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**THE SCANDINAVIAN
WELFARE STATES
ACHIEVEMENTS, CRISIS
AND PROSPECTS**

by John D. Stephens

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◆ Preface

The following paper was prepared within the framework of an international dialogue on **The Future of the Welfare State**, organized by UNRISD as part of its programme of work for the Social Summit. Under the direction of Gøsta Esping-Andersen, experts on social policy in seven regions of the world were asked to trace the response of different welfare regimes to the challenge of global economic restructuring. Their conclusions were presented in Copenhagen on 8 March 1995, at a conference hosted by the Danish Ministry of Foreign Affairs, and co-sponsored by UNRISD and the Danish National Institute of Social Research.

Scandinavian countries have enjoyed an international reputation for combining generous welfare state entitlements with rapid economic growth, low unemployment and very high levels of labour force participation, particularly among women. Over the past few years, they have nevertheless confronted serious economic difficulties, involving historically unprecedented levels of unemployment. Some analysts have linked poor economic performance with the requirements of welfare states, arguing that expensive entitlements make Scandinavian economies uncompetitive in world markets. This critical view appears to have won a degree of acceptance even among the principal architects of the welfare state, the Social Democratic parties and trade unions, which have recently agreed to cuts in some entitlements.

In his study of the Nordic experience, however, John Stephens argues that welfare state entitlements have played little part in the current economic problems of the Scandinavian countries. Far from undermining competitiveness, a well-trained and secure work force increases the ability of these economies to compete in international markets. Furthermore, in his view, there is no reason to assume that with the opening of the European market, the competitive advantage of low wages will be more important than that of capital intensity and highly qualified labour.

High levels of unemployment stem from the increase in international interest rates and a simultaneous internationalization of financial markets, which have affected a key element in the post-war model of growth in Scandinavian countries: the ability of the government to maintain low interest rates and to privilege borrowing by industry over other consumers of credit. Moreover, the decline in centralized bargaining has affected another important tool of macro-economic management in Scandinavia: negotiated wage restraint. Finally, stagnation in other advanced industrial economies has reduced international demand, on which the export-oriented economies of the region are heavily dependent.

With the rise in unemployment, demands on the welfare state increased, while revenue for social security contributions and taxes fell, making the existing level of entitlements unaffordable. In consequence, a series of reforms were made. Stephens discusses these changes on a country-by-country basis. In general terms, one can say that qualifying conditions have been tightened in a number of programmes; the level of benefits has been reduced, as people recuperate a lower proportion of lost income from unemployment, illness, and so forth; and there has been some trend toward privatization of social service delivery, although these programmes are still funded by the state.

The author concludes that these steps toward retrenchment do not represent a qualitative change in the Scandinavian welfare system. With very few exceptions, benefits today are still more generous than they were in 1970. There is, however, a longer-term shift in emphasis: fewer resources are being destined to maintaining the guaranteed level of income through citizens' entitlements (independent of participation in the labour force); and more is being invested in strengthening labour training and mobilization. There has also been an increase in the use of market principles to evaluate public services.

Will the Scandinavian states eventually be forced to adjust their welfare programmes to the "least common denominator" in the international arena? Stephens does not think so. The Nordic economies have high levels of labour productivity. They are also particularly resistant to changes induced by international competition because their export-oriented growth models have long depended upon competitiveness: increasing internationalization represents a quantitative, but not a qualitative, change in the existing economic environment.

Finally, the welfare state enjoys broad political support in Scandinavia, extending far beyond the social strata and parties originally responsible for establishing the world-famous programme of social protection. Short-term reform is therefore of a limited nature. Profound changes would require longer-term secular shifts in party support throughout these countries.

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June 1995

Dharam Ghai
Director

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◆ Abbreviations and Acronyms

ATP	earnings-related tier of the Swedish pension system
EC	European Community
GDP	gross domestic product
LIS	Luxembourg Income Survey
LO	Swedish, Danish and Norwegian blue collar workers' centrals
NIC	newly industrialized country
SAF	Swedish employers' association
TCO	Swedish white collar employees' labour central

INTRODUCTION¹

The Scandinavian welfare states have enjoyed an international reputation for combining generous welfare state entitlements with rapid economic growth, low unemployment and very high levels of labour force participation, particularly among women. They seemed to have achieved the elusive combination of social equality and economic efficiency. As recently as 1988, Sweden, Norway and Finland appeared as international exceptions, maintaining very low levels of unemployment while not only maintaining but actually expanding welfare state entitlements in the previous decade. Denmark, with a decade of high unemployment and attendant economic problems, seemed to be the outlier. Within five years, all three experienced historically unprecedented increases in unemployment. Indeed, in Sweden and Finland, the turn of economic events was widely termed a “crisis” which equalled or exceeded that of the Great Depression.

Many analysts have linked the poor performance of the Nordic economies to their welfare states. The generous entitlements are expensive and, it is argued, they have made the Scandinavian economies uncompetitive. This problem has been accentuated by the processes of economic internationalization and European integration, which make international competitiveness all the more imperative. This critical view of the Nordic welfare states appears to have found some acceptance even among their principal architects, the Social Democrats and trade unions, as they have recently agreed to cuts in some entitlements, such as lowering replacement rates and introducing waiting days for benefits. Moreover, trade unionists and Social Democrats, in Scandinavia and elsewhere in Europe, have expressed fears that the long-term result of the 1992 initiative would be to reduce welfare state provisions to the lowest common denominator within the European Union.

This paper examines the development, achievements and current crisis of the Scandinavian welfare states. Although the main focus is social policy, it is impossible to understand the development of the latter without consideration of complementary economic policies which produce growth and thus employment. The paper will argue that, taken as a whole, welfare state entitlements have made little if any direct contribution to the current economic problems of the Scandinavian countries. In fact, many of these entitlements may actually have created competitive advantages. The problem is rather that the Scandinavian growth and employment model, which was so successful during the Golden Age of post-war capitalism up to the mid-1970s, is much less effective in the contemporary world. This, in turn, has made welfare state entitlements which were affordable in the past no longer

¹ I have accumulated a number of debts in the process of researching and writing this paper. Research in Sweden in May 1992 was supported by a grant from the Swedish American Bicentennial Foundation. The Swedish Institute provided valuable help in arranging interviews and the Institute for Social Research, Stockholm University, provided a stimulating and supportive environment. Evelyne Huber collaborated with me in this research. Joakim Palme and Olli Kangas provided valuable figures and Francis Castles, Gøsta Esping-Andersen, Evelyne Huber, Jonathon Moses, Joakim Palme, Olli Kangas and Bo Rothstein useful comments on an earlier draft of this paper.

affordable. Quite simply, as unemployment rises, more people draw on the social welfare system and fewer contribute to it, making precisely the same set of entitlements now excessively expensive.

I begin in parts I and II with a description of the Scandinavian welfare states at their pinnacle, and of the supportive economic policies pursued in the Golden Age. In part III, I analyse the current crisis, and conclude in part IV with some speculation on future trajectories of economic and social policy in the region. Throughout the paper, I focus on Sweden and deal with the other three countries as comparisons and contrasts to the Swedish case. I do this not only because treating all four cases in equal depth would make this paper inordinately long but also because Sweden is frequently singled out as the paradigmatic example of the achievements (and limitations) of Social Democracy. Moreover, Sweden was a leader in social and economic developments, and actors in the other three countries frequently attempted to emulate (or avoid) Swedish policies.

PART I: THE SOCIAL POLICY PATTERN OF THE SCANDINAVIAN WELFARE STATES: COMMONALITIES AND CONTRASTS

In reaction to an earlier generation of welfare state research which simply arranged nations' "welfare effort" along a single dimension — usually measured by level of expenditure — recent scholarship, inspired by Titmuss's (1974) tripartite "models of social policy", has attempted to develop typologies of welfare states (see e.g. Esping-Andersen, 1990; Palme, 1990; van Kersbergen, 1991; Huber, Ragin and Stephens, 1993; Korpi and Palme, 1994). Following Esping-Andersen (1987; 1990), these typologies have generally distinguished three types of welfare states: the Social Democratic or institutional; the corporatist, Catholic or work-merit; and the liberal or residualist (however, see Castles and Mitchell, 1990; Ragin, 1994; Kangas, 1994). Esping-Andersen and Kolberg (1992b) have argued that these social policy types are associated with patterns of labour market

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