

Chapter:

The Nordic welfare state model : 1 Introduction: The concept of a “Nordic model” / Axel West Pedersen og Stein Kuhnle

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Axel West Pedersen and Stein Kuhnle

The Nordic welfare state model

1 Introduction: the concept of a 'Nordic model'

The idea that the Nordic countries make up a special group or 'family' of democratic, welfare-capitalist countries is widely accepted, and is reflected in a number of studies. A selection of book titles since the 1930s illustrates some of the distinct characteristics of the Nordic countries. The terms 'Norden' and 'the Nordic countries' were invented in the interwar period, after Finland and Iceland gained independence¹, and began to replace the term 'Scandinavia' as reference to the Northern countries of Europe. In 1937 a book with the title *The Northern Countries in World Economy: Denmark, Finland, Iceland, Norway, Sweden* was published (Classen 1937) in which it was argued that the five countries, though politically quite independent, had so much in common historically, culturally and economically, that they may claim to appear before the world under the name of "The Northern Countries". In the year before, an American journalist had highlighted the political path of Sweden, as a core representative of Scandinavian development, with a book on *Sweden: The Middle Way* (Childs, 1936), arguing that Sweden had found a middle way between unregulated, laissez-faire capitalism and Soviet-style socialist, command economy. Scholars and commentators, within and beyond Scandinavia and Norden, have in the long period after WWII further conveyed the perception of Nordic exceptionalism, that these countries have chosen a *Sonderweg*. This perception is reflected in book titles such as *Freedom and Welfare: Social Patterns in the Northern Countries of Europe* (Nelson, ed., 1953); *The Politics of Compromise* (Rustow 1955); *Scandinavian Democracy* (Lauwerys, ed., 1958); *Nordic Democracy* (Allardt et al., eds., 1981); *Consensual Democracies* (Elder et al. 1983), and, for the first time with 'model' in the title: *The Scandinavian Model: Welfare States and Welfare Research* (Erikson et al., eds., 1987) in which the type of welfare states that had been established in the northern countries of Europe was seen as a prime, distinguishing characteristic of the Scandinavian/Nordic societies. Since then, academic books and articles as well as media commentaries on the topic of the Scandinavian or Nordic – or often labelled 'social-democratic' - model of welfare - have proliferated (e.g. Christiansen et al, eds., 2006; Hilso, 2008; Kautto 2010).

The concept of a 'Nordic or Scandinavian model' or a special 'social democratic welfare regime' (Esping-Andersen 1990) has over the last 25 years successfully entered the international vocabulary with a largely positive connotation. But the Nordic countries have not always been admired for their type of welfare states. The Nordic type of welfare state has by some been perceived as too comprehensive, too generous, economically unsustainable, and for making people lazy and welfare dependent and for not being conducive to economic growth (e.g. Lindbeck 1997). Such perceptions, in their general manifestation, can, at least in a long-term, comparative view, be contested. But, notwithstanding that view, the positive connotation derives from the relative success, normatively speaking, in terms of policy outcomes, such as egalitarian income distributions, little poverty, political stability, and, in fact, economic development in a long-term perspective, as can be seen from studying comparative national statistics (e.g., OECD statistics). This positive picture has recently been presented by international organizations, e.g. World Economic Forum (2011), and by mass media and Nordic and international scholars commenting on and analysing the Nordic countries (see e.g. references in Kautto 2010). Recently, there have been "cultural wars" over the model's legacy within the Nordic countries. Nordic social democratic parties, the Swedish social democratic party in particular, has tended to claim that it is *their* model, at the same time as conservatives and liberals have claimed a larger share in it than previously. The Nordic Council has argued that the concept is a

¹ Finland declared and gained independence of Russia, after the Bolshevik Revolution, on 6 December 1917, while Iceland gained status as a sovereign nation within the Danish- Icelandic Act of Union on 1 December 1918, and became an independent republic on 17 June 1944.

valid, common reference across the party spectrum². Without joining the polemic about who can justifiably adopt the concept, the cross-political claim to “ownership” of the model is in itself interesting, and at least an indicator of the current perception of success of the model. All parties want to be on the winning side. Even the liberal British weekly magazine, *The Economist*, traditionally critical of the comprehensive and generous Nordic welfare states, presented the Nordic countries as “the supermodel”, which other countries should look to, in the aftermath of the most recent global financial crisis (*The Economist* 2 February 2013).

There is no consensus in the literature on the exact nature or contents of a Nordic model. It can be said to consist of number of elements which, taken together, make up a ‘package’ which put the Nordic welfare states in a distinct category of welfare states. Some of these elements have been relatively stable over a long period of time, such as an active social state with a comprehensive public responsibility for the welfare and well-being of citizens and residents, implying a large public sector and also relatively generous benefits, and fundamentally based on principles of universality and egalitarianism. But, in our view, the model also contains a dynamic element, exemplified by the way in which social policies and reforms are made and implemented. Let us briefly elaborate on major dimensions of what in our view can be understood as the Nordic model.

The state - and local government - has played and plays a relatively strong role in the Nordic countries. The peculiar *stateness* of the Nordic countries, meaning the active, core role of the state and local government can be considered a positive one. The state has been less of a coercive apparatus of oppression in the hands of the ruling classes than in most countries. Moreover, local governments were historically recognized legal units and run by literate laymen guided more by the clergy than by noblemen or royal prefects. The role of the contemporary local government and central state is seen in extensive public services and public employment and in many taxation-based cash benefits- and benefits-in-kind schemes.

Another key characteristic of the Nordic welfare state is that the principle of *universal social rights* is extended to the whole population, or, entire relevant categories of the population (Kildal and Kuhnle 2005). Services and cash benefits are not targeted towards the have-nots, but also cover the middle classes. Social security programmes were initiated at the time of political and economic modernization and the development of the nation-building project. Historically, the similar life chances of poor farmers and poor workers contributed to the recognition of similar risks and social rights, and the principle of universalism gained ground and was put into practice in the two decades following World War II.

A third important characteristic is the value of *equality*, or put more strongly: “passion for equality” (Graubart 1986). The historical inheritance of the Nordic countries is that of fairly small class, income, gender, and regional differences. The modern industrial bourgeoisies did not acquire a strong political position in the central state, though they gradually, and especially after WWII, became influential through corporatist channels. The Nordic route towards the modern class structure was paved with the strong position of the peasantry, the weakening position of the landlords, and with the rather easy access of the working class to the parliamentary system and to labour market negotiations. The Nordic experience is one of small income differences and, in comparative perspective, extraordinary low levels of poverty (Ringen and Uusitalo 1992; Fritzell and Lundberg 2005). Moreover, the Nordic

² The Swedish Social Democratic Party applied to the Swedish Patent and Registration Office (PRV) in 2012 for the right to register ‘the Nordic model’ as a trademark. The application was approved. This decision led to debates and comments in Nordic mass media. The Nordic Council decided to challenge the Social Democrats’ exclusive right to use the term ‘the Nordic model’, and the case is now at the Swedish Supreme Court. (<http://www.norden.org/en/news-and-events/news/the-nordic-council-appeals-the-registration-of-the-brand-201c-the-nordic-model201d>, downloaded 20 November 2016).

countries are famous for their small gender differences. A high degree of gender equality has become a major characteristic of the Nordic model.

The Nordic model is normally identified by reference to the above-mentioned characteristics of welfare state institutions (stateness; universalism) and welfare policy outcomes (equality). But it seems appropriate to add *forms of democratic governance* as another important component. This refers to the way in – or process through - which political decisions are made. In this respect, the decade of the 1930s represented a political watershed in all Nordic countries with national class compromises between industrial and agricultural/primary sector interests, and between labour and capital through the major trade union federations and employers' associations³. These compromises also came to be reflected at the parliamentary and governmental level, with political compromises reached across parties representing various class or economic interests.

But a wide concept of the Nordic welfare model must include aspects of the *actual* democratic form of government – or *governance* is a better term - in the Nordic countries, the evolution of a specific pattern for conflict resolution and creation of policy legitimacy as basis for political decision-making. This pattern has developed over a long period of time and is characterized by active involvement and participation in various, often institutionalized, ways of civil society organizations in political processes before decisions are formally made by parliaments and governments, most particularly pronounced through triangular relationships between government, trade unions, employers' associations or similar organizations in for instance agriculture. This system of governance may be labeled '*consensual governance*'. The Nordic countries are small and unitary, which make decision-making easier than in big and/or federal states. The existence of electoral systems based on proportional representation, which encourages the development of true multi-party systems, has made coalition governments common, often even minority coalition governments, which in turn have led to close and frequent contact between government and opposition parties at any time to secure parliamentary majorities for reforms and legislation.

2 Historical roots and development paths

The origins of the Western welfare state date back to the last quarter of the nineteenth century. Flora and Alber (1981) describes this period as 'the take-off of the modern welfare state'. Social insurance programs were introduced, with Germany as front-runner with a major program for sickness-, industrial accidents- and old age and disability insurance for workers in the 1880s. As elsewhere in Europe, the beginning of the development of the Nordic welfare states is closely associated with major social, economic and political transformations at the time (Castles et al., eds., 2010), and Nordic social policy initiatives at the time were directly or indirectly influenced by the German example (Kuhnle 1983), but already from the beginning a specific Scandinavian (or Nordic) route to the welfare state could be identified (e.g. Baldwin 1990; Alestalo and Kuhnle 1987; Esping-Andersen and Korpi 1987; Christiansen et al., eds, 2006). Based on Kautto (2010) a number of historical circumstances and factors can be listed which made the Nordic way different from that of the rest of Europe in the first formative phases of welfare state development until WWII: (1) the role of religion and the merging of the Lutheran church and state as a result of the Reformation, thus giving the state and municipalities – and not the church - responsibility for poor relief; (2) the pattern of land ownership, i.e. a politically relatively strong and autonomous position of the peasant population; (3) the role of the social democratic parties when coming to power in the 1930s in all three Scandinavian countries in alliance with agrarian and/or liberal parties, and the compromises between labour and capital; (4) social

³ Denmark was in fact the first country in the world, in 1899, to institute a collective agreement between trade unions and employers, an agreement between "De samvirkende Fagforbund" (today Danish Confederation of Trade Unions) and "Dansk Arbejdsgiver- og Mesterforening" (today Confederation of Danish Employers). Similar agreements were made in other Nordic countries during the 1930s.

structures and cultural values which have been conducive to gender equality, exemplified through relatively early women suffrage⁴ and active role of female reformers in early social policy legislation.

Although the concept of a Nordic model primarily invites thinking about similarities between the Nordic countries, there has naturally been historical intra-Nordic variations in the welfare state construction, both as to timing and sequence of introducing various social types of social policies and ways of organizing these. In general, Denmark led the way as to social policy expansion from the late 19th century, followed by Sweden and Norway, and Iceland until WWII. Finland was a relative latecomer.

In general, the 1930s can be regarded as the decade when the phenomenon of a Nordic model (but not the concept) was born. Key social security programs like old age pensions and unemployment insurance were established or fundamentally reformed. Taking old age pensions as an example, all the Nordic countries had in the 1930s established public pension systems – so-called “people’s pensions” - providing comparatively generous flat-rate benefits to all elderly subject to a means-test that only excluded a minority of well-off pensioners. In unemployment insurance, however, there were differences, with Norway opting for a national social insurance approach while Sweden, Finland and Denmark remained faithful to the so-called Ghent-systems of semi-private voluntary insurance in cooperation with trade unions (Rasmussen and Pontusson 2016)

The first post-war decades saw a strong further expansion of Nordic social security and social services, both quantitatively and qualitatively. Disability benefits were introduced and the coverage of sickness benefits schemes became universal and replacement rates increased. Old age pension policy followed a common development path in all countries with Sweden as the pioneering country (Salminen 1993). The first step on this common path, or wave of reform, was to abolish the means-test and introducing truly universal, flat-rate benefits. The second step was to add an earnings-related second tier in the public pension system on top of the existing flat-rate benefits. This second step was realised in Sweden in 1959 after a fierce political struggle (see Hecló 1974) and Finland and Norway followed suit in the 1960s. Also in Denmark there were discussions about introducing a second tier of earnings-related pensions on several occasions both in the 1960s and later, but the reform-proposals never gained sufficient support (Vesterø-Jensen 1984). In the 1990s the concept of “flexicurity” was introduced by Danish researchers and policy makers to characterise the idea of using generous unemployment insurance and active labour market policies to facilitate economic restructuring and cushion the effects of relatively low employment protection (Madsen 2004).

3. The ideal typical Nordic model of the ‘Golden Era’

The notion of a distinct and particularly successful Nordic welfare model gained particularly wide popularity in the 1980s, a period that has been described as the ‘Golden Era’ for the Nordic welfare states (see for instance Kautto et al. 1999). While most developed Western economies suffered from a combination of stagnation and inflation in the decades following the first oil crisis in 1973, Sweden, Norway and to a lesser extent Finland managed to maintain full employment and adequate economic growth rates up until the late 1980s. Denmark, however, deviated from the other Nordic countries with significant, chronic unemployment problems from the early 1970s coupled with government budget deficits and balance of payment problems. However, also in Denmark a strong commitment to generous welfare services and social protection was unchallenged in this period, and despite the high unemployment rates, social outcomes appeared to remain comparatively favourable, also after the country managed to get its balance of payment problems under control (Andersen 1997).

In comparative welfare state research of the time, the idea of a unique and successful Nordic version of welfare capitalism was reflected in a number of important contributions by both American and Scandinavian researchers (see Stephens 1979; Myles 1989 [1984]; Esping-Andersen and Korpi 1987;

⁴ Finland was the first country in the world to introduce universal female suffrage in 1906.

Esping-Andersen 1985; 1990). The dominant theoretical perspective in this literature was the so-called power mobilization theory emphasizing the strength of organized labour and Social Democracy as the primary explanation for Scandinavian exceptionalism. Even contributions that were profoundly critical of the theory of social democratic power mobilisation as an explanation did not challenge the notion of a particularly redistributive and solidaristic Nordic welfare state model (Baldwin 1990).

Based on the actual configuration of welfare policies in place in the four (large) Nordic countries it is possible to draw a rough sketch of the ideal typical Nordic welfare state of the 1980s. It rests on two pillars: an encompassing and generous social security system and comprehensive welfare services. This welfare state model was in turn assumed to have produced attractive outcomes in terms of low level of economic inequality and poverty in interaction with egalitarian labour market institutions.

Social security

A core component of the Nordic model is a comprehensive and generous social security system giving protection to the entire population against the classical social risks: unemployment, sickness, disability, and old age. The ideal typical Nordic welfare state offers generous income replacement for average wage earners and - at least for disability benefits receivers and old age pensioners - a comparatively high benefit floor, unrelated to previous earnings. In this way the Nordic welfare state model can be seen to embody a compromise between two distinct social policy traditions: the Continental European (Bismarckian⁵) tradition with its exclusive emphasis on insurance based, earnings-related benefit and the “liberal” Anglo-Saxon tradition with its heavy reliance on flat rate and means-tested benefits.

The distinctive features of the Golden Era Nordic welfare state are more clearly borne out empirically using institutional data and statistics on replacement rates, rather than other conventional indicators of “welfare stateness” like total social expenditure in percent of GDP. The latter will tend to reflect variation in demographic variables and the scope of social problems (like unemployment) in different countries rather than variation in the “quality of social protection” as such (see Esping-Andersen 1990 for a critique of social spending as a welfare state indicator).

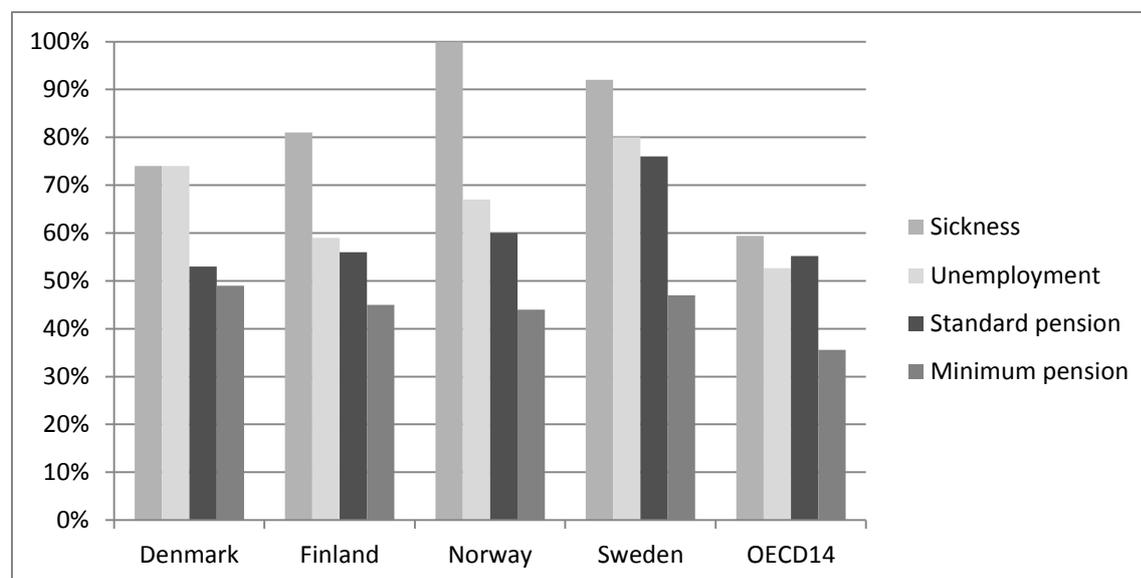
Figure 1 compares the generosity of social security provided in the four large Nordic countries to the average over 14 OECD-countries⁶ as of 1985.⁷ It shows the net replacement rates offered to single wage earners with an average full-time wage in three social security programs: unemployment insurance, sickness benefits and old age pensions. In addition it shows the relative level of the minimum old age pensions provided to people without prior labour market attachment. Unfortunately the data do not cover disability benefits, but in some countries (like Norway) disability benefits are calculated like old age benefits.

⁵ The term refers to the German Chancellor who in the late 1880s pioneered the introduced of insurance based social protection for the German working class.

⁶ The countries included are Australia, Austria, Belgium, Canada, France, (West-)Germany, Ireland, Italy, Japan, The Netherlands, New Zealand, Switzerland, UK, US.

⁷ The data-source we use to describe the generosity of social security programs does not include Iceland and therefore we have therefore in the following chosen to leave out Iceland from the discussion.

Figure 1. Net replacement rates for an average production worker in three social security programs in the Nordic countries compared to the (unweighted) average among 14 Non-Nordic OECD-countries. 1985.



Source: Comparative Welfare Entitlements Dataset, 2. Version (CWED2) ⁸

Despite substantial intra-Nordic differences, it is apparent that for all benefit types, net replacement rates are higher in the Nordic countries than the OECD average – typically by 10 to 20 percentage points. The only exception is standard old age pensions in Denmark that are slightly less generous than the comparative OECD-benchmark. While the public old age pension systems in the three other Nordic countries in the 1950s and 1960s had been designed to provide a combination of flat rate and earning-related benefits, the Danish public pension system continued to rely primarily on flat-rate and means-tested benefits and therefore there is only a small difference between the (comparatively generous) minimum pension and the (not so generous) standard pension for the average wage earner (see Pedersen 1999). It can be said that the Danish social security system deviated from the Nordic ideal-type by being less Bismarckian. Note, however, that the level of minimum protection is higher in Denmark than in the other Nordic countries and significantly higher than the OECD average.

A related typical feature of the Nordic social security systems, setting them off from most counterparts in Continental Europe, is that not only old age pensions but also disability benefits are open to all residents and offer minimum benefits even to individuals without prior labour market attachment and prior social security contributions. In Sweden and (partly) in Denmark this applies also to unemployment benefits. This tradition for granting social security based on residency is particularly favourable to married women without a strong labour market attachment. By contrast in typical Bismarckian welfare states, married women who devote most of their time to unpaid care work, will be dependent on intra-family transfers and deferred social security rights from their husbands (Daly 2000).

The Nordic tradition of granting of individual rights to categorical social security benefits also contrasts with the liberal Anglo-Saxon welfare states where means-tested benefits tend to play a very important role. Means-tested benefits in these countries are typically targeted towards households rather than individuals and means-tested against total household income. An unemployed or disabled woman who is married to a full time working spouse will not be entitled to benefits, and the spouse of

⁸ Scruggs, Jahn and Kuitto (2014a), see also Scruggs, Jahn and Kuitto (2014b) for documentation of the data. The figure shown for the minimum pension is not strictly a replacement rate. It is the net minimum benefit provided to old age pensioners in percent of the net wage of the average production worker.

a benefit recipient is likely to face serious disincentives to work because of the tapering of benefits against total household income.

It should be recognized, however, that means-tested social assistance and housing allowances do play a role in the Nordic welfare states as a last resort social safety net. The share of the population who depend on social assistance tends to be low, however, due to the inclusive nature of the categorical and non-means-tested social security programs, but at the same time the residual characteristic of social assistance is particularly pronounced in the Nordic countries with weakly defined rights, a large scope for discretion in the administration of benefits, and relatively harsh forms of means-testing. A plausible explanation for this paradoxical “residualism within universalism” is that the most “deserving” groups have been catered for in the categorical social security systems, and that therefore the Nordic social assistance schemes serve a particularly marginal and presumably ‘undeserving’ group of recipients (see Lødemel 1997).

A further feature that can be added to the ideal typical Nordic approach to social protection, is the tradition – particularly in Sweden – for pursuing Active Labour Market Policies (ALMP) in combination with generous unemployment benefits (Rehn 1988; Calmfors 1995). In its traditional form - that in Sweden goes back at least to the 1950s – Swedish/Nordic ALMP involves offering opportunities for training, temporary jobs and different kinds of support to return to the labour market for the unemployed. The Nordic countries have for decades tended to spend a relatively high share of the total support to the unemployed on these kinds of active measures.⁹

Welfare services and female employment

The second pillar of the Nordic welfare state model consists of a comprehensive service state offering free or heavily subsidised health care, old age care, child care as well as free education from primary school to higher education, all financed out of general taxation.

The Nordic countries all have public health care systems – similar to the National Health Service in the UK - covering all residents and (primarily) financed out of general taxation. The British/Nordic model of tax-financed, and publicly provided health care deviates from the continental European systems with their stronger emphasis on earmarked, insurance based financing and a larger role for private and non-profit providers. In practice, however, the difference is not dramatic since the principle of universal coverage through obligatory and subsidised participation has been adopted by all Western democracies, with the US as a unique exception.

Education is free in the Nordic countries and as a main rule delivered by public institutions including state owned universities. In addition to providing free education, the Nordic countries also take responsibility for covering living expenses of students through a combination of student grants and student loans.

An arguably more unique feature of the Nordic welfare states is the advanced development of universal child care and long-term care for the elderly – publicly provided for free or heavily subsidised. Socialising the responsibility for and financing of day care institution for children as well as home based and institutionalised care for frail elderly has helped facilitate the entry into the labour market for married women. The expansion of publicly provided care and female labour force participation is likely to have been mutually reinforcing. The provision of care facilities has helped improve the work-life balance of the two-earner family and is in essence a precondition for liberating female labour power to engage in formal employment. At the same time the very strong expansion of tax financed public services in the Nordic countries since the 1960s has been an important job-creation machine for women (see Kolberg et al. 1992). In other words: Two key characteristics of the ideal-typical Nordic welfare model are closely related to the expansion of publicly provided and publicly

⁹ This is well documented in the historical editions of the annual report “Social Protection in the Nordic Countries” published by the Nordic Council of Ministers going back to the mid-1990s, <http://nowbase.org/da/publications/social-protection-older>

financed welfare services: high female labour force participation and a large share of public sector employment.

The Nordic countries differ in the speed and degree to which they have approached fulfilling this aspect of the ideal-typical Nordic model. Denmark and Sweden were pioneers in expanding both public child care and long term care for the elderly, from the 1960s and closely related to that they had for a long period significantly higher rates for female employment compared to Finland and Norway. Around 1990 female labour market participation rate were about 80 per cent in Sweden and Denmark compared to about 70 per cent in Norway and Finland (Marklund and Nordlund 1999: 35), and similar differences existed in the share of public sector employment. In Denmark and Sweden the share of the workforce in public sector employment had reached about 1/3 in the early 1980s, while Norway and Finland were trailing behind with 25 and 20 percent, respectively (Marklund and Nordlund 1999:36). However, already at the turn of the new millennium Norway had caught up with the two other Scandinavian countries both in terms of the coverage with public care provision, female labour force participation rates and public sector employment.

In order to simultaneously finance a comparatively generous social security system and comprehensive public services, the Nordic welfare states depend on being able to collect high tax revenues. The Nordic countries – and in particular Denmark and Sweden - have indeed since the early 1970s had tax loads clearly above the OECD average. In addition to high and progressive income taxation, the Nordic countries rely on comparatively high consumer taxes that tend to be regressive.

It should be emphasised, however, that in periods where the Nordic countries have managed to maintain comparatively low unemployment rates, the level of social expenditure has not been dramatically higher than in other OECD-countries, and the same can be said about the general level of taxation.

High employment rates, that have been an integrated feature of the Nordic societies, help to foster a broad base for income taxation, and a relatively egalitarian income distribution can be argued to do the same for consumption taxation. In addition to female labour force participation, high overall employment rates (and hence a large income tax base) have been facilitated by comparatively high labour force participation among the elderly. Although the Nordic old age pension systems have offered comparatively high replacement rates – as we have seen – old age pension expenditure has not been higher than in most other OECD countries due to relatively high effective retirement ages (Gruber and Wise 1999).

Income inequality and poverty

The appeal of the Nordic model both in academic and political circles rests on the belief that it promises to combine economic competitiveness with beneficial social outcomes in terms of a relatively egalitarian distribution of income, living conditions and life-chances.

As already mentioned Sweden, Norway Finland featured low levels of unemployment and high growth rates in the 15 year period following the first oil shock in 1973. In the late 1980s new comparative data sources, like so-called Luxembourg Income Study, became available, and they provided solid evidence that the Nordic countries clearly out-performed other OECD-countries in terms of low levels of income inequality and financial poverty (see for instance Smeeding et al. (eds.) 1990; Ringen and Uusitalo 1992; Atkinson et al. 1995). A number of studies also seemed to indicate that the social security and tax systems of the Nordic countries played an important role in achieving a low level of inequality in the final distribution of income (Ringen 1987; Castles and Mitchell 1991; Korpi and Palme 1998).

It can be argued, however, that the Nordic welfare states (conceived narrowly as tax and transfer systems) operate in a favourable environment with strong trade unions and collective wage bargaining egalitarian labour market institutions resulting in low wage dispersion. The comparatively egalitarian distribution of wages found in all the Nordic countries is in itself likely to contribute significantly to

the egalitarian distribution of household income in the Nordic countries (see Barth et al. 2014 and Pedersen 1994).¹⁰

4. Developments since the “Golden Era”

Around 1990 Sweden, Finland and Norway ran into severe economic difficulties, with dramatically increasing unemployment rates, negative growth rates and substantial government budget deficits (see Mjøset 1986).

The crisis was most severe in Finland that suffered from the sudden disappearance of export markets in connection with the collapse of The Soviet Union, but it was also very deep in Sweden that experienced comparatively high unemployment rates for the first time since the Second World War. In Sweden the crisis led to a rather dramatic change in the political climate. Coinciding with a rather sudden appearance of huge public sector deficits, the Swedish employers’ association announced its withdrawal from the existing system of collective wage bargaining and corporativistic policy making, and these developments resulted in widespread doubts about the economic sustainability of the Swedish model in general and the social security system in particular. During the most acute crisis period in the first half of the 1990s, a number of retrenchment measures in the social security system were enacted, including the introduction of waiting days in the sickness benefit system and a reduction of the replacement rate. Even more importantly, the main principles of a structural reform in the public old age pension system were decided by a broad parliamentary coalition promising a radical reduction of public pension expenditure in the long run.

In Norway the crisis was much less severe, and instead of a dismantling of collective wage bargaining at the national level, three-partite cooperation was reinforced in the early 1990s and used to achieve a significant improvement of Norwegian competitiveness through wage restraint (Dølvik and Stokke 1998).

From the mid-1990s Norway and Denmark were leading on a path towards a restoration of full employment while Sweden and Finland were still lagging behind. Rapidly increasing revenues from the production of North Sea oil and gas of course helped to reinforce the Norwegian recovery and to contribute to very high annual growth rates over the entire 20 year period from the mid-1990s to the present.

In the first half of the 2000s the economic performance of all the four Nordic countries was comparatively good and Norway, Sweden and Finland all did relatively well through the initial years of the financial crisis. Denmark was immediately most seriously hit by the financial crisis, and the country has continued to struggle with very low growth rates in first half of the 2010s. Also Finland has in recent years experienced very low or even negative growth rates. By contrast the Swedish and Norwegian economies have continued to perform relatively well, in the Norwegian case despite a dramatic drop in oil prices from the summer of 2014.

All OECD countries have experienced different types and degrees of welfare state retrenchment and welfare state restructuring over the last decades (Pierson 1996). In the following we will try to document how this has played out in the Nordic countries and discuss what implication it has had for the Nordic welfare states and for the notion of a distinctive Nordic model.

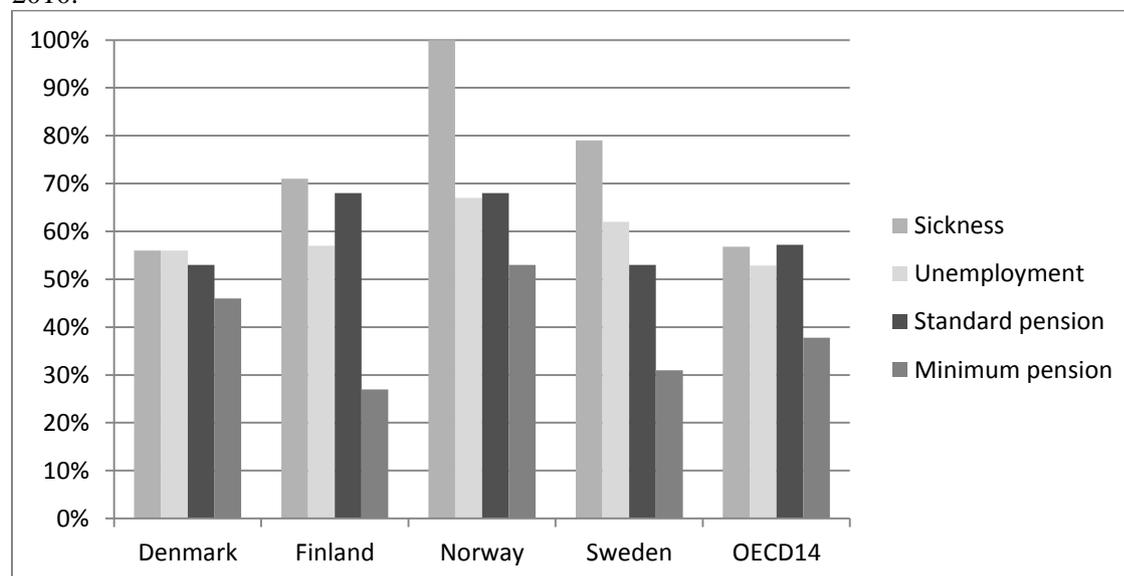
Reduced generosity of social security

Figure 2 updates the picture of the generosity of core social security programs in the four large Nordic countries given in figure 1 to the most recent year where we have available data, 2010. While the level

¹⁰ Barth et al. (2014) suggest that egalitarian labour market structures and generous social security systems mutually reinforce each other with the important implication that collective wage bargaining and a low wage dispersion is key component of the Nordic welfare model.

of replacement rates for a single standard worker has remained fairly stable among the comparison group of 14 OECD-countries, rather large changes have taken place, particularly in Sweden.

Figure 2. Net replacement rates for an average production worker in three social security programs in the Nordic countries compared to the (unweighted) average among 14 Non-Nordic OECD-countries. 2010.

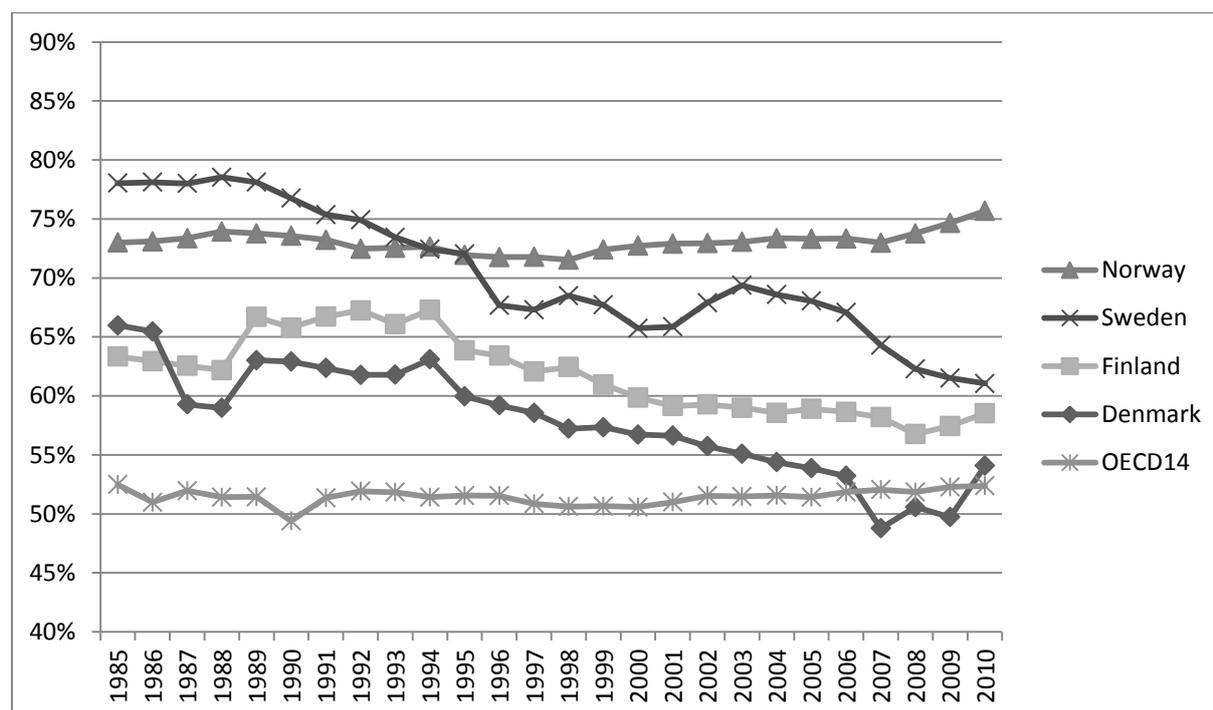


Source: CWED2

In 2010, Norway is the only Nordic country that consistently scores higher than the (Non-Nordic) OECD-average across all four types of social security benefits. Sweden and Finland still score higher than the OECD average on sickness benefits and (marginally so) on unemployment benefits, while they score below on the two old age pension indicators, including the level of minimum pensions, which is remarkable since a high level of minimum benefits has historically been a hallmark of the Scandinavian approach to pension provision.

A more parsimonious picture of the aggregate annual development across the three social security programs (and the four indicators) is shown in figure 3. With the exception of Norway it reveals a strong tendency of convergence towards the OECD average. It appears that the average generosity of the Swedish social security system has been reduced with 17 percentage points – from 78% in 1985 to 61% in 2010, which is still somewhat above the OECD14 average of 52%. Also the Danish and Finnish systems have experienced significant declines in generosity from about 65% in 1985 to 55 and 59% respectively in 2010. Norway is the only of the Nordic countries where net replacement rates for standard workers and minimum pension have remained stable at a level 20 percentage points above the OECD average.

Figure 3: Average net replacement rates in three social security programs from 1985-2010. The Nordic countries compared to the (unweighted) average among 14 Non-Nordic OECD-countries.



Source: Own calculations based on CWED2

It should be noted that these figures do not adequately show the full effect of the old age pension reforms that have been carried out in the Nordic countries – since the figures refer to the pensions to be received by a worker retiring in the indicated year, and not to the level of replacement to be expected by the present generation of workers. In order to adapt their old age pension systems to the demographics of aging, all the Nordic countries have enacted pension reforms that promise to improve the long-term financial sustainability of the systems. The Swedish reform is the most radical in this respect – transforming the Swedish pension system from one of the most generous among the OECD-countries to one of the most meagre (see European Commission 2015, OECD 2015a and Pedersen and Finseraas 2009).

Alongside the general tendency for retrenchment, some aspects of Nordic social security have been significantly expanded and strengthened since the mid-1980s. This applies in particular to parental leave schemes where the Nordic countries and Sweden in particular have continued to play a pioneering role.¹¹ The Nordic tradition for adopting policies to help improve the work-life balance of parents and two-earner couples is still very vital through a combination of generous parental leave schemes allowing both mothers and fathers to stay home and care for children during the first year and (virtually) full coverage with high quality public child care facilities after the expiry of parental leave scheme around the time the child reaches one year (Bouget et al. 2015).

Activation and privatisation

Throughout the OECD area, social policy has taken a turn towards activation in the last two decades. This has also affected the Nordic countries, and one can argue that this policy approach is basically

¹¹ Norway was the first country in the world to introduce a paid ‘father’s quota’ in parental leave schemes in 1993, and was followed by Sweden the year after.

following up on the Nordic/Swedish tradition for Active Labour Market Policy that we have already mentioned. However, contemporary activation policies differ from traditional ALMP in emphasising the conditionality of cash benefits on participation in activation measures that are sometimes more punitive and probing the recipients' willingness to work rather than a complementary offer to provide work and training.. Another important difference is that the target group of activation policies have been expanded from just focussing on the unemployed to also incorporate receivers of health related benefits (sickness and disability benefits) and social assistance (see Clasen and Clegg (2006) and Lødemel and Morena (2014) for comparative studies of activation).

Denmark is arguably the Nordic country with the weakest tradition for ALMP, but from the mid-1990s the country was among the pioneers in the contemporary activation wave. The right to social security benefits in case of disability was replaced with a right to be exposed to activation measure by the municipal employment/social administration (Kvist and Pedersen 2007).

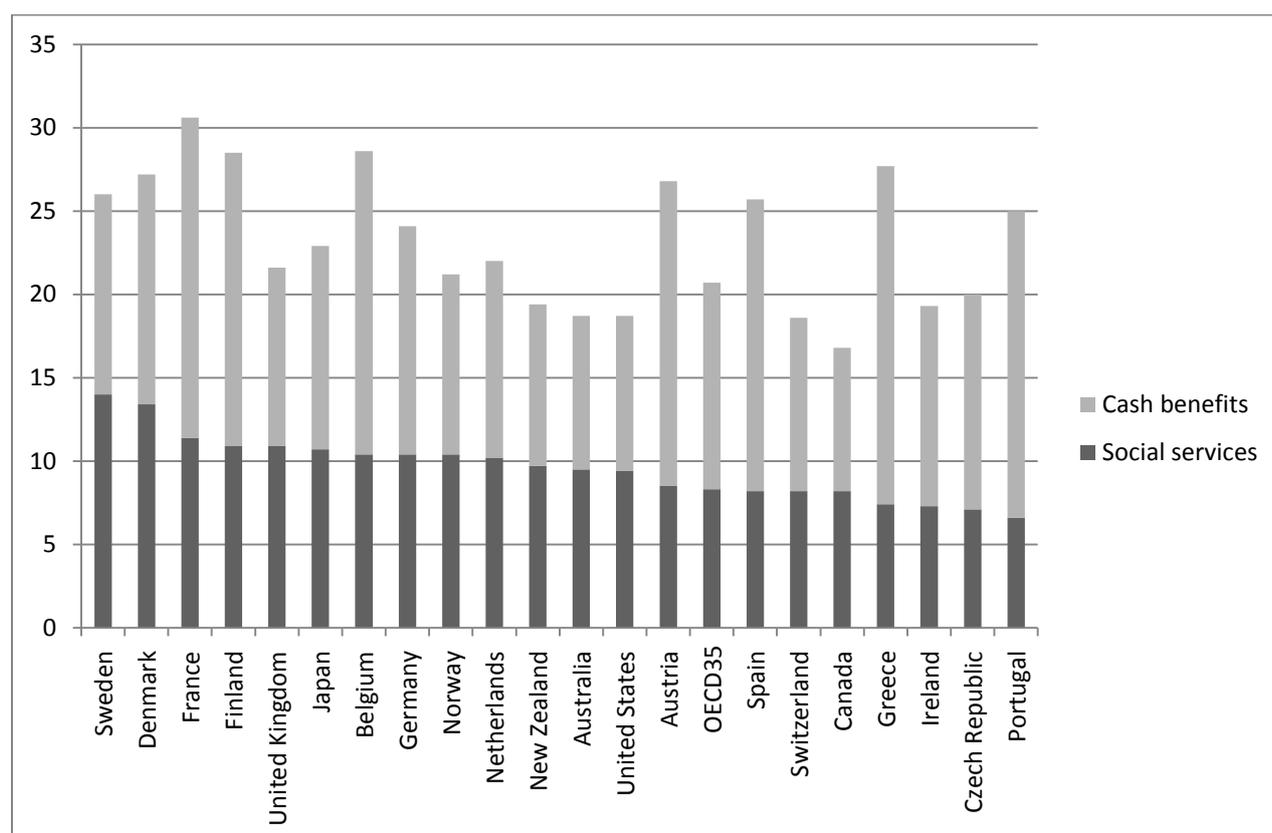
Arguably one of the characteristic features of the ideal-typical Nordic model is a rather modest role played by private provision – both of cash benefits and social services (see for instance Esping-Andersen and Korpi 1987 and Korpi and Palme 1998). However, the crowding out of private welfare provision was never fully realised in practice. In Denmark the expansion of occupational pensions was encouraged by the flat rate old age pension system, and even in Sweden and Norway private occupational pensions continued to play a role despite the expansion of an earnings-related second tier and the resulting comparative generosity of the public pension system (Hippe and Pedersen 1996; Pedersen 1999). Partly as a result of the more recent retrenchment in public pension systems, the significance of occupational pension systems has continued to grow, particularly in Sweden (see Pedersen and Finseraas 2009). Supplementary sickness benefits and unemployment benefits anchored in collective wage agreement have also expanded in Sweden and Denmark compensating core groups of wage earners for the lowered generosity in the public systems (Greve 2016).

In the field of service provision commercial and non-profit providers have to a varying degree been expanding at the expense of traditional public provision, but often within the public system of financing and under public control in terms of the distribution of services. In the secondary school system in Sweden, commercial companies have taken a considerable share of the market (Arreman and Holm 2011), and the same applies to long term care for the elderly. In Denmark non-profit enterprises are relatively important in the same sectors, while private commercial companies play an important role in the provision of child care in Norway.

Consolidation of publicly financed welfare services

While the core social programs of the Nordic countries have become less generous since the Golden Era – or at the very best remained stable -, the commitment to provide universal publicly financed services has, if anything, been maintained and sometimes reinforced. An example of the latter is the very substantial expansion of publicly financed child care in Norway from the late 1990s to the late 2000, resulting in full coverage and an above 90% take-up of day-care/early childhood education among children between two and six years of age.

As shown in figure 4, the Nordic countries all spend a significantly higher fraction of GDP on social services than the OECD average with Sweden, Denmark and Finland among the top four spenders. The fact that share of GDP spent in Norway is somewhat lower is readily explained by the exceptionally high GDP in Norway, and the fact that Norway continues to put aside part of its annual production that stems from the extraction of oil and gas, saving it in a provident fund for future generations.

Figure 4. Social expenditure on social serviced and cash benefits in percent of GDP. 2015¹²

Source: OECD Social Expenditure Database

We can conclude that the universal service state is still very much alive as a shared distinctive feature of the contemporary Nordic welfare states. Associated with this, female labour force participation and overall employment rates are high in the Nordic countries, although there has been a significant catch-up by most of the Continental and Southern European countries.

Changing outcomes: increasing income inequality and poverty

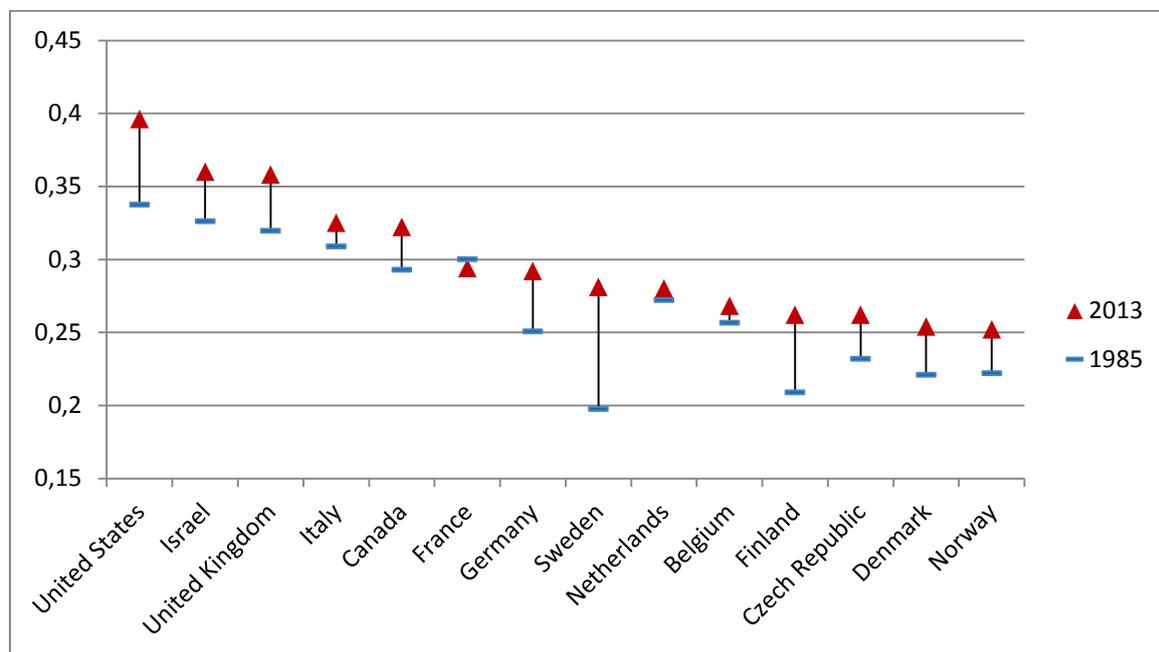
It is well known that economic inequality has been growing in most of the developed world since the late 1970s particularly in Anglo-Saxon countries like the US and UK. Up until the beginning of the 1990s it appeared that the Nordic countries was an exception to the general trend and that they had been able to maintain low levels of income inequality and financial poverty (see for instance Atkinson et al. 1995). Over last two decades, however, also the Nordic countries have been affected by the trend towards increasing economic inequality.

Figure 5 shows the level and change in income inequality in selected OECD-countries between 1985 and 2013. While Sweden and Finland had the lowest levels of inequality in household incomes in the middle of the 1980s followed by Denmark and Norway, these two countries have experienced the largest absolute increase in income inequality in the period with Sweden reaching a Gini-coefficient of 0.28 (compared to 0.20 in 1985). Also Denmark and Norway have had an increase in Gini-inequality

¹² Note that the countries in the figure are sorted according to the relative size of expenditure on social services and not the size of total social expenditure.

but it is of much more modest proportions and the income distribution in these two countries remain among the most egalitarian in the OECD.

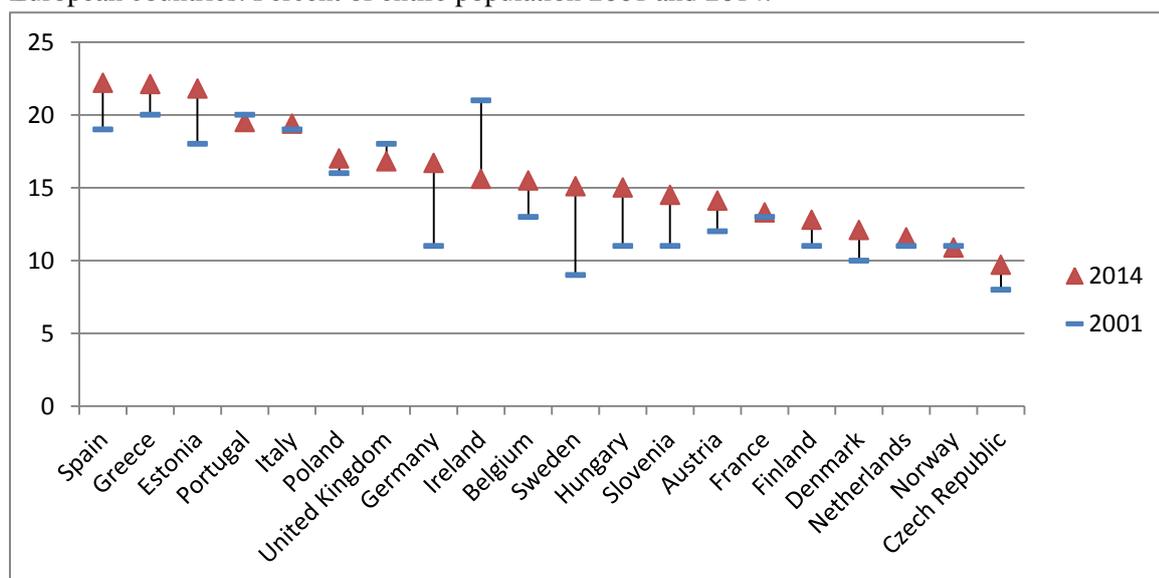
Figure 5. Household income inequality in selected OECD-countries. Gini-coefficient. 1985 and 2013



Source: OECD Income Distribution Database

A similar pattern appears when looking at the poverty indicator used by the EU, where individuals with household income below 60% of the national median are classified as being “At risk of poverty”. As shown in figure 6, the poverty rate in Sweden has risen from 9 percent in 2001 to above 15 percent in 2014, compared to only 11 percent in Norway where overall poverty rates have been stable since 2001.

Figure 6. “At risk of poverty” rate (household income below 60% of national median) in selected European countries. Percent of entire population 2001 and 2014.



Source: Eurostat Social Inclusion Indicators

Although it is notoriously difficult to prove causal relationships between macro-level variables, there is good reason to believe that the overall trend towards increasing economic inequality in the OECD area is at least partly driven by retrenchment of social security and reduced redistribution through the tax system (OECD 2015b; Atkinson 2015). The fact that economic inequality appears to be increasing quite considerably in Sweden and Finland, fits into this diagnosis, since these two countries also have had the strongest reduction of social security generosity and the strongest departure from the Golden Age Nordic welfare state.

5. The future of the Nordic welfare state model

The Nordic welfare states are constantly being renegotiated and adapted to changing political, economic and social forces of change. Among the contemporary challenges facing the Nordic welfare states ageing, globalisation, and large scale immigration appear to be the most pertinent.

The demographics of ageing has clearly called the economic sustainability of the Nordic pension systems in question, and as we have mentioned all the Nordic countries have to a varying degree responded by implementing reforms that promise to reduce the future financial burden of the state. Ageing also has a strong effect on public expenditure on and the need for manpower in long-term care services for the elderly. The fact that the Nordic countries have taken on a wide-reaching public responsibility to run and finance professional care for frail elderly appears to make them more vulnerable than countries that rely more heavily on informal care within the family. On the other hand, the real burden of providing care is not dramatically different whether provided by formal or informal care, and while countries that rely primarily on informal care will face severe difficulties in achieving and maintaining high female labour force participation rates if most adult women have to care for their frail parents, this is not to the same extent the case in the Nordic countries (see Bouget et al. 2016).

Economic globalisation is a permanent challenge to the Nordic welfare states through different mechanisms. The Nordic welfare states depend on their ability to collect comparatively high levels of taxation, and tendencies for increased international tax competition are a source of worry (Ganghof 2006; Plümer et al. 2009). On the other hand it can be argued that the Nordic welfare states have always been open economies that are exposed to international competition, and that the Nordic welfare states are in fact functional in allowing the Nordic societies to cope with the risks and uncertainties of international market forces (see Katzenstein 1986).

Immigration is arguably a third major challenge to the economic, social, and political sustainability of the Nordic welfare states (Brochmann and Hagelund 2011). The Nordic countries have all to a varying degree received large scale immigration flows over the last decades – partly in form of asylum-seekers from Third-World countries and partly in form of labour migrants from (in particular) Eastern-European countries that gained access to the internal EU labour market from the mid-2000s. In particular asylum migration involves short term costs for national governments that might contribute to narrow the scope for public expenditure for other purposes including social welfare. If immigrants in the longer run do not reach the same high level of labour force participation as the native population and rest more dependent on social transfers, there will be a long-term increase in costs that will add to the financial burden of maintaining a generous welfare state. A further mechanism through which immigration is liable to influence welfare policy is increased wage dispersion and higher income inequality and poverty rates. As we have seen, inequality and poverty has risen over the last decades, also in the Nordic countries, and it cannot be ruled out a-priori that immigration is one of the driving forces behind this development. Finally it has been suggested that immigration and increased ethnic

heterogeneity of the population will make it more difficult to foster the kind of solidarity necessary to uphold popular support for the Nordic welfare state and hence the political sustainability of the model might be threatened (see Alesina and Glaeser 2004) for an argument in this direction for the European welfare states in general).

There can be little doubt that these are very serious challenges and that the Nordic welfare states will have to adapt in order to cope with them. Whether in the process the very core of the Nordic welfare model will be lost or reinvented, is still an open question.

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