

The Developmental Welfare State in Scandinavia

Lessons for the Developing World

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Acronyms

ESO	Expert Group on Public Finance
GDP	gross domestic product
ILO	International Labour Organization
ISSA	International Social Security Association
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of Petroleum Exporting Countries
UNRISD	United Nations Research Institute for Social Development

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Summary/Résumé/Resumen

Summary

Is there a Scandinavian route from the era of semi-feudal societies and absolutist states to contemporary societies with democratic regimes, affluent economies and comprehensive welfare states? This paper traces crucial steps in the history of the Scandinavian welfare state from its early beginnings in the late nineteenth century to the present time. Particular attention is drawn to the general adherence to the principle of universalism.

It shows that development was piecemeal toward the post-Second World War comprehensive welfare state characterized by the principle of universalism and a strong role for the state and local government. A strong social role for the state was not incommensurate with economic development—economic growth and the institutionalization of comprehensive social security and welfare services programmes *could* develop hand in hand.

The construction of the welfare state was gradual and a continuous balancing act between stimulating economic development and promoting social justice. During periods of economic downturn and setbacks in the most recent decades, modifications were made to programmes and benefit structures, and some programmes were expanded.

The Scandinavian welfare state has remained comprehensive and, on the whole, rather generous. Although there has been criticism of its scope, the welfare state remains popular, and most politicians from various political parties will defend it on moral, political and economic grounds. The Scandinavian historical experience cannot be copied, and the characteristics and goals of the Scandinavian welfare state may not be universal, but the Scandinavian route to a modern democratic welfare state does still offer some general lessons as to interrelationships between political, economic and social development.

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Résumé

Y a-t-il un modèle scandinave à suivre pour passer de sociétés semi-féodales et d'Etats absolutistes aux régimes démocratiques, aux économies prospères et aux Etats providence complets de l'époque contemporaine? Ce document retrace les étapes cruciales de l'histoire de l'Etat providence scandinave, depuis ses débuts, à la fin du XIX^{ème} siècle, à nos jours. L'accent est particulièrement mis sur l'adhésion générale au principe d'universalisme.

Il montre que l'évolution qui a abouti, après la Deuxième Guerre mondiale, à un Etat providence complet, acquis au principe d'universalisme et caractérisé par un Etat et un gouvernement local forts, n'a pas été linéaire ni très cohérente. L'engagement social de l'Etat n'a pas été étranger au développement économique—la croissance économique et l'institutionnalisation de programmes complets de sécurité sociale et de services de protection sociale *ont pu* aller de pair.

L'Etat providence s'est construit peu à peu, en s'efforçant constamment de concilier développement économique et justice sociale. Pendant les périodes de récession économique et de déconvenue des dernières décennies, des modifications ont été apportées aux programmes, dont certains ont été élargis, et à la structure des bénéficiaires.

L'Etat providence scandinave continue à offrir une protection sociale complète et reste, dans l'ensemble, assez généreux. Bien que l'étendue de son action ait été critiquée, il reste populaire, et la plus grande partie de la classe politique, tous partis confondus, le défend pour des raisons morales, politiques et économiques. L'histoire scandinave n'est pas reproductible, et les caracté-

ristiques et objectifs de l'Etat providence scandinave ne sont peut-être pas universels, mais le cheminement suivi par la Scandinavie pour parvenir à l'Etat providence de démocraties modernes permet cependant de tirer des enseignements généraux quant aux rapports entre l'évolution politique et le développement économique et social.

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Resumen

¿Qué trayectoria han seguido los países escandinavos para pasar de la era de las sociedades semifeudales y los estados absolutistas a las sociedades contemporáneas caracterizadas por regímenes democráticos, economías prósperas y estados de bienestar general? En este documento se analizan las etapas fundamentales de la historia del estado de bienestar que prevalece en los países escandinavos, desde sus comienzos a finales del siglo XIX hasta la actualidad. Se presta particular atención a la adhesión general de estos países al principio del universalismo.

El documento muestra que el desarrollo fue gradual hasta lograr el estado de bienestar general posterior a la Segunda Guerra Mundial, caracterizado por el principio del universalismo y por el importante papel que desempeñan el Estado y el gobierno local. Que el Estado tuviera un papel social importante no era incompatible con el desarrollo económico—el crecimiento económico y la institucionalización de amplios programas de servicios de bienestar y de seguridad social *podían* ir de la mano.

La construcción del estado de bienestar fue gradual y era necesario mantener un constante equilibrio entre la estimulación del desarrollo económico y la promoción de la justicia social. Durante los períodos de cambio desfavorable de la coyuntura y de dificultades económicas en los últimos decenios, se modificaron los programas y las estructuras de prestaciones, y algunos programas se ampliaron.

El estado de bienestar de los países escandinavos sigue siendo general y, en su conjunto, más bien generoso. Aunque se ha criticado su alcance, sigue siendo popular, y la mayoría de los políticos de diversos partidos lo defenderán por motivos morales, políticos y económicos. La experiencia histórica de los países escandinavos es única e irrepetible, y las características y objetivos del estado de bienestar de estos países pueden no ser universales, pero la trayectoria que han seguido para lograr un estado de bienestar democrático moderno siguen ofreciendo algunas lecciones generales con respecto a las relaciones que existen entre el desarrollo político, económico y social.

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Introduction

There has long been a “developmental” accent to welfare policy in Scandinavia, and there are obvious similarities – as well as differences – between the notion of the developmental state of the pre-1989 “Third World” of the post-war era and the historical origins of the advanced welfare state in the far north of Europe. Hence, in a century-long perspective, a strong social and democratic state has not been antithetical to modern values underpinning the security and well-being of the market: personal freedoms, private initiative and individual property rights – and thus private entrepreneurship and rapid industrialization (Kuhnle et al. 2003; see also Hort and Kuhnle 2000). A “middle” and later “third way” that combined a capitalist market economy with active state intervention contributed to create big, successful international firms as well as growing affluence among the great majority of the population. Thus, the early Nordic (pre-)welfare state shared many of the characteristics typical of successful examples of the later developmental state of the global South.

Throughout the twentieth century, the scope of social planning in Scandinavia continuously expanded, with the aim of achieving balanced economic and social development – that is to say, economic growth as well as social justice. Thus, fighting poverty went hand in hand with state institution building for social and economic growth as well as political democracy, and was pioneered by broad-based popular social movements (Olsson 1993). New, tax-financed social programmes were always launched with a strong emphasis on their impact on macroeconomic efficiency and individual work incentives. For instance, the breakthrough of social policy during the late nineteenth and early twentieth centuries had a competitive edge directed against the emigration of skilled labour to North America, while the housing and population policies of the 1930s had a “productivist” emphasis on the upbringing and maintenance of the future and current labour force, respectively (Myrdal and Myrdal 1934). However, it was not until the emergence of the full employment or active labour market policy of the 1950s and 1960s and the expansion of “the public sector” – comprehensive state education as well as public health – that a thoroughly coherent developmental perspective on economic prosperity and social change became part and parcel of welfare state philosophy (Kuusi 1964; see also Therborn 1986). Thus, at least since the last quarter of the twentieth century, this has characterized welfare state theory and practice in general from child to disability policy – or “from the cradle to the grave”, as the saying goes, about the universal Scandinavian welfare model. Moreover, during the rather painful reconstruction of the welfare state during the last decades of the twentieth century, the relationship between economic growth and social development was an important topic on the public agenda throughout Scandinavia. So far, however, the policy balance and conflict between efficiency and equality have in most cases been resolved and maintained in the five Nordic countries.

Owing to the intertwined history of the Nordic geographical area and the subsequent common cultural patterns, the concept of Scandinavia is often used in a broad sense to include Denmark, Finland, Iceland, Norway and Sweden. The area constitutes almost one third of the total area of Western Europe, but only about 5 per cent of its population. Its common history originates from the sea. In the past, these states or territories were not separated, but rather bound together by the sea, which connected them with the European core areas and the rest of the world. The Scandinavian region became linked to the European world economy when the Hanseatic, Dutch and British merchants found their way to these northern shores. Even today, the sea is of tremendous importance to the area (Alestalo and Kuhnle 1987).

With their small populations and relatively scarce resources, Scandinavian countries have developed various institutions and cultural patterns of their own; in many studies of contemporary societies, they are considered to be distinct examples of developed welfare states. In each of the many attempts to classify welfare states into meaningful typologies, all Scandinavian (Nordic) countries end up in the same category, but with varying labels: “social democratic”,

“Scandinavian”, “Nordic”, “protestant social democratic”, “non-right hegemony”, “encompassing” and so on (Arts and Gelissen 2002).¹

The authors subscribe to the view that there is such a thing as a Scandinavian-type welfare state, whose core has been characterized as lying in “broad public participation in various areas of economic and social life, the purpose of which is to promote economic efficiency, to improve the ability of society to master its problems, and to enrich and equalize the living conditions of individuals and families. In social policy, the cornerstone of the model is universalism” (Erikson et al. 1987:vii). By universalism is meant that the Scandinavian countries have set out to develop a welfare state that includes the entire population. In short,

global programmes are preferred to selective ones: free or cheap education for all in publicly owned educational institutions with a standard sufficiently high to discourage the demand for private schooling; free or cheap health care on the same basis; child allowances for all families with children rather than income-tested aid for poor mothers; universal old-age pensions, including pension rights for housewives and others who have not been in gainful employment; general housing policies rather than “public housing” (Erikson et al. 1987:vii-viii).

Although the Swedish case has been identified as the empirical embodiment of the Scandinavian type of welfare state since the mid-1930s, in fact all five Nordic countries took off in the same developmental direction during the 1930s. They all got their crisis compromises in that decade, leading to new tension-reducing institutional solutions for mediation between agricultural and industrial interests, as well as between the interests of organized labour and employers. This is the Nordic *Sonderweg* (special way): crucial steps, unique in Europe, toward building a broad political consensus on a platform of state-regulated socially modified capitalism were taken before the Second World War (Kildal and Kuhnle 2002).

Kuhnle (1990) lists 11 components of welfare systems that—taken together, but with partial exceptions (Iceland in particular in terms of size of the public sector)—set Scandinavian/Nordic countries apart from other welfare states. Among these are the relative size of governmental welfare provision; size of welfare employment (broadly speaking); public employment as a proportion of total employment; redistribution; high legitimacy for state/public welfare provision; and universal citizenship-based social rights. “Their universal embrace has anchored the Scandinavian welfare states’ claim to a special status” (Baldwin 1990:51–52), but the principle of universalism is also part of the Beveridgean post-Second World War development in Britain and, indeed, Scandinavian post-war developments are partly inspired, or accelerated, by W.H. Beveridge (1942) and the introduction of the National Health Insurance scheme in the United Kingdom in 1948.

Esping-Andersen and Korpi (1987) label the Scandinavian welfare states “institutional welfare states”—as a contrast to “marginal” or “residual” welfare states and the “corporatist” or so-called “reciprocal” ones—based on earlier attempts at classification of welfare state models (see, for example, Wilensky and Lebeaux 1958; Titmuss 1974). A few years later, Esping-Andersen (1990) renamed the various categories of welfare state models, and replaced “institutional” with “social democratic” (welfare regime). The underlying view is that the institutional—alias social democratic—model prescribes the welfare of the individual to be the responsibility of the social collective; all citizens to be equally entitled to a decent standard of living; and full social citizenship rights and status to be guaranteed unconditionally (Esping-Andersen and Korpi 1987:40). The hallmark of the contemporary Scandinavian institutional welfare state is expressed in terms of three essential features: a comprehensive social policy; a social entitlement principle that has been institutionalized (social rights); and social legislation that is solidaristic and universalist in character.

¹ In the Nordic context, the concept of the welfare state normally covers social security (insurance) schemes (old age, occupational injury, unemployment, sickness, child allowances); family benefits (for example, paid parental leave); maternity benefits; social assistance; public health system; labour market policies; (basic) education; social services (old age institutions, home help for the elderly, nursing homes, kindergarten and daycare institutions); and (public subsidies for) housing.

Is there a “Scandinavian” route to contemporary societies with democratic regimes, affluent economies and comprehensive welfare states? Even if the historical experience of a country or region cannot be duplicated, are there any general lessons to be drawn from the experiences of the Scandinavian countries as to how a coherent development of democratic governance, a productive economy and universal welfare provision and income security can occur with relative success? How have these developed welfare states coped in recent periods of economic setbacks? How have comprehensive welfare states been justified in economic, political and moral terms? Are Scandinavian welfare states, as well as the institutions and principles on which they are built, robust in an era of increasing economic globalization and political-cultural pressures for more emphasis on privatization and individualization?

These are some of the questions that will be discussed below. First, a historical outline: what can be considered the “Scandinavian route” to modernity, and which political choices in social policy were made when new social challenges appeared in the wake of industrialization, urbanization and population movements in the relatively poor Scandinavian countries toward the end of the nineteenth century?²

A Scandinavian Route

Even though the history of the Scandinavian (Nordic) countries is not uniform—and especially the distinctive and dramatic characteristics of Finnish development during the 1918 civil war and the threat of a rightist takeover in the early 1930s should be kept in mind—it can nevertheless be argued that these countries resemble each other along some crucial lines of development (Alestalo and Kuhnle 1987). In the Scandinavian region, Denmark was the first imperial power centre in the Middle Ages, competing with the Hanse towns for marine supremacy in the Baltic and extending its rule from the Atlantic to Estonia. Sweden became the second imperial power in the area, expanding across the Baltic during the sixteenth and seventeenth centuries. In the seventeenth century, Sweden was “the OPEC of its day”, having near monopolies of high quality iron, tar and “poor man’s gold” —or copper (Wallerstein 1980). When Russia and Prussia began to recover from their increased weakness in the seventeenth century, Sweden was unable to maintain its power.

By the year 1809 Sweden had lost all its territories across the Baltic and the Gulf of Bothnia and, even if it gained dominance over Norway in the form of a ‘personal union’ as a result of the peace agreement in Kiel in the aftermath of the Napoleonic Wars in 1814, it never again reached supremacy in the Baltic or in the Scandinavian area. The loose federation between Norway and Sweden lasted until 1905 (Alestalo and Kuhnle 1987:7).

Sweden had to cede Finland to Russia, and only in the wake of the Bolshevik revolution did Finland achieve full sovereignty in 1918. During the first decades of the nineteenth century, Denmark, Norway and Sweden appeared to occupy a peripheral position in the expanding capitalist world system. They became increasingly involved in the British markets, their economies were one-sided and their production structures were tied to primary commodity production. However, their structures, especially agricultural ones, had begun to develop in a way that was contrary to the peripheral pattern prevailing in Eastern Europe.

In short, the true key to understanding the relatively peaceful path to modern democracy in Scandinavia is the relatively strong position of the peasants during the pre-industrial period and the challenges of commercial agriculture. Important inter- and intracountry variations in the positions of the peasantry existed in the Scandinavian countries during the seventeenth and eighteenth centuries, but differences in landholding practices began to diminish as a result of increased peasant proprietorship. This process has been labelled the “individualization of agri-

² The authors basically refer to developments in four Scandinavian (Nordic) countries: Denmark, Finland, Norway and Sweden. Iceland is generally not included in this overview.

culture" (Østerud 1978); it began in Norway in the latter half of the eighteenth century and spread to the whole of Scandinavia during the nineteenth century. The freeholders formed a majority of the peasantry in Norway by the middle of the nineteenth century. This individualization of agriculture took place before the true agricultural revolution of farming methods and the extensive change to market and money economy in Scandinavia. The family farm became the basic production unit, promoted by farm partition and increased peasant farming. Furthermore, since there had not been extensive industrialization, the peasantry remained in the countryside and the independent peasants began to emerge as a class. This development was very dissimilar to that of the British where large-scale farming became dominant. The difference between Scandinavia and Eastern Europe also became apparent: in the latter, the landlords maintained an agricultural system with large manors and quasi-feudal obligations of the rural population (Østerud 1978:149).

The agricultural revolution in Denmark, Norway and Sweden in the nineteenth century was gradual. The commercialization of agriculture, the intrusion of the market economy and the various agricultural innovations spread from the southern and southwestern core regions to the north. On the whole—with the sole exception of Finland, whose agricultural development was more sudden—the process whereby the Scandinavian peasantry evolved into market-oriented farmers was a long and tranquil one. The important thing was that the agricultural revolution started before the industrial breakthrough (Jörberg 1961:11; Alapuro 1981:275–277) and that it occurred in a situation where the individualization of agriculture was already taking place (Alestalo and Kuhnle 1987:10). The rise of a class of independent farmers would later form one of the cornerstones of the Scandinavian tripolar class structure (see also Valen and Rokkan 1974:333). The pre-industrial cleavage between the independent rural population and the urban aristocratic bureaucracy has long been considered the main reason for the widespread "peasant identity" and a base for the economic, social and religious movements that originated among the peasantry in the Scandinavian countryside (Castles 1978:14, 138).

The rise of independent farmers, leading to the establishment of peasant political parties all over Scandinavia during the first two decades of the twentieth century, may be seen as one factor that was conducive to developing ample support for the principle of universalism. A comparison should also be made with the Scandinavian red-green crisis compromises³ between peasant and social democratic parties, and between agricultural and industrial interests, in the 1930s. Castles (1978) explains his comparative findings on the relative strength of the social democratic parties and their success in creating the welfare state from the 1930s onward by citing the relative weakness of the political right. This weakness is basically linked to the cultural and economic cleavage between urban elites and rural peasant producers—itself further accentuated in the quest for franchise and parliamentary reforms when the urban and peripheral radicals were united to carry out democratic reforms. Subsequently, a multiparty political structure with distinct liberal and agrarian parties emerged, making for a fragmentation of the non-socialist forces in the early decades of the twentieth century. An alternative, or supplemental, interpretation is that the rather unique (in the European context) political strength of the peasants and agrarian interests made for early adherence to and support for, the principle of universal social security and welfare programmes (see, for example, Kangas 1991:137–169).

During the whole of the nineteenth century, the Scandinavian countries remained predominantly agrarian. Even in the 1920s and early 1930s, agriculture was the most important source of employment in each of the Scandinavian countries. There were important differences between them as to development of the industrial and service sectors of the economy (Alestalo and Kuhnle 1987:12–18), but some similarities are worth noting because they set the region apart from the experience in the rest of Europe. The arrival of the industrial revolution had different social effects than it did in other European centres. The bulk of social problems existed in rural

³ "Red-green compromises" refer to compromises made between workers and peasants, and between their political representatives, the peasant parties and social democratic (labour) parties, which implied economic relief measures for peasants and a "social democratic" economic policy to fight industrial unemployment. The third element in the tripolar class structure is the bourgeoisie, that is, the employers or big business.

areas, and the Scandinavian cities managed to avoid the more destructive dysfunctions of industrial capitalism. Cities were never overcrowded with slums, and the exploitation of the industrial labour force never reached the magnitude it did in capitalist cities (Pollard 1981:233).

During the interwar years, Scandinavian countries remained highly dependent on the British market. However, the subsequent decline of the British economy caused an increase in the flow of exports to Germany – and from the smaller Scandinavian countries to Sweden. During the late 1930s, 75 per cent of Denmark's total exports, over 50 per cent of Finland's and 40 per cent of both Norway's and Sweden's were to Germany and the United Kingdom (Jörberg and Krantz 1976:400–404; Wallenstein et al. 1973:31–40). All four of these countries experienced diversification of their production, export and import structures during the period of rapid economic growth that took place after the Second World War, but this trend was almost universal among highly developed countries during this period. Compared with the United Kingdom and the United States, the level of economic development, as measured by gross domestic product (GDP) per capita, was considerably lower in each of the Scandinavian countries throughout the nineteenth century – including the last few decades when the social security role of the state was put on the political agenda across Europe.

During the period up until the outbreak of the First World War, the four Scandinavian countries were among the fastest growing economies in Europe (Bairoch 1981) – though Finnish development lagged behind that of its neighbours. Rapid development in the 1950s – and especially in the 1960s and early 1970s – brought Finland's economic level close to that of the other Scandinavian countries. During the “golden age of capitalism” – the 1950s and 1960s (Maddison 1977:103–104, 1980:247) – the Scandinavian countries were among the richest in the world, at about the same time as the “mature” universalist welfare state was institutionalized. Economic growth did not take place at the cost of welfare state growth, or vice versa. It is ironic that from the late 1980s Britain, which was decidedly the most important accelerator of economic growth in Scandinavia in the nineteenth and early twentieth centuries, had a lower GDP per capita than its former northern economic peripheries (Alestalo and Kuhnle 1987:17).

Early Social Policy Choices

After 1850, *die Arbeiterfrage*, or “the social question”, frequently appeared in parliamentary discussions and deliberations in Denmark, Norway and Sweden. Although modest attempts at worker insurance following the emergence and growth of industrialization had been attempted in several countries, it was Germany under Otto von Bismarck that introduced a new concept of state-legislated social insurance in 1883, with all industrial workers being insured against sickness in a compulsory programme. The beginning of the modern Scandinavian welfare states can be traced to the last decades of the nineteenth century. As was the case elsewhere in Europe, this development was generally associated with growing industrialization, but spurred on by the political innovation of large-scale social insurance schemes introduced in the German Reich during the 1880s. It is worth noting that the first major social insurance laws were passed at about the same time, in the course of just three years (1891–1894), in Denmark, Norway and Sweden. Just as noteworthy, however, is the fact that the very first social insurance laws served different purposes in these countries, and different institutional solutions were found (Kuhnle 1996:233). Before the turn of the century, the following social insurance or income maintenance laws were passed in Denmark, Norway and Sweden.

Denmark

- 1891 – Old age pension law: means-tested pensions for persons 60 years or older, financed by the state and communes through general taxation.
- 1892 – Sickness insurance law: public subsidies to recognized voluntary insurance funds.
- 1898 – Employers' liability act: in order to ensure workers compensation in case of industrial accidents.

Norway:

- 1894—Accident insurance law: industrial workers were compulsorily insured by employers, who were also to finance the scheme.

Sweden

- 1891—Sickness insurance law: public subsidies to recognized voluntary insurance funds.

During the subsequent two decades, an employers' liability act (1901), and an old age and invalidity pension law (1913) were passed in Sweden; an unemployment insurance law (1906) with subsidies to voluntary insurance funds (trade union-based) and a compulsory sickness insurance law for low-income earners and their families (1909) were enacted in Norway; and an unemployment insurance law (1907), with subsidies to voluntary funds, was passed in Denmark.

In their study of the historical development of welfare states in 12 Western European countries, Flora and Alber (1981) came to the conclusion that the variation in levels of socioeconomic development at the time of the establishment of social insurance systems was too great to allow any generalizations about thresholds, except the obvious ones that predominantly agricultural societies probably would not adopt social insurance systems, and that highly industrialized and urbanized societies *would* have such schemes.

The shift in the concept of poor law relief to that of social insurance was a dramatic and significant one in terms of attitudes to public responsibility for certain types of risks or individual misfortunes. Scandinavian debates and to some extent, social policy developments were influenced by German legislation (Kuhnle 1981, 1996), but decisions varied as to priority of insurance needs, form of organization, extent of population or worker coverage, and whether insurance should be voluntary or compulsory.

Of the Scandinavian countries, Denmark was definitely the most urbanized and industrialized. Norway clearly lagged behind Denmark, but was more developed than Sweden in terms of levels of urbanization and industrialization (Kuhnle 1981). In a Scandinavian context, the simple logic-of-industrialism argument appears to hold at a general level: Denmark was a likely candidate to head the development of the modern welfare state, and it did. But what is the logic of being the *most* industrialized country and introducing an old age pension law (Denmark) and being *less* industrialized and introducing accident insurance for industrial workers (Norway)? Generally speaking, early social legislation is not easily explained by various indicators of democratic development (Flora and Alber 1981).

The democratization factor is multidimensional, and it is not obvious which dimension (extension of franchise, principles of parliamentary rule or principles of electoral participation and representation) should logically be of greatest importance for social policy development. The overall variations in levels of democratization and the similarity in timing of the first laws among Scandinavian countries reduce the explanatory power of the democratization argument. But the combined effect of socioeconomic development and a relatively politically mobilized electorate may to some extent account for the fact that Denmark was on the whole more active in the field of social policy legislation throughout the 1890s than its Scandinavian neighbours. Since the Scandinavian pattern does not hold in a broader European context, one should of course raise a cautious warning against the simple structural explanations of industrialization and democratization. Such an analysis can only take us part of the way to understanding the when, how and for what purposes social legislation came about. However, it is likely that pressures for democratic change existed, and that authorities and representatives had to take this factor into account when discussing and responding to demands for political action in the area of social policy (Kuhnle 1996:234–235, 257).

A step in the right direction would be to look more closely at the processes of decision making and the role of international diffusion of the political innovation of social insurance. In the histori-

cal context of Scandinavia in the latter half of the nineteenth century, such a perspective would indicate that the impetus gained from the politically innovative German social insurance legislation was not sufficient to induce the early Scandinavian legislation in the 1890s, but that it probably represented an important factor. The “social question” had been on the agenda for some time; associations for economists were created in all three countries in the 1870s and 1880s, and the idea of an active role for the state was generally accepted among elite groups from different sectors of the society. Economics of a positive or normative kind became firmly established as a university discipline and forums for informed scientific and public political debate were created.

Parallel to, and interlinked with this development of, a positive social science, was the expansion of a state apparatus for the registration of social problems and the collection of new social statistics. Both the interest in and the actual capacity to collect social data increased significantly during the latter half of the nineteenth century. The production of public and official statistics was firmly institutionalized. The capacity to collect and the actual collection of relevant data for social legislation—for example, data on the scope and activities of voluntary associations—were factors explaining the variations in priorities of the first laws enacted across the Scandinavian countries.

One lesson to be drawn from the early social insurance legislation in Scandinavia is that without data and without a statistical basis, legislation was not likely, and state capacity (in the ability to provide statistics) was important for legislative efforts (Kuhnle 1996).

Another historical lesson is that social insurance programmes were originally modest and limited and were gradually extended. All first laws were limited in terms of coverage, except the Swedish old age and disability pension law of 1913—which, with minor exceptions, was universal in scope, although with varying rules of eligibility for variegated benefits (for example, means testing). All early pension laws in the Nordic countries prescribed income means-tested pensions; it was only after the Second World War that the right to receive a national pension independent of a means test was instituted—thus making the schemes truly universal (1946 in Sweden, 1957 in Finland and Norway, 1964 in Denmark and 1965 in Iceland). The Danish pension scheme of 1891 has been described as universal (Knudsen 2000:9, 21), but this stretches the concept of universality too far: only deserving poor people at the age of 60 or more, who had not received poor relief during the previous 10 years, were entitled to a pension (Kuhnle 1981).⁴ Industrial accident insurance, first introduced in one form or other between 1894 and 1903, covered only industrial workers (for example, fishermen in Iceland), but was gradually extended to cover all employees (Denmark, 1916; Sweden, 1927; Finland, 1948; Norway, 1958; Iceland, 1965). Sickness insurance was made voluntary in the first legislation in Denmark and Sweden in 1892 and 1891, respectively, while Norway started out in 1909 with a compulsory insurance that in principle covered all wage earners below a fixed, relatively high-income limit, thus proving much more supportive of the principle of universality than legislation in the other Nordic countries.

The importance of this principle of universality is clear from the following example. In 1909, Norway became the first country in the world to introduce the family-friendly principle in sickness insurance: the spouse (generally, the wife) and children of the employee/worker were automatically insured without having to pay an extra premium (Kuhnle 1983). Thus, a much larger part of the population than insurance statistics indicated was in fact covered. Other European countries only introduced corresponding family-friendly schemes from the 1930s onward. After the Second World War, however, Nordic schemes were finally made truly universal, encompassing all citizens (Sweden, 1955; Norway, 1956; Iceland, 1956; Denmark, 1960; Finland, 1963). With the exception of Norway, unemployment insurance has been voluntary in the Nordic countries, making it less universal than other schemes. In Norway it has been compulsory since 1938, adopted for nearly all wage earners and organized by the state. However, any unemployed person in the other Nordic countries can claim economic assistance based on some kind of means test.

⁴ Although it is not widely known, Iceland was first among the Nordic countries to introduce an old age (and disability) relief or pension law: the parliament enacted a means-tested scheme for old and weak persons outside the poor relief system as early already as 1890. This law has also been seen as a model for the Danish law of 1891 (Berner 1894).

It was during the postwar period that the cornerstones of the modern welfare state were laid. Where previously Scandinavia had hardly differed from international trends, the new period gave rise to a uniquely Scandinavian model. This model is characterized by considerable inter-Nordic convergence (Esping-Andersen and Korpi 1987:47).

The postwar construction of the welfare state went through two phases: the first was characterized by the general acceptance and establishment of universal population coverage (or relevant category of population) with a flat-rate benefit system. The second phase, from the 1960s, is marked by the introduction of earnings-related and adequate benefits, and thus also maintenance of the status (and to a larger extent the income) achieved while gainfully employed. Since the 1960s, social care services have been greatly expanded at the local government level all over Scandinavia—for example, kindergartens and institutional or home help care for the elderly. Also, since the 1970s, paid parental leave schemes have been established and greatly extended to become the most generous schemes in the world.

Public Collective Responsibility and Universalism

Two characteristics of the Scandinavian type of welfare state are of prime importance and were visible from early on: public responsibility for welfare provision and the principle of universal coverage based on the idea of social rights. If we consider education as part of the welfare state, the Nordic countries stand out as relatively early proponents of a universal education. An early step toward democratization and universalization of education was the demand for general literacy for all—women as well as men. This “need” or “demand” was in principle created in the sixteenth century when, with the coming of the Reformation, the then two Nordic kingdoms of Denmark-Norway-Iceland and Sweden-Finland became Evangelical Lutheran, and the church took responsibility for making the population literate.⁵

The introduction of a general and compulsory system of elementary education came in the nineteenth century; it was partly influenced by the ideals behind the American and French revolutions. Elementary schools became the responsibility of local authorities and every citizen had the right to an elementary education of a certain length and of a broader secular content than the former church schools had offered (Sysiharju 1981:420–421). Denmark was first, with its Public Education Act of 1814, which introduced seven years of compulsory education and obliged all municipalities to set up primary schools (Flora et al. 1983:567). Sweden followed, introducing a law covering compulsory elementary education of an unspecified length, in 1842 (Flora et al. 1983:613). Next came Norway with compulsory education for all children from seven to the age of confirmation (about 14), legislated in 1848 (Flora et al. 1983:608). Finally, in principle, a system of general elementary schools was established by legislation in Finland in 1866 (Sysiharju 1981:421).

Before the idea and institution of social insurance came firmly onto the agenda in European countries in the 1880s, the responsibility and role of states and governments since the sixteenth century consisted of developing and maintaining state-supported welfare or poor-relief programmes. By the seventeenth century, virtually every European state had some sort of centrally established public welfare programme (Leichter 1979:22), among which the Elizabethan Poor Law of 1601 is probably the best-known case. The aim was not always simply paternalistic or moral/religious, but also to maintain law and order.

⁵ Tim Knudsen (2000) has searched for the genesis of the Scandinavian universalistic welfare state. He repudiates the common social democratic explanation, or explanation by other political groups for that matter, and concentrates on the importance of the state in the development of the Scandinavian welfare system. A main focus is the state's capacity to perform a welfare policy. This was built up by the Protestant Church, which became the kingdom's instrument in carrying out its new duties caring for the poor and sick after the Reformation.

Early welfare measures, particularly health, were also related to the doctrine of mercantilism, thus the “national interest” required state intervention in the area of public health (Leichter 1979:22). A healthy population was considered good for the creation of national wealth and strength. Public health was one of the first areas in which the state began playing an active role, motivated not least by the empirical fact that epidemic diseases such as cholera, typhus and smallpox tended to be socially indiscriminate, affecting rich and poor alike.

The first public health laws were introduced in 1832 in France, and in 1848 in England (Leichter 1979:31). The provision of free, state-supported and state-administered medical assistance to the *needy* was introduced as a reaction to industrialization and urban-related health problems in the nineteenth century. In England, such assistance was supplied under the poor laws, but at a social and political price: until 1885, requesting free medical assistance resulted in pauperization (that is, losing one’s political rights and being subject to placement in a workhouse). France was one of the first nations to provide free medical treatment and hospitalization for the needy. It did so in 1893 with the National Law for Free Medical Assistance (Leichter 1979:32). Norway and Sweden were among the countries that, by the latter part of the nineteenth century, employed doctors to provide free or inexpensive medical services to the needy—those without means—and to supervise public health programmes (Leichter 1979:32). This early selective legislation for the needy can—at least *post factum*—be looked upon as a step toward universalizing public health care.⁶ The Nordic countries have a long tradition of health and medical services. Denmark passed a health law in 1858, followed by Norway in 1860, Sweden in 1874 and Finland in 1879—all of which introduced control over and regulation of health and hygiene by local authorities.

Why has the principle of universalism—and public responsibility—become so prominent not only in education and health, but also, as outlined above, in social security and social care provisioning? Goul Andersen (1999) has listed general arguments that have been used in academic and political debates on universal (general, adequate) welfare schemes. Arguments against such schemes are that they are too expensive; taxes are too high, with the resulting negative effects on the market; less social equality is achieved, leading to inefficient priorities; a culture of dependency is created, as well as overly high expectations among citizens; and transaction costs are increased. Arguments in favour of universal programmes have been that they are market conform (making for fewer negative incentives for saving, employment, and so on), administratively simpler and non-stigmatizing; they do not encourage abuse; they create greater social equality, community feeling and social cohesion; and they increase citizens’ resources and thus their autonomy.

Many of these pros and cons can be found in political debates and government documents at various times in the Nordic countries. What follows is a list of the arguments in favour in distinct, broader categories and a discussion of those used in favour of universal programmes. Some possible structural and contextual factors that may have been conducive to universalism in Scandinavia are also presented.

Arguments in favour of universalism

The basis for universalistic Nordic welfare states, empirically a post-Second World War phenomenon, can be traced to both idealistic and pragmatic ideas promoted and partly implemented in many early examples of social insurance legislation immediately before and after the turn of the twentieth century. Arguments in favour may tentatively be grouped into four main categories.

⁶ Based on works of Palme (1990) and Goodin and Le Grand (1987), Hatland discusses the development of the pension system according to the allocation principles of “need”, “work merit” or “citizenship”, and reports that no European states provided universal benefits in their first social security legislation (1992:104–108). Moreover, he states that universalism is first of all developed in countries that initially legislated means-tested benefits and services—seldom in countries with initial legislation based on work merits.

Community building

Early social security programmes were initiated concomitant to political and economic “modernization”, in an era when state and nation building were at the top of the agenda for state leaders in European countries, and when national identity and community building was important. New social groups pressed for political inclusion and, whether this fight was successful or not, social inclusion was considered important both by authoritarian state leaders (Austria and Germany) and by more democratically oriented leaders (Scandinavian countries, for example). Early programmes did not include all groups (although the Swedish pension law of 1913 came close); certain groups (the non-employed; the economically well-off; the morally “unworthy”) were excluded on various grounds, but one might say that the idea of universalism was at least a latent element of the “nation-building” project.

In Norway, the concept of a “people’s insurance” appeared around 1900 and, although the terms “people” and “all citizens” (or “all residents”) were not synonymous at the time, an intended (or unintended) seed was sown. Indeed, among its proposals in 1894, the first parliamentary worker’s commission in Norway put forward the idea that “because of the greatness of the cause and the interest it has aroused, the pension scheme should cover the entire population” (Hatland 1992:55, translated from Kildal and Kuhnle 2002). In the days before the First World War, important voices considered welfare and national efficiency complementary; welfare was supposed to prevent the waste of human resources in a highly different, unequal and “class-saturated” society.⁷

Risk exposure

Protection against social risks brought about by a century of turmoil, war and change—and, not least, by the novel idea of prevention—contributed to the recognition of the ideas of social rights and universalism (Titmuss 1968). “We are all in the same boat” is a metaphorical description of this risk situation. Every citizen is potentially exposed to certain risks, and all capable citizens should share responsibility for meeting welfare needs arising from such risk exposure. For instance, in 1918, the non-socialist government’s proposal for an old-age and disability pension covering all workers, rich and poor, was justified by the society’s risk pattern; only very few citizens could afford a long-lasting loss of income, and thus nearly the whole population had an interest in equalizing the risks. In this respect the Norwegian non-socialist parties went against the international trend (except for Sweden) and implemented “class insurance” for the less well-off (Hatland 1992:56). Moreover, the high degree of universalism in “population coverage” also went against the Norwegian social democratic party, which, as late as 1946, proposed an old-age pension restricted to workers below a certain income limit. Soon after (in the same year), however, the social democratic idea of a “people’s insurance” was transformed into a universal idea and implemented as a universal child allowance (Hatland 1992:70).

It might be alleged that socialist or social democratic parties in the 1880s had a solidaristic vision of universal social programmes. In 1885, for example, it was felt that “the state should guarantee a general old-age pension with state subsidy for all classes of society” (Det Norske Arbeiderparti 1918:11, translated in Kildal and Kuhnle 2002). However, at that time it implied (selectively) improving the life chances of workers and the poor and not the idea of all classes and citizens being part of public programmes offering benefits to everybody, which became part of post-Second World War social democratic programmes.

The well-known Beveridge report, *Social Insurance and Allied Services* (1942), sought to establish “a comprehensive programme of social reform directed to deal not only with Want but with the four other giant evils of Disease, Ignorance, Squalor and Idleness” (Beveridge 1942:10). The universalistic ambition of the report—its aim to expand the risk pool from covering particular classes to

⁷ A maturing of the nation-building argument has been extended in recent years to reach beyond the borders of the national communities, especially in Western Europe, where a “European identity” is consciously being nurtured in the headquarters of the European Union. Already in the mid-1950s, a Nordic social union was established to promote not only a Nordic identity, but also—more pragmatically—a common Nordic labour market.

embracing all citizens—immediately made it a success. It inspired, for instance, the design of the Norwegian White Paper on a National Insurance Scheme, which was presented in 1948 (Seip 1994:152–153).⁸

Human dignity

Early social programmes tended to exclude “unworthy” people (beggars, drunkards, “lazy good-for-nothing people”) from coverage without causing much controversy at the time. Only after the Second World War did this concept lose ground concomitant to the rise of the concept of human rights (civil, political and social) in the Universal Declaration of Human Rights in 1948: all citizens are “equal” or of equal worth. According to Titmuss, an essential historical reason for adopting the twin concepts of social rights and universalism in welfare politics was to remove the humiliating loss of status, dignity and self-respect that went with exclusion from programmes and entitlements. “There should be no sense of inferiority, pauperism, dignity or stigma in the use of a publicly provided service; no attribution that one was being or becoming a ‘public burden’” (Titmuss 1968:129).

According to Jose Harris (1994), Beveridge’s biographer, the Beveridge proposals were mainly the result of his long-term aversion to the Poor Law, selectivity and all forms of means-tested benefits. He fought the ethic of “clientage, concealment, and calculated improvidence” that he assumed would ultimately corrupt the whole society (Harris 1994:26).

Furthermore, in Norwegian socio-political debates, the dignity argument was salient, expressing first and foremost a deep dissatisfaction with the existing poor-relief system, which offered paltry help in a highly paternalizing and stigmatizing way to a heterogeneous group with a range of different problems (Kildal and Kuhnle 2002). Thus, on several occasions in the 1950s, the Norwegian social democratic Prime Minister Einar Gerhardsen justified his proposal for moving from a means-tested to a universal old-age pension with dignity arguments; old people’s self-respect and social standing were even more important than economic equalization (Hatland 1992:74). This argument was also salient in the justification of a universal child allowance in 1946, highlighting as it did the positive effects of not distinguishing between children of poor and rich families.

The other, more pragmatic, contention was that the administrative costs of keeping the wealthy outside the system would eat up the resources saved by income limits—an argument that belongs in our fourth and final group.

Economic and bureaucratic efficiency

The principle of universal social programmes—no selectivity on moral or economic grounds—has also been argued for on a pragmatic basis. This was the case in Norway in the 1950s, for example, when the conservatives and other non-socialist parties pressed for the reform of the means-tested old age pension in favour of a universal (flat rate) pension because as many as 75–80 per cent of all the aged received means-tested pensions. To make pensions universal—a citizen’s right—it was argued, would save huge amounts of administrative costs. As far back as 1949, the Conservative Party (*Høire*) in Norway was the first to make the aim of a universal pension scheme a part of its programme (Sejersted 1984:528). Other arguments often heard in these debates include the claim that means testing penalized the will to work and save, and the

⁸ Lowe (1994) claims that, contrary to conventional historical accounts, the report’s success was in fact only short-lived, both in Europe and in Britain; a remarkable disparity exists between the report’s ideal of a welfare system where ordinary people could experience freedom from poverty, guaranteed as a right to adequate resources without means testing, and its practical implementation. The new social security system’s six main pillars (Beveridge 1942:paragraph 17) were never implemented (the “adequacy of benefit” and “the unification of administrative responsibility”), soon abandoned (flat-rate contributions and benefits) or heavily qualified (comprehensiveness and classification) (Lowe 1994:120–123). Why it never became a practical blueprint for the post-war British welfare state is a complex and interesting question, which however is outside the scope of this paper. Although the reason for the rejection or failure to implement many of the report’s recommendations may be found in the inconsistencies of the report itself, another not unimportant reason may also be structural in nature, relating to the normative basis of the British society; the lack of a cultural “soundboard” that may have existed in Scandinavia where Beveridgean ideas, more or less openly referred to, gained stronger support in practice.

problem linked to deciding the pension amount; and that varying municipal practices undermined the legitimacy of the means-testing arrangements.

Structural and contextual factors conducive to Scandinavian universalism

Arguments are often contextual, and some social and political contexts may historically have been favourable for pro-universalism. It is likely that certain social-structural conditions may have been more conducive to fostering arguments in favour of universalism than others, and that such conditions were historically more prevalent in Scandinavia than elsewhere. Four possible “favourable” factors are presented below that, independently or in combination, may have created a political climate for universalism in Scandinavia – or put the region on the right track toward achieving that goal.

Historical-institutional prerequisites

The early fusion of church and state bureaucracies since the Reformation in the 1500s made for a more unified and stronger public interest in and responsibility for welfare matters in general, and citizens would direct their welfare demands toward (central and/or local) government. Local communities had a long, pre-Reformation history of responsibility for poor relief or support. There was no “competition” between church and state for the provision of education and health services in the modern state- and nation-building period as was the case in many other countries of Catholic Europe, or where there was a mixture of Protestant and Catholic strongholds. And there was limited space for market and other non-governmental solutions.

The later development of universal programmes might also be interpreted as the result of piecemeal, pragmatic learning from experience of policies and their shortcomings. But – and this may be important – some early institutional solutions for social security programmes might have been more easily transformed into universal programmes than other early ones. For example, early means-tested pension programmes were easier to transform into universal citizenship-based programmes than pension schemes based on work merit or employment record (see also Palme 1999; Hatland 1992). Thus, early institutional solutions and structures make certain later reforms, adjustments and extensions easier than others, and help justify the prevailing image of “Nordic exceptionalism”.

Egalitarian pre-industrial society

The Scandinavian countries are characterized by relatively egalitarian pre-industrial social structures, early predominance of independent or relatively independent peasants, historically early enfranchisement of peasants, and the formation of separate agrarian political parties creating party systems distinct from those of other European countries. Such parties gained a key role in the power play and horse trading about public policies in general, including welfare/social policies. Peasants gained a relatively stronger political role, and a more important role as taxpayers and potential beneficiaries of public policies. Peasants were critical of public outlays in general, and particularly of outlays or programmes from which they would be excluded as beneficiaries, which made it more difficult to outline social security policies covering only industrial workers.

The socialist or social democratic forces were weak at the time of the industrial take-off and the political setting was more conducive to searching for and defining universal solidaristic welfare solutions than class solidaristic solutions. For example, the first old age relief/pension laws were passed in Iceland (1890), Denmark (1891), Sweden (1913), Finland (1936) and Norway (1937); and the first sickness insurance law was introduced in Norway (1909) – although elements of selectivity and means testing were present and “unworthy citizens” were excluded in these first laws.

Cultural homogeneity

The combination of relatively egalitarian social structures, small and relatively homogenous populations in terms of ethnicity, religion and language, and a long historical tradition of public/communal responsibility for welfare issues, made universal social programmes more likely than in inegalitarian, culturally heterogeneous and fragmented societies. However, over time, the idea of universalism also gained strength beyond Nordic borders—circumstances changed and lessons could be learned from historical/foreign examples. Changing social structures and changing patterns of public-private interplays over time could also weaken universalistic ideas and institutions in societies where the majority of the population might be defined as well off. Such a situation may have occurred in present-day Scandinavian societies where support for differentiation of welfare services and pension schemes, “freedom of choice”, and more favourable attitudes toward supplemental private solutions in this area have become stronger—but without threatening strong, fundamental popular support for universal welfare policies.

Extraordinary crises

Although the idea of universal social security and health and welfare programmes was to some extent vented in the late 1800s, and was promoted in International Labour Organization (ILO) documents (see, for example, Perrin 1969) and in parliamentary committee reform proposals (in Norway, for example) in the 1930s, it was only after the Second World War that universal programmes were actively and comprehensively introduced in Scandinavia (and also in Britain, see above). The war experience itself has been mentioned by many⁹ as an important driving force behind solidaristic, universal social policy solutions, meaning that the devastation of war brought leading political opponents closer together in their fight against Nazism and occupation, and was conducive to forming a broader common value platform for the prospective peace era (Kildal and Kuhnle 2002).

Why universalism?

Quite independent of context, arguments in favour of universalism can often be powerful and—once universalistic institutions have been implemented, and experiences and lessons can be drawn—the worth or benefit of the principle of universalism may be assessed independently of specific historical prerequisites, and ideas and institutions can be diffused and planted in new contexts and in other political systems. Thus, the question that ought to be asked is whether the principle of universalism serves certain desirable social values and political goals. One might argue that, if the values of relatively egalitarian income distribution, comparatively little poverty, high levels of employment, political stability and steady economic growth or development are set high on the agenda, the Scandinavian welfare states have been somewhat successful. But have comprehensive welfare states evolved at the price of weak economic development? Are Scandinavian welfare states—and the historically important principles they build on—seriously challenged at the present time?

The Economics of the Welfare State: The Moral Dimension of the Welfare State or Social Solidarity

During the early post-war period, not only in Scandinavia but all over Western Europe, there was considerable consensus—among organized interests on the labour market as well as between political parties of various “colours”, but not least within the profession of economists—regarding the role of state involvement in the economy. The Keynesian welfare state actively intervened in the workings of the markets, in particular the labour market, and heavily regulated certain sectors of the economy (the health system, education, and so on). Central government “indicative” planning was part and parcel of the “mixed economy” characterized by the overall ambition to increase economic growth, facilitate structural change, balance inflation and full

⁹ For example, Titmuss (1968); Seip (1986); and Goodin and Dryzek (1987).

employment, and achieve a rise in the standard of living, including a more even distribution of resources or a fair share for the less privileged sectors of the population. The very goal of economic activity was to satisfy human needs in the population at large.

Thus, the result was a livelier activity on the part of the government in the fields of both consumption—pension and social insurance systems—and investments, in particular in schools and hospitals, and the public sector grew in comparative importance. In the early postwar period, the share of the public sector in the total economy grew as increases in both investments and consumption were greater in the public sector than in the private. Local government investments expanded the most as schools, hospitals and health clinics were erected all over Scandinavia, and the number of public employees increased considerably as these welfare state institutions grew in significance (for comparative statistics on public employment in recent decades, see Kuhnle et al. 2003). Moreover, the rise in private consumption was restrained as new resources to finance the growth of the welfare state were developed or increased in importance. Hence, the role of an efficient system of tax collection became a more urgent task as the tax burden—the total of all taxes and contributions that go to central and local government—increased considerably during the first decades of the post-Second World War period.

In the social policy debate of the 1980s and 1990s, the deeper moral aspects of welfare policy have come under scrutiny once again. Many commentators and researchers argue that, if the welfare system grows too large, it risks perverting incentive structures in both working life and society in general. Welfare breeds a dependant underclass. Scholars have pointed to what they consider to be excessively generous sickness benefits, and to the manifold opportunities for drawing disability pensions, and they claim that this excessive generosity has resulted in various forms of overutilization and overinsurance. For example, in the Southeast Asian context, Lee Kuan Yew (2000) has maintained that the assumption by the state of far-reaching responsibilities for the well-being of citizens leads to a moral weakening of the various networks of civil society—families, neighbourhoods—and that the persons receiving assistance are relieved of responsibility for their own actions.

It is claimed that, if anything, social policy worsens the problems it sets out to solve. This critique is by no means new, of course—quite the contrary. The debate over the “spirit of welfare dependency” raged already at the dawn of social policy, both in Scandinavia and elsewhere (White and Goodman 1998), but the Organisation for Economic Co-operation and Development publication (OECD 1981) on the welfare state in crisis gave new impetus to it in recent times. What *is* new, however, is the renewed energy with which this critique is levelled, as well as the fact that those expressing it are now to be found both left and right of the political spectrum.

From the mid-1970s, with growing macroeconomic imbalances in the aftermath of the so-called oil crisis, the fiscal crisis of the state became a recurrent theme in the discussion about the relationship between state and economy, perhaps most widely articulated within the profession of academic economists. All over the Western world, important segments of this profession turned toward a critique of the earlier dominant paradigm of Keynesian macroeconomic planning in favour of monetarist *laissez-faire* neoclassical economic thinking. In such circles, the welfare state was no longer looked upon as a solution to but rather as a source of the crisis; perhaps less so in Scandinavia than in other parts of the developed world, but this trend of thought nevertheless became influential in the public debate within the region.

Critics of the welfare state in Scandinavia have argued for decades that the growth of the public sector caused stagnation in the growth of the overall economy as increased taxation crowded out private investments and private entrepreneurship. For a while, this was mainly an academic critique of national policy making although, already in the early 1970s, a tax revolt in Denmark had pointed to a weak spot in the welfare state consensus. However, with growing crisis symptoms all over Scandinavia, the impact of this kind of thinking grew. But it was not until the early 1990s, when the economic crisis severely hit two of the national economies of the region,

Finland and Sweden, that the true possibility of the neoliberal formula also became visible in the heartlands of the welfare state.

In Sweden in particular, professional economists argued with growing ferocity that there was a causal link between stagnant economic growth and the level of welfare state spending. They warned against the negative effects on efficiency and growth of increasing tax burdens and social benefits—“tax wedges” in the theoretical language of the leading proponent of the dominant mode of thinking among professional economists (Lindbeck 1997). According to these academic critics, after roughly a century of very positive economic development, economic growth in Sweden had begun to lag behind that of other developed countries since the early 1970s; this was proved by comparing Swedish growth averages to those of the OECD countries. Furthermore, the expansion of the welfare state and the emergence of a “Swedish model” had caused the relative growth performance of Sweden to be markedly poor. Thus, this “lagging-behind” thesis proposed that the Swedish welfare state had given rise to “Swedosclerosis”—a malign form of the perhaps even better-known disease “Eurosclerosis” (Ståhl and Wickman 1993). From the latter part of the 1980s, therefore—well before the deep recession of the early 1990s—the “lagging-behind” thesis and the Swedosclerosis diagnosis were well established in Sweden and echoed in various government documents from this period onward, including those underwritten by social-democratic cabinets. In report after report by various domestic economic think-tanks, this thesis was elaborated and refined.

However, this consensus was challenged by a leading Swedish sociologist and welfare state researcher in a series of empirical tests of the lagging-behind thesis (Korpi 1992). Based on OECD statistics in particular, Korpi argued that Swedish economists consistently failed to take into account the potential effects of differences in initial GDP per capita levels. Those countries that belong to the family of rich nations at a certain point in time tend to have lower percentage per capita growth rates than those belonging to a group of less rich nations. Those in this latter group are, thus, likely to increase the average OECD percentage growth rate. Korpi examined a number of articles and analyses put forward by economists and stirred up a long-standing controversy regarding this supposedly neglected catch-up effect.

The main part of the debate between the social scientists was featured in the domestic economic journal *Ekonomisk debatt* (various issues, 1990–1997), but reached a much wider audience and engaged a number of public intellectuals. Counter-arguments and elaborations of the main evidence addressed by economists were theoretically scrutinized, empirically tested and rejected by Korpi (the early part of the debate is collected in Korpi 1992). When strongly held beliefs among scientists are challenged on the basis of empirical evidence, a vociferous discussion would normally see the light of day. Instead, for a fairly long time theoretical considerations had first priority and empirical evidence in favour of the Swedosclerosis case was recycled in numerous ways. Finally, toward the end of the decade some dissenting voices were also heard among professional economists, and the consensus behind the lagging-behind thesis partly vanished (Dowrick 1996; Agell et al. 1997).

Long before the heated debate had cooled down, academic economists had a say in the interpretation of the deep economic recession of the early 1990s. Thus, their short-term impact coincided with their interpretation of the long-term causes of the state of the economy. The new non-social democratic government therefore tried to influence the social policy discourse and supported major evaluations of the overall workings of the old system. Only a few weeks after the accord, during the currency crisis of 1992, the government appointed a state commission to analyse the country’s economic crisis and suggest ways to solve it. The commission comprised academics in the fields of economics and political science, and was led by the chairman of the Economic Bank of Sweden’s “Nobel” prize committee—a leading theoretical proponent of the importance of “tax wedges” phenomenon, well-known former Social Democrat and ardent critic of working class political radicalism since the late 1970s (see Lindbeck 1997).

Again, the commission blamed the expansive and expensive welfare state for Sweden's recent economic problems, especially the rapid growth of the budget and national deficits to almost 13 per cent and 80 per cent of GDP, respectively, by 1994. It was alleged that high taxes, big government bureaucracy, and numerous disincentives and rigidities associated with overly generous social programmes had seriously stunted Sweden's macroeconomic performance from the 1970s onward. The long-standing consensus that the welfare state was introduced and developed because of market failures was finally buried. In fact, this perception was inverted as the welfare state now hampered economic growth (Lindbeck et al. 1994).

The major findings of the commission were welcomed for instance by the then conservative prime minister who on the dust jacket of the American edition of the report declares that

the unique feature of this book is its broad approach to Swedish economics and politics, emphasising the interaction between the economic and political system; it has had an impressive impact on Swedish public debate, with its ambitious blue-print for institutional change and reform, basically denouncing the Swedish model as we have known it (Lindbeck et al. 1994).

Actually, its message also made certain inroads into social democracy. For instance, the former social democratic minister of finance contributed another line of advertisement on the back cover page: "*Turning Sweden Around* not only contains a penetrating and convincing analysis of how an advanced welfare state may wind up in a severe economic crisis; it also suggests politically difficult, though necessary, ways out of the crisis" (Lindbeck et al. 1994).

The way out of the crisis was a set of proposals by the state commission presented in early 1993, which of course also included major suggestions in the field of social security. Among other things, it was suggested that the replacement rates of the social insurance schemes should be lowered, that the system should be actuarial or funded, and separated from the state budget, possibly also from the public sector (that is, privatized). The commission explicitly rejected the idea of making the social insurance system corporatist—or managed by the parties on the labour market according to the compromise made earlier between the government and the opposition during the currency crisis in November 1992.

The commission also asked a large number of professional experts and expert bodies to contribute background papers on specific topics—among them a proposal on a major reform of the social insurance system by the director general of the National Social Insurance Board. While the commission opted for a more radical departure from the old model, the board proposed a slimmed and more integrated version of the old system. As parliament had earlier asked for organizational innovation in this policy area, in contrast to advisory state commissions, this board had also been in a position to carry out extensive policy experiments such as closer integration between state and local government providers of social and medical services. Some of these experiments were later implemented on a national scale, while others are still waiting legislative initiatives.

There have been other public agencies that have acted as semi-independent think-tanks. One example is the Expert Group on Public Finance (ESO), which was set up by the non-socialist government (1980–1982) and which has continued since then, closely connected to the Ministry of Finance. From its inception, social insurance has been a major theme in its work (see Tarschys 1982). In the 1990s, ESO presented a proposal congruent with the 1989 tax reform; it implied a major overhaul of the social transfer system (ESO 1995). At the time, however, the competition among proposals from various think-tanks and other lobby groups made its proposal less influential.

More important perhaps was an intervention from the Swedish National Audit Office, a semi-independent agency under the auspices of the Ministry of Finance overseeing government spending and public administration. In the mid-1990s, this agency decided to devote a great deal of energy to social insurance and analysed the frequency of fraud and abuse of the welfare system in a series of reports. The welfare benefits first scrutinized were early retirement, unemployment support,

advances on maintenance, housing, sickness and paternal allowances. Despite acknowledging substantial statistical uncertainty, the estimated cost of fraud and abuse of the welfare system was roughly 2–4 per cent of annual disbursements from the national social insurance system. In particular, the system of advances on maintenance was singled out as a major source of fraudulence, and the audit agency was generally critical of those responsible for administering existing control systems. The National Audit Office also put forward several proposals for tightening controls, thereby hopefully reducing the number of deficient decisions and eliminating fraud (Hort 2000).

In addition to this pattern of public scrutiny of the old system, the major interest organizations and related think-tanks have also contributed to the debate about the future of the social welfare system. For instance, the trade union movement involved numerous members and activists, as well as leading left-leaning intellectuals and academics, in an initiative called the Social Justice Investigation, which highlighted the distributional consequences of state budgetary cutbacks for families and households with scarce resources (Lindberg 1999), while the Employers Confederation supported the Social State Project, which came to advocate more market and civil society involvement in the provision of social welfare (Zetterberg and Ljungberg 1997).

Overall, a universal welfare state may be seen as an experiment in solidaristic behaviour on a massive scale. If benefits are widely and systematically abused, this solidarity comes under severe strain. Hence, the solidarity necessary for the system's preservation is not absolute but conditional (Rothstein 1998). If large numbers of academic economists left the postwar consensus behind the welfare state, a different pattern is to be found in the Scandinavian population at large. While both the academic elite and part of the political elite have questioned the efficiency of the welfare state, attitudes among the great majority of the Scandinavian population have remained solidly in support of most social programmes and in particular of universal social ones (Nordlund 2002; Svallfors 1996).

The Scandinavian Welfare State Challenged?

In one of several recent surveys of the global business environment, the worldwide ranking of nations according to indicators of competitiveness made by the World Economic Forum,¹⁰ Finland – the most severely hit by the recession in the Nordic region in the early 1990s (Kuhnle 2000) – was ranked first in 2000, replacing the United States, which had headed the ranking for each of the previous two years (according to an article that appeared in the *Financial Times* on 9 August 2000). Moreover, the other three main countries of the far north of Europe belonged to the “top 20”: Denmark, ranked sixth (up from seventh in 1999 and eighth in 1998), Sweden seventh (at fourth and seventh in previous years), and Norway twentieth (previously 18 and 14, respectively). Among the East and Southeast Asian countries, Singapore ninth (previously 12 and 10), Japan fourteenth (previously 14 and 18) and Hong Kong sixteenth (previously 21 and 12) were also included among the top 20.

The Scandinavian countries had higher labour productivity – defined as GDP per person employed – in the 1990s than the average of European Union (EU) countries and the United States, and labour productivity rose in the last decade compared to the previous one (Kuhnle et al. 2003). European countries vary a lot in terms of scope of government employment and size of public sector, but the experience of the Scandinavian countries is that growth in government employment has been quite compatible with expanding welfare states and economic growth; that there is thus no clear-cut relationship between scope of the welfare state and economic performance. On average, a growing proportion of an increasing GDP was spent for social purposes all over Western Europe until the mid-1990s, but the most recent development in Finland has witnessed a strong growth in GDP, decline in unemployment, negative growth in real social expenditures, and, as expected, a sharp decline of social expenditures as a proportion of GDP (Kuhnle et al. 2003). If not in any way proving how and to what extent the type and size of the

¹⁰ The list was compiled in co-operation with the Center for International Development at Harvard University.

welfare state is conducive to economic growth, available comparative data do indirectly indicate that at the macro level, welfare state growth and economic growth also occurred simultaneously during the last 20 years.

Social security and welfare reforms (for example, cuts in benefit levels) were made during the 1990s in Scandinavian countries, but in such a (politically consensual) way that new poverty and increased income inequality were avoided (Eitheim and Kuhnle 2000). Finland was the only OECD country in which the recession of the 1980s and 1990s was deeper than the Great Depression in the 1930s (Uusitalo 2000). But a fundamental difference from the 1930s is that an advanced welfare state was in place when the crisis hit. The dramatic social and political repercussions of the 1930s were avoided; they were moderate in Scandinavia at any rate compared to the rest of Europe, thanks to other factors such as crucial social-political pacts between agrarian and industrial interests, and labour and employers. Of course, the existence of an advanced welfare state at the time of a sudden, unexpected and mostly exogenously imposed economic shock is not a sufficient condition for either subsequent successful welfare reform efforts or rapid economic recovery. But the Finnish example proves that such a sequence of development is possible, and that a solid welfare state was by no means a disadvantage for the process of recovery and promoting renewed economic growth. One lesson to be drawn from historical and recent European/Scandinavian developments is that characteristics of social policies and of links between the state and major economic groups in society at critical junctures of economic, social or political crisis appear to be of importance for finding a way out of the crisis. Another lesson of the Swedish and Finnish experiences of the last decade is that democratic systems and institutions *can* adapt to new or unexpected challenges. It does matter what institutions are in place when a sudden, unexpected crisis in society occurs.

It can be claimed that present European welfare states face challenges of an entirely new character in history: “rapid transition to post-industrialism, increasing globalization, sweeping changes in demography and social relations, trends toward supranational integration and a new, ‘post-cold war’ politics” (Ferrera and Rhodes 2000:1). However, European welfare states facing problems of greatly varying severity have more or less successfully coped with what seemed to be crucial new challenges in the 1990s (Kuhnle 2000; Ferrera and Rhodes 2000), hence the hypothesis that developed democratic welfare states are quite good at making adjustments to public policies in such a way that the legitimacy of the system can be preserved even as new vitality and transformations in the economy are brought about.

The welfare state can be described as multifunctional both historically and at present; an evaluation of its achievements and degree of success can only be measured against considerations of specific values and political and social goals (such as fairness, justice, cohesion, stability, material and physical security, well-being and economic growth). Among the many characteristics that can be ascribed to the Scandinavian type of welfare state is its “work-friendliness”: the persistent efforts to develop social security and labour market policies that promote competitiveness as well as “full employment” and have helped put the Scandinavian countries on top of the list of employment ratios in OECD countries. Being among the most comprehensive welfare states providing income transfers and services on a more universal basis than elsewhere in Europe, it is worth reiterating that all of the Nordic countries showed increasing labour productivity in the 1990s compared to the previous decade, and that the level was higher everywhere than for the United States and European Union averages (Kuhnle et al. 2003).

Of all the European welfare states, the Scandinavian countries were also the most family-friendly in terms of having developed policies conducive to enhancing the labour force participation of both women and men in families with children and/or other care responsibilities – which may be another way of looking at the degree of “work-friendliness” of welfare states. The Scandinavian countries have long had the most extensive provision of (local) government welfare and care services for children and the elderly of all American/European welfare states (Kohl 1981; Kautto et al. 1999). Paid parental leave schemes – the most generous in the world – were consolidated and expanded (in Norway in particular) during the 1990s. Pragmatic and operational lessons from the

Scandinavian experience may be drawn by other nations. A judgement of “work-friendliness” can also indicate the degree of “business-friendly environment” (Hort 2001). The authors’ main thesis is that social security and business are not incompatible phenomena like fire and water: whether they are in harmony or conflict depends upon the actual construction of the social security system, its interplay with the society in which it operates—as well as the cultural and political characteristics of that society.

Economic growth is possible with a number of welfare state constructions, of different scope and generosity. But economic growth and efficiency are not the only goals of Scandinavian (and European) national welfare politics.

Politics and welfare state construction are also about the equalization of life chances, social justice, social security, social cohesion and stability. All of these are also related in various ways, not only to economic growth and the dynamics of economic development, the climate of investments and so on, but also to political preferences, ideologies, interests and values. Thus, the question of what kinds of welfare state policies are possible also depends on what governments and voters consider desirable, and what is considered desirable—what the state *can* and *ought* to do (Rothstein 1994)—is a question of political and cultural context (norms, expectations, value structures) every bit as much as it is a question of the level of economic development and theories and knowledge of prerequisites for economic growth and efficiency.

One important yet simple lesson to be learned from the Scandinavian (and also European) experience is that the welfare state serves myriad functions. Debates on the lessons to be learned and proper welfare policy solutions in other, non-European, contexts can thus be framed in many ways. Social protection and welfare are topics often discussed in terms of poverty relief and meeting minimum needs for income and services. Poverty reduction was historically one aim for many governments putting social legislation on the agenda. But the establishment of European welfare states is about much more, especially in their Scandinavian and continental European variants. Originally, considerations of social harmony and regime support were important. Over time, a number of programmes were developed to insure against events and risks that caused income loss to enable reallocation of income over the lifecycle and redistribution across social groups, and to provide a sense of security for all citizens (Atkinson 1999:5–6). Although a controlled experiment is impossible, the authors of the present paper claim that the welfare state in the Scandinavian/Western European context appears to have been a societal “stabilizer” that prevented serious social rebellion, strong revolutionary movements and extensive poverty. The combination of structures of democratic governance, regulated capitalist market economies and relatively comprehensive welfare institutions has accommodated changing social needs rather successfully.

The Scandinavian experience during the last century shows that high and increasing labour market participation can coexist with the expansion of social security systems. From the 1960s onward, “high and sustainable” full employment—expanded from male breadwinners to female ones—became the public policy norm of Keynesian demand management. Expansion in the latter case meant upgrading in terms of pecuniary generosity and population coverage in all or most branches of social insurance. At the macro level, this holds true even for a social security subsystem such as unemployment insurance—despite social science theories that emphasize the opposite effect at the micro level—that the system offers incentives for individuals to withdraw from the labour market. Unemployment was no longer a private matter, but a public concern. Thus, the labour market has developed into a key aspect of the monetized economy, while social security systems have become core institutions of the modern welfare state. Macroeconomic steering became part of societal governance, but much more than that is at stake. In Scandinavia, systemic integration has gone hand in hand with social integration, following structural-functional sociological theories as well as actor-oriented citizenship theory. Thus, at the micro level, the risk for the individual of being out of work is marginalization and social exclusion. At the macro level, the government responsibility to create conditions under which enterprises can flourish has become linked to the general duty of every able-bodied person to

work or achieve an education, schooling or practice in order to enter into gainful employment. In sum, values other than those implicit in the rationality of the pure economic man have long been in force.

Notwithstanding the existence of an elaborate system of social security providing transfer payments of different types, from child benefits via sickness allowances to old age pensions, the dominant norm in Scandinavia and other Western societies has been that young and middle-aged adults—increasingly including women in recent decades—should be active in the labour markets to earn an income, with the obvious exception of the severely disabled. Furthermore, the acceptance of this norm has been sustained and reinforced by the fact that not only money income, but also such social characteristics as power, prestige and status have been distributed in the community according to whether or not an individual works and the type of work he/she performs. Following the social control mechanisms in fairly coherent communities such as the Scandinavian one, where the distinction between state and society has been blurred to a great extent, “disobedience” may most likely lead to a loss of reputation or even to exclusion from the dominant social group, even if “disobedience” is to the purely pecuniary advantage of the individual. This is an important aspect of the moral logic of the modern welfare state and can probably be generalized.

In Scandinavia, labour force participation rates in the “modern sectors” of the economy (thus, excluding agriculture and non-paid household work) increased throughout the twentieth century, with the exception of parts of the 1930s and parts of the 1990s. These were decades of economic downswings or “crisis” in the far north of Europe, when the rate of unemployment grew and labour force participation went down (with Norway being the sole exception). Otherwise, labour force participation in paid work has gradually increased. In the post-Second World War period (with the exception of Denmark), the participation rate of men increased until the late 1970s, while women continued to enter the labour market until the early 1990s—and in Norway throughout the 1990s. In Scandinavia, “housewives” have more or less disappeared as a social category, truly reflecting their sheer numerical absence. Furthermore, the impact of the development of the education system and the increasing emphasis on higher competence and skills have meant that the definition of working age adults was adjusted upward as most of those in the 16–24 age group became students in recent decades. Thus, the age and gender composition of the labour force has been drastically transformed during the last century. Parallel to the development of labour force participation throughout this period, the systems of social security have also been greatly expanded.

Obviously, more and more generous schemes for maternity/paternity benefits and parental leave schemes during the 1980s and 1990s have been conducive to high female labour force participation in Scandinavia, as well as to the gradual development of childcare services (which is not exclusive to Scandinavia). One factor explaining the development of these generous schemes, making Scandinavian countries at once more “work-friendly”, “women-friendly” and, in a sense, family-friendly, is very likely the rapid political mobilization of women—into political parties, trade unions and decision-making arenas like the parliament, government and public bureaucracy (Hort 1997; Olsson Hort 1997).

An important arena for changes in the thinking and reforms of the Western and Nordic welfare states has been employment policies. Unemployment and worklessness are firmly on the agenda and, even in Norway, with little experience of high unemployment rates, the issue of non-work has been given much political attention during the last decade. A general feature of European welfare policy reforms in this area is the trend toward active rather than passive measures, toward negative sanctions rather than incentives, and toward duties rather than rights. Further trends include the approval of a public contract approach rather than a rights-based one and an emphasis on selectivity rather than universality (Ferrera and Rhodes 2000:4–5). In this area, at least, a kind of convergence seems to be evolving, both in terms of the interpretation of political challenges and in terms of political answers—irrespective of national institutional preconditions and political “colour” of the government.

Reforms reflect a liberal market approach of deregulation and minimal welfare as a basis for policies for job creation during recent years. The United States' job-creating system has a far better record than that of most European countries, but its "success" comes combined with less attention to the incidence of poverty and social inequality and the (likely) concomitant social and policing costs. In a cross-national comparison, Jens Alber (2000) has shown that there is a clear negative correlation between the size of public police and private security personnel per capita, and the size of social expenditures as a proportion of GDP. Alternative strategies of job creation have been developed in many European countries, strategies typically consisting of combined packages of social security reforms, that is, stricter conditions for receiving benefits, better training programmes, job search training and so on.

The primacy of work has always been central to Scandinavian welfare legislation, and a characteristic of these welfare states is the close relation between the institutions of welfare and work; the Scandinavian countries stand out as both strong work societies and strong welfare states. Thus, an active labour market policy and the work approach have been cornerstones of welfare policy since the Second World War, especially in Norway and Sweden. Yet, during the 1990s, new work and activity approaches emerged that tightened eligibility criteria and reduced periods and levels of support (Kildal 2001; Hort 2001). For instance, all four countries have introduced stricter qualifying conditions for unemployment insurance; in Norway, stricter medical criteria for disability pension were introduced in 1993; and qualifying conditions for sickness insurance benefits were tightened in Finland and Sweden (Kuhnle 2000:389). But among many assessments made of welfare political developments during the last decade, the Scandinavian countries are still seen to be distinct and not to have moved toward convergence with a neo-liberal model of social protection (see, for example, Swank 2002:152).

Some Possible Lessons from the Scandinavian Welfare Political Experience

- Specific historical social and economic structural configurations in Scandinavia may have been conducive to the development of a participatory political culture, consensus building (compare with the political compromises of the 1930s), a strong role of local and central government, and the overall support for the principle of universalism (education, health and social security). But the uniqueness of the Scandinavian historical experience does not rule out an assessment of the implications of developing governmental capacity and institutions for promoting welfare, and for the possible positive implications of the principle of universal policies for the general level of welfare.
- The scope of social planning – including establishing and developing social security, health and educational systems during the first half of the twentieth century – was clearly a result of democratic political processes aimed at balancing demands for and goals of economic growth and social justice. Scandinavian societies were relatively egalitarian before the industrial and economic take-offs and, throughout the 100-year phase of combined welfare state construction and mostly successful economic development, have had less tolerance for social inequality and poverty than most other developed countries. Scandinavian history has shown that welfare can be both productive and unproductive. Historically, for religious and other reasons, Scandinavian countries have also been blessed with a strong work ethic, which of course has been beneficial both for the development and survival of comprehensive welfare states and for economic productivity.
- All Scandinavian countries developed their welfare states gradually, beginning with modest, often means-tested, programmes for limited groups of the population. Early institutional solutions chosen may have had an effect on the later expansion and development of social programmes – for example, those first introduced based on the principle of economic means testing may have been more likely to develop into universal programmes than those first established for defined groups of the economically active population.

- Early Scandinavian focus on general education and universal health services may have proved to be of great importance for subsequent successful economic development and national wealth. State and public responsibility for a healthy population was argued for from early on in the context of creating national wealth and strength. The early stress on universal, compulsory education was not necessarily motivated by the urge for economic development, but more by the perceived importance of being able to read religious texts. However, it was definitely instrumental for rapid industrialization, modernization of the economy and economic development in the early twentieth century to build on a generally literate population.
- Social security and welfare state arrangements can serve many purposes – income security, for example, in cases of unemployment, old age and sickness. Social security policies are also about political and social preferences, formed by culture, traditions, economic and technological developments, social structure and social relations. Thus, we should be cautious about the claim that there exists an objectively “correct” path for governmental social policies. Values and preferences concern, among other things, perceptions about fairness, social justice, social cohesion, stability and equalization of life chances. One core aspect of a social security system is how to organize it in such a way that it provides incentives to work, which seems to be an important goal of most governments. One possible effect of an unemployment insurance system is that it facilitates the process of restructuring in industry and business. Economic security may reduce workers’ and employees’ resistance to change. Obligatory government schemes, which cover employees/workers independently of specific employment conditions or characteristics of place and time of firms or employers, may be advantageous to labour mobility, structural economic change and economic growth. National schemes for unemployment insurance are basically work-friendly.
- Recent Scandinavian (and European) experience indicates that there is no clear link between the scope of the welfare state, taxation levels, employment rates, labour productivity and economic growth. The examples of Sweden and, especially, of Finland during the 1990s, show that comprehensive, democratic welfare states are fully capable of making policy adjustments to stimulate new economic growth when hit by a serious economic recession or backlash (Kuhnle et al. 2003). In fact, these two countries may be proof that a well-developed welfare state, with sophisticated social security arrangements, may get through a crisis more easily – or at least at a more moderate social cost (in terms of poverty and inequality). Social security therefore acts as a shock absorber. Democratic institutions have been shown to be responsive to economic and social challenges. Another lesson for other countries may be that in the era of globalization (more economic integration in the world) the need for a consolidated, national social security system is objectively greater than before.
- In a more globalized world, we may expect more rapid changes in labour markets, greater mobility, more flexible work, more career shifts during the period of labour market participation. These new patterns may induce changes in pension systems to make them more transparent and less dependent upon “best years” and “last years” of earnings, and thus fairer, in the sense that the pension reflects contributions during all working years. Sweden reformed its pension system in 1999 in a way that may offer other countries a lesson, since it combines the manifest work-friendly aspect with a universal guarantee of income security in old age. Status maintenance combined with poverty prevention.
- Another aspect of Scandinavian welfare states – their emphasis on (public) social services for children, the old and sick – may offer yet another lesson, but may well be more controversial in other cultural contexts. In one way, such government schemes may be considered both work-friendly and family-friendly. If families are relieved of some of their “burden” (itself a contested concept) as care-givers (for their young, old and sick family members), labour market activity and labour mobility may increase, and thus also economic productivity and growth. Government social policies can provide the basis for flexible solutions for families, for workers/employees and for firms. Social policies can make it possible, if desired, for both husband and wife to combine family obligations with full (or part-time) gainful employment. If globalization also has a cultural dimension, such as

spreading the idea, demand and expectations of greater gender equality in all spheres of society, it may well be that welfare states with social policies that are relatively more gender sensitive will be the most successful in terms of both economic development, and social peace and harmony.

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