The Scandinavian Reform Model and the European Union.

The Lisbon Agenda and the Scandinavian model(s)?

Eric S. Einhorn
University of Massachusetts Amherst

John Logue
Kent State University

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Introduction: The Road from Lisbon

The European Union at 50 years has become a complex and comprehensive entity. That may be a source of its strength but it is also a cause of skepticism for many Europeans. While the daily operation of the EU focuses principally upon its economic functions – the single market, the Economic and Monetary Union (EMU), international trade and financial negotiations, etc., the EU has also become a force for policy evaluation and collective goals. Such aims are regularly expressed at periodic EU summits (meetings of the European Council) and other occasions (most recently the Berlin Declaration of March 2007). Periodically the EU launches broad policy initiatives that are supposed to commit the Union to future goals and regular monitoring of progress toward those goals. Such an initiative was launched in Lisbon, Portugal, at the EU summit in March 2000. The Lisbon Agenda (also called the Lisbon Goals or Lisbon Strategy) was ambitious, broad and vague in details. It called for revival of the sluggish EU economies and aimed to make the EU the most competitive and dynamic knowledge-driven economy in the world by 2010. It called specifically for increased economic growth and reduced unemployment, expanded investment in higher and continuing education and research and development efforts, and modernization of the "European social model" (i.e. welfare state) to protect the vulnerable and excluded (European Union. Council, 2000). The employment rate target of 70% of the 15-64 population being gainfully employed by 2010, up from 63.5% in 2000, was particularly ambitious.

The Lisbon initiative added another layer of policy "surveillance" to the growing list of regional public policy monitoring. In addition to the macroeconomic data and analysis required in fulfillment of the Stability and Growth Pact of the EMU, various sectoral convergence programs, and broader EU evaluations, the Lisbon Agenda promised benchmarking of policy reforms and performance. In addition all of the fifteen EU countries that adopted the 2000 program are part of the broader policy network of the Organization for Economic Cooperation and Development (OECD) which has its own program of surveillance and benchmarking. There is no silence as to the aims of advanced western states in the social, economic, and policy arena. Implicit and often explicit in these common policy objectives is the expectation that national or regional experiences can assist other states in their reform efforts. "Lesson-learning" and policy emulation have a long history, but rarely have pressures for improved performance and ranking of achievements been greater.

Despite the difficulties of comparing policies and performance across a growing and diverse community of advanced industrial states, elites and attentive publics look for "models" of success. The Scandinavian states, three of which are full EU members (Denmark, Finland, and Sweden) while two belong to the European Economic Area (Iceland and Norway), have again come into view as interesting cases of success. In part this is the result of their rapid recovery from economic difficulties – in some cases quite severe – during the recent past (1980s - 1995). It is also because these small but open societies have long attracted outside observers and believe themselves to be a distinct policy "region."

In this paper we argue that the Scandinavian policy reforms of the past two decades have not only reinforced their comprehensive welfare states but demonstrate that such welfare states are fully compatible with healthy economic growth and structural change. We will offer evidence that the Scandinavian "model" has again emphasized reform and adjustment but also continues to demand a commitment to solidarity. We will argue that their democratic corporatist structures that involve the labor-market partners in making and administering national policy have been supportive of this adaptation. The Scandinavian solution remains expensive in terms of taxation, but has not "frozen" policies into a strict mold. Its commitment to child allowances, paid maternity (now parental) leave, and public provision of excellent child care and care of the elderly encourage much higher levels of female labor force participation than has been the European norm; indeed, it is difficult to see how the Lisbon employment rate target can be achieved without similar policies in other European Union countries. Finally the "flexicurity" model emphasizes security and opportunity at the "macro" level – new skills, new jobs, and transitional assistance without locking employees into declining firms and sectors.

Let us begin with a review of the Scandinavian model: its origins, its accomplishments, and its difficulties in grappling with the challenges of the last quarter of the 20th Century.

1. The rise and fall of the Scandinavian model[1]

> *The small nations that comprise the Scandinavian area constitute a social laboratory for the Western world.*
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> – Walter Galenson, *Labor in Norway* (1949)

From the 1930s through the 1980s, the Scandinavian countries in general and Sweden in particular were frequently described as being models for the development of humane, democratic policies for other societies. From Frederic Howe's *Denmark: A Cooperative Commonwealth* (1921) and Marquis Childs' volume *Sweden: The Middle Way* (1936) through Walter Galenson's *Labor in Norway* (1949), Hudson Strode's *Sweden: Model for a World* (1949), Richard Tomasson's *Sweden: Prototype of Modern Society* (1970), and *Der Spiegel*'s cover story "Schweden -- Modell für Bonn? Blick auf Schweden – Blick in die Zukunft" (1972) to our own volume *Modern Welfare States: Politics and Policies in Social Democratic Scandinavia* (1989), foreign journalists and scholars found much in Scandinavian policies that, they thought, was admirable and deserved emulation in their own societies.

At least in times of crisis elsewhere, this literature enjoyed substantial popularity. Child's *Middle Way*, which appeared in the midst of the Depression in the capitalist West and Stalin's purges in the communist Soviet Union, went through at least 22 printings in three editions,

[1]Although we use the terms "Scandinavian" and "Nordic" interchangeably in this paper, there are sometimes significant national differences in the social and economic policies of the five Nordic states. All still conform, however, to the "universalist, social democratic model" based on generous tax financed benefits and programs accessible to all. We note growing deviations from that model. This paper deals primarily with Denmark, Finland, and Sweden because of its European Union orientation, and we will generally limit our examples to those countries. Norway and Iceland, members of the European Economic Area, share most of these commonalities and some of the problems.

including six within seven months of its initial appearance. Its reviews drove home its importance: "Let messengers ride forth," wrote New Deal official and chief trustbuster Thurman Arnold, "to the frightened men on courts and in editorial sanctums ... bearing the glad tidings that a country has been discovered where governmental power is exercised in great humanitarian enterprises without either the loss of civil liberty or the destruction of private capital" (Arnold 1936, p. 614). Childs' volume remains the most widely sold English-language book on any aspect of Scandinavia. (For its impact and Childs other writing on Sweden, see Logue 1999, pp. 162-64.)

There was also an alternative, darker vision of Scandinavia as model. Writing in the *Saturday Evening Post* in 1959, Peter Wyden linked Sweden's welfare measures to alcoholism, suicide, and crime. This admonitory literature grew particularly in the 1970s and 1980s, as the Social Democratic project was completed. Scandinavia could be viewed as a nightmarish amateur Brave New World, as in English journalist Roland Huntford's *Sweden: The New Totalitarians* (1972) or as the epitome of economic inflexibility as in Per-Martin Meyerson, *Eurosclerosis – The Case of Sweden* (1985). More thoughtful and evidence-based critics such as Assar Lindbeck *et al. Turning Sweden Around* (1994) proposed drastic medicine that would scale-back the generosity and administrative inflexibility of Sweden's universalistic social programs while restructuring its economy for a post-industrial age. Similar analyses assessed the other Nordic states and those, like the Netherlands, that shared their ambitions.

Like beauty in the eyes of the beholder, the definition of the "Scandinavian model" has varied with the commentator. It often seemed to be a metaphor for what the commentators sought (or feared) in their own societies.

Of late foreign eyes have again been focused the region for positive reasons. After severe recessions in the early 1990s, the Nordic countries again seem to have found a formula for moderate but steady economic growth, fiscal balance and sustainability, and a renewed commitment to a universal welfare state that now emphasizes "activation," innovation, and continuous assessment. In addition to positive assessments by the International Monetary Fund (especially its 2003 survey of Sweden [Chakur, et al. 2003]) and the OECD, over the past year a spate of news articles in *Newsweek*, *The Economist,* and amazingly *Forbes* have described the renewed Scandinavian model as "flexicurity" in action. As the latter source defines it, flexicurity is the "Third Way tradeoff [that] gives employers the right to hire and fires easily, while the state guarantees a good wage [i.e. unemployment benefit] and retraining for the fired" (Karlgaard, 2006; see also Sachs 2006 and Cohn 2007). French Prime Minister Dominique de Villepin, not one usually impressed by foreigners, has been inspired by particularly the Danish variant of flexicurity because of the rapid decline of Danish unemployment, including youth unemployment, over the past decade. He was not able to convince the "French Street," however, that such reforms should be attempted at home.

Are these lessons for the rest of the European Union in the Scandinavian policy reforms which appear to have stabilized their extensive and solidaristic welfare states? And are these lessons relevant for the problems confronting the larger EU states of France, Germany, and Italy? We note that Great Britain is both an alternative neo-liberal model (under Thatcher and Major, 1979-1997) and a variant of the Scandinavian reforms (under Blair since 1997). Likewise the Scandinavian "renewal" shares many characteristics of the Netherland's reform program since the 1980s.[2] Regional distinctions must not be exaggerated.

What is the Scandinavian model?

For the purposes of this paper, our question is defining a model useful elsewhere in the larger EU advanced industrial states that comprise the heart of the EU-15. The Scandinavian model has always been limited by the particular economic, social, historical, and political characteristics of the countries themselves. Denmark, Norway, and Sweden are small, affluent, rational democracies which have built upon more than a century of positive social policies. Even Finland, which has had a more unique historical and political experience, has over the past quarter century converged fully on the Scandinavian model. In policies areas such as education, technology, and economic restructuring, it has become the "leading edge" of innovation and reform.

When we venture outside of the Scandinavian region, qualifications and limitations quickly become apparent. Elsewhere we assessed the relevance of the Scandinavian model for the eastern Baltic region including northeastern Germany (mainly the former German Democratic Republic) Poland, Russia, Lithuania, Latvia and Estonia (Einhorn and Logue 2006). The EU and the European region have become increasingly diverse in its recent history, policy priorities, and socio-economic challenges. This makes any discussion of "models" tentative and limited. Following in the tradition of Richard Rose (2001) and others, we believe that "lessons" or models rarely can be transplanted from one national experience to another without considerable modification. This is even true with the Nordic region. Yet when confronted by serious, intractable, and politically fraught challenges, some leaders look abroad for inspiration if not templates. The "Anglo-Saxon" model has been flagged as the main economic policy alternative to the "Eurosclerosis" problem despite growing issues of poverty and inequality especially in the United States and Great Britain. Although economic growth and even unemployment statistics contain some variables often overlooked by policy "scorekeepers" – such as the role of population growth in GDP performance and various definitions of unemployment, negative stereotypes have often paralyzed innovation in the larger EU states. The political distance between these states and the Nordic countries is less despite inevitable issues of size.

For the purpose of this paper, the salient characteristics of the Scandinavian model are

(1) an activist and interventionist state, relying mainly on regulation and transfer payments which

[2] The various categorization schemes for national models generally distinguish between the neo-liberal Anglo-American (UK, especially under Thatcher, Ireland, and the US), statist/Christian Democratic (France, Italy) which have tended toward greater rigidity, and corporatist but less flexible (Germany, Austria), and Scandinavia/Benelux which are corporatist and apparently more flexible.

(2) provides universal transfer payments to support the elderly, disabled, unemployed, and families with numerous children and low market incomes;

(3) provides universal mostly non-means-tested social services for health, education, childcare, services for the elderly and the like;

(4) uses national policy to achieve high rates of labor-force participation and full employment on the national level, via both macro-economic and sectoral policies;

(5) integrates major interest groups in making and implementing national policies (rather than the capture of the state structure by a single group of interests, or state capture of the interest organizations);

(6) possesses a strong civil society with encompassing and democratic organization of interests, but particularly the strong organizations of those otherwise weakest in capitalist society -- family farmers and urban workers[3]; and

(7) is underpinned by a set of values around empiricism and social trust; in particular, solidarity and reciprocal responsibility are crucial concepts in the development of public policy.

The benefits of the model appear to flow from the structural features that make up points 1 to 4. The question we raise in Part III of the paper is whether these benefits can flow purely from state structures or whether points 5-7, underpinnings of a strong civil society and of the values of the Scandinavian "popular movements" – the agrarian and labor movements of the 19th and 20th centuries – are, in fact, key to success. The ideas and policy innovations adopted by the Scandinavian countries during the past half-century are now shared among other west European states. What differs may be the Scandinavians' political ability to implement policy reforms and innovations more quickly and thoroughly than the so-called "blocked" societies. Part of the "Lisbon Process" since 2000 (and its predecessors) has been to gain broader commitments in the EU to "best practices" as evidenced by policy success.

The model under pressure I: The changing global context for economic policy

One additional caveat to Scandinavian transferability needs to be raised: the changed international context.

By and large, from the origins of the Scandinavian model during the Depression in the 1930s to the 1980s, the model assumed that the nation state was appropriate unit for making policy. Indeed, the careful calibration of Swedish Keynesianism in the 1930s through 1960s

[3]For 150 years the Scandinavian countries have developed a panoply of encompassing civic and economic organizations: farmers, industrial workers, businesses, women's, etc. Other EU countries share some of these characteristics but their history, e.g. Germany, disrupted the continuity and extent of civic organization. Moreover the Scandinavian corporatist tradition has fostered a direct role by these movements in policy design, bargaining, and implementation.

through sectoral policies, geographic policies, and corporate investment funds in addition to macro-economic policy gave Sweden a growth edge while making her virtually recession proof precisely because the nation-state was the appropriate and bounded unit for economic policy.

In the 1930s to 1950s, the transfer payment portion of the welfare state model – which was significantly counter-cyclical – was designed simply to keep together the body and soul of the unemployed, injured, or sick worker. It was relatively inexpensive. Income replacement ratios for those pushed out of work temporarily, like the unemployed, averaged about 40% of market wages; replacement ratios were a bit lower for those permanently excluded. Further, it assumed the traditional workforce: men and unmarried women. Married women stayed home and raised kids, at least in bourgeois families and in families of better-paid skilled workers.

In the late 1960s and early 1970s after a decade of virtually continuous economic expansion, income replacement ratios were raised to 70-80% of market wages for those temporarily out of work.[4] Pensions for the elderly and disabled were pushed up as well. Tax policy was revamped to increase female labor-force participation, and high quality daycare and then after-school care were added as new social services to support housewives' mass movement into paid employment. The consequence was to dramatically increase the effectiveness and the cost of the welfare state in an economic downturn – just before the economic dispensation changed.

When that dispensation changed, as it did in the 1970s and 1980s with the oil crises and global economic waves washing over the Scandinavian economies, the national economic policy model – on which the rest of the model rested – began to stumble. The oil crisis of 1973-74 was followed by "stagflation," a debilitating blend of economic stagnation with inflation that conventional economic theory did not permit. The stabilization of demand through Scandinavian welfare measures -- both transfer payments and social services -- certainly proved itself in sustaining living standards, keeping unemployment relatively low and maintaining continued high labor force participation during this period. With the exception of Norway, all of the Scandinavian states faced severe economic turbulence between 1975 and 1995. Government budget deficits skyrocketed. There were recurring trade deficits, government deficits, and financial crises as public policies radically reduced rates of inflation and deregulated financial markets. Slower growth led to much higher levels of unemployment which in turn strained the generous compensation system. Both public and private deficits were significantly financed by international borrowing, and that began to pressure national currencies. The situation was unsustainable, except in Norway, which borrowed more but did so to invest in building the infrastructure for the North Sea oil bonanza.[5]

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[4]In 1996, income replacement ratios for the unemployed varied between 80% in Denmark for up to 260 weeks and 85% in Sweden for 60 weeks; by contrast, the replacement ratio was 60% in the United States for only 26 weeks after which the replacement ratio dropped to zero. (As of March 2007, only 1.9% of the 4.4% unemployed in the US were able to draw unemployment compensation.) Curiously the sharp increase in the replacement ratios in Scandinavia in the late 1960s and early 1970s appears to have taken place without a discussion of the impact on global competitiveness. Rather, it was in the context of the then-current "equality debate."

[5]At $3 per barrel for Saudi oil in 1972, North Sea oil was an interesting geological anomaly. It cost more

Innovative Swedish efforts to adapt national economic policy to a globalized economy -- through financing a "production for inventory" scheme in the 1970s by using inexpensive foreign borrowing during the recession to continue domestic production to be exported when the global economy recovered -- failed by increasing inflation relative to trading partners and raising foreign debt. The Swedes were finally forced to devalue the Swedish currency to dispose of the bloated inventories. In part the failure of this apparently brilliant approach to "bridging" the international economic downturn stemmed simply from the virtually interminable length of the international economic downturn after the oil crisis of 1973-74 that far exceeded the length of any other post-war recession. In part, however, the failure reflected the transformation of the global economy. The nation state was ceasing to be the appropriate unit for making economic policy.

A genuine Scandinavian -- and world -- economic recovery did not follow the oil crises of 1973-74 and 1979-81 until Reagan's experiment with "supply-side economics" which pumped out the largest demand-side stimulus -- and largest American budget deficits -- since World War II. Most of that stimulus flowed out of the American economy to simulate international economic growth in the mid- and late-1980s, though at the costs of then-unprecedented American current account and budget deficits.[6] The return to economic expansion in Scandinavia did not result from national economic measures, though those were helpful, so much as from American deficits stimulating the whole international economy.

The fall of the Berlin Wall in 1989 and the collapse of the Soviet Union itself in 1991 further changed the equation. If Childs had seen Sweden as the "middle way" between the crisis-prone but democratic capitalism of the West and the Stalinist autocracy of the Soviet Union, what happened to the "middle way" when the marker on the one side of the road disappeared?

At the same time, growing economic globalization meant that national economic policies were not sufficient to reinflate the domestic economies in the face of the recession of early 1990s.[7] Worse, in addition to the international recession, Finland's exports were devastated by

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to produce than it yielded. With Saudi oil at $12 a barrel in 1974, North Sea oil was a commercial proposition. Despite some tough readjustments in the mid-1980s and late 1990s when oil prices temporarily fell, Norway has never looked back.

[6]If the situation seems similar to the American economic situation today, it is because the policies are identical. Massive demand stimulus in the United States is fueling the export-led Japanese economic recovery from the collapse of the property bubble of the 1980s and early 1990s, the Asian "Tiger" recovery from the currency crisis of 1997-98, and continuing explosive Chinese growth. By contrast, real wages have been stagnant or declining in the US since the mid-1970s and household incomes have risen modestly in real terms only because of higher female labor-force participation. The 2005 US current account deficit of $805 billion was the largest in international economic history, and also the largest the US has sustained as a percent of GDP (6.4%). It constitutes a massive stimulus to the rest of the world's economy.

[7] Curiously the entry of the former Soviet bloc into the global economy did not bring large-scale, low-cost, low-quality industrial manufacturing competitors to the global market. The neo-liberal economic "reform" policies of the Yeltsin administration, ably supported by the advice and paid assistance of the International Monetary Fund, the US Treasury, USAID, Sweden's own Anders Åslund, and the corruption-plagued Harvard Institute for

the collapse of the Soviet and CMEA[8] markets, where the Finns had enjoyed a privileged position as an advanced industrial neutral. Finnish unemployment ballooned to 18%, a near Depression-era marker. Sweden, much less dependent on exports to the East but significantly dependent on trade with Finland, saw its own unemployment spike to 8%, extraordinarily high by post-war Swedish standards.

But if the nation state is no longer the appropriate venue for economic policy, what is?

One answer has been "Europe," or more specifically the European Union. As economic optimism returned at the end of the 1990s, the EU turned its attention to accelerated growth, social policy reform, and international competitiveness. The previous decade had emphasized the "single EU market," the Maastricht Treaty, and the emerging Economic and Monetary Union (EMU) with its attendant Stability and Growth Pact to enforce fiscal and monetary discipline on the EMU. Now the issue of restoring and maintaining dynamism was primary. This was formalized at the Lisbon Summit in March 2000 under the Portuguese presidency. The resulting "Lisbon Agenda" is lengthy with emphasis on a broad range of reforms and innovations most of which required national action (European Union. Council 2000). A substantial portion of the agenda focuses on labor force enhancement and social policy reforms that emphasize integration and activation of many social welfare recipients and increase the employment rate (i.e., the proportion of the population in the 15-64 age categories which is gainfully employed).

The model under pressure II: Domestic strains

Global economic pressure exacerbated domestic welfare-state design problems. There were five principal sources of strain: changing gender and family roles, tax system design, generational cultural change, the graying of Scandinavians, and immigration. These five factors were, to a considerable extent, interlocked, and each tended to drive the others.

In loco uxora. In the heady days of economic expansion in the 1960s and early 1970s, the Scandinavian countries committed themselves to women's economic equality. This did not just mean equal wages for equal work for those in the labor market. It meant equal access to gainful employment – genuine equal opportunity. That required either a fundamental change in gender roles in the family – men taking an equal role in child rearing and household chores – or a dramatic expansion in public social services to include the traditional care-giving roles of the housewife.

The Scandinavians talked about the former but actually took the latter course. But it was expensive for the state to provide the services to children and the elderly that had previously

International Development, devastated the Russian economy, destroying much of its productive capacity, eliminating its social security system, and producing the largest fall in life expectancy in peace time since the Black Plague. Imagine the economies of the West today had the former Soviet economy been retooled as a Chinese-style industrial competitor – rather than as a refrigerated Saudi Arabia.

[8] CMEA=Council for Mutual Economic Assistance also called "Comecon." It denoted the economic organization of the Soviet satellite states of eastern and central Europe.

been provided by housewives, at least if these services were to be provided at the level of quality that Social Democratic ideology and bourgeois sensibility required.

Most working class women -- especially the unmarried; wives of farm workers, those married to unskilled and semi-skilled workers, and those whose husbands were in industrially pressed skilled trades like shoemaking -- had always worked: domestic service, retail, and factory, part-time or full time. Theirs were latchkey kids with the older taking care of the younger. Through the 1950s, the Social Democratic dream was, if you could push up male wages sufficiently, the working class could achieve the bourgeois luxury of the "non-working" wife.

The ideal changed in the 1960s and 1970s. Women's mass entry into the labor force came to be seen as a good for women and for a democratic society, not a regrettable consequence of poverty and low wages nor an emergency of war. Female labor force participation exploded from between 37% (Norway) and 53% (Sweden) in the 1960s to between 73% (Finland) and 80% (Iceland) by 2005. By contrast, EU-15 female labor force participation grew from 44% to only 57% in the same period (OECD, 2006, 32-3). As the cost of daycare, after-school care, and home assistance for the elderly similarly exploded in the public budget, higher taxes followed. And higher marginal taxes on full-time male earners along with the labor shortages of the 1960s increased the pressure on remaining housewives to seek gainful employment, and that forced further expansion of state services to children and the elderly. While these costs could have been accommodated by permanent shifts in budgetary priorities, no one wanted to cut other rapidly expanding programs such as health care, post-secondary education, and income security. The Scandinavian states have sustained dual-careers and increased labor-market equality for women at rates above all of the other EU countries (see Table 1, below; see also Jordan, 2006).

The shift from taxing the family as a unit to individual taxation – an equality measure – also drove the process. When marginal rates were low, there was no tax push to drive women into the labor market. However, with individual income taxation and quickly rising marginal rates (which peaked at 73% in Denmark – Sweden was even higher – for even moderately paid professionals in the early 1980s), the rationality of adding a second salary – taxed at less than half the rate of adding additional income to the first salary – forced even women who much preferred taking care of their own children and parents into paid employment taking care of the children and the parents of their neighbors.

Tax conundrums. The Scandinavian tax systems themselves were poorly designed for high marginal rates, and tax system redesign lagged the destructive impact of rising marginal rates. The basic problem was that high tax rates reshape economic behavior -- something noted with regularity since Roman times and possibly before. The worst Scandinavian problem in terms of economic impact was the combination of very high marginal tax rates with the deductibility of mortgage and consumer interest in a high interest rate environment. If you are paying 65% in marginal taxes and your mortgage interest is fully tax deductible, your effective interest rate after taxes at a 10% nominal rate is 3.33%; if the rate doubles to 20%, you pay only 6.67% post-tax. So the housing market ceased to be interest-rate sensitive, fueling a housing price boom and house debt explosion that, at its worst, was reducing the tax base by 1% of gross taxable income annually. The dislocations got worse and worse. By the time the governments finally got the political nerve to deal with the situation by reducing the deductibility of mortgage interest in the late 1980s, a major housing price bubble had been created that rested primarily on the tax system. As a consequence of reducing mortgage deductibility and marginal taxes, homeowners found themselves with mortgages they couldn't support, the housing bubble burst, and the banking sector had to be bailed out.

A similar, but economically less significant problem cropped up in the preferential tax treatment of capital gains. At low marginal tax rates, preferential tax treatment for capital gains fundamentally compensates for inflation and produces few distortions. At Scandinavian tax rates in the 1980s, converting taxable income into capital gains became the sport of the rich. Even the state got into the act. At a public finance nadir, Danish governmental agencies in early 1980s aided and abetted tax evasion by issuing bonds carrying half the market rate of interest (which was taxable as regular income at high marginal rates) at half their face value to create a (non-taxable) capital gain.

Business investment, however, remained sensitive to interest rates. When interest rates rose, business investment dropped. As the housing market soaked up more investment cutting the taxable income base, rational business men began to park their capital in those cut-rate government bonds which yielded tax-privileged capital gains, doing double damage to the economy - cutting employment (and raising social spending) while further reducing the tax base.

These issues of tax system design were, of course, soluble with enough political will to endure the pain. The Danes, Swedes and Norwegians all dealt with tax reform in the 1980s, though with considerable economic pain in deflating the real estate bubble. Basically they broadened the tax base by reducing deductions and various forms of tax-privileged income, and that enabled them to lower marginal rates.

Generational culture and take-up rates. A clear source of welfare-state stress has been the tendency of more Scandinavians to make use of various welfare measures.

Most Scandinavian welfare measures were universal; means testing was a rarity. The unwritten assumption was that citizens exercised self-restraint, seeking benefits only as needed. Certainly for a generation, that held true. The bourgeoisie and upper classes shied away from welfare benefits with their "working class" and "Social Democratic" stigmas. Good Social Democratic and Communist workers sought benefits only when really needed because of the "superior ethics" of the working class. This self-restraint enabled the Scandinavians to build extraordinary edifices of welfare benefits that overlaid, for example, regular unemployment compensation with part-time unemployment compensation and with emergency cash payments for family disasters -- like having a fire ravage your apartment -- when you were unemployed.

But values are tied to generations, and as the generation which had built the welfare state through Depression, war and Resistance passed from the scene, its values passed with it. Thus part-time unemployment compensation, designed for dockworkers and day laborers in construction, became used by part-time university instructors trying to work their way into tenured positions. Upper class company managers who lost their jobs to mergers couldn't make mortgage payments on their villas on unemployment compensation, so they applied for emergency cash relief. Benefit use by some youths seeking to "find themselves," as well as dependents of immigrants soured the tradition of disciplined solidarity.

Similarly, but more generally, Danish sick-pay statistics indicate that the young are sicker than the old, even after adjustment for taking care of sick children, a legitimate reason for calling in sick that affects the young disproportionally. Health statistics demonstrate that they aren't. They are, however, more likely to call in sick.

If the Scandinavian welfare states have clearly rested on a combination of a strong work ethic and a sense of self-restraint in the founding generation, and on class solidarity and ethnic homogeneity throughout the society, changing generational culture forces significant recalibration. So did immigration.

Immigration and the new Scandinavians. Into the 1970s, the Scandinavian countries were extraordinarily homogeneous in terms of language, race, and religion. There were geographic pockets of diversity – Swedes in western Finland and on the Åland Islands, Germans in South Jutland, and Sami (Lapps) in the far north of Norway, Sweden and Finland – but they had been there time out of mind and were generally covered by special legislation to protect their rights to cultural self-determination in the case of Swedes in Finland and Germans in Denmark, or it was easy to add new legislation to protect their culture, as in the case of the Sami. Indeed, one could argue that the values of solidarity and reciprocity underlying the Scandinavian model were a result of this homogeneity notwithstanding occasional class and geographical cultural differences and antagonisms.

While the Scandinavian countries today still remain relatively homogenous by the standards of immigrant societies like the American, five percent of the population of Denmark, Norway, and Sweden are foreign citizens. While a fifth of these come from the other Nordic countries, for the first time the Scandinavian countries have a noticeably diverse population in terms of race and religion, especially in the major urban centers.

This has affected the universalistic Scandinavian welfare model in two ways. First, the new immigrant communities did not share the norms regarding welfare use, any more than they shared other national cultural norms. With larger families, lower wages, and fewer working women, new immigrant families were clearly entitled to a disproportionate share of benefits. Second, they were visibly different in language, religion, culture and complexion.

These changes have been accompanied with less political civility than most Scandinavian politicians would have wished. Stories of abuse abounded, making the new immigrants a target for the New Right – particularly the Danish People's Party and the Norwegian Progress Party. Although Sweden remains quite "liberal" in accepting immigrants joining relatives in Sweden and in conferring citizenship, entrance requirements for non-EU immigrants have been tightened in Denmark, Finland, and Norway as in other EU countries (e.g. Netherlands, Britain, *et al.*).

The graying of Scandinavia. The greatest apparent threat to the Scandinavian model is demography: an aging population leaves fewer active workers supporting more retirees. It's the

General Motors syndrome raised to a societal level. Worse (or better, depending on your perspective), retirees are living longer. The over-80 segment is the fastest growing part of the Scandinavian population. The combination of larger numbers of pensioners and higher medical costs would seem to threaten the stability of the welfare system.

Here, as will be discussed in the next section, the Scandinavians have been quite proactive, perhaps because demographic change is so predictable. They have undertaken general pension reforms that have increased funding and extended the average years of work before retirement.

Medical cost increases have been restrained by maintaining a fairly centralized national health system. From 1990 to 2000, Denmark, Norway, Sweden and Finland (as the only OECD countries) managed to lower health care costs as percentage of GDP. Despite a significantly older population than that of the United States, Scandinavians spend only 60% as much for health care. They have better health care statistics too.[9]

II. Reinventing the Scandinavian Model

By 1990 the Scandinavian welfare state model faced a looming crisis. It shared that status with most other European welfare state models for many of the same reasons. Two decades of slower economic growth, demographic change (falling birthrates and aging populations), and globalization had undercut the economic foundation of many key social policies. The generous unemployment system with its high replacement of previous wages (at least for industrial workers) and employment measures to provide new jobs staggered under sustained unemployment. In Denmark unemployment had crawled upward since 1974 and despite some cyclical improvements in late 1980s and various "job creation" initiatives (including an early retirement scheme that proved disastrously popular), jobless numbers remained high into the 1990s. In Sweden and Finland, the sudden and severe economic crisis that hit both countries after 1990 sent their economies into the sharpest decline in two generations. Social policy mitigated the shock for individuals, but there were clear warnings that the fundamental model – which distributes income and social services across generations as much as between income groups – could not be sustained without reform.

Our proposition is that through their significant reforms the Scandinavian states have once again demonstrated their pragmatic but active policy process and added new options to other states seeking to make their social welfare system compatible with the 21st Century economy and society. Although the Scandinavian welfare policies still "redistribute" substantial economic resources, their reforms have renewed their focus on making society pay its own way.

[9] But, then, so do almost all of the nations we like to compare ourselves with, as well as an increasing number of those with which we do not generally compare ourselves, like the Czech Republic, Cuba, Greece, Hong Kong, Ireland, Singapore, Slovenia, and Spain on infant mortality, for example. It seems that we will remain safely ahead of Africa, most of Latin America, and parts of Asia for another several decades, but infant mortality is already lower in Beijing than in New York.

For more than a decade, public budgets have generally been in balance (or even run significant surpluses). The emphasis on education, activation, and job placement has reduced, but not eliminated, the number of able-bodied welfare recipients. Pension reforms have improved the prospects for future generations to enjoy their retirement through compulsory savings and wise investments. Moreover, these reforms have increased rather than eroded the competitive position of the Nordic countries in the world economy. Hence across Europe governments and social scientists show renewed interest in these “laboratories” for social democracy.

As discussed above, there will always be important limits and caveats in analyzing the Scandinavian models especially for “export” to different societies and economies. These countries remain small, broadly democratic, and despite heavy immigration, politically homogeneous. When France (61 million) or Germany (82 million) looks at Sweden (9 million) or Finland (5.5 million), there are inevitably significant issues of scale. Most of the EU states are closer to the Nordic scale, but those of central and eastern Europe [still] have followed a very different path over the past century. Yet there are clearly good reasons for the broader European interest in the Scandinavian “reform wave” of the past fifteen years. The principles and goals of full-employment, fiscal balance, social policy planning, and policy efficiency can benefit widely differing national cases.

The Scandinavian model, like most other European social welfare systems, rests on four fundamental premises. First, effective management of the economy will promote rising production of goods and services and full employment of the labor force. Since the 1930s macroeconomic management has been in the hands of the Government – especially the Finance Ministry and the central bank. Microeconomic management has during the past thirty years moved strongly in favor of the private sector. Secondly, like Germany, Austria, and the Benelux countries democratic corporatist institutions (especially labor unions) participate in economic management in Scandinavia and pursue a “fair” distribution of economic gains and a “decent” redistribution of resources from those who are currently earning to those who are either temporarily (unemployed, studying, ill) or permanently (retired, permanently disabled) outside the market economy. Third, low income families with children need to have their market incomes enhanced through transfer payments and subsidized necessities, such as housing and child-care. Historically, the beneficiaries were unskilled workers in the cities and farm laborers in the countryside; today, the beneficiaries significantly are single parent families. Fourth, key social services – especially medical care and education -- are provided on the basis of need, not ability to pay.

All these dimensions have been highly dynamic over the past century. During the past two decades there have been no serious alternatives proposed to a largely market-driven, privately owned production system for goods, but the importance of public provision of certain services – such as medical care, dental care, childcare, and care of the elderly – has grown. State “regulated” sectors -- finance, housing, utilities, transportation, etc. -- have been liberalized with generally positive results.[10] Moreover although comprehensive and universal social welfare

[10] An important detail is that deregulation of banking and finance during the late 1980s and early 1990s in Scandinavia as well many other regions unleashed the greatest number of banking scandals and failures since the 1920s-30s. By the late 1990s most of these difficulties had been overcome, often with substantial public “bail-outs.”

services have been available to Scandinavians since the 1960s, there has been considerable demand for expensive new programs (childcare and pre-school services, home health and service assistance for the disabled) and increased investment and expenditure in crucial social programs (e.g. healthcare and higher education). Although the past decade has seen a significant expansion in "competitive" and alternative provision of social services by non-public providers, universalism and political control still guide the Scandinavian welfare states.[11] Residents have access to a vast array of publicly financed social, educational, and health services, but privately financed access has also been increasing.[12]

The Scandinavian model remains set apart by its democratic corporatist institutions and rational policy culture. The strength of the key economic interest organizations and their participation in shaping and implementing public policy continues to characterize Scandinavia. Not only have Scandinavian labor unions escaped the general decline of organized labor in the West, but union density has also actually increased (see Visser 2007 for comparative union density statistics). Similarly the Scandinavian practice of fact-based, relatively consensual decision making has survived the rise of neo-liberalism. While neo-liberalism seems to have promoted a deductive policy making process in a number of countries in which facts seemed immaterial, Scandinavia's "neo-liberals" seemed almost as fact-bound as the Social Democrats and centrists. We will note the importance of these factors in the discussion of both the labor market policy and pension reforms below.

The Rise of the Neo-Scandinavian Model 1990 – 2005

The "recovery" of the Scandinavian model from the economic turbulence of the late-1980s and early 1990s was the result of social policy reforms, fiscal realism, and economic restructuring. It is important to mention, however, that between 1974 and 1990, each Scandinavian country had made some basic adjustments to the "first phase" of "Eurosclerosis.[13]" Most crucially, as noted above, they undertook tax reforms that reduced deductions and tax-privileged income to broaden the tax base and they cut marginal tax rates. This helped restore a sense of fairness to the tax system and stopped the revenue erosion that was contributing to budgetary shortfalls.

Denmark had faced the most severe challenges as it entered the tunnel with considerable economic and social imbalance. In 1974 Denmark had already built up considerable inflationary

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See Schwartz, 2001.

[11] For example, private hospitals and clinics have appeared especially in urban areas. In some cases, such Stockholm, citizens are sent to these providers through the public health system. Private companies have long provided many "public services" such as ambulances and trash collection.

[12] De-regulation and encouragement of private sector solutions do not usually extend to tax-subsidies. For example, employer-provided supplementary health insurance is taxed as regular income.

[13] "Eurosclerosis" refers to the structural barriers to economic and employment growth that plagued many European economies especially between 1980 and 2000. This was contrasted to the higher growth rates achieved in the US in that period (see Henderson 1993). The term has been especially popular among "neo-liberal" economists who are critical of the public sector and regulated markets. Nevertheless, as evidenced by reforms enacted across Europe and the EU Lisbon Agenda, this latest form of "secular stagnation" is of concern across the ideological spectrum.

pressures that were multiplied by the country's nearly total dependence on imported energy (mainly oil). Despite deficit spending – especially to fund generous unemployment and other social benefits, Denmark suffered severe economic strains, growing labor unrest, and a return to high unemployment.[14]

Sweden followed a similar course but was better armed with Keynesian counter-cyclical policy measures, especially its "active" labor market programs that channeled the unemployed into training programs and at least marginally productive public sector jobs and its 1970s inventory subsidy program that allowed Swedish industries to continue to produce in excess of immediate demand in foreign markets. Many of the Swedish programs focused at the micro-economic level, such as the downsizing of the shipbuilding and steel industries, the direction of private sector investment to soak up labor left unemployed by major shutdowns, and national support for local infrastructure projects in hard-hit communities. Maybe these just postponed adjustments until Sweden suffered severe shocks in the early 1990s.

Finland was also subject to these pressures but was buffered initially by its significant trade agreements with the Soviet Union and other CMEA countries. These markets accounted for a nearly 25 percent of Finnish exports and also guaranteed access to Soviet energy (oil, gas, and electricity) and other natural resources at less turbulent prices than those on the "free" world market. Trade agreements with CMEA also protected Finnish industry from growing competition from East Asia.[15]

Only oil-rich Norway by and large escaped these pressures. Its problem was to avoid economic overheating caused by the oil boom that could price the rest of Norwegian goods out of the world market. It did so primarily by segregating a great portion of the oil boom proceeds in the national "Petroleum Fund" which was invested outside the country. That fund has now been dedicated to supporting the pension system in the future.

Denmark's period of reform commenced in 1982 when the Social Democratic minority government resigned in favor of a non-socialist major coalition led by Prime Minister Poul Schlüter. After an election in 1984 confirmed support, Schlüter's coalition initiated a series of major fiscal and structural reforms that modified social policy, taxation, and business regulation. An improved international economy helped propel these reforms through with minimal pain. Inflation was sharply reduced without a prolonged increase in unemployment, which nevertheless was higher than the boom years of the 1964-74.[16] Denmark restored competitive balance to its major export industries without recurring currency devaluations. The government continued to allow the collective bargaining system function, but intervened when deadlock threatened key economic sectors. Nevertheless unemployment rates fluctuated between 8 and 12 percent until the various reforms along with sustained economic growth returned after 1994. By

[14] Denmark turned initially to currency devaluations – popular as well with its Nordic neighbors, but none of these measures could avoid public sector cutbacks and structural economic change. See Nannestad, 1991.

[15] Particularly Finnish shipbuilding and wood and metal products were shielded from the rising East Asian competition.

[16] Danish unemployment rose from 21,000 in 1973 to 312,000 in 1983 and then declined to 176,000 in 1988. In percentage terms the unemployment rate hit 11% in 1983 declined until the early 1990s when it again soared to 12% in 1993. Changes in statistical methods make exact comparisons difficult. OECD 1989.

2002 unemployment was down to 5.1 percent where, after a brief increase in 2003 and 2004, it remains today. The combination of relatively unrestricted hiring and firing rules along with generous unemployment compensation and active labor market policies is the essence of the Danish flexicurity model (Stokes 2006). It provides both labor market flexibility and individual economic security.

Although Sweden had managed to smooth out the economic turbulence of the 1974-84 period through countercyclical fiscal policies and currency devaluations (an updated version of its policies in the 1930s), these measures failed to prevent the worst economic decline in more than fifty years after 1989. Between 1990 and 1993 Swedish GDP declined by 5 percent. The result was an agonizing reappraisal of both economic and social policy. The non-socialist coalition government of Conservative Carl Bildt instituted drastic measures in 1991, but with the return of the Social Democrats to power in 1994, the emphasis shifted from cuts to reforms. Sweden's "active labor market" policies that emphasize retraining and temporary work measures rather than passive dole payments were reinvigorated. Although there is debate as to how effective such measures are in the long-term revival of modern economies, they did stimulate economic revival after 1994 and a return to modest but steady growth (along with fiscal balance) during the following decade.

Finland is the most dramatic case of change and reform under serious economic stress. By the end of the 1980s Finland's unique economic model had demonstrated considerable resilience but faced growing challenges. With roughly a quarter of its foreign trade linked to the Soviet bloc states, stability and predictability was giving way to stagnation. In the 1980s exports and imports amounted to roughly 50% of the Finnish GDP. As the Soviet and other Communist economies began to collapse, Finland's situation was dire. Moreover like its Nordic neighbors, Finland had faced internal financial instability at the end of the 1980s when banking and credit deregulation stimulated a housing and credit bubble. These problems hit in 1990 and in the following years, the Finnish economy suffered its worst decline in peacetime. Unemployment surged to nearly 18 percent in 1994, four times the rate in 1989 with regional and youth unemployment nearly twice as high (Pohjala, 1999, p. 59-60, Nickell, 1999, pp. 62-3). The plunge in GDP approached 11 percent. There is no doubt that Finland's social welfare programs prevented widespread hardship, but spending could not be sustained at such high levels (Osmanis, 1998).

Nevertheless, Finland's economy began a sharp recovery in 1995, perhaps encouraged by its new membership in the European Union (January 1995) and commitment to join the Economic and Monetary Union. The latter was completed with the Finnish *markka* disappearing in 2002, but ironically the recovery itself may have been helped by the large devaluations of the *markka* a decade earlier. That "tool" will be absent should future economic disasters strike. Finland's IT and telecommunications "niche" began to pay handsome dividends by the end of the decade. By 2005 Finnish per capita GDP (adjusted for purchasing power parity) was again comparable to its Scandinavian neighbors (Denmark and Sweden) and about 8 percent over the OECD level and 4 percent ahead of the EU-15 (OECD 2006, p. 12-13). Government debt and tax rates have declined modestly since the late 1990s (See Koskela and Uusitalo, 2004).

While foreign observers have focused on “niches” that the Finnish (and other Scandinavian) economies have carved out of the global economy, social policy was part of the restructuring that has produced the currently strong performances. When hard times hit in the 1980s and 1990s, the social safety net proved its worth, at considerable cost, and helped to reinforce the broad political consensus for reforms, cut-backs, and economic restructuring. The institutions of “democratic corporatism” showed their continued mettle in negotiating acceptable policy changes. This was not without conflict. Strikes and government intervention occasionally “banged heads together.” During the past decade Scandinavian democratic corporatism has again demonstrated its resilience and political value. Labor union membership has remained high contrary to trends in nearly all other western economies. Unions have successfully recruited in the growing service economy including both the advanced technological and less skilled sectors. The “organized” economy has shown flexibility as well as realism. Nearly all of the major policy reforms have been based on the traditional Scandinavian “scientific” policy model; that is, government commissions have recruited experts from academia, business organizations, and the labor movement to study problems and propose solutions. Universities and autonomous think-tanks have added volumes of data and research on intricate issues such as economic structural change, technology, healthcare performance, and not least, old age pension alternatives. This does not replace either the periodic collective bargaining sessions or the political debate, but it does provide a generally accepted database of “facts” on which policy-makers and their constituents can frame the debate.

Let us look at policy redesign in two key areas: active labor market policy in Denmark and pension reform in Sweden. Both policy areas, in their separate ways, represented the culmination of industrial welfare state thinking. Both had been designed successfully to respond to the problems of industrial capitalism in highly solidaristic and humane ways. Both clearly faced serious problems in the new global dispensation. The alignment of organizational forces driving the reform is suggestive of the adaptability of Scandinavian corporatism.

Danish labor market policy reform. Danish labor market policy through the 1980s combined a remarkably flexible system of labor market regulation with an astonishingly rigid system of unemployment compensation. Both had served the Danish equally well through the good times in the 1960s and early 1970s. That ceased to be the case after the first oil crisis.

Basic Danish labor market policy is set to a unique degree by collective bargaining, rather than by legislation. To take the extreme case, for example, Denmark is one of the few countries in the world without a legal minimum wage. Rather, the minimum wage is set by collective bargaining. Equal pay for equal work – regardless of the gender of the worker – is also an outcome of collective bargaining. In fact, the entire edifice of Danish collective bargaining rests not on legislation but on the so-called “September Agreement,” the collectively bargained outcome of the great strike and lock-out of 1899, and subsequently collectively bargained agreements.

In principle, such a system should reflect the balance of power between unions and employers at any point in time. In practice, however, the Danish Government has taken a strong interest in the outcome of national bargaining since the early 1930s. With national collective bargaining either through a single national framework agreement or through national sectoral agreements, the Government has frequently been a third party in the negotiating round, threatening to raise taxes to soak up excessive consumer buying power if the settlement was too lucrative for labor or offering incentives to reach agreement if employers looked like they would plunge the country into a national strike.

Not surprisingly in this system, unemployment compensation preceded legislation. Danish unions and employers fought in the 1870s and 1880s over who would control unemployment compensation system which developed out of the guilds' travel benefit funds. Ultimately, the unions prevailed. They developed a craft-based union unemployment compensation system which obtained partial public subsidy shortly before World War I. The availability of public support allowed unskilled unions to provide unemployment compensation to their members as well. Until the early 1970s, unemployment compensation and employment services were controlled by the individual unions and, for many years after the end of this direct control, craft thinking continued to shape both.[17] The result was, as unemployment rose in the late 1970s and 1980s, government "activation" measures – emergency employment when unemployment compensation was about to be exhausted – were designed primarily to keep the unemployed eligible for unemployment compensation. The Danish system provided up to five years of unemployment compensation and, with periods of activation, could continue virtually indefinitely. Indeed craft thinking came to characterize the thinking of the new unions for university graduates, so that students trained as college preparatory high school history teachers or French teachers could spend the best years of their working lives unemployed or in public-sector "activation" jobs, rather than using their knowledge and skills in some other profession.

This changed in the late 1980s and early 1990s. In the late 1980s, unions and employers agreed to seek "to secure both the competitiveness of enterprises and the employment of employees" (Andersen and Mailand 2005, p. 3). The 1987 Joint Declaration of the Danish Employers Confederation and Trade Union Federation overtly traded wage restraint for employment, following the 1982 Dutch model.

It was fleshed out by a series of agreements that increased flexibility. It has long been easier to hire and fire in Denmark than is generally the case in Europe, in large measure because Danish industry is based on smaller units and the government has been slow to legislate job security. The small size of Danish employers also encourages increased turnover in pursuit of advancement. Thus Danish job tenure is the shortest in Scandinavia (a bit over 8 years versus a bit over 10 years in Finland and over 11 years in Sweden) and shorter than other OECD countries except the US and the UK (a bit over 6 years and 8 years respectively) (Plougmann and Madsen 2002, p. 10). Danish national bargaining agreements had long provided flexibility in wage determination in the plant level in a system that is sufficiently complex that foreign observers generally ignore it. While working hours are set centrally, central agreements

[17] Though Swedish and Finnish unions had comparable control over the unemployment compensation and services system, they were organized along industrial lines, and thus lacked the craft rigidities of the Danish system. Moreover, the Swedish unions in particular had a strong prejudice against idleness and enforced a policy of early return to work or to training on the part of the unemployed that was coupled with a much shorter maximum (60 weeks) period of unemployment compensation (versus 260 weeks in Denmark).

expanded the scope for local agreements on working hours, and they expanded flexibility in the 37 hour week by spreading it as an average over 6 weeks (before 1995) to over 6 months (1995-98) and finally to over 12 months (1998 – present). Training and education also increased labor flexibility. Bargaining agreements provided for a week of paid training in 1991 and expanded that to 2 weeks in 1993. As of 2003, more than ½ of the Danish population said they had taken part in training or education in the previous 12 months (Andersen and Mailand 2005, pp. 13-14).

The labor-market partners' initiatives were followed by those of the government. With the return of the Social Democrats to power in 1993, labor market policy reforms – which the Social Democrats and unions had opposed under the previous bourgeois government – appeared on the political agenda. In the labor market reform of 1994, Poul Nyrop Rasmussen's Social Democratic government imposed an "active labor market policy" on the largely passive unemployment compensation system. This increased active expenditures for training and employment, reduced maximum duration of unemployment (including activation) from 9 years to 5 years; imposed an obligation to activation within a maximum of two years of unemployment; and provided various paid leave schemes to open jobs temporarily for the unemployed. As of 2000, Denmark topped the world in terms of total labor market spending at 4.5% of GDP, and its active labor market expenditures were just behind Ireland and Netherlands with Sweden following it closely (Plougmann & Madsen 2002, p. 13).

In essence Danish policy, as Stein Kuhnle puts it, "is one of promoting employment security rather than job security" (Cohn 2007). High levels of passive unemployment compensation – up to 90% for unskilled and about 80% for the skilled – dramatically reduce the economic threat of unemployment to workers and lead unions to accept less job security than is generally true in Europe. "There can be no doubt," conclude Andersen and Mailand, "that the relatively high level of unemployment benefit is decisive for the trade unions' acceptance of the ease and flexibility of firing employees in Denmark" (2005, p. 20).

Both unions and employers see this social contract on unemployment compensation as crucial to labor market stability. In 2003, the Danish center-right government proposed to cut unemployment replacement ratio for higher wage employees. From an Anglo-American perspective, one would have expected the employers to jump at this, but both unions and employers rejected idea and government pulled it down despite its majority in parliament. Subsequently, in the 2004 manufacturing sector collective agreement, the labor-market partners added a poison pill to the effect that, should the government change the unemployment compensation system, the relevant parts of the agreement would automatically be reopened (Andersen and Mailand 2005, p. 21).

What is striking here is the correlation between strong unions and labor-market flexibility. The high level of union density leads the unions and employers to pursue the general interest rather than special interests at the bargaining table. Their social contract appears to override the narrow, utility-maximizing interest of either. The result is that Denmark has a lower unemployment rate and a higher employment rate than either the US or the EU-15.

The Danish system is compatible with a very high rate of participation in employment. Table 1 charts the "employment rate" in 2005, that is, the proportion of those in the working ages who are currently employed. Note that all the Scandinavian countries with the exception of Finland already exceed the Lisbon 2010 goal of 70%. All, again with the exception of Finland, exceed the employment rates in both the United Kingdom and the United States.[18] All, without exception, exceed the European Union-15 average (which includes Denmark, Finland, and Sweden) and all exceed the OECD average (which includes all five).

Table 1. Employment rate in 2005: Percentage of persons in the working ages (15-64) currently employed

	Male	Female	Total
Denmark	80.1	70.8	75.5
Finland	69.4	66.5	68.0
Iceland	87.4	81.2	84.4
Norway	78.3	72.0	75.2
Sweden	75.9	71.8	73.9
UK	78.6	66.8	72.6
US	77.6	65.5	71.5
EU-15 total	72.9	55.7	65.2
OEOC total	75.0	56.1	65.5

Source: *OECD Factbook 2007: Economic, Environmental and Social Statistics*
Accessed at http://miranda.sourceoecd.org/vl=6611018/cl=29/nw=1/rpsv/factbook/data/06-01-01-T03.xls on 4/28/07. Note that the EU employment rate only moved from 63.5% in 2000 to 65.2% in 2005, the halfway mark on the Lisbon goal of 70%.

Pension reform. Pension issues are a nearly universal challenge to social welfare policies of OECD states. The challenge ranges from severe in Germany and Italy where the unfunded liability of public pensions is enormous, through moderately "distressed" cases such as the U.S. Social Security System which will face soaring payments over coming decades, through those countries that either have minimized their public old age pension programs like Britain or which have a favorable demographic outlook (Ireland).

All of the Nordic countries have made major reforms to their old age pension system to provide a viable economic basis for income security for the growing elderly proportion of the population. The trend has been to increase the "defined contribution" share of pensions while

[18] Finnish and Sweden rates of employment plummeted from 74.1% and 83.1% respectively in 1990 to 61.1% and 72.2% in 1995 as a result of the economic crisis following the collapse of the Soviet Union in those two countries. The subsequent recovery had not fully restored employment rates ten years later.

reducing reliance on "defined benefit" pension funds.[19] In defined contribution plans, employees have some options in what sorts of securities their defined contribution funds will invest, and they carry most of the risk with these decisions.

The Nordic country which faced the most severe pension problem was Sweden, which had possibly the world's best national defined benefit plan. Following a hard-fought referendum in 1957 and national election in 1958, the Swedish Social Democrats introduced a general national system of supplemental pensions (the AP system) which provided for all workers a national defined benefit plan based on years of service and best years of wages. Swedish workers with 30 years in the system could expect 60% of the average of their 15 best years' pay when they retired. This came on top of the universal, flat-rate pension that all citizens received, which was funded from general revenues and which had been put in place in 1948.

In the initial years of Swedish supplemental pension system, funds built up rapidly and were plowed back into local infrastructure and housing. Indeed, the AP fund investments virtually eliminated the housing shortage. By the 1980s, however, it was apparent that the rate of return on the AP fund was too low (in part because of the choice of placements) to finance the fund's obligations.

After 10 years of commission work, the decision was made in 1994 to stabilize the AP Fund by reducing benefits for younger plan participants while supplementing this DB plan with an additional defined contribution (DC) plan which would accumulate over time. Of the 18½ percent pension contribution, 16 percent went to the DBP and 2½ percent to individual DCP accounts. Contributions to the individual accounts began in 1995 but were held pending the development of investment vehicles which occurred in 2000. Although the unions had opposed the creation of individual accounts, once they were ensconced in law, the unions negotiated a 3½ percent of wages additional contribution to the DC plan in hopes that that would bring the accumulation up to the point that it offset the decline in the DB plan for younger workers.

The overall impact of these changes was, of course, to raise the pension savings rate.

The Swedish DC plan had significant start-up problems. As a major pension privatization measure, the Swedish market attracted practically every international mutual fund manager. Since the mutual fund industry wasn't particularly well developed in Sweden, high total administrative fees in the 2-3 percent range were the rule for DC account investments – until the LO, the national trade union federation, cut a deal with the cooperative insurance company Folksam to create an LO-Folksam family of funds with administrative fees capped at ½ of 1 percent. The consequence was that the private money managers had to launch new funds with lower administrative fees to be competitive. The deal with Folksam may be the LO's best single bargaining result for its members ever.

[19] In a "defined contribution" (DC) plan, you know how much is contributed by you and your employer, but how much it is worth at retirement depends on the return on your individual investment choices; in the traditional "defined benefit" (DB) pension, the retiree's pension reflects his/her years of service times a multiplier.

In any case, two thirds of Swedish workers opted for one to five (the maximum an individual could choose) of the 465 mutual funds for their DC accounts in 2000 – just in time for the technology stock bubble to burst. The other third chose not to choose, and their funds went into the default option: the government-operated 7th AP fund. Ironically, the government fund outperformed the private funds, falling only 30% while the private funds fell 40% on the average over the 2000-2003 period. The 7th AP fund manages its largely equity portfolio with administrative costs of 0.16 percent versus 0.77 percent on the average in the private funds (Krueger 2004). Not surprisingly, 92 percent of new entrants into the labor market have subsequently opted for the default 7th AP fund. (For more information on the Swedish pension reform, see Andersen and Larsen 2002; Krueger 2004; and Weaver 2005.)

There is not space here to provide equal detail on Norwegian and Danish pension reforms. Suffice it to say that the Norwegian bourgeois government introduced a general income-based, supplemental pension system in 1966, like the Swedish system, to supplement the basic citizen pension; they sought to avoid Labor seizing the pension issue for its own as had happened in Sweden. It is that supplemental pension system that is now being stabilized by the Petroleum Fund.[20]

The Danes expanded the universal, flat-rate citizens' pension instead in the 1960s and 1970s, creating what Andersen and Larsen (2002, p. 7) call "a Rolls-Royce version." While it provided close to full replacement of income for the unskilled, it fell far short for the better off, leading to the creation of occupational pensions for higher income groups, especially in the public sector, and for tax-advantaged pension savings for others. Despairing of getting legislation in the 1980s after three pension commissions led to no result, the public sector unions negotiated a general labor market pension for those not covered under occupational pensions and the Danish LO and employers negotiated a general labor-market pension in the private sector in 1991 that quickly came to cover virtually the entire labor market. Contribution levels as of 2001 were set at 3 percent for employers and 6 percent for employees, versus 12-17 percent for the continuing occupational pensions. Fund management and investment are co-determined by unions and employers.

What is striking in this picture is the role of collective bargaining in supplementing legislation (in Sweden, for example) or replacing the failure to legislate (in Denmark). The general labor market pension systems of course free employees from dependence of a single employer for their pensions, increasing labor market flexibility. The existence of general national system slashes administrative costs (the bane of privatized systems elsewhere) while ensuring that DC pension savings are retained to retirement (a particular problem with American individual 401(k)s). Note also the fact that all the Scandinavian pension "reforms" raised the overall rate of pension savings.

[20] Norway is relying on its massive petroleum earnings, which are now mainly diverted to a "Norwegian Pension Fund -- Global" (Previously known as the "Petroleum Fund"), which are invested in foreign securities. This fund is managed by the Bank of Norway and at the end of 2006 amounted to about $ 250 billion. Danish pension funds are formally privatized and held assets of approximately $ 327 billion at the end of 2005.

At present the Nordic states face continuing pension challenges, but are in a stronger position than most other OECD or EU states. First, the demographic curve has been less turbulent in the region. Birth rates are modest but stable at the replacement level. The growth of the older population commenced earlier in the region than in most other European regions. The main "problem" is the high preference for "leisure" that affects all Scandinavian age brackets despite significant variation between the countries. The various early retirement incentive schemes introduced during the period of high unemployment – particularly of younger workers – in the 1980s and 1990s has created a "culture" of early retirement. Nevertheless, this trend is weaker than in other European countries. Danes and Swedes now retire later than Americans and have the highest retirement age in EU (as measured by per cent of 55-64 years old males in employment). Although there are ample reasons for making it possible for elderly industrial workers to retire early, the programs have been no less popular among service workers including those whose jobs have minimal physical demands. The combination of high income and employment taxes and generous social benefits for older citizens has reduced significantly financial deterrence to retirement. The trend is likely to grow more problematic as the natural increase in the labor force continues to shrink. In the short-run the early retirement programs have assisted the economic restructuring of the "post-industrial" economies of the region, but the rising "dependency ratios" (the number of young and older non-working people currently employees must support) is a serious challenge. Balancing in part this trend is the exceptionally high labor force participation rate of Scandinavians in the 15-64 age group reflecting the full entrance of women into the paid labor force. Current projections are for a significant rise in the dependency ratio for the coming 30 years. For example, in Denmark, Finland and Sweden recent projections expect the ratio to rise from about 22 percent at present to 40-46 percent in 2040. For the EU-15 the rise will be from 26 to 50 (Eurostat, 2006).

Responding to globalization. Another factor that strengthens the reformed Scandinavian welfare state model has been the successful reaction to economic globalization. As small trading states the challenges of an economy highly dependent on foreign economic and political developments is nothing new for the Scandinavians. As Katzenstein suggested two decades ago, there is an embracing "realism" in the economic and political institutions of small trading states (1985). This favorable development has scarcely been automatic; international economic balances were quite threatening until the economic restructuring and policy reforms took hold after the mid-1990s. For most of the past decade international accounts have been positive for the Scandinavians and allowed greater fiscal and monetary policy flexibility than when deficits loomed.[21]

There is substantial evidence that the universal and comprehensive welfare state typical of the Scandinavian countries (and others) has eased the adjustment to economic globalization. Since generous provision is made to those dislocated by declining economic sectors and since

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[21] Indeed for petroleum exporting countries like Norway managing the large inflow of foreign earnings proved to be both a political and economic challenge in the 1980s. The Petroleum (now Pension) Fund created in 1990 has eased the impact and forced an expansion of a sophisticated and internationalized financial sector to manage the new wealth, which in recent years has amounted to 15 to 20 percent of Norwegian GDP. After 1990 Denmark's more modest (roughly 2% of GDP) but still significant petroleum earnings along with increased savings through nearly universal private pension accounts alleviated the country's classic balance of payments problems that dogged the public and private economy for most of the 20th Century.

social programs have expanded employment in the public and service sectors, foreign industrial competition has been accommodated. The “efficiencies” of international trade have been exploited both as importers and exporters. Taxation has been adjusted to be less dependent on a closed national economy. For example, business taxes in Scandinavia are generally lower than other OECD countries. The heavy wage taxes do affect labor, especially in Sweden where the various measures can add nearly 40% to the wage bill. The high and comprehensive value-added taxes (VAT) and excises (especially heavy on automobiles, petroleum and energy, and luxury goods) do not distinguish between domestic goods and imports. While the tax burden on Scandinavians is notoriously high, domestic employers are not disadvantaged, and actually enjoy the “fruits” of generous social programs (well-trained labor, flexible labor force and relatively broad managerial prerogatives, low health insurance, etc.). The sum of the high benefit, high personal taxation system seems well suited to a globalized economy (see Einhorn and Logue 2005).

Moreover, the Nordic countries “spend lavishly on research and development and higher education,” says Columbia economist Jeff Sachs in seeking to explain their global competitiveness. “All of them, but especially Sweden and Finland, have taken to the sweeping revolution in information and communications technology and leveraged it to gain global competitiveness. Sweden now spends nearly 4 percent of GDP on R&D, the highest ratio in the world today. On average, the Nordic nations spend 3 percent of GDP on R&D, compared with around 2 percent in the English-speaking nations” (Sachs 2006). It is striking that Sweden’s L.M. Ericsson and Finland’s Nokia (a former tire manufacturer) have come to be principal Western equipment suppliers of the global telecommunications revolution while their American and British competitors have largely been absorbed by others.

Still, all is not a bed of roses. Economic globalization has led to the sale of some of the Scandinavian industrial “crown jewels” to multinational corporations which do not place Swedish interests at the top of their priority list. Thus, for example, after General Motors bought SAAB, it was decided in 2005 that the new SAAB car would be built in Germany, not in Sweden. And Swedish executives in multinationals found their reputations tarnished by multinational pay and pension policy that were considered excessive by more egalitarian Swedish standards: Witness the cultural shock that ABB’s Swedish CEO Percy Barnevik’s $88 million pension and retirement benefits caused in Sweden when it was revealed in 2002.

Social Challenges to the Scandinavian Welfare State

For more than thirty years the main focus of welfare state analysis and critique and been whether various models are “sustainable”: that is whether current and future programs and promises can be reconciled with economic and demographic changes. It is obvious that the “original” welfare state models that developed in Europe between 1930 and 1970 tended toward a static view of socio-economic change. Although the welfare state arose in large part to respond to the vagaries of industrial capitalism, many of the programs required stable economic growth to maintain fiscal balance. Likewise social changes such as the permanent entrance of women into the labor force, falling birthrates, changing educational requirements of the post-industrial economy presented challenged all of the various European models. Ironically the “liberal” minimalist model typified in Europe by Britain after 1979 and Ireland seems the most resilient because its ambitions for programmatic development and equality are modest. For the ambitious Scandinavian model the agenda and its ensuing costs have been quite dynamic. The expansion of public childcare as well as the major pension reforms of the 1990s are examples. It may well be that the great challenge in several generations is coming from the social aspects of globalization, and the rising ethnic diversity of previously ethnically homogeneous societies. There are significant differences among the Nordic countries. More than 13% of Sweden's population is of foreign origin, Denmark and Norway considerably less but more recent and rapid in development, and Finland facing a smaller non-European influx, but a rise in eastern European as well as non-European residents. These social and cultural changes impact nearly every aspect of contemporary politics, but social programs have been at the forefront.

As noted by many, Scandinavia's generous social programs reduce the likelihood that immigrants and refugees will be "excluded" from the mainstream of society but they also present challenges to full integration. Even in Sweden which has had the most liberal immigration and integration policies backed by its formidable "active labor market" policies, there are barriers to integration of especially non-western immigrants. It is clearly a challenge for the coming decades to integrate the immigrants whose labor is required to maintain the national economies but whose cultural values may in some cases strain the solidarity and unity of the Nordic welfare states (see Caldwell 2006). It is clear that the Danes are moving toward a highly "active" integration policy while tightening entrance requirements (OECD 2003, ch. 2). One of the outstanding achievements of the Scandinavian welfare state was its role in "eliminating" the industrial "proletariat" through economic growth, redistribution, and modernization. It would be ironic if a new "global proletariat" arose in their place.

III. Transferability of the Scandinavian model to the rest of the European Union

The Scandinavian model has clearly proven its adaptability in the last two decades, not least in accommodating the changes in the terms of international trade in the new global economy. A comparison between the relative success of Scandinavian policies and those of Britain, France, Germany, or the United States would probably be as favorable to the Scandinavian model today as it was in 1970. That would not have been true in 1985 or l995.

There is no question that the Scandinavian EU members largely meet the Lisbon goals already. They have much to offer in policy terms to the other EU countries. The question, however, is one of transferability: Is the Scandinavian model essentially (1) a structural response to the contradictions of advanced (or less advanced) industrial capitalism? Or does it rather reflect (2) the historical political and organizational balance of forces in Denmark, Finland and Sweden between labor and employers, between socialism and conservatism? Or does it reflect (3) more general issues of political culture, especially around the value accorded empiricism and the relative prevalence of social trust?

Another issue is the increased diversity of the European Union. There are two dimensions to the Nordic example. First, what "lessons" do they provide to the other advanced EU states, primarily within the pre-2004 "EU-15"? Second, are there elements of the Nordic models that could be relevant to the "new" EU states primarily of central and Eastern Europe? Here we focus on the former group, but there are certainly some Scandinavian institutions that could assist the CEE states as they seek to reconcile economic development with social stability.

Additionally we recognize that many of the "achievements" of the Nordic states in social equality and security are shared or even exceeded by other EU states. Despite a different historical course and institutions – history is never erased – the Netherlands, Belgium, and even Austria share elements of the broader "social democratic" model. On a larger scale Germany with its so-called "Rhenish Capitalism" model was a bright beacon until the challenges of reunification and structural adjustment became dominant over the past fifteen years. Finally there are the significant economic achievements of the United Kingdom and even more dramatically of Ireland. No longer the focus of economic worriers, these "liberal" examples are the main challenge to the collectivist examples of Scandinavia.

We believe there are three elements of the Scandinavian model that have primary relevance for the EU-15. First, the Nordic countries have endured significant structural economic and even social changes that have been facilitated by a tradition of democratic corporatism, coalition-building, and a reservoir of social trust. Second, they have been characterized by a more rational, empirically based policy reform process. Scandinavian corporatist negotiations take place within broad agreement on facts. Third, the Nordic countries have embraced "Europeanization" and globalization but have found ways to maintain their reformed social democratic model. Clearly countries that are unlikely to find that model attractive will be less interested in the Nordic experience. Fourth, the Nordic model has designed responses that have a direct impact on the "microeconomy," that is, employees, management, entrepreneurs, and other constituencies. Throwing economic "levers" in the classical Keynesian fashion has never fully described reality in these countries and is even less accurate in the era of reform (i.e. since 1985-90).

Table 2. Economic and health indicators

	2005 GDP (PPP) per capita	GDP growth 1995-2005	Infant mortality 2004	Life expectancy at birth 2004	
				male	female
Czech Rep.	20,300	2.5	3.7	72.6	79.0
Hungary	17,200	4.3	6.6	68.6	76.9
Poland	12,800	4.0	6.8	79.2	70.7
France	30,200	2.1	3.9	76.7	83.8
Germany	29,800	1.4	4.1	75.7	81.4
Ireland	39,200	7.5	4.9	75.8	80.7
Italy	28,500	1.3	4.1	76.8	82.5
Spain	27,300	3.6	3.5	77.2	83.8
UK	32,100	2.8	5.1	76.2	80.7
Denmark	34,400	2.1	4.4	75.2	79.9
Finland	31,400	3.5	3.3	75.3	82.3
Norway	43,200	2.8	3.2	77.5	82.3
Sweden	37,700	2.7	3.1	78.4	82.7
Japan	30,500	1.2	2.8	78.6	85.6
United States	41,900	3.3	6.9	74.8	80.1

OECD, *OECD in Figures 2006-2007.* Paris.

If it is the historical political and organizational balance of forces that make the difference, then we have to consider whether Scandinavian-like conditions of political organization exist elsewhere in the EU. What are these "Scandinavian-like conditions"?

1) Organization. The Scandinavian model has rested on strength of democratic, "popular" organizations – of farmers, workers, temperance advocates, grassroot organizations, and the like. The density of organizational membership is striking. "Union density" (i.e., union membership as a percent of employed workers) stood at 70 percent in Denmark, 74 percent in Finland, 53 percent in Norway, and 78 percent in Sweden in 2003, up significantly in all countries except Norway since 1970 (Visser 2006, pp. 45-46).[22] Farmers and employers are almost equally well

[22] Comparative union density numbers were 16-35% elsewhere in the EU countries (except Belgium with 55%, which has a similar unemployment compensation system to those in Denmark, Finland, and Sweden) and 12% in the United States, down significantly from 1970. Visser (2006, pp. 42-43) has adjusted the Belgian, Danish, Finnish and Swedish union density figures downward from the national numbers which reflect union membership as a percent of those in the labor force (employed and unemployed alike) to make them more comparable to those in other countries, where the unemployed do not remain union members. Calculated on the basis of union membership including the unemployed, union membership in these four countries would be 4 to 10 percentage points higher, and union density in the other 20 countries in Visser's comparison would be lower.

organized. Surveys indicate that the average Dane belongs to 3.1 and the average Swede to 3.2 organizations; only 6% of Swedes and 7% of Danes belong to no organizations (Andersen 1996, p. 55).

It is striking that union density (cf. Visser 2006) is declining throughout most of the rest of the European Union. (Exceptions in Visser's data are Belgium with an unemployment compensation system structured like that in Scandinavia and Spain where genuine unions were illegal under Franco.) There is no question that the labor movement strength has been key to modernizing the Scandinavian welfare states. However, we note that despite far lower and declining union density in Austria, France, Germany, the Netherlands, and Spain, collective contracts are virtually as extensive in their coverage. This may be sufficient for the labor market partners to take the initiative – even when they impose state-imposed changes, as in France.

2) **Ties between leaders and led.** One of the striking aspects of Scandinavian popular organizations is the close tie between leaders and led. Much of the strength of the Scandinavian farm and labor movements has lain in the fact that they recruited their leaders from within their own ranks. The leaders continued to live their lives not unlike the way they lived before taking power. It is hard to find examples outside Scandinavia in which farmers' parties are led by working farmers; in Sweden, agrarian Center leader Thorbjörn Fälldin and his wife continued to run their farm while Fälldin served as prime minister. Or consider our interview with Danish Social Democratic prime minister Anker Jørgensen: As prime minister "you can't cut yourself free – and you shouldn't cut yourself free – of where you come from." As prime minister, Jørgensen continued to attend meetings at his warehousemen's union local and to live in the same four-and-a half-room, walk-up flat that he had before he entered politics (Einhorn and Logue 2003, pp. 126-27). Sweden's Per Albin Hansson, prime minister from 1932-46, suffered his fatal heart attack in 1946 stepping off a streetcar on his way home. Forty years later, Prime Minister Olof Palme was assassinated when walking home with his wife (and without guards) from a movie. Swedish Foreign Minister Anna Lindh was assassinated while shopping in a department store in 2003. The corruptions of power are less tempting when you are firmly anchored in the milieu from whence you came.

3) Permanence of organizational identification. A consequence of the factors above is stability in political self-identification. Certainly at the time of the construction of Scandinavian model between 1930 and 1970, Scandinavians identified with their "pillar" of society – labor, agrarian, and in the bourgeoisie liberal or conservative – at levels not seen except in other pillarized societies like Austria, Belgium, and the Netherlands. While class and occupational based self-identification is no longer as strong in Scandinavia as it was at the time at which the welfare states were originally constructed, it remains exceptionally strong in comparative terms internationally even today.

The Scandinavian welfare states were constructed under conditions of scarcity, not those of abundance. Hence in their early incarnation in – say – the 1950s, they would seem appropriate models for the EU countries of Eastern Europe. But the organizational and cultural factors discussed above (which were stronger in Scandinavia in the 1930s – 1950s than they are today) are virtually absent there.

These conditions simply do not pertain in the ex-Communist countries of central Eastern and Baltic Europe except, to a modest extent, in Poland where the church, repeated popular revolts, and, ultimately, Solidarity created some of those organizational ties. (However, the Solidarity's organization wore poorly in politics. Witness, for example, its splits and the fate of Lech Walesa as president of Poland.) The legacy of Communism was the atomization of society.

This is particularly damning for the left. The transformational ideas of the labor movement have been thoroughly discredited as an organizing principle. The Communist legacy was to see unions as the extensions of the state, and independent labor organization fell victim to the massive economic dislocation of the post-Communist era. It is hard to point to examples of successful trade union defense of members' interest. "Socialism" became the preserve of ex-Communist apparatchiks who owed their return to power to the failure of neo-liberalism to deliver improved living standards for the bulk of the population and, especially, displaced workers and pensioners. Generally speaking they took a neo-liberal route to the transition to private, market economies. These organizational issues would seem to be reflected in the distribution of income in Table 3.

Table 3. Distribution of income

	Year of study	Gini index	Percentage share of income or consumption			
			Lowest 20%	Middle 60%	Top 20%	Top 10%
Czech Rep.	1996	25.4	10.3	53.9	35.9	22.4
Estonia	1995	35.4	6.2	52.1	41.8	26.2
Latvia	1998	32.4	7.6	52.1	40.3	25.9
Lithuania	1996	32.4	7.8	51.8	40.3	25.6
Hungary	1996	30.8	8.8	51.4	39.9	24.8
Poland	1996	32.9	7.7	51.4	40.9	26.3
France	1995	32.7	7.2	52.6	40.2	25.1
Germany	1994	30.0	8.2	53.4	38.6	23.7
Ireland	1987	35.9	6.7	50.3	42.9	27.4
Italy	1995	27.3	8.7	55.0	36.3	21.8
Spain	1990	32.5	7.5	52.2	40.3	25.2
U.K.	1991	36.1	6.6	50.5	43.0	27.3
Denmark	1992	24.7	9.6	55.9	34.5	20.5
Finland	1991	25.6	10.0	54.1	35.8	21.6
Norway	1995	25.8	9.7	54.4	35.8	21.8
Sweden	1992	25.0	9.6	55.8	34.5	20.1
Japan	1993	24.9	10.6	53.8	37.7	21.7
United States	1997	40.8	5.2	48.5	46.4	30.5

Source: World Bank 2001, pp. 282-83.

If the third -- the presence or absence of a political culture of empiricism, trust, and solidarity -- is key, again we have to consider whether those attitudes exist or, if they don't, whether they can be coaxed into being in the other EU states. This is an issue in some of the "old" (pre-2000) EU members where the legacy of class conflict and political stalemate remains. The protracted struggle for economic reforms in Germany (known as the Hartz reforms) mirrors the reluctance to tamper with "historical compromises" that delayed reforms in Scandinavia for nearly twenty years. As Katzenstein noted (1985) small open economies have fewer delusions of grandeur or even autonomy. Likewise Mancur Olson (1982) regarded the encompassing economic organizations of Scandinavia less likely to block change and seek selfish advantages. On the eve of Scandinavia's last financial crisis (1990-93) Olson worried that Nordic exception has faded (1990), but fifteen years of reform have restored many of model's elements.

There's an absence of a supportive political culture for a replication of the Scandinavian model especially in the ex-communist countries. It was summed up succinctly during the debate on relevant foreign models in the early Yeltsin period in the early 1990s in Russia by Arkady Volsky, the head of the Civil Union, then a potent political coalition of general directors of large enterprises. Volsky was touted at the time as a possible prime minister. "The trouble with Sweden as a model for Russia," Volsky commented laconically, was that "we just don't have enough Swedes."

Indeed, if anything, the period of transition in the former communist states has led to the development of what Edward Banfield (1958) once described as "amoral familialism" in which the sphere of identification with group, class, and nation is strictly circumscribed. One of the lasting impacts of the Communist period was the subordination of all popular organizations to the state, with all the implications that that has for subsequent independent organization and action. The institutions of civil society there are exceptionally weak, and the assumptions of trust and solidarity that underlie everything from agricultural co-ops to union benefit societies, from people's high schools to trust in government in Scandinavia are missing. As Robert Putnam (2000, p. 281, referencing Putnam, "Tuning in, tuning out," p. 671) notes, in international comparison, "social capital appears to be highest of all" in Scandinavia.

The road to the Lisbon goals remains long. The High Level Group led by Wim Kok that reviewed progress in the Lisbon Agenda in 2004 noted the internal contradictions in the program as well as its breadth of its goals. The focus is on making the continental EU countries competitive with neo-liberal alternatives (mainly the United States, but including Canada, Ireland, and Great Britain) as well as ever growing list of global competitors especially in Asia. When social policy reforms can advance multiple objectives – e.g. pension programs that increase saving, maintain the labor force but still guarantee income security in old age – they make the Lisbon Agenda more feasible. There are signs of progress particularly in Germany, Spain, and some of the smaller EU-15 states. The revised Nordic Model is now widely known and attractive to a broad political spectrum. While Scandinavia continues to face real social and economic challenges – especially the integration of recent immigrants, once again it is at least an inspiration for progress.

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