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Scandinavian Experience? I

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# What Can Other Countries Learn From the Scandinavian Experience? I

Let me start by defining what I think is the main content of the Scandinavian experience of social democratic policies during the past few decades. In this context, I relate "Scandinavian" mainly to Sweden and Norway.

As I see it, "social democracy" is not a well-defined system of policies but a set of *values* or guiding principles, which are used when developing policies, in different areas and under varying circumstances. These values include "equality" of opportunity, of living standards, of influence. The latter links "equality" and "democracy" together and makes the social democratic claim for "*democracy*" a more radical one than that of liberalism, extending the requests for democracy to, in principle, all fields of society. On the other hand, the social democratic claim for *freedom* is more conditioned than that of the liberals, more placed in its social context. For social democrats, the right to *work* is also a basic value. Between the different values, conflicts may occur and in practice the values have to be weighed against each other, in

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order to reach an acceptable compromise between them. The character of the compromise may change over time.

Values of the kind mentioned can be found in many countries and way back in history. The special Scandinavian model, developed since the 1930s, contains some additional characteristics. In order to secure an efficient use of resources, a market economy is accepted as the basis of the production system. However, the market has to be given framework conditions which contribute to the realization of social democratic values as well as to efficiency. To strike a generally accepted balance here is not easy and has caused many conflicts. This reflects among other things, the continued existence of groups within the labour movement which are sceptical towards "market forces" even if the the party leadership accepts them as a necessary element. Further, Scandinavian social democracy and trade unions have generally had a great belief in modernization and in the positive contribution of technological change to the development of society. Very typical also is a strong belief in the possibility of controlling and even steering developments in practically all areas of society.

It must be underlined that "social democracy", defined in this way, is not a static phenomenon but rather a "process". The Scandinavian model, perceived as a system of policies and even institutions, reflects the use of social democratic values in a special phase of historical development, characterized by the reaction against liberal economic policies before and after the Second World War and the political takeover by social democratic parties at the national level, in the 1930s and 1940s. After 1945, these parties developed political instruments at the national level to a hitherto unseen degree and variety, giving central government a very strong influence on the national economy and on society at large. The gradual realization of the welfare state led eventually to a strong rise of taxes. A special characteristic of the system was a corporative tendency. All kinds of organizations were included in a system of formal and informal influence on policymaking.

Different from oldfashioned socialist policies, Scandinavian social democracy accepts compromises as a necessary element of democratic policy-making. I have mentioned the historical compromise between labour and capital, implying an acceptance by labour of private capitalism as the principle basis of production but also an acceptance by capital of the framework conditions set for the market, as long as they were perceived as sensible. In addition, in order to secure political continuity and stability, a need has been felt for a broader acceptance of social democratic values by other political groupings. The long majority rule by the social democratic party, underpinned by a series of reforms which on the whole received support by the population, led to a great degree of general acceptance of the social democratic model. The proportional electoral system in Scandinavia guarantees to a great extent a

political continuity which does not follow from, for example, a British type electoral system. When presumably right-wing parties took over, in Norway in 1965 and in Sweden 1976, the new government generally continued social democratic policies and even, in some areas, tried to outdo the social democrats in their own field.

In order to give a short overview of the heyday of social democracy in Scandinavia, the period since the Second World War can be divided into three periods: The first period, from 1945 to around 1960, was characterized by a broad but rather cautious expansion of the welfare state. Economic growth was strong and there was full employment. In Norway, the government tried in the initial years of the period to pursue a more planned type of economic policy with wide use of direct policy instruments but, in the early 1950s this policy was replaced by a more market-oriented economic policy, in line with the development of most West European countries at the time. Both in Norway and Sweden, strong trade unions succeeded in pursuing a "solidary" wage policy, aimed at reducing wage differences and "lifting" the relative wage level of the lowest paid groups. By means of regional policies, economic differences between regions were reduced. The share of government-owned industries was strongly expanded.

In the second period, the 1960s and 1970s, the welfare state expanded rapidly and taxes increased strongly. Regulations also widely used in the first period, spread to practically all areas of society. The equalization policy continued and increasingly included the improvement of the position of women. The size of the public sector increased strongly, especially in Sweden.

The third period, the 1980s and 1990s, a period which we still are in, is cha-

acterized by a continuation of many of the tendencies of the preceding period, but it has gradually been widely recognized that the growth of the welfare state and of the regulatory system has limits which cannot be passed without creating difficulties for the functioning of the economic system, especially for government finances. In the 1990s social democratic governments have proposed cuts in welfare spending and a softening of the regulatory system.

Factors which recently have tended to discredit the Scandinavian model in its traditional form are, on the one hand exaggerations as to the growth of public expenditure, the public sector and the regulatory system and, on the other hand, the internationalization of the Scandinavian economies. The opening-up of the economies - through GATT, OEEC-OECD, EFTA, the trade agreements with the European Community, EEA and now membership of the European Union, in addition to all that is happening in the private sector - has made some of the policy instruments of the nation state less and less efficient in attaining the goals set. This is especially the case as regards the control of cross border capital flows.

The social democrats, who at the beginning of the century were extremely internationally inclined, at least in their rhetoric, developed as from the 1930s a political system based on the nation state, and parallel to this, the trade unions established a national power base. As nations, Sweden and Norway clearly benefit from participation in a more and more open international economy but the price for this benefit is less national control. Therefore, the social democratic party leaderships in these countries are actively looking for political instruments at the international, especially the European, level which could be used, in addition to the exist-

ing national instruments, to realize goals such as full employment, economic growth, a better environment, etc. It is, however, not an easy task to change policies which have proven successful or at least, very popular in earlier years. To extend the framework for political action to include the European arena is an example of this problem. In the recent referendum on Swedish membership in the European Union, only half of the social democratic voters followed their party leaders. In Norway, there is a substantial opposition among Labour Party voters to the policy of the party leadership in favour of EU membership. This can be interpreted as conservatism or at least scepticism as to the possibility of pursuing social democratic policies outside the nation framework. The nation framework remains, however, in any case by far the most important arena of politics and that will continue to be the place where most decisions concerning welfare policies are taken. The welfare state part of the Scandinavian model retains strong support in the populations and anything interpreted as an attack on the welfare state is rejected by the majority of the electorate. The last Swedish general election, in September of this year, had an outcome which can be seen as an example of such a reaction. The voters accept, however, expenditure reductions that are regarded as necessary in order to reduce big deficits on public budgets but the changes have to be of a kind which do not alter the principles of the welfare state.

Outside welfare policies, in the narrow sense, politicians freedom of manouvre seems to be wider. In order to increase the efficiency of the economy, regulations may be replaced or supplemented by freer markets, using increased competition as a means to achieve greater competitiveness and reduced costs. Subsidies to branches of industry are

cut, programmes aiming at increased efficiency are launched for the public sector. Typical for Norwegian and Swedish social democrats is, however, the special importance they attach to policies aiming at increasing employment and reducing unemployment.

What can others learn from the Scandinavian experience? First, that it is possible to pursue a rather egalitarian policy in a Western type open, high wage economy. There is no evidence that the limited differences in salaries and status in Scandinavia compared, say, with Britain and USA lead to a decline in efficiency and competitiveness. It shows that a welfare system per se can be combined with a quite dynamic economy. The problems which the Scandinavian countries have been facing recently are more related to mistakes in general economic policy than to the welfare state per se, but the crisis of the government finances has its roots, inter alia, in exaggerations in the expansion of the welfare system, including into it areas of low priority. Another experience is that regulations in Scandinavia and in other European countries, sometimes do more harm than good and that more indirect methods, inter alia, better use of the market, is in many cases an efficient means to achieve social democratic goals. In the new environment, the traditional social democratic view as to the need to "steer" the development in a very robust way is being softened by allowing for cooperation, influence, information, etc. as possible means of a policy aiming at gaining control.

Thus, the Scandinavian model is changing, under the pressure of a changing environment. The basic values on which it is based have however, not changed and can serve as a basis for developing a renewed model which takes into consideration the internationalization of the economy. In any

case, there is no reason to believe that the Scandinavian type of democracy, the role of the popular organizations, all the main elements of the welfare state, the importance attached to a good environment, and above all, the Scandinavian egalitarian tradition would be given up in exchange for the ordinary West European, not to mention the American, system. I am convinced that the basics will remain but that overregulation and exaggerations on the expenditure side will gradually be done away with.