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Nordic countries in Transition: Towards Enabling Welfare states and experimentalist Business Systems

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Introduction

Seen in retrospect the debate over the futures of welfare states has changed dramatically several times. For those who witnessed the neo-liberal revolt against Keynesianism after the first oil crisis, the present debate is as surprising as was the debate then, when figures like Margaret Thatcher and Ronald Reagan signaled a return to the “market”. The expectation was created that de-regulation and globalization would force even strong unions and Social Democratic welfare states to retrenchment in a race to the bottom (Pierson, 1994). The argument was that international competition would force countries to lower standards of social protection to reduce social charges on enterprises:

This perspective sees the welfare state as having to cede place to a “competition state”. The latter seeks to protect the competitiveness of enterprises located in its territory by reducing the legislative and tax demands it makes on them, including by intervening minimally in the labour market (NESC, 2005, p 12).

The current debate, however, is much more subtle. Some significant welfare states are doing well, for instance the Scandinavian, while others have alternately been seen as “miracles” (e.g. “the Dutch Miracle” (Visser and Hemmerich, 1997) Finland’s Information Revolution (Castells and Himanen(2002)). Some observers even hold the view that if there has been a race, it has rather been towards the top as less developed welfare states narrowed the gap towards the more developed by increasing their tax as percentage of GDP (Baldwin and Krugman, 2000). But there were also breaks with this pattern, as in the case of Ireland, which radically lowered its taxes while performing very high scores in GDP-growth from the mid-1990s (Arnal et al. 2001, p 7). It is indeed becoming increasingly significant that two, seemingly very opposite systems, represented by Anglo-Saxon and Nordic countries are competing for the highest scores of growth. This despite the fact that while Nordic countries show tax-rates between 46.6 and 52.2%, the Anglo Saxon only “carry the burden” of 31.9-36.3% tax levels (NESC, 2005)(see also Campbell, 2005). Countries that have taken a middle-road concerning tax levels such as Germany, France and Italy seem, to the contrary, to have become rather static with lower growth rates and higher unemployment figures than the other two groups of countries. This paradox has caused a shift in debates on the Welfare states as it has been suggested that the Nordic countries, especially Denmark, combine flexibility in

the labour market with social security, *flexicurity*, making the Nordic countries much better able to restructure their industries and enterprises than the larger EU-countries that face greater difficulties in hiring and firing, when adapting to constantly changing circumstances caused by globalization (Madsen, 2006; Zysmann and Schulze Cleven, 2006).

The reason for the vitality of the Nordic countries is not that globalization – and the pressure on enterprises to lower costs - has turned out to be less dramatic than forecasted. From 1973 to 2003 the share of developing (low wage) countries in developed countries imports of manufacturing products has grown from 11 to 47% (China's part alone from 1 to 16%) (Sapir, 2005), and rivalry among countries over the flow of FDI has strongly intensified, with global FDI growing from

Measured by the weight of the public sector, the level of wages and union power, the Nordic countries could have suffered most from this development. The truth is that they actually did for a time. By 1980 Denmark saw itself as moving towards an economic disaster, creating huge and fast growing deficits in public budgets, foreign trade, etc. Shocks came later to Finland (around 1990) with the collapse of its economic relations to the Soviet Union and an early attempt to globalize its national enterprises, and to Sweden, which in the mid-1990s faced a financial and currency crisis that seriously questioned the continuation of the “Swedish Model”. Due to huge, but volatile, incomes from North Sea oil, Norway has been the least effected of the Nordic countries concerning the dramatic shifts that have taken place from 1973 until recently. However, due to its huge extraordinary incomes from oil, Norway has been forced to take a cautious view on balancing activities and spending as an optimistic exploitation of its economic room of manoeuvre would have caused enormous inflationary pressures and dramatic deficits in manpower.

Today, 10 to 20 years after these major crises of the Nordic welfare states we can see that they did not effect a major retrenchment or “race to the bottom”. It is our hypothesis that instead, crises caused a drift away from the Keynesian welfare state, focussed on demand management, macroeconomic regulation and standardized forms of social security, toward an enabling welfare state. The latter is supply oriented, offering individualized services that enable micro-dynamic adaptation to constantly changing economic environments, where individuals and enterprises share

with the state in the Nordic countries¹ the risks of experiments. We call this a drift and not a reform or a planned change, because the change is an outcome of unintended consequences stemming from compromises, which neither of the negotiating parties opted for or foresaw. In the Nordic countries political discourses over the future were probably worded in similar ways as in other countries, where the neo-liberal turn perhaps pointed in a more definitive directions. However, Social Democratic resistance was probably better organized, unions stronger and therefore the parties happened to take very heterogeneous routes in reform, very seldom guided by a clear vision for its direction. Ironically and gradually neo-liberal critics of Social Democracy in these countries were forced to advocate savings on social spending and state regulation for the sake of better protecting the welfare state. None, however, developed a new vision for an offensive form of welfare state that could help people and enterprises master or better adapt to the changing circumstances that came with globalization, intensified innovation and competition. As a result we have only ambiguous knowledge about what is actually the new form of welfare state that is in the making.

The aim of this study is to collect empirical evidence on the nature of roles that institutions and states in Nordic countries are developing by following each their non-teleological experimental process. We think it can be studied by studying employees, enterprises and regions engaged in constant attempts to reorganize their economic activities within a global context. Our aim is to discover and disclose how they, in different ways, make use of institutions in accomplishing a process of constant transformation in beneficial ways, and how the state and wider public sector enter into these processes in distinct ways in each of the Nordic countries. By comparing similarities and differences and aggregating across the experiences of the four Nordic countries, we are aiming towards a synthesis of what the emerging enabling welfare state is all about. What can distinct countries learn from others so as to create richer and more appropriate forms of institutional complementarities to the experimentalist economies they are evolving?

¹ A number of observers have introduced new notions to capture the transformations going on in the nature of Welfare states. Bob Jessop (2000) has seen the transition to a Schumpeterian Welfare State. Salais and Villeneuve (2004) speak about a Capability Welfare State. Perhaps the most highly elaborated attempt to develop a new vision comes from the Irish NESC (2005) using the notion of the Developmental Welfare State. Zeitlin and Trubek (2003) offer a richness of observations on the heterogeneous experiments that are going on the American and European continents.

The Distinctiveness of Welfare State Transformation in the Nordic Countries

Over the last decade, Nordic countries have been among the countries that have improved their position the most on a number of indexes on growth and competitiveness. Thus from 1996 to 2003 Denmark moved from rank 11 to 3, Finland 16 to 1, Sweden 21 to 4 and only Norway moved in the opposite direction, from 7 to 9 on the index provided by the World Economic Forum (see www.maaw.info/WorldCompetitivenessReports.htm). On an index on the aggregated health of national OECD economies in 2004 (factors such as unemployment, deficits on public sector, inflation, inflationary stability and balance of payment deficits) Norway ranks 1, Denmark 3, Sweden 8 and Finland 15 (Økonomi- og Erhvervsministeriet, 2006, p 204). Among OECD countries, the Nordic dominates the list of countries that shows surplus on public accounts (ibid., p 205), have the lowest public debt (ibid., p 206) and the highest surpluses on balance of payments (ibid., p 209). These achievements have come without destroying the general humanitarian situation of these countries, which have been able to better defend high positions on Index of Human Progress than other highly ranked countries such as the US and Japan (see The Index of Human Progress on www.FraserInstitute.org) in the later part of the 1990s, with Denmark ranked 2, Finland 7, Norway 5 and Sweden 8 in 2000. Norway is the only OECD country that in terms of GNP per capita really challenges the number one position of the US economy in 2004. Achieving 80% of the US level, Denmark is positioned 7, and Finland and Sweden 12 and 13, the latter two reaching approx. 75% of the American level (Økonomi- og Erhvervsstyrelsen, 2006, p). The Nordic countries have reached these levels with approx. 10% less working hours per capita than in the US (Norway 25% less) and by being 10-15% less productive per working hour (except for Norway with a 22% higher productivity than the US) (ibid., p 33). A very high participation rate of women in the labour force is one of the most significant examples of the distinctiveness of the Nordic societies (Ibid, p 39).

Despite the resulting high gross participation rate in the labor market, since the mid-1990s the Nordic countries have been able to reduce unemployment more drastically than other OECD-countries. In 2004 Sweden and Denmark shared with USA an unemployment rate of less than 5%, Norway fared best with just 4%. Finland, though celebrated for its high international competitiveness, shared the ill fate of a number of EU countries with an unemployment figures of around 9% (ibid., p 171).

Perhaps it is one of the most important achievements that the Nordic countries managed to reduce the above average unemployment among the labor force with short education (ibid., p 50) without introducing a dual labor market structure as in the US. Compared to the US with wage differences between high and low educated at the level of 160%, Denmark is the most equal with only a difference around 40, Sweden 50, Finland 59 and Norway 62% (ibid., p 51). This is also reflected in Gini-coefficients, where all the Nordic countries group among the countries with the lowest coefficients (from 22 to 24) among the EU-countries (European Commission, 2004, p 161). In both Denmark and to a lesser extent in Norway wage differences between the two groups were reduced, while in Sweden and Finland it increased (10-15%) (Økonomi- og Erhvervsstyrelsen, 2006, p 52).

The proportion of long-term unemployed (more than 12 months) as proportion of the unemployed was especially reduced in the Nordic countries from 1994 to 2004. In Norway it was reduced from nearly 30% to only 9%, in Sweden from 25 to 19%, in Denmark from 32 to 22%, and in Finland from 38 to 23% (ibid., p 171). In short, the Nordic countries seem to have been able to improve their abilities for creating social and economic space for an increasing number of social groups. Despite the fact that globalization has probably made it increasingly difficult for many such social groups to hold on to usual positions and roles in the labor market.

The big question is what makes them so different from other European Welfare states?

André Sapir (2005, p 7 ff.) suggests that the Nordic Model combines high efficiency (as it provides sufficient incentive to work and therefore relative high employment rates) with high equity (as the risk of poverty is relative low). High efficiency they share with the Anglo-Saxon Model, which is however low on equity. High equity they share with the Continental (European) Model, which however is low on efficiency. The Mediterranean Model is low on both equity and efficiency. Efficiency in employment rates seems easier to achieve by unemployment insurance (as in the Nordic countries) than by employment protection legislation (as in the Continental and Mediterranean Countries). Equity and the avoidance of poverty risk can, according to Sapir, only to some extent be explained by redistribution (via taxes and transfers). However, “the correlation coefficient between the index of poverty and the measure of educational attainment” is very significant. “ The proportion of the population aged 25-64 with at least upper secondary education

is highest in the Nordic (75%) and continental (67%) countries and lowest in Anglo-Saxon (60%) and Mediterranean (39%) countries, a ranking that perfectly matches the position of country groups in terms of poverty risk” (ibid., p 8)².

Hacker (2006) offers another clue to the difference. In his detailed discussion of retrenchment in American welfare he shows that such retrenchment has not taken place at a general statistical level. Rather, it has come in the US by an increase in risks themselves combined with state and political actors having abstained from recalibrating social programs to the new risk-profile that have come with globalization and changed family structures (ibid., p 12). Hacker summarizes the new risks and their consequences for the American society in this way:

The constellation of risk that citizens face has changed significantly in the past three decades due to linked changes in work and family (Esping-Andersen 1999; Skocpol 2000). In the employment sector, the shifts include rising levels of earning inequality, growing instability of income over time, increased employment in services and in part-time and contingent work, and increased structural (rather than cyclical) unemployment. In the realm of family relations, the changes include rising rates of divorce and separation, declining fertility (a root cause of population ageing), and the increasing prevalence of lone parent, female-headed families. Connecting the two domains is perhaps the most and fundamental shift in the worlds of work and family – the dramatic movement of women into paid employment. (Ibid., p 20).

Increasing inequality is well known to follow in the wake of these new social risks in the US, but Hacker also show that instability/volatility in family income has grown significantly, tripling from 1970 to 1990 (ibid., p 23). In such a system the threat of winding up in poverty is huge – at least for the lowest strata. But as Hacker writes the American outcome is not unavoidable:

In principle, U.S. social policy could have adapted to changing social realities. As the path breaking feminist writings on the welfare state show (e.g. Orloff 1993; Steson and Mazur 1995), some nations – most strikingly, the Scandinavian welfare states – have dramatically expanded public protections that help women enter the labour force and balance work and child-rearing.

² This may be further elaborated by the fact that apart from a few other countries in the Nordic countries less than 10% (and for Norway only 5%) leave school without a qualification (OECD, 2006, p 138).

Many of these same nations have also tackled the new realities of the labour market with active employment and training policies (Levy 1999). Putting aside some modest exceptions, however, the United States did not follow this path. (Ibid., p 24-25)

Combined, thus, Sapir and Hacker suggest the following explanation as to why Nordic countries may differ from most other western countries:

- First by offering their citizens much more equal educational opportunities they equip a larger proportion with the educational background for handling risks, shifts and changes;
- Second, by sharing these (family and work-life) risks with their citizens, the states help citizens transform from one job to another, from one life-phase to another, from a high to a low-income situation, etc., so that citizens can be continuously more economic active than in other types of societies.

The institutions that support such risk sharing, we hypothesize, have grown in importance, sophistication and significance with globalization and increasing participation rate in the labor market. In most other models, we expect these risks have become privatized and must be insured against by either employees or by employers creating very unequal capabilities to deal with them among the population.

The public, on the other hand, can share such risks in two ways. First, by transferring cash benefits to compensate for lost or missing incomes in times of problems. Second, by providing services that put the individual on his feet again. NESF (2005, table 2.4) shows that the great differences between high and low performing countries in terms of employment to population ratios are their abilities to engage older people, women and persons with low levels of education into active employment. Not only are the risks for these latter groups larger than for the rest, but they “exhibit significant heterogeneity with specific constraints potentially facing – for example – lone parents, people with disabilities, members of ethnic minorities” (ibid., p 30). In particular such groups’ very heterogeneous needs point to the need for tailor-made, individualized public services that can help them out of difficult situations. However, developing an ability to provide such services for particular difficult groups may spur welfare state institutions to learn to act enabling for other social groups, for instance through active employment policies. In terms of public services Sweden and

Denmark ranked 1 and 2 among EU-countries in both 1993 and 2001, while Finland moved from 3 to 7 (ibid., table 4.1). The generosity of the Nordic countries is in particular significant when it comes to expenditures on disability and unemployment services (where Denmark is the number one spender) (ibid., table 4.7).

Simultaneously, the Nordic countries position themselves very high (usually among the five best) in terms of good governance on indexes including co-determination and responsibility, political stability and absence of violence, bureaucratic efficiency, quality of regulation, rule of law and control with corruption (Økonomi- og Erhvervsministeriet, 2006, Table 13.3, p 193). Doing this while at the same time expanding on number and degrees of individualization in services constitute a real challenge, which calls for more investigation. Probably universalism instead of means-testing, the use of “framework laws”, a dense system of institutions for appeals and decentralization constitute part of the explanation. But it could also be the case that public institutions have learned to combine in networks to supply these services in more relevant ways than under the more bureaucratic welfare states of the past?³ We shall return to this later.

Active Labor Market Policies, Flexicurity and Innovation Systems

In macroeconomic terms there are very good reasons for why the Nordic welfare states should be up to their toes in being active in reducing structural unemployment. OECD (2006, p 187-189) has calculated how a 1% reduction in unemployment effects potential GDP growth and cyclical adjusted public budget balances in different countries. While the effect on potential GDP only varies between 1.1% and 1.6% in all OECD countries, the Nordic countries get consistently the largest effects (1.5-1.6% compared to an average within the EU-area of 1.3%). Variations in effect, however, are very considerable on public budget balances. Whereas countries as the US and Japan are only effected by 0.3% and the Euro-area with an average of 0.6%, the effect is 1.2% for Denmark, 0.9% for Finland, 1.0% for Norway and Sweden. Obviously it is a much more pressing problem for states in the Nordic countries when they run into periods of high unemployment. They have good reasons to invest more readily in institutions and services that may assist their populations in finding employment quicker. However, by doing so they paradoxically increase the costs of unemployed and the potential effects of bringing unemployment figures down – or up.

³ This call for studies along trajectories that have been suggested by Dorf and Sabel , 1998 and Liebman and Sabel (undated). For a condensed argument, see Sabel 2005.

Obviously this means that Nordic welfare states might either enter a very vicious or a very virtuous economic dynamic in different time periods. Perhaps this was the very lesson that the Nordic states had learned by the beginning of the 1990s?

Soon after the first oil crisis in 1975, international organizations like the OECD held the view that generous and long term unemployment benefits might not only prevent market forces from reducing wage-increases but also amplify external economic shocks, for instance by making it attractive – not least for young, old and single family workers – to continue on unemployment benefits as long as possible. This - basically neo-liberal - point of view has continuously and persistently been activated in proposals for reforms throughout most countries, also the Nordic ones, and all countries have continuously cut back in one way or another on levels or/and duration of replacement rates. A number of countries, e.g. the Netherlands, Ireland, Denmark, Sweden and Norway rather than simply making these reductions initiated a number of instruments to activate unemployed by providing social services and controlling that unemployed became active in seeking employment.

The labor market reform that was implemented in Denmark in 1994 is illustrative of how an active labor market policy became institutionalized and the instruments that it provided. It had the following main characteristics (Madsen, 2006, p 336):

- The introduction of a two-period benefit system, with an initial *passive* period of four years and a subsequent *activation* period of three years; during the passive period, an unemployed person receives benefits and is also eligible for twelve months of activation;
- A change in the assistance provided to individual long-term unemployed persons from a rule-based system to a system based on an assessment of the needs of the individual (with the introduction of *individual action plans* as an important instrument);
- The *decentralization of policy implementation* to regional tripartite labour market councils, which are empowered to adjust program design to fit local needs;
- The *abolition of the connection between participation in labor market measures and the unemployment benefit system*, with the effect that

employment with a wage subsidy would no longer prolong the period for which the unemployed are eligible for unemployment benefits;

- The introduction of *three paid leave arrangements* for childcare, education and sabbatical leave to encourage job rotation by allowing employed (and unemployed) persons to take leave while receiving a benefit paid by the state and calculated as a fraction of unemployment benefit.

Madsen (ibid., p 337) points out that this program has later been reformed (and is constantly being modified and changed). For instance, where it initially had 32 individual programs, it is now based on three main types: a) guidance, training, and education, b) practical introduction to the enterprises, and c) wage subsidies. However, what is important is that the activation process and the obligation to create an action plan is a way of asking the individual to assess his/her aspirations in the light of a whole complex of societal institutions. This will facilitate constructing a program combining vocational training/education with agreements on job-training (in private enterprises or public services), which again might be combined with services such as childcare, help cure or cope with disabilities, addiction, etc.

In a recent study, OECD (2006, Ch. 7) assesses the effect of unemployment benefits taking into account the combined existence of activation programs. It shows that in countries with a strong activation program, unemployment is much less self-propelling than in countries with no such activation program (ibid., Figure 7.4, p 217). Following just after the Netherlands and Ireland measured in terms of expenditures per unemployed as a percentage of GDP per capita in 2000/2001, the figure shows that three Nordic countries follow, Denmark spending 60%, Sweden 50% and Norway 40%. Only Finland seems to have embarked on a different route, spending only around 20%⁴. Comparing level of activation services with unemployment figures (see for instance Madsen, 2006, p 341) there seems to be a very convincing co-variation: the higher the activation expenditure the lower the unemployment figure and the higher the employment frequency of the population.

Especially in Denmark Active Labor Market Policies (ALMP) is emphasized to constitute a third pillar of the “Golden triangle of Flexicurity”, the other two ones being a generous welfare system

⁴ A similar pattern – though with some deviation especially concerning the Netherlands - is found in Salais, 2003, figure 12.3., p 339.

and a flexible labor market (Madsen, 2006, p 331). Flexible labor markets have preliminary been seen as systems that avoid restrictive practices on employers' rights to hire and fire employees, while rigid labor markets may be institutionalized through Employment Protective Legislation (EPL). Consistently, the Anglo-Saxon countries have the less restrictive EPL, expected to give the employers the most free hand in hiring and firing workers. But Denmark stands out in terms of flexibility both among the Nordic and the Continental welfare states. Thus in an aggregated index of OECD countries Denmark is numbered 10, Finland 14, Norway 21 and Sweden 22 in terms of flexibility (Økonomi- og erhvervsministeriet, 2006, p 175). Mobility analyses confirm this picture, showing that in Denmark more than 20 % of employed changed workplace during a year (1998), while the figure for Finland was 19%, 17% for Norway and 12% for Sweden. In 2001 the average seniority in the same job in Denmark was less than 8 years, close to 9 in Norway, close to 10 in Finland, while Sweden topped at a level of 11 years (ibid., p 167). Ironically, Norway and Denmark were simultaneously the countries in which employees felt the highest degree of job-security (ibid., p 168). This is highly contrasting with Spain where the proportion of yearly job-shifts is higher than even Denmark, but this phenomenon comes jointly with employees in Spain feeling very insecure in their jobs (ibid.) (see also Arnal et al. 2001, p 26). Another dimension of the labor market flexibility of the Nordic countries is a high participation rate in vocational training courses. Typically, (in 2003) in the Nordic countries around 60% with higher education participated in such training, 40% with craft skills and 30% of the (so-called) unskilled workers. While the level in the US was similar for the two former groups, the difference was sharp with respect to the unskilled, only 13% (Ibid, p 169). Denmark spends the most public resources on adult- and further training (0.85% of GNP), primarily on unemployed and marginalized groups (0.67%) but is also the biggest spender for the employed. Finland comes much lower, spending only 0.2% of GNP, primarily on unemployed (ibid., Figure 11.6, p 170).

Several authors have emphasized the importance of flexible labor markets for the emergent new economies. Obviously, the standard macroeconomic point of view has been that the easier it is for employers to fire workers, the more and faster will they expand employment during upturns, thereby bringing about the positive effects on the potential GDP growth rate and in improvements on public budgets that we mentioned above. However, perhaps the effects of less flexible labor markets are worse when it comes to innovation and adaptability. A number of authors have compared the US and Germany and found that the German pattern of long term careers within a

single company together with employment protection systems favor large and established companies that can offer the most promising R&D personnel better career opportunities than the small and less consolidated. Thus it is almost impossible for Germany to create a labor market – as for instance in Silicon Valley – that redistribute competencies among firms as the innovation processes change location (Casper and Vitols, 1997; Casper et al. 1999; Casper 2000; Whitley 2000). This innovation dynamic is only a fraction of a much wider issue of relocating labor from firms that encounter problems in adapting to ever shifting roles in the international division of labor to such firms that are experimenting with actually defining new, prospective roles for themselves. In a recent paper Zysmann and Schulze-Cleven (2006) emphasize this aspects, as they argue that flexible labor markets offer much better space for experimental processes on a broader scale than merely technological innovation more narrowly defined:

In our view, the Danish case can be seen as a demonstration for the possibility of combining economic modernization with European traditions of social protection. In fact, the Danes might have successfully updated the production paradigm of flexible specialization for the digital era. Denmark seems to have leveraged both long-standing historical legacies and more recent reforms of established systems of social protection for creating an environment that provides companies with the flexibility to experiment and facilitates both individual and collective learning..... The story, of course, is not just one of ‘protection for change’ but ‘preparation for change’. That the skills required by future workforces will evolve constantly over the next years, is well understood. Lifetime jobs are giving away to careers of shifting position. The knowledge one has at entry in the workplace will not suffice. Skills and skill training, will become all the more important as lifetime employments give way to a sequence of shifting positions. (ibid., p 24).

Paradoxically, Denmark is simultaneously a middle-range country in term of public spending on R&D (together with such countries as Germany, Netherlands, Japan and Great Britain – i.e close to the EU-average). On such indexes Finland, Sweden and Norway (in that order) scores much higher (Økonomi- og erhvervsministeriet, 2006, Figure 6.6., p 99). Obviously, Denmark spends large funds on adult and continuous training and active labor market services, while especially Sweden and Finland have allocated considerable public funding to R&D. Concerning Gross Expenditure on R&D as per cent of GDP, Sweden leads the Nordic league (more than 4% and close to the

American figure), whereas Finland follows right after (3.5%) and with a gap to Denmark (2.3%) and Norway (1.6%, because the private sector is low-spender) (Mariussen, 2006, p 229). This indicates that in terms of services Finland and Sweden insures against risks by sharing these with private companies rather than directly with their population.

Mariussen analyzes carefully how these input-factors correspond to different new measures of output, showing that whereas Finland and Sweden by these inputs generate a share of turnover by new or improved products at the level of 25%, Denmark follows at the level of 20% and Norway at 10%. If only new products are included, the ranking shifts with Finland at the top (22%), Denmark second (10%), Sweden third (only 6%) and Norway at the bottom (3%). In terms of efficiency (turnover divided by innovation costs), Denmark performs markedly above the rest, followed by Finland with a gap to Norway and to Sweden at the bottom. Thus it is very unclear whether working through the citizens or through the firms is the better option.

Mariussen, however, uses these data to give a more in dept characterization of the differences in their business systems' way of transforming and innovating (Mariussen, 2006, p 228-232):

- Most Norwegian companies are process-oriented, focussing on incremental process innovations rather than new products. Engaging in too much R&D is seen as increasing costs, whereas gradual rationalizations save on costs and manpower.
- Swedish corporations share many similarities with advanced Japanese and German firms by having sophisticated and advanced knowledge bases, highly developed industrial organizations, owners with a deep interest and financially backed commitment to technology and knowledge. Large-scale projects organized across firms and between the public and private sector characterize the innovative dynamic.
- Finland demonstrates a “transformative” ability as it was able in a coordinated way to re-allocate industrial and knowledge resources into novel areas and turn-around the entire economy after the 1990 crisis. Nokia has been an example that has served as a paradigmatic case in point, showing that

coordinated market economies are indeed able to undertake major transformations.

- Denmark is able to make rather modest investments in R&D very effective in producing a high output of new products by making use of skilled employees (a craft system of innovation) and tight contacts to customers. Interestingly, in no other country are SMEs as R&D intensive and spend as high a percentage of GNP on R&D as in Denmark (Økonomi- og Erhvervsministeriet, 2006, p 109).

Consequently public spending on R&D are supportive of very different innovation processes in the different countries and seem quite different in ways that complement the differences in terms of labor markets and flexicurity. For instance, in both Norway and Finland private business co-finance to a high degree public research, which is not the case in Denmark and Sweden (ibid., p 102). Paradoxically universities are much more frequently the sources of innovations to a higher proportion of firms in Sweden than in Denmark, Norway and Finland, with Finland being at the bottom, probably because universities in Finland cooperate with a much smaller segment of its firms. In any case, this witnesses a set of societies that embed citizens as well as firms within very different but always institution rich contexts enabling firms and citizens to develop strategies with changing situations by making social use of these institutions. This becomes expressed in such phenomena as e-readiness and digital infrastructures where all the Nordic countries rank among the 10 best in the world (ibid., p 201; Arnal et al. 2001, p 12). We think this is also the case in how they cope with globalization. Our study of how this is done will reveal, at a deeper level, how the enabling welfare state is capable of helping its citizens and firms to deal with and explore the opportunities of globalization as they occur.

Situational Negotiated Economies: Agency, Recombinant Associational Ties, Local Autonomy, Industrial Relations and Work Organization

A major reason for why Nordic economies may be able to explore global opportunities much more efficiently than other economies may reside in their very constitution, which tends to hand over major responsibilities to local levels both through the division of labor among state, regions and municipalities and among the local and central levels of unions and employers association.

It is a generally held view among those studying local autonomy⁵ (see e.g. Rattsø, 2004; Demokratiudvalget 2004) that it is very high in the Nordic Countries, in general because these countries decentralized more widely spending and administration of larger welfare schemes to local levels that hold taxation right. The effect is, of course, that institutions and their users are much closer connected rendering tighter networks between users and producers of public services possible. As Sabel (2005) emphasizes, this provides space for situational co-design of public services.

Simultaneously, it is widely known that the Nordic countries early on developed a highly elaborated form of corporatism, based – not least – on an extremely high unionization rate. By still holding unionization rates at the level of 70-80% compared to levels between 20% and 40% in most other EU countries, the Nordic countries stand out concerning the nature of their corporatism (European Commission, 2004, p 17). During the heydays of Keynesianism this provided the basis for a strong system of centralized negotiations in which wages, working conditions, etc., could be effectively negotiated and coordinated with state spending on welfare schemes. Finland seems to have stuck to this centralized pattern, whereas Sweden and Denmark have moved to sector-levels, and in Denmark in particular, to local enterprise bargaining and –agreements (ibid., p 36 ff).

Despite these tendencies a new overarching pattern of interaction between the state, social partners and municipalities have been evoked simultaneously:

Probably it is impossible to explain why the Nordic countries have been able to reduce increases in nominal wages to a reasonable level and combine it with modest growth in real wages, while at the same time reducing unemployment significantly (ibid., p 46 ff; Madsen, 2006, p 329) without taking this into consideration. The strength of unions and employers now seems rather to be used to modify wage-drift in tune with macro-economic policies of the state, so that the business sector is better able to exploit in a competitive way international cyclical upturns.

Towards municipalities the state has simultaneously delegated the implementation and administration of welfare services, while at the same time initiated negotiations that limit the

⁵ Though we have not found a comparative index of some sort that could document this.

spending level to secure that public deficits do not go out of hand, though there might be in principle unlimited demand for free social services (Demokratiudvalget, 2004, ch 2).

With the growing implementation of the welfare state at local levels, corporatism has increasingly moved from centralized levels to localities or regions, has broadened its scope and included increasing number of associations (environment, housing, culture) that try influence the local specification of how services should be designed and developed.

In Denmark, for instance, this movement has in particular lead to the involvement of users in the governance of welfare services (patient groups to hospitals; parents on school boards, etc.). As most of these services have run under continuous reduced budgets, institutions have been forced to innovate and collaborate across boundaries to deliver individualized services in novel and cost-reduced ways. This has led to what Bogason (2001) terms “fragmentation” of the public sector as decisions are, apart from the budget, increasingly taken by the individual institution. Demokratiudvalget (2004, p 29-30) summarizes Bogasons findings in this way:

- The various institutions of a municipality (schools, childcare, etc.) are increasingly independent. Professionals draw up strategies – for politicians remain budgetary decisions.
- Users’ governance of institutions, area councils, etc., gives non-elected decision-makers influence over part of the enterprise.
- Municipalities have increased free choice among public and private suppliers of services. Citizens can exercise power as customers, in addition to their power as electorate and citizens.
- The increasing use of ad hoc projects creates temporary organs that parallel more permanent institutions and organizations.
- External changes increase the need for cross-municipal collaboration, moving another layer of decisions and initiatives outside the normal, hierarchical decision structure.
- Changes in system of financing and governance call for collaborative negotiations among different layers of the public sector to develop services and initiatives in novel situations.

- EU membership increases the opportunities for municipalities to initiate novel projects and various types of collaborative partnerships, but introduces a novel set of rules that influence independence and self-determination.

The result is a local system of institutions interacting in a network that has lost its former rule bound, routinized and predictable way of functioning. Services can be combined and recombined, according to changing circumstances and needs. The participation of users, interest groups and social movements may mobilize a much larger segment of the population in determining the social use of institutions and the public sector may be used for highly shifting ways of constructing the social reality.

The described evolution is based on a Danish study, and though the Nordic Council uses this to describe a general Nordic tendency, it might be the case that this evolution has progressed more significantly in the Danish society than in the others. In Denmark interest in and understanding of politics (Demokratiudvalget, 2004 p 65), satisfaction with democracy (ibid., p 67), participation in elections nationally (Ibid, p 71), etc., are higher than in the other Nordic countries, though for all Nordic countries these indicators are generally higher than the EU average⁶. In Denmark, Norway and Sweden the average number of associations to which a citizen holds membership is 1.6, 1.7 and 1.8 respectively, while in Finland it is lower (0.9%). This pattern reflects the changes in the pattern of local corporatism mentioned above, where a number of new self-help movements are expanding (local activists, self-realization groups, culture clubs). Making use of possibilities for participation and influence in the Nordic countries is at a significantly higher level than the EU average, especially in working life, where the indicator for Denmark is 69, Norway 66, Sweden 61 while it is 44 for Europe (Ibid, p 93). It might be that the employment policy has mobilized a much larger share to become economically active, but the citizens seem simultaneously to have used this to gain self-confidence and becoming increasingly politically active and less authoritarian.

These mechanisms are also - perhaps highly - related to a virtuous circle in continuous training. The parties participate, often together with local authorities, in negotiations on new forms and curricula of training. Such training underpins the self-confidence of citizens. Not least to the effect that they

⁶ It is significant that in Denmark the participation in elections of unskilled workers is as high as for leaders with academic background (89%) in Finland, while the latter in Denmark have a 97% participation rate (ibid., p 80)

become active in determining their workplaces (European Commission, 2004, p 62).

Simultaneously this might transform individuals, the quality of democracy, the quality of industrial relations and work relations.

It is significant that the two countries ranging lowest on the proportion of employees dissatisfied with their job is Denmark (5%) and Finland (7%), while in Sweden it is 15% (ibid., p 166). In the Nordic countries working conditions are among the best concerning health and safety risks, and working hours are much more compatible with family and social life.

It is highly probable that these phenomena are highly effected by some of the same mechanisms that make users co-designers of public services. Because of highly elaborated organs for employee-participation, workers become co-designers of jobs and work organization. This leads not only to the protection of workers, but as Arnal et al. (2001, p 47 ff) argue there is a high correlation between worker representation and the scale and speed in the diffusion of novel work practices.

On the level of enterprises this adds up to firms that show different characteristics than found in most other countries. As is indicated in the following figure, the three Nordic countries within the EU have all developed towards the “Learning” form of work organization (Lorenz and Valeyre, 2003, p

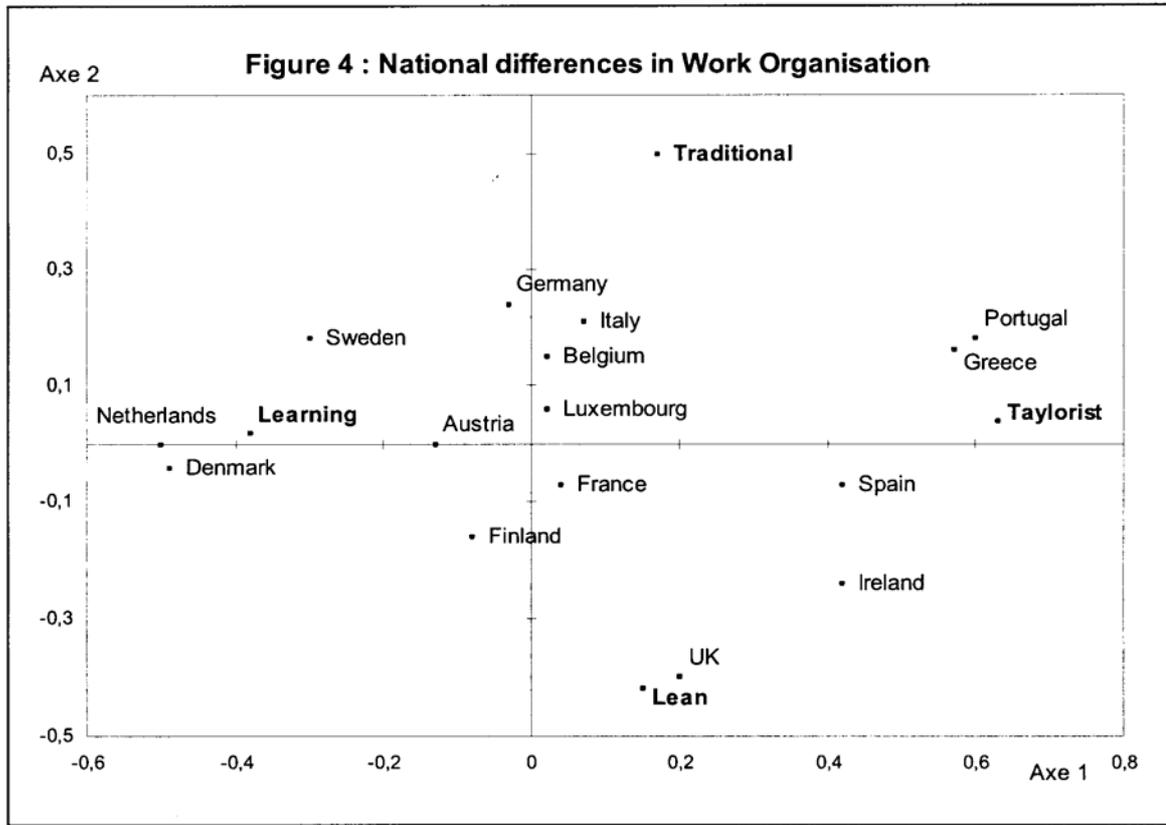


Table 6
National Differences in Organisational Models

(percent of employees by organisational class)

	Learning organisation	Lean production	Taylorism	Traditional organisation
Belgium	38,9	25,1	13,9	22,1
Denmark	60,0	21,9	6,8	11,3
Germany	44,3	19,6	14,3	21,9
Greece	18,7	25,6	28,0	27,7
Italy	30,0	23,6	20,9	25,4
Spain	20,1	38,8	18,5	22,5
France	38,0	33,3	11,1	17,7
Ireland	24,0	37,8	20,7	17,6
Luxembourg	42,8	25,4	11,9	20,0
Netherlands	64,0	17,2	5,3	13,5
Portugal	26,1	28,1	23,0	22,8
United Kingdom	34,8	40,6	10,9	13,7
Finland	47,8	27,6	12,5	12,1
Sweden	52,6	18,5	7,1	21,7
Austria	47,5	21,5	13,1	18,0
EU-15	39,1	28,2	13,6	19,1

Source: Third Working Condition survey. European Foundation for the Improvement of Living and Working Conditions

3).

This “learning” form of work organization is “characterized by over-representation of the variables measuring autonomy and task complexity, learning and problem solving and to a lesser degree by overrepresentation of the variable measuring individual responsibility for quality management. The variable reflecting monotony, repetitiveness and work rate constraints are underrepresented. This cluster would appear to correspond to the Swedish socio-technical model of work organization or to what Freyssenet (1995) has referred to as “reflexive production” “(ibid., p 6).

Thus what we see are indicators of the Nordic countries having evolved welfare states that enable localities to enable firms and employees to develop work organization that may be highly compatible with globalization.

A Re-interpretation of Findings and Hypothesizing a Closer Enquiry

This may explain why the public attitude toward globalization is rather positive. “A recent Eurobarometer survey shows that the proportion of those considering that globalization either represents a threat to employment or has a rather negative effect on employment is far greater in continental (52%) and Mediterranean (45%) countries than in Anglo-Saxon (36%) and Nordic (37%) countries” (Sapir, 2005, p 9).

It seems that the Nordic countries (for the time being) have found one of the answers to the current challenge. The issue is what the challenges and the questions are really about? What questions are the Nordic countries answering with such virtuosity?

In a highly imaginative forthcoming book, Roberto M. Unger (forthcoming, p 201) poses the question this way:

How can society and culture be so organized that large numbers of ordinary men and women have a better chance to awake from the narcoleptic daze, outside the circle of intimacy and love, without having to do so as pawns and belligerents? This same question presents itself in another form, unburdened by the struggle between friend and enemy or by the terrible ambiguities of war. How can an individual born into a small country live a large life? How can the state help him redefine the stage on which he can live such a life?

Unger answers his questions in a way that more than anticipate and may offer a re-interpretation of the course on which the Nordic countries have embarked:

The general answer to all these questions is the development of political, economic, and social institutions that both equip the individual and multiply his chances of changing pieces of the established setting of his work and life as he goes about his ordinary activities. Diminishing the dependence of change on calamity they raise him up; they make him godlike. The specific answer to all these questions is that the state should help the individual not to be little. (Ibid., p 201-202)

In the past, Unger admits (ibid., p 192 ff), European welfare states were no doubt closer to this ideal than most other societies, but by the 6 principles of their constitution (see ibid., 192-194) they have protected already vested interest by making enterprises, institutions and interest groups more flexible without inclusion of those that do not belong to the established community of vested interests.

What is needed is an experimentalist democracy, where individuals experimentally change identities in tight association with others that are able to recognize their contribution as well as future potential, and where all may participate in redesigning the institutions that allow for such transformations at group and individual level.

What keep such processes alive are connections to a number of “advanced sectors of the economy”:

The world economy is increasingly commanded by a network of productive vanguards, established in the rich societies. These sectors are in communion with one another, trading ideas, practices, and people as well as capital, technology and services. ...

The heart of the productive vanguards has been less the accumulation of capital, technology or even knowledge than the deployment of a set of revolutionary practices.

These are the practices that define experimentalist cooperation⁷, with its weakening of stark contrasts both between supervisory and executing roles and among executing jobs, its fluid mixture of cooperation and competition, and its commitment to the ongoing redefinition of group interests and identities as well as of productive tasks and procedures (ibid., p 96)

To Unger, in all societies these practices are only weakly connected to the larger economy and society and in Social Democratic societies the “social points of entry into the advanced sectors of the economy” are very narrow (ibid., p 196).

Though Unger explicitly refer to the Scandinavian societies (ibid., p 192) we think he has Continental welfare states in mind. It is indeed our guiding hypothesis that the Nordic welfare states “enable” citizens and enterprises to transfer to such practices by linking their enterprises to the larger world. The fact that the “learning” form of work organization has become the predominant form in Denmark, Finland and Sweden (see above) makes this hypothesis probable and relevant for closer enquiry.

We do not think that these practices and intensive connections to the world economy can only be established in one way and within certain sectors. We have earlier investigated the business systems of the Nordic countries (see) and at the level of economic and firm-organization they are very different, suggesting that the path for transforming themselves into vanguard experimentalist practitioners must by necessity be very different. The difference between Denmark and Finland might be the most pronounced, why these two countries might show two very different routes of transformation.

We would hypothesize that in Denmark, people are going through complicated cross-corporate working careers that also engage them in occasional continuous training that both makes employees highly autonomous, ready for open-ended experimentation and rich on collegial networks to enterprises and institutions. Thus in Denmark enterprises may change practices as a way of being better able to recruit people in a labor market where the competition over the most promising potential employees has always been intense and is currently becoming extremely intense.

⁷ These experimentalist practises or ”revolutionary routines” have in particular been investigated by Charles Sabel in a number of highly interesting articles, see e.g. Sabel, 2006; Helper et al 2000.

In Finland, to the contrary, the logic seems to be that an advanced national innovation system set up by the mechanisms of the coordinated market economy has made it possible for a number of firms to use this system to jump to vanguard sectors. This again has transformed the work organization of firms and these are now in the process of transforming the identities of their employees and their mutual interaction.

With Finland and Denmark as extreme poles on the scale, we expect to find Sweden and Norway to be positioned between the two, eventually pointing to other variant forms and pathways of experimentalist economies.

Particular challenges for societies to engage in co-design happen when a region is struck by the collapse of its economic system. In such cases there might be a high need for a locality to negotiate a whole set of jointly coordinated ways to make use of institutions to restructure both firms and the nature of the locality. Hanell and Persson (2006, p 190) show that the differences among regions in terms of unemployment rate and employment change are very narrow in Denmark, extremely dispersed in Finland with Sweden and Norway taking the middle-ground. Whether this is cause or effect of transitions already made in the four countries is difficult to tell. In Finland, Sweden and Norway industrialization often happened by creating one-corporation towns (Brukssamhälle) in peripheral localities. Transforming such entities in an age of globalization, rapid innovation and restructuring probably calls for more overarching co-design than is called for in a system like the Danish, where the periphery often has been constituted as craft communities tightly connected to wider national labor market through vocational training centers.

However, rather than just picking some of the enterprises that may from the outset be seen to represent vanguard sectors in all four countries, we set out to study firms, localities or networks that represents traditional industries that may only survive globalization through a radical restructuring process. We want to study whether and how such firms, employees and localities are able to make use of existing institutions in traditional or innovative ways, enabling them to transform their organizations, identities and outlooks to resemble local and global practices of the vanguard sectors.

To create “vanguardism outside the vanguard” (Unger, *ibid.*, p 198) by the mutual transcendence of identities of employees, of organizational practices in enterprises and of the way in which a dense network of welfare state institutions constantly is being recombined is what we expect to be able to study in the cases that will be investigated. In this way we hope to be able to say a lot more about the variety of experimentalist processes by which enabling welfare states take form, the way in which working lives can be explored outside the realm of well-defined hierarchies and how firms may look when they more resemble a ship setting out for exploration than for merely fishing. We hope this will allow us to point to important cross-country lessons to be learned, enabling the Nordic countries to progress even further.

Plan of the Book.

The Book is structured this way:

10 pages that position our book in Varieties of Capitalism/National Business Systems/ Welfare State/Transitional Labour Markets/Experimentalist Democracies discourses.

30 pages for the introductory chapter (this)

4x60 pages for country studies

30 pages of translearn comparison

30 pages for references and index.

Each country case contains

10 pages that characterizes its distinctiveness (NBS/Welfare State/Labour Market)

40 pages with the cases studied (changes in firms, work organization, processes of co-design of public services, etc)

10 pages that sums up the change towards an experimentalist economy and enabling welfare state compared to the other country studies (problems and prospects)

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