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**The Social Democratic Full-Employment
Model in Transition - The Scandinavian Expe-
riences in the 1980s and 1990s**

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Abstract

The Social Democratic Full Employment Model in the Nordic Countries underwent a rapid transition in the 1980s and early 1990s. In this paper, change and continuity is examined along three dimensions: the political stimulation of demand for labour, the political incentives influencing labour supply, and thirdly, the politics targeted towards enhancing the matching process on the labour market. In the first dimension it is shown that in all four countries the consensual wage bargaining systems were eroded in the 1980s which implied high wage increases and, as a consequence, shrinking employment. Despite the progress of globalisation, this institutional erosion was the main cause of the Nordic employment crisis in the early 1990s. In Denmark, Norway, and - not until the mid 1990s - Finland, the wage bargaining systems could be remodelled, but not so in Sweden. It is shown that this difference was caused by the reluctance of Swedish governments to release the employers from the financial burden of the welfare state. In the second dimension it is argued that the labour force supply declined in all four countries. The end of the Nordic 'Work Societies' can partly be explained by the strategic social policies of the various governments. In the third section, it is shown that the Social Democratic Model remained stable: In all four countries, active labour market policies are still at the centre of public attempts to improve the matching process on the labour market. Hence, continuity and change are mixed in the Nordic Full Employment Model. Taken together, this paper argues, that a restoration of the Social Democratic Full Employment Model in a world of globalised financial markets is based on a combination of moderate wage policies and a relieving of the employers of the costs of the welfare state.

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1 Introduction

A theory of Social Democracy is, by and large, a theory of Scandinavia.¹ At least in „terms of the welfare state and full employment performance, the presence of a ‘social democratic regime’ is limited to the Nordic nations“ (Esping-Andersen/van Kersbergen 1992: 202). There, powerful social democratic parties and highly organised trade unions dominated the political sphere, and in Cusack’s (1995) words, in these countries the „Center of Political Gravity“ has been on the left since World War II. This hegemony of labour has been supplemented by the co-ordinated policy process in these countries, and the Nordic Countries have been classified as highly corporatistic (cf. Lijphart/Crepaz 1991; Pekkarinen/Pohjola/Rowthorn 1992) or they approach the „Social Democratic Corporatist Model“ (Hicks 1994). And indeed, until the late 1980s, the Nordic Countries had been „an island of low unemployment in a sea of high European joblessness“ (Elmeskov 1994: 29). In the early 1990s, open unemployment increased in all four countries. Between 1988 and 1994, unemployment in the OECD countries increased on average by 2 percentage points, whereas unemployment went up in Finland by 13.7, in Sweden by 6.4, in Denmark by 5.6, and in Norway by 2.2 percentage points. Obviously, the Nordic Full Employment Model was no longer able to sustain full employment. The aim of this paper is to investigate the political and economical causes which help to explain the transition of the Nordic Full Employment Model.

What are the cornerstones of the Social Democratic Full Employment Model? From a comparative point of view², the Nordic Countries differed until the 1980s in three dimensions from the rest of the OECD world. *Firstly*, the Nordic Countries shared one common goal: their economic policy stance had been designed to promote demand for labour: Economic and monetary policies were targeted towards full employment, not to defend price stability. Furthermore, governments and central banks relied until the 1980s often on devaluations in order to strengthen the national export industries, and they used their credit policies to promote investment. These policies were complemented by centralised and highly co-ordinated wage bargaining systems. This corporatistic institutional framework has been

¹ ‘Scandinavia’ or the term ‘Nordic Countries’ includes Denmark, Finland, Norway and Sweden. Because of size, unique economic conditions, and data unavailability, Iceland is excluded from the analysis.

² Mjøset (1992: 654) is right when he argues that the „existence of a model can only be established through comparative research“. Because of that, and to avoid Nordic „Ethnocentrism“ (Anckar 1993), the focus of this paper is strictly comparative. Despite the notion of a Nordic Model, it is not intended to blur the differences between the Nordic Countries. However, the commonalities in the mentioned dimensions prevail if we compare the Nordic „Family of Nations“ (Castles 1993) with other OECD countries.

made responsible for moderate wage developments and consensual labour relations (cf. Kjellberg 1992; Pekkarinen /Pohjola/Rowthorn 1992). Additionally, with the welfare state expansion, public employment had increased in all four countries, thereby compensating for job losses in the private sector. Hence, in order to stimulate demand for labour a wide array of policy instruments had been used in a framework of a highly interventionist state.

Secondly, in the Nordic Countries welfare policies are designed to promote an encompassing inclusion of the population in the labour market, thereby maximising labour supply. They are in a comparative perspective leaders in respect of female participation (Schmidt 1993a), the integration of the older workforce (Wadensjö 1994; Olofsson/Petersson 1994) and even the integration of the younger workforce has been comparatively high - at least until the late 1980s. Besides full-employment, the central policy goal has been to maximise labour market integration - in contrast to most of the continental welfare states (Aust/Bieling 1996: 145).

Thirdly, the Nordic Countries differ from other OECD countries in the emphasis which is laid upon active labour market policies. All four countries spend huge amounts on active labour market policies, and indeed this is the main characteristic of the „Scandinavian model for labour market policy“ (Furåker/Johansson/Lind 1990: 141) or a „social democratic strategy“ of labour market policy (Janoski 1996: 698).

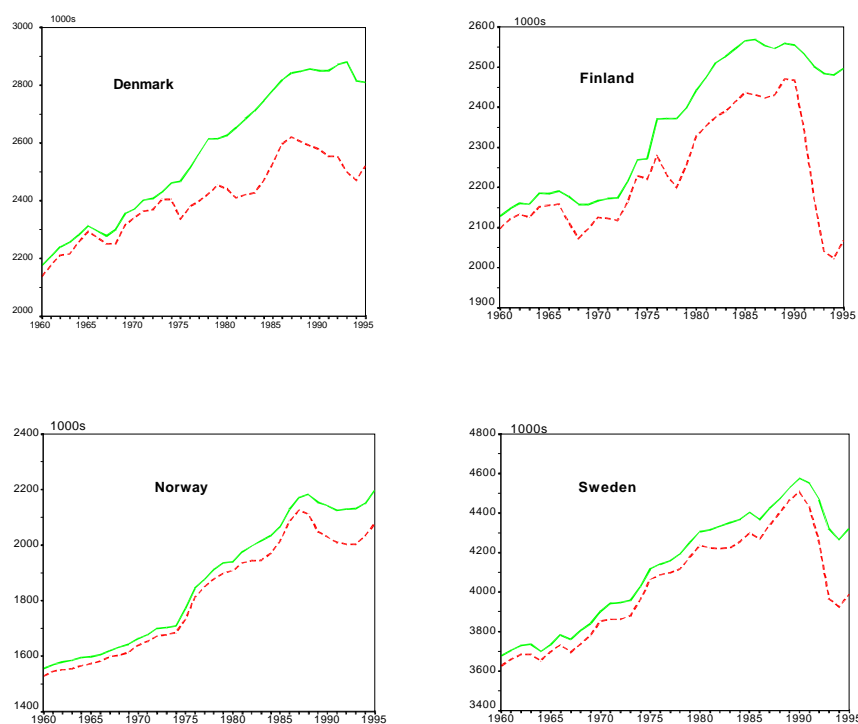
In the 1980s and early 1990s, the Nordic Full Employment Model changed in several aspects, but what were the causes behind this transition? We can distinguish two lines of argument. The first makes globalisation and economic pressures responsible for the erosion of the Nordic Model. The second points to the erosion of power resources, changing incumbent parties and the changing role of labour market institutions. I argue that change and continuity in the Nordic Model is best explained with a combination of these two arguments, whereby the internal adaptation to changing international environments is of crucial importance.

The paper proceeds in the following way: In the second chapter, a survey of the developments in the labour market is presented first. In this survey it is revealed that in the Nordic Countries different developments occurred in the labour markets, which in turn makes it necessary to breakdown the analysis. Hence, in the next step, the politics of stimulating employment are analysed. The following step is devoted to the development of labour supply, whereas the last focuses on labour market policies. Chapter three concludes.

2 The Nordic Full Employment Model in Transition - A Disentangled Analysis

What happened on the labour markets in Scandinavia? Figure 1 reveals the developments in employment and labour force participation since 1960. Until 1987 or 1989, employment increased in all four countries. Then, employment in Finland and Sweden collapsed, whereas in Denmark and Norway the decline was rather modest, but from a comparative point of view even there the decline was still above the OECD average. Labour force participation followed quite different directions. The supply of labour has declined since the late 1980s in Norway, Finland and very markedly in Sweden. In Denmark in contrast, labour force participation remained - until 1994 - at a rather high level, falling modestly thereafter.

Figure 1: *Development of Labour Force Participation and Employment in Scandinavia, 1960 - 1995*



Note: — = labour force participation in absolute figures; - - - - = employment in absolute figures.

Sources: OECD 1994b, 1996a, Employment Outlook (various issues).

As can be seen, the developments in the Nordic Countries differed in the early 1990s. Employment declined sharply in Finland and Sweden, modestly in Denmark and Norway. On the supply side of the labour market, all countries except Denmark experienced declining rates of labour market participation. These diverging trends did not only have an impact on the amount of the rising unemployment.³ Furthermore, this result makes it necessary to breakdown the analysis of the Nordic Full Employment Models and to examine the political conditions for stimulating demand for labour, for influencing labour force supply and for improving the matching process on the labour market step-by-step.

2.1 The Politics of Stimulating Employment

Employment dropped in all four countries in the late 1980s and early 1990s. And the decline in employment has been from a comparative point of view exceptional in the Nordic Countries.⁴ What are the political reasons for this development, or what are the circumstances that can explain this - in a historical perspective - unique decline in employment? We can distinguish three hypothesis: Firstly, the *economic crises* in the early 1990s were so severe that there was no leeway to counteract (Elmeskov 1994: 65; Therborn 1995: 125). Secondly, *globalisation* has caused the sharp decline of employment in the Nordic Countries. Thirdly, *internal developments* induced the decline of employment, and here the role of the wage bargaining systems and the funding system incentives of the welfare states have to be considered.

Economic crises do not imply doom for employment development - this was one central thesis of the comparative labour market research (Scharpf 1987; Schmidt 1982, 1987; Therborn 1985). The Nordic Countries, however, underwent huge economic turmoil in the early 1990s, and this - it is argued - was the reason for the breakdown of employment (Elmeskov 1994: 65; Therborn 1995: 125). From a comparative point of view, this argument does not hold. In Sweden and Finland, economic growth deteriorated in the early 1990s, but this was not the case in Denmark where growth was in line with the OECD average, and in Norway, growth has been clearly above the OECD average throughout the 1980s and 1990s. The case of Norway, especially, demonstrates that the employment crisis can not be explained by economic growth rates alone. On the other hand, the responsive-

³ If we assume that the labour force participation since 1988 had been constant, the hypothetical unemployment rate in 1994 would have risen in Finland by 5.8 percentage points, in Norway by 2.4, and in Sweden by 4.9. In Denmark, on the contrary, open unemployment would have been 1.5 percentage points *lower*. This clarifies, how important it is to include the development of the labour supply in studies on unemployment (cf. von Rhein-Kress 1996).

⁴ Between 1988 and 1994, the employment rate dropped in Finland by 13.4 percentage points, in Sweden by 10.8, in Denmark by 5.6, and in Norway by 4.9. Hence, the Nordic Countries are the laggards in the OECD area (there, on average, employment dropped by only 1.2 percentage points).

ness of employment to varying growth rates increased in all four countries in the 1980s, if compared with the 1970s. Then, employment was fairly de-coupled from economic growth, whereas this was not the case in the 1980s and early 1990s. Hence, we can argue that economic growth, even in the 1990s, is not directly linked to employment levels, but the responsiveness has clearly increased, which indicates that some political instruments may have lost their relevance or power to counteract economic crisis.⁵

Globalisation is the new growth industry in the social sciences (cf. Busch 1996). However, there is some confusion about what globalisation really is and what consequences this development may imply for the labour market. In this paper the term globalisation covers two dimensions: *Firstly*, the flows of investment are one part of the phenomena of globalisation. Huge global players in Scandinavia - such as IKEA, Ericsson or Statoil - transcend national borders which implies a drain of investments and as a consequence undermines domestic employment and the foundations of the Social Democratic route to full employment (for Sweden cf. Pontusson 1992a). *Secondly*, the constitution of the financial markets has changed dramatically in recent years. The internationalisation of capital markets, it is argued, forces the convergence of interest rates, fiscal, monetary and currency policies- which is enforced by European integration. To default from the main trend in these areas is immediately punished by capital flight. This as a consequence diminishes the leeway for 'Sonderwege' to stabilise employment (cf. Scharpf 1987, 1996). Hence, we should observe a convergence of macro-economic goals. Foremost among these is the convergence between the OECD states in favouring price stability as the main policy goal to mention. And indeed, this policy change has been made responsible by several authors for the breakdown of the Nordic Full Employment Model (cf. Calmfors 1993; Moses 1994; Notermans 1993, 1994). But this policy convergence includes currency policies as well. In a world of globalised capital, strategic devaluations in order to restore competitiveness should be punished by the actors on the capital markets. Hence, we should assume that devaluations should no longer be viable in a globalised economy.

All four Scandinavian Countries experienced - with respect to the above mentioned aspects - a sharp increase in globalisation in the 1980s (cf. Swank 1997). *Firstly*, *foreign direct investment outflows* increased during the 1980s in all four countries, whereas the inflow remained on a rather low level (for Sweden cf. Pontusson 1992a; Stråth 1993). However, from a comparative point of view, high outflows of investment capital have not been unique to the Nordic Countries. Even in the Netherlands or in Belgium, huge multinational firms have used the leeway to invest abroad. And as can be seen in these countries, the outflow of investment capital is no hindrance to raising employment. Hence, even this new development in the Nordic Countries may not explain why these countries were hit by such exten-

⁵ This argument relies heavily on analysis which are reported elsewhere. Because of limited space, I refer to the main results only (cf. Jochem 1997: 137-141).

sive employment crises. However, it poses the question, why employers invested abroad and not in the domestic economy, a question which will be answered later on in this chapter.

Secondly, all four countries changed their policy stance: the *defence of price stability* became the main policy goal. In Norway and Denmark, this policy-shift had already occurred in 1981 and 1982 under the newly elected bourgeois governments. The other Nordic governments with a short delay followed suit. Notermans (1993, 1994) as well as Moses (1994) and Calmfors (1993: 53) argue, that this is the main cause of the end of the Nordic Full Employment Model, at least in Norway and Sweden. The fight against inflation has its price in shrinking employment and rising unemployment. Not surprisingly, the relationship between the development of the consumer price index and the employment rate is negative for the OECD countries between 1984 and 1994. And this argument holds relatively well for Denmark and Finland. In Norway and Sweden, however, the development in the employment rate reveals no relationship to the development of the consumer price index.⁶ After 1989 employment increased slightly in Norway, despite further declining inflation rates. And in Sweden, employment remained stable during the 1980s despite very huge variations in the consumer price index. Hence, we can argue that in the Nordic Countries the fight against inflation became the major policy goal in the 1980s. But this policy change can hardly explain the dramatic decline of employment in these countries. It is rather a reduction in the leeway available for governments to counteract shrinking employment rates, but not the cause of it.

Finally, the *changing leeway in the currency policy* may have induced the Scandinavian employment crisis. Indeed, from this perspective, the greatest change in the Nordic Full Employment Model occurred. The Scandinavian Countries had relied since World War II on a macro economic strategy which included strategic devaluations in order to regain competitiveness for domestic export industries (Gylfason 1990; Korkman 1992; for Sweden: Lindbeck et al. 1993: 252; Lindbeck 1997: 1308). Even in the early 1980s, the Danish Social Democratic government could no longer use this policy instrument to the extent they wished to. Instead of a devaluation of the krona by 7%, the partners in the European Union accepted only a devaluation of 3% (Schaumann 1993: 249). In Sweden (1982), Finland (1982 and 1986)⁷, and Norway (1986) such a strategy was still viable in the 1980s, but at

⁶ The correlation between the consumer price index and the change of employment rates is for Denmark between 1984 and 1994: $r = .54$, for Finland: $r = .55$. In contrast, there is only a moderate correlation in Norway: $r = .34$ and Sweden: $r = .39$ (cf. Jochem 1997: 145).

⁷ The Finish history provides various examples of such „devaluation cycles“: „When the profitability of the exports sector weakens and the economy enters a recession, policies react in a contractive fashion. Fiscal and monetary policy are tightened, the currency is devalued and wages are frozen in order to restore profitability“ (Andersson/Kosonen/Vartiainen 1993:9). As a consequence, the Finnish economy has been classified as highly volatile in the OECD area (Pekkarinen 1989: 326).

the end of this decade even there, the currency policy became more restricted. In Sweden, for example, the main trade union federation (LO) forcefully requested a major devaluation at the end of the 1980s in order to restore profitability to the export industries. However, the Carlsson Government rejected this claim: The stability of the currency had become a major policy goal in Sweden at the end of the 1980s (Mjøset 1996: 23). This in fact diminished the leeway for governments - and central banks - to counteract negative developments with regard to competitiveness, which in turn have their origin in the way wages and supplementary wage costs are regulated.

The third hypothesis refers to *internal developments* in the Nordic Full Employment Model. And here the roots of the Scandinavian employment crisis are based: The erosion of the hitherto consensual wage bargaining systems and the - partly - negative consequences of the funding systems of the Nordic welfare state did cause the sharp decline of employment. The Nordic wage bargaining systems were - at least until the 1980s - stylised by comparative researchers as highly consensual and co-ordinated (cf. Layard/Nickel/Jackmann 1994; Soskice 1990). But in the 1980s, the Nordic Model of labour relations (cf. Kjellberg 1992) withered away.⁸

In *Denmark*, the 1982 change in government initiated the transition of the wage bargaining system. The newly elected centre-right coalition cancelled the indexation of wages - and most social transfers - to the development of the inflation rate and additionally implemented far reaching stabilisation policies. The trade unions vehemently opposed this policy and in 1985, conflicts in the labour market escalated (Due et al. 1994: 194). The government formulated wage ceilings around 2% annual wage increases (Andersen/Risager 1990: 169), in fact, wages grew between 1984 and 1988 between 4% and 9% annually.⁹ Behind this development, local wage drift accounted for the major part of the wage rise. Partly as a consequence, the Danish employers' organisation reformed its internal structure. The employers in the export oriented sector centralised their organisation and restored their dominance in the central employers' organisation (DA). At the same time, these employers were successful in decentralising the wage bargaining system. Since the late 1980s, bargaining rounds on the central level only fix minimum wages, whereas the effective wage has been regulated at sectoral levels. Because of the internal co-ordination in the employers' organisation, wage drift declined and in consequence, the wage growth after 1988 gradually decreased. In fact, the process of „Centralised Decentralisation“ (Due et al. 1994) has been accepted by the trade unions and this generated moderate wage bargaining outcomes in the 1990s.

⁸ For an overview of the recent trends in the Nordic wage bargaining systems see for example: Ahlén 1989; Due et al. 1994; Dølvik et al. 1997; Elvander 1988; Fulcher 1991, 1994; Iversen 1996a, 1996b; Kauppinen 1994; Lange/Wallerstein/Golden 1995; Pestoff 1995; Traxler 1995; Wallerstein/Golden 1997.

⁹ Figures for wage growth are taken from SAF 1996; cf. figure 2, below.

In contrast, in *Finland* the wage bargaining system had been highly centralised until 1987. This had been backed by the various governments through highly formalised tri-partite package deals. However, even in Finland, local wage drift accounted for up to 50% of the total wage growth (Eriksson/Suvanto/Vartia 1990: 200; Tyrvainen 1995: 170) and the annual growth rate in wages was around 6% and 10% between 1984 and 1989. The conservative - social democratic coalition government, however, initiated a deregulation of the wage bargaining system. The conservative party claimed that wage formation should follow the incentives of the market and therefore should be handled on a local level. As a consequence, wage drift increased even more. In the aftermath of the economic crisis since 1990 the governments and labour market organisations have been able to rebuild the Finnish wage bargaining system. The employers in the export oriented manufacturing industries started to decentralise wage bargaining in 1993. In the mid 1990s, wage bargaining in Finland was located at the local and sectoral level, however, as in the Danish case, there is high co-ordination amongst the employers, leading to low wage drift and moderate wage increases.

In *Norway*, the newly elected centre-right coalition of 1981 stopped the hitherto active role of the government in the wage bargaining process. As a consequence, wage drift skyrocketed in the 1980s, and amounted to up to 66% (Elvander 1990: 9) or even 90% (Hernes 1991: 253) of the total wage sum. Total wages grew very fast, reaching their highest level in 1986 with an annual wage increase of 16%. In contrast, the new incumbent social democratic party launched an „emergency incomes policy“ (Mjøset 1989: 334), starting with moral persuasion in 1987 and progressing to a wage law in 1988, which fixed wage agreements for the whole economy. As a consequence, wage growth began to decline. This was backed up by several attempts of the new government to rebuild the consensual policy formation process. An encompassing „solidarity programme“ (cf. Dølvik et al. 1997: 91-94; NOU 1992) was achieved, in which an active incomes policy and further spending on education and training has been promised by the government in order to promote consensual labour relations and moderate wage growth.¹⁰ Furthermore, a new committee was established („Forum for the Creation of Values“), which excluded participants from the white collar unions (Mjøset et al. 1994: 71). All these measures have been implemented in order to rebuild the co-ordinated wage bargaining process, up to 1997 with significant success.

¹⁰ In the 1990s, the governments intervened frequently by law in order to stabilise wage bargaining and to prevent a break away of single trade unions - mainly from the public sector or white collar unions - from the central agreements (cf. *Die Zeit* 9th May 1997, p. 26). It remains to be seen, if the newly elected bourgeois government will follow this policy. At the time of writing, some white collar unions have announced their unwillingness to follow the guiding lines of the main labour market organisations and the government (cf.: <<http://www.aftenposten.no/nyheter/okonomi/d30943.htm>>. January 1998).

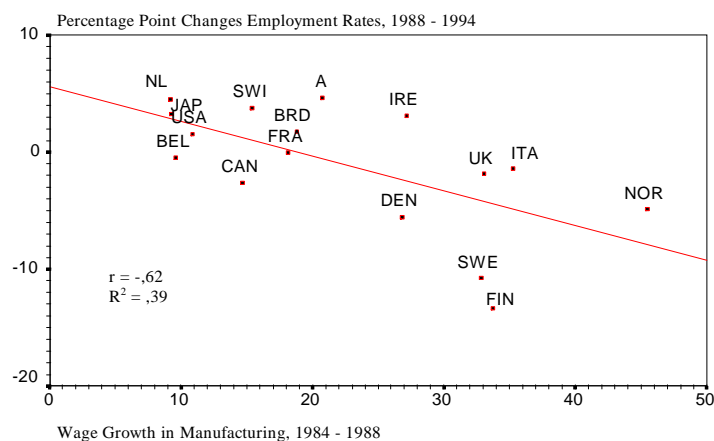
Lastly, in *Sweden*, the social democratic government launched the policy of the third way in 1982 (cf. Feldt 1991), which relied heavily on moderate wage growth and started with a huge devaluation.¹¹ The centralised wage bargaining process had already collapsed in 1983, as the employers in the manufacturing industry broke away and conducted a sectoral collective agreement. In 1985, the government stepped back in its attempts to co-ordinate the wage bargaining process, which opened the leeway for accelerating conflicts and a further fragmentation of the bargaining process (Ahlén 1989; Kjellberg 1992). In the remaining 1980s, wage competition between the private and the public sector accelerated, wage drift accounted for up to 50% and the total wage development rose between 1986 and 1989 from 7% up to 10% annual wage growth. In the early 1990s, decentralisation was in progress, the Swedish Employers Federation (SAF) dissolved its wage bargaining unit and implemented its withdrawal from the national corporatistic institutions (Pontusson/Swenson 1996). However, wage drift is nevertheless high (OECD 1995f: 17-19) and despite the most serious economic crisis since the 1930s total wage growth has remained comparatively high and wage competition between the public and private sector is still very pronounced.

As has been shown, the Nordic Countries followed different pathways. On the one hand, in Denmark and Finland, we can observe a pattern that can be labelled „Centralised Decentralisation“ (Due et al. 1994) or as Traxler (1995) put it, „Organised Decentralisation“. This strategy implies moderate wage increases and a co-ordinated policy concertation between governments and the actors of capital and labour. And this strategy rests on the capacity of the employers' organisations to enhance their internal co-ordination. On the other hand, in Norway a further centralisation of the bargaining process took place, which has been dependent on the willingness of the government to intervene by law. Finally, in Sweden there has been no co-ordinated wage bargaining process. The decentralisation strategy of the SAF was successful, but wage growth is still comparatively high and the institutions of the policy co-ordination have broken away. From this overview of the developments, two questions arise: Firstly, what have been the consequences of the eroding wage bargaining systems for employment? Secondly, what are the reasons behind the different pathways in the Nordic Countries?

Is there a relationship between wage growth and employment? Therborn (1985, 1987) as well as Korpi (1991) argue that the influence of wage growth upon the development of employment is not straightforward, and in the best case holds true for only a few countries and only from time to time. However, in the 1980s and 1990s, wage growth seems to have a significant reverse relationship with employment (cf. Figure 2).

¹¹ This political strategy started from the assumption „first growth and then redistribution“ (Pontusson 1992b: 314). Profits should be allowed to rise in order to stimulate investment, hence, wage growth should remain at a very low level.

Figure 2: Percentage Growth of Wages and the Development of the Employment Rates, 1984 - 1994



Source: OECD 1994b, 1996a, SAF 1996; own calculations.

As can be seen from figure 2, wage increases in the mid-1980s were exceptionally high in Norway, Finland, and Sweden, whereas Denmark remains in this respect in the middle field (partly because the transformation of the wage bargaining system had already started there in the early 1980s). And in the 1980s and 1990s, wage growth indeed has an inverse relationship with employment.¹² Therefore, we can argue that the erosion of the Nordic wage bargaining systems in the 1980s has been the main cause of the employment crisis and, hence, the transformation of the central cornerstone of the Social Democratic Full Employment Model.

Why could the Nordic wage bargaining systems no longer produce moderate wage growth in the 1980s? And what are the reasons behind the different developments in the 1990s? Firstly, in all four countries, wage competition between the public and private sector prevailed in the 1980s, and labour market conflicts increased, and to a great extent they were induced by the actors in the public sector. This was one consequence of the expansion of the welfare state and the far reaching bargaining rights of the public employees in the Nordic Countries. Secondly, the employers in the private sector were very opposed to this wage competition and tried to decentralise the wage bargaining process and to reduce the wage costs as well as the supplementary wage costs, i.e. social insurance expenditures. In Sweden, the SAF broke the corporatistic compromise and withdrew itself from these tri-partite bodies of policy formation and implementation. In the other countries - except Denmark -

¹² In the 1980s and 1990s, there have been no policy instruments available to dampen the impact of wage growth - as for example devaluations - or their further use has been limited - as for example the further growth of public employment. For a very instructive examination of the political conditions of wage restraint and its impact on economic performance, cf. Traxler/Kittel (1997).

the employers announced such measures in the 1980s, too. The employers' federation in Norway (NHO) repeatedly proclaimed such measures in the late 1980s, the Finnish employers' federation (TT) did the same, and they were rather reluctant to co-operate on a prolonged basis (cf. Mjøset 1996; Milner 1994: 178). However, in these countries - as well as in Denmark, co-operation could be renewed - why? One explanation focuses on the various governmental measures undertaken to fulfil the claims of employers, such as a further expansion of education or an activist income policy as in Norway. A second - and decisive - condition however is based on the relief from social security contributions granted to the employers. As is shown in table 1, the financial burden of the employers in funding the welfare state has been very small in Denmark or has been significantly reduced in Finland and Norway. And this stands in clear contrast to the development in Sweden.

Table 1: Funding the Nordic Welfare States, 1981 - 1993

| | public share (%) | employers' share (%) | employees' share (%) |
|-----------------------|-------------------------|-----------------------------|-----------------------------|
| <i>Denmark</i> | | | |
| 1981 | 88 | 10 | 2 |
| 1984 | 85 | 11 | 4 |
| 1987 | 84 | 11 | 5 |
| 1990 | 86 | 8 | 6 |
| 1994 | 80 | 10 | 11 |
| <i>Finland</i> | | | |
| 1981 | 44 | 48 | 8 |
| 1984 | 49 | 44 | 7 |
| 1987 | 47 | 44 | 9 |
| 1990 | 46 | 46 | 9 |
| 1994 | 49 | 36 | 15 |
| <i>Norway</i> | | | |
| 1978 | 37 | 44 | 19 |
| 1981 | 42 | 38 | 20 |
| 1984 | 46 | 35 | 19 |
| 1987 | 51 | 31 | 18 |
| 1990 | 55 | 28 | 16 |
| 1994 | 66 | 22 | 14 |
| <i>Sweden</i> | | | |
| 1981 | 50 | 49 | 1 |
| 1984 | 51 | 48 | 1 |
| 1987 | 55 | 44 | 1 |
| 1990 | 52 | 45 | 3 |
| 1993 | 55 | 44 | 1 |

Source: NOSOSCO, various issues (in the source the sum of digits of the numbers has not been 100 for all years).

As can be seen from table 1, the funding system in Denmark relies to a very great extent upon taxes (albeit the increase of the employer's share in 1994, which was caused by the labour market reform). In Finland, the employer's share decreased sharply after 1990, and the current government announced its goal to reduce this ratio further (MISEP 1997: 11). In Norway, the social democratic government has since 1986 gradually reduced the employer's share, thereby fulfilling one goal of the NHO. Hence, the evidence suggests that

behind the institutional development lay the employers material interests, and these interests should we take seriously if we want to explain institutional developments (Pontusson 1996).

Hence, the evidence shows that a co-ordinated wage bargaining process and a co-ordinated corporatistic policy formation in a world of globalised capital rests on the willingness of the political actors of the labour movement to relief the employers of the costs of the welfare state and to back this by moderate wage growth.¹³ Exactly this did *not* occur in Sweden. Therefore, this papers argument is that the lack of financial relief for the employers caused or at least induced the break down of the corporatistic institutions in Sweden (Lewin 1992, 1994; Jahn 1994; more optimistic: Rothstein 1994), and the conflicts in the wage bargaining process in this country (cf. Pestoff 1995; SAF 1997: 34-47). Hence, this internal policy paved the way for the employment crisis in Sweden, not globalisation.

In conclusion, we have to emphasise the partly diverging pathways of the Nordic Countries in their efforts to stimulate employment. The argument put forward is that the employment crises have not been *caused* by external developments - the economic crises or globalisation. Rather that the external conditions narrowed the leeway for the political actors *to react* to the loss of competitiveness in the domestic export industries, which in turn has its roots in domestic developments. The erosion of the wage bargaining systems, accelerating conflicts on the labour markets, and the from a comparative point of view high wage growth *caused* shrinking employment in the Nordic Countries.¹⁴ Therefore, the central cornerstone of the Nordic Full Employment Model was eroded in the 1980s in all four countries, but in the 1990s, the Nordic Countries followed different ways out of the crises. In Denmark and Finland, an „organized decentralisation“ (Traxler 1995) took place, whereas in Norway the wage bargaining system has been further centralised. These reforms have been initiated or requested by the national employers' organisations. In Sweden, such quiescence could not be sustained. There, the employers' federation broke the corporatistic consensus. This divorce in the Scandinavian „Family of Nations“ (Castles 1993) can be explained by crucial reform steps which included moderate wage growth and a relief of the employers from the costs of the welfare states, which was blocked only in Sweden. In the other Nordic Coun-

¹³ This argument is supported by the development in the Netherlands. The compromise of Wassenaar in 1982 was based to a very great extent on the promise to reduce the social security contributions of the employers. A compromise that has been fulfilled during the 1980s and paved the way for large scale working time reductions. For a discussion of the impact of social security contributions on employment in Continental Europe, cf. Scharpf (1997).

¹⁴ Note that the erosion of the wage bargaining systems occurred already in the 1980s. Hence, we can reject the argument that the co-ordinated wage bargaining process was a „good weather syndrome“ (Lewin 1992, 1994), which collapsed as a result of the economic crises in the early 1990s. Quite the contrary, in economically prosperous times, the erosion of the wage bargaining systems took place and this paved the way to the employment crisis some years later.

tries, the transition in this dimension of the Full Employment Model seems to have been successful.

2.2 The Politics of Labour Market Integration

The main goal of the Nordic Full Employment Model has been not only to minimise unemployment but even to maximise the integration of the population into the labour market. As already noted above, in the early 1990s, this trend came to a halt, and the pathways of the Nordic Countries diverged. Table 2 reveals the development in the participation rates for the younger workforce, the older workforce, and the female participation rate.

As can be seen, the decline of the participation rate for the younger workforce was from a comparative point of view exceptionally great in Sweden, Finland and Norway, whereas the development in Denmark is at the average level for all OECD countries. The older workforce remained in contrast in Denmark, Finland and Sweden on the labour market, but they left it to a very great extent in Norway. Lastly, female participation rates declined in all Nordic Countries but Denmark, contrary to the trend in the OECD-area. Hence, the reduction in the labour force supply¹⁵ is a new phenomenon in the Nordic Countries which not only reduced open unemployment in the early 1990s, but demands an explanation.

Table 2: The Development of the Labour Supply in the Nordic Countries, 1988 - 1994

| | <i>Participation Rate of the Younger Workforce</i> | <i>Participation Rate of the Older Workforce</i> | <i>Participation Rate of the Females</i> |
|--------------|--|--|--|
| Denmark | -6,65 | -0,75 | 0,70 |
| Finland | -13,50 | 0,60 | -3,20 |
| Norway | -11,50 | -2,40 | -1,50 |
| Sweden | -17,80 | -0,10 | -5,50 |
| OECD Average | -6,48 | -0,68 | 2,48 |

Note: The figures are percentage point differences.

Source: OECD 1994b, 1996a.

The transition from school to work is a rather complex relationship. The main instrument used to reduce the participation rate of the younger workforce is to expand higher education. And in the Nordic Countries, governments relied heavily on this policy instrument. In Norway, the Brundtland government decided in 1986 to expand tertiary education, and this

¹⁵ Between 1988 and 1994, total labour force participation declined in Sweden by -6.0 percentage points, in Finland by -3.4, and Norway by -3.2. In the OECD-area only Luxembourg experienced a similar decline (-5.6 percentage points). In Denmark the decline was rather modest (-0.7 percentage points), whereas the average for all OECD countries reveals overall continuity (cf. Jochem 1997: 175).

strategy has been further strengthened with the „Solidarity Programme“ of 1992 (cf. Dølvik et al. 1997: 91-94; NOU 1992), which is based on an encompassing consent between the main parties and labour market organisations. As a consequence the growth rate of student places at universities was at approximately 45% between 1984 and 1994, a development which was only higher in Portugal in the OECD - a trend which will endure, as the latest projections of the OECD reveal (OECD 1997b: 121).

In Finland, a similar development took place. In the early 1990s, the centre-right coalition strengthened - despite the economic turmoil - its efforts to expand higher education. In this country, the growth rate in the period mentioned was about 30%, with as a consequence declining labour force participation rates. In Denmark, the expansion of higher education was rather modest, as was the decline of the participation rate, too. However, in 1993, the government announced a strategy to strengthen the educational system. The so called UTA-programme (Uddannelse Til Alle; Education for All), aims at the youngest age groups on the labour market. Their education shall be enhanced through a variety of institutions and programs in the field of the higher secondary education (Undervisningsministeriet 1995:86 f.). Higher education at the universities has grown in the 1980s and 1990s, too. Between 1985 and 1995, the figure for enrolled students grew by 79 %. The governments not only expanded universities directly, they further broadened the grant system, leading to one of the most fully developed grant systems in the OECD-area, in which roughly 70 % of all students receive loans (OECD 1997a:88).¹⁶

Sweden has been a somehow deviant case. Here, the participation rate of the younger workforce dropped rapidly in the early 1990s but the figures for the students remained rather stable. Behind this empirical puzzle, the specific structure of the Swedish education system has to be considered. In this country, higher education has been to a very large extent provided by ‘*folkhögskolor*’ (folk high schools). Blanchflower/Freeman (1996: 24) for example show that at the beginning of the 1990s, around 73% of 20 year old persons in the USA received their higher education at universities, whereas the rate for Sweden was only 36%. Hence, the sharp decline in the participation rate may have its origin in the openness of the folk high schools.¹⁷ But the newly elected social democratic government changed the educational policy in 1994. It was announced that the universities should expand. As a consequence, the figure for the students increased sharply thereafter (OECD 1995f: 81).

¹⁶ A further strategy in Denmark was connected with the encompassing labour market policy reform in 1994. The government invented the system of adult education and training of the employed and un-employed. This ‘life-long learning’ strategy is further described below (chapter 2.3).

¹⁷ A further specificity is the statistical treatment of the younger persons being enrolled in active labour market policy schemes: They are counted as being not on the labour market, which implies that the participation rate declines (Elmeskov 1994: 44).

Taken together, all four countries - albeit at different points in time - expanded their educational efforts. This policy change has been induced by governments of the left as well as by bourgeois governments as in Denmark or by broad coalitions as in Finland. Hence, the question remains what the political causes of this policy change in the Nordic Model might be. Firstly, the political institutional preconditions for this policy change were favourable in the Nordic Countries. Education policies could be fully implemented by the central government. In the process of decision making and implementation, no veto players could hinder this policy change. Secondly, the youth already played a prominent role in the Nordic labour market policies in the 1980s. In 1984, the Swedish government had already implemented a job guarantee of further education for the younger workforce, and the other Nordic governments followed suite - the laggard was Denmark in 1993 (Lind: 1994a: 189). Gradually, the emphasis changed from training on the job towards higher education at universities. Esping-Andersen (1996a: 14) calls this development a „social investment strategy“ which helps to strengthen the chances of the younger age groups of becoming employed in a mediate time perspective. However, this strategy directly reduced the labour supply and as a consequence dampened open unemployment in the early 1990s.

The integration of the older workforce was exceptionally high in the Nordic Countries until the late 1980s (cf. Wadensjö 1994).¹⁸ In the early 1990s, the participation rates of the older workforce remained rather stable on a high level in Denmark and Sweden and increased from a comparatively modest level in Finland. In Norway in contrast, the participation rate declined by 2.4 percentage points between 1988 and 1994.¹⁹ Hence, the developments in the Nordic Countries differed in this respect, but why?

The Social Democratic Welfare States - so it is argued - would supply several instruments for early retirement schemes. The political actors, however, would prefer to achieve a maximisation of labour market integration (cf. Aust/Bieling 1996; Esping-Andersen 1990: 150-153; von Rhein-Kress 1996: 55-69). At least in Denmark and Sweden, this institutional explanation holds even in the 1990s. In Denmark, the share of early retirees remained rather stable on a comparatively low level. In Sweden, the share increased somewhat, but especially in the age group of the 60 to 65 year old persons.²⁰ On the other hand, in Finland, several early retirement schemes existed until the late 1980s. The earliest age to draw on these schemes was 55 years until 1989, this was then gradually restricted from 55 to 60 (OECD 1995c: 60, 84). As a consequence, the proportion of persons drawing on early retirement schemes between the age of 50 and 59 declined between 1990 and 1993. Finally, the pension reform in Finland - gradually implemented between 1993 and 1996 - aimed at

¹⁸ In this respect, Finland is a somehow deviant case. Here, already in the 1970s and 1980s a huge part of the older labour force left the labour market, which was induced by several early retirement programs.

¹⁹ In comparison, the participation rate in the OECD-area declined modestly by -0.7 percentage points.

²⁰ The reported data refer to NOSOSCO (various issues).

promoting longer working careers through a wide array of instruments which reduced the incentives for early retirement (cf. OECD 1997c:67-91).²¹ Hence, early retirement is no longer promoted through the institutions of the Finish pension system, the aim is to promote long working careers.

In Norway, development followed a different pathway. In this country the participation rate of the older workforce dropped significantly. Indeed, there evolves an empirical puzzle. The possibilities for early retirement in this country are restricted and the political goal of the various governments has been to promote long lasting working careers. In Norway the retirement age is comparatively high (67 years), and even the possibility to draw on early retirement schemes is first possible at the age of 66 or 65, and the transfers in these programs are rather low. The exit from the labour market has therefore occurred since the mid 1980s mainly through the invalidity schemes. Indeed, the amount of invalidity pensioners increased to a large extent in Norway between 1980 (ca. 160 thousands) and 1991 (ca. 240 thousands) (NOU 1992: 223). In 1993, this development was further strengthened through the tightening of the anticipatory pension schemes, which led as a consequence to a rising demand for invalidity pensions (NOSOSCO 1995: 14). And despite some restrictions in the field of disability pensions the trend seems to be unbroken until the mid 1990s. Norway is now at the top of the OECD countries in term of high levels of disability pensions. And „more than 40% of people over 55 use disability benefits as a bridge to retirement“ (OECD 1997b: 77). These factors combined caused the declining participation rates of the older workforce in Norway, despite institutional incentives to stay up to the age of 65 on the labour market.²²

The integration of females into the labour market was one cornerstone of the Scandinavian and Social Democratic Full Employment Model (cf. Schmidt 1993a; Siaroff 1994; von Rhein-Kress 1996: 80-101). However, in the early 1990s, the female participation rate dropped to a very large extent in Sweden (-5.5 percentage points between 1988 and 1994), Finland (-3.2) and Norway (-1.5), whereas the rate could be slightly increased in Denmark by 0.7 percentage points, but even here the female participation rate decreased after 1994. In this respect, the three Nordic countries diverge from the common trend in the OECD, where the participation rate for females went up by 2.5 percentage points. What are the reasons behind this change within the Model?

21 Indeed, the Finish pension reform is „exceptional among the OECD countries“ (OECD 1997c: 80), because the funding method changed (employees contribute since 1993 to the pension system) and the universal flat-rate pension will gradually be abolished. Interestingly, this reform was based on a far reaching consensus between the political parties, employer organisations and unions (OECD 1997c: 67).

22 The rising distribution of private and occupational pension plans in Norway and throughout Scandinavia (cf. Kangas/Palme 1989; Overbye 1996) may have also caused the rising trend towards early withdrawal from the labour market. As Castles shows (1996) for Australia, the decision to retire early is determined not only by institutions and policies of the pension system.

One way to explain this development refers to the reduction of public employment in the Nordic Countries. In response to the economic crises in the early 1990s, the governments in Sweden and Finland changed the construction of financial transfers to local government, which provide most of the social services - and where the greatest proportion of women is employed. In both countries public employment dropped in the early 1990s. And this would explain perfectly the development in these countries, but for the fact that Norway further expanded public employment and despite that the female participation rate declined there, too. Yet another hypothesis can be excluded. The Nordic governments still promoted public child care institutions in the 1980s and 1990s, at least if the share of children in day care institutions is examined.²³ Therefore, we can assume that the policies mentioned do not contribute to an explanation for the shrinking female participation rate.

The main cause of the changing participation behaviour of females can be found in the development of part-time employment. In this respect, in Denmark and Norway, the percentage of people in part-time employment declined in the 1980s and early 1990s, whereas it stagnated in Sweden and Finland. As comparative analyses show, the development of part-time employment is not only one strategy to overcome the European employment crises - as it happened in the Netherlands (Hannemann 1997; Schmid 1996) - it is also one major pathway to enhance female labour market participation (Schmidt 1993a: 43; von Rhein-Kress 1996: 91). But why did part-time work in the Nordic Countries stagnate? To answer this question, we have to be aware that there are several ways to promote part-time work (Maier 1994). In Scandinavia, the further expansion of the public sector has been blocked, or the expansion occurred on a rather low scale as in Norway and Denmark. The expansion of part-time work in the private sector seems to depend on the degree to which the labour market organisations can agree to compromise on a concerted strategy (cf. Walwei/Werner 1995). In this respect, only in Denmark has such a strategy been implemented through the labour market reform in 1994. There, the aim has been there to share life long working time. As a consequence, females joining the rotation programmes²⁴ leave - in a statistical sense - the labour market.

To sum up, labour force supply declined in all four countries in the early 1990s. The transition from school to work for the younger workforce was delayed because of a common strategy intended to promote higher education in the Nordic Countries. This may be one piece of a „social investment strategy“ (Esping-Andersen 1996a: 14), helping to enhance

²³ This statement is based on data reported in NOSOSCO (various issues) (cf. Jochem 1997: 199-200).

²⁴ There are three rotation programs available: for further education, for child caring, or without any special reason ('sabbaticals'). These rotation programs last one year and are benefited with 80% of the previous wage, since 1997 60% of the previous wage. Especially women do demand to a great extent the child caring programme (cf. Lind 1994; Loftager/Madsen 1997; Madsen 1996).

labour market performance in the middle run.²⁵ In contrast, the older workforce remained on the labour market, except in Norway. Here, the common strategy of the labour market organisations combined with the leeway of the invalidity pension system facilitated a clear decline in the participation rate. Finally, even females contributed to the decline of the labour force supply. Far from witnessing a „De-Feminization of the Labour Force“ (following Jenson/Hagen/Reddy 1988), we can state, that an increasing proportion of women leave the labour market or do not re-enter it in the Nordic Countries, which can partly be explained by the blocked growth of part-time employment in the private sector. Hence, with the reported development of labour market participation, we can argue that one prominent dimension of the Social Democratic Full Employment Model withered away. No longer is it a prominent goal to maximise labour market participation. In contrast, even in the Nordic Countries, labour supply has become one policy instrument to counteract unemployment (cf. von Rhein-Kress 1996). Hence, in this respect, the Nordic Model has converged towards the ‘conservative’ model in continental Europe.

2.3 The Politics of Labour Market Policy

Active labour market policy has been one cornerstone in the social democratic strategy to regulate the matching process on the labour market (cf. Hedborg/Meidner 1984: 125-139; Elvander 1994: 304). Or as the Swedish economists Rehn and Meidner mentioned already in the 1940s, active labour market policy is a prominent „social democratic strategy to keep inflation under control while pursuing full employment“ (cited after Janoski 1996: 698). On the other hand, passive labour market measures have also been comprehensively developed in the Nordic Countries. This two fold strategy - to secure the unemployed and to help the unemployed back to work - is indeed one major characteristic of the Social Democratic Full Employment Model. The aim of this chapter is to examine if labour market policies changed in the 1980s and 1990s and to explain the development.

In the Nordic Countries, *passive labour market policies* have been, from a comparative point of view, very generous (cf. OECD 1994, Part II: 171-192). Since the early 1970s, the transfers have been upgraded, and especially in Denmark, the replacement rate is from a comparative point of view exceptionally high. Furthermore, in Denmark, in contrast to the other Nordic Countries, there are no waiting periods, but since 1989 employers have had to

²⁵ To evaluate this strategy is first possible, when the students leave higher education institutions and try to enter the labour market. First evidence for Finland (Vuorinen 1995: 36) shows that this policy is far from being a bridge but rather a trap, because the demand for highly educated employees is still too low.

finance the first day of unemployment, since 1993 the first two days.²⁶ In 1994, the encompassing labour market reform changed the method of funding, since then, the employers and the employees have to share the total costs of labour market policy. Additionally, the total duration of benefits has been limited to up to seven, and since 1996 to five years, which blocked the facility to renew unemployment benefits by leap-frogging to active labour market policy measures. In Denmark, the first two years of the period is called the 'benefit period', and the last three years the 'active period'. In the latter period, the unemployed person has the duty - or right - to participate in activities which shall improve his chances on the labour market (cf. Hatland 1998).

In Norway, passive labour market policy remained generous and unlimited until 1996. Then, the social democratic government passed a bill which limited the combined duration of unemployment benefits and active labour market policies. Furthermore, the unemployed person is permitted to refuse only up to three job offers without losing the right to benefits (OECD 1997b:78). This has been the only restrictive measure in this policy field in the 1990s. And the director of the Norwegian Labour Market Board, Ted Hanisch, stated clearly, that the Norwegian passive labour market policy is „very generous, but also very rigorous“ (FAZ, 19.12.1997, p. 20; my translation)

In Finland, passive labour market policy is not as generous as in the other Nordic Countries. In the early 1990s, waiting periods were introduced and the duration of the benefits were reduced to 500 days in four years in 1994. Thereafter, the unemployed person has to refer to a social assistance scheme, which is called 'Labour Market Support' and there means testing is applied (OECD 1995c: 56-58). This has indeed caused a significant reduction of benefits for long term unemployed, who had to accept a sharp decline in their living conditions.

In Sweden, finally, the role of the passive labour market policy has been a prior point in party competition. The centre-right government introduced five waiting days in 1993 and - with the consent of the social democratic party - reduced the wage replacement rate from 90% to 70%. Furthermore, the government tried to limit the duration of benefits and to introduce an obligatory insurance system which consequently would have changed the previous system in which the trade unions steered the voluntary unemployment insurance institutions. However, the social democratic government abolished these reforms, following protest from the trade unions (OECD 1995f: 22). In March 1997, the incumbent social democratic party implemented their promise made during the last electoral campaign, increasing the replacement rate from 70% to 80%. Hence, even in Sweden, there is no univer-

²⁶ With these reforms, the Danish governments tried to circumvent a typically Danish situation, where employers prefer to dismiss employees and reemploy them after a short time. At least in this respect, the policy measures have been successful (Velstand og Velfærd 1995: 436).

sal trend towards reductions, but a fierce partisan conflict about the institutional setting and design of passive labour market policies.

The Nordic Countries expanded their *active labour market policies* in the 1990s. Despite financial constraints the increase in spending on active labour market measures has been from a comparative point of view exceptionally high. No other OECD country expanded active labour market policies in the early 1990s in a such an impressive way as the Nordic Countries.²⁷ This expansion occurred under social democratic as well as under governments of the right. And the policy of the centre right government in Sweden has been „Thatcherism plus a dose of Swedish labour market policy“ (Calmfors 1993: 54) - albeit a huge dose. How can we explain this continuity despite the financial constraints and the criticism of this policy by some economists?²⁸

Comparative analyses show that there is no common trend towards increasing efforts on active labour market policies (Armingeon 1997: 15-16). The prominent role of this policy can be traced back to the firm position of the labour market boards in the Nordic Countries (cf. Janoski 1996). These corporatistic bodies have huge leeway for policy implementation and the funding method rests on taxation rather than on social security contributions (cf. Reissert/Schmid 1996). This indeed widened the leeway to invest in this policy. But despite this institutionalist explanation, it has to be emphasised that most political actors in Scandinavia do prefer active labour market policies instead of a passive contribution of benefits. Therefore, behind the ‘skill’ of the labour market institutions, the political ‘will’ beyond the political demarcations seems crucial, if we want to explain this continuity in Scandinavia.

To sum up, labour market policy in Scandinavia has by and large been rather constant. In the field of passive labour market policy, some restrictions took place. Especially, the facility to renew unemployment benefits by leap-frogging to active labour market policy measures has been blocked. This can be seen rather as a strengthening of the ‘work line’ in Nordic labour market policy, than as a withdrawal from it. Hence, in the Nordic Countries, no ‘re-commodification of the workforce’ through globalisation (Neyer/Seeleib-Kaiser 1995) took place. Security for the unemployed persons is from a comparative point of view still generous, and the activist policy stance has been strengthened rather than diminished. We can explain the perpetuation of this dimension of the Nordic Model through the prominent role of the labour market institutions and the political will of the decisive political actors.

²⁷ Between 1988 and 1994, the expenditures for active labour market policies as a ratio of gdp expanded in Sweden by +1.2 percentage points, in Norway by + 1.1, in Finland and Denmark by 0.6. The OECD average is +0.22 percentage points (data refer to OECD Employment Outlook, various issues).

²⁸ In the early 1990s, criticism of active labour market policy gained momentum. Especially Calmfors (1994) criticised the negative effects of this policy on the wage bargaining process and labour market segregation. Forslund/Krueger (1995: 139) criticise the low efficiency, and they argue that in Sweden one year in active labour market policy measures is as expansive as one year at Harvard.

But especially in Sweden, partisan conflict about the institutional setting of the labour market policy has increased in recent years.²⁹

3 Conclusion: The Politics of Transforming the Social Democratic Full Employment Model

The Social Democratic Full Employment Model in Scandinavia is in transition. It has been shown in this paper that some dimensions of the model have changed whereas others have remained fairly stable. Hence, due to the disentangled analysis, we could locate change as well as continuity³⁰, and the results are summarised in figure 3.

Figure 3: The Transition of the Social Democratic Full Employment Model in the 1980s and 1990s

| | Denmark | Finland | Norway | Sweden |
|-------------------------|--|--|---|--|
| Demand-side | Deteriorating wage bargaining system in the 1980s but reorganisation in the 1990s. No negative impact from the funding system of the welfare state | Deteriorating wage bargaining system in the late 1980s. Rebuilding the consensus through relief of employers from the costs of the welfare state | Deteriorating wage bargaining systems in the 1980s. Interventionist incomes policies, relief of employers from the costs of the welfare state | Deteriorating wage bargaining systems in the 1980s. No relief for employers from the costs of the welfare state. No consensual approach in wage bargaining |
| Supply-side | High labour force participation rate. Sharp decline after the labour market reform 1994 | Modest decline of labour force participation. Attempts to stabilise labour force supply after 1993 | Significant decline despite public measures to stabilise labour force supply | Significant decline |
| Matching-process | Intensive use of active labour market policies. Minor cut backs of passive labour market policies | Intensive use of active labour market policies. Moderate reduction of passive measures | Very intensive use of labour market policies. Minor cut backs of passive labour market policies | Very intensive use of labour market policies. Moderate cut backs of passive labour market policies |

The politics of stimulating employment changed in all four countries in the 1980s. The wage bargaining systems eroded, wage growth increased very sharply and this led to the Nordic employment crisis in the early 1990s - not globalisation or the severity of economic

²⁹ One further step has been taken by the Swedish Employers Federation, which in the 1990s is trying to radically de-institutionalise the labour market - in order to assimilate the Swedish labour market towards the labour market constitution of the USA. A strategy which includes the claim to abolish the Swedish labour market board (SAF 1997).

³⁰ Hence, we can recast the critic of Notermans (1993: 135) who argues that the „comparative focus stands in the way of discerning cross-national similarities in political dynamics“. Rather it is a matter of conscious use of methods.

crises.³¹ But in the late 1980s and early 1990s, in Denmark, Norway and Finland, a new *modus vivendi* could be achieved, with moderate wage growth and rising employment in the mid 1990s. In contrast, in Sweden this way seems to be blocked. Why this is the case has to be discussed in detail below. On the supply side of the labour market, in all four countries the participation rate declined in the early 1990s. Hence, the Nordic 'Work Societies' changed, and labour force supply has become in the Nordic Countries - as in the conservative welfare states in continental Europe (cf. von Rhein-Kress 1996) - a policy instrument to combat unemployment. Finally, in the field of labour market policies only minor changes occurred. Passive labour market policies have been slightly restricted and the emphasis of the 'working line' has been strengthened. Active labour market policies were extensively used in the early 90s and the status of the corporatistic labour market boards remained stable, except in Sweden. Hence, a „re-commodification of the labour force“ (Neyer/Seeleib-Kaiser 1995) cannot be observed in Scandinavia. From a comparative point of view, the reductions have been modest, and as Hatland put it (1998: 10): „we are struck by how effective the resistance against cuts in levels has been“. The analysis of the Scandinavian Full Employment Model has shown that globalisation has not been the „death knell of social democracy“ (Garrett 1995:682), and in contrast to Notermans (1993: 135) it is argued in this paper that labour as an equal partner in macro economic decision making is no hindrance but a *conditio sine qua non* for adequate policy implementation and hence success on the labour market - at least in organised economies as in Scandinavia. Hence, the argument of this paper follows Armingeon (1996: 2), who states that „(i)ntead of being a restriction, globalisation is a chance for the left“. But making use of this chance, depends on political conditions, to which we now turn.

As Scharpf already mentioned in 1987, the „main burden of the welfare state has to be shouldered by the employees“ (Scharpf 1987: 333, my translation). In a world of globalised capital, the employers have the choice of investing abroad and the national institutions of policy making are no longer the main focus of influence. To assure the co-operation of the employers, unions have to pursue moderate wage policies and governments have to relieve the employers of the costs of the welfare state. This at least is the lesson from the Scandinavian countries in the 1980s and 1990s. In Norway and - as a laggard - in Finland, governments have changed the funding systems of the welfare states thereby cutting the share paid by the employers. In Denmark, the employers' share was already very low in the 1980s.³² In Sweden, the bourgeois as well as the social democratic governments did not change the funding system of the welfare state, but relied on overall cut backs to dampen social expen-

³¹ Globalisation has not been the cause of the employment crises, rather globalisation *narrowed the leeway to react* to diminishing competitiveness, which in turn has its origin in domestic circumstances. The leeway to use devaluations or to inflate a country out of employment crises has clearly narrowed through the changing constitution of the financial markets and European integration.

³² This could be one explanation that in Denmark - in contrast to other European countries - there has been no „Standortdebatte“ (Scharpf 1996: 135).

ditures. Consequently, this fuelled the opposition of the trade unions and enforced party competition, because of this, the newly elected social democratic party reversed some measures after the first years in government.³³ This in turn fuelled the fierce opposition of the Swedish employers and hardened the break down of the corporatistic policy process.

But is labour a victim, which has to adapt without choice? To be sure, a certain consciousness about the crisis and a need to reform has to be given on the side of labour.³⁴ However, as the Scandinavian experiences show, there have been side-payments and gains which ease the crucial reforms and the quiescence of labour. In Denmark, labour gained from the encompassing labour market reform in 1994 and did not have to oppose against harsh cut backs in the welfare state. The same holds for Norway, where labour gained from active labour market policies, activist public incomes policies and the educational offensive which lowered the pressure on the labour market. Even in Finland, where severe cut backs occurred, these were implemented gradually. To secure compliance for the EU integration process, for example, huge buffer funds have been created in order to counteract negative influences on the labour market following the integration process. Furthermore, as early as in 1995, labour market partners agreed with the support of the government on the implementation of job sharing and sabbatical programs on a trial basis. Taken together, labour in these countries has not been a victim but has in fact gained through several structural reforms. In Sweden, „everyone’s favourite example of hegemonic social democracy“ (Pontusson 1992b: 305), such a quid pro quo is not observable. Labour is still on the defensive and the employers fiercely oppose co-operation and demand an encompassing deregulation of the labour market. It seems as if the Swedish ‘third way’ of the early 1980s ended as a dead end road.

³³ As Lane/Ersson (1996: 255) put it, „the institutions of the Scandinavian model express compromise politics while at the same time the overall constitutional frame is of the Westminster type“. One condition for compromise politics has been corporatistic relations between governments and labour market organisations. If this condition breaks away, politics approach the pure Westminster type - as in Sweden -, with high party competition and frequent policy changes (cf. Lindbeck 1997: 1314).

³⁴ Interestingly, in the Netherlands as well as Denmark, this consciousness was a matter of fact in the early 1980s, perhaps as a consequence of the in the 1970s high unemployment rates. In Finland, the huge economic crisis may have contributed to the reform willingness of labour.

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