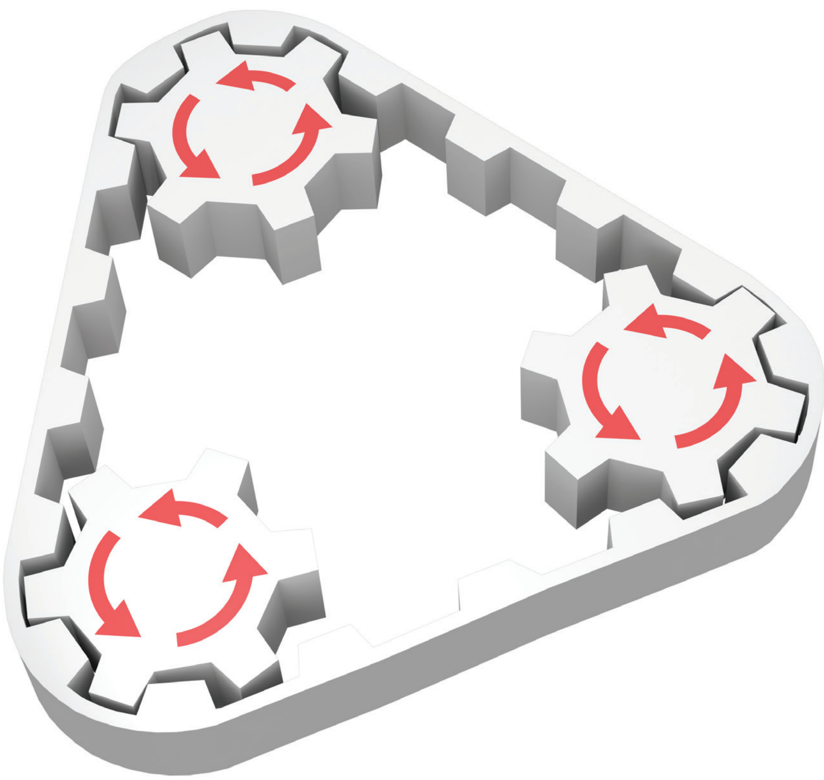
Summaries

NordMod2030

Summaries of project reports



Fafo

NordMod2030

NordMod2030:
Summaries of project reports

Fafo

Cover page illustration: illustratorer.com
Cover page: Bente Fausk

Contents

Preface

The Nordic countries share a number of distinguishing features. With their small economies, well-developed welfare states and organized labour markets, they have given rise to the concept of "the Nordic model". This social model or models have occasionally been met with criticism: It has been claimed that they are characterized by over-inflated public sectors and excessive tax levels, as well as rigid labour markets caused by strong trade unions, comprehensive collective bargaining and regulations. In recent years the models have attracted positive global attention, since the Nordic countries have demonstrated good results in terms of growth, employment, gender equality, competitiveness, living conditions and egalitarianism when compared to other countries. This ability to combine efficiency and equality has spurred debate in politics as well as in social research.

The Nordic models are facing a host of new challenges, and cannot afford to rest on their laurels. The fallout from the financial crisis has entailed a stress test of Nordic institutions and traditional policy measures. External change in the form of increased global competition, climate problems, migration and European integration, interacting with internal change associated with an increasing, ageing and more diverse population, urbanization and rising expectations with regard to health services, education and welfare in general, will be a test of these models' resilience. A core issue is whether the social actors will be able to encounter these challenges by renewing the institutions and policies without jeopardizing goals for a fair distribution, balanced growth, full employment and the political support for the models.

NordMod – Erosion or renewal in the Nordic countries 2014–2030?

NordMod2030 is a joint Nordic research project studying the impact that international and national development trends may have on the Nordic social models. The purpose of the project is to identify and discuss the risks and challenges that these countries will need to cope with in the years up to 2030. The project's goal is thus to produce knowledge that can serve as a basis for designing strategies for reinforcing and renewing the Nordic social models.

The main report from the project will be submitted in November 2014. Until then, a number of sub-reports will be published and open seminars will be arranged in all the Nordic countries. The sub-reports will present specific analyses of selected topics, while the main report will incorporate all the findings and draw the main conclusions. All activities will be posted on the project's website: www.nordmod2030.org.

- The first sub-reports describe the fundamental pillars of the Nordic models, challenges associated with future demographic change, changes in tax policies and how globalization affects the frameworks of the models. The goal is to analyse external and internal forces of change in the models.
- Country studies are undertaken in each of the five countries to describe development trends from 1990 to 2013. These country reports present analyses of changes in financial, social and political indicators associated with key objectives, institutions, policies and social outcomes in the national context. The country reports also provide input to the analysis of challenges facing the models in each of the countries.

- Finally, a series of thematic reports will be prepared on the basis of Nordic comparisons in the areas of integration, welfare state policies, the future of the collective bargaining model, climate challenges and democracy/participation. The discussion of issues related to gender equality will be integrated into all the reports.

Nordic research group

The research project will be undertaken by a Nordic research group consisting of two representatives from each country and is headed by Fafo. The paired researchers from the different countries will be responsible for the country studies, and will provide input to the design of the other country reports. Several researchers will also contribute to the other sub-reports.

Denmark: Lisbeth Pedersen (Research Director, SFI – The Danish National Centre for Social Research), Søren Kaj Andersen (Head of Centre, FAOS, Copenhagen University) and Christian Lyhne Ibsen (researcher, PhD, FAOS).

Finland: Olli Kangas (Professor, Director, Kela – The Social Insurance Institution of Finland) and Antti Saloniemi (Professor, University of Tampere).

Iceland: Katrín Ólafsdóttir (Assistant Professor, Reykjavik University) and Stefán Ólafsson (Professor, University of Iceland).

Norway: Jon M. Hippe (Managing Director, Fafo), Tone Fløtten (Managing Director, Fafo Institute for Labour and Social Research), Jon Erik Dølvik (Senior Researcher, Fafo), Bård Jordfald (Researcher, Fafo).
Sweden: Ingrid Esser (Assistant Professor, SOFI, Stockholm University) and Thomas Berglund (Associate Professor, University of Gothenburg).

In addition to this core group, other researchers will also contribute to some of the subreports: Richard B. Freeman (NBER, Harvard), Juhana Vartiainen (VATT), Jan Fagerberg (UiO), Line Eldring (Fafo), Anne Britt Djuve (Fafo), Anne Skevik Grødem (Fafo), Anna Hagen Tønder (Fafo), Johan Christensen (EU European University Institute (EUI), Florence), and others.

Project organization

The project has been commissioned by SAMAK – the cooperation forum for the Nordic trade union organizations and the Nordic social democratic parties. For the duration of the project period, SAMAK has also entered into a cooperation agreement with FEPS (Foundation for European Progressive Studies) concerning contributory funding. The commissioning agent (SAMAK) has appointed a reference group consisting of two resource persons from each of the Nordic countries. Although the reference group may provide input, the authors are solely responsible for the project reports. This means that SAMAK as an institution or the members of the reference group have no responsibility for the content of individual reports.

Oslo, November 2014
Jon M. Hippe
Project Director

Sub-report 1
The Social Foundations of the Nordic models: A review of the labour and welfare regime's evolution and distinctions

Jon Erik Dølvik (senior researcher, Fafo)

The Nordic model has been subject to international attention and debate in recent years. After being associated with the golden era of social democracy during the postwar period, they were – after the crisis-ridden 1980-90s – in wide circles written off as old-fashioned, rigid, and ineffective. "The time for the Nordic model has gone [...] It created societies that were too monopolized, too expensive, and didn't give people the freedom of choice; societies that lacked flexibility and dynamism" (Bildt 1992). Since then, the Nordic countries have climbed to the top of international rankings, and the Nordic model has been hailed internationally and embraced by parties across the political spectrum for its ability to combine efficiency and equality. This has stirred debate about the mechanisms and dynamics that have shaped the models' evolution –and in some Nordic countries there has been political struggle about the political fatherhood of the model.

The purpose of this first report from the NordMod-project is to provide basis for discussion about the main common features of the Nordic models, with an emphasis on the core pillars of their labour and welfare regimes. The term "Nordic model", or "Scandinavian model", is relatively recent, though already in the 1930s the Nordic countries' recovery from the Great Depression attracted international attention. According to the book "Sweden: The Middle Way" (Childs, 1936) the progress in Sweden was due to a political compromise between liberal capitalism and state communism, which emerged from settlements between the parties of the working class and the peasants, and between the labour and employer associations.

In public debate, the Nordic model is often spoken of in singular, though often it is more accurate to speak of a family of Nordic models marked by national distinctions and common traits. In the extensive literature on variations in national labour and welfare models in Europe, the Nordic model is perceived as one of several European families of models, alongside the Anglo-Saxon and Continental models, as well as the variety of mixed and transitory models in Southern and Eastern Europe. The small, open Nordic economies are distinguished by extensive welfare states, which are largely tax funded, encompassing all citizens (universalism), and offering a wider range of public services than in most other countries. Social benefits are calculated on the basis of previous employment and earnings, aimed to maintain security of income and standards. Nordic industrial relations have been marked by strong peak organizations overseeing centrally coordinated, multi-tiered collective bargaining systems, entailing a strong peace duty during the contract period, and a well-developed tier of negotiations and participation at company level. Employment relations are anchored in statutory rules regarding conflict and dispute resolution, and extensive statutory regulation of employment protection, worker rights, work environment, and representation. According to international research, the abovementioned aspects are not unique for the Nordic countries; small open economies tend to develop encompassing collective systems aimed at protecting against social risks and coping with the economic fluctuations arising from their dependence on volatile international markets (Katzenstein 1985, Rodrik 1997).

Although the Nordic countries share many common goals and values – linked to notions of equality, efficiency, and participation – each of them have developed their own distinct sets of institutions to promote such goals. Nevertheless, over the span of time, the outcomes have been remarkably similar in comparison to other countries. The essence of the Nordic models is thus not a given set of policy tools. There are several routes to Rome, and often they must be adjusted as it goes. When judging the significance of the similarities, differences, and changes in the Nordic models, it is therefore useful to distinguish between:

- goals and values, such as equality, efficiency, work for all, frugality, independence, justice, equal rights, solidarity, and the old labour slogan "do your duty, and demand your rights"
- institutions and decision-making systems, such as the collective organizations of labour and employers, systems of bargaining and income security that can provide basis for broad participation, confidence, trust, and even power relations
- policy tools and measures, such as laws and agreement provisions, tax rates, benefit provisions, gender quotas, training schemes, the purpose of which is to promote specific aims
- social and economic outcomes, such as the development and distribution of growth, living conditions, employment, unemployment, and incomes

A central argument in this report is that the small open Nordic economies' ability to reconcile efficiency and equality has built on the following characteristics: (1) the institutional conditions for comprehensive coordination between key actors in the labour market, welfare state and economic policy (the "triangle model", see below). The capacity for concerted policy adjustment in these basic areas has been conditioned on (2) even power relations and constructive "conflict partnerships" between strong, encompassing collective actors in the labor market and at workplace level, and has provided basis for (3) broad, long-term investments in human resources, knowledge, and mobilization of labor. The interaction between these factors has contributed to high social trust and confidence in government institutions, and has been a central feature of the capacity for adjustment and crisis management marking the Nordic countries.

These characteristics of the Nordic model evolved during the era of industrialization and political upheaval in the early 20th century and were institutionalized through historical compromises between organized labour and employers, and between the workers' and peasants' parties before and after World War II. Although the economy, the labour market, and the power relations among the political parties have changed since then – and led to changes in policy tools – these basic features of the Nordic models have prevailed. This is a major reason why the Nordic countries –in spite of recent decades' economic liberalization – have managed to maintain a more even pattern of distribution, higher employment –especially among women – and more balanced power relations in working life than most other countries. As the Nordic societies are currently facing significant internal and external change, a core issue in the NordMod reports summarized in the subsequent chapters is how such changes may affect the conditions for preserving these basic traits of the Nordic models in the years to come.

The Nordic models' background and emergence

This section reviews how the evolution of the Nordic models was shaped by the societal tensions and transformations in the wake of industrialization and emergence of the labour movement at the eve of the 20th century. Alongside processes of nation-building and introduction of universal suffrage, these changes challenged established party structures and power relations and prompted broad reforms in the institutions of labour and welfare policies. After a turbulent period of conflict and class struggle which culminated during the Great Depression in the 1930s, these developments eventually paved the way for settlements between the labour and peasant parties and for the historic compromises between the social partners that have underpinned the development of the Nordic models in the post-WWII era.

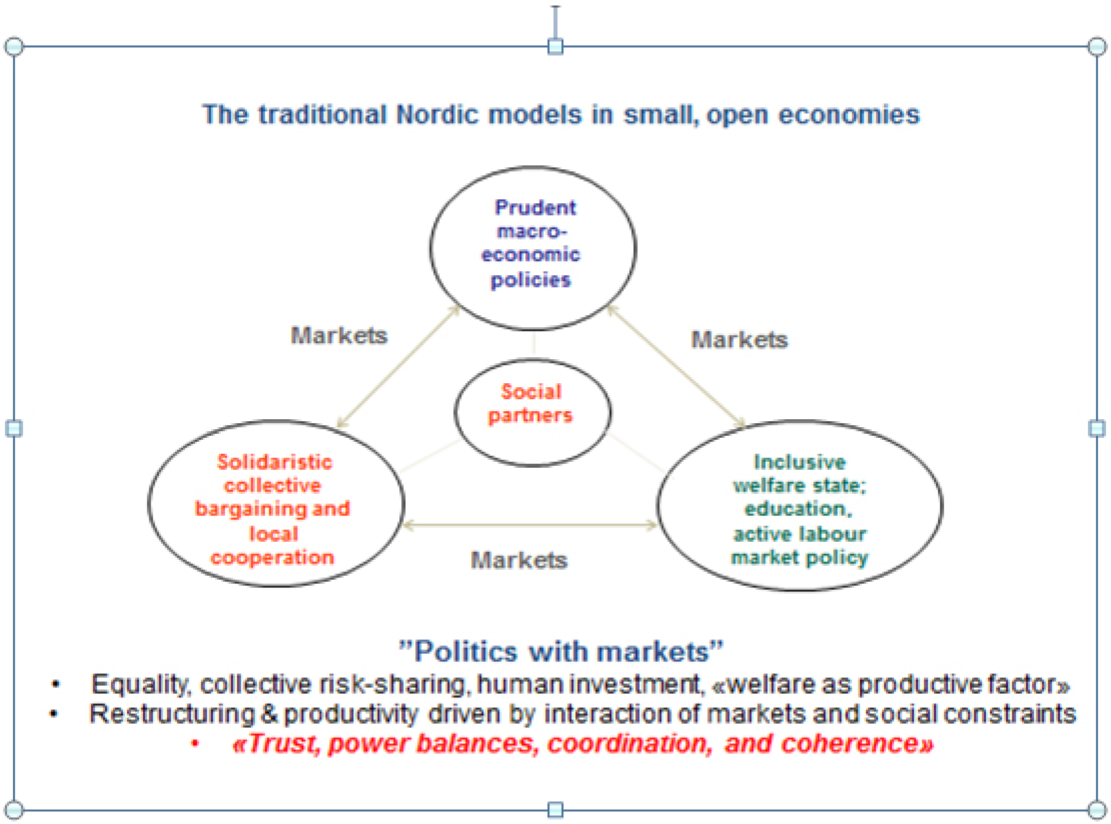
In light of contemporary debates about the "fatherhood" of the Nordic models and, hence, who can claim responsibility for their successes, it is underscored that, whatever parties were in charge, the formative period of labour and welfare reform in the early 20th century cannot be understood without taking into account the challenges that the rising labour movement posed to the societal order and established political parties at that time. Attempts to interpret the wave of social reforms in this period merely on the basis of the political parties holding office or ensuring parliamentarian majority, miss the transformative power of the profound changes in class-relations, the electorate, and the political balance of power during the breakthrough of industrial capitalism. The strategic compromises and institutions that emerged in this period were not only a result of class struggle and conflicts between the two sides of industry, but have largely shaped the national regimes of regulation and collective bargaining well into our time. In contrast to countries where totalitarian forces came to power, organized labour and capital in the Nordic countries managed – with the partial exception of Finland – to handle the class conflicts mainly in non-violent ways by negotiating fairly balanced arrangements where the collective actors occupied important roles.

This contributed to a sense of responsibility and predictability that formed basis for evolution of learning, trust, and norms that later should prove to serve as guidelines for how disputes and conflicts ought to be tackled. The relationship between the collective actors in Nordic working life can be viewed as a "conflict partnership" (Müller-Jentsch 19xx). One of the merits of the organized actors in this formative era was that they – by no means without struggle and large-scale conflict – eventually found ways to agree on mutually recognized methods and procedures for handling this conflict-partnership.

The traditional Nordic Labour and Welfare models

This section describes the Nordic models as they appeared at the peak of the Social Democratic golden era in the 1970s. To being with, it is emphasized that there was – and still is – significant differences between the Nordic countries with respect to industrial structures, party structures and and political coalitions. In contrast to Finland and Iceland, where coalition governments with center-right leanings were predominant, Sweden and Norway were from the 1930s to well into the 1970s mostly ruled by one-party, Social Democratic governments, whilst Denmark had a tradition of center-left coalitions with the Social Democrats as the leading party. Nevertheless, the Nordic countries had developed important institutional similarities. With broad support for overarching goals – such as jobs for all, income-security, equal rights to education, participation, equalization of wages, living-conditions and eventually also gender equality – the traditional Nordic models were characterized by the coordinated interplay between the following three pillars:

- “Prudent economic steering” built on strong states pursuing active, stability oriented macro-economic policies, free trade, and coordinated wage setting as basis for promoting full employment and improved working and living conditions;
- “Encompassing welfare states” built on universalistic principles protecting against income losses and providing basis for high labour market participation and mobility through the «work line» in social policies, free public education, and extensive social and health services, aimed to foster equal opportunities and level out disparities in living conditions, life chances, and participation;
- “Organized working life» built on interaction between legislation and collective agreements, labour peace, and broad, centralized coordination of wage setting where strong associations with the export industries as pace setters negotiated both at national and company levels, supplemented by workplace cooperation geared towards development of productivity and restructuring underpinned by active labour market policies emphasizing training, re-employment, and mobility.



The ability of this "triangle model” to generate outcomes consistent with the objectives was rooted in the interdependence between – and the capacity to coordinate – decision making in the fields of economic, labour market, and social policies. In order to ensure growth, collective risk sharing, and "productive justice", policy instruments were geared to combining security, restructuring and participation through interplay between markets, institutions, and organized actors. Today this is often coined "flexicurity". The government's ability to realize the objectives in economic and social policies – growth, work for all, and even income distribution

– depended on the organized actors' willingness and ability to engage in coordinated problem solving. This provided the social actors political capital to influence societal developments in broad areas. And since the power relations between them were moored in institutionalized patterns of interaction – not only in their market-based bargaining power – this contributed to even out the balance of power between them and create basis for evolution of trust and shared interest in finding mutually beneficial solutions at the central as well as the company levels. The Nordic countries were – and still are – also distinguished by high participation rates in voluntary organizations that have taken on important societal responsibilities in social work, culture, education and sports. The high rates of organization in working life as well as civil society is today a major reason why the Nordic countries are considered rich in "social capital" and are marked by a greater degree of trust among societal actors than in most comparable countries.

A basic feature of the traditional Nordic models was thus the strong link between the pattern of organization and power-relations in working life, and the encompassing coordination capacity of the governments which over time contributed to consistency and complementarily in policy formation. In combination with strong international growth, this contributed to favourable economic and distributive outcomes throughout the post-WWII period. However, developments since the 1970s have shown that such complex decision-making models depending on coordination among actors in a range of policy areas are vulnerable to shifts in power-relations and confidence. If some of the key actors withdraw – because they are discontent with outcomes or have lost confidence in the coordination processes – and one of the main axes in the triangle collapses, will also the other axes come under pressure. Hence, it is emphasized that there can be a "thin line" between success and failure in the Nordic models, as was first seen during the crisis in Denmark in the 1970s and eventually in the other countries later in the 1980-90s. Neither in the Nordic models there are any automatic, institutional mechanisms that guarantee beneficial outcomes.

1980-2013: Turbulence, adaptation and continuity

From the mid-1970s, the long phase of postwar growth was followed by international economic downturn and instability. This was accompanied by a political turn towards the right and increased reliance on market-liberal solutions in most Western countries. The liberalization of the financial sector, adjustment to the EU internal market, the EMU, and the digital "revolution" in the 1980-1990s led to significant changes in the regulatory frameworks of the Nordic models. Domestically, shifts in the occupational structure, education, and family patterns, in parallel with liberalization of life styles, media, and opening hours, were accompanied by changes in voting behavior and union membership. As a result of macroeconomic failures and weakened coordination, the Nordic countries – with Denmark as a precursor – suffered deep financial and economic crisis in the early 1990s, which, with the exception of Iceland, prompted austerity measures and record high unemployment.

Adjacent to the international shift in economic-political thought, the fluctuations in the 1980s-1990s spurred sweeping adjustments in macroeconomic policy, with broad support from the social partners. All the Nordic countries implemented broad tax reforms which lowered income- and corporate tax rates, whilst expanding the tax base. The Nordic countries' entry into the single EU/EEA market brought significant deregulation of product markets and the supply side of the economy, while establishment of independent central banks mandated to ensure low inflation, disciplined wage formation, and stable exchange rates, was followed by higher and more fluctuating interest rates. Eventually Finland adopted the euro and Denmark retained its peg to the euro, whereas the other countries introduced flexible exchange rate regimes. The austerity measures in the wake of the economic imbalances of the 1980s eventually morphed into more rule-based fiscal policies aimed to ensure balanced budgets over the cycle. In order to boost growth and employment, the social partners agreed to promote competitiveness and wage restraint through renewed patterns of coordinated collective bargaining and tripartite cooperation.

A distinct Nordic feature is that the economic liberalization in this period was not coupled with a corresponding deregulation of labour markets or dismantling of the welfare state – such as influential right-wing parties and employers wanted at the time. After the Social Democrats – except on Iceland – returned to office in the wake of the crisis, the economic consolidation came along with a revival and partial reinforcement of traditional features of the Nordic model. Tripartite concertation was revitalized and renewed in several of the countries, and the labour movement ascertained its strong position. Parallel with the planning of pension reforms, the welfare state was further developed – especially as regards reconciliation of work and family life – at the same time as strengthened emphasis on activation were accompanied by stricter requirements to participate in work and training schemes to receive benefits.

In contrast to countries like England and Germany – where labour markets were deregulated, the collective bargaining systems withered, and the welfare state was curtailed – the Nordic countries managed, through coordinated measures, to rebalance the economy, increase efficiency, strengthen coordination of wage setting and invest in human and social capital through modernization of the welfare state. In the second half of the 1990s, employment growth resumed and unemployment declined, while the compressed wage and income structure was largely maintained.

The coordinated adjustment of fiscal politics, wage formation, and welfare policies, are key elements in explaining the revitalization of the Nordic models after the crisis of the 1990s.

On the employer side and in the conservative camp, influential forces called for a more radical systemic shift – as illustrated by the Bildt-quote above – but as it turned out they lacked the political clout to win support for such plans. As substantial parts of the electorate in the Nordic countries view the welfare state and worker rights as important preconditions for maintenance of their interests, most Nordic right-of-center parties realized that it was almost impossible to win elections by attacking core pillars of the Nordic models and changed strategies. Hence the political center-field became more crowded and the dividing lines in politics more blurred, paving the ground for shifts in political power throughout the 2000s.

In the sub-section "The 2000s – from boom and role model to bust", it is referred to the remarkable comeback of the Nordic models when they – after their premature death diagnoses in the 1990s – climbed back to the top of international rankings regarding growth, employment, distribution, and quality of life. From Beijing to Brussels and Davos this sparked admiration and debate about how the Nordic countries – with their strong unions, centralized agreements, high tax rates, generous welfare benefits and large public sectors – contrary to conventional economic wisdom, had managed to reconcile efficiency and equality better than any other western country. The answers are in our assessment to be found in the institutional conditions for coherent, broad coordination – recall the "triangle model" in Section 3 – although the financial crisis and other developments are likely to make this more demanding in the years to come. The financial crisis has brought unemployment – especially in Finland and Sweden – to levels that over time will be hard to reconcile with the generous Nordic welfare states. Nevertheless, the Nordic countries, with the partial exception of Denmark and Finland, fared better during the crisis than most other countries in Europe. Iceland was, due to self-inflicted policy failures, hardest hit by the financial collapse, but is the debt-ridden European country that recovered fastest, a feat accomplished by utilizing classical Nordic measures reducing income inequality. The other Nordic countries remain among those with the lowest public debt levels and the most stable state finances and solid current accounts in the EU/EEA area. Although the Nordic countries are better equipped than most to ride off the storms, the outcome will as in former crises depend on the political and collective actors' ability to pursue coordinated, long-term strategies and contribute to joint emergency measures when required.

Concluding discussion: What is the core of the Nordic model?

The Nordic countries' ability to combine equity and efficiency has triggered international debate about "the Nordic riddle" – How can the bumblebee fly? Many cites single aspects of the Nordic models, such as the small, open economies, liberal markets, prudent macroeconomic policies, the working line, the universal welfare state, equal rights, the high skill levels, and the coordinated wage formation. It has also been pointed to broader historical, political and cultural commonalities, such as the Lutheran heritage, the absence of religious and ideological chasms, homogeneous populations, and strong states based on the rule of law, high trust, and democratic traditions.

All these elements are relevant in an overall description of the Nordic countries, but they don't explain what makes the Nordic models distinct from other national models in Europe. As mentioned in the introduction, we argue in Section5 that the Nordic models' ability to combine efficiency and equality in small, open economies, have been related to the following conditions: Firstly, the institutional conditions for overall coordination between the main actors in working life, the welfare state and economic policy ("the triangle model"). The capacity for coordinated policy adjustment in these core areas has, secondly, been conditioned by relatively even power relations and a constructive "conflict partnership" between strong organized actors in the labour market – both nationally and locally. These prerequisites have enabled a high degree of coherence between policy objectives, instruments, and results in strategic policy areas, and, thirdly, laid the foundation for long-term investments in human resources, knowledge, and mobilization of labor.

Broad investment in education, skills development, and social arrangements that facilitate high employment and reconciliation of work and family life, has been a "leitmotif" of Nordic welfare and labour market policies. The interaction between these factors has not only contributed to greater trust in societal institutions than in other countries; it has also, by creating conditions for coordinated problem solving and collective learning, laid the basis for development and support for shared political priorities, balanced solutions, and relatively consistent responses to complex, evolving problems, which has characterized the Nordic countries' capacity for adjustment and crisis management. That is hard to achieve if not everyone contributes and receives their fair share of the cake, as expressed in the credo "do your duty, and demand your rights".

The perspective of this first interim report from the NordMod-project is retrospective. The purpose is to contribute to a common knowledge basis for subsequent reports which will analyze the changes in the Nordic models in recent years, and look at the challenges they are likely to confront in the coming decades. In preparing the report, we have emphasized the institutions of the labour market and the welfare state. In interaction with economic policies, these institutions constitute the strategic "nexus" for continued strife over the development and distribution of living and working conditions. By all accounts, the Nordic countries are likely to face large external and internal challenges in the decades to come. Without taking into regard the consequences of global climate change, not much imagination is required to draw scenarios where lasting economic stagnation in Europe contributes to persistent high levels of unemployment, increased labour migration, new divisions in the labour market, growing strains on the welfare state, rising income inequality, and changes in political behaviour and power relations in the Nordic countries. Combined with ageing, declining unionization, and growing integration challenges, such dynamics are likely to shake the economic, political, and institutional foundations of the Nordic labour- and welfare models. At the same time, the ability to cope with such challenges will be critically dependent on these institutions and on their capacity to adjust, protect against new types of social risk, and muster popular support and participation in the demanding adaptations ahead. In an environment of economic instability and open markets for labour and welfare, where the boundaries of solidarity are becoming more blurred and the lines of conflict are becoming more complex, that is no minor challenge.

Sub-report 2
Demographic changes and their consequences for the Nordic welfare states

Tone Fløtten (Managing Director, Fafo Institute for Labour and Social Research), Åsmund Hermansen (researcher, Fafo), Anne Hege Strand (researcher, Fafo), and Kristian Rose Tronstad (researcher, NIBR)

The Nordic welfare states have shown resilience in periods of great economic, political, and social changes. The main question in the NordMod project is how the Nordic models will evolve when faced with future challenges. The models' design will be prone to change due to both internal and external factors. Economic globalization and climate change are examples of external factors, while population changes are example of an inner. The theme of this report is the expected population changes.

First, we describe how the population in the Nordic countries is expected to grow until 2030. From these projections we will be able to draw a picture of tomorrow's society, and thus the room in which future politics will have to maneuver. Secondly , we discuss the impact the expected population changes may have on settlement patterns and integration, labour demand, demand for services, as well as benefits and welfare state expenditures. We also look at the Nordic citizens' attitudes to certain welfare policy issues in order to get an impression of the strength and stability of the support for Nordic welfare policy.

Assumptions for population projections

Population projections are uncertain, and they are based on assumptions that are determined by the trends that only can be seen in the current situation. When the future population size, age structure, and ethnic diversity is calculated, it is to be regarded as an illustration: Projections are not definitive facts about how long we will live, how many people will immigrate, how many children will be born, nor of how large the population of the Nordic countries will be in 20-30 years. The projections presented in this report are based on certain assumptions relating to mortality, fertility, and migration patterns. These conditions can develop in different directions, and the level and scope of migration is particularly uncertain. Immigration patterns depend not only on national immigration policy, but also on economic differences between the Nordic countries and the rest of the world and of unexpected events such as war and conflict. Population projections are also based on a "no policy"-scenario. That is, they are based on current – or already approved – policy. As such, the projection does not take into account future policy decisions.

Four key trends in the population projections

The Nordic countries are, in the same way as most other European countries, exposed to four key demographic changes: rising population growth, increases in life expectancy, and larger heterogeneity in society. Furthermore, the proportion of the population aged between 15 and 64 years, which is the core of the labour force, is decreasing.

Population growth

The population in the Nordic countries has grown by 2.6 million since 1990, and the growth is expected to continue. A moderate evaluation of the population projections suggests that there will be 3 million more residents in the Nordic countries in 2030, i.e. an increase from 26 to 29 million residents. The growth is expected to be the largest in Norway, and it is predicted that the Norwegian population will be bigger than the Finnish and Danish by 2030.

Increases in life expectancy

The Nordic countries already excel in terms of the high life expectancy. Icelandic men held the record for the highest life expectancy in 2010, while Icelandic women held the 10th place. The other Nordic countries also placed well on the list (http://esa.un.org/wpp/Sorting-Tables/tab-sorting_mortality.htm, read 12/12/2012). Life expectancy is expected to increase over the next twenty years, with between 2.7 and 3.4 years for Nordic men and between 2.6 and 3.2 years for Nordic women (EU 2012:295; Statistics Iceland' statistics bank). The population's life expectancy is estimated thus to increase by about three years on average during this period (1.8 months per year). As a result of increased life expectancy, the proportion of elderly in the population is expected to grow from about 1.2 million in 2010 to nearly 2.1 million in 2030. Also the proportion of the very old (95 or older) is expected to increase sharply.

The proportion of the population in typical working age declines

The proportion of the population, who are in the so-called "typical working age", i.e. aged 15-64 years, is expected to decline by 65-66 percent in 2010 and to 58-61 percent in 2030. The proportion is expected to decline the most in Finland and the least in Iceland (EU 2012:299; Statistics Iceland's statistics bank).

Portion of immigrants increase

As mentioned, projections pertaining to the immigrant population are most uncertain. The level of uncertainty grows parallel to the extent of time that is being projected, though it can also be faulty in the short term. Norway and Sweden, for example, had far stronger immigration rates over the past decade than was expected. Migration flows from the new EU countries were not foreseen, and Sweden had not expected that Syrians would be the largest applicant group in 2012. Nowadays, the portion of immigrants is the highest in Sweden (about 20 percent) and the least in Finland (about 5 percent).

Sweden, Denmark and Norway have made projections of the expected ratio of immigrants in the population until 2030, though the projections cannot be directly compared due to being based on different categorizations.

- In Sweden, which does not include descendants in their projections, the migrant population is expected to increase from 15 to 18 percent between 2010 and 2030.
- In Norway, the immigrant population is expected to increase from the current 15 percent to approximately 23 percent in 2030. This number includes immigrants, and Norwegian-born children with immigrant parents (so-called "descendants").
- In Denmark, the immigrant population is expected to rise from today's 10 percent, to just below 14 percent in 2030. This number includes both first- and second-generation immigrants.

Possible consequences of population changes

The changes in the Nordic countries' populations will be important for many policy areas. It is beyond the scope of this sub-report to provide a complete overview of all possible consequences, but we will illustrate the extent of impacts by looking at some policy areas where the population changes may have particular significance.

Urbanization

The majority of the populations in the Nordic countries are living in cities, and it is estimated that the population growth until 2030 is going to be considerably stronger in urban areas than in rural areas. Population concentration in urban areas has many positive aspects. The population is more diverse in large cities than in smaller towns, and diversity is an essential condition for creativity and innovation. Labour markets are larger in cities, access to diverse labour force is greater, and this provides the basis for both variety and specialization. Also, GDP per capita is often far higher in cities than in rural areas (EU 2007:7). The cities also have the potential to be environmentally friendly areas, at least if the ability to develop compact urban areas where environmentally efficient transport and housing comes to fruition.

Urbanization also brings challenges. First and foremost, growth in the cities puts a greater demand for housing and infrastructure. Misalignment between new construction and population growth drives property values up. High property values forms the basis for social (and generational) segregation. Poverty rates and income inequality is higher in urban areas (Kirkeberg et al. 2012), and the population in large cities generally have worse living conditions than the population as a whole (Nordforsk 2011). In addition, urbanization reinforces local environmental problems (noise, pollution, etc.). The cities do indeed have the potential to be environmental friendly, but political action is necessary to utilize this potential. Cities consume large amounts of energy, pollution levels are high, and the cities have the highest CO_2 emissions. Furthermore, the population growth in the cities often occurs in suburban and urban areas, creating capacity problems for transport systems.

Changes in the labor force and dependency

The Nordic countries have high employment rate. However, changes in age and immigration patterns affects employment trends in their own way. An aging population means a lower supply of labour, while higher immigration means a higher supply of labour. The Nordic countries are not facing any significant growth in the number of people of working age. From

2010 to 2030, the number of people aged 15-64 years will increase slightly in Iceland, Norway, and Sweden, but will decrease in Denmark and Finland. In all countries, this age group's share of the total population is declining. Overall, a slight increase is expected in the share of employment in all the Nordic countries except Norway (EU 2012:309). The projected growth is not strong enough to meet the growth in welfare dependency that will come along with an aging population.

The trend in the dependency ratio can be illustrated by calculating the population aged 80 and older with the percentage of the population aged 20-64 years. Finland is believed to have the highest proportion of residents aged 80 and older as a percentage of the population aged 20-64 years in 2030 (14 percent), while Iceland is believed to have the lowest (8.9 percent). Finland is also expected to have the largest increase in the dependency ratio between 2010 and 2030 (7 percentage point increase - a doubling). The calculations on the future dependency ratio does not take into account the actual employment level in different age groups, and it has been assumed that some policy measures will be implemented, like measures to increase employment further and thereby change the dependency ratio. Furthermore, it does not take into consideration that the current employment rate might develop in a negative fashion, which could be the case if, for example, the immigrant groups that have traditionally held low levels of employment will make up a bigger part of the immigrant population than previously projected.

Measures to improve the working environment, increase opportunities for continued education and to improve population health are all measures that can have a positive impact on the relationship between the employed and non-employed people in the population. For example, it is important with a continued increase in employment for those aged 55 to 75 years, for immigrant women, for persons with disabilities, and among other groups that currently have low employment rates. This will also contribute to a less welfare dependency, at least in the short term. If there are successes in getting larger portions of the population into full-time work, it will contribute to reduced levels of dependency. It is also expected that increasing employment through immigration will also work towards this goals, also in a short-term perspective. If the Nordic countries are successful at increasing employment, they will be more prepared for the funding challenges in the coming decades, and make it more manageable, whilst also getting greater leeway in regards to fiscal- and welfare policy. If they are not successful at increasing employment, appropriate measures must be taken to meet the challenges, and it would be time for hard discussions on subjects such as tax levels, copayment arrangements, effectivization, incentivization, and a re-evaluation of the acceptable standards for welfare.

Pressure on government budgets

The Nordic countries are already using a significant portion of their GDP for social purposes. Since the rise in consumption of health care services increases markedly with higher age groups (see e.g. OECD 2011, Figure 8), it is expected that the aging population will result in a significant increase in public spending. Even without any improvement in services, an increase in the number of elderly will result in higher costs for the health care system. Simultaneously, the pension expenses will increase. In The 2012 Ageing Report (EU 2012), public expenditure expenses on matters such as health care, long-term care, and pensions were projected for the EU's 27 member states and Norway. Spending on the aforementioned social purposes (care, health and pensions) as a share of the GDP is not expected to rise as evenly in all countries, as the countries have different vantage points. A simple illustration of the differences between the countries is to look at the percentile increase in GDP that the three aforementioned policy areas covers, and to add the expected growth in GDP to the GDP-share that the social purposes constitute today. The increase in the share of the GDP spent on pensions and health care is estimated to be between 1.8 and 5.8 percentage points. The increase is expected to be the strongest in Finland and Norway, and the weakest in Sweden and Denmark. The big difference between the countries is the pension-related expenditures, whilst there are only minor variations in regards to the share of the GDP that is expected to be spent on health- and long-term care services.

These projections of future expenses are not precise calculations, and should be interpreted as illustrations that are based on available data, and prone to a series of assumptions, such as unaffected standards. Thus, expenditure increases can be either higher or lower than predicted, but there is substantial reason to believe that the expenses in the aforementioned policy areas will increase. The uncertainty lies in how much. Then the key question is how the increased public expenditure is to be financed - in addition to the already mentioned discussions on how to increase employment/work efforts to reduce the dependency-ratio, there will also be discussions about the level of taxation.

Attitudes to public welfare and taxation

The extensive production of public welfare and the associated level of taxation, which characterizes the Nordic countries, would not have been possible without the support of the populations. Many attitude studies conclude that the Nordic populations are generally more positive towards the welfare state in comparison to people in the rest of Europe (Svallfors 2012:8). In this report, data from the European Social Survey (ESS) 2008 was applied to investigate how the Nordic populations relate to central welfare and tax policy issues. The analysis of the ESS data shows that the populations of the Nordic countries, like other Europeans, believe that the public should have the main responsibility for various welfare areas.

Confidence in the continued well-being of the welfare state in the coming years is relatively strong, and the willingness to pay for future welfare through taxes is significant - though not unconditional. The question is if the support for welfare policy will persist, or whether population changes and other factors, such as economic recession, may result in reduced support. It is conducted numerous studies on the factors that influence support for welfare policy. An important conclusion from this research is that it appears to be relatively difficult to change established views. In a comprehensive analysis of Europeans' welfare attitudes, Stefan Svallfors ascertains that people's perceptions of what is right and just is relatively stable, and he points out that a number of country-specific attitude studies from the last twenty years have shown that there is very little change in attitudes over time (Svallfors 2012:7). Even though there are signs of path dependency[1] in the formation of attitudes and that this can act as a barrier to major political changes, it does not mean that the dominant attitudes are resistant to external conditions. Therefore, it would be wrong to take for granted the general support for the Nordic welfare state in light of economic and social developments.

Considering the projected population changes outlined in the report, we have been particularly keen to see if support for the welfare state can be impacted by the shifts towards a

[1] In the social science, the understanding of the term "path dependency" is derived from the works of Paul Pierson (Pierson 2000). This term is used to describe how the (political) choices taken in a given situation is influenced by established norms and traditions, and path dependency can therefore contribute with an understanding of how, for example, a country's welfare policies remain stable and robust over a longer span of time.

more heterogeneous population. One hypothesis is that support for welfare policy is weakened where the population is more heterogeneous. Current studies have not suggested that increased ethnic diversity has a clear impact on attitude formation. As such, it should not be assumed that the changes that lie ahead over the next twenty years will weaken the support for welfare policy. It should also be noted that there is little research that explicitly addresses the attitude formation in the immigrant population, and there is little knowledge about how minority and majority populations have varying attitudes towards welfare policies. It remains to be seen how the combination of higher unemployment, economic uncertainty, and a rising immigrant population will affect the majority population's attitudes to welfare policy.

New population - new politics?

The increased life expectancies and population growth in the Nordic countries in the years ahead are positive signs. It is an expression of society's progress in terms of good living conditions. Whether or not the population changes will cause problems depends on how they are handled politically. Discussions pertaining to the consequences of the changes in the population will influence election campaigns in the Nordic countries over the next twenty years. The following questions and political challenges will largely pertain to the demographic changes.

1. How should urban policies be shaped in order to preserve the environment and counter segregation?
2. How can we ensure good living conditions in rural areas?
3. How should economic policy be designed to ensure job creation and what new measures must be taken to facilitate future job growth?
4. How can work- and welfare policies interact more effectively than today, so that labour market participation can increase for those who are currently removed from the labour market, and how can they effectively meet the challenges in terms of equality that follows increased heterogeneity in the Nordic population?
5. How can future integration-policies be structured in order to reduce differences in living conditions between the majority- and minority population?
6. How should health services be developed to meet the needs of a diverse population that expects high standards?
7. How can the welfare state of tomorrow be financed – without raising taxes, or by increasing support for the raising of taxes?
8. How can current labour market institutions be maintained, and how can segregation in the labour market be countered, despite increased immigration?
9. How can future work- and welfare policies be designed in order to safeguard the Nordic ideals of equality?
10. How can continued support for the welfare state be ensured?

In other words, future policy must be able to handle large demographic changes and rising expectations. To the extent that the central feature of the Nordic models are to be maintained, this places significant demands on future solutions. Furthermore, although the challenges are clear, there may be significant political differences in the responses.

Sub-report 3
Little Engines that Could: Can the Nordic economies maintain their renewed success?

Richard B. Freeman (NBER, Harvard)[2]

> "Puff, puff, chug, chug," went the Little Blue Engine. "I think I can- I think I can-I think I can .." Up, up, up. Faster and faster the little engine climbed until at last they reached the top of the mountain. And the Little Blue Engine smiled and seemed to say as she puffed steadily, "I thought I could. I thought I could. I thought I could. " – The Little Engine that Could, child story, 1930[3]

The Nordic economies performed better than most advanced economies in the early years of the 21st century. Sweden, Norway, Finland, and Denmark scored high on the indicators that the World Economic Forum, Fraser Institute, and other groups use to rank economic performance. Only Iceland did not obtain high ranks for an advanced economy. All five Nordics ranked among the top economies on the United Nation's Human Development Index and other indicators of economic well-being. While the countries had divergent experiences in the Great Recession, all maintained higher employment population rates and lower unemployment rates than the US and most EU countries and with the exception of Iceland, whose banking system collapsed, maintained strong government financial balances and relatively low debt to GDP rates. Recognizing these performances, in February 2013, the Economist anointed the Nordics as "The next (economic) Supermodel" and told politicians "on both right and left" that they had much to learn from Nordic experience.[4] Twenty years earlier, the Nordic countries, particularly Sweden and Finland, had been economic disaster zones, which led many to declare the end of the large social welfare state.

How did the Nordics surmount the financial and economic disasters of the early 1990s to attain peak model status twenty years later? Analysts on the right identify Nordic success with reduced government spending and taxes and the market-oriented reforms that social democrats and conservatives introduced to help the economies regain their footing from the early 1990s crisis. Analysts on the left identify success with the flexibility of the collective bargaining system and tax and transfer policies that maintained the narrowest income distributions in the world; investments in education and science that place the Nordics high in the knowledge economy; and a political economy that puts employment at the center of economic policy.

[2] Professor Richard B. Freeman holds the Herbert Ascherman Chair in Economics at Harvard University, is Faculty co-Director of the Labor and Worklife Program at the Harvard Law School, and is Senior Research Fellow in Labour Markets at the London School of Economics' Centre for Economic Performance.

[3] Wikipedia (http://en.wikipedia.org/wiki/The_Little_Engine_That_Could) cites Plotnick (2012) that the story's signature phrase "I think I can" first occurred in print in a Swedish journal in 1902.

[4] The Economist, http://www.economist.com/printedition/2013-02-02

Can the Nordics maintain their top model performance in the changing global economy? The history of economies that analysts and commentators label as peak economic systems is not promising. In the 1970s, the left hailed “neo-corporatist” economies, including those in Scandinavia, for responding better to the oil shock crisis than more market-driven economies. In the 1980s, Japan's catch-up with the US led many to view Japan's lifetime employment, job rotation, and industrial policies as making Japan Number One. A decade later the “great American jobs machine” convinced international economic agencies that labor markets that relied primarily on market forces performed better than more institution-driven labor markets. But in each case, within a few years the peak economy's performance regressed to that of other advanced economies. Being the Economist's next supermodel could be the equivalent of the winners' curse in auctions or the *Sports Illustrated* cover jinx.[5]

In the paper on which this summary is based I examine how the Nordics moved from economic disaster to candidate peak model and assess the potential future of the Nordic Model in a volatile global economy.

Next Supermodel Economic Performance?

Nordic candidacy for top model of advanced capitalism rests on three bodies of evidence: the resilience of the Nordic economies in the Great Recession and ability to maintain relatively high employment rates and low inequality through this difficult period; their fiscal performance in the period; and the high ratings that diverse groups give the Nordics on indicators of future success in the digital global economy of the 21st century. Each body of evidence shows, however, considerable variation among the countries that reflects their varying circumstances and responses.

- Most Nordic countries took larger hits in the 2007-09 recession than the Euro Area and the US, but while those in Sweden and Norway recovered swiftly, Denmark, Finland and Iceland suffered from more prolonged downturns. In spite of some decline during the crisis, Nordic employment rates remained higher than in the US and most European countries. Employment rose in Sweden and Norway in the recovery so that in 2012 Sweden generated more hours worked per adult than the US – a first in post-world war II recent economic history. Nordic unemployment rates were well below the levels in EU15 and the US in 2012, and the Nordic rates of long-term joblessness were much lower.
- Due to their strong fiscal stances taken after the 1992-93 crises, the Nordics entered the Great Recession with solid public finances. That enabled them to apply counter-cyclical policies and come out of the crisis on top of OECD rankings of countries by their financial situation.
- Reviewing a range of international long term indicators, the Nordic countries score less well on “economic freedom” (due to such indicators’ labelling of large public sectors and labor regulations/collective bargaining as inimical to market freedom) but stack up well on indicators regarding innovation, R&D and future performance just as they do on output, employment and government finance.

It is not, however, the Nordics high position on any of these metrics that justifies the ballyhoo about their forming the next top model of advanced capitalism. Some other advanced coun-

[5] http://en.wikipedia.org/wiki/Sports_Illustrated_cover_jinx

tries have also weathered the implosion of finance and Great Recession reasonably well and are positioned to progress in the future. The case for the Nordic Model rests on the success of the Nordics in combining these outcomes with the hallmark achievement of low levels of inequality in income and high living standards that have been documented in so many places that I simply take those as given in this essay.

Why Have the Little Nordic Engines Succeeded?

Twenty years ago, conservatives argued that a large welfare state was incompatible with a dynamic successful market economy. The argument today is different. Rather than viewing the Nordic Model as a threat to economic progress, analysts on the right look for reasons why the Nordic economies have succeeded with market-oriented reforms and lower taxes and public spending that still leave them with the largest welfare states in the world. For their part, many analysts on the left view market-oriented reforms, some initiated by social democrats and some by conservatives, as realistic adaption to economic reality rather than as the antithesis of the welfare state.

Where right and left disagree is about the reasons for Nordic economic success and whether further retrenchment of the state in favor of the market would improve the economy and whether any market-driven improvements would reach the bulk of citizens. The conservative view is that the Nordics offset the adverse effects of a large welfare state on economic incentives and efficiency by choosing more market-oriented solutions in other social and economic domains. The left view is that progressive tax and transfer policies and collective bargaining are necessary to preserve a narrow income distribution and that economic growth requires large social investments in infrastructure and knowledge creation. Participants in the policy debate in the Nordic countries regard the differences in views as large but from the perspective of someone living in a highly polarized society, it is the comity, extent of agreement, and rational economic discourse that informs decisions that is surprising.

Conservative interpretations

Conservative analysts attribute Nordic success to the societies developing market-friendly policies in the production sphere that offset welfare state policies in the distribution of national income. The conservative interpretation of the Nordic model as an "odd couple" combination of large welfare state and market-oriented policies raises questions about how the system developed – by happenstance or luck; by decision makers selecting policies that fit together into a productive system; or by some invisible hand operation in political economy? To the extent that political bargaining determines policies, what has led the Nordics to reach agreements that produce good growth performance when political actors in many other countries fail to reach such agreements? What allows the Nordics to avoid crony capitalism with welfare state payoffs to particular interest groups?

Some conservative analysts argue that the answer to the development question is that the welfare state is itself a product of a high level of social trust. Cross section data show that trust is related to growth, to a larger state sector, and to low levels of income inequality, but that doesn't answer the question whether the latter is a result or a cause of the high trust.

The most striking aspect about the new conservative depictions of the Nordic model is its neglect of unions and employer federations and related institutions as essential elements in the working of Nordic economies. In its popular summary of the new conservative view the Economist's Special Report never mentions collective bargaining and references unions only in passing. Given the near uniform finding in labor economics that unions/collective bargaining narrow wage differentials, that wage and salary compression are a major contributor to low income inequality in Nordic countries, and the role that unions play in social democratic politics, the conservative analysis of the Nordic Model without unions and their counterpart employer federations seems like Hamlet without the Prince of Denmark.[6]

Progressive, institutional interpretations

The progressive vision of the Nordic Model places institutions, especially the economic policies of trade unions, at the heart of the system. Moene and Wallerstein (2005, 2006) identify the key innovation of the Model as a shift from market determination toward institutional determination of wages. From this perspective the 1938 Saltsjöbaden Agreement between the union federation LO and the employers association SAF mark the beginning of the Swedish version of the Model while the Rehn-Meidner analysis of how centralized or coordinated bargaining institutions should ideally set wages lies at its intellectual core.

There is a macro-economic component and a micro-economic component to this analysis. On the macro side, centralized wage setting takes wages "out of market competition and out of the hands of local unions" so that increased demand for labor, due to government stimulus in a recession or anything else, increases employment rather than the wages of incumbent workers.[7] The macro-virtue of constraining wages in a recession is that it increases the efficacy of deficit spending and monetary policy in boosting employment and thus allows policy-makers to stimulate the economy at a lower cost of increasing national debt.

On the *micro-side* the Rehn-Meidner policy of bargaining to equalize wages for comparable workers across firms had the goal of accelerating productivity growth. Moene and Wallerstein describe the logic: "industries with low levels of productivity are prevented from staying in business by paying low wages ....workers in industries with high levels of productivity are prevented from capturing much of the productivity differential in the form of higher wages. By reducing profits in low-productivity firms and increasing profits in high-productivity firms, labor and capital would be induced (or coerced) to move from low productive to high productive activities, increasing aggregate efficiency as well as improving equality."[8] From this perspective institutional wage-setting is a pro-growth reallocation policy – a far cry from the conservative picture of the Nordic Model as a high tax welfare state saved by laissez-faire business policies.

If labor markets operated in accord with the competitive model of wage-setting in which each firm pays the market rate for labor regardless of its economic situation the Rehn-Meidner policy would be superfluous. But data on earnings by firm or among establishments within a firm show large differences in pay for seemingly similar workers. Analyzing US Census files on earnings for tens of thousands of US establishments, Barth, Bryson, Davis and Freeman (2014) report not only large but increasing dispersion of earnings among establishments in the same industry and region from the 1970s to the 2000s.[9] In such a setting, institutional wage-setting can produce outcomes closer to the market ideal than real world labor markets.

[6] Conservative analysts in the US, by contrast, take the opposite tack, blaming Big Labor and union bosses for the country's economic problems despite minimal union presence in the private sector and collective bargaining that covers at most 12.5% of all workers.

[7] Moene and Wallerstein, 2006, p 18

[8] Moene and Wallerstein, 2006, p 19

[9] Studies of prices for identical products, such as books, sold on the Internet also show considerable dispersion, so the notion that supply-demand interactions invariably produce a single price seems a simplification of reality in many cases.

The institutional interpretation of the high levels of trust found in the Nordic countries and of the increased level of trust in Denmark, Sweden, and Norway from the 1980s to the 1990s compared to the decline in trust in the English-speaking market-dominated countries over the same period[10] is that it reflects low levels of inequality and welfare state safety net protections. Comparing advanced countries in the World Values Survey, Lee reports that public investments in skill raised social trust while passive social transfers lowered it. Kumlin and Rothstein's (2005) analysis of Swedish survey data found that universal welfare-state institutions tend to increase social trust while needs-tested social programs undermine it. But correlation studies like these cannot identify causality any more than studies that instrument measures of trust on climate or having a constitutional monarch.

Given that workers in small open economies face substantial risk from trade shocks, it is likely that the social cohesion and trust depend on a wide distribution of benefits to buffer persons from the risks involved in trade. Studying the links between Nordic trade unions and the social democratic parties with which they are involved and their bargaining with business and conservative governments, Anthonsen, Lindvall and Schmidt-Hansen (2011) warn about the dangers of unions relying on politics when they cannot gain concessions from firms, and Lindvall (2010) notes the importance of reaching agreements that do not threaten their future institutional strength.

The Nordic Balance Act

Stipulate that there is some element of truth in both the conservative and progressive visions of the recent success of the Nordic model, and that the optimal performance of an economy depends on finding the right balance between institutions and markets at any point of time, and ways to move a society toward the ideal balance. In a world subject to diverse shocks, the balance between markets and institutions likely changes frequently, so that decision-makers will always be updating where they would like to be and adjusting toward a moving target. In periods in which markets produce relatively stable economic outcomes – the Great Moderation that macro-economists thought we had achieved until Wall Street imploded – the balance may lie more on the market side. In a more volatile world – the economy post the Great Recession? – the balance may lie more on the institution side.

Viewing the changing policies of the Nordic countries from the end of World War II to the present as an effort to find the balance between labor and welfare state institutions and market forces, I have been most impressed by the extent to which the two sides in the debate agree on many policy initiatives and the comity and rationality with which they disagree.

Three factors seem to contribute to this consensual and evidence-based approach to policy. The first, per the *little* in the Little Engines title of this paper, is the population size of the Nordic countries. Small open economies with fewer people in total than the years' crop of graduates from Chinese universities are likely to be connected through short networks linkin them to other citizens – smaller degrees of separation – and thus have a greater sense of community than persons in a larger country. Size also dictates decisions on issues like free trade.

The second is the narrow income distribution, which creates common economic interests so that most people experience similar economic circumstances and thus are likely to come to similar conclusions about policies. In the US with a highly unequal income distribution, the

[10] See Delhey and Newton (2005, table 1) and Cheoll Sung-Lee's (2013, table 2), whose tabulations of seventeen advanced countries in the World Value Surveys show that Norway, Finland, Sweden, and Denmark were the top four countries in trust in the 1980s and four of the top five in the 1990s.

wealthy and the poor live in different communities and experience economic developments differently.

The third factor that I see as contributing to the greater comity in dealing with economic problems in the Nordic countries than in many others are the dense web of institutions that influences decisions. Interacting through institutions means that decision-makers on one side deal with people on the other side of issues. By contrast, interacting through impersonal markets often means making decisions solely based on numbers in a spread sheet.

Conclusion: Maintaining Success in a Volatile Global Economy

At the outset, I noted that peak economies have had short runs at the top. The economic environment to which peak economies are presumably well adapted change in unexpected ways that require new strategies and adjustments, which they are slow to develop. When the going is good, it is difficult to see weaknesses in economic policies – if it isn't broke, don't try to change it. It is also easy to forget lessons from the past – Wall Street a source of instability? That was the 1930s.

Whether the Nordics can continue their current run and escape the top model jinx, depends both on external factors and on societal responses to them. The biggest danger comes from an increasing volatile global economy, which can cause major economic problems even for a relatively cohesive society that seeks to meet economic challenges in as rational and level-headed manner as possible.

Hazchem! Volatile Global Economy

Today's global economy differs from classic Heckscher-Ohlin trade models where countries exchange goods and services produced within their borders on the basis of given factor endowments. Increasingly trade depends on multinational corporations who operate global value/production chains in which they subcontract tasks to locations capable of doing the work at least cost. The multinationals transfer modern technologies across country lines, which erodes the knowledge advantage that advanced countries had over developing countries.

Today's global economy also involves massive volatile flows of capital across borders, spurred by new financial instruments that raise and loan capital worldwide. In 2003 the Managing Director of the IMF declared that "globalization of financial markets has been accompanied by devastating financial crises in emerging market economies ... over-indebtedness and massive reversals in capital flows, leading to severe recession accompanied by a sharp rise in unemployment." Fast forward ten years and the statement holds for market economies, with some additional reference to sovereign debt and austerity programs.

Today's global economy also involves substantial immigration of both less skilled and highly skilled labor moving from developing countries to advanced countries. The flow of low skilled workers fits with factor endowments, potentially reducing the wages of low paid residents and creating problems for national collective bargaining systems that seek to narrow the wage distribution (Dølvik, Eldring and Visser 2014). When labor demand is weak, the immigration stokes nativist sentiments in virtually every country. But at the same time many skilled persons, often international students obtaining degrees in an advanced country, seek to stay there, and advanced countries compete for them to help maintain the innovation necessary for modern economic growth.

The surprise in the global economy is the speed with which developing countries have increased the number of university graduates in the past twenty-thirty years, and thus has changed their skill endowments. In 2010 85% of enrollments in colleges and universities were in developing countries. China graduated 6 million persons from universities, many in engineering and science, graduated more PhDs in science and engineering than the United States, and sent thousands of its best and brightest students to earn PhDs in advanced countries. The highly populous developing countries have enough highly educated workers to compete with advanced countries in high-tech production.

Trade via multinational production chains, increased global capital flows, immigration of skilled as well as less skilled workers, and extension of knowledge and higher education – create a world of changing factor endowments and technological competencies and potential instability.

As best I can tell, these developments pose three dangers to the continued success of the Nordic Model:

(1) *Potential collapse of the major European markets for Nordic goods and services*[11] due to economic contraction/collapse of countries with economic and financial problems locked into single currency in the EU. Without highly mobile labor to move from areas that suffer negative economic shocks to more prosperous areas or a strong central body to send fiscal support to stimulate areas suffering from negative shocks, the Euro zone always seemed a risky experiment in economic policy. Joining the Euro meant giving up a flexible exchange rate with no other policy instrument to deal with adverse shocks affecting some but not other Euro members. The danger to the Nordics is that the alternativlos austerity policies of the EU toward countries such as Greece, Spain, Portugal, and Italy have locked them into one or two decades of economic decline, which will keep the EU in a depressed economic state for at least a decade or lead them to quit the currency in ways that will further destabilize European recovery.

(2) *A second global banking and financial crisis* due to the leveraging of banks-too-big-to fail and the complex interconnections of financial institutions that governments and international regulators have yet to measure fully. The big lesson from the 2008 implosion of Wall Street and ensuing Great Recession is that the global economy harbors one extremely dangerous sector – banking and finance – whose practices can destroy economies. After the crisis, many persons anticipated that the Western democracies would move swiftly to clean up the banking and finance mess, re-institute strong controls on the sector and seek reforms to restore it to its proper role as a facilitator of increased productivity and innovation in the real sector. This is what Sweden did when it reformed its financial system in the 1990s and what the US did in the 1980s savings and loan crisis. But this did not happen post the implosion of finance in 2008. Financial regulators have sought to limit the riskiness of big banks but the banks have pushed back with some success. As long as the financial sector can profit from leveraging and raising risks, it will seek to do so. For all the talk about systemic risk, there is neither the data to measure systemic risk to the system nor policies to prevent another implosion. The danger to the Nordic countries comes from collateral damage to another Wall Street or London or even Shanghai meltdown. With the world not fully recovered from the Great Recession, the impact on small open economies would presumably be immense.

(3) *Trend shifts in the center of gravity of world production and consumption to low-wage developing countries,* particularly in Asia. The extension of market capitalism and modern technology to the developing countries of the world is one of the great successes of the glo-

[11] About 2/3rd s of Sweden's trade is with EU countries. The four countries with the greatest exports are Germany, UK, Norway, and US. Asia has risen to 13 percent of Swedish exports, making it the largest single region outside Europe.

balization policies of the past 20-30 years. Proponents of globalization sold it as a gain to all, but neither economic theory nor evidence (see for instance, Autor, Dorn and Hanson (2012) supports such a Pollyanish view of the globalization project. Some workers and firms invariably lose to overseas competitors. Trend shifts go on inexorably. Ideally they provide time for economic agents and governments to choose appropriate strategies to adjust to the trends, but countries do not always choose sensible strategies. Taking China as the key Asian low wage economy, its national investments in education and research and Chinese firms' purchases of foreign firms – e.g. Zhejiang Geely Holding Group Co's purchase of Volvo – change national comparative advantage, and the pressures on domestic firms and workers. They also create huge market opportunities for advanced economies, from tourism to developing and selling innovative products that meet the demands of billions of people with newly acquired income and wealth. The danger is not jobs leaving advanced countries from trade of the advanced countries failing to find the most beneficial way of adjusting to the new economic reality.

Still, the fact that the Nordic economies managed better than most advanced economies in dealing with the Great Recession and buffering workers from mass joblessness and poverty, suggest that they will be better able to deal with dangers of further negative shocks from the global economy than many other economies. If the European economy suffers a major decline, the Nordic countries are better situated fiscally to respond than the rest of Europe, save perhaps for Germany and Austria. If the world financial system implodes again, the reforms in the Nordic banking system from the 1992-93 disaster gives them greater protection than the banks and finance sectors of many other countries. With a high levels of R&D and large numbers of scientists and engineers and other highly educated workers and a substantial production of scientific papers, the Nordics should be able to benefit from the shift in the world economy toward the developing countries by finding products and processes to sell in those growing markets and thus avoid the danger of low wage competition. In short, while the Nordic economies will suffer with others in a potentially adverse world economy I expect them to do better than most other advanced countries. Keep chugging little engines.

References

Anthonsen Mette Johannes Lindvall and Ulrich Schmidt-Hansen (2011). "Social democrats, unions and corporatism: Denmark and Sweden compared" Party Politics 2011 17(1) 118–134

Autor, David H. Autor & David Dorn & Gordon H. Hanson (2012). "The China Syndrome: Local Labor Market Effects of Import Competition in the United States," NBER Working Papers 18054, National Bureau of Economic Research, Inc.

Barth, Erling, Alex Bryson, James Davis and Richard Freeman (2014) "It's Where You Work: Increases in Earnings Dispersion across Establishments and Individuals in the U.S. NBER: wp 20447

Delhey, Jan and Kenneth Newton (2005). "Predicting Cross-National Levels of Social Trust: Global Pattern or Nordic Exceptionalism?" Eur Sociol Rev (September 2005) 21 (4): 311-327.

Dølvik, Jon Erik, Line Eldring, and Jelle Visser (2014). "Setting wage floors in open markets: the role of the social partners in Europe's multilevel governance" in S. Evju ed. Regulating Transnational Labour in Europe: the quandaries of Multi-level governance, Oslo: Institute for Private Law, University of Oslo.

Kumlin, Staffan and Bo Rothstein "Making and Breaking Social Capital: The Impact of Welfare-State Institutions" Comparative Political Studies May 2005 vol. 38 no. 4 339-365

Lindvall, Johannes "Power Sharing and Reform Capacity" Journal of Theoretical Politics 22(3): 359–376 2010.

Lee, Cheol-Sung "Welfare States and Social Trust" Comparative Political Studies May 1, 2013 46: 603-630

Moene, Karl Ove and Michael Wallerstein (2006a). "Social Democracy as a Development Strategy" in Pranab Bardhan, Samuel Bowles and Michael Wallerstein (eds.): Globalisation and Egalitarian Redistribution, Russel Sage, 2006

Moene, Karl Ove and Michael Wallerstein, February (2006b). "The Scandinavian Model and Economic Development," World Bank Development Outreach, Washington DC.

Plotnick, Roy E. (2012). "In Search of Watty Piper: The History of the 'Little Engine' Story". New Review of Children's Literature and Librarianship 18 (1): 11–26.

Rothstein, Bo (2008). "Is the Universal Welfare State a Cause or an Effect of Social Capital?" QoG Working paper series, 2008:16 The quality of Government Institute, University of Gothenberg

Kumlin, Staffan and Bo Rothstein "Making and Breaking Social Capital: The Impact of Welfare-State Institutions" Comparative Political Studies May 2005 vol. 38 no. 4 339-365

Lindvall, Johannes "Power Sharing and Reform Capacity" Journal of Theoretical Politics 22(3): 359–376 2010.

Lee, Cheol-Sung "Welfare States and Social Trust" Comparative Political Studies May 1, 2013 46: 603-630

Moene, Karl Ove and Michael Wallerstein (2006a). "Social Democracy as a Development Strategy" in Pranab Bardhan, Samuel Bowles and Michael Wallerstein (eds.): *Globalisation and Egalitarian Redistribution,* Russel Sage, 2006

Moene, Karl Ove and Michael Wallerstein, February (2006b). "The Scandinavian Model and Economic Development," World Bank Development Outreach, Washington DC.

Plotnick, Roy E. (2012). "In Search of Watty Piper: The History of the 'Little Engine' Story". New Review of Children's Literature and Librarianship 18 (1): 11–26.

Rothstein, Bo (2008). "Is the Universal Welfare State a Cause or an Effect of Social Capital?" QoG Working paper series, 2008:16 The quality of Government Institute, University of Gothenberg

Sub-report 4
Economy, Politics and Welfare in Iceland

Katrín Ólafsdóttir (Assistant Professor, Reykjavik University) and
Stefán Ólafsson (Professor, University of Iceland)

Although firmly connected to the other Nordic nations by history, geography, politics and culture, Iceland exhibits some deviations from the Scandinavian model of work and welfare. Icelandic society has been described as having family resemblances to the other Nordic societies, but at the same time having special characteristics in some areas.

The biggest deviation from the Scandinavian model in the world of politics is the fact that the forces of social democracy have been less influential in Icelandic politics than in the other Nordic countries. This is important since politics is an important shaper of the welfare state and the labour market regime in most Western societies. The left parties have, however, at times gained a key position in coalition governments and thus often managed to bargain for major reforms that they prioritized. Hence, their importance may have been greater than the sole figures on voter support and governmental participation suggest.

On the whole, Iceland and the other Nordic societies have more in common in the labour market than in politics. The main characteristics of the Icelandic labour market are a high level of union density, high labour force participation rate, long work hours, as well as late retirement. The Icelandic labour movement has a high level of organization and also a high level of centralization in confederations, with great capacity for cooperation and coordination. The existence of large umbrella organizations for both workers and employers in the private labour market has made nationwide labour bargains possible, typically with the active participation of the central government. In most cases collective bargaining takes place between the Icelandic Confederation of Labour (ASÍ) and the SA – Business Iceland (SA). Bargaining rights however reside in individual unions. This commonality and the potential strength of the Icelandic labour union movement have been influential in shaping the society in Iceland.

Similar to those of the other Nordic countries and unlike those of many European countries, Icelandic law stipulates few rights concerning the labour market. Iceland's membership of the European Economic Area has, however, paved the way for some regulatory reforms emanating from the EU. But on the whole the protection of employees in the Icelandic labour market is to a great extent regulated through collective bargaining.

While Iceland was a welfare laggard in the Nordic community twenty years ago, it has caught up with the other Nordic nations to some extent. The main explanation for Iceland's increased welfare expenditure rate is increased payments from the occupational pension funds (OPFs) as well as an increased level of health expenditures and family-related expenditures, primarily on subsidies for pre-school and for parental leave. Child benefit expenditures however declined significantly from 1990 to 2008 as did tax credit for interest costs of mortgages. Iceland continued to have low expenditures on unemployment benefits up to the crisis, as the unemployment rate was low.

On the whole, the Icelandic welfare state is quite service intensive, while it has been more modest as regards benefit payments. Despite the trend towards convergence of welfare expenditures approaching the other Nordic nations, this characteristic remained up to the crisis. During the crisis years this changed. Public expenditures on education and health care were significantly cut, due to the difficult state of government finances, at the same time as transfers to households were increased.

The policy of the left-wing government that came to power in early 2009 was to soften the crisis consequences for the lower income groups and balance the budget by a mixture of tax increases and expenditure cuts. Public welfare expenditures were targeted towards the lower and middle-income groups. Hence, expenditures on transfers to households have in fact been raised, mostly on unemployment benefits and household debt relief, but also on minimum pension guarantees and social assistance.

This meant that the real earnings loss of the lower income groups was less extensive than that of the higher income groups. The labour movement also influenced the policy reactions of the government during the crisis and managed to shape favourable developments in the labour market through collective bargaining, such as on issues of unemployment and labour market measures, as well as raising the minimum wages.

The income distribution became more unequal from 1995, with growing speed from 2002 onwards. The inequality trend was closely associated with growing financial income associated with the asset bubble, while taxation and benefits policy also had its share of influence on the inequality development. While income inequality increased more in the Nordic countries than in other OECD countries from 1995 to the late 2000s, Iceland surpassed the other Nordic countries during the bubble economy period.

One of the political challenges facing Iceland concerns the loss of trust in politics, political parties and the parliament, especially after the financial collapse. Polarization was also a part of the developments in party politics, particularly during the reign of the left-wing government from 2009 to 2013. The opposition fought more fiercely against the government than seen in recent decades. Hence, political discourse and deep conflicts have not facilitated any improvement in trust in the main actors and institutions of Icelandic politics. Therefore, it is an important task to regain a collaborative spirit and positive cooperation in politics in Iceland.

The main economic challenges before the crisis were related to improving productivity, innovation and diversification of the economy and improving living standards. These clearly remain, but the financial collapse leaves Iceland with new major challenges that will take years to unwind, the most important of which are debt-related problems.

One of the most consequential effects of the financial crisis is the high level of debt that remains. Government debt is at its highest level since the establishment of the Republic in 1944. Business debt is also at a very high level, as well as household debt. The central government is now run close to a balance and the public debt level is not expected to rise further, but greater effort is needed in order to lower public debt. A large part of the debt accumulated by business has been written off in recent years, but many organizations are still highly indebted, which will reduce their growth opportunities in the near future. Although many of the government policies implemented in recent years aimed at primarily aiding households having difficulties in servicing their debt, household debt levels are still high. The latest measures announced by the current government are general measures aimed at reducing household debt levels further.

High living standards in Iceland have been achieved in past decades through high volumes of work and before the crisis this was aided by the overvalued currency. As a consequence of the collapse of the Icelandic króna in 2008 and 2009, real disposable earnings of households fell by almost 20%. Lower wages, along with shorter work hours and increased unemployment, as well as the higher debt burden, were the main aspects of the cuts in living standards that the crisis inflicted on households.

Iceland's per capita labour productivity is comparable to that of other Western countries. This, however, is only achieved through a high labour force participation rate and long work hours. If labour force participation rates and the number of work hours were similar to that of the other Nordic countries and the UK, then Iceland's production would be almost a quarter lower than it is currently. It is therefore of utmost importance to improve productivity to ensure better living conditions.

The capital controls that were put in place in late 2008 were initially intended as a temporary measure to reduce the outflow of foreign currency and prevent a further fall in the exchange rate of the króna. However, they are still in place in 2014, and the cost of capital controls tends to go up with time. Thus, one of the most pressing macroeconomic issue facing Iceland today is lifting the controls, while at the same time preserving the delicate recovery of the Icelandic economy.

In order to increase the diversity of the export sector and to enjoy an improved competitive position, Iceland should widen its horizon and look for future growth in areas other than natural resources, especially where there are less limits on quantity in production. Human capital and the knowledge economy should feature more as developmental goals.

In the wake of the recession that began in 2008, the parliament decided to apply for membership of the European Union. The government that came into office in 2013 decided to bring the negotiations to a halt. Thus, the future of Iceland in the European arena is uncertain.

Sub-report 6
Historical making, present and future challenges for the Nordic welfare state model in Finland

Olli Kangas (Professor, Director, Kela – The Social Insurance Institution of Finland) and Antti Saloniemi (Professor, University of Tampere)

At the beginning of the nineteenth century, the Finnish GDP was one of the lowest in Europe, e.g. less than one half of that in the UK and in the US. However, one hundred years later the standard of living in Finland has become among the highest in the world. The growth began after the Civil War (1918), levelled off during World War II, where after a rapid expansion took place up to the 'Great Depression' in the early 1990s. The impact of the global crisis of 2008 is also clearly visible in the grand narrative of economic growth.

Two peculiarities characterize the development of the Finnish society. (i) The modernisation of the economy has been late but rapid. Finland was an agrarian society much longer than her Scandinavian neighbours. Until the late 1950s primary production (agriculture and forestry), was the dominant branch of industry. In 1950, the share of agricultural labour force was the same as it had been in 1920 in Sweden and in 1900 in Denmark and Norway. Still in the mid-1960s, the number of labour force working in the primary sector was equal with services and manufacturing. (ii) Correspondently, the expansion of the secondary and tertiary sectors have taken place simultaneously at the expense of the fast shrinking primary production, not consecutively as in many other countries. Due to this, the sectorial transformation also brought on a rapid white-collarization of society: In the early 1960s 39 per cent of employees were white-collar workers. At the beginning of the 1980s, the white- and blue-collar groups were equal in size. By 2012 about 70 percent of employees are classified to belong to the white-collar service class.

Traditionally, wood processing and pulp and paper industry were the back bone of the Finnish economy; exporting paper and cellulose was the basis in the process of industrialization which gradually began to accumulate prosperity in the country. Later, metal and electronics and ICT entered the picture. Due to small domestic markets, the national economy has been vulnerable to international economic cycles. Finnish economic development after World War II has been labeled by periods of deep recessions with growing unemployment and economic up-swings with high wage increases and accelerating inflation. Before joining the Euro-zone, the problems caused by inflation were cured by successive devaluations of the Finnish markka. From the beginning of 1995 Finland became a member of the EU and in 2002 Finland together with eleven other member states adopted the EU common currency, the euro.

The 1990s was a turning point in the society and economy.The liberalization of the banking sector and financial markets in the 1980s connected the Finnish economy directly to the international monetary systems. International lending increased rapidly, but the risks went true dramatically when the interest rates were increased and borrowed money turned out to be too expensive and healthy enterprises ran into problems. Due to economic problems in important Western countries, export to the West ran into severe difficulties. The collapse of the Soviet Union and sudden nullification of the export to the East did not make the situation easier. In 1991, the revalued markka was tied to the ECU at a rate that afterwards appeared to be much too high and increased difficulties in the export sector. In sum, export suddenly stopped, domestic consumption shrank, the economy began to squeeze and unemployment skyrocketed (1990: 3,1%, 1994: 16,6). Of the Nordic countries, Finland was most severely affected by the global depression of the 1990s. Unemployment was fast to expand and very slow to go down and it seems to be so that it has stabilized to a higher level than ever in the modern history of the country.

In the second half of the 1990s, the new booming economy, primarily based on the growth of the information and communication sector, with Nokia as a flagship, also meant a radical shift in the production structure. Logically, the recovery incorporated a fundamental shift in the labour market as well: unemployment did not melt along with the growth of the economy, and the labour market faced tough long-term unemployment at one end and labour shortage at the other end.

Basically positive tone of economics lasted to the end of the first decade of 2000 century. Again, the international financial crisis revealed the vulnerable legacy of the Finnish economy: The serious disturbances in international trade and monetary system together with the deep crises of the domestic ICT sector (i.e. Nokia), had dramatic consequences in GDP in 2009. The effects in unemployment were relatively moderate until the very recent years.

With many criterions, the Finnish welfare state was a late-comer in the Scandinavian context, and reached its Nordic neighbors in the late 1980. This laggardness has often been explained with reference to late industrialization and to the sheer size of the agrarian population who lived partially in a subsistence economy, and therefore had no urgent need for social transfers via an insurance system as the traditional industrial working class did. Still, the Finnish lateness thesis is true in part and false in part. This verdict of lateness is true for pensions (implemented in 1939) and sickness benefits (1963), but it cannot explain the relative early emergence of work accident (1894) and unemployment (1917) schemes or universal child allowance (1948). In order to understand this phenomenon, one has to look at the institutional structure of the decision-making actors, the political power constellations, the socio-political priorities set by various political actors, and the possible targets of social policy measures.

The political history and the strong agrarian tradition explains the Finnish "Sonderweg": In addition to traditional working-class and right wing parties, in the center of the political spectrum there is a party representing the interests of farmers. Despite the changes in the production structure, the political movement embedded in the agrarian heritage is still much stronger in Finland than in other Nordic counties. As a result, again unlike the other Nordic countries, Finland has a long tradition of coalition cabinets. The Finnish welfare state is a result of political compromises that were perhaps not perfect ones for any party included but good enough to be accepted in consociation negotiations. In this context, the question of universalism has turned out to be multifaceted, e.g. The Social democrats have been in favor of (wide) workers' insurance, whereas the Agrarians, for obvious reasons, have always demanded covering logic, which should benefit the rural population as well. Thus, on the basis of Finnish history it is difficult to credit only the leftist parties for the universal character of Nordic social policy.

The political history and the strong agrarian tradition explains the Finnish "Sonderweg": In addition to traditional working-class and right wing parties, in the center of the political

spectrum there is a party representing the interests of farmers. Despite the changes in the production structure, the political movement embedded in the agrarian heritage is still much stronger in Finland than in other Nordic counties. As a result, again unlike the other Nordic countries, Finland has a long tradition of coalition cabinets. The Finnish welfare state is a result of political compromises that were perhaps not perfect ones for any party included but good enough to be accepted in consociation negotiations. In this context, the question of universalism has turned out to be multifaceted, e.g. The Social democrats have been in favor of (wide) workers' insurance, whereas the Agrarians, for obvious reasons, have always demanded covering logic, which should benefit the rural population as well. Thus, on the basis of Finnish history it is difficult to credit only the leftist parties for the universal character of Nordic social policy.

An essential feature of the Nordic model has been three-partite collaboration between social partners and the state. The pre-requisites for well-functioning collaboration are strong and unified employer and employee organizations that can make solid agreements and take into consideration long-term 'national interest', not only short-term interests of their own constituencies. Despite the fact, that the achievement of such collaboration has been more difficult and much slower than in the Scandinavian countries, this type of governing is functioning as well in Finland; the role of the social partners has been crucial for constructing the Finnish welfare state

The unification of the Confederation of Finnish Trade Unions (*Suomen Ammattiliittojen Keskusjärjestö* SAK), in the late 1960s inaugurated a new era of social corporatism in Finnish policy-making. Income policy negotiations were conducted on a three-partite basis. Employer and employee organizations bargained over wages while the government tried to promote agreements by using sticks and carrots. The sticks were mainly increased taxes if wage increases were excessive, and the carrots were typically promises of higher labour-related benefits and "social packages" to which the government adhered as long as the labour market partners behaved themselves.

During last decade, the employer federation has spoken in favor of branch or local level bargaining instead of centralized, top-level wage agreements. The shift in emphasis mirrors the strengthening position of the employers vis-à-vis employees. Even if Finland belongs to the countries where union density is and has remained at a high level - three out of four employees were unionized in 2012 -there is a steady decline in the share of unionized employees. The fact mirrors the structural transformation of employment from manufacturing towards services. Needless to say, this kind of change in power constellations in politics and labour market will inevitably influence orientations in welfare policies.

As well the expansion of the EU has launched new problems for the Nordic trade unions. Workers from cheap-labour countries are ready to accept wages and working conditions that do not meet the local standards – for example, the standards among the 50,000 or so Estonian construction workers working in Finland are much lower than the Union for Construction Workers would like to see. In most cases it is difficult for the local trade unions to take action, given the varying kinds of posted workers and long and murky chains of sub-contractors. The expansion of cross-border labour mobility would demand stronger trade union activities at the European level but it seems to be very difficult to unify proletariats from different backgrounds under the very same banner.

The current crises, lasted from 2008, accentuated problems shadowing long-run economic development in Finland. All the problems are linked with each other and they create a threat jeopardizing the long-term sustainability of the welfare state. Political challenges are perhaps the most severe ones for the SDP and Left Alliance that; tertiarization of economy is eroding their traditional voter base, i.e., the industrial working class.

/i/ *The relative loss of competitiveness.* Since the depression of the 1990s, the wage and salary index doubled between 1990 and 2012. As a consequence, the competitiveness of the Finnish economy has gradually deteriorated vis-à-vis Germany, the pace setter in the Euro Zone. Still, the wage level alone is not a sufficient explanation. The problems in competition are as well liked with the economic recession in the most important export countries and, on the other hand, in the too narrow-sided Finnish export sector that is more vulnerable to economic cycles than the more diversified Swedish export sector.

By and large, there seems to be a wide common understanding that during the coming years wage increases must be modest. Without hesitation, the way out of the current crisis will be stoner and more difficult than the solutions of the competitiveness problems in the 1990s when the devaluation by 40 percent helped to solve the problem.

/ii/ *The structural transformation of industry.* Solutions to the first challenge described above are in the hands of the labour market partners and national policy-makers. Coping with the structural transformation of industrial production is a harder issue and more difficult to solve. The Finnish export has traditionally been deeply dependent on one single branch – in past wood-processing and the paper industry and during the post 1990 boom on the ICT industry. The situation, where ICT activities have largely been located in cheap-labour countries and when Nokia failed in its innovations, the company ran into problems which had severe consequences in Finland. Neither wood-processing nor ICT will be back, at least not in the form they used to be in their heyday.

Again, politically the situation is difficult for the Social Democrats. A substantial share of the voters of the SDP used to be employed in the sectors that are suffering from global competition and there are vociferous voices raised to subsidize branches and enterprises that are losing their market shares. The party faces a dilemma: to subsidize unproductive industry and try to please the core voters or to try to invest in new innovative branches at the cost of losing voters in True Finns.

/iii/ *The greying population.* When building up the welfare state the Finnish population structure was balanced. Younger generations outnumbered the older ones which contributed to financing pensions and other social transfers. However, the situation is rapidly changing. The post-WWII baby-boomers are gradually moving out from the labour market which will increase all age-related expenses.

The increase of the old-age dependency rate (pop 65+ /pop15–64; percent) will be steeper in Finland than in the other Nordic countries or in most other European countries. By 2010 the old-age dependency rate was 27 in Finland and the EU-27 average was 25 percent. Still, in 2030 it is calculated to be 43 in Finland and 38 percent in the EU-27 (Denmark 37, Iceland 32; Norway 33 and Sweden 37 percent).

/iv/ *Sustainability deficit.* In addition to the increasing old-age dependency ratio also factors linked to the negative consequences of the economic problems (unemployment, low employment rates) and changes in taxation policies create imbalances in public budgets jeopardizing the sustainability of the welfare state. The European Commission has estimated the sustainability deficit for a number of EU countries up to 2050. While the EU estimate for Finland is 6.2, the OECD average is 4.6 percent.

From the point of the life cycle deficit, the most prominent phases are childhood and old-age when we are unable to participate in labour. The life cycle deficit is larger in Finland than e.g. in Sweden. This is mainly due to later exit from the labour market of the elderly

Swedes. One of the most crucial devices in Finland to combat sustainability deficits is to increase labour force participation rates to the level of the Western neighbors. Also growth in the productivity will help to squeeze the deficit. Still, there are nastier measures available as well: beefit cuts, targeting transfers and services, increasing fees for services. The level and structure of taxation offers some possibilities to fortify public revenues. Higher employment rates will automatically increase tax bases without changes in tax rates.

/v/ *Public-private mix.* The dominant role of the public sector in the delivery of social services and social transfers is characteristic of the Nordic model. In principle, this goes also to Finland. Still, there are some deviations and new tendencies, which are gradually changing the model; private providers have increased their shares also in social and health services.

In practice, the health care model in Finland is dual: public health care centres are taking responsibility for those that are outside the labour market, occupational health care is the main care provider for the employed population. As a rule, OHC services are organized by private providers. In the other words, the situation in the primary health care echoes the dualism between labour market insiders and outsiders. As well in social services private providers have increased their shares. Marketisation has been the most rapid in elderly care.

The question of privatisation has been very cumbersome for the left-wing parties that categorically have adopted negative attitude against all forms of privatisation: in the leftist parlance the good public sector is contrasted against the bad private sector. On the other side of the political spectrum, private alternatives are depicted as more effective, cheaper and more user-friendly than services produced by the public sector. Still, the line between public and private is not that black and white as the left argues.

/vi/ *Political challenges.* All these structural changes and difficulties of the current Finnish society have as well been converted as new type of political tensions. The landslide win of The True Finns in the parliamentary election 2011 is the best illustration of the tensions.

Finnish policy making is based on practical compromises and grand coalitions. The strength of this kind of policy-making has been that, despite deep ideological differences, coalition cabinets have been able to seek consensus and solve difficult economic and political dilemmas. On the other hand, one could describe Finnish political decision making as politics without politics; it is governance and muddling through. The method has been an effective device in hard times but the flip side of the coin has been the watering-down the very role of politics, which in turn is mirrored in low voter turnouts and political frustration that has partially been channeled into support for the True Finns who represent pro-distribution but anti-immigration attitudes. The True Finns collect their votes from working-class suburbs, the countryside and mostly from people hit by the great depression and cuts in the welfare state. There is a deep discrepancy in opinions between the ruling political elite and a vast number of frustrated voters, which discrepancy has benefitted the True Finns.

Another way to illustrate the crisis in the political system is a general apathy towards politics. As a rule, turnout percentages in Finland have been lower than in the other Nordic countries. For example, among the employed, the non-voting ratio is about 15 percent, whereas in 2012, 29 percent of the unemployed said that they did not vote. This means that the 'will of the people' expressed in elections is strongly biased in favour of the better-offs in the Finnish society.

Sub-report 7
A time of reforms. Regulation of labour market and welfare since 1990. Danish national report

Lisbeth Pedersen (Research Director, SFI – The Danish National Centre for Social Research) and Søren Kaj Andersen (Head of Centre, FAOS, Copenhagen University)

Development traits and challenges for the Danish welfare state

The overall purpose of the Nordmod project is to identify the challenges faced by the Scandinavian welfare states towards 2030. The purpose of the Danish national report has been to contribute to the creation of a basis for this assessment through a description of the development traits that have characterized the Danish welfare state since 1990.

The traditional Scandinavian welfare policies have been characterized by a close interaction between economic policies, labour market regulation, and welfare regulation (Dølvik 2013). In this perspective it is possible to view the traditional foundation of the Scandinavian welfare states as three interdependent pillars: (1) A solid macro-economic policy based on free trade and a high degree of work activity, which have created the preconditions for a large public sector, full employment, widespread social equality, and good wage and work conditions. (2) Labour market regulation enabling the parties in a centralized bargaining system to negotiate wages and working conditions, which simultaneously ensured the population's standard of living, the businesses' competitive power, high employment rates, good, healthy working conditions, and a qualified labour force; and (3) welfare state schemes such as comprehensive social benefits, ensuring increased equality in terms of standards of living, including educational options for everybody, a high degree of active employment and equal opportunities, as well as a comprehensive system of transfer income to safeguard the individual in case of income discontinuation.

The Danish national report is organized in relation to these three pillars. The purpose of the report is to describe and analyse the development within each of the three policy areas from 1990 to today. In the concluding chapter we discuss the challenges and perspectives occasioned by this review.

Here we summarize the trends and tendencies that have characterized the time frame in particular and that point towards the primary future challenges.

The welfare state in a changed world

In many ways Denmark is an efficient welfare state with a high degree of affluence, very few people living below the poverty line, a comprehensive welfare service, and a fine-meshed net of relatively high transfer incomes. But history has shown that the welfare state is continuously contested by both internal and external dynamics. The period from 1990 onwards has been characterized by severe market and trade fluctuations as well as fundamental structural changes in the world around us. European integration and the expansion of the EU with Eastern and Central European nations, the establishment of market economies in China and Russia, and the rapid economic growth in several Asian countries have in many ways influenced the framework conditions in the Nordic countries. Through the EU cooperation we are committed to a number of financial agreements that ensure a stable economic growth, but at the same time delimits the economic-political latitude. Businesses produce in an increasingly competitive environment, and work migrants drift towards countries with optimal wage and working conditions. In different ways all these factors pose challenges for a small, open economy, which has been organized with a wide-ranging, universal welfare system, relatively high transfer incomes, and a primarily agreement-based labour market regulation, which until now has been able to ensure decent wage and working conditions through far-reaching collective agreements. But the welfare state is also challenged by internal dynamics. Despite relatively limited poverty, there is a tendency toward increasing destitution and polarization in all Nordic countries, and the amount of people subsisting on permanent transfer incomes is surprisingly constant.

Development traits in macro-economic policies

The small, open Danish economy has for decades been influenced by economic changes and fluctuations in the world around us, but global competition has increased over time. The review of the economic development in the report shows how four major economic challenges that influenced the Danish economy – the first pillar of the welfare state – from the late 1980s were handled, so that Danish economy today predominantly is characterized by healthy structures.

A cornerstone in terms of solving the inflation problem in the 1980s was a reorganization to a fixed exchange rate policy, which remains characteristic of Danish economic politics today. The significant balance of payments problems were solved through considerable constraints in terms of credit policies, which in turn resulted in widespread unemployment. The high unemployment rates in the early 90s were gradually, but markedly reduced throughout the 90s and 00s, and like other success stories, this has more than one source. The low level of interest, made possible by the stable exchange rate policy, an active financial and labour market policy, and favourable international trade outlooks and conditions contributed to reducing unemployment to unprecedented lows at the beginning of the new millennium. But an extraordinarily gentle monetary policy resulted in a further reduction of unemployment rates to a level far below that which is commonly referred to as the structural unemployment level, which in turn contributed to the rather massive adjustment problems when the international recession hit.

The story of the development of the Danish economy is also the story of a political willingness and ability to guide the economy into firm and stable structures, but it also accentuates the small, open economy's great vulnerability to the outside world and unsuccessful policies affecting the external or the internal balance. Large-scale changes to the credit policy – be that constraints or relaxations – seem especially to influence Danish consumer habits and, through that, growth and employment.

History also demonstrates how traditional financial policies are affected by economic and institutional ties to the outside world in different ways. The exchange rate follows the Euro, and the Maastricht Agreement has set up specific goals for public finances. Additionally, financial policies are influenced by the increased international competition and the labour mobility rendered possible by the open borders. The marginal tax rates are reduced throughout the period in order to boost corporate competitiveness and enhance the supply of highly qualified labour. Concurrently there is a constant focus on restricting increases in public expenditure, particularly through adjustments of the accessibility and level of transfer incomes.

Development traits in labour market regulation

Focus on corporate competitiveness and the recent labour migration has also left its mark on the collective agreement system – the second pillar of the welfare state. But institutional changes in Denmark have also affected the conditions of the bargaining system and the parties' conduct. Basically, Denmark and the other Scandinavian countries have a majority of wages earners who are organized in trade unions. At the same time, wage and working conditions are to a very high degree regulated through collective wage agreements. This implies that the agreement system's capacity for contributing to a high standard of living, healthy working conditions, and sound competitiveness is significantly dependent on the efficiency of the system and its ability to garner support among employees.

Through the 1970s and 80s the collective bargaining system was upset by a lack of accordance between the parties, and therefore settlement negotiations were repeatedly resolved by government intervention. The period was characterized by high nominal wage increases, and automatic price regulations of the wages led to a sustained wage and price progression that undermined the corporate competitiveness. The concentration of industrial employer interests in Dansk Industri (The Confederation of Danish Industry) created an actor who pushed for reforms of the bargaining system. The ensuing model became the so-called centralized decentralization, where organizational interests were centralized at branch of trade level at the same time as agreement competence successively was placed with the individual businesses. This was an adoption of the fact that the industry became the key-bargaining sector , and at the same time the wage trends in the public sector were tied to the wage trends in the private sector via the so-called regulation scheme.

Afterwards the renewals of agreements in the dominant industrial field were characterized by a new-found flexibility from the employers in terms of for instance organization of the working time, as well as the option of ignoring parts of the collective agreement completely, provided that the parties were able to reach local agreements. The price was that the trade unions got a series of new fringe benefits included in the collective agreements. The labour market supplementary pension scheme is a well-known example, but later further/supplementary training rights, full salary during illness and maternity leave, so-called social chapters concerning employees with reduced working capacities, etc., were added. Thus new welfare benefits were included in the collective wage agreements. You could say that the bargaining system in this way complemented the universal welfare benefits that characterize the Danish welfare state.

The development of the welfare schemes

The reforms that have concerned the third pillar of the welfare state schemes in the past 25 years have primarily affected the transfer income system. Consequently, social and employment policies have played a central role in the welfare reforms that have been carried out in the period after 1990. The explanation can be found in the budgetimbalance that is the result of supporting and sustaining a welfare state in which a large percentage of the citizens depend on income replacement benefits and do not contribute to the financing of collective, public service disbursements through the tax system. The reform progression has to a certain degree been guided by political ideologies, but to a higher degree by macro-economic developments. The policies widely follow the trade outlooks: high unemployment rates have led to debates on whether the jobs exist at all as well as a focus on lack of qualifications and incentives. Low unemployment rates have occasioned a focus on the quantity of available jobs and initiatives directed at getting unemployed persons as quickly and directly as possible onto the labour market.

The number of reforms in the period is large, but in some ways their content is remarkably similar. The offers given to unemployed citizens have been largely identical all through the 30 years job offers, education/training, and incentives to enter, withdraw from, or stay on the labour market. But the offers are administered with varying force and impetus. In the early 90s the key is upgrading the qualifications of the individual citizen in order to aid people finding their place in the labour market. After the general election in 2002, when a new government was elected, the fulcrum was a simplification of tools and a focus on the endeavours of finding the shortest path to employment, and following the change of government in 2011, the individually adjusted efforts are once again brought to the fore. A similar process can be seen in the nature of the activation approaches. In the early 90s the educational element is important. Through the 90s the focus on education and training is downgraded, and under the conservative-liberal government in the 00s further training of unemployed people is completely rejected as a useful tool – a perception the current government is doing away with.

The development reflects differences in terms of political ideology, but it is worth noting that even though the nuances of the constituent elements of the policies change according to the colour of the government in office, many reforms, reform adjustments, and political packages are carried on the basis of broad political agreement. Disagreement did, however, arise in connection with the introduction of the so-called starting aid measure, an effort to institute a unified employment scheme (which gave the labour market parties less direct influence on employment policy and its implementation) born from a trust in education and training as an instrument for avoiding unemployment and marginalization.

A characteristic trait of the reform period is that still more of the groups in the transfer income system are included in efforts and initiatives launched to facilitate an affiliation with the labour market. Another trait is that regulation through economic incitements is awarded greater significance over time. The unemployment insurance period is reduced from seven to two years, and the benefits are lowered for certain groups. Under the conservative-liberal government the benefit reductions affected cash benefit recipients and especially immigrants covered by transfer income schemes. Under the current social-democratic led government the so-called poverty benefits for certain groups of cash benefit recipients have been abolished, but the lower disbursement for young cash benefit recipients has been retained and expanded to comprise a larger age group.

Challenges

The Scandinavian welfare states are fundamentally well-organized economies with efficient labour markets and public sectors tying society together and ensuring a relatively conflict-free, egalitarian society with a universally high standard of living, from an international perspective.

But the Scandinavian welfare states are facing challenges – like other European economies – from an increased global competition on the goods market, an influx of migrants from third world countries, and an increasing labour migration within the EU. In addition, a number in internal challenges are seen – like in the other European countries – as a result of a rise in the level of expectations from citizens in terms of welfare and the welfare service offered by the public sector. Furthermore, a demographic shift is happening in the general population's age distribution, resulting in fewer members of age groups engaged in active employment. This places new requirements on the policy making within the three pillars of the welfare state, but also, to a high degree, on the coordination and working relations and liaisons between financial policies, labour market regulations, and welfare policies.

The Danish welfare state is facing a number of challenges that generally hinge on the upholding of competitiveness, efficiency, cohesion, and decent living conditions for all citizens. The challenges that can be highlighted after the review in this report include:

- A healthy economic development
- An efficient labour market
- An efficient public sector
- Social cohesion and affluence for everybody

Below we present these challenges in greater detail and highlight the ensuing demands on policy making within and between the three pillars.

A healthy economic development

A healthy socio-economic development is a very fundamental prerequisite for the creation of affluence. The review has shown that changing governments since 1990 primarily have pursued a financial policy aimed at economic balance in relation to other countries and in public finances. But history has also demonstrated that it is difficult to maintain an unwavering economic course in a small, open economy with a very flexible labour market. Great economic fluctuations like in the late 80s and mid-00s created imbalances that proved hard to overcome. Apparently it is especially economic-political changes affecting people's assets that occasion inconveniently large consumption increases or vehement distrust in relation to the economic future. It necessitates continuous and well-balanced fine-tuning of the financial policies to counter this kind of economic fluctuations, but it also requires that the structural policies – not least labour market policies – function as active partners contributing to the upkeep of the development of the labour force that must – and preferably wants to – commit to a large and competent effort. While a healthy economic development is a precondition for steady growth and large-scale job creation, large-scale job creation is also a precondition for the creation of changes in welfare policies. In recent years a number of welfare reforms has been implemented in connection with the transfer income system with the purpose of supporting the employment increase and impeding social exclusion. Many of the reforms are new, meaning that we still have not been able to determine their consequences, but at the same time they have quite obviously been up against a strong tide caused by adverse market outlooks. Not surprisingly it is easier to create jobs for the less labour market eligible with many available jobs than in an economy with job scarcity.

An efficient labour market

A precondition for the creation of a society in which growth and affluence are combined with a high degree of income equality and equal access to universal public service activities is that a very large percentage of adult citizens are engaged in active employment. At the same time, decent wage and working conditions are in themselves an important component of the welfare package. An efficient labour market is thus a labour market with a high employment rate in a competent and skilled labour force, whose resources synchronously contribute to the safeguarding of an operationally successful business sector.

The Danish labour market has been characterized by a series of reforms concerning both the employment system and the collective bargaining system since 1990. The coordinated bargaining system with its well-defined hierarchy, especially in the private sector, where the Confederation of Danish Industry and CO-industri have been primary negotiators, proved to be stable and able to deliver the goods through the recent recession years. In spite of the serious financial crisis, deals and agreements were concluded successfully, in contrast to the situation in the 1970s and 80. This does not mean that disquiet did not occur on the public labour market, however; the teachers' conflict in 2013 is an example of this.

Despite the stability of the coordinated collective bargaining system, there are obvious challenges here as well. The rate of unionization has been reduced through the years, especially for trade unions within the LO area – primarily skilled labour and service industries. Educational and demographic shifts are part of the explanation, but cannot be held accountable for every aspect of this development. Specifically, the so-called yellow unions have come to pose a challenge to the LO unions. Despite the diminished membership of the union mainstays of the agreement system, the relatively high percentage of employees covered by the agreements has remained more or less unchanged on the Danish labour market, which is an unambiguously decisive factor of the bargaining system's functionality and legitimacy. But rate of unionization and bargaining coverage are not unconnected, and therefore it is important for the unions to staunch the membership decrease, if the system is to be maintained. For the unions the issue is to be perceived as a relevant option for the country's wage earners – in other words, it is about politics, values, and attitude. Moreover, there is the question of framework conditions. Free choice of unemployment fund and a reduced tax-free allowance for union memberships have complicated the union mainstays of the bargaining system's recruitment and retaining of members.

The increased international competition and especially the labour migration from Eastern and Central European nations pressure the coordinated collective agreement system. One of the causes is, also in this connection, the lower rate of union organization in businesses with many foreign employees. This concerns some private service businesses (cleaning, hotels, and restaurants, for example) as well as agriculture and horticulture. The difficulties of organizing the employees are further augmented when still larger percentages of the employees are foreigners, which in turn makes it more difficult for the trade unions to ensure that the work is carried out in accordance with the collective agreements. The building trade is a different matter; unionization and coverage of agreements are far more widespread here, which is why the influx of foreign workers has led to a very visible dispute in connection with violations of the agreements between foreign enterprises and the building trade's unions. All in all this has made social dumping a central theme in labour market regulation. In general it is possible to view the development as an exposure of tasks that until recently were typical domestic market enterprises to international competition. This requires adjustments and modifications – also in the collective agreement sphere. The question is whether the labour market parties are able to handle this or if we end up with a new kind of legislation on minimum wages on the Danish labour market – a development that would constitute a breach of the agreed wage regulation.

Seen in relation to the reforms of employment policies, the lessons learned from the period 1990 onwards is that it may be expedient to adjust the choice of tools in accordance with the market outlook situation, so that initiatives that quickly match jobs and unemployed persons are used in times of great job availability, while the longer unemployment stages in times of recession are used for an upgrading of employee qualifications. The lesson from the 00s is, however, that the idea that the most fragile groups can gain a foothold on the labour market through a 'work first' strategy is deeply flawed. The same is true of the idea that financial incentives in the guise of a reduction of benefits automatically will ensure this group of people employment. The welfare state is in a state of permanent balance between guaranteeing a reasonable standard of living for citizens without means of support and ensuring a continual motivation for making an effort. If the welfare state shall remain able to maintain a high level of service activity, it is necessary to constantly seek out new ways to prevent inadvertent exploitation of the system. On the other hand, experiences so far indicate that it will not be possible to ensure employment for a large percentage of cash benefit recipients by reducing their benefits. Other means are required. As stated above, it still remains to be seen what can be attained through the far more individually prepared initiatives, launched via the new reforms. The safest method of avoiding long-term unemployment seems to be continued growth and large demands for labour, combined with a continuous upgrading of the skills of the labour force.

An efficient public sector

Denmark has, like the other Scandinavian countries, a broadly universal welfare service and a relatively high level of benefits and disbursements. The majority of the social welfare efforts are undertaken by the public sector, and the debate on privatization has not taken up much space in the Danish media so far. There are, however, indications that the organization and financing of the welfare services will be debated increasingly in the future. As the average income has risen, so has the population's wishes and expectations for more and improved tax subsidized service activities. And as the service activities are expanded, our society becomes more vulnerable to immigration and emigration. We will undoubtedly experience a future complication in terms of constructing a model for the supply of service activities that will be operational in a still more globally dominated welfare society.

In this connection it may be significant to deliberate the extent to which the welfare benefits should be attached to labour market affiliation. Through the 1990s a series of new welfare service activities were introduced into the collective agreements, as mentioned above. This provided the organizations and unions with an increased visibility and influence and helped strengthen the legitimacy of the collective agreement scheme. At the same time it created a financial basis without affecting state budgets or tax rates. Thus, there may be strong financial arguments for including the labour market parties in the broader welfare political development. The inclusion of the parties does, however, raise the fundamental question of whether rights and benefits should depend on an affiliation with the labour market (collective agreements) or be universal (legislation) and thus apply to everybody. This is not an either/or situation, though; collective agreements may be supplemented by legislation, so that all wage earners are covered. Another challenge in relation to the agreement-bound welfare benefits is found in the influence on the flexibility of the labour market. Welfare benefits such as maternity pay and full pay in case of sick children have to a large extent been associated with the fields of activity traditionally dominated by women. This may very well have been a contributing factor to the fact that labour allocation on the otherwise very flexible Danish labour market often is gender specific and fixed. This is a problem for a society that needs to utilize everybody's resources and competence.

With regard to the level of the transfer incomes it is to be expected that they will remain under constant pressure from the public sector's budget restraints and a population that expects high tax rates to be reflected in high quality welfare services. As mentioned above, it will be a continuous political challenge to ensure a suitable level of upkeep and support for the weaker parts of the population while safeguarding a high degree of motivation for work and willingness to pay among the working, tax paying population. In the future it is to be expected that new reform initiatives will focus on this balance. Regardless of the reforms' direct and short-term effects they also have a number of indirect effects on socio-economic matters, including the creation of a broader, popular accept of the maintenance of a fine-meshed economic safety net.

Cohesion and affluence for everybody

Social cohesion can be contested and challenged from several sides. It is challenged by the larger cultural differences that come into play when ethnic Danes live with big groups of immigrants from other cultures, when resources and opportunities are unequally distributed, and when the economic chasm between the affluent and the poor becomes too wide, or when large groups are excluded from social and work-related communities. Denmark is – along with the other Scandinavian countries – among the ten most affluent countries in the Western world. The Scandinavian welfare states are not solely characterized by a relatively high average income, though, but also by a low number of poor people. Despite limited poverty in Denmark, the Danish expert commission on poverty measured an increase in 2013 in the number of people stricken by poverty, from 16,200 in 1999 to 42,000 in 2010, of which ¼ were children. The competitive society may well entail an increased economic polarization, so the Danish government's initiative of monitoring the development of poverty and destitution is doubtlessly well-founded.

High employment rates are the surest way of avoiding poverty in a country where reasonable minimum wages are guaranteed through collective agreements, and in general Denmark has a large percentage of people engaged in active employment. But just like in the other Scandinavian countries, there is a not insignificant group of people who spend prolonged periods of their adult lives on transfer incomes. It is a challenge for the Scandinavian countries to ensure that everybody has equal opportunities for and interest in participation in the social life; likewise it is a challenge to merge the wish for a highly productive labour market with the wish for a labour market characterized by latitude and inclusion, also with regards to people with reduced capacities for work.

A healthy economy and efficient institutions on the labour market and in the public sector are vital in terms of growth and affluence, but at the same time it is important not to overlook the strength of social communities, which indeed were one of the cornerstones of the rise of the Scandinavian welfare states.

Sub-report 8
Model in Change. Swedish Country Report

Thomas Berglund (Associate Professor, University of Gothenburg) and
Ingrid Esser (Assistant Professor, SOFI, Stockholm University)

This sub-report is part of the joint Nordic research project NordMod 2030 under the co-ordination of Fafo. The purpose of NordMod 2030 is to identify and discuss the risks and challenges that the Nordic countries are facing and need to address within the years up to 2030. Within this context this sub-report aims to produce knowledge that can serve as a basis for designing strategies for reinforcing and renewing the Nordic social models. This Swedish country report follows the outline that was charted for all five Nordic country sub-reports. At focus are descriptions and analyses of labour market and welfare state institutions, including also an examination of financial, social, political indicators associated with key objectives, institutions, policies and social outcomes – together central for describing trends of "the Swedish model" in the time period between 1990 and 2012.

The Swedish model's most important characteristics are the following:

- A system of industrial relations with strong parties that negotiate collective agreements with little involvement of the government/state. The collective agreements regulate most conditions in the labour market, are based on solidaristic principles (equal pay for equal work), and take macro-economic conditions into account.
- Prioritisation of full employment, both as a value in itself, and as a mean to finance an encompassing and extensive welfare state.
- Universal and earnings related social insurances that provide social security for all against common social risks, and also help to sustain individuals' standard of living for a given period of time.
- Universal social services of high quality available to all citizens regardless of an individual's resources, publicly financed as well as historically publicly provided.
- A political class alliance between the working and the middle class, in relation to how both groups contribute to and benefit from universal insurances compensating earnings losses and encompassing social services of high quality.

The purpose of this report is to describe and analyse how Sweden has developed since 1990 in relation to these ideal typical characteristics. Have the model changed in fundamental ways or could these characters still be said to constitute the Swedish model as of today?

The time period studied includes two very deep economic recessions – the crisis in the early 1990s and the financial crisis following international developments late in 2008. While the first crisis fundamentally changed Swedish macroeconomic policies, the second did not have a similar impact. In the beginning of the 1990s Sweden's economy turned into a deep recession. This was partly caused by an international currency crisis that came to pressure the Swedish currency, which was pegged to the European Exchange Rate Mechanism (ERM). Sweden had a recent history of inflation and numerous devaluations since the 1970s, and as the export industry was losing grounds in international competition at the end of the 1980s, currency traders believed that the Swedish currency should be discontinued from the ERM and devaluated. The central bank together with the politicians showed unprecedented readiness to defend the currency – in autumn of 1992 the interest rate peaked at 500 per cent. In the end, however, the fixed rate of Swedish Krona was given up to a floating currency. In parallel to the currency crisis, Sweden also faced a largely self-imposed banking crisis. In 1985 restrictions on bank credits were abolished and with the fully deregulated currency of 1989, there was a surge of foreign direct investments. Swedish financial institutes and banks could easily support investments in foreign real estates and properties, in all contributing to a greatly inflated Swedish economy. When the bubble burst, several Swedish banks were near bankruptcy, which the Swedish government saw itself forced to save. After decades of unemployment rates never exceeding 2.9 per cent, and at 1.8 per cent in 1990, unemployment increased rapidly – 1993 it was 9.5 per cent and reached a peak in 1997 at 10.1 per cent. In such circumstances both the centre right government (1991-1994) and the Social Democratic government (1994-1998) were fighting increasing public debt (as high as 84.7 per cent of GDP in 1996), which lead to fundamental changes in macro-economic policies.

In contrast, the financial crisis in 2008 did not have the same significance as the 1990s crisis. The GDP showed a monumental decrease in 2008-2009 by a 5.0 per cent negative growth, larger than any decrease during the crisis of the 1990s. However, the economy rebounded strongly in 2010 (6.3 per cent growth) with positive growth also in the following years. Unemployment increased from 6.3 per cent from 2008 to 8.7 per cent in 2010, while the public depth only increased slightly. Paramount to the government in the financial policies undertaken was to reinstate the confidence in the banking system by guaranteeing the solvency of the banking system.

The crisis of the 1990s turned into a formative moment paving the way for fundamental changes in macro-economic policies. In 1990 Sweden declared its intent to apply for membership in the European Community, which after a referendum turned into a full membership in 1995. By this membership Sweden's economy needs to adhere to the "convergence criteria", which called for the creation of an independent central bank (Riksbanken) with the main priority to sustain stable prices. In 1995 Riksbanken declared that the goal of the monetary policy was to not let inflation exceed 2 per cent (+/- 1 per cent) and in 1999 Riksbanken was made independent by law. Also fundamental rules for financial policies were changed. In 1997 a ceiling for the governmental budget was introduced, which defines a highest level of expenditures three years ahead. Moreover, a surplus target of 1 per cent of GDP for the net lending over a business cycle was decided. The rationale behind these measures was to consolidate and bring down the Swedish debt, which was considered very important in relation to the floating currency, and to create room for manoeuvrability for future generations facing challenges of a graying population. Additional reforms during the 1990s include an extensive tax reform ("tax reform of the century"), which decreased the progressivity of the taxes and largely closed the possibilities for tax planning. Sweden also started to deregulate markets and sell out state owned companies.

After the chaotic development in the first half of the 1990s, the Swedish economy recovered rather well in relation to some important indicators. The mean GDP growth was on average 2.1 per cent 1990-2012 which can be compared to the OECD mean of 2.2 per cent and the mean across the Euro zone (1996-2012) of 1.1 per cent. Sweden's history of high inflation was ended and for the period 1995-2012 inflation was on average only 1.3 per cent – far below the target of Riksbanken. Also the public debt was decreased to only 38 per cent of GDP in 2012 – one of the lowest levels in Europe. However, the downside includes a galloping private debt – in 2012 the debt ratio was 170 per cent of the households' disposable income, which is much higher than during the economic bubble towards the end of the 1980s. Furthermore, investments are on a lower level than in the 1970s and 1980s. One explanation is a low level of investment in construction.

One of the most serious negative outcomes of the economic development during the time period studied is the increase in unemployment. The mean level 1990-2012 is 7.1 per cent, which is much higher compared to the period 1965-1989 with a mean level of 2.3 per cent. Especially, the situation for the youngest age group (15-24 years) is problematic. After a large increase in youth unemployment in the 1990s, the situation improved until 2000, after which young peoples' chances in the labour market have declined again. In 2012 youth unemployment was nearly 24 per cent, which is by far the highest level in the Nordic region (Denmark, 14.1; Finland, 17.7; Iceland, 13.6; Norway, 8.6). However, this figure also includes substantial numbers of full-time students looking for part-time or summer jobs. In contrast, the development is more favourable for those in the oldest age group (55-64 years) with an unemployment level similar to the prime age group 25-54 years (5.2 per cent in 2012) and a constantly increasing employment rate since the end of the 1990s – today even higher than during the late 1980s (73.1 per cent in 2012).

The renowned Swedish industrial relation system was heavily challenged during the period. Firstly it was confronted by the employers leaving the system of centralized bargaining and negotiation. Secondly, the centre-right wing government imposed changes to the unemployment insurance membership rules, which promptly decreased union density. Thirdly, the decision of the European Court of Justice in the so called "Laval Case" in 2007 came to question the Swedish system of independent labour market parties' right to regulate their relations by collective agreements with little involvement by the state.

In 1990 the main employer organization, SAF, changed their policy and opted out of central wage bargaining with the peak union organizations LO, TCO and Saco. Instead, bargaining was to take place at the industry level and implemented at the local level. This decision undermined all coordination of wage setting and threatened the potential of negotiations to take into account also macro-economic considerations into the settlements. Furthermore, SAF also decided to leave all corporative boards, for example, the governmental board of labour market policies (AMS).The centre-right wing government followed suit (1992) with a prohibition of representation of interest groups in some governmental boards (including the area of labour market policies).

However, during the turbulent 1990s a new insight of the value of coordinated wage setting came about. The so called "Industry Agreement" was settled in 1997 between unions and employers in manufacturing and forestry. This agreement defined a new order of negotiations, involving mediators in an early stage and creating other mechanisms to avoid industrial conflict. Furthermore, the parties strived for setting the norm (the "mark") for the rest of the labour market. In 2001 this norm was backed up by the creation of the Swedish National Mediation Office (Medlingsinstitutet). The rights of mediation in negotiations of this governmental office were increased and an overarching goal became to make the export industries set the norm for wage increases. This new wage-setting and negotiation regime that was established during the period resulted in both rather low nominal wage increases (but high real wage increases due to low inflation) and a reasonably peaceful labour market with few industrial conflicts. The second challenge concerns decreasing union density. By international standards, Sweden has a very high proportion of unionized of employees. An all time high in union density at 85 per cent occurred in the middle of the 1990s, which can be explained by the unfolding crisis. Thereafter union density decreased slightly towards the end of the 2000s. In 2006 the density was 77 per cent but in 2010 it had dropped to below 70 per cent – at this time unionization did not increase even though Sweden entered into a new crisis. The decline was instead due to another factor. The Swedish unemployment insurance is mainly administered by the unions and with different unemployment funds for different industries. A minor part of the funds are financed by membership fees, whereas the main financial support comes from the government (through public taxes). This arrangement has been termed the "Ghent system". The unions often combine the payment of the union membership with a payment to the unemployment fund. However, the size of the membership fee is decided by the government. With the centre-right wing government that came into power in 2006 it was decided that this fee should mirror the risk of unemployment within the specific industry. This differentiation led to sharp increases in many union members' monthly fees to the funds (from 84-116 to 240-415 Swedish Krona per month). At the same time, the government abolished the tax reduction for union fees, which even further increased the costs associated with union membership. As a consequence membership in both unions and unemployment insurance funds saw large declines (see more below). LO lost 14 per cent of its members whereas Saco – the main union for professional occupations, usually with a smaller risk of unemployment – lost 5 per cent. However, in the summer 2013 the centre right government announced that the differentiated fees were to be abolished.

The third challenge came from the decision of the European Court of Justice (ECJ) in the Laval case. The background was that Byggnads (the Construction Workers Union) enforced a blockade against a Latvian company, which used posted Latvian building workers for construction work in Sweden without signing the collective agreement with wages and conditions comparable to the Swedish collective agreement for this sector. The Latvian company brought Byggnads to the Swedish Labour Court, which rejected the claims of the company. However, the Court decided that the ECJ should try the case to clarify if the Swedish rules were consistent with the EC Directive. The verdict in December 2007 held the action of Byggnads as unfair. The Court ruled that unions could only make claims on the companies with posted workers to apply wages and conditions at least at the minimum standards of national collective agreements, and that the industrial actions of Byggnads were disproportional in relation to the harm done to the Latvian company's right to free movement in the internal market. The Swedish government responded with a new law 2010 that circumscribed the unions' right to take industrial action against foreign companies with posted workers. Industrial action is only allowed to underpin demands on minimum levels of Swedish collective agreements or mandatory minimum rights. Posting companies that submit applicable collective agreements of the home country to the Work Environment Authority, are – if these are shown to correspond to the minimum level of the Swedish agreements – also legally protected against union action. The new system has however been criticized for obstructing unions' possibilities to act without risking using disproportionate actions, amongst others from bodies of the ILO and the Council of Europe. The Swedish self regulated system of collective bargaining is in this way faced with new difficulties to function independently/effectively in the open labour market of the EU.

Besides the system of industrial relations Sweden has also been famous for the extensive use of active labour market policies. These have been an integral part of "the Solidaristic Wage Policy" that has characterized the Swedish labour market. By agreeing on equal pay for equal work also between industrial sectors, less profitable companies come under pressure, while more profitable companies get additional advantages by paying lower wages on a market without such an agreement. The aim of the active labour market policies was to help people in the transitions between jobs – from less profitable to growing sectors in the economy.

However, during the period studied the use of active labour market policies has changed considerably – both in its extent and content. In 1990 the Swedish expenditure on active measures was 1.68 per cent of GDP, whereas the figure for 2010 was 1.14 per cent. To understand the change one also has to consider the level of unemployment – 1.8 per cent in 1990 and 8.7 per cent in 2010. It seems that the readiness to use active measures has declined considerably. Furthermore, and related to the decreasing expenditures, the type and content of measures have also changed. In particular the belief in the efficiency of training has been reduced. Instead measures to increase the job search efforts of unemployed have been prioritized, for example, by the use of job coaches and strengthening the demands of being active.

Essential changes have also occurred in relation to social security, both in terms of social insurances and social services. Swedish social insurances are characterised by universal coverage that sustain previous standard of living (during e.g. sickness, unemployment, family formation or old age). In case first tier schemes are exhausted or not available due to unfulfilled qualification criteria, second tier systems (e.g. social assistance, basic unemployment benefits or guarantee pensions) provide social security at lower levels. Universal social services are comprehensive and aim to provide high quality services to all regardless of an individual's resources or geographical location. In other words the Swedish model provides universal and encompassing "social rights" in international perspective.

At the same time, by their design, social insurances are closely related to and dependent upon individuals' participation in paid work, thus inherently tying strong incentives to participate in paid work in order to qualify for full social citizenship. Vulnerable groups with weaker labour market attachment are as a consequence at distinctly higher risk of relying on more limited social benefits and of social exclusion.

Given major labour market changes in relation to economic crises during the time period, large numbers of individuals became dependant on unemployment benefits, social assistance, early retirement pensions, and also with some time lag, reliance on sickness cash benefits. Such escalating benefit dependency contributed to an increasing debate on how generous social benefits may provoke negative incentives to work. In line with this development the rhetoric in Sweden has shifted decidedly in the time period studied, firstly in relation to escalating sickness absence towards the end of the 1990s and early 2000s, but especially in the years following 2006 election in relation to the new government's rhetoric and goal to diminish the proportion of non-contributing persons of prime working age ("att minska utanförskapet"). In this vein there was an increased emphasis on a new type of work line (arbetslinje), which is enforced rather by stricter qualifying criteria, increasing disciplinary conditions and enhanced control. This implied a shift away from previous ideals of the Swedish model on the mutual responsibility of both individuals and the state to reach the goal of full employment – where the role of the state typically included macro-economic measures facilitating job creation, provision of appropriate education and re-training possibilities, so that no one should be unemployed against their will.

With regards to social insurances, the largest changes during the studied time period undoubtedly concern the unemployment insurance. Firstly, although coverage according to specified regulations is universal, well above 90 per cent, the take-up ratio defined as the share of unemployed persons receiving income related unemployment benefits, has dwindled from two out of three persons to one out of three. Secondly, as a consequence of non-decisions the income ceiling has not been raised since 2002, but rather lowered in 2007, resulting in a very small proportion (11 per cent) of recipients actually receiving the stipulated 80 per cent of previous earnings. Thirdly, the same year, the possibility to restrict job search during the first 100 days of unemployment to one's occupation and geographical area was abolished. Fourthly, the qualifying conditions and means of control within the system have been made stricter, especially during the latter part of the time period. The work condition was increased, although still among the less strict by European comparison, resulting in fewer persons qualifying for benefits. Active labour market measures have come to largely exclude labour market training (arbetsmarknadsutbildningar) that could facilitate better matching of unemployed persons' skills with available jobs. As of 2013, unemployed persons need file monthly reports on job search activities. In sum, the form of the income related unemployment insurance scheme appears to be intact but increasingly void of content to the majority of unemployed persons, of which many are newcomers to the labour market, immigrants or long-term unemployed persons who have exhausted their benefits.

The development of sickness cash benefits somewhat resembles that of unemployment benefits. Benefit coverage remains universal, and importantly so with a by in large intact take-up ratio. The income relatedness has however also been curbed, although to a lesser extent than in the case of unemployment benefits. The income ceiling is higher and also successively increased by indexation. Yet, the indexation has inadequately mirrored the income development during the time period studied. Hence, larger proportions do not receive benefits that replace previous incomes at the stipulated replacement rate in case of sickness, work accidents or disability. In 1990 only one out of ten persons had incomes above the income ceiling, whereas in 2009 this was the case for three out of ten persons.

With increasing social expenditures, measures were taken to close or extensively restrict the possibilities to retire early for unemployment as well as sickness related reasons. Regulations for disability benefits were tightened by reforms in 2003 and even further in 2008. The latter reform introduced an assessment of work capability within a framework termed the chain of rehabilitation ("rehabiliteringskedjan"), against an increasingly wider spectrum of job tasks, eventually in relation to the entire labour market. In 2008 duration of sickness benefits were also limited to one year (previously unlimited). Regulations for continued benefits beyond one year were made very strict and rely on a special evaluation. In this context a strong debate concerned the legitimacy of the treating doctor's attestation to an individual's work ability, which by professionals as well as media was exposed to be increasingly and somewhat unsystematically questioned by the sickness cash benefit administration authority. This has been described as a shift of the doctors' attestation from being an aide to the individual to a means for the administrative body to better control the number of persons on sick leave, hence improved budgetary control.

While the first half of the 1990s was characterised by escalating unemployment the second half was dominated by quickly rising sick leave absence, which peaked in 2002-2003, when the rates were the highest within EU15. Although sick absence was not historically high, the structure differed, with large numbers of long-term sick, especially with psychological diagnoses, not least among persons of younger ages. Sick leave is distinctly higher among women, and among persons employed by the municipalities (whereof most are women). Furthermore, the risk of sick leave is higher for employees within the care and social services, followed by education. Overall, the most important risk factors appear in relation to the quality of work, with higher risks of sickness in physically demanding occupations (heavy lifting and repetitive job routines) and jobs that combine high work pressures with low control, a combination which appears to have increased in relation to labour market transformation pressures during the time period. The higher sick leave among women has been given three possible explanations; firstly, their continued larger work load in relation to taking larger responsibilities for unpaid home-work, secondly, worsened job conditions within female dominated occupations within municipalities and the regional organisation of social services (landsting), and thirdly, a high proportion of women on rather permanent part-time sick leave, thus not transitioning back into full time work. Together these explanations have however not fully explained the large gender differences.

With a healthier and greying population, Sweden is, as many other welfare states facing an increasing dependency ratio – i.e. higher proportions of older and younger ages supported by the working aged population. In relation to the underfinanced old ATP-pension system of a defined-benefit-kind, the decision for a new pension system in 1994 (right wing government) and approved in 1998 (by social democratic government) was implemented under relative consensus from 1999. The most important novelties include a switch to defined contribution type of scheme, which introduces effective cost control. It sustains two central aims – it remains both universal and income-related. A (low) "guarantee pension" is provided to all regardless of previous earnings and its size is means-tested against the income-related pension. The calculation of pensions is now based on life-time earnings (as compared to previously, the best fifteen of work years of the thirty years necessary for full pension). An international novelty is the introduction of "premium pensions", whereby 2.5 percentage points of the tax funding (total 18 percent) was placed under individual control and to be invested across a vastly expanding flora of pension funds. The new scheme in general benefits individuals with long work lives and even incomes over the life course. Notably, the system is inherently redistributive from men to women. This is a consequence of how life-expectancy is calculated as an average for both men and women, although women live longer. Also, the financing through taxes is paid in relation to the entire income, whereas pensions are income related up the income ceiling. This redistributes resources from income related pensions to the guarantee pension, which almost every second women draw upon as a consequence of limited or no participation in paid work. Despite these redistributive elements, there is a problematic high share of female old age pensioners who are living in (or at risk of) poverty due to relying only on guarantee pension. As these consequences are related to persistent gendered labour market participation patterns, poverty alleviation in old age among women calls rather for more wide reaching labour market or family policy measures that encourage a more equal participation in paid work.

Family policies during the time period have not seen fundamental changes. Earnings related parental leave benefits were introduced in 1974. The income ceiling for benefits is higher than for sickness cash benefits and its duration has been gradually extended to 480 days (16 months). In 1995, 30 days were reserved for each parent (or else lost), extended in 2002 to 60 days. After almost four decades of parental leave benefits, women still make use of the main share of parental leave benefits, 76 per cent in 2011. A new reform in 2008 introduced the care benefit (Vårdnadsbidraget) at a low monthly rate (3000 SEK) to a parent that chooses to stay at home to care for pre-school aged children. This mainly attracted immigrant women with weak labour market attachment, and as such constitutes a gendered poverty trap. In 2008, also a (relatively small) bonus for sharing parental leave equally was introduced, but has not resulted in any significant effects. Recent research has showed how the gendered pattern of parental leave is repeated also in families where women hold the higher income or education, indicating non-economic incentives behind sharing of paid and unpaid work within the family. Hence, there appears to be clear limitations to policies based on economic incentives for a more equally sharing of parental leave.

In general, as a consequence of less adequate earning relatedness in all the social insurances discussed, the market for complementary insurances, both through collective agreements and purely private insurances, has greatly increased. In relation to how these insurances generally reflect socio-economic differences to a higher degree, the quality of social security and social citizenship is developing along more segmented lines - a path which departs from the traditional idea of the Swedish model defined as a common, collectively financed encompassing universal welfare state for all citizens.

In the field of social services (most importantly education and sick and care services) the general and fundamental change involves increasing share of private provision of publically (tax) financed social services. This development was initiated by the right wing government in the early 1990s, but wasn't generally scaled back during the following years of social democratic governance. The development gained new momentum with reforms in 2007 (LOU) and 2008 (LOV). The general rationale for introducing private provision and increasing competition through customers' choice is to increase efficiency, improve quality, flexibility and variability of services, while bureaucracy is decreased. There are also theoretical counter arguments. Lower efficiency is expected in relation to how profit seeking providers seek to generate profits at the potential expense of quality or amount of provided services. Increased competition in services may not inherently imply innovation in the field of services, whereby privatisation might not automatically generate higher quality or more variability in the provided services. The extensive and bureaucratic system for assigning providers could also be cost driving and increase bureaucracy. Also over-establishment of service providers within an area would increase costs. Increasing differences in quality and substance of services is also generally expected to profit stronger groups of customers, hence jeopardising the traditional aim of the Swedish model of sustaining high quality and a fair distribution. General arguments have also been raised in support of publically provided social services. These include the fundamental external effects of social services (e.g. a healthy and well-educated population) as well as the highly problematic or non-existent options for reclamation of e.g. poor educational or care services.

In the time period studied the occurrence of private providers has increased greatly, although with large variation across sectors, regions and municipalities. The number of employees in privately provided services has almost five-folded, from 5 to 23 percent between 1993 and 2011. Privatisation tends to be more extensive in regions (landsting) and municipalities under right wing governance, as well as in larger cities, whereas there are still municipalities without any private provider in some sectors (e.g. elderly care within the municipality of red-green governed Gothenburg). In the case of schooling, today, 13 per cent of all pupils attend privately governed elementary schools, and 26 per cent privately governed high schools (gymnasium), whereof the main share is also profit-seeking entrepreneurs, which sets Sweden apart internationally. The degree of concentration has also become very high, where 10 companies run 30 per cent of all privately governed schools at the elementary level, with even higher concentration among the high schools.

In terms of outcomes of competition, two interrelated conclusions have been emphasised in the research anthology "Konkurrensens konsekvenser" (Hartman 2011), an anthology that follows up the governmental report ten years earlier (Palme 2002). Firstly, the knowledge about efficiency, quality and distributive outcomes is strikingly limited in most areas of social services. Secondly, in relation to meagre evaluations, "the introduction of competition in social services /.../, does not appear to have resulted in unambiguous gains, as many have expected" (Hartman 2011c:273, own translation). For example, research has found very small positive effects of the new schooling system on pupils' scores. The effects found are mainly a result of competition from schooling alternatives in the region, which has improved pupils' scores in both public and private elementary schools. Yet, the reform has led to increased costs and also somewhat increased sorting along lines of both socio-economic class and ethnicity, which can not be explained by geographical segregation. By international standards, pupils' (PISA-) scores have worsened during the time period from leading to average levels among OECD-countries. At the same time pupils' grades have risen constantly during the past 15 years, indicating substantial inflation of grading, which has been attributed to the new school system.

A large and strongly politicised debate followed the expansion of private providers, especially during the latter years. Several scandals on e.g. malfunctioning sick and elderly care as well as private schools going bankrupt have unfolded. Allusions have often been made that the underlying factor is mal-functioning practices of private providers. Substantial debate and criticism has especially concerned the existence and role of profit seeking companies as providers of tax financed services.

A challenge to the Swedish model, which relates to the functioning of both labour market and welfare state institutions, is the capacity to protect more vulnerable groups who fare relatively worse in times of economic crises, much in relation to their less stable labour market attachment. These include persons who to a larger extent rely on social assistance and foreign born citizens. Dependence on social assistance increased in relation to the 1990s crisis as well as to the crisis in the late 2000s, however much more extensively in the former. More troublesome is increasing proportion of long-term social assistance recipients, a proportion that has not receded with better times. The most frequent causes behind receipt of social assistance is being unemployed, sick or being a single parent. In relative numbers, compared to the composition of the population, the most common household type receiving social assistance is a single mother with dependent children (23 per cent receiving assistance at any time during 2012). In absolute numbers, however single men without children are more frequent.

It is also evident how citizens with foreign background fare relatively worse in times of crisis. Since the Second World War Sweden has received large numbers of immigrant workers, and today has the largest share (15 percent) of foreign born persons among the Nordic countries. In the early decades immigration was mainly work-related, but has thereafter changed to consist mainly of persons seeking asylum, as well as immigration of relatives, whose skills are not directly matched by an immediate demand for labour. Also, the level of education tends to be lower among the foreign born as compared to persons born in Sweden. Despite a long history of immigration, the economic integration of foreign born citizens in recent times is not optimal, as indicated e.g. by lower labour force participation or higher unemployment, especially in the case of female immigrants. These households are also more prone to (unemployment related) poverty that tends both to be more prolonged and more frequently occurring. There are however substantial differences in integration by region of origin, with persons from Asia and Africa faring relatively worse than persons from other Nordic countries or the EU. It is also evident how economic segregation has contributed to segregation in living (geographical segregation), which increases the risk of welfare related problems as social services such as schooling, pre-schools, care etc. are geographically organised. Once areas have become segregated there is a high risk for social and economic inequalities reinforcing each other.

Perhaps the most characteristic social outcomes of the Swedish model are low rates of poverty and inequality, which both however have increased since the early 1990s, with distinctly larger increases since the mid-2000s. Poverty assessments are however sensitive to measurement. As an example, poverty (measured as incomes less than 60 per cent of the median income) initially actually decreased with the crisis in the early 1990s in relation to how high unemployment lowered the median income (i.e. the basis for relative poverty calculation). Yet, the trends of increasing poverty and inequality is apparent, and even more striking in relation to more vulnerable groups, such as single mother households and elderly. For these groups, even drawing on the more restrictive measure of poverty (incomes less than 50% of the median income) poverty rates are approaching 20 and 15 per cent for these households respectively. Also the increasing inequality since the 1980s is dramatic, a development that peaks in close relation to negative economic developments. Analyses show how income differences develop across the whole income span, i.e. when both higher and lower disposable incomes are compared against the median income, furthermore also when income from capital is excluded from comparisons.

The report ends with a discussion of which challenges the Swedish model needs to confront in order to sustain its main features as well as visions. Firstly, the industrial relation system is addressed. It seems that the system has managed the risk of being totally decentralized with little chance of coordination and high risk of dissolving the norm of solidaristic wages, which would bring out higher wage dispersion. The Industrial Agreement and the Mediation Office seem to have created a new and rather stable system of wage negotiations. Still, the system is dependent on strong parties in the labour market. As has been discussed, union membership was put under pressure, especially during the later part of the period, and shown to be not invulnerable. In their reactions to higher membership fees, members can be expected to more thoroughly question what they receive in return. Especially this concerns younger persons who are less unionized, much in relation to a higher share of temporary contracts and their weaker attachment to the labour market. At the same time, this is a strategic group to reach in order to raise future member rates. Furthermore, worrisome for the unions are also the discussions related to decreasing take-up ratio of the unemployment insurance and the possible abandonment of the Ghent system in favour of a compulsory insurance. A compulsory insurance without the connection to the unions would most certainly lead to a decline in union density. A last challenge to the industrial relation system comes from the judgment of the ECJ in the Laval case. The restrictions in the rights for industrial actions in relation to companies with posted workers have brought questions about the future of collective agreements with little involvement by the state. Some believe that the collective agreements have to be backed up by an extension mechanism. However, many unions are reluctant to this kind of solutions because of new disincentives for union membership (and free riders problems).

The second challenge for the Swedish model is the question of full employment. For several reasons Sweden has not nearly seen the low levels of unemployment that characterized the Swedish labour market before the crisis in the 1990s. One central explanation appears to be the recent development of (partly new) complementary institutions for monetary and fiscal policies as well as a wage setting regime that aim for low inflation. The first is the independent Riksbanken, with the goal of keeping inflation around 2 per cent. The second institutional configuration is the budget rules, where the goal of surplus in public finances is the most conspicuous. The third is the wage setting regime with the Industry Agreement and Mediating Office, which have facilitated wage agreements on moderate levels. Complementary institutions are believed to reinforce a certain outcome. Therefore, there is a risk that these institutions in their combinations give too much weight to low inflation at the expense of higher unemployment.

A side effect of this can be that private and public consumption is held back and unemployment levels freeze at a higher level than necessary. During the last years critique has been raised from both within the Riksbanken and from other economists, in relation to how repeated inflation below the goal of two per cent inflation has unnecessarily increased unemployment. Furthermore, criticism has concerned the goal of public savings, which was created during the crisis but could be argued to no longer serve any real purpose except for constituting a normative order of budgetary discipline. Also the wage setting regime has been criticised, especially by the unions within LO representing employees with lower wages and sectors often dominated by women.

A third challenge concerns the "effectiveness" of universal and income related social insurances. While universalism appears to be formally intact, take-up ratio has been largely curbed in the case of unemployment insurance. Stricter conditions in combination with higher unemployment have resulted in how fewer younger and foreign persons, as well as long-term unemployed persons quality for either income-related or basic unemployment benefits. Lower or lagging income ceilings, especially in unemployment insurances, but also for sickness cash benefits, has hollowed out the effective replacement rate, creating strong incentives for individuals with higher earnings to seek (and pay for) complementary insurances, either provided through collective agreements or private insurances. Development along this line can be expected to in the long run undermine the solidarity behind collectively financed universal and encompassing social security for all citizens, which relates to the final challenge discussed below.

Consequently, a last challenge concerns the political support for the Swedish model. In today's political rhetoric every party seems to support the Swedish model. However, by evaluating the changes that have taken place, especially regarding the erosion of the take-up rate and compensation rate within the unemployment insurance, and to some extent also within the scheme for sickness cash benefits, an important fundament of the model may be lost. The explanation behind the broad support of Swedish/Nordic welfare state lies in how it relies on a class alliance between the working and the middle class that have both benefited from universal income related social insurances that compensate for lost earnings, as well as collectively financed social services of high quality, in large free of charge or at relatively low cost upon use. However, fundamental changes to the quality and distribution of social insurances and public services could raise the incentives for the groups that are better off to turn to private insurances and services. With such a development one could expect declining solidarity with the less fortunate part of the population, who tends to be more exposed to social risks, and also a deteriorating willingness to contribute, e.g. through taxes, to the public system. Changes along this line could in the future bring a cleavage between insiders and outsiders in the labour markets, where the former are unwilling to support the latter. Interestingly, recent attitude surveys lend evidence to a widespread support and increasing willingness to contribute to the financing of collective welfare, especially in relation to sick and care services, as well as support for the elderly.

References

Hartman, Laura (ed.). 2011. *Konkurrensens konsekvenser. Vad händer i svensk välfärd?* SNS Förlag.

Palme, Joakim (ed.). 2002. *Welfare in Sweden: The Balance Sheet for the 1990s.* (Translation of Part 1 of the final report of the Welfare Commission (Kommittén Välfärdsbokslut) SOU 2001:79). Fritzes

Sub-report 9
The Nordic labour market models in open markets – challenges and perspectives

Søren Kaj Andersen (Head of Centre, FAOS, Copenhagen University), Jon Erik Dølvik (senior researcher, Fafo) and Christian Lyhne Ibsen ((researcher, PhD, FAOS)

The labour market models of the Nordic countries are characterized by the predominance of collective bargaining in the regulation of wages and working conditions. The collective bargaining systems largely build upon a strong organization of workers, who historically pressured the employers into organizing themselves correspondingly and making agreements with the trade unions. Throughout history, the collective bargaining systems have been challenged on a number of occasions. As the Nordic economies in the 1980s and 1990s were facing major crises, increasing globalization and the ever-deeper integration of European markets, many predicted that the days of the comprehensive Nordic bargaining systems were numbered. Throughout the 1990s and into the 2000s, however, the systems of collective bargaining underwent substantial reforms; still their institutional foundations remained intact. And as far as economic development, inequality and employment were concerned, the Nordic countries were at the top of global rankings. Facing the international shift to a low-inflation regime, more intense competition and increased mobility across borders, the collective bargaining systems underwent significant adjustments in order to ensure productivity and employment growth. The first purpose of this report is to describe and analyse these changes in the Nordic collective bargaining systems: What do the changes have in common – and what are the main differences? The second purpose is to identify the challenges and conditions for the further development of the collective bargaining systems in the Nordic region. Here, we ask whether the Nordic employers are still committed to develop the collective bargaining systems further, whether they would rather reduce their significance, or if they would prefer to abandon the systems entirely.

Background

This section presents the background of the Nordic collective bargaining systems. The historic basis for the 'conflict partnership' underlying the collective bargaining systems dates back to the conflicts that eventually led to the so-called 'basic agreements' defining the rules of the game to which the social partners could agree. This occurred as part of the dawning industrialization in which the workers began organizing themselves to put pressure on factory and business owners. The Nordic bargaining systems evolved in the respective countries at slightly different tempi, developing over the course of decades with major economic, social and political unrest, culminating in the Great Depression in the 1930s. Then as now, the Nordic countries were small, open economies that depended on trade with the other European countries and were deeply affected by the economic instability in Europe in the interwar period.

Over the course of three 'golden' decades following World War II, the traditional Nordic welfare states were developed and women entered the labour markets in large numbers. Politically and ideologically, new tensions developed in the late 1960s and especially in the 1970s. Possibly most symbolically, this was illustrated by the demand for Economic Democracy (ED). It was also in the 1970s that the Nordic countries were hit by the oil crises and subsequent economic and labour market set-backs throughout Western Europe. It was in the light of these problems that the plans for the Single Market and monetary integration, which led to the establishment of the euro, gained momentum. There was also political support for developing the EU's 'social dimension' in this period. Yet, in the early 1990s, it was widely believed that the various European labour market models would come under pressure and become subject to convergence (Baglioni 1990). First in the line of fire were the Nordic models, where the labour market regulation is based more on agreements than is the case in the other European countries. It became apparent in the course of the 1990s, however, that the Nordic models were more robust than had been expected. When examining the actual development in the Nordic economies throughout the 1990s and the first years of the new millennium, it becomes apparent that it was a success story. The so-called 'flexicurity' model found in Denmark became a popular buzzword, and the Nordic experience became a role model for the rest of Europe.

The Nordic labour market models – institutional similarities and differences

Here, we begin by describing a number of important shared features characterizing the Nordic systems of bargaining and labour market regulation in general. This is followed by some of the main differences in the national systems.

Among the most important common features, it is worth emphasizing:

- The multi-level Nordic bargaining models building on high rates of organization and strong peak associations have been characterized by relatively high collective agreement coverage, centralized coordination, where the parties in the export industry set the pace , and a strong tier of company bargaining (with the partial exception of Finland).
- The legally binding collective agreements in principle cover all workers of the relevant groups in the workplace, while union pursuit of solidaristic wage policies has raised the lowest wages and contributed to compressed wage structures with relatively limited wage inequalities.
- Alongside the strict peace obligation while the agreement remains in force, the mediating institutions play a central role in preventing conflict and promoting negotiated solutions; legal disputes over the application or interpretation of collective agreements are resolved by the social partners or subsequently in the labour court system.

Nevertheless, there are also significant differences shaping the bargaining systems in the five Nordic countries, which is why reference is often made to a Nordic 'family of systems'.

Among the most important differences are:

- In Denmark, which has less legislation than the other Nordic countries with respect to workers' rights, the collective agreements' scope of regulation has traditionally been broader; legislation can often – especially in Sweden – be exempted via collective agreements.

- In Denmark and Norway, bargaining deadlocks are occasionally solved via government intervention or arbitration, a practice that has been practically inconceivable in Sweden.
- Tripartite incomes policies are common in Iceland, Finland and Norway – where the government occasionally contribute to negotiated solutions – but are very rare in Sweden and Denmark Unemployment insurance funds have mostly been administrated by the trade unions, except in Norway which has a compulsory state system.
- Denmark and Norway are the only countries where collective bargaining outcomes are still subject to membership ballots.
- Unitary trade union movements, with clear organizational demarcations between blue- and white-collar unions, except in Norway; also in Denmark, there is a certain competition between traditional unions and so called yellow unions.

While collective agreement provisions in accordance with statutory mechanisms are routinely extended to cover the relevant part of the labour market in Finland and the minimum pay clauses in agreements are legally binding in Iceland, such extension mechanisms occurs selectively in Norway, whereas the social partners have rejected such mechanisms in Sweden and Denmark.

Collective agreement systems – main functions

This section covers some of the main functions of the Nordic coordinated collective bargaining , which have contributed to creating support for the systems among the social partners and in the political systems. The high degree of coordination across sectors, trades, and occupations characterizing these systems, has been driven by the LO unions and their counterparts. This solves a number of collective action problems, which otherwise can arise when individual members or organizations wanting to pursue their own interests in cases where the greater community of interests on the employee or employer side have an interest in pursuing a common strategy (Stokke 1992). The collective bargaining systems have contributed to solving such problems and have provided societal (collective) goods that the state has seen an interest in maintaining.

Among the most important functions are:

- To provide 'Industrial peace' and conflict resolution via collective bargaining.
- To enable collective representation that creates security and voice opportunities for the individual worker.
- By 'taking wages out of competition' – both between the workers and between the employers – collective agreements contribute to provide a level playing field.
- Through broad coordination across bargaining areas the actors can strike a balance that provides proper real wage increases and maximises employment.
- Coordinated collective bargaining can contribute to a fair and productive distribution of the added value of the economy.
- Enable 'social investments' in collective goods such as pensions, education and maternity schemes.

- Create frames and procedures for negotiated flexibility and adjustment at company level.

Reviewing each of these seven core functions, the thrust of the section is that coordinated collective bargaining can contribute to reconciling economic efficiency and equality in the labour market.

Development of the Nordic collective bargaining systems

This section examines how the Nordic bargaining systems responded to the pressure for change created by the crises in the 1970s and 1990s. The first challenge was to combat wage inflation and adjust wage formation to the lower international inflation. The experience of the 1970s and 1980s was that the ability of the centralized Nordic bargaining systems to deliver wage restraint and contribute to price stability, competitiveness and employment was weakened. The other challenge arose from the employers' demands for increased flexibility. Intensified competition, volatile markets, new technologies and new modes of production put central elements of the collective agreements – wages and working hours in particular – under pressure from employers and politicians. Unlike countries in which the coordination of bargaining has broken down and been entirely decentralized to company level, typically the UK, the Nordic countries have combined strong coordination with significant decentralization; that is, negotiations at workplace level. However, this general Nordic pattern hides significant national variations. As shown here, the pattern of multi-level bargaining in *Denmark and Sweden* was revised so that the coordination across sectors is based on the pattern-setting agreements negotiated in the manufacturing export industries. The peak associations play a certain coordinating role but are not directly involved in the bargaining processes. In both countries, mediating institutions play an important role. *Norway* also has a multi-level system, but in contrast to Denmark and Sweden, the peak associations often bargain directly with one another. In the Norwegian system of pattern bargaining, the manufacturing export industry sets the pattern, and the mediating institutions play an important role in providing largely uniform outcomes. In *Finland*, where tripartite incomes policy has persisted, the peak associations and the government set guidelines for wage increases supposed to followed by the bargaining parties at the branch level. Here again, the basis is the manufacturing export industry. Despite a spectacular break with this pattern by the employers in 2007, the incomes policy has been resumed since 2011. In *Iceland*, similarly, there are also tripartite negotiations on income policy, but as the associational structure is relatively fragmented, there is considerable leeway for bargaining at the branch and workplace levels. The development in the five Nordic countries thus attests to the considerable will to adjust the collective bargaining systems throughout the period in order to promote employment and rein in the surge in nominal wages growth without selling out the wage-earners' interests. In Denmark, this occurred under the motto, 'rather a job feast than a wage feast', and required more – not less – coordination of wages and labour cost developments. At the same time, there has been room for solid real wage growth and more flexibility in wage setting, creating greater demands on union strength at the company and workplace levels if wage parity is to be maintained.

Are changes in the collective agreement models reflected in better labour market results?

The main question in this section is whether the changes in the collective bargaining systems are reflected in labour market performance of the Nordic economies since the 1980s. The analyses show that the adjustments made in the wage formation systems in the 1980s–90s came along with significant improvements in the development of labour unit costs – and hence in competitiveness and employment levels in the 1990s. In fact, the development of labour unit costs in Nordic manufacturing was entirely comparable with that of German manufacturing in the 1990s and – with the exception of Norway – was clearly lower than in the UK, where bargaining had been completely decentralized. This is consistent with a number of comparative studies showing that the growth in labour costs, *ceteris paribus*, is usually lower in countries with strong rather than weak bargaining coordination (Traxler et al. 2001; OECD 2006). Next, we examine the overall trend in the labour market, where unemployment fell dramatically alongside strong employment growth after the changes in collective bargaining in the wake of the crises in the 1980s and 1990s. Compared to other European countries, the stronger coordination of wage setting in the Nordic countries has clearly been no handicap for increasing employment and reducing unemployment levels. Moreover, we analyse the degree to which the collective bargaining systems have contributed to counteracting the general trend towards increasing wage and income inequality in Western countries (Atkinson 2008; OECD 2011). Generally speaking, it is clear that the Nordic bargaining systems still help keeping wage inequality at lower levels than in most other European countries but it is also evident that the wage structure and income inequalities in the Nordic countries are becoming less distinctive when compared with other European countries. It should be kept in mind, however, that there are a number of other factors affecting pay distribution, such as unemployment levels, the generosity of the unemployment insurance schemes and other benefits. With current prospects for higher unemployment than in the past, continued decentralization of wage formation, declining unionization and the hollowing out of collective agreements in parts of the labour market, there is an imminent risk that growing segments of workers will find themselves in a weaker bargaining position in their workplaces (Ibsen et al. 2011), and that the rising inequalities can be difficult to curb.

Development in the rate of organization

This section casts light on the organization of wage earners and employers in the Nordic countries, the emphasis being on the former. The trade unions in the Nordic countries are the strongest in the world measured in terms of the rate of organization. The trade unions have therefore been able to promote the wage earners' common interests with great weight, both in relation to the employers as well as the political system. But the unions are under pressure, and the 'Nordic exception' to the fall in union organization seen in most other countries, might be a thing of the past. This can weaken the unions' ability to represent its members, particularly in workplaces where shop stewards are reliant on having a sufficient number of members backing them. Since its peak in the 1990s, union density in the Nordic countries has fallen, albeit from a very high starting point. From 1995 to 2008 union density in private sector fell 16 percentage points in Finland, 13 points in Sweden, 9 points in Denmark , and 5 points in Norway, whereas a marked increase was reported in Iceland. Norway remains the Nordic 'exception', as Sweden, Finland and Denmark together with top-scorer Iceland all still surpass 2/3 of the labour force, whereas the unions in Norway 'only' comprise slightly more than half of the labour force. This is the highest among all countries without Ghent system (where unemployment insurance funds are administered by the trade unions). Further, this section reviews the variation in the unionization of wage earners in terms of the confederate affiliation, gender, age, sectors and branches over the last 25 years, showing that the decline in unionization was strongest among young people, and much more pronounced among males than women who often work in the public sector. As the Nordic countries are quite similar in many ways, it would appear as though the Ghent system has given Iceland (in combination with the tradition for exclusive agreements and employer payment of union membership dues), Sweden, Finland and Denmark a generally higher level of unionization than in Norway. The Ghent system might also have had a dampening effect on the negative impact on unionization of structural changes in employment over the last 20–30 years. As the level of union density over time has significant impact on the coverage of collective agreements, the institutional changes in and effects of the Ghent system are important for the future development of Nordic collective bargaining models. In the second part of the section, we briefly review the rate of organization among employers. Whereas union density has been waning, the rate of organization on the employer side has been increasing over the past decade – also in the private sector, with the exception of Finland, where it has remained stable. At the same time, there are numerous employer associations offering membership 'without agreements'. We also show that there has been a concentration among the employer associations; that is, there are now fewer but larger organizations. In total, the rate of organization among Nordic employers is in a comparative perspective not particularly high, and there are significant variations across branches. Combined with a tendency that more companies place parts of their production outside of the collective agreement system, this puts pressure on the effective coverage of collective agreements in certain branches.

European integration and the collective agreement models

Despite the differences in their ties to the EU, all of the Nordic countries participate in the EU's Single Market, meaning that they impact of European integration on national labour market regulation are largely identical. Firstly, the section describes the consequences of the economic integration in the EU for the bargaining systems. The establishment of the common European currency, the euro, has laid tighter frames for wage setting and hence the collective bargaining systems in the euro countries. . Finland has the euro and Denmark follows a fixed exchange rate regime, the Danish Kroner being pegged to the euro. Without monetary policy instruments, adjustments in wage setting and fiscal and welfare policies (so-called 'internal devaluations') become more important for dealing with economic shocks and fluctuations. Analyses show that the economic integration has engendered a certain convergence in terms of harsher cost competition and increased wage restraint, which also has an impact on the countries outside of the euro zone, including the other Nordic countries. Secondly, we address the social dialogue and EU labour regulation and discuss what these directives have meant to the regulation of the Nordic labour markets and the interplay with the collective bargaining systems. Overall, we conclude that the EU labour law directives have thus far had limited impact on the national bargaining systems in the Nordic region. Thirdly, we focus on the increased mobility of labour and services to the Nordic countries, which has sparked a rather intense debate about 'social dumping', particularly in Norway and Denmark. This raises a schism between the EU regulation of free movement and the national regimes of labour market regulation – particularly in the Nordic countries, where the regulation largely builds on collective agreements. In the Swedish based case, Laval vs. the Swedish Construction Workers Federation (Byggnads), the EU Court of Justice verdict was that the trade unions' actions and demands violated the Posting of Workers Directive (PWD). In response, Denmark and Sweden revised their posting legislation, but the question regarding the regulation of minimum wages is still being debated in the two countries. Finland and Iceland have legislation that means that the minimum wage in the agreements is generally applicable, and Norway has put similar mechanisms to use in selected sectors. Especially the Norwegian experiences have stimulated debate in Sweden and Denmark, but as this has not led to any changes in approach, these two countries remain among the very few EU countries without statutory mechanisms for making parts of the collective agreements generally binding.

Market integration and increased mobility:
Risking the segmentation of the labour market?

The increased market integration and internationalization of production and supply chains has meant that the workplaces in many more sectors than only the manufacturing export industry have been subjected to international competition. This includes a growing list of home market oriented sectors, including construction and cleaning, hotels and restaurants, and transport, where increased recruitment of sub-contractors and labour from abroad creates growing job and wage competition. With the limited productivity growth and value creation in such labour-intensive branches, the question arises whether the pressures that these dynamics exert on wage formation and bargaining systems will lead to growing sectoral differentiation in wages and working conditions. There are records indicating a shift in the relative wages among certain sectors. For example, the relationship between the average wages in manufacturing, on the one hand, and retail trade and hotels and restaurants, on the other, has changed considerably in Germany, and the same tendency applies in Denmark, although to less extent. The question arising is whether this tendency towards more wage differentiation will continue and possibly become more widespread in the Nordic countries. In view also of the decline in unionization, increased recruitment of foreign labour, and higher unemployment rates in the wake of the crisis, a critical question is thus whether the actors in the Nordic collective bargaining systems are able and willing to develop joint strategies that can prevent the growing division or fragmentation of wages and working conditions seen in Germany and many other countries in recent decades.

The collective agreement models: Perspectives and challenges

The last section outlines perspectives and challenges for the Nordic systems of collective bargaining on the way to 2030. The analytical point of departure is the 'social contract' between the trade unions and employers, which has been developed over the last 100 years. The contract implied a compressed wage structure with high minimum wages, which ensured a 'floor' for competition in the product and labour markets, exerting pressure for the continuous restructuring from low- to high-productivity industries and businesses. Showing how the institutional changes in the Nordic systems of collective bargaining since 1990 contributed to the survival of these systems despite the massive changes in the rest of the world, the section suggests that during the sequence of economic boom and bust in the past decade, new tensions and challenges have emerged in the Nordic collective bargaining systems, to which the actors have thus far been unable to develop effective, joint responses. In short, these challenges are associated with:

- Falling membership figures in the trade union movement in general and the LO/SAK/ASÍ unions in particular.
- Increased tension – both in the top and bottom end of the bargaining coordination – as a result of white-collar employees in the private sector often receiving higher wage increases than their colleagues in the public sector, at the same time as workers in some of the private sector services with limited skill requirements tend to fall behind.
- Increasing internationalization and market integration contribute to intensified competition, both in product markets and labour markets, especially in domestic industries.
- Growing supply of workers and service providers from abroad, who can offer prices, wages and working conditions that are often far below the national standards and terms that apply to companies covered by collective agreements.
- Higher unemployment after the financial crisis strengthens cross-border competition over jobs and wages, especially in occupations and branches with limited skill requirements.
- Combined with the EU rules regarding free movement, these changes make it easier for employers to transfer parts of their production and supply-chains outside the reach of collective agreements.
- Despite stable employer rates of organization, it seems that the gap between the reach of the collective agreements and the effective scope of the market is increasing in some sectors.
- Although the domestic coverage of collective agreements has not changed much, the decline in unionization, increased outsourcing, and possible growth in the volume of bogus companies that circumvent collective agreements and labour law entail the risk that the 'wage floor' in the labour market will erode in vulnerable branches and that the inequalities in wages and working conditions will increase.

In that sense, the current situation is reminiscent of that which the social partners found themselves in when the collective bargaining system was established more than a century ago. At that time, extensive conflicts and power struggles were required to find tools that could balance the needs for regulation of the competition both in the product and labour markets. As both markets have now become transnational and the EU restrict the means that the social partners and labour market authorities can invoke to resolve the conflicts, the actors are currently facing much more daunting challenges than in the preceding decades. They must find solutions that take into account the conflicting positions of both parties as well as their shared interest in maintaining the core functions – or the collective goods – that the collective bargaining systems generate for society as a whole. It is hard to envisage that such a reconstruction – which must take place within the framework set by the EU system – can be accomplished without the state as third party assuming a constructive, facilitating role. It takes two to tango – but as a rule, it also takes a good bandleader.

Sub-report 11
Immigration and labour market inclusion in the Nordic countries

Anne Britt Djuve (research director, Fafo) and
Anne Skevik Grødem (researcher, Norwegian Institute for Social Research) (eds.)

The Nordic countries have all experienced a significant increase in immigration over the past 20 years. Still, national disparities remain both in the proportion of immigrants in the population and in the composition of immigrants. Finland has the relatively smallest population of immigrants with five percent foreign born, thereafter follows Denmark (8 percent), Iceland (9 percent), Norway (12 percent) and Sweden (15 percent). Migration to Iceland is predominantly labour migration. In Finland most migrants origin from nearby countries (former Soviet, Estonia), and family reunification is the major reason for migration. In Norway, Denmark and Sweden labour migration has also increased significantly, particularly over the past 10 years, but the immigrant populations in these countries are more heterogeneous and reflect decades of refugee reception as well as former waves of labour migration from third countries and family reunifications with these groups. Norway stands out with a markedly higher influx of labour migrants than any of the other countries. In 2011, almost 50% of gross immigration from EU8+2 (the new EU members in eastern Europe) proceeded to Norway.

High labour migration is closely related to economic growth: migrants are attracted to labour markets in demand of labour, and they significantly have contributed to the added value in the Nordic economies. Migration do however also represent some challenges for the Nordic models. The nature of the challenges depends largely on the category of migrants. While refugee migration is known to entail difficulties with labour market inclusion and need for income support, labour migration may bring with it problems of social dumping and a downward pressure on national wages and labour conditions. Within the Nordic model there is significant national variation in the regulatory mechanisms applied in the labour markets. The combination of little use of extension of collective agreements, high influx of labour migration and the lowest collective agreement cover among the Nordic countries, give reason to believe that migrants to Norway are particularly vulnerable to social dumping.

There is also considerable variation in the shaping of integration measures applied in the five countries. All countries apply a mix of specialized and mainstreamed integration efforts. Sweden, Norway and Denmark all offer full-time introductory courses for newcomers. The target groups for the programs vary between refugees only and all third country citizens, and the three countries have quite different approaches when it comes to activation measures and sanctions for non-compliance. Denmark and Sweden stand out as opposing poles, with a very strict and sanction oriented approach in Denmark and a voluntary and economic incentive driven approach in Sweden. The outcomes of the regimes do however seem to be similar: the situation in all five countries is that migrants are overrepresented among the poorest proportion of the population. Poverty is related to unemployment and low labour market participation among other than labour migrants, and to low pay among employed migrants.

The increase in ethnic and cultural diversity has been accompanied by increased economic inequality – the 'diversity' also apply to living conditions, income and opportunities. We find little (or no) evidence that ethnic diversity as such is a threat to the Nordic model. Increased economic inequality may however become a threat both to the economic and the political sustainability of the model, as budgetary constraints increases with increased poverty, and the political support for a generous universal welfare regime may diminish if it becomes too costly for the middle class.

The Nordic model comprises two major tools to combat social and economic exclusion: firstly a long term commitment to supply the whole population with education and labour market qualifications, and secondly a collective bargaining system that secure wages at level that support a decent standard of living for all employees. It seems that immigrants to a lesser extent than the majority populations are covered by these institutions.

Sub-report 12
To create and share – the remarkable success and contested future of the Nordic Social-Democratic Model

Juhana Vartiainen (director general VATT, Government Institute for Economic Research, Helsinki)

Together with economic liberalism, Social Democracy won the Cold War. While Communism has disappeared, there is a remarkable convergence of Western electorates and policymakers as to the benefits of a market economy combined with social insurance and the provision of public services. Save for some Chicago purists, economists in particular have started to like the Nordic model.[1] They have observed that the Nordic countries are quite market-oriented societies -- besides topping international rankings of human development, equality and social justice. Product market regulation is liberal and protectionism has never been a potent political force. The Nordic economies are open ones and have not shied away from exploiting the global division of labor. On international forums, they usually are proponents of free trade and economic liberalism. They have also organized their macroeconomic policy pretty much according to the neoclassical orthodoxy: monetary credibility through commitment as well as long term fiscal rules. Thanks to coordinated systems of collective bargaining, the Nordic pay structure has been more akin to the outcome predicted by classical textbooks than the pay structure seen in the liberal American labor market, i.e. that equal work is rewarded by equal pay. [2]

Thus, despite the fact that the Nordic economies are embedded in extensive and regulatory labor and welfare regimes, their functioning in many respects conforms to neoclassical economics. They have been able to use the global market economy and the international division of labor, so that they rank among the wealthiest countries in the world. They have adapted to the market economy and not tried to work against it. This material success has been combined with a comparatively high degree of equality, due to a social ability to share the risks and redistribute the returns that the participation in the global market generates. This has even sustained the legitimacy of the market economy and probably shielded these countries from short-termism and populism in economic policy.

A successful participation in the global economy presupposes public resources as well as industrial relations that are devoted to increasing and cultivating the nation's human capital. The supply of skills has not been left to the market alone. Industrial relations have reflected a willingness to work together, at the local micro level, within industries and even at the

[1] See Andersen, Honkapohja, Korkman, Söderström, Vartiainen (2007) and The Economist, special survey, February 1st, 2013.

[2] An early paper establishing this pattern was by Holmlund and Zetterberg (1991). Freeman (2013) refers to an upcoming paper by Barth, Bryson, Davis and Freeman which points out the large dispersion of earnings in the US economy, not accounted for by observed productivity-related variables.

macroeconomic level. Labor market institutions have institutionalized conflict resolution and, at the local level in firms, created conditions in which both parties have strong incentives to improve productivity instead of investing resources in rent-seeking.

However, there is no automatic causal chain that would ensure that this success will continue. The mere fact that some institutions are successful – in the eyes of economists and social scientists in particular – does not per se imply that the political support for their further existence will persist.

The political values and aspirations that originally underpinned the evolution of the Nordic labor and welfare regimes often run into conflict with the policies required to ensure their viability in an era of global factor markets, aging societies and mass migration. The changing environment and pressures for adjustment of the Nordic economies represent particular challenges and dilemmas to Social Democracy. Thus, the big challenges of the "model" are internal, and have little to do with the usual suspects of external "challenges" like globalization or the loss of manufacturing occupations.

The political objectives and currents of thought that motivated the mostly Social Democratic labor movements in the 1950s through the 1970s were formed in circumstances that are no longer present. Therefore, the labor movement finds it harder to generate the political support for the kind of reforms of the welfare state that are necessary to ensure its survival. Thus, in my view, the Nordic welfare state is mainly threatened politically from inside, not economically from the outside.

In the formative years of the Nordic model, the main sources of political energy were the struggle for higher wages and the creation of social insurance systems and public collective goods, including pension rights. Now it might superficially seem that these endeavors are precisely as relevant and pertinent as they were 50 years ago. However, the current economic environment and constraints implied by global capitalism and current demographic phase are very different from those of the 1950s through the 1970s. This implies that the political and trade union strategies ingrained in the bone-marrow of Nordic Social Democrats need to be realigned with the challenges currently facing the Nordic models. This realignment seems painful.

The world has changed in many ways:

- The economic rationale for the unions' wage struggle has changed, since labor's bargaining position under price stability is good and perhaps even "too good" from a full employment perspective. The main challenge is to contain the trade union movement's internal contradictions and ensure proper coordination, so that excessive wage pressure does not hamper the potential for employment growth. Muscular trade unionism, so natural an appeal for workers, can easily become counterproductive.

- The globalization of the capital market has changed the bargaining setup between labor and capital. As capital looks for the same rate of return everywhere and can easily move from one location to another, labor cannot expropriate more than the share achieved elsewhere, unless productivity is superior. Thus, the very workers' movement idea of using collective power to extract concessions from capital becomes superfluous.

- In a typical Nordic economy mostly dominated by middle-class individuals, the politics of sustaining welfare state arrangements cannot be based on expropriating capital owners or soaking the few "rich" but must be met by policies that balance the rights of individuals with corresponding obligations. The costs of welfare policies cannot be passed over, either to wealthy capital owners or future generations. What the Social Democratic voter wants, the same voter must pay for. This very real budget constraint is hard to reconcile with the political culture of the Left, especially in an age in which some internationally mobile individuals boast huge "winner takes all" incomes.

- In the Social Democratic "Golden Age", from the 1950s through the 1980s, the successful introduction of public services and social insurance schemes seemed a result of sheer political will and collective working class efforts. Yet it also coincided with a happy demographic phase in which increasing cohorts of taxpayers made the public sector budget constraint seem moot. This has changed, and will change further in the years ahead. Thus, a much more responsible budgetary approach is needed. This is a challenge for all political parties, and Social Democracy has from the 1990s quite a good record of responsibility –but if the challenge is not met, it is the Social Democratic extensive welfare state that will suffer.
- In an aging society, there is an objective need to boost labor supply, by almost any means: education, activation policies, pension reforms and policies facilitating sustainable labor immigration. From the 1980s onwards, all the Nordic countries have had to rely on a policy of both "carrots" and "sticks" to increase labor market participation and search efforts of the unemployed. Such compulsory activation policies sit uneasily with the labor movement's political constituencies. Encouraging the supply of labor is not as natural for trade unions and Social Democrats as it is for right-of-centre politicians.
- Similarly, in an aging society and an integrating world, the handling of international labor mobility within the single market and the facilitation of immigration have become central elements of policies to bolster welfare state sustainability, often colliding with central concerns of the trade unions.

All this implies a change in the political landscape. In the 1950s through the 1970s, the labor movement internalized an optimistic view of reforms based on political willpower and working class mobilization. However, at that time, there was an underlying favorable constellation of generous demographic trends and a more politically malleable "capital" side of the deal. Today, capital is without fatherland, as Marx wrote, so that nothing can be appropriated from "capitalists" Furthermore, the aging population and a more or less stagnating workforce imply that no reform can be financed just by rolling the cost onto future generations. Financing of reforms have to be achieved either through reallocation of public resources – which is politically hard to gain acceptance for – or through increased taxation, which is also a hard sell. The very success of the Nordic labor movements has made the Nordic countries into truly middle class societies. As there are far too few seriously rich people for any political strategy that would address the sustainability gap by "soaking the rich" only, the politicians will more and more often face the difficult choice between cuts in some services in order to boost others, or raising taxes on the middle class.

Put crudely, the conclusion is that everything that the middle class voter wants, the same middle class voter will have to finance via higher taxes or cuts in other expenditures. It is this big transformation that the Social Democratic movement has not fully internalized nor accepted. The viable and responsible economic policies of the 2000s – boosting labor supply, disciplining wage claims, raising retirement ages and facilitating immigration – are difficult for any political party, but they may be particularly difficult for Social Democrats to internalize and turn into an operative political program that successfully mobilizes working class voters. [3]

Against modern economics, not hand in hand with it. These changes coincide with a reversion of the happy scholarship-friendly optimism of the earlier period. Modern economics has largely absorbed the New Classical ideas of forward looking agents as well as the theory of a vertical (long term) Phillips curve, as embodied in the modern NAIRU approach that conditions macroeconomic policies in all countries. The NAIRU model framework implies that there is a natural lower limit to unemployment, dictated by the fact that at some level of unemployment, the pressure for higher and accelerating wages becomes so intense that price stability and/or international competitiveness is jeopardized.[4] According to prevailing economic theory, it is therefore impossible to boost employment and economic growth on an enduring basis by demand management alone. The deterioration of the dependency ratio therefore elevates the issues of labor supply and activation to the very centre of economic policy debate. The Nordic welfare states are critically dependent on maintaining the high employment rates. However, it is very difficult for Social Democratic leaders to tell to their voters that unemployment problems cannot simply be dealt with by "creating jobs".

Of course, the Nordic Social Democratic parties and unions have been longstanding supporters of the "work line" in welfare and labor market policies, and were central in its revival in the 1990s. Yet, in my view, the entire "supply side" policy orientation simply has an edge that is more easily accepted by parties and voters to the Right than with Social Democratic supporters. It confronts the labor movement with difficult dilemmas in striking the right balance between "carrots and sticks". Such dilemmas are often easy to shy away from, entailing the danger that necessary adjustments are postponed so long that there is no way around major overhauls as experienced by the Red-Green government in Germany in the early 2000s. By consequence, modern economics is not such a natural friend of Social Democracy as Keynesianism once was

The ugly face of nationalism. The labor movement was internationalist in its original orientation, and continued to be so in the Golden age of welfare politics. Lately, the internationalism has turned sour as many workers have listened to the siren spells of the populist far right. Many manufacturing workers, e.g. in Finland during the crisis, have become frustrated about the reluctance of modern policymakers to support ailing industries. The rise in immigration has apparently also alienated parts of labor constituencies. This has raised nationalism to the political arena, as witnessed by the surge of right wing populist parties. Especially in Denmark and Finland, Social Democracy has been severely weakened by ascending welfare-chauvinist parties, but similar tendencies are witnessed in Sweden and Norway.[5] Restricting immigration would be a flawed political conclusion. Instead, immigrants should be seen as a kind of acid test about whether the social insurance and income support systems, together with activation policies, are properly designed. In my view, if they do not work for immigrants, it is questionable whether they work for natives.

Thus, Social Democracy finds itself in a paradoxical bind. Nordic Social Democracy has pulled off a victory in the competition between social orders. Everybody now embraces the

[3] Of course, one should not particularly single out Nordic Social Democracy in this respect. President Obama has according to many commentators a similar challenge in publicly addressing the economic constraints faced by the middle class voters. And so have non-Socialist Nordic parties.

[4] Price stability for countries (like Norway and Sweden) with a flexible exchange rate, price competitiveness for a euro member like Finland.

[5] For example, recent polls indicated that Sverigedemokratene and Fremskrittspartiet attract considerable shares of union voters in Sweden and Norway (LO-aktuelt 2013).

basic idea of the Social Democratic welfare state, and the non-Socialist parties have gained their political upper hand by renouncing any attempts to roll back the basic deal – therefore attracting more labor votes. Thus, by the same token, Social Democracy is politically weak and runs the risk of becoming redundant.

However, in spite of their Centrist orientation, it is not sure that the non-Socialist parties will in the long run be trustworthy guardians of the successful Nordic model. We might see a gradual weakening of the general will to sustain a universalistic welfare state. Although the right-of-centre parties – that are likely to play an important role in many Nordic parliaments in the years to come – have clearly stated a willingness to keep the welfare state there, they might nevertheless in the long run just be less resistant to gradual tendencies that unwind the universalistic social contract. Schools and health care in particular are important. A destructive spiral could start if the fiscal needs of the government are not properly catered for. If, say, the public providers of primary schooling and health services are short of resources and cannot sustain proper standards – e.g. due to ill-founded tax-reliefs –, the most well to do people will start looking for alternative solutions such as private schools and private providers of health care, as already seen in Denmark and Sweden to some considerable extent. If that continues, the upper middle class will increasingly turn to these private providers while the public provision becomes some kind of pauper standard. In such circumstances, with the well-to-do middle class paying both their taxes and for their private tuitions, they may well start to ask whether they get a fair enough deal for their tax money.

References:

Andersen, Torben & Seppo Honkapohja, Sixten Korkman, Bengt Holmström, Hans Tson Söderström and Juhana Vartiainen (2007): The Nordic Model – embracing globalisation and sharing risks. Etla 2007.

Dølvik, Jon Erik (2013): Grunnpilarene i de nordiske modellene. Et tilbakeblikk på arbeidslivs- og velferdsregimenes utvikling. NordMod 2030, Delrapport 1. Fafo-rapport 2013:13.

Freeman, Richard (2013): Little Engines that Could. Can the Nordic economies maintain their renewed success? NordMod 2030 sub-report 3, Fafo-report 2013:22.

Holmlund, Bertil & Zetterberg, Johnny (1991): Insider effects in wage determination: Evidence from five countries. European Economic Review 35, July 1991.

Sub-report 13
Innovation and innovation policy in the Nordic region

Jan Fagerberg (professor, Centre for Technology, Innovation and Culture, University of Oslo) and Morten Fosaas (PhD Candidate, Centre for Technology, Innovation and Culture, University of Oslo),

Introduction

The paper (which is summarized here) focuses on innovation performance and policies influencing it in four Nordic countries. The study is entirely based on published sources, either on the web (Eurostat, the OECD, the World Bank etc.), or in the form of articles, books, reports and evaluations. The first section introduces the study and deals with conceptual issues. Section two contains a descriptive analysis of innovation activities in the Nordic area and a broader set of countries with which the Nordic countries may be compared with the help of data from the Community Innovation Survey (CIS) and other relevant sources. Section three of the paper, then, presents - for four Nordic countries – an analysis of their innovation policies and how these have evolved towards their present stance. Lessons and questions for further research are discussed in the fourth and final section. This summary draws primarily on the two first and the final section of the paper.

What is innovation policy and why should we care?

Why is innovation and associated policy instruments interesting for a study of the Nordic countries' development? The reason, we will argue, is mainly the close relationship that economic theory postulates between innovation broadly defined and economic growth. The notion "broadly defined" signals that the term innovation in the present context encompasses the entire innovation process from, say, the creation new products, processes or ways to do things to the application and spread of these in the economic system. It would of course be possible to define innovation more narrowly, and for some purposes that may be justifiable or even essential. However, with respect to the effects on the economy, a broad perspective is the most appropriate, since what matters economically is not mainly the occurrence of new innovations but their subsequent diffusion in the economic system and the learning effects, further improvements and changes that this gives rise to.

The increasing focus on innovation among economists and social scientists from the 1970s onwards gave around 1990 birth to a new and more holistic way to analyze innovation dynamics at the national level, the national systems of innovation approach (Freeman 1987, Lundvall 1992, Nelson 1993), which subsequently have been applied in studies of a number of different countries (see e.g., Edquist and Hommen 2009). The approach has also been adopted by the OECD in its evaluations of the national innovation systems and policies affecting them in for example Norway and Sweden (OECD 2008, 2013). One of the characteristics of the approach is a strong emphasis on having a historical perspective. A national system of innovation, it is argued, is formed over a long period of time through interaction – or coevolution - between its economic system (major industries, firms etc.) and its political system (Fagerberg et al. 2009a,b). Such processes, though which one part of the system influences the other and vice versa, are also likely to be path dependent, meaning that established policies – and the organizations carrying them out – may be remarkably persistent in spite of changes in the environment.[6]

The term "innovation policy" is relatively new and may be used in different ways. However, the fact that the term itself is quite recent does not imply that policies affecting innovation did not exist before. On the contrary, innovation is an old phenomenon and so are policies affecting it. Therefore, when discussing the evolution of the national innovation systems and innovation policies in the Nordic countries, we try to include, when relevant, policies or parts thereof with other labels, such as science policy, research policy, technology policy, industrial policy etc. A broad definition of innovation policy might be the set of policy instruments that affects the innovation performance of a country, while a narrower definition might include only policy instruments explicitly created with the effects on innovation in mind. A clear advantage of the broad definition is that it encourages the analyst to consider the possible impact on innovation of policy instruments created with other purposes in mind, such as, for example, health policy, which arguably has played a very important role for innovation in the United States just to mention one example. However, although we find the broad definition of innovation policy preferable from a theoretical point of view, and we will attempt to apply it, the present study cannot – given its limitations – go further in this respect than the sources, e.g., the existing literature on the subject, allows.

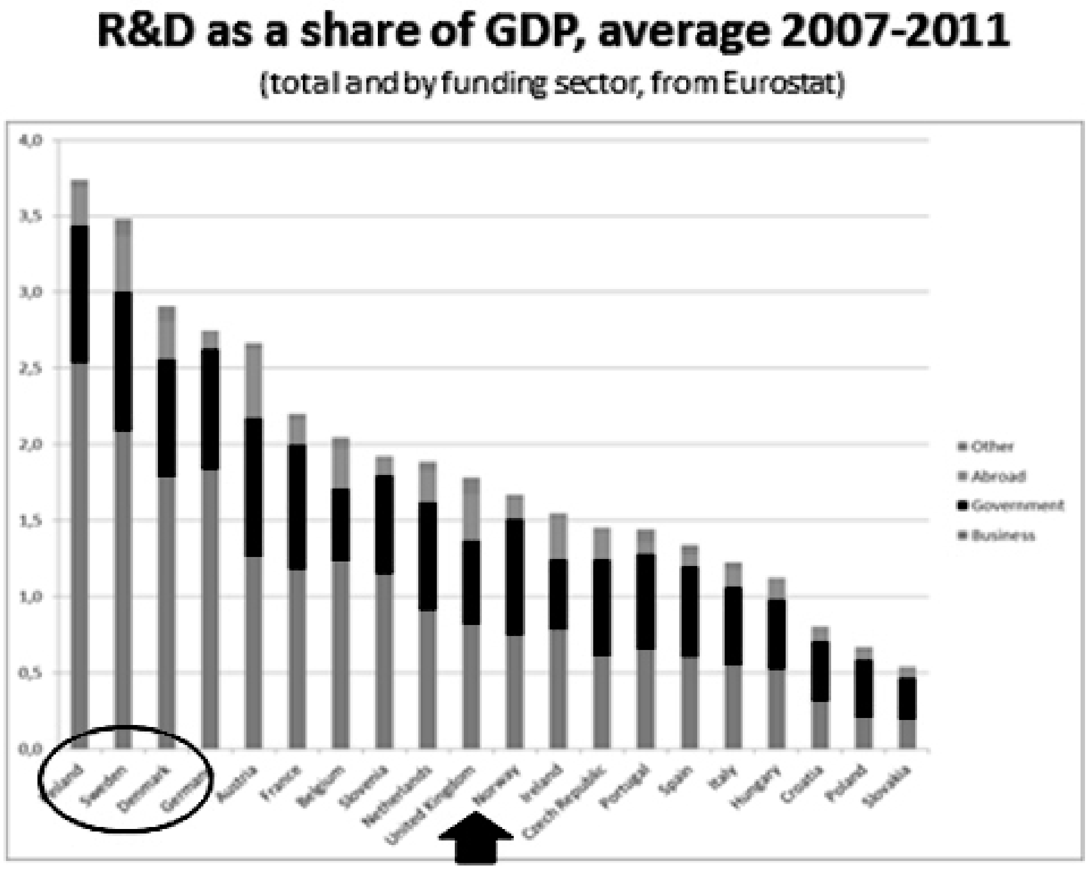
Comparing national innovation systems and their performance

In section 2 of the paper the innovation systems in the Nordic countries were compared to systems elsewhere in Europe along a number of dimensions reflecting innovation performance, the working of the innovation system and access to capabilities and resources of importance for innovation.

As an example consider the following figure on R&D as a share of GDP, which is commonly used in analyses of innovation at the national level . R&D and innovation is not the same, i.e., not all R&D has innovation as its purpose, and not all innovation requires R&D. Still there is a close connection, since R&D – directly and indirectly – plays an important role in many innovation processes.

The major reason why countries differ in R&D as a percentage of GDP is not differences in publicly financed R&D but differences in what the firms in the various countries spend for this purpose. Finland and Sweden are not only among the top innovation performers but also on the top when it comes to R&D investments. The Danish R&D level is also high while Norway's level is considerably behind those of the other Nordic countries. However, it has been shown that if one adjusts for differences in specialization patterns, the gap between Norway's R&D intensity and that of other countries at a similar level of development becomes smaller (Fagerberg et al 2009 a,b). Thus Norway's low R&D intensity has much to do with the country's pattern of specialization.

[6] As argued by Narula (2002) this may lead to a situation in which established actors in areas of traditional strength may find themselves much better served by the system than new actors in emerging sectors.



Summing up, the analysis in the paper showed that the national innovation systems in the Nordic area are among the most advanced, if not the most advanced, in Europe. The general impression is that Sweden and Finland tend to lead, followed by Denmark and Norway. What are the policies that have led to this result? This the topic discussed in section 3 of the paper, which we can only briefly summarize here.[7] Readers interested in details about how innovation policies have developed in the different Nordic countries should consult the original paper.

Innovation policies: Origins and trends

The analysis in section 3 of the paper revealed that the historical origins of the various Nordic innovation systems matter for how innovation policies subsequently developed. For example, the countries with well- developed university systems over a century ago, i.e., Denmark and Sweden, have developed innovation policies in which universities play a very central role. This is still the situation. In contrast, Finland and Norway - younger nation states with less-well developed university systems a century ago – developed systems in which public research organizations outside universities – the "institutes"- became large and powerful actors in the innovation system. This continues to be the case today. For example, Finland's leading PRO – VTT – has around 3000 employees, and in Norway the "institutes" collectively get more funding through the research council than the universities do. Hence, for historical reasons

[7] This achievement is arguably related to a broad set of policies pursued over a number of years, not the least with respect to education and gender equality, as well to the prevalence of norms and attitudes conducive to innovation and diffusion of technology (Fagerberg 2010). However, a more thorough treatment of these issues is beyond the scope of this paper (see Dølvik 2013 for an extended discussion).

innovation systems differ a lot, and this needs to be taken into account when designing and implementing policy. A mechanical transfer of so-called "best practice" from one system to another may easily do more harm than good.

The paper adopts a broad definition of innovation policy which includes all policies (and policy instruments) that affect innovation performance (in a non-trivial way). From this perspective it is evident that the phenomenon innovation policy is older than the term. How far back in history innovation policies can be traced is not an issue that we will discuss here. However, it is clear that a lot of what was attempted in Sweden, Norway and Finland during the post-war period under labels such as "science policy", "technology policy" and "industrial policy" might just as well have been labeled "innovation policy" (and probably would have got that label today). Some of these policies had a significant impact, while others can probably be categorized as failures. There may still be a lot to learn from such past policy experiments, which deserve further study.

Particularly in Sweden, but to some extent in Norway as well, quite ambitious policies were pursued during the 1960s and 1970s aiming at supporting and strengthening the role of "high-tech" industry, e.g., telecommunications and electronics. Finland adopted this agenda later, i.e. from the 1980s onwards, and arguably with even greater force. Although «targeting» increased in Denmark as well during the 1980s and 1990s, this was more limited in scope. Why Danish policy developed differently from the other Nordic countries is an interesting question which we cannot consider in the necessary detail here (see however Asheim and Mariussen (2010) for a take on this issue).

The last few decades have witnessed important changes in how innovation policy is conceived, organized and carried out in all four countries. To some extent the trends are similar: There has been an increasing attention to innovation as an important object for policy everywhere in the Nordic area. Moreover, new organizations within the public sector devoted to supporting innovation have been created in in all four countries, such as TEKES in Finland (1983), VINNOVA in Sweden (2001), The Norwegian Research Council's Innovation Division (2002) and Innovation Norway (2004) in Norway, and The Council for Technology and Innovation (2002-3) and the new Innovation Foundation to be set up in 2014 in Denmark. However, Finland stands out by having much more ambitious policies, much greater involvement of the political leadership of the country and other important actors in the policy process, and a much more powerful and well-funded innovation agency (TEKES). Why this is the case, what the consequences are and what can be learnt are interesting and relevant questions that we cannot consider in the required depth here but which certainly deserve attention.

However, it is interesting to note that Finnish policy makers were early movers with respect to adopting the new "innovation system" approach to policy that started to diffuse around 1990. This new and more holistic approach placed strong emphasis on the need for policy coordination. Finland is unique among the Nordic countries in having a policy coordinating body on technology and innovation policy led by the prime minister. The innovation system approach also had some influence in Sweden, and its adoption led as mentioned to the formation of VINNOVA 2001. However, as noted by the OECD (2013), VINNOVA is not as well endowed with resources as TEKES, there are many other relevant actors in the Swedish setting, coordination is weak and innovation policy does not appear to be an important topic on the government's agenda. The latter by and large also holds for Norway, which despite the creation of new, large agencies in this area has developed a very fragmented system with little coordination among the relevant ministries (Fagerberg 2009). In Denmark it is difficult to trace much influence of the innovation system approach on policy discussions, and innovation policy appears – until recently at least – not to be regarded as a central issue. However, writing about innovation policy in the Nordic area is like shooting at a moving target. For example, Denmark is in the process of getting a new, potentially much more powerful innovation agency, and it is possible that this may be a step towards the creation of a more powerful innovation-policy actor – and more effective innovation policy – there.

Hence, interest in innovation policy is probably not going to go away. A possible future path might be one with a greater emphasis on the potential contribution of innovation policy to the solution of grand challenges, e.g., the climate challenge, as suggested by the OECD in its advice to both the Swedish and the Norwegian government (OECD 2008, 2013). "New" topics, such as innovation in the public sector, "social innovation" and the roles of work organization and social security systems for innovation (Lorenz 2013), may also get more attention.

References

Asheim, B. T., & Mariussen, Å. (2010) Nordisk innovasjonspolitikk i et komparativt perspektiv. In O. R. Spilling (Ed.), Innovasjonspolitkk: Problemstillinger og utfordringer, Fagbokforlaget.

Dølvik, J. E. (2013) Grunnpilarene i de nordiske modellene - Et tilbakeblikk på arbeidslivs- og velferdsregimenes utvikling, Fafo-rapport 2013:13, Fafo: Oslo

Edquist, C., and Hommen, L. (eds.) (2008) Small Country Innovation Systems: Globalization, change, and policy in Asia and Europe, Edward Elgar.

Fagerberg, J., Mowery, D. C., & Verspagen, B. (2009a) The evolution of Norway's national innovation system. *Science and Public Policy, 36*(6).

Fagerberg, J., Mowery, D. C., & Verspagen, B. (2009b) Innovation, path dependency and policy: the Norwegian case, Oxford University Press.

Fagerberg, J. (2010) The changing global economic landscape: the factors that matter, In Robert M Solow & Jean-Philippe Touffut (ed.), The Shape of the Division of Labour: Nations, Industries and Households. Edward Elgar, p. 6 – 31.

Freeman, C. (1987) Technology policy and economic performance: Lessons from Japan, Pinter.

Lorenz, E. (2013) Innovation, Work Organization, and Systems of Social Protection, in Fagerberg, J., Martin, B. R. and Andersen, E. S. (eds.) 2013. Innovation Studies – Evolution and Future Challenges, Oxford University Press, Oxford.

Lundvall, B. Å. (1992) National Systems of Innovation: Towards a Theory of Innovation and Interactive Learning, London: Pinter

Narula, R. (2002) Innovation systems and 'inertia' in R&D location: Norwegian firms and the role of systemic lock-in. *Research Policy, 31*(5).

Nelson, R.R. (1993) National Innovation Systems: A Comparative Analysis, Oxford University Press.

OECD (2008) OECD's reviews of innovation policy: Norway, Paris.

OECD (2013) OECD's reviews of innovation policy: Sweden, Paris.

Sub-paper 1
Nordic tax policy towards 2030

Johan Christensen (postdoctoral fellow, Stanford University)

After decades of tax increases, the level of taxation in the Nordic countries has had a noticeable fall since 2000. Broad cuts in labour regulation have reduced public revenues at a pace that is hard to reconcile in the long term with the rising welfare costs associated with an aging population. Other tax bases has so far proven to be robust, but ever new stories about multinational companies and financial firms that pay little or nothing in taxes has increased awareness of the distribution of the tax burden. This paper reviews the main challenges and changes in the Nordic tax regimes in the last 10-15 years and raises the question of how the Nordic tax models can be renewed up to 2030.

The main goal of tax policies is to fund the public sector. The Nordic tax systems have also been traditionally used as a means to achieve a variety of other policy goals, such as general redistribution, macroeconomic stability and goals pertaining to industrial, housing, and regional challenges. However, through a series of tax reforms in the Nordic countries around 1990, the focus shifted towards formulating tax policy in a way that contributed to a more efficient allocation of economic resources. A common feature of the reforms was a reduction of taxation levels combined with a broadening of the tax base through the reduction of tax-exemptions. Since 2000 the attention has shifted away from tax reforms, and towards tax cuts. In the last 10-15 years, there have been implemented significant reliefs in terms of work-related taxes in the Nordic countries, especially through the expansion of work-related tax deductions or the minimum deductions for workers. These changes have been driven by an ambition to increase incentives to work - and in particular to encourage people with low income to participate in the labour market instead of receiving social benefits. The deductions in work-related taxes have been evenly distributed to high- and low earners alike. In the period 2000-10, the average tax level on work in the Nordic countries, with the exemption of Iceland, sank with approximately 5% in all of the income-brackets. Minor changes have also occurred in terms of various other types of taxes, such as VAT (value added tax), company taxes, housing taxes, and environmental taxes; though there are few commonalities amongst the Nordic countries in terms of how these taxes have changed.

If we set our sights on 2030, we see that the Nordic tax models are exposed to internal challenges pertaining to the need of the taxation systems to carry the burden of hefty, and occasionally conflicting, political goals. Simultaneously, there will be external challenges, especially in terms of the mounting pressure on company- and capital taxes in an increasingly global economy.

How can the tax systems adapt to these challenges? How can the funding basis of the welfare state be protected while simultaneously allowing for high employment, high value-creation, and just distribution in society? The paper suggests that there are three possible routes: 1) a tax shift from labour to housing, either through cuts in interest deductions or in the introduction of a property tax with flexible basic deductions, 2) an extension of the VTA to include all forms of goods and services, and 3) a significant increase of environmental taxes.

Sub-paper 2
A sleeping giant?
German trade unions in the European crisis

Steffen Lehndorff (research fellow, Institut Arbeit und Qualifikation, University of Duisburg/Essen)

Looked at from abroad and from Latin countries in particular, the German trade unions convey a picture of strength. This impression is primarily based on the trade unions' role within the German institutional system, which appears to give them political influence far in excess of their organisational power. But how does this picture of strength fit with the overall wage developments in Germany since the introduction of the Euro which have been criticised for their negative impacts on the economic stability of the Eurozone?

In fact, the largest economy of the monetary union was virtually freezing its own domestic market by falling average wages, thereby depriving its "partner countries" of export opportunities, and at the same time used its surpluses to finance unsustainable growth models in other countries driven by credit bubbles — this is what drove the currency union to the edge of collapse. Critical observers of these imbalances sometimes blame German unions for being too moderate or collaborative, thus contributing, for the sake of the German export industry, to an economic development which is unsustainable for the future of the Eurozone as a whole (Flassbeck/Lapavitsas 2013). Other countries, so goes the story, are now being forced onto the same road of wage depression — a disastrous policy approach for which German unions are said to be co-responsible. In a nutshell, the policy approach of German trade unions towards European integration in general, and the Eurozone in particular, appears to many observers as being driven more by a national export corporatism than by anything else.

German trade unions' organisational and structural power resources are concentrated in the large firms in the export-oriented sector of manufacturing industry but extend deep into the so-called Mittelstand, although their organisational strength here varies considerably. While trade unions are significantly weaker in the private service sector, there are vast differences between a comparatively high union density in manufacturing and low densities in some, if not all, service industries. It is striking that, on average, the organisational gap between the private and public sectors that is typical of the trade unions in various other European countries does not exist in Germany. In the decade before the crisis, overall union density in Germany fell by around ten percentage points, a greater decline than in virtually all other Western European countries. Today, with its 18% it is actually on the low side. Only in recent years have the unions managed to slow down or halt the decline in membership. Against this background, the strength of the German trade unions cannot be understood without knowledge of their place in the structure of Germany's labour market institutions.

The two most important institutional pillars of trade union influence are sector-level collective agreements and works councils' rights of codetermination. Since the 1990s, however, and despite the fundamental importance of area-wide collective agreements, the rate of coverage by collective agreements has been in continuous decline. Works councils, on the other hand, have proved to be a relatively stable institution, even though their capacity for action in representing employees' interests has become more precarious as a result of locational competition, pressure from outsourcing and international competition. However, in the German two-pillar system of interest representation, they are not a trade union institution! For the trade unions, they are a power resource only to the extent that they manage to coordinate or link together the activities of works councils with trade union policy. The assessment of Dörre (2008) that "trade unions' organisational power [is] no longer sufficient to take advantage of the opportunities the institutional system offers for representing employee interests" is a realistic one. But precisely because of the potential German labour market institutions still offer the trade unions, these institutions remain at the heart of trade union efforts to revitalise themselves. Whether it be around equal pay for agency workers or employee consultation on proposed derogations from collective agreements, mobilisation and membership campaigns hardly ever take place independently of existing interest representation institutions but rather in association with them (Haipeter et al. 2011). In the past 20 years, however, the institutional structure beyond the works councils has become ever more fragmentary and weak.

The erosion and dismantling of the labour market institutions that were available to trade unions for the promotion of social equality can be seen particularly clearly in wages policy. One of the unwritten rules of the classic German model was that the level of the periodic wage increases across sectors was almost always aligned with those that could be achieved in manufacturing industry – usually the metal and engineering sector. Trade unions in the manufacturing sector, in turn, took as the basis for their 'wage formula' (rate of price inflation plus productivity increase plus a long since abandoned redistribution component) not the productivity gain in the manufacturing sector but rather that recorded for the economy as a whole, in order to avoid increasing wage differentials. Thus the industrial unions were implicitly assuming that wage increases in excess of the sectoral productivity gain could be achieved in other sectors of the economy, with the public sector obviously being of greatest significance in this regard. In order for this to work, additional redistribution mechanisms from sectors with high productivity gains to those with lower gains had to operate. The whole architecture of the German version of pattern bargaining was based on the functioning of a multiplicity of such redistribution processes. The tax system was of particular importance here as it provided sufficient financial leeway for the inclusion of public services in this pattern bargaining. However, it is precisely this architecture within the wider framework of the social security system and the labour market regulation that was weakened and partly dismantled step by step from the 1990s onwards (for an overview on what follows cf. Bosch 2014).

The starting point of this process were the declining trade union density and collective bargaining coverage, as these trends gave rise to a fundamental shift in power relations in the labour market and beyond. Thus, the weakening of collective bargaining was followed, most radically at the beginning of the 2000s, by numerous "reforms" which shook up the whole architecture of the German social model. Important aspects were: a growing number of local derogations from area-wide collective agreements under pressure from outsourcing and relocations, the widespread abandonment of the practice of declaring collective agreements generally binding, the privatisation of public services, considerable reductions in tax receipts as a result of reductions in the tax burden on higher incomes and investment income, the deregulation of agency work, the promotion of mini-jobs, the weakening of unemployment insurance ("Hartz Reforms") including a lowering of the 'reasonableness' threshold for jobseekers which triggered a massive downward pressure on wagesand the encouragement for employers to pay very low wages by granting low wage earners an add-on social benefit payment (comparable to in-work benefits).

Many of the institutions that once provided a level of social equality and redistribution that was impressive by capitalist standards were seriously damaged and in some cases destroyed. As a result, Germany was the only EU member state where average wages fell rather than increased during the period of economic growth between 2004 and 2008; in 2010 it was the country with the largest low-wage sector in the Eurozone (Eurostat 2012). Trade union wages policy, which had to contend with the head wind created by a fierce policy and media campaign focused on labour costs allegedly being too high to cope with global competition, the so-called Standortdebatte, undoubtedly played a part.

Two reservations, however, have to be made here (for what follows cf. Bispinck 2013). First, from 2000 to 2012 collectively agreed nominal wages rose by more than 36% in the metal and chemical manufacturing industries, whereas the retail trade and the public sector lagged behind with 24% and 27%, respectively. The latter exceeded only slightly the overall inflation rate of of 22% in the same period of time, that is, even collectively agreed pay almost stagnated in real terms in the two largest service sectors under the pressure of upheavals such as the abandonment of generalisations of collective agreements (in the case of retail) and, in the case of public services, cuts in government spending in consequence of tax reductions for companies, capital gains and high incomes in combination with the impact of privatisations. In contrast, wage increase was strongest in those sectors which are most exposed to international competition. What happened was the breakup of German-style pattern bargaining which had been a core element of German industrial relations since the 1950s.

What came on top of this was the widening gap between collectively agreed and average actual wages. In fact, this second element proved to be even more important than the first one. While the increase in average real collectively agreed wages per employee between 2000 and 2012 was 5.5 percentage points less than that in labour productivity, average actual wages per employee fell short of the so-called "distribution-neutral" wage increase by an additional 9.3 percentage points (Figure 2). This indicates that the lion's share of the negative wage trajectory is attributable to the drop in bargaining coverage and the dismantling of labour market institutions. The implicit institutional conditions required for the trade union 'wage formula' to function have been largely swept away, while new institutional 'safety nets' appropriate to the times, such as a statutory minimum wage and reform of the mechanism for declaring collective agreements generally binding, were not in place yet (for most recent trends and institutional reforms cf. below).

One of the key sources of trade union influence also came close to being axed. In a 2003 speech to the Bundestag outlining the government's agenda, federal chancellor Gerhard Schröder implicitly threatened to abolish the priority accorded in law to sectoral collective agreements over company agreements if the former are more favourable for the workers than the latter. The destruction of this centrepiece of the German collective bargaining system was avoided only by the so-called Pforzheim Compromise 2003 negotiated between IG Metall and the employers' association (Haipeter 2009, 120). This part of the institutional framework at least was saved from demolition and in the years that followed was even used for important revitalisation initiatives. However, this did nothing to alter the fact that in the decade and a half before the crisis the trade unions were robbed of a significant share of their institutional power resources.

In terms of EU policy, this shift in power had one noteworthy consequence. Before the establishment of the Eurozone, which was welcomed in principle by the trade unions as a step towards greater European integration, the fear was nevertheless expressed by some union-friendly observers that within the currency union jobs in one country could be put at risk by wage dumping in other countries, since wages policy would become the only remaining macroeconomic adjustment mechanism that could be used to influence price competitiveness (Altvater/Mahnkopf 1993). This fear turned out to be absolutely well founded, but in a completely different sense to that originally envisaged, since the social dumping actually originated in Germany by weakening or even dismantling important trade union power resources which had been key pillars of the 'German model' in earlier decades (cf. Lehndorff et al. 2009). The so-called periphery countries, starting from a lower level of social protection, are now being forced to go down the route taken by Germany and in doing so to adopt considerably more stringent measures of labour market deregulation.

Thus the defeats suffered by the German trade unions up until the middle of the first decade of the 21st century and the considerable weakening of their institutional influence have become a problem for trade unions in the other Eurozone countries. While the "reforms" which have caused substantial damages on the German labour market are being hailed as a role model for other countries in the Eurozone, there are signs (if modest, for the time being) that the tide may be turning within Germany.

Up until the mid-2000s the trade unions were the great pre-crisis losers. It is true that from the mid-2000s both IG Metall and ver.di had launched important initiatives geared to stop the decline in trade union membership, activate their membership base and revitalise trade union activity at the establishment level. What proved to be particularly important were IG Metall offensives at firm level (under slogans such as "Producing better, not cheaper!") aiming at regaining control over local deviations from sector level collective agreements (cf. Haipeter et al. 2011). Similarly, intensive trade union campaigning for a statutory minimum wage and equal pay for agency labour started to turn public opinion vis-à-vis the need to curb the increasing income inequality. But it was not before the outbreak of the worldwide financial crisis that the trade unions were accepted again as a major actor by the federal government. Virtually over night in the late summer of 2008 the coalition of Chancellor Angela Merkel and the Social Democrats turned towards the development of economic stimulus programmes that until a few weeks previously had been rejected by the same government as 'wasting money on untargeted measures'. The 2009 federal elections were imminent and, in view of the billions expended on saving the banks and providing them with guarantees, any delay in saving the 'real' economy would have been a political disaster for both of the major governing parties. Based on active cooperation from both the employers' associations and the trade unions which were regarded again as a major stabilising factor, a 'crisis corporatism' (Urban 2012) emerged which led to a renewal of the social partnership on all levels – from the close ties between individual union leaders and Angela Merkel to the thousands of emergency coalitions established at company level (on what follows cf., with differences of emphasis, Dribbusch 2012; Haipeter 2012; Urban 2012). The trade unions contributed not only their power of legitimation and organisational and planning capabilities but also their own ideas and initiatives, with this latter function arguably being fulfilled much more effectively than by trade unions in other European countries that were involved in comparable top-level consultations.

The role played by the works councils in this new social partnership have received less attention so far. However, they were the coordinating point on the employees' side for efforts to prioritise companies' internal flexibility (primarily based on working-time measures) as well as to push for various other local deals that allowed for the survival of firms and the safeguarding of jobs (Lehndorff 2011). In some cases the way to such partnership agreements could only be paved by union activism and readiness for conflict (Schwarz-Kocher 2013). The close cooperation between works councils and local trade union organisations proved to be crucial. This multi-level and multi-faceted approach is perhaps the most important reason why the trade unions played such a significant part in the so-called 'German employment miracle' of 2008/2009. Tripartite consultations were held in many countries, but it was the active, both compromise and conflict based crisis management at firm level initiated by works councils and trade unions that tipped the balance.

To put it bluntly, the fact that the labour market and the economy were stabilised during the crisis, thereby creating the conditions for economic recovery from 2010 onwards and the ensuing increase in employment levels, was due to a reactivation of precisely those elements of the German model that had survived the neo-liberal inspired destructive zeal of the years before the crisis.

This irony of history also points at the contradictory nature of the revitalised social partnership — which, in fact, tended to be a revival of the classic 'conflict partnership' (Müller-Jentsch 1991) of the West-German 'Trente Glorieuses'. Many employers had to learn to take the works council and the local trade union seriously again as equal negotiating partners. What is more, during the crisis there was a significant service sector labour dispute, namely the week-long strike by nursery nurses. This strike symbolised very much the activation of trade unions in sectors, and amongst groups of employees, which had not been at the centre of trade union activism so far.

Regardless of all their shortcomings, both crisis corporatism and firm-level crisis management, as well the greater willingness to initiate disputes in parts of the service sector, contributed to the strengthening of the unions' political weight. The confrontational policies and rhetoric directed towards the trade unions in the first decade of the 21st century have stopped for the time being. Since 2010 the unions have received much more tailwind in the public for a more active wages policy. Their demands, such as that for a statutory minimum wage and the re-regulation of agency work, were sympathetically received in many quarters, such that IG Metall ventured to make equal pay for agency workers one of the main planks of its agenda in the 2012 bargaining round. As a consequence, from 2010 average real wages have increased slightly for the first time in more than ten years (Bispinck 2013).

What is more, unions' campaigning for the introduction of a statutory minimum wage and for equal pay of temp agency workers has influenced the policy agenda. To some extent these issues have been taken on board by the new coalition government. The single most important reform is the forthcoming introduction of a statutory minimum wage at €8.50. While the exemptions from this norm are a very controversial issue and the procedure leading to necessary future increases is far from obvious, the establishment of this new institution as such must be regarded as a crucial stepping stone towards a "new order in the labour market" (Bosch 2012). Further steps are announced to include the re-activation of the extension of sector-level collective agreements by the federal government. This issue is also part of the coalition agreement but its implementation will be equally contentious because any reinforcement of the extension procedure must reduce the veto power of the umbrella organisation of the employers association. In the same vein, the coalition has announced that the possibility of the collective bargaining parties to agree on sector-specific minimum wages (above the statutory threshold) within the framework of the posted workers act will be extended to all sectors.

Both the union' success of putting such issues on the policy agenda and the experience of some important elements of these reforms being watered down right at the beginning of the policy process support the view that trade unions' capability to act as an autonomous political force, irrespective of the political colour of the government, is crucial for the eventual outcomes of their initiatives. Pressure must be upheld if the new order on the labour market is to be established step by step. This role goes considerably beyond that of consultation partners that they were accorded during the period of crisis corporatism.

The need for trade unions to strengthen their capacity to act as an autonomous 'political force', independent of the CDU/SPD government agenda, becomes even more obvious if we visualise the problems that can be expected to arise in the course of the implementation of the self-imposed "debt brake" with its restrictive impacts in particular at regional and municipal levels, and its reinforcement by the "fiscal pact" recently enshrined in the German constitution. The "Agenda 2010" of 2003 made the conflict around primary income distribution more political and the "fiscal pact" is now increasingly confronting the trade unions with the challenge to influence the political struggles around secondary distribution. Public investment in Germany has been at one of the lowest levels in the EU for many years (according to Eurostat data gross public investment was at 1.4% of GDP in 2012), and net public investment has been negative since 2003 (Priewe/Rietzler 2010). What is more, as revealed by the OECD social expenditure data base, public investment into "human resources" is equally poor in Germany. By way of example, public expenditure for education and child care amounted to 5.2% of GDP in 2007, compared to 4.6% in Greece, 7.3% in France and 9.6% in Denmark (OECD 2011).

An aggressive redistribution policy would put the spotlight on the federal government's revenue and expenditure policy, the starting point for such a policy being the fact that employees in manufacturing industry are also users of the public services and infrastructure that will go to the dogs as a result of austerity. The struggle for high-quality public services would then be a matter for all sections of the trade union movement. In fighting against the effects of the austerity, the trade unions can expect little support from the mainstream political parties, which not only adopted the "debt brake" and the "fiscal pact" for Germany but also ensured that it was foisted upon the other countries.

In today's Europe, trade unions are facing the challenge of 'building bridges' both within their own country and across borders. Over recent years, the mutual dependency of unions has popped to the surface. The big losers in the first half of the 2000s were the German trade unions. The weakening of the German collective bargaining system and the defeat in the struggles around the Agenda 2010 were at the heart of the growing economic imbalances within the Eurozone which surfaced dramatically during the Eurozone crisis and are likely to remain so during the prolonged period of fragile and uneven recovery that now seems underway (cf. Dølvik/Martin 2014 and Lehndorff 2014). In the wake of the euro-crisis, the economic and social catastrophe is being exploited to dismantle trade unions' sources of institutional influence in other countries, especially those most severely hit by the self-inflicted "debt crisis" in the euro-zone. In Spain and Greece in particular this is taking place with a degree of radicalism that goes far beyond what happened with the German model prior to the crisis. The EU/EMU crisis management policies that have merely exacerbated the situation have made the disempowerment of one union into a problem for the others.

The so-called "employment miracle" in Germany since 2008 is used to sell the "labour market reforms" of 2003 ff. as a success model to other countries (for an overview on the effects of the "Hartz reforms" on the German labour market cf. Knuth 2014) . It is true that, by European standards, the German labour market has proved to be surprisingly stable in 2008/2009 and the number of people in employment continued to be on the rise in the following years while unemployment in some other EU countries reached catastrophic dimensions. However, there is an ironic twist behind this success story. Labour market stability during the economic downturn was attributable to the reactivation of internal flexibility and other elements of the traditional German model which had survived the "Agenda 2010". What is more, economic growth since 2009, with its implications for employment, was more driven by a certain revitalisation of the domestic market demand than by the notorious current account surplus—a novelty for Germany in the 2000s (IMK/OFCE/WIFO 2013). This shift in emphasis was primarily driven by stronger trade union influence on wage development, facilitated by a greater public tailwind for trade union collective bargaining and policy approaches in recent years. To put it bluntly, what is actually successful in German labour market trends over recent years is not attributable to the "Agenda 2010" but to the first and modest steps geared to curtail the damages caused by these "reforms" in the German labour market.

Given this background, the challenges faced by German unions in the years to come include the deepening of the beginning process of re-regulation of the labour market and of the revitalisation of their own bargaining and autonomous policy capacities in a situation where it is fair to assume that the boomerang hurled by the German government at the crisis countries in the Eurozone may sooner or later drop back on the feet of German workers.

This challenge entails the need of greater political autonomy both at the national level and as agenda-setter for a new course of European integration. Trade unions in Germany, but not only in Germany, will have to find ways to coordinate their activities with other unions at the European level for joint initiatives such as a "Marshall Plan for Europe", as suggested by the DGB. At the same time, the growing awareness of the importance of a major redistribution initiative and a re-regulation of the labour market in Germany could serve as basis for crucial initiatives to demand change in the political course at European level. In fact, any progress in Germany would give all the other countries more room to breathe. This holds in economic as well as in institutional terms. Continuously rising wages in Germany beyond the Eurozone average, in contrast to what happened before the crisis, would reduce the imbalances within the monetary union and the burdens for today's crisis countries which could give them more leeway for economic and social reforms. And as far as institutional reforms are concerned, just to give an example, the introduction of a statutory minimum wage in Germany may facilitate the debate about how to construct an adequate backup at the EU level which is desperately needed in low wage member states, and it may equally provide some tailwind for more decent minimum wage levels in various member states.

So far, the boomerang effects across countries within the EU, and particularly within the Eurozone, have been negative for trade unions and labour standards. If German unions continue to gradually regain influence on labour market developments in Germany, it could be a first step towards positive knock-on effects across borders which help to shift the balance of power also at the European level.

NordMod2030
Summaries of project reports

The Nordic countries share many common traits. Their small, open economies, generous welfare states, and highly organized labour markets have given rise to the notion of a distinct Nordic model. NordMod 2030 is a Nordic research project, assigned to identify and discuss the main challenges these countries will have to cope with towards 2030.
The purpose is to contribute to the knowledge basis for further development and renewal of the Nordic models.
The project is commissioned by SAMAK in cooperation with FEPS.

SAMAK

FOUNDATION FOR EUROPEAN PROGRESSIVE STUDIES
FONDATION EUROPÉENNE D'ÉTUDES PROGRESSISTES

Fafo
Borggata 2B/P.O.Box 2947 Tøyen
N-0608 Oslo
www.fafo.no/english/