Denmark's Conservative-Liberal coalition imposes major spending cuts

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10 July 2010

Last month, on June 8, an estimated 40,000 protesters gathered outside the Danish parliament to oppose a programme of austerity measures by the Conservative-Liberal coalition government. The demonstration was organised by the main trade union federation (LO). The opposition Social Democrats and Socialist People's Party were both given a prominent place at the rally. Both parties support an alternative austerity package, reflecting their, and the LO's, fundamental agreement with the government.

The government intends to slash state spending by 24 billion kroner (€3.21 billion) over the coming three years, in order to meet European Union targets for Denmark's budget deficit. A recent prediction from the EU commission anticipates that the deficit will reach 5.4 percent of GDP by the end of the year, well above the 3 percent limit imposed on EU members. Last month, the commission suggested that Denmark be placed on a watch list of countries that must take action to curb their deficits if they are not to risk destabilising Europe's economy.

The cuts outlined by Prime Minister Lars Loekke Rasmussen's government will see serious reductions to welfare and social spending. Unemployment benefit will be reduced, with claimants only able to collect the benefit for a maximum of two years instead of the previous four years. The children's allowance paid to parents will be reduced by 5 percent across the board, while funding will also be removed for couples seeking IVF treatment in order to have children.

The coalition relied on the support of the extreme right Danish People's Party (DF) to pass the budget. It was DF that pushed strongly to cut the entitlement period for unemployment benefits by half, a move that replaced a previous proposal to freeze future rises in welfare payments.

Such austerity measures notwithstanding, a government advisory body noted in a report that the programme of cuts was insufficient. The Economic Council urged the coalition to announce further reductions in public spending, advocating zero percent growth in government spending through 2020. It also called for a review of early retirement entitlements, aimed at preventing anyone from retiring prior to the age of 62.

The report outlined bleak economic prospects, stating, "An outlook for weak growth for our traditional trading partners, together with a tightened Danish fiscal policy, suggests a relatively low level of growth for the Danish economy. In addition, a poor competition capacity will make it more difficult for Denmark to latch onto any international economic progress."

As well as direct cuts to public spending, the government has initiated a tax reform that will reduce a number of public subsidies. Commuters who have lengthy journeys to work will see a reduction of almost 1 billion kroner (€134 million) in available subsidies between 2012 and 2019.

The squeeze on government spending will hit councils, with pressure growing for budget cuts. Last month, an agreement was reached between local authorities and the government to cut welfare costs in next year's budget, along with other services. Budgets for local authorities in 2011 will be frozen at this year's level, a move which translates to 1.1 billion kroner (€147 million) in cuts. Among the measures being considered to achieve savings is the privatisation of residential roads by local authorities, a move that would pass on the responsibility for their maintenance to local residents. Some 8,000 local authority jobs are expected to be lost.

Rasmussen claimed that the cuts were necessary in order to avert economic instability. He pointed to the dependence of Denmark's economy on the fortunes of the eurozone economies, commenting, "We have an interest in improving control over the Growth and Stability Pact because we're a small, open economy that's tied to the euro and dependent upon exports to these other countries."

With demand in Europe falling since the onset of the global recession in 2008, Denmark's economy has struggled. The banking system had to be supported with two government bailouts in just four months, with the second in January of 2009 costing an estimated 100 billion kroner (€13.4 billion). Supporting the financial elite with such sums of money is largely responsible for the current budget deficit, prompting demands for attacks on social spending.

The right-wing coalition, in power since 2001, has enacted a number of tax breaks for business, in 2004, 2007 and at the beginning of 2009. At the same time, an upper limit was imposed on property value tax. According to the Economic Council of the Labour Movement, a centre-left think tank, such tax reductions are also responsible for much of the shortfall in government finances that must now be clawed back from working people.

There is consensus within ruling circles that it is the working class who must pay for the financial crisis. The Social Democrats fully accept the need for austerity. Rather than immediate spending cuts, however, they are calling for greater productivity from the working class.

Party leader Helle Thorning-Schmidt urged workers and trade unions to negotiate a lengthening of the workweek by one hour, a move which would supposedly raise 15 billion kroner (€2.1 billion) for the state. If this was not done, she intimated that a future Social Democratic government would have to look at the retirement age and entitlement to pensions. According to Thorning-Schmidt the choice was "whether we want to save or work our way out of the financial crisis."

The Social Democrats are expected to win the next election, due before November next year. In a recent poll released at the end of May, the Liberal-Conservative coalition recorded its lowest level of support since it took power in 2001, with only 44 percent of respondents backing both parties. DF, which backed the government cuts, saw its support decline.

The Socialist People's Party, which stands ostensibly to the left of the Social Democrats, will be part of a prospective coalition government. It has agreed a so-called "fair solution" economic plan with the Social Democrats, which proposes measures to cut the budget deficit. It has also agreed that the proposal to increase the workweek by one hour will appear in the coalition's manifesto in the next election.