



Contrasting Restructuring in Denmark and the American Midwest

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Abstract

Since the beginning of the 1980s, the global economy has undergone a number of sweeping changes. This paper compares the experiences of two regions undergoing restructuring as part of this global shift, Denmark and the state of Indiana in the American Midwest. The distinct cultural histories of Denmark and Indiana have resulted in dramatically different forms of restructuring in the two regions: high wage, lower employment negotiated restructuring in Denmark and low wage, higher employment neo-liberal restructuring in In-

diana. The comparison serves to underline the economic, social, and political characteristics of each approach.

Keywords

Restructuring, Denmark, Indiana, path-dependent development, industrial policy.

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It is now apparent that the global economy is undergoing a number of sweeping changes. The purpose of this paper is to compare the experiences of two regions undergoing restructuring as part of this global shift, Denmark and the state of Indiana in the American Midwest. This examination is significant because, while the two have undergone the same sorts of global pressures, they have restructured quite differently. In particular, Denmark has pursued what has been termed elsewhere a negotiated approach to restructuring (Amin and Thrift, 1995; Jessop et al., 1993), while Indiana, situated within the American Midwest, has approached restructuring in a neo-liberal fashion. The comparison thus serves to underline the economic, social, and political characteristics of each approach while highlighting the problems and potentialities of each.

At first glance, a comparison of Denmark and Indiana seemingly strains credibility. Indeed, the comparison of a nation, Denmark, with that of a state within a larger union, Indiana, does pose problems since much of economic, social, and political life is determined at the national level. At the same time, regional and local economy, society, and polity also have been shown to exert powerful influence (Massey, 1984; Gregory and Urry, 1985). This is particularly the case in countries as diverse as the US (Knudsen, 1997). At the political level within the US, this diversity is furthered by the federalist form of government that

guarantees states considerable leeway in economic, social, and political policy. A comparison of Denmark and Indiana also seems less forced when it is remembered that they are nearly the same size in square kilometers, have capital cities that are approximately equivalent in population, share a number of common industries (agriculture, metalworking, machinery manufacturing, and medical technology in particular), and are both highly export oriented (much of Indiana's production flows to adjacent states and to Canada just as Denmark's flows into the EU).

The remainder of this paper unfolds as follows. I next briefly provide a discussion of the current crisis engendered by the shift between mass production and more flexible methods of production that is the cause of much of current global economic change. I then contrast the history and current conditions of each of the study regions. I close by sketching commonalities and differences, and most importantly, by suggesting what sorts of lessons emerge from examining each region's recent past. This discussion is framed within the literature on neo-liberal versus corporatist and negotiated approaches to capitalism.

The Current Crisis

The capitalist dynamic is one that is punctuated by periods

of stability and crisis. A vast literature has arisen that argues that since roughly 1969 a sea-change in the global economy has occurred. During the 1970s industries located in advanced capitalist nations and engaged in mass production were increasingly confronted in both domestic and foreign markets (Bluestone and Harrison, 1982; Piore and Sabel, 1984; Harrison and Bluestone, 1988). This competition stemmed both from the diffusion of mass production to lower cost locations outside of the traditional manufacturing regions as predicted by the product life cycle model (Vernon, 1966; Norton and Rees, 1979) and from firms using an altogether new technology of production (see Cooke, 1988; Gertler, 1988; 1989; 1992; Oberhauser, 1990; Schoenberger, 1988; 1989; Scott, 1988; Storper and Scott, 1989). Notwithstanding the dangers of dichotomizing economic history (Sayer, 1989; Clark, 1990, Goodwin et al., 1993; Jessop et al., 1993; Cataife, 1989; Sayer and Walker, 1992), this sea-change has been characterized as the collapse of mass or Fordist production in favor of more flexible production methods, or flexible production.

Capitalist production is situated within a web of social and political institutions and cultural practices which change as a result of capitalism and, in turn, articulate capitalism historically and geographically (Aglietta, 1979; Piore and Sabel, 1984; Lipietz, 1986; Boyer, 1986; 1988; Clark, 1989). Naturally economic change engenders, albeit more slowly, changes in the social and political life, just as changes in social and political life shape economic change. New modes of production are clearly going to favor certain classes over others, just as new modes of production make certain skills obsolete and require new skills. As this occurs, attendant institutions change, while others wither away altogether. Often during times of transition, the economy and society are at odds with one another in a number of respects. For example, the societal conception of the ideal family may be quite out of sync with the reality of family life, or schools may continue to foster skills that have only marginal economic use. Possible results are structural unemployment, family strife, social disenchantment, and alienation. Because economic change has a differential effect on capital and labor, the State is typically faced with a variety of competing claims. Emergent capital clamors for the State to smooth its path, submergent capital for an easing of its losses, submergent labor for subsidy to retool while maintaining living standards, emergent labor for assistance in securing a new

labor relation with capital. In the process former State programs go out of fashion, or become economically and socially meaningless, while new programs must be hurriedly flung into the breach in arenas that previously were not under the purview of the State. Restructuring initiated by economic forces thus becomes a political issue with various emergent and submergent stakeholders "fighting for their fair share of the pie". The "politics of restructuring" (to use a slight twist on a phrase coined by Meric Gertler (1992)) is thus far from unproblematic.

It is doubly difficult to say exactly what the nature of economic, social, and political change might be, not the least because the nature of change is conditional on the history of the region in question. Why Denmark and Indiana have taken different paths towards restructuring is thus complex and requires an examination of the peculiar economic, social, political, historical, and geographical web in which each region is entwined. In the two sections that follow, I briefly trace the histories of each economy in the postwar period, sketch the nature of the current crisis in each economy, and discuss the prognosis for each region's future. At the beginning of each section, however, I first touch upon the separate ideologies of each region.

Restructuring in Denmark

To understand Danish economic history, and to understand the Danish approach to the current crisis, it is first necessary to understand the role of collective action in Danish economic, social, and political relations. The origins of collective action as a major force in Danish society are difficult to precisely date. Examples run the entire span of Danish history. However, perhaps the two most visible outcomes of collective action in Danish society are the Danish cooperative and union movements of the late 1800s and early 1900s. Despite experiencing the same agricultural employment contractions as the other advanced capitalist nations (agriculture currently accounts for 5% of employment and 4% of GDP), the ideology of the Danish agricultural cooperative movement continues to cast a long shadow over much of Danish economic, social, and political life today. Also, despite a growing service and professional class, the Danish labor force remains heavily unionized.

In the late 1870s, Danish farmers were confronted by a rapid decline in world grain prices which necessitated a conversion from arable farming to processed animal pro-

ducts. Two lasting effects of the recession were, first, a realization of the need to control their markets, and, second, poverty came to be considered a collective, not individual problem (Ploug and Kvist, 1995). The recession led to the formation of first cooperative dairy in 1882 and by 1900 the majority of milk and hog processing took place in cooperatively owned plants. Associated exporting societies handled Danish exports to world markets. By the mid-1950s cooperatives accounted for 86% of all milk production, 89% of hog processing, 50% of all chicken processing, 40% of all egg production, and 40% of all beef production (Royal Danish Ministry of Foreign Affairs, 1961). Four additional aspects to the cooperative movement deserve mention. First, a deep-seated principle of the cooperative movement was that all members had an equal voice at meetings, that there was an open intake of new members, and that profits were shared equally in proportion to output. Second, the spirit of the cooperative movement was one which avoided social and political distinctions to the maximum possible extent. Third, related to the cooperative movement, was a tradition of rural education based on Grundtvig's principle of "living interaction" and embodied in the folk high schools started after 1844. Fourth, the rural cooperative movement became aligned with the Liberal Party (*Venstre*).

The labor union movement in Denmark dates from around 1870. A branch of the International was founded in Denmark in 1871 and by 1873 the organizing of true industrial unions had begun. By 1898 at the founding of the National Trades Union Center (DSF) there were 38 national and 25 local unions with a total membership of just over 60,000. In the protracted strike/lockout of 1899, the unions won full recognition of right to organize and bargain collectively. The labor movement and the urban cooperatives early became aligned with the Social Democratic Party (Royal Danish Ministry of Foreign Affairs, 1961). A continuing series of strikes and lockouts from 1899 until the 1930s further consolidated both the position of the unions, and of employers against the union. The outcome of this process is that by the 1930s wage negotiations revolved around a single union confederation (DSF) and a single employer's confederation, the Danish Employers' Confederation (DAF), with the Central Government (typically a Social Democratic one) as arbitrator (Swenson, 1991). There are three important legacies of the strength of the Danish union movement. The first is the strong sense of egalitarianism that pervades much of Danish society.

The second is an entrenched and comprehensive concern about human welfare within capitalist society, and the assumption that society must buffer individuals from the ups and downs of unchecked capitalist competition. Third is the alignment of the union movement (along with the urban cooperative movement) with the Social Democratic Party in Denmark.

The current social democratic state in Denmark thus stems both from the collective philosophy of the cooperative movement and the egalitarianism of the labor movement. As such it represents a class compromise between small, independent farmers and industrial workers (Kuhnle, 1994). The current social democracy in Denmark was formally founded in 1934, but several of the welfare state's programs stem from an earlier date. General agreement exists on key issues such as democratic socialism, fair distribution of the benefits of production, limited control of profits and prices, and protection of individuals from the anomalies of private capitalism (Bork-Pedersen and Andersen, 1994).

Denmark in the Postwar Period

Denmark traditionally has been remarkably agrarian. Industrialization began only in the latter part of the 19th century, as an out-growth of traditional crafts and trades, or as an extension of the agricultural sector (Korst, 1975, p. 30). Early industries in Denmark included fertilizer and chemical manufacture, farm machinery, sugar refining, distilleries, breweries, tobacco product manufacture, and, of course, shipbuilding (Miller, 1991, p. 123). Danish industry has always been based on value-added production- the finishing of raw materials and semi-finished goods for specialized markets using highly skilled labor, modern technology, and organization (Korst, 1975, p. 49; Miller, 1991, pp. 123-124). Denmark's economy has been since the mid-1800s highly reliant on exports. Average size of firms in 1973 was a little above 60, up from 47 in 1955; 75% of all firms employ fewer than 50 people. Firms employing 50-500 are the norm (Korst, 1975, p. 46).

Immediately following the war Denmark was plagued by chronic balance of payment shortages, periods of inflation, and erratic growth. Growth remained slow and erratic in the period 1950-1957, but improved beginning in 1958. The 1960s are considered the golden years of Danish post-war life. Real GNP per capita grew 26% between 1958 and 1962 and income disparities lessened (Miller 1991, p. 125). Between 1949 and 1967 real GNP doubled and it grew by

an additional one third by 1973. During first half of 1960s and in the period 1970-73 growth was especially robust (Korst, 1975, pp. 21-22). Between 1958 and 1973 Danish exports of agricultural commodities doubled, while exports of manufactured goods grew 700%. By 1972, manufacturing exports were three and one half times those of agriculture, 62% of total exports were manufactured goods, and one half of all manufactures were exported (Johansen, 1987, p. 139; Korst, 1975, pp. 28-29, 53).

A high domestic savings rate spurred industrial investment (in the early 1970s only 8% of all capital invested in manufacturing was foreign) and productivity mushroomed between 1965-72 (Johansen, 1987, p.141). The unemployment of the 1950s was quickly absorbed by the expansionary 1960s. The labor force grew throughout the 1960s, but growth in demand for labor kept unemployment low. The work week was shortened in 1958 and again in the late 1960s. Wages rose faster than productivity causing inflation (Johansen, 1987, p. 150-152).

The period also saw growth of the public sector (Johansen, 1987, pp. 131-2). Social welfare expenditures grew from 6% of GNP in 1952-1953 to 16% of GNP by 1972-1973. Government revenues also rose, but more slowly than expenditures. By 1972 foreign debt accounted for 56% of annual exports and 13% of GNP (Johansen, 1987, pp. 156-160).

Still, only the farmers would characterize the 1960s as "bad times". After the mid 1960s, return on invested capital in farming was zero or negative (Johansen, 1987, p. 138). This led to tremendous concentration in the food processing sector. Three quarters of all dairies closed, one fourth of all slaughteries closed, and the major breweries united in 1970 (Johansen, 1987, p. 141-143).

Politically, Denmark joined the other Nordic countries in a variety of cooperative efforts, including a customs union (1948), passport union (1952), and labor market union (1954), but spent much of the 1960s squeezed between the EEC and EFTA. It was unsuccessful in joining the EEC (too many restrictions on social welfare and agricultural trade), and, at first, in joining EFTA (too many restrictions on agricultural trade). It nevertheless joined EFTA in 1960, but external barriers around EFTA made it difficult to trade with Germany. (Johansen, 1987, pp.128-129). Denmark finally joined the EEC on January 1, 1973 after securing a common fisheries commitment and special consideration for its relationship with other Nordic neighbors. (Johansen, 1987, p. 130-131).

Restructuring in Denmark

Denmark's economic crisis dates from the period 1973-1975. The period was marked for Denmark by rising unemployment, inflation, taxes, and balance of payments deficits. Output per hour in manufacturing in Denmark rose dramatically from 1970 until 1983, but has remained relatively flat since that time (Figure 1). This flattening of productivity has occurred despite increasing investment in industrial capital (Winther, 1995). At the same time, the rate of expansion of the labor market has been modest. Since 1990, labor market growth has stalled. The number of manufacturing jobs has varied since 1970, but has fallen about 17% since 1985 (Figure 2). Real hourly wages when examined using the 1970-1992 average exchange rate (one dollar equals 6.98 kroner) indicates continuous growth in real hourly wages across the study period with wages currently just under \$10 per hour (Figure 3)¹. The total number of hours worked per week fell dramatically in Denmark until 1982, then increased through 1988. The 1983-1988 increase in hours worked reflects a combination of increasing output and stagnating productivity in manufacturing during the late 1980s. Total hours worked per week fell dramatically again between 1988 and 1989 as a result of a shortening of the official work week to 37 hours. Despite vagaries introduced by changing accounting methods, it would appear that until 1973, Denmark experienced extremely modest unemployment even by European standards, usually less than 2% (Figure 4). Since then unemployment has moved fitfully upward reaching 10% in 1983. Since 1987 when it reached a periodic low of 8%, it has climbed again, reaching 11.4% by 1992. Unemployment is especially severe among the young, and women are more likely to be unemployed than men (Miller, 1991, p. 136).

Before taxes, Denmark is one of the wealthiest countries on earth. Using the 1970-1992 average exchange rate, per capita GNP in real dollars rose steadily until approximately 1986 when it reached approximately \$13,000 and it has remained at that level since (Figure 5). Despite recent worries of segmentation within its welfare society (Ervik and Kuhnle, 1994), income in Denmark is very evenly spread by almost any measure. Available estimates indicate that less than 2% of the Danish population lives in poverty (Hansen, 1989), but virtually no one lives in absolute poverty (as marked, for example, by homelessness). There has been a gradual increase in female participation in the labor force in Denmark since 1955 when women accounted for

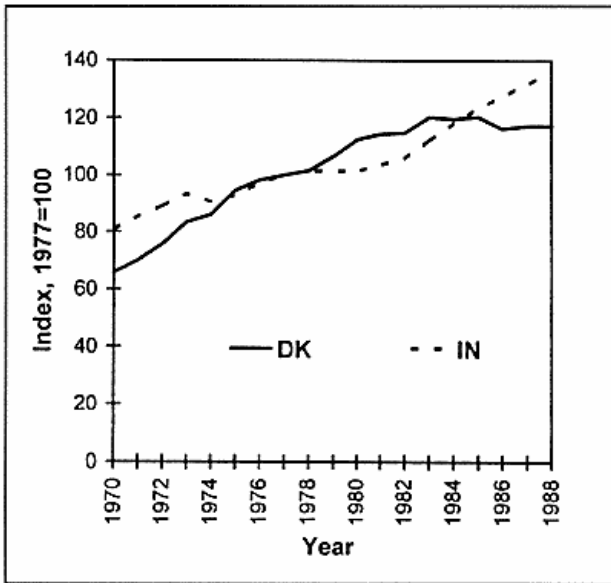


Figure 1: Output per Hour in Manufacturing, 1970-88. Source: Statistical Abstract of the United States and Statistisk Årbog.

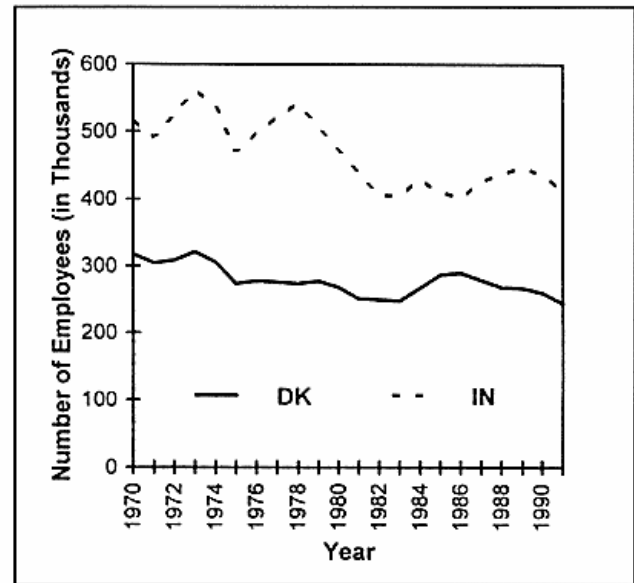


Figure 2: Manufacturing Employment, 1970-91. Source: Statistical Abstract of the United States and Statistisk Årbog.

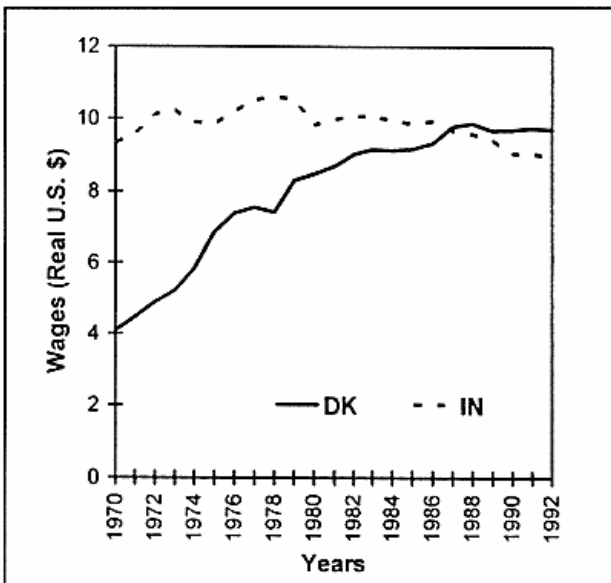


Figure 3: Real Wages in Manufacturing, 1970-92. Source: Statistical Abstract of the United States and Statistisk Årbog.

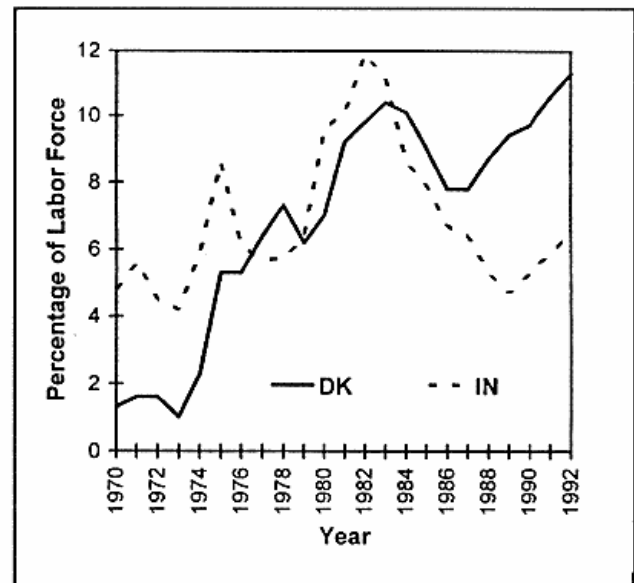


Figure 4: Unemployment, 1970-92. Source: Statistical Abstract of the United States and Statistisk Årbog.

approximately 36% of the labor force. Today, 48% of the labor force is comprised of women. Wage inequality has narrowed, although women are more likely than men to be engaged part-time. This trend has naturally affected both the role of family and of schooling. In a 1988 study of

Danish home life, women were found to be doing 50% more housework and child rearing than men, although women's share of housework and child rearing had been declining and men's rising since 1950. Further the differential was largely a function of ages and occupations. Men

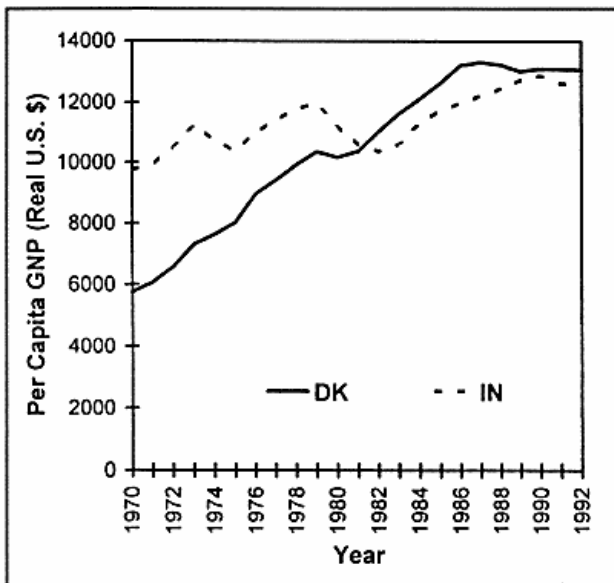


Figure 5: GNP per Capita in Real U.S. Dollars, 1970-92. Source: Statistical Abstract of the United States and Statistisk Årbog.

seem to be particularly resistant to performing certain household duties (washing and cleaning). Education levels within Denmark have risen steadily since 1970, average years of education currently stand at 11.7. The growth of women in the labor force has been accompanied by growth in day care and after school programs. Since 1982, participation rates have increased 10-20%, with the highest increases among children 3-6 years of age (Westergård-Nielsen, 1994). In 1993, 43% of all children up to age 10 were enrolled in some form of formal day or after school care.

Denmark's level of public debt and the level of taxation is a continuing concern. Deficit spending in Denmark began in the late 1970s. Since that time the central government debt as a percentage of GDP has surged from modest proportions to over 60% (79% in 1993) of GDP. Levels of taxation are clearly high in Denmark, but have remained largely constant as a percentage of GDP over the last decade (the period 1980-90) at approximately 50% of per capita GDP. In 1992, the marginal tax rate on average income was 67%, while on highest income it was 74%, the highest in the world. The value added tax on goods and services currently stands at 25%. Approximately 75% of Denmark's public sector budget is spent on public welfare items (defined as expenditure on "public welfare" and "education"). This represents an increase of about 10% of

public expenditure over the last 20 years (Hansen and Jensen-Butler, 1995).

Prognosis

The peculiar nature of the Danish welfare state has proved such that the crisis within Denmark has manifest itself not as broadly based restructuring, but in terms of lagging industrial labor productivity, and persistent and rising unemployment and underemployment. A result of rising unemployment has been the threat of further growth in Denmark's already high tax burden and growth of the public debt, despite improving balance of payments. The international situation has put further pressure on Denmark. For example, European unification has raised a number of questions about the efficacy of maintaining the Danish welfare state. The easing of east-west tensions in Europe has had implications as well. The political reunification of Germany (and its tremendous costs) has slowed growth in the German economy and this has held repercussions for the Danish economy. Similarly, the British and Swedish economies (other chief markets for Denmark) have encountered difficulties. At the same time emerging markets in eastern Europe have not so far come to fruition.

Socially and politically, however, Denmark is remarkably well prepared for making the necessary economic transition. The small size of Danish firms has meant that mass production never made a great deal of sense. The Danish farmer and the Danish worker with his or her multiple ties to various cooperative associations are accustomed to the networks and virtual corporations that dot today's economic landscape. Denmark's social institutions have long ago solved many of the social problems that have typically presented themselves in the age after Ford. For example, American wranglings over universal health coverage and much of the current American tumult over gender divisions of labor in the home and the role of education in society must have a decidedly "retro" feel to most Danes. At the social and political level there exists a deep commitment to democratic socialism, egalitarianism, and grassroots democracy.

And economic conditions are improving. There are signs of a recent, internally generated, economic resurgence in the country, spawned in part by a return to a more expansionary fiscal policy by the new government (OECD, 1994). Externally, Denmark continues to gain export share and the balance of payments on the trade accounts remains positive (OECD, 1994). Industry is being bolstered by new

central government programs focussed on eight resource fields deemed critical to the success of the Danish economy, by better coordination of industrial development programs through the creation of a "super ministry", and through continued emphasis on networking and concentrating the country's numerous small and medium-sized firms into globally competitive clusters (OECD, 1994; Rasmussen, 1995). At the same time, unemployment is being attacked through paid-leave schemes (there are currently some 70,000 enrollees), promotion of longer business hours, temporary subsidization of home services, dismissal disincentives, and a variety of educational initiatives (OECD, 1994). Current economic data indicate low inflation, falling unemployment, and slowly advancing GDP (Draper, 1995).

Despite these early signs of economic turnaround, worries continue to hound the Danish political scene. In particular, there continue to be calls for a trimming of the welfare state, despite no clear evidence that such cutbacks are needed at this time. In part these calls are justified. Even ministers of the current ruling coalition admit that if the current package of incentives fails, serious trimming may be in order. Job growth outside of the public sector continues to be sluggish and the current paid leave schemes have accentuated the existing skills mismatch between those taking paid leave and those hired temporarily to replace those on paid leave.

Restructuring in Indiana

Just as Denmark must be understood against a long history of collective action, so must Indiana be understood against American individualism. Tocqueville (1805-1859) first coined the term "individualism" and recognized that society in America is a means to individual ends only partially distinct from egoism (de Tocqueville, 1966, p. 477). These themes have been enlarged upon by subsequent writers (Crozier, 1984; Riesman, 1950; Veblen, 1973). Recent research (see for example Bellah et al., 1986), has confirmed that ultimate meaning in life in America is personal and individual - the individual is seen as the ultimate source of value and meaning - and reinforced the historical bases of American individualism.

Bellah et al. (1986, pp. 27-35) trace the history of individualism in American culture illustrating the roles of biblical, republican, utilitarian and expressive individualism.

Biblical individualism is seen in the role that Puritanism continues to play in American society - the twin notions that successful life is not measured by material wealth, but by the creation of community in which a genuinely ethical and spiritual life can be lived, and that material prosperity is a sign of God's approval. Republican individualism stresses the tradition that Americans be free from the arbitrary actions of the State (and one might add State intrusion), and that they be equal in the eyes of a just State.

Both utilitarian and expressive individualism are seen as more modern forms of individualism. The former stresses the right of individuals to succeed economically on the basis of their own industriousness, as best captured by the aphorism of Benjamin Franklin, "God helps those who help themselves". The obverse implies that poverty is an individual problem (those who don't succeed do so because of lack of effort). Expressive individualism takes utilitarian individualism an additional step by arguing that material success is not the measure of individual success, but that success has an individual, not collective definition.

Current American culture is a mixture of each of these four strands of individualism. However, current commentary (Bellah et al. 1986; Crozier, 1984) has tended to stress that rampant individualism has destroyed any feeling of collective obligation and Americans have largely lost the ability to recognize the complex interdependence of each upon all which is characteristic of cohesive societies. Crozier (1984) has suggested that as Americans as individuals continue to withdraw from society into small, closely defined collectivities, the mediation of society is increasingly left to the legislative and legal elite. This in turn has led to a lack of cooperation among individuals within American society.

Postwar Success

The post-war boom enjoyed by manufacturing enterprises in Indiana had deep historical roots in the larger American role in the history of global mass production. The U.S. industrialized relatively early, and by the outbreak of the Civil War, the U.S. trailed only Great Britain and France in industrial output, having already surpassed Germany and Russia. By 1929, the U.S. was the world's greatest financial and creditor nation and it accounted for 43.3% of global industrial output. The outlines of Fordism, production practiced on a massive scale by giant firms, were already clear. America's high standard of living and the ready availability of capital spurred further investments in

industry in an environment in which consumer demand could readily absorb all that was produced. The stock market crash of October 1929 and the ensuing global depression of the 1930s found a U.S. economy vastly "underutilized", but not "structurally deficient". In the war years, 1940-1944, American industry expanded 15% per year, so that the U.S. was richer at the end of the war than prior to it. In 1945, the U.S. possessed two-thirds of the world's gold reserves, more than half of global manufacturing production, it supplied one-third of world exports, and it owned half of world shipping (Kennedy, 1987, pp. 357-358). U.S. GNP per capita in 1950 was nearly twice that of its nearest competitor.

The postwar industrial boom in Indiana was centered on a manufacturing technology that encompassed interchangeable parts and an extreme division of labor. In the case of the continuous process industries, such as the automobile industry, this was supplemented by a moving assembly line, while the mechanical industries adopted the trappings of assembly line production by employing process-oriented production methods (Knudsen et al., 1994). Because of U.S. hegemony globally in the face of little foreign competition, the immediate postwar period in the Indiana was characterized by both increasing exports, and by expanding domestic demand.

The age of mass production also ushered in the age of the modern corporation. The explicit social contract embodied under the auspices of the modern corporation was that corporations were willing to pay high, stable wages, improve working conditions and stabilize employment in exchange for control of the factory (Piore and Sabel, 1984, p. 64). The period from 1945 until 1965 was one in which the labor relation was well defined and one in which the high profits garnered by Indiana firms allowed a steady increase in the real salaries and wages of those employed by manufacturing within the state, producing a large and relatively affluent middle class. The outcome from a class perspective was the narrowing of inequality throughout the 1960s and early 1970s.

At the same time a technical professional and administrative class emerged as the social outcome of the application of the principles of scientific management. This management class was reproduced within the formal education system by a growing university system that was (and still largely is) dedicated to the (re)production of students studying extremely narrow subjects that were then translated into correspondingly narrow occupations within

the white collar workforce. Similarly, the public schools (K-12) were dedicated to the habituation and education of a production workforce under a system that fostered individual competitiveness, promptness, rote learning, and individual accountability. Social divisions of the factory were given spatial expression in the rise of suburbia, and were recreated within the household in the form of the nuclear family with the working father and housewife who cared for the children.

Just as scientific management philosophies influenced the division of labor within business, so too did government become internally increasingly compartmentalized. The period witnessed not only the growth in the size of state government and its programs but an increasing complexity in governmental bureaucracy, so that by 1969, the organization of the state government and many of Indiana's largest corporations were largely indistinguishable. In part this growth was spurred by programs at the federal level, such as the Great Society of the Lyndon Johnson presidency, which required large and complex bureaucracies at the state and local level for implementation.

Restructuring in Indiana

The demise of mass production in Indiana was signaled by the recession of late 1979. In three year's time the state lost nearly 15% of its manufacturing employment. Further, it was precisely those sectors that were most central to the state's manufacturing economy that fared worst. Primary metals shed 36% of its employment, fabricated metals 13%, non-electrical machinery 37%, electrical machinery 21%, food and kindred products 18%, and transportation equipment 16%. The region was plunged into a period of extensive restructuring that lasted for five long years (Markusen and Carlson, 1989; Knudsen, 1992).

The waning years of the postwar boom and restructuring experienced since that time can be traced statistically. Output per hour in Indiana rose steadily up until around 1973, then flattened, before rising again swiftly in the period after 1982 (Figure 1). At the same time, the total labor market has expanded rapidly. The number of manufacturing jobs grew from 500,000 in 1970 to 560,000 in 1973, then fell to 490,000 in 1975 before reaching 550,000 in 1978. Since then employment has declined to 420,000 in 1983, rebounded slightly to 450,000 in 1989, before falling again to 420,000 in 1991 (Figure 2). Real wages have steadily declined since 1970 (Figure 3). The total number of hours worked per week fell in the period 1970-

1982, but since 1983 has increased to 41½ hours per week. Due to the periodic layoff/rehire cycles typical of mass production, Indiana has traditionally experienced high levels of unemployment by international standards (Figure 4). The restructuring of the state throughout the 1970s and 1980s was punctuated by periods of high unemployment with levels exceeding 10% between 1981 and 1984. Unemployment fell in the period 1983-1989, then expanded 1990-1992. Current unemployment is 6%.

Incomes in Indiana are among the highest in the world, although well below national US averages. Income per capita rose unevenly from 1970 until 1979, then faltered in the period 1979-1983, before rising slowly again. Currently real per capita income is approximately \$12,000 (Figure 5). Income inequality in Indiana is relatively wide, with inequality increasing since 1975. Poverty rates remain high. Around 13% of all individuals live in poverty, while about 20% of all children live in poverty. The latter is a particularly notable statistic in light of declining real AFDC payments, the principal program directed at children living in poverty. Per family monthly AFDC payments, in real dollars, are at their lowest point in the postwar period. Female participation in the labor force has increased gradually since 1970 from approximately 38% of the labor force comprised of women to approximately 45% of the labor force comprised of women. Women have tended to be employed in lower paying jobs than men, and have tended more so than men to be engaged part-time. Recent studies indicate that women continue to do most all of the housework and child rearing (Ingrassia and Wingert, 1995). The reluctance of men to become more involved in the home has been abetted by both a corporate culture that questions the loyalty and drive of primary care givers to children, traditional notions of the nuclear family that date from the 1950s, and a reluctance to provide paid maternity leave to either gender (for example, males in the case of adoption). While not entirely to blame, evidence suggests that struggles over the gender division of labor in the home, particularly when combined with the economic uncertainty of living in a global economy, are a major source of domestic violence in the home. Day care and after school care for children is widely available, but expensive in real terms. Indiana residents are not particularly highly educated by international or US educational standards. Average educational attainment was 11.7 years in 1990 which is approximately a year below the US average. Indiana is a fiscally conservative state, required by law to

maintain a balanced budget. The state's tax rate on individual incomes is a flat 3% rate, while US federal tax rates have remained approximately constant since 1970 at 30% of per capita GDP. Public expenditure on public welfare items (defined as expenditure on "public welfare" and "education"), have increased by about 7% in Indiana over the last 25 years. This growth has come largely at the expense of expenditure on public infrastructure. Public welfare expenditures accounted for approximately 55% of the public sector budget in the state in 1970 and currently occupy 62% of the state budget.

Prognosis

The collapse of Fordist production, while it produced devastating effects in certain localities within the state (notably, Gary, Ft. Wayne, South Bend, and Richmond), did not leave the region as poorly off as is often believed (Kelly, 1992). Much of the industrial infrastructure, while aged, remains intact and indeed some sectors of the manufacturing economy within the state, having shed thousands of employees, are once again growing. Steel producers have moved away from more traditional lines of steel and increasingly have focussed on specialty steel for the auto industry (O'hUallachain, 1993). The auto industry is today more heavily concentrated in Indiana than ever before thanks largely to the infusion of Japanese capital (Mair, Florida and Kenney, 1988). Remarkably, Indiana and the other American manufacturing belt states are now hailed as among the most globally competitive of regions (Rose, 1994). Indiana manufacturers are 20% more efficient than the national average, and exports have risen at twice the national average (Council of Great Lakes Governors, 1993). Exports now account for 1 in every 6 jobs (Melcher and Kelly, 1994).

Economically, Indiana seems fully recovered, but underneath the surface problems remain. The collapse of the mass production economy did more than shatter the economic basis of the state, it seriously damaged the social contract between capitalism and people, thereby undermining the economic rationale for much of social and political life as established in the immediate postwar years. The collapse of the mass production economy undermined the philosophy behind primary and secondary education, fractured understandings about home, and undermined the philosophical and economic bases of many government programs (thereby calling into question the very nature of government).

The policy response to this lingering socio-political crisis has been less than coherent. State government's approach to industrial development is comprised of a confusing mixture of often conflicting programs at the state and federal level (State of Indiana, Department of Commerce, 1994). Economic programming (operated by the state's Commerce Department) has focussed on worker training and retraining, incentives to capital, encouraging start-ups and cooperation among small businesses, defraying the cost of environmental equipment for large businesses and utilities, help with exporting, and the establishment of data bases and electronic clearinghouses. Educational programming (operated by the state's Department of Public Education) has focussed on greater integration of computers into the classroom, greater business and education cooperation, reducing class sizes, and electronic classrooms. Other social programming remains the purview of the federal government. With the latest change in the composition of the Senate and House of Representatives great uncertainty surrounds these programs. But trends in recent years point to a continuation of the decline, in real terms, of spending on public welfare.

Summary and Conclusion

Denmark has forged a cohesive and widely accepted society and politics which economic events now seriously threaten. Unemployment in a welfare state inevitably leads to increasing public welfare costs, which lead to further taxes (especially given the Danish budget crisis). Higher taxes only push more onto the labor market further fueling unemployment. Denmark's willingness to permit long stays on the public unemployment rolls, and its countenancing of paid-leave schemes suggests a willingness on the part of Danish society to pay the short-term price of long term solutions. Better still, the current Danish industrial policies appear to be working. The economy is recovering, unemployment is dropping, GDP is expanding, and inflation has increased only slightly.

Indiana has to a large degree successfully restructured economically in the decade of the 1980s, but now faces serious questions of social justice and political credibility. The state at present is a paradox in which unemployment is at very low levels, but welfare payments are skyrocketing. A whole new class, the working poor is being created and enlarged. For the uninsured, or underinsured,

a trip to the hospital spells financial catastrophe. Both State and federal government seem powerless to solve many of society's central problems.

The literature is in general agreement about the steps currently necessary for continued economic advancement in a globally competitive environment (Scott, 1992):

- Continued fostering of high levels of research and development, and the transformation of research and development quickly into commercial products, possibly enhanced by publicly funded innovation centers and industrial extension.
- Creation and continued upgrading of labor skills through more science and mathematics education, apprenticeship programs, vocational training, and university short-courses.
- Enhanced public or cooperative provision of basic business services and infrastructure.
- Enhanced cooperative interactions between firms.
- Effective government management of market failures and externalities.
- Increased government export incentives and promotional efforts.

These policy prescriptions, however, presuppose a number of existing conditions and institutions that may or may not be present in Denmark and Indiana. For example, the first prescription presupposes what Edquist and Lundvall (1992) have termed a "national system of innovation". The second prescription presupposes an entrenched apprenticeship program and a university system willing and able to undertake short-courses. The third prescription presupposes a State that is both ideologically and financially able to provide infrastructure and business services in the event of private market shortage. The fourth presupposes an atmosphere of trust and collective action, the fifth a State that is not ideologically against market interference, the sixth a State that is proactive and not *laissez-faire*.

Denmark already possesses to a large degree the necessary conditions and institutions for continued economic advancement. Both Edquist and Lundvall (1992) and Hansen (1992) have noted Denmark's innovative milieu. Denmark has a wide variety of novel educational institutions, and collective action, as I have noted, is a characteristic of Danish culture. The Danish State has repeatedly demonstrated both a resolve and a willingness to proactively intervene in domestic and international capitalism.

Importantly, Denmark's principal problems are economic and not social or political.

Indiana is a branch-plant economy. Indiana firms are not typically innovative and often function as low-cost suppliers of semi-finished materials. While vocational training exists, apprenticeship programs and college short-courses remain rare. Indiana has one of the lowest educational achievement rates in the U.S. Indiana is both an ideologically and financially conservative state, but it has made some effort at export promotion and the supply of business services in the absence of a private market. Its official business policy has, however, remained demonstrably *laissez-faire*. Business cooperation is in its infancy and the rugged individualism of most American entrepreneurs dictates that cooperation will be the exception to the rule, not the rule for some time to come. If current policy prescriptions contain any truth at all, then it must be argued that Indiana is at a relative disadvantage in terms of conditions and institutions appropriate for economic growth. Indiana's problems are social and political, not economic.

Throughout this paper, I have utilized Denmark and Indiana for comparison as a way of highlighting differences in the way in which regions undergo restructuring, and as a way of illustrating the connection between regional history and character and the process of restructuring. Previous research (Amin and Thrift, 1995; Jessop et al., 1993) has categorized types of restructuring along three lines. One restructuring strategy, the negotiative strategy, has been to use the power of government to bring together the various stakeholders in capitalist development and negotiate restructuring. In this instance the state plays the role of "arbitrator, co-ordinator, and strategy maker" to focus collective action on the issue of restructuring (Thomas and Amin, 1995, p. 10). A second, the neo-liberal strategy, has been to simultaneously use the power of government to cut the costs of doing business and redefine labor relations, and disembowel government through "reinvention" and privatization. A third approach, not discussed here, has been to intensify government involvement in the production and dissemination of industrial technology, in labor markets, and in the marketing and exporting of products.

It should be clear that the negotiative approach has been particularly typical of Denmark, while the neo-liberal approach has been typical of Indiana. That each region should pursue a different strategy is entirely consistent with each region's history. The export specialty, high value-added approach of Denmark comes at the financial

cost of the world's highest tax rates and the social cost of high structural unemployment, but is balanced by a national unity born of a long history of collective action. Danes are in a national sense "all in this mess together". The low cost, lean production approach of Indiana comes at the financial cost of declining real wages and the social cost of high rates of poverty, but is balanced by low unemployment and high productivity growth. Americans are "free to pursue individual opportunities within the marketplace", an approach consonant with American feelings of individualism. Neither approach is arguably more or less desirable, but rather each exemplifies different approaches to restructuring resulting from different values, circumstances, and institutional histories. This is precisely why the recent history of Denmark holds important lessons for the US, and why the recent history of the US holds important lessons for Denmark.

Notes

1. There are three common ways to compare wages and income. These may be termed as the current exchange rate method, the purchase price parity method, and the base exchange rate method. Each approach has a number of strengths and weaknesses. The current exchange rate method of comparison is overly sensitive to swings in the exchange rate and often does not reflect domestic purchasing power. When using this method, Danish wages and incomes in the 1980s are undervalued because of the artificially high dollar during this period. The purchase price parity method is designed to assess exchange rates based on a common "market basket" of goods and services across countries. While free from the vagaries of exchange rate calculation, the purchase price parity method implicitly assumes that all nations purchase the same "market basket". The use of purchase price parity measures to compare neo-liberal America and a social welfare state such as Denmark does not seem to be appropriate, particularly since purchase price parity measures have difficulty measuring nonmarket goods (such as state-financed education and health care) and spill-over effects. The base exchange rate method is quite insensitive to annual swings in the exchange rate, but is sensitive to choice of base. Here, choice of the average 1970-1992 exchange rate as the base rate minimizes the bias that using a base exchange rate method might introduce.

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