

European Forum

The Scandinavian Model:
Trends and Perspectives

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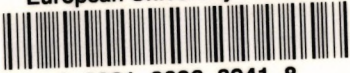
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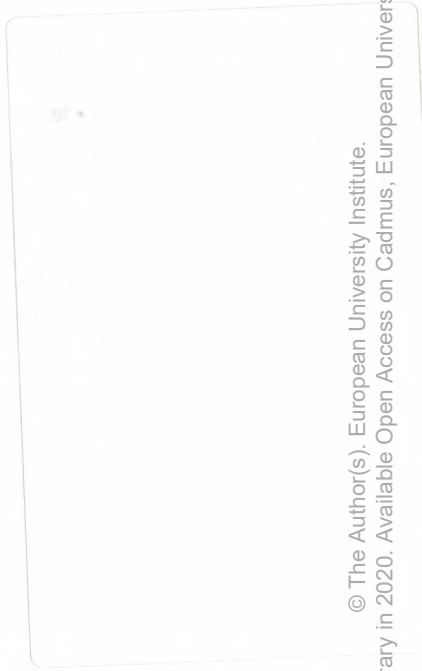


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**Eitheim/Kuhnle: *The Scandinavian Model:
Trends and Perspectives***



This Working Paper has been written in the context of the 1998-1999 European Forum programme on **Recasting the European Welfare State: Options, Constraints, Actors**, directed by Professors Maurizio Ferrera (Universities of Pavia and Bocconi, Milano) and Martin Rhodes (Robert Schuman Centre).

Adopting a broad, long-term and comparative perspective, the Forum will aim to:

- scrutinize the complex web of social, economic and political challenges to contemporary European welfare states;
- identify the various options for, and constraints on institutional reform;
- discuss the role of the various actors in promoting or hindering this reform at the national, sub-national and supra-national level;
- and, more generally, outline the broad trajectories and scenarios of change.

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**The Scandinavian Model:
Trends and Perspectives**

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Introduction

Most welfare state researchers place all of the Nordic countries - Denmark, Finland, Iceland, Norway and Sweden - in one distinct category of welfare states, sharing the following characteristics²:

- comprehensive in terms of welfare needs covered and services offered
- universal in terms of population coverage (all citizens/residents), and accessibility
- redistributive in terms of taxes and benefit structures
- financing to a large extent through general taxation
- large share of public sector employment in general and in the broadly defined welfare sector in particular (social security, health, social services, education), relative to other countries
- relatively more orientated towards services-in-kind rather than cash benefits compared with other European countries
- strong popular support for the welfare state

It does give meaning to state that a distinct Scandinavian or Nordic «welfare model» developed after World War II - a model distinct from the British, German (or Continental), South European, and East European. Special historical circumstances may have been conducive to the development of the Scandinavian or Nordic variant of European welfare state models: small size; relatively egalitarian pre-industrial agricultural societies; "peasants were carriers of freedom and equality" (Sørensen and Stråth 1997:8); homogenous populations in terms of language, religion, culture; early fusion between Church and State bureaucracies after the Reformation - giving legitimacy to the strong position of the State and also giving local government ('communes') an early important role in matters of education and welfare.

As all other European welfare states, the Nordic ones have, but to a varying degree, experienced great challenges in the 1990s. Public deficits, rising social expenditure, rising welfare entitlements, changing demographic structures, changing family patterns, high levels of unemployment, internationalization of capital markets and financial transactions, and the international diffusion of neo-liberal, pro-market, privatization ideas since the early 1980s. The Nordic countries - or their governments - have responded partly differently and partly in similar manners to these internal and external challenges. Responses are partly reflections of the different state of the welfare state at the beginning of the 1990s, partly reflections of the countries' variable economic and political contexts at the turn of the last decade, and partly

reflections of different political constellations and priorities within each of the countries.

In the following paragraphs we shall look at trends in social security reform activity in all of the Nordic countries with the exception of Iceland. We shall first briefly compare the status of the welfare state around 1990 with that of 1997; to be followed by an account of the economic and political contexts of the four countries in the 1990s; and a summary *review of reforms* undertaken or underway. We end by a comment on *why* things have changed (or not) in the Nordic welfare states in the 1990s.

State of the Welfare State in 1990 and 1997

In order to put reform activities in the 1990s in perspective, a notion about the starting-point may be useful. Social security schemes vary along a great number of dimensions, let us only begin with a rough, not complete or systematic overview of some characteristics of the social security systems of the four countries, highlighting some crucial similarities in terms of principles and some examples of variations in the actual content of schemes.

Social expenditure as a percentage of Gross Domestic Product varied in 1990 between 34.8 per cent in Sweden, 29.7 per cent in Denmark, 29.3 per cent in Norway, and 25.7 per cent in Finland.³ With the exception of Norway (27.4 per cent), social expenditure as a percentage of GDP rose substantially in all Nordic countries between 1990 and 1995: In Denmark to 33.7 per cent; in Finland to 32.8 per cent and in Sweden to 35.8 per cent.⁴ In Denmark, general taxes financed 86 per cent of expenditure in 1990 and 70 per cent in 1995, in the other three countries the equivalent figure varied between 44 (Finland) and 63 per cent (Norway) in 1990, and between 48 (Finland) and 62 per cent (Norway) in 1995 (Nososco 1997:145). In 1990 employers paid the highest share in Finland and Sweden: 48 and 45 per cent; in Norway 24 per cent, in Denmark only 8 per cent, whereas the figures in 1995 were 37 per cent, 43 per cent, 22 per cent and 11 per cent for the four countries respectively (Nososco 1997:145). In all countries except Sweden, social expenditure per inhabitant increased in real terms during the period 1990-1995, and in Sweden the decline was very marginal. In Denmark, Finland, and Norway social expenditure per inhabitant increased with as much as 16-21% during the five-year period, hardly signs of welfare state retrenchment. Real increase in social expenditure may be the effect of increasing needs or number of persons with increasing entitlements, or the effect of more generous welfare states giving increased priority to welfare. We do not know whether social expenditure patterns

actually meet supposedly increasing 'objective' and subjective welfare needs: needs (however defined) may have increased more than the increase in expenditures suggest. During the same period, the proportion of social expenditures spent on services-in-kind rather than cash benefits declined in Finland and Sweden, increased marginally in Denmark, and significantly in Norway. This suggests that scope and/or quality of services in Finland and Sweden have actually declined, but we need other indicators to support such a conclusion. The data on social expenditure as a percentage of GDP, social expenditure per inhabitant, and relative share of expenditure spent on services are given in Table 1.

Table 1: Social expenditure as a percentage of GDP, social expenditure per inhabitant, 1995- prices, in national currencies (Kr/Fm), and relative share of expenditures on services, 1990 and 1995.

	<i>Social expenditure</i>		<i>Share of expenditures on services</i>
	<i>As % of GDP</i>	<i>Per inhabitant</i>	
Denmark			
1990	29.7	51104	34
1995	33.7	62288	35
Finland			
1990	25.7	28988	37
1995	32.8	35322	30
Norway			
1990	29.3	50503	35
1995	27.4	58181	42
Sweden			
1990	34.8	67481	41
1995	35.8	66692	39

Sources: Nososco, 1992, 1997.

All four countries provided basically free *hospital and health care* for all residents, but small fees for various services had been introduced to a varying extent (for example doctor's fee, fees for visits to polyclinics at hospitals, or payment for meals in hospitals), and what used to be free or almost free medicines on prescription were not so free anymore. In general, private consumption on health was (and still is) low (in Norway on average 2 per cent of the disposable income of a household is spent on health).

Figures 1-4 present brief summary information on major social security programmes at two time-points - 1990 -1997 - in the four countries. Figure 1 presents an overview of the family and child allowance schemes in the Nordic countries in 1990 and 1997.

Figure 1 Parental leave benefits and child allowance schemes in the Nordic countries 1990 and 1997

Parental leave benefits	Denmark		Finland		Norway		Sweden	
	1990	1997	1990	1997	1990	1997	1990	1997
Duration (weeks)¹	28	28	44	44	28/35	42/52	64	64
Weeks available to father	10	12 ²	26	26	22/29	33/42	32	32
Compensation (per cent)	90-100 (up to income ceiling)	100 (up to income ceiling)	80/50/30	70/40/25	100/80 (up to income ceiling)	100/80 (up to income ceiling)	90 (up to income ceiling)	75 ³ (up to income ceiling)
Child allowance	Universal - flat rate under age 18	Universal - flat rate under age 18	Universal - flat rate under age 17	Universal - flat rate under age 17	Universal - flat rate under age 16	Universal - flat rate under age 16	Universal - flat rate under age 16	Universal - flat rate under age 16

Sources: Nososco (1992); Ploug and Kvist (1994a); Social Security Programs Throughout the World (1997); national web-sites of social security authorities.

¹ Includes both immediately prior to and after birth.

² As of April 1st 1998 two additional weeks are reserved for the father.

³ For the first 12 months; a flat rate benefit of 60 SEK per day for the additional 3 months

All countries have held on to their universal child allowance schemes, and had, in a European comparison, relatively generous schemes for maternity benefits for the gainfully employed in 1990. The duration of maternity leave is left unchanged in Finland and Sweden, but has been extended substantially in Norway, and both in Norway and Denmark the number of weeks available to the father has been increased, during the first seven years of the decade. Only Denmark and Norway have not reduced the replacement rate, while the two neighbouring states have had to cut compensation by 10-15 percentage points.

In addition the state of kindergarten coverage in 1990 was relatively high, especially in Denmark and Sweden (64 per cent and 48 per cent coverage for children 0-6 years; in Norway 33 per cent), in 1995: 65 per cent in Denmark, 59 in Sweden, 44 in Norway and 39 per cent in Finland (Nososco 1997). In general, it was, and is, the responsibility of local government in all countries to provide kindergarten services, but with the exception of Denmark (where the non-public kindergartens are run by voluntary organizations) private

kindergartens - often run by firms - are widespread and various forms of economic support exist for some groups.

In Figure 2 we have contrasted basic features in the sickness benefit system in 1990 with characteristics of the system in 1997.

Figure 2 Sickness insurance in the Nordic countries 1990 and 1997

	Denmark		Finland		Norway		Sweden	
	1990	1997	1990	1997	1990	1997	1990	1997
Membership	Gainfully Employed Incl. self-Employed	Gainfully Employed Incl. Self-Employed	Gainfully employed incl. self-employed	Gainfully employed incl. self-employed	Gainfully employed incl. self-employed	Gainfully employed incl. self-employed	Gainfully employed incl. self-employed	Gainfully employed incl. self-employed
Qualifying conditions	120 hrs. of work within 3 months empl.	120 hrs. of work within 13 weeks empl.	3 months empl.	Empl. last 3 months and annual income \geq 5.070 FIM	a) 2 weeks empl.; and b) annual income \geq 18.250 NOK	a) 2 weeks empl.; and b) annual income \geq 21.250 NOK	Annual income \geq 6.000 SEK	a) Income \geq 24% of basic amount; and b) 4 weeks of empl. or 2 weeks of work
Normal compensation (per cent)	100 up to specified max.	90 up to specified max.	80/50/30 dep. on income	70/40/25 dep. on income	100 up to 6 times b. amount	100 up to 6 times b. amount	90 up to 7.5 times b. amount	75 up to 7.5 times b. amount ¹
Max. benefit Duration (weeks)	52 within 18 months	52 within 18 months	50	50	52 (but no real upper limit)	52	No upper limit	52
Employer's period (weeks)	2	2	none	none	2	2 ²	none	4 ³
Waiting days	0	0	7	9	0	0	0	1

Sources: Nososco (1992); Social Security Programs Throughout the World (1997); national web-sites of social security authorities.

¹ Increased to 80 per cent as of January 1st 1998

² Increased to 17 days as of April 1st 1998

³ Reduced to 2 weeks as of April 1st 1998

If we look at the development in the sickness insurance between 1990 and 1997 (figure 2), we observe no changes in general scope: On both occasions the schemes were open to all gainfully employed persons, including self-employed. We note a tightening of the qualifying conditions in Finland and Sweden, while no such change has been implemented in Denmark or Norway. Only in Norway has the replacement rate remained stable, while it is significantly reduced in the three other Nordic countries. In all the countries the benefit was paid for at least

50 weeks, but by 1997 both Sweden and Norway had introduced an upper maximum of 52 weeks. Finally, Norway and Denmark have maintained a system free of waiting days and with a two week employer's period. Finland has still no employer's period, but has increased the number of waiting days to nine, while Sweden have introduced one waiting day and an employer's period of four weeks, compared to none in 1990.

The basic features of the unemployment insurance are summarized in Figure 3.

Figure 3 Unemployment insurance in the Nordic countries 1990 and 1997

	Denmark		Finland		Norway		Sweden	
	1990	1997	1990	1997	1990	1997	1990	1997
Membership	Voluntary	Voluntary	Voluntary	Voluntary	Compuls	Compuls	Voluntary	Voluntary
Waiting days	0	0	5	7	3	3	0	5
Qualifying conditions	a) 12 months m. ship; and b) 26 weeks of work within last 3 years	a) 12 months m. ship; and b) 52 weeks of unsubsidised work within 3 years	a) 6 months m. ship; and b) 26 weeks of work (18 hours per week) within last 2 years	a) 10 months m. ship; and b) 18 hrs. of work per week during last 2 years	Income equal to min. 75% of b. amount during last 3 years or last 3 months	a) Annual income min. 125% of b. amount; or b) Average income during last 3 years equal to b. amount	a) 12 months m. ship; and b) 75 days of work during 4 months within latest 12 months	a) 12 months m. ship; and b) Worked minimum - 70 hrs. per month for 180 consecutive work-days
Normal compensation (per cent)	90 (up to spec.max.)	90 (up to spec.max.)	Income-related Average ?	Income-related Average 58	Average 62 (up to spec.max.)	Average 62 (up to spec.max.)	90 (up to spec.max)	80 (up to spec.max)
Max. benefit Duration	780 days within 3 years up to 9 years	5 years: • 2 years of benefit • 3 years of activation	500 days within 4 years (900 for 55+ years)	500 days within 4 years (900 for 57+ years)	480 days for 80 weeks	156/78 weeks dep. on income previous or latest 3 years	300 days (450 for 55+ years)	300 days (450 for 57+ years)

Sources: Nososco (1992, 1997); Social Security Programs Throughout the World (1997), national web-sites of social security authorities.

As in 1990, only Norway has an unemployment insurance scheme covering all gainfully employed and self-employed. The other three countries have kept a voluntary insurance system with a relatively high coverage, and also non-insured are entitled to cash-benefits as unemployment assistance. With regards to waiting days, only Denmark has managed to avoid them, whereas the Swedish system - originally without waiting days - now have five. In Finland the number of waiting days has increased from five to seven, while Norway had three both in 1990 and in 1997. All four Nordic countries have stricter

qualifying conditions in 1997 compared to 1990, especially evident in Denmark and Norway. The normal replacement rate has only been significantly altered in Sweden, where it has decreased by 10 per cent points. Finally, the maximum benefit duration has also been subject to reforms, most evident in Denmark, where the total period is limited from nine to five years during the period of analysis. All countries offered support for education of unemployed and had active labour market programmes in 1990. These schemes have been significantly improved during the 90s.

Figure 4 shows that all four countries had universal pension systems encompassing all residents in 1990, and with the exception of Denmark they had earnings-related supplementary pension schemes for employees and self-employed (in Denmark only all employees were entitled to a modest non-earnings-related supplement).⁵ In principle pension benefits were taxable, but with many exceptions for groups with small or basic pensions.

Figure 4 Old-age pensions in the Nordic countries 1990 and 1997

	Denmark		Finland		Norway		Sweden	
	1990	1997	1990	1997	1990	1997	1990	1997 ¹
Pensionable age	67	67	65	65	67	67	65	65
Scope of basic pension	Universal: residence	Universal: Residence, but partial income-testing	Universal: residence	Universal: residence, but partial income-testing	Universal: residence	Universal: residence	Universal: residence	Universal: residence
System characteristics	a) Universal basic amount + pensions supplement dep. on income b) Labour market suppl. dep. on work-history for employees	a) Partially income-tested basic amount b) Supplement based on work history for employees	a) Universal basic amount dep. on marital status and local residence + income-dep. suppl. b) Suppl. pension dep. on m. ship duration and income for employees and self-employed	a) Basic amount restricted to pensioners with low/no empl.-derived pension b) Suppl. pension dep. on income- and work-history for employees and self.empl.	a) Universal basic amount dep. on marital status + special suppl. for those not receiving b) b) Suppl. pension dep. on income- and work-history for employees and self-employed	a) Universal basic amount dep. on marital status + special suppl. for those not receiving b) b) Suppl. pension dep. on income- and work-history for employees and self-employed	a) Universal basic amount b) Suppl. pension dep. on income- and work-history for employees and self-employed	a) Universal basic amount b) Suppl. pension dep. on income- and work-history for employees and self-employed
Max. pension after (years)	40	40	40	40	40	40	30	30
Financing of a + b	Premium-free. Taxes: «pay-as-you-go»	Premium-free. Taxes: «pay-as-you-go»	Social contributions and taxes	Social contributions and taxes	Social contributions and taxes	Social contributions and taxes	Social contributions and taxes	Social contributions and taxes

Sources: Nososco (1992); Regeringens Proposition 119 (1995); Regeringens Proposition 189 (1996); Palme & Wennemo (1998); Social Security Programs Throughout the World (1997); national web-sites of social security authorities.

¹ A pension reform was finally passed in June 1998, and will gradually phase out the old system as of 2001. The new system is not reflected in the Figure (see below).

With the exception of Sweden, 40 years of membership is now required for obtaining full pension in all of the four Nordic countries (As of the implementation of the new Swedish pension reform in 2001, 40 years of membership will be required also in Sweden). The basic structure of the pension systems is unaltered in Norway. The same holds true, to some extent, in the Danish case, although the introduction of a partial income-test of the basic amount in 1994 can be seen as a potentially significant structural adjustment. Nevertheless, more profound and far-reaching structural change of the pension schemes has taken place in Finland and has been initiated in Sweden (see below). Finland introduced a new system in 1996-97 and in Sweden the new system is to phase out the old one from 2001. Sweden will move from a 'defined

benefit' to a 'defined contribution' system. The employer and every insured will pay a contribution of 9.25% each of the earnings of the insured, of which 2.5% can be invested according to the preferences of the individual contributors. Common to both systems in the future is a closer link between contributions and payments, and a restriction of the previously universal basic amount to people with no, or low, employment-derived pension.

Figures 1-4 above have indicated that the most significant changes (mostly retrenchments) in social security and welfare schemes have occurred in Finland and Sweden. Let us have a closer look at the economic and political contexts in the four countries in the 1990s in an effort to account for policy changes that have taken place.

Economic and Political Contexts in the 1990s

Among the Nordic countries, Sweden and Finland have experienced the most critical economic problems in the early 1990s, Denmark somewhat less problems, while the Norwegian economy has performed exceptionally well - thanks basically to the large revenues from the oil and gas sector.

Welfare reforms during the 1990s in the *Swedish welfare state* can only be understood in the light of the financial crisis that arose from the early 1990s. Sweden lived through the worst economic recession since the 1930s. The level of unemployment soared (by Scandinavian standards) to about 8.0 for the years 1993-97 (excluding those on labour market programmes); the GDP declined during each of the three years 1991-93; central government budgets deficits have increased substantially, and government debt as a percentage of GDP has been at the level of 83-85 per cent during the last four years (OECD 1997d). Primarily because of unemployment and a declining GDP, social expenditure as per cent of GDP peaked at 40.3 per cent in 1993. Sweden had a non-socialist government with a Conservative Prime Minister during 1991-94, and has had a Social Democratic government before and after.

Finland has in some ways been worse off. Finnish economy - which in the 1980s by commentators was referred to as the successful «Europe's Japan» - collapsed after the combined effect of international recession, the fall of the Soviet Union (dramatic fall in trade between the countries), and the political decision to link the Finnish mark to the German mark at a time when the latter was extremely solid. GDP declined each of the three years 1991-93, but began to pick up again in the latter half of 1993. From an average unemployment rate of 4.8 per cent during the previous decade, the figure during 1991-97 has averaged 15 per cent (OECD 1997a). The budget deficits peaked at 70 per cent

of GDP in 1995 (OECD 1996b). High unemployment pushed social expenditure as a per cent of GDP up to the level of 37.8 per cent in 1993, which has been brought down to 33 per cent in 1997. Finland had a Centre-Right government during 1991-95, with a Prime Minister from the Center Party, and has since 1995 had a «Rainbow Coalition» government led by a Social Democratic Prime Minister.

Denmark has had quite high unemployment figures since the mid-1970s, but the rate peaked at 12.8 per cent in 1993, and averaged 10.4 per cent during 1990-97 (OECD 1997b). Hence, given long-term unemployment, the change in the 1990s appeared less dramatic than in Sweden and Finland. Also, Denmark did not have to endure years of negative economic growth (development). During Europe's economic «annum horribilis» in 1993, the Danish economy showed a solid balance of payments, foreign trade surpluses, and ultralow inflation (OECD 1997b). As of 1997, unemployment is falling and the state budget for the first time in ten years shows a surplus. Denmark had a Conservative-Liberal (Agrarian) government with a Conservative Prime Minister between 1983-93, and has since had a Social Democratic-led government in coalition with different partners of the centre-left.

Norway has been in a Nordic world of its own. Not only is it the only country in Europe which both one and two times through referenda has declined invitations to become member of the European Union, it has also most persistently showed economic growth in every year since 1989: the average growth rate of GDP was 3.5 per cent during 1990-96, compared to the OECD average of 2.5 per cent, and the EU average of 1.7 per cent (OECD 1997a). Unemployment peaked at 6 per cent in 1993, and was down at 3 per cent (excluding those on labour market programmes) by October 1998. For the first (and only) time since 1950, the general government financial balance was in the negative in 1992 and 1993, but is now well back on the plus side with an estimated surplus of 6.8 per cent of GDP - the highest in Europe - in 1997 (OECD 1997c). Norway had a Labour Party minority government between 1990 and until October 1997 when a centrist minority coalition government, led by the Christian People's party, took over.

Given the above summary outline of the state of the economy, unemployment levels, social expenditure and public finances, it would be reasonable to assume that a motivation for political action to reform and modify generous social security and welfare programmes would be generated in Sweden, Finland, and Denmark, and to a lesser degree in Norway. As will be seen from the discussion below, this is also the case: efforts to introduce reforms in social security have been strongest and most extensive in Sweden

and Finland, where the financial strains have been most pronounced, whereas the changes in Norway and Denmark have been few and modest in both scope and kind.

While acknowledging the substantial variation concerning the welfare policies pursued in the four Nordic states, four common features can be said to characterize the political development in the area of social security: Firstly, there is *widespread political consensus, both among political elites and the electorate, about the continued public responsibility for welfare provision*. Population surveys show highly stable patterns of support for state provided welfare, and no major political actor in any of the countries, has called for state withdrawal from central spheres of social security (Ferrara 1993; Hatland, Kuhnle & Romøren 1996; Svallfors 1996).

Secondly, there are signs of erosion concerning the traditional dividing lines between left and right in the Nordic parliaments, and *welfare reforms are being achieved through cross-cleavage compromises*.⁶ A clear-cut left vs. right pattern in the reform process can hardly be distinguished, a tendency perhaps most pronounced in Sweden and Finland. In Sweden the Social Democrats, traditional strong advocates of welfare state universalism, have intensified their close cooperation with the agrarian Centre Party on social security issues, and the 1996 decision to reform the pension system resulted from a controversial compromise with the Conservatives, the Liberals and the Christian Democrats (Palme & Wennemo 1998). The Social Democratic government has also implemented a number of cutbacks and legislative changes since taking office in October 1994. For example, and even though the party opposed the general reduction of replacement rates to 80 per cent under the conservative-led government in 1993, it was the Social Democratic government that decided to lower the sickness benefit compensation rate to 75 per cent in 1996. In Finland Paavo Lipponen's «Rainbow-coalition» (Conservatives, Greens, Left-wing Alliance, Swedish People's Party, Social Democrats), has had to deal with one of the deepest economic crises in Finland's modern history. The key remedy has been unpopular cuts in a whole range of key social security benefits, only made possible through broad political compromises. Even in affluent Norway - «the Scandinavian Kuwait» - the fear of inflation and an «overheated economy» has brought the Social Democrats and the Conservatives closer together in matters concerning government spending in general, and expenditure on welfare in particular. Apart from the sheer impact of economic crisis, this development has to do with a fundamental political consensus about the primacy of modern capitalist economy, and hence a depolarised political context. It has come as a surprise though that the new minority government of October 1997 achieved parliamentary majorities in favour of significant cash benefits to families with

small children not being sent to kindergartens, and significant increases in the level of minimum pensions.

Thirdly, *the political debate over state welfare is increasingly influenced by advocates emphasizing incentives to work, individual initiative and the, allegedly, detrimental effects of a comprehensive welfare state.* In all the four Nordic countries there has been a shift of focus from receiving passive benefits to active participation, through rehabilitation, training and education. This shift stems partially from the experience with large budget deficits during the 1990s, a lot of which was accumulated through mass unemployment and the financing of social security schemes. But it also reflects the acknowledged need to move people away from social security and into regular employment, a move necessary for sustaining the welfare state in a future of ageing populations. Stricter employment criteria, tightening of eligibility, and shortening of benefit periods all illustrate this shift of focus, manifested *inter alia* through the Danish labour market reform (1994), the recommendations of the «Incentives Trap Working Party» in Finland (1996) and the various Swedish reforms in the unemployment and sickness benefit schemes. Furthermore, some aspects of the incentives debate seem *ideologically* motivated by a neo-liberal orientation towards the comprehensive welfare state. This orientation has been most evident in Finland, where the economic crisis was most hardly felt, and where politicians and researchers expressed fears over the risk of developing a state-based «dependency culture» (Heikkilä 1997).

Fourthly, a *strong welfare populism* is evident with the smaller parties on both the left and the right of the political spectrum, and has proven to have some electoral appeal. Whereas the welfare policies of the radical parties on the left seem to restrict itself to wanting more of it, the «new right» parties in Sweden (New Democracy) and Norway (Progress Party), have demonstrated highly inconsistent political approach to social security. On the one hand they are strong advocates of general tax reduction, increase in the individual responsibility for securing welfare and private insurance arrangements, yet on the other hand they favour a substantial increase in public spending on health and pensions. It is hard to see how these aims are compatible.

A closer look at the political variations between the Nordic countries can serve to elaborate the outline above. In Sweden the general need to reform has been acknowledged by almost all important political parties, and the reform process which has taken - and is taking - place has enjoyed support from both left and right of the political spectrum - although, naturally, disagreement on exactly what kind of measures to take exists.⁷ The entire election campaign in 1994 was fought over the welfare state, the public deficit, and the economy.

Current political debate in Sweden evolves around the role of alternative social security providers in the system. There is general agreement upon the necessity of state intervention in the sphere of social security, but there are also strong advocates for increasing the responsibility of both the family and the market. Important political differences exist - at least in principle - regarding the coverage and level of benefits and reliance on different rules of eligibility and entitlements. On these issues a clear neo-liberalistic tendency is discernible in the arguments that the benefit system works as a disincentive to work and to individual efforts. The Conservatives, which was the leading governmental party during 1991-94, want less public insurance because they view the general level of taxation as harmful to economic growth due to the assumed negative impact on the rate of investment. But the party had - under the pressure of the economic crisis - in practice to abandon the idea of major tax cuts. The Conservatives also argue that the family should have the larger responsibility within a general framework financed by the state, while the individual should have greater opportunities to choose insurance from a set of private insurance companies. Similar arguments were heard in the Norwegian election campaign in September 1997, especially from the Conservatives and the Christian People's party. The Swedish Liberal party, a government coalition partner 1991-94, actually changed its views on social security issues during that period. In opposition they favoured tax cuts, while in power they argued in favour of the maintenance of tax levels in order to protect the earnings-related basis of the social security system. Yet, reforms are necessary they claim, and they advocate a system with a stronger link between contributions and benefits, and stronger incentives for work participation. The (agrarian) Centre party is a traditional defender of flat-rate benefits, since the farming population has (had) little to gain from earnings-related benefits. The party has called for the strengthening of the basic security elements of the social security system, and for reducing costs through a general lowering of benefit ceilings. The Swedish Christian Democrats, which entered parliament for the first time in 1991, is a strong advocate of a cash care allowance to families with children, in order to permit greater family choice in terms of child care through kindergartens, mother/fathers, au-pairs, or other solutions. In Norway, its sister party has argued strongly along similar lines for some time, and such a scheme is now being implemented (1998) after a budget compromise with the Conservatives and the Progress party. The Swedish Centre party defends cuts in public spending and the need for incentives, but wants to maintain major public responsibility in the area of social security. The short-lived right-wing populist party, New Democracy, which may have influenced public opinion, but otherwise played a marginal political role, favoured tax cuts, more means-testing, and a general reduction of earnings-replacement rates to 70 per cent. This is very much on par with its populist relative in Norway, the Progress

Party. The Social Democrats, traditional defenders of welfare state universalism, have altered their views on a number of social security issues since financial problems made their impact in Sweden in 1990-91. The party has on several occasions implemented cut-backs in schemes it previously protected from changes, as was the case with the unemployment and the sickness benefit schemes in 1996. Since 1995, its most stable parliamentary ally has been the Centre party, and their common aim is to balance public finances by 1998 and halving unemployment levels by 2000. By implication, the possibilities to expand social expenditure are clearly constrained, and there is strong evidence that the Swedish Social Democratic party has undergone a process of «modernization» during the upsetting 90s. Beyond the parties, the Swedish employers' federation has strongly argued in favour of lower replacement rates; more private providers of social insurance benefits; and a financial system that gives economic incentives to individual employers to reduce health hazards.

Between 1990-96 the average tax for the average production worker rose by more than 5.5 per cent (Hansen 1997:8). Still there is no doubt that Swedish voters prefer a comprehensive welfare state, even to the extent of favouring tax and contribution increases to tax cuts in order to finance social expenditure (Palme 1994).

The Danish Conservative-led government 1983-93 pursued the overriding goal of keeping inflation down. The political debate before and after the 1994-election was dominated by the topic of the future of the welfare state (Borre & Goul-Andersen 1997) - very similar to what happened in the Swedish election campaign in 1994 and in the Norwegian election campaign in 1997, the difference being, though, that in Denmark the premise was how to deal with the unemployment problem and the growth in social expenditure, that in Sweden the premise was how to cut benefits and expenditure, while in Norway the premise has been how much more of public finances («oil money») to put into the health system, old age pensions, and old age care. Opposing fronts in Denmark have been the the Social Democrats/left wing parties vs. the Conservatives/Liberal (agrarian) parties: the former favouring continued maintenance of the welfare state, the latter favouring a more individualist strategy in the area of social security but still within a basic framework of the state. The Social Democratic led government, which gained power in 1993, introduced two major reforms: a tax reform and a labour market reform. The tax reform of 1994 entailed a reduction of the marginal tax rates and the introduction of earmarked social security contributions on earned income of 5 per cent dispersed between three funds. The reform is to be fully implemented by 1998, implying further reduction of marginal tax rates to be paralleled by an increase in social contributions to 8 per cent. Employers' contribution is set to

increase from 0.3 per cent in 1997 to 0.6 per cent in 1998. The general reduction of tax revenues for the State is compensated by the introduction of «green taxes», levied only on households. The labour market reform of 1994 aimed at stimulating a transfer from passive receipt of benefits to active participation in work, education and training. Benefits were reduced, the eligibility criteria tightened, and the duration of receipt of passive benefits shortened. The reform improved both the opportunities for job training and vocational training and developed further the leave-of-absence schemes. A reform introduced in 1997 aims at improving administrative effectiveness, and a greater demand on individual activation and participation in order to receive benefits. The element of activation is particularly strong with regard to young beneficiaries: as of 1998 municipalities are legally bound to offer all citizens under the age of 30 opportunities for activation as an alternative to different kinds of cash benefits. The reform is also meant to stimulate flexible work, organized by local government and subsidized by central government. Danish social policy has become more orientated towards stimulation of incentives to work, and the present Government emphasizes self-support, respect for the individual, and differentiation in social services (Danish Ministry of Social Affairs and Health 1996).

Like in Sweden the Danish welfare state enjoys strong popular support, and there is widespread consensus on public responsibility for welfare. Yet there is some evidence of declining welfare state support in the Danish case, mainly resulting from concerns over the problems of future financing (Goul-Andersen 1997).

Finnish politics in the 1990s is the politics of cuts and retrenchments in the area of social security. The struggle to regain control of public finances has led to even more dramatic policy changes than in Sweden. Social policy debate has centered around the issues of the detrimental effect of social policy on the market; of the disincentives to work, and individual initiative and on the negative effects of high taxes on willingness to work. The argument that the incentive problems were so great that they justified cuts in minimum security, quickly got their political expression: first in Lipponen's government programme in 1995 and later in the recommendations from the «Incentive Trap Working Party», led by minister Arja Alho (Heikkilä 1997:18). Even though the crisis in the public finances brought forth a number of critics, the popular support for the welfare state, for primary public responsibility for welfare, is still strong (Heikkilä 1997:22).

Two phases can be singled out regarding reform measures that has been implemented to regain control of public finances and expenditure.⁸ The Centre-

Right government (1991-94) introduced cuts in the earnings-related sickness and unemployment benefit schemes. Public expenditure were reduced, taxes increased, and tighter fiscal policies introduced, in 1991. Cuts of social benefits were spread to all schemes, and techniques of cutting have varied: modification of benefit levels, of compensation levels, of indexation of benefits, of eligibility to benefits. Thanks to these reforms, the growth of social expenditure in real terms decreased from 9.3 per cent in 1991 to 1.6 per cent in 1993. The economy gradually improved as of 1994, but still the 1995-budget reaffirmed the decision of 1992 to restore expenditure at 1991-level. While the Centre-Right government avoided cutting into minimum security benefits, the «Rainbow Coalition» government under Social Democratic leadership since 1995, has added minimum social security benefits to the «cutting list» (pensions, sickness, family, labour market support, a.o.). A government committee advocated a system of basic public services combined with private supplements, and based on its recommendations, the government implemented in 1996 reforms which put an end to health insurance indexation, which tightened eligibility criteria and reduced levels of compensation. Further cuts in public expenditure are envisioned, in order to curb indebtedness. During the period 1992-97, nearly all key benefits were subject to cuts, although the original structure of the benefit system has been preserved. The most radical changes were made in publicly funded unemployment and health insurance benefits, and in means-tested housing support.

Norway parts company with its Nordic neighbours - and European countries in general - when it comes to welfare cuts. The booming Norwegian oil economy in the 1990s has created opportunities for maintaining and developing the welfare state. Reforms in Norway are of a very limited scope: some schemes have been modified, others have been made more generous. The government and parliament have set up a «Petroleum Fund» - to be used for investments abroad - to guarantee future financing of pensions and welfare. A government report on welfare submitted to parliament in 1994 («*Velferdsmeldingen*») concluded that the public system of social security was to be maintained in basically the same form as previously. But it emphasized a stronger work orientation: without a high level of employment and improved schemes for rehabilitation, job training, etc. it would be difficult to preserve the structure of the welfare system in the future. This view was reiterated in a similar government report in 1996-97, and the view enjoys widespread support from the major parliamentary parties. The Norwegian welfare state can not be said to be in a state of restructuration. The only party that openly calls for extensive reforms is the right-wing or populist Progress Party, but it is hard to identify a consistent policy line between calls for cuts in social security and calls for higher minimum pensions, and more and better services for the old and

sick. It does argue for more privatization in the health system, but also for stronger centralized state responsibility (Fremskrittspartiet 1997). It also argues for the principle of increased individual responsibility, as do the Conservatives, which bases its argument on the need for public savings, as does the Liberal party. The Conservatives favour a tightening of the sickness benefit scheme, as do also the other non-socialist parties (except the Centre party). The party is also in favour of the principle of mandatory work for recipients of social assistance (Høyre 1997). The Conservatives, the Centre party and the Liberal party want to promote private pension arrangements as a supplement to public pension schemes. The Christian People's party is primarily concerned about care for the elderly, increased minimum pensions, and, as mentioned above, family-oriented policies (increased cash allowance for families with children). The two latter priorities were realized in 1997 through the budget compromise with the Progress party and the Conservatives. The decision increased the minimum pensions by 18 per cent (a proposal originally opposed by the Conservatives) and introduced a flat-rate cash allowance for parents who wish not to make use of state-subsidized kindergartens/day care institutions. The Labour party, now in opposition for the first time in eight years, emphasizes the «work orientation» in social security matters; i.e. the importance of moving people from passively receiving benefits to active work through measures such as job training, education, etc. and the tightening of eligibility/lowering of compensation in regular transfer schemes (Det norske arbeiderparti 1997). Also in modern social democratic ideology the proclamation that social security should enable people to help themselves is emphasized. Like the Centre party, Labour is concerned about developing better opportunities for combining work income and social security benefits in the future. A similar development can be observed in the other Nordic countries. Special public efforts should be made for the young, sick, disabled, etc. who are especially exposed to the risk of social marginalisation and exclusion. The Labour party sees no need to modify the sickness insurance scheme, and want the minimum old age pension to remain exempt from taxation. The Socialist Left party is mainly concerned with the principle of fair distribution of resources in society (Sosialistisk Venstreparti 1997). It advocates a strong public sector, and counters all proposals to privatize welfare. Health services should be improved, a national plan to fight poverty should be implemented, and unemployment benefits should be made payable independent of previous work history. Its social policy program resembles the program of its Swedish sister party: no specific social policy, just more welfare.....

Survey studies indicate strong popular support for the Norwegian welfare state, and party manifestos reflect this broad support. This should come as no surprise in a situation in which the economy is growing, budget surpluses are

increasing, and more money is placed in a Petroleum Fund for future use. The main political welfare conflict in the Norwegian parliament in 1997 was actually about how much and on which areas of welfare. parts of the budget surplus was to be invested. Among Nordic welfare states, the Norwegian one is the least threatened at the dawn of a new century, and it may currently pose as the strongest representative of the historic «Scandinavian welfare model». This situation is likely to persist, but might change with a consistent and permanent drop in the price of oil.

Review of Reforms in the 1990s

If one should extract a single common denominator for the welfare development in the Nordic countries in the 1990s, it would be a *less generous welfare state*. The basic structure of the welfare systems has been preserved, with the partial exception of the reforms in the old-age pension schemes initiated in Sweden (1994-) and implemented in Finland (1996). Not necessarily valid for all the four countries, there are at least five factors justifying the interpretation of decreased generosity in the field of public welfare: Firstly, *benefit levels are reduced*. In Sweden both the unemployment and sickness benefit replacement rates have been reduced substantially between 1990 and 1998. The Finns have introduced lower sickness benefit compensation rates and stricter qualifying conditions and have on three occasions (twice in 1992 and once in 1993) reduced the unemployment replacement rates, before increasing them slightly again in 1995.

Secondly, *benefit periods are shortened and waiting periods prolonged*. In Denmark the maximum unemployment benefit period was restricted from nine to seven years in 1994, and further to five years in 1996. In 1993 the Conservative-led government in Sweden decided to introduce one waiting day in the sickness benefit scheme, and also to increase the number from three to five in the unemployment scheme. In Finland the number of waiting days in the sickness insurance was raised from seven to nine in 1993. Four years later, five waiting days were introduced in the means-tested labour market support scheme.

Thirdly, *eligibility has been tightened* through a whole range of different measures. As part of the Danish labour market reform in 1994, requalification for unemployment benefit was restricted to regular, *unsubsidised* employment. In 1997 the reform was followed up by an extension of the work requirement, from 26 to 52 weeks within three years. In Norway a substantial tightening of the conditions to receive a disability pension was introduced in 1991: A stricter

medical definition demanded both a permanent reduction of the work ability and a causal relationship between the reduced ability to work, and the illness.

Fourthly, a *much stronger emphasis on rehabilitation, activation, education and training*. The rehabilitation reform in Finland made assessment of the beneficiary's rehabilitation needs and outlook obligatory after 60 days of sickness. In 1992 the Swedish authorities increased employers' responsibility for evaluating the rehabilitation needs of their employees, and Norway followed suit in 1993 by demanding a thorough medical evaluation after twelve weeks of illness. The Danish Labour market reform of 1994 is perhaps the most comprehensive with regards to rehabilitation, with its aim to enable people to move from benefits to active labour market participation. The new system guarantees work, training or education during the so called «activation period».

Finally, *substantial (structural) reforms in the old-age pensions systems in order to handle the increase in old-age pensioners in the next century*. Both the Swedish and the Finnish system will in the future have a much closer linkage between work-history/contributions, and payments. In the future, the previously universal basic pension will only be paid if the employment-derived pension is very low or non-existing. The reforms bring the systems much closer to the tax-based Danish pension model, where the basic amount has been subject to a partial income-test (personal income only) since 1994. This is *de facto* targeting, a principle which might be said to part with the principle of universalism often associated with the «Nordic model».

In the following section we examine some of the most important reforms in Nordic social security in the 1990s.

*Sweden*⁹

Unemployment and sickness benefit schemes have been the subjects of most changes in the 1990s in Sweden. Unemployment compensation rate was lowered from 90 per cent to 80 per cent of previous earnings in July 1993 (opposed by the Social Democratic opposition), and further down to 75 per cent in January 1996 (implemented by the Social Democratic government), and readjusted upwards (by the same government) to 80 per cent as of September 1997. The waiting period was extended from three to five days in July 1993. The voluntary insurance scheme was made mandatory under the non-socialist government in July 1994, and a compulsory contribution from all employed persons introduced (1.5 per cent of wage), but these reforms were abolished by the Social Democratic government in January 1995. The Swedish unemployment system is currently undergoing reform, the aim of which is to

increase basis security, ensure a set of stable long-term rules, and to clarify the «work line». As of January 1998, all unemployed will qualify for a universal basic amount, and an earnings-related part will come on top for voluntarily insured fund members. A new unemployment insurance fund will be introduced to cover people not members of existing (voluntary) funds. The scheme demands a stricter work requirement to be eligible for benefits.

The sickness cash benefit scheme is the most frequently and extensively reformed area of the Swedish social security system in the 1990s. Reforms were induced by rising sickness absenteeism and costs in the 1980s, and by a dramatic rise in number of persons receiving permanent and temporary disability pensions (33 per cent increase 1981-1994). Benefits were reduced from 100 per cent to 75 per cent compensation of wages for the first three days of sickness in March 1991, and to 90 per cent for sickness beyond three days. In January 1992, a system of employers' responsibility for paying benefits for the first two weeks of sickness was introduced («sick pay»). Employers were compensated by a reduction in the mandatory social security contribution. In April 1993, one waiting day was introduced; the benefit level was reduced to 80 per cent of previous salary from day 90 until day 365; and a tax deductible social security contribution from employees equivalent to 0.95 per cent of gross earnings was introduced. Cash benefit level was reduced from 80 per cent to 75 per cent in July 1993 for those who had been sick for 15 months and who were not undergoing medical treatment or rehabilitation. The employee contribution mentioned above, was restricted to apply only for the 15th to 90th day of sickness in July 1994. In July 1996, a uniform compensation rate of 75 per cent of salaries up to a ceiling of 7.5 times «basic amount» was introduced from day two. The rate was raised to 80 per cent as of January 1998. The employers' sick pay period was extended from 14 to 28 days at 75 per cent compensation in January 1997. On the same occasion stricter medical criteria were introduced by restricting benefit qualification to strictly medical reasons. Sickness absence has decreased in the 1990s, but efforts are still being made to bring public expenditure further down in this sector, and more emphasis is put on work incentive in the Swedish debate.

The established system of old age pensions has undergone a number of changes during the 1990s, basically resulting in a reduction of benefits (decrease of basic amount, and partial indexing) and greater demands on (medical) documentation of work incapacity to be eligible for an early retirement pension. But most important: In 1994 a cross-party majority in the Swedish parliament - Conservatives, Centre Party, Social Democrats and Christian Democrats - agreed upon the principles for a general reform of the Swedish old age pension system. A final agreement on reform was reached in

1998, and a law passed in June 1998. and the new system is to gradually phase out the old one from year 2001. The reform represents both continuity and change. Continuity is represented by the maintenance of a universally inclusive and publicly administered system that provides both for basic security and earnings-dependent pension insurance. Change is represented in the rules for qualification, benefit indexing, funding and coordination between the basic and earnings-related benefits. A stronger link between contributions and benefits is created. As mentioned above, the fundamental change is that the guaranteed pension (the basic or minimum pension) will be paid only when the earnings-related pension is very low or non-existent. The basic pension will be unaffected of all kinds of occupational or private pensions that a beneficiary might qualify for.

The system of parental insurance and parental benefits was changed in 1994, reserving one month for each of the parents; reducing the replacement level from 90 per cent to 80 per cent (except for the reserved months); abolishing the 3 months with a flat rate benefit; and introducing a care allowance to parents with children between age 1 and 3, and paid to mothers who did not make use of public child care. This benefit was flat rate and taxable. This allowance introduced by the Conservative-led government was abolished by the Social Democrats in 1995, and the 3 months with flat rate benefits was reintroduced. Replacement level for the two parentally reserved months was reduced from 90 per cent to 85 per cent (will be further reduced to 80 per cent in 1998), and 75 per cent for the rest of the period (13 months). As of 1998, benefits for the first 360 days of the parental leave period will be increased to 80 per cent.

The child allowance scheme was improved in 1990-91 thanks to the tax reform (lowering of marginal taxes, and simplification of overall tax structure), but in 1994 benefits for families with five or more children were reduced. Further reduction was introduced by the Social Democrats in 1995, by abolishing extra benefits for 3rd and 4th child, and by closing the scheme of supplementary benefits for large families for new entrants as of January 1996.

A proposal to introduce a national benefit standard for social assistance in Sweden has been put forward, but is not yet decided upon.

The sickness insurance contribution has gradually been increased, as well as taxes in general, in the 1990s, in order to finance social security. There is a tendency - especially in the new pension system - to place a relatively greater financial burden on employees rather than employers..

*Finland*¹⁰

As in Sweden, the unemployment benefit system has undergone major changes. After having improved the replacement level in 1985, and made benefits taxable, the government, with parliamentary support, reduced the earnings-related part of the benefit by 3 per cent in 1992, and reduced it further in 1993 through new methods of calculation, and again in 1994, 1995 and in 1997. An employee contribution of 0.2 per cent was introduced, and eligibility criteria were tightened, in 1993. A partially means-tested cash benefit known as labour market support (LMS) was introduced in 1994 to secure the basic livelihood of long term unemployed and young people with no job experience. This scheme was restricted in 1996, and five waiting days were introduced in 1997. In 1996, the Finnish parliament decided to tighten employment and insurance conditions; increase the age limit from 55 to 57 in order for an unemployed, whose maximum benefit period has not run out, to receive the benefit up to the age of 60; alter conditions relating to the waiting period and rules for the receipt of LMS. The unemployment benefit system today consists of three complementary schemes: a flat rate basic allowance paid to those who are not members of (voluntary) insurance funds; an earnings-related allowance (consisting of an income-related basic amount + earnings-related supplement) to members of insurance funds; labour market support benefit to those who do not satisfy the employment condition or who have been unemployed more than 500 days.

The sickness insurance scheme has also undergone a number of reforms. A general reduction of the benefit level dependent upon income brackets was introduced in 1992, the benefit level of the lowest income bracket being reduced from 80 per cent to 75 per cent, and then to 70 per cent. In 1993, the waiting period was extended from seven to nine days; benefits reduced to 66 per cent in the first income bracket; introduction of an employee contribution to the earnings-related part; index linking resulting in a slight reduction of minimum benefit. In 1994, index-related increases were frozen. Compensation rate for the lowest income bracket increased from 66 to 70 per cent. A major change occurred in 1996: benefits are denied people with income below a certain minimum; rules of calculation are altered; replacement level has been lowered; reductions have resulted due to halting of indexation; eligibility criteria have been tightened; and focus on rehabilitation is more emphatic.

The old age pension system has seen many changes in the 1990s: index-linking and cuts in the employment derived pension part (1992-93); introduction of an employee contribution of 3 per cent for occupational pensions (1993); lowering of age limit for part-time pensions and the increase of retirement age for some groups in the public sector from 63 to 65 years

(1994). In 1995, the national pension was slightly increased. A comprehensive pension reform was implemented in January 1996 and 1997: pensions are being more closely linked to work history; the minimum national pension - hitherto a universal benefit - was restricted only to pensioners with employment-derived pensions below a certain limit - thus introducing a system similar to the Swedish reform decided upon.

A child homecare allowance was introduced in 1985, and extended to all parents with children under the age of three in 1989. In 1985, all children under the age of three attained the right to municipal daycare. In 1990, parents of children under three years of age attained the right to choose between private and public homecare. Cuts in parental benefits in 1992-93 followed suit with cuts in the sickness benefit scheme, and total parental leave was reduced from 275 to 263 working days in 1993. Since 1994, the system of maternity allowance and parents' allowance has basically remained stable. The universal child allowances were raised in 1994, but at the same time tax deductions for children were abolished, only to be reduced again in 1995.

Denmark¹¹

As in Sweden and Finland, unemployment insurance is voluntary. About 76 per cent of the work force is insured as of 1997. A number of changes in the unemployment benefit scheme and in unemployment related policies has taken place in the 1990s. In 1992, improved job-training schemes and schemes for leave of absence were agreed upon in parliament; a wage ceiling for job offers in the public sector introduced; and a transitional allowance for long-term unemployed between 55 and 59 years of age (in practise early retirement with unemployment benefits). In 1993, employers' payment was extended from one to two days. 1994 saw the labour market reform, already mentioned. It implied that the maximum period of unemployment benefits was reduced from nine to seven years, but with possibilities for prolonged period for unemployed between 60 and 67; the allowance period was divided into a benefit period of four years, parts of which were to include mandatory work, education or job training, and a three year activation period which guaranteed work, education or job training (at least part of the time); eligibility criteria were tightened; the age limit for transitional allowance lowered from 55 to 50 years; improved job training schemes for unemployed on social assistance; benefits to be received in combination with small income; improvement of two leave schemes and the introduction of a third: the educational leave scheme was made available for unemployed - 100 per cent wage compensation for a period up to 52 weeks; the parental leave scheme was modified to give unemployed one years leave per child; introduction of the sabbatical leave scheme of up to one years leave at a compensation of 82 per cent of the unemployment ceiling. The 1994 tax reform

introduced social contributions for people in regular employment in order to strengthen an unemployment fund, activation fund and a sickness benefit fund. The original contribution was set at 5 per cent of gross earnings, and has by 1997 been increased to 8 per cent. The maximum benefit period was lowered further from seven to five years in 1996, and a benefit minimum rate equal to 80 per cent of the general unemployment benefit ceiling was introduced. A special law for unemployed under 25 years (increased to 30 in 1997) was enacted to guarantee that those who had been unemployed for more than six months should receive a benefit equal to 50 per cent of the general ceiling. Furthermore, unemployed under 25 (30) were entitled to 18 months of education. The requalification criteria were changed in 1995 from 26 weeks of work within 18 months to 26 weeks within 3 years, and in 1997 the rule was tightened to demand 52 weeks of work within 3 years. The overall changes in the 1990s imply a significant shortening of the benefit duration period, and the tightening of qualifying conditions, but perhaps most importantly, as we have seen: an increased emphasis on activation and participation. The present system of job training and/or education entails cooperation between the unemployed and local public authorities in drawing up an individual plan for future employment.

Apart from the structural change of financing - through the reduction of state refunds to municipalities from 75 per cent to 50 per cent in 1992 - no major changes have been made in the sickness benefit system in the 1990s. Minor alterations have been implemented as part of the general reform work in other benefit systems (job training, education, parental leave, etc.).

The old age pension system has also largely remained untouched by reformists, with one important exception: in 1994 the basic amount, which had been a universal benefit for all pensioners over 70 years, was made dependent upon an income-test, but only for those with an occupational income exceeding a certain amount. This is the first Nordic example of a breakdown of the strongly celebrated principle of universalism, but in practise the change has little significance since very few pensioners are directly affected by the rule. Some would argue that a much longer step away from universalism is the one taken in Sweden and Finland, where the high-income groups in the future will be denied the basic pension, but since everybody will be entitled to a pension one way or other the principle of universalism is maintained. Finally, in Denmark the old-age pension amount was increased in 1994, but pensions were made taxable. A scheme for partial early retirement (*«delefterløn»*) was introduced in 1995, while temporary schemes for early retirement for people between 50 and 60 years were closed for new entrants in 1996.

Conditions for the unemployed has generally and gradually been improved during the 1990s in Norway. The waiting period for requalification for unemployment benefits after the end of the (then) maximum period of 80 weeks, was reduced from 26 to 13 weeks in 1991. Compensation during the second 80 weeks period was minimum 90 per cent of the compensation paid during the first 80 weeks. In 1992, unemployed who wanted to set up their own business were granted an extra six months of benefits. Simultaneously, the waiting period for requalification was abolished in cases where the labour market authorities were unable to offer any kind of work or job training. Hence the *de facto* maximum benefit period was extended to 186 weeks. Parallell to these alterations in benefit schemes, the government has strengthened efforts to develop labour market measures, job training schemes, and expand the regular education system (vocational and other education). These efforts reflect the government's «work line». By 1995-96, five different active labour market arrangements existed: labour market training - ten months of vocational training for unemployed 19+ years ; public sector job creation - a minimum of ten months of temporary employment with at least 15 per cent of the time spent in training - for long term unemployed and unemployed not qualified for benefits; job subsidies - maximum one year of temporary placement in the public or private sector for unemployed with special needs of assistance; trainee places - six to ten months for persons who lack previous work experience; substitute training - ten months on-the-job-training. The previous Labour party government gave over the last few years a high priority to active labour market measures and work incentives, rather than relying on passive benefits. This orientation is likely to persist also under the present government (Christian People's party, Centre party, Liberals).

The work line has also manifested itself through increased public focus on different forms of rehabilitation with a tightening of eligibility criteria in 1993. Similarly, a substantial tightening of eligibility criteria for disability pensions was introduced in 1991, while the government in 1997 has opened for the combination of salaried work and receipt of disability benefits, thus loosening up the hitherto practise of defining a status of permanent, irrevocable disability. Until recently, no major changes was introduced in the sickness benefit scheme. A proposal to increase the employer's period from 14 to 21 days was turned down in Parliament, but as of April 1 st 1998 though, the employer's period is to be increased to 17 days. The labour market organizations agreed in 1990 upon the aim of bringing sickness absence down by 20 per cent in three years. Sickness absence was reduced, but not as much, and the organizations agreed to continue efforts to bring down sickness absence.¹³ Two of the parties in the

current government coalition have previously spoken out for changes in the sickness insurance system, and we might see reform proposals in this scheme if the increase in sickness absence persists. Unemployed were entitled to sickness benefits on the same basis as entitlement to unemployment benefits from 1991. A control and rehabilitation measure was introduced in 1993, through which a beneficiary must be subjected to a medical evaluation after twelve weeks of sickness to qualify for an eventual longer period of sickness benefits. In 1995, the sickness benefit was made available to the person responsible for a child's daily care (non-parental care person). In 1997, a maximum sickness benefit period of 250 week-days during three years was introduced: until then no absolute time limit existed.

The structure of the old age pension system has been maintained. In order to save future pension expenditure, the rules for calculating the earnings-related supplementary pension were modified in 1992. The percentage constituting the basis for calculating this pension part was reduced from 45 per cent to 42 per cent of previous income, and the upper ceiling for calculating the annual pension points collected was reduced from eight times «basic amount» to six times «basic amount», and incomes in the interval six (instead of eight) to twelve times the basic amount were made to count only 1/3 of the full amount. Thus, the amount of maximum pension that can be obtained in the national pension insurance scheme have been significantly adjusted downwards, providing a stimulus to taking out private individual pension insurance. Incometesting for pensioners 67-70 was introduced for both spouse and children at the same time, while persons responsible for the care of children under the age of seven, or care for sick, disabled or elderly persons living outside institutions, became entitled to collect points for the calculation of the supplementary pension. In 1994, married and co-habiting couples were - under certain conditions - made equal in legal terms. In order to stimulate work among the elderly, pensioners with an income of one time «basic amount» would, as of 1997, get only a 40 per cent reduction in their basic pension.

The parental leave period has been gradually extended from 28/35 weeks in 1990 to the present 42/52 weeks at 100 per cent and 80 per cent wage compensation respectively. In 1993, it was instituted that four weeks of the total leave periode should be reserved for the father, and in 1994 a so called «time account system» was introduced, which allows for the combination of reduced work hours and receipt of benefits. Special arrangements exist for single parents. The system of universal child allowances is unchanged, and allowances have been adjusted (upwards) annually through decisions on the state budget.

Why Social Policy Reforms?

The review and assessment of sources and documents on social policy reforms in the Nordic countries in the 1990s show that reform activity is basically motivated by socio-structural, economic or financial considerations, and much less by political visions of an alternative type of welfare state or society. Public deficits, public indebtedness, (temporary) decline in gross domestic products, and high unemployment have induced substantial retrenchments of social security schemes in Sweden and Finland, and to a lesser extent in Denmark, while projections of future pension expenditure growth - and lower future revenues from oil and gas - induced the Norwegian parliament to modify somewhat the earnings-related supplementary pension entitlement. Although all of the Nordic countries are now more open for private initiatives in the fields of health services, social care services and social insurance than before, no political party - and very few voters - favour a deconstructed welfare state. In every election campaign, the majority of voters put health, welfare, social security and unemployment on top of the list of issues which concern them most. Neo-liberal ideas may, however, be said to have had some impact upon reform activity promoted by both non-socialist and social democratic governments, and retrenchment reforms may well induce more private and non-governmental welfare arrangements in years to come. Over time, new generations of voters will become more accustomed to a mixture of public and private welfare and social security arrangements, and thus presently high and rather unidirectional expectations towards the state as welfare provider will most likely be lower. The effects of a gradually more economically (and politically) integrated Europe will probably be similar: the hitherto near-monopolistic 'national-state'- welfare provision will be challenged from the access to, and growth of, transnational, privately organized welfare provision (health insurance, pension insurance, perhaps even personal social services organized by transnational firms).

A general observation is that governments have modified several social security programmes in a direction which give actual and potential beneficiaries *incentives* to be in, or find, gainful employment. But politicians who blow the trumpet of neo-liberal economics too loudly, and those who blow the tune that the welfare state is an evil invention, have a hard time surviving in Nordic politics. Thus, the basic structures of Nordic social security and welfare systems have been maintained, normally through broad political compromises in parliament and with tolerable support from voters. One exception to the picture of structural consolidation is the introduction of a kind of income testing for the basic pension amount in Denmark: the basic amount is adjusted in relation to any income from work. The old age pension reforms introduced (Finland) or

underway (Sweden) also modify the principles of entitlements, but without discarding the principle of universalism (all citizens, in fact *all residents*, have an automatic right to a pension). Though the structures are basically solid, generosity of benefits, earnings-replacement rates, and eligibility criteria have been modified substantially for some schemes in Sweden and Finland. In both Denmark and Norway, the introduction of labour market measures and reforms have actually entailed a more active welfare state concerned about training and educating the unemployed for jobs. The parental leave schemes have been significantly improved and made more generous in Norway, and in general, family- and child-orientated policies have been «protected» against severe retrenchments during periods of financial strain in the Nordic countries. These policies have undoubtedly been conducive to maintaining relatively high (European-wise) fertility rates in the Nordic countries.

All across the Nordic countries we may observe a more distinct political concern for what governments label the «work line»: more emphasis on activation and work participation rather than granting of passive benefits. These policies not only promotes employment, but naturally also - if successful - entail lower social expenditure and higher tax revenues. The private economy of individual households and families is strengthened, and also the public economy. The «work line» cannot solely be interpreted as a reflection of the impact of neo-liberal ideology: it may just as well be interpreted to conform with a traditionally strong work ethic in the northern, Protestant territory of Europe.

But the Nordic countries live in a political world. It is of interest to note that OECD in a recent report (1997) advocates welfare retrenchments in Norway on a par with retrenchments in other Nordic countries (e.g. reduction of replacement levels for unemployed - already having, with Finland, the lowest replacement level in Scandinavia (on average 62% in Norway, 58% in Finland)); introducing waiting periods for unemployed; tightening eligibility for disability pensions). OECD fails to differentiate its views on public welfare according to the Nordic countries' varying financial ability to sustain the scope of the welfare state. Thus, it seems that welfare state reform *per se* is the goal of OECD, rather than looking at reforms as responses to economic and financial imperatives. It is tempting to see the OECD as a principled advocate of a more neo-liberal ideology: state or public responsibility for welfare and social security, and generosity of social benefits, should be reduced whatever the financial situation in the country under study. Why the organization advocates such an ideology, is an interesting question in itself. One effect, though, may be to give greater legitimacy to domestic politicians who advocate welfare state

retrenchments: «listen to foreign, independent experts!». So far, at least, this ideology has problems finding much fertile ground in Nordic terrains.

Given the varying economic situation in the Nordic countries during the 1990s, one may conclude that welfare state developments have been divergent rather than convergent: between Sweden and Finland on one side, and Denmark and Norway on the other, and between Denmark and Norway.

What is left of the institutional and normative legacy of the 'Scandinavian model' or type of welfare state at the end of the 1990s? We may argue that three elements are pivotal to this 'model':

1. - The dominant role of the state and public sector (including local government). Transfers and services are provided by central and local government based on rights extended to all citizens and residents. The public sector is fundamental both for social insurance and service provision. Government has taken, and still takes, fundamental charge of the security dimension of the welfare state. Although we can expect a greater role for private insurance and service provision as responses to domestic and external challenges and opportunities, the importance of the state has not been significantly diminished, rather on the contrary in absolute terms (cfr. Table 1). There is no political or logical reason to believe that the role of the state in welfare matters will change much in the foreseeable future. The total amount of resources in society (market, state, voluntary organizations, families) spent on social security and welfare provision is likely to increase.
2. - The principle of redistribution through general taxes, producing relatively egalitarian distribution of income. Values of equality are strong within Nordic societies and welfare states. It may also be argued that the countries have achieved a relatively great extent of social equality coupled with economic efficiency, and they could boast a more rapid economic growth during the period 1960-1990 than many other, less equality-oriented, West-European countries (Korpi, 1992). Poverty in general, and among the old, is relatively low. Development of private insurance and health and other services as complements and supplements to public arrangements are likely to create a new institutional mix of public and private welfare which will entail a socially more unequal distribution of welfare. But still, judging from opinion surveys, election campaigns and parliamentary activity, the value of equality still seem important for the framing of debates and decisions on matters of social security, health and welfare.

3. - Full employment has been proclaimed to be an overall goal of Nordic governments since the Second World War, and most pronounced in Sweden and Norway (Kosonen, 1996). Unemployment has since the late 1970s in Denmark, and since the 1990s in Finland and Sweden, and to a much lesser degree in Norway, emerged as a major challenge. Active labour market programmes have been initiated in all countries, and can certainly show some success, especially in Denmark in recent years. All governments' embrace of the so-called 'workline' is another proof of the - at least verbal - strength of the goal of full or increased employment. But this element of the normative legacy of the Scandinavian 'model' may be the one which is hardest hit by domestic and external economic challenges

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Endnotes

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² Esping-Andersen (1990); Kuhnle (1990).

³ Statistisk sentralbyrå (1993).

⁴ Nososco (1997).

⁵ Denmark introduced labour market pensions in 1989 as part of the agreement between the labour market partners which gives the Danish system a *de facto* earnings-related element.

⁶ This has also to do with changes in the Nordic party system formats during the last two decades. Majority cabinets derived from a single party is now a thing of the past, the norm in the 90s being multi-party coalitions as presently is the case in Finland (majority), Denmark (minority) and Norway (minority), or single party minority governments as in Sweden. Hence the present governments are much more dependent on parliamentary support from different sides of the political spectrum.

⁷ The following section is based on Palme (1994).

⁸ Kosunen (1997b).

⁹ The information on Sweden is derived from Korpi & Palme (1993); Ploug & Kvist (1994b); (Palme 1994); RFV (1995); Olsson-Hort (1996); Daly (1997); Hansen (1997); Palme & Wennemo (1998); Eriksen & Söderström (1997); (OECD 1997d); RP (1996-97:1); RP (1996-97:63); RP (1996-97:107). The most recent information is collected from the following web-addresses: www.tk.se (National Insurance Board); www.sb.gov (Swedish government); www.riksdagen.se.

¹⁰ Reforms and changes in Finland are mapped in accordance with Ploug & Kvist (1994b); Alestalo (1994); Finnish Ministry for Social Affairs and Health (1995); Uusitalo (1996); Heikkilä & Uusitalo (1997); Finnish Ministry for Social Affairs and Health (1997); Daly (1997); Statsrådets kansli (1997); OECD (1996b); RP (1996:23); RP (1996:72); RP (1996:172). In addition these web-addresses have been useful: www.vn.fi (Government); www.eduskunta.fi (Parliament); www.elmo.fi (National Board of Pensions); www.kela.fi (National Social Insurance Board).

¹¹ Information in this section is derived from Plovsing (1994); Ploug & Kvist (1994a); Ploug & Kvist (1994b); Goul-Andersen (1996); Ploug & Kvist (1996); Hansen (1997); Daly (1997); OECD (1997b); Danish Ministry of Finance (1997); Finansministeriet (1997); Socialministeriet (1997). Information has also been collected from:

www.sdn.dk/sdnjumplminstyr.htm (Government); www.folketinget.dk (Parliament);
www.ask.dk (National Board for Social Security).

¹² The main sources in the Norwegian case have been: Lødemel (1994); Ploug & Kvist (1994a); Ploug & Kvist (1994b); St.meld. (1994-95:35); Hatland, Kuhnle & Romøren (1996); St.prp. (1995-96:1); St.prp. (1996-97:1); St.meld. (1996-97:4); OECD (1997c); Daly (1997); RFV (1994; 1995; 1996; 1997). Important web-sites with on-line information on social security matters are: www.odin.dep.no (Government); www.stortinget.no (Parliament); www.trygdeetaten.no (National Insurance Board).

¹³ Since 1994 there has been a trend towards yet another increase in sickness absence, probably partly as the result of including more people with reduced work ability in the labour market.



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