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The Nordic model towards 2030 A new chapter?



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Preface

“Erosion or renewal of the Nordic model, 2014–2030” – also known as NordMod 2030 – is a pan-Nordic research project intended to shed light on how national and international changes are affecting the Nordic model.

The project’s commissioning body was the Joint Committee of the Nordic Social Democratic Labour Movement, or SAMAK, in collaboration with the Foundation for European Progressive Studies (FEPS). SAMAK and FEPS called for a research-based analysis of recent developments in the Nordic countries that would form a basis for discussing the challenges and opportunities that the Nordic model will face through 2030. The analysis was to serve as a starting point for strategic and political development processes in the Nordic labour movement.

The project was carried out from 2012 to 2014 by scholars at Nordic research institutes and universities. The researchers themselves have been responsible for selecting the analytical approaches, methods and data. All findings, assessments and conclusions – as well as any errors or omissions – are attributable to the researchers. The project was organized and directed by Fafo in cooperation with a core group of researchers that included two participants from each of the Nordic countries. A number of other researchers have contributed to specific reports. Seventeen subreports and memoranda have been published, including five country reports and a series of comparative thematic analyses. A compilation report containing summaries of all the subreports is also available, both in English and in the original languages. All publications are available online (www.NordMod2030.org) and a list of the publications is presented as an appendix to this report. A series of open seminars and workshops (see website) has been arranged in connection with the project. Apart from its value as an arena for research dissemination and dialogue, the series has generated valuable input from the project’s primary user groups across the Nordic countries.

The perspectives in this final report are partly retrospective and partly forward-looking. The aim has been to create an accessible report that can be read independently. Omitting details whenever possible, we have tried to depict key trends, relationships and mechanisms which in our view are fundamental to understanding

the strategic challenges to the Nordic model in the years ahead. Readers who wish to dig deeper into the issues and background material are advised to obtain the country and thematic reports.

We would like to express our sincere gratitude to the project's Nordic research group, which consisted of:

Lisbeth Pedersen, Research Director, SFI–The Danish National Centre for Social Research
Søren Kaj Andersen, Director, Employment Relations Research Centre, University of Copenhagen
Olli Kangas, Professor, Director, Kela, the Social Insurance Institution of Finland
Antti Saloniemä, Professor, University of Tampere
Katrín Ólafsdóttir, Assistant Professor, Reykjavik University
Stefán Ólafsson, Professor, University of Iceland
Ingrid Esser, Researcher, Swedish Institute for Social Research, Stockholm University
Thomas Berglund, Assistant Professor, Institute for Work Science and Sociology, University of Gothenburg
Jon M. Hippe, Managing Director, Fafo
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Jon Erik Dølvik, Senior Researcher, Fafo Institute for Labour and Social Research
Bård Jordfald, Researcher, Fafo Institute for Labour and Social Research
Øyvind Berge, Researcher, Fafo Institute for Labour and Social Research

In addition to preparing comprehensive country studies and contributing to a range of comparative thematic analyses, the members of the research group have also delivered lectures and introductions while participating actively in meetings and workshops. Without their goodwill and enthusiastic effort, it would have been impossible to complete the project. Thanks, as well, to all the researchers who contributed to the thematic reports, which represent an important part of the project.

On behalf of the research team, we would also like to extend our thanks to SAMAK and FEPS for their project support and the keen interest they've shown in our work. For researchers, whose daily work often focuses on narrow issues affecting a single country, it is inspiring to be asked to analyse and discuss overarching societal trends in a common Nordic context. Exploring the similarities and differences between the Nordic countries and engaging in dialogue with the commissioning organizations in the labour movement has spurred mutual learning and generated new insights – not least regarding the particularities of the respective national mod-

els. Last but not least, we would like to express our gratitude to the reference group appointed by SAMAK and FEPS. Untiringly and patiently, they provided constructive suggestions and comments to the many reports under preparation and participated in lengthy discussions on research findings large and small. The reference group's composition was as follows:

Denmark: Jan Kærra Rasmussen (Danish Confederation of Trade Unions) and Kasper Graa Wulff (Danish Social Democrats). Michael Hedelund replaced Wulff in 2014.
Finland: Tapio Bergholm (Central Organization of Finnish Trade Unions) and Mikko Majander (Sorsa Foundation).
Iceland: Margrét S. Björnsdóttir (Social Democratic Alliance) and Halldór Grönvold (Icelandic Confederation of Labour).
Norway: Stein Reegård (Norwegian Confederation of Trade Unions) and Solveig Torsvik (Labour Party).
Sweden: Lasse Thörn (Swedish Trade Union Confederation) and Morgan Johansson (Social Democratic Party).
Leadership: FEPS was represented by Signe Hansen. The reference group was led by Inger Segelström (Secretary General, SAMAK) and Jan Erik Støstad (Norwegian Confederation of Trade Unions).

It is our hope that this final report and the various subreports will contribute to a useful debate on the conditions for further development of the Nordic model. In keeping with the analytical emphasis placed on the importance of cooperation and learning across party and organization lines, we also hope the material will give impetus to a broadening of the debate over societal developments in the Nordic countries by including other organizations, parties, governmental bodies and the general public.

Jon M. Hippe
 Project Director
 Fafo, November 2014

1 Introduction

In recent years the Nordic model¹ has received a great deal of attention in both politics and research, nationally as well as internationally. During the crises of the 1980s and 1990s, many observers believed that the model lacked viability in a globalized economy. They viewed the public sector as too large, taxes as too high, trade unions too strong and labour markets too rigid. The success achieved by the Nordic countries in the past few decades, however, has generated renewed interest in what lies behind the good results. On measures of economic development, social conditions, income distribution and employment, the Nordic countries score better than most of their Western peers. How is this to be explained? Increasingly, debate has centred on which institutional mechanisms and interactions are most responsible for the region's success and whether today's Nordic model can meet the challenges of tomorrow. Naturally, this shift in perspective has given rise to a new set of explanations. Such notions as trust, social capital and – to a lesser extent – social investments have now become part of the debate. In this project we have emphasized that trust is not only a result, but also an explanation, of the social outcomes achieved in the Nordic countries. In the Nordic model the welfare and educational systems are important levers for social investments, contributing to the security, confidence and competence that people need in order to participate in demanding restructuring processes and help improve business competitiveness. Collective bargaining institutions represent another important form of social capital. They underpin confidence and trust in the Nordic economies by fostering balanced power and cooperative relationships, coordinated wage formation and compressed pay structures. A third element contributing to investment predictability and balance between growth and distribution is the Nordic tradition of level-headed economic policy-making. The Nordic countries have had their share of financial crisis, but it's safe to say that their positive achievements – rising prosperity, high employment and low inequality – are products of close interaction between economic, labour and social policies.

¹ In this report we have chosen to use the term "the Nordic model". The term is a simplification, as there are many differences between the Nordic countries. At times, in order to acknowledge those differences, we refer to models.

In an era of profound change both domestically and globally, there are good reasons to ask whether the Nordic countries will be able to preserve their core institutional pillars and to combine growth and equality in the future to the extent they have so far. Such questions have been the focus of this project.

Reflecting the desire of SAMAK and FEPS to identify key challenges to the Nordic model and highlight the specific issues at stake for the Nordic labour movement's parties and organizations, the NordMod project has pursued four main tasks:

- ▶ Describing the Nordic model's historical background and special features. What are the model's foundational pillars and the crucial interactions and mechanisms?
- ▶ Analysing the current situation in light of Nordic developments during the 1990–2014 period. How have the Nordic countries adapted to the external and internal changes of the period, and what have these changes meant for the ability of the different national models to deliver stable growth, high employment, good living conditions and little inequality?
- ▶ Identifying key political trends and conflict lines in economics, labour relations and welfare policy over the last 25 years. How have the political changes of the period affected the model in terms of public support and outcomes? And how have they affected the basis of the labour movement's influence on developments in society?
- ▶ Discussing the Nordic model's key challenges – today, and in the years through 2030. What is needed to further enhance the Nordic countries' ability to combine growth, equality, social security and high employment in parallel with the transition to a carbon-free economy?

These are major themes, raising problems that lack easy solutions. Seventeen different subreports have therefore been published in the course of this project, all of which are available on the NordMod website. An introductory report outlines the basic pillars of the Nordic model. We then focused on producing in-depth country studies as a basis for comparing developments in the Nordic economies, labour relations and welfare systems. To strengthen the comparative perspective, we have also prepared a series of comparative thematic analyses that range in topic from working life and welfare state issues to integration and climate challenges. In this, the final report of the NordMod project, we pull the analytical threads together and identify key lessons and perspectives for the future. This is accomplished in the report's three parts:

Part I: The long view: The model's history and core pillars

In this part we present the historical background and point to important commonalities and differences between the Nordic countries. We emphasize that they are marked by strong institutions and a close interplay between macroeconomic governance, public welfare services and organized working life (Dølvik 2013a). A core aspect of this “triangle” of pillars is cooperation between the authorities and the organizations representing workers and employers. The Nordic model is based on more than the ability to mobilize political support for parties and governments. Its functioning in each country is closely tied to that country's welfare system, wage formation and mechanisms for dispute resolution in working life. In labour relations as in politics, decision-making is shaped by opposing as well as shared interests, and by conflict and compromise. The evolution of the Nordic model must therefore be understood in light of the strength and breadth of organized interests, changing power relations and the nature of the “conflict partnership” that has arisen in each country.

Part II: Baseline analysis: Changes in the Nordic model, 1990–2014

This part summarizes and compares developments in the Nordic countries from 1990 to 2014. This was a turbulent period, opening with deep crises that included banking and housing crashes and record unemployment in several countries. Such troubles gave rise to extensive adjustment and reform of the Nordic model until the next major crisis arose, in 2008.

The period was characterized by major upheavals in Europe, technological innovations and shifts in both industrial structure and composition of the general population. Cell phones, the Internet and accelerating digitalization swept society. At the same time, Nordic populations began to age. Immigration rose sharply, first during the Balkan wars and then, after 2004, through labour migration from the new European Union (EU) member states.

During this period the consequences of greenhouse gas emissions became more noticeable, and the calls for conversion to a greener economy increased in strength. Nordic economies recovered quickly after their crises in the early-1990s, but the Asian financial crisis, the IT bubble collapse, 9/11 and then the financial crisis of 2008–2009 and the euro crisis all reminded us that the small, open Nordic economies were tightly woven into the international economy. The period began and ended in dire straits, and the Nordic model faced repeated tests of its robustness and adaptability throughout the quarter-century in question.

The period can hence be seen as a laboratory offering particularly rich opportunities for the comparative study of national responses to major external and internal

changes. Such studies can be useful in determining what it will take to adapt and develop the Nordic model in the decades ahead.

Part III: Towards 2030: The model's future challenges

The report's third and final part looks towards 2030. In view of the Nordic model's basic premises as well as our analysis of present-day conditions and assumptions about important drivers of change, we discuss factors that could challenge the model's sustainability and adaptability. Such considerations inevitably reflect underlying values and goals. A new report made for the Nordic Council of Ministers concludes, for example, that the capacity for reform demonstrated by Nordic countries bodes well for future challenges, but that greater inequality will have to be accepted (Valkonen & Vihriälä 2014). In our analyses, low inequality is both a result of, and a precondition for, Nordic adaptability, so that it cannot be abandoned without impact on trust, wage-setting and other important functional prerequisites of the model.

The adaptability of the Nordic model and the results it achieves will further depend on the available institutional prerequisites, not least when it comes to the ability of labour and employer organizations to contribute. Lastly, it is important to acknowledge that the Nordic model is a political construct. The capacity to deal with future challenges will depend on how well politicians manage to renew policy instruments and develop coalitions powerful enough to strike strategic compromises and act coherently over the medium and long term. If the Nordic countries succeed in maintaining "virtuous circles" where efficiency and equality reinforce each other and adaptability is retained, challenges to the model will prove manageable. However, it is not hard to envisage "vicious circles" in which politicians bicker, key institutions erode and public policy instruments fail to provide the desired results – in integration and labour market policies, for example – resulting in continued high joblessness, a lower employment rate, growing inequality and increased pressure on the welfare state.

The year 2030 is not far away – in practice, just three parliamentary periods from now – but the full range of potential outcomes is wide. If by 2030 the whole Nordic region is to achieve the average employment level that Norway and Iceland enjoyed from 2000–2014, at least 1.3 million more jobs will be needed. If, instead, Nordic performance matches that of Finland since 2000, employment will fall by 600,000 through 2030. At the same time, the number of inhabitants across the Nordic countries is expected to grow by at least 3 million, reaching nearly 30 million in total, including a greater portion of elderly. Policies that foster virtuous

or vicious circles can thus have a profound effect on outcomes. In this part of the report, we highlight some factors that will be essential for continued Nordic success.

In concluding this final report of the NordMod project we point out a number of strategic challenges facing the organizations of the labour movement. While these challenges are especially pertinent to the debates on future strategy and policy among the trade unions and social democratic parties, the ability to handle them will require – in the current political landscape at any rate – cooperation across a wider range of parties and organizations.

Lastly, it is important to acknowledge that the Nordic model is a political construction.

Policies that foster virtuous or vicious circles can thus have a profound effect on outcomes.

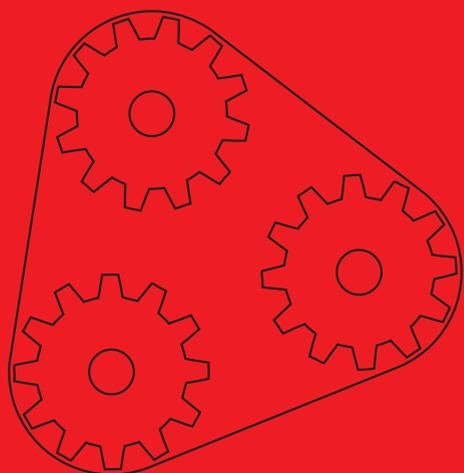


PHOTO: Colturbox

Part I: The long view

The model's history and core pillars

This part reviews the historical background and notes important similarities and differences between the Nordic countries.



2 The Nordic model: Background, evolution and basic traits



The Nordic countries have very different histories, industrial bases and political party configurations. Yet in the past century the countries have drawn inspiration from one another through trade, migration and cultural and intellectual exchange as well as shared labour markets, economic competition and political cooperation. Such interaction helped induce the small, open economies of the Nordic region, which were dependent on international trade, to develop characteristics distinct from most other European countries. Such distinctions are what justify talk of a Nordic model, or rather a family of national models. These models have traits in common – not only the values, institutions and actors that animate them, but also the growing affluence, high employment and widespread equality they have produced. On the strength of such results the Nordic countries have risen to the top of international rankings for quality of life, and Nordic social models are frequently cited as examples to emulate (Sachs 2004; Sapir 2005; The Economist 2013).

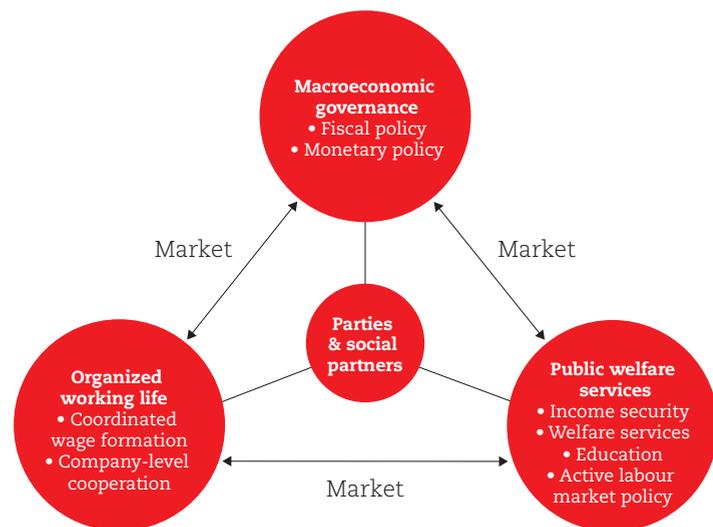
Conflict partnership

The Nordic model was shaped by societal upheavals in the wake of industrialization, the rise of the labour movement and nation-building efforts in the early 1900s. This was the period in which Norway, Finland and Iceland won their independence. The sweeping changes of the time, together with the introduction of general suffrage and parliamentarianism, shook up established party patterns and paved the way for social and labour policy reforms. The “grand compromise” between the two sides of industry and the settlements reached by the farmers’ and workers’ parties in the 1930s were pivotal. These compromises arose after a turbulent period of conflict, class struggle and crisis and became the post-war foundation on which the Nordic labour and welfare models would be built.

The “grand compromise” between the two sides of industry and the settlements reached by the farmers’ and workers’ parties in the 1930s were pivotal.

Several well-defined institutional arrangements emerged in the course of the 20th century. Organized interests directly affected by policy proposals were granted representation and consultation opportunities, and systems evolved for wage coordination and labour market cooperation. The emerging framework accommodated broad political participation and largely peaceful ways of dealing with class conflict. Common rules for dispute resolution contributed to predictability, learning and trust, while relations between organized labour and capital assumed the nature of a “conflict partnership”.¹ This partnership acknowledged mutual dependence and recognized that solutions had to take into account both shared and conflicting interests. Similar patterns of cooperation and conflict resolution gave rise to relatively stable patterns of coalition-building in political arenas and opened the way for the national welfare states to develop.

Basic pillars in the traditional Nordic model – small, open economies dependent on international trade



The triangle model and its core pillars

In the first NordMod report, we argued that the small, open Nordic market economies' ability to reconcile equality and efficiency emerged from the interaction among three foundational pillars, which in the post-war decades were bound together in a structure we termed the Nordic triangle model (Dølvik 2013a; Vartiainen 2014). The three pillars are:

¹ The term “conflict partnership” is borrowed from Walter Müller-Jentsch; see Müller-Jentsch, ed., (1991). *Konfliktpartnerschaft. Akteure und Institutionen der industriellen Beziehungen*. Munich: Rainer Hampp Verlag.

- ▶ **Macroeconomic governance** based on active, stability-oriented fiscal and monetary policies, free trade and coordinated wage formation to promote growth, full employment and social cohesion.
- ▶ **Public welfare services** based on universal schemes to secure income and living standards contributed to high levels of labour market participation and mobility. Tax-funded health and social services and free education were intended to promote gender equality and more equitable living conditions, health services and work opportunities.
- ▶ **Organized working life** based on the interplay of statutory and collective bargaining regulation, labour peace during contractual periods, and centralized coordination of wage setting. Strong employer and labour organizations fronted by those in the exporting industries bargained both centrally and locally while collaborating on productivity and restructuring measures as well as active labour market policies.

A key to understanding how the model could help realize post-war objectives for stable growth and equitable distribution is the interaction between these institutional pillars. This was far from a mechanical process. It assumed that the key players – the political parties and the organized working life actors – had enough power, breadth of membership and legitimacy to coordinate and implement policy across all three institutional pillars. The outcomes achieved by the model, in other words, cannot simply be imposed by fiat; nor can they be expected to flow automatically from institutional arrangements.

A prime example of such institutional mechanisms was the interaction between solidaristic wage policies, macroeconomic policies and social policies in the Nordic countries. By providing room for expansionary economic policies, rising minimum wages and uniform growth in labour costs, the interaction of egalitarian wage policies and market competition generated pressure for restructuring that shook out marginal businesses and increased the earnings and investment capacity of highly productive ones. Such restructuring was enhanced by the welfare state's commitment to income security, active labour market policies, training and mobility support, all of which bolstered confidence and encouraged company-level cooperation on productivity and innovation. Today, this “Rehn-Meidner model” for growth and restructuring (LO Sweden 1953) is often called “flexicurity”.

Nordic particularities

The development of a welfare state, collective wage bargaining and economic management are not unique to the Nordic countries. What distinguished the Nordic triangle model as it appeared at the beginning of the 1970s were the specific links between:

- ▶ strong, centralized worker and employer organizations that contributed to policy coordination across these three core areas,
- ▶ development of institutions to facilitate broad, tripartite cooperation between governmental authorities and the two sides of industry, and
- ▶ emergence of stable party constellations and hegemonic parties² with enough support and legitimacy to pursue long-term strategies focused on the expansion of welfare schemes, the investment in productive assets like capital, people and knowledge, and the commitment to fair, equitable distribution of benefits and burdens.

Amidst a favourable international economic climate, the solid economic growth and fair distribution of the Nordic countries' increasing prosperity enabled the populations to trust the correspondence between political goals, policy measures and social outcomes. This led to a high degree of public confidence in politicians and governing authorities.

Growth, jobs for all, social security and equality were not only goals that were transformed into noticeable results; they were also crucial to garnering support for strategic choices and policy mechanisms, and by extension to the ability to put policies into practice. Much as the party constellations stabilized political power, the long-term context of public policies was underpinned by a relatively equal balance of power between labour and employer organizations. This meant that the actors tended to prefer cooperation over conflict,³ and that tripartite cooperation (labour, employers and the state) continued irrespective of which parties ruled the government.

The high degree of trust between citizens and government and between people of different backgrounds was also buoyed by widespread participation in voluntary organizations. Such organizations served as important correctives in the processes of policy formation. Among other activities, they took part in the public hearings and commissions that became an integral part of governance in the Nordic countries. The Nordic countries were also pioneers in knowledge-based policy development. Their policy initiatives on health, welfare and social issues, in other words, were often based on analyses of actual individual living conditions. In addition to their abundant natural resources and large investments in production and knowledge capital – exemplified by the rollout of free education, which pushed the Nordic countries into the global forefront – the region could draw on a rich store of social

² In Norway, Sweden and Denmark, this was linked to social democracy's golden age; in Finland to the Agrarian League/Centre Party's anchor role; and in Iceland primarily to the centre-right Independence Party, which was by far the largest party until 2007 (Ólafsdóttir & Ólafsson 2014: 16).

³ Iceland was long an exception, with a relatively high level of labour conflict that began to moderate in the 1990s (Ólafsdóttir & Ólafsson 2014).



A RARE MAJOR STRIKE: After World War II Denmark saw few strikes, but those that occurred were large. One was in 1956. About 200,000 people demonstrated in Christiansborg Palace Square.
PHOTO: Svend Gjørting/Scanpix Denmark

capital. Later, public investments in child care and other social services brought new options and job opportunities, particularly for women. The expansion of the Nordic model thus emerged as a liberating modernization project. In recent years, “social investment” has become a ubiquitous phrase in countries struggling to renew their socioeconomic models (Morel et al. 2012).

Political goals, policy tools and social outcomes

To understand the traditional Nordic triangle model it's important to distinguish between objectives, properties of key actors, institutions, policy tools and social outcomes. Often, the model is linked to specific goals and actor constellations or to specific institutional arrangements and tools, such as public pensions and social benefit schemes. But the five Nordic countries have always been distinguished by their own particular institutions, policy instruments and actors, and these have changed over time. Unemployment insurance funds run by the unions are a typical example. These went bankrupt in Norway in the 1930s but have lived on in the other Nordic countries – helping to explain why union organization there is much higher than in Norway. Many welfare programmes originated historically from joint measures agreed by trade unions and employers. In Norway

Many welfare programmes originated historically from joint measures agreed by trade unions and employers.

and Sweden, many such programmes were transformed into government schemes, while in Denmark, Finland and Iceland the organized labour market actors retained

a far more central role in running pension systems and other important social benefits.

There is nothing uniquely Nordic about goals to pursue social equality and economic efficiency. What makes the Nordic countries special is that they have come closer to achieving such goals than most other countries. They have also been

able to replicate positive outcomes over a long period, even after setbacks and crises. A given set of institutions and policy instruments is not the explanation. It is rather that the Nordic countries have had powerful strategic actors – employee and employer organizations, political parties and arms of government – with institutionalized rules of conduct and mutual relations that facilitate collective learning and action. As a consequence, especially in times of economic crisis, the Nordic countries have been able to draw on a shared bank of knowledge to negotiate balanced, pragmatic responses to changing problems. They have also managed to mobilize sufficient democratic support, legitimacy and power to put measures into practice in ways that foster compliance and respect. As underlined in the first NordMod report (Dølvik 2013a), these factors are key to understanding the Nordic countries' capacity for flexible adjustment, renewal and crisis management. The euro crisis of recent years has shown how hard such processes can be without everyone contributing according to their ability and getting their proper share of the pie in return – a bargain consistent with the labour movement credo: “Do your duty and demand your rights.”

The model's parentage

Today, parties in several of the Nordic countries compete to claim credit for the birth and development of their national model. History is not the only thing at stake. The quarrelling is also about the respective actors' credibility in current debates over further developments in each country. Social scientists, too, have been interested in the Nordic model's political origins. In welfare-state literature, major distinctions are made between the conservative continental model, the liberal (or residual) Anglo-Saxon model and the social democratic model of Scandinavia (Esping-Andersen 1990). This extensive literature does not link Nordic characteristics to common European elements such as the rule of law, private property rights and democracy, but instead to factors that tend to distinguish the Nordic countries from other countries. Such explanatory factors typically include the observation that the Nordic countries have small and open economies, unitary states, relatively homogeneous populations, left-leaning politics and strong, influential trade unions (Korpi 1981, 2006).

The Nordic countries have also been able to replicate positive outcomes over a long period, even after setbacks and crises.

Several researchers have also noted that major Nordic welfare-state reforms have often emerged from consensus or broad political compromise (Alestalo & Kuhnle 1987; Hilson 2008).

The Nordic model therefore cannot exclusively be tied to social democratic party support and political dominance. In Sweden, Denmark and Norway, where the social democrats held power for large periods from the 1930s onwards, that description fits better than it does for Finland and Iceland, where centrist and right-leaning parties have set the terms of debate. But in these countries, too, the building of strong labour unions – in line with Walter Korpi's power resource mobilization thesis (Korpi 1981) – was crucial to the central role of labour and employer organizations in developing universal welfare schemes. A variety of modern social security programmes, whether sickness benefits or pensions, first appeared in negotiated collective agreements. It is moreover likely that inspirational ideas and learning experiences that passed between Nordic countries also transcended party lines within these countries (Sørensen & Stråth, eds., 1997; Hilson 2008).

The political underpinnings of the Nordic model have thus been built on broad-based power mobilization and a higher degree of balance between the core interests in society than is evident in most other countries.

Fine line between success and failure

Political governance systems that rely on broad coordination among many strong actors may be vulnerable to new problems, whether these emanate from changing external conditions or shifts in internal power and trust relationships. The Nordic countries experienced this when the international monetary system of fixed dollar exchange rates collapsed in the 1970s, triggering inflation and economic crisis in Europe. This created tensions in the Nordic governance systems, while the subsequent liberalization of international capital and credit markets, transition to low inflation and sclerotic growth in Western Europe all contributed to economic imbalances, devaluations and strife in collective bargaining processes. At somewhat different times, these events sparked economic and political crises in the Nordic countries in the 1970s and 1980s.

In times of crisis, the triangle model's foundational pillars and superstructure both come under pressure. In the Nordic countries as elsewhere, history shows there can be a fine line between success and failure – a lesson driven home again in the 1990s and 2000s.

At somewhat different times, these events sparked economic and political crises in the Nordic countries in the 1970s and 1980s.

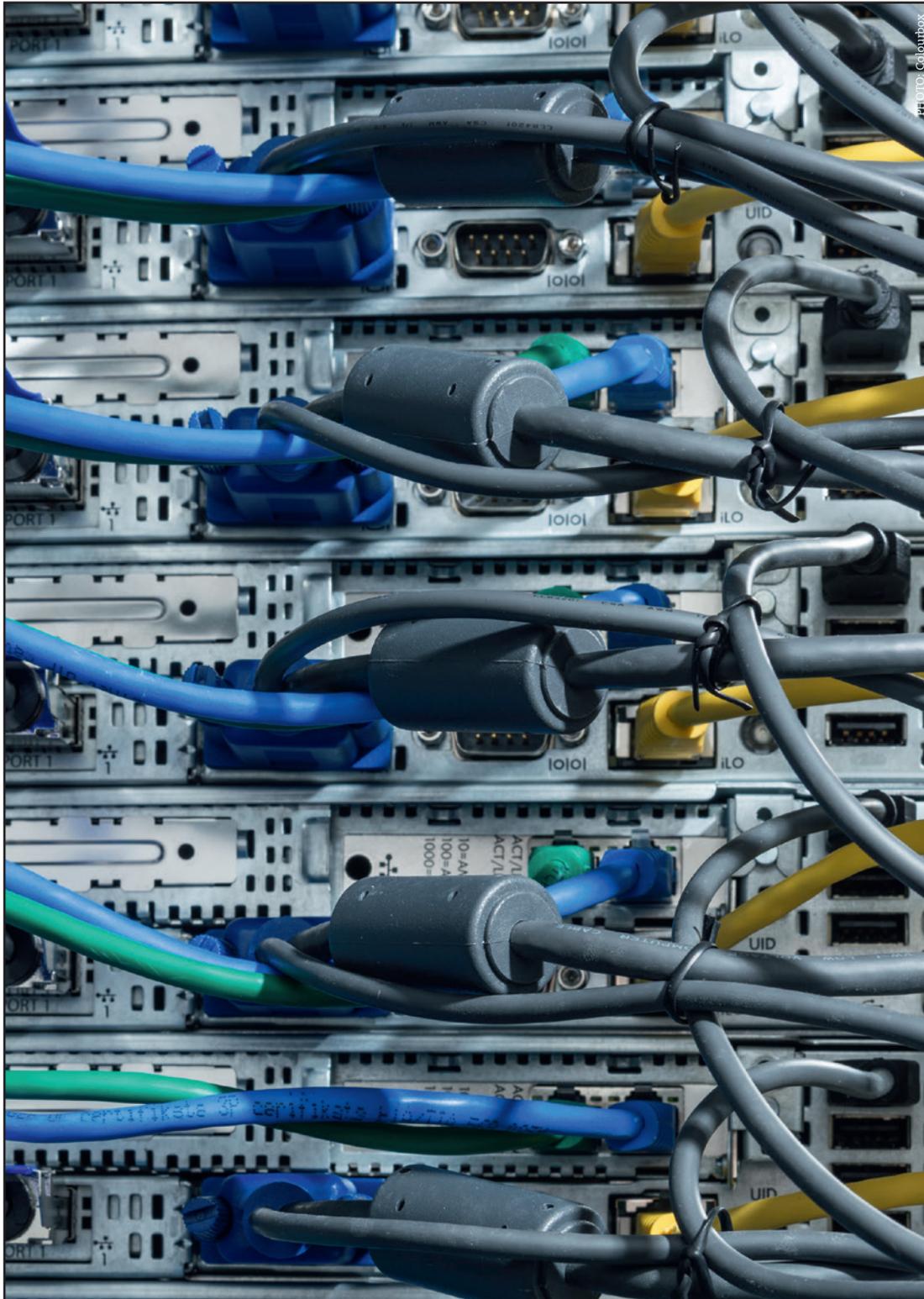


PHOTO: Calourbox

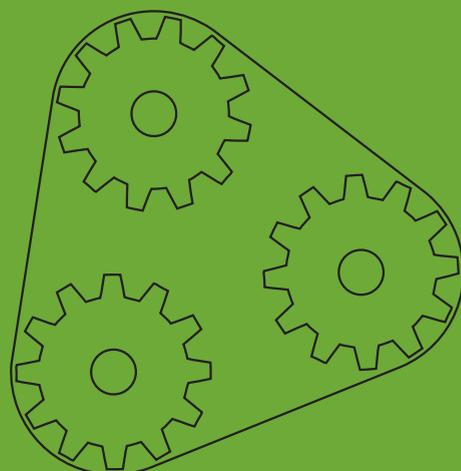
Part II: Baseline analysis

Changes in the Nordic model, 1990–2014

This part summarizes and compares developments in the Nordic countries over the past quarter of a century.

It was a turbulent period that opened amid deep banking and housing crises, record high unemployment and sweeping technological change.

3 Crises, consolidation and renewal, 1990–2014



Devising strategies to meet future challenges requires an understanding of the forces that have shaped developments in the period leading up to the present. We have chosen to use the period of 1990 to 2014 as the basis for such an analysis. Part II of the report therefore summarizes the key changes that have taken place in the Nordic societies, institutions and politics during this period.

In the NordMod project, the main approach to understanding developments in the Nordic countries is to compare them. In addition, we examine Nordic trends in comparison with trends in other key European countries. The project's baseline analysis builds on the country reports and comparative thematic reports. Other sources of research and data are exploited as well. The intent is to use Nordic developments of the past 25 years as a starting point to identify the major drivers, problems and fault lines that are likely to shape developments through 2030.

Nordic developments, 1990–2014

The period from 1990 to 2014 provides the opportunity to study the Nordic countries and their models in an era marked by momentous change in their economic conditions, social structures and political foundations. There are several reasons why this period lends itself to examination of how institutions and policies have been adjusted to accommodate such external and internal change.

First, the past 25 years have seen epochal upheavals and the largest economic crises in Europe since the 1930s. The fall of the Berlin Wall, the rise of the EU's internal market, the European monetary union and the reunification of Eastern and Western Europe have altered the external political and economic conditions for the Nordic model. While Denmark had once been the only Nordic country in the EC/EU, Finland and Sweden followed in 1995. Iceland and Norway attached themselves to the EU via the European Economic Area agreement. Finland was part of the eurozone from its start in 1999. The expansion of the open European market for labour and welfare – which includes over 500 million people from countries with enormous disparities in welfare and living standards – has led to major changes in the functioning of labour

markets. The crises in the economy and in European monetary policy cooperation that opened as well as closed the 25-year period under study have shown how intertwined the Nordic and international economies have become. Meanwhile, the global climate problems of recent years have heightened the urgency of calls for both international cooperation and Nordic economic restructuring to lower carbon emissions.

Second, the Nordic countries have undergone pronounced social and cultural changes. Digitalization has made the world smaller and revolutionized the way we

High immigration, especially to the three Scandinavian countries, has led to major changes in population composition.

work and communicate, both at work and at home. We have also grown in number. The population has increased by nearly three million since 1990 due to an excess of births over deaths and net immigration. High immigration, especially to the three Scandinavian countries (Denmark, Norway and Sweden), has led to major changes in population composition. In Sweden today, about 20 per cent of the population has an immigrant background. Immigration has also changed character during the period under examination. Early on, the newcomers were in large part asylum-seekers and refugees, but since 2004 there has been a sharp increase in labour immigration from new EU member states. More than 700,000 people from these countries have had work in the Nordic countries in the past decade, with Norway as the biggest draw. In addition came sizable labour flows from the EU-15. Meanwhile urbanization has accelerated in all the Nordic countries. And last but not least: the age structure is undergoing profound change. From 1990 to 2014, life expectancy has increased by more than a month per year. The labour force is aging, and the proportion of people in the 55–70 age group is increasing. It is thus becoming more and more important for the Nordic countries to facilitate a delayed transition from work to retirement.

Third, large pendulum swings have rocked the Nordic political scene since 1990. While recovery from the 1990s crises occurred in parallel with the return of social democratic parties to government after the conservative wave of the 1980s, right-leaning coalitions retook power early in the 2000s, in several instances eventually with populist right-wing parties gaining pivotal positions of influence. In recent years, “red-green” coalitions of the centre-left won the right to govern in several countries, but lost it in others. Maps depicting the political landscape must constantly be redrawn.

All in all, the changes of the past quarter century have put the Nordic model under pressure from within and without. By reforming the institutions that govern economic, labour and social policies – what we have called the pillars of the model – the Nordic countries in the 1990s managed to work themselves out of the crises faster than most other countries, even as they consolidated and renewed their social

Although the crisis hit several of them hard, the Nordic countries in 2014 look to be on the way out of crisis, with higher employment levels, less joblessness, greater equality and sounder public finances than the EU and eurozone as a whole.

models and stabilized their public finances. This achievement paved the way for solid growth in the years after the turn of the century.

This success, based on the ability to reconcile equality with efficiency and rights with duties, excited international interest and braced the

Nordic countries for the international financial crisis in 2008–2009.¹ Although the crisis hit several of them hard, the Nordic countries in 2014 look to be on the way out of crisis, with higher employment levels, less joblessness, greater equality and sounder public finances than the EU and eurozone as a whole. In 2013, 26.4 million people in the EU were unemployed, and the unemployment rate exceeded 11 per cent. Yet Nordic unemployment has also risen sharply – by close to 200,000 in the years 2008–2013 – and by 2013 it totalled almost one million. This represented about 7 per cent of the Nordic labour force. By 2014, the overall Nordic unemployment rate remained higher than in Germany or the UK.

What are we looking for?

Part II’s baseline analysis describes key changes in Nordic politics and societies over the past 25 years. The purpose is to assess of the Nordic countries’ potential to tackle the challenges that may come in the next 15 years, which will be the topic of Part III. The goal of comparing developments in key aspects of Nordic society is partly to illuminate the forces of change now at work and partly to ascertain the extent to which the institutional pillars of the model remain intact. How good have the key actors been at adapting the institutions and policy instruments at their disposal to address the problems and conditions that emerged in the turbulent 25 years just passed?

In the first parts of the baseline analysis, some of the principal economic and political trends are described along with changes in the Nordic countries’ relations with Europe as a whole. Then the emphasis switches to developments in the labour market, working life organization, integration and social policies as well as public sector organization. Finally, having examined institutions and policy instruments, we change round our perspective in order to explore how the past 25 years have affected living standards for individuals.

¹ An exception was Iceland, where far-reaching financial liberalization resulted in sharply rising inequality in the latter part of the 1990s at a time when productivity was considerably lower than in the other countries. Eventually, a massive financial bubble arose (Ólafsdóttir & Ólafsson 2014).

4 From crisis to crisis



The long period of growth after World War II gave way, after the oil crises of the 1970s, to stagnation, higher inflation and sizable fluctuations in the international economy. These setbacks were accompanied by a rightward shift in international politics and increased faith in market solutions in most Western countries. Financial deregulation, trade liberalization within the GATT/WTO frameworks,¹ adjustment to the EU internal market and the digital revolution all contributed to accelerated internationalization of the economy in the 1980s and 1990s. The European Exchange Rate Mechanism crisis and the emergence of monetary union in the EU added further to the changes buffeting national economic policies.

Domestically, changing industrial and occupational structures, lifestyle and family patterns, educational levels and shopping hours strengthened demands for flexibility in the workplace. As a result of macroeconomic missteps related to credit liberalization and insufficient coordination with wage and social policies, major economic and financial crises struck the Nordic countries in the early 1990s. Denmark had been hit a decade earlier. These crises resulted in fiscal retrenchment and record unemployment.²

This chapter looks more closely at the changes to the first pillar of the Nordic model – the institutions of economic governance – and how economic policy adjustments over the last 25 years have depended on close interaction with the organized working life and public welfare pillars of the model.³

The 1990s: Crisis adjustment and revival

The crises of the 1980s and 1990s and the contemporaneous shift in international economic and political thought led to extensive adjustments in Nordic macroeconomic policies. By way of cross-party settlements, all the Nordic countries carried

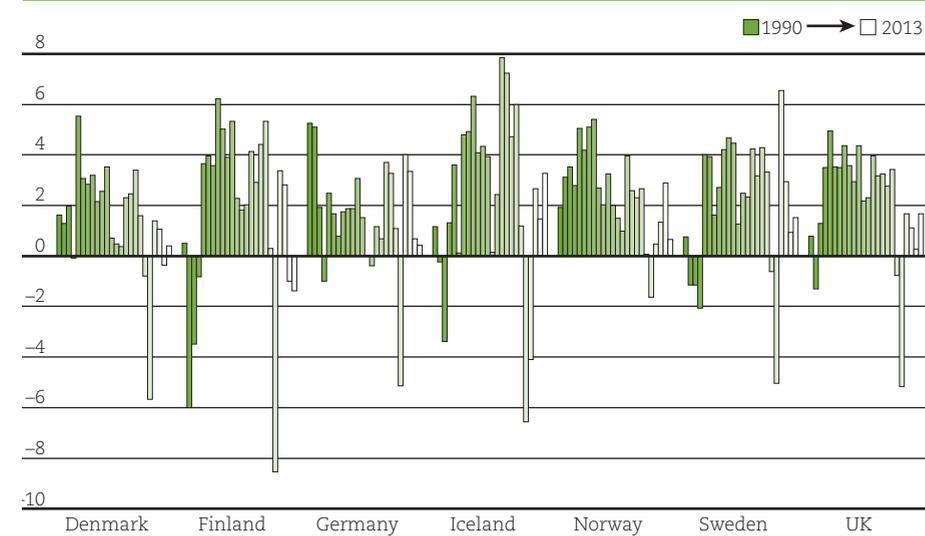
¹ The General Agreement on Tariffs and Trade (GATT) was replaced by the World Trade Organization (WTO) in 1995.

² In Iceland the downturn came partly as a result of poor cod harvests and partly as a result of efforts to curb the sky-high inflation of the 1980s (over 30 per cent at times) through tripartite cooperation on budget-tightening and wage moderation (Ólafsdóttir & Ólafsson 2014).

³ This section is primarily based on Dølvik, Goul Andersen and Vartiainen (2014), “Nordic models in turbulent times: Consolidation and flexible adaptation” in J. E. Dølvik & A. Martin (eds.), *European Social Models from Crisis to Crisis: Employment and Inequality in the Era of Monetary Integration* (pp. 246-286). Oxford: Oxford University Press.

out broad tax reforms that lowered income and corporation taxes and expanded the tax base. Entrance into the internal market of the EU/EEA required significant deregulation of key markets, such as transport, electricity, telecommunications and finance. This contributed to intensified competition and increased productivity growth (NOU 2012: 2; Holmlund 2009), but in Iceland it also spurred an astounding expansion of the financial sector. Central banks were given more independence and responsibility to ensure low inflation, a change that led to higher and more volatile interest rates. Sharp devaluations in the wake of the 1990s crises helped to kick-start growth, particularly in Finland and Sweden, after which Finland converted to the euro from Day One, in 1999. Denmark retained its fixed exchange rate policy toward the euro, while Sweden, Iceland and Norway switched to a floating exchange rate and inflation-targeting in monetary policy.

FIGURE 4.1 Annual percentage change in gross domestic product (GDP). 1990–2013



Source: OECD Economic Outlook 2014

The economic imbalances of the 1980s and the 1990s crises also resulted in more restrictive approaches to budget policy. This occurred most notably in Finland and Sweden, which struggled with double-digit budget deficits and high government debt. The budget tightening was followed by a more rules-based fiscal policy emphasizing long-term budgetary balance, an approach underpinned by comprehensive pension reforms intended to increase labour market participation and strengthen the funding of the welfare state. To increase growth and job creation, the worker and employer organizations agreed to keep wage growth moderate and to strengthen

competitiveness through new forms of sector-based coordination of agreements in Denmark and Sweden, and through increased tripartite cooperation on income policy in Finland, Norway and Iceland (Andersen, Dølvik & Ibsen 2014).

Taken together, these changes to all three pillars of the model contributed to a remarkable recovery in the Nordic economies. Assisted by globalization, the IT boom and China's rising demand for capital goods and raw materials, the Nordic countries were among the "globalization winners" of the 1990s. Overall Nordic employment rose by 900,000 (8.2 per cent) in the years 1993–2000, and unemployment was almost halved, from 1.36 million to 727,000, producing a combined jobless rate of 5.7 per cent (OECD Labour Force Statistics and our calculations). The combination of increased growth, budget tightening and wage moderation helped to restore balance in public budgets – in Sweden and Finland just five years after the record deficits seen in the 1990s crisis. The Nordic upturn was underpinned in part by export-driven industrial growth, especially in Finland and Sweden after their large devaluations, and in part by fiscal policy and solid domestic demand growth, especially in Denmark and Norway. This comprehensive Nordic approach to overcoming the 1990s crisis stands in stark contrast to the recent developments in troubled eurozone countries, where strict fiscal tightening has exacerbated the decline even as the lack of national monetary policy tools has compelled painful "internal devaluations".⁴

Adjusting labour and social welfare regimes

A special feature in the Nordic countries is that the economic liberalization of the 1980s and 1990s was not accompanied by a corresponding deregulation of labour markets or dismantling of the welfare states as advocated by influential forces on the employer side and some right-leaning parties (SAF 1991; Bildt 1992). During the 1990s, after the social democrats returned to government in all the Nordic countries (see Chapter 5), financial consolidation was combined with a determination to revive and strengthen traditional virtues of the Nordic model. Tripartite cooperation was revitalized and expanded in several of the countries, the labour movement retained its strong position, and Nordic populations largely assented to "belt tightening".⁵ In step with pension system reforms came expansions of the educational system and programmes to reconcile work and family life, while access to social benefits was linked more closely to work incentives (Fløtten et al. 2014, see Chapter 9). Unlike countries such as the UK and Germany, where labour markets were deregulated,

⁴ "Internal devaluation" refers to the need of eurozone countries to deal with economic downturns by adjusting wages, taxes and budgets, because they lack the ability to influence their currency's exchange rate.

⁵ The Swedish social democrats, for instance, won the election of 1994 without promising much beyond tighter budgets, tax increases and a sharpening of pension rules. In Norway, the 1988 wage regulation act and a 1992 policy known as the Solidarity Alternative met with wide acceptance.



FINANCIAL DOMINO: Lehman Brothers' bankruptcy on 15 Sept. 2008 was followed by a global financial crisis that cast a lasting shadow over many European countries. The Nordics were no exception. PHOTO: Mark Lennihan/Ap

collective bargaining systems waned and social security schemes were rolled back, Nordic political leaders in partnership with worker and employer organizations managed to rebalance the economy, strengthen wage coordination, preserve the welfare state and boost investments in human and social capital. Aided by strong employment growth and falling jobless rates, these efforts helped the Nordic countries – apart from Iceland – to largely maintain their compressed wage and income structures through the 1990s (Fløtten et al. 2014; Dølvik, Andersen & Vartiainen 2014).

In light of what's now happening in the crisis-stricken eurozone countries, the Nordic revival in the wake of the 1990s crisis illustrates how the Nordic model's institutionalized coordination of economic, wage and social policies can smooth the way to necessary changes and broad public support for burdensome measures in hard times.

The 2000s: Economic and political volatility

As the 21st century dawned the Nordic countries fortified their position atop the international rankings for growth, employment, income equality and quality of life. In the period up to the financial crisis of 2008, their combined employment figures swelled

From Beijing to Brussels and Davos, economists and opinion leaders discussed how most of the Nordic countries (...) managed to combine efficiency with equality in contravention of the leading economic theories.

by roughly 800,000. And even though the decline in the number of unemployed was modest, the growth in the labour force caused a drop in the combined unemployment rate to 4.9 per cent (OECD Labour Force Statistics and our own calculations). From Beijing to Brussels and Davos, economists and opinion leaders discussed how

most of the Nordic countries – with their strong unions, centralized collective agreements, relatively high tax levels, generous welfare benefits and large public sectors – managed better than all other Western countries to combine efficiency with equality in contravention of the leading economic theories (Sapir 2005; Kuhnle et al. 2010).

Developments in the 2000s reflected the increased volatility in the globalized economy. Recovery after the 1997–1998 Asian crisis was interrupted by the dot.com bubble collapse in 2001, but Nordic economies and employment shot upwards again during the finance-driven global upturn beginning in 2005. The “financialization” of Western economies, in which a growing financial sector increasingly channels savings and wealth into property and finance through ever more “innovative” products, has stirred worry and debate over the consequences to productivity and investment in the real economy (Stiglitz 2012; Summers 2014). Another aspect of financialization is what Crouch (2011) has termed “privatized Keynesianism”. That is to say that the decline in demand resulting from stagnant wages among ordinary people in many countries – including the US and UK – is offset by strong debt growth from the proliferation of credit cards, home equity loans and other financial products, as seen in the run-up to the 2008 “subprime” meltdown in the United States.

In the Nordic countries, centre-right governments applied tax-reduction policies to enhance the upswing of the 2000s. This was especially the case in Sweden, Finland and Iceland, where taxation as a proportion of GDP dropped sharply – primarily through reduced taxes for employees (Christensen 2013: 8).⁶ In Denmark and Iceland, the expansionary economic policy was reinforced by credit market liberalization – including access to interest-only loans collateralized by rising property values. This contributed to overheating and financial bubbles. In Norway, rising investments in the offshore petroleum sector and a hot housing market added to strong growth

⁶ Tax revenues as a proportion of GDP fell by 5 percentage points from 2000–2010 in Finland and Sweden, but those countries still impose a higher tax level than Norway. Iceland has traditionally had low taxes, and it reduced them further in the years before the financial crisis. Afterwards, the newly elected red-green government increased taxes sharply. The Danish government, composed of the Liberals and the Conservative People's Party, introduced an employment tax deduction followed by a “freeze” in taxation, then new tax cuts during the crisis, but Denmark still has the Nordic region's highest level of taxation. The country's subsequent red-green government continued to lower the overall tax burden to get the economy moving again. In Norway, the new right-wing coalition government eliminated the inheritance tax and cut the wealth tax (with the intention of eventually removing it, bringing Norway in line with the other Nordic countries) along with taxes on enterprises and employment income. In recent years there's been a tendency towards heightened competition on corporate taxation in the Nordic countries.

impulses (Hippe et al. 2013). The Nordic upswing was further magnified by increased labour immigration following EU enlargement in 2004. This immigration greased the wheels of the labour market, relieved cost pressures and boosted demand further, until alarm bells began ringing in Denmark and Iceland in 2007 and Lehman Brothers went bankrupt on 15 September 2008.

Varied crisis fallout in the Nordic countries

The Nordic countries were affected in very different ways by the financial crisis of 2008–2009 and the subsequent euro crisis. In the wake of far-reaching financial liberalization, Iceland experienced one of the most spectacular financial collapses in recent times, with rapid growth in unemployment, bankruptcies and government debt (Ólafsdóttir & Ólafsson 2014). Following a devaluation of almost 50 per cent – implying a drastic decline in real wages – the labour market and the economy as a whole recovered much faster than in Ireland and other debt-ridden EU countries. Apart from the devaluation itself, the Icelandic rebound was supported partly by redistributive tax and welfare policies in the traditional Nordic mould and partly by the government's refusal to take over the debts of bankrupt banks and financial companies while leaving international creditors adrift. In the second quarter of 2014, Iceland's unemployment rate was the second lowest in the Nordic countries (5.1 per cent seasonally adjusted, OECD Labour Force Statistics).

FIGURE 4.2 Accumulated growth in gross domestic product (GDP). 2008–2013



Source: OECD Economic Outlook 2014, NordMod calculations.



ICELANDIC UNREST: The financial collapse in 2008 put the Icelandic government and population under great pressure. Pictured is one of many popular protests against the authorities, this one dated 6 March 2010. PPHOTO: AFP / Halldor Kolbeins

The other Nordic country heavily jolted by the financial crisis was Denmark. Unbridled Danish fiscal policy and credit liberalization in the 2000s led to a galloping rise in private housing debt, much as Sweden, Finland and Norway saw in the 1980s. When the housing and financial bubbles burst, the debt overhang sapped private consumption and investment even as the government cut public spending, thereby exacerbating the fall in demand (Andersen & Petersen 2014).⁷ The consequence was prolonged stagnation and one of the sharpest drops in employment in Europe – if one disregards the PIIGS countries such as Greece and Spain (Dølvik et al. 2014) – until the economy began to perk up in 2013–2014 and unemployment edged below 7 per cent.

With their large industrial export sectors, Sweden and Finland were among the European countries hardest hit by the collapse in international trade in 2009, in the wake of the financial crisis. Nonetheless, their economies rebounded rapidly in 2010–2011 (Berglund & Esser 2014; Kangas & Saloniemi 2013). The good economic news continued in Sweden, where GDP growth from 2008 to 2014 exceeded that of

⁷ When the Danish government sent overly pessimistic budgetary estimates to the EU, the EU responded in 2010 by recommending a tighter fiscal policy.

Germany, whose post-crisis performance was considered miraculous. But unlike in Germany, unemployment increased in Sweden from 6.1 per cent in 2007 to more than 8 per cent in 2013 despite steady growth in the number of people working. This illustrates that the unemployment rate is affected in part by the supply of labour, which in Sweden has grown significantly in recent years. Youth unemployment in Sweden is particularly high as a consequence (Berglund & Esser 2014).

In Finland, retirement among the post-war baby boomers had resulted in a declining workforce, which concealed a sharp fall in employment during the first part of the crisis (Dølvik et al. 2014). The conjunction of the euro crisis, a structural crisis in the global paper industry and Nokia's collapse nevertheless pushed the Finnish economy into another slump in 2012 (Kangas & Saloniemi 2013), and by the end of 2014 it was still in recession. At the same time, with public debt approaching the upper limits set by the EU Stability and Growth Pact (60 per cent of GDP), Finland's government tightened its fiscal policy.⁸ The result was that unemployment rose to 8.1 per cent in 2013 and 8.9 per cent⁹ in the autumn of 2014. Norway was the country least affected by the crisis (though its exports and construction declined from 2009) because the global downturn coincided with record activity and investment in the offshore sector (Hippe et al. 2013; Berge 2009).

The Nordic economic consolidation of the 1990s and growth after the turn of the century gave the Nordic countries considerably more room to manoeuvre fiscally when the financial crisis hit, making it easier for them than it was in the eurozone to impose countercyclical policies (Cameron 2012; Lindvall 2012). The Nordic countries, except Iceland, are the only EU/EEA countries that stayed compliant with the EU Stability and Growth Pact throughout the crisis. Denmark and Finland chose to tighten their budgets gradually anyway, delaying the recovery in these countries. The Nordic centre-right governments relied mainly on tax cuts for economic stimulation,¹⁰ while Norway's red-green government followed a more Keynesian crisis policy of increased public-sector consumption and investment. Like Iceland with its major devaluation, Sweden and Norway benefitted from falling exchange rates and the opportunity to lower their key policy rates more than the European Central Bank did. Finland's participation in the eurozone precluded this – a constraint that also affected Denmark, which had pegged its krone to the euro. On the other hand, those

The Nordic countries, except Iceland, are the only EU/EEA countries that stayed compliant with the EU Stability and Growth Pact throughout the crisis.

⁸ Finland, too, received EU recommendations to tighten fiscal policy.

⁹ Seasonally adjusted unemployment rate, OECD Labour Force Statistics.

¹⁰ With a crisis-induced increase in savings rate and substantial imports, tax cuts do not convert directly into domestic demand and largely favour those who still have jobs. Tax relief is therefore considered less effective than direct stimulation of demand through public spending (see IMF Fiscal Monitor 2013, among other sources).

countries have avoided the large exchange-rate fluctuations that, especially in Norway, have created interest-rate policy dilemmas (Hippe et al. 2013).¹¹

The overall Nordic unemployment rate has nevertheless risen to a far higher level than before the crisis.

By 2014 the Nordic countries, with the partial exceptions of Finland and Iceland, seemed to be emerging from the crisis with healthier economies, stronger public finances and better external balances of than most other European countries. The overall Nordic unemployment rate has nevertheless risen to a far higher level than before the crisis – about 7 per cent in 2013 compared to 4.9 per cent in 2008 – and is currently higher than the rates in countries like Germany, Austria and the UK, where unemployment ranges from 5 to 6.5 per cent. Increased Nordic unemployment has contributed to greater inequality in disposable household incomes. With continued sluggish growth prospects for the region's European export markets and fiercer European cost competition lingering in the wake of the crisis, the Nordic economies will likely have a hard time strengthening their ability to compete and restructure while reducing unemployment and halting the growth in inequality that accompanies higher unemployment.

Critical factors

In this chapter we have seen that:

- ▶ Financial liberalization combined with failures in coordinating economic policies, social policies and wage setting triggered deep crises in Finland, Norway and Sweden in the early 1990s. Similar crises struck Denmark and Iceland in connection with the 2008–2009 financial crisis.
- ▶ In contrast to the steps taken by today's troubled euro countries, the Nordic revival of the 1990s stemmed from broad-based policy coordination and tripartite cooperation to modernize all three pillars of the Nordic model – economy, labour relations and welfare.
- ▶ After initial devaluations and long-term budget consolidations, the Nordic reforms in tax policy, monetary policy, wage setting and pension systems after the 1990s crises contributed to increased employment, solidified trade surpluses and strengthened public finances. This gave the Nordic countries – with the exception of Iceland – a better cushion than most other European countries had against the 2008–2009 financial crisis.

¹¹ A strengthening Norwegian krone during the euro crisis from 2010–2013 forced Norway's central bank to keep its key rate low despite strong upward pressures in the housing market. As the European financial turmoil calmed in the course of 2013, the krone edged back to a more normal level, until plunging oil prices in 2014 caused a steep fall in the currency.

- ▶ Although Denmark and Iceland sustained self-inflicted financial breakdowns and Finland's export businesses are mired in structural crisis, the Nordic countries have had the leeway to conduct countercyclical policies and forego drastic cuts to budgets and welfare schemes.
- ▶ Nevertheless, Nordic unemployment remains far higher than before the crisis, and the prospect of slow growth and tougher cost competition in the global economy suggests that the Nordic countries will face severe challenges as they seek to become more competitive and more adaptable while restoring economic growth and bringing down unemployment.

5 Political shifts: Bloc politics in transition



As the 1990s opened, the Nordic conservative parties had had tailwinds for 10 to 15 years. Public support for social democracy had weakened through the 1970s and 1980s while the parties of the right wing were marching forward. This rightwards shift coincided with widespread belief that the labour movement was on the wane, and that systemic change was needed in working life. This all represented a break from traditional post-war politics in Denmark, Norway and Sweden, where the social democratic parties dominated and the union and employer organizations exercised great influence via the corporatist channel. With strong trade unions, the labour movement had been able to play an important political role regardless of which parties governed. “Votes count, but resources decide,” as Stein Rokkan formulated it (Rokkan 1966). His thesis was that the power balance between different groups outside the parliament could have more effect on the outcome of important controversies than the respective strength of parties in parliament. Resourceful organizations and groups had the means to exert power and pressure. The point is illustrated in Iceland, whose social democratic party has been weaker than those of the other Nordic countries but whose labour movement has nevertheless enjoyed considerable influence through collective bargaining and tripartite cooperation with the authorities.

Increased wealth and altered social conditions appeared to weaken the labour movement further as the bonds linking the parties to their traditional voters frayed (Elgvin & Hernes 2014). With the number of traditional workers, farmers and fishermen in decline and rising numbers of people employed in services and in professions requiring higher education, the weakening of social democracy and the trade union movement could seem almost ineluctable.

Developments since 1990, though, have been less straightforward than one might think. Contrary to expectations, the Nordic social democratic parties came back to

power. By 1994 they ruled in Denmark, Sweden and Norway,¹ while Iceland’s social democrats entered a governing coalition and Finland got a social democratic prime minister in 1995. And although the proportion of wage earners who are unionized has dropped since 1990, it remains far higher in the Nordic countries than in other European countries. Collective bargaining coverage is also above the European average. The unions still represent a significant source of power.

It is the case, however, that Nordic voters have become rather more footloose since 1990 than they were before. Social background and traditional class affiliation have become less important as determinants of political behaviour. Values and single issues now play a more conspicuous role in elections, and new forms of political debate and mobilization have emerged. Nordic politics in other words have changed greatly since 1990. Alliances and coalition-building – sometimes involving completely new sets of parties – have become crucial to building political power as traditional bloc politics have declined.

Swings of the political pendulum

In all the Nordic countries, inconstant voters and shifting alliances have resulted in political pendulum swings between the party blocs. These movements have been more or less synchronous.

From the mid-1990s on, social democrats led governments for long periods in the four largest countries. But as the new millennium arrived, the pendulum swung back towards rightist constellations. In Denmark a government of the Liberals and the Conservative People’s Party held control from 2001 to 2011, with support from the Danish People’s Party. In Sweden the social democratic government held on until 2006, when Fredrik Reinfeldt’s centre-right alliance took charge and ruled for two periods. In Norway, Kjell Magne Bondevik’s centre-right government sat with power almost continuously² from 1997 to 2005.

In Sweden, Denmark and Norway the social democrats did not return to government until they agreed, as the 2000s unfolded, to form broad red-green coalitions for the first time. In Norway, a red-green coalition came to power in 2005 and was re-elected in 2009, while in Iceland the Social Democratic Alliance teamed up with the Independence Party to rule in 2007 and then entered a more traditional red-green coalition from 2009. The Danes chose a red-green government in 2011. Finland’s social democratic party was part of a centrist coalition that ruled from 2003 to 2007, and in 2011 it joined a six-party governing coalition. Swedes chose their first

¹ In Denmark the social democrats ruled in coalition with three centrist parties, while Sweden and Norway had one-party social democratic governments.

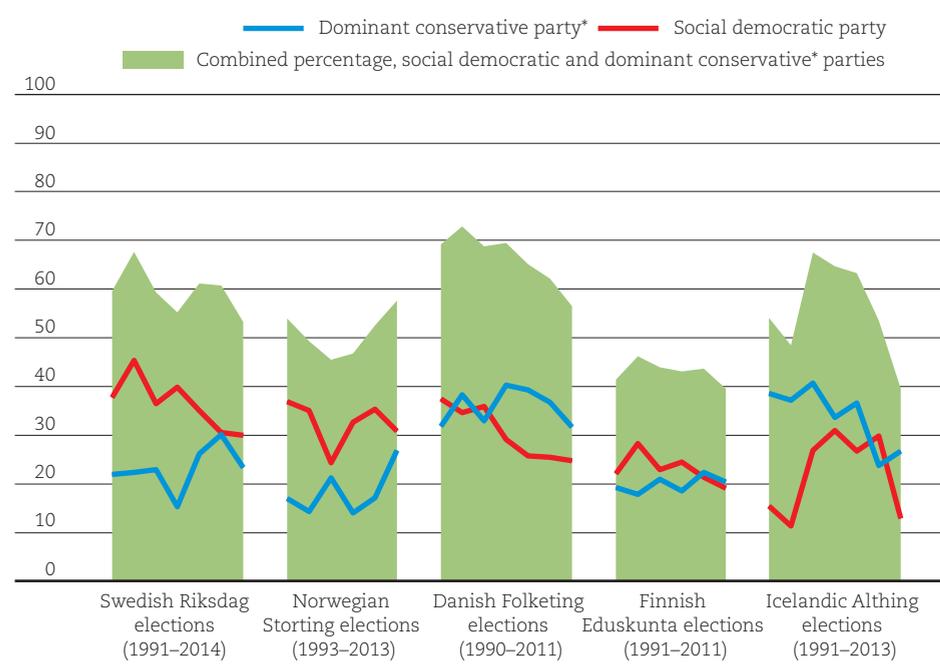
² Disrupted only by the Stoltenberg I government’s 2000-2001 interregnum.

Though social democratic parties have held governing power for long periods between 1990 and 2014, their electoral support has declined.

red-green government in 2014, while in Norway a rightist minority coalition of the Conservatives and the Progress Party assumed power in 2013.

Though social democratic parties have held governing power for long periods between 1990 and 2014, their electoral support has declined (Figure 5.1). To implement their political programmes, they have become increasingly dependent on allying with other parties, either in government coalitions or as support parties in parliament.

FIGURE 5.1 Election results for the social democratic parties and dominant conservative parties* in the Nordic countries. 1990–2014.



Source: NSD European Election Database (see disclaimer at end of References list).
 * For Denmark, the Liberal Party and Conservative People's Party are combined.

The social democrats' declining voter support has not resulted in a corresponding upswing for the traditional conservative parties. Figure 5.1 shows support for the Moderates in Sweden, the Conservatives in Norway, the Liberals and the Conservative People's Party in Denmark, the National Coalition Party in Finland and the Independence Party in Iceland. Support for conservative parties has varied greatly during the period, but outside of Norway such parties did not perform much better in the most recent election than they did in 1990.

Overall support for the major traditional parties in each bloc has thus decreased somewhat over time, while a growing proportion of the electorate has spread itself among smaller parties in the centre and on each wing. With new parties appearing at the flanks and voters exhibiting less loyalty, a more fragmented political landscape is emerging, with power relations increasingly determined by the ability to build coalitions.

Changed political assumptions

To understand the challenges associated with generating legitimacy and support for the Nordic model, it is not enough to consider the changing nature of traditional party politics. One must take a broader view of political influence, and take into account what's happening outside of parliament and the party organizations. In the past 25 years we have seen major changes in voter behaviour, party strategies and in the conditions for political mobilisation.

Changes in the social basis of politics

As pointed out above the underlying social structures, once the bedrock of party support, have changed. The traditional working class is in decline, and fewer people have jobs in primary industries. Increased educational levels in the population and changes in business structure mean fewer people perform manual labour and more of them have a say in their own work situation. The list could go on, but the point is that a variety of background factors that traditionally could explain left-leaning voting habits have been weakened. At the same time, party loyalty has diminished – voters are increasingly rootless – and fewer voters are active party members.

Despite fewer people in traditional working-class occupations, new voters have trickled into the social democratic ranks.

Despite fewer people in traditional working-class occupations, new voters have trickled into the social democratic ranks. This has offset some of the structural decline. The factor most often highlighted as an explanation for social democratic electoral support is that public sector employees (Sorensen & Rattsø 2013) and to some extent the beneficiaries of public services and social security schemes tend to lean more to the left when voting than other groups (Bengtsson et al. 2013). Knutson (2014), who analysed Norwegian voting patterns from 1957 to 2009, found that while traditional political fault lines have faded the divide between public sector and private sector has grown along with the gender gap. For parties on the right this represents a challenge. When a high portion of the voting population is employed in the public sector or receives transfers from the state, structurally based support for classical market liberalism and government scepticism tends to narrow.

Another factor of importance to political behaviour has been the rise in immigration from countries in Asia and Africa. Analysis shows that voter participation in these immigrant groups is lower than in the majority population. Moreover, those that do vote tend to favour the left to a greater extent than the majority does (Bergh et al. 2008, 2014). Such analysis also suggests, however, that as time passes and immigrants become more integrated they tend to move to the right, voting more in tune with the majority population, so that the long-term influence of immigration on party structure is uncertain.

The debate over new class structures has yielded another perspective as well (Dahlgren & Ljunggren 2010; Olsen 2010; Olsen et al. 2012; Olsen et al. 2014). It acknowledges that industrial and primary enterprises are in decline, but emphasizes that large groups of people now work in the growing private service sector under social conditions associated with low-status jobs. Such groups can therefore be said to constitute elements of a new working class. In some new service industries, such as call centres, many workers have little control over their own duties. They have many people above them and few below, and their working conditions are often below average. Using Norwegian data, Knutsen (2014) assigned people to classes according to the employment status scheme of Erikson and Goldthorpe.³ This categorizes people by occupation, such as those who do manual labour, those who work in primary industries and those in service jobs with responsibility for their own work. In the Erikson-Goldthorpe scheme, people assigned to the service class enjoy some degree of job autonomy; these include office workers in the private and public sectors as well as various professionals. The labour group consists of people in manual occupations, while routine functionaries are those with repetitive duties but few physical challenges, such as store employees. Having divided the working population in these categories, Knutsen found that the labour group has shrunk in recent decades from over 50 per cent to around 20 per cent, while the service class has increased significantly, from under 15 per cent of the whole to more than 50 per cent. The group of routine functionaries, too, has increased in number, from a little over 10 per cent to a bit more than 20 per cent. Manual labourers and routine functionaries constitute, in other words, more than 40 per cent of the workforce. Other classification schemes have also been used, resulting in much of the same picture (see Elgvin & Hernes 2014).

There is no automatic correlation, though, between job status and union density or job status and voting. Many groups in the private service sector are both less unionized and less likely to vote in political elections than other groups. This growing group clearly represents a political mobilization potential for the right and the left alike.

Briefly summarized, the traditional working class and primary industries are

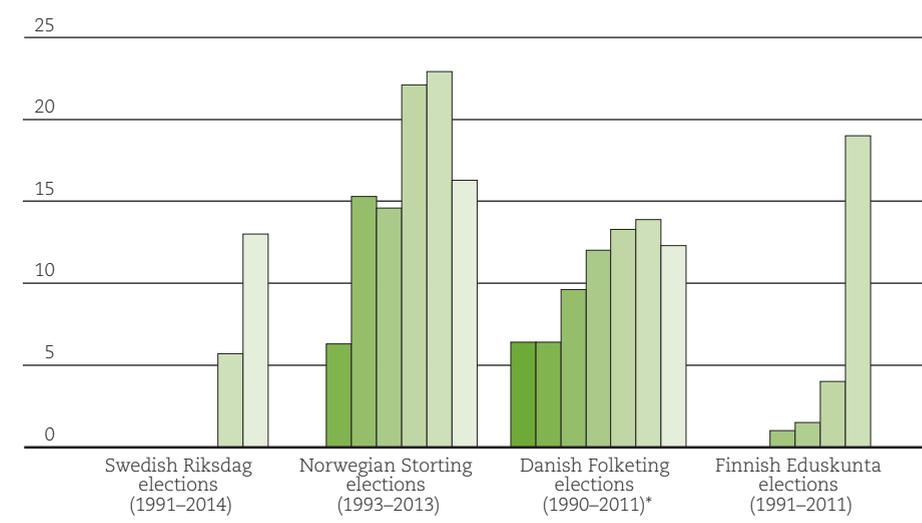
³ For a concise explanation, see <http://www.celsius.lshmt.ac.uk/modules/socio/se040404.html>

shrinking, while the Nordic countries have seen a growing, prosperous middle class as well as a subordinate service class with new, marginalized strata. These changes have forced the traditional parties to contemplate strategic choices, resulting in an intensified search for wandering middle-of-the-road voters and a shift of the parties towards the political centre.

Rise of new parties on the right

All the Nordic countries but Iceland have seen the emergence of relatively strong new parties on the right. In Finland, the True Finns won almost every fifth vote in the last general election, equalling the performance of the social democratic party. In Norway the Progress Party formed a government with the Conservatives in 2013, while in Denmark the Danish People's Party has exercised great influence as a support party for conservative coalitions. In Sweden, the Sweden Democrats received 13 per cent of the vote in 2014, putting them in a position of pivotal influence.⁴

FIGURE 5.2 Electoral support for the new-right parties, per cent. 1990–2014*



Source: NSD European Election Database (see disclaimer at end of References list).

* For the Danish elections, the Progress Party, from which the Danish People's Party split in 1995, is included. In the 1990 and 1993 elections Progress received 6.4 per cent, while in 1998 it received 2.2 per cent. The Danish People's Party garnered 7.4 per cent that year, so that the two parties together totalled 9.6 per cent. In the following election, Progress Party support dropped to less than 1 per cent.

⁴ After the Sweden Democrats (SD) broke parliamentary custom and blocked the budget proposal of the newly elected red-green government, Prime Minister Löfven first suggested he would call a new election to overcome the deadlock. When polls indicated that the deadlock most likely would become even more entrenched, since SD support was rising, a "grand compromise" was struck between the traditional parties of the two main blocks in late December 2014. The aim was to ensure that minority governments on either side can get their budget through parliament by preventing swing parties like the Sweden Democrats from generating a blocking, negative majority.

Figure 5.2 shows that Norway's Progress Party nearly tripled its support from 1993 to 1997. In 2009 the party reached 22.9 per cent support before falling back somewhat in the last parliamentary election, after which the party was invited into a government coalition with the Conservatives. Through the period as a whole, the Progress Party's results have been fairly stable, at around 15 per cent.

The new parties of the right are often described as "right-wing populist", a term that may encourage an oversimplification of what they actually represent. In contrast to the classical liberalism of traditional rightist parties, the new ones absorb social currents characterized by a stiff resistance to reforming or cutting public welfare programmes. There are major differences between them, since they have different roots in each of the different Nordic countries. The initial basis for both Norway's Progress Party and Denmark's Progress Party was opposition to taxes and surcharges, while the Sweden Democrats are rooted in nationalism and antipathy to immigration. The new right-wing parties do have important points in common, however.

First, the analytical research shows that they are all wary of immigration (Kangas & Saloniemi 2013). Second, they claim to speak for "ordinary folks" against what they define as "the elite". This is consistent with scepticism to the EU and decision-making in Brussels. Third, such parties base their policies on a strong defence of welfare state solutions, particularly those that serve the population's national majority. They often seem even more preservation-oriented than the parties of the left – and have thus been said to represent welfare chauvinism. In Denmark, for example, it was the Danish People's Party that championed "start help" – a highly restrictive subsidy programme that served almost exclusively immigrants – while the party on the other hand opposed phasing out a form of early-retirement benefits. In Norway, the Progress Party is the only party that was against pension reform. The Sweden Democrats advocate a sharp increase in support for the unemployed. Fourth, all the new-right parties recruit substantially from the working class in the private sector, and their constituencies feature a preponderance of men with little education (Knutson 2014).

The combination of welfare-state support with resistance to immigration and the EU strikes home with these parties' target voters, as illustrated by attitudes among them that largely overlap left-leaning voters on matters of social welfare and income distribution policy. This picture is especially clear in Finland (Kangas & Saloniemi 2013). In this way, the social democratic parties are losing traditional votes. They face a dilemma in deciding whether to seek votes in the modern, liberal, urban middle class or within elements of the working class that have doubts about immigration.

Values and single issues

The political scene, as previously noted, has changed as the bonds between party and voter have weakened and as voters increasingly make choices independent of their social background. Meanwhile, personal values and key single issues have become more important (Brandal et al. 2011;⁵ Bengtsson et al. 2013: 47). Several studies of political attitudes in the Nordic countries show that support for public welfare schemes, high tax levels and distributive policies extends far beyond left-wing voters and includes large parts of the electorate in the broad centre of the political spectrum.

A look at environmental politics illustrates how an emphasis on values and single issues may help win support among the increasing number of voters who lack firm party affiliation. Although green parties have long been active to the left of social democrats in many countries, new environmental parties have arisen in recent years in response to climate change. These are positioning themselves in the political centre or as independent of the left-right axis, giving them a chance to tip the electoral scales. After the 2014 Swedish election, for example, the Green Party entered a governing coalition with the Social Democrats.

As mobilizing voters becomes more and more a matter of appealing to values and single issues, the traditional parties have adapted their strategies. Conservative and market-liberal parties go much farther than before in expressing proprietary interest and support for key aspects of the Nordic model. Other parties have also moved towards the centre. More and more parties are thus fighting for the same voters, and with very similar messages. It has become crowded in the middle.

More and more parties are thus fighting for the same voters, and with very similar messages.

Strong support for core elements of the Nordic model does not necessarily translate into resistance against reforming key policy regimes and instruments. A Norwegian study showed both broad support for social security systems and considerable willingness to make adjustments to them (Fløtten & Hippe 2013). When voters combine support for existing institutions with acceptance of change, the political parties compete all the harder to define the change that's required and propose credible solutions. A new variant of the historically conservative slogan "Change to preserve" arises, this time as: "Change to preserve the Nordic welfare-state model".

New dynamics of opinion formation

For 25 years we have seen changes not only in political content, but also in form. Opinion formation itself is undergoing change, and the game of politics takes place

⁵ See article here: <http://www.bt.no/meninger/kronikk/Det-folkelige-fundamentet-glipper-2568167.html>



NEW PLATFORMS: Smart phones have amplified the role of social media in public debate. Here from a classroom in Oslo. PHOTO: Berit Roald / NTB Scanpix

in new arenas. In the NordMod project's analysis of political developments, special emphasis is placed on three factors (Elgvin & Hernes 2014).

First is a weakening of the party organizations as membership bodies and venues for mass participation. This is occurring in step with the rise of professionalized organizations where politics is a job and a livelihood rather than an idealistic activity.

Second, the media have been granted a new, more important role in setting the political agenda. After the newspapers were cut loose from party and ideological affiliations, the journalistic battle for public attention shifted to scandal, human interest and a focus on individuals. This is reinforced by the competition for television viewership and advertising money. Media distortion and tabloidization make it harder for politicians to argue their case on the basis of long-term principles. In the stream of single-issue stories and rehearsed "one liners" emitted by politicians, voters have trouble distinguishing between the increasingly similar messages of the parties.

Third, new channels for political mobilization and debate have emerged through social media. Such new platforms create opportunities for more transparent and thorough discussions, but the multitude of channels may also contribute to fragmentation and the cultivation of niche realities where people communicate mainly with others who hold the same opinions. In social media, single issues can rise to become pivotal sources of conflict entirely without party context. In Norway, for

example, social media were deployed recently to mobilize opinion regarding a proposed right-of-reservation for doctors on abortion. Recreating earlier conflict lines from the abortion battle, the social media campaign put the issue on the agenda with such force that the government shelved its proposal. The continuous accessibility of the new channels and the anonymity of participants can also lead to forms of harassment, bullying and threats that few in the past would have imagined possible (Staksrud et al. 2014). New platforms for political debate and opinion formation have an obvious potential to enhance democratization, since they improve transparency and expand opportunities to participate in political exchanges; but they also serve to weaken the ability of parties to define and control the political agenda.

Fourth, the Nordic countries have also seen a proliferation of professional lobbying organizations, communications agencies and consultancies that thrive by influencing politicians on behalf of moneyed customers. Much indicates that the scope of what Americans call "silent politics" is expanding in the Nordic countries, though major differences obviously exist between the United States and the Nordic countries with regard to opportunities to buy political influence. The research provides no sound basis for stating with certainty that open, democratic discussion forums in the Nordic countries are paying any less heed to issues of broad interest. But if the basic premises for decision-making are established behind closed doors, interest groups other than those that have paid will have less chance of wielding direct influence.

The upshot of the trends under review is that political parties play a smaller role than before in forming opinions and exerting influence. Nordic societies have been characterized by strong organizations, not least in the labour market. They have been directly involved in the formulation of public policy by participating in consultative bodies, commissions and study groups. Recent changes in workforce structure, power and organization have also affected the terms of political participation. A more fragmented labour market with weaker unions undermines traditional forms of community and arenas for political exchange and mobilization. Trade unions, it's true, have aggressively adopted digital tools and social media for communication with members and others. But it is an open question whether such new platforms for debate and criticism can compensate for structural changes that undermine workplace solidarity and weaken the political role of the working life organizations (NOU 2003: 19; Rothstein & Bergström 1999). Market-based reforms in recent decades have rolled back the negotiated or mixed economy while revised public administration systems generally allow less opportunity for participation by the social partners. Meanwhile, rightist governments in particular have a tendency

The upshot is that political parties play a smaller role than before in forming opinions and exerting influence.

to seek advice from expert panels and commissions where the labour market organizations are not invited. Increasingly, those who set the premises for new policy formulation are experts and civil servants. Such technocratization is exacerbated by the fact that more and more laws and regulations are formulated within the EU system. In decline are the contributions of organization-based democracy in the Nordic countries.

Critical factors

The parties in the Nordic countries face an altered political landscape, where voters are less loyal and it's becoming harder to form durable governing coalitions. This chapter has pointed out trends which are critical to understanding Nordic political developments since 1990, and which pose challenges and dilemmas for the parties:

- ▶ Major changes in the sources of party support: Social democracy has lost ground and the traditional conservative parties have stagnated, while larger portions of the electorate are choosing to spread their votes among parties in the centre or the outer wings, particularly on the right. This has led to changing coalition patterns and pendular movements between different governing constellations.
 - ▶ Weakening and partial dissolution of boundaries between the traditional political blocs have led parties to intensify the search for centrist voters and brought new parties into positions of influence. For the traditional major parties this has made alliance-building more important, both within and across former bloc boundaries.
 - ▶ The growth of new welfare-friendly, immigration-averse parties of the right, which attract voters from both leftist and conservative parties, is a particular challenge for social democrats. But the potential of such parties to tip the scales in parliament also changes conservative calculations in building coalitions on the right.
 - ▶ Political debate, opinion formation and voter mobilization increasingly take place on new platforms and in new ways. This changes how the political parties and trade unions operate.
 - ▶ For traditional conservative parties, new dilemmas have arisen: The battle for new middle-class voters pushes them towards the centre even as they become increasingly dependent on rival new right-wing parties as alliance partners to win government power.
- ▶ For the social democratic parties, the political developments are challenging. As their original electoral base shrinks and more of the political debate moves out of traditional channels, the new right-wing parties are gaining inroads into traditional voter groups. The movement of rightist parties towards the centre means that the social democrats may have trouble generating more votes by rallying around the pillars of the Nordic model. The emergence of climate change as a more clearly defined, independent political issue of increasing importance to voter mobilization exemplifies how it has become harder to secure ownership of political values, viewpoints and debates. With little prospect of winning governing power on their own, the social democratic parties are increasingly obliged to build alliances and collaborative coalitions across old political fault lines to preserve their clout.

6 The Nordic role in Europe and the world



Since the fall of the Berlin Wall in 1989, the Nordic countries have been affected by epochal changes in the European political environment. Economic globalization, meanwhile, has accelerated. Trade liberalization within the GATT/WTO framework and attempts to establish a binding international climate regime have placed new demands on the Nordic countries in global arenas. National policy development has become more dependent on international events, and each country's room to manoeuvre has been circumscribed by international obligations. Yet for small countries, binding international agreements are essential for exercising influence in the world.

Changing ties to the EU, the single market and monetary union

In the past 25 years, the biggest changes to the fundamentals of Nordic national politics have come about in connection with changes in the countries' EU relationships. Following a 1972 referendum Denmark became the only Nordic member state in the European Economic Community, and in 1988 the remaining EFTA countries opened negotiations on an EEA agreement that would ensure equal access to the EEC's internal market. During the financial crash in 1990 Sweden changed course and announced that it would apply for EEC membership, and Finland and Norway quickly followed suit. In the three referendums that followed, all in 1994, Norwegians narrowly rejected membership while the Swedes and Finns voted in support. Sweden and Finland became members in 1995, while Iceland and Norway stuck with the EEA agreement. This agreement committed the two EFTA countries to incorporate all EU legislation related to the single market, except that applying to trade policy and market access in the primary industries.¹ In a referendum in 1992 a narrow majority of

¹ In 1996 Norway and Iceland became associate members of the Schengen Area in order to maintain the Nordic Passport Union. Norway has since joined a number of other cooperative areas – including police, internal security, and defence, which Denmark has opted out of (NOU 2012: 2). Short version in English: <https://www.regjeringen.no/en/dokumenter/nou-2012-2/id669368>

Danes voted to reject the Maastricht Treaty, but after receiving exceptions related to cooperation on issues such as foreign and security policy, monetary union and visa and migration policy, the Danes voted “Yes” in a new referendum in 1993. Finland became a member of the eurozone from day one (1 Jan. 1999). In Denmark, a proposal to switch to the euro was voted down in a new referendum in 2000 (53.2 per cent “No”, 46.8 per cent “Yes”), and in Sweden three years later 55.9 per cent of voters said “No” to replacing the krona with the euro. As a result, links to the EU vary greatly among the five Nordic countries. The EU members – Denmark, Finland and Sweden – are fully integrated and participate in the shaping of EU policies and regulations, while Iceland and Norway are committed by way of the EEA agreement to implement all new internal market rules without taking part in the political processes.

Economically, there is little doubt that equitable, straightforward participation in the common European market has benefitted the Nordic countries. Entrance into the EU/EEA coincided with one of the strongest and most protracted periods of growth in the Nordic countries, a period characterized by increased direct inward investment and solid trade surpluses. Yet the obligations to Europe – whatever the forms of association – have brought radical changes to the Nordic systems of governance. A significant part of their legislation today originates from the EU level, reflecting the fact that the Nordic nation states have become part of a multi-level European regime with no precedent internationally. That regime encompasses judicial and regulatory systems as well as the legislative function. In many respects the effect has been more formal than practical, since most Nordic and EU policy trends have been relatively compatible (Tallberg et al. 2010; NOU 2012: 2).

But in some areas there has been less compatibility and more tension. Somewhat surprisingly, economic policy has not been one of the conflict areas. The Nordic EU member states – with European commissioner Ollie Rehn of Finland in prominent view – stood wholeheartedly behind EU austerity policy during the financial crisis, including the union's strict demands for budget cuts and structural reforms in debt-ridden countries. The explanation may be that the Nordics belong to the group of small northern and central European countries with solid public finances and current account surpluses – countries whose combined trade surplus in the past decade has exceeded that of Germany (Gros, Dagens Næringsliv 30 Dec. 2013). The Nordic countries in the EU have been critical of suggestions that countries running surpluses should take on greater responsibility for helping the southern European countries out of the crisis. With the partial exception of Finland, they have also been critical of all proposals to deepen federal-style integration and have maintained that

Yet the obligations to Europe – whatever the forms of association – have brought radical changes to the Nordic systems of governance.

the EU should remain a collaboration of independent nation states (that is, a “confederation of states”).

The social dimension: Increased tension

After the northern expansion of the EU in the mid-1990s, the Nordic actors aimed to strengthen the EU’s “social dimension”, an effort that had been under way during the terms of European Commission President Jacques Delors. Many social democratic governments were present in the EU-15 at the time, and a series of minimum directives were adopted on workers’ rights which in some cases also strengthened the rights of Nordic workers (Ahlberg et al. 2005; Tallberg et al. 2010; NOU 2012: 2).

Gradually, however, tensions rose over the coordination of labour and social policies in the EU.

In the 2000s, and especially after the eastwards expansion of 2004, the EU’s political centre of gravity shifted in favour of countries that were more interested in further market integration than strengthening social policies. Development of the EU

Development of the EU “social dimension” as well as the social dialogue itself (...) ground more or less to a halt.

“social dimension” as well as the social dialogue itself – in which Nordic employee and employer associations participate – ground more or less to a halt. The relationship between EU free-movement rules and national labour law became a major topic of dispute in the Nordic countries and the rest of Europe as controversies resounded over the “country of origin” principle that underpinned a proposed EU services directive – later modified in the European Parliament after effective campaigning by the European trade unions (ETUC) (Dølvik & Ødegaard 2012)² – and EU court decisions in the Finnish Viking case and the Swedish Laval case in 2007 (Malmberg 2010; Evju 2010). The right to unemployment compensation and other social benefits has become a contentious issue both nationally and in relation to EU law as job seekers and other groups have migrated in greater numbers from the EU countries of central and eastern Europe.³

As the EU nears a crossroads, no clear “Nordic way”

For many EU countries the euro debacle has brought not only economic crisis, but also political and social crisis, with record unemployment, deeper regional cleavages and a faltering sense of legitimacy all raising fundamental questions about

² Representatives of the Swedish trade unions played a central role in the ETUC’s facilitation of the compromise in the European parliament (Dølvik & Ødegaard 2012).

³ In 2014 the European Commission referred Finland to the European Court of Justice for not providing unemployment benefits to migrant workers from Day One, and the commission has raised similar issues in Denmark, where there has been debate over whether cash payments to support the children of migrant workers in their home countries puts downward pressure on wages (Ugebrevet A4, 3 March 2014).



INSIDE AND OUT: While Denmark has been an EU member since 1973, Norway and Iceland remain formally on the outside. At this 2014 summit in Wales, however, it was NATO and not the EU whose borders counted. From left: Norwegian Prime Minister Erna Solberg, German Chancellor Angela Merkel and Danish Prime Minister Helle Thorning-Schmidt. PHOTO: Peter Macdiarmid / Pa Photos

the direction of further EU integration. Some eurozone governments want to deepen economic policy integration, while governments in other EU countries – like the United Kingdom – want less interference from Brussels. In social and labour affairs, the governments of Germany, the Netherlands, the United Kingdom and Austria among others have spoken up for increased national autonomy, while strong voices in southern and eastern Europe fear protectionist measures by rich countries in the west. The European Trade Union Confederation (ETUC) wants more pan-European regulation of employee rights, including national minimum wages. This criss-crossing of conflict lines can also be observed in debates over federation versus confederation, efficiency versus democratic legitimacy and core versus periphery as well as in discussions of a “multispeed” Europe, “variable geometry”, concentric circles and more. Negotiations continue meanwhile on further expansion of the EU in the Balkans, on Switzerland’s future relations with the EU (and thus with the EEA) and on the EU’s relations with Ukraine and other neighbours in eastern Europe and the Mediterranean region. A referendum on the United Kingdom’s EU relations, scheduled for 2016-2017, could further complicate these debates and highlight difficult questions about the varying Nordic strategies in EU and EEA contexts. Given the

different links and interests that the Nordic countries have with regard to the EU, monetary union and EEA/EFTA, such discussions could put Nordic cooperation to the test and propel Nordic divergence as each country acts to sustain its own version of the Nordic model. Alternatively, one can imagine that extensive changes in the pattern of European collaboration could create new frameworks for, and visions of, stronger cooperation among the Nordic countries (Wetterberg 2010).⁴

Changing Nordic roles in European and global arenas

The global factors most directly affecting the ability of Nordic countries to continue developing their model are the trade liberalization negotiations and measures to counteract the climate crisis. In recent years there has been little progress in these fields, and most of the change has come through regional initiatives (EU). However, there's reason to believe the pace of change will increase in the years to come,

partly as a result of negotiations towards an international trade-in-services agreement and an EU-US free-trade agreement, and partly as a result of efforts to establish an international regime for the reduction of CO2 emissions.

International climate-change measures will affect the Nordic countries, with their different energy mixes, in different ways.

Sweden has gone far in transitioning to bioenergy while Denmark has wind power but remains dependent on coal. Much of Finland's energy is nuclear, while the dominant role of hydropower in Iceland and Norway limits their opportunities to reduce CO2 emissions through energy conversion. Norway also has special challenges related to emissions from its oil and gas production activities, including their eventual phase-out. Whatever the starting point, Nordic labour markets will encounter both challenges and opportunities in the transition to a greener, more carbon-neutral economy. Though the Nordic countries should be better equipped to handle this realignment than most others, their different energy and industrial policies could put them at cross purposes, resulting in divergent strategies and measures to head off climate change and deal with its consequences – on migration matters, for example.

International climate-change measures will affect the Nordic countries, with their different energy mixes, in different ways.

⁴ Visions of a Nordic bloc as a power factor within or outside the EU burst after the conflicting results of the 1994 referendums in Finland, Norway and Sweden. For a while, the Nordic countries pursued their own strategies at the European level, but collaboration on EU matters has strengthened in recent years. Visions of a more binding form of Nordic integration have flared up from time to time – as with the Nordøk project in 1967 – and were re-embraced a few years ago by historian Gunnar Wetterberg in the Nordic Council of Ministers book *Förbundsstaten NORDEN* (TemaNord 2010: 582).

Critical factors

This section has sketched the changing international environment that the Nordic countries have contended with in the past 25 years. Increased globalization, establishment of the EU's single market, monetary union, EU enlargement and accelerating climate troubles have radically changed the external conditions for national policy-making. Moreover, changed relationships with the EU have also affected the conditions for policy-making in key areas of domestic politics. We have also seen that geopolitical developments in neighbouring regions – like the conflict between Russia and Ukraine, the imminent opening of the far north to development and heightened unrest in the Middle East – can influence the Nordic countries in many different ways. If additionally one takes into account the challenges of international cooperation to combat climate change, the outlook for further development of the Nordic model appears to be rapidly evolving.

- ▶ How might the global climate negotiations and changes in EU collaboration after the euro crisis affect the potential for collaboration among the Nordic countries? How might such changes affect each country's room for manoeuvre, and how can Nordic governments and labour-market actors strengthen their capacity to influence political developments at the European and global levels?
- ▶ What are the Nordic labour movement's visions and strategies for EU/EEA participation, for overcoming the euro crisis and for the Nordic role in international climate negotiations?

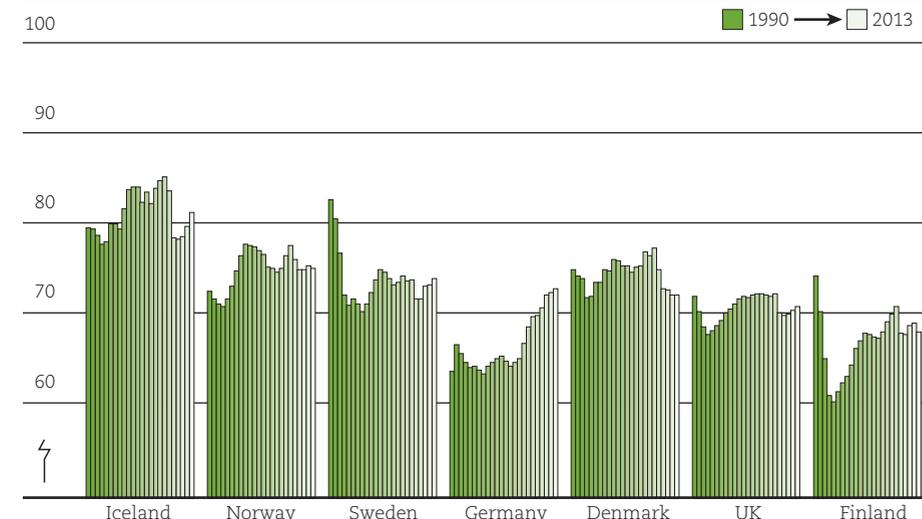
7 Labour markets in transition: Volatility, flexibility and mobility



In line with the slogan “work for all”, one of the cornerstones of the Nordic model has been the ability to produce both high employment and low unemployment. Being able to work, support oneself financially and pay taxes is not only fundamental to one’s prospects in life and to counteracting disparities in living standards, but also crucial to safeguarding the welfare state’s finances.

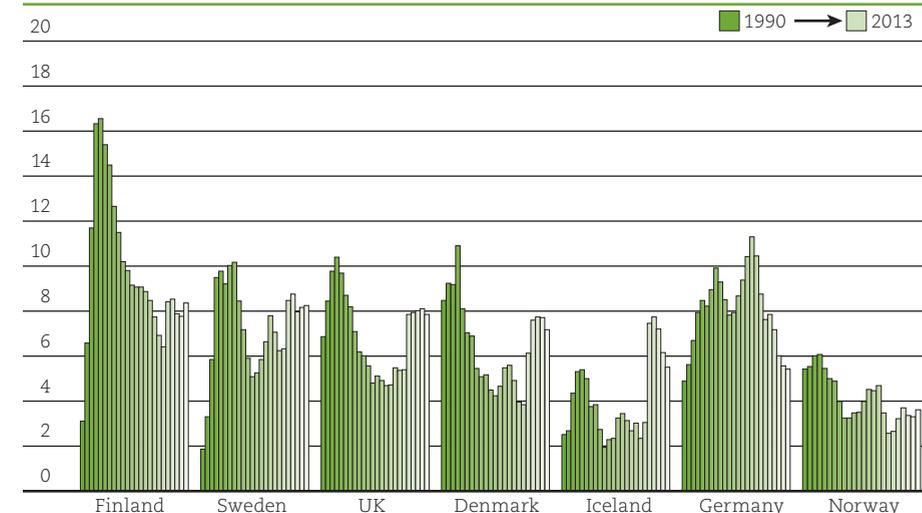
Since the post-war period, the Nordic countries have pursued an active employment policy with emphasis on promoting mobility and skills through education and training, mobilizing labour by investing in social measures to combine family and work, and organizing the welfare and tax system so as to “make work pay”. There has been broad acknowledgement that such labour-supply policies – which had a renaissance in the 1990s – cannot succeed without wage policies that maintain international competitiveness and macroeconomic policies that ensure adequate demand for labour. Since the 1960s, the public expansion of social services has contributed to increasing demand for female labour. Despite economic slumps, the active employment policy of the post-war period helped the Nordic countries stand out, with far higher employment rates, especially among women and older people, than the rest of Europe. In 1990, over 81 per cent of Swedes aged 15–64 were employed, compared with 64 per cent in Germany and 72 per cent in the UK. During the crises of the early 1990s, however, employment fell sharply. Unemployment shot towards 20 per cent in Finland and exceeded 10 per cent in Sweden and Denmark (Figure 7.2). Subsequent decades demonstrated the difficulty of restoring full employment once joblessness has reached a high level.

FIGURE 7.1 Employment rates (age group 15–64). 1990–2013



Source: OECD Labour Force Statistics

FIGURE 7.2 Harmonized unemployment rates. 1990–2013



Source: OECD Labour Force Statistics

The battle for full employment: One step back and two forward, or vice versa?

During the crisis in the early 1990s, employment in the Nordic countries fell by more than 10 per cent – including 17.5 per cent in Finland and 12.5 per cent in Sweden.

More than 1.2 million jobs were lost. In 1993 roughly 1.3 million people were unemployed. As the 1990s unfolded, however, Nordic labour markets revived sharply. From 1994 until the financial crash of 2008, employment increased by 29 per cent in Iceland, almost 25 per cent in Finland and Norway, and 16–17 per cent in Denmark and Sweden (Dølvik et al. 2014; OECD Labour Force Statistics). The thesis that technological change would lead to “jobless growth” was put to shame in this period. The jobs recovery stemmed largely from growth in labour-intensive services. Despite an increase in the working-age population, the employment rate (for those aged 15–64) rose by about 10 percentage points in Finland and 5 percentage points in the other countries from 1994 to 2008. Iceland in 2008 had the highest employment rate in Europe, at 84 per cent, while levels in the other countries had stabilized between 70 and 78 per cent. Countries such as the Netherlands, Switzerland, the UK and eventually Germany appeared to have caught up with the Nordics, but the Nordic level, estimated in full-time equivalents, remained markedly higher than European levels

(Hemerijck & Eichorst 2010: 312). The main reason was the higher Nordic employment among women and seniors (55–64 years of age), but Nordic employment was also higher among groups with low education than in other EU/EEA countries and the United States (Barth & Moene 2012: 28).

Yet it is worth noting that the employment rates in Finland and Sweden remained significantly lower in 2008 than in 1990.

Yet it is worth noting that the employment rates in Finland and Sweden remained significantly lower in 2008 than in 1990. Among Swedish women, for instance, the employment rate was 9 percentage points lower in 2008 than in 1990. The proportion of inhabitants with minority backgrounds, which has increased more in Sweden than in the other countries, may be part of the explanation (Djuve et al. 2014), along with the fact that the public sector employs fewer people than before (Berglund & Esser 2014).¹ Unemployment by 2008 had fallen to low levels in Norway, Denmark and Iceland (2–3 per cent), while in Sweden and Finland it persisted at a substantially higher level (around 6 per cent) than during the previous cyclical peak, in 1990.

The crisis from 2008 to 2014 has had very different labour market impacts in the Nordic countries. Employment continued to grow in Sweden and Norway – albeit somewhat slower – but fell markedly in Finland and Denmark. Yet in contrast to the 1990s crisis, total Nordic employment was almost stable from 2008 to 2013.²

¹ The relatively weak trend in Swedish female employment for 1994–2008 is probably related to the fact that Sweden tightened public budgets in the 1990s, and thereafter maintained a more restrictive fiscal policy. Moreover, the commitment to active labour market policies declined from 1998 onwards (Berglund & Esser 2014). This contributed to the continuation of relatively high unemployment that is said to be a major reason why the centre-right Alliance won the 2006 election.

² From 2008 to 2013, employment fell in Denmark by 165,000 (about 6 per cent), 96,000 in Finland and 4,000 in Iceland, while it increased by 110,000 in Sweden and 65,000 in Norway – a reduction all told of 90,000 (OECD Labour

While the workforce grew substantially in Sweden and Norway during the crisis, it declined in Finland and Denmark. The changes in employment have thus affected unemployment levels very differently in these countries. Unemployment levels in 2013 were highest in Finland (8.3 per cent) and Sweden (8.2 per cent) and lowest in Norway (3.6 per cent) and Iceland (5.5 per cent), with Denmark in between (7.1 per cent). When comparing employment rates for 15- to 64-year-olds, Sweden comes out best, with a level almost unchanged through the crisis. In Finland, Iceland and especially in Denmark, there have been significant declines, but in Norway, too, the employment rate sank, despite solid employment growth. This evidently is related to the strong increase in labour migration to Norway, which has bolstered labour-force growth there and made it harder for groups with weak attachment to the labour market to compete for jobs (Friberg et al. 2013).³

The tendency towards stagnation in the employment rate for those 15 to 64 becomes evident in the other countries, too, if one considers the trend of the 2000s. Apart from Finland, where the working-age population has begun to shrink, there has been a levelling off or decline in the employment rate for 15- to 64-year-olds. This is despite significant growth and rigorous efforts to expand participation in the labour market during the period. The 2013 figures, post-crisis, are lower than the cyclical bottom in 2003–2004, except in Sweden and Finland, where there has been a slight increase. Stagnation of the employment rate in the 2000s is mainly due to reduced employment among young people, which reflects increasing education levels as well as difficulties in gaining a foothold in the labour market. With the working-age population projected to stagnate in the coming decades (Fløtten et al. 2013), it is promising that the labour market participation rate for the 55-plus age group has increased recently in all the countries.⁴

With a more diverse workforce, where the share with minority backgrounds is on the rise and the mix of job skills is steadily widening, it will be challenging to maintain or increase the employment rate in the coming decades. The NordMod report on immigration and labour-market integration (Djuve & Grødem, eds., 2014) shows that the employment rates for immigrants from outside Europe hover around 50–60 per cent in the Nordic countries, compared with 75–80 per cent for the majority pop-

Force Statistics). By comparison, employment fell during the 1990s crisis by over 570,000 in Sweden, 446,000 in Finland, 130,000 in Denmark and 115,000 in Norway.

³ A study by Bratsberg and Raaum (2013) shows for instance that immigration by large numbers of young Swedish workers to the Oslo area has led to reduced employment among Norwegian school pupils, while Bratsberg, Raaum and Røed (2014) show that other immigrants and groups with few job qualifications are particularly vulnerable to competition from foreign workers.

⁴ In 2013, employment rates for the age group 55–64 were clearly lower in Finland (58.5 per cent) and Denmark (61.1 per cent) than in the other countries (Iceland 81.1 per cent, Sweden 73.6 per cent and Norway 71.1 per cent). Employment rates varied in the 65–74 age group, too, from 34.3 per cent in Iceland to 18.2 per cent in Norway, 14.5 per cent in Sweden, 10.7 per cent in Denmark and 9.2 per cent in Finland (LO Samfunnsnotat 9/2014).



INDUSTRIAL ICON: Volvo has been a symbol of Swedish industry since the post-World War II years. In the new millennium Volvo auto production has been through a number of acquisitions, but the factory at Torslanda outside Gothenburg celebrated 50 years of operation this year. PHOTO: Bob Strong / Reuters

Employment particularly low in parts of the female minority populations.

ulations. Employment is particularly low in parts of the female minority populations. This will probably change in step with the rapid rise in educational level among second- and third-generation immigrant girls – which in several countries is already higher than among the majority girls. Prospects are more uncertain for

boys given that the proportion of them dropping out of school is high and that the share of adult immigrant men who fall out of the job market has been far higher to date than among the majority population (Bratsberg, Raaum & Røed 2010).

Changes in industrial and occupational structure

The Nordic labour markets have undergone profound structural changes in the last 25 years. Despite a rise in manufacturing and other industrial employment through the 1990s, the proportion of the workforce employed in industry – the historic backbone of the labour movement and locus of collective bargaining – continued to decline during the period. In the first quarter of 2014, those employed in industry represented 8.5 per cent of the total in Norway, 10.7 per cent in Sweden, 11.8 per cent in Denmark and 13.5 per cent in Finland (OECD Labour Force Statistics). The decline continued as well as in the primary industries, mining, construction and so on. Over 80 per cent of those employed today work in various service jobs, which have accounted for all net employment growth over the past 25 years. This has led to major changes in membership composition for the trade unions and employer associations.

The share of employment growth occurring in the private sector versus that of the public sector has varied among the Nordic countries. In Sweden, on the one hand, all the net employment growth has occurred in private sector services – particularly in business services, information and communication – while the country's high public-sector employment fell by 365,000, most of it in the period 1990–2005 (Berglund & Esser 2014: 92-3).⁵ In Norway, on the other hand, employment grew sharply from 1990 to 2010 in both public (235,000) and private (about 230,000) services (Statistics Norway 2013, Table 209; Jordfald 2012). In 2012, the proportion of people employed in the public sector varied from 27.7 per cent in Iceland to 28.3 per cent in Finland, 32.6 per cent in Sweden, 33.6 per cent in Denmark and 35.4 per cent in Norway (Nordic Statistics, Nordic Council of Ministers 2013).

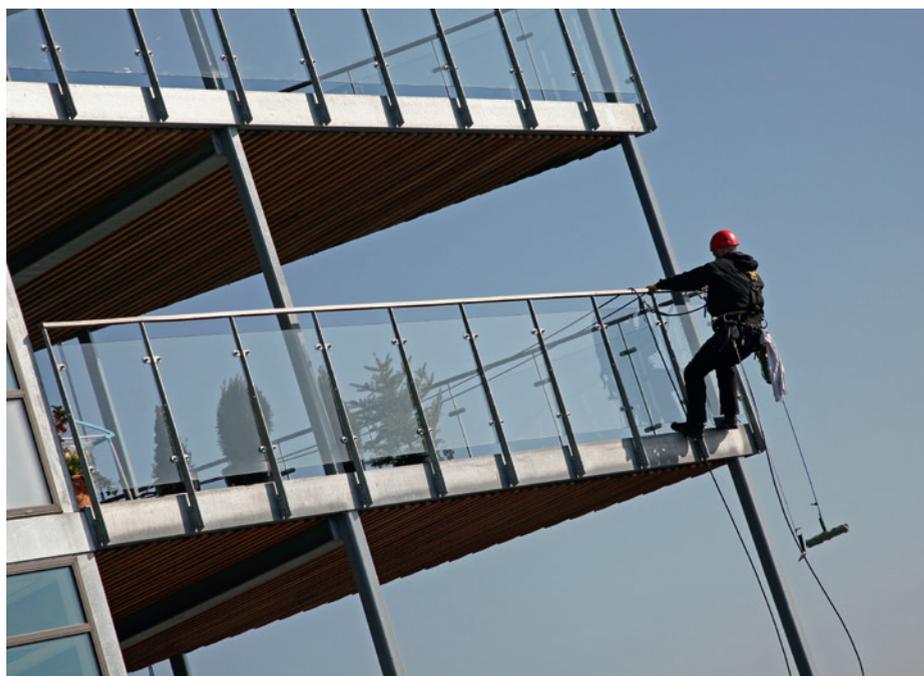
The employment shift has been accompanied by increased skill requirements in large parts of the economy. More people are working in fields where higher education is the norm, such as health care, teaching and business services. Technological change, restructuring and internationalization, especially in traditional manufacturing industries, have led to a proliferation of managerial, engineering and other white-collar jobs, and fewer blue-collar workers. In leading Nordic industrial companies, a predominant share of both employment and production is located abroad. Growing prosperity at home, meanwhile, buoys demand for labour-intensive services such as cleaning, transport and hotel and restaurant operations as well as personal and cultural services where formal skill requirements are not as high. Although working life as a whole demands more expertise than before, a certain polarization of the occupational structure has evolved. Employment has grown in both the upper and lower echelons of the labour market. Meanwhile, there has been a tendency toward stagnation and decline in jobs requiring medium-level qualifications – including skilled manufacturing jobs and mercantile occupations in trade, banking and insurance – where time-saving technology has had the greatest impact (Asplund et al. 2011). This tendency appears to have been reinforced during the most recent crisis, when many of the job losses occurred in construction and industry (Hurley & Storrie 2013).

Labour market functioning:

Flexibility, segmentation and new divides

Parallel to the industrial and occupational shifts there have been major changes in company structure and work organization. In traditional production, increased consolidation in large, internationalized enterprises has been accompanied by spinoffs,

⁵ Employment in the public sector fell by 325,000 in the austerity period from 1990 to 2005 and by an additional 47,000 in the 2005–2012 growth period (Berglund & Esser 2014: 92-3).



PRECARIOUS: The influx of labour migrants in recent decades is most deeply felt in occupations where there's little demand for formal skills or language proficiency. Shown here, a window washer in Denmark. PHOTO: Colourbox

outsourcing and in many cases offshoring of activities that do not belong to a company's core business (Blomqvist & Murhem 2003).

At the same time that many industrial and manufacturing jobs have been taken over by contractors in the service sector, globalization has brought major changes in corporate ownership patterns. In 1990 it would have been outrageous to imply that Volvo would be sold to China or that Aker's shipyards would be sold to South Korea, but today that is the reality. Nokia, the Finnish flagship and symbol of the country's 1990s economic miracle, has been sold to Microsoft. The locomotive of the Danish petroleum business, Dong, has been taken over by Goldman Sachs with the blessing of the country's red-green government. For shop stewards and unions in manufacturing, such developments have made it harder to maintain traditional forms of influence in the workplace and raised new demands for cross-border union cooperation within corporate groups.

In the service sector, concentration in chains, shopping centres and franchise configurations in the hotel, restaurant, retail and transport and logistics business areas has gone hand in hand with decentralization and fragmentation of earnings responsibilities, workplaces and work organization (Bosch & Lehndorff 2004; Døl-

vik 2001). Private service providers are often small companies with few employees whose customers and places of business are often transitory. For company-level union representatives – if they exist – the distance to decision-makers at headquarters has grown and become more complex to navigate (Dølvik & Waddington 2003). In combination with extended opening and operating hours, stricter requirements for timely delivery, and staff adjustments to accommodate fluctuations in customer demand and orders, such developments have resulted in heightened demands for flexibility, more atypical, short-term and part-time employment and cuts to core personnel – especially among those who stand face to face with customers. Similar trends are seen in parts of the public care and nursing services. The wider prevalence of 24/7 “on call” employees with independent, individualized responsibilities is also evident in more skill-intensive service businesses such as IT, finance, consulting and communications, where growth has been rapid. A new swing in this direction came around the turn of the century when the Nordic countries liberalized conditions for staffing agencies. Some companies began to meet their flexibility needs by “leasing” manpower while certain others outsourced their entire employer role to staffing agencies. The consequence of all these changes is that the Nordic labour markets look quite different than they did in 1990. In many industries the conditions for employee participation, unionization and collaboration between employers and employees have radically changed. Much of the job growth has come in occupations and industries with weak traditions for organization and collaboration, whether at the top or the bottom of the job hierarchy. While the Nordic countries still have high trade union densities and collective bargaining coverage in many sectors, the changes noted have complicated the tasks of union representatives who often lack the tools, expertise and power base to participate on an equal basis at company level.

Work environment

Despite the changes in business and work organization in the last 25 years, the Nordic countries continue to stand out positively in international comparisons of working environment, worker autonomy, trust and cooperative workplace relations (Gallicie 2007; Berglund 2014). In the 2010 European working conditions survey, the Nordic workforces were distinguished by large percentages experiencing restructuring, but also by large percentages with access to training covered by the employer and by high percentages reporting great satisfaction, motivation and fulfilment at work (ST-AMI 2012). The proportion of Nordic employees who report favourable working time schedules and opportunities to combine work and family life is also higher than in most other countries. Similarly, the proportion that experienced job insecurity was low, though clearly higher in Sweden than in the other Nordic countries (Berglund

Nordic working life is recognized for high work intensity, but Nordic employees also enjoy greater autonomy.

as characterized by help and support from colleagues and feedback from managers. The downside of greater autonomy is that the share of workers who say they receive practical help and support from managers is somewhat lower, especially in Sweden (STAMI 2012: 91). A high share of Nordic employees is in frequent contact with customers and clients, and many report that such contact often determines their work rhythm. One explanatory factor is that many are employed in care-giving occupations, which means the proportion of workers who struggle with tasks such as lifting people or who have been subjected to violence and harassment from clients is relatively high (STAMI 2012: 99). Generally, however, the physical challenges and other risks prevalent in Nordic workplaces are less onerous than in most European countries – and are becoming even less so, though the proportion of workers reporting repetitive arm and hand motions is high in Finland and Sweden. Overall, about a quarter of Nordic employees say their work affects their health negatively, even though the Nordic countries rank low in terms of risk factors (Norwegian white paper Meld. St. 29 (2010–2011)).⁷

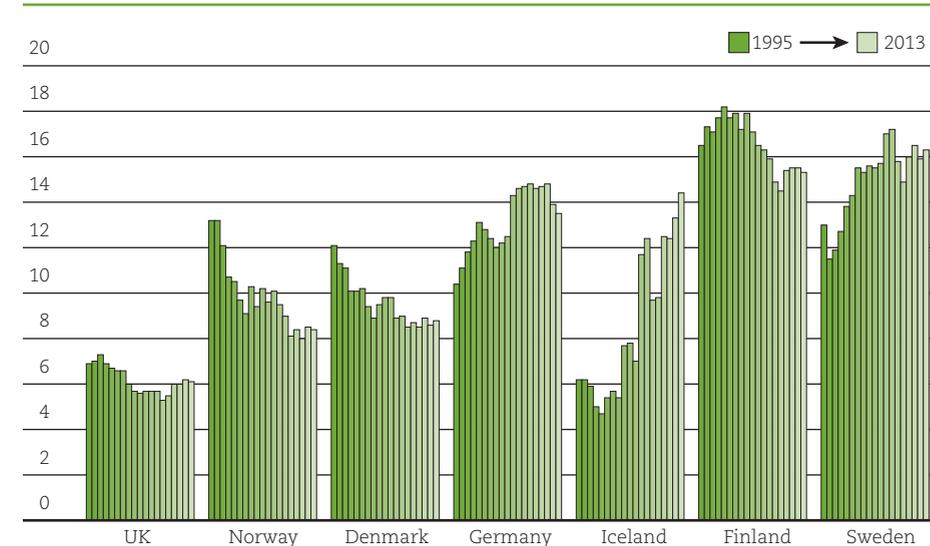
To examine Nordic working life and job quality in the past 20 years is to undertake a study in contrasts. According to a recent analysis of European working condition surveys covering the years 1995 to 2010, work intensity and workload rose sharply in the 1990s, particularly in Sweden, while the workload fell during the period 2005–2010 (Eurofound 2014).⁸ For the period as a whole, work intensity went up in Sweden, down in Finland and remained stable in Denmark. Cognitive demands at work increased in Denmark, sank in Finland and were stable in Sweden, while physical strains declined in Denmark, increased in Finland and increased even more in Sweden. Autonomy at work increased markedly in Denmark and Finland, but it decreased in Sweden between 2005 and 2010, so that the levels for 2010 and 1995 were the same there (Eurofound 2014). Overall, job quality has evolved much more positively in Denmark than in Finland and Sweden (Oina et al. 2012). Studies from Norway indicate that the proportion of workers who experience negative strains in the working environment is lower than 15–20 years ago, but there are also reports of increased work intensity in parallel with increased autonomy at work (Meld. St. 29 (2010–2011)).

⁶ Iceland was not part of this study.

⁷ Meld. St. 29 (2010–2011) *Joint responsibility for a good and decent working life*, white paper on the Norwegian Ministry of Labour and Social Affairs.

⁸ This study did not include Norway or Iceland.

FIGURE 7.3 Percentage temporarily employed (age group 15–64). 1995–2013



Source: Eurostat

These contradictory changes in work life and job quality have not been evenly divided across the labour force. The white paper on Norwegian working life shows, for example, that firms in industries such as cleaning, restaurants, transport and health care are characterized by more risk factors, more long-term sickness absences and more job displacement than firms in other industries. In Sweden, a study based on Statistics Sweden's working life survey shows that the incidence of work environment strains varies greatly between blue-collar workers of both sexes and women in lower-ranking white-collar occupations on the one hand and persons in higher-ranking white-collar occupations on the other (Gellerstedt 2014). As with the surveys referred to previously, the Swedish study indicates that for many Swedes the working environment deteriorated after the crisis in the 1990s. After the turn of the millennium it improved somewhat, but in the past three years the trend has been negative again. This has had a disproportionate effect on women in working-class jobs and lower-level white-collar occupations, among whom the percentage reporting high work intensity, low autonomy and influence, little tolerance for criticism, inconvenient working hours and job-related health problems has increased (Gellerstedt 2014). These developments correspond well with the previously described drift towards a more polarized job structure, more atypical work and increased demands for flexibility, especially in service sectors with modest skill requirements and a high percentage of female employees. Sweden is accordingly the Nordic country where the share of hires that are temporary has increased the most over the past 25 years.



POLISH LABOUR MIGRATION: Since 2004, many Polish workers have seized the chance to work in the Nordic region. Recruitment companies were quick to provide language training and testing in Poland for workers whose sights were set on Norway. PHOTO: DAG W. GRUNDESETH / Scanpix

Diversification of employment protection and work contracts

One hallmark of the Nordic countries has been their flexible legislation on collective dismissals associated with economic downturns and, with the exception of Denmark, strict rules governing individual terminations. Open-ended employment contracts have been the general rule. Unlike many European countries, the Nordics have only enacted minor changes to employment protection legislation in the past 25 years. An important exception was the liberalization of the staffing industry, which occurred in the early 1990s in Sweden and around 2000 in the other countries following a 1997 recommendation by the ILO. This has led to growth in the use of temporary agency workers, which today represents between 1 and 2 per cent of the labour force in the Nordic countries (Håkansson et al. 2014; Nergaard et al. 2011; CIETT 2013). In some industries, however, the practice has increased sharply since the EU enlargement of 2004, especially in Norway, where wages and working conditions for agency workers was regulated by neither law nor collective agreement, and where migrant workers today constitute about 50 per cent of employees in the staffing industry (Friberg et al. 2013). Implementation of the EU's directive on temporary agency work, which institutionalized equal treatment of agency workers and those employed in the user companies, was thus an important improvement. The other exception has been a

liberalization, since the 1990s, of rules limiting temporary employment in Sweden, a change that has contributed to a proliferation of temporary jobs and a reduction in permanent positions. The impact of the 1990s crisis is obvious, since the share of temporary employment also rose sharply in Finland, where no such change in employment law was made. In the same period the share of temporary jobs declined in Denmark, where the approach to employment protection has always been liberal, and in Norway, where the rules were tightened in 1994.

In step with improving economic conditions, the share of temporarily employed sank in all the Nordic countries but Iceland from the late 1990s. Legislative amendments in Sweden – first in 2003 during social democratic rule and then in 2007 when the centre-right Alliance government introduced the most liberal rules in the EU – spurred renewed growth in temporary employment beginning in 2003. During the financial crisis, temporary employment fell as a share of total employment in all the Nordic countries – no surprise, since employees with temporary contracts are the first to lose their jobs when trouble strikes. But since 2010 the proportion has increased again and stabilized at high levels in Sweden, Finland and Iceland.

The major Nordic differences reflect an international pattern in which countries with liberal rules for temporary hiring and strict protections for the permanently employed (as in Sweden, Finland and many continental European countries) exhibit high shares of temporary staffing. Countries with liberal rules in both categories (Denmark, the UK and the United States) or strict rules in both categories (Norway) have low shares of such staffing (OECD 2013). The OECD has warned against the increased segmentation that has followed the deregulation of temporary work, which, instead of leading to increased employment, has meant more temporary hires and fewer permanent ones. The OECD has also shown that employees in temporary positions generally receive lower pay, experience greater economic uncertainty, suffer more risk of unemployment and receive less training, a factor that weakens productivity growth (OECD 2013; 2014). While a number of EU countries consequently have begun to tighten employment protections for the temporarily employed and soften protections for permanent positions (Dølvik & Martin 2014), the new Norwegian government has decided to follow the course of Sweden and the continental countries in the 1990s and make it easier for firms to hire temporarily.

The effects of greater segmentation between permanent and temporary positions are revealed in a Nordic study which showed that mobility in the Swedish and Finnish labour market from 2000 to 2006 was far lower than in Denmark and Norway. The chance of transitioning from temporary to permanent employment was also

The OECD has warned against the increased segmentation that has followed the deregulation of temporary work.

significantly lower in Sweden and Finland than in the other two countries (Berglund et al. 2011; Svalund 2013).⁹ The increase in temporary positions in Sweden – which for adolescents (15 to 24 years of age) constitutes over 50 per cent of the employment – has not led to any noticeable decrease in youth unemployment, which throughout

Accordingly, the chance that a temporary job will serve as a springboard to permanent employment appears to be inversely proportional to the share of the workforce that is temporarily employed.

the 2000s has been far higher in Sweden than in the other Nordic countries (LO 2014). The employment rate for young people in Sweden and Finland, moreover, is much lower than in the other Nordic countries (OECD Labour Force Statistics). Accordingly, the chance a temporary job will serve as a springboard to permanent employment appears to be inversely proportional to

the share of the workforce that is temporarily employed. That chance is also affected by the tightness of the labour market, as illustrated by the high transition rates to permanent employment from both temporary jobs and unemployment in Norway and Denmark in the 2000s (Engebretsen et al 2012; Berglund et al. 2011). All else being equal, an increased supply of labour – an influx of labour migrants, for instance – will therefore reduce the chance of transitioning to permanent employment.

Although Nordic labour markets have traditionally been characterized by a comparatively high degree of mobility – often linked to the combination of flexible employment protection, high income security and active labour market policies (“flexicurity”, Bredgaard et al., 2006) – those markets before the financial crisis had actually developed marked disparities in mobility as well as segmentation between the core and the periphery of the labour market. A new factor in this context was the increased availability of cheap labour from central and eastern European countries after the EU enlargements of 2004 and later.¹⁰

The new labour migration, post-2004

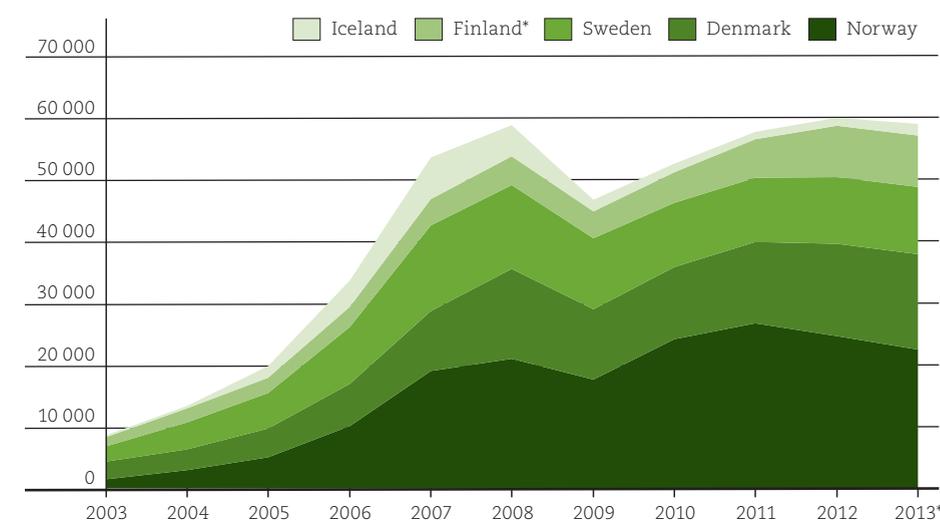
The regulation and collective bargaining regimes that have helped make Nordic working life neat and orderly were devised in an era when labour markets were by and large defined by national boundaries. This meant that even employers who were not bound by collective agreements generally honoured the wage terms of the agreements in order to compete effectively for manpower. This did not change much as a result of the introduction of a common Nordic labour market in 1954, which has served as an important buffer during cyclical fluctuations in the Nordic economies. In the 1960s, for

⁹ The chance of getting a permanent job was also higher among unemployed persons in Norway than for temporary employees in Sweden, while the unemployed in both Denmark and Norway had a higher probability of being in a permanent job a year later than did temporary employees in Finland (Svalund 2013: 133).

¹⁰ Eight central and eastern European countries joined in 2004, followed by Romania and Bulgaria in 2007 and Croatia in 2013.

example, there were large waves of labour migration from Finland to Sweden. Labour flows from the Mediterranean region increased in that decade too, mainly to Sweden, where strong growth in the automobile industry had created labour shortages. But in all the Nordic countries, such migration was subject to strict national controls, including requirements on wages and working conditions compatible with national collective agreements.¹¹ Nordic entries into the EEC/EEA – Denmark’s in 1972 and the others in 1994 – gave rise to no labour immigration worth mentioning.

FIGURE 7.4 Annual growth in number of residents from new EU member states. 2003–2013



* For Finland, the 2013 figure is lacking, so the 2012 figure is repeated.

Source: Nordic Statistics, Nordic Council of Ministers (Eldring 2014)

This changed radically after the EU enlargement of 1 May 2004. Free movement of labour and services between countries with vast wage and benefit gaps – similar to the contrast between Mexico and the United States along their heavily guarded border – led to a major expansion of the labour supply in the Nordic countries. Until the financial crisis, Iceland had been receiving the largest share of new labour immigrants in relation to its population, and Finland the smallest. Over half of the registered migrant workers heading to the Nordic countries from new EU countries went to Norway, where the resulting labour “supply shock” which had a strong impact on companies’ recruitment and labour strategies (Dølvik & Eldring 2008).

¹¹ One consequence of the rising flow of guest workers on the continent was an “immigration stop” in Germany. The Nordic countries then fell into line, imposing severe restrictions on labour immigration throughout the 1970s (Brochmann & Hagelund 2010; NOU 2011: 7).

In the period from 2004 to 2014, almost 400,000 labour migrants from the new EU states registered as residents of the Nordic countries.¹² Add non-resident persons with short-term work engagements and the number almost doubles. More than 700,000 east Europeans worked in the Nordic countries during this period (Friberg et al. 2014; Eldring 2014). In addition came a significant number of workers employed by foreign companies providing temporary services in the Nordic countries, so-called posted workers, a group undercounted in statistics. Figure 7.4 shows how the annual influx of workers from new EU member states rose steeply from 2004, slowed somewhat during the financial crisis, then rose rapidly again.

All the while, labour migration from the “old” EU countries increased, as did migration among the Nordic countries.¹³ Workers from “old” EU countries and Sweden accounted for approximately as much growth in the Norwegian labour force as the central and eastern Europeans did. Altogether, labour immigrants from the EU represent some two-thirds of the net growth in Norwegian employment since 2004, and more than 100 per cent in the last five years (Friberg et al. 2013; LO 2014). The Norwegian migration boom attests to the “magnet effect” that high levels of demand, wages and welfare benefits can have in an open European labour market with low growth and around 25 million unemployed.

Labour migration is positive in many ways for the economies of the recipient countries. It stimulates growth and employment by expanding the workforce, curbing cost pressures, resolving labour bottlenecks, improving services, increasing flexibility for employers and providing grounds for more expansionary economic policies. However, some analysts have wondered whether the stagnation in productivity noticed in recent years may be related to the increased growth and use of migrant labour in occupations where productivity is already weak (NOU 2013: 13). Recruitment has been concentrated particularly in occupations where language skills and formal qualifications are not required – in construction, industry, temporary staffing and agriculture, for example, as well as in private sector services like cleaning and hotels and restaurants.¹⁴

¹² These figures and Figure 7.4 include only persons resident in the Nordic countries. In Denmark, migrant workers are required to declare themselves as having moved to the country (and to obtain a place to live) if their stay lasts longer than three months. In Norway the period is six months, while in Finland, Iceland and Sweden it is 12 months. That means the figures reflect a somewhat higher proportion of short-term migrants in Denmark and Norway than in the other countries.

¹³ In 2009–2012 Sweden opened the way for freer labour immigration from outside the EU/EEA. Of the approximately 50,000 workers who have arrived, about a third have obtained jobs as IT engineers and other types of experts, while most of the rest have gone to work in hotels, restaurants, cleaning firms and agriculture or forestry (Swedish Trade Union Confederation 2013).

¹⁴ In Norway in 2014, international labour accounted for 23 per cent of employment in construction, 19 per cent in industry, 54 per cent in staffing, 40 per cent in the hotel and restaurant business and 31 per cent in cleaning (LO 2014b, Statistics Norway data).

Surveys of Poles in Copenhagen, Oslo and Reykjavik (Poloniaundersøkelsene) indicate that pay and working conditions for many of them are inferior to Nordic standards.

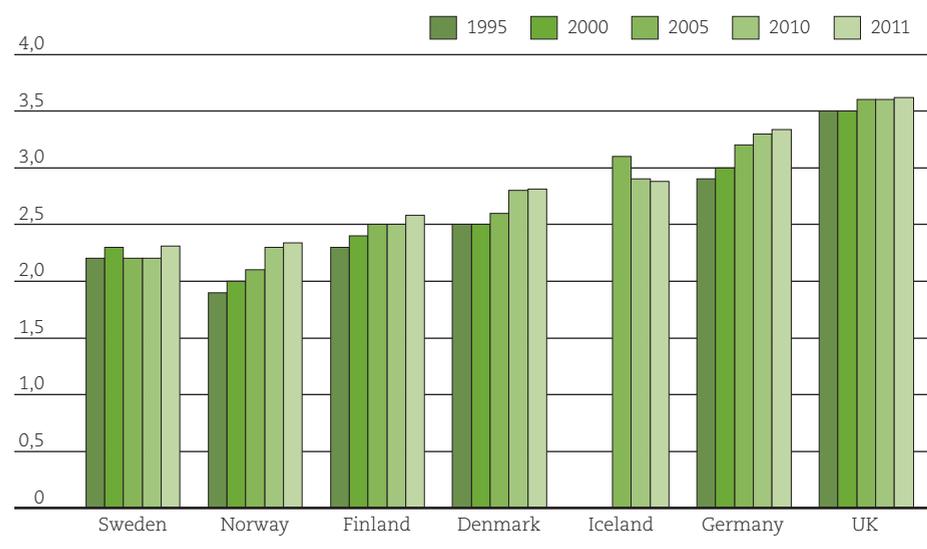
Information on wages and working conditions for European labour migrants in the Nordic countries remains limited. Surveys of Poles in Copenhagen, Oslo and Reykjavik (Poloniaundersøkelsene) indicate that pay and

working conditions for many of them are inferior to Nordic standards (Friberg et al. 2013b). Norwegian registry analyses show that male migrant workers from Poland and the Baltic countries had 34 per cent less income on average than comparable Norwegian men of the same age in 2012, and that the gap had not shrunk in the period 2008–2012 (Bratsberg & Raaum 2014: 189). Every Nordic country has seen glaring reports of migrant workers exposed to social dumping, workplace accidents and even organized working life crime (Eldring & Friberg 2013). Labour migrants are also more likely to face unemployment. In Norway, their jobless level was about three times higher than the rate for comparable national workers, and very few of those who have earned the right to unemployment benefits return to their home country (Bratsberg, Raaum & Røed 2014: 187). Despite a substantial amount of shuttle migration between home and work, especially in Finland and Sweden, the return rate has been lower than expected. In Norway, half or so of the new labour migrants have returned. Low income, high unemployment risk and unstable employment terms have not prevented many from settling in the Nordic countries and bringing their families and children. A central question in the years ahead will be whether they manage to keep their footing in the labour market or, instead, relive the experience of labour immigrants to Norway in the 1970s, many of whom fell out of the workforce after 10–20 years and ended up on transfer payments (Bratsberg et al. 2010; NOU 2011: 7).

To date, there's been little research into how the increased influx of migrant labour has affected conditions for national workers, but Norwegian studies suggest that the impact has varied from group to group. Highly skilled workers at the core of the labour market will often benefit from increased profitability and business activity, while the workers who compete with labour migrants for jobs don't fare as well. Bratsberg and Raaum (2013) have shown that the wage level drops and the risk of moving into social insurance schemes (transfer income) increases for national workers in industries with a high proportion of migrant labour. The effect is more pronounced for groups with minority backgrounds. For employers, the major cost benefits of using manpower posted in the Nordic countries by foreign service providers has distorted competition and strengthened employer incentives to hire external, short-term labour instead of recruiting for permanent positions (NOU 2012: 2). In construction and certain other industries across the Nordic countries, the use of subcontractors and employment agencies offering international labour has risen sharply. In parts of the Norwegian shipbuilding industry, for example, expatriate

workers posted in Norway have been shown to constitute over 50 per cent of the workforce (Ødegaard 2014), and similar tendencies have been reported in Finland (Lillie 2010).

FIGURE 7.5 Disparities in gross earnings (Decile 9/Decile 1 ratio for full-time employed), 1995–2011



Source: OECD StatExtracts

In combination with the structural and regulatory changes described in the previous paragraph, the increased supply of cheap international labour has strengthened the drift towards outsourcing of projects and more atypical, flexible, short-term work arrangements, while widening the gap between the labour market's core and periphery. Increased unemployment and tougher international cost competition in the wake of the euro crisis have reinforced such dynamics. The consequence is greater inequality in wages and working conditions and a fragmentation of relations between the two sides of industry in vulnerable sectors. In the margins of the labour market it is even possible to discern a new multi-ethnic underclass working under conditions not traditionally associated with the Nordic labour model. These trends vary in strength across the Nordic countries and have probably come further in Norway than in the other countries, where unionization and collective bargaining are more widespread; but in any case Europe's open, expanded labour market has brought fundamental changes in the conditions for recruitment, competition, organizing and regulation in the Nordic labour market.

In light of the increased labour migration it is worth noting that the ratio between the highest and lowest rungs of the pay ladder for full-time employees (D9/D1) has increased markedly since 2000 in Norway and Denmark – as much, in fact, as it has in Germany, according to OECD statistics.¹⁵ In Finland there has been a slight increase, and in Sweden a slight decline. In Iceland, where the pay scale is wider than anywhere else in the Nordic countries (and in 2000 was wider than in Germany), inequality dropped sharply during the crisis. In Norway and Denmark, according to the OECD figures, the gap also widened between the lowest wages and those in the middle – a phenomenon likely related to the fact that both of those countries have high labour immigration and significantly lower collective bargaining coverage in private services than the other Nordics.

Critical factors

The Nordic labour markets have changed profoundly in the past 25 years. Although the Nordic countries still stand apart from other areas of Europe, with higher employment, lower long-term unemployment, better working environments, less wage inequality and fewer people outside the labour market (Calmfors 2014), the differences have grown less distinct and intra-Nordic variations have increased. Segmentation – or the gap between core and periphery – has grown more distinct amidst higher unemployment, stagnating employment rates, increased labour immigration, impaired productivity growth and widening inequality in wages and working conditions. This chapter has highlighted several trends that will be critical to whether the Nordic labour markets of 2030 continue to be characterized as “egalitarian, inclusive” (Gallie 2007):

- ▶ The sustainability of the Nordic model is predicated on the ability to maintain high employment rates. What will it take to keep this up as the population ages, as the cohort of 25- to 64-year-olds stagnates and as population growth occurs primarily in groups whose labour market participation is low? How can employers and the authorities facilitate more labour market participation by immigrants, the elderly and women?
- ▶ To reduce unemployment, ensure high labour market participation and curb the rise in inequality, coordinated strategies linking economic, labour, social and education policies are needed.

¹⁵ The change in the D9/D1 ratio from 2000 to 2012 was .34 Norway, .30 in Denmark, .31 in Germany and .17 in Finland, compared with -.04 in Sweden and -.25 in Iceland. The representative of the Danish Confederation of Trade Unions to the NordMod reference group has raised doubts as to the validity of the OECD data for Denmark. The OECD figure for Norway corresponds to the decimal point with that of Statistics Norway.

- ▶ General affluence with small differences in income presupposes a highly skilled, highly productive workforce. How can productivity growth be maintained and inequality counteracted in a diversifying labour force where more and more people work in labour-intensive services (caregiving, education, etc.) and labour immigration continues? How can company-level collaboration on productivity and innovation be protected from the effects of downward wage competition?
- ▶ To maintain adaptability, more targeted strategies of vocational education and training in the workplace are needed. What will it take to improve the skills of those prone to dropping out of school and work?
- ▶ An inclusive workplace requires flexibility in working time as well as proper wages and other working conditions that make work attractive. How can the wage floor be strengthened and secure, flexible arrangements be instituted to increase labour market participation and opportunities to combine work and family?
- ▶ Developing flexible arrangements that meet both employee and employer needs requires equitable power relationships. How can regulations on job protection and working hours be devised in ways that promote negotiated flexibility? What trade-offs can be made to improve the three-way balance between employers, core staff and peripheral workers?
- ▶ With increased prosperity, leisure demands increase too. Many women work part-time, and among the Nordic countries there are large disparities in average annual working hours. What can the labour and employer organizations do to encourage and enable more people to switch from part-time to full-time, or to extend their working careers?

8 Nordic labour models under pressure



The NordMod project's opening report on the basic pillars of the Nordic model identified “conflict partnership” – that is, cooperation between the two sides of industry to tackle common and conflicting interests – and the balance of power between the two sides as basic components of the Nordic countries' ability to combine efficiency and equality (Dølvik 2013a).

In international comparisons, the Nordic regimes of statutory and contractual labour market regulation have held up well over the past 25 years. Renewed modes of wage coordination after the 1990s crisis and tripartite cooperation on welfare and labour reforms had even strengthened the role of employer and labour organizations upon entering the new millennium (Andersen et al. 2014). But in the past decade the combination of structural and institutional change, expansion of the open labour market, declining trade unionism and the effects of the financial and euro crises have increased pressure on the model.

The most fundamental changes are related to the transition from national and Nordic labour markets to a transnational European market with increased mobility and job competition between actors from countries with highly discrepant wages, working conditions and regulations. The external frameworks for the Nordic labour model have changed fundamentally with the increased scope for free movement of

The central trade union confederations have seen declining support even as employers have gained bargaining power due to the increased ease of exiting the collective agreement system.

workers and service providers from 2004, EU rules limiting national labour regulation of foreign enterprises and subcontractors engaged in cross-border work, and intensified competition between firms subject to different national labour regimes (“regime competition”). Meanwhile, declines in manufacturing and changes in production modes have rocked many of the model's

internal assumptions. The central trade union confederations have seen declining support even as employers have gained bargaining power due to the increased ease of exiting the collective agreement system. This tests the sustainability, power balance and cohesion of the Nordic conflict-partnership models.

Decline in union density

Since peaking in 1995, union density rates in the Nordic countries, apart from Iceland, have declined sharply – especially in Sweden, Finland and Denmark (Table 8.1). The decline has mainly hurt unions in the blue-collar confederations (LO and SAK) – especially in industries with low wages and little demand for formal training – while the rate among academics and others with higher education has been stable or risen.

TABLE 8.1 Union density rate in the Nordic countries. 1990–2013

	Finland	Denmark	DK – not incl. alternative* (prior yr.)	Norway	Sweden	Iceland
1990	72.5	68.2	67	57.3	80.2	
1995	80.4	73.1	71	56.4	83.9	87.3
2005	72.4	71.7	68.1	52.9	78.0	95.6
2013	69.0**	69.2	60.2	51.7	70.0	90.0***
Change 1995–2013	-11.4	-3.9	-13.9	-4.7	-13.9	+2.7
Data source	OECD	Faos	Faos	Fafo	Kjellberg	OECD

Source: Nergaard 2014. * Christian unions ** Finland figure for 2011 *** Iceland figure for 2011

In part, the slide in trade union density reflects structural changes in the labour market, including industrial decline and strong growth in service occupations at the “top and bottom”, where union representation is scarcer and insecure contracts and working conditions are more common. The decline in union density also reflects weakened support among youth and new generations of adults, and the effects become aggravated as large, heavy unionized age groups go in retirement. Greater workforce diversity, increased labour immigration and changing attitudes about the trade union movement have also made it harder to recruit new members. In addition, politically driven institutional reforms in unemployment funds (A-kasser) and in the deductibility of fund contributions and union dues have caused union membership to fall sharply in Denmark, Finland and Sweden.

Despite the decline, trade unions organize a far higher proportion of wage earners in the Nordic countries than in other Western countries. The Nordic countries with unemployment funds managed by the unions (Ghent systems) have maintained higher union density than Norway, where the labour movement nevertheless holds a powerful role in society and union density has held steady between 50 and 60 per cent since the 1950s. Labour’s influence is not just a matter of membership numbers.

In part, the slide in trade union density reflects structural changes in the labour market, including industrial decline and strong growth in service occupations at the “top and bottom”, where union representation is scarcer and insecure contracts and working conditions are more common.

Institutional changes: Unemployment fund reforms

In Finland in the 1990s, an independent unemployment fund was established for non-organized workers, eventually weakening recruitment to the trade unions. In 2002, Denmark’s centre-right government introduced free competition between unemployment funds. In addition to a 5.5-per-cent drop in the organization rate, the policy led to large membership shifts into “independent” Christian trade unions without collective agreements, a category that currently encompasses 11 to 12 per cent of Danish wage earners. In Sweden, the centre-right Alliance government reformed unemployment funds in 2007–2008 by increasing membership fees, cutting deductions and differentiating fees according to one’s risk of unemployment. The result was a fee reduction for academics while the fees owed by low-wage groups in the Swedish Trade Union Confederation multiplied. Many workers, especially the unskilled, dropped membership in both their unemployment fund and their union. In two years, trade union membership decreased by 7 percentage points in all, while membership in the Swedish confederation fell by nearly 10 per cent.

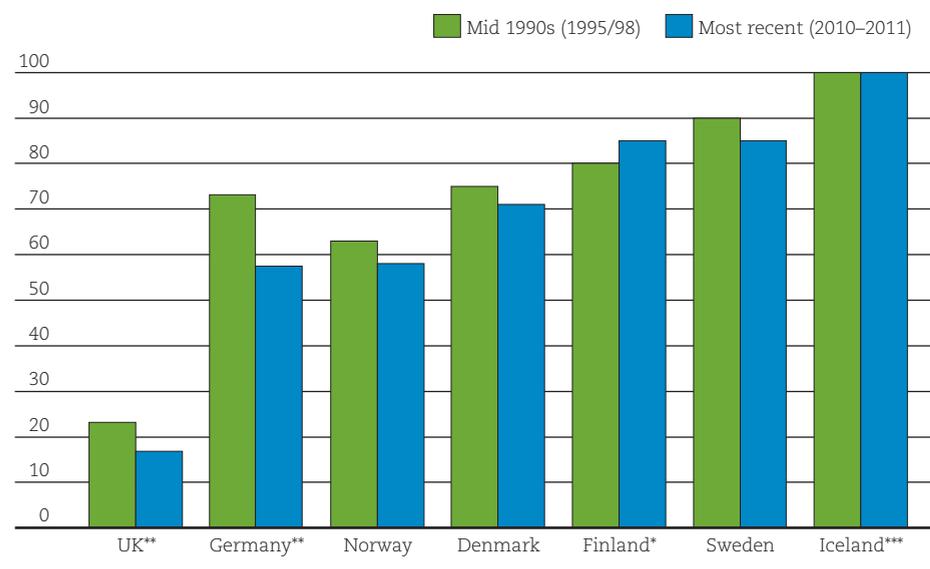
In Denmark and Sweden, the share of workers lacking unemployment insurance – and thus consigned to “social support” in case of joblessness – increased to almost 30 per cent. In Sweden, about 60 per cent of those unemployed during the financial crisis were not entitled to unemployment insurance (Dagens Nyheter, 22 Dec. 2012). In Denmark the centre-right government decided in 2010 to reduce the duration of unemployment benefits from four to two years while sharpening the terms for re-qualifying. This reform has not yet been carried out, but in 2014 almost 50,000 people had lost their unemployment benefit (Ugebrevet A4, October 2014). In both countries, the changes have led to growth in private unemployment insurance plans, including policies offered by several unions. After pressure from the trade unions, Denmark’s red-green government set up an Unemployment Commission, and in Sweden the Reinfeldt government eliminated the differentiated fees for unemployment insurance in advance of the 2014 election.

It depends as well on its position in strategic sectors, its capacity to coordinate wage setting, its company-level bargaining power and its ability to muster political support. The long-term decline in union density is a valid concern, however, because it interacts with a range of other factors to shake up power relations, undermine collective bargaining and dilute the influence of shop stewards, especially in parts of the private sector. Though some countries with low union density have maintained broad collective bargaining systems – largely because of strong employer organizations – a continued decline in unionization would probably aggravate the erosion of labour relations “from below” and cast doubt on the coordinating capacity of the organized actors. That in turn would diminish their role as partners with the government in directing the economy (Pillar 1).

In such a scenario the majority of workers could still do well, as witnessed in Germany. The losers would be the growing ranks of outsiders who, lacking organizational support and collective agreements, end up in a pool of increasingly internation-

al job-seekers competing for the poorest, most insecure jobs. The most vulnerable groups would be those without much education as well as ethnic minorities, migrant workers and others in the social strata that have been termed “the precariat” (Standing 2014). They risk becoming stuck in a circle dance of unstable jobs, welfare benefits and various types of activation measures (Pillar 3). While the union membership base increasingly is made up of groups in the public sector and with high education, the most vulnerable groups in the private sector represent a declining share. This has long been the case in Norway, but has previously had little effect on wage setting because most employers followed collectively bargained wage scales in order to compete for labour in the national market.

FIGURE 8.1 Collective agreement coverage in the private sector (share of wage earners who say they are covered by such an agreement).



Source: Nergaard 2014. * Finland includes statutory extension of agreements. ** UK and German figures obtained from AIAS's ICTWSS database. *** Icelandic data uncertain.

Labour market expansion diminishes scope of collective agreements

With the increased labour migration since 2004, this situation has changed radically. Non-unionized businesses in many industries have gained access to an almost unlimited supply of international labour, often on terms unthinkable for native labour. This has created social dumping problems and encouraged firms to divert activities outside the collective bargaining system to reap cost advantages. In some industries

the spread of low-wage competition, subcontracting, cabotage and suppliers reliant on cheap foreign labour has made it tempting for competitors to respond in kind. Private-sector collective agreement coverage varies greatly among the Nordic countries (Figure 8.1). Though the official coverage levels have been rather stable, changes in competitive conditions and weakened trade unions have led to more circumvention and hollowing out of collective agreements in vulnerable sectors such as construction, transportation and some private services. With the EU limiting national regulation of cross-border work, the employer and employee organizations find themselves increasingly at odds over measures to counteract such developments, especially in Sweden and Norway.

The rate of employer organization in the Nordic countries hovers around the average European level, except in Sweden, where it has been consistently high. Widespread organization of employers, however, is no guarantee of maintaining a viable collective bargaining system in an open labour market. Although the employers' organizations are critical of the excesses observed in some industries – and they have warned against the spread of organized working life crime – individual companies in the affected markets may feel that remaining scrupulously upright could put contracts and earnings at risk.

In the battle for contracts and assignments, well-managed businesses that honour labour laws and collective agreements will often lose out to low-cost competitors.

For employers, the expansion of labour markets in the years following 2004 has posed a collective action dilemma reminiscent of the situation before nationwide collective agreements came into being more than 100 years ago. In the battle for contracts and assignments, well-managed businesses that honour labour laws and collective agreements will often lose out to low-cost competitors.¹ The risk is manifold. Collective bargaining comes under pressure, more and more businesses feel compelled to operate outside of the bargaining system, and the organizations' ability to regulate competition in the labour market disintegrates – along with their own power bases. Because of the disparities in bargaining coverage and labour migration among the Nordic countries, such challenges have not been articulated with equal clarity across the region. But the competitive spiral pressing down wages has nevertheless presented national authorities and the organizations on both sides of industry with a more demanding assignment in maintaining an orderly and decent working life with a common wage floor under competition.

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¹ Such dilemmas become amplified when national borders are crossed. In 1996, for example, the Danish slaughtering and meatpacking industry paid about the same level as competitors in Germany. Since then, however, extensive use of cheap eastern European slaughterhouse workers has driven the German wage level down to 1/6 of that in Denmark, where collectively bargained salaries prevail. The result has been that Germany now accounts for a substantial share of European slaughtering and meatpacking operations, while employment in Danish operations has fallen by almost half (Hassel, Steen Knudsen & Wagner 2014).



THE LAVAL CASE: The EU Court of Justice decision in the 2007 Laval case gave a shock to representatives of the prevailing Nordic working-life model. Pictured are Erland Olauson, vice president of the Swedish Trade Union Confederation (at right), and John Monks, general secretary of the European Trade Union Confederation, expressing their concern. PHOTO: AP/Virginia Mayo

Nordic responses: Autonomous bargaining, statutory extension of collective agreements, or legislation?

The Nordic countries have adopted very different approaches to the challenge. Finland, Iceland and eventually Norway have tried to reinforce the wage floor through statutory extension of the minimum pay provisions in collective agreements in conjunction with strict government control and enforcement (Dølvik, Eldring & Visser 2014). In Finland and Iceland this strategy – implying that the minimum terms of agreements are to be made generally applicable for all workers in a sector – has been relatively uncontroversial among labour market actors and the political parties, while in Norway some employer federations and conservative politicians have been wary of it. In a high-profile Norwegian court case, the employer side argued that certain aspects of the statutory extension of the collective agreement in the shipbuilding industry were contrary to EU law. But the Supreme Court rejected the challenge.

In Denmark and Sweden all sides have resisted statutory extension of collective agreements. In keeping with a transitional Danish agreement on east European labour dating from 2004, Danish employer and labour organizations in concert with the government have defended a national tradition in which unions enter collective agreements with foreign companies, if necessary with the assistance of boycotts and

sympathy actions, and backed by a variety of government measures (Pedersen & Andersen 2014). Sweden has built on the same tradition, but consensus crumbled there when the country's largest employer group, the Confederation of Swedish Enterprise, actively supported a Latvian construction company, Laval Un Partneri Ltd., against a Swedish trade union that had called a strike to force the company to enter into its collective agreement. The employer confederation's support for Laval in the European Court of Justice was at odds with official government policy. The centre-right government's subsequent amendments to the Swedish Posting of Workers Act to satisfy the demands of the EU court have been highly contentious. In practice, the amendments made genuine negotiation and collective action impossible when dealing with foreign companies (Evju & Novitz 2014; Andersen et al. 2014). The Swedish act was later found to be in violation of ILO Convention No. 98, on the right to organize and bargain collectively.² The Laval judgment also had consequences for Denmark, but there the two sides of industry and the government came to a tripartite agreement involving only minor legal adjustments to ensure as much equality as possible in the treatment of expatriate workers posted to Denmark. In practice it has proven highly challenging for Danish and Swedish unions to stave off low-wage competition with campaigns and side agreements, while the unions' role as "wage police" has made it hard to organize foreign workers (Eldring, Fitzgerald & Arnholz 2012). In Sweden and Denmark alike, questions have therefore been raised as to whether the unions are capable of halting the growth in social dumping using the means currently at their disposal. Some observers have argued that a system of statutory extension of collective agreements should be considered as a necessary supplement (Ibsen 2012; Moos 2012; Ahlberg 2013) or alternative if the political leaders follow through on proposals to introduce a statutory minimum wage.

More discord, higher level of conflict

Though the Nordic collective bargaining systems have come under increased pressure from labour and service mobility, no joint Nordic strategies have emerged to deal with the problems that have arisen. On the contrary, national governments have pursued completely different policies, and in several countries there has been discord both between and within the two sides of industry over what steps to take. This has created uncertainty in the labour movement over whether the employers are willing to maintain the Nordic model for collective bargaining and cooperation. In Sweden and Norway and more recently in Finland, certain employers and conservative political figures have voiced support for introducing a general minimum

² In addition to the ILO decision (Committee on Freedom of Association), the law was found to violate the European Convention on Human Rights (European Committee of Social Rights under the Council of Europe).

Legalizing and legitimizing a wage level far below that of most collective agreements could in practice amount to an existential threat to the Nordic systems of bargaining and industrial relations.

wage by statute. Legalizing and legitimizing a wage level far below that of most collective agreements could in practice amount to an existential threat to the Nordic systems of bargaining and industrial relations (Eldring & Alsos 2012; Alsos & Eldring 2014).

Within the trade union movement, such initiatives have left the impression that forces on the employer side and within the conservative parties – especially Norway and Sweden – view the rise in labour and service migration as a welcome opportunity to cut costs as well as an opportunity to weaken both the unions and the status of the collective bargaining regime. Such a strategy would not necessarily require the imposition of controversial measures. With the labour market already facing fundamental change, it may be sufficient to defend the status quo – that is, to behave passively and avoid taking the steps needed to maintain the model in new circumstances – while allowing the market to do the job under protection of the EU Court of Justice. This is largely what happened in Germany, when reunification in the 1990s fostered the emergence of a vast low-wage sector, union density plunged by almost half and collective agreement coverage fell sharply (Bosch & Kalina 2008; Lehdorff 2014). It's hardly the case that those in charge of the Nordic employers' organizations favour such a development. But it would not take much internal strife to sap key employer organizations of the will and mandate to enter into compromises with the unions and the authorities as necessary to prevent such a passive-neglect scenario from taking hold in the Nordic countries. Several reforms carried out by the new centre-right coalitions – despite their embrace of the Nordic model – have exacerbated the anxiety in the trade union movements. The reforms were put forward under the flag of protecting vulnerable groups but have weakened the trade unions and tilted the balance of power in favour of employers. Unemployment fund reforms in Denmark and Sweden have had such effects – harming in particular the blue-collar trade union confederations. The same can be said about unemployment insurance cuts during the crisis in Denmark, the far-reaching liberalization of temporary hiring in Sweden and the new Norwegian government's proposal to limit the unions' say in developing flexible working-time schemes.

Part I noted that strong, balanced relationships between employers and workers were crucial to preserving the adaptability, productivity and growth that the Nordic economies are known for. The employer organizations and conservative parties of the region have shared broadly in this understanding. Our description of uncertainty within the union movement as to whether employers and right-leaning parties are in the process of abandoning the organized working life pillar in the Nordic model

does not suggest such a development would necessarily stem from a purposeful, determined strategy. It is obvious, and always has been, that the employer and worker organizations and the various political parties hold different views on how best to regulate labour relations. But they have been in agreement on the importance of preserving the good cooperative ties and institutional foundations that have long served as the basis for those relations.

One may wonder whether certain employers and conservative political figures are fully aware of the fundamental changes underway in the open Nordic labour markets. It is important not to underestimate what it will take to prevent decay of the collective bargaining and cooperation model. Nor must one underestimate the possible unintended consequences of upsetting the balance of power between employers and employees in such a vulnerable, unstable situation. Trust-based cooperative systems take a long time to build, but can be torn down quickly – as was seen with the UK collective bargaining system in the 1980s and to some extent with Germany's in the 1990s. Yet the realization that organized criminal networks are becoming a serious threat to principled employers in some industries appears to have engendered a “moment of truth”, like the one Norway's construction industry may now be facing. Perhaps this will prove to be a turning point where the key organizations and governing authorities come together to develop effective joint strategies to eradicate this evil once and for all.

Trust-based cooperative systems take a long time to build, but can be torn down quickly.

Rising tensions between national and European labour regulations

The controversy over measures to prevent low-wage competition has made clear the increased significance of EU law in the Nordic labour regimes. High-profile EU court judgments in Nordic disputes – not only the Laval and Viking judgments but several cases now under consideration³ – have underscored how integrated the Nordic and EU systems have become. The EU court cases have also contributed to the judicialization of matters that, in previous times, most likely would have been resolved through negotiations or political channels.

The effect on power relations in the labour market has been asymmetrical, constraining both the national trade unions and governing authorities while increasing corporate freedom of action. Since employers have been able to invoke EU law to promote their interests in strife with the unions, the tie-in with EU law has become a greater source of conflict. EU-scepticism has been growing among trade union

³ See for example Case C-396/13 in the European Court of Justice, in which a Finnish union has sued a Polish company for violating a number of generally applicable Finnish labour provisions, and Case C-533/13, in which a Finnish union has brought a case against a Finnish employer and its organization for breach of contract provisions in connection with hiring via a foreign staffing firm.

members. Such scepticism has been further fuelled by EU rules on cross-border social policy coordination, which have given rise to tensions with the EU over labour migrants' rights to unemployment benefits and transfer payments. One example is that Danish wage earners have denounced the distortive effect of their country's child and youth allowance on job competition between national and foreign workers. While benefit schemes help define a reservation wage at the low end of national labour markets, access to generous Nordic benefits – which for labour migrants may exceed a monthly salary at home – make it rational for migrants to accept lower wages (Ugebrevet A4, 3 March 2014).

Critical factors

The Nordic model's success has stemmed from a productive, well-organized labour market in which balanced power relations and coordinated wage formation have contributed to low income inequality as well as the competitiveness and innovativeness of Nordic businesses. Despite major changes and crises, the Nordic regimes regulating working life have performed well over the past 25 years in comparison with other countries. Nevertheless, the model has come under pressure. In this chapter, we have noted that:

- ▶ Union membership is falling, especially among vulnerable groups in the private sector. What would it take to increase union recruitment and reduce membership losses? Is there a need for organizational mergers, improved member services or more welfare benefits by collective agreement? Can the authorities strengthen protections for vulnerable groups by encouraging more union organization?
 - ▶ Increased labour migration and low-wage competition have led to more circumvention of the collective bargaining system and hollowing out of company-level cooperation in a number of industries. What strategic actions are needed to bolster the wage floor in the open labour market, and what will it take for the two sides of industry and the authorities to agree on such measures? How can the key employer and labour organizations strengthen corporate interest in developing the collective bargaining system and cooperating with local unions at a time when the market is offering plenty of cheap labour?
 - ▶ Judicialization and conflicts with EU law have made it more difficult to arrive at good compromises. What strategies towards the EU are needed to strengthen the “social floor” in the European labour market and increase national autonomy in the regulation of worker rights and industrial relations?
- ▶ On several occasions in recent years the authorities have introduced reforms that weaken incentives for organization and bargaining. How can the authorities help promote negotiated flexibility and secure the basis for balanced tripartite cooperation, increased union organization and active cooperation at company and workplace levels?

9 Rethinking welfare policy



Welfare policies have been a major component of the Nordic model, constituting the second pillar of the triangle. International researchers place the Nordic welfare model in a class of its own, distinct in several ways from the continental and Anglo-American models (Esping-Andersen & Korpi 1987; Esping-Andersen 1990; Hemerijck 2013). The welfare model is based on the idea of “productive justice”, with heavy emphasis on both high employment and redistributive aims. Nordic welfare states also put a high value on social investment through education and family policies, and they offer public welfare services of consistently high quality. The goal is security for all, to be obtained by ensuring a decent livelihood for those who cannot support themselves and by offering services across the entire human lifespan.

Since the 1980s, however, welfare states have been a butt of criticism, and a major expansion of public welfare programmes has come to seem unlikely.

- ▶ Some of the criticism is economically grounded. It's been argued that the aging of the baby-boomers, advances in medical care and changes in family structure are creating new demands that will destabilize welfare-state economics if the public sector is to meet them all.
- ▶ Some critics have targeted the programmes themselves. They believe social insurance benefits are so generous that they sap the will to work, resulting in excessive numbers of people receiving social benefits.
- ▶ Also in question has been the welfare state's ability to deliver. It is feared that the public sector cannot deliver services and benefits of the expected quality, and that the resulting public disapproval – at a time of increasingly individualized lifestyles – will weaken support for collective solutions.

In the 1990–2014 period, the response to such criticisms has been a variety of programme adjustments and reforms – some of them major, such as pension system reforms. Yet as we shall see, the Nordic welfare states remain comprehensive in their reach, and they enjoy a large degree of support.

Welfare state reforms as crisis response

The disparagement of the welfare state in the 1980s sparked debates over liberalization, privatization and deregulation. As the economic crises of that decade and the early 1990s unfolded, reform policies were rolled out in a hurry. Several Nordic countries faced large budget deficits and rising government debt, and the need for political action was deemed acute. In such an emergency, political leaders can have a major impact if they manage to set aside traditional differences of opinion. Sometimes, reforms that would normally require years of negotiation are gavelled through in short order. Leaders in the Nordic countries, unlike their counterparts in many other European countries, managed to impose firm measures to consolidate national budgets. They also reformed many social programmes. The draconian criticism of the 1980s was dispensed with, however, and the reforms of the 1990s were mostly about adjusting and rearranging existing schemes. The changes occurred in parallel with stepped-up activation policies and a major expansion of the secondary and higher education systems.

Finland was the Nordic country hardest hit by the crisis, with a sharp decline in GDP and an associated rise in unemployment. In 1991 its pension system was partly reformed as part of a crisis package drawn up by the conservative coalition government. The first cuts to Finland's sickness benefit scheme came that year, too, and in the course of the decade the eligibility criteria for unemployment insurance and social assistance were tightened (Kangas & Saloniemi 2013: 38ff).

Sweden, too, curtailed unemployment insurance benefits. The compensation level for sickness benefits was also reduced in several steps, and early in the 1990s a one-day waiting period was introduced before sick pay could be claimed. In 1994, the decision was taken to switch from a defined-benefit pension system to a defined-contribution system, with effect from 1999. The privatization of Swedish public services gained steam from 1991 onwards (Berglund & Esser 2014: 100ff). The changes were implemented during periods of both conservative and social democratic rule.

In the early 1990s the Danes, struggling to control the 1980s youth unemployment surge, introduced a cash-welfare benefit and activation measures especially targeting young people. The social democratic-led coalition government that took

The draconian criticism of the 1980s was dispensed with, however, and the reforms of the 1990s were mostly about adjusting and rearranging existing schemes.

office in 1993 introduced a number of new welfare-related laws in 1994, including an expanded early pension-release scheme for unemployed persons over 50 years of age. The duration of unemployment benefits was also reduced from eight to four years, and the country's active labour market policy was reformed (Pedersen & Andersen 2014: 76ff).

In Norway, welfare-state sustainability had been a topic of discussion long before the economic crisis arrived. The need for systematic pension changes had reached the political agenda as far back as 1984 (NOU 1984: 10). It would take another couple of decades for a new pension scheme to become fact, but in the early 1990s the government of Gro Harlem Brundtland did tighten entitlement rules for disability and retirement pensions. It also adjusted transitional benefits for single parents. Unlike the other Nordic countries, Norway made no changes to its sick-pay scheme or unemployment insurance in the wake of the 1990s crisis.

New welfare reforms have been introduced continually, and by alternating governments.

Welfare policies to boost employment

When the 1990s setback was followed by a sharp economic upturn, one might have thought the reform surge would be put on hold. It was not. New welfare reforms have been introduced continually, and by alternating governments. One source of reform pressure has been the projected aging of Nordic populations, raising the spectre of expenditure growth and lower tax revenues. The increase in immigration has been another worry, because employment rates in many immigrant groups are lower than in the rest of the population. A third source of reform pressure has been the high cost of social insurance schemes. Unlike countries where families generally care for those in need, the Nordic welfare states have developed a wide range of support programmes for people who are temporarily or permanently outside the labour market. High employment rates mean that many workers have earned full rights to the benefits on offer, and in most Nordic countries the costs have come to constitute a significant portion of GDP (OECD 2013b: 69). To strengthen the reform case further, the unemployment rate in Finland and Sweden became stuck at a new and higher level after the 1990s crisis.

These factors together have kept debate going on the future sustainability of the Nordic welfare states.

These factors together have kept debate going on the future sustainability of the Nordic welfare states. On one side, Nordic governments must address the fact that some of the working-age population is wholly or partly outside the labour market and dependent on public benefits. On the other, the provision of welfare services itself has been put under the microscope: What is the most efficient way to produce the welfare services the population needs, and how should governments respond to

the steadily rising expectations for variety and content in those services? The development of social services will be discussed in Chapter 10; here we'll focus on the ideas proposed to maximize labour market participation.

In the Nordic countries, where the number of people supported by public benefits has been relatively high, increasing the labour participation rate has been a central goal of the welfare reforms. The reforms have varied in approach; some emphasize facilitation to increase participation, some take a tougher line on people outside the labour market and some rely on economic incentives to encourage greater participation. Common to all the Nordic countries has been a willingness to combine approaches. The reforms as a whole have focused more on stricter work and training requirements (activation) than on cuts in benefits. Typically, the Nordic countries attach great importance to social investments, as illustrated by family policy reforms, increased commitment to education, and training programmes targeting groups with weak labour market prospects.

The main thrust of welfare-state modernization has been to raise Nordic labour market participation by reducing inactivity, unemployment and disability claims; by raising the retirement age; by making it easier to combine parental responsibility and work; and by ensuring that people with health problems utilize whatever capacity they still have for work. Intensified training efforts have been accompanied by a major new commitment to integrate immigrants into the labour market (see Djuve & Grødem, eds., 2014). Welfare reform has brought to light the dense web of linkages between Nordic labour, social and education policies.

The reforms, to be specific, have utilized both carrot and stick, and can be divided roughly into four types:

1. Measures to increase labour supply through benefit cuts and restructuring of social insurance.
2. Social investments through the educational system and family policies.
3. Active labour market policies and new programmes and initiatives to assist those furthest away from the labour market.
4. Major pension reforms.

The Nordic tax systems, moreover, have also been reformed with an eye to increasing work incentives.

Reorganizing and tightening access to social insurance schemes

In the search for measures to boost employment, it has become commonplace to discuss incentive effects. After all, receiving public benefits should not be more lu-

crative than working. Many social insurance reforms in the Nordic countries have therefore involved **benefit cuts**. Finland and Sweden, for example, have reduced compensation levels in their unemployment schemes, and the Swedes have lowered the sickness benefit level (Ferrarini et al. 2012: Figure 2c; Kangas & Saloniemi 2014). The level paid by Norway's unemployment insurance scheme was cut slightly in 2003 by removing the holiday supplement, but the supplement was restored in 2005. Accentuating the straightforward cuts in benefit levels, some programmes have faded in importance as income-security measures because they have not been index regulated. That is the case for Norway's child benefit as well as for Finland's social assistance and unemployment benefits (Kangas & Saloniemi 2013: 42ff). As a consequence of such retrenchment, the labour market actors and individuals themselves have at times assumed greater responsibility for certain aspects of the social safety net (Berglund & Esser 2014: 110).

Cuts in benefit levels are not the only way social insurance programmes have been reined in. The authorities have also changed *eligibility criteria* and *benefit duration*.

In 2012, two out of three unemployed persons had no right to unemployment insurance.

The requirements for obtaining a number of benefits have been stiffened. Swedish unemployment benefits are again a case in point. While three-quarters of jobless Swedes in 2002 were entitled to the 80-per-cent compensation level, only 11 per cent qualified for this level in 2011. In 2012, two out of three unemployed persons had no right to unemployment insurance (Berglund & Esser 2014: 108ff). Denmark, too, restricted access to unemployment benefits in the 1990s. For instance, an unemployment benefit introduced for young people included strict activation requirements to qualify. Such activation requirements have gradually been extended to additional groups of unemployed. And in 2006, the "300-hour rule" was imposed in Denmark. Under this rule, a spouse who worked less than 300 hours (later 450 hours) in two years was categorized as a stay-at-home spouse with no right to cash benefits. (The rule was eliminated by the new red-green government in 2011.) Moreover, the Danish retirement age has been raised (Andersen & Pedersen 2014: 79ff).

For some benefit schemes, the maximum period the benefit can be received has been shortened. In Norway in 1998, for example, the maximum duration of single-parent transitional benefits was cut from 10 years to three. In Denmark and Norway, the unemployment benefit period has been shortened, and in Sweden the duration of sickness benefits has been sharply reduced.¹

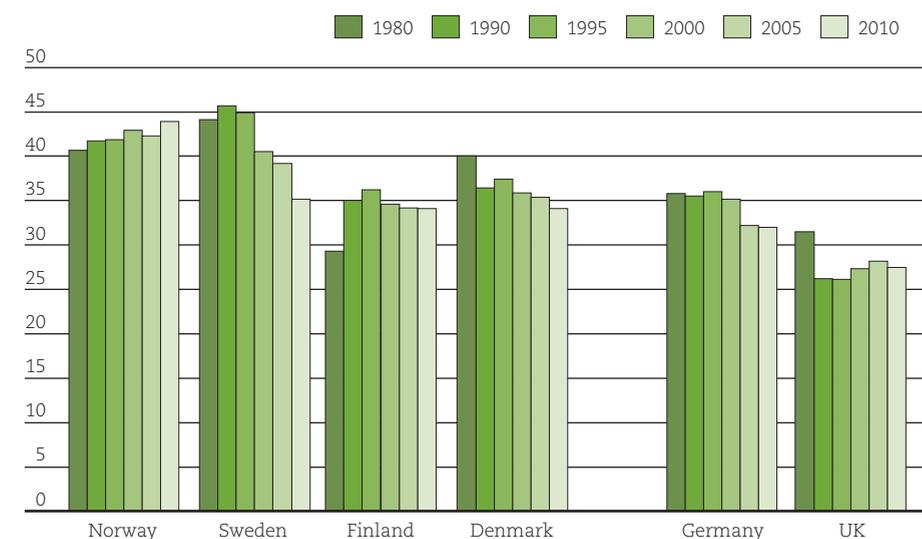
¹ The proposed state budget for Norway in 2015 included several proposed cutbacks in social security schemes, including: reduced child supplement in the disability pension; a reduction in the maximum period single parents can receive transitional benefits, from three years to one; stricter eligibility requirements for parental benefits and sickness benefits; and a continued policy of not indexing cash benefits and child benefits to inflation. As of this writing, it is not clear whether any of these budget measures will be enacted, as the Conservative-led government represents a minority in the parliament.

With such restructuring in benefit schemes, it can be said that some Nordic welfare states have become less generous. But developments have varied across the region.

A generosity index – accounting for a combination of compensation level, duration, coverage extent and eligibility criteria for sickness benefits, unemployment insurance and retirement pensions – shows the differences (Figure 9.1).² According to the index, Swedish social programmes stand out as having declined in generosity between 1990 and 2010. In Finland and Denmark, only minor declines are depicted, while the Norwegian social schemes are shown becoming somewhat more generous.³ By 2010, the overall Swedish level of generosity was still marginally higher than the Finnish and Danish levels, and the four Nordic countries in the study all exhibited higher levels of generosity than the UK and Germany.

According to the index, Swedish social programmes stand out as having declined in generosity between 1990 and 2010.

FIGURE 9.1 Changes in generosity level for Nordic welfare states, using an index that takes into account sickness benefits, unemployment benefits and old-age pensions. 1980–2010



Source: Scruggs, Lyle, Detlef Jahn and Kati Kuitto (2014). Comparative Welfare Entitlements Dataset 2, Version 2014-03, University of Connecticut and University of Greifswald.

As benefit systems have changed, activation measures have been intensified in all the Nordic countries, and there has been a clear shift towards increased supervision

² See Scruggs, Jahn & Kuitto 2014 for a description of how the generosity index is designed and what kinds of benefit recipients are presumed typical for calculation purposes.

³ The data set does not include data for Iceland.



SOCIAL INVESTMENT: Day care has been a major priority in Nordic social policy in recent decades. With the exception of Finland, all the Nordics now have a coverage rate exceeding 95 per cent. Pictured is a Swedish nursery group on a stroll. PHOTO: Colourbox

and discipline. A shorthand way of describing the changes in Nordic social insurance systems from 1990 to 2014 would be to note a switch in emphasis in the old slogan “Do your duty and demand your rights.” Back when the structures of the welfare state were under construction, the emphasis was strongly on rights. Nowadays, the aspect of duty is more prominent. People who live in the Nordic countries still have a great many rights. But to unlock those rights (which remain broad and generous in a comparative perspective) one must fulfil more duties than before, and far more attention is paid to the incentive effects of the programmes.

Social investment and family policy

Social investment policy has held a prominent position in the Nordic countries. The general education system is the cornerstone of this policy. During crises and good times alike, the Nordic countries have invested heavily to ensure that their populations are well educated. Because Nordic labour forces are highly productive, the job markets place a premium on worker competence. A good educational system can also be an important mechanism for social mobility, and compared to many other

countries the Nordics exhibit a high degree of social and economic mobility (Hertz et al. 2007; Jännti et al. 2006).

Nordic educational policy reforms have ranged from day care to higher education. Throughout the Nordic countries the availability of day-care and kindergarten is good, and confidence is high that the children who attend will be more likely to succeed in school and the labour market than those who do not. Good day-care facilities are therefore seen as an important social investment (Heckman 2006). In 1990, day-care coverage for 3- to 5-year-olds ranged from just over 50 per cent in Norway to just over 75 per cent in Iceland. In 2012, all the Nordics except Finland had coverage rates of between 95 and 100 per cent (Nordic Council of Ministers 2013: 63).

There has also been rapid growth at the other end of the educational system, with a significant increase in the share of the population obtaining higher education (Ahola, Hedmo, Thomsen & Vabø 2014). In Norway and Finland, for example, this proportion almost doubled in the 25-year period (Hippe et al. 2013; Kangas and Saloniemi 2013). The Nordic countries also invest in life-long learning related to working life skills. The right to such education has been an important element in tripartite agreements, as continually updating the labour force’s skills reduces unemployment. (Note that the Danish term “mobication” is formed by combining “mobility” and “education” (Andersen et al. 2010: 3).)

Despite the strong focus on education, several Nordic countries have moved lower in PISA assessment rankings. Dropout rates at the secondary level are also substantial, and young people with backgrounds from non-Western countries are at particular risk. In Norway and Denmark, nearly two-thirds of students with Somali background fail to complete upper-secondary studies. Overall, some 60 per cent of immigrant boys and 40 per cent of immigrant girls in Norway and Denmark do not complete upper-secondary education, while the proportion is slightly lower in Sweden (Pettersen & Østby 2013). Iceland is the Nordic country with the highest overall dropout rate (Markussen, ed., 2010).

In the realm of family policy, the Nordic countries have been in a class of their own with regard to measures making it easier to combine work and child rearing. Their parental leave schemes are among the most generous and comprehensive in the world. Parents are entitled to stay home with sick children, and several of the countries provide cash transfers to parents who choose to stay home with children rather than take advantage of day-care options. While many other welfare policies have been cut back or reformulated during the period, several family policy schemes

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Despite the strong focus on education, several Nordic countries have moved lower in PISA assessment rankings.

have been added or expanded. Day-care expansion is one example; a second is the extension of parental leave periods, and a third is the introduction of cash-benefit programmes for parents of children not in day care.

Active labour market policies

During the 1990–2014 period, the public welfare apparatus was retooled to provide more help to those entering the workforce or returning to it. Examples include the reform of the Norwegian Labour and Welfare Administration⁴ and municipal reform in Denmark (Hippe et al. 2013; Pedersen & Andersen 2014). Denmark's *Flere i arbejde* ("More people working") agreement is a third example (Pedersen & Andersen 2014), while the integration programmes of Sweden and Norway are a fourth (Djuve & Grødem, eds., 2014) and the creation of VIRK (Iceland's Vocational Rehabilitation Fund, founded by all the major unions and employers – see www.virk.is) is a fifth.

Common to these reforms and the associated programmes and policy measures is the idea that close individual follow-up, counselling sessions, skills enhancement and self-help aid are needed to increase the supply of labour from groups outside the workforce. A "stick" hovers clearly behind such measures in the form of rules requiring programme participants to meet up for scheduled activities, and in many cases to engage in an active job search. This aspect of receiving benefits is made known in introductory programmes and other activation measures for immigrants and refugees (Djuve & Grødem, eds., 2014) as well as in the Norwegian training programme for long-term social assistance recipients and in the Danish unemployment measures for youth. Several Nordic countries, meanwhile, have assigned municipalities a greater role in activating people outside the labour market.

Nordic countries, with the exception of Norway, spend significantly more than

other countries on active labour market policies. In the 1980s Sweden was the OECD country with greatest focus on active labour market policies, but since then its effort has been greatly reduced (Berglund & Esser 2014: 74ff). Today, Denmark leads Europe, spending 1.46 per cent of GDP for this purpose (Kvist & Pedersen 2014). But the effect of active labour market policies in the Nordic

countries has not been particularly impressive, and many other countries manage to reemploy a larger share of their jobless populations (Kvist & Pedersen 2014). This must be seen in light of the high Nordic employment levels. Those benefitting from activation measures in the Nordic countries are probably more detached from the job market than their counterparts in many other countries (Fløtten et al. 2014).

⁴ Since 2007 this agency has been known to Norwegians as NAV, or Arbeids- og velferdsforvaltningen i Norge.

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Pension reforms

In an international perspective, the early and quick action by Nordic countries to reform their pension systems has been quite striking. First up was Sweden, in 1997. In the midst of economic crisis the government secured a broad political compromise to introduce a notional defined contribution scheme. Denmark's pension system has been evolving since 1987 with important input from the employer and worker organizations. Funded labour market pensions were introduced through collective bargaining in 1991, and pension contributions have increased from 0.9 per cent of salary in 1990 to 12 per cent in 2012 (Due & Madsen 2012). Norway followed Sweden's lead in 2011 and carried out what is generally considered a "kinder" version of the Swedish reform. The Finns have changed their public pension scheme gradually since 1991 (Kangas & Saloniemi 2013), and in September 2014 agreement was reached for a pension reform to take effect in 2017 (www.etk.fi/en/service/home/770, accessed on 23 Oct. 2014). Reform of the Icelandic pension system began in 2007 under the Social Democratic Alliance-Independence Party government, and a new minimum pension guarantee was introduced in September 2008. Despite the financial crisis the minimum guarantee was raised by 20 per cent at the start of 2009, an action that kept many Icelanders with low-level pensions out of poverty. The minimum pension was raised further after 2011 (Ólafsdóttir & Ólafsson 2014: 33).

What's been common to all pension reforms is an effort to strengthen welfare-state sustainability by encouraging older workers to stay on the job longer – in part by raising the retirement age and in part by making it more lucrative to work additional years. And while tussling and negotiating have been part of the process, the final reforms have been notable for the political consensus behind them. Raising the employment rate for older people has been viewed as an absolute necessity to ensure the future sustainability of the welfare state.

And while tussling and negotiating have been part of the process, the final reforms have been notable for the political consensus behind them.

Tax reforms

The Nordic tax systems have also been reorganized several times since 1990. From 1987 (Denmark) to 1993 (Finland), all the Nordic countries carried out tax reforms that reduced rates and broadened tax bases. Since 2000 there have been no major tax reforms, but measures to relieve the taxation of labour income have been implemented. In the period 2000–2010, the average Nordic tax rate outside of Iceland fell by 5 per cent. The purpose of these reforms has been to make gainful employment preferable to the receipt of public benefits (Christensen 2013).

The political foundation of welfare reforms

For the most part there has been consensus across the Nordic countries on the main orientations of welfare policy, and the reforms have enjoyed relatively broad political support. In difficult economic times, social insurance systems have undergone belt-tightening regardless of the government's political leanings. Nordic conservative parties have put aside the highly charged welfare criticism of the 1980s and embraced the basic principles and key programmes of the Nordic welfare state model. That same applies to the new right-wing populist parties, which by and large stick up for national social programmes even if they often wish immigrants had less access to them.

There has been general agreement to pursue “work oriented” approaches that are meant to stimulate additional employment and avoid pushing anyone out of the labour market. This has led to widespread political agreement, for example, on family policies (making it easier to combine work and family obligations) and pension reforms (encouraging seniors to remain in their jobs longer).

Political divisions become clearest when the discussion turns to how firmly to handle those outside the labour market.

Political divisions become clearest when the discussion turns to how firmly to handle those outside the labour market. Should labour activity be increased through skills development, through reduced social insurance benefit levels, or, if more efficient, through the imposition of measures stimulating the employer side? In several Nordic debates, these questions have brought the left-right axis into sharp relief. For social democratic parties, activation policies have often proved a challenge (Vartiainen 2014). Norway's red-green government, for instance, had a hard time reaching agreement on the country's new disability insurance scheme.

Both ideology and the business cycle have driven Nordic welfare reform. Discussions on belt-tightening and benefit restructuring tend to arise during economic recessions, when proposals for change are also more likely to be seen through. At the same time, ideological currents influence the nature of the reforms. The importance assigned to work and activation measures has risen over time, with passive benefits giving way to active benefits, and the focus on rights giving way to concerns about empowerment and obligation.

Worker and employer organizations have played important roles in the introduction of many of the Nordic reforms. Sometimes their influence has been felt in negotiations and tug-of-war struggles ahead of a political decision, as was the case with Norway's pension reform (Hippe et al. 2013). At other times the two sides of industry have swayed policy formation by participating in commissions set up to pave the way for reforms, such as Denmark's Zeuthen Commission (Pedersen & Andersen 2014). Yet their influence on policy-making has tended to become less direct with

the increasing use of expert commissions and panels at the expense of tripartite negotiations.

25 years of welfare reforms: The results

The first point to make is that the Nordic welfare states are still comprehensive in scope, and they have been further developed in the period. Since 1990, social expenditures as a share of GDP have increased in Denmark, Finland and Iceland, while they have fallen in Sweden and remained unchanged in Norway (Berglund & Esser 2014: 98). Measured in dollars per capita adjusted for purchasing power parity, the spending increase from 1990 to 2010 was substantial in all the Nordic countries.⁵ Compared with other countries in Europe the Nordics also devote a higher percentage of GDP to education and training, and far more than 25 years ago. Despite some scaling down of social benefits, the safety net remains generous when seen in a comparative perspective (Scruggs 2008 and Figure 9.1).

Despite some scaling down of social benefits, the safety net remains generous when seen in a comparative perspective.

Second, in some areas there are indeed signs of a reduced level of commitment to welfare policies. In Sweden the cutbacks have resulted in an unemployment insurance compensation level that's now roughly on par with the OECD average. The compensation level for sickness benefits has been lowered as well, but at about the same downward pace as the OECD average (Ferrarini et al. 2012). In some Finnish programmes there have also been reductions in compensation level (Kangas & Saloniemi 2013).

Third, economic inequality has grown in several Nordic countries. Despite coinciding with the imposition of social reforms, the increase in inequality is primarily the result of rising disparities in market incomes, not benefit cutbacks. Nonetheless, analysis by the OECD shows that for Finland and Sweden in particular the redistributive effect of social transfers declined in the 10-year-period from the mid-1990s. To a certain extent the same occurred in Denmark. The redistributive effect of Norwegian transfer payments increased during the same decade (OECD 2011: Figure 6.9).

Fourth, in several Nordic countries the share of the population classified as being at risk of poverty has increased (Fløtten et al. 2014). The national authorities differ in the degree to which they describe low income as poverty, but poverty has become an important topic of public debate since 1990 (Fløtten, Pedersen & Lødemel 2010; *Ekspertudvalg mod fattigdom* 2013). The prevalence of low-income levels, or poverty,

⁵ See for example http://stats.oecd.org/Index.aspx?datasetcode=SOEX_REF (the OECD's social expenditure database).

is primarily a function of weak ties to the labour market. Some immigrant groups experience a particularly high risk of poverty. In several countries a correlation between poverty and declining generosity in some welfare programmes has been shown (either because of cuts or lack of indexation) (Kangas & Saloniemi 2013; NOU 2010: 11; *Ekspertudvalg mod fattigdom* 2013; Berglund & Esser 2014).

Fifth, the groups targeted by welfare and activation policies have been expanded (Pedersen & Andersen 2014). After the 1990s crisis, activation policies were aimed mainly at those who had become unemployed as a result of economic downturn. During the 1990s these policies were broadened to cover social assistance recipients, immigrants, people likely to need disability benefits and those with a variety of health and/or social problems. As additional marginalized groups became subject to activation measures, the links between employment policy and social policy become clearer and more contentious.

Sixth, there is rising concern about the share of the Nordic population that is completely or partially outside the labour market and dependent on public benefits. The linkage between employment and social policies has, however, proved relatively successful, considering how high the employment rate remains despite a modest reduction since the crisis. Nor has there been much growth in the share of people supported by public allowances, when population growth is taken into account. In Sweden, both the proportion and number of people receiving support has declined since the early 1990s, and in 2012 the proportion was lower than in many years (Berglund & Esser 2014: 147). Since the 1960s, the share of people in the Nordic countries who provide for themselves through their own work has remained fairly constant, while the proportion dependent on family has been almost completely “transferred” to public support mechanisms (Kvist & Pedersen 2014: Figure 1).

Seventh, the Nordic welfare states enjoy broad support in political arenas. This undoubtedly has to do with strong backing in the populations. Comparative studies of attitudes and values show the Nordic populations are supportive of key welfare-state institutions and programmes (see for example Svallfors 2003; Svallfors, ed., 2012; Jaeger 2012; Fløtten et al. 2013), and support is actually increasing in some areas.

Two additional factors are important to note: One is that the current design of the welfare state is not sacred to the population. Norwegian studies show clearly that significant parts of the population support reform – in connection with sickness benefits, among other policy areas (Fløtten & Hippe 2013). The second is that changes in social policy can lead to a weakening of public confidence in the welfare state. Over the past decade Danish studies have shown a sharp increase in the share of Danes who view their future as insecure. This suggests that the current

The current design of the welfare state is not sacred to the population.

welfare state is not fully able to bring about the widespread sense of security that has been its objective (Olsen, Andersen, Ploug, Andersen & Sabiers 2014).

Critical factors

The Nordic welfare states are extolled as being among the most successful in the world. By and large they remain generous and far-reaching, with policies that enjoy solid public support, as this chapter has shown. Nevertheless, the Nordic countries face a variety of dilemmas in managing their demographic and economic changes.

- ▶ Financing public welfare requires high employment, and the percentage of people permanently provided for by the public sector must be kept as low as possible. One explicit goal is to reduce the extent of reliance on disability benefits. But the challenge is greater still. It is to reduce the share of people on disability benefits while at the same time increasing employment among seniors – and to do so, no less, during a period of high labour immigration.
- ▶ Welfare programmes must contribute to the goal of increased labour market participation while at the same time addressing the inherent dilemma between employment inclusiveness and redistributive/social security policy goals. Major cuts in benefit levels will mean that those who cannot work experience reduced living standards, while very generous social service schemes may have a negative effect on the labour supply. What’s important is finding a good balance between benefit levels and minimum wages. Falling wages at the bottom of the income scale can exert downward pressure on benefit levels and provoke cuts. This illustrates clearly the link between labour market and welfare policies.
- ▶ The Nordic welfare model’s sustainability depends on preventing the emergence of a new underclass in the labour market – the working poor – who become increasingly dependent on welfare benefits to make ends meet. The limited success, so far, of various inclusion schemes represents a challenge that will only grow if competition from labour migrants increases and low wages fall even further.
- ▶ The Nordic countries are struggling in varying degrees with a growing low-income problem as well as increased inequality. Low incomes are strongly correlated with immigration and marginalization in the labour market. Income inequality is primarily a matter of differences in earnings and access to work, but the distribution of capital income matters too. Unless low-income levels and inequality are kept under control, the Nordic model will fail in one of its

basic objectives, with a potentially destabilizing effect on the functioning of the entire model.

- ▶ Future welfare policies will require legitimacy in a multi-ethnic society. Legitimacy and public support will depend in part on how successfully the social insurance schemes balance their redistributive and incentivizing goals (rights versus duties). It will be equally important to satisfy the population's need for a social safety net and to sustain the perception that the tax burden reflects fairly what the welfare state provides.

10 The search for improved public services



As a share of GDP, Sweden's public sector (transfers and services) was the largest among the Nordic countries in 2001. In 2013, however, Denmark held the No. 1 position. Sweden is the only Nordic country where public spending has declined as a share of GDP – a striking new trend after a long period of public sector growth. A large part of public expenditures goes to the production of a wide range of services. Compared to other countries, the Nordics have large public services sectors, whether measured in terms of GDP percentage or share of total employment (Mosesdóttir & Fløtten 2014). Due to aging populations, service expenditures are expected to grow relative to GDP through 2030, though more so in Finland and Norway than in Sweden and Denmark.

Public services – from infrastructure to schools, care services and health – are core political instruments in all the Nordic countries. Equal access to education, health care and other services reduces social disparities due to a redistributive effect from the unequal use of such services. Well-functioning services are also essential for strengthening and maintaining public support for the relatively high taxes necessary to finance public welfare production (Fløtten et al. 2014).

An increasing number of scholars point to the fact that many public services can also be seen as social investments. Education, including day care, helps pave the way for labour market participation, for example. Social security schemes, for their part, may increase individuals' willingness to take risks in the labour market, and may thereby increase labour market mobility. By increasing the supply and mobility of labour, the many programmes and schemes of the welfare state can support the functioning of the economy.

Another important aspect of public service provision is that it is subject to democratic governance and political control. Moreover, management frameworks and the conditions for social partner cooperation in public-sector service production can differ from those traditionally found in market-based production, thereby creating an additional set of political challenges and dilemmas.

Recent decades have been characterized by a variety of reforms in public service provision in all the Nordic countries.

Recent decades have been characterized by a variety of reforms in public service provision in all the Nordic countries. Significant challenges in the governing of public services have led to a search for new political solutions. The ambition to reform increased with tighter public budgets following the 1990s crisis. The demand for services also increased due to new developments in technology and medicine that have made it possible to cater for new needs and demands. A more affluent, better-informed public with increased expectations for service quality and individual choice puts increasing pressure on public-sector service provision. These expectations increasingly include the opportunity to choose between public and private service providers as well as between different providers inside the public sector. Hence, public service provision has been at the focus of restructurings, reforms and political conflicts in the Nordic countries and numerous other countries for the past two decades.

Utility services

All the Nordic countries have, under various governments, established market-based systems for the types of services the British term “utilities”. These include the classic public services such as postal services, electricity, telecommunications and transport. The state monopolies that once performed these tasks have been transformed into actors in markets, where users pay directly for their services and the former state providers have become commercial business operators. State-owned telecoms, postal services, railways and energy producers have been privatized. In some cases the state retains ownership, while in others the state is only a part-owner or has sold out completely. Former state-owned operators such as Telenor and TeliaSonera are now international players in a global telecom market. The same can be said of Sweden’s Vattenfall and Norway’s Statkraft, which have expanded into the European power market.

In Europe, the Nordic countries started the deregulation of public utilities early, often before European regulation was in place. The Norwegian Energy Act of 1990 and the termination of Sweden’s postal monopoly in 1993 are examples of this. As early as 1988, the Swedish State Railways (SJ) was divided into Banverket for rail administration and a separate enterprise for running the train services (Affärsverket Statens Järnvägar). Rail deregulation thus began much earlier in Sweden than elsewhere in Europe. An EU rule requiring separate accounting for infrastructure and transport services came three years after Sweden had introduced its reform. Later, but still well before the relevant EU regulation, Sweden deregulated rail freight and passenger transport (Jordfald 2013). The release of market forces in these utility services took place under both social democratic and conservative governments, and the reforms were not reversed after new governments took office.

The large political support for marketization of utilities can probably be explained by technological changes that made it possible to establish a functioning market where prices were set in a marketplace. While the Nordic countries have seen somewhat similar forms of market reform in postal services, telecommunications and electrical power services, their approaches to rail transport have been more varied. Finland and Norway have adopted a more cautious strategy, while Sweden has been in the forefront in creating competition in the railway sector. In debates over how much competition one should allow, the different viewpoints are often parallel to the positions on the importance of state ownership of the enterprises in the same sectors.

One side effect of the establishment of new markets for utility services has been higher labour market exit for some groups. This has been a result of the restructuring process itself (Trygstad 2006). Moreover, the establishment of private enterprises for the production of former public-service production has contributed over time to a shift in employment from the public to the private sector. This development has affected the social interests of employees as well as their sense of identity. It has also led to changes in collective bargaining and collective agreement structures. For workers, the bargaining counterpart is no longer the state but a variety of private ownership and employer organizations.

Core welfare state services: Health, schools and caregiving

The other major reform process in the public services sector can be found in the reorganization of the core welfare-state services. Both within and between the Nordic countries, there has been a great deal of variation in the use of policy instruments in these reforms. It is safe to say, however, that an increasing use of market principles has spread through the core areas of the welfare state (Meagher & Szebeheley 2013). As early as 1992, Swedish counties made it possible to purchase welfare services from private care-providing companies (Bergstrøm & Esser 2014: 34).

It is important to emphasize that the increasing use of market mechanisms and market analogies in the core welfare state function is very different from fully privately financed markets where customers and users pay directly for services and prices are set in open competition. Such a model was indeed the goal of market-liberal critics of the welfare state in the early 1990s, who argued for a reduction in tax-supported welfare responsibilities so that individuals would be freer to purchase private services. What has actually happened since 1990 is that the principle of using taxes to pay for schools, health care and caregiving services has remained strong.

Increasingly, the Nordic approach to services provision includes market thinking.

What has actually happened since 1990 is that the principle of using taxes to pay for schools, health care and caregiving services has remained strong.



CORE PUBLIC SERVICE: Elderly care is one of the welfare state's core functions. There is a recurring political controversy over whether to let private actors provide such care. Shown is a Danish nursing home resident. PHOTO: Tomas Bertelsen / Scanpix Denmark

The internal administration of hospitals, schools and care has been subject to an increasing use of market principles – a tendency that in Norway has been termed “privatization from the inside” (Ramsdal & Skorstad 2004). Private actors are also contributing more and more to public welfare services in the Nordic countries. Users may be permitted to choose among a variety of private suppliers (the consumer-choice model) or, alternatively, private actors may be subcontracted by the public authorities (the subcontractor model) to provide services. Market mechanisms have attained a clear and distinctive role in welfare service production.

The reasons that traditional markets have not been seen may be explained by a political consensus to continue tax financing of welfare in order to transfer purchasing power between generations and social groups. Another reason is to ensure, by political means, that the public is offered a wider range of services not provided in a free market because there is little or no demand. It is also the case that welfare services have specific features that function poorly with market provision. One problem in trying to design such a market is that customers may lack information (about their own illnesses, treatment needs or educational needs, for example). There may also be other forms of asymmetry between sellers and buyers – as when a customer knows too little about what the service providers can actually do. Thus, the marketization of Nordic welfare may go hand in hand with increased political governance, public supervision and control, i.e. more market seems to create more state.

It is, as noted, an important political goal to secure all citizens access to vital welfare services. That some people lack mobile telephones is not a political problem; but if some fail to receive medical treatment or education, it could be seen as a fundamental political problem.

Many of the scandals and political conflicts over the private provision of Nordic welfare services are caused not only by pure cheating or speculation, but by the underlying structural and technical challenges of organizing welfare services in markets. It is also true that systemic challenges must be addressed when providing welfare in traditional, politically administered monopolies. In other words, almost regardless of the policies and methods used, the Nordic countries face complex administrative challenges with regard to the organization of welfare service production.

Reforms of governance and organization

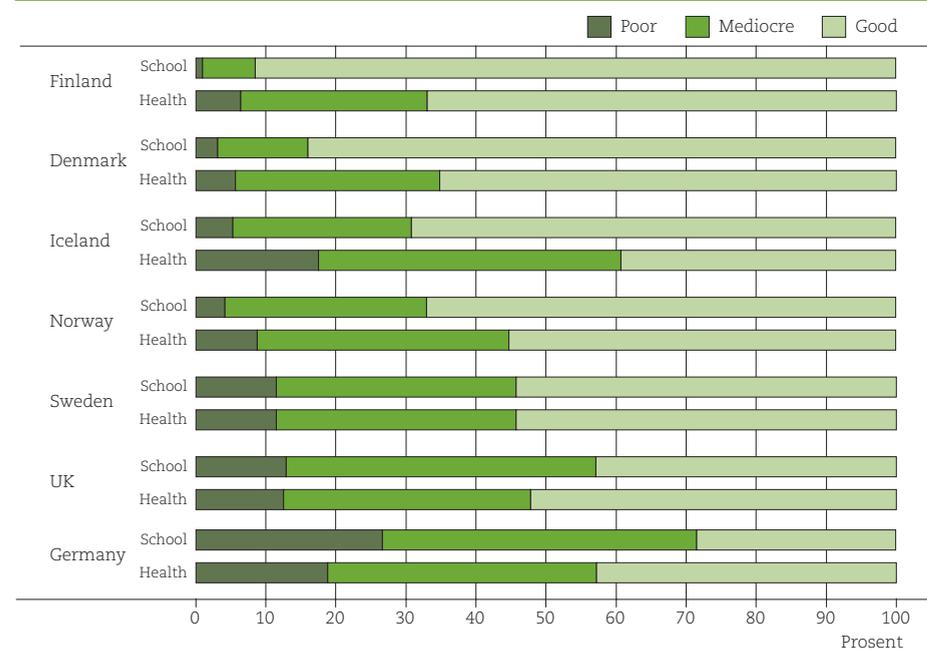
The Nordic countries devote a high share of both GDP and total public expenditure to public services. Yet it is important to distinguish between resource commitment, which is often high in the Nordic countries because of high labour costs, and the quality of service actually produced. In other words, higher spending by the Nordic countries does not automatically translate to better-quality services than other countries provide.

It is not possible to present a clear, research-based picture of how efficient the Nordic public services are across all sectors, but there are grounds to believe that efficiency in the Nordic health services is relatively high, as illustrated, for example, by the fact that hospital stays in all the Nordic countries except Finland are shorter than the OECD average (Mósesdóttir & Fløtten 2014).

Neither the resources spent nor the efficiency achieved necessarily correlates with levels of public satisfaction with public services. A clear-cut picture is not easy to obtain here either, but there are signs that the Nordic populations are relatively well satisfied with public provision of welfare services. An example is found in surveys measuring satisfaction with health care and schools across many European countries (the European Social Survey, or ESS). If Germany and the UK are taken as reference points, satisfaction in the Nordic countries is higher overall. An exception is health-care satisfaction in Iceland. As to variations among the Nordic countries, it is striking that the Swedes are less satisfied with their school system than other Nordic residents. The Finns, by contrast, show high support for their schools. In health care, the Swedes and Norwegians are less satisfied than their Nordic neighbours, with more than 10 per cent of Swedes describing their health service as poor (Figure 10.1).

Neither the resources spent nor the efficiency achieved necessarily correlates with levels of public satisfaction with public services.

FIGURE 10.1 Perception of one's own national health care service and school system. Scale from 1–10, Extremely bad to Extremely good (NordMod classifications: 1,2,3 = Poor; 4,5,6 = Mediocre; and 7,8,9,10 = Good).



Source: European Social Survey ESS6-2012, ed. 2.0; own calculations.

In the active reform period from 1990 to 2014 we find that only a limited number of new kinds of public services were offered. Family policy is an important exception, with Norway late in catching up to its neighbours to provide full day-care coverage in this period. But instead of the introduction of new services, the period has been characterized by organizational reforms in the established systems of providing core welfare-state services and by management system reforms. A common feature of such reforms is an ambition to create a higher degree of autonomy for the institutions in question, with emphasis placed on professional, goal-oriented management. The reforms have thus been attempts to create a public sector that's more like the private sector when it comes to management and organization. The reforms have been characterized by the following:

- ▶ Political governance has become more strategic and overarching, and attempts have been made to organize actual production at arm's length from political decision-making – for example, by organizing hospitals as separate enterprises with their own boards.

- ▶ Political control is exercised by assigning a number of quantitative and qualitative objectives (scoreboards), with politicians acting more as owners than employers, and with operations organized by enterprise management reporting to the board of the enterprise or unit.
- ▶ Managers in public enterprises exercise leadership through performance management, delegation of tasks, and the use of incentives and financial rewards to obtain measurable results.

These private sector analogies for governance and management are often referred to as New Public Management, or just NPM, in research literature and political debate. On the one hand, the changes have helped improve efficiency and production, including in hospitals, though the results are not clear-cut. The effects on municipal sector efficiency, for example, are mixed (Gautun et al. 2013). On the other hand, stricter financial constraints have often accompanied the restructuring. Reorganization and geographic centralization of services such as schools and health care have sparked, unsurprisingly, political dissatisfaction and conflict.

It is hard to identify a clear left-right axis in the political controversies over public service reorganization. Studies in the NordMod project show there has been broad political support for the testing and introduction of new management and organizational principles. By contrast, debates over welfare spending versus tax cuts seem to follow a traditional pattern of left-right political conflict.

One conclusion from the NordMod country studies, and from other research on public services, is that a unique Nordic governance and management challenge has emerged. This is important because the Nordic services sector is so large and has undergone such extensive change. This Nordic governance challenge has several elements:

- ▶ Increased pressure from above: Often, political control is not really exercised in an overarching, strategic way but by conveying a great number of very detailed concrete goals to the individual corporation or unit. The role of the board is thus curbed, and management loses both operational freedom and the leeway to cooperate with the employees and their organizations.
- ▶ Growing pressure and discontent from below: Strong professional groups such as doctors, nurses and teachers have a high degree of occupational identity and expertise as well as closeness to students or patients. Detailed management-by-objective techniques, imposed in many cases by economically motivated leaders, clash with the professional autonomy, discretion and knowledge of those on the front line of the welfare services.

It is hard to identify a clear left-right axis in the political controversies over public service reorganization.

- ▶ The ability to take priority conflicts back for new political decisions complicates governance, management and cooperative settings. Employees in public agencies or enterprises can go the political route by demanding larger budgets and allying themselves in effect with the users rather than the owners of the enterprise.

Non-profit and commercial private providers

Since 1990 private service providers have also been used as a political tool to supplement public provision of welfare services. Market-based providers have emerged in schools, health care and social services. Privatization is the term generally used. It is important to emphasize, however, that this is not the traditional sort of privatization

in which public responsibility for a service is removed. Instead, public funds are used to pay for private service provision. The Nordic countries vary greatly in their use of private actors and market mechanisms in social policy.

Sweden has gone furthest in utilizing private sector solutions in welfare.

First, there are differences between countries. Sweden has gone furthest in utilizing private sector solutions in welfare. In Denmark, too, private actors play a substantial role and are of growing importance, especially in care services and schools. However, Denmark's private actors include a larger share of non-profit providers – as in education, where many private schools are religiously based. Commercialization is most widespread in Sweden and Finland. There are important differences between Sweden and Finland, though, as commercially run schools are few in Finland.

Second, the political drivers of this development are difficult to pinpoint. It is reasonable in any case to conclude that conservative governments and local councils have had a major influence. The Danish structural reform of the municipal sector (2006) helped pave the way for increased marketization. A left-right axis is evident in Sweden (Berglund & Esser 2014) and in Finland (Kangas & Vartiainen 2013), and to some extent in Norwegian local politics (Hippe & Berge et al. 2014). But leftward political shifts have done little to reverse the development, even if Norwegian experience has shown that privatization slows down both nationally and locally when the balance of power tips to the left (Hippe et al. 2013).

In Denmark, private service provision is relatively widespread, especially in the social services, the political conflict level has remained lower than in Sweden and Norway. This may be related to the greater prevalence of voluntary and non-profit actors as service providers. This is also the case in Iceland (Ólafsdóttir & Ólafsson 2014). Experience in Finland – where non-profit and voluntary contributions to the welfare sector have weakened – suggests that commercial and non-profit actors may

find themselves in competition (Kangas & Vartiainen 2013). The Nordic political conflict lines appear still more complicated when one notes that, in several countries, the big cities and larger municipalities go further towards privatization than the small ones do, an observation only partly explained by the tendency of many larger municipalities to lean politically to the right.

Third, it is useful to separate the different sectors – schools, social services and health care – when distinguishing between the Nordic countries. The national differences are most pronounced in the schools, with Sweden the country that most clearly has changed its model. From 1993 to 2011, employment in Swedish private schools grew as a share of all employees in the sector from 5 per cent to 23 per cent. Nearly half of primary, secondary and upper secondary schools were independent in 2009 (Berglund & Esser 2014: 131-133), and 90 per cent of these were profit-based. In the other Nordic countries, schools are far more likely to be a purely public responsibility, though Denmark has a long tradition of private primary and secondary schools, with roots back to Gruntvigian schools. In the care services sector, there has also been significant growth. Finland and Sweden have seen the largest increase in private service provision, and every fifth nursing home resident in Sweden now lives in a commercially operated facility (Mósesdóttir & Fløtten 2014). Similarly, user choice in home care – including choices between public and private actors – has increased greatly in Sweden, Denmark and Finland (Mósesdóttir & Fløtten 2014).

Fourth, the increased use of private providers in the welfare services must be evaluated in light of the results achieved in cost-effectiveness, service quality and the social distribution of access to services. It is not possible to conclude unequivocally that the Nordic competition reforms have produced the gains many proponents expected. Not only have there been too few analyses, but those that have been done contain discrepant and uncertain conclusions. The NordMod report on welfare-state challenges reviews the literature in this area and finds that one cannot conclude with any certainty that private alternatives drive costs down (Mósesdóttir & Fløtten 2014). This by itself is interesting. It could mean, for example, that potential efficiencies or cost savings are offset by an increased use of resources on procurement, tendering, monitoring and supervision. In countries where scandals have erupted with attendant media debates, the natural reflex has been to propose stronger quality standards and more public supervision.

The results are similarly unclear with regard to how competition and the increased use of private actors have affected service quality; nor is it possible to draw a firm conclusion that the formula for improving quality has been found. Some studies document that private alternatives have contributed to greater freedom of choice, which users often perceive as positive. In Sweden, which has gone furthest on school

privatization, it has not yet been possible to draw unequivocal, research-based conclusions about the qualitative effects of private schooling. Likewise, it has not been possible to tie Sweden's performance decline in PISA surveys directly to the growth of private schools.

The increasing use of private providers across the Nordic countries affects employee wages and working conditions in different ways, depending in part on the extent to which collective agreements are applied to the private companies. In Norway, the large differences between public and private employee pension schemes represent a major problem, since employees who are transferred to private providers risk having poorer pension rights.

In several countries there have been signs of increased inequality and segregation between user groups, both socially and geographically, as competition and private services spread. This development is documented most clearly in relation to Swedish schools (Berglund & Esser 2014).

Critical factors

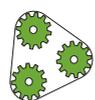
Talk of overburdened welfare states and the need to narrow the scope of public responsibility, so common in the 1980s, has been replaced by a search for new strategies to reform the governance, management and organization of public services at the national, regional and municipal levels. This shift from criticising the size of the welfare state to emphasizing the reorganization of public services has brought the Nordic welfare states into a new phase, one that replaces the post-war phase of programme establishment and expansion:

- ▶ The *first* critical factor is that this period has intensified the traditional debate and conflict over how high the tax level can and should be (Christensen 2013). Longer life expectancy will increase the cost of public services and raise the stakes of this debate further. It is important to note that this challenge exists regardless of whether the public sector buys services from private providers or produces the services itself. A growing middle class will have to fund the services at the same time that demographic changes and other forces push expenses higher and labour force reserves – from which ever-greater numbers of social service workers must be found – are more difficult to mobilize than before (Vartiainen 2014). If taxes are not to rise, the question quickly becomes whether more services can be left to the market or funded directly by users themselves. The various pension reforms that all the Nordic countries have conducted were in fact attempts to limit future tax increases by shifting more

of the responsibility for pension savings to occupational pension schemes in the labour market.

- ▶ The *second* critical factor is that Nordic developments have shown a clear need to devise models of political governance and control for increasingly free-standing service providers. At the same time, a new Nordic model for management and cooperation in the public welfare services faces a significant challenge from professional groups with expertise and a strong sense of occupational identity. Nordic service production has grown to maturity in a process where the countries have learned and copied from one another. Historically, for example, Norwegian school policy has followed Sweden's lead. The Nordic countries also inspire and learn from one another in immigration and activation policies. With their many common traits and similar challenges in the realm of public welfare, the Nordic countries can experiment on a larger scale with organizational models in order to develop a more innovative and learning-based public sector. With strong trade unions in the public sectors of all the Nordic countries, it is important to include the social partners directly into national and Nordic efforts to move forward.
- ▶ The *third* factor: Competition and the use of private actors have been important policy tools in developing the way public services are provided in the Nordic countries. While clear results have been achieved in the electric power, telecom and transport sectors – and the reforms there appear to enjoy broad political support – the extensive reforms undertaken in welfare-state services have had more ambiguous outcomes. After 25 years of reform, the lack of clearly documented effects on efficiency, quality and social redistribution is in itself an important finding. So far, the use of private suppliers and commercial operators to produce key welfare-state services has had an uncertain impact on efficiency while raising new challenges related to segregation on the one hand and individual choice on the other.
- ▶ *Fourth*: It may appear that non-profits are in competition with commercial operators in the private provision of social services. This makes it necessary to learn more about the role that various private actors and civil society can play in the production of welfare services, while raising the political matter of how best to organize tomorrow's welfare society.

11 The emerging multicultural Nordic societies

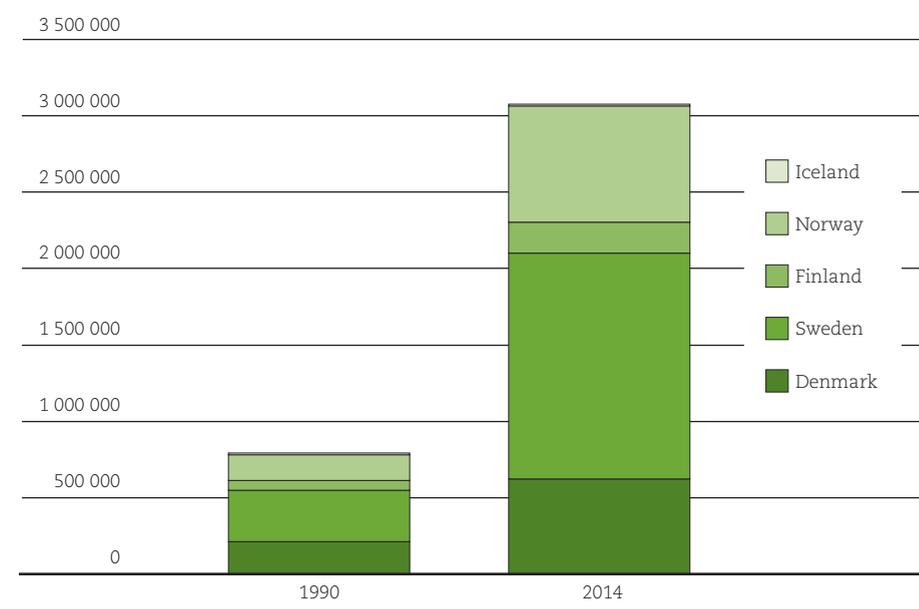


Strong immigration growth has led to major demographic changes in the region. While there were approximately 750,000 immigrants in the Nordic countries in 1990, the figure is now more than 3 million (Figure 11.1). During the same period the total population has grown roughly from 23 million to 26 million, which means the immigrant share increased from about 3 per cent to about 13 per cent.

There are large variations among the Nordic countries, both in terms of the size of the immigrant population in 1990 and its growth during the subsequent 25 years. Sweden has seen the most immigration throughout the period, Finland the least. Nor is the composition of immigrant populations uniform from country to country. Immigrants who come to Iceland do so primarily for work. Finland's largest immigrant groups hail from neighbouring countries, and family reunification is the dominant reason they come. In the other three countries, the composition of the immigrant population reflects the arrival over time of many refugees. Additionally, the labour immigration of previous years has led to substantial immigration today on family reunification grounds. Labour migration has been high since EU enlargement in 2004. Today, at least one eastern European nationality is included among the five largest immigrant groups in each of the Nordic countries (Table 11.1).

A key objective in immigration policy has been, and remains, the integration of immigrants into social and working life, and the challenges entailed are a frequent topic of public debate. The exact nature of these challenges depends on the immigrant groups in question, including their reasons for immigrating and what they bring with them in terms of resources, work competence, traumas and health problems.

FIGURE 11.1 Number of immigrants and their descendants* (Norway and Denmark) and foreign-born (Finland, Iceland and Sweden). 1990 and 2014 (see source lines for exact year in each country)



* Defined as children born in Norway or Denmark of two immigrant parents.
 Source for Denmark 1990 and 2014: Statistics Denmark (table Folk2), 1 Oct. 2014. Immigrants and descendants.
 Source for Norway 1990 and 2014: Statistics Norway (table 05183), 1 Oct. 2014. Immigrants and descendants.
 Source for Sweden late 1990s and 2013: Nordic Statistics, Nordic Council of Ministers (Population 1 January by reporting country, time, birthplace, sex and age) for 1990. Statistics Sweden (Foreign-born persons in Sweden by country of birth, age and sex. Years 2000–2013) for 2013. Foreign-born only.
 Source for Finland 1990 and 2011: Statistics Finland's PX-Web databases (table CITI02, Country of birth according to age and sex by region 1990–2013). Foreign-born only.
 Source for Iceland 2013: Nordic Statistics, Nordic Council of Ministers (www.Norden.org).

TABLE 11.1 Five largest immigrant groups in the Nordic countries.

	Largest	Next largest	3rd largest	4th largest	5th largest
Norway (2014)	Poland	Sweden	Lithuania	Somalia	Germany
Sweden (2013)	Finland	Iraq	Poland	Yugoslavia	Iran
Denmark (2014)	Turkey	Poland	Germany	Iraq	Lebanon
Finland (2012)	Fmr. Soviet Union	Estonia	Sweden	Russia	Somalia
Iceland (2013)	Poland	Lithuania	Philippines	Germany	Thailand

Sources: Same as in Figure 11.1.

Different integration regimes

The Nordic countries have somewhat different policies for integrating refugees, asylum seekers and reunified families (Djuve & Grødem, eds., 2014: 95):

- ▶ “Mainstreaming” of welfare services is the general rule in the Nordic countries, with the immigrants’ needs for services and assistance to be met by the national education system, labour market and welfare provisions. While new immigrants to Sweden, for example, choose their own domicile, in the other countries immigrants are distributed among the municipalities.
- ▶ There are differences in emphasis from country to country with regard to the requirements for adapting to the majority community; such differences crop up, for example, in the rules for obtaining citizenship.
- ▶ Norway, Sweden and Denmark have developed full-day introduction programmes for newly arrived immigrants, but the programmes differ as to whom they cover, duration, level of support, and penalties for those who fail to participate.
- ▶ Political debates over immigration also differ among the Nordic countries, most conspicuously Sweden and Denmark. Pervading debate in Sweden has been an assumption that things will improve with time, and that the problems faced by immigrants can be tied to discriminatory attitudes by Swedes. In the Danish debate, one hears more insistence that immigrants themselves take responsibility for tackling problems that arise.

Inequality in employment and living standards

Quality-of-life surveys and other studies conclude again and again that living conditions for immigrant populations in many ways are significantly poorer than for the majority (Blom & Henriksen 2008; Karlsson & Tibajev 2014). An important difference is the employment rate, although figures from across the Nordic region are open to interpretation. As with the majority Norwegian, Danish and Icelandic populations, the employment rate for immigrants to Norway, Denmark and Iceland from outside the EU is higher than the average employment rate for non-EU citizens within the EU (Kvist & Pedersen 2014). This indicator, however, is very broad, encompassing immigrants with very different backgrounds. Djuve & Grødem (2014) have therefore compared employment rates for the majority populations with those of immigrants according to their country or region of origin. This compilation shows that many of the major immigrant groups have employment rates that are half, or much lower than half, of the national averages. And while there is generally a high degree of gender equality in Nordic labour markets, the



STREET SCENES: Unrest in the Stockholm suburb of Husby in 2013 highlighted the urgency of Swedish efforts to integrate a growing immigrant population. PHOTO: Ints Kalnins / Reuters

situation is quite different for some immigrant groups. In some cases the female employment rate is below 30 per cent.¹

The shared Nordic experience is one of difficulty in finding effective measures to integrate poorly educated workers from non-Western countries into labour markets. The integration measures implemented so far have had very modest effects (Djuve & Grødem, eds., 2014; Kvist & Pedersen 2014).

In addition to low employment rates – or perhaps because of them – household incomes are lower and the risk of income remaining low for long periods is greater in the immigrant population than in the general population. Some groups also have markedly poorer health than the majority (Bråthen et al. 2007; Swedish National Board of Health and Welfare 2009), and while many immigrant girls do well in Nordic education systems, the dropout rate for some immigrant boys is high (Pettersen & Østby 2013).

¹ In Denmark, for example, this applies to women whose background is from Somalia, Iraq and Lebanon, and in Norway to women from Somalia (Emerek & Jørgensen 2013; Djuve 2014).

Disparities in living standards are viewed as a sign that integration policies are not working well enough. In addition, the very fact that some groups consistently trail the majority in many measures of quality of life represents a multi-pronged challenge to the Nordic model.

First of all, the model depends on high employment. When as many people as possible earn their own income by working, public spending on benefits is reduced and the ability to fund the welfare state is strengthened. Conversely, low labour participation in parts of the growing immigrant population undermines sustainability. Second, a high level of employment by both women and men implies high median household income. In households where only one person, or perhaps no one, is working, there is a significant likelihood that income will be low. This violates ideals of equality in the Nordic countries and increases the risk of ethnic segregation. If the majority population in general enjoys a high level of employment and sound family finances while some immigrant groups struggle along with low incomes and unstable jobs, ethnic segregation of residential areas tends to solidify. This can give rise to social unrest, as has been witnessed in some Swedish suburbs. Third, participation in working life is a source of learning but also of influence, in part through union membership, and immigrants outside working life lack access to this channel of democratic participation and influence. Fourth, the less success a country achieves with its integration policy, the greater the danger that immigration-averse sentiment will increase in the majority population.

Labour immigration and strains on the Nordic model

Since the main challenge in the integration of some immigrant groups is low employment, one might consider the rise in labour immigration over the past decade to be a clear gain for the Nordic countries. The inflow of labour from central and eastern Europe was greatest in Norway (see Figure 7.4 above), where labour immigrants accounted for over two thirds of the sharp growth in employment registered between 2004 and 2010 (NOU 2013: 13; Friberg et al. 2012: 156). Judged on that basis, labour immigration has been a socioeconomic plus, helping to fulfil the demand for labour and boosting both growth and tax revenues.

Yet it's not the case that labour immigrants steer completely clear of the quality-of-life problems that plague some other immigrant groups. Labour immigrants, too, are more at risk of such problems than the majority. They are more likely to become unemployed, and their wages and working conditions are less favourable (Djuve & Grødem, eds., 2014: 97). The effects of labour immigration on the Nordic model are seen first and foremost in

Yet it's not the case that labour immigrants steer completely clear of the quality-of-life problems that plague some other immigrant groups.

the economy and labour markets. Recruitment of migrant workers is often highest in industries with few job-skill requirements, low union density, low wages, poor working conditions and a need for manual labourers. This can cause wage formation systems to weaken, productivity growth to falter, the wage floor to buckle and income inequality to grow. Research from Norway shows that increased immigration has a measurable effect on wages (Bratsberg & Rauum 2013). In turn, a rise in income inequality may appear. Another consequence is that sharper competition for the lowest-paid jobs may increase the risk of disadvantaged groups being displaced from Nordic labour markets (Friberg 2013; Ugebrevet A4, 15 Oct. 2014).

Critical factors

The Nordic model is challenged in fundamental ways by poor integration of non-Western immigrants into the labour market and by the poor wages and working conditions given to many of the migrants who come to work. In the coming decades the main source of additional Nordic labour supply will be the immigrant populations. If many of those with immigrant backgrounds are not in jobs but dependant on the welfare state, it will be a waste of human resources, an economic burden for society and a continued hindrance to integration.

- ▶ For employment to increase among immigrants in general and immigrant women in particular, improved integration measures and skills programmes are required so that immigrants have a realistic chance of entering the ordinary labour market. To prevent ethnic segregation in the labour and housing markets, counteract the emergence of a new underclass and bolster the Nordic model's economic sustainability, immigrants must be equipped to leave behind the marginal zone of temporary and often low-paid jobs and poor working conditions in favour of the more regulated parts of working life.
- ▶ Labour and welfare policies must be complementary. On the one hand, welfare policies for those outside of working life must be developed with an eye to increasing long-term participation in the labour market. On the other hand it is important that wages and working conditions in less skilled jobs – often held by immigrants – remain at levels that make it attractive to work.
- ▶ The sidestepping of ordinary wage-setting mechanisms by some employers hiring labour migrants is a challenge to the Nordic model. It leads to social-dumping problems and downward pressure on national wage levels. The threats posed to the Nordic model may be direct or indirect. One of the

defining traits of the model is its compressed wage structure, which irregular labour practices may directly undermine. Lower wages at the bottom of the pay ladder, meanwhile, represent an indirect threat by undermining work incentives for other groups of low-paid immigrants and natives.

- ▶ Strategies to improve integration policies are essential if the Nordic countries are to avoid segregation and a major increase in inequality, with immigrants systematically worse-off than the majority population. Such disparities are undesirable in their own right, and it's hard to say what they could mean for the public support of welfare-state schemes down the line.

12 Living conditions in the Nordic population



Earlier in this report we showed how the institutions of the Nordic model have changed over the last 25 years, and how the policy instruments that allow the Nordic countries to achieve their key social objectives have been adapted to serve societies in constant change. For a more comprehensive picture of what has happened over the past quarter century, the institutional description needs supplementing with information on actual changes in living conditions.

In the Nordic countries, research into living conditions has played a major role in assessing the effect policies have on people's lives. To determine whether a society has achieved its political objectives, researchers cannot look solely at macro-economic indicators; they must also examine actual living standards. This chapter, therefore, addresses the changes over time in some key indicators of the Nordic population's well-being. In 1975 Erik Allardt wrote the book *Att ha, att älska, att vara* ("Having, loving, being"), in which he argued that welfare could be understood as the satisfaction of needs related to material well-being (having), social relationships and cooperation (loving) and personal development (being). Allardt stressed that an assessment of living standards must begin with some idea of what constitutes "the good society" (Rothstein 2013). Clear ideas of precisely that sort have emerged in the Nordic countries, with certain values manifested more prominently than others. Most residents of the region, for example, would agree that in a good society people are permitted to make the most of their abilities. They would agree, moreover, that economic disparities should not become too large, that there should be equality between the genders and among ethnic groups, that everyone should have the opportunity to work and participate in the community, and that everyone should have the right to assert their interests through democratic channels. In illustrating the development of Nordic living conditions since 1990, we cannot take all aspects of

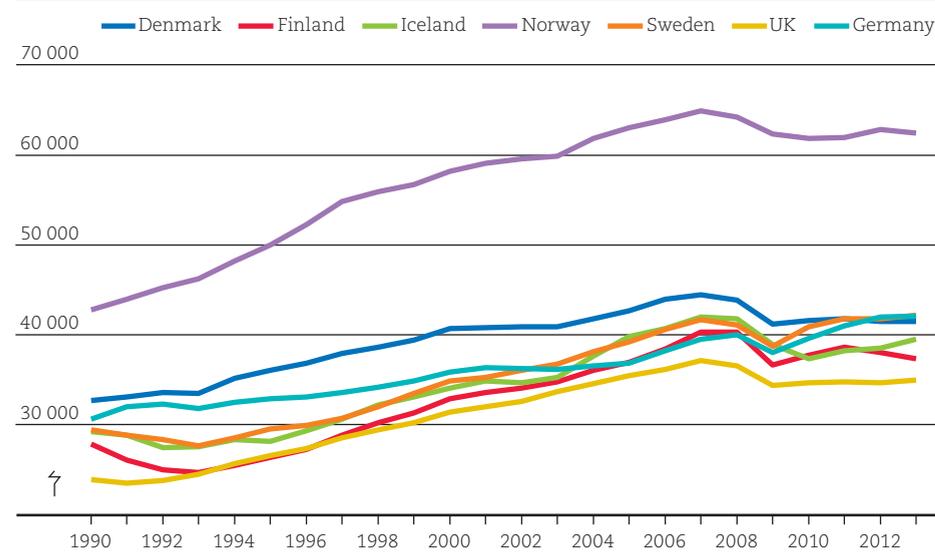
people's lives into regard. The indicators chosen here do portray developments that are central to the Nordic model.

In order to have reference points outside the Nordic countries, developments in Germany and the UK are also displayed in most of the figures presented in this chapter. These two countries have been selected because they represent large, dominant European economies and they have other welfare models and work traditions than the Nordic countries.

The Nordics have grown richer, especially the Norwegians

The first dimension in Erik Allardt's quality-of-life typology, and the first pillar of the Nordic model, is economic – “having”. There is no doubt that economic development in the Nordic countries since 1990 has been good and that the societies have managed to generate economic growth (Figure 12.1). Growth in GDP per capita from 1990 to 2013, when adjusted for purchasing power differences and measured in constant prices, ranged from 27 per cent to 46 per cent. Growth was strongest in Norway and Sweden and weakest in Denmark. In 2013, the Danes were “overtaken” by the Swedes. But the Nordic countries were not alone in experiencing solid economic growth during the period. Growth in the UK has been on par with that of Norway (although from a different starting point), while Germany's GDP per capita in 2013 was equal to Sweden's and Denmark's (Figure 12.1).

FIGURE 12.1 GDP per capita at purchasing power parity (constant USD 2011), 1990–2013

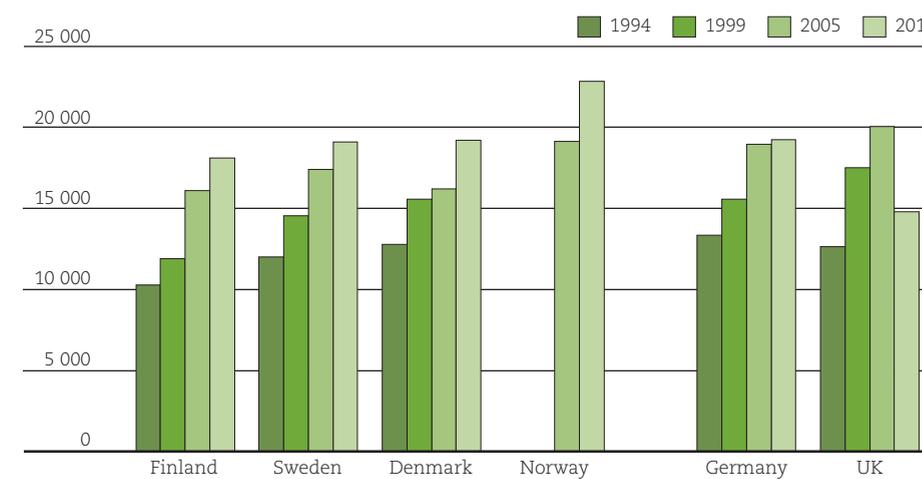


Source: World Bank Databank

With riches come material goods – and leisure

Material well-being has risen along with economic growth. Average consumption per household has grown significantly, and in 2010 Nordic consumption levels were higher than those of both Germany and the UK (Figure 12.2). Of the European countries, only Luxembourg had a higher consumption level than Denmark and Norway (Eurostat database, numbers not shown here).

FIGURE 12.2 Mean consumption expenditure per adult equivalent at PPP (euros), 1994–2010



Source: Eurostat, table hbs_exp_t111

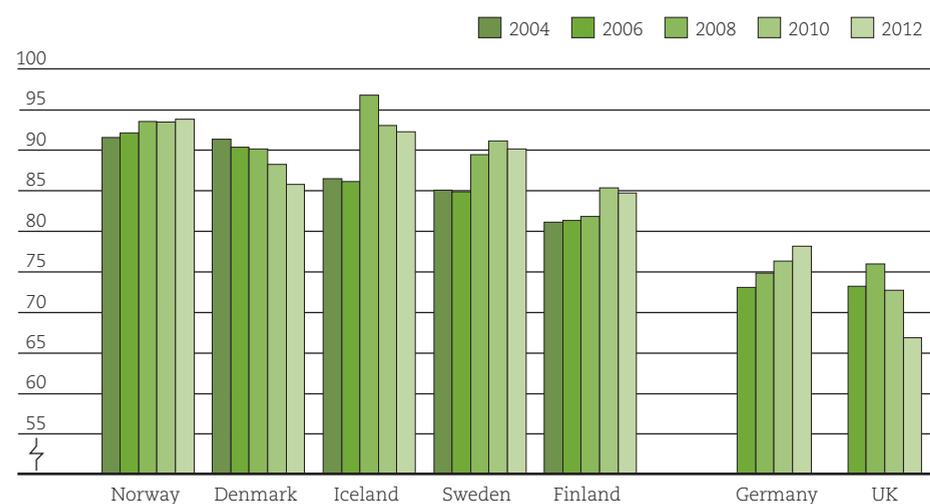
Figures not available for Iceland, or for Norway in 1994 and 1999.

In the Nordic countries consumption growth continued after the financial crisis, whereas in Germany consumption stagnated during the crisis years and in the UK it declined. It is worth noting that measurements of average consumption say little about how that consumption is financed; one of the causes of the financial crisis in 2008 was loan-financed consumption. Furthermore, national differences in the ratio of consumption to savings could factor into the consumption trends.

Another way to view the increase in Nordic prosperity is through the population's access to quality-of-life goods that are considered basic in rich countries. One such good is the ability to travel for a week's holiday each year (Figure 12.3). This is something the majority can afford in all the countries shown, but the share is higher in the Nordic countries than in Germany and the UK. The share of Britons who cannot afford an annual holiday trip is five times larger than the share of Norwegians. There are also notable differences among the Nordic countries. The share of Finns who cannot afford a week's holiday away from home is three times as large as the share of Norwegians. Another difference is that while the proportion that can afford to

travel has been stable in Norway since the financial crisis, it has increased in Finland and fallen somewhat in Iceland and Denmark (and the UK). This illustrates how the crisis has affected living conditions for individuals in different ways, depending on how hard their countries were struck.

Figure 12.3 Share of population that can afford to travel on a one-week holiday per year. 2004–2012



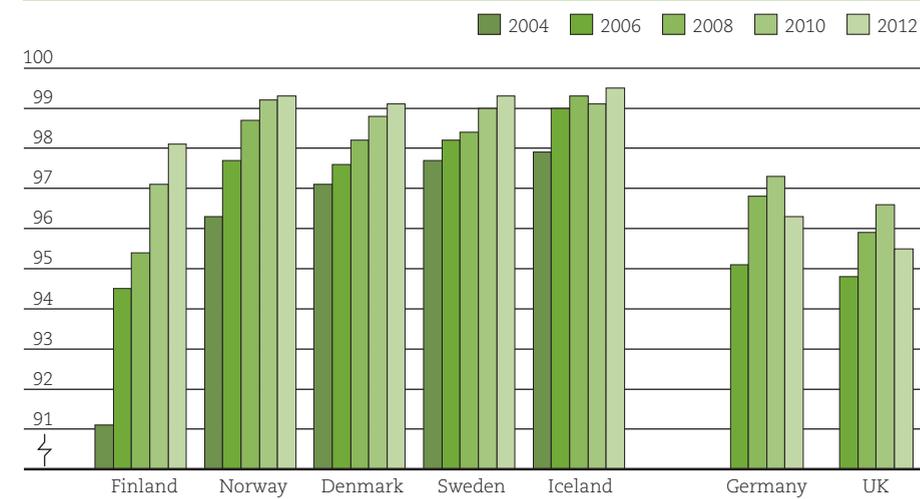
Source: Eurostat, table ilc_mdcs02

Another essential measure of consumer strength is the ability to buy a personal computer (Figure 12.4). This is something more and more Nordic residents have been able to afford, and today almost everyone can. Most residents of Germany and the UK can afford a personal computer, too, but in those countries the proportion decreased marginally after the financial crisis. Although the shares of people unable to buy a PC are small, the differences between the Nordic countries and Germany/UK become clearer when the percentages are converted to plain numbers: 3.5 per cent of Germany's population is nearly 3 million people, while 2 per cent of the Finnish population represents just over 100,000.

Leisure time is also regarded as a key quality-of-life good, and the Nordic people have acquired more of it in parallel with their increases in prosperity. In six of the seven countries compared here, the average time at work per employee has declined since 1990. These reductions have been greatest in Iceland and Germany, while Sweden is the only country where wage earners on average worked (marginally) more hours in 2013 than in 1990 (Figure 12.5). In a period of high economic growth, it is not surprising that people have chosen to take out some of that growth in additional leisure time. The society and the individual have both been able to afford it. But if

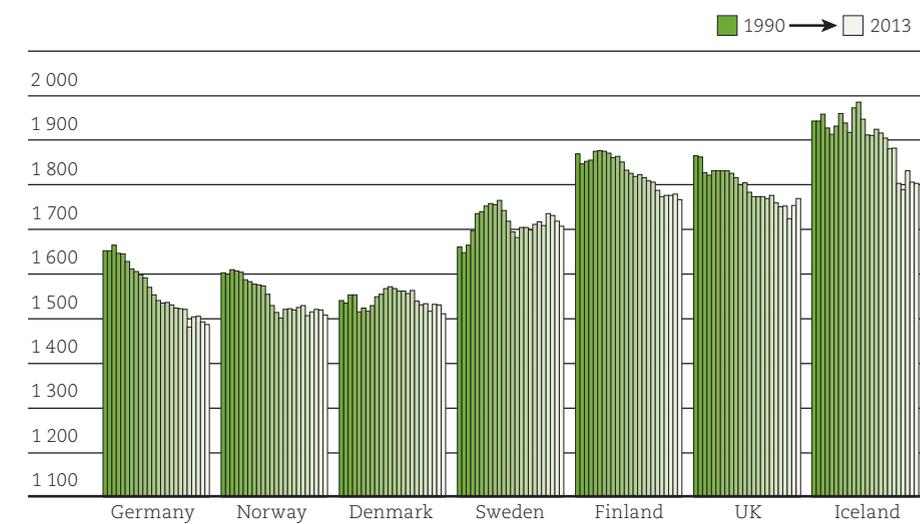
economic growth weakens or stagnates, the balance between wealth and leisure time may become harder to maintain (see Holmøy and Strøm 2014).

Figure 12.4 Share of population that can afford a personal computer. 2004–2012



Source: Eurostat, Table ilc_mddu03

Figure 12.5 Average number of hours worked per employee. 1990–2013



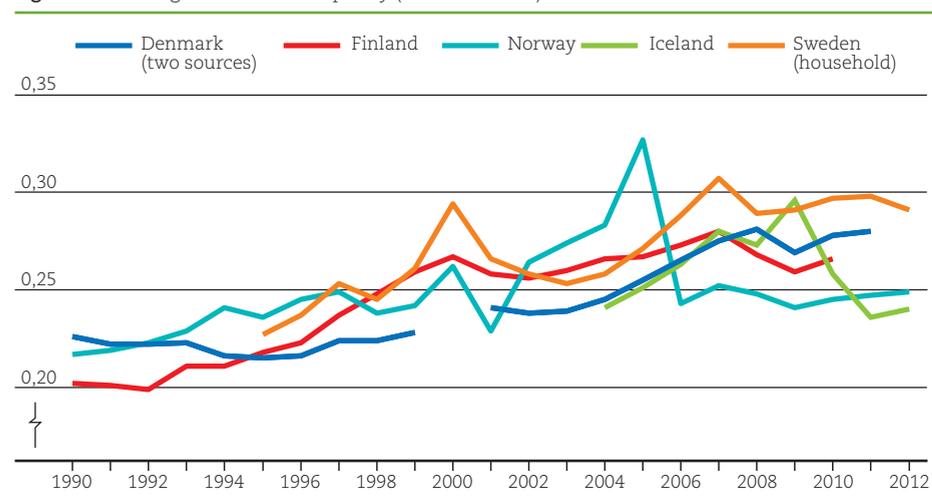
Source: OECD Labour Force Statistics

Increased wealth, but also increased inequality

Economic growth and the general increase in prosperity have not prevented some groups in society from falling behind. Income inequality¹ in the Nordic countries remains among the lowest in the world (OECD 2011), but since 1990 it has increased markedly in several countries. The increase has been greatest in Sweden, Denmark and Finland, and least in Norway and Iceland (Figure 12.6).²

The low-income stratum of the population has also evolved differently among the Nordic countries (Figure 12.7). In Denmark and Sweden, the share of the population classified as being at risk of poverty increased during the period, while in the other countries the situation was about the same in 2013 as in 2004.³ What occurred in Iceland must be interpreted in light of general income developments after the global financial crisis, which hit Iceland so hard. One reason that the share of Icelanders classified as being at risk of poverty has not increased is the decline in the country's median income. The Icelandic crisis package, moreover, was structured to shield those with low incomes, so that real income decline in the lowest-paid groups was smaller in scale than in the highest-income groups (Ólafsdóttir & Ólafsson 2014: 93). Measured in constant prices, the low-income share of the Icelandic population increased after the crisis.

Figure 12.6 Changes in income inequality (Gini coefficient). 1990–2012

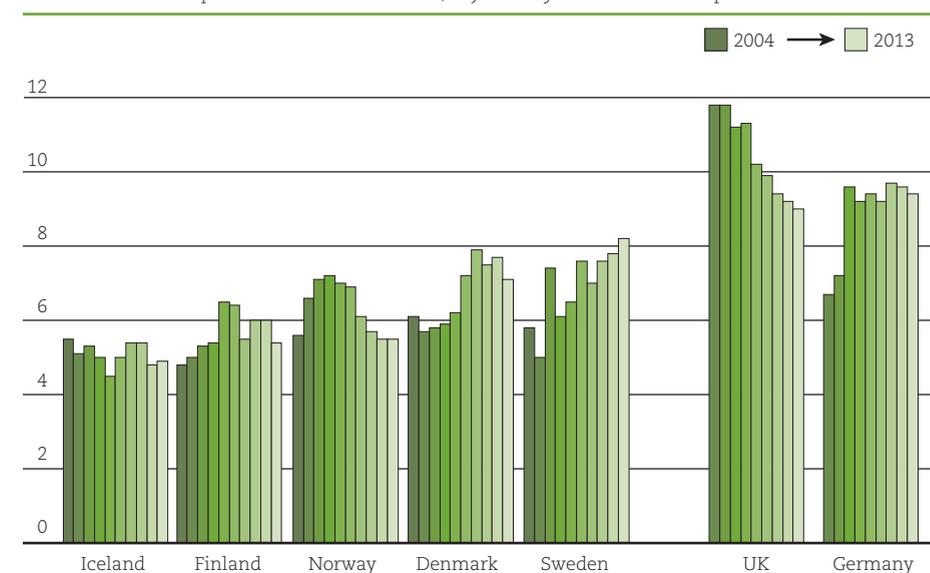


Sources: Calculations from each country's statistics agency. See Fløtten et al. 2014 for more detailed source information.

1 Income is the sum of wages, transfers, benefits, capital income and other financial income.
 2 The figures for Iceland in Figure 12.6 are only for the 2004–2012 period, but other sources indicate that the Icelandic Gini coefficient rose from 0.21 in 1993 to 0.30 in 2008, then fell to 0.24 in 2012 (Ólafsdóttir & Ólafsson 2014: 91). Thus, Iceland's inequality was not dramatically higher in 2012 than it was in 1993.
 3 In Norway, however, analyses show that the proportion of children living in low-income families has increased significantly over the last decade, and that this increase has come exclusively in families with non-Western immigrant backgrounds (Epland & Kirkeberg 2014).

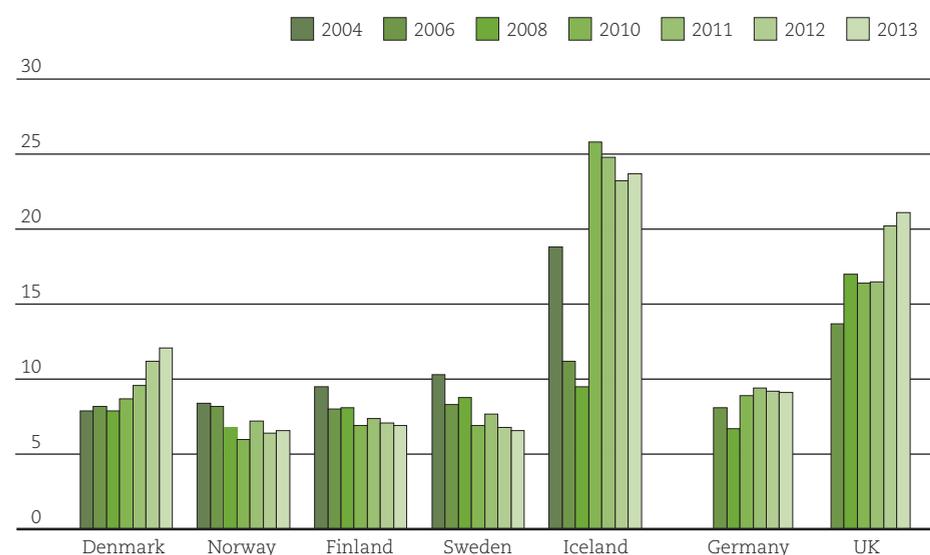
The low-income problem is greater in Germany and the UK than in the Nordic countries, but in the past decade, the two non-Nordic countries have developed in opposite directions. The share of the population at risk of poverty has increased in Germany, while it has declined in the United Kingdom. Developments in the UK, as in Iceland, must be understood in light of the financial crisis as well as the policy measures implemented over the last decade to reduce the extent of child poverty.

Figure 12.7 Changes in share of population with low income (50 per cent of median or below). Calculated on basis of disposable household income, adjusted by the EU scale of equivalence. Per cent



Source: Eurostat, table ilc_li02

Low-income statistics do not provide a complete picture of material well-being in households. This can be seen in Figure 12.8. Even though income inequality has increased, and even though a higher proportion of Danes and Swedes had low incomes in 2012 than in 2003, relatively few people report difficulty in making ends meet (Figure 12.8). In Finland, Norway and Sweden the percentage declined moderately in the first decade of the millennium. In Denmark, the percentage has been increasing, while there has been a sharp spike in Iceland, which is understandable given the impact of the financial crisis there. The share of the population reporting economic problems has also risen steadily in the UK, while remaining stable in Germany. In sum, no clear correlation is apparent between the inequality trends, low-income trends and subjective experiences of economic scarcity.

FIGURE 12.8 Share of households that have problems making ends meet.* 2004–2013

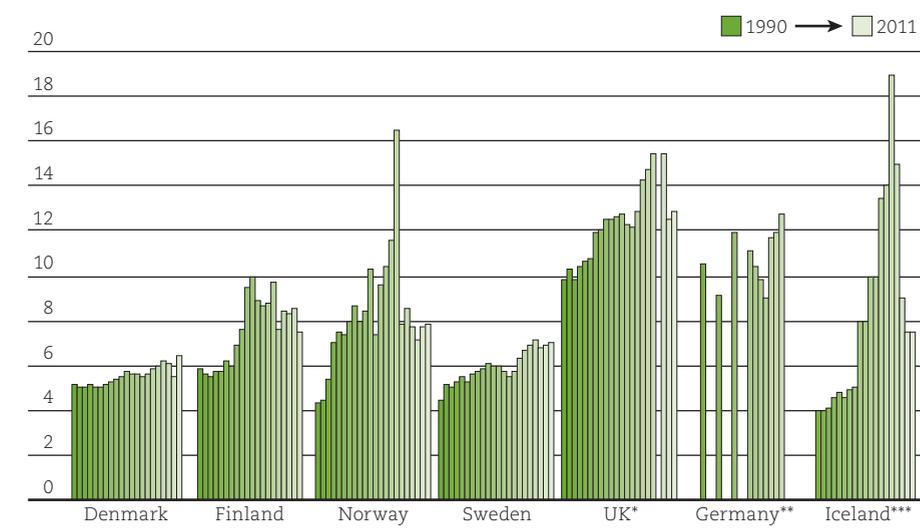
* Share answering that they have problems or serious problems making ends meet.
Source: Eurostat, table ilc_mdec09

For most, wealth comes from working

Earlier in this report, data on Nordic employment levels and employment trends were presented, and the numbers will not be repeated here. It is sufficient to recall that employment levels – including among women, older people and immigrants – are higher in the Nordic countries than in most other countries, and that the trends are generally positive. Prosperity is created mainly in the labour market. High employment levels are the main explanation for the affluence of the Nordic countries, and for their comparatively small low-income cohorts.

The most important driver of income inequality is the wide variation in market incomes, but the Nordic systems for wage-setting, taxation and social transfers help keep income inequality in check. The rise in inequality in several Nordic countries has mostly to do with increased disparities in job income, which suggest that equitable conditions are not permanently secured. The differences in income level are also a function of how investment income is distributed. In recent years a variety of studies have shown that the richest part of the population has been getting a larger and larger piece of the pie (Atkinson 2005; Atkinson & Piketty 2007; Atkinson & Aaberge 2008; Hacker & Pierson 2010; Piketty 2014).

This description also fits the Nordic countries. The trend has been most pronounced in Iceland, where the richest 1 per cent's share of total national income rose from about 4 per cent in 1992 to nearly 20 per cent in 2006. After the economic crisis, the figure dropped in just a few years to 6–7 per cent (Ólafsdóttir & Ólafsson 2014: 93). The trend in Norway has also been striking, with the richest 1 per cent's share of total income almost doubling between 1990 and 2013 (from about 4 per cent to almost 8 per cent).⁴ Denmark is at the other extreme; there, the wealthiest 1 per cent's share increased only by 1 percentage point (Figure 12.9). In all the Nordic countries, including Iceland, the richest 1 per cent receives a smaller proportion of total income than in the UK.⁵

FIGURE 12.9 Richest 1 per cent's share of total income in society, 1990–2011

* UK lacks data for 2008 ** Germany lacks data for several years *** Iceland not in database. Figures from Ólafsson & Kristjánsson (2013).

Source: World Top Income Database, retrieved from: <http://topincomes.parisschoolofeconomics.eu/>

A more divided labour market?

The increase in market-income inequality can be seen as symptomatic of problems in the labour market. In the Nordic countries there is concern that the labour market is moving towards bifurcation, with an upper tier of secure, well-paying, autonomous, high-quality jobs and a second tier where the jobs are insecure and low-pay-

⁴ In Norway, the extreme swings registered in the middle of the last decade can be explained by a tax reform in 2006 that made it less profitable to take out dividends. Large dividends were paid to many shareholders in the years before the reform entered into force.

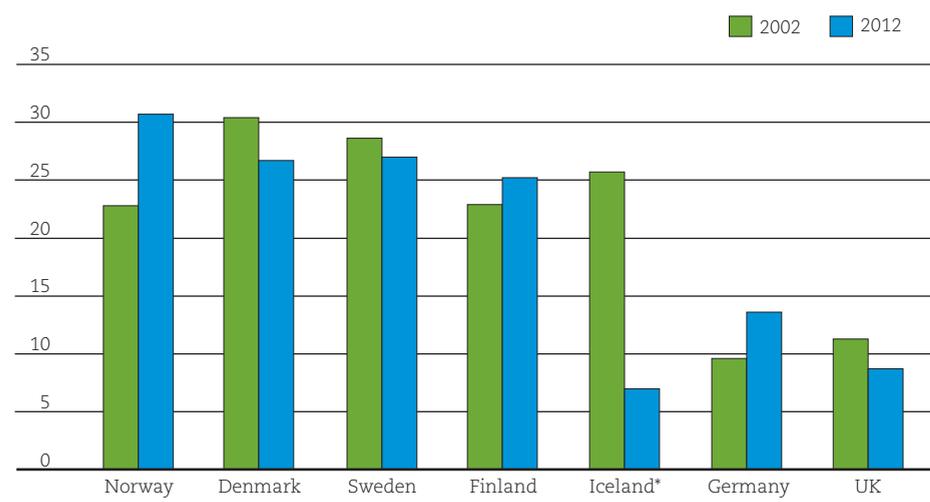
⁵ The database's time series for Germany is incomplete.

ing, with few opportunities for advancement, unsafe conditions and inconvenient working hours. Immigration by poorly qualified workers has caused such jobs to proliferate, which in addition to being a problem in itself has contributed to the widening gaps in income.

All of the NordMod country reports point to problems at the ragged edges of the labour market. Some groups never find a foothold, and more or less fall out of the market. Youths who fail to complete upper secondary education are particularly vulnerable. In all the Nordic countries the dropout problem is greater among boys than girls, and it is particularly serious in certain immigrant groups.

The dropout problem could be both a result and a cause of the increase in psychological problems that has been registered among young people, but in any case a labour market where youths are underrepresented is negative not only for the individuals left out. It is also a waste of society's resources, a source of additional inequality and a challenge to the sustainability of the welfare state.

Figure 12.10 Share with high degree of trust in country's parliament (answering 8, 9 or 10 on scale of 1–10).



* The earlier figure for Iceland is from 2004.
 Source: Own calculations, European Social Survey, Round 1 Data (2002). Data file edition 6.3 and Round 6 Data (2012). Data file edition 2.1. Norwegian Social Science Data Services, Norway – Data Archive and distributor of ESS data.

Trust

Trust is seen as an indication of social cohesion in a society, and the high level of trust in Nordic societies is often considered relevant to their performance. Some argue that the Nordic welfare states themselves generate the confidence and trust (Rothstein & Uslaner 2005), while others argue that the welfare states are a product

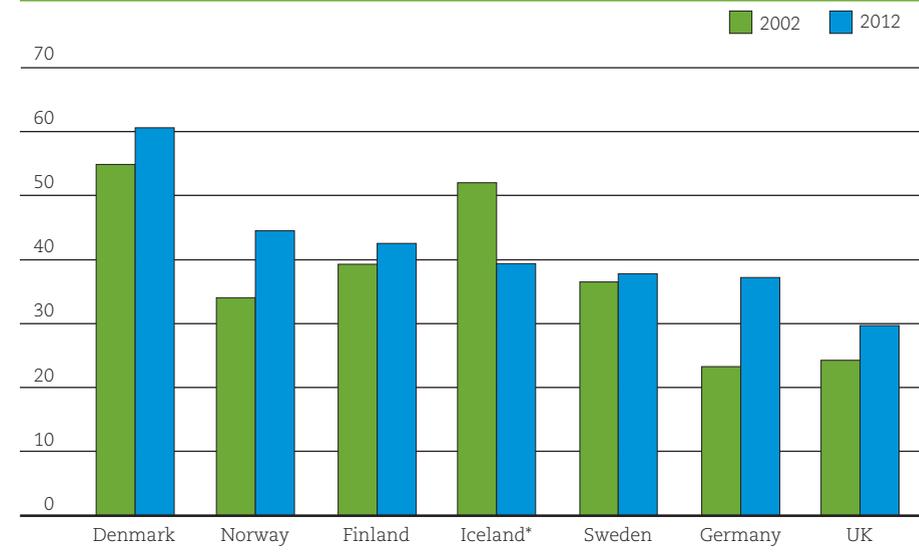
of high levels of trust that have long existed in their populations (Bergh & Bjørnskov 2011).

Trust or confidence in social institutions (such as the police, parliament, politicians and political institutions) and trust in individuals are both cited as indicators of the degree of trust in a country. In the Nordic countries both kinds of trust are high, but Iceland differs from the other countries when it comes to trusting political institutions (Figure 12.10). The hardship Icelanders went through in connection with the financial crisis is the likely cause. In the early 2000s their confidence in the national parliament was on par with that of the other Nordic countries (Figure 12.10). Confidence in parliaments has in fact dropped in several of the countries since the financial crisis, indicating that the generally high levels of Nordic trust cannot be taken for granted.

Satisfaction with life

The final quality-of-life indicator we have chosen to highlight is overall life satisfaction. It is an indicator that is not necessarily linked to wealth or well-being. Rather, it is a stand-alone measure of how people feel about their own general situation.

Figure 12.11 Share of population highly satisfied with life (answering 9 or 10 on a scale of 1–10).



* The earlier figure for Iceland is from 2004.
 Source: Own calculations, European Social Survey, Round 1 Data (2002). Data file edition 6.3 and Round 6 Data (2012). Data file edition 2.0. Norwegian Social Science Data Services, Norway – Data Archive and distributor of ESS data.

In the Nordic countries, as in the United Kingdom and Germany, people are generally more satisfied with their lives in 2012 than they were in 2002. The exception is Iceland, where the population has become clearly less satisfied with their lives during the decade. In addition, Nordic satisfaction levels – apart from Denmark's – do not differ dramatically from those of the British and German populations (Figure 12.11).

Good living conditions – more inequality

The review of living conditions shows wide variations from country to country as well as in the evolution of those conditions over time. In many categories the indicators suggest that most of the Nordic countries are better off than Germany and the UK: wealth is generally greater, material living conditions are better, employment levels are higher and there is more trust. On several of the indicators, however, there are clear differences among the Nordic countries. There is also evidence that living conditions have grown more unequal from country to country since the financial crisis.

It is not the case, moreover, that the Nordic population stands out favourably in every regard. Some of the quality-of-life trends are actually negative, and that is cause for concern. One such trend is obviously income inequality; low incomes are another. The growth in income inequality tells us for example that disparities in access to work have increased, that wage coordination systems have failed to moderate inequalities in market income, and that tax systems are not preventing the richest in society from taking larger shares of the pie. Another challenge is the trouble some groups have obtaining a stable foothold in the labour market. Certain immigrant groups, dropouts from school and young people with mental health problems are among those at particular risk, indicating that the Nordic model has a way to go in creating a genuinely inclusive working life.

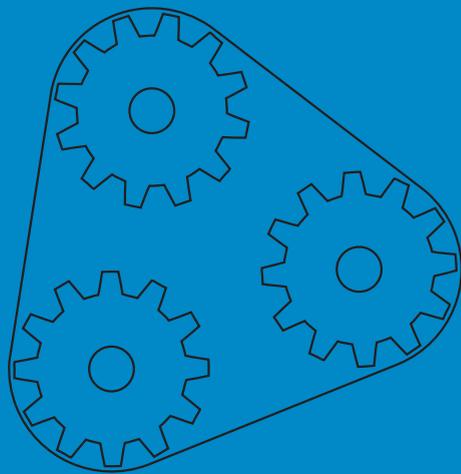


PHOTO: Coloubox

Part III: Towards 2030

The model's future challenges

From now through 2030, the Nordic countries can be expected to continue facing strong external and internal forces of change. New political and institutional reforms will be needed.



13 Towards 2030



Over the past 25 years the Nordic countries have confronted strong external and internal forces of change. The extent of reform they agreed to pursue and the powers of execution they displayed during the turbulent period from 1990 to 2014 have been remarkable.

Looking ahead to the year 2030, we must expect that the Nordic countries will continue to face major external and internal forces of change that will require new political reforms and institutional adjustment. Many of these forces of change are well known: accelerating globalization, aging of the population, continued urbanization and further growth in immigration. And the Nordic countries will not be immune to the effects of climate change as greater numbers of people seek to migrate northward from countries hit hard by global warming. More extreme weather in the northern latitudes and the transition to a low-carbon economy will make radical reforms and adaptations unavoidable. In October 2014 the EU countries agreed to a goal of 40-per-cent reductions in emissions by 2030; achieving it will require a hastened tempo of change. Other drivers of change, such as new financial crises, are currently hard to predict, but it would be unrealistic to discount them.

The critical question regarding the sustainability of the Nordic model is whether governments, organizations and businesses will retain the capacity to adjust their strategies to meet such external and internal changes. This depends not only on political choice and execution capacity, but also on whether the key actors will maintain the institutional resources, policy tools and capacity needed to renew their strategies and reproduce outcomes in accordance with the Nordic goals of full employment, low inequality, equal opportunity and a sustainable environment.

Three historical chapters

To put the period from now to 2030 in a historical perspective, it's safe to say the Nordic model is entering a new chapter, one that will differ significantly from what came before. At the beginning of the 20th century, new manufacturing technologies and expanding markets unleashed social forces that the Nordic countries were

institutionally unprepared to handle. While the urban industrial working class grew rapidly, there were no systems in place to care for the many people exposed to work accidents, illnesses and unemployment. The political responses to this predicament became the basic building blocks of the Nordic model: class compromise, working-life regulation through collective agreements and the first social insurance schemes, which altogether paved the way towards greater social security and economic growth (Dølvik 2013a).

During the economic rebuilding period after World War II, the Nordic countries began erecting the welfare states we know today. The pace of change was rapid. Extensive pension and social security systems were established along with robust expansions of public welfare services and the development of tripartite cooperation to link wage formation with economic policy. The research literature explaining this period of welfare state expansion typically refers to power resource mobilization theories (Korpi 1981, 1986, 2006),¹ which attribute the differences between Nordic developments and those in continental Europe and the United States to widespread electoral support for left-wing parties and strong working-life organizations (Esping-Andersen 1990). Few periods in history can be compared to the post-war years for the progress achieved in equalizing living conditions and improving the lives and prospects of broad swathes of the population.

The NordMod baseline analysis argued that a new chapter in the history of the Nordic model was written after the crises of the 1980s and 1990s. During this period the combined effect of external changes, crises, demographic changes and shifts in socioeconomic conditions provided impetus for pushing through institutional and policy reforms. After the tumultuous 1980s, the Nordic countries transitioned from building the welfare state to renovating it. Interestingly, the NordMod authors responsible for the project's different country reports came up with roughly the same title – some variation of “Period of reforms” – to characterize this historical chapter in each country. The 1990s' process of modernization came to be marked by revitalization of social partner relations and wage coordination mechanisms alongside welfare policy reforms aimed more at refurbishing than dismantling the Nordic model. During this period the Nordic countries largely maintained or improved upon previous social outcomes, with inequality remaining modest and living conditions getting better.²

The first decade of the millennium brought new political and economic swings, and the Nordic countries varied to a greater degree in their strategic responses.

¹ In recent years supplementary theories have been advanced, emphasizing that employers had an interest in the development of good welfare schemes (Swenson 1991; Hall & Soskice 2001); but in the Nordic cases in particular, it is difficult to explain employer strategies in isolation from the power of the growing labour movement.

² Iceland, where inequality grew rapidly after financial markets were unfettered in the 1990s, is an exception.

While traditional measures often fall short in solving new kinds of social problems, the NordMod baseline analysis shows development trends that indicate rising tensions in the model's fundamental pillars. The authors of the Swedish country report, for example, discuss whether the Swedish model – *folkhemsmodellen* – can be said to remain intact. They cite reduced social security benefit levels, weakened trade unions and persistent high unemployment as factors that may erode the model (Berglund & Esser 2014). Since the financial crisis, the combined Nordic unemployment level has exceeded the national levels of Germany and the UK.

Nonetheless, on the whole, the Nordic countries during the past quarter century have exhibited a remarkably strong capacity to renew and adjust the model's basic pillars and policy instruments. The Nordic model is still intact, confounding the gloomy predictions of the 1980s and 1990s. Their adaptive capability has kept the Nordic countries near the top of most international rankings, with social outcomes that set them apart from other groups of countries, albeit to a lesser extent than previously.

New chapter – or epilogue?

The question between now and 2030 will be whether the lessons of previous periods can be used to extend the story of the Nordic model, or whether the new chapter will be an epilogue. Will key actors maintain their capacity to renew their institutions and replicate the social outcomes of the past? Can proven approaches, institutions and policy instruments be remobilized to solve new challenges – like making the economy more climate-friendly – or will they appear instead as obstacles to renewal? Are today's ailing institutions too enfeebled to withstand new external economic pressures and climate demands, or will they be able to renew themselves and their agendas?

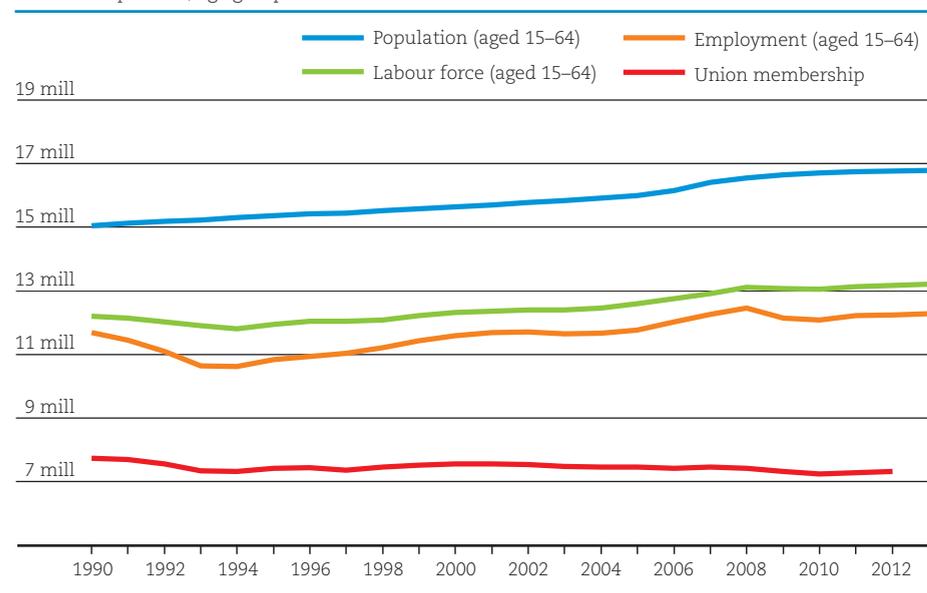
In this final part of the report, we will first illustrate the breadth of potential outcomes that could unfold in the Nordic countries through 2030, depending on whether one prolongs key trends for the Nordic region as a whole, or for the individual countries that scored best or worst in the preceding period. Moving on, we discuss what it means to maintain or carry forward the Nordic model under changing circumstances. Then we describe key external and internal dynamics that will influence national developments in any case, and we look into the political challenges these dynamics may represent given the problems detected in the baseline analysis and in the section on potential 2030 outcomes. The concluding section centres on the particular challenges that all of this represents for the labour movement.

Will key actors maintain their capacity to renew their institutions and replicate the social outcomes of the past?

The range of possible outcomes through 2030

Developments through 2030 can take many paths, depending on external events and the strategies that Nordic actors choose. We will not attempt to prognosticate or contrive detailed scenarios for the year 2030. To illustrate the range of potential outcomes for the Nordic countries, we have instead chosen to extend a few key indicator trend lines from recent history. The chosen indicators are employment, union density rate and income distribution. For purposes of calculation, we have composed weighted common indicators for the five Nordic countries as a whole. In order to look forward effectively, it's best to begin with a glance backward.

FIGURE 13.1 Changes in Nordic population, labour force, employment and union membership. Number of persons, age group 15–64. 1990–2013



Source: OECD Labour Force Statistics

In the Nordic countries as a whole the working age population (aged 15–64) increased from 15 million in 1990 to 16.8 million in 2013. The increase was strongest in the period 2005–2009.

The labour force, meaning all who offer their labour in the labour market (whether employed or looking for work), has changed far less. The labour force as a proportion of the population (aged 15–64) was at its highest in 1990 (81 per cent) and its lowest in 1994 (77 per cent). In 2013 the labour force amounted to 79 per cent of the working-age population (13.2 million).

Employment fell sharply during the crisis years of 1990–1993, but increased there-

after from 10.6 million to 12.5 million in 2008. The strongest period of growth was recorded between 2004 and 2008, when labour migration from the EU surged. The financial crisis then caused a sudden decline that was followed by a period of weak growth beginning in 2010. By 2013 the employment level had reached 12.3 million, which was still 190,000 lower than the 2008 peak but 1.7 million higher than the level of 1990. Since the total population aged 15–64 had increased far more during the period, the employment rate fell from 78 per cent in 1990 to 74 per cent in 2013.

The number of union members was 7.7 million in 1990, or 66 per cent of total employment (including self-employed). Nordic trade union membership has remained fairly steady from 1995, with a slight decline from 2000 to 2010, and in 2012 there were almost half a million fewer members than in 1990. That means the unionized share of all employed fell in the period by almost 10 per cent (i.e. 6 percentage points) to 60 per cent.

The NordMod report on population changes and the Nordic welfare states (Fløtten et al. 2013) presented both population and labour force projections.³ The analyses showed that:

- ▶ The population of the Nordic countries will increase from about 26 million to about 29 million.
- ▶ The number older than 80 years of age will almost double, from 1.2 million in 2010 to 2.1 million in 2030.
- ▶ The number of people of working age (15–64) will increase by far less – just 300,000 through 2030 – so that the working-age group's share of the population will go down. In Denmark and Finland, the number of people aged 15–64 will decline through 2030.

The sustainability of the Nordic model is predicated on the ability to maintain a high level of employment and a productive, well-organized national working life, which in turn requires collective employer and labour organizations that are strong enough to coordinate wages. An important result of high employment and coordinated wages is a compressed income structure. To illustrate the range of possible outcomes through 2030 we have therefore chosen the following indicators:

- ▶ Employment rate
- ▶ Union density rate
- ▶ Income inequality

³ The figures are based on the following studies: "The 2012 Ageing Report: Economic and budgetary projections for the 27 Member States (2010–2060)", European Economy 2: 2012. Brussels: European Union. And EU (2012). "The 2012 Ageing Report: Underlying assumptions and projection methodologies", European Economy 4/2011. Brussels: European Union. The finance ministries of the Nordic countries have contributed the national figures in the study.

For each indicator three potential courses of development, or sample spaces, are represented in bar graphs. The baseline trend (“Nordic Trend”) is a forward extension of data for the Nordic countries as a whole from the 1990–2013 period. Also shown are sample courses of future development for the region based on recent historical data from both the best-performing country or countries (“Nordic High”) and the weakest (“Nordic Low”).

Employment rate

In the Nordic countries, the share of the working-age population that is actually working – the employment rate – dropped from 78 per cent in 1990 to 70 per cent in 1993. It then rose through 2008, when the financial crisis struck, and by 2013 had fallen back to 73.7 per cent. In Germany, the employment rate was 73.3 per cent in 2013, while in the UK it was 71.3 per cent.

The region’s future employment rate will depend on a number of factors, including economic cycles, growth, economic policies, technological development, productivity growth, business sector composition and changes in workforce size, composition and skill sets. Figure 13.2 plots three potential employment rate scenarios through 2030:

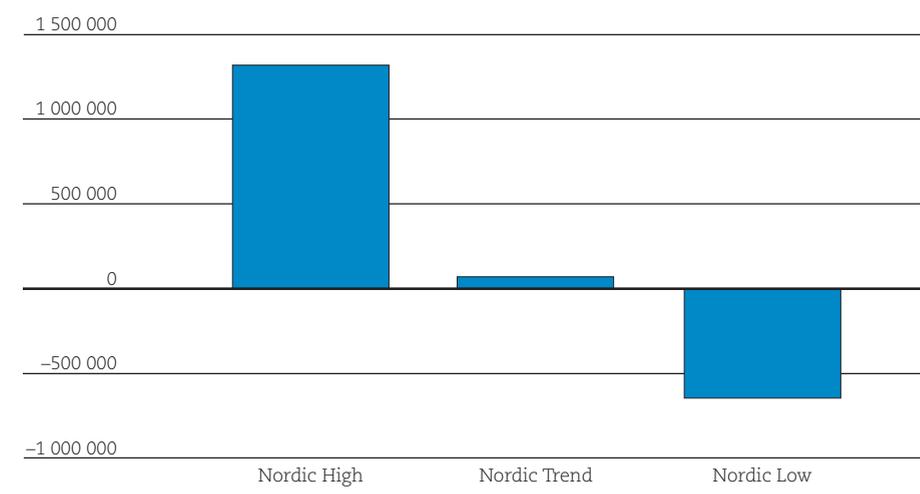
- ▶ “Nordic High”: Based on the weighted average of Icelandic and Norwegian employment rates in the period 2000–2013.
- ▶ “Nordic Trend”: Based on the rate of change in the Nordic region’s consolidated employment rate in the period 2000–2013.
- ▶ “Nordic Low”: Based on the average Finnish employment rate in the period 2000–2013.

The “Nordic High” option produces an employment rate of 79.5 per cent in 2030. If the basic “Nordic Trend” as recorded from 2000 to 2013 were to continue through 2030, the employment rate would drop to 72.2 per cent, while the “Nordic Low” development course would bring the rate down to 68 per cent. As mentioned, demographic projections⁴ indicate little growth in the working-age population of the Nordic countries (aged 15–64). But how many additional or fewer employed would these three scenarios entail for 2030?

To achieve the “Nordic High” scenario, based on the average employment rate in Iceland and Norway from 2000 to 2013, employment would have to rise by 1.3 million

through 2030. This is lower than the Nordic employment growth recorded in the period 1995–2013 (1.6 million), but much of that earlier period saw strong growth in the working-age population. From 2010 to 2013, employment growth was just 190,000.

FIGURE 13.2 Three potential outcomes for Nordic employment in 2030. Net change in employment/number of jobs from 2013–2030.



In “Nordic Trend”, which extends forward the amalgamated data of the five Nordic countries from 2000 to 2013, employment is seen increasing by only 70,000 through 2030, reflecting an actual decline in employment rate. This would obviously be a troubling development. Given a shrinking working-age population, a marked increase in employment rates and productivity will be needed if the region is to marshal enough labour to care for its rising number of elderly residents and fuel an economy large enough to finance growing pension and care-giving costs.

In “Nordic Low”, employment would fall by 650,000 people. Given the challenges associated with a greying population, the result would likely be stagnation in economic growth and affluence, quite likely precipitating substantial cutbacks in the Nordic welfare states.

Union density rate

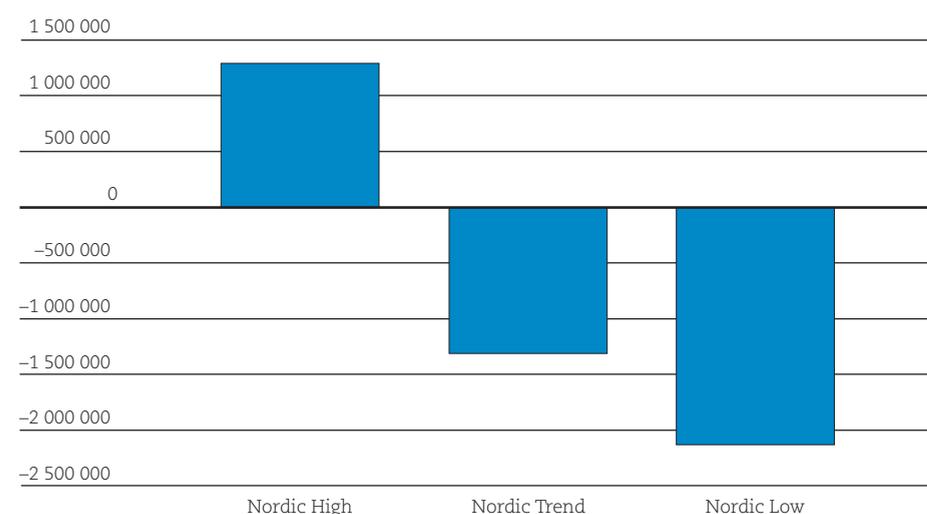
In 2012 there were a total of 7.3 million union members in the Nordic countries, 420,000 fewer than in 1990. With employment increasing by almost 1.7 million during the period, the union density rate declined substantially. Union density rates and trends vary considerably from country to country across the region. As with the employment figures, we have calculated three alternative scenarios; this time, one of them is based on historical developments outside the region – in Germany.

⁴ “The 2012 Ageing Report: Economic and budgetary projection for the 27 Member States (2010-2060)”, European Economy 2: 2012. Brussels: European Union. And the EU (2012). “The 2012 Ageing Report. Underlying assumptions and projection methodologies”, European Economy 4/2011. Brussels: European Union.

- ▶ “Nordic High”: Based on the weighted average of the Swedish and Finnish union density rates in the period 1990–2010.
- ▶ “Nordic Trend”: Based on developments in the Nordic region’s union density rate for the period 2000–2010.
- ▶ “Nordic Low”: Based on the annual union density decline in Germany from 1991 to 2007.

“Nordic Trend”, a continuation of developments in the five Nordic countries from 2000 to 2010, would produce a regional union density rate of 53 per cent in 2030 – roughly equivalent to the Norwegian rate in 2010. In “Nordic Low”, the membership rate would dip to 46 per cent by 2030. “Nordic High” would imply a membership rate exceeding 76 per cent. Given labour force projections indicating that the number of wage earners will be around 11.3 million in 2030, our three alternative scenarios would lead to trade union membership changes as shown in Figure 13.3.

FIGURE 13.3 Three potential outcomes for trade union membership in 2030. Net gain or loss from 2012 union membership total.



In “Nordic Trend” the trade union movement would lose 1.3 million members and be left with 6 million in 2030. Since the bulk of membership loss since 1990 has occurred in unions in the main national confederations (LO), “Nordic Trend” would likely entail major changes in the power balance between the blue-collar and white-collar confederations. For the region to replicate the average Swedish and Finnish member rates of 1990–2010 – the “Nordic High” scenario – trade unions would have to add

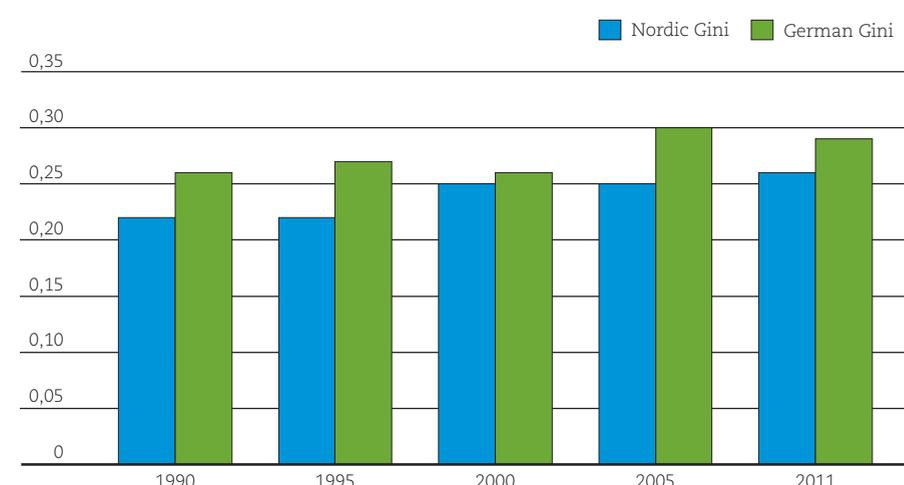
1.3 million members to the 7.3 million they had in 2012. Because annual membership turnover is considerable⁵ and older members will be retiring in greater numbers through 2030, membership growth on the scale of “Nordic High” would require the unionization of several million new employees.

If the Nordic countries see an annual decline in union density rate on par with Germany’s decline between the years of 1991 and 2007, total membership would go down by 2.1 million. Under the “Nordic Low” scenario, trade unions would have 5.2 million members left in 2030. These sample calculations indicate that vigorous recruitment efforts will be needed to stabilize the union density rate and membership total at current levels.

Economic inequality

The Gini coefficient is commonly used to calculate income or net-worth inequalities in a population. The coefficient is expressed as a numerical value from 0 to 1, with 0 indicating that all inhabitants would be exactly equal in income or net worth and 1 indicating that one person in the society would have received all the income or owned all the capital. In short: the greater the economic disparities in a society, the higher the Gini coefficient.

FIGURE 13.4 Gini coefficient for the Nordic countries and Germany (on basis of disposable income, after taxes and transfers). 1990–2011



Source: OECD

⁵ According to the organizations department of the Norwegian Confederation of Trade Unions, about 65,000 new members per year are recruited while departures (not including deaths) amount to about 46,000 (information obtained verbally from department head Ståle Dokken, 20 Oct. 2013).

As previously mentioned, OECD data show that disparities in disposable income (after taxes and transfers) increased in all⁶ of the Nordic countries from 1990 to 2011 (latest available figures). The biggest increase was in Sweden, whose Gini coefficient rose from 0.21 in 1990 to 0.27 in 2011. The smallest increase was Denmark's, from 0.23 in 1990 to 0.25 in 2011. In the Nordic countries as a whole, the Gini coefficient rose from 0.22 in 1990 to 0.26 in 2011, an increase that is somewhat greater than Germany's rise from 0.26 in 1990 to 0.29 in 2011. As shown in Figure 13.4, Nordic economic inequality in 2011 matched that of Germany back in 2000.

In the Nordic countries as a whole, the 10 per cent of residents with the highest disposable income received 24.2 per cent of total disposable income in 1990.⁷ In 2009, they received 28.2 per cent. Another way to view changes in economic disparity is by comparing the highest and the lowest incomes. In the Nordic countries in 1990, the richest 10 per cent averaged 2.7 times the income of those in the bottom 10 per cent of income distribution. By 2009, the ratio had increased to 3.5 (The World Top Incomes Database and NordMod calculations).

As with employment and union density, three different potential outcomes have been calculated for Nordic disposable income inequality through 2030:

- ▶ “Nordic High”: Based on the rate of change in Sweden's Gini scores, 1990–2011.
- ▶ “Nordic Trend”: Based on the rate of change in Nordic-wide Gini scores, 1990–2011.
- ▶ “Nordic Low”: Based on average Danish Gini scores for 2000–2011.

If the trend in income inequality from 1990–2011 continues for the Nordic countries as a whole (“Nordic Trend”), they will have a combined Gini score of 0.30 in 2030. If developments follow the Swedish trajectory (“Nordic High”), the region's Gini score by 2030 will reach 0.32. If instead the countries together manage to reverse inequality trends and return to the average Danish level recorded between 2000 and 2011 – the “Nordic Low” scenario – the Nordic Gini score would be 0.24 in 2030.

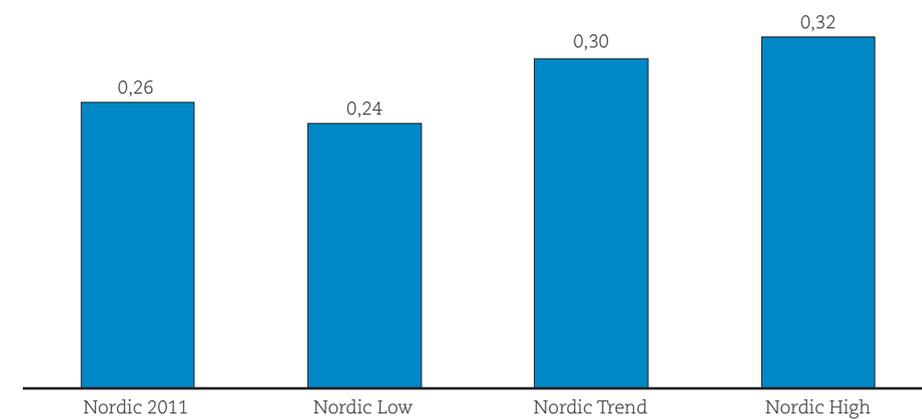
To throw these figures into sharper relief, the “Nordic High” scenario would imply an equality gap similar to that found in Italy today. Italy had a Gini coefficient of 0.32 in 2009. The richest 10 per cent of Italian residents that year got 33.9 per cent of the country's total disposable income. The “Nordic Trend” course would result in greater income inequality in the Nordic countries than Germany had in 2011 – and about the

⁶ Iceland is not counted, since there are no figures from before 2005 in the OECD database. The Nordic regional figures are composed of national Gini scores weighted by population size. By population, Sweden accounts for 37–38 per cent of the Nordic Gini coefficient, while Finland, Denmark and Norway each constitute between 19 and 22 per cent.

⁷ The World Top Incomes database. The figures for the Nordic countries are weighted, as with the Gini coefficient, to reflect national population sizes.

same as France. In 2009 the richest 10 per cent in France received 32.7 per cent of the country's total disposable income. On average, they received 4.4 times as much as the poorest 10 per cent did. “Nordic Low” shows the result of closing the regional equality gap to Denmark's 2000–2011 level.

FIGURE 13.5 Gini coefficient for the Nordic countries in 2011, and in 2030 under Nordic Low, Nordic Trend and Nordic High scenarios.



These simple projections don't tell how the Nordic countries combined will actually develop through 2030. They do indicate that if past trends continue the Nordic countries may end up with as much inequality and a lower employment rate than the Germany of today. They also underscore how much effort it would take to lift the whole Nordic region to the level of the Nordic countries that to date have scored best in the relevant indicators. In the worst-case scenario, with income inequality continuing to increase as in Sweden and employment falling to the Finnish level, the Nordic countries as a whole in 2030 would find their levels quite close to the European averages of today, except in relation to union density.

These computations point to a wide breadth of potential futures for the Nordic countries and show that paths of development in which the special distinctions of the Nordic model evaporate are easily imaginable.

What does it mean to extend the Nordic model?

Today there is broad political agreement that it's desirable to preserve the Nordic model, but what will that mean as the Nordic societies change? In the social sciences, a model is a tool to analyse and understand how something is structured and how it works. In the realm of ideology or politics, a model is an image of how something should be – an ideal to strive for. Both sorts of model have been applied in

social science and political debate. In the NordMod project, the term Nordic model is primarily used as an analytical tool to understand the relationships between society's goals, its institutions, its various decision-makers and the tools available for pursuing social outcomes that can be measured in terms of affluence and quality of life.

Those who commissioned the NordMod project are seeking a new chapter in the Nordic narrative, one that extends the best of the established Nordic traits and outcomes. Implicit is a strong desire to continue developing the model. But what are the criteria for maintaining a model when the societal landscape is shifting and its environment is subject to sweeping change? The Nordic countries will probably remain prosperous and well-functioning even if they become less egalitarian, with growing disparities in working and living conditions or a larger wage gap between men and women. From an ideological perspective, certain observers may even see more inequality as a desirable goal in itself. Others may argue that this is unavoidable in a globalized economy, or that it's a price that must be paid to achieve high employment, as suggested in the Research Institute of the Finnish Economy's report to the Nordic Council of Ministers (Calmfors 2014; Valkonen & Vihriälä 2014). So despite relatively unambiguous historical evidence of the link between equality and efficiency, one could argue that the Nordic countries are now bound to give up on their former ambitions. Yet the future of the Nordic model, and what sustaining it would entail, is neither a technical nor a mechanical matter. It's a question of political objectives and the execution of political strategies. There are many paths to 2030.

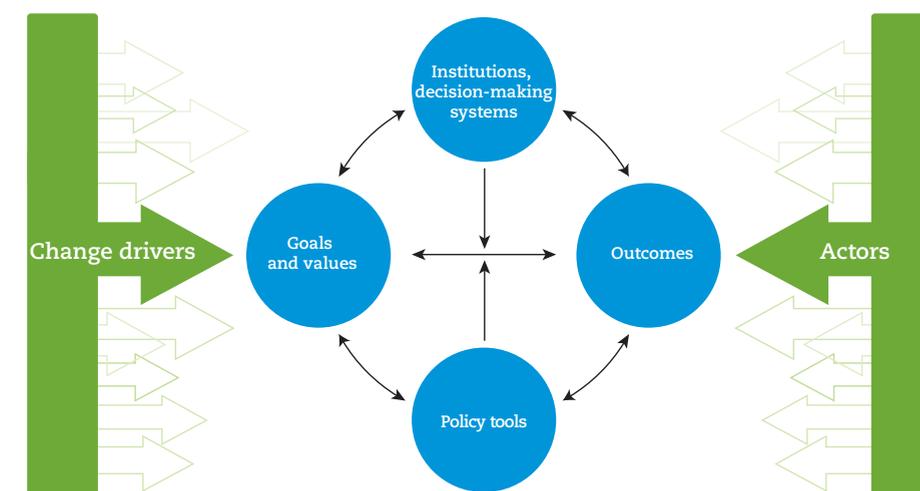
The challenge given to the NordMod research team was to acquire information and insights that could fuel debate over how to preserve the basics of the Nordic model and the political support for it. If one's goal is to carry forward a model, one must discuss specifically what about the model it is essential to keep. Is it the model's institutions, or the results it produces? Are all those institutions and results equally important? And at what point will the Nordic countries have changed so much that they no longer can be said to fulfil the criteria that represent a Nordic model? Can their efforts to save the model be evaluated in isolation from the problems they face, or from the results that comparable countries achieve in similar situations?

If one looks closely at the Nordic countries, national differences become apparent along a number of axes. Unemployment rates vary, as do PISA school testing results, union density and economic inequality. Those are just a few examples of how the Nordic countries differ, and they can be explained by economic, institutional, political and other distinctions. For example, disparities in union density must be seen in light of how each country regulates unemployment funds and labour-market pension systems. Employment and unemployment levels have to do with industrial structures, international business cycles, economic frameworks, immigration

policies and other factors while inequality is affected by tax policies, employment, wage-setting practices and transfers. Such variation between Nordic countries and over time makes it plain that the criteria to define a Nordic model cannot solely be related to the actual results produced at a given point in time.

In the NordMod project we have noted that if one is to compare the Nordic model with other national models, consideration must be given to the interaction of the model's main pillars. One must regard the totality of goals and values (such as equality, full employment, gender equality, social cohesion), institutions and decision-making structures (such as collective organization, educational system, social security systems), policy measures and initiatives (such as laws and agreements, training programmes, labour market policies) and results and social outcomes (such as development and distribution of living conditions) (Dølvik 2013a: 13).

FIGURE 13.6 Illustration of relationships between goals, institutions, policy tools and outcomes.



When political actors from other countries want to learn from the Nordic model, it is often its outcomes they ask about. But outcomes cannot be seen in isolation from the model's institutional makeup. The region's coordinated system of wage formation, for example, is why pay scales are relatively compressed, helping to minimize income inequality. For the system to work, broad-based organizations are needed on both the employer and employee sides of industry. The high employment rate among women is tied to the spread of public welfare services and educational opportunities. Good framework conditions for Nordic trade and industry stem in part from the rel-

atively low taxes and fees on businesses (and by extension the relatively high taxes and fees on workers and consumers) in combination with high educational levels, good infrastructure, lax regulation of product markets and tight links between productivity and pay. The high Nordic employment levels are dependent on competitive businesses, economic policies that stabilize demand, and a social infrastructure that enables most everyone to work.

To characterize these interrelationships, the NordMod project has highlighted the following shared particularities crucial in the development of the Nordic model:

- ▶ Comprehensive coordination between actors in organized working life, the welfare state and macroeconomic governance.
- ▶ Such coordination has been dependent on equitable power relations and a constructive “conflict partnership”.
- ▶ This conflict partnership has in turn staked out common grounds for broad investment in human resources (Dølvik 2013a).

An important conclusion from the NordMod baseline analysis is that it is impossible to reproduce the Nordic model’s distributional effects if the institutions, actors and policy instruments that have contributed to the equalizing of outcomes are weakened. Carrying the model forward is therefore a matter of politics when it comes to defining societal objectives (outcomes) and to maintaining both the institutional prerequisites and the actors’ capacity to develop adequate responses to the challenges that arise.

Carrying the model forward, then, requires more than preserving institutions and policy instruments. The actors involved must also be strong enough to renew them, so as to deliver results in line with objectives. Where to set the bar defining success is another political issue, which cannot be resolved without taking into account the prevailing economic climate, changes in external conditions and the outcomes that comparable countries have been able to achieve. All the same, if the trends of recent decades continue through 2030, the Nordic countries as a whole will have a lower

employment rate and higher income inequality than Germany does today. Apart from the fact that such outcomes would hardly qualify for the “Nordic model” designation using today’s criteria, it is likely that forces pulling in the direction of increased inequality will become stronger in

the years ahead. To stop or reverse this trend will therefore require strong political determination and forceful measures.

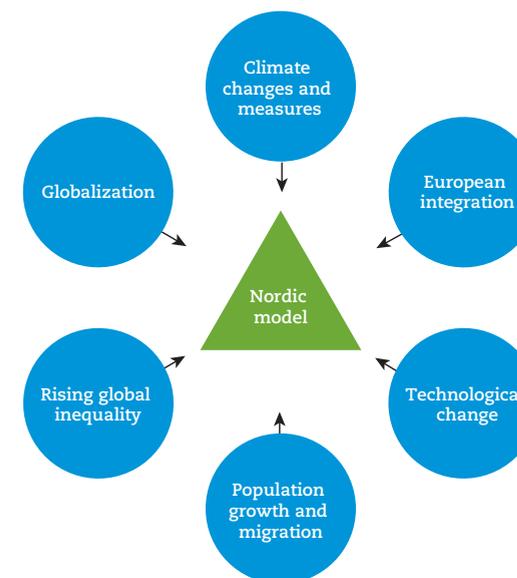
To stop or reverse this trend will require strong political determination and forceful measures.

External and internal forces of change

In the period towards 2030 Nordic leaders will have to master increased complexity stemming from demographic, climatic and economic changes, and no doubt from shocks and crises as well.

Figure 13.7 illustrates some of the major trends – or drivers of change – that will continue to affect Nordic developments in the years to come. These are well-known forces that individual countries acting on their own have little chance of influencing, but whose effects they must deal with largely through national strategies while pursuing international cooperation as well. Though climate changes will become increasingly important in the years ahead and measures to limit them will, it is hoped, gain international support, none of these drivers of change are new. And included among them are opportunities as well as problems that the Nordic countries have addressed before. For example, the organization of the small, open Nordic economies is designed to cope with swings in the international economy – and over the past 25 years the Nordic countries have emerged among globalization’s winners (Ketel 2010; Barth & Moene 2013).

FIGURE 13.7 Independent trends that will affect the Nordic countries through 2030.



High rates of change and complexity favour countries with robust institutions, high levels of skill and broad-based participation in problem-solving; but even such countries must do their homework and develop their repertoire of national strategies and policy instruments.

The long-term changes in external circumstances affect the Nordic countries primarily through their economies and labour markets, but their political room to manoeuvre is also affected.

Strong international competition

First, there is reason to expect continued strong international competition as well as mobility of capital, production factors and labour between regions with large social disparities. This could also set the stage for intensified tax competition – as we have seen with Nordic corporate taxes in recent years – and for pressure on governments to shift taxation towards property and other fixed assets (Calmfors 2014). These are familiar challenges, but in combination with the advances occurring in manufacturing robotics, increased outflow and rationalization of jobs cannot be ruled out (Brynjolfsson & McAfee 2011). Compared with the past 25 years – during which China, Russia and India have become a part of the global economy – the pace of globalization could well slow in the coming 15 years. Given the protracted eurozone crisis and projections of slow global growth, it is also reasonable to assume that the Nordic economies will enjoy less of an international tailwind in coming years than in the preceding decades.

A major point of uncertainty is whether Chinese demand for Nordic goods will continue increasing at the same rate as before – and whether the rise of China and the other BRIC countries up the production value chain will be felt primarily as a market expansion for Nordic companies or as increased competition (Freeman 2013; Dølvik 2013b). The other major uncertainty is how climate changes will affect the international and Nordic economies. Adjustment to a greener economy can provide major new growth opportunities for those who manage to transform production and capitalize on increased demand for climate-friendly products (see The New Climate Economy Report 2014),⁸ but it can also have serious negative consequences for economies that are locked in carbon-dependent forms of production. In the long term such adjustment may therefore be much more demanding for Norway than the other Nordic countries, whose economic engines are less dependent on oil and gas.

Increased migration

Second, increased migration can affect the conditions for maintaining the Nordic the model. The climate crisis, regional conflicts and wide gaps between national wage levels and living standards are all factors indicating that the growth in international migration is unlikely to diminish. What's more likely is that the opposite will occur – and that the more the Nordic countries succeed in developing inclusive welfare so-

⁸ <http://newclimateeconomy.report>

cities, the more they will emerge as attractive destinations for migrants. Increased migration could make it easier to solve future social challenges – by compensating for the stagnation of labour supply – but in the absence of a solid wage floor and improved integration policies it may also strengthen pressures on the labour and welfare regimes (NOU 2011: 7; Djuve and Grødem, eds., 2014; Andersen et al. 2014).

Less scope for national action

The third way globalization and European integration could affect the Nordic countries' ability to deal with future problems is by changing the range and reach of national policy-making. The effect is double edged. Supranational regulations are needed to resolve international problems requiring collective action, expand the impact of political decisions and enable countries to handle transnational issues. Without international climate agreements that increase the price of CO₂ emissions, it would be very difficult for individual nations to restructure their businesses and economies to the degree necessary. On the other hand, such agreements always involve self-constraints that limit the scope of national policy. This duality is a well-known aspect of the Nordic countries' participation in the European project – not least in economic policy – and requires them to strengthen their strategies for coalition-building and wielding influence in international arenas.

Crises and shocks

As these and other global trends unfold, there is no reason to imagine that the period through 2030 will be free of unforeseen crises and shocks, whether international or national. No one can rule out the possibility of new financial meltdowns caused by the financialization of the international economy, continued low-interest-rate policies, more printing of money to stimulate growth and investment, and further increases in household debt (Freeman 2013; Wolf 2014). Nor can one exclude the possibility that geopolitical conflicts exacerbated by global warming could trigger significantly larger waves of migration into Europe than anticipated.

Just how, and how strongly, the abovementioned processes will affect the ability of the Nordic countries to perpetuate and renew their models cannot be known with any certainty today. It is safe to say, however, that the less capable the international community shows itself to be at managing such shared challenges, the harder it will be for each country to tackle problems at home – and vice versa.

Regardless of international developments in the coming years, the Nordic countries will also have to deal with the consequences of the long-term domestic changes that the NordMod project has highlighted. Among the most consequential changes requiring new approaches are:

- ▶ The aging of the population. Care and health services for the elderly will absorb more resources and manpower even as growth in the labour force stagnates.
- ▶ Accelerating urbanization. As more and more people move into the cities, huge investments will be needed in infrastructure, housing, transport, public services and other areas, along with better coordination of public administration systems.
- ▶ A diversifying population. Growth in the immigrant population will put extra demands on integration, education and labour policies as welfare states seek to reconcile low social inequality with greater differences in culture and lifestyle.
- ▶ Climate changes. Not only will new international rules and national economic restructuring be needed, but significant changes in settlement patterns, consumption, infrastructure and lifestyle may also have to be initiated in the coming decades.
- ▶ Technological developments. Digitalization, biotechnology, genetic engineering and increased automation and robotics in both manufacturing and many manual services will strengthen the need for innovation and expertise in using new tools and methods.

As the long-term external and internal drivers of change described here intersect with the problems and trends outlined in the baseline analysis, the existing Nordic social challenges will grow in scale and new ones will appear. On the next page, using the baseline analysis in Part II as background, we have singled out 10 of today's key social challenges.

10 SOCIAL POLICY CHALLENGES

- 1 **To maintain the economic foundations.** High employment, growth and financing of public goods and services require a competitive business sector where the authorities and the two sides of industry work together to strengthen productivity, adaptability, innovation and the application of new technologies in enterprises.
- 2 **To ensure an orderly and well-functioning labour market.** This is a prerequisite for restoring full employment, giving everyone an opportunity to participate and making the most of society's human resources. To keep the inequality gap from widening we need effective measures to integrate more groups, prevent exclusion and counteract increased disparities in wages and working conditions.
- 3 **To strengthen the regime of collective bargaining and working life regulation.** The ability to adapt to change, coordinate wages and prevent a rise in inequality depends on collaboration between strong employer and trade union organizations. That means measures are required to halt the decline in union membership and the weakening of collective agreements and social partner cooperation in vulnerable sectors.
- 4 **To stop the slide towards a new class society.** Steps are needed to counteract the growing disparities in employment and education, to strengthen the redistributive effects of tax systems, to improve training and activation policies and to ensure decent living conditions for those who cannot support themselves by working.
- 5 **To improve public welfare schemes.** Financial constraints will necessitate hard choices between worthy reforms. Improved quality, social security and policy goal attainment are necessary to ensure broad support and willingness to pay taxes.

- 6 **To improve governance, leadership and cooperation in public services.** Demographic changes, new medical treatment options and rising expectations create increased demand. Meeting these demands will require reorganization, deployment of new technologies and development of forms of governance and leadership that rely more on the participation and professional judgment of the employed staff.
- 7 **To strengthen society's ability to master diversity.** The pursuit of equality and integration at work, in education and in civil society may conflict with efforts to promote greater tolerance of diversity in lifestyles and cultures. Different groups may need to be treated differently to ensure them of equal opportunities. This may challenge inherited perceptions of the balance between rights and duties.
- 8 **To increase investment in skills.** More emphasis on vocational and lifelong learning is needed to counteract exclusion from education and work, improve school results and strengthen integration. This will also help strengthen society's ability to adapt to change.
- 9 **To accelerate the transition to a low-emissions society.** The move towards a greener economy is demanding, but it will also open new economic opportunities – assuming measures are put in place to strengthen the ability of businesses and individuals to adapt.
- 10 **To develop joint Nordic strategies in European and global arenas.** Irrespective of the Nordic countries' diverse ties to the EU, a more coordinated, proactive approach is needed that would extend their room for manoeuvre in national politics and strengthen their reach and impact internationally.

New reform agendas

If the Nordic countries are to continue to excel at combining equality and growth, the need for political and institutional reforms will increase in the years ahead. The region's long list of challenges, including ambitious new climate and integration goals, indicates the breadth of reform and adaptation required. Common to all the challenges is that they touch every pillar in the Nordic model. The ability of Nordic actors to modernize their institutions and policy tools will be put to the test in economics and environmental affairs no less than in labour and welfare policy. Reformers will have to be "true to the goals, but untrue to the means," as a former social democratic finance minister in Norway, Per Kleppe, expressed the challenge (Kleppe 2003).

Strengthen the pillars

Our baseline analysis showed that cracks have begun to appear in several of the Nordic model's foundational pillars. As the loads shift, the pillars creak – as indicated by higher unemployment, rising inequality, stagnating employment rates and increased burdens on the welfare system. If the weakening of the trade unions and their cooperative relationship with employer organizations continue, it could not only destabilize wage formation and the working-life pillar, but also reduce the ability to adapt, create wealth and distribute gains across individual workplaces and society as a whole.

The positive outcomes achieved by the Nordic countries have rested on the ability of the political parties to compromise and coordinate across policy areas. If coordination fails and instability increases, the population's trust in politicians and the authorities could plunge – as witnessed in Iceland. Parliamentary power shifts, fragmentation and the emergence of strong right-wing populist parties could also complicate governability, making it harder to pursue long-term strategies.

Replicate results

The list of challenges may raise concerns as to whether the Nordic countries will be able to perpetuate the positive social outcomes that have distinguished the Nordic model. In the past 25 years, as unemployment and inequality have increased and employment levels have stagnated, the weakened ability to combine equality and efficiency has made the Nordic countries less distinct in relation to other European countries. If the Nordic countries fail to reverse this trend, many of their unique characteristics will gradually be wiped away, as demonstrated above in the analysis of potential future scenarios.

Nevertheless, it's a good starting point to recognize the challenges that loom, and to realize that changes are necessary. A common feature of many of the drivers of change, both external and internal, is that they represent a challenge to key Nordic objectives and may increase pressure on basic institutions. For the Nordic labour movement, which wants the region to maintain its high ambitions with regard to full employment, equality and the social safety net, the forces of change are particularly challenging because they may undermine the movement's power base. In accordance with SAMAK's request for a knowledge-based contribution to discussions of strategic and organizational renewal, the final chapter of the NordMod report will highlight six challenges of critical importance to the Nordic labour movement in particular.

14
Challenges for
the labour movement

Challenge 1: To create

The affluence, high employment levels, comprehensive social benefits and relatively equitable living conditions that have characterized the Nordic countries all hinge on high growth, productivity and capacity for adjustment. In the years ahead, the Nordic countries will face a triple adjustment challenge: 1) globalization and the prospect of slower international growth will heighten the importance of competitiveness and restructuring in business, 2) the greying of the population will compel a reallocation of resources and increased efficiency in the public sector, and 3) the transformation to a more climate-friendly society will require changes in production, consumption and patterns of living. Overall this will test the Nordic countries' ability to reconcile equality with efficiency, and institutional renewal with social stability.

The relationship between efficiency and equality – or creating and sharing – has been central to the labour movement, but it has also been a source of controversy and hard choices. Even the IMF now asserts that “lower net inequality seems to drive faster and more durable growth” (Ostry et al. 2014: 4); but not all redistributive measures contribute to increased growth, just as robust growth does not automatically trigger redistribution. Calls for innovative new social arrangements are not always reconcilable with the defence of all earned rights and benefits. The distribution of costs related to measures that benefit society as a whole in the long term do not always correspond with the division of gains in the short run. As a result, decision-making processes that rely on broad participation, coordination and compromise between strong, organized interests are often time consuming.

The Nordic comparative advantages are not based on technological innovation – more liberal market economies often perform better in that regard – but rather on the capacity for organization, learning, execution and broad participation in incremental process improvements and everyday innovations (Hall & Soskice 2001; Fagerberg & Fosaas 2014). Such abilities have underpinned the “conflict partner-

ship” in labour relations as well as collaborations on productivity and modernization within enterprises – the Nordic “micro-model”. It is therefore no coincidence that the Nordic business sectors score high in European rankings of innovation activity and radical product innovation, or that the Nordic countries use more of their GDP on research and development than most other countries (Fagerberg & Fosaas 2014). The Nordic countries have been quick to adopt new technologies on a widespread basis – as illustrated by their high Internet connection rates and the use of digital technologies in public services. International companies often use Nordic markets as testing grounds for future products. Nordic consumers, with their high and evenly distributed income levels, long educations and strict environmental standards, make demanding customers, and Nordic businesses have been good at adopting new technologies in traditional manufacturing.

After the crises of the 1980s and 1990, the Nordic countries undertook major institutional reforms in economic policy, wage-setting, pensions and welfare services. As international and national frameworks continue to change, there will be no let up in economic and social restructuring pressure in the years ahead. Transitioning to a low-carbon economy while in the midst of major demographic change, fierce competition and a projected slowdown in international growth will heighten the need for innovation in all aspects of working life. This is nothing new for the private sector, where employer and labour organizations alike are well aware that the market's verdict cannot be appealed to the political system.

Transitioning to a low-carbon economy while in the midst of major demographic change, fierce competition and a projected slowdown in international growth will heighten the need for innovation in all aspects of working life.

In the public sector, where the frameworks are defined by the politicians and most budgets have been expanding, the picture is different. As we enter an era of growing elderly populations and rising expectations for social services and medical treatments – when labour force growth in future generations cannot be counted on to finance worthy reforms – the demands for reallocation and higher efficiency in public services will be sharpened. Organizational strains and interagency conflicts are likely to escalate as politicians, leaders and trade unions increasingly realize that new public measures and reform processes can be afforded only by shuffling resources from elsewhere. Such tensions raise special challenges for the labour movement, where unions look after the interests of workers and political party leaders must safeguard the interests of different user groups – interests that are not always easily reconcilable (Vartiainen 2014). Yet opportunities could also emerge. In recent decades the lessons learned from market-simulating management reforms in

the public services has been very mixed, and may suggest that it's time to develop modes of governance that draw more on the employees' own professional skills, discretion and interaction with users (Tesfaye 2013).

The transition to a more climate-friendly economy and society will require changes not only in production and consumption, but in daily habits, housing and transport. It is reasonable to assume that the Nordic countries are better prepared than most to make the transition to a low-carbon economy in ways that are effective, socially acceptable and politically legitimate. But this assumes that political leaders – in concert with broad-based organized interests – are able to devise new regulations, pricing mechanisms, tax and fee systems and other burden-sharing arrangements that make it both economically rational and practically feasible for companies, workers and consumers to switch to more environmentally friendly forms of production and living.

Reconciling self-interest with public interest (Hernes 1985) en route to a greener society will require more than new economic incentives, such as CO₂ taxes on emissions. Also needed will be arrangements and infrastructure that give people genuine opportunities to retrain, travel in climate-friendly ways and change jobs or housing if necessary. Restructuring to a low-carbon economy will challenge the ability of business and labour organizations to build bridges between member groups whose interests diverge. Since the rationale of these social partner organizations is primarily to protect the interests of their current members, and they have had to take the interests of future generations into account only secondarily, the climate challenge will also be a major test of their ability for internal (organizational) adjustment. With their broad knowledge base, advanced industries, high productivity, strong institutions and well-developed channels for employee participation at work, the Nordic countries ought to be better situated to cope with the transformations ahead than most other countries. Historically, Nordic societies have demonstrated their adjustment capacity most conspicuously during periods of crisis and turmoil – as they did in the 1930s, for example, or in the years of rebuilding after the 1990s crisis. Looking ahead, a critical factor this time will be whether tradition-bound institutions relying on inherited policy repertoires will prove to be part of the problem or manage – as at previous crossroads – to renew their agendas and mobilize resources to become part of the answer to whatever tomorrow brings.

● THE PROBLEM

The need for continued economic growth, more elderly care and a greener economy are bound to imply a severe test of the Nordic societies' capacity for renewal and restructuring.

How can we ...

- ▶ update regulations and tax policies (such as carbon quotas, CO₂ pricing, etc.) to promote climate-friendly consumption and economic activity.
- ▶ develop more effective, coordinated strategies for R & D and innovation policies.
- ▶ revitalize company-level management-labour cooperation and mobilize working life organizations to promote workplace innovation and restructuring. In the public sector this will test labour's ability to square user interests with conflicting employee interests and broader social considerations.
- ▶ develop mechanisms to channel growing pension capital into investments in society's infrastructure and productive capacity while simultaneously encouraging the two sides of industry to exchange short-term moderation for long-term investments and ownership.
- ▶ reform the tax system (property taxes, interest deductibility, etc.) to divert capital flows from financial products and real estate to investments in the real economy.
- ▶ develop infrastructure and policies for metropolitan areas that promote climate-friendly urbanization and more integrated housing, jobs and transport markets while facilitating new styles of living and housing, including for the elderly.
- ▶ strengthen the abilities of Nordic inhabitants to tackle climate-related adaptation through better programmes for retraining, transport, mobility/relocation, (subsidized) housing, digital work and telecommuting, environmentally sensitive consumption, etc.
- ▶ stimulate creativity, risk-taking and innovation "from below" – for example, through entrepreneurship schemes, universal life accounts, educational and retraining scholarships, etc.

Challenge 2: To work

For the labour movement, work is the main source of wealth creation and the most important way for people to take part and gain self-respect and influence in society. The struggle for the right of all to work has been a major force in the development of the Nordic model. The more people who are enabled to work, pay taxes and subsist on their own pay, the more the welfare state is able to offset inequality and care for those who for health reasons cannot work. The development of the welfare state led to a revolution in the distribution of work in the Nordic countries, and by 1990 the male and female employment rates were almost equal.

But in the last 25 years, the rise in employment rates has levelled off, and in some Nordic countries the rates have tended to decline of late, though not among senior citizens. The economic crises that opened and then closed the period, meanwhile, have pushed up unemployment significantly. The Nordic countries as a whole are still a European standout, boasting a higher employment level, better working environment, less wage inequality and a lower share of people outside the labour market than other regions, but since 1990 there have been major changes in Nordic labour markets and in the composition of the labour force. Structural changes in business and industry, workplace organization and terms of employment – exacerbated by increased labour immigration and low-wage competition in the wake of EU enlargement – have been associated with a slowdown in productivity growth and the spread of atypical work. Disparities in pay, employment terms and working environment have grown, and the gap separating the labour market's core from its disorganized periphery has expanded. Because of this rupture, more people are struggling to get a foothold in working life, especially youths, adults with poor skills and the growing immigrant population. Of those outside the labour market in the Nordic countries, a relatively high number are recipients of health-related benefits. More young people than before have dropped out as a result of mental health difficulties.

These trends mean that the labour movement's struggle for full employment is not over, but must be won anew in the coming years. That will be a challenging

task. For the labour movement – where many members hold relatively safe jobs – this is “Job Number One”. To create a more inclusive labour market that draws from all corners of society, it is necessary but not sufficient to employ macroeconomic

An inclusive working life with all groups contributing through retirement age cannot be achieved by proclamation in some political assembly.

measures, coordinated collective bargaining and employment protection rules. Long-term social investments and a variety of targeted, lasting policy measures will be needed to influence employer recruitment, strengthen job-seeker qualifications, improve the working environment, ensure fair job competition and counteract job displacement. An

inclusive working life with all groups contributing through retirement age cannot be achieved by proclamation in some political assembly. It will require dialogue and processes involving many players, and ultimately it will rely on decisions at company level. Good labour market relations and sound company-level measures cannot be replaced by statutory provisions that leave matters up to the single employer and individual freedom of choice – that is, to market supply and demand.

● THE PROBLEM

High employment and low unemployment are vital to individual choice, economic growth and the state's ability to finance the welfare state.

How can we ...

- ▶ create demand for labour sufficient to combat unemployment and provide employment opportunities, including for those farthest back in the queue of job seekers? This requires an economic policy that ensures stable growth, coordinated wage formation and close coordination with education, labour market and social policies.
- ▶ maintain high labour participation even as the population ages, as the 25- to 64-year-old cohort stagnates, and as groups with few skills and scant labour market participation account for most population growth? What can government, individual employers and the social partner organizations do to enhance inclusion and increase labour market participation?

- ▶ encourage more participation in the labour market by seniors (60+), the immigrant population and women who currently work part time? The Nordic countries vary greatly in terms of average annual working hours and retirement age. What measures can the authorities, individual employers and social partners put in place to enable more older people to work longer and more women to move from part time to full time?
- ▶ improve productivity at a time when the share of workers performing labour-intensive services with low productivity growth is on the rise? Work will have to be organized better. What will it take to stimulate company-level cooperation between employers and workers on productivity, innovation and skills development?
- ▶ strengthen the job opportunities and skills of those at risk of withdrawing from school and working life? Early intervention at school, tailored vocational training strategies and lifelong learning programmes to meet the latest qualification needs are part of the solution. But the task will also require close cooperation between government, employers and the social partners to create jobs and initiatives that increase employment among groups struggling for a foothold in the labour market because of low skill levels, health problems or other challenges.
- ▶ develop flexibility arrangements that increase opportunities for combining work, family and leisure? Dialogue and agreement between equal partners will be needed to ensure that the flexibility arrangements that emerge satisfy employee and employer needs alike. What sorts of regulation of employment protection and working hours would encourage negotiated flexibility while discouraging labour market segmentation?
- ▶ reduce income disparities and make the idea of working more attractive? This will require, among other things, a more robust wage floor, better working conditions and more predictable hiring terms for marginal groups struggling with unstable jobs, low wages, a poor working environment and displacement risk. Would better-designed tax incentives and in-work benefits help build bridges away from benefit dependency and low-paying jobs?

Challenge 3: To organize

In recent years, the share of private sector workers who are unionized has been falling. The collective bargaining system and labour relations at company level have been weakened in many industries. Besides contributing to a competitive business environment, the Nordic bargaining model has been the labour movement's key lever in bridging class divisions, equalizing power relationships and reducing social inequalities. Through organizing, coordination of wage-setting and company-level cooperation, working people have been able to stand tall, take part in key decisions and gain influence and respect in society. When asked to sum up his contributions to society as a union activist and long-time prime minister of Norway, Einar Gerhardsen said: "What's most important is that working folks no longer have to stand hat in hand." NordMod has emphasized that the building of strong trade unions and collective bargaining systems laid the foundation for a dynamic "conflict partnership" with employers, which in turn has made the economy more adaptable and provided substantial benefits for both sides.

Compared with its counterparts in other Western countries, the Nordic model of labour relations has held up well over the past 25 years. Nevertheless, the model has come under pressure, and there are signs of erosion on several levels. Falling union density rates, especially in private services, along with a weakening of the collective bargaining system in vulnerable industries and a fraying of labour relations in many companies have forced workers once again peddle their labour with "hat in hand". Increased labour immigration, outsourcing, low-wage competition and unemployment in the wake of the financial crisis have reinforced such dynamics, accentuating tendencies toward a more double-tiered working life in which serious businesses are pushed into competition with challengers that operate in the grey zone.

The judicializing of disputes and tensions related to the EU free-movement regime has made it harder for the two sides of industry and the politicians to arrive

With 25 million Europeans now unemployed and projections of slow growth and stiffer competition ahead, pressure on the Nordic collective bargaining system is unlikely to subside in the years to come.

at good compromises. With 25 million Europeans now unemployed and projections of slow growth and stiffer competition ahead, pressure on the Nordic collective bargaining system is unlikely to subside in the years to come. This poses challenges

for the social partners and for the political parties as well. For the labour movement the challenge is twofold: Not only are important policy tools losing leverage, but the very power resources that have underpinned the labour movement's influence in society could crumble.

● THE PROBLEM

The decline in union organizing and the weakening of collective bargaining systems and company-level labour relations entail a risk of larger wage differentials, lower productivity and more difficulty adapting to change.

How can we ...

- ▶ reverse the decline in unionization? What would it take to strengthen the organizations in the private services sector? Is there a need for unified union confederations to improve member support, strengthen recruitment and stem membership loss? Would a tilt towards more labour-market-based welfare schemes be a way to go?
- ▶ thwart efforts to circumvent and undermine the collective bargaining system in sectors exposed to harsh competition? How can we strengthen companies' interest in developing the collective agreement system and cooperating with company unions when "the market" is offering plenty of cheap labour?
- ▶ develop effective strategies to prop up the wage floor in the open labour market? What will be needed to bring the two sides of industry and the authorities into agreement on such strategies?
- ▶ influence the EU to strengthen basic workers' rights in the European labour market? What will it take to expand national freedom of manoeuvre in regulating workers' rights and labour relations in the open market?
- ▶ persuade the state and political leaders to do their part to further develop balanced tripartite cooperation? How can the state help promote vital labour market organizations, collective bargaining and company-level labour relations?

Challenge 4: To share

Although the Nordic countries are among the countries in the world with the least social inequality, disparities are increasing here as well. In recent years, income inequality has grown. The rich have seen their investment income rise while poverty has become more pronounced. All the while, Nordic populations have grown more complex, both socially and culturally. The Nordic countries have become societies of true diversity.

High employment has been the most important reason why the Nordic countries have traditionally enjoyed smaller disparities in income and fewer poverty woes than countries elsewhere. Moreover, Nordic wage formation systems have helped compress market income structures. Income differences between women and men have also been relatively small compared with elsewhere, though there are variations within the Nordic countries. Finally, Nordic tax systems and social transfer schemes have helped iron out disparities created in the labour market.

Burgeoning capital gains and salary income at the top have caused increased inequality, but the effect is exacerbated by the fact that certain groups have remained partly or fully outside of working life. Nordic employment remains comparatively high, but a small share of persons who could potentially be employed has found it hard to gain a foothold. In today's European debate, the expression "5-75-20 society" has emerged to quantify the social inequalities observed – that is, division into a small upper class estimated at 5 per cent of the population, a large middle-class with stable jobs and good living standards whose members account for 75 per cent of the whole, and the 20 per cent at the bottom who are in danger of being permanently marginalized.

Such classification does not provide an entirely accurate description of Nordic conditions. If it did, it would indicate that everyone employed (about 75 per cent of the population in the Nordic countries) has a safe job, but that's not quite the way it

Nordic employment remains comparatively high, but a sizeable number of persons who could potentially be employed has found it hard to gain a foothold.

is. In addition to those who are permanently outside the workforce, there are some who go back and forth between employment and non-employment and others who climb out of the low-income group only to fall back again. Those struggling to hang on in working life include people with moderate health problems, people who lack the skills that employers demand and some with immigrant backgrounds who lack qualifications and/or language skills. It is a very diverse group, in other words, to be included into the Nordic labour market

The increasing heterogeneity complicates the efforts of companies, the social partners and the authorities to be inclusive. It goes without saying that it's harder to hire people outside the labour market in the Nordic countries, where the employment rate is high, than in countries where the employment rate is low. Prospective hires do not necessarily have the skills required by the workplace, or they lack (or are assumed to lack) the necessary productivity. It is therefore difficult to bring some of the people in this category into working life, given the wage levels. It is also the case that some of those struggling to join the labour market now face increased competition for jobs as a consequence of the EU's eastern enlargement and subsequent labour migration to the Nordics.

As economic inequality has increased, so has the variety of ways in which people want to live their lives. Increased immigration is an important reason for this. In 25 years the immigrant share of the Nordic population has quadrupled. Today immigrants represent about 15 per cent of the whole – and continued increases in immigration are expected through 2030. Another reason is that today's retired people are more likely to enjoy financial security while expecting many healthy and active years ahead. A third reason is that family structures have changed, with more single-person households, more single parents and more same-sex couples with families. And a fourth is that economic disparities themselves can lead towards more diversity in choice of lifestyle. Consequently, the Nordic countries need to keep economic inequality in check while the population becomes more diverse and people choose from a wider range of lifestyles.

Nordic populations have shown broad political support for social diversity and widespread acceptance of individual lifestyle pursuits that vary from traditional norms. But Nordic policies to promote equality are under strain. Neither the labour movement nor the elected authorities can decree equality, and it's questionable whether the surge in inequality can be tamed with tax or transfer policies alone. In addition to being a potential drag on future economic growth, inequality may have negative effects on the high level of trust that has long characterized the region. The question is what policy instruments could be used to curb inequality. With regard to the growing disparity in wages, measures are needed to strengthen the collective

bargaining system, while the growing inequality in capital income is a tax-reform issue. The Nordic attitude summed up in the adage "Do your duty and demand your rights" does not allow for an unlimited range of life ambitions. The consequences of remaining outside the labour market, for example, can be partly offset by public welfare benefits, but if benefit levels are too high the system may be perceived as unfair, thus sapping confidence in the welfare state. The task at hand, in other words, is to successfully cultivate equality across societies of growing diversity without compromising long-held goals of gender equality and social integration.

● THE PROBLEM

To block the drift towards a new class society.

How can we ...

- ▶ secure employment for all while maintaining decent wages and working conditions and preventing the emergence of class divides in the labour market, as symptomized by the spread of second-tier jobs and working poor?
- ▶ devise tax and redistribution policies that prevent a small minority from making off with more and more of the pie?
- ▶ balance work requirements with generosity in safety-net benefits, so that those who cannot work stay out of poverty?
- ▶ ensure that weak groups in national labour markets are not outcompeted by (low-wage) labour migrants?
- ▶ motivate companies and company-level bargaining organizations to protect the interests of those both inside and outside the labour market, discouraging permanent exclusion?
- ▶ develop improved social-mobility measures for those in low-income, marginalized situations?
- ▶ retain universalism and equality when more social insurance plans are being offered in the workplace and in the collective bargaining system?
- ▶ set an equality goal for the future Nordic model that both respects the different ways people wish to live and ensures economic sustainability?
- ▶ obtain broad and diverse political support for the goals and mechanisms of redistributive policy? For that to happen, members of all groups and social strata must perceive basic fairness in how equality is defined and pursued.

Challenge 5: To protect

The core aims of the Nordic welfare states are to provide income security for their populations and high-quality services for the elderly, the sick, families with children and those outside the labour market. These activities build a foundation for freedom and make it easier for people to live well in different situations and phases of life. The Nordic welfare model seeks not only to cover basic needs and ensure a minimum level of well-being, but actually to contribute to equal distribution, sound living conditions and a high quality of life. Compared with other countries, the Nordic countries have largely succeeded in meeting such ambitious social objectives. High employment, broad tax bases and widespread popular support are the cornerstones of their success.

With projections of strong population growth, especially among the elderly, it is important to shore up those cornerstones. That means organizing working life so that as many people as possible can work for as long as possible, and that those on the margins can gain a foothold. At the same time, activation policies meant to be helpful and empowering may – if applied too fervently – be perceived as degrading and stigmatizing, especially if the people targeted are in fact very far from the labour market.

The social safety net must be organized in such a way that it's profitable to work; at the same time, social security payments and benefits must be sufficient to keep people out of poverty. The likelihood of achieving a significant rise in employment by pressing down social transfer levels is vanishingly small. Those incapable of joining working life (or returning to it) could end up even poorer, causing income inequality in general to increase further. On the other hand, if benefit levels do not encourage prospective recipients to work, the welfare state's very sustainability could be put at risk.

For the Nordic welfare states, with their aging populations, the preservation of high-quality services will prove a heavy responsibility in the decades to come. The

wealthier a society becomes, the more demand for health and caregiving services, social services, family services and education will grow. The more diverse a society becomes, the greater the need will be to ensure that the entire population has access to services of equal quality. High-quality welfare services are also crucial to high employment levels. If the services are not good enough, people of working age might elect to stop working in order to care for children and/or elderly relatives.

The elderly and the sick are not the only beneficiaries of Nordic welfare-state policies. Children, young people and families benefit from child development, education, health care and family support policies. Such social investments begin at birth, forming the basis for “human capital” development. They strengthen everyone's ability to realize their potential.

To retain legitimacy the public services must be produced efficiently, and they must be good.

Tax-funded services are provided mainly through public channels. To retain legitimacy they must be produced efficiently, and they must be good. That means, by extension, that the educational system must be of sufficient scale to turn out the required numbers of competent workers to staff welfare services. In all the Nordic countries, parts of the welfare service system have been exposed to competition or marketized. This trend is driven partly by ideology and partly by the desire to streamline and improve the public services. The research is unclear as to the effects of marketization. Nordic public welfare services enjoy widespread public support, but parts of the population also take a positive view of marketization.

When private wealth and social disparities increase at the same time, it forces the welfare state to weigh its priorities. To what extent can the needs of a richer and more demanding population be met without compromising services and benefits that help society's most vulnerable groups? What is the correct balance between welfare programmes that serve the entire population and those that target people at risk?

An important issue in the coming years will be to delineate the boundaries of public welfare. The Nordic countries have a tradition of high-quality universal services and benefits funded by general taxation. The demographic changes on the way, however, will prompt a reordering of priorities, and debate may turn quickly to the limits of universalism.

● THE PROBLEM

To keep developing the welfare state so that it satisfies the population's need for services and benefits without losing sustainability.

How can we ...

- ▶ define the limits of work-oriented social policies, so that those who can't work – or can't find a job – in the highly productive, knowledge-intensive Nordic labour markets possess a legitimate right to security anyway?
- ▶ update public services with new models of governance, management and collaboration that take better advantage of employee expertise and judgement. This is important for improving quality and efficiency.
- ▶ develop models that provide for choice and user participation without compromising egalitarian ideals?
- ▶ devise care services that promote genuine equality and counteract gender segregation in working life?
- ▶ balance the roles of public, private and voluntary actors in the welfare services sector, with egalitarian principles remaining paramount and government retaining overall responsibility for people's security?

Challenge 6: To mobilize

The Nordic model is a political construction that emerged through political struggle and compromise. In the early 20th century, the rising labour movement and reform-minded centrist parties pushed for reforms and institution-building that helped increase social protections and distribute opportunities, rights and obligations more equally. During the model's post-war expansion phase, the labour movement was in the driver's seat in Sweden, Denmark and Norway, while in Finland and Iceland it won influence through collective bargaining and broad coalition-building in political arenas. Irrespective of government constellation, the strong labour and employer organizations exerted great influence on society's development. Labour and welfare policy reforms were often the result of broad compromises between the two sides of industry and the leading parties in parliament and governing cabinets. Since the rightward political surge of the 1980s and the crises of the early 1990s, centrist and conservative political parties have increasingly given their support to the Nordic model. Yet we have also seen major changes in the political landscape, including a weakening of the trade unions' membership base. Social democratic parties have lost ground, as has the left in general. The established conservative parties have stagnated, and new right-wing populist parties have gained support. With party loyalty fading among voters, electoral currents have tended to shift more quickly. As the labour movement looks towards 2030, it can expect a new and more unpredictable political landscape to emerge, on the left and right alike. That may complicate efforts to build alliances and mobilize political and organizational support for measures to renew the Nordic model.

For the labour movement, the loss of traditional working-class voters has been partly offset by public employees, women and to some extent immigrants. Even so, electoral support for the social democratic parties has weakened over time. New parties targeting voters in the growing urban middle class have emerged on the

As the labour movement looks towards 2030, it can expect a new and more unpredictable political landscape to emerge, on the left and right alike.

left and in the centre of the political spectrum. Many of them have a strong green identity. With certain exceptions, the social democrats and other left-leaning parties in the Nordic countries have had more and more trouble capturing the big cities. As the established parties have moved towards the centre, right-wing populist parties critical of immigration and friendly to welfare have appropriated a substantial share of traditional working-class voters and conservative voting groups. Voters drawn to these parties tend to tilt leftward on welfare issues while criticizing immigration policies and the EU. They are overrepresented in poorly educated groups in the private sector, and are disproportionately male. While the growing middle class favours “modern” values and is “pro-immigration”, these parties appeal to traditionalists and groups that are more uncertain about the consequences of increased immigration and globalization. This phenomenon is a particular challenge for the labour movement, which is losing votes to parties outside its alliance sphere. Conservative-leaning parties have greater opportunity to form working alliances or passive-support relationships with the new-right parties.

In recent decades voters have shown increasing restlessness. Values issues and a preoccupation with single issues have become more important in party elections. Party “ownership” of particular issues changes faster than before, too. Political positions and issues that seem to have been won can suddenly be lost, as when Sweden’s social democrats lost the voters’ confidence on employment in the 2006 election. In several Nordic countries we have seen quick changes in public opinion as to which party is trusted most on the economy, schools and other matters. In the stiffening competition to reach middle-of-the-road voters, most parties have moved towards the political centre, and the conservative ones have fought to claim part-ownership of the Nordic model.

In this new political landscape the traditional political blocs are dissolving and coalition patterns are changing. Climate change, immigration and resentment over the powers of the elite – whether in the EU or at home – have introduced new “cross-cutting cleavages” (Rokkan 1966). Alliance-building becomes less predictable when single-issue parties or right-wing populist parties win enough parliamentary seats to tip the scales of power. For the labour movement, retaining influence locally and nationally will increasingly hinge on the ability to build viable coalitions with the strength to pursue long-term priorities and make tough choices. This also applies to policy formation at the level of the EU/EEA, whose effect on the scope for national politics has increased. A central political challenge for the Nordic labour movement – with its variety of national links to the EU and strong internal disagreements over future EU development – is thus to develop clearer visions, strategies and alliances in the effort to influence EU policy.

While strategizing to succeed in a changing political landscape, the labour movement must also adapt to the new social context in which public opinion is shaped. In most parties the active membership body has been greatly reduced. Political debate

The appeal of classic party activity, with sparring between wings, groups and individuals, appears to be in decline.

and other efforts to shape public opinion occur increasingly outside of the political parties, in the (new) media, in think tanks and in a variety of voluntary organizations. In the context of social media and new communication technologies, the parties are often sidelined or overlooked as important debates or campaigns evolve. The appeal of classic party activity, with sparring between wings, groups and individuals, appears to be in decline. Social media provide new opportunities for direct democratic participation, opinion exchange and mobilization of support on single issues as well as values. Even so, a central task of the labour movement will be to prevent erosion of civil society organizations and the unions, which have been crucial democratic channels for popular participation and influence in the Nordic countries.

In this final report of the NordMod project, we have pointed out a number of significant structural challenges the Nordic countries will face towards 2030. These challenges are manageable. In tackling them, the Nordic countries will call on their model as a resource, but preserving it will require politicians and key organizations to agree on the difficult choices needed to renew it. With a shrinking traditional working class, a more fragmented array of parties and voters on the move, anyone seeking power and influence in government must be ready to build broad coalitions, often crossing the divisions between traditional blocs. That’s the political reality in all the Nordic countries – and it is a particular dilemma for the social democratic parties. At a time of instability and weakness on the left, it hardly seems realistic for the social democrats to take the lead in renewing the Nordic model through 2030 without entering bloc-transcending alliances with green and centrist parties. Shaping and influencing such alliances will require increased popular support. The paramount challenge is therefore: How can the objective of winning new voters in the middle class be reconciled with recapturing voters who have defected to the right-wing populist parties while simultaneously increasing support in the growing immigrant population?

The paramount challenge is therefore: How can the objective of winning new voters in the middle class be reconciled with recapturing voters who have defected to the right-wing populist parties while simultaneously increasing support in the growing immigrant population?

● THE PROBLEM

Mobilize political support for the values inherent in the Nordic model, raise awareness of the need to adjust the model and develop coalitions with sufficient breadth and power to carry out reforms.

How can the labour movement ...

- ▶ mobilize groups that feel insecure about how society is developing or feel marginalized economically, socially and politically? To recruit and mobilize vulnerable groups, the labour movement can draw on its own historical traditions. But, how is this to be reconciled with the need to win support in the growing urban middle class?
- ▶ curb right-wing populism? Labour needs to win back core voters who have drifted to the new-right parties. Traditional conservative parties are freer to court the new middle class alone, knowing that they can count on active or passive support of the new-right parties.
- ▶ build new party organizations that are more open? How can the parties mobilize support in non-traditional arenas? Can the parties become a channel for new stakeholder groups focused on single issues? Can they open themselves up to new discourses, inviting non-members and new groups into the fold to revive political debate and enlarge their support base? Are think tanks a supplement or an alternative to energizing and opening up the parties?
- ▶ develop new joint strategies for cooperation between unions and political parties? Can employee organizations expand and renew their political approaches and patterns of party collaboration in response to the voter shifts and inter-bloc alliance-building they have witnessed? What would that take in terms of developing new patterns of cooperation, alliances or perhaps even mergers/amalgamations across employee confederations?
- ▶ set the agenda? With greater focus on single issues and value conflicts it has become harder to win and retain “ownership” of political positions. A core challenge for social democrats and other broad-based parties is to strengthen their ability to stake out important conflicts and value debates – to set the political agenda. How can the labour movement actuate core Nordic values like “rights and duties” or “creating and sharing” in order to define new agendas and link them to climate and environmental challenges?

- ▶ build broader alliances? As the labour movement assembles allies in support of Nordic-model values, it must also clarify what defending and reforming the model means in terms of day-to-day politics. Realpolitik often entails broad compromise, and at important crossroads grand coalitions may be required (as in the case of Finland during the financial crisis or the pension reforms of recent decades). At times it may also be necessary to horse-trade with the new populist parties of the right (as was needed to achieve Norway’s day-care deal). In any case, for the labour movement to gain political influence and succeed in striking up alliances it must update its own strategies for gaining support to reform the Nordic model in line with future demands.

The Nordic model towards 2030

1 The model is strong

The Nordic model enjoys broad support in the population, is embraced by all leading parties and organizations, and serves as a model internationally.

BUT: The model's success must not blind us to the need for renewal and maintenance. Most international models that achieve paragon status fall rapidly to earth.

2 The model has yielded good results

The Nordic population's welfare and living conditions have never been better.

BUT: Inequality is increasing, employment rates have stagnated, many people are outside the labour market and the model's social safety net does not protect everyone.

3 The model's institutions and policy tools are intact

The fundamental pillars of macroeconomic governance, public welfare services and organized working life remain quite solid.

BUT: Signs of erosion in key support structures and inadequate tools to fix new problems may cast doubt on sustainability and adaptability.

4 The model rises or falls on its ability to renew itself

The world and the Nordic countries have changed immensely since 1990. The model has shown a remarkable ability to cope with major changes in the economy, working life, population composition and patterns of living in the past 25 years.

BUT: A good model is no guarantee that the Nordic societies will successfully meet the national and global challenges they will face through 2030. Success depends not only on the ability and willingness of national actors to solve domestic problems, but also on their contribution to developing sustainable and fair responses to global challenges.

5 The Nordic model as "secular state religion"

Those professing belief in the Nordic model have grown steadily in number.

BUT: There is growing controversy over the heart of the model, including its fundamental mechanisms and what will be needed to enhance its sustainability and adaptability. Employer and labour organizations have not managed to prepare the region for an open job market, and the mainstream political parties have had trouble creating governing coalitions strong enough to calm voter anxiety about the future. The Nordic model is a political construction. New challenges will not be solved through worship of an abstract model; they require specific policy responses.

Publications from the NordMod 2030 project

May be downloaded from www.nordmod2030.org

Subreport 1: Jon Erik Dølvik (2013). Grunnpilarene i de nordiske modellene. Et tilbakeblikk på arbeidslivs- og velferdsregimenes utvikling. English summary available: The Social Foundations of the Nordic Models: A review of the labour and welfare regime's evolution and distinctions.

Subreport 2: Tone Fløtten, Åsmund Hermansen, Anne Hege Strand & Kristian Rose Tronstad (2013). Befolkningsendringer og de nordiske velferdsstatene. English summary available: Demographic changes and their consequences for the Nordic welfare states.

Subreport 3: Richard B. Freeman (2013). Little Engines that Could: Can the Nordic economies maintain their renewed success?

Subreport 4: Katrín Ólafsdóttir & Stefán Ólafsson (2014). Economy, Politics and Welfare in Iceland: Booms, busts and challenges.

Subreport 5: Jon M. Hippe & Øyvind M. Berge et al. (2013). Ombyggingens periode. Landrapport om Norge 1990–2012. English summary available: Period of Rebuilding. Norwegian country report 1990–2012.

Subreport 6: Olli Kangas & Antti Saloniemi (2013). Historical making, present and future challenges for the Nordic welfare state model in Finland.

Subreport 7: Lisbeth Pedersen & Søren Kaj Andersen (2014). Reformernes tid. Regulering af arbejdsmarked og velfærd siden 1990. Dansk landerapport. English summary available: A time of reforms. Regulation of labour market and welfare since 1990. Danish country report.

Subreport 8: Tomas Berglund & Ingrid Esser (2014). Modell i förändring. Landrapport om Sverige. English-language summary available: Model in change. Swedish country report.

Subreport 9: Søren Kaj Andersen, Jon Erik Dølvik & Christian Lyhne Ibsen (2014). De nordiske aftalemodeller i åbne markeder – udfordringer og perspektiver. English summary available: The Nordic labour market models in open markets – challenges and perspectives. English version: ETUI report 2014: 132 at <http://www.etui.org/Publications2/-Reports/Nordic-labour-market-models-in-open-markets>

Subreport 10: Tone Fløtten, Jon Kvist, Lilja Mósesdóttir & Lisbeth Pedersen (2014). Velferdsstatsutfordringer: Ulikhet, arbeidsintegrering, tjenesteproduksjon og likestilling. English summary available: Welfare-state challenges: Inequality, work integration, service provision and gender equality.

Subreport 11: Anne Britt Djuve & Anne Skevik Grødem, eds. (2014). Innvandring og arbeidsmarkedsintegrering i Norden. English summary available: Immigration and labour market inclusion in the Nordic countries.

Subreport 12: Juhana Vartiainen (2014). To create and share – the remarkable success and contested future of the Nordic Social Democratic Model.

Subreport 13: Jan Fagerberg & Morten Fosaas (2014). Innovation and innovation policy in the Nordic region.

Subreport 14: Olav Elgvin & Gudmund Hernes (2014). Demokrati og deltakelse i den nordiske modellen: Knirker det i gulvet?

Subpaper 1: Johan Christensen (2014). Nordisk skattepolitikk mot 2030. English summary available: Nordic tax policy towards 2030.

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Subpaper 3: Gudmund Hernes (2014). Klimapolitikk i den nordiske modellen.

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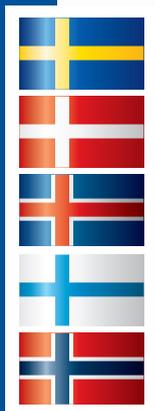
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Some of the data applied in the analyses in this publication are based on material from the European Election Database. The data are collected from original sources, prepared and made available by Norwegian Social Science Data Services (NSD). NSD is not responsible for the analyses/interpretations of the data presented here.



The Nordic model towards 2030

The Nordic countries have clear similarities. With their small, open economies, well-developed welfare states and organized working life, they have given us the term “the Nordic model”. NordMod 2030 is a Nordic research project analysing developments of the past 25 years and identifying the challenges that the Nordic countries will face in the years through 2030. This final report summarizes the insights and findings of the project’s 17 subreports. It is intended to serve as a source of knowledge in debates over the renewal and further development of the Nordic model. The project was commissioned by SAMAK in cooperation with FEPS.



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