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Chapter 1

THE NARRATIVE OF THE NORDIC WELFARE STATE MODEL

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ABSTRACT

The traditional administrative and social model of the Nordic countries, called "the Nordic model," arrived politically after the Second World War in the wake of the breakthrough of Keynesian economic theory. Typical for this model was that it favored extensive state intervention to achieve full employment and social redistribution. It aimed at maintaining effective demand not only by economic intervention but also by regulation for social equality and fairness. Strong employee and trade unions were part of this model. Political stability was the outcome of this policy. The Nordic welfare model is often called the "the Keynesian welfare state." The universal welfare arrangement and social-security scheme of the model continued flourish until the breakthrough of neoliberalism. Over the last twenty years, the Anglo-Saxon neoliberalism has penetrated the Nordic countries step by step with the consequence of threatening the model itself. This penetration can be found as policies for the breakdown of public-service monopolies, privatization, the exposure of public-sector activities to market competition, and lastly the liberalization of the labor market. As political rhetoric the Nordic universal welfare state and social-security scheme continues, but what about the institutional reality? The discussion in this chapter is about how long the Nordic model might survive. For the time being, it is the ideology of neoliberalism, which guides and transforms social and administrative model arrangements in Europe, including the Nordic countries. The market-liberal EU and its numerous deregulations – and re-regulations – leads the process politically.

Keywords: welfare policy, social and administrative models, path dependency, public service, deregulation

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INTERNATIONAL REFERENCE TO THE MODEL

"Are higher taxes and strong social *safety nets* antagonistic to prosperous market economy?" Jeffrey D. Sachs, a worldwide-known economist, asked in the November 2006 edition of *Scientific American*. He refers to the Austrian-born free-market economist Friedrich August Hayek, who in the 1940s suggested that high taxation and a central social-caring state would be a "road to serfdom," a threat to freedom itself. Sachs comes to the following conclusion: "Von Hayek was wrong. In strong and vibrant democracies, a generous social-welfare state is not a road to serfdom but rather to fairness, economic equality and international competitiveness" (Sachs 2006). Of interest in this book chapter is that the reference for his conclusion is the Nordic welfare-state model. This model, developed in the years following the Second World War, had deep roots in prewar state-focused Keynesian economic theories. Later we shall come back to the great influence of those theories, but at this stage let us point out is that the Nordic welfare-state model often is academically referred to as the "Keynesian welfare state."

Thomas Piketty is a French economist who works historically on international wealth and income distribution, with a focus on social inequality in different national economies. He is professor (directeur d'études) at the École des hautes etudes, and has become well known for his research on economic and political failures arising from inequality and uneven distribution of wealth regarding ownership of real estate and income in Western countries. In the year of 2013 he published the study *Le Capital au XXIe siècle*, translated into English (2014) with the title of *Capital in the Twenty-First Century*. Here again, like Sachs, he points to the relative equal wages and distribution of wealth in the Nordic countries, and how it favors economic growth, fairness, and political stability. Actually the Nordic socioeconomic and administrative tradition has been developed over a long time. Currently, the model is being heavily challenged in the wake of the ruling anti-state ideology of neoliberalism (Veggeland 2010, 2014). As Jan-Evert Nilsson points out in his chapter in this book – "the last forty years has transformed the Nordic countries and radically changed the conditions for the Nordic Model." The fact though, Piketty's valid study shows that the ideal goals of social equality and social justice and welfare rooted in the origin model continue to be a reality despite changed international conditions.

EUROPEAN SOCIOECONOMIC MODELS

In general, the different administrative models and traditions of the Western European countries policy are, in a macro perspective, characterized by path dependence of their historical social economies. This path dependency, demonstrated by their strong emphasis on balancing pure economic achievements with other goals, such as welfare, employment, social cohesion, leisure and democratic sustainability, is true and is to be empirical observed but not always believed in the Anglo-Saxon states. However, it expresses European countries in general by having a relatively larger public sector than other parts of the capitalistic world (OECD statistics 2014).

It is equally true that there are many European socioeconomic administrative sub-models. How many depends on the level of analysis, from local to national and international levels. In other words, a coherent picture of socioeconomic comparative models may be elaborated only when the analysis take place at a reasonably high level of territorial aggregation (Knill 2001). The purpose of the next sections is to group European countries into appropriate models in such a way as to derive explanations of path dependence comparatively, with the Nordic model in focus. The focus is also on how ideology and path dependence together contextually change socioeconomic regimes (Wallace 2005).

At the European macro level of governance, we may identify several socioeconomic and administrative models. Here the focus will be on the Nordic model, compared with the Anglo-Saxon and the Continental models (EPC 2005).

THE NORDIC WELFARE-STATE SOCIOECONOMIC ADMINISTRATIVE TRADITION

The Nordic socioeconomic administrative model developed after the Second World War contains three fundamental principles: 1) Economic stabilization according to the theory from the 1930s by the liberal economist, John Maynard Keynes' (1883-1946). The central state should be involved with consumption and investments in order to secure effective demand in the national economy. In the wake of this, a universal welfare state should be developed, and ownership by state investment as part of this strategy. 2) Additionally, these state interventions should realize social and regional distribution and redistribution policies, that is, transfer of wealth and consumption ability from the rich regions and people to the periphery and ordinary people. This distributive policy intended to expand justice and to secure effective demand, where the many consumers consume more than the few. 3) Part of this was the introduction of the social dimension. Specifically, the state should involve the main two social partners, the employer and employee organizations, in certain decision-making processes regarding the labor market and social policies. The "tripartite cooperation" (i.e., between the state, the employers, and the employees) is typical for the Nordic administrative tradition.

The Nordic model is sometimes called the "a Keynesian welfare state," As the concept indicates, the after war Nordic socioeconomic model depended heavily on Keynes' famous thinking and theory. Keynes responded to the recession of the 1920-30s, and promoted the importance of state intervention in market economies for securing economic stability and the creation of jobs.

The Nordic welfare state model is one unit, however, historically organized along different lines. The West Nordic administrative tradition (Denmark, Norway, and Iceland) implies the significant presence of ministerial administration (the so-called 'ministerial model'). Each minister is responsible for all policies and decisions made by administrations under his or her leadership, including directorates. This ministerial model tends to create inertia in the system when it comes to administrative reforms because of this "personal" constitutional responsibility." Janerik Gidlund has observed that the reason why the Danish ministerial system has taken this form is to be found far back in history, namely in the days of Fredrik III and the establishment of absolutism in 1660–61. At the same time as the king seized power, a centralization of all administration and a major expansion of the central administration took place (Gidlund 2000: 258). Thus, on the one hand, the state tradition created strong path-dependent implementation of the Keynesian interventionist economic strategy from the 1930s. On the other hand, the same path of the West Nordic sub-model delayed until the 1990s the introduction of the dominance of ideological anti-state neoliberalism and the implementation of OECD recommendations, such as New Public Management (NPM) reforms. For a short historical period, the West Nordic countries resisted the international NPM wave.

The path-dependent East Nordic administrative tradition (Sweden and Finland) reacted somewhat differently. Division of governance between relatively small-scale ministries and autonomous civil service departments and independent “boards/agencies” characterizes this tradition. Collectively the ministerial authorities constitute the government and each single cabinet member is not politically responsible to anyone else. The East Nordic administration form has its roots in the far back imperial administrative regulations of Swedish Governor Axel Oxenstierna, related to the so-called ‘status of the colleges’ in the governmental form of 1634. The intention was to create an effective administration that could manage the affairs of the empire of Greater Sweden (Gidlund 2000: 259). It is a common suggestion that the independent boards or agencies, the governmental working bodies of the East Nordic tradition, generally accepted the international anti-state neoliberal principles quite rapidly, inspired by the NPM wave. The dramatic expansion of NPM that began in the 1970s was accepted by the East Nordic tradition as early as the 1980s (Lane 2000, Pedersen 2006). The governments of the East Nordic administrative tradition adopted neoliberalism more easily than the West Nordic counterparts as a ruling governmental ideology because of the collectively responsible central state (OECD 2002).

It is worth noting that because of the difference regarding regional administrative traditions a comprehensive amount of convergence between the two traditions of the Nordic countries has occurred. The European integration and neoliberal EU policy have been the driving force behind these developing differences. Denmark, Sweden, and Finland are all members of the EU, while Norway and Iceland are not, though these two are members of the European Economic Area (EEA). Politics derived from judicial EU regulations and regulatory measures have replaced differences and caused convergence (Gidlund 2000: 259, Veggeland 2010), and the result, as proposed in this and other chapters of this book, is that the principles of the original Nordic welfare-state model has become undermined under the pressure from neoliberal policies (Veggeland 2014). However, despite this, we may still talk about a common extant Nordic socioeconomic tradition, a Nordic welfare-state model.

Comparing the Continental and the Anglo-Saxon Socioeconomic Administrative Traditions with the Nordic One

There are some important differences and similarities between the Nordic model and the two other dominating socioeconomic administrative traditions in Western Europe. On the one side, the Nordic and the Anglo-Saxon model have contextually become quite similar in respect of the nature of relation between the interventionist state and market power, in which the market has been given steering priority. An example is the common use of market-type mechanisms by privatizing or organizing the public sector as commercial enterprises in the provision governmental services (OECD 2005: 133). However, the two models are very different when it comes to the size of government and state-centered planning and distributive policies (Iversen and Wren 1998). The Nordic model is still to a large extent a state-centered model, despite influence of anti-state neoliberal ideology.

In this context, the Nordic and the Continental socioeconomic models are more alike in regard to the great size of the public sector and the political position of the central state. Their universal welfare-state approach comprises job security policies, health and social security, and the acceptance of the social dimension, that is, acceptance of trade union relations (EPC 2005). The Nordic model, therefore, emerges today as a blend of the two larger European models. On the one hand, similarities are apparent with the Anglo-Saxon model's emphasis on flexible labor-market policies and the use of market-type mechanisms, and, on the other hand, there are parallels with the Continental model's emphasis on a large public sector, universal welfare goods, and close relations to the trade unions (Jorgensen Overgaard and Vagnby 2005, Veggeland 2007).

LABOR-MARKET POLICY – A COMPARATIVE APPROACH

Measuring different attitudes on market versus state is an interesting but complex matter. The OECD carried out such a study in 2005, and is still considered valid ten years later. The study analyzes a number of relevant issues, including an index for product market regulation by the state. This specific index would indicate political preference of state or market. Measured by this index, the three main models and traditions have the expected results above (OECD 2005). The Nordic model and tradition appears as a blended model of the two other. The product market regulation index indicates that the Anglo-Saxon model tradition and policy target domestic deregulation of the product market and a simplification of rules in the framework of the EU deregulatory regime, while domestic state re-regulation targeting correcting market failure is more common and increases the index in the Continental tradition. In this context, the Nordic model comes out as a blend of the two other models and their traditions. Since the 1980s, also the Nordic countries show signs of transformation in the direction of more market liberalism in certain sectors, for example, in the welfare sectors and in their labor-market policy. The OECD study reports, however, that the traditional state-centered path of the model still tends to perform re-regulations in order to correct the market and for collective and redistributive purposes. As for all the three models and their traditions, the supranational regulatory performance forces implementation in the framework of the EU/EEA regime because of membership. This force generates to some extent convergence. Nonetheless, it is important here to underline that the three models defines labor-market flexibility as policy, for example, very differently. The Nordic and Continental definitions are especially fundamentally different from the Anglo-Saxon definition. The Anglo-Saxon labor-market policy targeting flexibility means basically that employers and individual workers agree and make legally valid contracts together that decide wages, working conditions, and working hours in order to meet the commercial needs of the actual business. The Nordic and Continental models, in contrast, rely on policy incitements for collective work contracts and tariffs rather than the market to meet the social and personal welfare needs of the workers.

Thus, the Anglo-Saxon tradition contextually means flexibility for employers and job insecurity for the employees. Workers may easily lose their jobs. In this tradition, the definition of labor-market flexibility stresses elements such as the possibility of wage differentiation based on performance-related pay and task-measurement, part-time workplaces, contract-based appointments and job insecurity, non-tariffs and low-paid social groups, health insurance linked to the employers, and a passive role of the state in labor-market policy. The labor-market policy of the state narrowly comes out of the generally accepted deregulatory policy. No doubt, the consequence of labor-market flexibility was statistically an increasing employment opportunities since the 1980s until the financial crisis of the late 2000s. The parallel negative development was rising social inequality and the standard liberal welfare state became threatened (Pierson 2001a, Piketty 2014). The other negative aspect of the deregulatory labor-market policy with its job insecurity was that employed workers tended to cling to their workplace despite bad working conditions, which created inflexibility. The reason for this is that their job and social security depends on their employers, according to the administrative tradition (Iversen 2005). Thus, labor-market flexibility is in the Anglo-Saxon framework linked to job insecurity, and it turned out in the 2000s paradoxically to become less flexible.

The Continental and Nordic definition of labor-market flexibility weighs varying elements. Of course, also these two traditions deviate in certain ways. For example, the trade unions have a stronger position in the traditional Continental model than in the Nordic model, and more formal and rigid rules generally influence the procedures of appointments and working conditions in the former model. Universal welfare and social-security arrangements are a special characteristic of the Nordic model (Arter 1999; Einhorn and Logue 2003, Veggeland 2015, elsewhere commented on by most authors in this book). The regulatory traditions work differently. However, in both of these two models and traditions and in their definition of labor-market flexibility we find, as in the Anglo-Saxon model and since the 1990s, the growing elements of wage differentiation by linking wages to the result of work-task measurements. Low-paid part-time work and contracting has become more essential, even though tariffs and equal access to health and social insurance, job security, training and other work conditions are ruling policy. This makes the two models comparable.

What is said to be so characteristic and makes the Nordic model and tradition an alternative model ‘in the middle’ of Western governance models? The documented answer is this (EPC 2005, Iversen 2005). In order to keep employment in high-wage areas like the Nordic countries, it is necessary to require highly specialized competence, job change, and skill flexibility concerning the workforce. These aspects claim the willingness of workers and staffs to continuously upgrade their skills and to be ready to leave jobs by means of state-run education and vocational training (Iversen 2005). This creates economic productivity. This productivity is high in a comparative perspective. According to a World Economic Forum document from 2015 that ranges 140 countries’ competitive ability, all the Nordic countries were among the top eleven, with Switzerland and Singapore at the top.

Flexible labor-market policy might induce insecurity but not in the Nordic socioeconomic tradition. Because of job security and other public universal welfare arrangements, workers and staff are not taking personal risks; instead it is a strategy for competitiveness and future job security. It is these characteristics, which define the term Nordic “flexicurity” Interestingly enough, the Continental model, with its strong regulatory and welfare-state tradition, does not seem to provide security of this kind. It does provide economic compensations to the unemployed, but not active public education and vocational training targeting competitive specialized skills for the employer or for making job changes a possibility.

So one important feature of the "middle balanced" Nordic model's labor-market policy for job specialization, job creation, and job change is the flexicurity strategy. This policy outcome helps to explain why the Nordic model may remain economically competitive internationally and with high national legitimacy. The competitiveness comes out of high productivity and a high level of employment, even though the model embraces five relatively high-cost countries. The key to its success is the reorganized public employment service, from providing passive economic compensation for structural unemployment, to providing services, which help employees to develop their skills and actively to make them able to search for jobs in order to avoid unemployment (Veggeland 2015). This is probably a much better use of public money than paying 10 to 20 percent or more of the population for not working. Structural unemployment is a threat to economic balance and welfare-state sustainability concerning all national states (OECD 2014).

In all senses, the Nordic model is expensive in regard to its inherent acceptance to a large state and an approach that demands a high life standard and welfare for all. This acceptance and political approach cost money, as the large public budgets attest. The expensiveness is due to the high costs of job, health, and social-security arrangements. This is followed comprehensive legitimacy of the Nordic state order. Certainly, the taxpayers pay the expenditures, and they seem to do so without any significant protests (Veggeland 2007).

To summarize up some facts: The labor-market policy of the contemporary Nordic countries are doing well compared with other European countries regarding keeping unemployment low and employment rate high, besides making welfare arrangements so far sustainable. This is most likely due to three elements:

1. Universal health and social-security arrangements exist as the background for the concept of labor-market flexicurity; that is, these arrangements generate flexibility in the sense of the individual freedom to change and choose workplaces without losing personal security.
2. Active public labor-market policy is helping unemployed people to find their way back to productive work and jobs quickly; and
3. The transformation of earlier rigorous regulation of labor-market preferences to softer regulations weighting productive specialized skills more than, for example, age with job appointments.
4. According to the Nordic model, adaptation to a fast changing international labor market through lifelong learning is generally accepted.
5. A social driving force of the Nordic model is that either changing a job or employer or being out of work because of upgrading personal skills does not mean one will lose health and social-security rights. These rights are universal and are not dependent upon a commitment to a workplace or an employer.

ECONOMIC BIAS OF THE NORDIC SOCIOECONOMIC MODEL

Now, let us briefly look into the Nordic welfare state as a background for the above analyzed labor-market policy and the concept of flexicurity. As we have seen above, despite the influence of the Anglo-Saxon model dominating policy and the anti-state ideology of the neoliberal ideology, the five Nordic countries continue to have a state-centered socio-administrative model tradition in common. This fact has not been diminished by the comprehensive decentralization by delegation of the implementation of welfare and workfare policies to municipality authorities (Veggeland 1998). The state authorities, the government, remain the principle power of national politics and implementing bureaucracy.

The institutional outcome of the state-centered policy was gradual founding of a comprehensive tax financed public sector with universal welfare and social-security policies as basic pillars. The policies were both interventionist and socially and regionally redistributive in their character, based on Keynesian macroeconomic theory and planning developed after the Second World War, and fully administered by governmental institutions (Amdam and Veggeland 1998). The legitimacy of the interventionist Nordic welfare state in the post-war period, politically performed by social democratic parties in governmental majority positions, had its foundation in successful macroeconomic theory, which the economist John Maynard Keynes developed in the work *The General Theory of Employment, Interest and Money* in 1935. The Nordic social democratic parties accepted the collective and interventionist political-platform approach to secure Keynesian effective demand with social equality, welfare, and employment for all as the core goals.

Keynes created the understanding of the necessity of an interventionist welfare state to achieve aggregated effective demand in national economies. Despite being a liberal economist, he indirectly concluded an anti-laissez-faire perspective in his theory (Arter 1999; Veggeland 1998, 2009). The approach regarded governmental interventions in the market as a way of avoiding macroeconomic fluctuations and crises. Both by financial and institutional interventions of the state, aggregated effective demand in the economy was the target. According to the theory, the size of the interventions measured in money was to be increased or diminished depending upon macroeconomic fluctuation: stimulate the economy by investments in cases of rising unemployment, and the opposite in case of growing inflation. From a theoretical point of view of “digging a hole somewhere,” as Keynes famously said, this would have the same effect of stimulating demand as any other interventionist action, and therefore would be useful in an employment perspective. Demand creation is neutral in the framework of regulation of macroeconomic fluctuation. Macroeconomic planning became the Nordic social democratic governmental tool used to put the demand and income side of the economy under control and thereby make it feasible to regulate forward balances between full employment and inflation through political initiatives and planning acts. The Keynesian revolution, this anti-laissez-faire and pro-state turn, has been called a “revolution” because it was at the time a theoretical approach of economic and state innovation which caused immense changes in public-sector politics. Great governance reforms took place in the 1940s and 1950s in the Nordic countries.

What we may observe in the Nordic countries is that the Keynesian the state-centered interventionist principle was very much in line with the already established state-centered administrative path and welfare-state model. Thus, the Keynesian revolution was in many ways a revitalization of an already established path. The revolutionary part of the concept was the strength of the new institution to build the new post-war welfare state. The "Keynesian" tools, well known from most macroeconomic textbooks today, were these:

- *Political legitimacy:* Economic reasons given for the importance of state interventions, the high public expenses and the social democratic anti-laissez-faire policies.
- *High public-sector spending:* Public spending as well as private spending targeting employment and economic growth enhanced the Nordic mixed economy, incorporating high costs and high taxes addressed the taxpayers.
- *Public planning at all administrative levels:* Macroeconomic planning and sector planning.
- *Sector neutrality:* Theoretically, sector neutrality of government spending in the framework of the demand-side economy ruled the Nordic states. Public spending in the welfare sector was to generate similar effective demand effects as in the industrial sector.
- *Infrastructure monopolies:* Public monopoly in physical and social-infrastructure sectors characterized the Nordic administrative pattern. This pattern included soft infrastructure such as welfare and social-security services, education and labor-market services to hard infrastructure such as telecommunications, road construction, and postal services.

In the Nordic countries, the empirical fact is that the role of a strong and influencing state authority was seen to be most legitimate, perhaps more so than anywhere else in Europe (Kuhnle 2000; EPC 2005, Veggeland 2007). These societies and their citizens until the surge of the ideology of the neoliberalism thirty years ago had, as already pointed out, a very "state-friendly" attitude. Actually, the terms "state" and "society" are still often used to express the same thing.

The evolution of the Nordic welfare states, anchored in such a holistic administrative tradition and collective-identity approach results in relatively high public expenditures in percentage of their GNP. According to the World Bank data from 2013 (World Bank 2013) the expenditure in the Nordic countries lies in average about 27-29 percentage of their national GNP. Twenty to 30 percent of the labor force in the Nordic countries is composed of employment in the public welfare services, such as social insurance, health, elderly care, and education. It clearly places these countries at the top of the Western world in terms of public welfare-state employment (Kuhnle 2000). From a theoretical point of view, the introduction of the Keynesian welfare-state concept in the Nordic countries in the period of the immediate postwar may very well be understood in the framework of rational-choice theory, and the social democratic governments at the time may be understood as makers of rational political choices (Veggeland 2009).

Within the interventionist framework of the Nordic countries, appropriate and satisfactory policy choices were realized (Østerud 1972, Olsen 2005). We may refer to public institutional innovations in the public sector (cf. Fagerberg et al. 2005) with the ideal of lowering social inequalities, insecurities, and unemployment as the main political goal. The social consequences that resulted were increased public expenses and greater power to employee trade unions. The concept of innovation in the public sector implies the successful introduction of “something new,” a novelty, which usually means a new institution or process, but may encompass just about any policy-based phenomenon, idea, concept or procedure (2014, 2015).

Then the international economic crisis of the 1970s occurred. In the perspective of this crisis, policy-based innovation occurred differently as a concept and procedure in the Anglo-Saxon, Continental, and Nordic administrative traditions. In the Anglo-Saxon states with the path dependence of their market-centered model, the focus was on the issue of lowering public expenses. Accordingly, the responsibility of health and social insurance became an individual and employer responsibility, rather than the state, in the endeavor to diminish public expenses (Iversen 2005; Pierson 2001a). In the typical Western Continental states with path dependence linked to strong corporative traditions, with comprehensive formal relations between governments and their social partners such as employee unions, the rigidity of labor-market procedures continued as an integrated part of the new welfare-state concept (EPC 2005).

In contrast to the other Western European industrialized countries which participated in the Keynesian revolution, the Nordic concept of welfare and social-security arrangements became a deviation from the previously mentioned traditions through its performance of the universalism and the active labor-market policy. Low inequality, low social insecurity, and low unemployment were the main political goals of all the Western European states, but only the Nordic countries succeeded in fulfilling the goals (Iversen 2005). From the view of Keynesian ‘General Theory,’ the Nordic governments learned that the expensive welfare-state concept might through budgeted deficits be paid for. It was most important to generate full employment, and thereby purchasing power, aggregated demand, and the formation of increasing national economic values. The social democratic Nordic governments made rational choices that were best for the existing welfare arrangements. It is now to see apparent that guidance of the traditional state-centered social and administrative path heavily influenced the innovative choices that were made. This was namely the view that the responsibility of the state embraces not only economic issues, but also human values such as social security, equality, and morality as an inherent part of public governance (Kuhnle 2000). In addition, the supremacy and legitimacy of the state come out of a very deep-rooted popular attitude giving support to a “state-friendly” approach. Despite the international criticisms voiced at the time, in the 1980s, there was an Anglo-Saxon ideological view that Nordic guarantee of “being taken care of from the cradle to the grave” was a threat to the existence of the modern welfare state because this guarantee stimulated workers negatively with low productivity as the outcome. Suddenly, more Nordic politicians expressed this negative neoliberal slogan and it echoed in the rhetoric and political programs of right-wing parties. A change of attitude in the neoliberal direction expanded from the 1980s on, and put these parties into government positions all around the Nordic region.

The Stagflation Crisis Changed Policies

One of the most significant achievements of the post-war era has been the compromise between the parallel developments of fast economic growth and varying degrees of social justice and equality within Western European welfare states, including the Nordic ones. Yet the capacity for achieving this compromise has always been an issue of question and debate. Pressures for retrenchment, including claims for lower tax burdens to stimulate productivity and investments to succeed in global competition, have collided with counter-pressures for larger social-welfare expenditures. An international economic recession made this compromise the hottest political issue in the whole OECD area (McCracken et al. 1977). In the 1970s, the international economy entered the "stagflation" crisis as a fundamental causal factor in subsequent change of the Nordic welfare-state model (Veggeland 1998: 60–2). Consequently, as part of the crisis, the unemployment rate in the Western industrial nations rose to 10 to 15 percent and inflation reached dangerous levels. This represented a fundamental interruption in the stable economic development formed in the wake of the Keynesian principles of state intervention, which were (1) financial interventions, (2) direct control through laws and regulations, (3) institutional interventions, (4) sector interventions and (5) state-run enterprises (Schonfield 1969, Østerud 1972). It also led to a crisis in the principles of the planned welfare-state conception based on full employment developed in the Keynesian interventionist form of the state.

Actually, the crisis was the manifestation of burgeoning globalization and its challenges, which also reached the Nordic countries. It affected the institutions of the interventionist state and caused failure to governance because of overloaded governmental budgets and the parallel increase of unemployment and inflation rates (which is actually a theoretically defined impossible phenomenon in an interventionist demand-side economy). Confusion ruled in the Nordic welfare states as it did in the OECD area. It was difficult at the time to imagine that the balance in economic circulation would once again reach critical dimensions comparable to those of the inter-war Great Depression era. The British economist Andrew Shonfield in a large work published in1969 entitled *Modern Capitalism* argued in favor of a Keynesian perspective and approach. He wrote at the time the following: "The central thesis of this book is that there is no reason to suppose that the patterns of the past, which have been ingeniously unraveled by historians of trade cycles, will reassert themselves in the future" (Shonfield 1969: 62). However, the crisis did take place, expressing itself as both a stagnation and an inflation crisis in parallel, thus called a "stagflation" crisis. Former Keynesian methods and means of dealing with the situation by traditional state interventions were no longer effective or, to be more correct, did not work as expected. Social theories and models of public governance founded on the Keynesian perspective failed. Investment measures introduced by governments to reduce rising unemployment resulted in in the rising of the level of inflation spiraling upwards as expected, but also unexpected in that the unemployment spiraled upwards in western economies. The combination of both high inflation and unemployment became a stable spiraling situation. The deep-rooted confusion among national politicians and economists that occurred was understandable, and is found and explicitly expressed in an OECD reports written under the pretense of providing reasonable advice to the governments (McCracken et al. 1977). The capitalistic economic crisis in reality was seemingly immune to solutions deduced from Keynesian economic stabilizing mechanisms. – The path to neoliberal economic mechanisms went through an open door and swept into the capitalistic world and the Nordic states as well.

The OECD confusion at the beginning of the stagflation crisis often reflected the position of standing between the main European administrative and social traditions. The Anglo-Saxon market-centered tradition represented a path in the direction of a goal of fighting inflation through the measure of reduced public expenditures, privatization, innovation, and creation of jobs in the private domain. The corporatist Continental and Nordic traditions were in the direction of giving priority to economic anti-cycle measures as a goal of fighting unemployment by allocating public money to private sectors to saving business and services in trouble.

A new direction in the fight against stagflation came out of an adjusted revision of the combined anti-state and freedom to choose theories propounded by the American economist the Nobel prizewinner Milton Friedman (1962, 1980) and J. A. Schumpeter, the famous German-American economist of innovation (1939). A wave of Friedman's thinking and neo-Schumpeterian thought swept into politics as an introduction to the coming dominant ideology of neoliberalism. Schumpeter offered a microeconomic perspective on the driving forces in a market economy. His anti-state stance was driven with focus was on private enterprises, which created new products, new organization combinations – and entrepreneurs who created those new things as a source of innovation. This theory opposed Keynesian theory. Stable production and aggregate demand were central for Keynes, and the state was responsible for this stability. The critique against the Keynesian top-down welfare-state concept, the notion of the importance of state intervention and social and geographical redistribution of economic resources, was from the standpoint of Schumpeterian thought in the long term bade for an economy because it would lose competitive capacity and growth potential. The neo-Schumpeterian perspective was that state activity in all senses would always suffer from a lack of renewal and necessary innovations (Veggeland 2004).

The Schumpeterian perspective supported the development of deregulation, decentralization, the breakdown of public monopolies, privatization, and an increased orientation towards the market. The OECD therefore made recommendations and some national governments with the Nordic states as acceptance, replied with wide-reaching deregulation and the introduction of a set of market-type mechanisms in the public sector (OECD 2005, Pollitt and Bouckaert 2004). Designed in the framework of NPM extensive institutional reforms were put into effect. The reforms intended the realization of principles of making policy goal-attainment more effective and the outputs amenable to measurements of scientific evaluation. Governance by regulations and management by objectives replaced hierarchal bureaucratic control (Veggeland 2010, 2014).

The United Kingdom, Ireland, the United States, and other Anglo-Saxon states gave priority to policies directed toward fighting inflation and extending privatizating processes in order to fight the stagflation crisis and to clear the ground for innovation and new economic growth. The argument was that growth was a necessity for the revitalization of the modern welfare state. To a certain extent the Nordic governments followed the reshaped Anglo-Saxon model through institutional reforms during the 1980s and 1990s. The first to do so were the countries of the East Nordic administrative tradition, Sweden in particular, and later on the West Nordic countries, Denmark, Norway and Iceland. The typical Continental states followed the neoliberal amendments only incrementally, though under the deregulatory umbrella of the EU (Knill 2001, OECD 2005).

However, high unemployment rates continued to exist as a phenomenon in most of the OECD countries, partly because the Schumpeterian market-orientated innovational strategy for growth led to the extensive closures of old industries. Then, during the 1990s, the new economic policy generated some recovery. The Nordic countries, almost untouched by the stagflation crisis, continued to exhibit a sound economy, with both low inflation and low unemployment. The Anglo-Saxon states of the UK and Ireland showed improvement regarding employment. Statistically, in economic terms, they did better at that time than most of their major Continental counterparts. However, as pointed out by scholars, in the Anglo-Saxon tradition since the 1980s, the labor-market flexibility based on the principle of neo-liberalism generated employment, but many of the jobs created were low-paid and part-time jobs (Einhorn and Logue 2004). Some of the jobs were so low-paid that workers were – and still are – unable to cover their living expenses and therefore need public-security income support. The unemployed part-time workers defined as substantially employed were registered and became numbers in the official labor-market statistics. The financial crisis of 2007/2008 made this situation even worse, and European Anglo-Saxon economies like Ireland collapsed. In the wake of the stagflation and financial crises income statistics reveal a systematic increase of poverty and social inequality in Europe (Piketty 2014).

In this period of economic crisis, the Nordic countries experienced stable job creation and low unemployment. The development of full employment and high employment rate relates to adjustments of the labor force to the labor market by public vocational training and adult life-long education, which generate flexibility in the labor market, namely, flexicurity, a term which indicates added social security as analyzed in this chapter. Thus, this flexibility takes shape differently and with a different outcome compared with the privatized labor-market flexibility that is practiced in the Anglo-Saxon administrative and social tradition and model. Labor-market flexibility in this recent model indicates low job security, low all-around educated labor force, and low wages causing poverty. The Nordic labor-market flexibility of the Nordic model in process is the outcome of its universal welfare-state principles with its social-security arrangements. As already stated this makes the changing of work and workplace low-risk for employees because of the flexicurity approach. The Nordic flexicurity concept does moderate systematic social equality – and additionally high employment rates (EPC 2005, Piketty 2014). In general, balancing socioeconomic policy choices with welfare state realities is not easy, but the Nordic flexicurity approach may be a lesson that can be learned internationally (Midttun and Witoszek 2011).

THE NORDIC MODEL AND NEOLIBERALISM

The unique features of the Nordic model make up a balance between significant contradictory polarities. The model represents, one the one hand, a soft, but productive mode of capitalism, which is highly dynamic, flexible, and adjustable, but, on the other hand, as indicated above, it has an extensive welfare provisions and efficient flexible market regulation, which constitutes flexicurity. It strikes a balance between individualism and organized collectivism not only in the economic labor-market sphere, but also in the civic sphere, where it unites a strong sense of domestic community in welfare provision with the promotion of universal human rights abroad.

Like other countries with small economies, the Nordic countries are highly dependent on open markets to achieve advantages of scale and scope. Yet some observers hold that the advanced welfare rights entail a need for entry restrictions in order to prevent the erosion of the existing legacy. For decades, this model has delivered world-class GDP per capita in the upper range of European performance in the conditions of tough international competition (Midttun and Witoszek 2011).

Since the 1990s, the Nordic welfare and workfare policy has changed and to some extent followed the path of Anglo-Saxon neoliberalism. Iceland has done so to the extreme. In 2007/2008, the time of the outbreak of the financial crisis, Iceland was paying for the fact that the country abandoned the Nordic model ten years earlier. At the turn of the millennium, the Icelandic government embraced Anglo-Saxon Thatcherist belief in privatization and sold off public assets extensively. Thus, private banks in Iceland grew to the point that they controlled nearly ten times as much money as the Icelandic national budget.

At the time, Iceland viewed the Nordic welfare-state concept as an outdated phenomenon. The politicians of the country saw themselves as more progressive than politicians of the rest of the Nordic countries. They introduced low taxes, downsized the welfare state, and gave little consideration of workfare and the growing social inequality coming up among people. Then, in 2008, there was the total collapse of the economy. The collapse of the international established banks of Iceland together with internal banks is said to be the third largest in world history – and it happened in a country with only 300 000 inhabitants. According to the Icelandic expert, Olaf Sigurjonsson, the people of Iceland are now turning to the rest of the Nordic countries once again to see how they can manage their societies through the financial crisis (Mixa and Sigurjonsson 2014).

However, in general, the socioeconomic tradition of the state-friendly Nordic countries created the path that resisted the trend of NPM (Lane 2000) to generate privatization and labor-market flexibility with low-paid and part-time jobs. Although the Nordic countries are similar in being founded along the socioeconomic and administrative state-centered model and having strong employee unions, the Anglo-Saxon model path has nevertheless, to some extent, as the Icelandic case shows to the extreme, has made inroads into the Nordic countries, and with the actual consequence of threatening the Nordic model itself. Mostly this penetration has been empirically observed since the beginning of the new millennium, as right-wing political parties were coming into power. The reforms that ensued introduced and implemented policies designed for the breakdown of public-service monopolies, the exposure of public-sector activities to market competition, and lastly the deregulation and commercialization of public welfare services under the honored slogan of “free to choose” between public and private social services, repeating Milton Friedman’s rhetoric of the late 1970s (Friedman 1980, Veggeland 2014). Currently, the essential universal welfare state and workfare scheme continues as practical policy, however.

Why has the Nordic model become a socioeconomic success? Aspects of the answer have been already given in this chapter. In brief, the answer is qualified good welfare and workfare policies as an inherent and exposed path running out of the model.

Nordic countries political attitudes and economic approaches changed when they were confronted with threats over the fiscal ability in the 1980s and the severe worldwide economic stagflation recession that occurred at the time. Suddenly, increasing unemployment rates, overloaded public budgets, and the globalization of markets became the central issues, which also challenged the Nordic welfare-state model (Veggeland 2007). The situation in Norway was exceptional because this country since the 1970s had a source of growing income from oil and gas, and this provided a cushion against the development of high unemployment. Nevertheless, the economic stagflation crisis of the 1970s was noticeable, and the crisis represented, as indicated above, a fertile ground for new policy thinking and a transformation of public organizations and their service production.

Market solutions and proposals for fewer state-involvement policies arose and were legitimized by the neo-liberal ideology of the Anglo-Saxon tradition and the goals of NPM (Lane 2000). Politicians, the media, and economists began giving positive attention to the actual and potentially increasing welfare role of the market driven by both public and private actors and agencies (Pollitt and Bouckaert 2004).

This new attention often ended as sharp criticism of allegedly inefficient public bureaucracies and monopolies. The criticism of the costly welfare state emanated not from the heavily burdened Nordic welfare state (Veggeland 2009), but rather from the "less advanced" or "less expensive" Western liberal welfare states such as the UK and the USA. The OECD, followed by the EU, legitimized the criticism and skepticism through the wide-ranging report on the welfare state in crisis, and promoted the strong retrenchment of public budgets, the strategy of deregulation, outsourcing instead of in-house provision of welfare services, market-driven solutions in the public sector, and contracting as a new management tool (Veggeland 2004). Modernizing government in this way and performing the reform along the Anglo-Saxon path and NPM principles were the ultimate recommendations. Further, the related neo-liberal ideology stressed the responsibility of individuals for themselves, the freedom to choose social services, security through personal and/or employer health and social insurance, and so forth. From the 1980s on, the international winds of ideological criticism and warnings against universal public welfare and social-security measures reached the Nordic countries. Reforms took place but the retrenchment of public budgets never really became an actual policy. The negative consequences of retrenchment observed in a long row of European states failed to appear (Midttun and Witoszek 2011).

The views of neo-liberalism were adopted and have been ideologically adhered to with very little deviation by the leading Nordic right-wing political parties since the 1980s, and they also practically influenced the social democratic governments in charge during the period. The key point here is the belief in competition and commercialization in order to increase efficiency in the public sector and in the welfare-service sector (Dilger et al. 1997). Constituting an ideological front here is the presentation of individually differentiated needs and rights with the liberating message of freedom to go 'shopping' for services of your own, and a message of inclusion by giving everyone the opportunity to be included in this system of freedom. Neoliberalism has generated its own language that locates views and values of good governance to the market and bad governance views to the state. This list of ideologically blended words, inspired by many scholarly sources and dominant in OECD reports of recommendations on modernization issues, tries to clarify the contrasting views in a context of supremacy and inferior absolutism (OECD 2002). Let us look further to compare the actual and basic external and internal transformations and dilemmas that challenge democratic structures and the universal welfare state of the contemporary Nordic countries.

While the Nordic model is built on an active state and the development of a universal welfare state, the classical economists of the post-war period redefined their theories of what they defined and we have elaborated as 'neoliberalism.' This became an extreme form of political market thinking and anti-state ideology. From the 1970s to the 1990s, neoliberalism burst forth as a comprehensive wave of reforms in the western world, including the Nordic countries especially since the 1990s and after the turn of the millennium (Røvik 2007). The new element that neoliberalism included was liberal approaches with NPM reforms as the flagship, a ship that also sailed with full speed into the Nordic countries. Governmental management by objectives, together with EU/EEA deregulations and re-regulations on a large scale led to a convergence of the Nordic model with EU norms and standards. The labor-market unions weakened but the Nordic “tripartite cooperation” remained. By not following “The Third Way” (a term of Giddens introduced by British Labor Party in the 1990s), the Nordic social democratic governments have saved the tripartite concept of the Nordic model.

Externally we see threats to national democracy. Here is a reference reflecting this specific issue. “We are used to every day when reading the newspaper that international agreements and regulations dictate what national political leaders may or may not do for their citizens. The outcome is that citizens see representative governments as spokesmen for international conventions, organization like the EU and powerful financial/bank interests.” This was a comment expressed by the well-known German political scientist Wolfgang Streeck in *Le Monde Diplomatique*, Norwegian edition 2014. This comment points to a democratic deficit, which concerns all European countries, including the Nordic ones. It undermines the Nordic model with respect to representative and collective power.

Despite the threatening encroachment of market liberalism, NPM reforms, and shadows of international governance, the belief worldwide in the Nordic model is strong. The winner of the Nobel Prize in Economics and regular columnist for *The New York Times*, Paul Krugman (b. 1953), is one of those who argue in favor of the Nordic model. Politically, he belongs to the American left. Krugman, considered a neo-Keynesian economist, is accordingly an exponent of Keynesian interventionist-state “counter-cyclical policy” to stimulate and balance the national and international economy. Part of this interventionism he finds in Nordic mechanisms for social redistribution, and argues for increased taxation of the rich. He rejects the removal of wealth tax, because the removal of this tax will make the richest richer. He claims that the fluctuating economic cycles are best evened out by governmental intervention in the form of demand-side-regulation, welfare investment, and social redistribution. To Krugman neo-liberalism’s promises of free individual choice in all areas of society are a bluff. The right-wing governments, if they wish to preserve the Nordic model, should take this seriously whenever their political rhetoric repeats the slogans “less state,” “free individual choices,” and “least possible prohibitions.”

A neo-Keynesian policy cannot be based on tax cuts, a free labor market, and uncontrolled privatization. What such a policy promotes is governmental and central-planning means. Neo-Keynesian is currently on the rise in Europe and the United States because neo-liberal measures have proven to be inadequate in relation to the creation of economic growth and the solution of crises (cf. the crisis in the EU Eurozone and the case of Iceland).

What is, then, the current Nordic neo-liberal governments’ strategy for democracy, economic stability, and growth? For sure, it is not a neo-Keynesian state-friendly approach. Anchored in market liberalism the strategy facilitates the market, the market, and the market for both the private and the public sector. Furthermore, they also believe in competition and more competition in both the public and private service sectors, besides privatization and smaller government. They also want budget retrenchment and the tightening of public spending followed by tax cuts. Most tax cuts benefit the rich, who, according to classical economic theory, always reinvest their profits, thus creating new jobs. They refer to a much-debated theory first proposed by the economist David Ricardo in 1817, and published under the title ‘Principles of Political Economy and Taxation.’ This theory is old and history has shown it to be wrong. Even Ricardo’s contemporary, Thomas Robert Malthus, declared the theory a failure, pointing out the fact that rich men’s profits more often become an investment in luxury goods than in productive businesses. The neo-Keynesian approach might come up with successful theories being accepted as renewal of practical policies. This approach might save the proper Nordic model again.

Even so, The Economist commented on the Nordic model February 2, 2013, saying that "politicians from both the left and right could learn from the Nordic countries." The main lesson to be learned is not ideological but practical. The state is popular not because it is big but because it works. A Swede or a Norwegian pays taxes more willingly than a Californian because he gets decent workfare, schools, and free health care. The Nordic countries have pushed far-reaching reforms past neoliberal ideology and business lobbies. The proof is there. You can inject limited market mechanisms into the welfare state to sharpen its performance. You can put entitlement programs on sound foundations to avoid beggaring future generations. You need to be willing to state universal rights and to root out all kinds of special interests. You must be ready to abandon tired orthodoxies but keep paths of good ideas across the political spectrum open. The world will be studying the Nordic model for years to come.

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