

# Welfare Model in the Nordic Countries

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## ABSTRACT

A welfare state is characterized by the government playing a key and important role in safeguarding and promoting the social and economic well-being of its citizens. Equal wealth distribution and equal opportunities to all are the basic premises on which a welfare state functions. The government also holds public responsibility for those citizens who are unable to attain themselves the minimum provisions that are required for living a good life. In Europe, there are four different types of welfare models that can be found in practice today. They are the British model, Continental European model, Mediterranean model and the Nordic model. The Nordic model which the paper focuses on is found in practice in Denmark, Finland, Sweden, Norway and Iceland i.e. the Nordic countries. It remains different from the welfare policies of the other countries and that of continental Europe by having a very flexible labour market with the presence of large number of trade unions and employers' organizations. This paper looks into the Nordic welfare model of the three Nordic countries: Norway, Sweden and Denmark. The paper discusses the way these countries have managed their social policies of welfare and equality as well as the current challenges their welfare model faces.

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## 1. Introduction

The Nordic model which the study focuses on is found in practice in Denmark, Finland, Sweden, Norway and Iceland i.e. the Nordic countries. It remains different from the welfare policies of the other countries and that of continental Europe by having a very flexible labour market with the presence of large number of trade unions and employers' organizations. These states are highly developed being well funded by their governments and focus on achieving objectives such as income redistribution, gender equality, egalitarian and extensive benefit levels, expansionary fiscal policy and maximization of labour force participation. The Nordic countries have always aroused great interest in the manner in which they have managed and organized their welfare model for years. The five Nordic countries though distinct from each other, are governed and regulated by the principles of a welfare state and thus exhibit a regional welfare model. They have been able to ensure good standards of equality among its citizens while maintaining decent economic growth at the same time. The Nordic countries have always aroused great interest in the manner in which they have managed and organized their welfare model for years. The five Nordic countries though distinct from each other, are governed and regulated by the principles of a welfare state and thus exhibit a regional welfare model. They have been able to ensure good standards of equality among its citizens while maintaining decent economic growth at the same time. However, variables like demography and immigration play a very important and crucial role in determining the smooth and efficient functioning of the welfare state. Demographic patterns have always played a role in the proper functioning of a welfare society. The rise of dependent people in a society with less than the proportionate number of youth working to support them is being witnessed by some of the Nordic countries. This has put a lot of upward pressure such as increased demands for income support, health care, long-term care and other services. This has been a problem in

itself calling for appropriate measures for an efficient financing of the welfare system. This has been a problem in itself calling for appropriate measures for an efficient financing of the welfare system. The second challenge lies in the form of immigration. Immigration in the Nordic countries is inexplicably linked to the gradual opening of the borders of these countries. This has become so untenable that the social system is often not in a position to meet the basic needs of immigrants.

## 2. Features of the Nordic Welfare State

According to (Alestalo, Hort, & Kuhnle, 2009) the Nordic welfare state is characterized by the following features. They are listed as follows-

- **Stateness-** As discussed above, the state and the people share a close relation with each other. There is excessive state involvement and a strong prevalence of the state in the Nordic welfare state. The state acts as the vehicle through which the society can be reformed and regulated. The state bears the public responsibility in providing public services and employment to its people and in providing benefits in return to the tax collected.
- **Universalism-** The extension and the right to social services is for its whole population; ranging from the middle class to the people who are financially unable to support themselves. Such extension of social services also has its history behind it. From the very initial years i.e. from the time of economic and political modernization, there existed a consensus on nation building.
- **Equality-** Historically the Nordic countries have always exhibited minor gender and income differences. The modern class has come as a result of the strong position of the peasant class associated with the simultaneous weakening of the position of the landlords and the existence of easy tripartite

arrangements between the working class with the parliamentary system and into labour market negotiations. The result of such state mechanisms yielded developments like child care policy, elderly care and high employment rates for women.

- According to (Iqbal & Todi, 2015) the above discussed characteristics of the Nordic Welfare model can be captured through the following features of its economy. The welfare state mainly being funded by redistributive taxation involves a transfer of funds from the state to its people either directly or in forms of different services provided like elderly care, health care, education, etc.
- The field of health care in the Nordic countries operates on the basis of taxation with equal access to each of its citizens. According to (Stig & Lütz, 2013) public finances account 85 percent of the Danish health care expenditure, 75 percent in the case of Finland and 80 percent in the case of Iceland in 2010.
- The Nordic countries invest a lot on education which is a main pillar of any well functioning welfare state. OECD 2012 indicators state that Norway spends around 15.7 percent of its public expenditure on education as opposed to the OECD's average of 13.3%.
- Economic equality is another major characteristic of a welfare state. This idea has been central in the welfare systems of the Nordic region. Gini coefficient<sup>1</sup> shows a coefficient of 0.25 highlighting the small income disparities in the Nordic countries.
- Another distinguishing feature of this welfare system is the high tax rates that are levied in these countries. The tax rates are high because the government is dependent on public funds for carrying out various welfare schemes. In 2017 tax rates in Denmark, Finland, Norway, Sweden and Iceland were 55.79 percent, 54 percent, 46.27 percent, 61.85 percent and 46.24 percent in 2016 respectively.

The following section looks into the welfare model that is practiced in these five countries.

Welfare Sector in Norway- Welfare in Norway is administered by the Norwegian Labour and Welfare Services (NAV). According to (Welfare and health, 2018) the Norwegian welfare sector includes membership in the Norwegian National Insurance Scheme, social security, sickness and surviving benefits and pension in its social security system. According to (Sørvoll & Stoltenberg's, 2015) economic growth and full employment were the major goals of this welfare system in the post World War II period. These were considered as the essential prerequisites for the carrying out of major social reforms. The 1960s marked as the golden age of universalism saw the implementation of National Insurance schemes that incorporated unemployment benefits, health insurance and insurance for occupational injuries, pension for orphans and widows, invalidity and old age. However, from the late 1970s (i.e. after the golden age of economic growth in the early

1970s) there was a shift in the concerns regarding their welfare services. Policy makers, experts and politicians voiced the need to contain public expenditure and maintain costs. The 1990s and the 2000s also saw the restructuring of the welfare state with cuts in supplementary pensions, housing, disability benefits and unemployment insurance. For example demographic challenges posed by the ageing society and the need for more labour supply had brought adjustments to the pension reform scheme. There was a general consensus among policy makers towards putting more stress on labour market activation rather than redistribution.

The sickness, rehabilitation and disability benefits, unemployment benefits and as well as the labour market programme are regulated by the National Insurance Act and are financed by general taxation through the National Insurance Scheme. These schemes are mainly administered by the National Insurance Administration (NIA) and by the Public Employment Service (EPS). While the former looks into sickness benefits, rehabilitation benefits and disability benefits, the latter remains responsible towards vocational rehabilitation benefits, unemployment benefits and active labour market programmes for the unemployed as well as vocationally disabled. According to the (OECD, 2005) the parliament merged the two into a single unit of common employment and welfare administration. The local municipalities are responsible for the primary health care and social services. Such services are also provided for by general municipal taxation in the form of general state block grants to the municipalities partly through the National Insurance Scheme (NIS). The sickness and unemployment benefits also remain tied with labour market.

Welfare Sector in Sweden-The welfare state got into its building process in the early 20<sup>th</sup> century and in between the years from 1945 to 1975 the welfare state expanded greatly. According to (Foundation, 2018) one of the main reasons for this growth during the above period was that as Sweden had not participated in World War II it did not have to face post war recovery like the other European nations and the defence budget of the country was also small. This welfare state has been the vision of the Swedish Social Democratic Party (SDP) founded in 1889 and formed by the industrial workers. The party aimed at building a welfare state that would provide workers with health insurance, old-age pensions, protection from unemployment, and other social benefits financed by taxes on workers and employers. The party envisioned that economic growth could be fueled if the government would work along with the private enterprises and so were not supportive of the government owning private businesses. It took control of the government in the 1930s and remained in power for the following 60 years. According to (Ginsburg & Rosenthal, 2006) the 1990s saw significant changes being made to various programmes in order to maintain income and provide services. These had brought about an overall reduction in benefit levels and ushered regulatory changes. Though, the economic upturn in the late 1990s had raised the benefit levels of many services but they were seldom raised to the old levels that had prevailed at the beginning of the 90s. They point out that while the general trend had been to restore some cuts that were made in the early 1990s; such restorations were uneven in nature. They

<sup>1</sup> Gini coefficient calculates income disparity on a scale of 0 to 1.

claimed that some programmes which were directed towards children were given more importance while those directed towards the elderly lacked in importance. The health care system in Sweden has responsible towards the society with its extensive commitment to ensure good health to all of its citizens. The Health and Medical Services of 1982 highlighted the basic premises of having equal access to health services on the basis of need, thus stressing on a vision of equal health for all. According to (A, AH, & S., 2012) health care in Sweden are guided by three basic principles i.e. the principle of human dignity meaning that all human beings have an equal entitlement to dignity and have access to the same rights, principle of need and solidarity meaning that those in the greatest need will have precedence in medical care and lastly by the principle of cost effectiveness meaning that improved health and quality of life must be reflected through a reasonable relationship between the cost and effects. The national public health policy is based on 11 objectives that revolve around the above mentioned guidelines. The objectives are directed towards regulating participation and influence in the society, in achieving economic and social prerequisites, healthy conditions during childhood and adolescence, good health in working life, maintaining environment, promoting of health services, protection against communicable diseases, good sexual and reproductive health, encouraging physical activity, good food and eating habits and refraining from drugs, tobacco, doping and gambling. According to (Ankarloo, 2009) the welfare sector in Sweden is characterized by high levels of transfer payment, and substantial levels of subsidies are involved in the core social services such as health care where the coverage also remains universal. Health and elderly care, schooling, etc are the core services which constitute social services and represent social rights. Though such services are produced at the regional and local levels, the centre exerts its overall influence through regulation and control. The main aims of the centre are to eliminate regional differences in the country, to equal opportunities for everyone while exercising his/her right while accessing social services and to promote social services on the basis of the needs of the society. These services are also sometimes described as "many pay for all" thus capturing the strong popular support for such core social services. Services (the state insurance system for pensions, parental leave, unemployment, sickness etc.) can be described as being tied to the labour wage. It is financed through the compulsory payments on the wage to social security system which remains nationally administered (Försäkringskassan) and is not financed wholly out of the tax proceeds. Social security payments tied to the wage and basic support through state taxes helps the above agency administer social security in the state. Another fundamental criterion for gaining right to such services is the maintenance of work ethic i.e. it is necessary to be a part of labour force in order to qualify for the social security system.

Welfare Sector in Denmark-The Danish welfare system guarantees certain fundamental rights to its citizens in case they are faced with social problems such as sickness, unemployment, etc. The Ministry of Employment bears responsibility to its people who are unemployed. It is also involved in active employment measures, regulation of

employment and working conditions; framework and rules, maintenance of health and safety measures in workplace and covering of injuries, extends assistance to people with full or limited working capacity and regulates placement services. The administrative activities involved in the organization and financing of health care services in Denmark are regulated by the Ministry of Health and Prevention. The social welfare system in Denmark is a decentralized one and the municipalities and regions play a fundamental role in the implementation of legislations and provisions at a state level. The major characteristics of the Danish welfare state are universalism i.e. meaning citizens are entitled to social security benefits and services regardless of their attachment to the labour market, tax financing meaning that the social benefits and services are funded through general taxation. Labour market attachment is another notable feature of this welfare model where services for children, elderly and disabled are organized in manner such that it ties both family and working life an individual. The social security also displays decentralization as a major feature with social responsibilities being trusted to local authorities (municipalities and region) which function with a high degree of autonomy at the time of implementation of various social security schemes. The Danish welfare system provides the following benefits; health insurance, child allowance, maternity benefits, disability benefits and sickness benefits.

According to the ( Open Access Government, 2017) there are 5 regions that are responsible for health care which remain active in the sphere of emergency care, psychiatry, access to specialist health services and for health services provided by the general practitioners. The 5 regions are governed by the regional councils which consist of 41 elected members. The individual regions also have the freedom to adjust services within the given national and financial regulatory framework so as to optimize capacity. The municipalities are a total of 98 and are responsible for services catering to health promotion, disease prevention, school health services, etc. National legislation ensures that patients are free to choose hospitals (public or private) of their choice and are to be provided with diagnosis and treatment within certain time limits ( i.e. one month from the date a patient has been referred a hospital). The right is extendible to both mental and physical illness. In 2015 about 84 percent of the expenditure involved in health care was publicly funded while remaining 16 percent was funded through co-payments made by the patient. The public health care expenditure equaled around 10.6 percent of the GDP in 2014, greater than the OECD average of 9 percent.

According to (European Commission, 2016) the welfare state of Denmark has a strong commitment towards maintaining family polices targeting women and children. There is support provided for a mother's right to work outside home and also for right to public child care. This right is universally applicable without any discrimination relating to class, income, status, etc. According to (Tølbøll, Bohne, Jährling, & Höppner, 2014) this tradition of public child care has been for long in the state. Children in between the age group of 6 months and 5 years have the right to subsidized child care facilities. It ensures that parents continue to work and remain absorbed in the labour force. The child care is provided by the Danish local authorities and they cover around 75 percent of the expenses

involved. There are four kinds of parental leave namely; maternity, paternity, parental, and childcare leave. The 2002 reforms saw that mothers have an entitlement to a period of 18 weeks of maternity leave with a compulsory leave of 2 weeks after child birth. A father has also been entitled to two weeks of paternity leave after 14 weeks of child birth. Parents also gain access to 32 weeks of parental leave following the maternity leave. While the leave period can be extended to 40 weeks, the benefits remain applicable for 32 weeks. Parents are free to split this leave among them or take them at the same time. This leave can be extended till the ninth birthday of the child and any individual who has worked for at least 120 hours for 13 weeks preceding the leave are entitled to it. This leave is funded out of the sickness benefit fund for employees and unemployed people receive this benefit if they are entitled to benefits from the unemployment insurance fund.

### 3. Challenges to the Welfare Model

The demographic change has been under study and observation as it is an important parameter that plays an influential role in the welfare model of the Nordic countries. Mobility, ageing population, increasing urbanization and changes in the population structure are gaining increasing attention and will have a crucial impact on the future of the Nordic cities and regions. Ageing alone could be expected to increase demands for income support, health care, long term care and other services. (Andersen, 2004) also points out that ageing of the population would have its impact on the Nordic countries. He stresses on the fact that ageing of the population would necessitate further reforms and thus would have its share of impact on the public finance of the states. He highlights the relation that more employment implies both more tax revenue and less expenditure to income maintaining transfers and thus the sensitivity of the public finances to the fraction of the population active on the labour market. The 2014 report produced by Statistics Norway also calculates the dependency ratio in the Nordic and the European countries from 1993-2010. The data had again showed that while the dependency ratio increased for Denmark and Finland in the period, the share had slightly decreased for Norway. Sweden had stood out again with the highest dependency ratio. On analyzing these derived figures it was concluded that an increase in the share of elderly people in the society was not a problem acute to the Nordic countries. Anderson (2004) talks about openness of the Nordic countries historically and the need to make their welfare state and public sector developments more compatible with challenges that

international integration posed. He highlights the unstable nature of a mobile tax base and the difficulties that would be involved in taxing at a rate above one's close trading partners in the face of international integration. He stresses on the importance of labour mobility pointing it out to be as one of the important determinants of net contribution/beneficiary to the welfare state. (Tanner, 2016) discusses the change in the public attitude that has been taking place in the Nordic countries with the rise of the populist parties including the Sweden Democrats, Finns Party, Danish People's Party, and Norway's Progress Party. The work focuses on the newly generated negative attitude of these countries towards immigration and asylum seekers owing to the role played social media and xenophobic sentiments. He believes such sentiments were fueled by the economic downturns experienced over the last decade, and by a rise in immigration—both of migrant workers from the European Union and new refugees from farther abroad. (Grødem, 2016) questions the ability of the comprehensive and inclusive welfare states to absorb thousands of immigrants, often with limited labour market skills and with different cultural and religious beliefs. Their article narrows down to two effects of immigration; economical and political. While the former concern bottles out of the apprehension of non employment and unskilled labour given the premises of high taxes and high social benefits in the Nordic welfare model, the latter revolves around the fact that the Nordic tradition for inclusive policies seem to benefit migrants. He further expresses the possibility of crumbling of the feeling of community and shared risk with large influx of strangers settling in the country. Provision and sustenance of welfare arrangements in countries with large ethnic and religious representations would become difficult even if the migrants are well included in the labour market.

Thus, one can see that these countries put considerable effort in managing their welfare systems in an efficient manner. But in recent years this welfare model has faced challenges in the form of its ageing population and the influx of immigrants. Ageing population in the Nordic countries is posing a serious challenge to their welfare system. This attributes to increased demand for income support, health care, long-term care and other services. Immigration is also another challenge that has to be dealt with great caution. These countries have seen very high levels of immigration in recent years, both in the form of economic migrants from the European Economic Area (EEA) and humanitarian migration from the developing countries.

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