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**CMI**

*Martti Ahtisaari Centre*

**A RECIPE FOR A BETTER LIFE:  
EXPERIENCES FROM  
THE NORDIC COUNTRIES**



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# A RECIPE FOR A BETTER LIFE: EXPERIENCES FROM THE NORDIC COUNTRIES<sup>1</sup>

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Egalitarian principles and practices in any given society have to be carefully crafted if we want to ensure a just, fair and sustainable society for the generations to come.

## CREATING A FAIR SOCIETY



After working in various international forums for almost six decades, I have become more and more convinced that the fate of our societies lies in equity. As Richard Wilkinson and Kate Pickett in their book 'The Spirit Level' indicated, equity is good for everyone. This means giving all children – boys and girls – an opportunity for good education and health care so they can have a chance for a decent life.

In today's world we don't need raw capitalism, any sort of socialism, but a responsible and egalitarian market economy, which the Nordic countries represent at their best. The Nordic model has not come about in a vacuum, but has required a lot of hard work and sincere commitment – both from the political leaders and the citizens. At the beginning of the twentieth century, Finland was one of the least developed European countries. There were no historical achievements comparable to those, for example, of the Mediterranean regions. Even though we managed to make important societal reforms at the time – such as establishing a unicameral parliament already in 1906, with equal footing for men and women – we ended up having a civil war in 1918. Of course, the occurrence of the civil war took place in the context of the worldwide power struggle and political structural change, which also had its effect on Finland. But not only that, it also had to do with ordinary people's social and economic grievances in the society.

Since the year 1918, Finnish society has been determined in rebuilding trust step by step, decade after decade, resulting in something which many describe as the best functioning societal model in the world. Of course, this can also be said about the other Nordic countries and some other European countries. Whether that is the case or not can be arguable for sure, but at least I think we have learned something about how to live in peace in a society that is based on egalitarian principles. The challenge is not only how we create wealth, but also how we use it.

During the last two years it has been my pleasure to collaborate with two highly esteemed scholars, with whom this report by Crisis Management Initiative has been produced. The report aims to portray and underscore some of the pivotal principles and practices from the Nordic societies that we have found useful in creating a society based on egalitarian principles. For sure, we still have our challenges as everyone else, but in times of a fundamentally changing world we have to learn from each other and take advantage of all the best practices that can support the creation of a fair global society. Even though the interdependency in today's world is a fact, the main responsibility for creating egalitarian policies lies with the nation states. Egalitarian principles and practices in any given society have to be carefully crafted if we want to ensure a just, fair and sustainable society for the generations to come. In order to achieve this, we need responsible action and strong political commitment.

*Martti Ahtisaari*



## INTRODUCTION



*“Democracy is not enough, economic growth is not enough – it is about the wellbeing of the population as a whole.”*

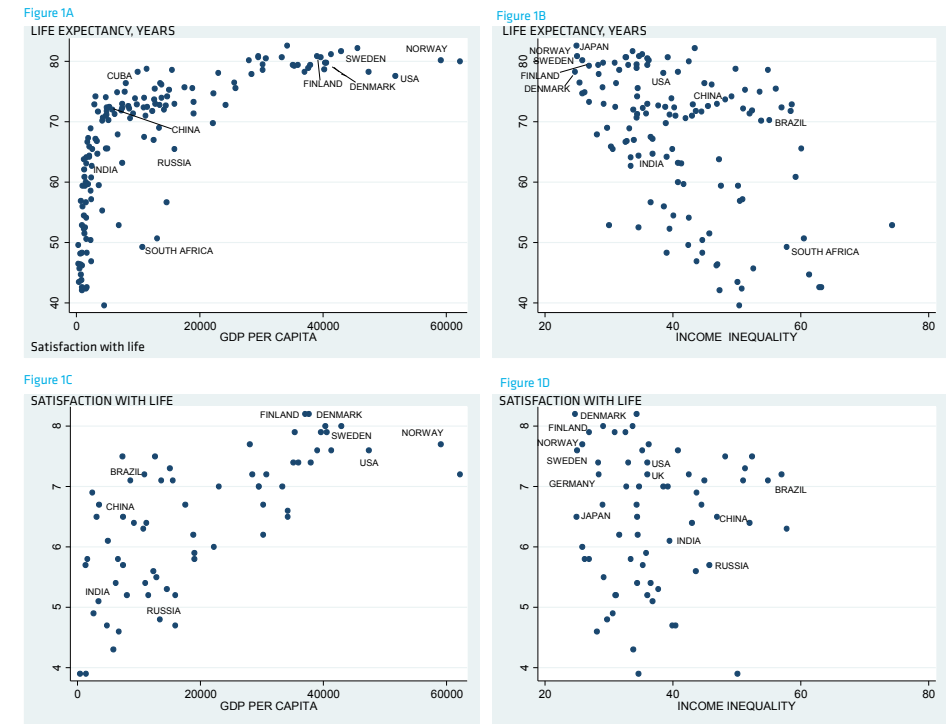
The nineteenth and twentieth centuries witnessed enormous transformations of economic and social systems around the world. More recently, the explosion-like expansion of information technologies, together with rapid economic development, constitutes another transformation that will not only change the economic order of the globe but also the conditions of life of its nearly seven billion inhabitants.

Great transformations always have their winners and losers. In the wake of big changes, old forms of societies are vanishing and new ones are taking shape. The crucial question is how and to what extent different countries, or groups of countries, have managed to harness the destructive forces of change in a socially justifiable way, created social and economic institutions that can effectively utilise all the possibilities the new situation opens, and created circumstances where people can fulfil their capacities and full potentials.

A body of scientific evidence shows that – at least after a certain threshold – economic growth alone is no longer a remedy against poverty, deprivation and other social ills (Figure 1). What matters is not only the aggregate level of national wealth, but also how the wealth is distributed within a society and the methods through which this distribution is achieved. Indeed, in countries with more equal distribution of resources there is more trust between people, a higher perceived level of wellbeing, lower infant mortality, better health, longer life expectancy, greater social mobility and better learning results for children in school; there are fewer homicides, and fewer prisoners in jail.<sup>2</sup>

Figure 1A shows that in richer countries the level of GDP is no longer strongly related to life expectancy. Once a GDP of around 2,000 USD per capita per year is achieved, the link between prosperity and longevity is negligible. However, at lower levels of national wealth, the association is much stronger. The same holds true for peoples' satisfaction in life (Figure 1D). However, people tend to live longer in countries with more equal distribution of income (Figure 1B) and they tend to be happier in more equal societies (Figure 1D). After controlling for the GDP level, the association between income equality and life satisfaction is much more significant, which reflects the fact that income is not only about means to consumption, but also social status and relationships. People constantly compare themselves with other people. Thus, a weak position in a community results in feelings of inferiority, increases stress and weakens health.

Figure 1A–D. GDP per capita, income inequality<sup>3</sup>, life expectancy and satisfaction with life (0 = very dissatisfied... 10 = very satisfied).



The growing inequalities around the globe have caught the attention of various prestigious bodies. The OECD report *Divided we stand*, released in December 2011, noted that “the gap between rich and poor in OECD countries has reached its highest level for over 30 years”. According to the report, “governments must act quickly to tackle inequality”. The OECD report deals with industrial and rich societies. However, the same verdict also holds true within a wider historical and comparative perspective. In his ‘Democracy in America’, Alexis Tocqueville [1835] prized the egalitarian spirit he found in North America.<sup>4</sup> In a similar vein, more recent analysts have described the reasons for poverty and underdevelopment in the modern world. Thus, in many countries the majority of the population is living in destitution because they are “...ruled by narrow elites that have organized society for their own benefit at the expense of the vast mass of people. Political power has been narrowly concentrated, and has been used to create great wealth for those who possess it...”.<sup>5</sup> So, GDP and democracy are not enough for creating wellbeing in nations. They are perhaps necessary but not sufficient conditions for wellbeing. The crucial questions are how the prosperity is divided, how democracy is used, and for what purposes.

2. Wilkinson, Richard & Pickett, Kate (2009) *The Spirit Level: Why Equality is Better for Everyone*. London: Allen Lane. See also Stiglitz, Joseph (2012) *The Price of Inequality. How Today's Divided Society Endangers our Future*. New York & London: Norton Company.

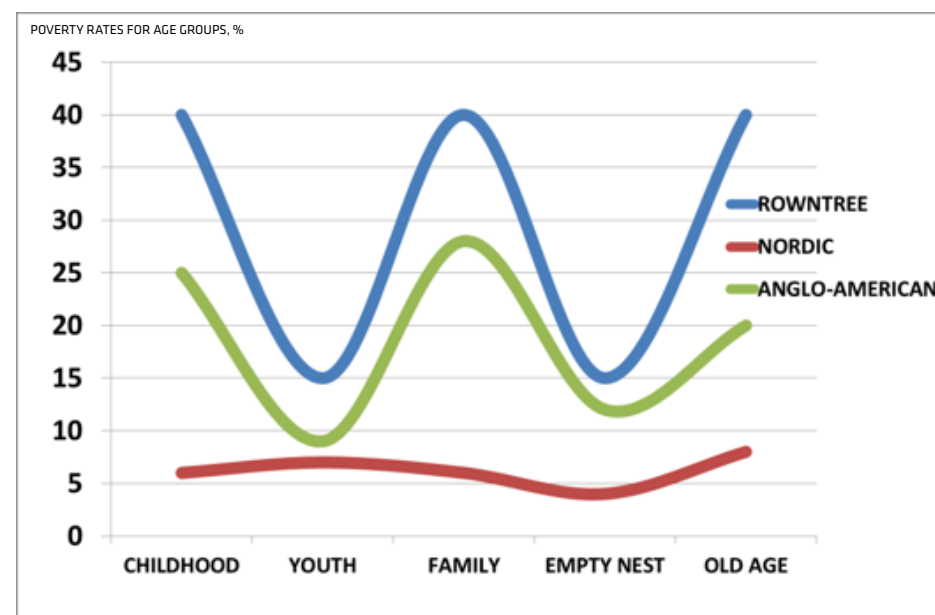
3. Income inequality is measured by the Gini coefficient, which varies between 0 and 100. A value of 0 indicates that there are no income differences at all; everybody gets the same amount of money. A value of 100 indicates that the richest person takes everything.

4. Tocqueville, Alexis [1835] *Democracy in America*. London: Penguin Classics.

5. Acemoglu, Daron & Robinson, James (2012) *Why Nations Fail? The Origins of Power, Prosperity and Poverty*. London: Profile Books, p. 3. See also Turner, Adair (2001) *Just Capital. The Liberal Economy*. London: MacMillan; Moyo, Dambisa (2009) *Dead Aid. Why Aid is not working and how there is another Way for Africa*. London: Penguin Books.

In his study on poverty in York, Seebohm Rowntree (1871-1954)<sup>6</sup> observed that in this developing industrial society, poverty was linked to age and family formation in a cyclical fashion. The first poverty cycle a person experienced was “childhood”, when his/her parents had many dependents to feed and when the earnings of one person were not enough to meet the needs of many. Poverty eased in “the youth phase,” when the young person left home and began to earn his/her own living. Economically, the situation became worse again when she/he got married and had children of her/his own. This stage of the early middle age years – the “family phase” – continued until the children grew up, began to contribute to the family income, and then, one by one, left home (see Figure 2). At this point, he/she entered an economically easier “empty nest” period. This stage would last until old age brought on a lower capacity for work. Because of inadequate pension systems at the turn of the century, old age meant a transition to persistent poverty.

Figure 2. Rowntree’s poverty<sup>7</sup> cycle in York 1899 and the 2010’s cycle in Scandinavia and the Anglo-American welfare states.



From the social justice<sup>9</sup> point of view, it can be argued that the situation of the worst-off in a society is a powerful indicator of how successful the entire society is. Children do not choose to be born and brought up by poor parents. It can therefore be argued that governments have a special responsibility to ensure that children in their countries

6. Rowntree, Seebohm (1901) *Poverty: A Study of Town Life*. London: Macmillan.

7. People are defined as poor if they live in households with an income below 50% of the national median income.

8. Students are omitted from the Nordic data. If they were included, poverty in the 'youth' period would be about 25 per cent in the Nordic countries due to the fact that students living outside their childhood homes are classified as separate households. As a rule, students have low incomes due to the low level of (free) study allowance.

9. Rawls, John (1972/1999) *A Theory of Justice*. Oxford: Oxford University Press.

have equal rights to participate in education, health care etc., and that they should be entitled to the necessary resources in terms of nutrition and housing so that they can take full advantage of these rights. Old persons are also vulnerable due to their declining work capacity and their situation is of particular relevance in a social policy context. Therefore, special attention to the position of these two vulnerable groups is warranted.

The Nordic countries exhibit very low levels of child poverty (Figure 2). Also old-age poverty is below 10% whereas in the prosperous Anglo-American countries the corresponding figures are between 20% and 25%. In the Nordic welfare state paradigm, perhaps more than in any other, the relative character of poverty is recognised: poverty is the inability to participate in the way of life that is prevalent in the society that the individual lives in.<sup>10</sup> Poverty means lacking the resources needed to participate in the normal way of life of the surrounding society. This “lack of resources” closely resembles the concept of “functionings” or “capabilities” as defined by Amartya Sen.<sup>11</sup> The lack of functionings, in turn, leads to “poverty of agency”. This opens up the whole poverty discourse to deal with much wider issues than just the scarcity of money. Education, health, cultural and social capital etc. must be included in the bundle of capabilities needed for the full and free participation in societal activities. Then and only then can we agree that all human beings are equal, that they have certain unalienable rights, and that among these are Life, Liberty and the pursuit of Happiness.

The eradication of poverty is not merely a matter of expenditures and compensation. Rather, we argue that it is primarily a question of investing in human capital and risk-promoting measures.<sup>12</sup> Where, when and to whom you are born largely determines what opportunities you will have in your life. This implies a loss of human capital among those unfortunate to be born with a socially less privileged background. Hence, the promotion of human capital accumulation among the less privileged is of paramount importance to a healthy society.

We will now discuss those experiences from the Nordic countries that could benefit other nations striving to improve their efforts to guarantee the wellbeing of their citizens. The basic idea of the Nordic model is to pursue universal welfare state policies, which means that public programmes, services and transfers are designed to serve everyone living in the country. Not all policies discussed here are unique to the Nordic countries. For example, the Netherlands has implemented policies that are typical among the Nordic countries. And Germany has adopted Nordic measures to promote female labour force participation and to strengthen early childhood education and care policies. In this time of great transformations, the virtue of the Nordic model is in its ability to reconcile risks and uncertainties with openness and the market economy and to cope with changing circumstances.<sup>13</sup> For countries still struggling with low incomes and poverty, the Nordic experience provides encouragement to build up their social

10. Gordon, David & Townsend, Peter (eds.) (2000) *Breadline Europe. The Measurement of Poverty*. London: Policy Press; Townsend, Peter (1979) *Poverty in the United Kingdom. A survey of household resources and standard of living*. Harmondsworth: Penguin Books.

11. Sen, Amartya (1992) *Inequality re-examined*. Oxford: Oxford University Press; Sen, Amartya (1993) 'Capability and well being', In Nussbaum, Martha & Sen, Amartya (eds.) *The Quality of Life*. Oxford: Clarendon Press, pp. 30-53; Sen, Amartya (2010) *The Idea of Justice*. London: Penguin Books.

12. Kvist, Jon & Fritzell, Johan & Hvinden, Björn & Kangas, Olli (eds.) (2012) *Changing social equality: The Nordic welfare model in the 21st century*. Bristol: Policy Press, pp. 69-87.

13. Andersen, Torben M. & Holmström, Bengt & Honkapohja, Seppo & Korkman, Sixten & Söderström, Hans Tson & Vartiainen, Juhana (2007) *The Nordic Model. Embracing globalization and sharing risks*. Helsinki: The Research Institute of the Finnish Economy (ETLA).

security through small steps. Furthermore, the Nordic history shows how it is possible to utilise social security funds to build up industrial infrastructure and hence promote economic growth, which in turn facilitates improving the social protection. The following are some possible lessons for both rapidly developing economies – such as the ‘Asian Tigers’ – and richer countries: the Nordics can serve as an example of how to combine gender equality with high levels of labour force participation and fertility, and how to make social investments in children to promote human capital accumulation and boost intergenerational mobility. In the long run, this also is the only way to build up economically and socially sustainable pension systems and a generally healthy society<sup>14</sup>. In their very strong emphasis on economic growth, many emerging countries seem to have neglected important social aspects, which in the long run undermines labour supply, lowers productivity and jeopardises economic growth and the economic reproduction of the whole society<sup>15</sup>.

## NORDIC COUNTRIES

The Nordic countries make up a region in Northern Europe and the North Atlantic, which consists of Denmark, Finland, Iceland, Norway and Sweden and their associated territories, the Faroe Islands, Greenland and Åland. The Nordic countries have a combined population of approximately 25 million, spread over a land area of 3.5 million km<sup>2</sup> (Greenland accounts for around 60% of the total area). In English, Scandinavia is sometimes used as a synonym for the Nordic countries (excluding Greenland), however that word is most strictly defined to refer only to Denmark, Norway and Sweden.

If we place the Nordic countries in a wider international perspective, they look very much the same: they have a long common history, shared cultural values, a strong position of the national church, blurred boundaries between the state and civil society, a strong and non-corrupt legal system, an efficient state bureaucracy that is capable of implementing public policy measures and effectively collecting taxes and preventing tax-evasion, a heavy reliance on public social services and transfers with high coverage among the populace, and consequently small income differences and low poverty rates. All the Nordic countries have large, tax-funded public welfare sectors and extensive social legislation that provides a safety-net ‘from cradle to grave’ and that has produced good results both in terms of material and psychological wellbeing<sup>16</sup>.

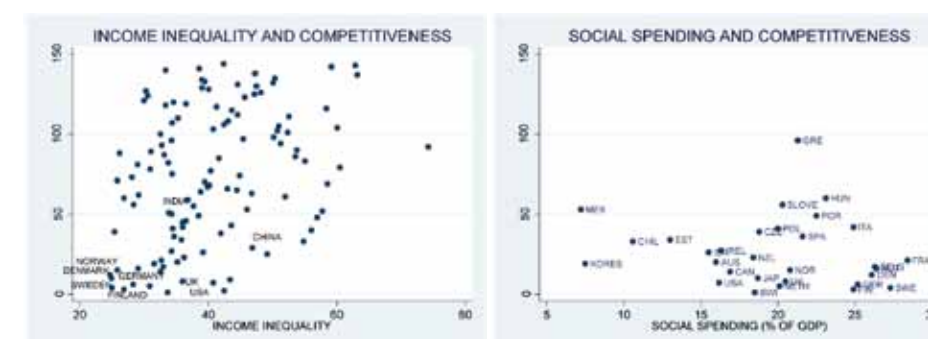
However, the Nordic welfare model has not only been a subject of admiration. The placement of the Nordic countries on the upper echelons of country rankings by all means does not mean that all problems have been solved. Rather, it is an indication that they have the same problems as other countries but on a smaller scale in some areas. For example, socio-economic differences in health have not been significantly reduced in the Nordic countries, even though income inequality declined substantially in the golden period of the welfare states in the 1970s and 1980s. On the other hand, income inequality increased exceptionally fast after the recession in the 1990s, but nevertheless the countries are still among the most equal in the world. One line of criticism

focuses on family instability: a high family dissolution rate, large numbers of single parent families, and a low marriage rate; all these factors are related to post-modern and secular societies. In all the Nordic countries there is a trend towards the marketisation and privatisation of public services. With the motivation of improving choice, quality and efficiency, private kindergartens and schools, private hospitals and elderly care institutions are gaining ground. Here, the question is about finding a delicate balance between economic profit and good care. After a deep recession in the early 1990s, the Nordic welfare model today is less universal, less generous and more conditional than it was twenty years ago. However, the Nordic welfare model is still distinct and fares well in comparison with other welfare state models on most dimensions of welfare. Poverty and inequality rates are low, income mobility – be it short-term or inter-generational – is high; all this is combined with a high level of subjective welfare. This is very much in line with the basic Nordic ideas of how the state should work: it should provide individuals with the resources to master their own lives.

## THE NORDIC EXPERIENCE

Despite their strong welfare states and heavy tax burdens – often said to be poison to competitiveness – the Nordic countries are doing well in economic terms. According to the global competitiveness indices,<sup>17</sup> they occupy top positions in the list of competitive countries (in 2012 Finland occupies the third position, Sweden is number 4, Denmark 8 and Norway 12). And the data shows that there are no strong links between welfare spending and the competitiveness rankings (Figure 3B). In comparison to other nations, the Nordic countries have laborious populations, balanced budgets and low public debts. For many other nations, these aspects represent a serious problem.

Figure 3. Rank-order in World Economic Forum's Competitiveness Index, Income Inequality and Social Spending (% of GDP).<sup>18</sup>



17. <http://gcr.weforum.org/gcr2011>.

18. Social spending data is available only for a limited number of countries.

14. OECD (2007) *Babies and Bosses*. Paris: OECD.

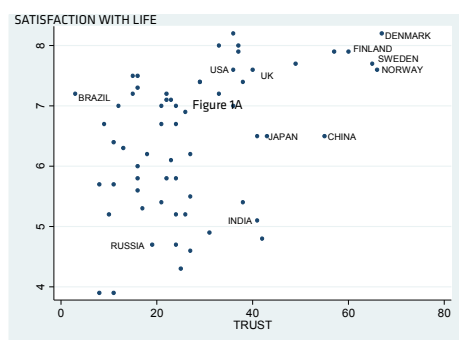
15. It has been calculated that in the year 2040 the ratio of elderly population (65+ years) to population aged 15–64 years of age will be as high as 60 per cent in Singapore and South Korea (see Park, Donghyun (ed. 2011) *Pension Systems and Old-Age Income Support in East and Southeast Asia: Overview and Reform Directions*. London: Routledge.

16. OECD (2011) *How's Life. Measuring Well-Being*. Paris: OECD.

Today the Nordic societies belong to the most prosperous countries with healthy and long-living populations. However, it is good to remember that it has not always been so. In the early 1900s, the Nordic countries were poor by European standards.<sup>19</sup> In the year 1900, the average GDP per capita for the European countries included in this study was about \$3,000. Only the most wealthy Nordic country, Denmark, was close to the European average figure, while Sweden (\$2,560), Norway (\$1,937) and Finland (\$1,668) were lagging far behind the European average – not to mention the UK, which with her \$4,492 per capita was the richest country in the world. Gradually, the Nordic group began to improve its economic performance, and by now their GDP per capita is higher than in the UK and the countries are among the richest in the world. In economic terms, the Nordic group made a great leap in the last century.

Francis Fukuyama<sup>20</sup> argues that “... a nation’s wellbeing, as well as its ability to compete, is conditioned by a single, pervasive cultural characteristic: the level of trust inherent in society.” This means that the level of trust has consequences for economic performance as well as for individual wellbeing. In the international debate on welfare there is currently a shift from money-based measures towards more subjective indicators of wellbeing. Consequently, a vast number of studies now offer lots of material on subjective wellbeing: life-satisfaction and even happiness. Not only is the general life-satisfaction high among people from the Nordic countries, but the story is very much the same when it comes to the various aspects of trust (Figure 4). Thus, the Nordic countries display high degrees of trust in all dimensions (trust in their national institutions and in their country wo/men). Indeed, there seems to be a ‘good circle’ between the Nordic welfare model, social trust and various subjective measures of welfare.<sup>21</sup>

Figure 4. Satisfaction with life (0 = very dissatisfied; 10 = very satisfied) and trust in people (% of those saying most people can be trusted)



A growing body of scholarly literature demonstrates that social capital is good for society as a whole and makes it function well and prosper. As a rule, the level of social capital is measured as trust in national institutions and trust in fellow citizens.<sup>22</sup> In the form of social capital, trust enables societies better and more effectively to accomplish various tasks. Some authors even argue that trust is the most essential precondition for a society to survive; if social trust is destroyed, the whole society will collapse<sup>23</sup>. This is because when people trust each other, they can work together and cooperate for common purposes. The Nordic people not only trust each other, they also hold their national institutions in high esteem. People have faith in the police, the legal system, the state and the tax system. Consequently, the legitimacy of the public institutions, including the welfare state and the redistribution it performs, is high.

### Trustworthy societies

The importance of trust – or social capital, if you like – for economic development and democracy has become widely acknowledged by social scientists of all kinds. Economists, sociologists and political scientists have all taken an interest in this concept. According to Putnam<sup>24</sup>, there are two dimensions of social capital: bridging or inclusive, and bonding or exclusive social capital. These two dimensions, in turn, create different kinds of solidarity. The bridging form of social capital generates broader identities (a broad ‘usness’) and brings larger sections of society together by unifying them, whereas bonding social capital pertains to specific, group-based solidarity. The bonding form of social capital generates tighter ties. However, because of its intra-group solidarity, it may create strong out-group antagonism. Therefore, there is a danger that excluding social capital turns out to be antisocial and detrimental for society as a whole. This notion has important ramifications for social policy making.

Welfare state functions are not only about distribution: who gets what and how much. The institutional set-ups of welfare state policy programmes unify and divide people and social groups. Throughout its history, social policy has had bridging and bonding functions. Whereas in the Nordic countries the emphasis has been on the bridging side – the basic principle in social policy schemes has been universalism, as expressed through *people’s* insurances – in many other countries, especially in Central Europe, Asia and Africa, the schemes have been based on membership of a certain occupational group or category of people. These schemes have relied on bonding social capital and, consequently, they have created strong intra-group interests. In some cases – notably in the Anglo-Saxon world – means testing is used to create conditions for people’s eligibility to participate in programmes. Here, the formation of social bonds has been more diffuse, and because of the fuzziness of the client groups, no interest formation takes place among the clients. As a rule, the overall legitimacy of means-tested schemes is low. Thus, means testing creates neither bridging nor bonding social capital.<sup>25</sup>

19. Maddison, Angus (2003) *The World Economy: Historical Statistics*. Paris: OECD.

20. Fukuyama, Francis (1995) *Trust: The social virtues and the creation of prosperity*. London: Penguin Books, p. 7.

21. Fridberg, Torben & Kangas, Olli (2008) ‘Social capital’, in Ervasti, Heikki, Fridberg, Torben, Hjerm, Mikael & Ringdal, Krister (eds.) *Nordic attitudes in a European perspective*. Cheltenham: Edward Elgar, pp. 65–85.

22. Putnam, Robert (1993) *Making Democracy Work*. Princeton: Princeton University Press.

Putnam, Robert (2000) *Bowling alone: The collapse and revival of American community*. New York: Simon & Schuster.

23. Cook, Karen (ed.) (2001) *Trust in Society*. New York: Russell Sage; Bok, Sissela (1978) *Lying: Moral Choice in Public and Private Life*. New York: Vintage Books.

24. Putnam 2000.

25. Fridberg & Kangas 2008.



The Nordic countries provide a good example of how it is possible to unify equality with an efficient welfare state and a high level of taxation, encompassing social policy with economic growth. The “Nordic enigma” is a successful marriage between hard-core competitive capitalism and the pursuit of egalitarian policies. The goal of equality, most notably between rich and poor and between men and women, constitutes the pinnacle of egalitarian thinking in the Nordic countries.

The Nordic welfare state model has certainly helped women to enter into the labour market and also appears to have lowered the income differentials between males and females. However, the gender relations are perhaps not as equal as they seem at first glance. The other side of the coin is that Nordic women are predominantly working in the welfare sector, which leads to a high degree of occupational segregation by gender in these countries. This occupational segregation has a double effect upon gender equality. Firstly, women may be stacked in low-paid public sector occupations. And secondly, their representation in the high-pay occupations may be lower than in countries with smaller public sectors.<sup>26</sup>

### The role of the state

The state bureaucracies have long roots in the Nordic countries. Already the founder of the Swedish Kingdom, Gustaf Vasa (Swedish king 1521-1560), paid special attention to the administration of his country. He kept records of the Swedish population, mainly for the purposes of taxation and military conscriptions. The access to such data on individual citizens – and on their income and assets – created a basis for effective taxation, which in turn was a crucial precondition for the independence of the state vis-à-vis other societal actors, and later for the construction of the welfare state. The state came to have a strong capacity to carry through reforms, to implement them and effectively collect the funds to finance them.

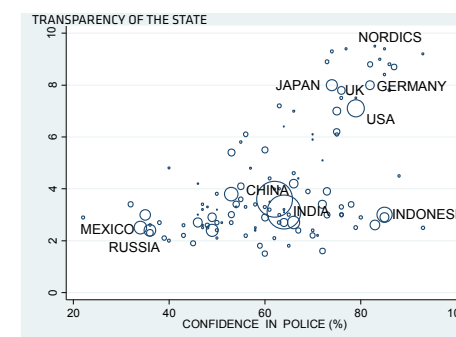
Despite the tendency to centralise the administration, the local level played a crucial role in the provision of public services. Traditionally it was the local municipality, or parish, that was responsible for collecting taxes, delivering aid to the poor and some other basic public goods. Thus, very early on, the Nordic countries had established a functioning local-level democracy that was combined with and coordinated by the central government. This had important ramifications for the legitimacy of the welfare state and social policy programmes.

In contrast to many other developing and poor countries, the state in Scandinavia came to be strong and powerful enough not to be harnessed as merely a vehicle of some particular interests. Thus, the state was able to make its own plans and decisions that sought to promote the collective or national good instead of merely promoting group-specific endeavours. The state capacity was an important precondition for the rapid industrialisation of these rural and poor societies,<sup>27</sup> while the local character of decision-making safeguarded the legitimacy of the public sector. The distance between the state/public sector and civil society came to be close and blurred, and often it is

hard to say where the civil society ends and the public sector begins. One indication of this is that in Scandinavia the word “state” is often used synonymously with “society.”<sup>28</sup> Furthermore, the state is generally not perceived as such a hostile and alien force to the individual as it is in many other countries. In the Nordic countries, the state came to be not only strong but also transparent, i.e. non-corrupt, which is essential for the legitimacy of the government.

One of the first and core tasks of the state is to maintain law and order within its jurisprudence. The rule of law is the smallest common denominator between all political parties when it comes to the core tasks of the state. While the armed forces take care of the external safety of the state, police forces are responsible for internal security. However, in addition to providing safety, armies and police can also be used to suppress the population. Once again, in the Scandinavian hemisphere these two ‘hands of the government’ enjoy high levels of trust among the population (Figure 5). Hence, as the government is trusted by the people, so do the executive forces enjoy a high legitimacy.

Figure 5. Transparency of the state (non-corrupt state = 10; corrupt state = 0) and trust in police forces (% of those who say that they trust in police).



The Nordic model is sometimes attributed to the political ambitions of the Social Democratic governments that came to power during the interwar period in each of the Nordic countries. However, more generally the Nordic policies are not the result of particular political movements. Rather, they are achievements shared by a large spectrum of the political field. Decisions were often agreed upon between different political camps and big reforms were frequently backed by various kinds of cross-class compromises.

Indeed, the role of social partners has been crucial for constructing the Nordic model. Employer federations and trade unions have played an important role not only in establishing a well-functioning collective bargaining system – based on mutual in-

26. Mandel, Hadas, Semyenov, Moshe (2006) 'A Welfare State Paradox: State Interventions and Women's Employment Opportunities in 22 Countries'. *American Journal of Sociology*, Vol. 111, No 6, 1910-1949; Datta-Gupta, Nabanita, Smith, Nina & Verner, Mette (2008) 'The Impact of Nordic Countries' Family Friendly Policies on Employment, Wages, and Children'. *Review of the Economics of the Household*, Vol. 6, No 1, 65-89.  
 27. Vartiainen, Juhana (1995), 'The State and Structural Change: What can be Learnt from the Successful Late Industrializers?' in Chang, Ha-joon & Rowthorn, Robert (eds.) *The Role of the State in Economic Change*. Oxford: Clarendon Press, pp. 137-169.

26. Mandel, Hadas, Semyenov, Moshe (2006) 'A Welfare State Paradox: State Interventions and Women's Employment Opportunities in 22 Countries'. *American Journal of Sociology*, Vol. 111, No 6, 1910-1949; Datta-Gupta, Nabanita, Smith, Nina & Verner, Mette (2008) 'The Impact of Nordic Countries' Family Friendly Policies on Employment, Wages, and Children'. *Review of the Economics of the Household*, Vol. 6, No 1, 65-89.  
 27. Vartiainen, Juhana (1995), 'The State and Structural Change: What can be Learnt from the Successful Late Industrializers?' in Chang, Ha-joon & Rowthorn, Robert (eds.) *The Role of the State in Economic Change*. Oxford: Clarendon Press, pp. 137-169.

stitutional trust – on the labour markets, but also in the construction of social policy programmes. Although the history of the Nordic welfare state is often written from the labour perspective, we should keep in mind that there was a cross-class alliance behind many of the core welfare reforms and both the employee and employer organisations participated in these mutual pacts<sup>29</sup>. Needless to say, this kind of policy-making increased the legitimacy of the outcome, as well as the commitment to it among the social partners. Social tensions did not lead to deeper conflicts, and hence the agility of the Nordic model has been maintained.

### **An inefficient model?**

For some analysts the Nordic welfare state is a dystopia to be avoided at all costs. It is claimed that providing generous benefits to people will result in economic inefficiencies as compared to a situation without such benefits. It is simply argued that the welfare state destroys the incentives to work. Therefore, instead of pleas for equality, there are vociferous political calls for income inequality in order to increase the incentives to work and thereby to enhance economic growth. Moreover, it is argued that this is the only way to improve the lot of the poor: once the economy is booming, the worst-off sections in society will also get their share of the rising economic tide.

Thus, equality and redistribution are often seen as severe obstacles to economic growth. The high level of social protection is regarded as one important reason why the European economic and employment performance is lagging behind its American counterpart. This problem is regarded as being the greatest in the Nordic countries, which feature the most equal income distribution; heavy taxes and lavish welfare provisions are seen to eradicate all incentives to work. However, empirical findings suggest the opposite, and it is very hard to empirically justify social inequalities by referring to their beneficial effects on economic growth. And it is even more difficult to justify the impact of these policies on the position of the poor.<sup>30</sup> America's economic performance is due to other factors than inequality.

The theory does not perform any better when it comes to the position of the poor. The absolute level of economic wellbeing of the poor is not higher in countries with higher income inequalities and higher cross-sectional poverty rates. Nor is their position improving more rapidly than in countries with smaller inequalities. Instead, the findings from the Nordic countries, with their equal income, display high absolute income levels for poor people.<sup>31</sup>

The Nordic countries went through a rough period as a consequence of the deep economic recession in the early 1990s. The budgets went from clear surpluses to deficits of 10% of the GDP, and public debts increased rapidly. The dark economic prospects increased the crisis awareness both among all the political parties and among the population, and fortified a political consensus to accept the welfare cuts that were regarded

as necessary to put the economy on its feet again. Virtually all social programmes were subject to changes: sickness, maternity and unemployment benefits were cut. As a consequence of these measures, public finances are now in a better shape than in many other EU countries. Moreover, the economic performance of the Nordic countries has been much stronger than the OECD average. These facts can be interpreted in different ways. For critics of the Nordic welfare state this is evidence that they were right: after more cuts the countries are doing even better. But the defenders of the model say that the cuts were marginal, and that they cannot explain the recovery.

However, the 1990 crisis showed that the universal and advanced welfare states were able to absorb macro-economic shocks and stabilise living conditions when needed. Despite skyrocketing unemployment and rising factor income differences, differences in disposable incomes and poverty did not change that dramatically. Suppose what had happened in some other welfare state if in three years unemployment had suddenly risen from four to eighteen per cent and GDP had fallen by thirteen per cent. Against this background, the Finnish and Swedish – or if you like, the Scandinavian – record was fairly decent; the model passed the survival test caused by the deep recession and showed its ability to transform itself in a socially justifiable way.

### **Homogenous countries?**

The fact that the Nordic countries occupy top positions in various country rankings from economic performance to welfare and happiness is sometimes attributed to Nordic exceptionalism. It is argued that the Nordic countries have enjoyed and continue to enjoy exceptionally fortunate conditions for economic and social development. Is the support for universal welfare policies only possible in small and homogenous populations where benefits are for “us”? If we agree that cultural and ethnic heterogeneity are disruptive to the ideal of universalism, then nations with a more multicultural character may not have so much to learn from the Nordic countries.

It is true that the nation-states and three autonomous regions in the North of Europe closely resemble each other. Unifying factors include their geographical position, Lutheranism as a state religion, social homogeneity, and national, linguistic and historical traditions. National social policy has been developed on the basis of democratic corporatism.<sup>32</sup> The countries are small, relatively open economies, which are very dependent on international economic cycles. Up to now they have been rather successful at competing in the global markets.

When discussing how homogenous the populations in the Nordic countries are, it is often forgotten that the countries perhaps have been and are more diverse than previously acknowledged. Finland, Norway, and Sweden have all had lingual and cultural minorities (the Sami people). Furthermore, Finnish speakers have been a lingual minority in Norway and Sweden, just as the Swedish-speaking population has been a minority in Finland.

It is an exaggeration to describe the Nordic countries as homogenous societies. For example, in Sweden the share of those born outside the country is now bigger than in the U.K. In fact, ethnicity issues – i.e. the integration of persons from other countries,

29. Flora, Peter (ed. 1984) *Growth to Limits: Volume 1*. Berlin & New York; deGruyter; Swenson, Peter (2002) *Capitalist Against Markets. The Making of Labor Markets and Welfare States in the United States and Sweden*. Oxford: Oxford University Press. Andersen & al. (2007).

30. Heinrich, Georges (2003) 'More is Not Necessarily Better: An Empirical Analysis of the Inequality – Growth Tradeoff Using the Luxembourg Income Study', Luxembourg Income Study, Working Papers 344. Luxembourg: LIS; Kenworthy, Lee (2004) 'Welfare States, Real Income and Poverty', Luxembourg Income Study, Working Papers 370. Luxembourg: LIS.

31. Smeeding, Timothy (2005). *Government Programs and Social Outcomes: The United States in Comparative Perspective*. Luxembourg Income Study, Working Papers 426. Luxembourg: LIS.

32. Katzenstein, Peter (1985) *Small States in World Markets. Industrial Policy in Europe*. Ithaca: Cornell University Press.

or migration flows and levels of solidarity in national populations – have created a significant set of demographic challenges. Because of the generally lower labour market participation rates among persons from third countries, especially women, much of the active labour market policies in recent years have aimed at integrating such groups into the labour market.

While empirical results show that Americans in particular are sensitive to the in-group “us” and out-group “them” distinction, the Nordic attitudes are not that much affected by the dyadic division. Hence, the increasing ethnic diversity does not directly constitute a threat to the Nordic welfare state<sup>33</sup>. However, there are problems among the Nordic countries in integrating immigrants into the labour markets. Given the high level of unemployment among immigrants, the in-group and out-group distinction may soon begin to play a greater role.

There have also been national debates in the Nordic countries on whether the universal, generous benefits will attract people from other countries interested in such benefits, while at the same time making insiders in the Nordic labour market move abroad to avoid the high(er) taxes that finance the social benefits. In fact, populist parties using anti-immigration banderols are receiving a substantial share of votes in the Nordic countries.

There are also signs that educational attainments and educational skills among immigrant children are substantially lagging behind of those of the native children. Thus, in the years to come, to keep the emerging inequalities from expanding, the Nordic countries may need to invest more in the integration of certain groups of immigrant children into kindergartens, preschools and schools.

The different political and social trajectories of the Nordic countries bear witness to the fact that there is no such thing as a single road to egalitarian outcomes. Egalitarian policies can be implemented in all kinds of political and social contexts. However, such policies must be preserved and developed over time to reach egalitarian outcomes.

### **Social policy and education as devices for social cohesion**

The history of Finland gives a good lesson on how social cohesion in a highly divided country can be achieved. In 1918, Finland experienced a severe civil war between the ‘Reds’ and ‘Whites’. The war was one of the bloodiest on the European continent. It resulted in the victory of the bourgeois ‘white’ army. However, the Social Democrats were allowed to participate in the first post-war elections in 1919 and they won 40% of the seats in the parliament. Furthermore, in 1927, i.e. less than ten years after the civil war, the Social Democrats alone formed the government.<sup>34</sup> After World War II, Finland faced a challenge in resettling the evacuees from the areas that were occupied by the Soviet Union. All in all, more than one tenth of the population had to be relocated. The story of the Nordic welfare system in Finland is one where social cohesion, trust, economic growth and wellbeing had to be created from scratch.

Key elements in the rebuilding process were expanding the social policies, implementing extensive land reforms, modernising the educational system and using social

insurance funds as investment capital. The national (people’s) pension scheme, established in 1937, serves as a good example. In a capital-poor country, the state deliberately used the new pension system to accumulate capital for investments. The scheme was fully funded, and after World War II the funds were used to electrify the country and to build roads and other basic infrastructure for industrial development. Later the employment-related pension funds that began to accumulate in the early 1960s facilitated industrialisation and promoted economic growth, which in turn enabled the expansion of social policies.

The Finnish case is an example par excellence of how funds accumulated for social policy purposes (wage earners’ pension) can be utilised to modernise the country. Social policy programmes and the people’s insurance covered everyone equally and created a feeling of ‘usness’. The people’s school system had the same impact on the mental and cultural maps of pupils. Children of the ‘Reds’ and ‘Whites’ were obliged to sit side by side in the same class-rooms, had the same curriculum and learned to know each other. In this sense, both universal social policies and universal education paved the way towards social cohesion and – perhaps totally unintentionally – were used as devices of social investment.

### **SOCIAL INVESTMENTS<sup>35</sup>**

The Nordic experience of welfare policies is not only about expenditures and compensation, but also about investments in human capital and risk-promoting measures.<sup>36</sup> By whom, where and when you are born matters for your life chances. This implies a loss of human capital among those unfortunate to be born with a socially less privileged background, in economic dire times, in areas of social or economic disarray, or, as is often the case, in a combination of the three.

The social investment strategy recognises the inputs or social investment policies and the outputs or the returns of social investment policies (Figure 6). The strategy takes into account that families, firms and various state interventions produce human capital over the course of the life cycle. In early childhood, childcare and pre-school education make up an important part of the social investment, as succeeding policies rest on the cognitive skills learned in these formative years. For young people, primary, secondary and tertiary education provides both general and more specific skills. Two distinct policy packages target prime age adults. The first package of childcare and social care allows carers to partake in the labour market. The second package of life-long learning and active labour market policies (ALMP) updates skills to accommodate changing labour demands. In old age, various policies under the term ‘active ageing’ aim to enable the elderly to make use of their resources and skills in the labour market and in society more generally.

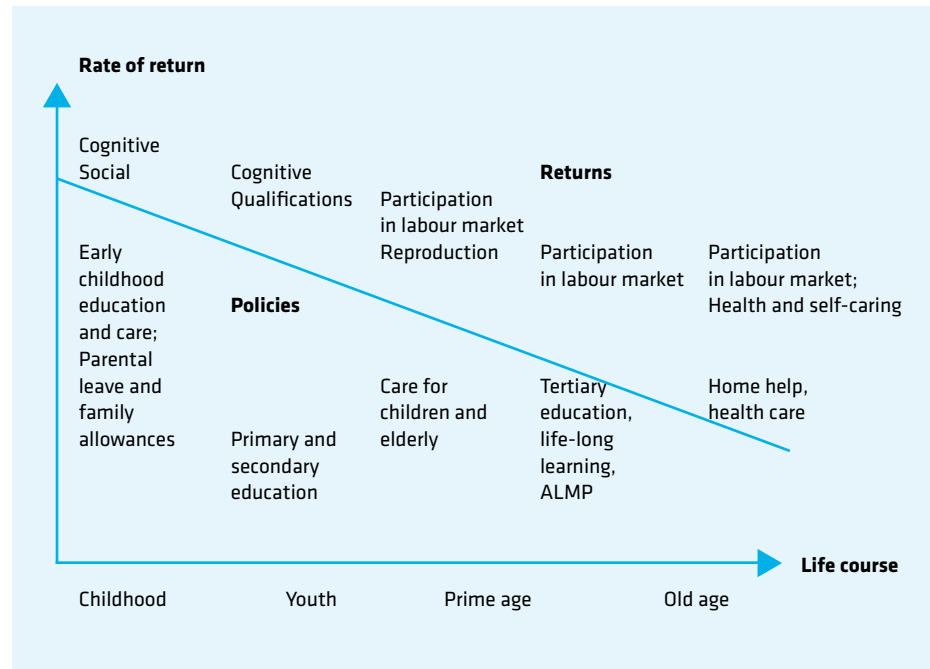
33. Finseraas, Henning (2012) ‘Anti-immigration attitudes, support for redistribution and party choice in Europe’ in Kvist & al. (eds.) (2012).

34. Alapuro, Risto (1988) *State and Revolution in Finland*. Berkeley: University of California Press. Payne, Stanley, G. (2011) *Civil War in Europe, 1905-1949*. Cambridge: Cambridge University Press.

35. See Esping-Andersen, Gøsta (2009) *Incomplete Revolution: Adapting Welfare States to Women’s New Roles*. Bristol: Polity Press. Morel, Nathalie, Palier, Bruno and Palme, Joakim (eds.) (2012) *Towards a Social Investment Welfare States*. Bristol: Polity Press.

36. Kvist, Jon & Fritzell, Johan & Hvinden, Björn & Kangas, Olli (eds.) (2012) *Changing social equality: The Nordic welfare model in the 21st century*. Bristol: Polity Press, pp. 69-87.

Figure 6. A life course perspective on social investment policies and their returns



As for other investments, the rate of return tends to be larger the longer the span to benefit from investments is. For example, childcare may give larger returns than rehabilitation of older workers.<sup>37</sup> In the early years, returns are mainly cognitive and social in nature and the size of the return is vast as there are many years in which yields can be made. Formal qualifications are acquired in the educational system and for adolescents, in most countries, in parallel with vocational training systems. Care for children and the elderly does not per se give new qualifications to prime age adults with care dependent children and elderly people, but it allows these traditional carers to reconcile family life with work and thereby provide returns in terms of both production and reproduction.

Finally, Figure 6 shows the dynamic nature of the social investment strategy. Skills acquired in one stage of the life course provide the foundation for the further formation of skills or their use in the next stage of the life course.<sup>38</sup> Early cognitive skills establish the foundation for learning over the rest of the life. The cognitive and formal qualifications acquired during childhood and youth are intended to meet skill demands in the labour market, where returns are also given a monetary form in terms of revenue to the exchequer and various insurance and saving schemes. Combining active ageing policies with the labour markets contributes to fewer early exits and better health status

37. In Finland, for example, it is calculated that the price of each socially excluded youngster over the life course is about 1.5 million Euros.

38. Heckman, James & Masterov, Dimitriy V. (2006) The Productivity Argument for Investing in Young Children. Early Childhood Research Collaborative Discussion Paper, August.

among the elderly, reducing the need and costs of social care and health care.

In the following, the main policies and programmes of the Nordic model are described over the life course – early childhood, school age, young adulthood, working age and old age. The idea is to elaborate on areas for common sharing and learning for countries striving to increase their performance as societies.

### Early childhood

Skills are acquired both in the family and in societal institutions. Children benefit from their families, and hence policies that promote child-parent interaction are important. Prenatal and postnatal health care, parental leave policies, cash child allowances and early childhood education and care are policies that support families' investments in children's cognitive and social skills.

Given the ageing of the population, falling fertility rates and changing economies requiring more developed cognitive skills, there is a genuine interest in most of the industrialised countries to invest in children. Nordic countries are undoubtedly world leaders in child welfare. The United Nations children's organisation UNICEF<sup>39</sup> looked at 40 indicators for child wellbeing including poverty, family relationships, and health across 21 industrialised countries from the years 2000-2003 (Table 1). In its country rankings, Sweden came top, followed by the Netherlands, Finland and Denmark. Norway's position was 6.

Table 1. Country rankings for six dimensions of child wellbeing.

| Total   | Material wellbeing | Health and safety | Education | Family and friend | Risk behaviour | Subjective wellbeing |
|---------|--------------------|-------------------|-----------|-------------------|----------------|----------------------|
| 1. SWE  | SWE                | SWE               | BEL       | ITA               | SWE            | NL                   |
| 2. NL   | NOR                | NL                | CAN       | NL                | NL             | AUT                  |
| 3. FIN  | FIN                | FIN               | FIN       | SWI               | IRE            | IRE                  |
| 4. DEN  | DEN                | DEN               | SWE       | BEL               | DEN            | SWI                  |
| 5. SWI  | SWI                | ITA               | NL        | IRE               | FIN            | SWE                  |
| 6. NOR  | CAN                | FRA               | IRE       | DEN               | ITA            | NOR                  |
| 7. IRE  | BEL                | NOR               | DEN       | NOR               | GER            | GER                  |
| 8. ITA  | AUT                | SWI               | GER       | FRA               | SWI            | ITA                  |
| 9. BEL  | FRA                | GER               | NOR       | GER               | NOR            | FIN                  |
| 10. GER | NL                 | CAN               | SWI       | SWE               | FRA            | DEN                  |
| 11. CAN | GER                | BEL               | FRA       | AUT               | AUT            | CAN                  |
| 12. FRA | ITA                | IRE               | AUT       | FIN               | CAN            | BEL                  |
| 13. AUT | UK                 | AUT               | ITA       | USA               | USA            | UK                   |
| 14. UK  | IRE                | USA               |           | UK                | UK             |                      |

UNICEF 2007

39. UNICEF (2007). The State of the World's Children 2007. New York: UNICEF. N.B. Iceland was not included in the league table although some of the indicators covered also Iceland.



The distinctive feature of Nordic family policies is the strong role of the state in relation to non-governmental organisations, families and markets. This means that the state has made extensive investments in those areas of social policy that are focused on social risks related to child bearing. The Nordic Welfare State is often associated with a high level of female labour force participation and low levels of child poverty. Both outcomes are related to the fact that single parents also participate in the labour market. Nordic countries are also well known for combining high levels of female employment and fertility.<sup>41</sup>

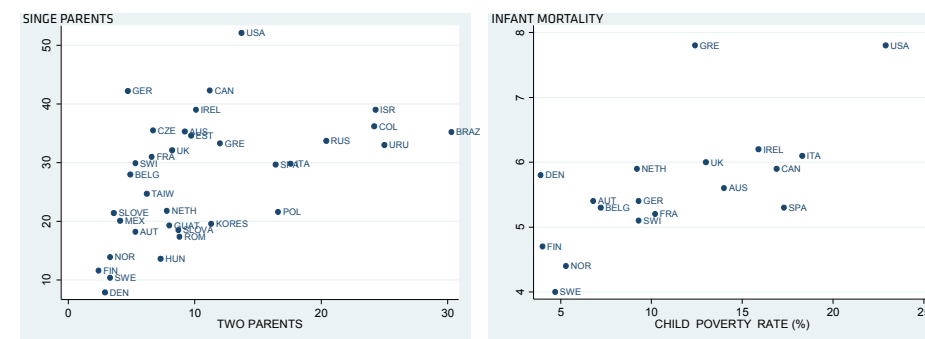
**Health care** for pregnant mothers has been considered a self-evident part of health care systems for a long time.<sup>42</sup> Broadly speaking, the Nordic strategies for promoting the health among child and youth populations bear a great resemblance. Services are provided on a universal basis and free of charge. Targeted services are directed at high risk groups such as children with low birth weight, children born to mentally or physically challenged parents, children of parents with mental illnesses, children of parents addicted to drugs, children of parents with social problems, children from linguistic or ethnic minorities, children with delayed development and/or behavioural problems, obese children and children with long-term illnesses. Furthermore, all the Nordic countries have a separate screening programme for pregnant mothers and a special health education programme for pregnancy care.

In a historical perspective, **parental leave schemes** were originally concerned with the health of the mother and child. However, the increasing number of women involved in paid labour accentuated the problem of compensating income losses during pre- and postnatal maternal leave. Thus, parental leave very soon became an issue of female labour force participation. The gender equality function of parental leave has been further emphasised over the last decade or so through paternal leave arrangements, the purpose of which is to facilitate a more balanced division of paid and unpaid care work between the parents. Encouraging fathers to participate in childcare promotes children's welfare in that it guarantees the children the right to both their parents.

The rapid development of parental benefits in Scandinavia from the early 1970s onwards distinguishes these countries from the rest of the Western world.<sup>43</sup> The size of parental allowances above the minimum level is determined on the basis of earned income. The Nordic countries are good examples of how the 'male-breadwinner' model has been transformed into a 'dual-earner' model. These changes were facilitated by changes in the tax system. In the Nordic countries, taxes are imposed on individuals rather than families, which creates stronger incentives for married women to enter paid employment.

Both quantitatively and in principle, **universal cash child benefits** are a very important element of Nordic family policy.<sup>44</sup> The tax deductions, directed at spouses according to choice, are a family-oriented benefit, whereas cash child benefits, especially in the Nordic countries, are characteristically an individual benefit, usually paid to the child's mother on a universal basis. Being tax-free, the cash child benefits profit those with low income more, because they form a larger proportion of the total income of low-income families than of those with middle or good income. Thus, they constitute an important part of income packages of, e.g., single parents. Despite economic hardships, no major changes in principle occurred in the cash child benefits system of the Nordic countries during the first 40 years of the system, and no such changes took place in the 1990s either, although at that time legislation on cash child benefits underwent numerous minor amendments.

Figure 7. Child poverty rates (poverty line = 50 per cent of median income) among two-parent and single-parent households (left hand panel), child poverty rates and infant mortality (right hand panel)



Single parents have a special position in Nordic family policy. Due to different schemes designed to support single parents, no social stigma is connected with this status. And poverty rates among single parents are very low in international comparison (Figure 7). The idea of supporting single parents does not arise from the need to compensate a single-parent family for the loss of the absent parent's income. Rather, public policies promote single parents' employment and it is expected that single parents return to paid employment when their children are over two or three years of age. Additionally, all Nordic countries employ a system through which under certain conditions the government **guarantees payment of maintenance** to children whose parents no longer live together or where one parent is missing. The purpose of guaranteed maintenance is to compensate for or supplement the parental maintenance to which the child would otherwise have been entitled and to guarantee a minimum level of support to the parent with custody of the child.

As argued by the Nobel Prize Laureate in economics, Amartya Sen<sup>45</sup>, relative dif-

40. Bradshaw, Jonathan & Finch, Naomi (2002) A Comparison of Child Benefit Packages in 22 Countries. Department for Work and Pensions Research Report No.174. Leeds: Corporate Document Services; Leira, Arnlaug & Ellingsæter, Anne-Lise (2006) Politicising parenthood in Scandinavia. Gender relations in the welfare state. Bristol: The Policy Press.

41. Castles, Francis (2003) The World Turned Upside Down: Below Replacement Fertility, Changing Preferences and Family-Friendly Public Policy in 21 OECD Countries. Journal of European Social Policy 13(3): 209-227.

42. Hemminki, Elina & Blondel, Béatrice (2001) Antenatal care in Europe: varying ways of providing high-coverage services. European Journal of Obstetrics & Gynecology and Reproductive Biology 94:145-148.

43. Gauthier, Anne H. (1996) The State and the Family. A Comparative Analysis of Family Policies in Industrialized Countries. Oxford: Clarendon Press.

44. Hiilamo, Heikki (2002) The Rise and Fall of Nordic Family Policy?: Historical Development and Changes during the 1990s in Sweden and Finland. Helsinki: Stakes.

45. Sen, Amartya (1983) 'Poor, relatively speaking', Oxford Economic Papers 35, 153-169.

ferences in income – relative poverty – may have strong absolute consequences. The relationship between the relative income poverty and the very absolute state of affairs, i.e. the under-five mortality rate, is displayed in the right-hand panel of Figure 7. As can be seen, in rich democracies child poverty and child mortality are strongly correlated. Countries with low levels of child poverty display the lowest levels of child mortality. Therefore, distributional questions are important.

**Early childhood education and care (ECEC)** is a service for children during compulsory school age involving elements of both physical care and education (socialisation as well as cognitive stimulation). Current ECEC programmes have evolved out of multiple streams including such purposes as child protection, early childhood education, helping children with special needs, facilitating mothers' labour force participation, and enhancing children's development.<sup>46</sup> These programmes began more than a century ago as a service linked with private charities and child protection and evolved as a public responsibility largely after World War II. The major expansions in these programmes date from the 1970s.

ECEC services may be publicly funded and delivered, publicly funded and privately delivered, or privately funded and delivered, and tend to be heavily subsidised by the government in most countries. In the Nordic countries, ECEC services are most often publicly funded and delivered. Thus they are affordable but still of high quality.<sup>47</sup> This also relates to childcare in private homes, where the care providers are paid by the municipalities, which in turn collect fees from the parents.

Though the comprehensiveness and levels of ECEC vary, all Western European countries have direct income transfers to families with children. But few countries have as extensive social services for families with children as the Nordic countries. Social services for families with children are even considered “the key to the Nordic welfare model”<sup>48</sup>. Furthermore, improving the quality of and access to ECEC has become a major policy in the Nordic countries. All the Nordic countries rely heavily on public day care arrangements. The primary caregiver is a professional either in a day care centre or in family care (family care also operates under the public day care system). As a rule, the programme philosophies for ECEC are similar. For young children (less than three years), the emphasis lies on care and play, while older children are given more stimuli for learning.

The idea behind the concept of “investing in children” is to guarantee that their earning potential will be realised when they become adults.<sup>49</sup> Thus, child welfare is directly linked to social, cultural and cognitive capital. In this sense, Nordic countries can certainly present examples and best practices to the other industrialised countries for planning and implementing social investments in children.

However, fairly high fertility demographic changes are perhaps the biggest challenge to the Nordic welfare model. Because the Nordic welfare model is heavy on services and has a wide range of universal cash benefits, the need for everybody to be employed is pertinent. With ageing populations and increasing life expectancy, the

need for more social and health services is increasing while, at the same time, there are fewer people in their active working age who can staff and finance these services. People have to work more – start their working careers earlier, work more hours on average, and retire later. Already, municipalities – which are largely responsible for social services – are witnessing the retirement of their elderly care workers, and their tax base is diminishing due not only to the economic crisis but also to the fact that there are relatively fewer people of working age.

### School age

The endeavour to establish universal access was a prominent feature in the conception of the **mass-education systems** of the Nordic Countries. Grass-roots level educational systems were harnessed to accomplish the task, and – as in the case of the people's insurance – the very name of the educational system, *folkskola* (people's school), indicates the overarching idea that the whole population should have access to education.

In Sweden, compulsory education was introduced in 1842 when parishes became responsible for organising basic education. This education was primarily organised and financed at a local level, while being supervised by the state. Nine-year compulsory basic education was introduced in 1962. In Denmark, obligatory education was introduced a bit earlier than in Sweden, but the transformation to homogenous mass education took a bit longer. In Finland, public schools were implemented in 1866. About one hundred years later (1968), the comprehensive school system replaced the old parallel schools, implementing a system of 10 years of basic education for every pupil. The primary goal of these reforms was to extend free education to every child under a certain age limit.

Primarily, the reforms of the Nordic school systems were accomplished by involving the school in the realisation of social goals such as equal opportunity and community fellowship.<sup>50</sup> Sweden banned corporal punishment of children in schools as early as 1927 and introduced a comprehensive ban by law in 1979. The other Nordic countries soon followed suit, as did the United Nations ten years later in the 1989 UN Convention on the Rights of the Child.

There are no material or book expenses in the Nordic countries before upper secondary school. However, in upper secondary school the book expenses might be substantial. Norway has removed all charges for books, while free school meals are a distinct feature of Finland and Sweden.

The Nordic vision of child education is that children from less privileged backgrounds should be enabled to receive an education on par with children from privileged backgrounds. The educational system is crucial for explaining to what degree the parental background is inherited.<sup>51</sup> The students' performance in the Nordic countries is less dependent upon their family background than in most other countries. Thus, for example, Finland scored highest in the 2000 PISA literary skills study and of the high-scoring countries only Japan, Hong Kong and Korea displayed a smaller impact of the student's family background than Finland. According to the educational achievements

46. OECD (2006) *Starting Strong II: Early Childhood Education and Care*. Paris, OECD; OECD (2011) *Doing Better for Families*. OECD: Paris.

47. Kangas, Olli & Rostgaard, Tine (2007) Preferences or care context? Predictors for working life opportunities in seven European countries. *Journal of European Social Policy* 17(8): 240–256.

48. Sipilä, Jorma (ed.) (1997) *Social Care Services: The Key to the Scandinavian Welfare Model*. Aldershot: Avebury.

49. Esping-Andersen, Gøsta (2004) Untying the Gordian Knot of Social Inheritance. *Research in Social Stratification and Mobility*, 21:115–138.

50. Telhaug, Alfred & Medias, Asbjörn & Aasen, Petter (2006) The Nordic Model in Education: Education as Part of the Political System in the Last 50 Years. *Scandinavian Journal of Educational Research* 50(3): 245–283.

51. Esping-Andersen, Gøsta (2009). *The Incomplete Revolution: Adapting to women's new roles*. Cambridge: Polity Press.

results from PISA, the family background explains 11% of the pupils' achievements in the Nordic countries, 16% in Central Europe, 14% in the Liberal cluster, and 14% in the Southern and post-socialist countries. But these numbers conceal a substantial intra-regime variation. For example, the numbers are low for Finland and Norway (7-8%) but comparatively high for Denmark and Sweden (13-14%). Nonetheless, the educational reforms that have been carried out in Scandinavia have managed to diminish the inheritance of educational attainment, and, consequently, of social positions attached to educational degrees. Finland stands out among the Nordic countries as the top performer in PISA studies.

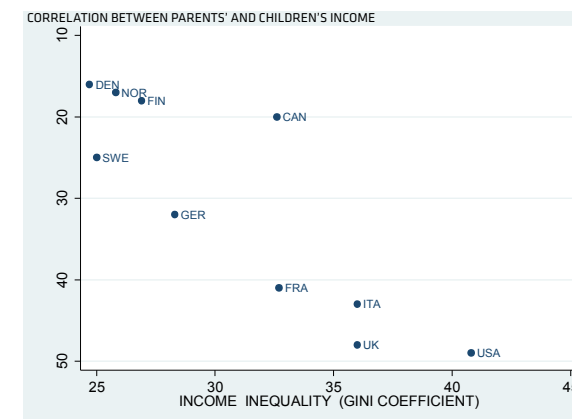
All the Nordic countries have a legal body, **child ombud**, whose mandate is to monitor how children's interests are taken into consideration during decision-making processes.<sup>52</sup> In Denmark, this is The National Council for Children (Børnerådet). For the other countries the body is called child ombud. The duties of the Ombudsman are to promote children's interests to public and private authorities and to investigate the development of the conditions under which children grow up. The Ombudsman has the power to investigate, criticise and publicise matters important to improving the welfare of children and youth.

### Young adults

One way to evaluate the openness of societies is to look at generational income mobility, i.e., the degree to which parents' levels of income determine their children's incomes. A strong correlation would indicate that societal institutions are not particularly open and that family background is a discriminating factor. The essential finding of the studies in this area has been that children's incomes are correlated with the parents' incomes in all countries.<sup>53</sup> Childhood background everywhere has a deciding influence, so none of the countries studied are completely open societies. However some are more so than others.

It appears that the Nordic countries are somewhat more open than most other countries (Figure 8). The intergenerational correlation between parents and children varies within the Nordic countries from .15 to .20, whereas in the U.S. the corresponding figure is .40-.60. This result is attributed to the **educational system**: In the Nordic countries there is no tuition for university students, both secondary and upper secondary education is free of charge, and there is a **universal support system for students**, which covers an important part of the living expenses (including rent). The state also guarantees study loans, which allows all students irrespective of family background to finance their studies. Thus, the Nordic educational system is geared towards promoting equal opportunity. This allows the full mobilisation of the nations' human resources, to boost innovation and economic development.

Figure 8. Income inequality and intergenerational income mobility<sup>54</sup>.



Maintaining educational equality is a challenging task given the important role of private schools in Denmark and the expansion of private elite education in Sweden. In contrast, the private school system plays a minor role in Finland and Norway. However, we can detect effects of intra-generational transmission of educational attainment in all countries and, in that sense, no country fulfils the Rawlsian principle. But some countries are more open than some others. In any case, public investments in human capital are not only meant to serve socio-philosophical principles but also to improve economic performance. For today, more than ever before, a nation's economic success is dependent on its human capital and innovations.

### Working age

The goals of the modern Nordic welfare model reach further than the goal of alleviating poverty for the deserving needy. The Nordic countries try to tackle poverty and provide insurance against income loss, but they also address a wider range of social inequalities. The goal is not only to provide people with an amount of money they can live off, but also to provide people with skills and abilities that enable them to become full members of the society they are living in through their own efforts, primarily in the labour market. The vision is to help people to maximise their human potential, in the belief that this is good for both the individuals and the society as a whole. For instance, this requires that women should have the same opportunities to participate in the labour market as men.

The Nordic welfare model is characterised by the fact that it **encompasses benefits in cash and kind**. The income maintenance system combines a basic security with earn-

52. Hiilamo, Heikki (2008) Promoting Children's Welfare in the Nordic Countries. Reports of the Ministry of Social Affairs and Health 2008:15. Helsinki.

53. Aaberge, Rolf et al, Unemployment shocks and income distribution: how did the Nordic countries fare during their crises? Stockholm: Stockholm University; Österbacka, Eva (2004) It Runs in the Family: empirical analyses of family background and economic. Abo: Abo Akademi University Press.

54. The stronger the relationship between parents' income and children's income, the higher the intergenerational income correlation. Thus smaller correlations indicate a weaker impact of family background upon the children's income. In the graph, inter-generational income correlations depicted on the vertical axis are reversed. Thus, countries in the upper left-hand corner have high inter-generational mobility and low income inequality, whereas countries in the lower right-hand corner display lower income mobility and higher income inequality.

ings-related benefits to prevent poverty and safeguard the achieved standard of living. Social and health services aim to give individuals the possibility to live a decent life independent of their socioeconomic background and capacity to pay.

Inequality per se is not necessarily unjust or unfair.<sup>55</sup> Much depends on the mechanisms that produce inequalities. Some people work harder, educate themselves, make better use of their resources etc. Therefore, it is justifiable that some people deserve more than others do. Even large income differences are permissible if the institutions producing such differences are equally accessible to all. If income differences are based, say, on educational attainment, and education is available to everyone, wage differences may be seen as justified. Thus, justice is a central virtue of an open society.

International comparisons show that there are no major differences in factor income (i.e. income before social transfers and taxes) inequalities between developed countries, whereas there are substantial differences in inequalities of disposable (after taxes and social transfers) income. The factor income inequality in the Nordic countries is about the same as in the U.S. However, due to the equalising effects of taxes and income transfers, the U.S. and the Nordic countries are placed at opposite ends of the continuum of disposable income inequalities. The same pattern is visible in the poverty levels. The poverty alleviation effect in the Nordic countries is 75%, i.e. social transfers lift 75% of the pre-transfer poor out of poverty. The numbers for the Central European states are about the same, while the corresponding percentage for the U.S. is less than 30%. The story is much the same when it comes to child poverty.

Social policy models thus differ in their capacity to decrease income inequalities and alleviate poverty. Although the Nordic welfare model has done well, the rise of poverty rates and inequality are faster in the Nordic countries than in many other industrialised economies. However, the poverty gap, i.e. the difference between the average income of the poor and the national mean, is still narrowest in the Netherlands and the Nordic countries.

The working-poor phenomenon has featured heavily in Anglo-American political discourses. Due to the holes in the safety network, many people here do not have adequate social security. Even worse, in some cases getting employment does not help to escape poverty. European level comparisons show that in-work poverty is lowest in the Nordic countries.<sup>56</sup> Despite the growing inequality, the Nordic countries are still egalitarian societies – but less so than two decades ago.

For adults of prime working age, social investments also focus on further education, namely **tertiary education, life-long learning and active labour market policies**. Tertiary education deals with the creation of human capital. Life-long learning aims to up- and re-skill workers in the light of changing labour markets and technologies. The principal idea of all these policies is to employ as many people as possible. If its ability to sustain a high level of employment is ignored, then the Nordic model is nothing more than a beautiful idea or abstract concept.

55. For a more complete discussion, see Saunders, Peter (1994) *Welfare and Inequality. National and international perspectives on the Australian Welfare State*. Cambridge: Cambridge University Press.

56. Hussain, Azhar & Kangas, Olli & Kvist, Jon (2012). *Welfare state institutions, unemployment and poverty*. In Kvist, Jon & Fritzell, Johan & Hvinden, Björn & Kangas, Olli (eds.) (2012) *Changing social equality: The Nordic welfare model in the 21st century*. Bristol: Policy Press pp. 119–142.

## Old age

The social investment perspective on old age is about maintaining and using the skills of the elderly most notably in the labour market but also in society more generally. Thus, pension reforms and other reforms making working life longer vis-à-vis time spent in retirement are key to making use of their skills. **Long-term care and especially activating policies** for the elderly are important for the maintenance of not only occupational, but also physical and psychological skills or health. This, in turn, reduces the costs of social services and health care.

The Nordic pensions provide adequate, sustainable and modern benefits. ‘Adequate’ means the benefits prevent a life in poverty; ‘sustainable’ means that the benefits are financially sustainable; and ‘modern’ means that elderly people have their own rights, and not merely as dependents.

## CONCLUSIONS

To combat the detrimental effects of poor childhood conditions, it is important to invest in children early on. Kindergartens, pre-schools and primary education are investments in future. This idea is not new. Already in the 1930s, a Swedish social democratic politician, Alva Myrdal, demanded that childcare be arranged collectively.<sup>57</sup> Collective public day care was seen to fulfil the objectives of equality: children with different backgrounds were given equal chances. Childcare provisions, accessible to all, would provide a means of compensation for children with scarce resources at home.

The administrative cost-efficiency of universal programmes is a clear advantage. The strength of universal earnings-related systems is that they reduce the ‘transaction costs’ on the labour market. Individuals, firms and unions do not have to spend time negotiating the provision of basic insurance and services like health care. Furthermore, they promote mobility and flexibility on the labour market because the universal character of the system means that workers do not lose their earned rights when they move from one job to another – the portability of social insurance is high.

One aspect that is greatly neglected in the public debate is the fact that it is in principle easier to control the incentive structure and cost expansion in universal homogeneous systems than it is in fragmented systems. The expansion of health costs is a telling example of this: since the 1970s, expenditures on health care have skyrocketed in decentralised or insurance-based schemes, whereas the cost increase in public health-service based systems has been more modest.

One of the most important roles of social institutions is that they promote stability and predictability in society. Public policy is not only a distributional issue: a question of who gets what and how much. Rather, the institutional set-ups of welfare state programmes unify and divide people and social groups. Hence, the welfare state has helped to mediate between conflicting interests and contributed to the stability of society.

Throughout its history, the welfare state has had bridging and bonding functions. In some countries, e.g. in the Nordic countries, the emphasis has more or less deliberately and consciously been on the bridging side: the basic principle in Scandinavian social policy schemes has been universalism expressed in people’s insurances or people’s

57. Hirdman, Yvonne (1989) *Att lägga livet till rätta – studier i svensk folkhemspolitik*. Stockholm: Carlssons.



schools. As a result, comparative studies have shown that the general level of trust, or social capital, is extremely high in the Nordic countries.

In many other countries – especially in Central-Europe, Asia and Africa – the schemes have been based on membership of a certain occupational group or category of people. These schemes have relied on bonding social capital and, consequently, they have created strong intra-group interests. In some cases – notably in the Anglo-Saxon world – means testing is used to create conditions for people's eligibility to participate in programmes. Here the formation of social bonds has been more diffuse and, because of the fuzziness of the client groups, no interest formation takes place among the clients. As a rule, the overall legitimacy of means-tested schemes is low. Thus, means testing creates neither bridging nor bonding social capital.

In a nutshell, there are four important lessons to be learnt from the Nordic model:

**Firstly**, while democratisation can create pressure for a more developed welfare state, a welfare state can also contribute to democratisation. In this respect, the Nordic countries with their universal and far-reaching public policies may serve as good examples. Indeed, the link between welfare state and democratisation has historically been very close in the Nordic area.

**Secondly**, the clearest achievement of the Nordic welfare state has been in poverty reduction programmes, and here, too, there are lessons to be learnt from this example. One of the most important trademarks of the Nordic welfare state is its universalism. In principle, social and health benefits are for all. They are neither targeted at the needs of some specific vulnerable groups, nor are they exclusive benefits for privileged occupational groups.

Universal, tax-financed social services are in many ways a cornerstone of the Nordic model. High quality childcare and school services provide equal possibilities for all children. Universal access to health care is essential for the population's health and wellbeing. Home service helps the elderly to live longer in their own homes and, if needed, institutional care is provided in service homes. Public services are also important from the perspectives of employment and gender equality. Childcare enables both genders to participate equally in paid labour and parenthood. In fact, in the Nordic countries, universal childcare is the most important facilitator of this goal.

At the core of universalism is a sense of commonality. Universalism is an expression of human rights. In the Nordic model, the same programmes cover all the categories of the population, which in turn is seen to be a solid guarantee for large popular support for the welfare state.<sup>58</sup> Ideally, since everybody contributes to and everybody benefits from the system, there is no wedge between the well-off payers and the worse-off beneficiaries; there is no room for "welfare backlash".<sup>59</sup>

**The third** aspect relates to the role ascribed to the state. Despite their high welfare state spending, the Nordic countries display a high level of prosperity and rapid economic growth. In this respect, the Nordic countries demonstrate that it is possible to

unify comprehensive welfare state programmes with competitive and growth oriented economies.

**Fourthly**, the Nordic experience displays two ways to use social policies as an investment. In non-corrupt and transparent societies, social security funds can be used as investment capital to modernise and rebuild the nation. This is exemplified by the Finnish experiments after the civil war and in the aftermath of World War II. Universal social policies are an effective tool for establishing a sense of 'usness' and creating social cohesion among the populace. A universal social policy, where everybody contributes and everybody can expect benefits when in need, creates strong social bonds, bridging various social gaps and cleavages. Thus, a major legacy of the Nordic welfare state is its universalism. There is a significant interest in universalism among Asian and African countries. For universalism is important not only for social security and basic rights, it is also a trademark of a good society that guarantees equal possibilities to every person regardless of their individual background.

58. Korpi, Walter & Palme, Joakim (1998) The Paradox of Redistribution and Strategies of Equality: Welfare State Institutions, Inequality and Poverty in the Western Countries. *American Sociological Review* 63: 661-687.

59. Nelson, Kenneth (2003) *Fighting Poverty: Comparative Studies on Social Insurance, Means-tested Benefits and Income Redistribution*. Stockholm: Swedish Institute for Social Research.

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