

State-Capacity between International Markets and Corporatism: The Case of Denmark

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This article examines Danish welfare and industrial policies to see if Peter Katzenstein's description of such policies as instances of a successful strategy of compensation for the social costs of an open economy and adaptation to international markets is correct. It is argued that the universal welfare state and corporatism pose severe restrictions on policy flexibility. Universality of benefits is conducive to political consensus but also expensive because no one party is willing to assume the political costs of substantial change. Similarly, the comprehensive inclusion of organized interests in the formation and administration of industrial policies prevents the exclusion of any one organized interest from a share of government subsidies. Consequently, policies are broad and consensus-generating rather than flexible responses to changes in international markets. It is concluded that the domestic interest group representation arrangements inhibit global adjustment.

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Despite valiant attempts to the contrary, some of the specificity of the individual cases is invariably lost in comprehensive comparisons of this kind. While Denmark and Norway consistently rank among the least successful of the seven and Switzerland first, Katzenstein does not explore this difference in performance further (Katzenstein 1985, 194). The focus for the present study is to see how well Denmark fits into a category of

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Despite valiant attempts to the contrary, some of the specificity of the individual cases is invariably lost in comprehensive comparisons of this kind. While Denmark and Norway consistently rank among the least successful of the seven and Switzerland first, Katzenstein does not explore this difference in performance further (Katzenstein 1985, 194). The focus for the present study is to see how well Denmark fits into a category of

such distinction. While the description 'small' shall not be refuted, the characterization as 'successful' will be somewhat modified. Indeed, I shall argue that instead of political stability 'immobilism' is a better choice of word and with respect to economic flexibility and adaptability, the actual achievements fall short of their reputation.

The Open Economy Welfare State

The Danish economy is geared toward export markets. Total exports in the 1980s have fluctuated just below 30 percent of the total gross domestic product, while imports have been slightly higher. Consequently, the country has suffered persistent balance of payment deficits (*Statistical Yearbook* 1986, 285). At the same time, the average (registered) unemployment rate has fluctuated between 8 and 10 percent. Despite a relatively constant unemployment rate, more people are employed, as the labor force has expanded to such an extent that Denmark has the highest work frequency in the world.

This has been the situation – sometimes worse, sometimes better – since the 1973–1974 economic shock-wave went through the international economy. The imbalance is no longer blamed on the OPEC countries but considered a structural problem of the domestic economy. In other words, Danes have accepted that the international economy is an independent variable and reaffirm Peter Katzenstein's view that small countries – like Denmark – have to rely on flexible economic policies that ease market adaptation to international conjunctures. This adds yet another goal to the welfare state, which today not only has to ensure redistribution between the classes, but also compensate for undesirable social consequences of market adjustments to changes in the international economic conjuncture. From the unions to the employer organizations, and from the governing Conservative party to the divided socialist opposition, consensus reigns: economic growth and expansion of welfare programs depends upon a successful export strategy. The slogan that the Danes have to export their way out of the present predicament is uncontested. Yet, unemployment remains high and government expenditures hard to control.

With respect to the national account, the structural problems are expressed by balance of payment and general government budget deficits. Income transfers amount to 1/3 of the budget expenditures, although it is noteworthy that transfers have grown less than other expenses. In 1980, 37 percent of the Danish electorate depended upon the welfare state for their livelihood, either as welfare state clients or as employees in the public health sector, social services, or education (Ringén 1987, 32; Kolberg 1983). Examining the composition of public expenditures, it is noteworthy that social transfers have been less resistant than social consumption expen-

Table 1. Central Government Debt 1970–1982.

	1970	1978	1981	1982
Domestic debt in percent of GDP	–2.7	8.8	32.6	42.8
Foreign debt in percent of GDP	3.1	9.4	14.1	17.0

Source: *Statistical Yearbook*, Danmarks Statistik 1986, Table 351.

ditures to the cutbacks in the public sector that have taken place in the 1970s and 1980s. By comparing social transfers to social consumption expenditures, Ole P. Kristensen has found that there is a distinct Danish and Swedish (and Finnish) welfare state model that emphasizes institutions over direct transfers to households (Kristensen 1987, 94). In other words, the government has had more success in scaling back transfer payments than in reducing institutions. One important conclusion that may follow is that in these countries public employees apparently have more political clout than social clients do.¹

The balance of payment deficits are less due to trade imbalances than to large government repayments of foreign debts. In the late 1970s government borrowing grew enormously. At the time, the economic crisis and unprecedented unemployment rates made the government reluctant to contract the economy further by increasing taxation, so foreign borrowing was preferred. Not only did the central government borrow money both abroad and by issuing domestic bonds, also local governments gained access to borrow money abroad for big capital investments. Table 1 shows the expansion of the debt of the central government. As a consequence of the foreign borrowing, the balance of payments has been immensely strained by repayment to such an extent that even in years with a positive trade balance, as in 1983 and 1984, the current account still showed large deficits averaging just short of 2.0 billion dollars (OECD 1986, 85). In the course of recent years under a conservative coalition government, borrowing has been reduced and attempts have been made to bring down the foreign debt. Consequently, taxation has increased instead.

Despite high unemployment rates and the burden of taxation, the standard of living is high. Fifty-seven percent of all families – single provider or cohabiting/married couples – own their own home (slightly fewer than in the United States) and even though cars are taxed so heavily that they cost three times the price of the same car in the United States, 60 percent own one. More than 90 percent own a TV, a telephone, and a refrigerator and/or freezer (*Statistical Yearbook* 1986, 171).

Similarly, the welfare state is still intact, although under strain. All wage earners have 30 days paid vacation per year.² Working women have the

right to paid maternity leave for 28 weeks. Fathers have the right to stay at home together with the mother in the first two weeks after the birth. Fourteen weeks after delivery, the father is allowed 10 weeks, in which case, the mother loses the right to maternity leave.³ Publicly regulated as well as so-called black market child care is widely available at affordable prices (between \$75 and \$200 per month depending on the age of the child and type of arrangement). Health care is free, although bureaucratically organized, and patients may have to go on waiting lists for non-emergency operations. In some instances, people may have to wait up to 2 years for a badly needed operation. Planning in the health care area has been decentralized to the county-level, and questions regarding funding and capacity are presently the subject of much discontent. One consequence of decentralization under conditions of fiscal constraint has been a sharp politicizing of decisions regarding capacity. Under conditions of scarcity, public health care systems have to rely on bureaucratic regulation (quotas) instead of the market-mechanism (price). Consequently, decision-making in the health-care area has become progressively more contentious. Due to declining enrollments, funding the public school system is less of a budgetary strain, although decisions to close schools are unpopular. Early retirement and part-time retirement plans have been expanded to encourage older workers to retire from the job market. These plans have been a tremendous success among the self-employed, who, according to the principle of universality, got equal access. Workers have been less enthusiastic about early retirement. (The plans are partly based on an insurance principle and partly government funded.)

The consensus with respect to the open economy and an export strategy is paralleled by the consensus with respect to the welfare state and welfare programs. The issues which are subject to party competition are rather 'how much' different benefits are to pay and when they should be phased out than disagreements over their justification. Walter Korpi and Gosta Esping-Andersen have linked the question of what form welfare expenditures take with the politics of coalition building. The argument builds on Adam Przeworski's theory of democratic socialism which stresses the need for any democratic socialist movement to adopt a majoritarian strategy: 'The 50 percent + one strategy' (Przeworski 1985). Very briefly, it is argued that given the historical fact that the working class (contrary to the expectation of classical Socialism) has never constituted the majority of the population, in order to govern, socialist parties have had to give up class-based politics. The Scandinavian social democrats initially supported welfare schemes that would benefit the working class, 'the ghetto strategy', i.e. social benefits based on criteria of need which would favor the core constituents, the working class. By the 1930s, when the Social Democrats finally came into power, they changed their strategy and supported universal

programs. The notion of 'social citizenship' and benefits based on universal criteria (e.g. universal old age pensions, flat-rate child support payments, compulsory unemployment insurance) dominated the final development of the welfare states in the post-World War II period. If the parties could gain power on the basis of working-class votes alone, the 'ghetto-strategy' would clearly have been more beneficial to the core voters. Instead, party competition over marginal voters and the need to make coalitions with other social groups led to the universal welfare state (Esping-Andersen 1983, 1987; Esping-Andersen & Korpi 1987). In effect, the Social Democrats' strategy for a universal welfare state preempted the creation of an effective conservative opposition based upon hostility to the welfare state.

The consensus in Danish politics over the welfare state today in a situation of budgetary stress confirms the view that the universal welfare state has the advantage of de-politicizing welfare benefits. On the other hand it suffers from the problem of being very expensive. As long as the consensual welfare state is dependent on universal social benefits, discrimination between the needy and the less needy will violate the political principles of the pro-welfare state coalition. Consequently, means-tested benefits targeted to more narrowly defined groups with special needs – which may be more effective in terms of reaching specific social goals – are politically dangerous. As the connection between economic policy and social goals has become more explicit in the course of the economic restructuring since 1973, the specter of means-testing and *need* as a criteria for payment of social benefits has reappeared. No party has yet been willing to shoulder the responsibility of a full-fledged attack upon the universality principle and only smaller programs with lesser budgetary consequences – and affecting fewer voters – have thus far been subjected to means-testing (Nørby Johansen & Kolberg 1985).

Domestic Compensation and Macro-Economic Fine-Tuning

Katzenstein makes some generalizations with respect to the economic policies of small states:

... [A]ll of the small European states have adopted a flexible political strategy of industrial adjustment. They have found industrial policy a useful instrument for pacing the structural changes that international markets impose on the domestic economy. On questions of industrial policy they do not show the political indifference reinforced by protectionist policies that characterizes some of the larger states, nor do they attempt to transform industrial sectors. [...] Far-reaching policies of international liberalization can lead to severe social dislocations. Domestic compensation reduces these dislocations and both permits and requires the adoption of flexible policies of industrial adjustment (Katzenstein 1985, 78).

We may attempt to measure the most direct costs of such 'domestic compensation' by the costs of programs for the unemployed: unemployment benefits, work programs for the unemployed, and an early retirement plan – the core of the effort to deal with ten years of high unemployment – all of which in 1985 amounted to almost 20 percent of all social expenditures (*Statistical Yearbook* 1987, Tables 133 and 355). In the Danish case, unemployment has closely followed the status of the balance of payments. Every time employment went up, the deficit went up as well. Conversely, attempts to bring down the deficit have inevitably been followed by an increase in unemployment.

We have previously described the two persistent imbalances in the Danish economy: the budget deficits and the foreign account deficits. Unemployment benefits and payments on public debt combined together amounted in 1983 to 21 percent of all public expenditures, up from about 3 percent in the early 1970s (Damgaard 1986b, 5). While the high unemployment reasonably may be ascribed to external factors, it is not entirely clear that *all* Danish economic miseries are caused by the commitment to an open economy. (We just need to imagine the counter-factual model of a self-sufficient – and protected – domestic market to realize that the problem of making government revenues and expenditures meet would be much greater in that case.) Strictly speaking, it is not possible clearly to separate 'domestic compensation' from other attempts to correct the structural imbalances in the economy. However, following Katzenstein's terminology, we will in the following regard social expenditures as an expression of domestic compensation in the widest sense. And consequently, we will by domestic adjustment mean government efforts to adjust the market economy to bring the highest possible revenues and cause the lowest possible social costs defined primarily in terms of unemployment.

Incomes Policy

In 1982, the Social Democratic minority government stepped down primarily because it was unable to solve the economic problems at hand without jeopardizing its relations with the labor movement. Incomes policy directed at keeping the cost of labor down became in the cause of the late 1970s the center-piece of the effort to improve the country's competitive position vis-à-vis international markets. The autonomy of the unions was threatened when collective bargaining over a general contract between the employers' federation and the federation of unions (LO) broke down and the Social Democratic minority government suspended the legalized bargaining process, and instead enacted a general contract as law in 1975, 1977, and 1979. What Peter Gourevitch and others have called the union-party exchange was clearly damaged, and the movement-as-party put in

opposition to the movement-as-union (Gourevitch et al. 1984). Incomes policy spans a variety of measures, most of them anathema to the unions. One important issue has been the suspension of the indexation scheme which automatically regulated wages as the price-index rose. In return for wage-restraint the unions have been offered longer vacation, reduced working hours (39 hours a week since December 1986), promises of lower taxes, vocational re-training plans, etc. The general contract for the labor market does more than just set the standard for negotiations with public employees and other groups with independent contracts. Negotiations have also been linked with incomes policy 'packages'. The 'packages' have spanned from questions concerning the distribution of wage increases giving low-pay groups (generally unskilled and female workers) the highest increases, to forced savings plans designed to make the rest of the population show as much restraint as workers do. General contract negotiations are no longer a matter between the unions and the employers' federation determining the size of the worker's pay check. Instead, we have a complicated series of negotiations involving the government, the political parties, and all the major labor market organizations determining the entire population's standard of living for the next two years. Since one group's loss on one issue may be compensated with a gain on another, a peculiar linkage of the political issues takes place.

In retrospect it has become clear that it was a moment of special historic significance when the Social Democratic minority government stepped down in 1982. Instead of taking advantage of the position as opposition party to regain lost votes, the party's decline has continued (see note 1). The 'terrible truth' is that the right-of-center coalition government of four 'bourgeois' parties has proven more capable of dealing with the economic problems than the Social Democrats were. (Since the so-called 'earth-quake' election in December 1973, when the century-old party system was shattered by the entrance of five new parties in parliament, all governments have been minority governments.)

Fiscal Policy

Fiscal policy has predominantly been aimed at reducing the budget deficits, i.e. finding new ways of bringing in more money. In terms of inventive ways of taxing people more, Danish governments – left-of-center or right-of-center – deserve all the admiration expressed by Katzenstein. As is apparent from Table 2 below, a high proportion of the revenue (close to 18 percent) is raised by means of indirect taxation. This is primarily the excise tax, which deserves more attention than it is possible to grant it in this context because of its obscure effects in terms of public policy. It is worth noting that excise tax violates the redistributive goals of the welfare state by its lack of proportionality. It is also worth noting that Sweden is

Table 2. Public Sector Revenue as a Ratio to GDP (percent of GDP).

	1975	1980	1983	1984	1985*	1986*
Indirect taxes	15.5	18.6	17.7	18.0	17.8	17.5
Direct taxes	25.1	25.8	26.5	27.2	28.6	28.9
Other taxes	2.0	2.7	2.3	2.3	2.9	1.7
Total taxes	42.6	47.1	46.5	47.5	48.3	48.1
of which:						
taxes on households	39.5	43.0	43.1	42.7	43.9	42.7
other taxes	3.5	5.9	8.1	8.9	9.0	8.7
Total revenues	46.1	53.0	54.1	56.6	57.3	56.8

Source: *OECD Economic Surveys 1985/1986: Denmark*, Paris, February 1986, p. 12.

* Official estimates.

the only country in the world that taxes its citizenry harder than Denmark does (regardless of the political color of the government).

Monetary Policy

Monetary policy was very tight in the late 1970s in an attempt to force savings, improve the balance of payments by attracting foreign deposits, and control inflation, with the result that interest rates escalated dramatically reaching an all-time high around and above 20 percent per year. The conservative coalition government eased credit and allowed the money supply to expand, and consequently by the middle 1980s interest rates were brought down to international levels. Inflation was sought controlled by other means. In 1986, the OECD gave the conservative coalition government high marks for its management of the economy calling the recovery since 1982–1983 ‘rather impressive by international comparison’ (OECD, 1986). By the end of 1987, however, the praise dried up and the OECD once again made it clear to the Danes that a reduction in real wages, longer working hours, forced savings, and an end to indulgent governments was needed if something was to be done about the endemic balance of payment deficits.

Industrial Policy

In terms of macro-economic policies, the Danish governments have shown a remarkable creativity in fine-tuning general policies to specific means. However, it is also remarkable that they have shown a great reluctance to enter into direct regulation of market behavior. An active industrial policy is another way of advancing industrial adjustment. By ‘active’ industrial policy is generally understood selective measures intended to change market behavior according to some politically determined goals. In response to the

new emphasis on incomes policies, the Labor movement started to call for state activism in this respect in the late 1970s. The never-realized plans for 'Economic Democracy' – workers' self-management plans which originally were envisioned realized by means of large centralized wage-earners' capital funds accumulated through mandatory profit-sharing – were expected to make the resources available for politically motivated inroads into the market forces. A comprehensive mandatory profit-sharing scheme has not yet been instituted largely due to unwillingness on the part of the union membership to substitute wage increases for pie-in-the-sky, i.e. 'profit-sharing'. The overwhelming feeling clearly has been that such centralized funds would not benefit the ordinary worker. Comparatively minor funds under union leadership have been created by means of the capital from the suspension of the indexation scheme and employer contributions to paid vacation plans. It is, however, characteristic for the existing funds that they have not been particularly innovative or profitable with respect to their investments. Indeed, the labor leadership has not given its membership much reason to believe that their investment plans will be superior to those of the capitalists.

Industry has feared the funds and imposed the constraint on all funds – labor or non-labor – that they cannot buy up more than 20 percent of the shares in a given company. The need for capital may soon lead industry to reconsider its position. The question of how best to protect depositors' savings against mismanagement is still an open one.

The notion of 'niche' industry was for some time considered the panacea for the Danish dilemma. 'Niching' indicates specialization in advanced and highly technological products for a world market where, by virtue of the high degree of specialization, it may be possible to achieve market dominance. Presumably Denmark would have a comparative advantage in such productions because of its old crafts tradition, decentralized industrial structure, and a highly skilled and dependable work force. The concept of 'niching' bears a remarkable resemblance to Piore and Sabel's theory of a 'Second Industrial Divide' which would allow us to return to small-scale, crafts-like super-technological types of production (Piore & Sabel 1984). The never mentioned presumption for this strategy is unfortunately that all the boring, low-paying, and polluting productions have been moved to countries still in the process of their first industrialization. Nevertheless, the labor movement has found a 'niche'-industry strategy attractive because it promises the possibility of clean, interesting, and *well-paid* jobs for its members. Intellectuals have been attracted for much the same reason but also since investments in research and development necessarily would receive high priority (Economic Council of the Labor Movement 1978; Vangskjær 1980; Norvig Larsen et al. 1986).

The idea of Denmark as a Silicon Valley country was very attractive but

unfortunately also illusory. While certain successful productions fit the description of a 'niche' industry – some pharmaceutical industries, fabrication of advanced communication and measuring equipment, or LEGO blocks – many of these industries unfortunately have a very high content of imports (Møller Hansen et al. 1983, 45; Larsen et al. 1980, Tables 10–1, A–C). Consequently, they contribute relatively little to the general economy in terms of job creation or local subcontracting. In other words, their multiplier effect is low and it is not realistic to expect that the 300,000 unemployed will ever find jobs in such industries. Moreover, it has turned out that Denmark has a *net-import* of high-tech products (OECD 1986; Council of Economic Advisors 1984). Contrary to expectations it turned out according to a report from the Council of Economic Advisors in May 1984 that Danish exports were high in fixed capital and *unskilled* labor, while imports were high in 'human capital' (Møller Hansen & Møller 1984; Norvig Larsen et al. 1986). The bulk of Danish exports were still textiles, furniture, and processed foods and beverages. The conclusion was that Denmark has a *negative* 'research and development balance' vis-à-vis its main trading partners. The result has been an increase in government spending on research and development. Also the business community has started to demand more money for research after having for years largely ignored what went on in the universities (Management 1983).

Consensual Industrial Policy

In a historical perspective, the need for an industrial policy is recent. Up until 1958, more people were employed in agriculture and industries connected with agriculture than in industrial production. Agricultural exports were more important than industrial exports until the middle 1950s, and today foods and beverages still account for about a third of all exports (Hansen 1977; Møller Hansen et al. 1984). In the late 1950s, industrial investment took off and industry not only grew more than agricultural production but also became increasingly export-oriented. Today we can identify 1960 to 1973–1974 as a period of tremendous growth, and, also, the heyday of the welfare state and Social Democracy.

Industrial policy has been predominantly liberal; that is, the government has not attempted to direct investments or alter market behavior. Concluding that industrial policy predominantly has conformed to a liberalist paradigm, Niels Christian Sidenius has pointed out that none of the government subsidy programs interferes with market criteria of profitability (Sidenius 1982). The emphasis has been on easing credit for the shipping industry, small businesses and crafts industry with less than 75 employees,

and underwriting Danish exports. Technological innovation and exports to developing countries has also enjoyed preferential treatment; however, still only in the form of government credit programs channeled through private banks (Ministry of Industry 1985). The political-administrative decision-making is probably best described as *private interest government* (Streeck & Schmitter 1985).

Danish industrial policy has neither been characterized by selective interventions according to a strategy of 'picking the winner' nor by attempts to 'save the loser'. The most important exception has been the only Danish steel mill, Frederiksværk Stålvalseværk, in which the government owns 30 percent of the shares. Compared to the efforts put into bailing out distressed industries in other Nordic countries the Danish state is very restrained. Norway spends about 40 percent of its funding for industrial policy programs on subsidies to state enterprises or failing industries. Similarly, Sweden spent about 2/3 on direct subsidies (Nordic Council 1985).

The credit programs aside, industrial policy has merged with general macro-economic policies. Among these can be mentioned the attempts to better the international position first through devaluation, which today has been abandoned as a macro-economic instrument, and then general wage and price-freezes or tax deductions for plant improvements. All such policies are in principle general and universal, that is, their impact upon the structure of industry is supposed to be neutral. A more precise description may be 'blind' because, clearly, they do discriminate among industries and businesses, but they do this in indirect and non-transparent ways. The most notorious example are the rules with respect to how businesses return excise tax to the government. The excise tax (MOMS) is today 22 percent of the retail price (see Table 2 above). For some businesses the tax amounts to a not insignificant short-term and interest-free government loan. For others (mainly small businesses, construction businesses, etc.) it represents a cost factor which they cannot reduce.

Danes have subscribed to a philosophy of *laissez-faire* not only with respect to economic foreign policy. Also in terms of domestic industrial policy, they have depended upon the market mechanism to ensure that the necessary adaption to international markets takes place. Instead of the 'flexible' and 'active industrial policies' for which Katzenstein recommended the small European states, we have found in the Danish case an almost inordinate reliance on the market mechanism. Unemployment has been a significant social and economic problem, and the government's share of unemployment compensation has been a significant strain on the public budget. Still, both social democratic and conservative governments have been very reluctant to use industrial policy to speed up or to plan industrial restructuring. If we follow Katzenstein's scheme and let the costs of unemployment be a measure for domestic compensation for international

adaption, we will have to conclude that Danish policies are high on compensation and low on adaptation.

The 1980s: The Beginning of Structural Policies?

From 1980, we may begin to see some change. After pressure from the socialist parties (the Social Democrats and the People's Socialists) and the labor movement, an overhead planning agency for industrial policy was created within the Ministry of Industry, previously the Ministry of Commerce (Sidenius 1985, 238). True to corporatist standards, representatives from the peak organizations were invited to sit on a committee (udvalg) overseeing the agency. Through the committee, regular consultations between the private sector and the state take place. This particular committee, however, is distinguishable from many other such committees throughout the administrative branch by its consisting of an equal number of participants from industry and labor (see Table 3). It is unclear how exactly this break with tradition came about except that the Secretariat was a pet project for the Social Democratic minority government and the labor movement. This may also explain why the Secretariat was bypassed in the following years.

Table 3. Membership of the Advisory Committee for Industrial Policy (Industri-politisk Kontaktudvalg).

Industrirådet (Federation of Danish Industries)	4 representatives
Håndværksrådet (Federation of Crafts and Smaller Industries)	1 representative*
Landbrugsrådet (Council of Agriculture)	1 representative*
Arbejderbevægelsens Erhvervsråd (Economic Council of the Labor Movement)	6 representatives
Ingeniørforeningen and Ingeniørsammenslutningen (professional associations of engineers)	1 representative
Associations of supervisors, technicians, and non-unionized white collar personnel	1 representative
Grosserer-Societetet (retailers association)	1 representative

* May meet with regular representative and the substitute at meetings. The latter does not have the right to vote.

Source: Jens Søndergaard, Peter Warming, *Dansk industripolitik under forandring*, Institute of Political Science and Public Administration, University of Copenhagen, September 1986, pp. 76-79. Unpublished dissertation. Appendix 4.

In 1986, administrative reorganization was again put on the agenda by a new Minister of Industry recruited by the government from the Federation of Danish Industries. A government *Report on Industrial Policy* called for increased planning capacity and overall steering of industrial policies was put on the agenda (Ministry of Industry 1986, 90 ff.). Historically, the Ministry has been dominated by traditionalist thinking and civil servants with legal training. There is no reason to believe that a change of paradigm from legal thinking to that of political economy will come about easily.

Since 1983, a number of initiatives have taken place with the aim of increasing the country's research and development effort. Some of the new elements in this effort were a new *National Technology Development Program* (1983), the *Action Plan for Research and Development* (1986), and the *Bio-Technological Development Program* (1987). These programs share some characteristics which set them apart from previous industrial policies:

- (1) A commitment to lessen the national R&D imbalance by increasing the public-private investment in research. The goal is to reach 2 percent of GDP by the year 2000. The previously sharp distinction between applied research for industrial purposes in the private sector and pure research in public universities has been replaced by public-private cooperation to such an extent that it is impossible to say where one begins and the other ends. In fact, considering that fiscal restraint is the dominant trait in the 1980s, the funding made available for these programs is not insubstantial.
- (2) A clear trans-sectoral purpose and intention to transcend departmental compartmentalization; industrial policy and planning is not supposed to be restrained by traditional ministerial jurisdictions and legalistic thinking.

One example of this 'New Thinking' was a *Whitebook on Growth and Restructuring* which was put out by four ministries in cooperation in May 1986 (Ministry of Labor et al. 1986). The curious thing is, however, that the *Whitebook* talks very little about how investment decisions are to be shaped and a lot about the state supporting new kinds of research. Also the R&D effort in bio-technology, which was started in 1987, is supposed to transcend traditional departmental boundaries and clientele groups. As a result of the good intentions, the program has been spread out over four ministries and nobody knows exactly who is responsible.

The technology program from 1983 is intended to encourage development of Danish soft-ware, use of artificial intelligence, establishment of data banks, and computer directed manufacturing processes (CAM/CAD). Funding for the program was channelled through three existing corporatist

agencies, which already administered other programs for product and process development. In other words, the money was simply thrown into the bucket with the rest (Technology Commission 1984). The result has been, it seems, that applications are evaluated basically the same way they always have been, i.e. according to market criteria for profitability. The technology program may be selective (or 'structural') in the sense that the money is given out for the purpose of bringing the computer revolution into Danish industries, but it still conforms to the old principles of universality and 'help-to-self-help' by making money available for all industries and all enterprises. Moreover, the high-tech program reproduces the traditional division between research institutions and manufacture. Product and process innovation money is overwhelmingly given to industries – and 64 percent of the total funds are given to business with less than 50 employees – whereas R&D money and equipment is overwhelmingly given to the technological extension services, universities, and semi-private laboratories (Technology Commission 1986, 4).

The bio-tech program from 1987 is considerably more selective in its aim than any previous programs. Only a few large pharmaceutical, chemical and agro-businesses will be able to take advantage of the fund (*Samfundsøkonomen* 1987, 6). Biotechnology covers old techniques like fermentation and the growing of funguses for processing of food. It also involves new techniques like in vitro fertilization of humans and animals and gene-splitting, which aside from raising the specter of human engineering, also has the promise of producing new kinds of medicines and pesticides. The bio-tech program is an attempt to boost Denmark's position in a well-defined and highly technological market. In a sense, it is the first conscious attempt at a 'niche' strategy building upon what is assumed to be, and traditionally has been, the country's natural comparative advantage: a very productive agriculture.

Despite the targeting of specific technologies, an element of the old liberal paradigm remains. Funding is for research only and not establishment of productions. None of the programs discriminates between industries and it is left to private initiative to take advantage of the new research effort. While previous subsidy programs invariably were administered through the interest-group network and the corporative decision-making process, there is now occasionally a tendency to avoid this in favor of overall administrative steering and increased administrative capacity. Still, if funding is distributed through the corporatist channels, political priorities are muffled by the distributive logic of interest concertation among interest groups (Olson 1971).

Concomitantly with the administrative reform in 1986, the conservative government launched the idea of a 'dynamic industrial policy' which proclaimed an end to 'crisis management' and a new era of forward-looking

Table 4. Government Subsidies for Productive Purposes (Million Dollars).

	1982	1984	1986
Agriculture*	273.6	310.0	277.5
Fisheries	15.0	14.3	13.6
Industry	569.2	356.2	568.3
thereof:			
export	35.8	46.2	50.8
technological extension service	62.8	60.6	58.3
product development and computerization	22.5	30.2	42.2
technological development program	—	4.3	34.7
regional development	33.5	22.2	2.7**
shipping credit	284.3	125.3	350.0
export credit	108.2	51.3	0
Action Plan for R&D	—	—	3.3
Total Government Subsidies	1,404.9	1,020.7	1,401.4

Source: Ministry of Finance, Office of the Budget, *Budgetredegørelse*, 1987, Table 3.7.2.

* Excluded is agricultural subsidies from the European Community Agricultural Fund, FEOGA. EC subsidies to Danish agriculture in 1986 were 1.36 billion dollars, i.e. six times as large as Danish government agricultural subsidies.

** Excluded is 7.5 million dollars from the EC Regional Development Fund.

industrial policy. Looking at the budget figures it seems that the new policy mainly consisted in the renaming of some existing subsidy programs and claims to the effect that the new way of doing things would result in greater returns and be less costly to the government (Ministry of Finance 1987). The goal of the 'New Policy' is to expand the export sector by shifting resources – labor and capital – from the public sector and productions directed at the domestic market. The relationships among the three sectors, however, are entirely unclear. It is even unclear that one can distinguish among the three in real economic terms.

Nevertheless, the conclusion is that under the auspices of a conservative coalition government, significant steps have been made since 1980 toward a change in industrial policy. While this new development is an important and interesting one, it is still clear that, in terms of funds spent on industrial subsidies, general and 'blind' credit programs conforming to a pattern of 'private interest government' account for the biggest share (see Table 4). Even by the most generous calculations, in 1986, only about 14 percent of total industrial subsidies can be described as targeted, selective industrial policy.

Corporatism, Welfare State, and Activist Industrial Policy

In the preceding, domestic compensation has been defined as activist

industrial policies which attempt to direct investments in the private sector towards specific goals which are determined by the need for a small open economy to adjust to international markets. We have expected such policies to be an important aspect of Danish industrial policies but found that not to be the case. Instead of an activist state we have found a predominantly liberal relationship between the market and the state.

The state depends largely on the private sector to make the decisions with respect to investment and production and respond to changes in international market conditions. We have found industrial policy largely to rely on general economic incentives in the form of macro-economic fine-tuning and credit programs. The government pays a large share of the cost of compensation, but decisions with respect to adaption are left to private initiative. The Danish state much prefers the carrot to the stick when it comes to industrial policy. To the extent that a shift has been identified in the course of the 1980s towards more activist industrial policies, the difference is that previously the carrot was made available more or less to everybody according to a principle of universality, whereas, now, some are offered a bigger carrot than others.

Why do Danes prefer to put public money in private pockets instead of retaining some degree of public control with matters of investment, production, and technology? Why is so much effort spent on economic forecasting and so little on economic planning? Why have goals like increased market self-sufficiency and attempts to lower the content of imports in the export sectors not been politically fixed? Danes do not share the Swedes' vision of the planned society but, still, given the magnitude and the persistency of the structural problems of both the public and the private sectors, it is hard to understand why the state continues to show such restraint. Aside from Danes' notoriously liberal mind-frame, the only convincing explanation presently being advanced emphasizes the sociology of corporatism, or what we may call an *organizational theory of corporatism*.

The argument that corporatism entails a specific logic of interest concertation has been prominent in the more recent contributions to the continuous debate on the subject (Schmitter & Lehmbruch 1979, 1982; Lehmbruch 1984; Cawson 1985). We have this far used the concept of corporatism as if its meaning was self-evident. That, however, is far from the case. A large variety of forms of public-private cooperation are included in the concept. In reality it spans from *private interest government* – examples of which may be the American experiments with business self-government in the 1920s or trucking regulation (Hawley 1981; Stigler 1984) – to the *tripartism* commonly found when collective bargaining takes place in a highly regulated fashion between peak organizations with the government as a mediator. Somewhere in between we may find corporatism in its most 'pluralist' version, *segmentation* or *sectoral decision-making*

(Damgaard 1977), which involves formalized cooperation between the government, the administrative bureaucracy, and relevant interest organizations. In the real world, we may find that not only do democratic states differ with respect to the extent of corporatist arrangements – it seems, for example, reasonable to expect Sweden and the U.S.A. to represent cases at opposite ends of the scale – but also that one policy area differs from the other.

Denmark is clearly among the 'soft' corporatist cases. An ambitious research project in the late 1970s mapped the extensive use of consultative or administrative committees incorporating an amazing number of interest groups into policy-making and regulation (Damgaard & Eliassen 1978, 1980; Grønnegaard Christensen 1984). Such committees are set up on a regular basis in connection with formulation of new policies, preparation of reports prior to new policy initiatives, the administration of specific laws, government credit programs, independent regulatory commissions, as well as in connection with deliberations in parliament over new laws. A multitude of organizations participate. One study of Danish interest organizations yielded a count of 1,990 different organizations, one-third of which were in contact with the government on a regular basis (Buksti 1984). The configuration of participating interest organizations differs with respect to policy areas (Damgaard 1986a); e.g. The Ministry of Agriculture predominantly refers to agricultural organizations whereas the Ministry of Social Affairs involves client groups and associations, union representatives, and to a lesser extent representatives from the federation of employers. We have here been concerned with industrial policy, and have previously discussed a recent deviation from the general pattern of corporatist decision-making; the creation of an overhead planning agency in the Ministry of Industry (see Table 2, above) where parity was established between business and union representatives. Generally, each of the major interest organizations sends one or two representatives. Both the number of corporatist committees and organizational participation have increased gradually since World War II, as will appear readily from Table 5. Unfortunately, the data are neither entirely complete nor really longitudinally comparable, and no control for ministerial reorganization has been made. It is, however, the best available. It appears that the Economic Council of the Labor Movement in particular has been increasingly involved. Instead of interpreting this as increased influence on the part of the labor movement on general policy, it is probably more accurate to view this development as an attempt to compensate for the loss of union autonomy in collective bargaining. In return for accepting government imposed settlements of disputes over the general contract, the labor movement has demanded increased influence on other matters and economic policies in particular.

Table 5. Participation by Selected Interest Organizations in; [A] Number of Ministries, [B] Number of Commissions in the Ministry of Industry, and [C] Number of Commissions in Other Ministries.

Organization	1946	1955	1965	1975	1980*	1986*
Federation of Danish Industries						
[A]	5	12	9	13	15	16
[B]	17	21	17	14	48	32
[C]	8	22	16	33	81	76
Federation of Crafts and Smaller Industries						
[A]	2	7	7	8	10	10
[B]	6	10	7	7	25	8
[C]	2	12	11	9	26	14
The Economic Council of the Labor Movement						
[A]	1	8	5	8	14	8
[B]	0	11	7	5	27	12
[C]	1	7	7	11	35	14

Source: Niels Christian Sidenius, *Industrielle Interesseorganisationer og deres placering i den politiske beslutningsproces*, IV. Meeting of the Nordic Political Science Association, Aabo, Finland, 1981, Table 3, p. 7.

* Calculated from the associations' yearbooks, 1980 by Niels Chr. Sidenius, 1986 by the author. The previous years are calculated on the basis of a Data Archive compiled by Ole P. Kristensen and Lars Nørby Johansen.

Conclusion

The general conclusion of this review of Danish industrial policy is that quite clearly attempts to institute a more selective and activist industrial policy are connected with a replacement of the traditional corporatist political-administrative system. It seems that the sectoral representation and involvement of interest groups in the administrative process in some instances – while having the advantage of legitimizing the distribution of public funds – have the disadvantage of creating an impasse between public and private interest.

Interest concertation among groups may result in 'immobilisme', if it involves a system of mutual veto. Dahl describes such a system in the following manner:

[Often] the only solution acceptable to anyone is the status quo; and even if this solution results in satisfactory short-run outcomes, the long-run outcome may be massive dissatisfaction with a system unable to confront and solve pressing problems of poverty, economic growth, welfare, redistribution, housing and the like (Dahl 1975, 132).

Dahl did not think of the corporatist welfare state when he wrote this, but it is fitting nevertheless.

In order to achieve public policy flexibility and state capacity to bring about swift responses to changes in international markets, the conclusion

of the present discussion is that, first, the corporatist networks for policy-making and administration have to be modified. Interestingly, the political difficulties with respect to scaling back the middle class welfare state are matched by a similar inability to abandon general subsidy programs in the industrial policy area.

However, regardless of the uncertainty and in many respects dubious outcomes of the new industrial policy initiatives of the 1980s, they do add up to a change. Also, Denmark may finally be about to give up on *laissez-faire* and embrace state activism. It is still an open question whether such a change will accredit Danish industrial policies with the praise Peter Katzenstein heaped upon the previous regime of *laissez-faire* credit arrangements and macro-economic fine-tuning.

NOTES

1. The Socialist People's party (SF) has attempted to advance a strategy of entitlement. While the party is quite successful – it received 14.6 percent of the total vote in the September 1987 election which made it the third largest party – it did not succeed in attracting the votes of the welfare clients (*Information*, September 10, 1987, p. 6). Interestingly enough, the party is overwhelmingly receiving its votes from public sector employees. Clearly, they too have a self-interest in the expansion of public expenditure, although we would expect public employees to prefer expansion of public consumption over increased social benefits. The Social Democrats had their worst election in the post-war years, receiving only 29.3 percent of the total vote.
2. This means 30 work days off *additional* to Saturdays – if you work five days a week – and additional to calendar holidays, e.g. Sundays, Christmas, Easter, May Day, Constitution Day, etc. (*Bekendtgørelse af lov om ferie*, Lovtidende nr. 560, 13. November, 1984).
3. *Lov om dagpenge ved sygdom eller fødsel*, March 5, 1984, Lovtidende (1984), pp. 317 ff. In fact, very few fathers take paternity leave because it means that the mother has to return to work after 14 weeks. The following figure illustrates the complicated – and somewhat overregulated – arrangement:

mother alone	parents together	mother alone	mother <i>or</i> father	
4 weeks	BIRTH	2 weeks	14 weeks	24 weeks

Source: Hanne Simonsen, *Dagpengeloven*, 8. ed., Dansk Arbejdsgiverforening, 1987, p. 119.

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