EUROPEAN POLICY CENTRE

EPC WORKING PAPER No. 20

The Nordic model: A recipe for European success?

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GROWTH AND JOBS

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September 2005

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GROWTH AND JOBS

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Foreword

The European Policy Centre has been very active in the analysis of the competitiveness agenda in Europe. Over the last year, this has taken place within the framework of our Working Programme on Growth and Jobs, which provided a useful platform for the debate on the broader agenda of growth in Europe in the run-up to the mid-term review of the Lisbon Agenda.

Of all the analyses done in the different policy areas, one of the most striking conclusions was the outstanding performance of the Nordic countries in comparison to other countries (not only EU Member States) on a very wide range of indicators. Recent studies on attitudes to globalisation support this assessment. They have found the Nordic populations to be among the most positive in Europe. They have confidence in their economic and social model, and perceive globalisation as an opportunity rather than a threat. They appear to have gone beyond the debate over liberalisation versus protectionism which is so prevalent Europe today.

This publication aims to provide an insight into the success of the Nordic model, and consider how it may provide a stimulus for the wider assessment of economic and social reform in Europe. It brings together a selected number of experienced and highly knowledgeable personalities and experts who have contributed to, and welcomed, this initiative, regarding it as a useful tool in the current discussion on what best practices can be built upon.

Carlos Buhigas Schubert and **Hans Martens** give an introductory assessment of the role of the public sector and the functioning of the existing European models. Drawing on relevant indicators, they provide a first analysis of the Nordic countries' encouraging performance. **Nick Clegg** then opens the debate, describing some of the key areas where Europe is currently struggling and how the problems he identifies appear to have been overcome by the Nordic model. In parallel, the Lisbon Strategy is also increasingly demonstrating the virtues of the Nordic model. **David O´Sullivan** assesses the reasons for this and considers whether the Lisbon Strategy was originally based on the Nordic model.

A recent report from the Economic Intelligence Unit showed that Denmark is the most attractive country in the world for investment, with other Nordic countries also amongst the best performers. **Philip Whyte** explains why, while **Poul Nyrup Rasmussen** focuses on whether elements of the Nordic model can be transferred to other parts of Europe. Are there cultural factors preventing this, or could some of the best aspects of the Nordic model be used to increase Europe's competitiveness?

The Nordic model might look glamorous based on various analyses and models of competitiveness, but it is not without its own challenges and threats. "Passive" welfare systems are costly to run, and this is one of the reasons why Nordic countries have been developing the concept of an "active" labour market policy. **Hans Jensen** and **Jørn Neergaard Larsen** describe the main ideas behind this concept and explain how can it help to address the problems involved in financing the social sector in the future.

Another of the key questions is whether – and if so, how – best practice in various areas can be transferred. Creating value-added products and services appears to be one way to cope with international competition. **Göran Hultin** explains why the Nordic countries are leading the field in applied research and development, and appear so confident about meeting the challenges of globalisation.

Although the Nordic model appears to be a benchmark for competitiveness, there are questionmarks over its sustainability, not least financially and in terms of coping with future demographic challenges. **Sture Nordh** outlines those challenges and argues that gender participation will be a key factor in determining the sustainability of these societies.

Helge Godø describes the role of innovation in the public sector. In the Nordic countries, the public sector appears to be forward-looking, lean, efficient and relatively free of corruption. It is also leading the field in the introduction of new technologies and innovation in general. Is this the Nordic model's "secret weapon"? Meanwhile, **Jean-Claude Barbier** focuses on the case of Denmark and its mix of labour flexibility and security, and considers whether this could be applied in France

Social cohesion is also an important element of the Lisbon Strategy, but is there a real link between social issues and competitiveness, and between poverty alleviation and competitiveness? And can the development of the social sector lead to development of value-added services? **Giampiero Alhadeff** and **Katrin Hugendubel** provide some answers to these questions.

Finally, Hans Martens and Carlos Buhigas Schubert conclude this publication by considering what lessons can be learned about the Nordic model – is it really a recipe for success?

Introduction

by Carlos Buhigas Schubert and Hans Martens

1. Europe in the context of globalisation today

The time has come for the EU to rethink the whole competitiveness debate and complement it with a more purposeful discussion on how to achieve better-endowed societies more able to cope with the challenges brought about by globalisation. The time is ripe for a more open and frank exchange about what other European countries may be doing better and, ultimately, about what role Europe should play in the world. Recent developments have shown an EU which appears to be stranded, focusing mostly on how to fix immediate problems with short-term solutions – and sinking into an unhelpful debate about the choice between more liberalisation or more protectionism.

An underlying perception, which has caused uneasiness and is at the root of many of the rising fears in some European countries, is that the world is moving ahead and many parts of Europe are not. This has been exacerbated by the French and Dutch rejections of the EU's Constitutional Treaty and the symbolic failure of the Union's Heads of State and Government to agree on a budget which represents only 1% of the EU's GDP.

As is often said, a crisis can be an opportunity; a way to overcome restrictions and constraints. It would certainly be unfortunate if the current impasse only provides for a rather simplistic debate on the advantages and disadvantages of the French or British systems. The EU must look beyond the urgent needs posed by short termism and realise the Europe's real potential, drawing on best practices, demonstrating stronger political commitment, having a more open public debate, and ensuring that it has an institutional framework which looks into the future in a more decisive manner.

One great paradox is that while Europe appears to be trapped and unable to implement the necessary reforms, a model which which would certainly offer a more balanced and healthy approach to the needs of the modern world already exists in Europe. And instead of reasserting the relevance and viability of this model, Europe shelters some enormous internal contradictions. Take, for example, the well-known imbalance between the share of the EU budget allocated to agriculture and that provided for innovation; or the fact that the

EU prides itself on championing the sustainable agenda while maintaining unacceptable levels of unemployment in the context of a demographic decline; the hybrid nature of European and national interests, which undermines much of Europe's potential to play the role that it should in the world; etc. On the top of all that, the EU is seen as being permanently in crisis, even though some European nations are among the best performers in the world, persistently ranked at the top of various indices and offering wealth and prosperity to their populations.

Perhaps one of the main failures of the competitiveness debate in its latest incarnation is its tendency to treat the EU economy as one – and one which is in crisis.

The EU cannot, of course, be comfortable in this situation. Europe, which is built upon its strongly rooted cultural diversity, is not keen on reforms aimed at producing just one way of doing things. On the contrary, it works best when countries share their knowledge and expertise, cooperating in a system where tradition and innovation coexist.

The Lisbon and sustainable development agendas constituted good and relevant frameworks for pursuing the necessary objectives, including the need for economic growth. Probably one of the most positive outcomes of these strategies so far is that everyone welcomed them, agreed with their logic, understood the need for further debate and wanted to be involved in that debate. These strategies are flexible, capable of being adapted to meet different needs. This is useful given that it is increasingly becoming legitimate and necessary to ask whether there should be a closer connection with the public's concerns and worries, and the reality – and evolution – of European societies, beyond the prism of economic thinking and closer to the daily lives of Europeans.

Indeed, many of the questions this prompts go to the heart of the reforms in Europe. How will markets and social cohesion coexist in the EU without harming each other? Is it possible to combine job security and labour market flexibility? How can we foster social inclusion in the new context? What is the real impact of the speed of information and communication technologies on the economy? What is the nature and source of knowledge, and how do we utilise it? How do you translate all this to a world advancing at very different speeds and prioritising often contradictory interests?

Some countries have begun to look for best performers and the Nordic model is persistently appearing as the point of reference in this regard, increasingly cited by international institutions, various governments and the media.

An initial assessment suggests that this model is successful because it has, in principle, overcome the dichotomy between more liberalisation or protectionism and moved on to the next stage, having incorporated both social inclusion and the protection of the environment as engines of development and intrinsic characteristics of the quality of life, combined with flexibility and security under transparent and responsible governments.

Europe's economic and social model is characterised by a large public sector, which again indicates a willingness to spend more on collective action and less on individual action than in other parts of the world. With government budgets ranging from 35 to 55% of GDP, the public sector in Europe obviously plays a large role in service provision, regulation, the production of goods and services, and many other aspects of life. It thus plays a very important role in the competitiveness of European nations.

This introductory chapter presents a brief analysis of the public sector in Europe. The role of the public sector has been somewhat neglected to date. This is not only wrong because it plays a key role in defining Europe's competitiveness, but also because an analysis of this role fosters understanding of the collective choices which lie beneath national systems. This analysis also provides a platform for a better understanding of the different sub-models in Europe, which will be analysed later in this chapter.

2. Assessing the size and role of the public sector

Both the size of the state and the role played by the public sector say a great deal about the organisation of societal models and the choices made by those societies. They are, in a way, the backbone of European societies, and many good and bad lessons can be drawn from studying them.

Unfortunately, too often, the rather indeterminate objective of achieving competitiveness has focused exclusively on well-functioning markets and the performance of the private sector. All too frequently, the public sector has been a "forgotten variable" in this equation. Talking about the relationship between the public sector and competitiveness may even sound contradictory to many, as the public sector is often viewed as an "enemy" to competitiveness; a static actor which performs a negative role – that of regulator.

The public sector accounts for around 50% of the economy in most EU Member States, albeit with variations from around 35% in Ireland to approximately 60% in Sweden, and public budgets in European countries have gone through parallel evolutions in recent decades. Generally speaking, Member States increased the size of their public sectors until the middle of the Nineties, with bigger budgets arising mainly as a result of a combination of the following factors:

- The progressive introduction of more sophisticated redistributive programmes delivering more services in the social field (improved health care, education, and also social transfers such as unemployment benefits, etc.)
- The need to service the debt which provoked sustained budget deficits after the oil crisis in the Seventies
- Economic recessions such as those which occurred, for example, at the beginning of the Eighties and Nineties.

However, since the mid-1990s, the public sector has remained at more or less the same level or has been reduced in size. In general, improved fiscal positions and potential growth have helped governments keep their budgets stable and avoid the need for more borrowing.

This looks set to change in the future. Upward pressure on the public sector appears inevitable given the current demographic trends in Europe. Low birth rates, ageing populations and a cautious attitude towards immigration will undoubtedly put strong pressure on social expenditure, most notably in relation to health care and pensions.

The role of the public sector

The general view is that the rationale of the public sector is essentially the same everywhere: namely, the management/administration of a given society. The measures implemented and the services provided reflect, in principle, the collective priorities of that society. However, there are enormous differences across Europe. Factors such as the size of a country or its geographical position are defining characteristics which are reflected in the configuration of the public sector, but a fuller picture involves a complex set of determinants which go far beyond the question of where and how to allocate the available resources. Issues such as the rebalancing of different levels of governance, the introduction of new policies, and the management and restructuring of public administration are just some of the factors which play an important part in explaining why the public sector is configured as it is in a given place.

Breaking down the budget

Across the countries which are members of the Organisation for Economic Co-operation and Development (OECD), there are some similarities in the way budgets are structured. However, social transfers are a striking exception and appear to be a defining characteristic of the public sector in the EU. They are also the reason why, generally, European countries have larger public sectors than in other parts of the world. Social transfers include pensions, disability and sickness schemes, unemployment benefits, housing programmes, etc. These are all redistributive measures which reduce poverty and help achieve higher levels of equality within European societies. Indeed, they are a significant feature of the European welfare state.

Approximately 52% of the EU's population benefits from some form of social transfers (excluding pensions). The lowest levels are to be found in the Mediterranean countries – Spain (37%), Greece (18%) and Italy (17%) – with many households heavily dependent on family resources. The highest levels, at more than 70%, are found in Denmark, Ireland and the UK. There are also significant differences in the way social transfers are distributed: some Member States use the majority for pensions, while others target more on reducing poverty. This, in turn, has important consequences for levels of equality.

The comparison with other relevant countries is even more striking. It is obvious that all Europeans expect more from their governments that their counterparts in other parts of the world. Government budgets and current accounts show remarkable performances, but economic growth and job creation is lagging on mainland Europe. By contrast, Anglo-Saxon countries such as UK (and the US in particular) are showing clear weaknesses in the financial part of their economies, with triple debt issues: high personal debt, high government debt and large deficits on current accounts. This is easily seen from the role the public sector plays in the economy.

Taxes as % of GDP (2003)

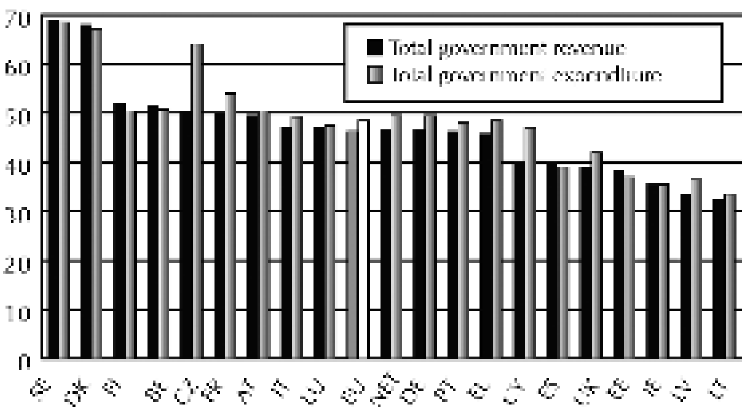
EU (average)	41.8%
USA	26.0%
Japan	26.5%
Russia	28.0%
China	17.0%
India	17.5%

Efficiency in the public sector

Many studies on the performance of the public sector in the past year have focused on how to make it more efficient. Efficiency – understood as obtaining results for allocated resources – appeared to be the main goal. Often, the conclusions of those studies pointed to the need to reduce the size of the public sector to make it more efficient. Transforming institutions and delivering some services through the private sector were suggested as ways of improving its quality.

However, efficiency is a rather ambiguous term which does not seem to match well with today's demands. When we are confronted with the need to develop competitive and sustainable societal models, should efficiency be our overriding goal? It is true that public opinion (and probably common sense) would agree that there is a link between a small public sector and efficiency. In this sense, it has been argued that a large public sector automatically destroys competitiveness because of the high tax burden it places on the private sector. A small public sector is normally associated with efficient and non-bureaucratic institutions which intervene least in the economy. However, the figures on competitiveness across Europe repeatedly show that some of the countries with the largest public service sectors top the list. Therefore, the mere existence of a large public sector cannot in itself constitute a reason for poor competitiveness or inefficiency.

Size of the public sector 2003 (% of GDP)



Source: Eurostat, European Commission

Modernising the public sector

Reforming the public sector is nothing new. In fact, despite the continuous criticism of Europe's under-performance, there is probably no other region in the world which has experienced more drastic and innovative change, especially in the context of European integration. Political, social and economic trends have influenced changes in recent decades, with, among other things, the addition of new forms of social benefits, the restructuring of organisations and increasing efficiency.

At the same time, with the rise of information technology, society has become much more demanding, with citizens calling for better and faster services, higher levels of transparency and more user-friendly administrations.

From the governments' perspective, introducing reforms to live up to these expectations does not look like an easy task. There are too many different requests, they are difficult to prioritise and they include sensitive issues such as restructuring the public sector and reassessing governance.

It is important to emphasise the big existing differences between countries and, therefore, between public sectors. The public sector works within a certain framework that combines a number of heavily interconnected factors, which include: history and tradition; economic interests and possibilities; the legal structure; the influence of civil society groups; the particular culture of governance; values and attitudes; the internal culture in the public administration; etc. In this sense, best practices abound, but they are hard to transfer.

On top of this, public management is a world of its own. Repeated efforts to reform it in line with private-sector theory have proved to be short-sighted. The public sector not only delivers a certain set of services. It is also constrained by values and legal frameworks which respond to a political logic or culture.

The public sector as a driver for prosperity

The public sector is obviously more than a "massive bureaucracy" and it has proven to be not only a supporter of a fair and equal society but also a stimulant to the development of an energetic business environment, sometimes acting as a pioneer in different areas and creating markets itself, for example in the provision of care services or environmental technologies.

In Europe, the public sector varies from country to country, but, as has already been said, it remains a defining characteristic and an integral part of the European economic and social model.

Most of the funds which come into the public sector are returned to society in one form or another. The question is how to make sure that this money turns into a good investment for society at large; i.e. does the public sector deliver value for (taxpayers') money?

Performance

Government budgets have generally become tighter and better results must be achieved with the existing funds. Both spending and regulation are vital tools for managing a society. Assessing and improving public performance must therefore be tackled in three different ways: improving public management, delivering value for money, and providing transparency and public accountability. Below are some of the key challenges facing the public sector today.

a. Changing structures

The deep and rapid transformations in our societies must be reflected in the way governments organise themselves and act. Re-organisation can reflect many different issues, such as:
- Internal factors – the need to increase the size of a ministry, improve the general management culture, split or merge services, etc.
- External pressures – new policy priorities (e.g. US 9/11)
- Underlying social trends and changes – the need for more specialised skills, new methods of building confidence in public services, demands for more autonomy, etc.

b. Improving the regulatory environment

There is increasing awareness of the link between poor economic performance in Europe and the regulatory climate. The public sector has been traditionally been seen in the role of regulator and still suffers from that connotation in Europe. Recent studies on governance tend to agree on the strong need to decrease the levels of regulation and transform current regulations into a new culture. The regulatory environment, as will be shown later, has a crucial impact on both, as well as a direct influence on entrepreneurship and innovation.

Administrative burdens, compliance costs and financial viability are just some of the problems associated with the current European regulatory climate and, in the view of some, constitute the main barriers to investment in Europe. On the other hand, the increasing emphasis on Europe-wide regulation instead of 25 sets of national regulations is leading to simplification of the rules and the EU has advanced substantially down the road towards creating a new regulatory culture.

The “Better Regulation” initiative is an example of this. It is designed to reconcile the protection of public health and the environment with the growth and jobs agenda, and the European Commission has committed itself to this initiative, developing a wide-ranging set of measures designed to improve the quality of regulation, in line with citizens’ demands and the European model.

However, it should not be forgotten that good quality regulation is a virtue in itself and can, in many circumstances, improve business conditions – when those regulations are clear. The alternative to good and clear regulation can be a business environment dominated by class-action lawyers!

c. Better services to citizens

Citizens often evaluate the quality of the public administration on the basis of their own experiences; i.e. whether they feel they are getting value for their money. The public sector has traditionally been charged with the management of different policies such as security, education, health, etc. One of the biggest challenges in updating and reforming the public sector to make it live up to the expectations and demands of society at large has been to bring it closer to the citizens. Openness, democratic control and the citizen’s freedom to choose are fundamental features of a high-quality public service.

The Nordic countries generally have a high level of Internet penetration and their public sectors have led the way in Europe in introducing eGovernment. This has given many citizens and businesses an easier instrument for dealing with the public sector. Obviously, the strong drive to introduce eGovernment has also provided a boost for high-tech companies in the private sector.

d. Transparency and corruption

The broad acceptance of high levels of taxation in the Nordic countries is not only the result of the generally good performance and efficiency of the public sector, including the judiciary. It also reflects the fact that the Nordic countries are among the least corrupt in Europe. This means that citizens can expect fair and equal treatment in their dealings with the public sector and that the waste associated with corruption and a lack of transparency can be avoided.

The table below shows the results of Transparency International's Corruption Perception Index for 2004 for the 25 EU Member States (http://www.transparency.org).

Country	Score
Finland	9.7
Denmark	9.5
Sweden	9.2
Netherlands	8.7
UK	8.6
Austria	8.4
Luxembourg	8.4
Germany	8.2
Belgium	7.5
Ireland	7.5
France	7.1
Spain	7.1
Malta	6.8
Portugal	6.3
Estonia	6.0
Slovenia	6.0
Cyprus	5.4
Hungary	4.8
Italy	4.8
Lithuania	4.6
Greece	4.3
Czech Republic	4.2
Latvia	4.0
Slovakia	4.0
Poland	3.5

e. Managing the economy

Government expenditure is, formally speaking, an expression of collective choices. It reflects political priorities and commitments, and varies from country to country, but it is also partly the result of tradition and the preferences of a ruling elite. The streamlining of public administrations also calls for the composition of public expenditure to be examined. What is the desirable level of government intervention in the economy?

There are very different objectives behind the decision to intervene in the economy which respond to a wide variety of priorities:

- Providing public goods (national security, administration, legislation, etc.)
- Finding the proper balance for services provided by the state (education, health, etc.)
- Providing goods and services through publicly owned companies
- Promoting markets that will lead to competitiveness and economic growth
- Levels of income distribution and social transfers
- Environmental issues, etc.

There are different traditions in Europe. Countries with a strong tradition of public involvement in large companies – primarily manufacturing firms – are normally also those with a tradition of strong government interference in markets, with governments micro-managing the economy. Tradition has also changed over time. Some of what were regarded as essential public services a few years ago are now left to the private sector and, in general, governments' grip on the economies of Europe has been reduced in recent decades, so that their essential role now is to provide security, justice, education, health services and special services; to develop and maintain infrastructures; and to provide incentives for the development of society by, for example, enhancing its competitiveness through spending on research and development.

In this regard, the maintenance of high-quality social services does not seem to be a problem. What proves to be an obstacle to competitiveness is the mixture of an open economy and a big state which behaves too protectively when there are no more gains to be reaped from protection. Once a proper competition policy framework is in place, excessive control over labour and product markets leads to less competition, more long-term unemployment and the fragmentation of markets.

As will be mentioned later, it is also the duty of governments to ensure sound fiscal development as well as providing the optimum climate for growth and jobs. It is remarkable to see that, in general, the Nordic countries have been able to create steady economic growth and keep unemployment relatively low (by comparison with the rest of Europe), while at the same time maintaining sound government balances and a surplus on their current accounts.

Their performance is clearly better than that of continental European countries struggling with government deficits near or above the limits of the Growth and Stability Pact. It is also clearly better than that of Anglo-Saxon countries, where economic growth is strongly dependent on consumer spending, with resulting low savings rates and a government sector too small to be able to counterbalance the lack of savings. Given the political preference for lowering taxes, this will also often result in problems with government budget balances, as has been seen in the UK – and in the US.

e. An additional target: an agenda for sustainable development

The sustainability agenda has changed since it emerged as a political issue. In general, sustainability means looking at the medium and long term, and defining policies and habits accordingly. This is a major challenge for public administrations, as they must deliver results in the short term and combine them with a long-term vision.

Sustainability is often linked to the sustainability of the physical environment and this in itself has become an important policy issue, but the concept has been broadened and now implies policy coherence as well. It means finding a proper balance between the different policy areas, bringing together the three pillars – economic growth, social cohesion, and the protection of the environment – and merging them into one approach. Often, these days, sustainable development conflicts with governments' short-term visions for achieving immediate results. Striking a balance between these two objectives will be the main challenge for societies in the near future.

Conclusions

Despite the big differences which exist between European countries, there are some common trends which highlight the relationship between the public sector and competitiveness in the economy. A closer look at EU governments' expenditure and trends in competitiveness contradicts, to some extent, the argument that the "Social Model" is a source of arthritis in European economies. In fact, the lack of competitiveness in some Member States may have its origins in:

- Structural problems such as an excessive intervention in labour and product markets, and the slow development of an integrated framework of capital markets.
- Weak investment in areas such as R&D, ICT, education, the liberalisation of networks, etc.
- The lack of a proactive culture of governance in public management able to design a coherent and sustainable strategy for the future
- The need for better management and better regulation (human resources, financial, budgeting, etc.).

Therefore, competitiveness is probably not directly related to the size of the state, but rather to whether the public administration is able to deliver value for money. Its performance depends, thus, on an ability to innovate, restructure in the light of new challenges, allocate the proper resources for creating growth and deliver quality services. In other words, there is a need to identify the critical aspects that will provide welfare and prosperity to society at large.

3. Comparing the European models

There is a European model, and it can be distinguished from other models in the world in a number of ways.[1]

Firstly, it shares with other parts of the Western world values such as democracy, the rule of law and respect for human rights. Its view of how the world should function is characterised by a belief in multilateralism in international affairs and the use of "soft power" to achieve results.

Secondly, when it comes to the economic and social model, Europe is by and large characterised by social economies – or rather societal economies – and the promotion of a higher degree of collectivism in society than most other models. This is demonstrated by the strong emphasis on balancing pure economic achievements with other goals, such as leisure, social cohesion and environmental sustainability.

Thirdly, and linked to the point above, Europe is characterised by having a larger public sector than other parts of the world, as shown above.

It is equally true that there are many European sub-models. How many depends on the level of analysis. In other words, a coherent picture of models comprising groups of countries can only be drawn if the analysis takes place at a reasonably high level of aggregation. There will also be some imperfections in such groupings. However, the purpose of this study is not to discuss classification techniques *ad infinitum*, but rather to group countries into sub-models in such a way that useful explanations of performance can be given.

Our focus will be on long-term sustainability in terms of preserving and improving the welfare and living conditions of populations in the light of global competition. This is an exercise which resembles the tasks set by the EU's Lisbon Agenda. The real issue is the ability of various models to achieve the target of improving – or at least preserving – the level of welfare in a given area in the longer term.

Going beyond the macro-level of the European economic and social model, we can distinguish a number of sub-models, including (at least) a Nordic model, an Anglo-Saxon model, a Continental model, a Southern Model and a new Eastern Model.

A group of countries which have recently emerged from more than 50 years of Communist rule will, of course, have some common characteristics. However, it is very likely that these countries will soon adopt some of the other European models. Indeed, this process is probably already under way.

The Southern model may be identifiable, but is perhaps not so useful for this analysis. Most of its characteristics can be found in (and probably come from) the Continental model, but this still leaves three important and quite different types of models; namely, the Anglo-Saxon, Nordic and Continental models.

There are some important differences and similarities between these models. Firstly, the Anglo-Saxon and the Nordic models are quite similar when it comes to the nature of relations between governments and markets (product, service and labour markets), but they are very different when it comes to the size of government. Secondly, the Nordic and the Continental models are more alike in terms of the size of the public sector, but they are very different in terms of government-market relations.

The Nordic models therefore emerges as a blend of the two large European models: the Anglo-Saxon model's emphasis on economic liberalism and the Continental model's emphasis on a large public sector.

	Anglo-Saxon	Nordic	Continental
Attitude to markets	Liberal	Liberal	Interventionist
Attitude to social welfare	Low emphasis	High emphasis	High emphasis

These positions can be demonstrated in a number of ways. One is to look at the size of the public sector measured as total taxes as a percentage of GDP. This indicates the degree to which countries' populations are willing to spend money on collective rather than individual issues in society.

	Anglo-Saxon*	Nordic	Continental**
Taxes as % of GDP, 2003	31-37%	45-51%	42-46%

** Represented by Ireland and UK*
*** Represented by France and Germany*

Attitudes to markets can also be measured in different ways. The OECD carried out a study early 2005 analysing a number of relevant issues, including an index for product market regulation. Measured by this index, the three main models show the following results:

	Anglo-Saxon*	Nordic	Continental**
Product market regulation (2003)	0.8-0.85	1.0-1.4	1.5-1.6

** Represented by Ireland and UK*
*** Represented by France and Germany*

Flexicurity [2]

Global competition means more intensive competition. It also means that life cycles for products and services are getting shorter, and that therefore constant renewal is needed. Modern global competition and ever-shorter life cycles also mean that products and services become commodities more rapidly than before. When commoditisation occurs, competition becomes increasingly focused on price rather than anything else. This is why there is a tendency towards outsourcing the price-sensitive parts of production to areas with the best wages/productivity performance.

In order to keep employment in high-wage areas, it is necessary to include more high-value components, and this again requires flexibility in the workforce in terms of skills previously acquired, a willingness to upgrade these skills constantly, and a readiness to leave jobs while upgrading skills. This could be seen as personal risk-taking, but is, in reality, a survival strategy.

Unease about these changes is clearly visible among European citizens, with many voicing fears about many aspects of globalisation. Thus, there is clearly a need for strong elements of security for the individual, not least if bolder, risk-taking attitudes are required by society. Interestingly enough, the Continental model, with its strong intervention by law on behalf of the individual worker, does not seem to provide security. It does provide compensations for the unemployed, but it does not provide sufficient jobs. With a persistent unemployment rate of in excess of 10% in Continental European countries, this model demonstrates serious imbalances and runs a very strong risk of attack because of financing problems in the longer term.

	Anglo-Saxon*	**Nordic**	**Continental****
Unemployment rates (2004)	4.5-4.7	5.4-8.8	9.5-9.7

** Represented by Ireland and UK*
*** Represented by France and Germany*

Northern Europe is clearly doing best in employing its workforce, and this is most likely due to the less rigorous regulation of its labour markets. It is very difficult to change the workforce – for example, to alter the make-up of skills – in Continental Europe, but this is quite easy in the Nordic and Anglo-Saxon models.

One major problem seems to be that while the industrial society benefited from the workforce stability supplied by the classic Continental model, it does not seem to deliver the changes and flexibility required by today's societies, characterised by rapid change, global competition and the development of knowledge-based economies.

It is important to underline that labour market flexibility is achieved in very different ways in the Anglo-Saxon and Nordic models, and therefore the latter may be a more relevant alternative to the ailing Continental model than the former as it provides an alternative "in the middle" – and a successful one too.

One important feature of the Nordic labour market model (the "flexicurity" model), which will be explained in more detail later, is the Active Labour Market Policy. This helps explain why the model may be sustainable notwithstanding the high costs paid by taxpayers. The key to its success is that the employment service has been turned from providing passive compensation for unemployment to providing services which help the unemployed develop their skills and actively search for jobs. This is probably a much better use of public money than paying 10% or more of the population for not working. That solution is not sustainable.

The Nordic model – a recipe for success?

In examining a variety of surveys and statistics for this exercise, we chose to focus on four, different both in content and methodology:

■ The annual Human Development Index (HDI), drawn up by the United Nations Development Programme, measures all countries' average accomplishments in three basic areas: life expectancy, knowledge and education, and standards of living (measured as GDP per capita PPP US$). The HDI offered an alternative indicator to highlight and stress that "people and their capabilities should be the ultimate criteria for assessing the development of a country, not economic growth".

■ The Growth Competitiveness Index, drawn up by the World Economic Forum (WEF). This has become the world's point of reference for assessing competitiveness due to its mixture of indicators, including three key component indices measuring the quality of the macroeconomic environment, the state of a country's public institutions, and, because of the increasing importance of technology, its technological readiness. These indexes are calculated on the basis of both "hard" and "survey" data.

■ The Quality of Life Index developed by the Economist Intelligence Unit combines surveys on subjective "life-satisfaction" with objective parameters of quality of life across countries, including material well-being, health, family relations, political freedom and security, job security, gender equality, etc.

■ The Responsible Competitive Index, elaborated by Accountability and the Copenhagen Centre, represents a first attempt to quantify the relationship between corporate responsibility and the competitiveness of a nation measured in terms of technology, innovation, company-level strategy, human capital, public institutions, infrastructure and the macroeconomic context. This index needs further development, but already reveals some relevant trends.

HDI (2004)	**WEF (2004-2005)**	**Quality of life (2005)**	**Responsible Competitiveness (2003)**
Norway	**Finland**	Ireland	**Finland**
Sweden	USA	Switzerland	Switzerland
Australia	**Sweden**	**Norway**	**Sweden**
Canada	Taiwan	Luxembourg	**Norway**
Netherlands	**Denmark**	**Sweden**	**Denmark**
Belgium	**Norway**	Australia	Netherlands
Iceland	Singapore	Iceland	UK
USA	Switzerland	Italy	New Zealand
Japan	Japan	**Denmark**	Austria
Ireland	Iceland	Spain	Australia

The most striking fact to emerge from these sources and others on attitudes towards globalisation is that the Nordic countries have been the most consistent and regular performers among the top ten across a range of measurements over the years.

This is not, however, because the Northern rim of Europe has always performed better than the rest. In the period from the first oil crises to the Nineties, the countries in the North of Europe were in crisis. They underwent a painful process of restructuring from manufacturing to service economies and transformed themselves into very open societies, and thus were well-prepared for the accelerated globalisation which was to come. (Other parts of Europe are now struggling with this transition.) And as this transformation took place, the governments of the Northern countries, from

Ireland to Finland, developed a policy of keeping their distance from the service, product and labour markets and taking a hands-off approach towards them. That has helped to increase flexibility, but the Nordic countries never gave up on their social inclusion policies – rather, they reformed them.

In retrospect, it seems that the Continental model, with its solid but inflexible labour market polices, was superior in the industrial society, with its emphasis on manufacturing and the slower pace of change. However, the more flexible approach appears to be more appropriate in today's world, with fierce global competition and rapid changes in every aspect of life.

Not only the labour market

The Nordic model is not only unique because of its large public sector and labour market policies. Looking at various indicators, it is clear that it also provides high living standards and a high level of satisfaction with life and the prospects for the future. Infrastructures are near perfect, educational systems are good, the Internet is widely used by the public, the judicial system is as good as any, the public sector is virtually free of corruption, and it generally provides more advanced services, including eGovernment. All in all, the Nordic countries score very highly on all the benchmarking criteria in the EU's Lisbon Agenda as well as in other indices, as demonstrated earlier in this publication.

One reason for this is the reduced "power distances" within the population. This measurement has been introduced by Geert Hofstede to calculate the level of equality in a society. The Nordic countries' relatively equal societies make it easier for the public to accept a high degree of solidarity as opposed to individualism, and also make it difficult for people to accept elitism. Thus there is a relatively small gap between the rulers and the ruled in the Nordic countries. This obviously helps the public sector to focus better on the needs of the population (and also makes it more prone to public criticism).

As was mentioned earlier, this suggests that a large public sector does not necessarily hamper competitiveness. On the contrary. However, a large public sector only contributes to competitiveness if it is sound, efficient, uncorrupt and provides the essential services needed by the population. A traditional view of the public sector as a place of waste and inefficiency maybe accurate in some parts of the world, but it is not a universal truth. In fact, the public sector in the Nordic countries is probably an asset for competitiveness, because it provides quality services, has developed into a large market for the private sector and acts as a driver for innovation (for example, in developing care services and measures to improve the environment).

Awareness of this is probably also the reason why high taxes are not a political issue in the Nordic countries. Taxation rarely ranks high among the political issues which determine the results of elections. By contrast, Anglo-Saxon societies have moved towards a low-tax policy, relying increasingly on consumer demand for economic development, to such a degree that advocating higher taxes and an increase in the size of the public sector is regarded as being tantamount to political suicide!

A sensible and large public sector might also be one explanation as to why the Nordic countries have, generally speaking, not only been successful in terms of the "real" economy (economic growth and job creation), but also in delivering a sound fiscal performance. They have avoided this serious weakness of the Anglo-Saxon model primarily because of an efficient and large public sector which can balance out the low savings rates in households prompted by the increase in consumerism.

Weaknesses

When one looks at the situation in more detail, the Nordic model naturally divides into many sub-models. So although it has some clear overall characteristics, there are, of course, also differences. Norway is an oil economy. Sweden is still a manufacturing society to a significant extent. Finland is dominated by one company, Nokia, and is still suffering from losing its biggest trading partner – the Soviet Union. Denmark has a small, flexible economy which relies on pockets of high-tech and generally small and medium-sized businesses.

However, it is not all good news. One of the weaknesses is the looming demographic challenge. The rapid ageing of the population means that effective policies are needed to keep older workers in the labour force. This again requires more efforts to encourage life-long learning, reform of the systems for remuneration and for rewarding seniority, and the scrapping of the widespread pre-retirement schemes. It also requires much more efficient immigration and integration policies to ensure a well-balanced demographic structure and the import of new, fresh ideas. The Nordic countries' integration policies are no better than elsewhere in Europe and, particularly in Denmark, this has translated into xenophobic attitudes and a negative approach towards immigration which may represent the biggest threat to the long-term survival of the model.

Not a prescription...

This Working Paper examines different aspects of the Nordic model. The contributors come from different countries and different sectors, including government, the private sector, non-governmental organisations and academia.

Clearly the term "Nordic model" covers quite large differences not only between countries, but also between regions. As has already been mentioned, grouping regions and countries into models will always be somewhat artificial, but it can be useful for analytical purposes, in particular when strong common features are identified. Focusing on the Nordic model also runs the risk of being prescriptive. This is not the purpose of this publication. It is rather to shed some light on one particular way of doing things in Europe in the midst of the debate about European competitiveness, the Lisbon Agenda, and the attempts to adapt best practices and learn from each other. There are weaknesses as well as strengths in the Nordic experience, and this publication attempts to highlight both.

Some will claim that the present success of the Nordic model is linked to the fact that these countries have small populations, and it is true that most successful recipes in the OECD area over the past decade or so have come from smaller countries. Perhaps the greater degree of adaptability and flexibility which is so essential in our fast-changing world is easier to create in countries with small populations. If so, this might lead larger countries to consider the distribution of powers. However, as was pointed out earlier, the Nordic countries do not only have relatively small populations; they are also very homogenous, with a preference for equality, inclusion and collective action, and this may be a key reason for their well-functioning societies.

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Endnotes

1. For a deeper discussion of European models, please see EPC Working Paper No.8: "Lisbon Revisited" (www.theepc.be).
2. This term, although now often used to describe Nordic countries, was "invented" in the Netherlands in the mid-Nineties by Professor Hans Adriaanes (see, for example, www.bm.dk/flexicurity/Flexicurity.pdf).

Too good a model to be ignored

by Nick Clegg

The EU's push to increase its economic competitiveness by way of the Lisbon process was driven from the start by embarrassment.

The glaring difference between the Union's lethargic growth rates and the persistent virility of the American economy had become too much for EU leaders to bear. Thus the grandiloquent, and now largely discredited, ambition was launched to transform the EU into the most "competitive knowledge-based economy in the world by 2010".

However, EU leaders might want to reflect whether comparisons with America provide the best yardsticks for their work. It is ironic that EU decision-makers feel compelled to gaze across the Atlantic for policy inspiration when, in truth, the best examples of innovative, high-growth economies are to be found within the EU itself.

Figures drawn from the 2004 World Economic Forum report on the Lisbon Agenda show that if the United States was counted for comparative purposes as an EU Member State, it would rank fourth behind three existing Member States on an overall assessment of economic competitiveness. Remarkably, the three top countries – Denmark, Sweden and Finland – all come from the same Nordic corner of the EU. The consistency of the Nordic region's superior economic performance is striking across a range of indicators: growth; labour productivity; research and development investment; liberalised product and service markets; performance in the high-tech and telecoms sectors; rates of employment (including amongst women and older workers); and physical and social infrastructure.

In short, the Nordic model seems to offer the holy grail to EU decision-makers: highly competitive, world-beating economies with none of the brutal social inequalities of the classic American model of economic reform.

It is often assumed by observers, particularly in the Anglo-American business press, that the Nordic model is based on a degree of heavy-handed state regulation which is, whatever its merits in such consensual societies, simply not relevant to the complexities of other economies. Yet an analysis of the labour markets in the Nordic counties reveals a surprising picture. Far from strangling the labour market with onerous regulations, a deliberate strategy has been pursued to keep labour market regulations down to a minimum.

Thus, for instance, the successful labour market reforms introduced in Denmark since 1994 have been based on the view that the creation and disposal of jobs should remain as unhindered by regulation as possible. In exchange, those out of work receive generous welfare benefits and highly targeted active employment support (training, job search facilities etc.) which both encourage and compel the unemployed to seek new jobs as rapidly as possible. Denmark now spends up to 5.2% of its GDP on labour market policies, including extensive retraining programmes for the unemployed. As a result, the average time spent out of work by the unemployed in Denmark is amongst the lowest in all developed economies. This, in turn, allays feelings of job insecurity, as most Danes remain confident that they will be actively supported in finding new jobs in the event that they are unemployed.

This mixture of light regulation allowing low entry into and exit from the labour market, combined with generous benefits and highly active employment policies, creates a virtuous circle of flexibility for employers and security for employees.

This approach rejects the traditional belief that worker security in the labour market can only be safeguarded through rules which restrict the ability of employers to shed labour. Empirical evidence shows that those governments which persist in tightly regulating labour markets perversely create more, not less, insecurity amongst workers generally. Greece, for instance, has high levels of employment protection, which leads to some of the longest job tenures in Europe. Yet, according to figures from the International Labour Organisation (ILO), Greece also has some of the highest levels of feelings of job insecurity. A system which guarantees work for those lucky enough to have jobs at the cost of locking out those who do not merely increases the overall levels of insecurity.

As long as governments are prepared to put significant resources into generous benefits and employment policies, then the ideal combination of labour market flexibility and job security seems possible.

Many observers assume that such levels of public expenditure are simply beyond the realms of possibility in other countries. Again, however, this overlooks the fact that several EU countries such as France, Germany and Italy have comparatively high levels of public expenditure which they simply choose to spend in less effective ways. Thus, for example, even though France pioneered active labour market policies with the introduction of a *"revenue minimum d'insertion"* in 1988, which provided benefits in exchange for commitments to seek work, these efforts have been contradicted by other policies, notably early retirement schemes and regulatory restrictions on employers.

Without consistency across the labour market, both in terms of benefits and employment policies, the Nordic effect will not occur. Given the comparatively high levels of government expenditure in France, Germany or Italy, there is, in theory, no financial constraint on their freedom to emulate Nordic best practice. Rather, it is an inability to create a consensus in favour of sometimes painful labour market reform and well-funded welfare and job-search policies.

Of course, any comparison between one economy and another is fraught with difficulties. Cultural, social and historical specificities mean it is difficult to compare like with like. Yet the remarkable record of the Nordic region is both closer to – and arguably more easily transferable to – other parts of the EU than the wholly different experience in the United States.

The question arises as to why the EU is so keen to ignore the best practice in its own ranks in favour of an unflattering and ill-fitting comparison with a wholly different American economy. Could it be that EU leaders do not wish to be exposed in a bad light by some of their own peers? It is perhaps preferable for them to be embarrassed by superior economic performance elsewhere, rather than on their own doorstep. In some countries, such as the UK, government rhetoric has long been built upon a factually partial assertion that its economic record is superior to that of "Europe".

But such political obfuscation does the EU as a whole no good. It is high time for us to emulate the best that can be found in Europe. The Nordic region is too good a model to be ignored.

Nick Clegg is a Liberal Democrat member of the UK Parliament and Chair of the EPC's Task Force on Sustainable Growth. (This essay is based on an article which first appeared in the Financial Times.)

Prize pupil or prodigy? The Nordic model and the Lisbon reform agenda

by David O'Sullivan

Earlier this year, when EU Heads of State and Government relaunched the Union's ambitious agenda for growth and jobs, many people asked: "Where's the beef?" Why, after five years of modest results and slow reforms since the "Lisbon Strategy" was first launched by the European Council in the Portuguese capital in March 2000, should it be different this time around?

The answer is simple: in the face of lacklustre growth, globalisation and an ageing population, our recipe for growth and jobs is about what it is possible, rather than the impossible – and, for many economists and commentators, proof of this is found in the performances of Denmark, Sweden and Finland.

If the reshaping of the Lisbon Agenda reflected concerns that the delivery of reforms had gone neither far enough nor fast enough, one thing was clear from the first five years: these three countries had, nevertheless, been among the star pupils. Measured against the targets which the Union has set itself – from the economy to jobs and inclusion, from innovation to improving the environment – they came out top time and time again. For many, including some contributors to this publication, they stand as an example of how to combine social consensus, big government and high levels of taxation with competitiveness, technology leadership, and an inclusive and clean society.

The challenge today is to discover what their secret is and what lessons can be learnt for delivering reforms in other parts of the Union.

Reshaping the Lisbon Agenda – five years of experience

The strength of the EU's reform agenda over the first five years has been its ability to offer a comprehensive and joined-up approach to the twin challenge of economic reform and boosting employment. It has combined action at European, national and local levels.

At a European level, it has tried to draw the best from different instruments to support national reforms, legislation to open markets, spending programmes to boost investment in job creation, urban regeneration and research, as well as softer tools – for example, sharing best practice in areas such as social security reform or education; areas where Europe adds value by setting the direction rather than laying down binding rules.

At the same time, this strength has also been a weakness. Key reforms depend on the commitment of individual Member States to pursue politically difficult changes. The European Commission's leverage is therefore limited to areas outside the core such as the internal market, while the use of peer pressure – for example, by "naming and shaming" Member States – has sometimes been counterproductive. Large Member States do not like having the success of smaller ones waved like a red rag in front of their faces, particularly ahead of domestic elections. Many countries remain wary of any attempt to impose a single solution to Europe's problems derived from the best performers. It is clear that for the reform agenda to work, we need a certain sense of crisis, but not too much, otherwise we risk freezing action at national level.

Our ability to deliver reforms was further complicated by two additional factors: a reform agenda which, over time, had grown to contain too many priorities, and unrealistic expectations that it could deliver change almost overnight.

Successive EU Presidencies sought to make the reform agenda their own: a "French" social agenda; a "Swedish" environmental strand; the "Spanish" priorities for networks and energy. With too many objectives, the clear focus of the agenda set by the European Council in March 2000 blurred and Europe ended up trying to move in too many directions at the same time. Here too, the Nordic model played a role, as the focus on quality of life, ageing, the environment and sustainable development were taken up as priorities by the Swedish Presidency in 2001. Some saw this as a watering-down of the Lisbon vision. Others, including the Swedes, presented it as an essential addition to ensure that reforms which are introduced today secure benefits for further generations as well.

In addition, the expectations of both the media and Member States were too high from the start. They failed to accept that it would take several years for far-reaching structural reforms – whether at EU or national level – to be completed and then deliver growth, investment and jobs. The performance of the Nordic countries (and of others such as the UK and Ireland) shows this to be true. Their success was built on hard-won reforms of the preceding ten or even 20 years. So Lisbon was a decade-long strategy. Moreover, we were starting to turn the European tanker in the calm seas of 2000. The stormy economic waters which resulted from the September 11 attacks and a global economic slowdown inevitably weakened the appetite for further reforms, comforting those sceptical of our commitment to kick-start Europe's economy.

On the initiative of European Commission President José Manuel Barroso, the Union's response early this year was to give greater focus to the strategy, emphasising action to deliver growth and jobs, and to add a new way of working with Member States – on the one hand, offering them more flexibility in terms of matching their reform efforts to their top priorities, and, on the other, requiring them to table clear commitments in the form of their National Reform Programmes by mid-October. The Nordic countries have been at the forefront of those Member States willing to engage in this new way of working, recognising that it provides a good basis to mobilise stakeholders, national parliaments, and even business and the public, in the reform process.

Is the Lisbon Agenda the Nordic model writ large? Why did the Nordic countries get it so right?

Denmark, Sweden and Finland all started implementing the Lisbon Strategy from a position of comparative strength, having pursued important reforms in the 1980s and 1990s. In many areas, they were already beating the 2010 targets for the EU as a whole. Why did they succeed where others were failing?

There were a number of factors, starting with flexible labour markets and active welfare states, focused more on providing services (childcare, home help, social services for the elderly) than on simply offering direct handouts to the population. A relatively efficient public sector providing social services, health care and education also played a key role. By March 2000, the results were there for all to see in an impressive performance on employment, inclusion and investment alongside high levels of taxation – which, by and large, are accepted by the public.

The similarity between the Lisbon priorities and the past and current actions of the Nordic countries have led some to ask whether the Lisbon reform agenda was not simply an ambitious attempt by these countries to put their imprint firmly onto Europe's economic and social model.

I am not sure that this is really the case. Lisbon represented a collective recognition of the challenges we face and the need for a common response to them; a response able to draw on the best elements of each Member State. It depended on a consensus across different models, rather than the imposition of one single approach on all the others.

In this, it was probably only partially successful as, if anything, some fear that, far from representing a consensual Nordic model, the Lisbon reforms represent a divisive Anglo-Saxon one. This leads to unjustified concerns that our agenda for growth and jobs will deliver less social protection and undermine the role of the State.

What does Lisbon mean for the Nordic group?

Even if they did not invent the Lisbon Strategy, the Nordic countries are very much at home with it – particularly its initial triple focus on economic reform, employment and social inclusion, and the environment. But this does not mean that they do not have their own priorities and distinctive position.

First, these export-led countries see the Lisbon reforms as a key element in their response to globalisation. They see their competitiveness in global terms and not simply in terms of the European market.[1] They are open to globalisation. Second, all three – and particularly Sweden and Denmark – continue to stress the three strands of the Lisbon reforms, and emphasised at the start that our new focus on growth and jobs should not be at the expense of either long-term sustainability or our quality of life. Third, they are concerned about the level of commitment to reform within Europe's largest economies, particularly in light of the fiscal and regulatory efforts they themselves have made. They fear that the same standards are not always applied to the big and the small.

But the Nordic countries are not the only stars...

Despite these countries' strengths, we should not fall into the trap of painting too rosy a picture of a Nordic model, which itself faces significant challenges. Nor should we lose sight of the fact that other Member States have also done well in pursuing specific aspects of reform.

For example, the UK and Ireland are judged to have done well in terms of competitiveness and employment. France performs well in R&D investment.

Countries such as Estonia and Slovakia have been showing how it is possible to reduce the overall tax burden without lowering the tax take for the state. Spain has made significant improvements in slashing the red tape which used to be associated with the business environment, as have others. Madrid has, for example, managed to cut the average time taken to complete the formalities online to create a new business from an average of several weeks to just 12 days.

The truth is that Lisbon has many stars, and the added value at European level is in ensuring that each of them shines a little of their light over the whole continent, so that countries learn from each other.

At the same time, the Nordic countries are facing their own specific challenges that call the long-term sustainability of their approaches into question; challenges ranging from globalisation and demographic changes to the specific difficulties associated with the big role played by the public sector in their economies. Denmark, Finland and Sweden must work hard to maintain their current strength.

While Sweden, for example, has high levels of employment overall, it has seen a decline in employment rates in recent years linked to generous early retirement, sick leave and disability schemes. In Denmark, the employment rate plummets from between 70-80% to less than 20% for those over 60 due to generous early retirement arrangements, while employment rates among immigrants are markedly lower than those for the general population.

In Sweden, taxes on employment remain high and, for some groups, it remains more advantageous to remain out of work than to return to low-paid jobs. In Sweden, Denmark and Finland, new ways of filling skills gaps in the short term are needed. Answering the question of how to maintain high levels of employment is also a particular challenge in the face of an ageing population which will shrink, and change the age profile of the working population in the decades ahead. Finland, with a slightly lower employment rate than its two neighbours, also has to deal with a higher level of structural unemployment. All three countries will need to go beyond simply maintaining high employment to actually raising employment rates if they are to ensure the long-term sustainability of their public finances, given the added financial pressures of an ageing population.

Moreover, in Sweden and Finland, the prices of some services are high, partly due to limited competition in, for example, sectors like electricity or housing. There is scope for greater efficiency in the way the public sector operates through, for instance, the wider diffusion of new technologies.

The good news, however, is that each of these countries is aware of these challenges and realises that it cannot rest on its laurels. They all need to pursue targeted reforms as actively as other EU Member States if they are to remain at the top of the class, and they seem to have the political will to do so. Reforms to address many of these issues have been – or are being – undertaken, although it remains to be seen whether these will go far enough.

What lessons can we learn?

There are perhaps three lessons to be learnt. First, there is no unique or single solution to improve the performance of the European economy. Our strength will be our ability to take the best from different approaches, while allowing each Member State to focus on (commonly) agreed national priorities as their best contribution to keeping the Union as a whole on track.

Second, the success of these three Northern economies has, at least in part, resulted from their ability to build a political and social consensus around the direction of reforms. Perhaps this is more easily done in smaller countries, but it confirms the importance within the new Lisbon Strategy of National Action Plans, which are developed in discussion with business, the unions, other stakeholders and national parliaments as a way of mobilising support and improving delivery.

Finally, in the context of globalisation, ageing and the pace of technological change, the Nordic example serves as a reminder that markets and societies do not stand still. Even the best need to get better, and it is often the best which should be at the front of the queue to learn from others.

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Endnotes

1. See, for example, "Finland's competence, openness and renewability" – the final report of the "Finland in the Global Economy Project", or Denmark's "Growth through globalisation" report and the setting up of a Globalisation Council in 2004.

Foreign direct investment and the Nordic model

by Philip Whyte

Introduction

There has been a tangible rise in interest in the "Nordic model" in recent months, particularly since the rejection of the EU constitution by French and Dutch voters in referenda in late May and early June.

One reason, it seems, is that the Nordic model is widely believed to hold the answer to the paradox facing many European countries: the growing exasperation of voters with socially unacceptable rates of unemployment, allied to their opposition to the very reforms that many observers believe would help to tackle the problem. With "neo-liberalism" acting as a repellent in many countries (particularly France), attention has turned to the possibility of forging a third way between the supposedly brutal "Anglo-Saxon" model and the failing "Continental" one. Increasingly, the Nordic model is being presented as the most workable of the alternatives available.

This article does not attempt to pronounce on the merits of the Nordic model *per se*. Instead, it seeks to answer two questions. First, what kind of balance have the EU's three Nordic Member States – Denmark, Finland and Sweden[1] – struck between state and market? And second, has that balance hampered their ability to attract foreign direct investment (FDI)?

This issue is important because there is a widely held view that globalisation is compelling countries to compete in a "race to the bottom", undermining the very foundations of the welfare state in the process. What, then, are the broad features of the Nordic model? How attractive are the EU's Nordic members as locations for foreign direct investors? And how much FDI have they actually attracted?

How does the Nordic region rank?

The Economist Intelligence Unit has developed a model that measures the quality and attractiveness of the business environment in 60 countries, using a standard analytical framework. The model, which is designed to reflect the main criteria used by companies to formulate their global business strategies, examines ten separate categories on which countries are scored. These are: the stability, predictability and institutional effectiveness of the national political system; the macroeconomic environment; the business opportunities offered by the domestic market; official policies towards free enterprise and competition; official attitudes towards foreign investment; barriers to foreign trade and capital movements; the tax regime; the development of the domestic financial system; the labour market; and the quality of the energy, communications and transport infrastructure.

Each of these ten broad categories contains a number of indicators. The number of indicators in each category varies from four (barriers to foreign trade and capital movements) to 11 (the political environment). In total, there are 70 indicators. Almost half are based on quantitative data (such as fiscal balances and the rate of GDP growth). The others are more qualitative and are largely based on the Economist Intelligence Unit's judgement (sometimes assisted by business surveys and other such sources). The qualitative indicators cover areas as various as the incidence of corruption, the predictability and fairness of the judicial system, the prevalence of price controls and other market distortions, the effectiveness of competition policy, the rigour with which contracts are enforced, the reliability of the transport network, and so on.

The rankings are calculated in several stages. First, each of the 70 indicators is scored on a scale from 1 (very bad for business) to 5 (very good for business). The aggregate category scores are derived on the basis of simple or weighted averages of the indicator scores within a given category. These are then adjusted, on the basis of a linear transformation, to produce index values on a 1-10 scale. An arithmetic average of the ten-category index values is then calculated to produce the aggregate business environment score for each country, again on a 1-10 scale. The use of equal weights for the categories to derive the overall score partly reflects uncertainty about the relative importance of the primary determinants of investment. Surveys of foreign direct investors' intentions do not throw up consistent results on the relative importance of individual determinants.

The purpose of the Economist Intelligence Unit's business environment rankings, it is worth repeating, is to measure and compare different countries' attractiveness as locations for FDI. This is not the same as measuring their "competitiveness", a concept that is of limited value when applied to countries.[2] There are sound reasons, moreover, for basing the rankings on a relatively large number of indicators. Contrary to a widespread perception among politicians, commentators and the public, theory and empirical evidence suggest that firms' foreign investment decisions are influenced by a much broader set of factors than levels of taxation and labour market regulation (even if both of these have an influence).

How attractive are the Nordic countries as business locations?

How then do the EU's three Nordic members fare in the Economist Intelligence Unit's business environment rankings? The scores and rankings for each of the sub-categories of the business environment are shown in Table 1 below. This shows that in the period 2000-04, Denmark ranked 6th globally, Finland 9th, and Sweden 12th. This suggests that all of the EU's Nordic members are attractive business locations overall. With a few exceptions, the pattern of scoring across each of the sub-categories is fairly similar: across most of the sub-categories, the scoring of the three countries is closely bunched. None is an identikit of the other, but Denmark, Finland and Sweden share a sufficient number of common features to make it appropriate to speak of a common Nordic model. What, in broad terms, are the most salient features of this model?

Table 1: business environment rankings, 2000-04

(scores out of 10)

	Denmark		Finland		Sweden	
	Score	Global rank	Score	Global rank	Score	Global rank
Political environment	9.61	1	9.4	3	9.4	3
Economic stability	9.1	6	9.1	6	9.1	6
Market opportunities	5.5	40	6.0	32	6.6	20
Policy towards private enterprise & competition	9.2	2	8.6	7	8.6	7
Policy towards foreign investment	8.9	6	8.9	6	8.9	6
Foreign trade & exchange controls	8.9	8	8.3	15	8.3	15
Tax regime	7.0	15	7.5	10	5.3	35
Financing	9.6	8	9.3	5	8.9	13
Labour market	7.4	4	7.2	7	6.3	31
Infrastructure	9.6	1	9.3	5	9.6	1
Total	8.5	6	8.4	9	8.1	12

Source: Economist Intelligence Unit

Perhaps the best-known feature is the unusually high share of GDP accounted for by general government expenditure and tax receipts (see Table 2 below). Although public expenditure's share of GDP has fallen in all three countries since peaking in the mid-1990s, it remains markedly higher than the OECD and EU averages. In 2004, Sweden's ratio of general government expenditure to GDP exceeded the OECD average by more than 16 percentage points. Even Finland, the Nordic EU member with the lowest ratio, exceeded the OECD average by almost 10 percentage points.

The OECD average is, of course, affected by the inclusion of countries with particularly low ratios of public spending to GDP, such as the US and Japan. But all three of the Nordic EU members posted higher ratios than the euro-area average of 48.6% in 2004. In Finland's case, the difference was small. In the case of Sweden and Denmark, it was marked.

Table 2: fiscal indicators in the EU's Nordic members

(% of GDP)

	1990	1995	2000	2004
General government expenditure				
Denmark	57.2	60.3	54.9	56.3
Finland	48.7	59.5	49.1	50.7
Sweden	61.7	67.6	57.3	57.1
Total OECD	40.4	42.4	39.3	40.8
Tax and non-tax receipts				
Denmark	56.0	58.0	57.4	58.6
Finland	54.2	55.7	56.1	52.6
Sweden	65.1	60.7	62.3	58.3
Total OECD	37.4	38.4	39.6	37.5
Cyclically-unadjusted budget balances				
Denmark	-1.2	-2.3	2.5	2.3
Finland	5.5	-3.9	7.1	1.9
Sweden	3.4	-6.9	5.0	1.2
Total OECD	-3.0	-4.0	0.3	-3.3
Government debt				
Denmark	69.8	78.4	54.4	49.4
Finland	16.7	65.7	53.2	53.3
Sweden	46.8	82.2	64.4	62.1
Total OECD	57.1	73.7	71.1	76.4

Source: OECD

The counterpart to high levels of public expenditure has, of course, been the high ratio of tax (and non-tax) receipts to GDP. In Denmark and Sweden, the ratio of tax receipts to GDP in 2004 exceeded the OECD average by more than 20 percentage points and the euro-area average by more than 12 percentage points. The difference for Finland was less marked, which is unsurprising given the relatively lower share of GDP accounted for by government expenditure in that country.

The trend in the tax-to-GDP ratio has differed across the three countries since 1990, falling in Sweden, remaining broadly stable in Finland and increasing slightly in Denmark. Since the three countries had very different starting positions in 1990, the various paths followed have actually resulted in a convergence in Nordic tax-to-GDP ratios. In 1990, the difference between the Nordic EU member with the highest tax-to-GDP ratio and that with the lowest was almost 11 percentage points. By 2004, this gap had been reduced to six percentage points.

On the face of it, the high share of GDP accounted for by tax receipts points to a model in which the role of the state is pervasive. Certainly, in all three of the EU's Nordic members, the state plays much more than a "nightwatchman" role. Not only is government expenditure enormous, but only a comparatively small share of total expenditure is accounted for by what are usually held to be the minimum functions of the liberal state (namely, defence and law and order). In all three countries, public spending on subsidies and transfers is particularly high, as is spending on health and education. In Sweden, the country with the highest ratio of public expenditure to GDP in the developed world, health, education and subsidies and transfers account for more than three-quarters of total government expenditure.

In short, the Nordic region provides no evidence that the so-called "forces of globalisation" have eroded the foundations of the welfare state. Nevertheless, the role of the state in the Nordic countries needs to be properly understood. What is its nature and what is the state's relationship to the market?

One of the most striking features of the business environment rankings is the high score (and rank) that all three of the EU's Nordic members post for the stability, transparency and efficiency of their political systems. This feature is often neglected, but it is one of the most important conditions for the overall attractiveness of a country's business environment: it is the political system, after all, which sets the legal and institutional context within which business is conducted. The fundamental underpinning of a market economy is the ability of individuals and firms to enter into long-term contractual arrangements. A sophisticated market economy not only requires high levels of trust between economic agents, but also between economic agents and the state. The absence of such trust is one of the principal obstacles to foreign investment in the developing world. Sophisticated markets – and consequently most foreign direct investment – do not generally develop and thrive in countries with weak, capricious or predatory institutions, or those which are undermined by domestic or international conflict.

On almost all measures, the EU's three Nordic countries enjoy among the most stable and orderly regimes in the world. The constitutional mechanisms for the orderly transfer of power are, of course, well-entrenched, as they are elsewhere in the EU. What sets the Nordic countries apart, however, is the probity and effectiveness of their institutions and the strength of the rule of law.

Not only are their legal systems transparent and fair, their bureaucracies are uncorrupt. According to a corruption perception index compiled by Transparency International, an international non-governmental organisation, Finland, Denmark and Sweden all figure among the world's least corrupt countries.[3] Public administration, moreover, is competently and predictably discharged, and the incidence of crime is particularly low. The EU's Nordic members, finally, are located in one of the world's most stable geopolitical regions. Their exposure to international conflict and terrorism is consequently lower than that of most other countries.

Stable, transparent and responsive institutions have been accompanied by sound macroeconomic management. Despite high ratios of public expenditure to GDP, public finances in the Nordic region have been managed rather better than in most other countries in the EU. Finland and Sweden both experienced deep recessions in the early 1990s which provoked an explosion in government debt, but they have since made huge strides in consolidating their public finances. Denmark, which experienced a shallower recession than either Sweden or Finland in the early 1990s but whose debt position at the time was worse, has run a budget surplus every year since 1997. Finland has run a budget surplus every year since 1998. Sweden ran budget surpluses between 1998 and 2001, and only modest deficits in 2002-03 (when GDP growth weakened).

Budgetary rectitude, allied to robust rates of nominal GDP growth, has allowed all three countries to reduce their ratios of government debt to GDP. In 1995, Sweden and Denmark both posted higher ratios of public debt to GDP than the euro-area and OECD averages. By 2004, all three Nordics posted significantly lower ratios.

The stability and quality of the Nordic countries' institutions also appears to have had a positive impact on the provision of public and merit goods such as infrastructure and education. The Economist Intelligence Unit's rankings show that the Nordic EU members score highly for the quality of their transport, communications and energy infrastructure. The Nordic countries also perform well in international comparisons of the educational standards of their labour forces. The most authoritative study, carried out by the OECD,[4] indicates that the Nordic countries fare well on most indicators of numerical, scientific and reading proficiency, with Finland a particularly strong performer.

The EU's three Nordic members also devote a significantly higher share of GDP to research and development (R&D) than any of the other EU Member States. Not surprisingly, they boast high rates of innovation in sectors such as software, pharmaceuticals and telecommunications. Tax receipts may account for a large share of GDP in the Nordic area, therefore, but public money is comparatively well spent.

Despite the high share of GDP accounted for by public expenditure, the state's direct role in the economy in the EU's Nordic members is actually relatively modest. In none of the three countries does the state hold large shareholdings in key companies and, partly under the pressure of EU legislation, most public monopolies – such as energy, air transport and telecommunications – have been opened to competition. State monopolies remain in a handful of sectors such as the sale of alcohol in Sweden, but this is the exception rather than the rule.

Factors inhibiting competition, such as high levels of concentration, subsist and there are legitimate questions about the vigour with which competition is enforced in some sectors. But this remains true in most other EU countries and does not detract from the overall conclusion that in all three of the EU's Nordic Member States, the state plays little direct role in product markets beyond implementing regulatory rules such as competition policy and "internalising" externalities such as pollution. The Nordic countries, in short, are not hostile to the market and do not generally try to supplant it. They merely try to correct some of its imperfections.

The area in which the Nordic countries probably diverge the most is the labour market. The state plays an important role in all three, but the nature of that intervention differs markedly. In the Danish model, which has become known as “flexicurity”, there are few restrictions on firms hiring and firing workers. However, the state provides generous financial support to those out of work, while linking these to measures to encourage the jobless actively to seek new work. The Danish labour market, in other words, is left to operate largely unimpeded, but the state steps in to provide a comfortable safety net to those who lose their jobs. It is the design of the safety net, in other words, that encourages the social acceptance of labour market flexibility.

In Sweden, by contrast, the labour market is subject to relatively restrictive employment laws, a number of which have remained largely unchanged since the 1970s. The Swedish labour force is highly educated and industrial relations are good, but a high degree of wage regulation and restrictive employment laws make Sweden’s labour market less flexible than Denmark’s.

How much FDI has the Nordic region attracted?

The attractiveness of the Nordic countries’ business environments is attested to by the amount of foreign direct investment (FDI) that they have attracted.

Annual FDI inflows into the three countries since 1995 are provided in Table 3. FDI inflows are notoriously volatile from one year to the next and particular care is needed in interpreting them. Even so, the picture which emerges from Table 3 is clear. FDI inflows surged in all three of the EU’s Nordic members in the late 1990s, before falling back sharply in 2001-04.

This trend mirrored a wider one in the EU, where FDI inflows have also fallen back sharply since peaking in 2000. The surge in the late 1990s coincided with a global boom in mergers and acquisitions (when stock market valuations were at their peak), while the subsequent decline followed the bursting of the technology bubble which left a large overhang of corporate debt and saw sharp falls in stock market valuations. The pattern of annual FDI inflows into the Nordic region since the late 1990s has not been exceptional, therefore. It has merely followed a broader regional and global trend.

Table 3: foreign direct investment inflows, 1995-2004

(Euros bn unless otherwise stated)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Denmark	3.2	0.6	2.5	6.0	15.4	37.5	10.0	4.5	1.0	-0.8
% of EU inflows	3.3	0.6	2.0	2.6	4.4	5.8	2.4	1.5	0.5	-0.4
Finland	0.8	0.9	1.9	10.7	4.3	9.5	4.0	8.4	3.0	3.7
% of EU inflows	0.8	1.0	1.6	4.6	1.2	1.5	1.0	2.9	1.5	2.0
Sweden	11.4	4.3	9.1	17.3	54.3	23.0	14.1	12.0	2.8	-0.2
% of EU inflows	11.9	4.6	7.4	7.4	15.4	3.5	3.4	4.1	1.4	-0.1
EU 25	95.6	93.1	122.3	233.2	352.6	649.9	416.5	291.3	203.7	181.7

Source: Economist Intelligence Unit.

How, then, have the Nordic countries fared compared to other countries in the region? The answer is, rather well. True, Table 3 shows that the three countries' share of FDI into the EU-25 has fallen since 2001, but this comparison is slightly misleading because the Nordic countries' share in 1999-2000 was unusually high owing to a handful of large cross-border mergers and acquisitions such as the tie-up between Astra and Zeneca. Since 2001, the three Nordic members' share of total FDI into the EU-25 has returned to more "normal" levels.

Table 4 below indicates that FDI inflows into the EU's Nordic members have, over the past decade, accounted for a higher share of GDP than the average for the EU-25. As a share of GDP, annual FDI inflows into Sweden have exceeded the EU average in eight of the past ten years. Denmark and Finland have not quite matched that consistency. Nevertheless, over the decade as a whole, cumulative FDI inflows into Denmark and Finland have accounted for a higher share of GDP than the EU-25 average.

Table 4: foreign direct investment inflows, 1995-2004

(% of GDP)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Denmark	2.3	0.4	1.7	3.9	9.7	22.8	5.8	2.6	0.6	-0.3
Finland	0.8	0.9	1.8	9.2	3.6	7.6	3.1	6.2	2.1	2.4
Sweden	6.0	2.0	4.2	7.8	23.6	9.2	6.0	4.8	1.1	-0.1
EU 25	1.4	1.3	1.6	2.9	4.3	7.5	4.6	3.1	2.1	1.8

Source: Economist Intelligence Unit

FDI inflows over the past decade have significantly raised the stock of FDI in the three countries concerned. Table 5 below shows that the stock of inward FDI grew more rapidly than nominal GDP in 1998-2002. Although FDI inflows tailed off in Denmark and Sweden in 2004, the stock of inward FDI in all three countries still accounted for a markedly higher share of GDP in 2004 than it did in 1998. In Sweden and Finland, the ratio of inward FDI stock to GDP in 2004 was more than double the ratio in 1998. In Denmark, the ratio almost doubled over the same period.

Table 5 also indicates that the stock of FDI grew more rapidly in the three Nordic EU Member States than the average for the EU-25 as a whole. In 1998, Sweden was the only Nordic EU member whose ratio of inward FDI stock to GDP exceeded the average for the EU-25. By 2004, however, all three of the EU's Nordic members had higher ratios of inward FDI stock-to-GDP than the EU-25 average.

Table 5: foreign direct investment stock in the EU's Nordic members, 1995-2004

(% of GDP)

	1998	1999	2000	2001	2002	2003	2004
Denmark	18.0	23.8	42.0	41.4	43.0	36.1	32.8
Finland	12.6	14.3	20.2	19.8	25.6	28.5	30.0
Sweden	21.7	27.1	32.2	41.7	48.7	50.3	43.3
EU25 average	18.8	21.3	27.3	28.9	32.1	30.2	28.0

Source: Economist Intelligence Unit

FDI data, then, do not suggest that high tax environments have prevented the Nordic countries from attracting FDI. True, the ratio of inward FDI stock-to-GDP in 2004 was lower in the Nordic countries than in the best-performing EU countries such as Ireland, Belgium, Luxembourg and the Netherlands. However, it is worth noting that the ratio in Sweden was markedly higher than that of the UK (33.5%), while the ratio in Denmark and Finland was just below it. The comparison is instructive, because the UK is often portrayed as one of the EU's most successful FDI hosts (largely because it is the EU's largest host of FDI in absolute terms).

One might also object that Finland and Sweden are both net exporters of direct investment. Whatever else this proves, it emphatically does not show that Nordic countries are experiencing capital flight because of their tax regimes. For one, Denmark's stocks of inward and outward FDI are almost exactly in balance. For another, lower-tax countries such as the US and the UK are proportionately much larger exporters of direct investment than any of the Nordic countries.

Conclusion

The claim that globalisation is rendering the state impotent has become one of the great clichés of our age.

The argument, which is trotted out by newspaper columnists, politicians and members of the public alike, tends to go something like this. "1. Capital has become increasingly mobile across the globe. 2. Capital gravitates to where tax rates and wage costs are lowest, and levels of regulation least burdensome. 3. States are being forced to wage a war of competitive deregulation with each other. 4. Globalisation is therefore eroding democracy and the welfare state."

The experience of the EU's three Nordic members suggest that this account is almost completely wrong. There is no evidence that the foundations of the Nordic welfare state are being undermined by "global competitive pressures". In all three countries, the ratio of public expenditure and tax receipts to GDP remains markedly higher than the OECD and EU-25 averages, yet all three countries have continued to attract more than their fair share of FDI.

Why? Because companies' investment decisions depend on far more than the host country's tax environment. Although the Economist Intelligence Unit's business environment rankings suggest that the tax regime in all three countries is onerous (in Sweden most of all), it is offset by a host of other factors that make these countries attractive places to invest. These include the transparency, probity and predictability of government, high rates of innovation, the quality of the labour force and infrastructure, and the generally market-friendly policies that have been pursued.

In all three countries, the state plays much more than a "nightwatchman" role, but this has been alongside, rather than at the expense of, the market. In the case of the EU's three Nordic members, Martin Wolf's observation that "good governments mean good markets"[5] seems particularly apposite.

In short, the view that globalisation is corroding the welfare state is not just a platitude, it is wrong. Like the movie mogul, Sam Goldwyn, one is tempted to say: "Find me a new cliché."

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Endnotes

1. For a variety of reasons, Norway's position in the Nordic region is *sui generis*. Not only is it not a member of the EU, its rich resource endowment allows it to run its economy in a way which holds few lessons for countries with poorer resource endowments. Norway is not therefore considered in this article.
2. For a critique of the concept of competitiveness when applied to countries, see Paul Krugman's essay, "Competitiveness: A Dangerous Obsession", in Foreign Affairs (March/April 1994).
3. According to TI's 2004 index, Finland was the world's least corrupt country, with Denmark in third position and Sweden in sixth.
4. Learning for Tomorrow's World, OECD (2004).
5. Martin Wolf, "Why globalisation works", Yale University Press 2004.

Learning from the North – let's focus on best practice in all of Europe

by Poul Nyrup Rasmussen

The Nordic model is presently gaining a reputation as a panacea for new growth in the struggling economies of Europe. All recent surveys of international competitiveness, conducted by organisations from the World Economic Forum (WEF) to the Organisation for Economic Co-operation and Development (OECD), have stressed the success of "Nordic features" in the international economy, and more and more countries with stagnant economies are looking North for inspiration.

The Nordic countries have disproved the prevailing doctrine that high taxation, a strong public sector, good salaries, extensive welfare provisions and high social protection are hindrances to growth and prosperity. These features that, in many eyes, should make them undynamic in the modern economy have paradoxically stood out as their main assets in today's global economy. The Nordic countries are the bumblebees of Europe: they seem too heavy to fly, but surprise you by being quick, agile and solid.

But is the Nordic model transferable to the rest of Europe? Can the experiences of these countries be used to get the whole continent back on track? And if they can, in what ways? Which elements of the model are ready to be transferred?

Bad karaoke or adapted inspiration

Economic and social models are shaped by history. They have developed through reciprocal relationships with local and national societies, cultures and traditions. They have delivered answers to specific challenges and needs, and are thus formed by their particular circumstances. Every model has, additionally, developed certain institutions that reflect their rationale: institutions which, on one side, enshrine the characteristics of those models and, on the other, ensure that they adjust and evolve.

Our economic and social models are made up of connected components. The acclaimed "flexicurity" – the combination of flexible labour markets and individual social security – of the Northern countries is, for example, based on a) strong social security and broad welfare provisions; b) active labour and educational policies; and c) a highly mobile labour market, where the social partners (trade unions and employers' associations) are key actors with a high degree of responsibility for competitiveness and social sustainability. It is this combination of policies and the active participation of the social partners that has secured the success of "flexicurity" in the Nordic countries.

An important characteristic of the Nordic model is thus the role of the social partners. They cooperate in adjusting to structural change, in continuous learning and the development of skills, and in public efforts to create security in the labour force. Their decisive role is particular to the Nordic countries to an extent that cannot be expected in many other counties. So if the Baltic countries, for example, wish to draw on the experiences of their Nordic neighbours, they must rely on other actors to secure these elements of the model, given the current lack of a similar social dialogue. They will have to take their own individual context and conditions as their starting point, and develop their own version of the Nordic model from these features.

Transfers of best practice will not be successful if insufficient attention is paid to local and national conditions and they are not respected. "Bad karaoke" is the most probable result of such rushed-through, "one-size-fits-all" solutions. Economic and social models, including those in the North, cannot be transferred in their entirety. They are not tradeable goods ready for mass export.

But they can be used for setting a new agenda – to achieve competitiveness and new social security as the fundamental answers to globalisation. They can be used to change developments in other countries – and in our Europe of today, this is desperately needed. They can influence the evolution of local systems, and parts of them can successfully be adopted in other societies or countries. The Nordic model should therefore inspire other countries to change their labour markets and their underpinnings, and will, if adapted to local contexts, make a difference to competitiveness, employment and growth in any country.

The "Nordic way" from the industrial society to the global

As globalisation sweeps through our continent at an ever stronger pace and with ever greater impact, we find ourselves faced with new challenges. For employers and employees, the task is to adapt to an era in which changes occur with increasing speed and are more profound. Constantly re-inventing their business has become a necessity for enterprises to succeed, while lifelong learning and moving from job to job and between industries has become a prerequisite for workers to avoid unemployment.

In the industrial era, most workers could keep the same job for life. In today's post-industrial, networked economy, where innovation is the means to success, almost no one can expect to do that. In a dynamic economy like Denmark's, more than one-tenth of the old jobs are "shut down" and outsourced every year, but the same number of new jobs are also created each year – and this tendency is spreading. Ever more frequent job changes will be commonplace for workers, and the ability to do this as easily as possible will be the decisive factor for their success.

The Continental model, most clearly embodied by Germany and France, was developed to meet the needs of the industrial society. Labour laws and regulation kept workers in the same jobs by making it difficult and very costly to fire them. This provided the security sought by the working class and the stability that economies and enterprises needed to develop. Today, this model needs new inspiration and dynamic answers to the permanent changes occurring in our global market economies.

The Nordic countries can deliver some relevant inspiration. Due to their size, they have been open economies for a long time and thus experienced the effects of globalisation before most other countries. Adapting to globalisation was a question of economic survival and they have therefore developed the ability to do this extensively, but without losing sight of the balance which must be maintained to achieve fruitful transitions and transformations. Thus, although it is easy to hire and fire in the Nordic countries, these countries – according to an International Labour Organisation (ILO) study which ranked more than 90 countries and put Sweden, Finland, Norway and Denmark at the top – also offer their citizens the highest economic and social security in the world.

To build bridges from the industrial society to our global society is not an easy task. Two central elements of the Nordic model could – with local variations, of course – be successfully transferred to the rest of Europe.

First of all, to achieve low unemployment and high productivity at the same time, mobility must be coupled with social security. While hiring and firing becomes easier, supportive policies to facilitate the transition from one job to another must also be put in place. Changes in notice periods for dismissal and compensation payments from employers in the case of dismissals should thus be combined with high unemployment benefits, so that losing one's job does not mean losing one's livelihood. This creates the confidence in the future which enables people to cope with the inevitable changes rather than fearing them.

Secondly, those in unemployment – on their way between their old jobs and new ones – should be actively encouraged to search for a new job, and the time spent between jobs used to build new competencies and skills. As Prime Minister, I introduced this in Denmark through "individual action plans", based on one-on-one interviews with the unemployed which took into account each person's qualifications, job opportunities in the local labour market and the need for training. Education, training schemes and job opportunities were offered to every unemployed person – as "an offer you can't refuse". Such schemes should be possible in other countries too. They are good investments, as cost-benefit analyses clearly show that all public investment in job training, education, and other schemes for getting the unemployed back to work is more than recouped through lower spending on unemployment benefits and social costs.

The experiences of the Nordic countries can be used to inspire the process of reforming Europe's social security systems; to modernise them without shredding them; to reverse their rationale so that they are pro-active rather than re-active, so that they are enabling instead of freezing, and so that they empower their unfortunate "clients" rather than making them passive. This demands a respectful approach and the creation of individual "contracts" with every citizen who comes in contact with the system – a mutually obligating contract, based on rights and duties. It takes more resources than traditional mass approaches, but it upholds the dignity of every client, restores their self-confidence, and motivates them to pursue new challenges in their lives. In this way, social security systems can be springboards for new opportunities rather than passive dependency schemes.

Continuous education as the backbone of modern societies

To stay ahead in the value-added chain in the future, and thus be able to replace lost low-skilled jobs with new high-skilled jobs, Europe must be at the forefront of innovation and technology. In an economy where competitive advantages are increasingly based on knowledge and creativity, education becomes paramount at all levels. Investing heavily in human capital through training and lifelong learning policies is thus another element of the Nordic model that can – and should – be transferred to Continental Europe.

Denmark, Sweden and Finland are the EU countries with the largest public investments in education. They top the latest statistics: Denmark with 8.5% of GDP, Sweden with 7.66% and Finland with 6.24%, as against the EU average of 5.1%. But the Nordic approach to education is not just quantitative. Its qualitative aspect is just as important and particular. Education is not only seen as a privilege, but also as a right and a duty. It is the foundation of people's lives, no matter what their background or career prospects. Education facilities from kindergartens to universities are therefore free. The rationale of the system is that we cannot afford to lose even one pupil from the system. The positive results of the principle of equal rights and access to education are reflected directly in the know-how and productivity of the workforce. This ensures a high degree of competitiveness in times of change and the ability to adapt to new conditions and circumstances.

The Nordic countries have long been learning societies. It is obvious that the rest of Europe needs to follow suit. Lifelong learning is not only a mantra, but also a way of approaching life, institutions and workplaces. Our citizens must be upgrading their skills constantly, no matter where they are in their lives and what they do for a living. In this sense, however, education is not only about going back to school and reading more books. It is about becoming better at what one is already good at and enhancing one's core skills. As such, it is an effort that might just as well take place on the job as anywhere else. It is, moreover, a responsibility that must be shared by different partners in unity and close cooperation. Government, state and local institutions must thus work closely with the social partners and private enterprises to meet the challenges.

Learning from each other

The vast majority of welfare states in Europe face challenges of an unprecedented kind. Challenges, in the form of globalisation and an ageing population, which will have a devastating impact if they are not met productively with the right responses. Challenges which give most European states an alarmingly clear outlook: ever more job losses due to outsourcing; diminishing tax bases because of the competition to lower company taxes to attract and retain firms and investments; demographic developments which leave less people in the active workforce to support many more outside it; and a greater need for welfare but decreasing sources to fund it. It is therefore of paramount importance that we become better at learning from each other in order to take advantage of the policies and best practices that have been developed to meet these challenges.

The Nordic model provides some well-functioning answers to our present challenges. It works through the complementary nature of most policy areas. It takes advantage of these in a proactive and ambitious way. It capitalises on them. Thus it is proof that high productivity and income equality can be combined positively and that active labour market policies can ensure that people spend as little time as possible between jobs. It, moreover, confirms that lifelong learning, training and the development of employees' skills are the key to a competitive and dynamic workforce, and that labour market flexibility and security are not contradictions but preconditions. I think, and hope, that the Nordic model can inspire more European countries to adopt a difficult, yet promising, new approach to combining reforms and investments.

We can survive – our European social model can survive. Let's make the relevant decisions for the future together. Let's base it on the best practices in our diversity, combining security and competitiveness. That is the European way.

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The Nordic labour markets and the concept of flexicurity

by Hans Jensen and Jørn Neergaard Larsen

1. Similarities of the Nordic countries

The Nordic countries[1] have a long shared history and have experienced similar social and economic development. The most common feature of their systems is a well-developed welfare state characterised by its universalism (meaning that all citizens are entitled to basic social benefits), high social spending, high taxes and a large public sector.

The Nordic countries are currently performing relatively well and, according to the World Economic Forum, are among the five most competitive countries in the world. They have succeeded in achieving a high employment rate and fulfil, or are close to fulfilling, the Lisbon goal of an overall employment rate of 70%.[2]

Employment policies lie at the heart of their labour market policy. One important instrument for achieving full employment is the Active Labour Market Programmes (ALMP), which were established in Sweden as early as the 1960s. In all the Nordic countries, the social partners have played an influential role in this process (it is noteworthy that around eight out of ten workers are members of a trade union).

The ALMP serve a two-fold purpose: to upgrade the skills of the unemployed to avoid bottlenecks in the labour market, and to encourage the unemployed to remain active and search for jobs. Ultimately, the aim of the system is to prevent people from joining the ranks of the long-term unemployed. If a person is out of work for more than a year, his or her chances of getting a job decrease, and there is a risk of social exclusion. The social protection system in the Nordic countries, in particular the Danish flexicurity system, only pays off when it is associated with effective ALMP.[3]

The Nordic countries also put a great deal of emphasis on adult education and continuing training. Close to 20% of all adults (those aged between 25 and 65) participate in some kind of adult education every year, compared with an average for the EU as a whole of around 8%. Only the UK has a higher rate of participation.[4]

The combination of a high level of social security, an active labour market policy and the important role played by the social partners in all the Nordic countries has formed the basis for their being awarded the highest economic security rankings in the EU.

This is confirmed by the so-called "economic security index" created by the International Labour Organisation (ILO). This index covers seven different aspects of security, such as labour market security (the availability of adequate employment opportunities); representation security (the protection of collective voices in the labour market) and income security (the protection of income, through replacement benefits and other measures which reduce income inequality). The Nordic countries rank among the highest on virtually every indicator, and the overall conclusion of the study is that there is no mismatch between a relatively high level of social security and a high employment rate.[5]

2. The special case of Denmark – the concept of flexicurity

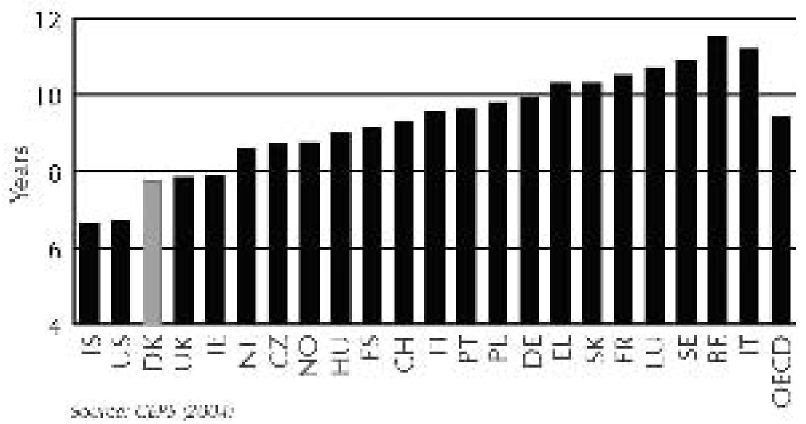
As already outlined, there are many similarities between the Nordic welfare systems. However, close analysis also reveals some significant differences.

Looking specifically at the organisation of the labour market, it is clear that the Nordic countries cannot be described as having one system. Each country has its own particular way of organising its labour market according to national traditions, the structure of its businesses etc. The rules governing the recruitment and dismissal of workers are, for instance, very different in Sweden from those in Denmark. The Swedish system follows the principle of "last in, first out", whereas the Danish system is much more flexible. The following section looks in more detail at the Danish system.

The Danish labour market is extremely dynamic, with a high turnover of jobs – around 30% of the workforce change jobs each year, corresponding to 700,000 employees.[6] However, it costs workers virtually nothing to change jobs, as they do not lose any rights, such as their entitlement to paid holidays, pensions etc., and for companies, it is relatively easy to dismiss employees thanks to procedures regarding notification etc. which are very flexible.

As a consequence, average job tenure in Denmark is among the lowest in the EU (see figure 1 overleaf).

Average job tenure in the OECD



The high turnover yields many job openings, making it easier for unemployed, new entrants to the labour market and those already in work to find a new job. High mobility does not necessarily lead to lower unemployment, but rather to shorter spells of unemployment.[7] Many Danes experience a period of unemployment during their working lives, but fewer end up in the ranks of the long-term unemployed than in other OECD countries. In Denmark, less than 25% of those out of work have been unemployed for more than 12 months, compared with one-third across the OECD as a whole. In the EU-15, more than 40% of those out of work are long-term unemployed. Youth unemployment in Denmark is also amongst the lowest in the EU.[8]

This dynamic pattern stems from a system dating back more than 100 years. It is based on three pillars; namely, a combination of flexible regulations based on agreements between the social partners; a well-developed social security system for the unemployed; and an active labour-market policy aiming at training those out of work and giving them new qualifications. This combination is referred to as “flexicurity”.

The Danish labour market is thus a hybrid of different models. On the one hand, it resembles the other Nordic models, with their high level of social security; but, on the other, it resembles the Anglo-Saxon model, with its high degree of flexibility.

The role of the social partners

There is a clear division of responsibility between the government and the social partners in relation to labour market policy.

Working conditions are primarily regulated through collective agreements concluded by the two sides of industry, at industry or branch level. These agreements are, to a large extent, framework accords which allow for flexibility at the company level and for specific local requirements to be taken into account. They cover around 85% of all employees and include regulations governing wages, pensions, working time, redundancies and various pay arrangements for employees during periods of illness, maternity/paternity leave etc.

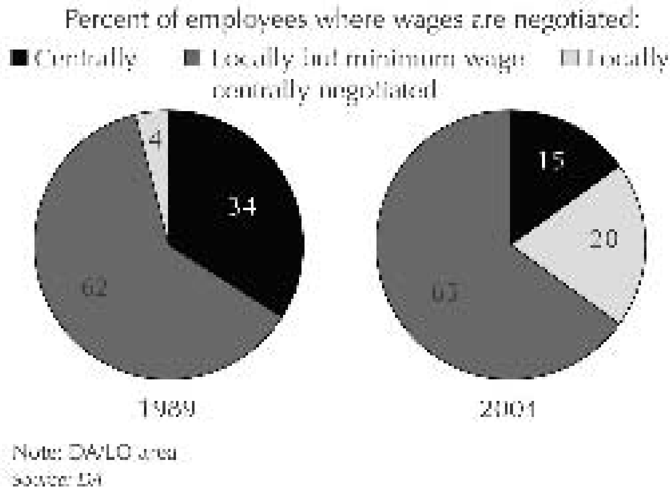
Legislation covers only specific topics such as holiday entitlement, health and safety, equal pay and equal treatment. Most of this legislation originates from the EU system, and the social partners implement the EU directives themselves. For those not covered by collective agreements, the agreements reached on EU directives are often applied without any changes being made by the government.

Over the last 20 years, the social partners have decentralised the bargaining process with the aim of increasing flexibility, especially with regard to wage-setting and working hours. The decentralisation process is supported by a 50-year-old agreement between the social partners known as the "Cooperation Agreement". This lays down the conditions for discussions on all relevant issues between the management and employees in the workplace. It reflects the general respect and trust between the two sides of industry. It also reflects the high degree of responsibility placed on the social partners to try to find constructive solutions to problems which might otherwise turn into labour disputes.

Another characteristic of the Danish system is the general "peace obligation". This means that, in the periods between the renewal of the collective agreements, it is effectively illegal for workers to strike, although they retain the right to strike if the social partners cannot agree on renewing the collective agreements. To deal with any labour disputes which may occur, an effective judicial system has been created to find quick solutions to problems. There is also a built-in mechanism for avoiding conflicts. For example, in the DA/LO-area – the part of the labour market covered by collective agreements between the DA and LO, which corresponds to approximately 45% of employees in the private sector – the social partners settle more than 85% of all cases involving legal action by employers themselves.

The decentralisation process means that around 85% of workers in the DA/LO area negotiate their wages at company level and only 15% have all of their wages negotiated at the central level (i.e. between the various branch organisations which are members of DA and their trade union counterparts). For 65% of workers, only a minimum wage is negotiated at the central level and, for 20% of workers, there is no minimum wage rate at all (see figure 2).

Figure 2: Flexibility in wage-setting



The social partners have agreed that the local partners at the company level can organise working hours without interference from the main organisations. This flexibility makes it possible to vary the weekly hours of work to allow for fluctuations in production over the year. As a result, the reference period (over which employees must work an average of 37 hours a week) has been gradually increased. Since the collective agreements were last renewed in 2004, only 2% of employees in the DA/LO area have had no flexibility with regard to weekly working hours and more than three-quarters can vary their weekly working hours over a full year (see figure 3).

Figure 3: Flexibility in working hours

The 37 hours of work per week is calculated as an average over:	Share of employed per cent	
	In 1998	In 2004
No flexibility	7	2
3 weeks – 6 months	24	7
6-11 months	13	15
1 year or more	56	77

Note: The figures represent around 90% of the collective agreements in the DA/LO area.
Source: DA

The role of the political system

The flexible agreements concluded by the social partners are supported by a public system which combines a relatively high level of unemployment benefits with an active labour market policy.

Those out of work who have been members of voluntary, and subsidised, schemes of unemployment insurance can, if they fulfil certain conditions, get unemployment benefits for up to four years. For workers at the bottom end of the income scale, the replacement rate (i.e. the level of unemployment benefits relative to their previous income) is around 90%, but there are large differences in the level of compensation according to the individual's previous income.

More than three-quarters of the workforce are covered by unemployment insurance and the remaining quarter by social assistance schemes at a lower rate. The generous level of unemployment benefit is, in the short term, one of the factors which gives Denmark its flexible labour market, because it makes it relatively easy for employers to dismiss workers and virtually cost-free for employees to change jobs. A high level of compensation also engenders a feeling of security and enables people to leave their jobs in order to search for new, and perhaps better, ones.

Active labour market policy

The concept of "activating" the unemployed counterbalances the generosity of the social security system. With the labour market reforms of the 1990s in particular, there was a shift towards a more active labour market policy, with the focus on giving the unemployed the skills and qualifications to equip them for new job opportunities while at the same time strengthening their rights to unemployment benefit, coupled with, for example, an obligation to be available for work. These labour market reforms were implemented in cooperation with the social partners.

The most recent labour market reforms have focused on further reducing the length of time for which the unemployed receive benefits and increasing the availability and mobility requirements. These reforms have also increased the focus on shorter courses in job-seeking and on clarifying the possibilities available to those out of work, as well as on guidance for the unemployed.[9]

The current rules of the active labour market policy are as follows. The unemployed benefit from an individualised programme of contacts with the Danish employment service, with every third month as a minimum. Within the first year of unemployment, an action plan for each unemployed person has to be drawn up. After the first year, those out of work have to take part in some kind of "activation" programme, and must have a new offer of activation made within six months of their last contact with the labour market.

The interplay between the social partners and the political system

The system created by the social partners is dependent upon shared competences *vis-à-vis* the political system. If the politicians legislate in areas which are the domain of the social partners, there is a risk of the balance between the social partners being shifted, undermining the fundamental basis of the system. A couple of examples suffice to illustrate how responsibilities are shared.

With regard to the rules governing the engagement and dismissal of workers, the Danish regulations agreed by the social partners are among the most flexible in the EU.[10] The system is supported by the high level of unemployment benefits and the fact that unions have focused on the development of workers' competences rather than on more formalised job security. The system is not aimed at avoiding unemployment, but rather at getting the unemployed back to work by making them employable. The characteristic of the Danish labour market is thus not one of job security, but rather employment security; i.e. security does not come from having the same job for as long as possible, but rather from being able to qualify progressively for the many new job opportunities which arise in a dynamic labour market.

The collective agreements contribute to an ever-greater extent to the security of workers in those periods of their lives when they are temporarily or permanently absent from the labour market. In addition, since the early 1990s, all workers in the DA/LO area have contributed to a pension scheme, with most currently contributing around 9-10% of their earnings to such schemes. In total, more than 90% of all workers are covered by some kind of labour market pension scheme.

3. The challenges facing the system

Like the rest of Europe, Denmark faces two major challenges in the years ahead: the ageing of the population and globalisation. Both demand, among other things, a flexible labour market with a high rate of participation and with a highly qualified labour force. The flexible Danish labour market, combined with its social security system, is an advantage in this context.

Studies show that Denmark is relatively well-prepared for globalisation and has coped well with previous large-scale industrial readjustments such as the outsourcing of the textile industry. From 1975 to 2000, employment in this sector fell by 80%, corresponding to around 50,000 jobs. However, around two-thirds of the workers managed to find new jobs within a year and only one in six were unemployed or in activation a year later.[11] Studies show that while in the short run, outsourcing is causing job losses, in the longer run it creates new jobs and hence boosts economic growth.

This is probably also the reason why most Danes are not afraid of globalisation. According to a survey conducted by Gallup this year, only 4% of Danish workers believe there is "a very large risk" or "a large risk" of their job being outsourced to another country, and a large majority (95%) think there is "little risk" or "no risk" of their job being outsourced. And if they should lose their job, 59% of Danish workers believe that it will be "easy" or "very easy" to find a new job, with only around one quarter thinking it will be "difficult" or "very difficult".

This survey corresponds to the numbers in the "security index" published by the OECD in 2004, in which many Danish workers, when asked: "Do you worry about the possibilities of losing your job?", replied: "I don't worry at all." This is in stark contrast to workers elsewhere, especially in southern Europe, many more of whom answered: "I worry a great deal". Denmark, together with Norway, the Netherlands and the United States, ranked highest in the security index, while workers in Spain, Portugal and France were the most insecure.[12]

The Danish flexicurity system should enable us to deal with the future challenges relatively smoothly, but it has to be coupled with a well-qualified labour force. In this area, the Danish system has so far not been able to deliver. Denmark ranked only 11th in an international comparison of the proportion of people in the labour force with a higher education in 2002. If the number of youngsters obtaining a higher education does not increase, Denmark will fall to 14th place in 2020.[13]

To improve the workforce's qualifications, various measures are needed. These include improving the quality of primary and secondary schools. No other country spends as much as Denmark on its youngest school pupils, but Danish pupils' reading and natural science skills are still below those of their counterparts in several other OECD countries.[14]

It is also necessary to reduce the number of people with no qualifications at all. Around 30% of all Danes aged 30 to 65 have no qualifications, and special initiatives must be launched to reduce this number.

The ageing of the population puts enormous pressure on the labour force and the financing of the welfare state. Fewer and fewer persons in the labour market have to support a larger and larger number of "non-active" people, such as children and the elderly. Even though the participation rate in Denmark is already quite high by international standards, there is still potential for improvement. More than 900,000 people aged 15 to 65 receive some kind of benefit from the public authorities, corresponding to more than 25% of the population. Many of these are not able to work full-time, for example because of health problems, but the failure to integrate refugees and immigrants fully in Denmark is also a factor. Immigrants and refugees have a very low participation rate, especially among women. There is no doubt that the process of integration has to be improved in the future.

Denmark spends more than any other OECD country on active unemployment measures and unemployment benefit,[15,] but the effectiveness of the active labour market policy also has to be improved.

Lastly, the participation rate among 60-65 years old is very low. The question of how to deal with this problem is currently being hotly debated in Denmark.

Hans Jensen is President of the Danish Confederation of Trade Unions, LO, and Jørn Neergaard Larsen is Director General of the Confederation of Danish Employers, DA

Endnotes

1. In this chapter, the Nordic countries refers to Denmark, Finland and Sweden
2. European Commission & Eurostat, 2004
3. OECD, 2005
4. European Commission & Eurostat, 2004
5. Watt, 2004
6. Vejrup Hansen, 2000
7. Albæk, 2005
8. OECD,2005
9. Bredgaard et al, 2005
10. Anderson et al, 2005
11. Bjerring Olsen et al, 2004; and Ibsen et al, 2005
12. OECD, 2004a
13. OECD, 2003 and 2004b
14. DA, 2004
15. OECD, 2005

Learning the lessons of the Nordic experience

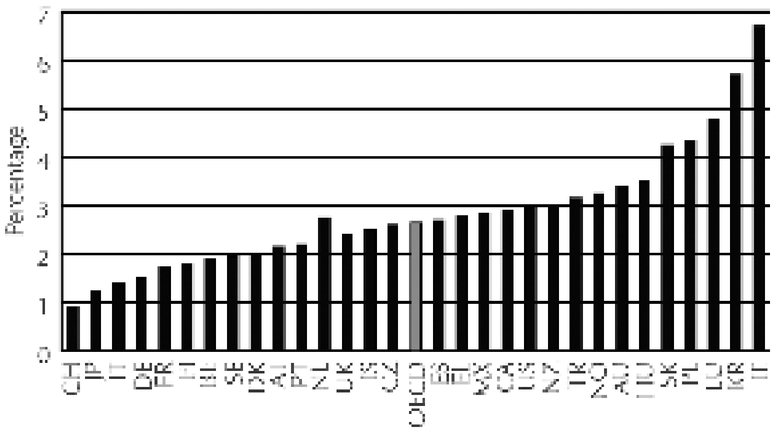
by Göran Hultin

Introduction

Of late, the "Nordic model" has increasingly been the subject of European debate. There is a risk, however, that expectations will be raised of solutions which will enable others to emulate the Nordic countries' success in combining competitiveness with high levels of social benefits when, in fact, there may not be a "Nordic model" in the sense that it is referred to in the current political debate.

European efforts to pursue the Lisbon Strategy are increasingly being overshadowed by a number of realities. The scarcity of new employment opportunities is undermining Europeans' confidence in their future. This feeling of insecurity has not only diminished citizens' faith in their political leaders, but is also detrimental to the mobilisation of popular support for the European project, the long-term impact of which is hard to predict.

Graph 1: Growth rates of real GDP
(average annual growth in percentage, 1991-2003)



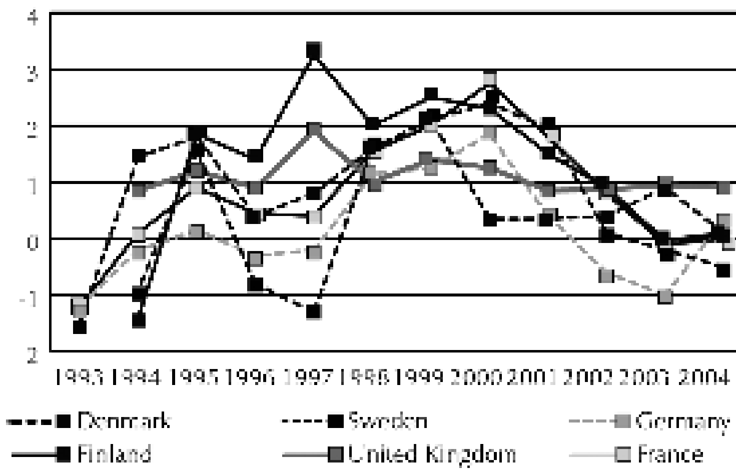
Source: OECD Factbook 2005

In comparison to the United States, the European economy continuously underperforms. A snapshot of the situation at a given moment might not seem too dramatic. For every month that passes, however, global leadership is lost in all strands of life: in science, in the markets and politically. The longer this trend continues, the harder it is going to be to catch up.

The UK has done better, in economic terms, than most of its major continental counterparts (see Graph 1) and this has translated into robust and stable job creation (see Graph 2). Over the same period, the Nordic countries also experienced good employment growth. However, this fell to zero in Denmark and Finland in 2003 and 2004, and Sweden has also seen jobs disappear from its labour market.

Balancing policy choices with political realities is not easy. Consequently, in spite of the UK's economic and job creation track record, the Anglo-Saxon model remains an awkward topic for debate in the continental context.

Graph 2: Employment growth rate



Source: OECD Statistical Database

Labour markets – a competitiveness factor

On the policy level, competitiveness is a combination of many factors, primarily relating to the economy and social stability. The availability and quality of human capital is of key importance in determining the dynamism of our markets and the effectiveness of our investment in research and development. Labour markets therefore play a vital role in how we put our economies to work, how we prepare our labour forces for the future and how we engage them in Europe's competitive challenge.

In its recent study "Putting Europe to Work", the Centre for European Policy Studies (CEPS) considered the European labour markets and their relative performance. While policies differ from one country to another, there is a striking similarity in the macroeconomic and labour market outcomes in the UK and the Nordic countries.

Skills and versatility – adapting to rapid change

The economic downturn in the early 1990s hit all of the Nordic economies quite hard. Jobs disappeared, resulting – as Graph 2 illustrates – in negative employment growth. The Finnish and Swedish economies were particularly hard hit. In the course of little more than a year, unemployment in Finland shot up from around 3% to nearly 20%. However, within less than two years, the economies of both countries were growing and creating jobs again.

Long-term investment in education and training in the Nordic countries certainly was of key importance to the economic development which followed. A high level of education made it possible for technological advances to be adopted and applied quickly, enabling the Nordic countries to become leaders in several areas of information and communication technology. A highly-skilled and versatile workforce, particularly in the technology sector, has also been a competitive asset in keeping up with rapid developments and adapting to new ways of organising work and tasks in a continuously changing world.

A Nordic model – different solutions

The policy choices the Nordic countries have made are, in many ways, very different, particularly in relation to issues such as the role of collective bargaining, the objectives and priorities of employment policies, and the financing of employment-related benefits. It is nevertheless intriguing that despite these differences, all the Nordic countries consistently top international rankings in various fields, most notably those related to competitiveness.

Collective bargaining has traditionally played a fairly strong role throughout the Nordic countries. However, over the years, major changes have been made which have further underlined the differences in this role, with collective bargaining acting as a substitute for legislation in Denmark and being complementary to it in Finland. At the other end of the spectrum, national-level collective bargaining has given way to a decentralised process in Sweden. Consequently, the role of collective bargaining has shifted from national-level policy-making to sector- or enterprise-level bargaining.

A combination of passive and active labour market policies is also a common feature of the Nordic countries. What differs from country to country is the relative balance between passive and active measures, and the underlying labour market strategies. Stability and security for employees has mostly been given priority by policy-makers over meeting the increasing need for dynamic flexibility in markets. Employment protection has therefore been the policy bias. However, Denmark has made it relatively easy to lay off workers, combining this with high levels of unemployment benefits and successfully focusing its employment policies on re-employment.

All the Nordic solutions are expensive and, in one form or another, the economy has to bear the cost of these social programmes and unemployment benefits. The question of cost distribution may therefore seem trivial, but is in fact likely to have a major impact on incentives and disincentives, and, through them, on labour market outcomes. There are also some big differences in approach: for example, the burden of meeting non-wage costs varies, with employers bearing a major part of it in Sweden and Finland and the employee bearing most of it in Denmark.

Labour participation – enabling women to work

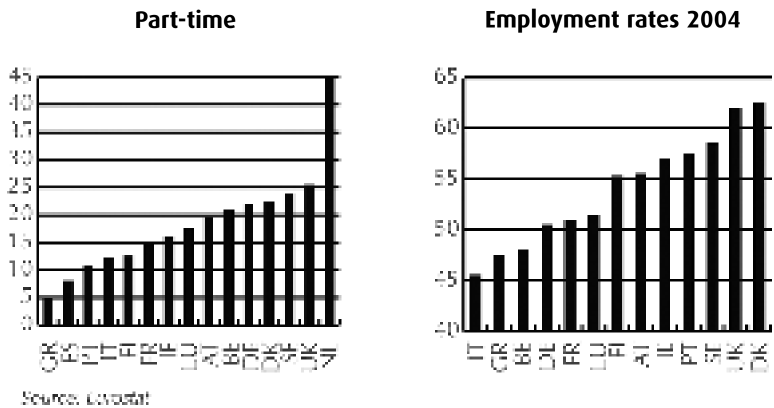
While the Nordic countries have attained the same levels of labour participation as the US, across Europe as a whole, labour participation is lagging far behind. Given our ageing workforce, there is concern that the gap will increase, with particular difficulties encountered in including older women in the labour market.

A high level of participation by women in the labour market is a common factor in the Nordic countries, and is rooted in their history and culture. It provides not only a welcome addition to the family income, but also a necessary one. The availability of day-care services for children has clearly facilitated the attainment of the current high levels of female participation in the labour market. There has, however, been a slight decline in the 1990s, which could reflect the fact that women are now spending longer in education – they are getting a higher level of education now than they did before and consequently entering the labour market later.

Although part-time work has not been encouraged in the past, there seems to be a growing demand for it. The CEPS study found that "the rise in part-time work can mainly be attributed to the rise in demand by female workers". Labour market flexibility – in the form, for example, of part-time and temporary work – is giving people more lifestyle choices.

The UK has caught up with the participation rates in the Nordic countries mainly by making it easier to reconcile family obligations with work and thus making it possible for women to engage in productive work. The highest employment rates in the EU are recorded in Denmark, the Netherlands, the UK and Sweden. Not surprisingly, the same countries top the statistics for the use of part-time employment (see Graph 3).

Graph 3: Part-time employment and employment rates

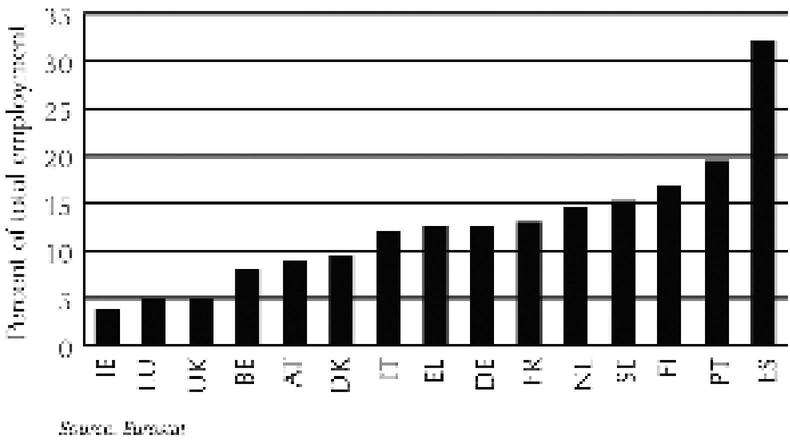


Labour market policies – flexibility with security

Companies need to adjust to changes in market needs and technology by developing new supply, production and delivery systems, and inventing more efficient and effective ways of organising work. Given the rapidity and frequency of the changes, inflexibilities in labour markets limit the employment-creating potential of the economy.

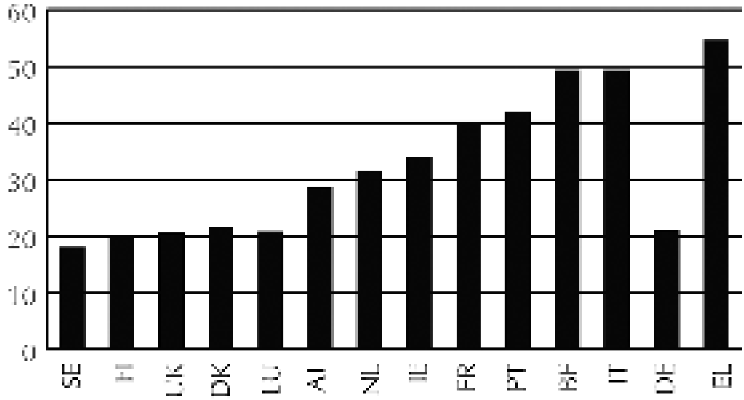
The CEPS study highlights labour market rigidities as a driver for fixed-term employment contracts. While flexibility is more and more a complex concept, a high incidence of fixed-term contracts may nevertheless provide an indication of underlying rigidities in the labour markets. In this context, it is interesting to note that Sweden and Finland are at the higher end of the EU spectrum when it comes to fixed-term employment, while Denmark and the UK are at the lower end (see Graph 4).

Graph 4: Share of fixed-term employment, 2nd quarter, 2004



The International Labour Office's programme on "Flexicurity" promotes flexibility together with security, and derives a great deal from the experience in Denmark. As already mentioned, the combination of active and passive labour market policies plays an important role and the balance that has been struck in Denmark seems to have worked well. Not only does Denmark pride itself on having the highest employment rate in the EU, but it also has, together with the UK and the other Nordic countries, the lowest incidence of long-term unemployment (more than one year) (see Graph 5 overleaf).

Graph 5: Long-term unemployed (more than one year)



Source: Eurostat

As mentioned earlier, Danish employment policies have departed from the otherwise common bias in favour of employment protection. In comparison with the other Nordic EU countries, laying off workers is relatively easy. It is a testament to the success of this approach that even though Danish workers generally keep their jobs for shorter periods than most of their EU counterparts and have the lowest levels of employment protection, they are still among the least concerned about losing their jobs. The implication of this is that the feeling of security does not come from staying in a job, but rather from the ease of finding another one.

The system also functions as a flexibility buffer for enterprises, much like temporary work. At times of low business activity, companies can trim their staffing levels more easily than in the other Nordic countries. ILO research suggests that more than 30% of the employees who are made redundant are later rehired by the same employer.

Although they differ from each other, the active labour market policies of the Nordic countries all come at high cost and their elevated taxes on income are often cited as a burden on competitiveness. Denmark spends about twice as much of its public funds on employment policies as Finland and Sweden, and UK spending in this area is just 10% of that in Denmark.

A responsible social dialogue – shared interests

During the recession in the beginning of the 1990s, the public debate focused on the limitations imposed by the labour markets on the ability of countries to adjust to new realities. Not only was globalisation changing the premises on which the economy was based, but for Sweden and Finland, the European integration process also precipitated economic restructuring. Labour market mechanisms and the role of the social partners were challenged, and often accused of being part of the problem rather than part of the solution.

A number of important developments have nevertheless occured. Sweden has shifted from its earlier centralised system towards decentralisation to recognise the differences between sectors and to allow for flexibility in wage levels. The social stability in Finland during its deepest recession since World War II and its remarkable recovery from the economic downturn would have been impossible without the social pact which was agreed between employers and workers.

The role of the social partners in the Nordic countries is vastly different from that in the UK. It is also in striking contrast to that in some major continental countries, given the rigid and confrontational nature of their industrial relations.

The common features of Nordic industrial relations include representative social partners who, while they may have different solutions to offer, have a common understanding of the challenges. Their shared sense of purpose has proved a constructive force in determining the way in which their economies managed to promote and manage change in the 1990s.

Conclusion

Competitiveness is a complex issue made up of more than just the labour market elements addressed in this article. They are, however, an important factor in creating dynamic markets and competitive economies. They are a particularly important consideration in the Nordic context, where social welfare is high on the agenda.

A number of lessons stand out from the Nordic experience: the importance of education, skills and a versatile workforce; promoting arrangements that make it easier for women to engage in work; promoting flexibility with security; and building an industrial relations culture based on shared goals.

The Nordic countries have done well in international comparisons of competitiveness. While they all maintain high levels of social security and welfare, they have done so by adopting very different solutions. The benefits come at a high cost and viability depends on the Nordic citizens' commitment to the system and their willingness to pay for it.

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The Nordic model, gender equality and birth rates

by Sture Nordh

Gender equality determines economic growth

Some say that high social ambitions cannot be combined with economic growth – that they are like oil and water – and social welfare must be reduced to increase competitiveness. I say that welfare is a precondition for sustainable economic growth, not an obstacle to it. I also believe that gender equality has a lot to do with sustainable economic growth and developing the welfare society – so much, in fact, that sustainable economic growth in developed industrial countries will largely be determined by their success in making it easier for women to combine a professional career with family life.

The Nordic countries have attracted a great deal of attention recently for maintaining relatively high economic growth while at same time sustaining a strong welfare society. The region stands out in many areas – life expectancy, literacy, equality between men and women, the low level of poverty, etc. – and is usually placed at the top of the world league by the United Nations when it comes to welfare indicators. Strong trade unions and very high level of trade union membership have played a big role in developing the social welfare system.

Perhaps surprisingly, the Nordic countries also have some of most open and flexible markets in the world and are ranked amongst the most competitive – generally on a par with the United States and sometimes even ahead of it – in a range of surveys. They also attract significant amounts of foreign investment, thanks mainly to their highly advanced infrastructures, high-tech environments, stable economies and well-educated labour forces.

The Nordic region is characterised by technological innovation, collaboration between labour and management, and strong educational and research capabilities. Its countries are home to some of the world's most important multinationals. In short, the Nordic model holds its own both in terms of competitiveness and its high level of welfare.

As the Nordic model depends on a high employment rate, the Nordic countries also implemented policies aimed at improving gender equality and female enrolment in the regular labour force earlier than many others in Europe. Their experiences may therefore be worth considering in other European countries when it comes to approaching gender equality, demography and the work-life balance.

The perilous demography

The Nordic model, like many other social models in EU Member States, rests on welfare systems in which the population accepts mutual responsibility for pensions and for life's risks, such as illness and unemployment. An ambition to create social equality presumes a demographic balance between the working and inactive population. Demographic imbalance jeopardises both welfare and growth.

The EU currently faces a demographic imbalance, with low birth rates straining social welfare systems. While there are substantial differences in the situation in individual countries, the overall picture is alarming. By 2011, the working-age population of the EU-25 will already be falling. According to the European Commission's calculations, this demographic trend could lead to a decrease in the potential growth rate from the current 2-2.25% to about 1.25% by 2040 at the latest. Without the help of immigration, the population of many countries would have declined already.

In the EU, the female employment rate has increased from 52% to 59% in the last decade alone. This is a sign of a more equal society, where it is taken for granted that women will be gainfully employed and have careers. However, despite this increase, women still have a lower employment rate than men in the EU, with a gap of nearly 20% between the sexes. This is unacceptable and shows that women still are discriminated against.

Improving the prospects for economic growth would require more people to be in employment, and increasing female employment is one key way to improve this. But many Member States face a dilemma, since trying to raise the employment rate among women would, in many cases, reduce birth rates and thus jeopardise long-term economic development.

One of the main reasons for the lower female employment rate is that it is impossible for many women to combine parenthood and work. In many EU countries, the female employment rate decreases radically when the first child is born and there are signs that it does not recover much after the children become adults, while, by contrast, the male employment rate increases. The reality for women in many countries is that they are forced to choose between children and work.

It is striking how widely European countries vary with regard to birth-rate and population structure. In Sweden and in other Nordic countries, population trends are expected to be relatively favourable by international standards. The opposite applies to a range of other European countries.

It is still difficult for women, in particular, to combine work and family life. Limited access to childcare and gender-stereotypical family patterns add to problems of work-life balance. Women do most of the housework and therefore have less time for salaried work. According to the European Commission, men do less than 40% of all housework and, among couples with children up to the age of six, men provide only 25 to 35% of childcare. The right to paid parental leave also varies greatly. In many Member States, it is extremely short, forcing women to either stay at home with their children or return to work and make private, and often costly, arrangements for childcare. Limited rights to parental leave are often associated with poorly developed childcare arrangements for younger children.

Gender equality is a matter of both improving human rights and sustaining higher economic growth through gainful employment for both men and women. If we fail to recognise both these dimensions, we lose some of the tools for improving living and working conditions. It is about promoting individuals' rights and choices irrespective of their sex.

The most important key to understanding the issues surrounding the supply of labour necessary for long-term economic growth can be found in the question of gender equality. Addressing future labour-supply concerns must include increasing female employment rates. If this is not combined with childcare and generous rights to parental leave, the birth rate will fall alarmingly in the future. An equal working life and a more even allocation of responsibilities between men and women in the home are not only a matter of equality and justice. They are necessary for long-term economic growth.

Individually-based systems promote gender equality

Despite their shortcomings, the Nordic welfare systems have, in many respects, managed to achieve their welfare goals better than many other countries. Small, export-driven economies – where the pressure to adapt is huge and changes in working life are a constant feature – need a strong, fine-meshed welfare system to give people the courage to make the necessary changes and ensure they are helped to adapt.

Full-cover social insurance schemes and high benefit levels designed to protect the individual against a loss of income while providing incentives both to work and to raise children are some distinct features of the Nordic welfare systems. Strong prioritisation of equality between men and women, with extensive support for the parents of small children, is another. Significant and, by international standards, successful efforts have also been made to reduce social divisions, supported by the prioritisation of low unemployment rates and safe working conditions.

This emphasis on gender equality and a high rate of employment among both men and women promotes equal possibilities. Furthermore, the Nordic welfare systems are based on the individual and not on the family, which is also important for gender equality. Individual taxation and benefits do not encourage traditional family patterns where the women are supposed to stay at home and the men to work. Compare this with the Continental model, which is based more on the family than on the individual. Families – which, in reality, often mean women – are expected to provide the care needed by children and old people to a much greater extent. The Anglo-Saxon model has a more market-oriented approach and relies on public funds to a far lesser degree, and benefits are more selective.

The Nordic system of general welfare and equal rights assumes that women and men should have the same opportunities, rights and responsibilities in all significant areas of life. This includes an equal division of power and influence, the same opportunities to achieve economic independence and equal access to education. Shared responsibility for work in the home and with children is vital for work-life balance.

Trade unions and employers have a major responsibility to prevent and disclose discrimination in the workplace. Yet, despite the strength of the trade unions in Sweden, there is still serious discrimination against women. Equal pay for the same job has not yet been achieved in practice. This is the reality, although younger women are better educated than men.

Equal rights should also mean that fathers have the opportunity to be with their children and the same responsibility to take care of them. In Sweden, parental leave for fathers was introduced in 1974. However, although there has been an increase in the number of fathers taking long periods of parental leave, the proportion of days taken by women still far outnumbers those taken by men.

A survey by TCO (the Swedish Confederation of Professional Employees) has shown that discrepancies in equality between parents are established most strongly during the first few years of a child's life. Fathers' wages and salaries go up during this period, while mothers fall behind their peers. Having children has a distinct effect on wage structures. For example, women with children are paid a lower wage per working hour than childless women. For men, the opposite applies: fathers earn more per hour than men without children. There is something old-fashioned and stale in the values which lead to this type of wage discrimination.

There is also a high level of gender-based occupational segregation – both absolutely and in comparison with other countries – with about 50% of Nordic women working in predominantly "female" jobs. Occupations dominated by women are often associated with lower pay and fewer career opportunities.

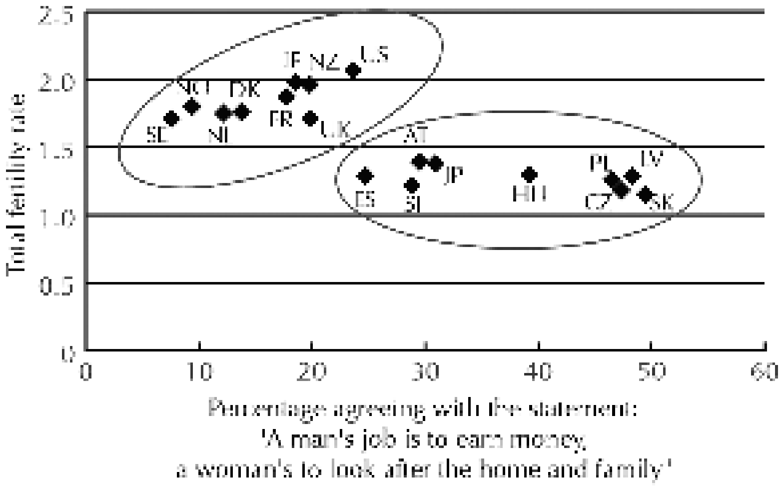
Attitudes promote gender equality and economic growth

Systems promoting gender equality are not enough; sometimes attitudes matter more. In mature economies, attitudes toward gender equality and the ability of both men and women to combine gainful employment and education with family life will be decisive for gender equality and birth rates, and therefore for favourable economic development.

In 2002, the International Social Survey Programme-ISSP conducted an opinion poll on attitudes towards equality in number of countries, and asked people whether they agreed with the following statement: "A man's job is to earn money; a woman's job is to look after the home and family."

In Sweden, roughly every tenth respondent agreed with this statement. Similar results were recorded for the other Nordic countries, and the Netherlands. However, in Slovakia, Latvia, Czech Republic and Poland, almost half of the population agreed with the statement.

Birth rate and gender equality



Sources: Eurostat, UN and ISSP

When comparing attitudes towards gender equality with birth rates, the correlation is very strong. This indicates that in modern societies, negative attitudes towards gender equality make it difficult for men and women to combine family life with education and gainful employment, and that this affects birth rates.

The countries involved can be sorted into two main categories. One includes countries such as Sweden, other Nordic countries, the Netherlands and France, for which the data indicate strongly or moderately favourable attitudes toward gender equality. In these countries, the birth rate is comparatively high, thus providing more favourable conditions for long-term demographic and economic development.

The other category includes countries such as Austria, Japan, Spain and Hungary, for which the data indicate much less favourable attitudes towards gender equality and low birth rates. Out-of-date attitudes towards gender equality in these countries make it difficult for women to combine parenthood with working life, as a result of which many postpone, or abstain from, child-bearing.

Challenges for Europe and the Nordic countries

In my view, gender equality is crucial to create a sustainable working life and economy. Birth rates must increase and the financing of the welfare system needs to be discussed. For the Nordic countries, an increase in labour supply is crucial. This is not, of course, a challenge exclusive to the Nordic countries, but we are perhaps more vulnerable than others because of the risk that the number of hours worked will become insufficient to finance our welfare commitments.

We also need to meet the challenge of trying to accelerate both the employment rate and productivity at the same time. Today's younger generations are starting their working careers later than previously, and in as much as this is simply a result of increased further education, it is an entirely positive trend. However, in the case of Sweden, this is not the only reason. It also results from various forms of early retirement schemes, which risk shrinking the size of our working population.

To prevent the older generation from opting out of working, we must increase mobility among older members of the workforce. Their employability can be improved by encouraging life-long learning and the development of personal skills by, for example, setting up personal development savings schemes. However, reforms of work organisation and a change in attitudes will also be needed to take account of the fact that the workforce is growing older. To focus on the two ends of the workforce, the young and the old is, in my view, imperative to improve the dynamics of the labour market.

I believe that maintaining a generous welfare system is key to improving participation in the labour market. Recent research shows that more generous welfare systems with earnings-related benefits generate a stronger commitment to take part in paid work.

Financing our welfare system also requires the maintenance of high tax revenues, given that it is financed primarily through taxes. The globalisation of the economy will put increased pressure on certain taxes. Small economies must have competitive tax policies. Research has not demonstrated any clear connection between total tax levies and economic growth, although the structure of the tax system can in itself promote or prevent growth. We can continue to levy higher taxes than other countries on condition that we provide high-quality services, a stable growth rate and a high rate of employment.

But we need a thorough discussion on our approach to the long-term financing of our welfare systems. In my view, certain social undertakings must be financed by taxes, and be governed by democratic rules in public services to avoid serious negative-security and distribution effects. These include legal protection, education, research, and nursing and health care. The financing and effectiveness of public sector services are crucial for maintaining and improving equal opportunities.

A general welfare system with high benefits and high taxes cannot be sustained without the continued support of the middle class. All international experience shows that wide-ranging welfare ambitions presuppose that the middle classes are generally willing to pay into the public purse. If they withdraw from the collective systems, the foundation of the strong welfare state will crumble. This applies both to confidence in general welfare services and in social insurance. Therefore, the middle class must also benefit from public social insurance schemes and public services. Cutting the level of parents' allowance benefits or reducing the recipients of benefits to the poor or low-wage earners would jeopardise middle-class support for the welfare system. Once the intermediate groups feel that they are paying a lot but receiving little in return, the entire system risks collapse.

In the context of the European debate, ISSP's survey highlights the importance of influencing peoples' attitudes. Without strong support for gender equality, not only in words but also in concrete deeds, at home, at work and in society, gender equality will only be a buzz-word used in applications for EU grants. Even more importantly, half of the population will suffer unjust and unequal treatment, and our economies will suffer a loss of potential.

In all countries, people's willingness to participate in gainful employment is likely to vary at different stages in their lives. Most of us want to (and can) work hard before we have children. Then, when we have small children, we cannot work as much as we did before. Once our children have grown up, we can perhaps increase the number of hours we spend at work. Then, after the age of 60, we might need to cut down again. If we are to make the best possible use of everyone's willingness to work, we must ensure greater flexibility for individuals. If we want to include everyone, we need to focus on improving the conditions for both women and men.

Today, in many European countries, children are a high-risk project for women. For many, they mean less of a connection to the labour market, lower income, a greater risk of poverty and lower pensions. By contrast, for many men, children are a "non-project", having very little impact on their labour market situation, the use of their time at home and their earning opportunities.

For the parents of small children, trying to juggle the demands of everyday life is a daily occupation. A new, more demanding approach to work, requiring a degree of flexibility and accessibility from individual employees hitherto unknown, must be combined with responsible parenting. If we are to reconcile the two sides of this equation with any success, access to good-quality pre-schools is not just a necessity for parents. It is also vital for their children's development.

For Europe to increase its living standards, it needs to accelerate employment and productivity growth. Societies which discriminate between people on the basis of gender limit the possibilities for individuals to be both parents and active professionals, and reduce their potential to create value. The knowledge, skills and expertise of all individuals must be developed and utilised, while also achieving a balance between work, family life and commitments to the community at large. Then high economic growth can be achieved without endangering our future.

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Innovations in the public sector

by Helge Godø

Introduction: Providing welfare to the elderly

In an increasingly globalised world economy, the challenges to the Nordic welfare state model cover a broad range of issues related to the future development of the public sector. This involves the vital interests of numerous large stakeholder groups such as the elderly, the unemployed, the chronically ill or disabled, children and adolescents, etc.

Although the Nordic countries may seem homogeneous to outsiders, they are in fact different in a number of ways. Furthermore, within each country, a great variety of solutions may exist – or struggle for existence. However, some elements seem to be shared by all.

The demographic dynamic: The Nordic population is growing older; the proportion of elderly people will increase dramatically in the coming decades. Aside from the formidable economic implications, this development means a dramatic increase in the number of people requiring some type of care provided by public mechanisms because traditional, family-based care of the elderly has become unfeasible for many reasons.

The policy-driven innovation dynamic: The political climate and culture has given local, democratically elected bodies (e.g. municipal councils, district councils) responsibility, and the funds, to implement national policy goals as they themselves consider best, provided that national quality standards are met. Although most local politicians would like much more freedom and funding, this has nevertheless created the space for innovative action and an arena for political discourse and competition in the provision of public services, fostering what may be described as a climate for policy-driven innovation dynamics and entrepreneurship.

A study of innovations in the public provision of care services to the elderly in a district of Oslo, Norway, helps to explain these two points.[1] Although this case study-based analysis is limited, it may provide insights that are significant from a policy perspective; i.e in helping policy-makers to decide how to introduce sustainable, politically legitimate, public sector innovations and how to foster the public sector entrepreneurship which is vital for the further development of the Nordic model.

National action plan for the elderly

Norway's current policy for the elderly was sanctioned by the *Storting* (Norway's parliament) in the mid-1990s. One of its main goals was that public services should, to a large extent, be provided in the recipient's own home or in specially designed care homes. This policy was spelled out in a "national action plan for the elderly".

In the action plan, the government's stated goal was for all local municipalities to develop a 24-hour service providing coverage for 25% of the population aged 80 or above, either in nursing homes, homes for the elderly or care homes. Public investment in the action plan has totalled about 28 billion Norwegian kroner (NOK), and the running expenses increased from NOK 500 million in 1997 to NOK 3.7 billion in 2001.

Providing care services to the elderly in their homes was given high priority in the action plan, and just over 162,000 people received such home-based services in Norway in 2002 (an increase of approximately 20,000 in ten years). Although elderly people are by far the largest group of recipients of home-based services, other disadvantaged groups are included in these numbers (for example, physically disabled young people, the mentally ill, etc.).

The municipalities were given the freedom to design and organise services for the elderly in ways they considered appropriate for achieving these goals. Hence, operational responsibility for providing these services is placed at the local authority level, in municipalities or, in the larger cities, in districts. This explains the variety of solutions and models which exist in terms of the provision of services to the elderly, reflecting what may be characterised as innovation and entrepreneurship.

City of Oslo

Although Oslo has traditionally had (and still has) a large system for providing services to the elderly run by public employees, it is distinct from the rest of Norway because non-governmental organisations also play an important role in providing welfare and care to its citizens. In Oslo today, these NGOs own and run hospitals, homes for elderly, clinics, all kinds of day-care centres, homes for the destitute, alcoholics, addicts and prostitutes etc., orphanages, employment training schemes etc. To fund these activities, the NGOs receive much support from public sources, on the grounds that they are beneficial to the Oslo community; i.e. that they provide services which are perceived as public obligations.

However, with the rise of New Public Management (NPM) ideologies, this is changing, because Oslo's current, right-wing city government wants to introduce competition between service providers. In this process, the NGOs have been classified as private firms and forced to submit tenders for their services, just like any for-profit company.

Policy-driven innovation models

In analysing and interpreting the case-study material from Oslo, it is possible to discern at least five approaches to providing help for the elderly, which may be termed as innovation models in so far as these either:

- represent policy-driven solutions which have introduced new ways of providing public welfare and care services to elderly, or
- represent rival or alternative prescriptions or visions of how public welfare and care services should be provided and organised.

If implemented, these models will introduce new ways of doing things and hence become innovations. However, as the actors involved are often unfamiliar with the concept of innovation, they seem to prefer terms such as "reform" or "renewal", or what others may describe as "reengineering" or "organisational change", to characterise them.

However, implementation of these models requires political power, skills and considerable development. They also represent different ideological and political approaches to the shaping of civil society. Currently, NPM-inspired policies dominate because members of right-wing parties have a majority and hold office both in the local government of Oslo and in the state. However, in some districts in Oslo, socialists hold office and they have enacted their own solutions.

In addition, there are other models struggling for implementation: some of these have been implemented to a limited extent, while others are just political visions. Furthermore, some organisations and groups, including many NGOs, have demonstrated considerable agility and creativity, i.e. a high degree of entrepreneurship in the promotion and development of innovative strategies.

Typologies and models of innovation in the public sector

In analysing and interpreting the case-study material from Norway, it is possible to identify at least five different approaches which may be termed as innovation models in so far as they (mostly) represent policy-driven solutions (prescriptions) that will alter existing ways of providing welfare and care services to the elderly.

The five welfare-provision models which will be elaborated below are the corporative, market-oriented, communitarian, family-oriented and Information and Communications Technology(ICT)-oriented models.

As models, these are analytical constructs, i.e. they are based on interpretation and systematisation of the empirical material. The actors who work in the field and promote these models think of them in terms of political agendas, norms, "missions", "causes", etc. However, many of the elements that make each model different are articulated by their champions in terms of the characteristics which they believe make them distinct.

Corporative welfare provision model

This is the basic model supported by labour unions and some socialist politicians,[2] in which the provision of service remains in the public sector. This model has been implemented in a local district administrative unit in Oslo run by the socialist parties which hold office there now. It consists of two essential elements:

- "Elderly people's basic rights" – providing a rudimentary specification of a standard related to what types and what quantity of services should be provided, derived from concepts such as "the right to feel secure".
- Reform of the organisation of service provision – based on the introduction and development of novel ways of providing services, apparently inspired by industrial models of "democracy and quality in working life" (for example, the establishment of autonomous working groups; career-development schemes; providing empowerment and flexibility to individual workers; non-hierarchical, "flat" organisational structures; etc.) Cooperation with

voluntary, local NGOs in providing services to the elderly is an element of this model, justified by concepts such as "solidarity'.

Market-oriented welfare provision model

This model is now being implemented by the right-wing city government of Oslo in many districts. It bears a close resemblance to the basic tenets of NPM, with two basic elements:

- "User choice" – each senior citizen (also described as a "customer" or "user") has a right to choose (within economic limits set by a public authority) the type of service he or she wants and who should provide it (though it should preferably come from a private sector service provider).
- Competition among service providers – this is designed to ensure "best quality at lowest price", i.e. economic efficiency and benefits for consumers.

In this model, the main role of the public sector is to ensure that the private sector delivers services, and to enable it to do so; i.e. to stimulate the establishment of a market for service provision. Services should not be provided by public organisations because these are rigid and tend to develop agendas that are not in the interests of users – or "our customers", as some politicians are fond of calling them.

Communitarian welfare provision model

This is based on ideologies or religious beliefs which have clemency and helping fellow human beings as an important part of their *raison d'être*. This model is championed by NGOs affiliated to Christian congregations, labour unions, humanitarian charity organisations such as the Red Cross, and special interest groups representing a specific ailment (e.g. dementia), and has two basic elements:

- "The sacredness of humanity" – people in need are eligible for help, regardless of who they are and what caused their misery, because they are human beings.
- Compassion and conviction – the provision of services to those in need is an obligation best met by people who have conviction and compassion.

Supporters of this model have a strong sense of mission and argue that voluntary work and personal sacrifice by dedicated individuals will provide the best aid to those in need. This approach also makes them better at identifying new types of misery (e.g. drug addicts suffering from AIDS) and providing creative solutions to these problems.

Family-oriented welfare provision model

This model is based on the belief that the family – as a unit and as an institution – is best suited to providing help for members of the family who need it: i.e. infants, the elderly, the disabled, etc. It has two basic elements:

- Quality and concerns – the family provides the best context for high-quality care to those who need it; the sanctity of the family and associated traditional female roles (i.e. the "housewife" as a legitimate member of society) should be maintained or reintroduced not only because this makes economic sense, but also because this institution is the foundation of society. Civil society will degenerate if the family dissolves.
- The economic viability of the family – enabling the family to take care of its own members is vital. The family (usually wives, mothers and adult daughters) should receive economic remuneration for the care they provide to those who need it because this saves the public considerable expenditure and because the viability of modern families currently require double incomes, which is not compatible with this model.

ICT-oriented welfare provision model

This model is basically technological or technocratic. Compared with the other models, it is "agnostic'; i.e. its focus is on the efficiency of service provision and related logistical and organisational aspects. As this model assumes that service provision will benefit greatly in terms of efficiency from the introduction and implementation of ICT, it implies that current service provision is not efficient. It also reflects a moral concern for people (e.g. the elderly) who do not get the help they need because of a lack of resources and bureaucratic inefficiency. The two basic elements in this model are:

- Total ICT penetration – all those involved in the provision of care services must be connected to ICT systems (e.g. via mobile communications, etc.) and must become ICT-literate and proficient. The development of relevant, user-friendly ICT-applications is also important.
- Organisational reengineering through the introduction of ICT– by converting existing management and bureaucracies into automated ICT-systems,

significant public resources will be liberated. Simultaneously, different (possibly more autonomous) service provision models will be supported and these will also boost efficiency. These benefits will enable the system to provide more and better services – or save costs, i.e. cut or limit the growth in public expenditure.

Some of these models are more flexible or agile than others in terms of discourse and rhetoric. This is particularly evident in the market-oriented welfare provision model: when the commissioner for social welfare in Oslo (a right-wing politician) was asked to comment[3] on why private service providers who run homes for elderly funded by the City of Oslo under contract were more expensive than homes run by public organisations and NGOs, she replied that competition from private firms in the service provision market had made the latter more efficient, i.e. competition spurs efficiency.

While she now says that she takes a "pragmatic" approach to who should provide services, she and other right-wing politicians had earlier argued that private sector firms are "by nature" more efficient and better than public entities, and that, anyway, market competition and user choice are fundamental principles of the way society should be organised. These principles are incompatible with a public service provision model.

The family-oriented welfare model, with its strong emphasis on the value and sanctity of the family, is less flexible. Many consider its agenda to be anachronistic, even repulsive and reactionary. They believe it will push women "back into the kitchen", i.e. reverse the trend towards gender equality, emancipation and the development of modern female roles and identities.

Nevertheless, supporters of the market-oriented welfare model have sympathy with this model because it is compatible with their notion of user choice and freedom: if people want to take care of their loved ones at home, they should be allowed to do so – that is their choice. This model is also compatible with those sectors of the economy where the basic productive unit is the family-based firm, such as farming and small-scale fishing, although for different reasons than those given by the champions of liberalistic ideologies. Thus there is a close connection between innovation models and political positions; i.e. these models reflect different political and moral beliefs about how public services should be provided. Within this landscape of innovation models, alliances are established between some, while others are incompatible with each other.

Novelty aspect of the innovation models

The concept of innovation implies the successful introduction and diffusion of "something" new – a novelty, which usually means a new product or a process, but may encompass just about any man-made (artificial) phenomenon, object, concept or idea.

The novel aspects of the public innovation models analysed above are not as distinct as those in the private sector. One reason for this is institutional; i.e. there is little or no capacity for the innovations to be "patented". In addition, few of their champions linked their activities to the concept of innovation; indeed, many admitted that they did not understand what innovation meant. Apart from one of the models reviewed above, there is little focus on technology – rather, policy and organisational issues are the core elements of most of them.

All the models seem to be based on a common set of perceptions:

- That the current systems for providing care to the elderly are inadequate, or in crisis (many depict them as "scandalous");
- That there will be a dramatic increase in the demand for care services because of the ageing of the population;
- That there is a compelling need to develop new models for providing care to those in need.

These models also share a common belief in an obligation "to do something", i.e. a sense of mission. For this reason, they may be characterised as basically strategic and policy-oriented. If implemented, they imply varying degrees of innovation and none have a high degree of novelty or originality. Apart from the ICT-based reengineering model,[4] they may perhaps more adequately be described as "reinventions", or, more aptly, as "reconfigurations", "re-innovations" or "reintroductions", because all have predecessors and antecedents, i.e. they represent solutions that already exist or have been implemented elsewhere.

The market-oriented welfare provision model has antecedents and predecessors dating back many centuries, at least in Norway, where a system of competitive bidding was used in rural communities for the provision of shelter, food and care for the poor and disabled members of the community *(legd)*. More generally, this model assumes that private sector solutions are intrinsically superior to public ones and should therefore be transposed to the public sector.

Similarly, the communitarian welfare provision model also has clear historical antecedents; for example, in the role of monastic orders such as the Franciscans and charitable foundations in Oslo dating back to the 12th century. The corporative welfare provision model is also "old" in the sense that many of its elements have antecedents dating back to the early stages of industrial welfare systems.

In spite of these precedents which represent continuity with the past (hence their low degree of originality), they do represent something new, i.e. they are innovations or potential innovations, not least because if they are implemented, they will represent a departure from the present system of welfare service provision. They also reflect a renewal or change in the rationale for shaping and providing care-related services.

Policy implications

As has already been shown, a number of different political agendas and interests compete in trying to influence the shaping of public service provision in Oslo.

Although precise information is not available from the rest of Norway and other Nordic countries, analysis of secondary sources seems to indicate that similar processes are occuring in all Nordic countries because they are facing identical challenges (a dramatic increase in the number of elderly who need care services), combined with various forms of local autonomy in terms of designing service provision to meet these needs.

The political agendas (prescriptions) may be analysed as innovation models in so far as they represent novel solutions to the status quo. Giving democratically elected local institutions such as district and municipal councils the freedom to design public service provision as they themselves consider best is basic to this. Thus, what may be considered a "selection environment" for policy measures exists.

Although this may be considered messy from a technocratic perspective, it has many beneficial aspects in terms of creating a robust and sustainable civil society. In particular, it seems to encourage entrepreneurial activities at the local level, in which NGOs are significant actors in efforts to foster a communitarian spirit.

In this highly competitive environment, entrepreneurs, local politicians, community activists and zealots of all kinds appear to thrive because they are given opportunities to direct their energy and commitment – i.e. their "sense of mission" – towards the development of innovations in civil society.

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Endnotes

1.Cf., H. Godø, R. Røste and M. Broch, Case study report Norway - "Innovation in home-based services for elderly", Working paper D 18 for PUBLIN, NIFU STEP, Oslo, May 2005.
2. The Norwegian Labour Party is ambivalent towards NPM; some parts of the party (in particular high-level technocrat members) are sympathetic to NPM and have advocated its introduction. In this sense, they have sympathies with the the market-oriented welfare provision model. Others, with close ties to labour unions representing public employees, are critical of and opposed to NPM
3. Cf. Aftenposten (Norway's largest newspaper), afternoon edition, 27 November 2004, article "Skulle spare, privatisering ble dyrere" [Intended to save money, privatisation became more expensive"]
4. This model is comparatively new because it is base on technologies and software that have become widespread during the 1990s.

Learning from Denmark? Reflections on the "Danish miracle" from a French angle

by Jean-Claude Barbier

The "Danish model" – supposedly combining security and flexibility – has recently become fashionable in France, with many politicians and economists suggesting that some of its characteristics should be copied. However, a detailed analysis of Danish society reveals that the picture of a "Danish miracle" being painted in France and used to legitimise certain reform projects is not entirely accurate.

The first crucial thing to recognise is that the Danish model clearly cannot simply be imported into France. Denmark is a small, relatively rich and homogenous country which does not suffer from the existence of widespread "precarious employment" situations[1] which so trouble France. While collective fear of this precariousness reigns in France, confidence prevails in Danish society.

For France to learn from Denmark, a simple lesson in sociology must first be absorbed: in order to be effective, reform of employment and social protection systems must be part of a global and consistent social reform. This fact is, however, unfortunately ignored in most economic analyses and political statements.

Overdue discovery

The situation in France has finally triggered a debate in political and administrative circles about the way forward. The necessary momentum has been created by several factors, including higher unemployment figures after the period from 1997-2001, but above all as a result of the launch of important reforms in the labour market and in the system of social protection.

Denmark, which is constantly praised in the context of the European Employment Strategy (EES), is portrayed as the perfect "model" in the current French debate, unlike the UK. Public opinion, as shown by the referendum on the EU constitution, is weary of "liberal" policies, even though the UK is considered to be one of the best-performing countries in the EU.

Some three years ago, another report evaluating temporary employment in the public and non-profit sector underlined the Danish success in this area and highlighted one of the important points missing from the French debate today. Public employment in Denmark – which has only a small minority of civil servants *"à la francaise"* [2] – is among the highest in Europe. Furthermore, temporary combined employment/training in the Danish public sector is one of the main ways in which the unemployed and those on social benefits are given job placements, despite the greater emphasis put recently on short-term vocational training.

One key feature of the Danish system discussed as part of the French debate is the flexibility of its employment contracts; the ease with which companies can recruit and dismiss workers is remarkable. However, many ignore the other aspects of the Danish "golden triangle" – the generous social protection and the importance of so-called "active" policies. Much less is said about the role of employment in the public and service sectors. The favourable characteristics of this small country from a macro-economic point of view, its industrial network and the shrewdness of its budgetary policies since 1994, must also be taken into account. These are all factors which have played an important part in its overall performance.

In Denmark, there is no perception of "the precariousness of employment". In the Danish context, this stems from the "social trust" established long ago, which has its roots in the September 1899 compromise *(Septemberforliget)* between the social partners, in the form of a "conflictual consensus".

There are several reasons why the Danish people do not suffer from "precarious employment". The Danish system is coherent, exhaustive and works on the basis of an "obligation to achieve results" which applies to everyone of active age. It works as follows: the unemployed receive a generous subsidy which is based on equality (unemployment insurance benefit is paid for a maximum of four years)[3] and assistance benefit is long term (there is no time limit on assistance, as is very often the case in Europe). A couple on average salaries where the wife normally works part-time and is unemployed for a full year would only lose 10% of the income they would have had normally received. Median-wage employees who are unemployed for a full year get 60% of the income they could have expected while in full-time work.

This generous support is complemented by active support in searching for jobs: vocational training, subsidised contracts in the public or private sectors etc. However, contrary to the reputation of this "universal" activation and despite the Danish success, which cannot be denied, it does not represent a miracle: access to employment is not being guaranteed for all time and for everyone. The "rate of activation", calculated on the basis of the indicators in the EES, was below an average of 25% in 2004, which means that, at a given moment, the majority of those out of work received insurance or aid without being "activated". Tackling this problem is the key objective of reforms being introduced this year. However, the maintenance of generous and long-term aid will be crucial to avoid "precarious employment" *à la française*.

So how does this "activation" really work? A recent study found that training was the main resource offered to the unemployed, even though the country's conservative coalition has, since 2002, considerably modified the previous priorities established by the Social Democrats in 1994. However, several studies have shown that the training provided is not as efficient as it might be and the authorities have tended to limit the part it plays in "activating" the unemployed in the last three years. And while training plays a role in giving people new qualifications, some unexpected effects were discovered: for example, a short time before they are asked to present themselves for training, the unemployed appear to increase their efforts to find work. Vocational training, however, remains crucial.

The 1994 reforms introduced by the Social Democrats were based on a "give and take" system: the promise, which has been kept, not to reduce unemployment benefits and to improve the services available to the unemployed, in exchange for a commitment from them to respond favourably to requests from the public employment service and assistance services in the communes.

A comparison between the severity of the sanctions for non-compliance with this requirement in France and the UK, with its well-known punitive tendency, is useful at this point. On paper, the sanctions imposed on those who do not respect the contracts they signed with their unemployment office are severe. In reality, the surveys I have carried out in Denmark show that the number of cases in which sanctions are actually imposed is very low: estimates vary from between 500 and 1,500 per year out of a total of little more than 200,000 people.

This is not, however, the key issue: in Denmark, unemployment insurance is managed by trade unions, even though it is mainly financed by the state, and the relationship between the unemployed, funds and employment centres is such that mutual engagements are respected in the vast majority of cases precisely because they are mutally agreed. The "contract" which fosters trust between the individual and the public employment service, the communes and the trade union funds[4] is based on the fact that if those out of work abide by the commitments they have made, the benefits they receive are extremely generous by international standards. In addition, because of the relatively low inequality between after-tax wages (taxes, at a relatively high rate, are universal), the difference between being paid unemployment benefits and being paid a wage is moderate for the majority of employees by European standards. In Denmark, the range of salaries and income is significantly lower than in France.[5]

Furthermore, as has been shown by the comparative surveys published in various editions of "Employment in Europe" by the European Commission, the proportion of poorly-paid jobs is lower in Denmark than in France (8.6% of the Danish jobs were badly paid, compared with 15.6% in France, in 2004).

As the rules governing workers' rights are flexible, companies enjoy important freedom to adapt which – thanks to the role played by the social partners and the public's trust in the system – have resulted in low levels of long-term unemployment, high mobility on the labour market and income security. A recent report from the Cerc showed that the rate of transition from one job to another in 2005 was 16.5% in Denmark, compared with just 9.6% in France.

The Danish system is therefore characterised by significant flexibility and security of employment (albeit spread over several jobs within a lifetime career) within a framework of universalism and equality. One can hardly imagine a situation more different to that in France at the moment.

Last but not least, trust is also encouraged by the fact that for those who are relatively difficult to place, even low-quality jobs give them an after-tax income which is not all that different from the median income, unlike in most European countries. Also, contrary to popular myth, the early retirement programmes *(efterløn)*, those for disabled people *(førtispension)* and special retraining are widely available, even though they are expensive to run.

Currently, approximately 25% of the potentially active population receive social protection benefits and are not in employment. This is a fact ignored by statisticians in too much of a hurry: Denmark has both high employment rates for the population as a whole (much higher than in France) and a high proportion of the population benefiting from various assistance and welfare programmes. According to OECD figures, the proportion of the population of active age in France and Denmark who receive benefits and are not working (including the unemployed, of course) is fairly similar: 24% in France compared with 23% in Denmark in 1999.

This is a costly system, and it has been criticised by the OECD and those who favour a reduction in public spending. It is, however, electorally legitimated and constant efforts are made to improve its management and get more and more people into work, as the government fears labour supply shortages in the future.

Tough reforms which drastically reduced the benefits paid to newly arrived immigrants are rightly considered as a black mark against Denmark's usual generosity. In essence, social assistance to new immigrants was cut by half (although payments to long-term immigrants and their children were not affected). This reform has been applied equally to Danes returning to their home country and to Turkish immigrants. There is little doubt that this drastic measure has contributed to a fall in immigration since 2002. However, a survey carried out in Denmark showed a strong consensus in favour of these measures, which can be justified in many ways and not only – as is often believed in France – by adhering to far-right beliefs.

The right to work: collective protection negotiated on an equal basis

An essential ingredient of the "Danish model" is not only the flexibility of its contracts, but also the universality of its rules. The fundamental inequalities which exist between different sections of the active population in France are unknown in Denmark.

Firstly, there are only a few civil servants in Denmark in the French sense (jobs for life). This is, of course, a key issue but is generally not addressed in employment reform projects in France.[6] The "crown servants" *(tjenestemændsansatte)* who enjoy employment for life are now in a very small minority. The employment regulations, protection against dismissal, working time, etc., are generally the same in the public and private sectors. Workers can be dismissed very quickly, as this is not governed by law in Denmark. However, it would be wrong to conclude that Denmark is a country where employers can do what they want and cynically push the "social problems" onto the state.

The Danish system is based on close cooperation between two social partners organisations – Dansk Arbejdgiverforening (DA), the main employers' organisation, and Landsorganisationen I Danmark (LO), the major trade union. These two organisations "set the pace". Trust in the social consensus would be impossible without respect for the agreements which have been signed, consistent implementation of the rules, and jointly negotiated participation in "human resources" decisions.

There are fixed-term contracts in Denmark. Indeed, the proportion of short-term employment contracts in Denmark is close to that of France, according to Eurostat – 9% compared with approximately 12% – and much higher than in the UK (6%). Does this mean that 9% of Danish contracts are "precarious"? As has already been indicated, this is not the case. One quarter of fixed-term contracts in Denmark are with apprentices, another quarter are with people filling in for absent employees, approximately 8% are with people in "activation", and the rest (about 40%) are short term for various other reasons: the job in question is seasonal work, project work, freelance, or involves youngsters doing student jobs, etc. Furthermore, employees on such contracts are employed on similar conditions to those in long-term employment, are covered by the social partners' "collective agreements" and all benefit from the universal Danish social protection.

Exceptional coherence

This brief review has focused on some of the crucial aspects of Denmark's remarkable coherence, going beyond the "golden triangle" mentioned at the beginning of this article. It also shows that far from getting closer to France, today's Denmark is moving further away.

In fact, ten years after the 1994 reforms, Denmark is still innovating, moving towards a further radical simplification of the system (the planned fusion of the employment functions of the communes and the *Arbejdsformidlingen* – public employment service – is on the horizon for January 2007). This reform is linked to more far-reaching changes aimed at restructuring and diminishing the levels of local authorities *(Strukturreform)*.

Reformers in France (and probably elsewhere) could nevertheless learn from two of the points illustrated here. The first is the need for coherence between social protection, industrial relations, labour law and labour market policies. The second is the need for a long-term perspective, compatible with the legacy of the past, whatever setbacks and turns there may be along the way.

In Denmark, changes over the last ten years have occurred within a "negotiated rationalisation" context, with all the competent actors united by common objectives and the principles of universality and equality safeguarded throughout.

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Endnotes

1. Jean-Claude Barbier, "La précarité, une catégorie française à l'épreuve de la comparaison internationale", Revue française de sociologie N° 46-2, p.351-371, April-June 2005.
2. The difficulty in comparing countries is in finding, if possible, equivalent factors. The expression *"à la française"* is, in this case, metaphorical. The Danish public sector is one of the largest in Europe and represents 31% of the active population in 2004 (compared with 19.4% in France) In December 2003, there were 109,000 civil servants working in State and local authorities), out of 853,200 people employed in the public sector. In France, for the same period, 4.8 million people were employed in the public sector, of which a large majority were civil servants.
3. For unemployment benefits, the rate is 90% up to an annual salary of around 200,000 Krones (27,000 euros at January 2005 exchange rates). It then gradually diminishes: for a salary of 350,000 Krones, it is around 50%.
4. 80-85% of Danes people belong to such payment offices. These pay out benefits financed mainly by the State but also by membership fees, which increase during favourable economic cycles. Approximately 2.1 million people belong to a trade union, of which 1.3 million belong to LO, the main trade union; the other two main trade unions are the employees union for "white collar workers" *(funktionaerer)*, and the *"akademikere"*, the trade union of the university degree holders regrouped in a third federation *(Akademikernes Centralorganisationer)*.
5. The European Commission indicators - quintile report (S80/S20) in 2001- shows the following figures: Denmark 3.0; France 4.0. The Gini coefficient in 2001 was: Denmark 0.22; France 0.27.
6. A recent influential official report, by two mainstream economists, P. Cahuc and F. Kramarz, typically fails to address this major issue and concentrates on 'protected jobs'' which in numbers, are minimal compared to employees in the three major public sectors.

What future for a social Europe?

by Giampiero Alhadeff and Katrin Hugendubel

The post-war European idea of a welfare state was created because people and circumstances demanded it.

Ideals such as health care for all, decent housing and social protection were achieved through the struggles of organisations of working people. Social democratic parties, trade unions and non-governmental organisations – in alliance with other progressive forces – built the philosophy and institutions of European social welfare.

The importance which Europe's citizens attribute to the social dimension of the EU is not new. When aiming to define the specificity of Europe – something akin to a European identity – the social model is always one element mentioned. Even though there is no agreement on how to define this "European Social Model", and social policy and social protection are not a competence of the EU but of the Member States, the belief in certain values and ideas that Europeans and all European welfare models have in common – and which are at the core of this model – seems to play an important part in the self-definition of Europe, particularly in opposition to the United States.

At the beginning of the 21st century, Europe seems to be at a decisive moment in terms of how this European Social Model will develop. Growth in Europe is stagnant and unemployment rates are high. High taxes and social costs, low levels of participation in the labour market, too many workers insufficiently trained to face up to new challenges – all these factors have contributed to producing societies which are unable to cope to the challenges posed by globalisation.

There is much talk about a Continental social model in crisis, an Anglo-Saxon model offering a focus on productivity and growth as the solution, and a Nordic model idealised by many as the balanced approach between economic, social and environmental policies. The challenge for the EU is not so much to try to replicate one model or even to create a hybrid, but rather to begin to put together a European solution to the problems we undoubtedly face. Each European country has its own history and special features which made the development of its welfare model possible. But by sharing experiences and learning one or two lessons from each other, a European society based on economic and social excellence can be developed jointly.

The strength of the European social idea in all the above-mentioned models is that it is based on the shared principles of pluralism, respect for individual rights, free collective bargaining, a social-market economy, equality of opportunity, social welfare and solidarity. These principles have been pursued in different ways in different countries, but are important elements at national as well as European level. However, in spite of general public support for these principles, they are now in crisis across much of Continental Europe and the new Member States. A common European response is urgently needed.

The Lisbon Strategy: a common narrative for facing the change

The tragedy is that a start was made in building a narrative which could have supported and explained the reforms which undoubtedly need to take place.

At the 2000 Lisbon Council, Social Democratic leaders (then in an overall majority in most EU Member States) recognised the challenges and the opportunities for European economies and European welfare states, and, together, came up with a narrative.

The strategy they put forward could be translated into a simple political message: *We live in an age of great uncertainty. We, your governments, can no longer guarantee you a job for life; we, as societies, need to become more competitive and you will have to be prepared for a life of changes. But be not afraid; you will not be alone. We, your governments, will stand by you. We will make sure that you have access to the best training and education which will allow you to take advantage of new opportunities; we will make sure that if you lose your job, you and your family will be protected from poverty, and have access to the best health care and education; we, your governments, will give you all the support necessary to get a new job. We will work to make full employment one of the political objectives of our countries. Finally, we will do all this in full discussion with trade unions and with other organisations of civil society.*

One year later, it became clear that this narrative had little chance of succeeding. At the European Economic Forum held in Salzburg in the autumn of 2001, European commentators watched in disbelief as two European

Commissioners failed to come to the defence of the Lisbon Strategy. The impression one had was that the Prodi administration was failing to capitalise on the opportunities which the Lisbon Strategy had opened up and that the Member States were not helping either. By the time a concerted effort was made to turn the Lisbon words into reality, the European political scene had changed. The Union had shifted to the right and it was all too easy to concentrate on the need for the EU to become more competitive and ignore the other side of the social bargain.

At the time of the mid-term review of the Lisbon Strategy in 2005, an advisory group led by former Dutch Prime Minister Wim Kok produced a report which came close to finally abandoning the social dimension of the Lisbon Strategy and nevertheless – or therefore – found much support in the Barroso Commission. It was only the stubbornness of Luxembourg Prime Minister Jean-Claude Juncker, then President of the EU Council, and the concerted opposition of trade unions and civil society, which managed to get a last-minute mention of the social side of the deal into the communiqué of the 2005 European Spring Summit.

But the battle is far from won. There is a growing body of opinion which, in common with Commission President José Manuel Barroso, will argue that we must get the economy growing and competitive so that we can address the social welfare issues confronting us.

Key EU decision-makers have failed to seize the narrative of the original Lisbon Strategy and weave it into the political discourse of both the Union and its Member States. The voices arguing that social welfare and protection can – and must – be made factors of growth and production are only now beginning to organise themselves. The challenge we face is how to reconcile the need to build prosperous and competitive societies with ensuring that our citizens have adequate social protection in a very rapidly changing world. One will not be possible without the other. The Nordic countries, with high levels of productivity and the highest living standards in the world, can be an inspiration in this struggle.

Today's challenges

The most important forces leading the change are globalisation, the changing face of work and, in Europe, the continuing enlargement of the Union. Our fellow citizens feel uneasy and anxious about the changes they face. They realise that the opening of markets to international trade has shifted some decision-making from national governments to supranational bodies, thus changing the ability of governments to implement specific social and economic programmes. Governments have also, at times, hidden behind these new realities to press ahead with unpopular programmes, leaving citizens feeling unprotected and unable to influence the process.

To some, the EU has become part of the problem, as it widens the distance between the citizen and the decision-maker. In effect, however, the Union is part of the solution. Retreating back behind the frontiers of the nation state is less likely to secure protection than a considered move to strengthen the Union. The EU, rather than symbolising "big government", provides a way for our fellow citizens to assert their rights in a fast-changing global world. If the Union is not deepened and strengthened, it is likely that the democratic deficit which many people experience will only increase.

European social policy began as a means of ensuring that Europe-wide labour standards contributed to a level playing field for competitive trading. Setting common standards was intended to prevent competitors from gaining advantage by forcing down employment conditions and social standards. One major success of European social policy has been the unified labour market, which meant that migrant workers originating in the poorest parts of the Union could expect similar employment and social rights as nationals in their host countries.

The accession of ten new Member States in May 2004 poses new challenges, but if anything increases the importance of devising common and similar responses to the issues all EU Member States are facing. Ageing populations and increased life expectancy will lead to an increased dependency ratio. The restructuring of industry, with activity shifting firstly from agriculture to manufacturing and then from manufacturing to service industries, needs to be managed. Societies which were in the main homogenous, separate and static are becoming increasingly multi-ethnic, multi-cultural, transient and linked. Social security and life-long learning are now priorities for all Member States.

The Barrroso Commission thought that by putting the emphasis on jobs as well as growth, it could avoid the accusation that it was jettisoning the social dimension of the Lisbon Strategy. It found to its cost that the Strategy is not to be cherry picked. Citizens today understand that focusing on growth now and promising to let social provisions follow when times get better is simply another version of the old "trickle-down" theory.

Flexible employment, in principle, could mean that employers and workers agree together to vary working conditions and working hours in order to meet the needs of business as well as the social and family needs of workers. However, it usually means flexibility for employers, and job insecurity and poor working conditions for employees. It means employers being able to fire workers more easily and re-locate their businesses to cheaper countries without having to worry about the social consequences of their actions.

The Lisbon Strategy must be retained in its complexity – encompassing social, environmental and economic factors –- and EU governments must recommit themselves to delivering the economic, social, educational and fiscal reforms which are needed to make the EU "the world's most competitive economy".

Social security and equal distribution as important productive factors

European welfare states progressed during a time of unprecedented economic growth and social stability; a period which came to an end in the mid-1970s with the onset of the oil crisis. After that, neo-liberal economic theories became the dominant economic orthodoxy and were promoted by global institutions such as the International Monetary Fund (IMF) and the World Bank as well as Ronald Reagan's US and Margaret Thatcher's UK. Where these policies have been introduced, they have led to the dismantling of social welfare systems. Social protection implies for neo-liberals a lack of flexibility and an obstacle to investment, and therefore a cause of unemployment.

The EU was never seduced by the neo-liberal economic model, which reduces the state to the role of an almost passive observer, leaving the markets to determine the conduct of its economies. The European project is, in some ways, the antithesis of *"laisser faire"* capitalism – because of its daring innovation, it has required a significant level of intervention. The inequalities endemic to the neo-liberal models of economic management carry grave risks. A road to economic growth which does not include the majority of its citizens in its strategy is fraught with dangers and can give unwelcome support to nationalist and xenophobic parties which threaten European peace and prosperity.

For people to deal with the challenges of the future, they need to be given the feeling that their fundamental needs are taken care of in all circumstances. Systems of social protection offering high-quality health and education as well as social insurance in case of ill health and unemployment, and a decent pension for all, are important elements in making structural change successful. Only by making this social compact with citizens can governments hope to negotiate the reforms needed by their economies; reforms which will often, at the time, appear to create more uncertainty and anxiety. EU governments must be bold and proclaim this as the European way of life.

In the current situation, it is important to highlight that social security, equality and education are not a luxury which European societies were able to afford for a long time but are no longer able to do so. Rather, they are an important precondition for managing the changes now necessary.

The Nordic countries manage to combine high employment rates with high salaries, good welfare provisions and high social protection. The American and the Nordic models are very similar when it comes to economic productivity, but they clearly differ when it comes to distributing the fruits of this productivity. Europeans believe in the importance of social justice and that a healthy society values development which is sustainable and which balances social, environmental and economic considerations. We are united by a shared belief that our fellow citizens' basic needs must be secured and that everyone has the right to excellent education and health care, decent housing, a pension and access to personal social services.

Striving for full employment in Europe and the need for life-long learning

With unemployment reaching its highest levels since the 1950s, the objective of full employment is questioned by many as a Utopia. Full employment in the global era cannot mean "40 hours for 40 years", but the principle and the political commitment must remain. Governments need to restate their commitment to full employment. The 1966 International Labour Organisation (ILO) Convention on "Full Employment", which has been ratified by most EU Member States, commits them to a society in which everyone who wishes to take up paid work "can find it on just and favourable terms". The benefit of full employment would be seen in falling poverty, homelessness and sickness.

Governments must shoulder their responsibility and put in place active labour market policies, creating employment opportunities, bringing the unemployed back into the labour market, and providing life-long learning and training to avoid the risk of unemployment. In an era of globalisation, it is the responsibility of government to prepare its workforce for the challenges and changes which lie ahead. We cannot rely on the security of retaining the same job for life. We need to rely on the security of knowing that our skills are being kept up-to-date so that we can remain and progress in the labour market.

There is an exaggerated assumption that employers are less likely to employ staff if it is difficult or expensive to fire them. It is probably more true that the burden of tax and social costs levied on employment is far too high in too many countries, whilst conversely the tax burden on other forms of income is either too low or non-existent. It is difficult to understand what possible social justification there can be for exempting some rental incomes or capital gains which have been earned in another country from tax in Belgium, and to take almost 50% of a low-paid worker's salary in tax and social costs. The burden of tax on employees is absurdly high and is a major contributor to keeping employment rates and numbers low.

Full employment on its own will not be enough. Job demands will change. Technology is advancing rapidly, and companies often need to be more flexible both in terms of what they sell and how and where they produce it. Governments must therefore take responsibility for delivering high-quality education and making available the best in-service training and life-long learning which will enable workers to retrain for new skills and new jobs, and to face uncertainties with confidence. Education is key to competitiveness and the functioning of our societies. In order to create strong and sustainable competition, we need to ensure continuous education throughout people's working lives.

Gender equality

Employment rates for women in the Nordic countries are the highest in Europe. Overall, the European economy is still suffering from an under-representation of women in the labour market and gender-segregated labour markets, as well as a high percentage of women working in part-time employment.

Raising the number of women in the labour market is one key to securing the higher labour supply needed because of the ageing population in Europe. Economic growth is not possible without an increased level of employment among both women and men; therefore economic growth and gender equality are closely linked. In this context, family planning, child day-care, benefit and employment security in case of maternity, as well as policies aimed at reducing the pay gap between the sexes and helping more women into full-time employment, are essential.

Trust in times of change

Economic and social progress go hand in hand and the whole point of economic progress is to raise people's standard of living. There is a shared conviction in the EU that social protection is a productive factor, underpinning the economic growth and increased competitiveness that in turn sustains social progress.

In the Nordic countries, trust in society is very high. This is, not least, due to the fact that there is a high level of trade union membership and that the unions are full partners in collective agreements with the state and employers. For a multi-level governance system such as the EU to respond to the challenges it faces successfully, we need to widen the concept of democracy by involving trade unions and employer organisations, as well as organisations of organised civil society.

It is not only about making the EU "the most competitive economy"; it is also about making the EU a more decent society. It is not about increasing taxes and lowering living standards; it is about raising standards for all. Governments will not achieve any of the above on their own. This was also central to the Lisbon Strategy.

Without the participation of trade unions and civil society, women and men, Europe will continue to stagger from crisis to crisis. What is needed are bold ideas and bold leadership. The challenge to our governments will be whether they have the vision and inspiration to commit themselves to such a bold course of action.

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Conclusions

The articles in this publication suggest that, taking into account both its strengths and weaknesses, the Nordic model could become a source of inspiration for other countries in Europe – and perhaps for other societies in the world.

Nordic societies started doing their homework before many others in Europe, recognising the need to adapt to global competition while at the same time maintaining the welfare state as the essential element of the system – and not even putting it up for discussion. In other words, the transformation needed for successful integration into a globalised economy has not been achieved by cutting welfare, but rather through collective commitment, a vision of the value of investing in high standards, and a willingness to pay for it.

There are, of course, differences between the Nordic countries. However, they have followed a similar path towards economic and social development, based on a commitment to creating socially generous and even societies as well as highly competitive, flexible, efficient and politically responsible ones.

Probably the most interesting feature of the Nordic model is the way it has managed to reform itself. It is certainly not the same today as it was 20 years ago and, while the Nordic countries experienced difficulties then – and were regarded as over-regulated societies which did not enjoy particular economic success – they have managed to find a balance in their response to the main dilemma facing European states today: how to reconcile liberalisation with the principles of universality acknowledged by the Social Model and combine them successfully.

There is little doubt that the Nordic countries still face problems – relating to the sustainability of the system, failures in integrating immigrants, or limited competition in some service markets, etc. – but the main features of the Nordic model are still worth considering in other European countries. There are, naturally, reservations about whether best practices can be transferred from one country to another, but it should not be forgotten that a constant exchange of best practices in all fields of life, from architecture to the political and social construction of our systems, has played an important part in Europe's history. It is in this spirit that this publication argues that a lot can be learned from the Nordic model given the situation now facing Europe.

Firstly, it is apparent that it is not the size of the state which matters, but the quality. The public sector plays a fundamental role in our societies and can, if well managed, be a very effective instrument for economic and social reform. Innovation in a public sector which is free from corruption and where there is a low “power distance” between institutions and citizens is a key feature of the Nordic model from which others could learn. So too is the Nordic countries’ ability to combine social equality with a liberal economy, with governments deliberately taking a hands-off approach to regulating markets while fostering an environment that is supportive of strong social cohesion.

The importance of collective bargaining is also a distinctive feature of the Nordic countries. This institutionalised social dialogue takes different forms in different countries, but the part it has played in the reform process has provided for high levels of consistency and continuity within the system. Leaving many labour market issues to the social partners has also provided effective solutions to problems without legislation but with a strong commitment to those solutions from labour unions and employers. They are not only involved in creating solutions. They are the creators.

One of the most cited elements of the Nordic model today is “flexicurity” – the combination of flexible regulation based on agreements between the social partners, strongly developed systems of social security for the unemployed, and an active labour market policy aiming at re-training those out of work. This strategy, pioneered by Denmark, aims at turning the concept of job security into employment security. The active participation of women in the labour market is another essential element of the system. The ability to reconcile working and family life is, in this regard, crucial for sustainable economic growth and the continuous development of the welfare system.

A further reason for the success of the Nordic model is a high level of investment in education, and the belief that it is both a right and a duty. Universal education has been a historical characteristic of the Nordic model and is certainly at the root of its current success, because of the role it has played in helping Nordic societies to adapt to changing circumstances. In particular, they have been exceptionally well-equipped to take on board and exploit the possibilities of the ICT revolution. However, there have been some signs lately that some Nordic countries are beginning to lag behind in the education stakes, and this is a cause for concern.

The Nordic countries’ large public sectors are another key to their well-balanced economies: they have shown themselves to be masters at balancing the real economy with the fiscal economy and have generally succeeded in achieving balance or a surplus in their public finances and current accounts, which contributes strongly to the sustainability of the model. This, again, is in sharp contrast to the poor performance of Continental and Southern European countries – and indeed the Anglo-Saxon economies, with their focus on consumer demand and the inherent risk of boom-and-bust policies.

Overall, Nordic governments are leading the way in establishing a high degree of coherence between policies. This is a major challenge for governments and is often difficult to achieve, as it frequently conflicts with the goal of short-term electoral gain. Yet combining environmental protection with an agenda for business innovation and economic growth is, for example, possible in the Nordic model and is indeed a characteristic of it.

Perhaps the Nordic countries' most significant contribution has been in fostering a more responsible agenda for managing globalisation, showing that it can be turned into a positive force for society at large. This is linked to the high degree of political consensus, which means that the priorities of those political parties which are in a position to form governments are not fundamentally different.

Finally, one of the most important features of the Nordic model is the constant analysis and awareness of the problems and challenges facing societies and the ability to respond to these challenges rapidly and overcome the shortcomings of (and threats to) the system. The political will and societal commitment to the public good – and the sacrifices this requires from time to time – appear to be part of the Nordic culture to a greater extent than in other parts of Europe, and act as a powerful engine of the system.

However, continued success will not come for free. Apart from the risk of falling behind in education, undermining the Nordic countries' ability to maintain their knowledge base, issues relating to demographic developments are also potential threats to the sustainability of the Nordic model.

To counter this threat, the Nordic countries must quickly reform the pre-retirement schemes which have become so widespread and become much better at handling the integration of foreigners. Although they have generally done well in this area, examples such as Denmark's record in the area of immigration and integration are in marked contrast to its success elsewhere in achieving long-term goals instead of resorting to short-term "solutions". Without a constant influx of foreign talent and workers in general, it will be very difficult to sustain that success in the longer term.

Den nordiske Model – ideer for Europa?

I den debat, der i lyset af det øgede konkurrencepres på globalt plan nu foregår i Europa, har fokus gennem de senere år været på Lissabon processen, men debatten har på det seneste drejet sig mod selve den europæiske økonomiske og sociale model og ikke mindst de forskellige under-modeller, der kan identificeres i Europa. Blandt dem har i hvert fald tre modeller klare konturer, nemlig den anglo-saksiske, den kontinentale og den nordiske.

Den europæiske ambition om på samme tid at skabe økonomisk vækst og flere jobs, og at gøre det gennem en udvikling af videnssamfundet samtidig med, at man fastholder den sociale samhørighed og en bæredygtig udvikling gør, at den nordiske model er kommet i fokus. I de nordiske lande har man nemlig været blandt de førende, når det gælder udviklingen af den vidensbaserede økonomi og miljøpolitik, samtidig med at den traditionelt stærke velfærdssektor så at sige garanterer, at en satsning på økonomisk vækst ikke kommer til at ske på en socialt uretfærdig måde.

Det interessante ved den nordiske model er desuden, at den har bevist, at ambitionerne om økonomisk vækst ikke står i modstrid til hverken udviklingen af den vidensbaserede økonomi eller en sund miljøpolitik eller social samhørighed.

I det ene internationale konkurrenceevneindex efter det andet ligger de nordiske lande i toppen – ligesom de nordiske lande også er blandt de eneste i Europa, der i det store og hele har gennemført ambitionerne i Lissabon processen som planlagt. Nogle har ment, at dette simpelthen er en umulighed med den store offentlige sektor og de høje skatter, som karakteriserer de nordiske samfund, men det er måske en af de største fortjenester ved den nordiske model, at den har bevist, at der ikke nødvendigvis er en negativ sammenhæng mellem størrelsen af den offentlige sektor og konkurrenceevnen, og at det snarere er kvaliteten af den offentlige sektor end størrelsen, der virkelig betyder noget.

Først og fremmest skaber en stor offentlig sektor naturligvis økonomisk aktivitet – også for den private sektor – og desuden giver en stor offentlig sektor mulighed for at udvikle infrastrukturer og uddannelsessystem på en måde, som også hjælper på konkurrenceevnen. Men det er også afgørende, at den offentlige sektor er tæt på borgerne og deres ønsker og ikke er en fjern eliteorganisation, samt at den er effektiv, på forkant med den teknologiske udvikling og i det store og hele fri for korruption.

Denne publikation beskæftiger sig en del med sammenhængen mellem den offentlige sektor og konkurrenceevnen, dels fordi denne sammenhæng ofte glemmes, dels fordi den betydelig offentlige sektor er en af de faktorer, der karakteriserer den europæiske økonomiske og sociale model, og i særdeleshed den nordiske model. Argumenterne kan ikke tages til indtægt for ubegrænset vækst i den offentlige sektor. Det afgørende er at se på, hvordan den offentlige sektor kan hjælpe med at gøre et land eller et område mere konkurrencedygtigt med henblik på at sikre fremtidig velstand i den globale konkurrence.

Et område, der især har tiltrukket sig opmærksomhed – og som flere forfattere beskæftiger sig med - er arbejdsmarkedspolitikken, hvor kombinationen af fleksibilitet og sikkerhed giver en række fordele i vor tids konkurrencesituationen. Den nordiske model har ligefrem skabt et nyt ord for denne politik, nemlig 'flexicurity'. Fleksibilitet (flexibility) indebærer, at arbejdsgiverne får den fleksibilitet, der har brug for i forhold til arbejdskraften, mens sikkerhedsaspektet (security) tilbyder det enkelte individ i samfundet sikkerhed mod en katastrofal social situation – og måske oven i købet et tilbud om at deltage i en aktiv arbejdsmarkedspolitik, som dels opgraderer kvalifikationerne, dels hjælper med at finde et nyt job.

I en række kontinentaleuropæiske lande har man mere infleksible arbejdsmarkeder, som måske har passet fint til industrisamfundets krav om stabilitet, men som kommer til kort over for den globale konkurrencesituation og især de stadigt øgede krav om konstant omstilling og opgradering af kvalifikationer. Det er et særkende for de nordiske lande, at de velorganiserede organisationer på arbejdsmarkedet i stort omfang regulerer arbejdsmarkedet, så det er parterne selv og ikke lovgivningsmagten, der regulerer. Den kontinentale models forsøg på at tilbyde den enkelte sikkerhed gennem lovgivning, inkl. lange opsigelsesvarsler, har ikke givet de enkelte arbejdstagere den sikkerhed, modellen har tilsigtet. Det var f.eks. tydeligt i den franske debat om den europæiske forfatningstraktat, at det gennemregulerede franske arbejdsmarked ikke mindskede den enkelte franske arbejdstagers frygt for konkurrence fra 'polske blikkenslagere' og for globaliseringen i det hele taget.

Kombinationen af fleksibilitet og sikkerhed går videre end til arbejdsmarkedet i de nordiske samfund, og ser ud til at være en model, der passer godt til den tid, vi lever i. Den kombinerer de bedste aspekter af den meget liberale anglo-saksiske model på den ene side og den kontinentale sociale model på den anden. Ser man på den økonomiske vækst og på arbejdsløsheden i Europa gennem de senere år, er det tydeligt, at den nordlige del af Europa – fra Irland til Finland - klarer sig bedst. Disse lande har været fleksible og har kunnet omstille sig til global konkurrence, mens resten af Europa har haltet bagefter. Men de har gjort det på vidt forskellig måder, for mens alle de lande, der ligger i det nordlige Europa i princippet har en liberalistisk holdning til den økonomiske og sociale udvikling, så tilbyder den nordiske gruppe af lande en langt større sikkerhed til den enkelte i samfundet, og det vel at mærke uden at have sat noget til på konkurrenceevneområdet.

Et stort spørgsmål er så, hvorvidt man kan overføre resultater fra én model til en anden. Mange forhold er dybt forankrede i traditioner og kulturer, og der kan findes mange undskyldninger for ikke at gennemføre reformer - herunder at man ikke kan overføre fra én model til en anden. Men et tættere samarbejde i Europa skulle netop skabe forudsætninger for, at man har viden om, hvad andre gør godt, og at man kan få de informationer, der skal til for i det mindste at prøve at tage ved lære fra andre, og der synes at være gode grunde til, at mange elementer af den nordiske model kunne finde anvendelse andre steder i Europa.

Alt er ikke - og har ikke altid været - rosenrødt i de nordiske samfund. Går man nogle år tilbage, var de fleste nordiske lande i økonomisk krise, og de blev af mange karakteriseret som over-regulerede. Men omstillingsevnen har været imponerende i mellemtiden, og det er også bemærkelsesværdigt, at reformprocessen er foregået uanset om det har været centrum-venstre eller centrum-højre regeringer, der har været ved magten. Det forhold, at de regeringsduelige partier stort set har været enige om retningen har også betydet, at man har kunnet tage langsigtede beslutninger om reformerne og ikke – i de store linier - har ligget under for kortsigtede politisk taktiske hensyn.

Men der venter fortsat udfordringer også for de nordiske lande. Et eksempel er uddannelsessystemet. Det er afgørende, at der fortsat satses på moderne uddannelser på et højt niveau, og at der gives incitamenter til kontinuerlig uddannelse hele livet for de enkelte. Begynder man at sakke bagud på uddannelsesniveauet, bør det ses som et klart faresignal for en fortsat deltagelse i den vidensbaserede globale konkurrence.

Et andet område er den demografiske udvikling og den aldrende befolkning. Det er helt afgørende, at man tager konsekvensen af den længere levealder på arbejdsmarkedet ved først og fremmest at reformere førtidspensionering og derefter får en debat om, hvordan man vil organisere sig, når gennemsnitsalderen på arbejdsmarkedet stiger. Og det er lige så vigtigt, at man formår at forberede integrationen af immigranter på en mere effektiv måde, end det sker i dag. Uden et tilskud af arbejdskraft - og talent - udefra, vil det blive meget svært at få den nordiske model til at hænge sammen på lidt længere sigt.

Mission Statement

The European Policy Centre is an independent, not-for-profit think-tank, committed to making European integration work. The EPC works at the 'cutting edge' of European and global policy-making providing its members and the wider public with rapid, high-quality information and analysis on the EU and global policy agenda. It aims to promote a balanced dialogue between the different constituencies of its membership, spanning all aspects of economic and social life.

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