

Modern Welfare States

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*Scandinavian Politics and Policy
in the Global Age*

Second Edition

ERIC S. EINHORN AND JOHN LOGUE

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Preface: Scandinavia in the Era of Globalization

“A week is a long time in politics” is the way British Prime Minister Harold Wilson once put it.

A decade is even longer. Reviewing our earlier edition of *Modern Welfare States*, which appeared in 1989, we were impressed by how much had changed in these few years. The collapse of the Soviet Union and the end of the Cold War fundamentally altered the balance of power in Scandinavia, permitting both Finland and Sweden to join the European Union. Immigration has increasingly turned the once homogeneous Scandinavian states into societies of racial, religious, ethnic, and linguistic diversity—and put the issue of civil rights for immigrants on the political agenda. Privatization has become fashionable, even for some of the Social Democrats who once saw the growth of the public sector as the surrogate for socialism.

The Scandinavian Social Democratic model offered capitalism with a human face: a redistributive welfare state that eliminated poverty and that was based on a privately owned, market economy. Transfer payments and social services raised the living standards of the worst off to near middle-class levels. The tax burden was high, but careful national economic management limited the costs of countercyclical public sector spending. The tools of state power were used to promote political, social, and economic egalitarianism. There were plenty of strains, but those strains were primarily internal to the individual Scandinavian state’s system.

This model was premised on the assumption that the nation-state is the proper unit for making economic policy. In the increasingly globalized economy, this simply is no longer true. Every year power seeps from the

Scandinavia capitals of Copenhagen, Helsinki, Reykjavik, Oslo, and Stockholm to the European Commission in Brussels, to the European Central Bank in Frankfurt, to the international commercial banks in London, New York, and Tokyo, and to multinational corporations in England, France, Germany, Holland, Japan, and the United States. This has profound implications for the future development of the Scandinavian Social Democratic model.

Much in Scandinavia and in this book is still the same as it was more than a decade ago. The political history of modern Scandinavia is unchanged, although a bit longer. Political institutions are little changed, although they deal with new policy issues and have an overlay of European Union law. Political actors—parties, interest groups—are fundamentally the same, although they too grapple with new problems. Scandinavian trade unions have actually increased their already strong position, while trade unions elsewhere in the world have lost membership. The Social Democrats have been almost as dominant in governmental office as they were in their heyday.

Much, however, has changed. Among politicians and voters, a new generation has come of political age, solidifying party fragmentation. The monolithic Social Democratic vote from working-class families has declined as the working class has become more affluent and as the wedge issue of immigration has undermined political class cohesion; party membership has plummeted to half or less of what it was a dozen years ago. Women have come of age in politics, providing 40 or more percent of the members of parliament, a prime minister in Norway, a president in Iceland, both president and prime minister in Finland, and the chair of the Swedish trade union federation.

The first edition of *Modern Welfare States* dealt with two major policy themes. The first was the development of the modern Scandinavian welfare state in the period between when Social Democrats took power in the depths of the Great Depression and the oil crisis in 1973–74. The second dealt with the internally generated strains that came to the fore in the 1970s and 1980s. The tax revolt led by Mogens Glistrup in Denmark and Anders Lange in Norway; the pernicious interplay between high marginal tax rates, high interest rates, and the tax deductibility of mortgage interest on the economy; and efforts to reform the tax system to avoid these problems figured heavily. So did rising take-up rates for various welfare state services among the younger generation. Although taxes and welfare program take-up rates remain issues, tax reforms and welfare adjustments have ameliorated some of the difficulties.

We depicted a Scandinavia substantially ahead of the rest of Europe in terms of its provision of transfer payments and social services to its citizens, a region that was more egalitarian than the Continent or England, where democracy was a social and economic concept as well as a political

one. Scandinavia remains more egalitarian and democratic, but in many ways the Continent has caught up on social security and services.

We devoted substantial attention to Social Democratic ideology and culture, which, we argued, had shaped Scandinavian politics and policy more than the Social Democrats had done elsewhere in Europe. We also noted their confusion in the face of the combination of welfare state internal strains and the international economic crisis, quoting then Danish Social Democratic parliamentary leader Ritt Bjerregaard's candid 1982 answer to an interviewer (Uhrskov 1982, p. 43) who asked her, "Do the Social Democrats have any idea of how to get Denmark out of the crisis?" "There isn't anybody who has a handle on it," Bjerregaard replied. "There isn't any simple answer that says 'Yes, that's exactly what we should do.' The others don't have the answer and neither do we."

In fact in the late 1980s and 1990s, both the Social Democrats and the parties of the center and center-right have been able to ameliorate the internal strains on the Scandinavian welfare model. Changes at the margins in welfare programs have reduced excessive costs and increased economic and social flexibility without undermining basic security or living standards. Tax reforms have broadened the tax base and reduced marginal rates. The pension system reforms of the 1990s constitute a preemptive strike against the reemergence of internal strains as the postwar baby-boom generation reaches pension age. Welfare state expansion could continue in services for children and for the elderly. Public finances are back in equilibrium.

Today policy issues are significantly different.

More than anything else, this is a product of globalization. The Scandinavian states have long been "porous states in an interdependent world," as we described them in the earlier edition. Today economic globalization has transformed the economic context in which they operate; they are much more dependent economically on what goes on outside their borders. Ownership of some of the crown jewels of Scandinavian manufacturing, including both Volvo's and Saab's automotive operations, has passed into foreign hands, while Scandinavian multinational corporations do more of their production abroad.

The Scandinavian countries are more dependent too on external ideological factors; witness the new emphasis on privatization, deregulation, and the glorification of the market. Every Scandinavian government has experimented with some form of privatization in one or another public-sector agency with some successes and some failures. Swedes, Finns, and Norwegians deregulated the banking sector with disastrous results similar to the American savings and loan crisis in the 1980s. Each nation has swung a bit toward the use of market forces. Yet in the midst of the neo-liberal wave, perhaps the greatest market success of a Scandinavian product internationally, after Nokia and Ericsson mobile telephones, has been

Absolut Vodka, the product of AB Sprit, the Swedish state-owned liquor company.

Immigration and growing minority populations—another aspect of globalization—have changed the face of the cities and the language of the streets, as well as raising new issues of ethnic, religious, racial, and linguistic diversity. Immigration has become a divisive issue more than any other, splitting the otherwise cohesive Social Democratic working-class constituency.

Finally, the collapse of the Soviet Union fundamentally changed the Scandinavian world. Economically, it devastated the Finnish economy, producing in the early 1990s the worst economic crisis in that country since the Great Depression. Geopolitically, it permitted Sweden and Finland to join the European Union. Ideologically, it devalued Marxism as a political force. Scandinavian Social Democrats uniformly criticized the Soviet Union, as did many socialists to their left, but their discussions revolved around how to reform and democratize the Soviet system, not how to abolish it. They had long reveled in having the “middle way,” as Marquis Childs wrote in the 1930s, between the crisis-prone capitalism of the West and the oppressive Communist regime of the Soviet Union. Now the latter had vanished. After the Soviet collapse, the political center of gravity shifted to the right.

The changing external context has also broadened the geographic scope of this volume. The first edition of *Modern Welfare States* looked only at Denmark, Norway, and Sweden. We saw Finland and Iceland as very different. Although these welfare state laggards had increasingly converged on the three core Scandinavian countries’ programmatic standards, their politics remained characterized by Finland’s peculiar relationship to the Soviet Union and by the division of the labor movement in both countries between more or less equally strong Communist-led labor alliances and the Social Democrats. Those political differences went by the boards in the 1990s. So although Finland and Iceland have very different political histories from Denmark, Norway, and Sweden, the commonalities have grown while the differences have lessened. Finland in particular has converged on the other Scandinavian countries in terms of Social Democratic dominance of government; 1966 through 2002 saw twenty-five years of Social Democratic prime ministers, exceeding Denmark’s nineteen and Norway’s twenty and almost matching Sweden’s twenty-seven. Thus we have included them in this volume.

None of the Scandinavian countries have illusions of closing their economies or of reversing global economic trends through national measures. But the external strains of global economic competition—of open markets for goods and capital—are real. How do you maintain the attractive features of the Scandinavian welfare state in a global economy? Can you maintain substantially higher levels of social protection and economic jus-

tice, as the Scandinavians wish to do, and still be innovative, open, flexible economies? Can you still have government accountable to the electorate? Or is the welfare state fundamentally tied to a national manufacturing economy? In short, if the nation-state is no longer the appropriate unit for economic policy, how do you replace it?

One answer is to look to Brussels. At the time of the first edition of the book, Denmark was the only Scandinavian member of the European Community. Today the "Community" has become the European Union (EU) as it has moved toward a federal state, having broadened the scope of its policy making to include monetary policy and fiscal convergence; Finland and Sweden are also members. Even Norway, which rejected membership for a second time in 1994, and Iceland are closely linked to the EU through the European Economic Area. But joining Europe has been divisive, especially for the Social Democrats whose voters feared downward pressure on wages and benefits; the Scandinavians remain Euro-skeptics, in no small measure because of the EU's so-called democratic deficit, which has given disproportionate influence to bureaucrats and experts.

Another answer is to "act locally," to decentralize, to shape more policies in smaller communities or in functional areas. Some of this decentralization involves the intrusion of the market into the public sector, another cause for Social Democratic concern.

The external strains stemming from global population movements are equally real. Since the collapse of the Soviet Union and of Yugoslavia, Western Europe has become awash in Eastern European economic and political refugees, who have joined the flood of guest workers, asylum-seekers, and others reaching for a better life from North Africa, Turkey and the Middle East, and Southern Asia who were already arriving. Since 1990, immigration has become a major campaign issue, with a significant impact on outcomes of parliamentary elections in Denmark and Norway. Three Norwegian neo-Nazis went on trial for murdering an Afro-Norwegian teenager in suburban Oslo. And two new members of Middle Eastern background took their places in the new Danish parliament. So we must ask: Is the Scandinavian Social Democratic model dependent on religious, ethnic, linguistic, racial, and cultural homogeneity? How do you maintain a sense of national identity sufficient to underpin the welfare state in increasingly immigrant, diverse societies?

In short, the first edition of *Modern Welfare States* dealt with policy issues that were largely internally generated, epitomized by the tax revolt of 1973 in Denmark and Norway. By contrast, this edition deals with increasingly externally generated policy issues, epitomized by the global economic crises in Sweden in 1992, when interest rates spiked at 500 percent; Finland, in which employment collapsed in 1992–94; and in the rising issue of immigration that so colored the Danish and Norwegian elections of the late 1990s and first years of the twenty-first century.

All these changes led us to reconsider the earlier subtitle of *Politics and Policies in Social Democratic Scandinavia*. Can we still call Scandinavia “Social Democratic”? The Social Democrats’ governmental dominance has become shaky. The issues that rank high on the political agenda today—immigration, privatization, deregulation, integration in the global economy—are not Social Democratic issues. To be sure, Scandinavia remains social democratic in a less partisan sense: Overarching concepts of social solidarity, of raising the standards of those less well-off in the market, of collective organization, of the welfare state model have become the common framework for all governments, regardless of partisan coloration. Yet the movement, driven significantly by globalization, is toward a diminution of the universal programs, national solidarity, and equality of results—all principles that characterized Scandinavian Social Democracy. The momentum instead is toward more of a social insurance principle in welfare programs and toward more differentiated results. Tomorrow’s Scandinavia will be more a social market economy, under growing pressure from economic globalization, with less scope for the national solidarity that characterized Scandinavia yesterday.

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As much as we would like to share the blame for infelicities of style and for errors of fact, interpretation, and analysis, those are, regrettably, our own.

Abbreviations and Acronyms

- AFL-CIO:** American Federation of Labor–Congress of Industrial Organizations
- AMS—Arbetsmarknadsstyrelsen (S):** National Labor Market Authority
- ASEA—Allmänna Svenska Elektriska AB (S):** Swedish General Electric Co.
- ATP—Allmänna Tilläggspension (S):** Supplementary pension
- CAP (EU):** Common Agricultural Policy
- Comintern:** The Communist International
- COPA—Comité des Organisations Professionnelles Agricoles (EU):** Committee of Professional Agricultural Organizations
- DA—Dansk Arbejdsgiverforening (DK):** Danish Employers' Association
- DsF—De samvirkende Fagforbund (DK):** Trade Union Confederation
- EC (EU):** European Community
- EEA (EU):** European Economic Area
- EMU (EU):** Economic and Monetary Union
- ERM (EU):** Exchange Rate Mechanism
- ESC (EU):** Economic and Social Committee
- ESOP:** Employee Stock Ownership Plan
- ETUC:** European Trade Union Confederation
- EU:** European Union

- GDP:** Gross Domestic Product
- ICFTU:** International Confederation of Free Trade Unions
- ILO:** International Labor Organization
- JK—Justitiekansler (S):** Chancellor of Justice
- JO—Justitieombudsman (S):** Parliamentary Ombudsman
- LKAB—Luossavara-Kiirunavaara Aktiebolaget (S):** Kiruna Iron Mine Company
- LO—Landsorganisationen (DK, N, S):** Trade Union Federation
- MBL—Medbestämmandelagen (S):** Employees Co-determination Law
- MNC:** Multinational corporation
- NAF—Norsk Arbeidsgiverforening (N):** Norwegian Employers' Association
- NATO:** North Atlantic Treaty Organization
- OECD:** Organization for Economic Co-operation and Development
- PR:** Proportional Representation
- RF—Regeringsformen (S):** Instrument of Government
- SACO—Sveriges Akademikers Centralorganisation (S):** Swedish Confederation of Professional Associations
- SAF—Svenska Arbetsgivarföreningen (S):** Swedish Employers' Association
- SKF—Svenska Kullagerfabrik (S):** Swedish Ball Bearing Works
- SPP:** Socialist People's party
- STD:** Sexually transmitted diseases
- TCO—Tjänstemannens Centralorganisationen (S):** Central Organization of Salaried Employees
- TFO—Tryckfrihetsförordning (S):** Press Freedom Act
- UN:** United Nations
- VAT:** Value-added tax
- VpK—Vänsterpartiet Kommunisterna:** Left party Communists
- DK = Denmark, EU = European Union, N = Norway, and S = Sweden.

PART I

**Understanding Scandinavian
Politics**

