

# THE NORDIC WELFARE MODEL UNDER THE PRESSURE OF EU'S REGULATORY SYSTEM – A SHORT REVIEW

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## ABSTRACT

The welfare system which has developed in the Nordic countries after the Second World War and has become the Nordic Welfare model is the unintended result of 40 years of reforms. The intellectual root of the model lies in UK in the 1930/40s. Lord John Maynard Keynes' ideas of a pro-active economic policy and Lord Beveridge's document about the welfare state are two pillars of the model. The Model is by now threatened by the ideology and regulations of the neo-liberal European Union (EU).

**Keywords:** Nordic welfare state model, Europeanization, institutional change, external threats, neo-liberalism.

## 1. INTRODUCTION

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 breakthrough of Keynesian economic theory. Typical 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 regulations meant for social equality and fairness. Strong employee and trade unions were part of this model. Political stability was the outcome of this policy. (Sachs 2006)

The Nordic welfare model is often called the “the Keynesian welfare state.” The universal welfare arrangement and social-security scheme of the model continued to flourish until the breakthrough of neo-liberalism: over the last twenty years, the Anglo-Saxon neo-liberalism has penetrated the Nordic countries step by

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„**Revista română de sociologie**”, serie nouă, anul XXVIII, nr. 1–2, p. 99–102, București, 2017



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step with the consequence of threatening the model itself. This penetration can be found in policies which are meant for the failure of public-service monopolies, privatization, the exposure of public-sector activities to market competition, and lastly for 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 might survive. For the time being, it is under the threat of the ideology of neo-liberalism which guides and transforms social and administrative model arrangements in Europe, including the Nordic countries. The market-liberal EU and its numerous deregulations – and re-regulations – lead the process politically.

### 1.1. INSTITUTIONS

Institutions provide the basic structure by which human beings throughout history have created order and attempted to reduce socioeconomic uncertainty in exchange. They connect the past with the present and the future so that history can be seen as a largely incremental story of institutional evolution in which the historical performance of economies and welfare can only be understandable as part of a sequential story. (Brunsson 2011)

### 1.2. BIRTH OF THE MODEL

What we call the Nordic model is the regulatory framework that emerged in the decades after the Second World War, economically based on Keynesian principles recommending a great and active state. (Keynes 1936)

When the process emerged, policy-makers did not realize that they were creating a Nordic model. (Veggeland (ed.) 2016) The institutional changes got the status of a model when the construction was finished. That is the reason why politicians discussed more about how to defend the model than about how to develop it further, purposely and strategically, instead of letting the model just erode and decline. (EPC 2005)

### 1.3. IMPLEMENTATION OF IDEAS

The implementation of these ideas occurred at an accelerated speed in the 1950s, 60s and 70s. Its implementation form reflected the context of the time which had specific characteristics. (Veggeland 2007) To summarize:

1. The national economies were structured in a way rather sheltered from external competition, and, according to the model, governed by the state.
2. The Nordic countries had a homogeneous population sharing a common identity background. The metaphor *family* is often used as a term for the nation. (Swedish “Folkhemmet”)

3. The 1950s and 60s represented a period of exceptional high and stable economic growth rate resulting in full employment, in Keynesian terms.

4. The exceptional growth rate gave room for an ambitious Nordic distribution policy.

5. The economy had high productivity and relatively low taxes and therefore room for tax increments.

6. It was a period with great acceptance of collective solutions and of giving power to the labor marked organizations. The state and these organizations tightly cooperated in a tripartite partnership.

7. A large share of the citizens identified themselves as belonging to collectives (working class, farmers, tradesmen, teachers, etc.).

8. The economic standard was rather low and so was the number of really wealthy people. Few people had extra economic resources for individual solutions/alternatives.

9. Partly due to a low educational level, this was a period of great trust in the state and the government.

10. Based on its importance in the war the model promoted a strong belief in central planning, state interventions and socioeconomic progress.

## 2. DEBATE

### 2.1. THE NORDIC MODEL TODAY

The debate about the Nordic model (originally of Keynesian inspiration) is often rooted in the assumption that it is static. (Veggeland (ed.) 2016) However, it is not and cannot be so, because of the membership to the regulatory state of the EU. Social models reflect the ideas and the socioeconomic context that exist when the change occurs. Institutions normally change slower than society. As society changes, there is a growing misfit between the model and the reality. A need for whether a change of the model or of the political reality has come up. This is the dilemma confronting the Nordic model today.

What is, then, the current Nordic neo-liberal governments' strategy for democracy, economic stability, and growth? For sure, it is not a neo-Keynesian state-friendly approach. Anchored in market liberalism, the strategy facilitates the market, both in the private and the public sectors. Furthermore, they also strengthen competition in both the public and private service sectors, besides privatization and smaller government. They also want budget retrenchment and the tightening of public spending followed by tax cuts. Most tax cuts benefit the rich, who, according to classical economic theory, always reinvest their profits, thus creating new jobs. They refer 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'. This theory is old and history has shown it to be wrong. Even Ricardo's contemporary, Thomas Robert Malthus, declared this theory a failure, pointing out the fact that rich men's profits more often become an investment in luxury goods than in productive businesses.

## 2.2. FACING REALITY

Surely, the Nordic model is going through a process of change. Through years I have studied this process, during which the Nordic societies have changed in the last fifty years, and discussed the anticipated implications these changes have for the future of the Nordic model.

The last forty years of Europeanization have transformed the Nordic countries and radically changed the conditions for the Nordic Model. To sum up:

1. Globalization and international governance have restricted the action space for national policy makers. This means a stronger focus on the international competitiveness and free trade agreements – and the EU regulations.
2. It supposes a less homogenous population and a greater variety of backgrounds, and, as well, a multi-cultural society.
3. Economic growth rate has declined while unemployment increased.
4. Policy-makers' focus has changed from distribution policy to growth/innovation policy.
5. A budget restraint has reduced the room for further tax increases.
6. Growing fragmentation of collectives and a strengthened individualism and a neo-liberal anti state ideology are sweeping over the Nordic countries.
7. We witness increased wealth and a growing capital accumulating in the area of the middle-class.
8. There is a reduced gap in education between the population and the power elite. Trust in the state and the government is diminishing.
9. We see growing distrust in planning and a growing belief in the value of making individual choices.
10. There is much concern about laying a strong focus on problems/crises not solved yet by the Nordic model approach.

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