



Nordic Welfare States

IN THE EUROPEAN CONTEXT

Edited by Mikko Kautto,
Johan Fritzell, Bjørn Hvinden,
Jon Kvist and Hannu Uusitalo



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Nordic Welfare States in the European Context

This important sequel to *Nordic Social Policy* (Routledge 1999) compares welfare state development over the last twenty years in Denmark, Finland, Norway and Sweden with that of Germany, the Netherlands, the United Kingdom and other Western European countries. Topics covered include:

- income distribution, health inequalities and gender equality
- gender policies, health and social care services and policy reaction to family changes
- social security and employment policies
- financing of welfare states

In the context of globalisation, ageing, changing family and employment patterns and rising inequalities, *Nordic Welfare States in the European Context* offers an empirical analysis of welfare state adaptations and a lively discussion of the development of European social policy. It finds a greater ambiguity regarding variation and trends than is commonly suggested. Contrary to expectation, there is little evidence of Europeanisation of the Nordic welfare states, rather the reverse.

The comparable and empirical data used in this study make it a unique contribution to understanding current trends in European social policy.

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been oriented towards more politically relevant issues in Finland.

Preface

This book is the second product of a Nordic researcher network established in the mid-1990s. The aim of the research project has been to assess changes in the Nordic welfare states from an empirical perspective and employing comparative data. The first goal was to examine developments within the Nordic group of countries and compare their paths in a framework stressing the changing preconditions for the maintenance of the welfare states. The second aim was to examine the recent history of the Nordic welfare states from a broader perspective by including non-Nordic countries in our comparison.

The Nordic welfare states in the 1990s' this network was created in 1995 when the first ideas for empirical comparative research on changes in Nordic welfare states were presented to a number of Nordic scholars. Idea papers were distributed, and seminars to discuss these and the emerging drafts were arranged. The discussions on research areas, choice of partners and type of co-operation eventually resulted in a research proposal that was granted funding from the Joint Committee of the Nordic Social Science Research Councils (NOS-S) for 1996–97. The research network thus formed set out to be international at the design level, and in the analysis of data and its interpretation.

While the research work on Nordic comparisons was being set in motion, the Nordic Council of Ministers launched a four-year research programme entitled '*Norden och Europa*'. This was motivated by the changing relationship patterns between the Nordic countries and the EU and by the larger political, economic and cultural upheavals happening in the integrating Europe and after the collapse of the Soviet bloc. The programme invited research on areas identified to be under pressure for change. One of the four themes was the future of the 'Nordic welfare state'. Not surprisingly, the idea soon emerged for a second phase of research to build on the work in the pipeline. A larger European comparison in terms of number of countries was envisaged, but with a closer targeted research focus. The Nordic Council of Ministers and NORFA, the Nordic Academy for Advanced Study secured funding for this endeavour.

The project was divided into two phases. The first phase results were published by Routledge in 1999 under the title *Nordic Social Policy*, and the second appear in this follow-up volume *Nordic Welfare States in the European Context*. Twenty-one scholars contributed to the first book, and sixteen to the present publication, which marks the completion of this five-year-long process. We express warm gratitude to our Nordic financiers and to all those who have participated in the work of the network in one way or another, be it for a shorter or longer term. We also want to thank the language editor Richard Burton for his professional skills. We hope this project and its results will prove useful for students of social policy, welfare studies and sociology as well as for academics, policy makers and analysts of social policy.

The editors

1

Introduction: How distinct are the Nordic welfare states?

Mikko Kautto, Johan Fritzell, Bjørn Hvinden, Jon Kvist and Hannu Uusitalo

The aim of the book

This volume explores the issue of whether the Nordic welfare states have become more like other Western European welfare states in the past twenty years. Are there still notable and systematic differences, or has the distinctiveness of the Nordic welfare states evaporated over time? We address changes in social policies and living conditions from an empirical perspective using comparable data.

In our earlier volume, *Nordic Social Policy* (Kautto *et al* 1999), we examined the so-called ‘Nordic model of welfare states’ by looking at variations across the Nordic countries of Denmark, Finland, Norway and Sweden. We demonstrated how close scrutiny sometimes reveals substantial variation and even divergent trends between countries, but also how the latter may nevertheless result in less variation within a group of countries. We adopted a framework that encompassed the major upheavals in the economic and employment situation in these four Nordic nations during the early 1990s. Against expectations, the empirical analysis of welfare state adaptation to changing circumstances showed more stability than change, both in terms of social policy measures and living conditions. A central conclusion of the book was thus that even in differing economic situations the Nordic welfare states seemed to have developed in a relatively similar manner; if there was Nordic unity in the early 1980s, it seemed to have persisted into the mid-1990s.

This follow-up title continues from where *Nordic Social Policy* ended by shifting from an intra-Nordic focus to a larger Western European comparison. A broader perspective and the opportunity to update some of the data allow us to ask two important questions. First, how different are the Nordic welfare states as a group when contrasted with certain other Western European welfare states? Second, are such differences narrowing or widening over time? In other words, when we examine differences between the Nordic welfare states in a Western European comparison, taking account of recent policy developments and signs of growing inequalities in the Nordic countries, is talk of a distinct Nordic variety of welfare states still justified?

Most of the existing research indicates that it does make sense to talk about a Nordic model of social policy, or, models aside, it at least suggests that Nordic countries often group together when compared with other countries. With its roots in the mid-1970s and gaining renewed momentum in the 1990s, this strand of thinking has spawned such concepts as typologies, welfare state models or welfare regimes, welfare clusters and

families of nations. Despite the variety of terms and criteria a common denominator in formulating typologies is the recognition that countries have qualitatively different types of social policies that to a large extent result from diverse social structures, and historical and political processes. Furthermore, the characteristics of welfare regimes are believed to explain much of the variation in outcomes for the population. Another suggestion is that countries associated with a particular welfare regime tend to follow similar development paths.

This position of regime-specific development is challenged by ideas in which convergence is expected to occur, either explicitly or implicitly. Such beliefs offer another interpretation for the development of social policy by questioning the permanence of contrasts between countries. While a common denominator here is the notion of narrowing disparities, the different views do not gather comfortably beneath a common label because of their varied assumptions about the mechanisms behind these convergent trends. One prevalent assumption is that convergence is stimulated by similar challenges, be they internal and/or external. For instance, external challenges are said to subordinate social policies to economic policies, and to confine autonomous national decision-making. Also, political actors with growing numbers of international contacts are believed to seek broadly similar types of solutions to similar pressures and problems. As a result, institutional arrangements and provisions are expected to become more uniform. Another view is that some countries pioneer policies that are later adopted by others; in this sense countries are reckoned to learn from each other's policy innovations and good experiences. Previously, ideas about policy learning were often underpinned by notions of a more or less uniform evolution from simpler to more advanced policy arrangements, but such views are rarely articulated any longer. Today, regardless of what the underlying mechanisms are believed to be, convergence implies that the welfare arrangements of different countries will gradually become more similar.

In our attempts to judge whether the distinctiveness of Nordic social policy is lasting or dissolving we are here dealing with both of the above lines of thinking. Accordingly, the first general aim of the comparative studies that follow is to address *variation*, and especially to consider distinctive characteristics of the Nordic welfare states. What features of social policy distinguish the Nordic welfare states from others? To what extent does the level and distribution of welfare¹ as measured by outcomes separate the Nordic countries from others? The second general aim is to address the issue of *convergence* and *divergence* by scrutinising European trends within certain important policy areas and in the light of established indicators on living conditions. Are policy solutions becoming more similar? How are the level and distribution of welfare developing?

In thinking about the distinctiveness of the Nordic welfare states it is necessary to consider *both* the similarities *and* the differences. To be distinct the Nordic welfare states should have features in common, but they should also be different enough as a group to stand a certain distance from other countries. Obviously the reference group and time period adopted are crucial for such judgements. The overall set of countries compared in this volume is formed of the Nordic countries and the other member states of the European Union. There are thus fifteen EU countries and Norway, or to put it in another way, four Nordic countries and twelve non-Nordic EU countries. As in the earlier volume

Denmark, Finland, Norway and Sweden feature in all our analyses. In addition, we decided to incorporate three non-Nordic countries in the study analyses of all chapters. Germany,² the Netherlands and the United Kingdom were chosen because welfare state arrangements and their consequences in these three non-Nordic countries are generally believed to be very different from each other and the reason these countries are often associated with distinct welfare state models.³ Other countries have been included in the analyses and discussions when the study design has allowed this. As in the previous volume we start from the 1980s but place most emphasis on changes during the 1990s. In all chapters we have stretched our analyses to include the most recent data, but there are inevitably differences in the choices of reference year depending on the research questions or dictated by data limitations.

Having now specified the focus of the book, the countries to be compared and the time period for our studies, we next discuss issues that are crucial to all the chapters, namely the controversial ideas on differing European welfare models and pressures for convergence in European social policy. Finally, we present the common approach behind the comparative studies that form this volume and the research questions pursued in individual chapters.

The Nordic welfare model

While the notion of a ‘Nordic’ or ‘Scandinavian model’ has existed for some time, it was only in the 1990s that the research community entered into deeper discussions on the pros and cons of thinking in terms of ‘types’, ‘models’ or ‘regimes’ of welfare. Much of this discussion has centred around—for and against—the approach adopted by Esping-Andersen (1990, 1999), who suggested that the typically different relations existing between welfare states, labour markets and families can be characterised as three ‘welfare regimes’. These Liberal, Social Democratic and Conservative welfare regimes result from different historical forces, are organised according to their own logic, produce different outcomes, and follow qualitatively different development trajectories (Esping-Andersen 1990:3, 1996 and 1999; for earlier writing see e.g. Titmuss 1958, 1974; Wilensky and Lebeaux 1958; Mishra 1977; Korpi 1983; for overviews see Kvist and Torfing 1996; Abrahamson 1999).

Some scholars have criticised typology thinking in the first place (Baldwin 1990; Ringen 1991), while others engaged in discussion with Esping-Andersen have sought to identify the most crucial criteria for the establishment of welfare regimes (e.g. Lewis 1993; Orloff 1993; Sainsbury 1994; Anttonen and Sipilä 1996). Others have presented views on the appropriate number of welfare regimes (e.g. Castles and Mitchell 1990; Leibfried 1992; Ferrera 1993). Some have compared the extent to which measures of outcomes between different countries vary systematically with the regime type (e.g. Fritzell 1991; Bianchi *et al* 1996). Ultimately, many of these studies have aimed to empirically test the validity of the theoretical framework pertaining to welfare regimes.

Among the potential problems in using typologies is that they easily lead one to think in deterministic terms and to homogenise cases across areas and time. For instance, it may be tempting to argue that determinants of all welfare policies are the same within

countries having more or less the same regime, or that countries believed to be close to a given regime are close in all respects. Yet within a country policies may have different determinants. The determinants of policies and policy outcomes may also differ between countries, and factors influencing policy may vary over time as has recently been shown by Francis Castles (1998). Moreover, similar aims or outcomes may sometimes be achieved through different policies (cf. 'functional equivalents' in Merton 1968). Evidently, then, if there is a 'Nordic model' there also seems to exist a varying number of other models, depending on the focus of studies. For instance, it has been argued that we can distinguish between five models of social insurance (Korpi and Palme 1998), five social care models (Anttonen and Sipilä 1996), four family policy models (Millar and Warman 1996), four gender policy approaches (Chamberlayne 1993) and three unemployment insurance regimes (Gallie and Paugam 2000), while there may exist only two health care models in Europe (Saltman *et al.* 1998).

One paradox when using welfare regime theory is that while social policy schemes are in a state of constant flux, the regimes themselves are mostly thought of as being stable. Yet it has been shown that countries' associations with regimes are not carved in stone, because their welfare systems do develop over time, and countries may move from one regime to another (Kangas 1993). Sometimes development paths may be similar but with a different timing (Kangas 1994). It is thus not surprising that instead of a single Nordic model some prefer to talk about several Nordic models. For example, a number of authors have noted intra-Nordic disparities in the balance between economic and social goals (Mjøset *et al.* 1986; Kosonen 1998), in social policy schemes (e.g. Alban and Christiansen 1995; Ploug and Kvist 1996; Korpi and Palme 1998), in the balance between cash transfers and services, between private and public solutions, as well as institutional (e.g. Baldersheim and Ståhlberg 1999) and political variations (Marklund and Nordlund 1999). It is easy to expose differences between the Nordic countries, but harder to place them in perspective.

In other words, numerous objections against typologies have been raised from various viewpoints, and currently there is certainly no watertight typology covering the various dimensions of the welfare state that everybody agrees upon. Nevertheless, it is still plausible to think that differences in policy choices lead to differences in outcomes and that countries, as the important policy-making units, cluster around varieties of policy options and policy outcomes. This situation is not necessarily an impasse as it is possible to distinguish between empirically created models and theoretical ideal-types. In addition, and in contrast to empirical clustering of countries, the 'Nordic model' may be understood as an ideal-type in the Weberian sense, meaning that no country will embody all the characteristics of this model. An ideal-type model represents a standard against which empirical cases can be compared. It can be a helpful tool for empirical comparisons, as it allows researchers to study the degree of proximity or conformity of countries to the model (Weber 1949:90).

In our previous book, the list of Nordic welfare state characteristics included elements that characterised both policies and their outcomes (see Kautto *et al.* 1999). Accordingly, a Nordic welfare model is associated with a broad scope of public social policy and political commitment to full employment, accompanied by active labour market measures. Universal flat-rate basic security and an earnings-related component for those

with a work history are the elements of a fairly generous income security system. Another feature is local and publicly funded service provision to cater for all needs and the whole population (see also Erikson *et al* 1987; Kolberg 1991; Hansen *et al* 1993; Sipilä 1997; Kvist 1999). These characteristics mean that the ‘Nordic model’ has a greater share of public expenditure and a higher share of social expenditure of the GDP than other models, accompanied by higher taxation. With regard to outcomes, the ideal-typical Nordic model should achieve low income inequality, low poverty rates and small differences in levels of living and gender equality. What is more, these various aspects are thought to interact and reinforce each other: only together do they constitute the whole that we may describe as the ‘Nordic model’ (Esping-Andersen and Korpi 1987).

The above characteristics do not represent an exhaustive listing, but do help us to understand the crucial elements in an ideal-typical Nordic model, and these we aimed to include in our empirical comparisons. It is clear that in reality, and as mentioned above, no one country will display all, if any, of these characteristics perfectly. And to be sure, countries are more or less close to or distant from a standard. A common starting point is that countries are the key unit of comparison and it is up to the individual chapter studies to show whether and how clustering of countries occurs in certain key dimensions. The authors also examine whether the Nordic characteristics located in different dimensions in previous research have persisted.

Is there convergence between the Nordic and other Western European welfare states?

Whereas welfare models are often portrayed as institutionally resilient to change, and even as ‘immovable objects’ (Pierson 1998), another strand of current comparative welfare state research focuses on pressures for change. This literature is of particular interest for the purposes of this book as it argues that welfare states are prone to change in response to pressures, and furthermore in a way that will ultimately lead to convergence of different types of welfare models. Again this is a controversial argument and we need to clarify our standpoint here.

Despite the recent growth of interest in convergence, the hypothesis itself is not new. In the context of societal development in general, early sociologists like Herbert Spencer and Auguste Comte advocated the idea that societies develop and modernise along a similar path in response to common causal factors and that this adjustment may ultimately lead to narrowing differences between nations. In the context of welfare state development the idea of convergence was formulated most explicitly in the 1960s and 1970s. This so-called first generation of comparative welfare state studies typically saw welfare state development as a response to changing societal processes, although there were different variants to this general functionalist hypothesis. The most influential school of thought is often labelled the logic of industrialism (e.g. Kerr *et al.* 1960; but see also Wilensky and Lebeaux 1958; Wilensky 1975). The basic underlying mechanism here is that technological and economic rationality engenders convergence in all advanced industrialised societies regardless of historical and political tradition, not only in terms of the institutions of the welfare state but more generally. According to this functional logic,

all societies and their institutions were expected to evolve towards 'pluralistic industrialism'. Within welfare state research this basic idea is sometimes embedded within modernisation theory (Flora and Alber 1981). As pointed out by Palme (1990), among others, the functionalist orientation was also prevalent in more Marxist-oriented writings, in which the development of the welfare state was largely seen as a necessary feature of modern capitalism (see e.g. O'Connor 1973).

In several branches of research these ideas were subjected to severe criticism, and for a decade or two the convergence hypothesis was abandoned (see e.g. the volume edited by Goldthorpe 1984). Few would then have foreseen that the notion of convergence would receive renewed attention in the 1990s. When the convergence hypothesis is spelled out today, it is usually accompanied by arguments stressing factors such as internationalisation, geopolitical transformations, technological revolution, liberalisation of money and capital markets and globalised culture. What is common to past and present convergence thinking is the tendency to portray the pressure factors as irresistible forces that will lead to increased similarity of welfare states. Another common element is the limited attention given to partisan politics. Despite many similarities one profound difference between the 'old and new hypotheses of convergence' (Montanari 2000) should be stressed: the former theories were mainly occupied with historically understanding how and why the growth of welfare states occurred in the twentieth century, whereas the latter are basically dealing with the necessity of welfare state restructuring.

Much of the current discussion on convergence in the context of social policy and welfare revolves around the twin themes of the effects of globalisation and European integration. In the literature the concepts 'globalisation' and 'integration' are often intertwined and their interrelationships are rarely specified precisely and explicitly. While analytically globalisation can be divided into different dimensions, *economic* globalisation, which is seen to result chiefly from unconstrained capital flows and operations of multinational enterprises, is clearly the dimension attracting most interest (e.g. Hirst and Thompson 1996). Those focusing on European integration, on the other hand, have directed attention to the *political* constraints created by the European Union and deepening European integration (Streeck 1995, 1996; Scharpf 1999), although the birth of EMU has added an economic flavour to the existing literature (see e.g. Pochet and Vanhercke 1998). To some extent these two aspects have been bound together in discussions of the role of international or supranational agencies as precursors for the development of 'epistemic communities' that share perceptions of current challenges and how they should be met (Deacon, B. 1998, 1999).

Globalisation is regarded as including processes that by-pass or at least affect autonomous decision-making, and some actually fear that nation-states have lost their ability to remain sovereign. One measure of sovereignty is the possibility of implementing fiscal policies and it is here that much of the discussion of welfare states is located. A key argument in the globalisation literature is that in a globalised world production forces have become so mobile that firms wanting to avoid high taxation, and especially labour costs, can shift their operations from one country or part of the world to another. Exposure to this threat forces nation-states to tax competition, or at least to modify their tax systems to prevent substantial emigration of firms and jobs. The fact that

'tax evasion' has become easier than before threatens tax bases, and thereby also the prospects of the welfare states to implement their present redistribution policies (Mishra 1999; Perraton 2000; Swank 2000). Because of its impacts on financing, globalisation is perceived as a threat to welfare states, particularly so in countries with high taxation, the Nordic countries being the prime example. (e.g. Kosonen 1994; Strange 1996; Scholte 1997; Gough 1999; Tanzi 1999.)

However, alternative views have also been presented. Attention has been drawn to the fact that many of the countries that have long been highly exposed to international trade competition, such as the small and open Nordic economies, also tend to have 'larger' welfare states. One could even argue that the Nordic welfare states historically developed as responses to outside pressures, rather than being threatened by international economic liberalisation (e.g. Katzenstein 1985; Mjøset *et al* 1986). Furthermore, as small and 'enabling' nation-states they may be faster and more fit to adjust to global competition and other challenges than countries elsewhere in Europe (Garrett 1998; Stephens *et al* 1999). Several scholars express scepticism about the impact of globalisation on the abilities of national governments to pursue their own social and welfare policies and argue that the welfare states of Western Europe are likely to survive globalisation (Hirst and Thompson 2000; Kuhnle 2000).

A more tangible issue is the effect of European integration, or more specifically of the EU, on the policies of member states. While globalisation is supposed to impact on welfare states mainly through unintended consequences, here it is more a question of intentional efforts at a supranational level to achieve 'harmonisation' and 'coordination' between the member states. There is a growing and heterogeneous body of literature devoted to the impact of the EU on the freedom of member states to implement their policies. Most agree that in the social dimension nation-states remain sovereign actors, but views are at variance regarding the spillover effects from economic integration. Some authors believe that fiercer competition indirectly exerts pressure towards greater similarities in institutional arrangements and levels of provision in the EU member states (Streeck 1995, 1996; Hagen 1999; Scharpf 1999; Leibfried and Pierson 2000). Unless the governments of the member states manage to agree on some joint objectives and standards in this area, this pressure may make it difficult for the countries with the most generous provisions to sustain them.

Convergence may simply be defined here as a process where dispersion among countries decreases. Sometimes this is interpreted to mean a move towards a European average, or even towards a European minimum. If this were the correct interpretation, convergence from a Nordic perspective would mean a 'Europeanisation' of the Nordic welfare states. However, convergence may occur in more than one way and the fate of the Nordic countries is not a foregone conclusion. As already suggested, it may also be that other Western European countries start to adopt policies and arrangements already institutionalised in the Nordic countries, e.g. in the areas of gender equality and active employment policies. 'Catch-up convergence', long discussed in economics (see e.g. Dowrick and Nguyen 1989; Alber and Standing 2000), is a term used to depict the situation where countries at the low end of any given scale move closer to the others without a corresponding fall in standards in countries at the top end of the scale. For instance, the fact that Southern European countries have developed their social protection

schemes rapidly has led to such catch-up convergence (Greve 1996). In fact, in contrast to non-empirical writings, empirical research into the fate of the Nordic welfare states has not produced gloomy verdicts. Empirically, there remain few clear signs that welfare state development in the Nordic countries has been ‘Europeanised’ (Hagen 1999). Our earlier study confirmed that, despite economic and other pressures, actual changes in the welfare state machinery—its outputs and people’s living conditions appear limited in the Nordic countries (Kautto *et al.* 1999). More generally, social and political institutions still explain much of the difference among national welfare states (Bonoli *et al.* 2000).

In sum, whether convergence is taking place (or merely parallel trends, stability or even divergence), and if so, what kind of convergence and why, are all open questions. Moreover, as convergence is not an encompassing process we may find it in some areas but fail to recognise it in some other dimensions; for instance, convergence could occur in certain outcomes despite continuing differences in policies. In this book all chapters analyse trends, and they also provide more specific material to assess the direction of trends and various manifestations of convergence or divergence in European social policy.

Framework of the book and research themes

The focus and unit of analysis in comparative research differ. Some researchers examine welfare *regimes* and intend to include all major institutions in their holistic analysis, while others compare welfare *states*, i.e. the state-component of regimes, and still others limit themselves to examining particular *social policies* of the welfare states. And while it could be argued that analysis of various *outcomes* is embedded in regime thinking, the institutional focus may still vary. In this book the changing nature of welfare states is the ultimate concern, but the framework for the chapters is based on the belief that to understand current changes in welfare states we need to recognise the constant interplay between the different institutions in society, and that social policies reflect changes in the interplay between the state, the market and the family. Welfare states react and adapt to changing circumstances, but they also aim to exert a proactive impact on the development of other institutions. Thus while changing labour markets and family structures put pressure on welfare state adaptation, welfare state programmes may actively influence the working of labour markets and choices within families. Instability in one institution may spill over into another, and there may be problems of integration between various institutions. The studies in this book investigate these relationships between institutions from a welfare state perspective, concentrating on certain aspects or programmes of the welfare state.

In addition to relationships between institutions, this book examines changes in people’s living conditions. While institutions may be specified and defined analytically, in market economies their interplay is inherently complex and their combined effects may prove inseparable in practice. The literature on welfare production terms the effects of the welfare state as ‘outcomes’, but scholars struggle to explain how much of such outcomes should be attributed to the functioning of the welfare state and/or to other factors. Production and consumption in the market, participation and rewards from the labour

market, care and support from the family and welfare state programmes all have implications for individual welfare. Separately and in combination they influence resources at the individual's disposal, their available options and behaviour. And conversely, the situation and behaviour of individuals may contribute to changing institutions.

Hence crucial policy challenges can be interpreted as concerning changes in the institutions and in the interplay between markets, families and the welfare state. They also concern the welfare state's ability to respond to people's changing needs. The numerous common policy challenges identified include globalisation, mobility of capital and production, competitiveness, changes in the nature of work and employment patterns, unemployment and social exclusion, gender equality, provision of care, changing family and household patterns, ageing, ethnicity and balancing of budgets. There is no doubt that all European countries seek ways to better address these challenges. But it is equally true that due to the variation in their institutional set-ups their starting points differ, and that the pressures for change are not equally severe for all countries. Moreover, the extent to which policy makers actually perceive and prioritise the challenges, and the way they address them, may vary considerably. Welfare states may also differ in their desire to affect other institutions. Despite the widespread rhetoric stressing common challenges and common responses, empirical scrutiny exposes significant differences in the degree and form of adaptation and policy responses (see, for example, Ferrera *et al* 2000).

Therefore, rather than addressing and analysing policy challenges *per se*, we decided to concentrate on the interrelationships between the welfare state and other institutions. Thus the chapters address the interplay between the welfare state and one or other institution with reference to one or more important policy challenges in a certain dimension of the welfare state. The remainder of the book deals with a number of themes that are generally seen as acute policy challenges particularly relevant for all Western European countries. These topical themes concern the level and distribution of some essential aspects of living conditions and the impact of the welfare state on them (Chapters 2, 3, 4 and 5), the interplay between the family and the welfare state (Chapters 6 and 7), the relationship between the labour market and the welfare state (Chapters 8 and 9), and pressures on financing of welfare states arising from the relationship between the market and the welfare state (Chapter 10).

In the Scandinavian research tradition welfare tends to be analysed as the various resources that enable the individual to determine his or her own life (Johansson 1970; Erikson and Uusitalo 1987). Although welfare is generally accepted to be composed of different elements, there is no commonly accepted way of weighing the relative importance of these and, here too, the method is to study welfare in different dimensions separately. Also, as it is easier to reach a common understanding of what constitutes 'bad circumstances' than of 'welfare' (Allardt 1999), in practice, research on welfare has studied lack of resources and concentrated on themes such as the extent of poverty, inequality and ill-health, and their distribution across social categories.

Ultimately, welfare states should be judged on their ability to contribute to the overall welfare of their citizens, and in particular to prevent inferior conditions. Over recent years there has been growing criticism that welfare states fail to achieve this goal. For example, increased levels of inequality in most countries is taken to imply that welfare

states have failed to serve their original and prime objectives, or that they do so inefficiently. This theme is an acute one in all European countries, but for the Nordic countries, where the goal of equality has long been high on the political agenda, such a development would certainly raise serious problems of legitimacy for the Nordic model. We know from previous research that the Nordic countries have been among those with the most equal income distribution (Atkinson *et al* 1995); but we also know that income inequality has been on the increase lately, with the possible exception of Denmark (see SOU 2000 for Sweden; Ministry of Health and Social Affairs 1999 for Norway; Uusitalo 1999 for Finland; Hansen 1995 for Denmark). In Chapter 2, *Johan Fritzell* clarifies the issue of whether increases in income inequality have led to a blurring of differences between the countries. Can we still identify a Nordic pattern of low inequality in disposable incomes? Fritzell studies cross-national differences in income inequality and examines whether we can discern any tendency towards convergence over time. He also questions the extent to which cross-national variation in income inequality is a result of the functioning of the welfare state. Finally, he compares the situation of specific social groups, i.e. the young, the old, and single parents, in order to elucidate whether specific vulnerable groups still fare better in the Nordic countries than elsewhere.

While income is a widely used indicator of welfare, health—or more precisely lack of good health—is another and in many senses a more fundamental indicator. To be able to perform daily routines and pursue one's ambitions and goals is a fundamental resource for a good life. In welfare state research, however, health aspects have often been sidelined as not part of the 'social' sphere. Although there are many studies that show the existence of health and mortality differences in the Nordic countries, and also some comparative analyses, this field of research is largely unknown outside medical sociology and social epidemiology. It is also the case that very little is known about the role of the welfare state and welfare state regimes for variations in public health and health inequalities. Do the Nordic countries have a better level of health? Is health distributed more equally than elsewhere? In their chapter, *Olle Lundberg* and *Eero Lahelma* focus on inequalities in health from a comparative perspective. They estimate the level and distribution of ill-health and mortality and show cross-national differences in how socio-economic positions are linked to health risks. With the help of a recent European comparative study, in which the authors participated, they also address the difference between absolute and relative differences and discuss the policy implications of their findings.

Obviously gender equality is another aspect of equality generally thought of as very pronounced in the Nordic countries. Gender equality is often a stated objective in national and supranational policy documents designed to modernise social protection (see e.g. COM (1999) 347 final). The Nordic countries are implicitly exemplified in such documents, and this is one more reason for taking a closer look at processes leading to increased gender equality and its implied consequences for social life.

In her chapter *Randi Kjeldstad* first emphasises the development of gender policies and the process towards gender equality. She investigates the differences between European countries in these respects with the help of a typology of gender equality. Kjeldstad examines the historical process and the current predominant gender approach in the countries compared and then considers to what extent these may be connected to various

levels of documented gender inequality.

Annemette Sørensen pursues the topic of gender equality further by analysing earnings differentials between women and men. She asks whether more balanced participation in the labour market has resulted in more even earnings equality in the Nordic countries. First, she examines cross-national variation in gender differences in earnings at an aggregate level, both absolutely and relatively. Second, she addresses women's economic dependence on the men they live with, before moving on to consider the consequences of a more pronounced earnings equality pattern for partnerships, i.e. the interdependence of spouses and the inequalities related to sharing economic risks in the event of losing one income. In her intriguing analysis Sørensen, contrary to conventional wisdom, makes a case that economic independence for women may in fact lead to greater economic interdependence between spouses.

The relationship between the family and the welfare state is two-way in the sense that changes in family patterns create new demands for the welfare state while social policy arrangements may lead to changes in people's behaviour, both intentionally and unintentionally. In Chapter 6 *Aksel Hatland* concentrates on this relationship by first outlining how conceptions of family status differ between national social security programmes. Whether one is married or not has formed an important dividing line for policies as needs are believed to differ largely according to family status. New family forms and the spread of cohabitation present a serious challenge to the traditional policy goal of redistribution between families. Hatland examines differences and similarities in the spread of cohabitation in the European countries and in national policy responses.

Another perspective on the relation between the welfare state and families is given by *Tine Rostgaard* and *Juhani Lehto*, who address social and health care services in Chapter 7. Care services as an alternative to family-based care have often been identified as a factor contributing to the realisation of gender equality (e.g. Hernes 1987a). Arranging care is also topical in view of the ageing of European societies and because the availability of child care services has been seen as crucial to the potential for combining work and family life (OECD 1999c: 88–90). Some view the absence of sufficient and affordable care services in certain countries as one of the factors underlying declining fertility rates (Esping-Andersen 1999). Welfare states may choose to respond to these needs by arranging care differently or even providing alternative forms of support to parents. Traditionally, the Nordic countries are portrayed as 'service heavy', implying that they have an abundance of care services compared to the 'cash heavy' income transfer countries in continental Europe (Kohl 1981; Sipilä 1997). Rostgaard and Lehto examine different national mixes of care from the perspective of 'functional alternatives' (Merton 1968), which leads them to consider the situation and development in health and education sectors in addition to the social care sector.

The next two chapters examine the interplay between the welfare state and the labour market. The contribution by *Bjørn Hvinden*, *Matti Heikkilä* and *Ilkka Kankare* concentrates on differences in policy emphasis in activation, while that by *Jochen Clasen*, *Jon Kvist* and *Wim van Oorschot* discusses prevailing differences in the role of work in unemployment insurance. Both chapters address the link between welfare and work; they discuss whether we are witnessing a change in welfare state policies targeted to ensure a flow 'from welfare to work', and to what extent this may lead to convergence or

divergence in this area of the welfare state.

Employment and employability are probably the central political theme in current European social policy reform debates. Hvinden, Heikkilä and Kankare first consider the views of supranational bodies like the OECD and the EU, which stress that social policy measures should more deliberately direct non-employed people to employment and address employability issues. They then investigate the empirical support for such a shift in policy emphasis and question how far activation has become a practical reality in Western European countries. They present an analysis of measures and provisions targeted at people out of work and examine the possibility of identifying some distinct profiles of activation policies rather than just a general move in one direction or another.

In Chapter 9 Clasen, Kvist and van Oorschot investigate how work plays a different role in unemployment insurance across countries with regard to access to benefits, their level and duration, and the requirements expected of benefit recipients. Besides comparing countries across these various dimensions of work-conditionality they also consider the interplay of the various dimensions. For example, some countries may have easy access to benefits, but which are small and only paid for short periods, whereas others may have easy access to generous benefits, but coupled with strict conditions on accepting available work and participating in activation programmes. Such configurations of work-conditionality, the authors argue, constitute distinct policy responses towards the unemployed and represent regimespecific welfare states. The authors also examine how work-related conditionality has changed over the past fifteen years.

The interplay between the market and the welfare state is the fourth and final relationship addressed in this book. Globalisation is often used as a catch word to capture processes linked to increased mobility of capital, investments, goods, services and labour. Along with political integration and economic deregulation in Europe, the internationalisation of market forces is seen as a key factor forcing governments to reconsider their financing structures to ensure competitiveness in the global market. In Chapter 10, *Mikko Kautto* addresses this pressure on welfare states. Since levels and ways of financing are linked to the redistribution strategies adopted, limits to financing have potentially far-reaching consequences for welfare state measures, and thence for the targets of redistribution. Kautto starts by summarising the literature on the supposed potential of external forces such as globalisation, European integration and the EU to affect financing of welfare states. The Nordic countries, characterised as they are by higher costs for social protection and high shares of tax financing, should be especially vulnerable to such pressures. Kautto continues by investigating responses in the light of empirical data on financing social protection. The results are used to discuss whether we may detect convergence in financing patterns and if clustering of countries according to specific financing arrangements is apparent.

Each chapter stands alone as a contribution to a specific field of welfare state research. The Conclusion gathers the main strands of all the chapters to discuss the distinctiveness of the Nordic countries and the variety of options different welfare states have been pursuing. We also assess whether there are common or group-specific tendencies, and if policy adaptation has resulted in converging or diverging trends in the various sub-areas of welfare state development in Europe.

Notes

- 1 We are aware that the notion 'welfare' has negative connotations in some countries. However, from a research perspective there are good reasons to use welfare rather than 'well-being', as the former notion refers more to objective indicators, whereas the latter also embraces subjective elements that are not analysed in this book.
- 2 In Chapter 4 Germany is not included in the comparison.
- 3 In addition to standard distinctions, these three countries are among the closest to the Nordic countries from both historical and geographical perspectives. They are also the countries that have been the main sources of experience when inspiration for reforms has been sought. Other practical and important reasons for the choice were the availability of comparable data and contacts.

2

Still different? Income distribution in the Nordic countries in a European comparison

Johan Fritzell

Introduction ¹

Underlying the interest in welfare state programmes and cross-national variations in the pattern, size and structure of various social policies, is that we regard the welfare state as an institution exerting great influence on our lives and well-being. A further assumption is that this impact differs between individuals and social categories, and accordingly that the degree of inequality in the distribution of societal goods and resources has scope to be affected. Hence, in so far as there is crossnational variation in these programmes, ‘outcome’ inequality may systematically vary between nations.

One characteristic of the Nordic welfare states is said to be that they pursue a different conception of equality from others, with a particularly strong focus on equality of result (or outcome), as opposed to equality of opportunity or different equity conceptions (for a discussion see e.g. Esping-Andersen 1996). This chapter sets out to examine a central outcome in this respect, namely economic resources or to be more precise the distribution of annual income. Without embarking on a thorough review it seems safe to say that earlier research on income distribution and poverty has by and large confirmed the view that the Nordic countries have a low degree of income inequality and also very low poverty rates (see e.g. Atkinson *et al* 1995; Rainwater and Smeeding 1995; Gottschalk and Smeeding 1997 and 2000; Korpi and Palme 1998; OECD 1998a; Jäntti and Danziger 2000). In fact, in the late 1980s, Finland, Sweden and Norway (mostly in that order) emerged with the lowest inequality levels among the OECD countries according to most of the inequality estimates presented by Atkinson *et al* (1995) in their thorough study for the OECD.

The overarching question raised in this chapter concerns whether or not we still find proof of a specific Nordic model when looking at the distribution of income from a variety of perspectives and comparing the outcomes with those in three other European countries. Do we find evidence of convergence, divergence or similar trends? Within this general issue four questions are raised and analyses of each of them conducted. The first question concerns the level of inequality. Were the Nordic countries in the mid-1990s really so different from other European countries in terms of overall income inequality? Second, to what extent do we find commonality and variation with regard to recent changes in inequality? Is there any evidence for convergence with respect to the degree of inequality? Third, what is the role of cash benefits of welfare states in the income distribution process? This will be studied by comparing the size and distributional profile

of income transfers and the extent of inequality before and after cash benefits are taken into account. Fourth, to what extent do we find cross-national similarity and variation with regard to the relative income position and poverty risks for more specific social categories when comparing their situation in the mid-1990s with that prevailing about a decade earlier? Is it still the case that specific vulnerable groups fare relatively better in the Nordic countries, as indicated by earlier research?

The data will be based exclusively on the Luxembourg Income Study (LIS), which has been the source of most of the ample evidence on comparative income poverty and inequality estimates among the world's richer nations during recent decades. The next section discusses some earlier and recent argumentation concerning why and how we should expect convergence to take place. The empirical section following thereafter consists of three parts. The first presents an overview of levels and trends in inequality among the countries included in the study. The middle section explores the role of welfare state redistribution—cash benefits—in producing the outcomes presented in the first section. The third delves into more detail on the relative positions of some social categories, with regard to changes in both average incomes and relative poverty rates. All analyses are based on comparisons between the four Nordic countries, Denmark, Finland, Norway and Sweden, and on data from Germany, the Netherlands and the United Kingdom. The data cover the period from around the mid-1980s to the mid-1990s. The chapter ends with a summary and a concluding discussion of whether or not the presented results are supportive of Nordic uniqueness in this respect.²

Convergence, similarity or cross-national variation?

The idea that a convergence of various social phenomena would take place across nation-states was a basic feature of most post-World War II theories of societal change. It is perhaps most commonly referred to in relation to what is often phrased the 'logic of industrialism', a theoretical perspective of pluralistic modern societies evolving according to the law of the system (see, e.g. Kerr *et al* 1960). This school of thought, with a clear functionalistic approach, emphasises cross-national similarity rather than variation, and the path supposedly followed by industrial societies gives rise to a convergence (of attitudes, power structures, levels of inequality, etc.). The assumed underlying mechanism is that technological and economic rationality engender convergence among all industrial societies, despite differences in historical and political context. It is important to note that proponents of this school did not necessarily claim that welfare state redistribution as such was unimportant, but rather: 'taxes and benefits taken together have a highly egalitarian effect on income distribution' (Wilensky 1975:94). What was claimed was more that welfare state development followed in the general pathway of industrialism and could be explained in terms of this logic. Accordingly, any cross-national variation could largely be explained by cross-national variations in economic and industrial development.

Going back even further, and focusing more specifically on the distribution of income, it is notable that the idea of income distribution as a 'natural law' has a much longer history. The first theories on the degree of inequality and the shape of an income