

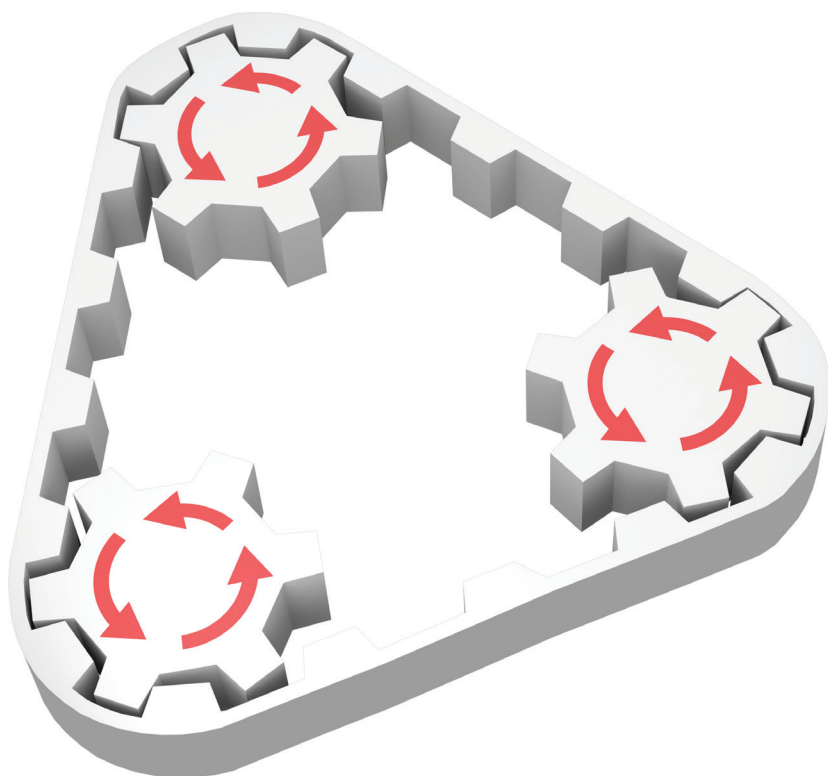


# The Nordic Model towards 2030. A new Chapter?

## Executive summary of final report

**Are the Nordic countries the next model of welfare for Europe?**

**Seminar and report launch  
Brussels, 10<sup>th</sup> December 2014  
Norway House**



## Summary

"Withering or renewal in the Nordic countries 2014-2030" – or NordMod for short – is a Nordic research project that has highlighted how national and international developments have affected the Nordic countries and how those challenges have been met. The project was commissioned by SAMAK (Joint Committee of the Nordic Social Democratic Labour Movement) and FEPS (Foundation of European Progressive Studies). The purpose of the project is to lay a foundation of knowledge for debates within the labour movement on the development and renewal of the Nordic model up to 2030.

The Nordic model has been the object of much attention in recent years. What accounts for the fact that the Nordic countries score better than most other Western countries when it comes to economic development, social relationships, distribution and employment? Will the Nordic countries manage to maintain their particular characteristics in the face of external and internal forces of change and crisis in the years up to 2030?

The project's final report summarizes the results and insights from the seventeen sub-reports of the NordMod project.

Part I *"The Long Lines: the Model's Background and Cornerstones"* describes the evolution of the Nordic model, and points out similarities between countries and national distinctive features. The small, open Nordic market economies have traditionally been characterized by stable economic governance, an organized working life with coordinated wage setting, and extensive welfare benefits. Strong institutions have laid the basis for coordination between different policy fields in which cooperation between the social partners and the political authorities has played a central role. As a result of relatively equal power relations and high trust between the players, crises and conflicts in working life and politics have often been tackled through broad compromise. This "conflict partnership" between organizations and parties, is a key to understanding the historical evolution of the Nordic model. As a result, countries have managed to adapt to external changes and crises, and have been able to invest in long-term human resources development and social security. In this way they have managed to reconcile efficiency and equity to a greater extent than other European countries.

Part II *"Status Analysis: Crises, Consolidation and Renewal, 1990-2014"* summarizes the last 25 years of development. This has been a turbulent period. It was preceded by deep crises, banking and housing crashes, and record high unemployment in several countries, and it ends in the aftermath of the global financial crisis. Major political and economic upheavals in Europe, globalization, technological innovations, increasing immigration, changes in industry structure and changes in the composition of the population, gave rise to extensive adaptations in the 1990s and into the new century.

Part II analyzes the development of the economy, politics, the Nordic role in Europe and globally, employment, public services, the welfare state, immigration and integration, and key components of living conditions.

During the crisis in the early 1990s, many claimed that the Nordic model's time had passed. Yet through extensive reforms of institutions and instruments in all three pillars – the economy, working life and welfare – the Nordic countries have put those predictions to shame. They have managed to cope with the large external and internal changes during this period, while keeping the model largely intact. Overall, the Nordic countries come out of the recent financial crisis with higher employment, lower unemployment, solid public finances, more prosperity, less inequality and less poverty than any comparable region or country groupings in Europe. This is a success story.

But the status analysis also illuminates a number of unresolved issues. In many areas there are significant differences in results among the Nordic countries and the Nordic countries combined are now less different from comparable European countries than they were 25 years ago. The Nordic countries still lead when it comes to combining efficiency and equity, but there are many developments that give cause for concern for the sustainability of the Nordic model:

- **The Nordic economies are robust**, but productivity growth has stagnated, employment rates are lower than 25 years ago and total unemployment in the Nordic region is higher than in Britain and Germany. The Nordic unemployment rate in 2014 is higher than after the recession in 2003-2004. In Denmark, Finland and Iceland, all of which were hard hit by the financial crisis, GDP is still lower than in 2008. The rates of growth and investment remain sluggish in all the Nordic countries.

- **The Nordic labor markets rebounded rapidly after 90s crisis.** Measured in man-years, the employment rate is today higher, and the work environment and job quality in the Nordic countries are better, than in other European countries. But unemployment has entrenched itself at a high level in Finland and Sweden, where also the proportion of temporary jobs is high by international standards. In all countries there are signs of new dividing lines, pressure on the lowest wages and growing wage dispersion inequality, deteriorating working environments and increased exclusion in parts of the labour market. These tendencies are reinforced by high labor migration after EU enlargement, which has intensified competition for the lowest-paid jobs and made it harder for groups with low skills or work experience to gain a foothold in the labor market.

- **The Nordic trade unions have the highest organization rates in the world**, but the share of organized wage earners has fallen steadily since the 1990s. The proportion has fallen especially among employees in low wage occupations who belong to unions in LO / SAK. This reflects the rising share of employment accounted for by private services and growing outsourcing, short-term, atypical work and conservative reforms of the union-run unemployment funds. . The decrease is also due to lower recruitment among youth, high turnover in membership and retirement of large membership cohorts. In combination with greater low wage competition across borders, such developments have weakened workplace cooperation among social partners and created a tendency towards evasion and hollowing out of agreements in particular sectors. This creates collective action problems for both employers and employees reminiscent of those the partners faced when the collective agreements system was developed over 100 years ago.

- **The Nordic welfare systems are the most extensive and inclusive world**, but they still face challenges related to the care for a growing group of the very old, and the better integration of marginalized groups, including a rapidly growing immigrant population. Although the Nordic

cluster has higher employment among older workers and immigrants than other European countries, there are significant differences between Nordic countries and the participation rates in some immigrant groups are far lower than in the majority population. Stagnation in employment rates and a stable number of working age who is dependent on government transfers creates pressure on the Nordic welfare states. In some countries, most pronouncedly in Sweden, welfare benefits have been reorganized, and compensation levels have in several schemes fallen to the OECD average.

- **The Nordic activation and integration policies have not yielded the desired results.** Increasing emphasis on work incentives and downward pressure on the lowest wages contributes to uncertainty among those who are bound to live on public benefits. The mediocre results of activation and integration policies entail challenges for welfare state sustainability and have accentuated dilemmas in social policy when it comes to striking the right balance between work incentives and basic social security.

- **The public services in the Nordic countries are among the most advanced and comprehensive in the world,** and users are often satisfied with these services. In the face of growing assignments, rising expectations and scarcer resources, all countries have made significant efforts to improve, renew and streamline services. In many of the new technical services, market adaptation has produced good results. However, within core welfare state services – schools, health and elderly care – the results of the reforms have been inconsistent. Various attempts, often built on more use of internal and external market mechanisms, have shown uncertain results. Marketization of welfare services has not unambiguously given quality and efficiency gains, and the competition between commercial and non-profit actors has sharpened. The Nordic countries have major challenges in developing models for political governance, leadership and collaboration suited to renew public services and improve the management and control of private deliverers.

- **The Nordic countries have the least inequality in the world,** but those with the highest (capital) income have raced ahead while many with low incomes have fallen behind. Wage differences between women and men remain stable. The relatively low levels of inequality are related to high levels of employment, coordinated wages, broad access to education, a rather heterogeneous population, and the redistributive effects of the tax and transfer systems. In recent years, several of these mechanisms have been weakened, and inequality has increased faster than in most comparable European countries. Among those with low income are particular groups or households with low education and low labor market participation, where immigrants are overrepresented.

- **The party political support for the Nordic model is strong,** but its political foundations have become dependent on broad and shifting coalitions. . Changes in class structure, fewer voters with fixed party loyalties, and shifts in party and coalition patterns have resulted in large oscillations and changes of power in Nordic politics. Greater media influence and focus on single issues and values, alongside d new social media impacts on opinion formation, have weakened the parties' role as agenda setters. The room of maneuver for politicians has in many cases been limited by the rules of the EU and other international bodies. Due to decreasing support for social democracy, and stagnation among traditional conservative parties, while Green parties and the new populist right parties have been ascending, the traditional “bloc politics” is dissolving. Building alliances across old boundaries has become a prerequisite for forming viable

government coalitions.

In Part III we look ahead to 2030. In light of the basic outlines of the Nordic model, the status analysis and assumptions about key drivers of change, we discuss the challenges for the Nordic model's sustainability and adaptability.

Such assessments depend on the values and objectives that one sets out as the basis for the analysis. A report for the Council of Ministers has concluded that the Nordic model's reform capacity makes it well-equipped to deal with future challenges, but that one must accept greater inequality. Our analysis assumes that low inequality has been both a result of and a prerequisite for the Nordic countries' capacity to adapt, and hence cannot be given up without consequences for trust, wage setting and other important elements of the model's effective functioning. The Nordic model is a political construction and its future depends on the political capacity to renew it. In order to present a realistic picture of what lies ahead, we have made some simple numerical examples:

If the rate of change of recent decades continues, in 2030 the Nordic countries together will have a lower proportion of unionized workers than Norway does today, and lower employment rate and higher income inequality than the Germany of today. If developments continue along the lines of the Nordic countries with the poorest results so far, the employment rate and inequality in 2030 will be similar to France today. The Nordic model may crumble and the particularities of the Nordic model weaken.

It is not long until 2030 - in practice three parliamentary periods – but the range of outcomes is wide: if employment rates in the Nordic region shall reach the average level of employment in Norway and Iceland in the period 2000-2014, there will be a need for at least 1.3 million more jobs by 2030. For union density to be lifted towards the Swedish and Finnish average levels between 1990-2010, the union movement will have to recruit millions of new members.

With the trends described for the period 1990 to 2014, powerful political measures are evidently needed to maintain the Nordic model as we have known it until now. Moreover, there is reason to believe that the transition to a low carbon economy – in a situation with prospects for sluggish growth, greater instability and high migration internationally – will put greater pressure on the countries' ability to adapt. Adjustment capacity and the results that can be achieved will depend on institutional conditions, not least with respect to the employer and labour organizations' ability to contribute. The capacity to cope with future challenges depends on the ability of politicians to renew public instruments and develop coalitions with power enough to enter into strategic compromises and create long-term consistency. If they succeed in maintaining "virtuous cycles", where efficiency and equality are mutually reinforcing and the capacity to adapt maintained, the Nordic model will be well equipped to tackle future challenges. However, it is possible to imagine "vicious cycles", where politicians bicker, key institutions disintegrate, government measures do not provide the desired results, for example in integration and labour market policies, and the consequences are continued high unemployment, lower employment, growing inequality and increased pressure on the welfare system.

To respond to the question posed by our client - What is needed to continue and renew the Nordic model? – the project has identified six challenges to the Nordic labour movement. The challenges are significant and require 'a major Nordic restructuring effort':

- To Create – The transition to a low carbon economy and major changes in population composition, within the context of lower global growth and fierce global competition, requires innovation, creativity and new growth strategies in business and industry.
- To Work – To reverse the decline in employment rates is critical to counter increased inequality and to secure welfare sustainability. This requires powerful integration measures by the political authorities, enterprises, and social partners.
- To Organize - Cooperation between strong partners is crucial for economy-wide coordination and for adaptability in the workplace. This requires strong recruitment to the labor unions.
- To Share - Small differences are a prerequisite for high trust, support for common solutions and an inclusive Nordic restructuring effort.
- To Care – To ensure the inclusion of those who cannot support themselves through their own work bolstering and renewal of the welfare system is needed.
- To Mobilize – The continuation of the model requires securing the support for the values upon which it is based and the construction of viable coalitions with the ability to make hard choices.



# The Nordic Model towards 2030. A new Chapter? Executive summary

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



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