# The Scandinavian Model: Still an Example for Europe?

UWE BECKER

In the 1970s and 1980s the Nordic countries – Sweden in particular – enjoyed considerable attention as models of a third way between capitalism and socialism. Then in Finland and Sweden, and to a lesser extent in Denmark, came the crisis of the early 1990s, but by the end of the decade Denmark, together with the Netherlands, was once more held up as an alternative model to the Anglo-Saxon way. In the new Millennium Sweden has made something of a comeback, and Finland has arrived as a new model country. While other countries fell into a period of stagnation Scandinavia showed robust growth, moved up into the leading group of innovative countries, maintained its welfare state, and found its way back to high employment – although in the cases of Finland and Sweden not at the levels of the 1980s. Norway's oil revenues give it special status and render it unsuitable for comparison and discussions of models. Should oil prices rise as in recent years Norwegian GDP and hourly productivity will rise too.

What is distinctive about the Scandinavian countries? First, the active welfare state at the center of which stands job creation supported by social security, which in recent years has once more been combined with competitiveness. Second, one might mention the comparatively low social inequality and poverty, and third the corporatism which makes it possible to coordinate economic and social objectives. One has to add the strong social democratic tradition which has pointed the way and, connected with that, the level of unionization (around 80 percent).

The question is whether this represents a model for Europe as a whole, and above all for those countries, such as Germany, France, and Italy, which have serious employment and growth problems. More generally, what can be learned from Scandinavia? Of course, in answering this question it is important to take into account that the model also has weak points, even significant ones, that its positive development is partly due to fortunate circumstances, and that there are differences between individual Scandinavian countries.

## Employment and Social Performance in International Comparison

The high employment level is the most remarkable aspect of the Scandinavian model. With the exception of Finland it is running at around 75 percent (see Table 1) of the working age population (15 to 64 years of age). Only the Netherlands, although qualified by a very high number of part-time jobs, Switzerland, and the Anglo-Saxon countries reach anything like this level (Iceland, which is also Scandinavian but very small, has the highest level). In strong contrast stand Germany, France, and Italy, while Austria has established itself in the upper middle band, and achieved Finnish levels. The picture is similar with respect to unemployment, and here too within Scandinavia Finland performs somewhat worse. This country is still dealing with the collapse at the beginning of the 1990s (see also Table 3, column 1) when not only, as in Sweden, house prices and demand collapsed, but the immensely important Soviet market was for the most part lost. GDP fell and unemployment rose rapidly to over 20 percent. Since around 1995 Finland has improved continuously on all fronts (cf. Kiander 2005).

If one goes into more detail it turns out that Scandinavian long-term unemployment is also much lower than in most European countries. Austria is an exception here, but many potential long-term unemployed are probably hidden due to the very high early retirement there. This suggests that employment rates are more important indicators, because in cares of high employment hidden unemployment in the form of early retirement and disability is naturally lower, as is the number of those discouraged from seeking employment. Furthermore, it turns out that employment of women and of persons between 55 and 64 is also very high – the latter about twice as high as in Austria. As a consequence, the problems with pension financing and unemployment among older workers in the Scandinavian countries are less severe than in the rest of Europe. Also, apart from Norway, the female part-time employment rate is relatively low, above all in Finland, thereby qualifying that country's somewhat lower employment rate. Given that the difference between women's and men's wages is smaller than the European average (cf. European Commission 2003), one may conclude that women have attained economic independence at least to some extent.

Alongside and in connection with high female employment the employment of almost one third of all working people in the public sector

Table 1:

Employment Rates Including Female Part-time Employment (PT), Public Employment (PE), Full-time Equivalent (FE), Standardized Unemployment Rates (SUR), and Long-term Unemployment (LTU≥1 year) (%)

| | *Employment rate, 15–64 year-olds* | | | | | | *FE* | *Employment rate* | | | *SUR* | *LTU* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Total* | | | *Women* | | *Women, PT* | | *15–24* | *55–64* | *PE* | | |
| | *1983* | *1990* | *2005* | *1990* | *2005* | *2005* | *1999* | *2005* | *2005* | *2005* | *2005* | *2005* |
| Belgium | 53.5 | 54.4 | 61.0 | 40.8 | 54.1 | 33.1 | 53 | 27.1 | 28.1 | 18.3 | 8.1 | 51.6 |
| Denmark | 71.8 | 75.4 | 75.5 | 70.6 | 70.8 | 24.9 | 70 | 59.4 | 60.7 | 30.4 | 5.6 | 25.9 |
| Germany | 62.2 | 64.1 | 65.5 | 51.2 | 59.8 | 39.4 | 59 | 42.4 | 39.0 | 11.1 | 9.3 | 54.0 |
| Finland | 73.2 | 74.1 | 68.0 | 71.5 | 66.5 | 14.8 | | 38.5 | 49.9 | 25.6 | 9.0 | 24.9 |
| France | 62.0 | 59.9 | 62.3 | 50.3 | 56.9 | 23.3 | 56 | 24.1* | 39.3* | 23.0 | 9.4 | 42.5 |
| Ireland | 54.0 | 52.1 | 67.1 | 36.6 | 58.0 | 34.8 | 56 | 45.8 | 49.3 | 12.0 | 4.6 | 34.3 |
| Italy | 55.0 | 52.6 | 57.5 | 36.2 | 45.3 | 29.2 | | 26.0 | 30.3 | 16.0 | 8.6 | 52.5 |
| Japan | | | 69.3 | – | 58.1 | 42.3 | 61 | 41.0* | 61.6* | 8.7 | 5.3* | 33.3 |
| Netherlands | 52.0 | 61.8 | 72.0* | 47.5 | 65.0* | 60.9 | 58 | 68.4 | 44.9 | 11.0 | 3.8 | 40.1 |
| Norway | 73.9 | 73.0 | 75.2 | 67.2 | 72.0 | 32.9 | | 52.9 | 67.6 | | 4.6 | 9.5 |
| Austria | 62.9 | 65.5 | 68.6 | – | 62.0 | 29.6 | 64 | 50.7 | 28.9 | 12.9 | 4.4 | 25.3 |
| Sweden | 80.2 | 83.1+ | 73.5* | 81.0+ | 71.8* | 20.8 | 66 | 45.0 | 69.0 | 31.7 | 5.6 | 18.9 |
| Switzerland | 78.2 | 77.2 | 66.4 | 70.4 | 45.8 | | 63.2 | 65.6* | | 2.5 | 38.1 | |
| Spain | | 51.1 | 64.3 | 31.6 | 51.9 | 22.2 | 41.9 | 43.1 | 15.0 | 9.2 | 32.6 | |
| UK | 67.0 | 72.5 | 72.6 | 62.8 | 66.8 | 39.3 | 61 | 59.8 | 55.5 | 18.8 | 5.0 | 24.4 |
| USA | 68.0 | 72.2 | 71.5 | 64.0 | 65.6 | 18.3 | 67 | 53.9 | 59.9 | 15.7 | 6.0 | 11.8 |

* 2004; + break in statistics after 1990

Sources: OECD 1997, OECD 2003, OECD 2006; EU Commission 2005 (in Finland one quarter) is the most characteristic feature of the Scandinavian model. Most women are employed in this sector, particularly in labor-intensive health care, social services, and education (one occasionally hears the expression »state feminism« in this connection). It has not been wise economic policy in combination with labor market programs but this high public employment forms the basis of the high employment in Scandinavia.

The employment-centered welfare state is supported by social benefits and a tax policy based on the principle of equality of condition. For »social citizenship« this equality of condition is more important than equality of opportunity as stressed by liberalism and British New Labour. The Scandinavian model implies the approval of the market – with the exception of Norway in the 1920s revolutionary socialism has always been weak – but it is also critical of it. Corrections in accordance with the equality principle are considered essential (Esping-Andersen 1985). Social benefits are therefore high, income taxes progressive, and both together have a greater redistributive effect than the social systems of almost all other countries (cf. the first two columns in Table 2). Denmark is the most egalitarian country in social terms, followed by Sweden and, at some distance, Finland and Norway. Outside Scandinavia, Austria and the Netherlands are at a level comparable to that of the latter. The situation concerning poverty is similar, although in this regard Austria does not belong to the club of egalitarian countries. Remarkably, poverty in Denmark, Finland, and Sweden has followed the international trend and, accompanied by modest cuts in social benefits (Korpi and Palme 2003), has increased since the mid-1990s.

Table 2 lists the wage replacement rates of social benefits. These are no longer significantly higher than in some other countries in Europe, although the Danish top rate of 90 percent for lower incomes is achieved nowhere else. However, it is the whole package of social benefits and services that is important. Here belong the extensive public childcare facilities such as daycare centers, after-school daycare, and other possibilities to remain in school after hours, available to almost half of all children. In a broader sense the school and training system also belongs to social services. The PISA studies regularly report on the high quality of these systems. Finally, employment protection belongs to social services, since it indicates the extent to which labor has become a commodity. With the exception of Denmark and, with qualifications, Finland, Scandinavian figures correspond – the values in the table are compiled from several

Table 2:

## Basic Social Data: Income Inequality, Poverty Rates (Income lower than 50 % of Median Income) in 1999/2000, Net Wage Replacement Ratio in the Case of Employment (inc. Rent Subsidies) in 2004, and Level of Employment Protection in 2003

| | *Gini-coefficient* | *Percentile Ratio* 90/10 | *Poverty Rates #* | *Wage Replacement Ratios* 2004* *Beginning* | *60 M* | *Level of Employment Protection* 2003** |
|---|---|---|---|---|---|---|
| Belgium | 0.272 | 3.2 | 7.8 (1995) | 61/u | 61 | 2.5 |
| Denmark | 0.225 | 2.7 | 4.3/0.6 | 70/48 | 70 | 1.8 |
| Germany | 0.277 | 3.5 | 8.9/0.6 | 69/12 | 66 | 2.5 |
| Finland | 0.261 | 3.1 | 6.4/1.5 | 70/23 | 65 | 2.1 |
| France | 0.273 | 3.4 | 7.0/–0.4 | 75/23 | 57 | 2.9 |
| Ireland | 0.304 | 4.4 | 15.4/4.4 | 49/15 | 64 | 1.3+ |
| Italy | 0.347 | 4.6 | 12.9/–1.3 | 54/6 | 22 | 2.4– |
| Netherlands | 0.251 | 3.0 | 6.0/–0.3 | 74/24 | 66 | 2.3 |
| Norway | 0.261 | 2.8 | 6.3/–1.7 | 68/36 | 56 | 2.6 |
| Austria | 0.252 | 3.3 | 9.3/1.9 | 63/9 | 57 | 2.2– |
| Sweden | 0.243 | 2.8 | 5.3/1.6 | 75/28 | 63 | 2.6 |
| Switzerland | 0.267 | 3.2 | 6.7/–1.9 | 77/24 | 69 | 1.6 |
| Spain | 0.303 | 4.1 | 11.5 (1995) | 67/21 | 49 | 3.1 |
| UK | 0.326 | 4.2 | 11.4/0.5 | 54/6 | 53 | 1.1 |
| USA | 0.357 | 5.4 | 17.1/0.4 | 54/6 | 36 | 0.7 |

\# The figure after the dash gives the change in percentage points since the mid-1990s.

* Average of different household types and income groups. The first column gives the replacement rate at the beginning of unemployment, as well as the duration of the payment of unemployment benefits (u = unlimited); the second column gives the percentage of last-earned income which one can receive after 60 months' unemployment in the form of unemployment or social benefit.

** The higher the value (maximum 6), the stricter the protection; + or – indicate significant changes.

*Sources:* Förster and Mira d'Ercole 2005; OECD 2006 (wage replacement); OECD 2004 (level of employment protection).

components – to the continental European average which is described by liberal criticism as both rigid and an obstacle to growth and employment.

Danish »flexicurity« deserves special attention. It describes a system which combines relaxed employment protection, high wage replacement rates in the case of unemployment, and the obligation of the unemployed to participate in retraining. The basic form of this system has existed since 1994 and has been modified several times. A further element of this system comprises special leaves of up to one year for educational or parental purposes (up to 1999 there was also a sabbatical year in the strict sense of the term) with job retention and payment of (now no more than) 60 percent of the wage replacement usual in the case of unemployment. Eligibility requirements are a minimum age of 25 years and several years of employment experience. In the international discussion of flexicurity this element is barely mentioned – perhaps because in contrast to the looser employment protection it is costly and does not fit the dominant paradigm. However, it is a central element because many unemployed take up jobs left temporarily vacant by those on special leave (on the set of issues as a whole cf. Compston and Madsen 2001; Abrahamson 2006).

## … and the Weaknesses

One of the most criticized aspects of the Nordic model is the high public sector employment and the connected costs. Generally speaking, high public spending and taxes are a thorn in the side of liberals, but high public sector employment in Scandinavia is perceived as a particularly egregious example of inefficiency. According to ECB data the Swedish public sector is currently half as efficient as that of the USA, and the Danish public sector is not much better (*The Economist,* 9.9.2006, p. 27). Even if this is the case one might ask whether public sector employment is justified for the sake of employment – at least as long as the market sector remains in a position to pay for it. Ultimately, unemployment is not cost free, and public employment of the Scandinavian sort also guarantees poorly qualified workers an honest income. Efficiency is a necessary economic criterion, but not the only one. And social democratic dominance – even if social democrats currently are not in power – means that considerable weight is given to social criteria.

A further point of criticism is the high level of sick leave in Scandinavia, particularly in Sweden, which is said also to illustrate inefficiency and employment levels and to distort employment levels. In fact, Sweden loses 26 days due to sick leave per year and employee, Norway 21, and Finland 15. Not far behind these frontrunners are Belgium and France with 16 days, the Netherlands with 14 and the UK with 13 days, while Denmark, with an average of »only« 10 days is at the same level as Austria. In the USA (9 days), Germany (8), Switzerland (7), Italy (7), and Ireland (6) sick leave is even lower (Rae 2005a, p. 5). Above-average sick leave points to hidden unemployment and an inflated employment rate. For example, the Swedish total of registered unemployment and sick leave of a week or more is as high as the corresponding German total (Hesselius 2006, p. 28).

Without making value judgments, it must be emphasized that there is some form of hidden unemployment in virtually all countries. Often early retirement takes large groups of people out of unemployment, – sometimes the disability scheme (as in the Netherlands and Italy), while in Sweden the number of persons unable to work due to disability has recently been growing strongly (cf. Hesselius 2006, p. 10f); and in Norway (somewhat less in Belgium, France, the Netherlands, and the UK) it is the high level of sick leave. In respect of Denmark one might mention the abovementioned special leaves of up to one year (purely quantitative in relation to employment and unemployment; apart from the fact that these leaves can be classified as social achievements) and in the USA the high number of persons incarcerated, so that alongside the special case of Switzerland, only Finland remains as a country in which there is no category of hidden unemployment particularly to be stressed. Finnish employment, however, is lower than in the other Scandinavian countries and unemployment is higher.

Superficially, one could connect the high sick leave, to the high percentages of female and older working people and the low level of part-time employment. In relative terms the latter groups record the most days off due to sickness, and full-time employment offers less individual flexibility than part-time employment. In that case it remains unclear, why the Danes take far fewer days off due to sick leave than Swedes and Norwegians, and why the Dutch, with their very high part-time rates and low employment among older workers, have a very high sick leave rate. It is more probable that the cause must be sought in lax regulation. »Getting sickness benefit appears to be much easier in Sweden than in other countries,« writes Rae (2005a, p. 13). And perhaps a culture has grown in which sick leave is considered »normal«. It doesn't appear to have much connection with health in Sweden because, with an average of only three visits to the doctor a year (Rae 2005b, p. 13), they are among the most healthy nations.

A last criticism, to be addressed more briefly, concerns Sweden's economic competitiveness. Thanks to its oil Norway is very rich, Denmark belongs to the countries with the highest per capita incomes in the world, but in the meantime the former model country Sweden has been overtaken, not only by some German *Länder,* but also, if only slightly, by the UK, Ireland, Belgium, Austria, and the Netherlands (*The Economist,* 9.9.2006, p. 26). And Finland, which never belonged to the richest countries, has almost caught up with Sweden. The criticism is justified, but the long process of Sweden's alignment to the average up to the beginning of the 1990s is less a sign of decline than one of catching up on the part of other countries. The following years indeed illustrate a period of crisis – in 1992 alone 600,000 workplaces were lost (Plougmann and Madsen 2002, p. 6). Since about 1995, Sweden has, however, like Denmark and Finland, experienced an unbroken upswing, combining traditional social features with a new competitiveness.

## Competitive Despite Everything – Even If with a Little Luck!

Scandinavia is doing almost everything that, according to neo-classical textbooks, – will lead inevitably to poor growth and reduced competitiveness: taxes are high, social services generous, the public sector is large and to some extent inefficient, wage dispersion is relatively flat, and employment protection is, apart from the special case of Danish flexicurity, by no means weak. Moreover, on this point the situation in liberal countries such as the UK and the US is similar, wage development is almost classically Keynesian, running parallel with that of productivity. The sole exception was Finland in the second half of the 1990s. Growth, competitiveness, and employment have not suffered due to these »sins.« All four countries are of course competitive in their own ways, although Norway, which is here largely excluded from comparative analysis, apart from its oil and some other, smaller branches, is not competitive at all (see appendix).

Obviously, a country can maintain itself in these areas even without excessive wage restraint of the Austrian or German (and in earlier years

Dutch) variety. Decisive for competitiveness, alongside the very important factors of quality and specialization, are unit wage costs, as well as the related productivity development. Disadvantages on the part of Denmark, Finland, and Sweden are not apparent here – the two latter countries even record particularly strong productivity gains. In addition, demand – both foreign and domestic – is important for economic growth and so also employment.

If one looks closely at Table 3 it turns out that there appear to be several ways to competitiveness and growth: the way via increased productivity per hour (UK, Sweden, and the USA 1996–2005), the way via wage restraint (Belgium and the Netherlands 1996–2000; Spain 1996–2005; Austria 2001–2005), and a combination of the two factors (Finland 1996–2000; Ireland 1996–2005; Japan 2001–2005; Austria 1996–2000). There are of course cases in which neither wage restraint (Germany and Italy 2001–2005), nor a combination of it with a strong productivity increase (Japan 1996–2000) meet with success. The simple cause of this phenomenon could be that additional factors, for example, the costs of German reunification, play a role and that in relation to growth all ways have advantages and disadvantages, which balance out in the final analysis.

The sole unambiguous factor is private consumption. When it is high, growth is also high. Some qualifications in relation to Denmark 1996–2000 are needed, but French, Dutch, Austrian, Swedish, US, UK, Finnish, Irish, and Spanish data verify this causal nexus. In all these cases – except for the UK, the US, and Sweden – the increase in consumption is clearly higher than wage growth. Conversely, where private consumption increases only modestly, as in Germany and the Netherlands, economic growth is very low. Since wages and consumption are often disconnected, in light of the abovementioned thesis that several ways lead to economic growth this is not necessarily a call for a Keynesian wage policy, but rather for paying attention to demand as an independent factor in macroeconomic processes.

The decoupling of wages and consumption since the mid-1990s means that consumers have been breaking into their savings or have increasingly been getting into debt. The latter has happened above all in those countries in which house prices have risen strongly since the mid-1990s – in the Anglo-Saxon countries, Scandinavia, and the Netherlands; at the end of the decade also in France, Italy, and above all Spain (cf. OECD 2006c, p. 18) – and that offer the opportunity of tax relief on mortgage interest payments. This is the case in the US, the Netherlands (up to

Table 3:

## Basic Economic Data (Annual Changes in %)

| | *Economic growth (p/C)* | | | *Private consumption* | | *Productivity (GNP/hour)* | | *Real wages* | | *Unit wage costs* | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *91–95* | *96–00* | *01–05* | *96–00* | *01–05* | *96–00* | *01–05* | *96–00* | *01–05* | *96–00* | *01–05* |
| Belgium | 1.3 | 2.4 | 1.1 | 2.3 | 1.1 | 1.6 | 1.1 | 0.8 | 0.6 | –0.4 | –0.3 |
| Denmark | 2.0 | 2.4 | 1.0 | 1.5 | 2.1 | 1.1 | 1.3 | 1.8 | 1.5 | 0.0 | –0.1 |
| Germany | 1.5 | 1.9 | 0.7 | 1.8 | 0.4 | 2.0 | 1.3 | 1.5 | 0.1 | 1.0 | –0.2 |
| Finland | –1.4 | 4.4 | 2.0 | 3.5 | 2.8 | 2.8 | 2.0 | 0.8 | 1.6 | –1.0 | 0.9 |
| France | 0.9 | 2.5 | 1.0 | 2.6 | 2.1 | 2.1 | 1.5 | 1.4 | 1.3 | –0.3 | 0.0 |
| Ireland | 4.1 | 8.5 | 5.3 | 7.6 | 4.2 | 5.3 | 3.0 | 1.9 | 2.5 | –2.7 | –0.3 |
| Italy | 1.2 | 1.9 | 0.1 | 2.5 | 0.7 | 1.1 | 0.3 | 0.0 | 0.6 | –1.1 | 0.4 |
| Japan | 1.2 | 0.8 | 1.3 | 0.9 | 1.4 | 2.1 | 2.4 | 0.0 | –0.2 | –0.4 | –1.6 |
| Netherlands | 1.4 | 3.1 | 0.2 | 4.0 | 0.3 | 1.1 | 0.9 | 0.9 | 1.3 | 0.0 | –0.2 |
| Norway | 3.3# | | | | | 2.3 | 2.3 | 2.1# | | | |
| Austria | 1.5 | 2.8 | 0.9 | 2.2 | 1.0 | 2.1 | 1.0 | 0.6 | 0.2 | –0.7 | –0.9 |
| Sweden | 0.1 | 3.1 | 1.6 | 3.2 | 1.6 | 2.5 | 2.4 | 3.5 | 1.9 | 1.0 | 0.1 |
| Switzerland | 1.3# | | | | | 1.6 | 0.9 | 1.1# | | | |
| Spain | 1.3 | 3.6 | 1.6 | 4.1 | 3.5 | 0.2 | 0.8 | –0.1 | 0.1 | –0.6 | –1.2 |
| UK | 1.5 | 3.0 | 1.7 | 4.0 | 2.9 | 2.3 | 1.8 | 2.3 | 2.4 | 0.1 | 0.3 |
| USA | 1.2 | 2.9 | 1.6 | 4.4 | 3.1 | 2.2 | 2.5 | 2.4 | 1.8 | 0.5 | –0.2 |

# 1993–2003

*Sources*: European Commission 2006: 132ff; OECD 2006b (growth and real wage development in Norway and Switzerland; productivity)

100 percent), and to a lesser extent in the other Anglo-Saxon countries, Spain and Scandinavia. In this group the strong house price increase has not only it resulted in the so-called wealth effect, but also in the option of engaging in consumption with mortgage loans subject to tax benefits. This was taken up particularly in the Netherlands (cf. Becker 2005, p. 1092ff) as well as in the UK, Spain, and the USA, but also Denmark and Sweden. In Denmark, according to the OECD (*Financieel Dagblad,* 4.7.2000; Madsen 1999, p. 55) between 1994 and 1998 a third of the increased consumption could be attributed to this. In subsequent years the Danish economy cooled down (the period from 1996 to 2000 presented in Table 3 does not show this), among other things because since 2000 only 32 percent instead of 46.4 percent of mortgage interest could be set off against tax (cf. www.finansministeriet.dk).

House price trends, tax benefits for mortgages and related demand bubbles have of course not been the result of wise policies but simply favorable circumstances in which the Scandinavian countries shared. It was also fortunate that Denmark found North Sea oil in the early 1990s which accounted for a one-percent growth in GDP (Andersen 1997, p. 46). Besides, all European countries since 1993 have benefited from the revival of the US economy and in recent years from the emergence of China and India. The quality image of Scandinavian, particularly Danish products (»Danish design«), is, even if historically it demanded hard work to achieve it, a further fortunate circumstance. As in the case of Swiss products it makes possible high premium prices (one might mention such products as Carlsberg beer, Bang & Olufsen or Lego) and positions the producers to some extent outside international competition. Finally, one might ask whether the rise of Nokia from an unknown TV and tire producer to global number one in mobile telephony is the product of the coincidence of a number of lucky circumstances. But other interpretations are also possible.

Politics has not been uninfluential. We have already mentioned the Danish reform program of 1994 which introduced flexicurity with its three elements. Whether this promoted economic dynamism or not remains an open question, but it cannot be denied that it had some effect on employment (cf. Green-Pedersen and Lindbom 2005). And the fact that wages in Scandinavia (apart from Finland 1996–2000) have risen more strongly than in the rest of the European continent is due not only to the higher level of unionization, but also to lessons learned in the crisis at the beginning of the 1990s, above all in Sweden and Denmark. There too, particularly under pressure from the Maastricht criteria, most economists made the turn to neo-liberalism and monetarism, but Keynesian approaches receded later and never to the same extent as they did in other countries (cf. in respect of Sweden Blyth 2002, chapter 7). Therefore, it had some influence on the analysis of this crisis, which was interpreted as a financial and debt crisis, but also as a crisis based on inadequate private demand (Lindvall 2004, p. 118ff). The bursting of Sweden's (and Finland's and, to some extent, Denmark's) house-price bubble and mortgage-induced demand had in any case demonstrated that demand should not be neglected. In Denmark this led to an easing of interest rates in 1993, and in Sweden to debates on how demand could be stimulated and indirectly to the legitimation of union demands for considerably higher wage increases – though employers opposed this.

In Sweden this was one of the reasons for the continuation of the break of 1988 (on account of the trade union/social democratic plan to establish workers' funds) at the central level of social partnership and in general a model of social partnership fraught with strike action. In this respect Scandinavian corporatism is far less friendly than that of the German-speaking countries or the Benelux states (cf. Aarvaag Stokke and Thörnqvist 2001, p. 249). It represents an interplay between open conflict and talking to one another, namely the consensualism of two strong parties.

Where they do talk to one another the topic of competitiveness is at the top of the agenda, above all in Finland (cf. Kettunen 2004) and Sweden (cf. Elvander 2002). The times in which competitiveness could be restored by means of devaluations of the national currency are over, due to the opening up of markets and accession to the EU. It is also clear that the expensive welfare state can be borne only by a highly productive market sector. These insights were translated into action and as a consequence the two countries now find themselves highly ranked in the innovation league. R&D expenditure – at more than 4 percent (Sweden) and 3.5 percent (Finland) – is double that of Austria and even higher than that of the US, while the more small-business reliant Denmark has less specially designated R&D expenditure and has to rely more on informal innovation occurring in the course of the work process. Although it does not rank at the top of the Innovation Index in the narrow sense Denmark is in fourth place in the World Economic Forum's Global Competitiveness Index, behind Switzerland, Finland, and Sweden (WEF 2006). One ought not to exaggerate the importance of these indices and also keep in mind their liberal undertones, but they do demonstrate nevertheless the attempts above all by Finland and Sweden to attain productivity growth by means of innovation. Real development in terms of productivity and unit wage costs (see Table 3) attests to these efforts.

In this perspective Nokia's spectacular rise can also be understood as something for which the way was prepared both politically and in terms of corporatism. Traditionally, Finland was a country of wood processing and this sector is still the strongest (see appendix), but ICT is closing up on it. And this area consists above all of Nokia, which (in 2002) accounts for 3 percent of Finnish GDP, contributes 20 percent to exports, and carries out 35 percent of R&D. And this does not include the performance of domestic suppliers (Etla 2003). Despite these imposing figures Nokia employs only about 1 percent of Finnish workers and there are of course major dependencies connected with the eminent position of this one group. In Sweden the diffusion of economic strengths is much greater.

## Brief Conclusion

Productivity increases exceeding GDP growth and relocation of simple work to low-wage countries confront the West with major employment problems. The liberal solution is to solve these problems by Americanization, that is, labour market flexibilization, the extension of the low-wage sector and related cuts in the social safety net. Alternatives include the Dutch part-time model and above all the Scandinavian model of high public employment. An important lesson from the Scandinavian experience is that this model is financeable when it is tied to a highly productive market sector. Scandinavia shows that extensive public sector employment, a generous welfare state, workers' rights, high employment protection, and wage increases tied to productivity are consistent with competitiveness. The divergent Danish model merits particular attention, though it should be considered in all its aspects. Denmark and Sweden are the two model countries, and also lead the way in respect of such things as environmental protection. Because it is an immigration country with its attendant problems and so comparable to Austria, Germany, France, and the Benelux states, Sweden, despite all its weaknesses, is probably still *the* model par excellence. Whether other countries can follow this model depends on their willingness to finance it.

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## Appendix:
## Comparative Advantages of Some OECD Countries in 2002

| | *Important industry sectors with comparative advantages** | *Exports as a % of GDP, Export shares of goods and services, service sectors with comparative advantages – if available* | | | |
|---|---|---|---|---|---|
| Denmark | Non-electronic machinery (14 %; 1.45); chemicals (13 %; 1.13); miscellaneous manufacturing (12 %; 1.4); processed food (12 %; 2.83); fresh food (11 %; 2.68) | 44.2 | 68.6 | 31.4 | Transport |
| Finland | Wood products (26 %; 8.32); IT & consumer electronics (19 %; 1.86); non-electronic machinery (13 %; 1.27); basic manufactures (9 %; 1.28) | 38.2 | 88.0 | 12.0 | |
| Germany | Transport equipment (23 %; 1.80); non-electronic machinery (17 %; 1.71); chemicals (14 %; 1.26); miscellaneous manufacturing (9 %; 1.02); basic manufactures (9 %; 1.18) | 35.5 | 86.1 | 13.9 | Insurance |
| France | Transport equipment 21 %; (1.67); chemicals (16 %; 1.43); non-electronic machinery (11 %; 1.12); basic manufactures (8 %; 1.07); processed food (8 %; 1.89) | 27.3 | 78.1 | 21.9 | Tourism |
| Italy | Non-electronic machinery (19 %; 1.93); miscellaneous manufacturing (12 %; 1.38); basic manufactures (11 %; 1.5); clothing (6 %; 1.68); leather products (5 %; 3.67); textiles (5 %; 1.86) | 27.0 | 81.0 | 19.0 | Tourism |
| Netherlands | Chemicals (18 %; 1.59); IT & consumer electronics (16 %; 1.49); processed food (12 %; 2.82; miscellaneous manufacturing (11 %; 1.02);); fresh food (10 %; 2.25) | 61.8 | 79.6 | 20.4 | Transport |
| Norway | Minerals (64 %; 5.66); basic manufactures (8 %; 1.06); fresh food (5 %; 1.17) | 41.8 | 75.9 | 24.1 | Tourism |
| Austria | Non-electronic machinery (18 %; 1.85); basic manufactures (13 %; 1.71); transport equipment (12 %; 1); miscellaneous manufactures (11 %; 1.3); wood products (9 %; 2.97) | 52.1 | 67.9 | 32.1 | Tourism |

| | *Important industry sectors with comparative advantages** | *Exports as a % of GDP, Export shares of goods and services, service sectors with comparative advantages – if available* | | | |
|---|---|---|---|---|---|
| Sweden | Non-electronic machinery (16 %; 1.97); wood products (15 %; 4.78); transport equipment (13 %; 1.06); chemicals (12 %; 1.05); basic manufactures (10 %; 1.40); miscellaneous manufacturing (9 %; 1.03) | 43.3 | 78.4 | 21.6 | |
| Switzerland | Chemicals (33 %; 2.87); miscellaneous manufacturing (21 %; 2.46); non-electronic machinery (17 %; 1.72); basic manufactures (8 %; 1.11) | 44.2 | 78.6 | 21.4 | Tourism |
| UK | Chemicals (15 %; 1.32); non-electronic machinery (13 %; 1.33); IT & consumer electronics (13 %; 1.25); transport equipment (13 %; 1.0); minerals (12 %; 1.01); miscellaneous manufacturing (11 %; 1.23) | 25.8 | 69.4 | 30.6 | Financial services and insurance |
| USA** | Transport equipment (16 %; 1.28); non-electronic machinery (14 %; 1.46); chemicals (13 %; 1.15); electronic components (12 %; 1.32); miscellaneous manufacturing (11 %; 1.32); fresh food (6 %; 1.38); [IT & consumer electronics; 10; 0.93] | 9.7 | 71.5 | 28.5 | Tourism, financial services |

* The first figure in parentheses relates to the share of the relevant sector in total exports (excluding the service sector); the second figure denotes the export-import ratio; comparative advantage is given in the case of a ratio higher than 1.

** If one separates IT and consumer electronics, the USA also has comparative advantages in IT.

*Sources*: ITC 2004; WKO 2003: 13; WTO 2003.