economy, especially relating to the labor market and social security. Before the Social Democrats’ return to government power and the concomitant change of policy strategy, such reforms were politically impossible to implement, partly because building a majority without the Social Democrats was difficult. However, even when the right-wing governments could secure a majority for at least some of these structural reforms, their implementation was politically too dangerous without the support of the Social Democrats. The question is thus why the Social Democrats changed strategy. The answer probably lies in the image of bad economic management which the Social Democrats had acquired amongst the electorate due to the economic failures of the 1970s (Andersen 1999). Since 1993, the Social Democrats have been well aware that, in order to hold on to power, it was imperative that they free themselves from this image.

In general, the Danish case suggests that the question of which policy measures governments are able to implement is not just a question of the possibilities of

governments to obtain a majority in parliament (as suggested by the minority vs. majority governments debate). There are certain measures that cannot be implemented even by a majority government because they offer the opposition possibilities that are too favorable, thus allowing them to gain votes at the expense of the government. This points to the importance of “Nixon goes to China logics” (Ross 2000). Just as a number of structural reforms to the labor market and social security schemes could only be implemented by social democratic-led governments, several of the tax policy changes which were a Social Democrat’s ambition during the 1970s were implemented by the right-wing governments after 1982.

The changed economic environment of the advanced welfare states since 1973 has put the adjustment capacity of different countries on the political science agenda (Scharpf/Schmidt 2000b; Regini 2000; Iversen 2000; Kitschelt et al. 1999). In the light of the new institutional wave within the field of political science (Hall/Taylor 1996; Peters 1999), this question can obviously be approached from an institutional perspective (Scharpf 2000b). However, general conclusions about the effect of political institutions have been difficult to draw from; for instance, the twelve countries’ project directed by Scharpf and Schmidt (2000a: 15–18). Furthermore, the Danish developments after 1973 do not suggest any straightforward institutional lesson. The most conspicuous institutional feature of Denmark’s political system is clearly the frequent – or since 1973 almost permanent – existence of minority governments. Yet, as already highlighted, the Danish experience does not indicate minority governments to be necessarily effective or ineffective in terms of governance. The Danish case rather suggests that party politics deserves more attention. The effectiveness of minority governments seems to depend on their flexibility, which again – apart from depending on parliamentary norms – depends very much on developments within the party system. The paper has also argued the changed socio-economic strategy of the Danish Social Democrats as having been crucial for the “Danish miracle”.

The argument about the Danish case put forward in this paper is also interesting in relation to the argument about the dilemmas of Scandinavian social democracy put forward by Iversen (1998; 2000). According to Iversen, the Scandinavian model of welfare capitalism combining centralized and solidaristic wage bargaining, flexible monetary policy, and the expansion of a labor intensive and redistributive welfare state has been challenged by two broad developments. First, the composition of the labor force has been bifurcated into one half that is world market-integrated, highly qualified, and secure and another half that is less qualified, insecure and sheltered. This has especially undermined the possibilities of centralized and solidaristic wage bargaining. Second, the integration of capital markets has undermined the possibilities of a flexible monetary policy. The choice of Scandinavian social democracy is a shift to decentralized wage bar-



gaining, non-accommodating monetary policy and commodifying social and employment policy.

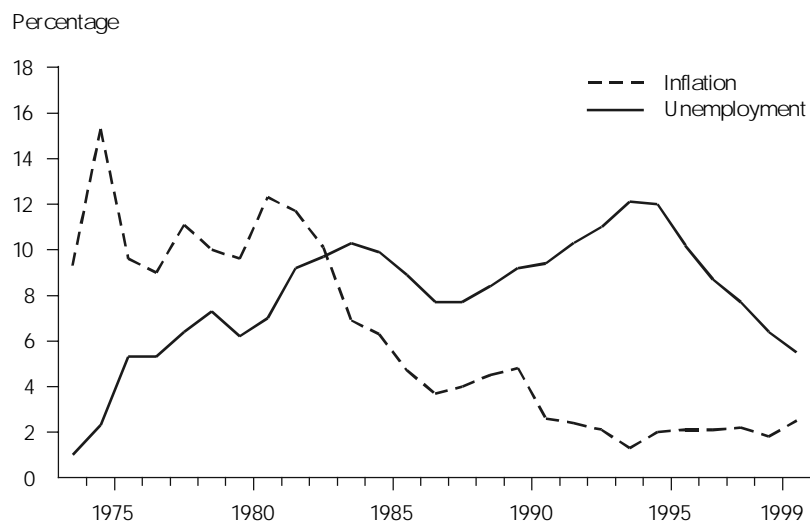
In broad terms, Danish governments have followed the choice identified by Iversen. However, the shift of strategy in Denmark has certainly not been automatic or without political troubles. In other words, Iversen’s analysis raises the question of how and why Denmark has been able to choose a somewhat different model of welfare capitalism. This paper has aimed at providing at least an important part of the answer to this question.<sup>14</sup> Furthermore, even within the different combinations of wage bargaining, monetary policy and welfare state policies, governments can govern the economy more or less successfully. Iversen identifies some broad limitations to what is possible for governments, which does not imply that the factors discussed in this paper are cut off from influencing macroeconomic outcomes.

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14 Iversen himself is perfectly aware that his own analysis should be supplemented by analyses of the politics of institutional change (2000: 210–211). He (1999: 119–151) provides such an analysis for the 1980s with more focus on wage bargaining and changes within the social partners than this paper, see above.

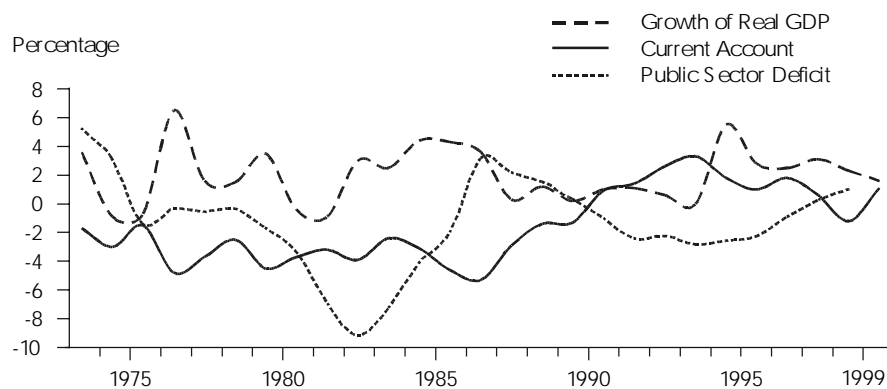
**Figures**

Figure 1 Inflation and Unemployment in Denmark, 1973–1999



Sources: OECD, Economic Outlook (various years); Scharpf/Schmidt (2000c: 358–359).

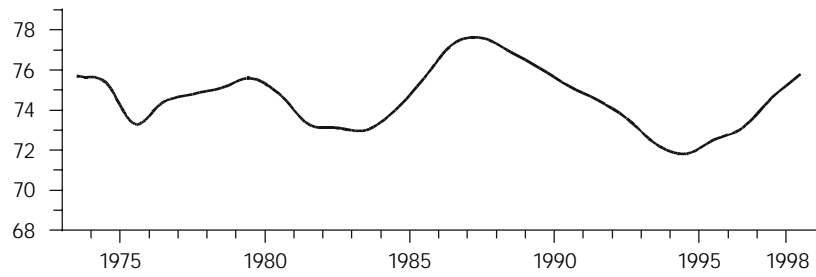
Figure 2 Growth of Real GDP, Current Account, and Public Sector Deficit in Denmark, 1973–1999



Sources: OECD, Economic Outlook (various years); Scharpf/Schmidt (2000c: 358–359).

Figure 3 Total Employment as Percentage of Population Aged 15–64

Percentage



Source: Scharpf/Schmidt (2000c: 342).

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