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The Nordic Model: Past and Future
A comparative analysis between Norway and Finland

Introduction

The idea behind social welfare is to provide social safety nets for people who may be disenfranchised one way or another. Julkunen puts it as: “Dignity and value come with citizenship; because everyone is equally at risk of mis-fortune” (Julkunen, 2006). For Nordic countries, their provision of social welfare is one of their defining characteristics and contributed to them being some of the happiest and best performing nations in the world on various national performance metrics, including quality of life. But when looked at on an economic level, the Nordic welfare state, otherwise known as the Nordic model, may be struggling to keep up with the biggest crisis every country will soon face: Aging. Aging societies will see a shrinking working population, thus potentially lower tax revenue to support social welfare. This paper aims to analyze the history of the welfare state in two Nordic countries: Norway and Finland, and how these nations that had quite a similar past, face a drastically different path forward because of the speed at which they are aging.

Part 1: History

Modern History of Finland

Like the rest of the war torn continent, Finland saw nationalization of production, but in the end no company was nationalized by Finland, partly due to the heavy regulation already in place. Post-war Finland saw a coalition government between the Communist party and the Social Democratic Party, both of whom partly contributed to the nationalization of production and a largely planned economy. Although in the late 1940s, Finland faced communist strikes with demands of stronger pay (Erkki, 2004), it did not see the communist takeovers like those seen in Eastern Europe. Even so, Finland still accepted USSR's Friendship, Cooperation, and Mutual Assistance Pact, in part due to political pressure from the inside. Modern research argued that the FCMAP allowed the USSR to not "take over" Finland through the communist parties like the rest of eastern europe (Erkki, 2004). In addition, USSR pressured Finland not to accept Marshall plan aid because it saw it as an "political offensive against it" (Erkki, 2004, p.30).

Construction of the modern Finnish welfare state began largely in the 1950s, with poor relief and national pension reform in 1956 (Ministry of Social Affairs and Health, 2011), and further improved upon it in the 1960s. Major healthcare reform was made in 1964 with inclusion of maternity allowance and medicine cost reimbursements. Healthcare was made universal in 1972 (New York Department of Health, 2011). In the 1990s, a mass unemployment was caused by an economic recession due in part to the collapse of the soviet union. Although many were unemployed, the social security system already in place guaranteed "decent income" (Ministry of Social Affairs and Health, 2011). The economic recovery from the 1990s recession saw further liberalization of the economy. Some have argued it is during this period that Finland began to edge away from the ideals of the universal welfare model (Helman et al., 2017).

In Hellman, Monni, Alanko's words, the government programmes from the 1960s to late 1980s were to "construct a system to address social and health problems collectively by institutionalizing the aims of universalism, equality, inclusion" (p.19, 2017). Today, the message became "we have other problems; let us manage the system better so we can afford [the social welfare programs]" (p.19, 2017). Now the services are less centralized, and emphasis is put on citizen's freedom of choice, and governments "actively seek less bureaucracy" (p.20, 2017). Although Finland saw economic growth in its recovery from the 1990s recessions, Finland did not reverse the cutbacks in social programmes and only “minor improvements were made to basic welfare benefits” (p.11, 2017).

Modern History of Norway

Unlike its Nordic neighbor, Norway was *de facto* independent since 1814, and experienced no strong support for communism before world war 2. But like Finland, it found itself in the middle of continental conflict and was under occupation for most of World War 2. From 1945 and onward, it was led by a social-democratic oriented Labor party. During this period, the Labor Party, led by Einar Gerhardsen, led the postwar reconstruction of Norway and pushed the country’s policies in a more socialist direction by initiating a wave of government control of businesses and industries.. His government saw the creation of a pension system for retirees and unemployment support schemes (Kerr, 1987). Unlike Finland, Gerhardsen accepted US’s marshall plan aid in 1947 and joined NATO in 1949, effectively joining the western bloc in the impending cold war.

In 1948, the Norwegian government drafted guidelines for “as far as possible a complete insurance system against the loss of income” (Lange, 2020) and a schedule was set for benefits to be introduced in line with economic growth. Child benefits were adopted in 1946, and other safety benefits, including adults and disability benefits, were adopted in the 1950s (Lange, 2020). Norwegian social welfare policies were not only supported by Labor/Socialist parties, but also center right conservative parties. The National Social Security Reform, for example, was passed under the center right coalition in the late 1960s (Lange, 2020).

Post war economic expansion came to a halt in the early 1970s, like the rest of the west, and Norway saw a wave of economic liberalization and privatization. In 1969, oil was discovered in the Norwegian continental shelf, leading to a boom in the oil industry in Norway during the 1970s while the rest of the manufacturing industry was facing difficulties. The expansion of the highly profitable oil industry in Norway led to deindustrialization in other sectors of Norwegian economy (Grytten, 2008). Oil continues to play a central role in Norwegian economy till this day, accounting for 54% of its exports in 2019 (OEC, 2019).

Potential Influence of Communism on the Development of Welfare State

The development of the Nordic welfare state coincided with the rise and the height of communist power in Europe. Some argued that it is in fact because of fears of rising support for communism in Western Europe that led to many of the welfare reforms and expansions. Historian Eric Hobsbawm argued that the welfare state in the west rose out of fear of soviet communism spreading in the Western world. (1990). It is true that during the postwar period of expansion that Norway and Finland saw expansions in the size of the government and welfare. According to Castles (2006), the average social expenditure as a percentage of GDP of OECD nations doubled from 10.6% in 1960 to 21.5% in 1990. Through trend data from OurWorldInData, Norway's social spending as a percentage of GDP in the same time period more than tripled from 6% to 21.5%. (2016) (appendix, Figure 1).

Finland saw a similar tripling of its social spending as a percentage of GDP from 8% to 23% (2016) (appendix, Figure 2). This is of course due to the rapid expansion of social programs in the two countries during this period.

Herbert and Schmitt (2011) mentioned that in the five eastern European nations (USSR, Poland, Hungary Bulgaria and Czechoslovakia), there is a similar trend of increasing social expenditure as a percentage of GDP up until 1970, when the two blocs begin to diverge: Western bloc's social expenditure continued to increase, while the Eastern bloc's social expenditure stagnated (2011, p.249) (Figure 4). This trend shows correlation and somewhat supports the argument that the expansion of social welfare in the Western bloc was in part motivated by fear of expansion of communism. What the argument does not explain is the continuing expansion of social expenditures for Western bloc after 1970, after which communism is arguably starting to decline. It may perhaps be explained by how the social democratic ideals and policies became ingrained into people's ideals of a perfect society. These welfare policies continue to receive widespread support in the Nordic nations today, and thus it is considered a "political suicide" to cut these programs to mitigate the problems of an aging society.

Part 2: Future

Social Welfare and Aging Society

Nordic nations are quite famous for their high tax rates and generous social safety benefits. But like many European nations, they are facing, or will soon face a fate all countries will: An aging society. Aging societies will see a shrinking workforce population that is tasked to support an expanding dependent population, resulting in potentially lower tax revenue to support expanding social welfare recipients. Finland started seeing a shrinking workforce in 2009 (Figure 3) and will be the first Nordic nation to lose population starting in 2031 (Statistics Finland, 2019). Norway on the other hand, is projected to see population growth for the rest of the 21st century. Finland must find solutions to mitigate, and counteract the potential reduction in tax revenue as soon as the 2030s. Increasing tax rates in the Nordic nations is not possible as they are already pushing against the tax revenue maximization barrier. Due to the popularity of these welfare policies, cutting social welfare in these countries would therefore mean political suicide. That leaves the nations with three main options: Universal basic income (UBI), immigration, and raising retirement age.

Finland General Discussion

Finland is expected to lose population as soon as the 2030s, and by 2050, Finland's dependency ratio will reach 70% by current projections and they must make drastic shifts in their policies to at least keep their current social welfare in place. Without any change in policy, Andersen et al. has argued that the "current welfare arrangements are not financially sustainable" (p.72) because by 2050, Finland's public debt will be at about 120% of GDP (2007). Economically, Finland is not as industrialized as Sweden, nor are as resource rich as Norway. Without an "exploitable" resource or robust industrialization, one of most practical ways of mitigating the effects of an aging society for Finland is raising the retirement age and augmenting its current pension and welfare for a longer living population. Finland aims to increase the average working career by 3 years through encouraging the continuing of work and weakening early retirement incentives (Ministry of Social Affairs & Health, 2011). In addition, Finland is currently undergoing healthcare reform by shifting emphasis to preventive care and streamlining the health and social services under one program (Finnish Institute for Health and Welfare, 2021).

Norway General Discussion

Contrary to Finland, Norway's population trajectory puts it in a position to see population growth beyond the 21st century. They are also gifted geologically with large oil reserves on the Norwegian continental shelf. The oil driven country has various advantages it could leverage to mitigate the effects of an aging society. First advantage Norway has over Finland is that it is not aging as fast, that is thanks to its fertility rates falling much slower than Finland's (Astri et al., 2020). This leaves Norway time to observe what its faster aging neighbor does and learn from their mistakes. One of the options Norway has is UBI, funded in part by its vast oil reserves. But this idea is "threatened" by the move towards clean energy worldwide, and Norwegian government pension fund sold its last fossil fuel investment in 2020 (Arvin, 2021). It must be noted still, that a UBI could still be implemented simply as a method to streamline social welfare and potentially lower administrative costs.

Immigration

A potential method to mitigate the effects of population aging is immigration. Various governments are in the process of adopting immigration "to secure future economic well-being" (Contucci & Sandell, 2015, p.1272). This idea may be flawed since many research that shows mixed results for immigrants and their integration into societies. Social integration and labor market integration are two different topics that pose different problems. Social integration increases in difficulty as the number of immigrants from one country or culture increases due to the social network effect (Contucci & Sandell, 2015). Labor market integration on the other hand, is affected by negative selection. Kogan (2016) found that those who seek labor market counseling and training are more likely to already have difficulty in integrating into the society and labor market than those who do not seek labor market counseling and training. Thus labor market counseling and training *generally* do not produce better outcomes for immigrants (Kogan, 2016). Immigration as a method to mitigate the effects of an aging society may not be a viable solution even when work immigration is considered. This is because of the potential earning power of the migrants: even if they can replace the native born in number, they may not replace the native born in earnings power. Sarvimäki (2017) found that the earnings power of immigrants from other OECD countries residing in Finland are generally 20% below that of the native-born population. By itself immigration as a policy to mitigate the effects of an aging society may not be effective, if at all, therefore if it were to be implemented, it must be used in combination with other policies such as raising of retirement age, and augmented with tightening of eligibility for welfare.

Increasing Retirement Age

One of the proposed solutions that may be the most practical is the raising of retirement age. Andersen et al. (2007) mentions that although Nordic nations have adjusted pension eligibility to be inline with longevity, pension expenditures in these countries are “still projected to increase significantly”, and this is especially the case in Finland. Denmark for example, has taken steps to increase the requirements for early retirement and public pensions. Finland will begin to link retirement age to life expectancy from 2030 onward (OECD, 2019).

Universal Basic Income (UBI)

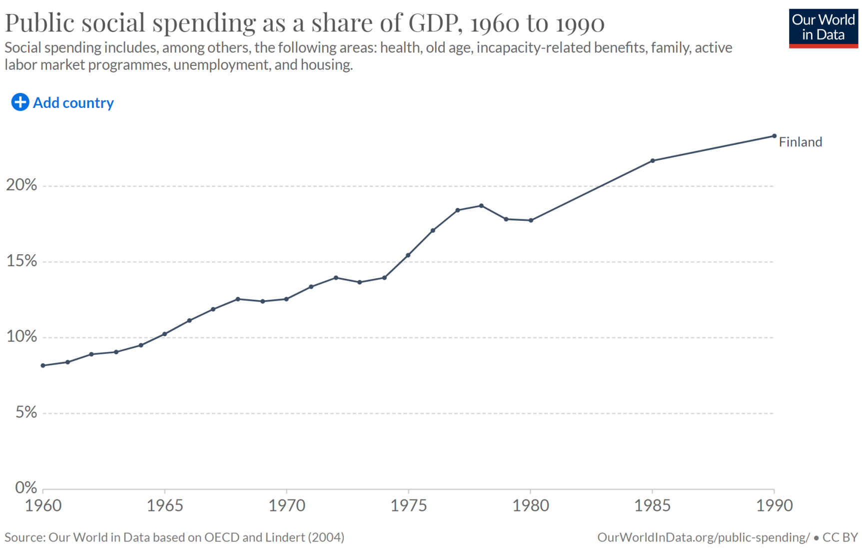
UBI saw recent popularity partly thanks to Andrew Yang’s 2020 US presidential campaign. But it could do more than just to help the economy grow. It could be a tool to streamline the social welfare already in place and lower the administrative costs. But it could come with the unintended consequence of allowing older people to retire earlier because of increased income, thus exacerbating the effects of an aging nation (The Economist, 2021). Another unintended consequence of UBI is it may lower workforce participation of women (The Economist, 2021). For the past four decades, the Nordics saw high women workforce participation, their mothers are “more likely to be in work than elsewhere” (OECD, 2018, p.1). Preliminary research into UBI shows that it may increase caregiving, which is “linked to lower workforce participation by women” (The Economist, 2021). In the aggregate, UBI may be a double edged sword: it could streamline welfare and lower administrative costs and potentially foster economic expansion, but it could also increase the incomes of older age groups, allowing them to retire earlier, and in addition, potentially decrease the workforce participation of women.

Conclusion

Since the end of the second world war, Norway and Finland have an arguably rather similar history: war torn nations that saw rapid growth due to state control of production under democratic governments. In the 1950s -1970s, their welfare programs were expanded and began to take the “social democracy” mantle that we see today. This is where their paths could diverge. One enjoys rich oil reserves and is not immediately facing the effects of an aging society. The other must find viable solutions to an aging society and quickly implement them before time runs out. Finland has rather limited options in what they could do and they are one of the first among other few nations to see a decline in working population, the Marin cabinet and its successor must make drastic policy changes.

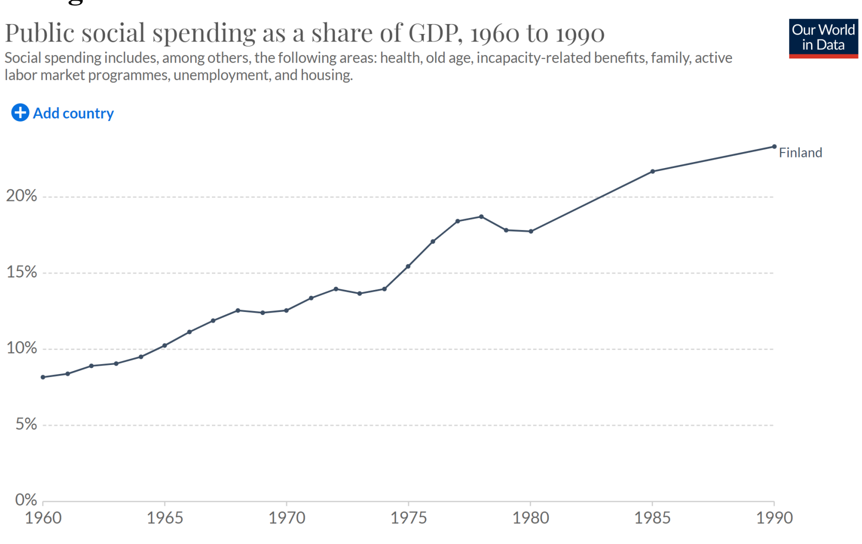
Appendix

Figure 1.



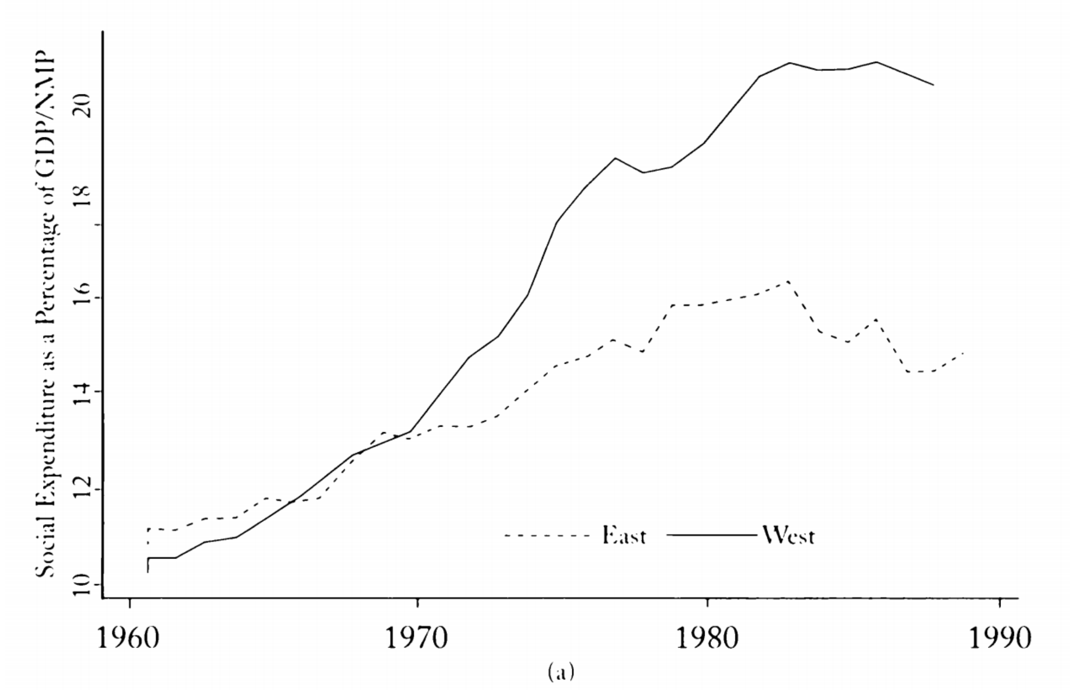
Source: Our World In Data, 2016

Figure 2.



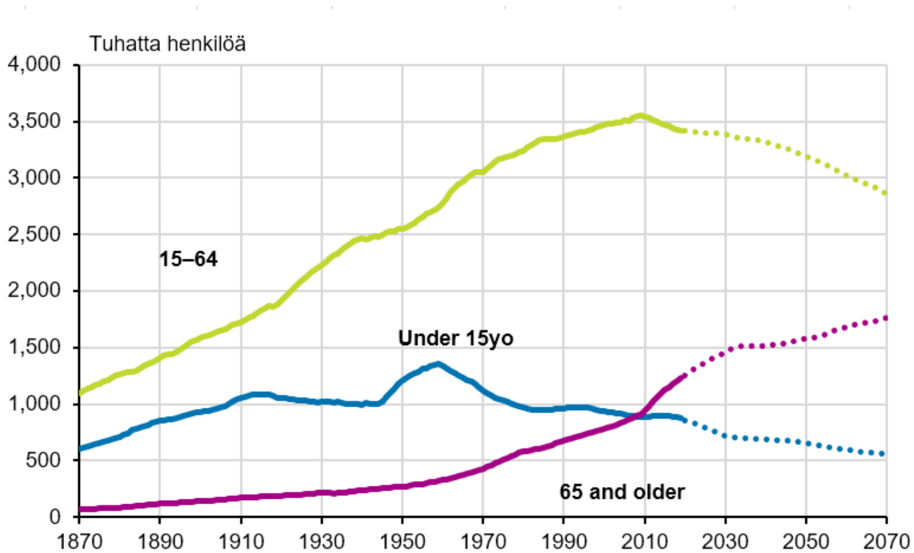
Source: Our World In Data, 2016

Figure 3.



Source: Herbert and Schmitt (2011)

Figure 4.



Source: Statistics Finland, 2018

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