



The foundations of the Nordic Models: Withering or renewal?

Jon Erik Dølvik, Fafo Center for Labour and Social Research, Oslo

ASI Congress 22 October 2014, Reykjavik

NordMod-2030: Withering or renewal of the Nordic models?

- Commissioned by SAMAK & FEPS, [webpage: nordmod2030.org](http://nordmod2030.org)
- Nordic research group organized by Fafo
- Reports, seminars, homepage
 - **4 Baseline studies:** Basic pillars, trends in demography; taxes; internationally
 - **5 Country studies:** Denmark, Finland, Norway, Sweden and Iceland:
[Ólafsdóttir, K. & S. Ólafsson \(2014\) *Economy, Politics and Welfare in Iceland* \(2014\)](#)
 - **6 Comparative thematic reports:** Value creation; Innovation; The collective bargaining model in open markets; The sustainability of the welfare state, Inclusion and integration challenges; Democratic participation and political support.
- **Final reporting at the Nordic Labour Congress 14 Nov 2014**
- **Reports can be downloaded from webpage: nordmod2030.org**

Varieties of Nordic models in small, open economies

■ Differences in

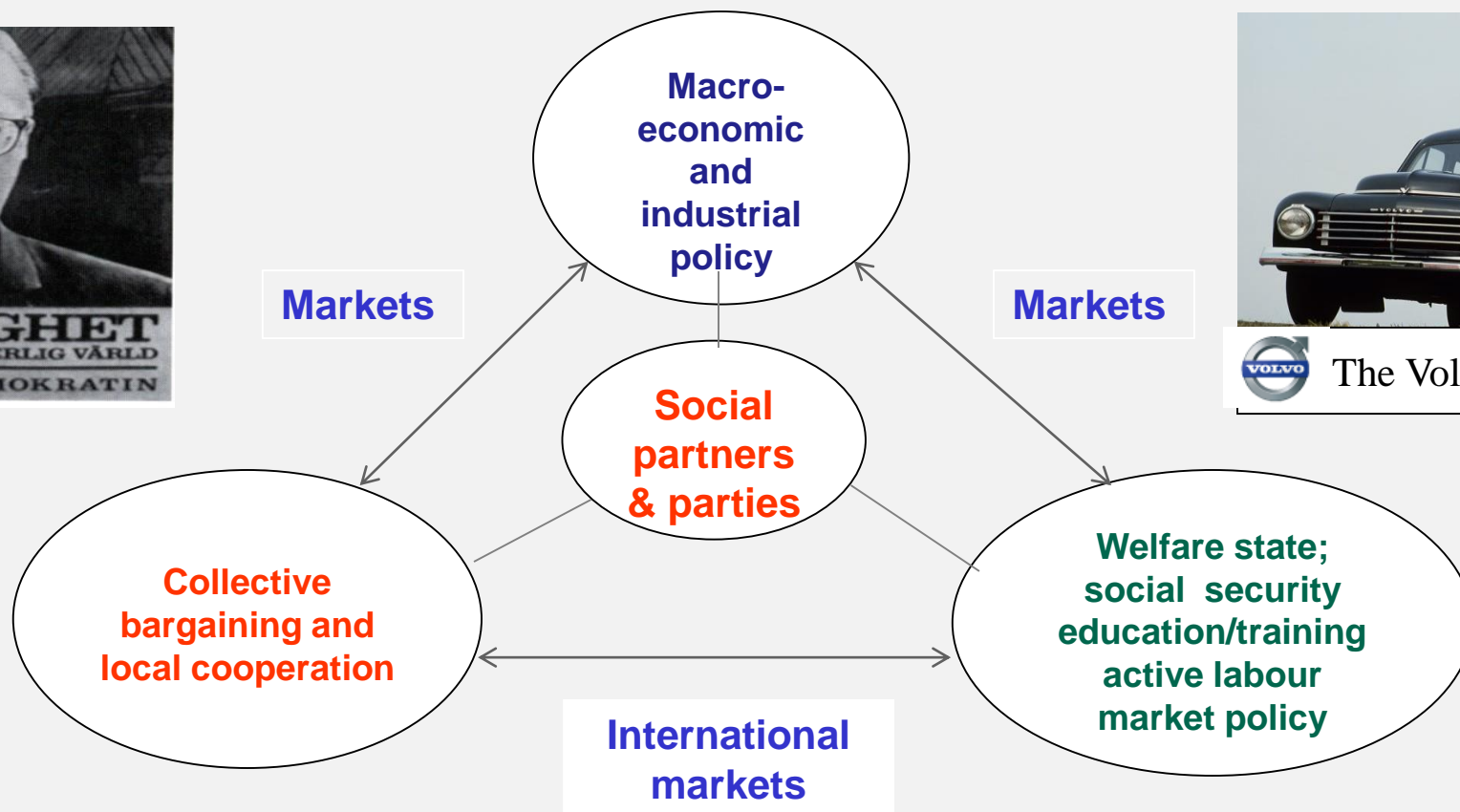
- industrial bases and export structures
- party structures and patterns of political coalitioning...
- state & social partner roles in welfare & labour market governance
- ties to the EU and EMU....

■ Common traits

- strong unitary states,
- encompassing collective bargaining systems & labour market organizations
- universal welfare systems & free schooling
- legacy of tripartite policy coordination & adjustment

- **How can such models with high taxes, big public sectors, strong unions and extensive agreements possibly fly?**

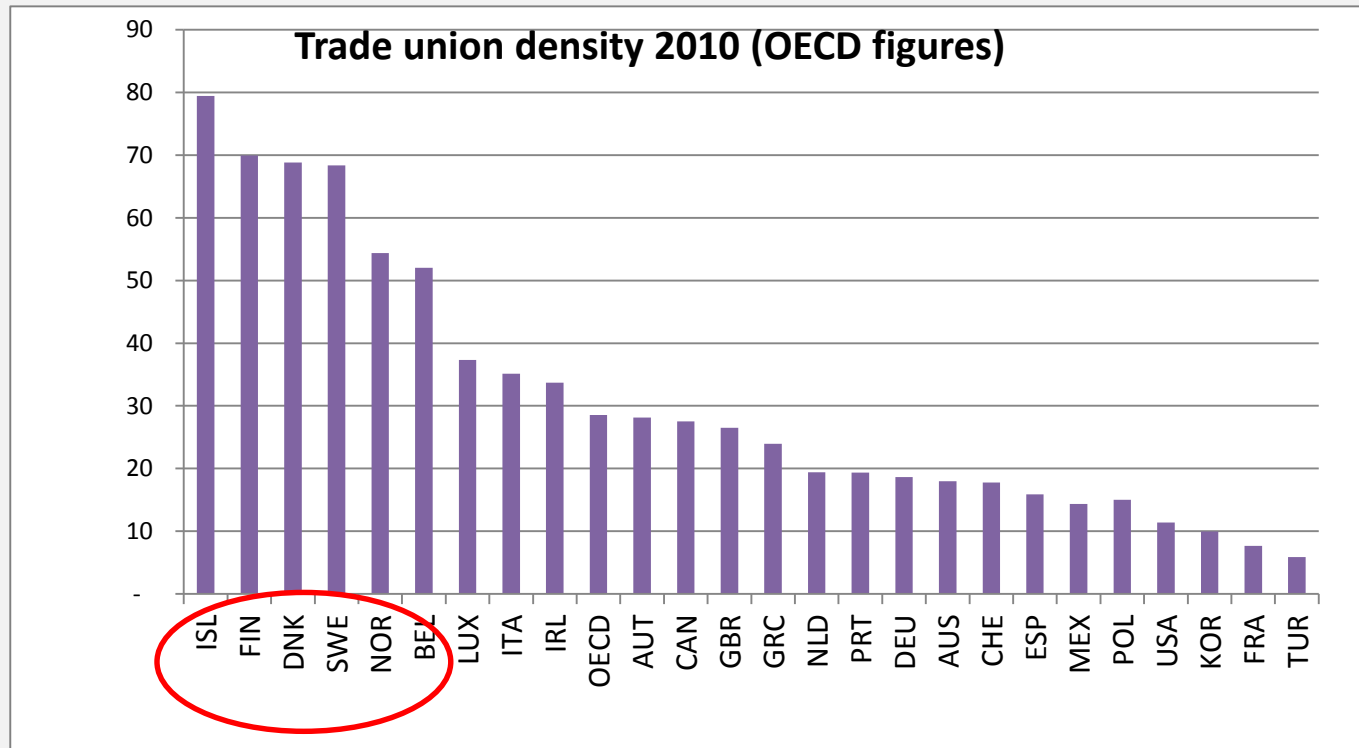
The foundations of the traditional Nordic models – in small, open market economies



"Politics with markets"

- Equality, collective risk-sharing, human investment – «welfare as productive factor»
- Restructuring & productivity driven by interaction of markets and social constraints
- «*Trust, power balances, coordination, and coherence*»

Cornerstone: Strong union movements



- Union driven unemployment insurance funds, save for Norway
- **How stable and resilient?**

Nordic working life regimes – main common traits

- **Multi-level bargaining – strong organized actors**
- **Solidaristic wage policies** – compressed wages
- **Legacy of tripartite concertation - strong peace duty**
- **The state mediator** - key role in dispute settlement
- **Extensive legislation on labour rights** (except in DK, ICL)
- **Strong tier of firm level participation** - «negotiated flexibility»
- **No statutory minimum wage**, extension of CA in FL, ICL and NO

Nordic models from crisis to crisis (1990-2014): Consolidation and renewal

- 1990: Severe crises – end of the Nordic «Third Way»?
- 2014: Still top-ranked - but indications of cracks in the dam..

**The
Economist**



2. February 2013

The Nordic countries **The next supermodel**

Politicians from both right and left
could learn from the Nordic countries

Nordic model adjustments after the 1990s crisis

- 1) From fixed to floating currencies → huge depreciations (except DK))
- 2) Surge in exports pulled off growth - «small, open economy advantage»
- 3) Fiscal consolidation - mainly after recovery took hold (S)
- 4) Wage restraint - renewed coordination by strong social partners

Macro-economic
rebalancing

- 5) Product market liberalization (EU/EEA)
- 6) Tax and pension reforms, *very little change in labour market regulation*

Structural
reform

- 7) Welfare state geared towards «**work, activation and education**»

Social
investment

→ Recovery & partial re-industrialization – riding the «globalization wave»,
(while ICELAND rode the financial liberalization wave)

Globali-
zation

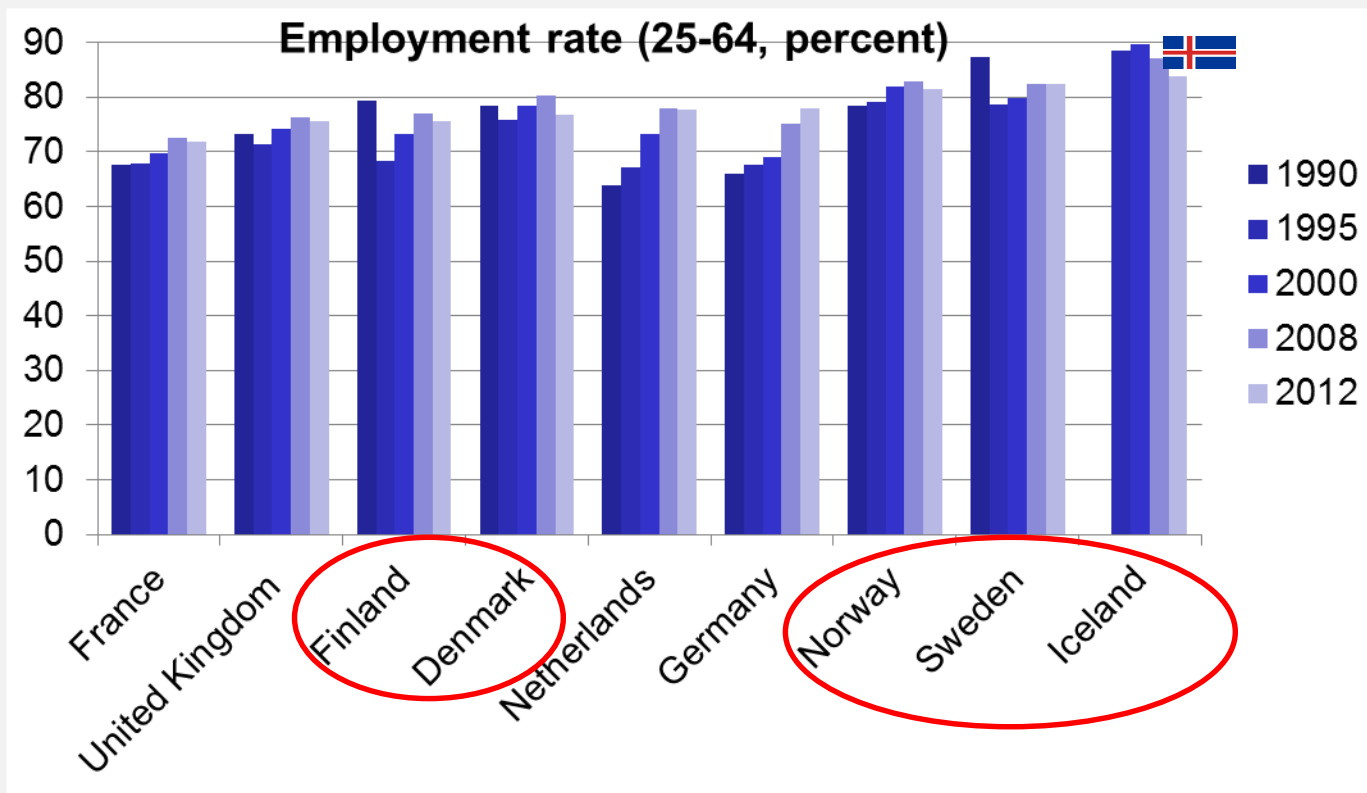
**No «magic bullet»: Mainstream tools & balanced power relations
enabled coherent, complementary responses**

Equity &
coordination

2000s: Economic boom, political shifts, and surge in labour migration across the Baltic Sea

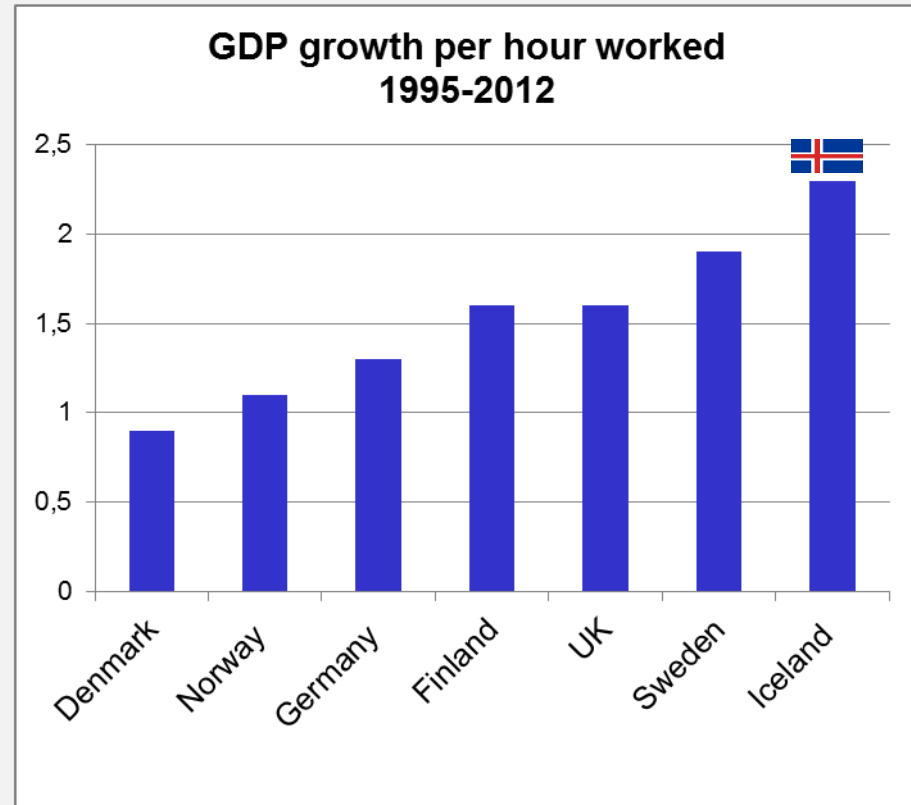
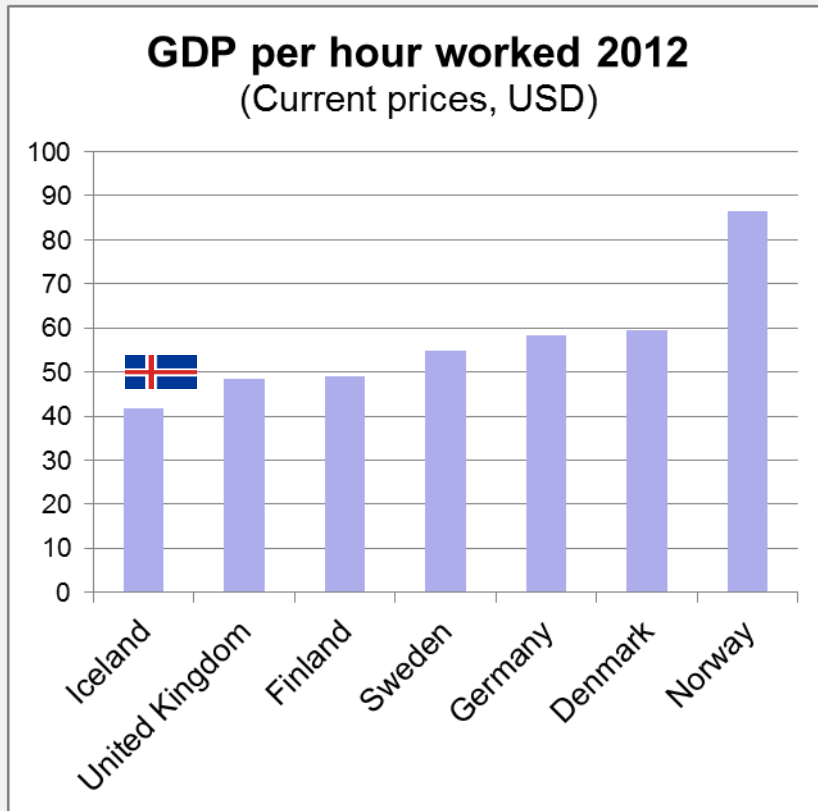
- **Financialization of the economies --> asset bubbles (ICL, DK)**
- **Center-Right «embraced the Nordic models» → back in office**
 - **Sizeable tax reliefs** – fuelled the boom
 - **Changes in Unemployment Benefit Funds** -- drops in members & union density
 - **Sweden liberalized fixed-term work** (2007) – most lax in OECD
 - **Retrenchment of social benefits** -- SE towards average OECD generosity
 - **More public outsourcing and private «free schools»** -- mixed results (PISA)
 - **Divergent responses to low wage competition** – post-2004 ; «Laval-quartet»
- **Signs of new lines of division in the labour markets**
- **Growing support for welfare chauvinist, populist parties**

High Nordic employment rates -- especially in full time equivalents



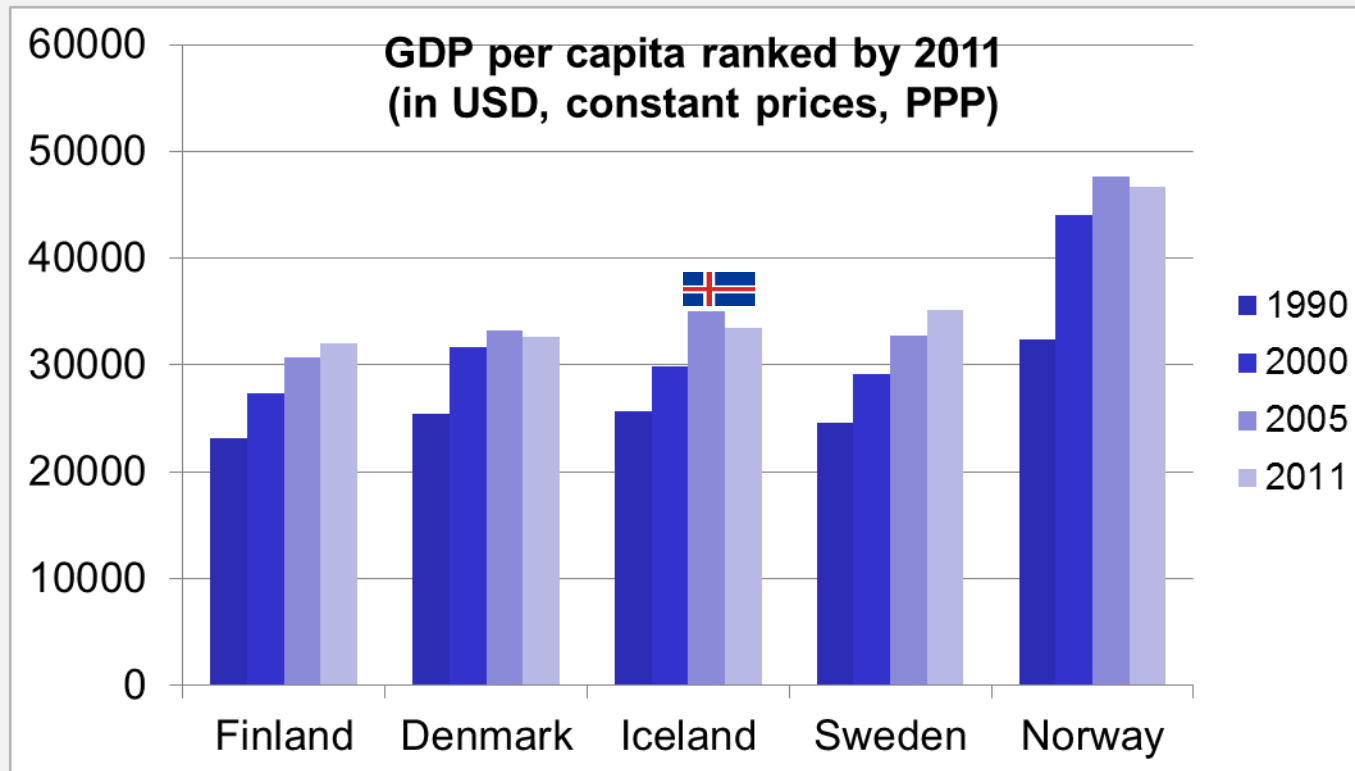
- Main gap Nordic vs Continental Europe among women & elderly (55+)
- Icelanders still on top, DK & FL fell behind during the crisis

High labour productivity – but slowing...



- Differences in industry structures blur the picture
- ICL lags behind but highest productivity growth, work longest hours
- Flattening productivity in DK & N in the 2000s boom with rising hiring of cheap migrant labour...

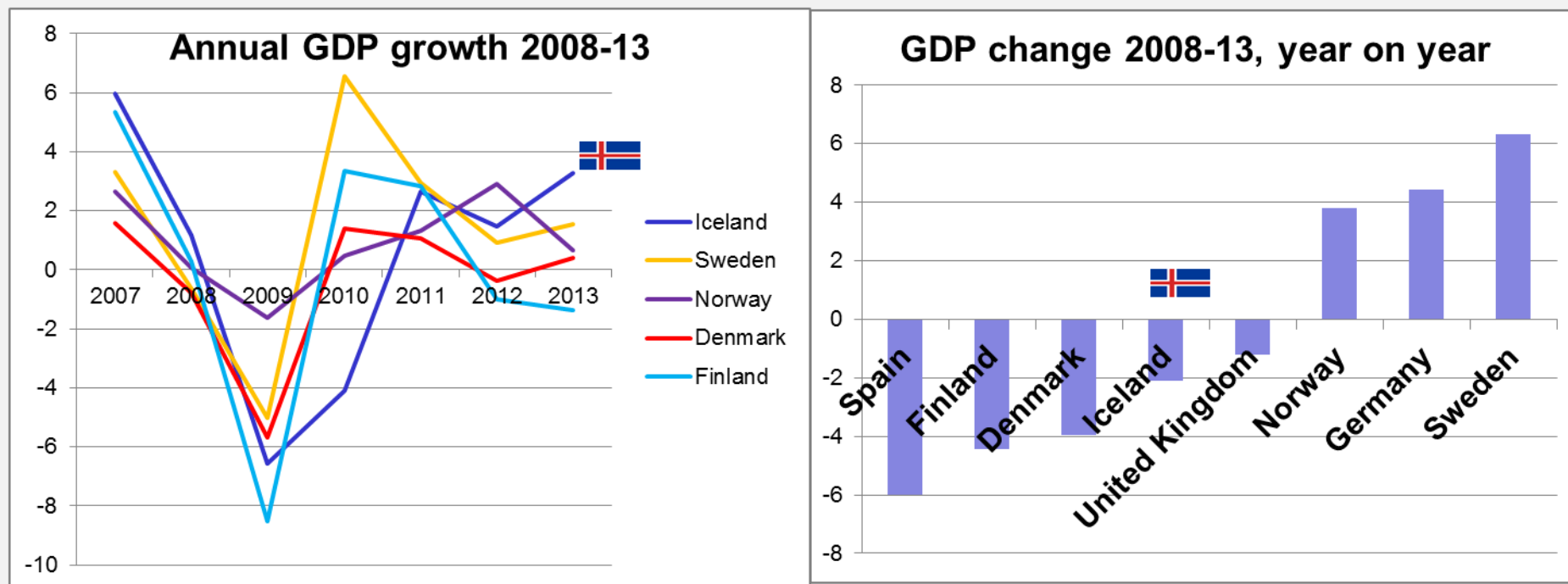
Growing wealth and affluence



**Especially strong rise in Iceland and Norway
up till the crisis ...**

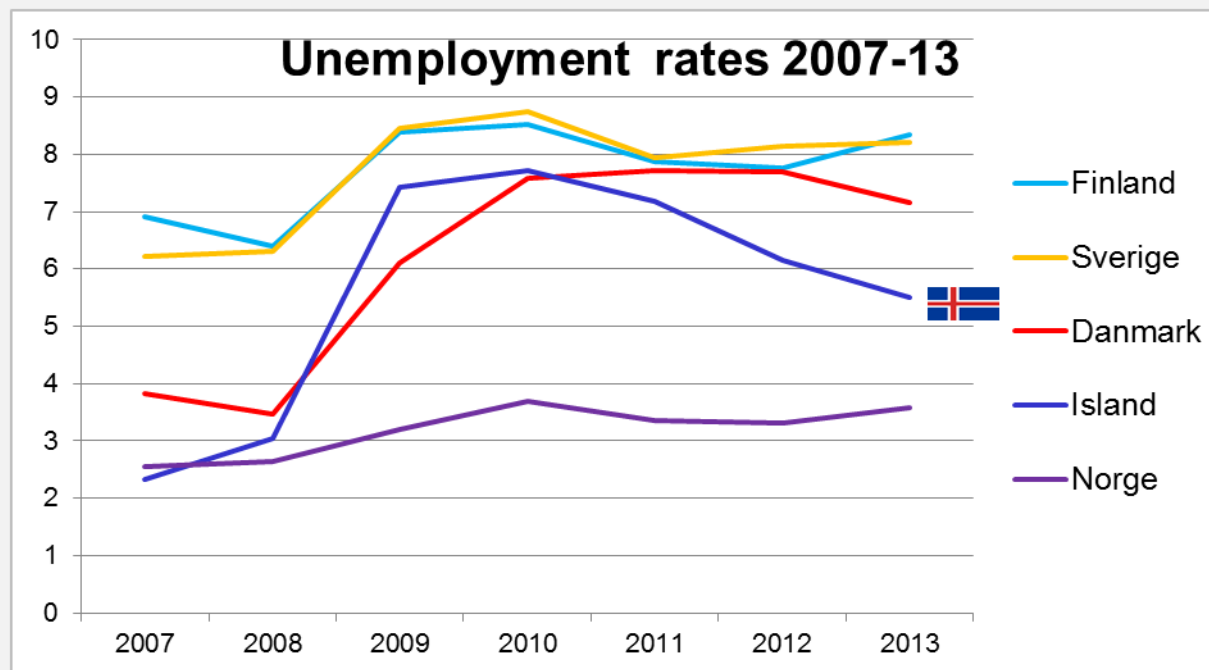


Divergent Nordic crisis experiences



- **Iceland** – financial collapse, recovery from 2011
- **Sweden & Norway** on the brighter side
- **Denmark** – bubble burst, debt deleveraging, austerity – weak recovery
- **Finland** – prolonged crisis, «structural problems» & austerity

Unemployment – fell in the 1990s, sharp rise under the financial crisis



- Highest levels in Finland & Sweden prior to and during the crisis
- Marked rise 2008-9, especially in Iceland & Denmark, by 2013 total Nordic unemployment was almost 7% (ca 940,000)
- From 2010 the strongest decline came in Iceland

Looking beyond the crisis: The Nordic Model 2030 – still viable?

Erosion of the models' institutional foundations?

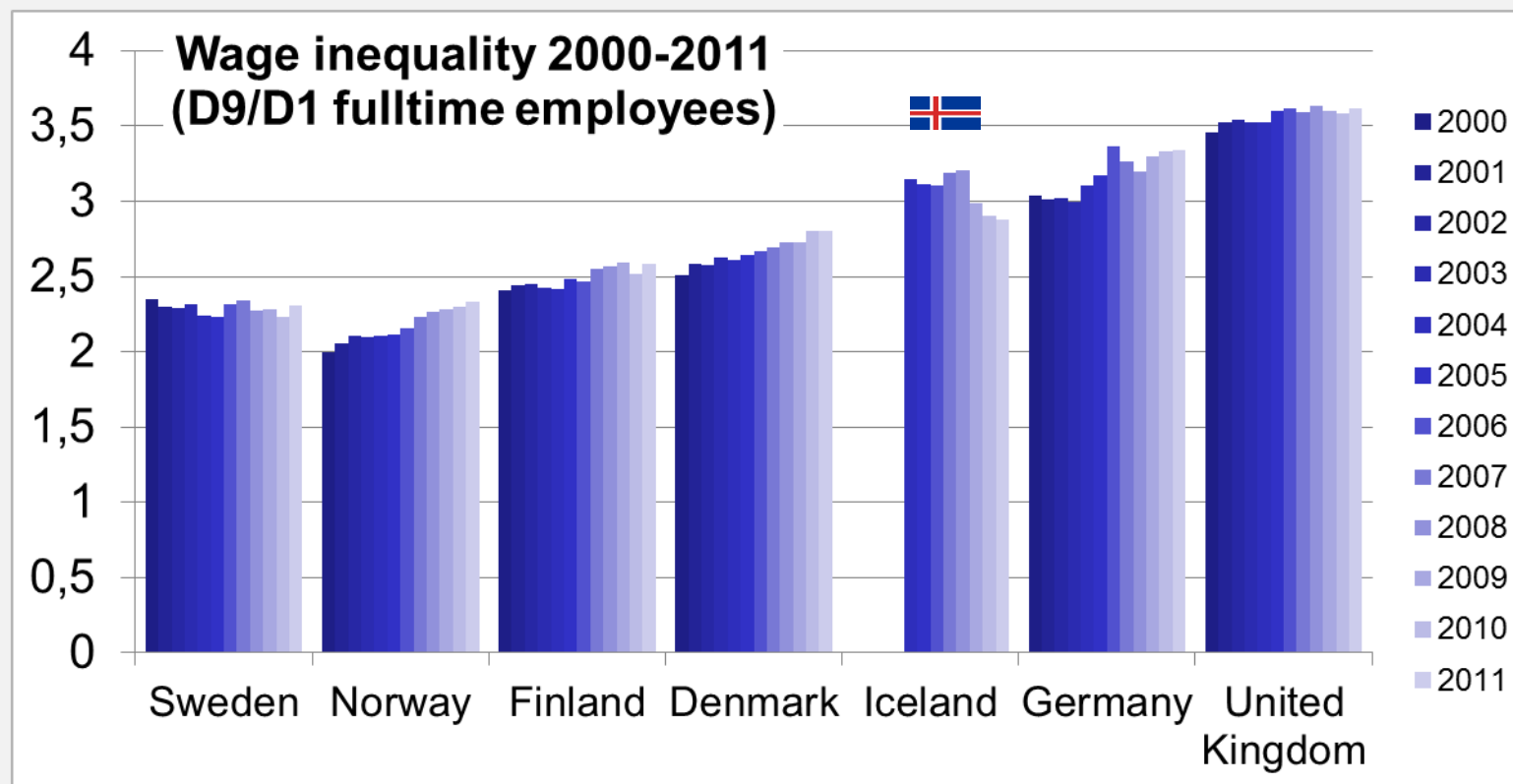
Table – change in union density 1995-2010

	Iceland *	Finland	Denmark	Norway	Sweden
1995	87	80	73	56	83
2005	95	72	72	53	77
2008	79	68	68	51	68
2009		69	68	52	68
2010		70	67	52	68
Change 1995 – 2010	- 8 (* OECD data)	- 10	- 6	- 4	- 15

Source: Nergaard
2013; OECD

- Strongest drop among young & lower-skilled in private sector (LO/AST)
- Accelerated by change in Ghent systems (FL, DK, SE)
- Towards union movement for well-educated and protected “insiders”?
- Weakening of collective bargaining in some sectors...

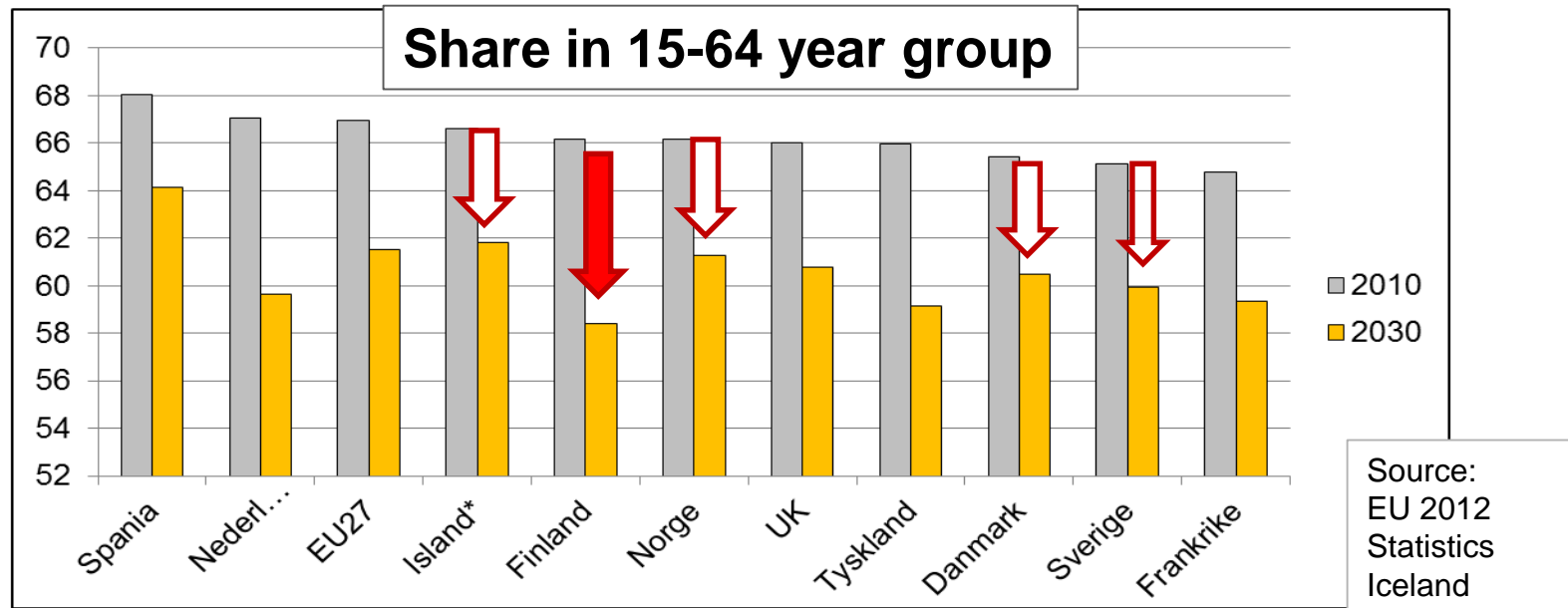
Growing inequalities...



- More dualized labor markets → rising income gaps
- Iceland - largest Nordic pay gap, but the trend turned amid the crisis ... will it last?

Ageing populations – doubling of 85+ by 2030

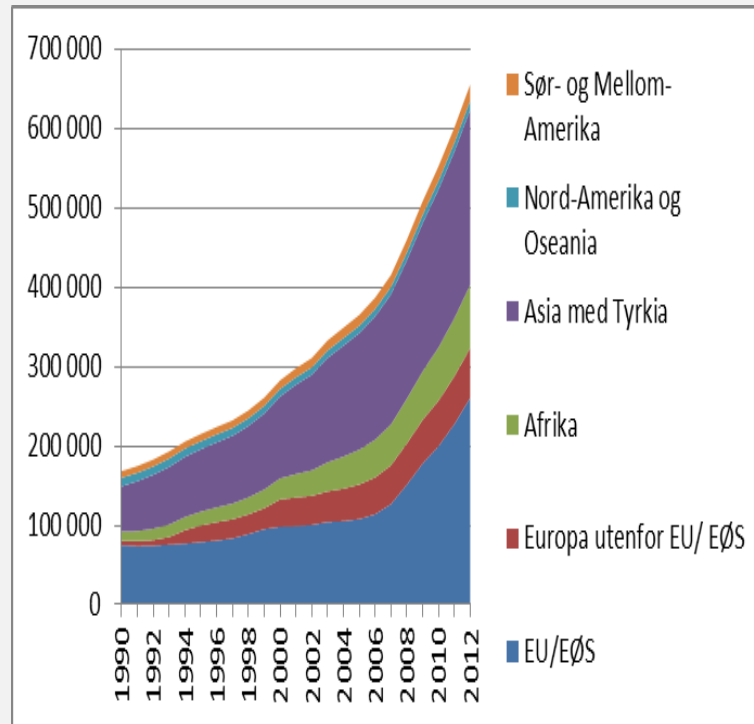
5-8 points decline in working age population share by 2030



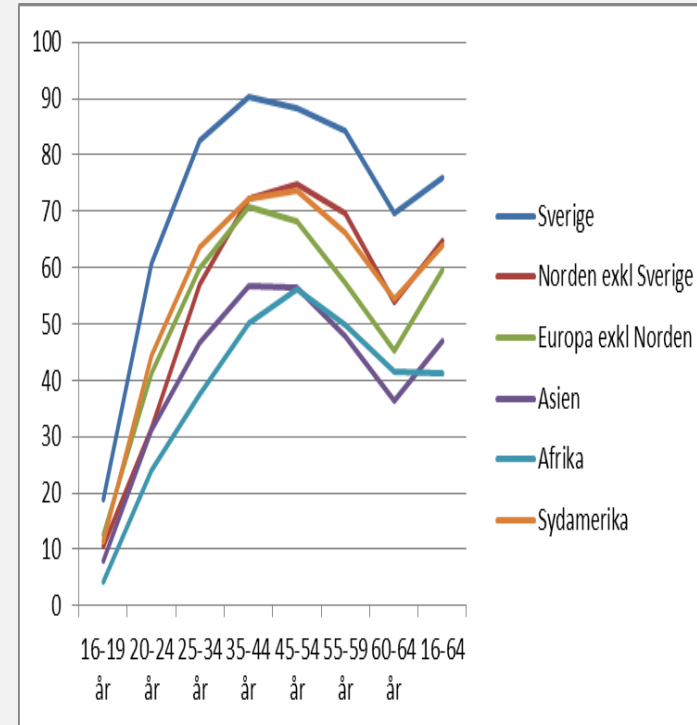
Large welfare states are dependent on high rates of employment and tax-payers

Growing immigrant populations with divergent rates of employment

Resident immigrants (Norway 1990-2012)



Immigrant employment rates (Sweden)



- Labour market inclusion – key for welfare state sustainability
- How to counter wage dumping – Nordic «sacred cows» in danger?

Still, in international comparison the Nordic models appear fundamentally robust ...

- Competitive economies & sound public finances
- Flexible labour markets, reformed welfare states & high employment
- High female participation, fertility & growing populations (except Finland)
- Rich on trust, human capital & social infrastructure

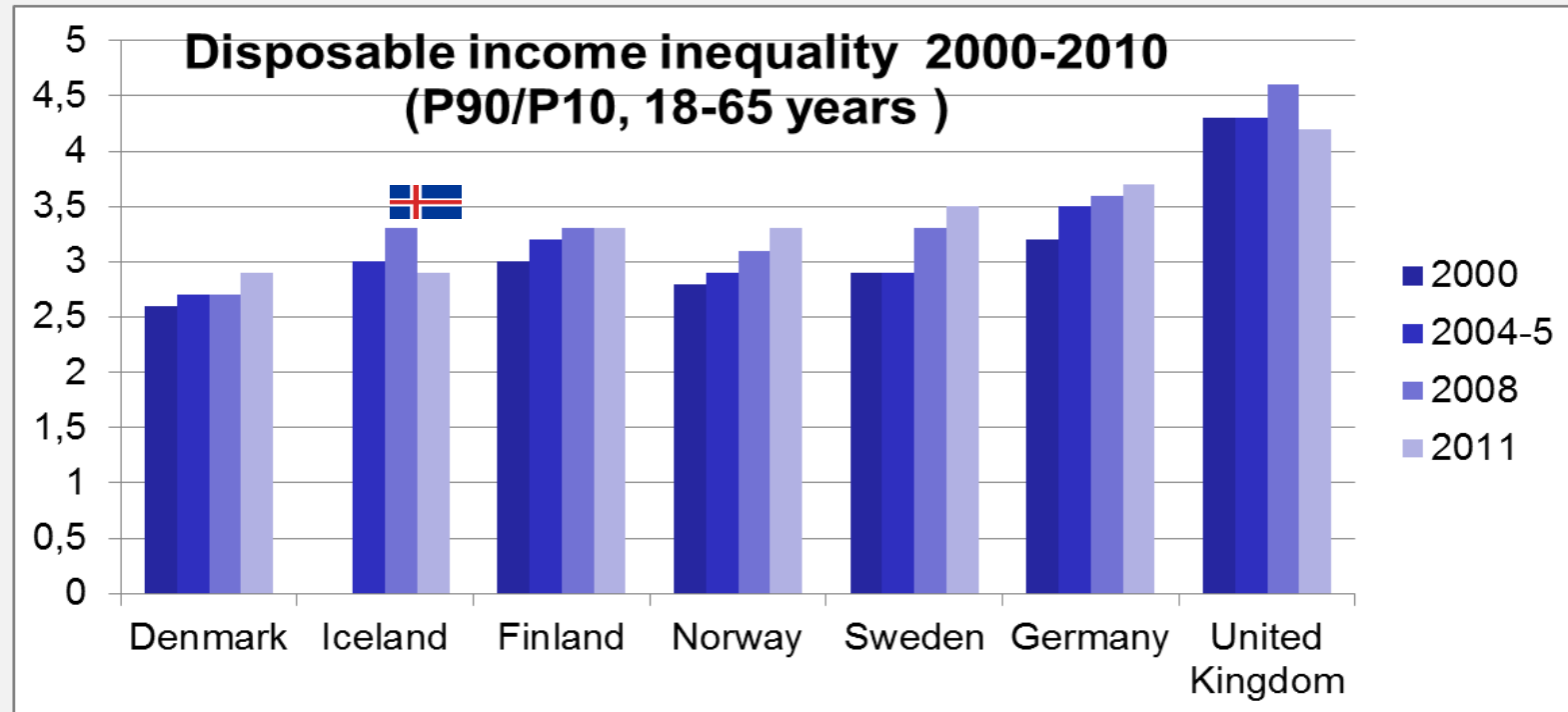
→ If not the small, affluent Nordic countries can cope – who can?

- Yet, the ultimate question pertains to political sustainability:
 - Will electorates, social actors, and parties support building of coalitions that are able & willing to address the hard questions?

Thank you for the attention!

- Check out: nordmod2030.org

Except in Iceland, rising income inequality – a threat to cohesion and support?

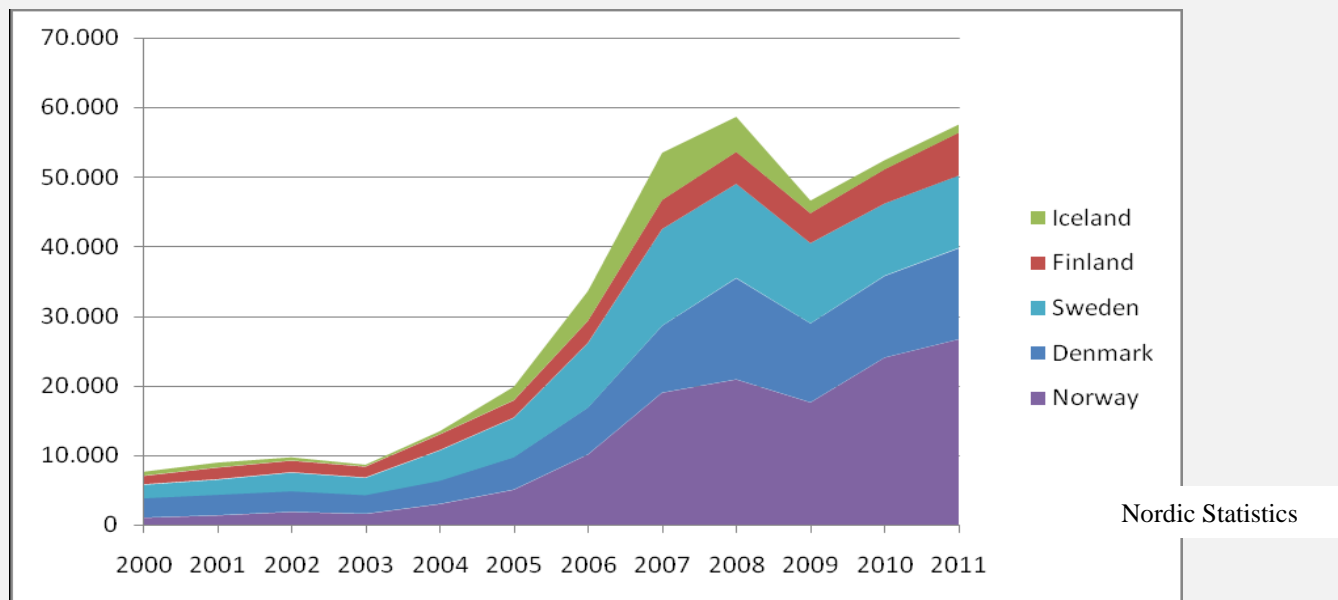


- Strongest rises in Sweden recently, followed by Norway
- Rising capital incomes, labor market dualization & tighter benefit levels
- Iceland – moved from highest to second lowest Nordic income inequalities

Enlarged EU/EEA market for labour – a mine under Nordic labour regimes?

New resident labour migrants from EU 8+2 countries 2001-2011

(In addition comes short-term & posted workers + «old EU/EEA» migrants)



«Labour supply-shock»

- New hiring patterns distort competition & power relations
- Changing agendas & lines of conflict in working life regulation
- Rising Euro-scepticism in the unions
- **How counter wage dumping – Nordic «sacred cows» in danger?**