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## The Nordic Model-its Arrival and Decline

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**Abstract-** The traditional administrative and social model of the Nordic countries, called “the Nordic model”, arrived politically after the Second World War in the wake of the brake-through of Keynesian economic theory. Typically for this model was that it favored extensive state intervention to achieve full employment and social redistribution. It aimed at maintaining effective demand not only by economic intervention but also by regulation for social equality and fairness. Strong employee and trade unions were part of this model. Political stability was the outcome of this policy. The Nordic welfare model is often called the «the Keynesian welfare state». The universal welfare arrangement and social security scheme of the model continued flourish until the brake through of neo liberalism. Over the last twenty years the Anglo-Saxon neo-liberalism has penetrated the Nordic countries step by step with the consequence of threatening the model itself. First and foremost, this penetration is found as policies for the breakdown of public service monopolies, privatization, the exposure of public sector activities to market competition, and lastly the liberalization of the labor market. As political rhetoric the Nordic universal welfare state and social security scheme continues; but what about the institutional reality? The discussion in this paper is about how long the Nordic model could be said to be a survivor. For the time being it is the ideology of neo liberalism which guides social and administrative model arrangements in Europe, including the Nordic countries, led to a large extent by the EU.

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## I. EUROPEAN SOCIAL MODELS

Are higher taxes and strong social “safety nets” antagonistic to prosperous market economy?, Jeffrey D. Sachs asked in the November 2006 edition of *Scientific American*. He refers to the Austrian-born free-market economist Friedrich August von Hayek, who in the 1940s suggested that high taxation would be a ‘road to serfdom’, a threat to freedom itself, and comes to the conclusion: ‘Von Hayek was wrong. In strong and vibrant democracies, a generous social-welfare state is not a road to serfdom but rather to fairness, economic equality and international competitiveness’ (Sachs 2006). The reference for his conclusion is the Nordic welfare state model developed in the years after the Second World War.

Thomas Piketty is a French economist who works historically on wealth and income inequality in different economies. He is professor (directeur d’études) at the École des hautes études, and has become well

known for his research on economic and political failures coming out of inequality and uneven distribution of wealth regarding ownership of real estate and income in Western countries. In 2013 he published the critical book “*Le Capital au XXI<sup>e</sup> siècle*”, in English (2014): “Capital in the Twenty-First Century”. Here again, like Sachs), he points to the relative equal distribution of wealth in the Nordic countries, and how it favors economic growth, fairness and political stability. Actually the Nordic socioeconomic and administrative tradition has been developed over a long spend of time. For the time being the model is challenged in the wake of the ruling ideology of neo liberalism and globalism (Veggel and 2010, 2014)

In general, the different administrative models and traditions of the Western European countries are, by and large, characterized by path dependence of their historical social economies. This is demonstrated by their strong emphasis on balancing pure economic achievements with other goals, such as welfare, employment, social cohesion, leisure and environmental sustainability. This implies that Europe is characterized as having a relatively larger public sector than other parts of the world (OECD statistics 2005).

It is equally true that there are many European social sub-models. How many depends on the level of analysis, from local to national and international levels, so also in the Nordic countries. In other words, a coherent picture can only be drawn if the analysis takes place at a reasonably high level of territorial aggregation (Knill 2001). The purpose of this study is to group countries into appropriate models in such a way as to derive useful explanations of the Nordic model, and, how ideology and path dependence together change social regimes.

At a macro-level we may identify several socioeconomic and administrative models. Here in this paper the focus will be on the Nordic model, and to some extent compared with the Anglo-Saxon and the Continental models (EPC 2005).

## II. THE NORDIC WELFARE STATE ADMINISTRATIVE TRADITION

The Nordic socioeconomic administrative model developed after the Second World War contains three fundamental principles: 1) Economic stabilization according to the liberal economist, John Maynard Keynes’ (1883-1946), theory from the 1930s. The central state should be involved with consume and investments to secure effective demand in the national economy. In

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the wake of this, a universal welfare state should be developed, and ownership by state investment as part of this strategy, followed by 2) social and regional distribution and redistribution - from the rich regions and people to the periphery and ordinary people. This distribution policy was meant to expand justice and secure effective demand; the many consumers consume more than the few. Part of this 3) was the introduction of the social dimension; i.e. the state involving the main two social partners (employer and employee organizations), in certain decision-making processes regarding labor marked and social policy. The 'tripartite cooperation' (i.e., between the state, the employers, and the employees) is typical for the Nordic model.

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

The Nordic welfare state model is one unit, however, historically organized along different lines. The West Nordic tradition (Denmark, Norway and Iceland) implies significant ministerial administration (the so-called 'ministerial model'). Each minister is responsible for all policies and decisions made by administrations under him/she, including directorates. This ministerial model tends to create inertia of the system concerning administrative reform because of "personal' constitutional responsibility". Janerik Gidl und writes that the reason why the Danish ministerial system has taken this form is to be found far back in history, namely in the days of Fredrik III and the establishment of absolutism in 1660–61. At the same time as the king seized power, a centralization of all administration and a major expansion of the central administration took place (Gidl und 2000: 258). Therefore the tradition created strong path dependence biased implementation of the Keynesian interventionist economic strategy from the 1930s. This path of the West Nordic sub-model delayed until 1990s the introduction of neo liberalism and the implementation of the anti-state recommendations, such as New Public Management (NPM) reforms, which challenged the Nordic model fundamentally.

The East Nordic administrative tradition (Sweden and Finland) is characterized by division between relatively small-scale ministries, and autonomous civil service departments and independent 'boards/agencies'. The Ministerial authorities are collectively sub ordinate to the government and not to any one politically responsible single cabinet member. The Swedish administration form has its roots in the far back administer at ive regulations of Axel Oxenstierna, concerning the so-called 'status of the colleges' in the governmental form of 1634. The intention was to create

an effective administration which could manage the affairs of the empire of Greater Sweden (Gidl und 2000: 259). It has been suggested that the independent governmental working bodies of the East Nordic tradition accepted the basic New Public Management (NPM) principles rapidly, inspired from the Anglo-Saxon tradition. The NPM expanding like a pandemic wave since the 1970s and was accepted by the East Nordic tradition already in the 1980s (Lane 2000, Pedersen 2006). The governments of the East Nordic model early adopted neo liberalism as a ruling governmental ideology because of the strength of the collective coordinated central state (OECD 2002).

It is worth noting that a comprehensive amount of convergence between the two administrative and social models of the Nordic countries has occurred. The two Nordic sub-administrative traditions have gradually been transformed and becoming one. The European integration and neoliberal EU policy has been a driving force behind the transformation. Politics derived from judicial regulation and regulatory measures have replaced the two lines of the Nordic dominating social democratic political approach (Gidl und 2000: 259, Veggel and 2010). In this paper it is proposed that the principles of the Nordic welfare state model as such is under mined under the pressure from neoliberal policies (Veggel and 2014).

### III. COMPARING THE CONTINENTAL AND ANGLO-SAXON SOCIAL AND ADMINISTRATIVE TRADITIONS

There are some important differences and similarities between the Nordic model and the two other dominating socioeconomic administrative traditions in Western Europe. On the one side, the Nordic and the Anglo-Saxon model have become quite similar in terms of the nature of relations between government and market in which the latter the market is being given priority. An example is the use of market-type mechanisms to provide government services in a commercial way (OECD 2005: 133). However, they are very different when it comes to the size of government and state-centered planning and distributive policies. The Nordic model is still a state-centered model. On the other side, the Nordic and the Continental models are more alike in terms of the size of the public sector, job security policies and trade union relations, but they are very different in terms of government, such as labor market relations and employment regulations (EPC 2005). The Nordic model therefore emerges today as a blend of the two larger European models, with the Anglo-Saxon model's emphasis on a liberal labor market and the Continental model's emphasis on a large public sector and close relations to the trade unions (the social dimension) (Jorgensen Overgaard and Vagn by 2005).

Attitudes to markets can also be measured in different ways.

The OECD carried out a study in early 2005 which analysis a number of relevant issues, including an index for product market regulation. Measured by this index, the three main models and traditions have the expected results (OECD). The Nordic model and tradition appears as a blended model of the two other models. The product market regulation indexes indicate that the Anglo-Saxon administrative tradition and policy targets domestic deregulation of the product market and simplification of rules in the framework of the EU regulatory regime, while domestic reregulation for the purpose of correcting markets is more common and increases the index in the Continental tradition. Also in this sense the Nordic model results as a blend of the two other models and their traditions. Since the 1980s, also the Nordic countries have been transformed in the direction of more market liberalism in certain sectors, especially in their labor market policy. The state-centered path of the model still tends to perform reregulations in order to correct the market and for collective and redistributive purposes. As for the two other models and their traditions, the regulatory performance has to be achieved in the framework of the EU/EEA regime because of membership. It is important to underline that labor market flexibility is defined and achieved in very different ways in the models. The Nordic and Continental definitions should be distinguished from the Anglo-Saxon definition. A flexible labor market could mean that employers and workers agree together to vary working conditions and working hours in order to meet the needs of the business, as well as to meet the social and personal needs of the workers.

However, in the Anglo-Saxon tradition it usually means flexibility for employers, job insecurity for the employees, individualized wage payment, low paid wages and other poor working conditions for large groups of employees. Workers can easily be laid off from their jobs. In this tradition, the definition of labor marked flexibility stresses elements such as the possibility of wage differentiation based on performance-related pay and task measurement, part-time workplaces, contract-based appointments and job insecurity, non-tariffs and low-paid social groups, health insurance linked to the employers and a passive labor market policy. As a result, there was statistically an increasing employment opportunities since the 1980s until the Financial crisis of the late 2000s. At the same time, there has also been an increase in inequality (Pierson 2001a, Piketty 2014). Further employed workers tended to cling to their workplace despite bad working conditions because their security is linked to their employer (Iversen 2005).

Labor market flexibility is in the Anglo-Saxon framework linked to job insecurity turned out in the end of 2000s to become less flexible. .

The Continental and Nordic definition of labor market flexibility weighs varying elements. Of course, these traditions deviate in certain ways. For example, the trade unions have a stronger position in the traditional Continental model than in the Nordic model, and more formal and rigid rules generally influence the procedures of appointments and working conditions in the former model. Universal welfare and social security arrangements are a special characteristic of the Nordic model (Arter 1999; Ein horn and Logue 2003). In both of these models and traditions and in their definition of labor market flexibility we find, as in the Anglo-Saxon model and since the 1980s, the growing elements of wage differentiation by linking wages to the result of work task measurements and low-paid part-time work more essential. In contrast, tariffs and equal access to health and social insurance, job security another work conditions are stressed in their definition. This makes the models comparable.

What is said to be so important and provide the Nordic model as an alternative 'in the middle' of Western governance models? In order to keep employment in high-wage areas like Western Europe, it is necessary to require flexibility in the workforce in terms of skills previously acquired a willingness to continuously upgrade these skills and a readiness to leave jobs while upgrading skills (Iversen 2005). This could be seen as personal risk taking, but is really a strategy for job security. Interestingly enough, the Continental model, with its strong intervention by law and procedures on behalf of employee unions, does not seem to provide security of this kind. It does provide compensations to the unemployed, but it does not provide sufficient jobs. This model demonstrates serious imbalances and runs a very strong risk of financing problems with Germany as the winner under the present monetary regime of the EU. Legitimacy is then lost in the EU struggle to develop a promising social model for Europe and an enlarged EU.

One important feature of the 'middle balanced' Nordic labor market situation is the flexibility of the active labor market policy and of employee unions combined with social security policy for the unemployed, i.e. what is known as 'flexi curity' policy (EPC 2005). This policy helps explain why the Nordic welfare state model may be sustainable notwithstanding the high costs paid by taxpayers. The key to its success is that the employment service has been transformed from providing passive compensation for unemployment to providing services which help the unemployed develop their skills and actively search for jobs. This is probably a much better use of public money than paying 10-20 percent or more of the population for not working. The latter solution is a



poor solution with regards to benefiting economic and welfare state sustainability (OECD 2005).

The contemporary Nordic countries are clearly doing best in employing their workforce in a flexible way, and this is most likely due to three elements:

1. The universal health and social insurance arrangements which creates individual freedom to choose workplace without loose personal security.
2. The active labor market policy helping unemployed people back to jobs; and
3. The transformation of earlier rigorous regulation of the labor market to softer regulations with weighting skills independently of age.

In contrast, it is very difficult to change the workforce by for example altering the make-up of skills and thereby offering on the one hand flexibility for the employer and on the other hand personal security by upgrading in Continental Europe. Continental Germany seems to have found the key to this mechanism under the latest government regimes. This is, however, quite easy to obtain with the Nordic model. In the latter model, adaptation to a fast changing labor market through lifelong learning is generally accepted. Another social driving force of the Nordic model is that either changing a job or employer or being out of work because of upgrading personal skills does not mean one will lose health and social security rights. These rights are universal and are not dependent upon employment or which employer the workers are bound to (Iversen 2005, Veggel and 2007).

#### IV. THE ROOTS OF THE NORDIC SOCIAL AND ADMINISTRATIVE MODEL

Now, let us look briefly into the Nordic welfare state as a background for the above-mentioned flexibility model. Varying degrees of differences have followed in the wake of neoliberal ideology. Still the Nordic countries do have a state-centered socio-administrative model tradition in common, but decentralized by delegation for welfare and workfare in terms of health and social security, public services and an active labor market policy (Arter 1999; Vegge land 1998).

The institutional outcome was the gradual founding of a comprehensive tax financed public sector with universal welfare and social security policies as basic pillars. The policies were both interventionist and socially and regionally redistributive in their character, based on Keynesian macroeconomic theory and planning developed after the Second World War, and fully administered by governmental institutions (Amdam and Veggel and 1998). The legitimacy of the interventionist Nordic welfare state at the time was created partly by social democratic parties in governmental majority positions and partly by its foundation in macroeconomic theory which John

Maynard Keynes developed in the work *The General Theory of Employment, Interest and Money* from 1935. The Nordic social democratic parties had all a collective and interventionist political platform with social equality, welfare and employment for all as the core goals.

Keynes created the understanding of the necessity of an interventionist welfare state. Despite being a liberal economist, he indirectly concluded an anti-laissez-faire perspective in his theory (Arter 1999; Veggel and 1998, 2009). This perspective was derived from the demonstration of the use of government interventions in the market to avoid macroeconomic fluctuations and crises. By financial and institutional interventions of the state, aggregated demand in the society could be regulated. According to the theory, for example, it could be increased or diminished depending upon macroeconomic fluctuation. From a theoretical point of view of “digging a hole somewhere”, Keynes famously said that this would have the same demand effect as anything else and therefore would be useful. Demand creation is neutral in the framework. In addition, macroeconomic planning is the tool used to put the demand and income side of the economy under control and thereby make it feasible to regulate forward balances between full employment and inflation through political initiatives and planning acts. The concept has sometimes been called the Keynesian revolution, i.e. a revolution because it was at the time a theoretical approach of innovation causing immense change in public sector politics and governance reform in the Western world states.

Certainly, in the Nordic countries the Keynesian central interventionist principle was very much in line with the already established state centered administrative path and welfare state model, which could be said to be a revitalization of an already established path. The revolutionary part of the concept was the strength of the new institutional tools that were introduced to build the new post-war welfare state. These ‘Keynesian’ tools, which are well known from most macroeconomic textbooks, were:

- *Political legitimacy*: Economic grounds given for the importance of state interventions, high public expenses and social democratic anti-laissez-faire policies.
- *High public sector spending*: Public spending as well as private spending for employment and economic growth – the mixed economy concept.
- *Public planning at all administrative levels*: Macroeconomic planning and sector planning.
- *Sector neutrality*: Theoretically, sector neutrality of government spending in the framework of the demand-side economy ruled. Public spending in the welfare sector expected similar demand effects as in the industrial sector.

- *Infrastructure monopolies:* Public monopoly in financing and administrative infrastructure sectors, from soft infrastructure such as welfare and social security services, education and labor market services to hard infrastructure such as telecommunications, road construction and postal services.

In the Nordic countries, the empirical fact is that the role of a strong and influencing state authority was seen to be most legitimate, perhaps more so than anywhere else in Europe (Kuhnle 2000; EPC 2005). It could be stated that the Nordic societies and their citizens, until the outburst of the ideology of the neo liberalism thirty years ago, have a very “state-friendly” attitude. Actually, “state” and “society” are often used to express the same thing. The evolution of the Nordic welfare states has always been anchored (until now) in such a holistic administrative tradition and collective identity approach and with relatively high public expenditure in percentage of their GNP. According to the World Bank data from 2013 the expenditure in the Nordic countries lays about 27-29 percentage of their national GNP. Even 30 or more years ago 20 to 30 percent of the labor force in the Nordic countries was employed in the public welfare service sector such as within social insurance, health, elderly care and education. These countries were clearly placed at the top of the Western world in terms of public welfare state employment (Kuhnle 2000). From a theoretical point of view, the introduction of the Keynesian welfare state concept in the Nordic countries in the immediate postwar period may very well be understood in the framework of rational choice theory, and the social democratic governments at the time may be understood as the rational political decision makers.

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

This policy-made innovation occurred differently as a concept and procedure in the Anglo-Saxon, Continental and Nordic administrative traditions. In the Anglo-Saxon states with the path dependence of their market-centered model, the main focus was on the lowering public expense issue. Accordingly, the responsibility of health and social insurance became an

individual and employer responsibility in order to diminish public expense (Iversen 2005; Pierson 2001a). In the typical Western Continental states with path dependence linked to strong corporative traditions, with comprehensive formal relations between governments and their social partners such as employee unions, the rigidity of labor market procedures was left to continue as an integrated part of the new welfare state concept (EPC 2005).

In contrast to the other Western European industrialized countries, which participated in the Keynesian revolution, the Nordic concept of welfare and social security arrangements became a deviation from the previously mentioned traditions through the performance of the universalism and the active labor market policy. Low inequality, low social security and full employment were the main political goals (Iversen 2005). From the Keynesian ‘General Theory’, the governments learned that the expensive welfare state concept could gradually be paid for even with budgeted deficits. It was most important to generate full employment, and thereby purchasing power, aggregated demand and the formation of increasing national economic values. The social democratic Nordic governments made rational choices, but the welfare state innovation was also guided by the path dependence emanating from the traditional state-centered social system. This was namely that the responsibility of the state embraces not only economic issues, but also human values such as social security, equality and morality as an inherent part of public governance (Kuhnle 2000). In addition, the supremacy and legitimacy of the state are obviously anchored in a very deep-rooted popular attitude of a “state-friendly” approach. In the 1980s, there was an ideological occurrence: the saying ‘to be taken care of from the cradle to the grave’ as a welfare guarantee suddenly became for many neoliberal politicians a negative slogan. In reality, this change in attitude reflected a brief fiscal problem. An international crisis caused a public expense issue (Cumes 1984). Let us again examine some historical events.

## V. THE STAGFLATION CRISIS CHANGED POLICIES

One of the most significant achievements of the post-war era has been the compromise between the parallel developments of fast economic growth and varying degrees of social justice and equality within Western European welfare states. Yet the capacity for achieving this compromise has always been an issue of question and debate. Pressures for retrenchment, including claims for lower tax burdens, the consequences of low economic growth and global competition, have collided with counter-pressure for larger social outlays. An international economic

recession made this compromise the hottest political issue in the whole OECD area (McCracken *et al.* 1977). In the 1970s, the international economy entered the “stagflation” crisis, which should be regarded as a fundamental causal factor in subsequent changes to the Nordic welfare state model (Veggel and 1998: 60–2). Consequently, the unemployment rate in the Western industrial nations rose to 10–15 percent and inflation reached dangerous levels. This represented a fundamental interruption in the stable economic development formed on the basis of the Keynesian principles of state intervention, which were (1) financial interventions, (2) direct control through laws and regulations, (3) institutional interventions, (4) sector interventions and (5) state-run enterprises (Østerud 1972: 30–1). It also led to a crisis in the principles of the planned welfare state conception based on full employment developed in the Keynesian interventionist state form.

Actually, the crisis was the appearance of the arising globalization and its challenges which also reached the Nordic countries. It affected the institutions of the interventionist state and caused failure to govern because of overloaded government budgets and the parallel increase of unemployment and inflation rates (actually a theoretically defined impossible phenomenon in an interventionist demand-side economy). Confusion ruled in the Nordic welfare states as in the OECD area. It was difficult at the time to imagine that the balance in economic circulation would once again reach critical dimensions comparable to those of the inter-war Great Depression era. The British economist Andrew Shonfield, in a large work from 1969 called *Modern Capitalism*, argued from a Keynesian perspective and wrote the following: ‘The central thesis of this book is that there is no reason to suppose that the patterns of the past, which have been ingeniously unraveled by historians of trade cycles, will reassert themselves in the future’ (Shonfield 1969: 62). The crisis arrived, expressing itself as a stagflation crisis. Former methods of dealing with the situation were no longer effective or, to be more correct, they did not work as expected. Theories and models of public governance built from the Keynesian perspective failed. Measures introduced by governments to reduce rising unemployment only resulted in the level of inflation spiraling upwards. If demand was reduced, production fell, with increasing unemployment as a result. The confusion of national politicians and economists was understandable, as was expressed in OECD reports written under the pretense of providing reasonable advice to the governments (McCracken *et al.* 1977).

The OECD confusion at the beginning of the stagflation crisis often reflected the position of standing between the main European administrative and social traditions. The Anglo-Saxon market-centered tradition represented a path in the direction of a goal of fighting

inflation through the measure of reduced public outlays and the creation of jobs in the private sector. The corporatist Continental and Nordic traditions were in the direction of giving priority to a goal of fighting unemployment by allocating public money to saving business and other sectors in trouble.

A new direction in the fight against stagflation was found in a revision of the theories of J.A. Schumpeter, the German-American economist. A wave of neo-Schumpeterian was experienced, actually, as an introduction to the coming dominant ideology of neo liberalism. Schumpeter offered a microeconomic perspective on the driving forces in a market economy (Schumpeter 1939). His focus had been upon enterprises which created new combinations and entrepreneurs who created something new as a source of innovation. This went against Keynesian theory. Stable production and aggregate demand were central for Keynes, and the state was responsible for this stability. The critique against the Keynesian top-down welfare state concept, based upon state intervention and redistribution of social resources, was from the standpoint of Schumpeterian that in the long term such an economy would lose growth potential. State activity would always suffer from a lack of renewal and necessary innovations.

The Schumpeterian perspective supported the development of deregulation, decentralization, the breakdown of public monopolies, privatization and an increased orientation towards the market. The OECD therefor made recommendations and the national governments replied with wide-reaching deregulation and the introduction of a set of market-type mechanisms in the public sector (OECD 2005, Pollitt and Bouckaert 2004). Institutional reforms were designed in the framework of the New Public Management (NPM) principles to make policy goal attainment more effective and the outputs exposed to measurements of scientific evaluation. Governance by regulations and management by objectives replaced bureaucratic control (Veggel and 2010).

The United Kingdom, the United States and other Anglo-Saxon states gave priority to the goal of fighting inflation and privatization in order to fight the stagflation crisis and to clear the ground for innovation and new economic growth. It was argued that growth was a necessity to revitalize the modern welfare state. The Nordic governments followed to a certain extent the reshaped Anglo-Saxon model through institutional reforms of the 1980s and 1990s. First out to do so were the countries of the East Nordic administrative tradition, Sweden in particular, and later on the West Nordic countries, Denmark, Norway and Iceland. The typical Continental states followed only incrementally and under the regulatory umbrella of the EU (Knill 2001, OECD 2005).

However, high unemployment rates continued to exist as a phenomenon in most of the OECD countries, partly because the Schumpeterian innovation strategy for growth made the closing down of old industries extensive. Then, during the 1990s, the new economic policy generated some recovery. The Nordic countries, almost untouched by the stagflation crisis, continued to demonstrate a sane economy regarding low both inflation and unemployment. The Anglo-Saxon states of the UK and Ireland showed improvement regarding employment. Statistically, in economic terms, at that time they did better than most of their major Continental counterparts. However, as pointed out by scholars, in the Anglo-Saxon tradition, since the 1980s, the labor market flexibility based on the principle of neo-liberalism generated employment but many of the jobs created was low-paid or part-time jobs (Einhorn 2006). Some of the jobs were so low-paid that workers were – and still are – unable to cover their living expenses and therefore need public security income support. They became counted as employed in the official labor market statistics, but income statistics reveal a systematic increase of social inequality (Piketty 2014).

The Nordic countries also experienced stable job creation and low unemployment. The development of high employment is based on flexibility in the labor market. This flexibility has been created for different reasons in the social tradition as compared to the Anglo-Saxon. This flexibility of the revised Nordic model has resulted from the universal welfare state principles with its social security arrangements which make the changing of work and workplace low-risk for employees. The flexibility concept does not generate systematic inequality (EPC 2005). Balancing policy choices with political realities is not easy.

## VI. THE NORDIC MODEL AND NEO LIBERALISM

However, since the 1990s, the Nordic welfare policy has to some extent followed the path of neo liberalism. On the other hand, the social tradition of the Nordic countries is not really positive to generate labor market flexibility by the creation of low-paid and part-time jobs. Although the Nordic countries are similar in being founded on a social state-centered model and having strong employee unions, the Anglo-Saxon neo-liberalism has penetrated the Nordic countries to a large extent with the consequence of threatening the Nordic model itself. First and foremost, this penetration is found as policies for the breakdown of public service monopolies, the exposure of public sector activities to market competition, and lastly the liberalization of the labor market (Vegge and 2014; EPC 2005). The universal welfare state and social security scheme continues though.

Why has the Nordic model become an employment success? Social security is a wide concept which embraces access to social services, employment and unemployment protection as well as income protection. Income protection is secured both through the collective wage bargaining system on standard tariffs involving employer and employee unions and through the public tax and transfer system. This sort of protection helps to reduce the variability of wage rates after tax and transfer income, and therefore helps to manage the risk associated with changing jobs for.

Nordic political attitudes and economic approaches changed when the fiscal ability became threatened in the 1980s and the severe worldwide economic recession occurred. Suddenly, increasing unemployment rates, overloaded public budgets and globalization of markets became the focused issues which also challenged the Nordic welfare state model (Vegge and 1998). The situation in Norway was exceptional because this country had a source of growing income from oil and gas, and this provided a cushion against the development of high unemployment. Nevertheless, the economic stagflation crisis of the 1970s was noticeable, and the crisis represented a fertile ground for new thinking and transformation in the organizations of economic production and the institutional functions of the state.

Market solutions and proposals for less state involvement arose and were legitimized by the neo-liberal ideology of the Anglo-Saxon tradition and New Public Management (NPM) goals (Lane 2000). Politicians, the media and economists started giving attention to the actual and potentially increasing welfare role of the market driven by both public and private actors and agencies.

This new attention was often linked to sharp criticism of the allegedly inefficient public bureaucracy and monopoly. The criticism of the costly welfare state emanated not from the heavily burdened Nordic welfare state (Vegge and 2009), but rather from the 'less advanced' or 'less expensive' Western liberal welfare states such as the UK and the USA. The OECD legitimized the criticism and skepticism through the wide-ranging report on the welfare state in crisis, and promoted strongly the strategy of deregulation, outsourcing instead of in-house provision of welfare services, market-driven solutions in the public sector, and contracting as a new management tool (Vegge and 2004). Modernizing government in this way and performing the reform along the Anglo-Saxon path and NPM principles were the ultimate recommendation of the OECD. Further, the related neo-liberal ideology stressed the responsibility of individuals for themselves, the freedom to choose services, security through personal and/or employer health and social insurance, etc. From the 1980s on, the international winds of ideological criticism and warnings against universal



public welfare and social security measures reached the Nordic countries.

The views of neo-liberalism, which were picked up and have been partly followed with very little deviation by the leading Nordic right-wing political parties since the 1980s, and influenced the social democratic parties as well. The key word here is the belief in commercialization in order to increase efficiency in the public sector and in the welfare service sector (Dilger *et al.* 1997). Constituting an ideological front here is the presentation of individual differentiated needs and rights with the liberating message of freedom to go 'shopping' for services of your own, and a message of inclusion by giving very one the opportunity to be included in this system of freedom. Neo liberalism generated its own language, which biased good governance views and values to the market and bad governance views to the state. This list of ideologically blended words, which is inspired by many scholarly sources and dominant in OECD reports of recommendations on modernization issues, tries to clarify the contrasting views in a context of supremacy and inferior absolutism:

The neo-liberal views are somewhat realized in the Nordic countries in a transformed mode (OECD 2002).

Let us look further to compare the actual and basic transformations and dilemmas that challenge the universal welfare state of the contemporary Nordic countries. While the Nordic model built on an active state and the development of a universal welfare state, the classical economists of the after war period redefined their theories of what they defined as 'neo liberalism'. This became an extreme form of political market thinking and anti-state ideology. From the 1970s to the 1980-1990s, neo liberalism burst forth as a wave of reforms in the western world, including the Nordic countries, like a pandemic. The new thing that neo liberalism included was liberal reforms that also included the public sector, with New Public Management (NPM) as the flagship, a ship that also sailed full speed into the Nordic countries. Governmental target-orientated management and EU/EEA regulations on a large scale weakened the labor market unions, the 'tripartite cooperation' and the representative democracy. There was talk about a 'democratic deficit'. It was something more serious than what happened. The entire democratic Nordic/model fell into a condition of illness in the 2000s. The rightwing political parties and governments wanted that this model to die as fast as possible.

The winner of the Nobel Prize in Economics and regular columnist for *The New York Times*, Paul Krugman (d. 1953), is one of those who still argue in support of the Nordic model. Politically, he belongs to the American left. Krugman is considered to be a neo-Keynesian. He is an exponent of the state 'counter-

cyclical policy' and of increased taxation of the rich. He rejects the removal of wealth tax, because the removal of this tax will make the richest richer. He claims that the fluctuating economic cycles are best evened out by governmental intervention in the form of demand-regulation welfare and distribution. Neo-liberalism's promises of free individual choice in all areas of society are a bluff. The right wing governments should take this seriously whenever they repeat in their political rhetoric again and again "less state", "free individual choice" and "least possible prohibitions".

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

What is, then, the Nordic neo-liberal government's new strategy for growth? It is actually old news. It believes in the market, the market, and the market. Furthermore, it also believes in competition and competition in both the public and private sectors, and privatization and smaller government. It also wants the tightening of public spending and tax cuts. Most tax cuts should be for the rich, who, according to classical economic theory always reinvests their profits, thus creating new jobs. In addition, it looks to a much-debated theory first proposed by the economist David Ricardo in 1817, and published under the title 'Principles of Political Economy and Taxation'. The theory is therefore old and needs revision. The neo-Keynesian approach might do this revision and come and save the proper Nordic model.

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