

# Making social welfare states competitive

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One of the biggest and most important societal experiments is under way in Europe: Merging social welfare and a competitive society into a political and economic model. This has been long overdue, given the crippling costs of welfare and how it has eroded competitiveness, but only the debt crisis forced the Europeans to act.

A main stage of this revolution is taking place in the Nordic countries (Denmark, Finland, Norway and Sweden). Lavish welfare has for years slowed down these economies, with growth of 1.5 to 2 per cent. A large number of analyses now prod these four countries — admittedly not totally congruous, but sufficiently so to be analysed in the same context — to change their attitudes towards the welfare state. They confront a choice: Trim welfare to the essentials or eventually buckle under the pressure.

From an attitude of non-questioning welfare payments and universal rights, more stringent conditions are being set for welfare payments. The most important question now to answer before qualifying for welfare is: "What have you done yourself?"

## HOW IT WORKED PREVIOUSLY

Many observers in the United States and Britain have ridiculed the Nordic

welfare model and predicted its collapse. This is partly because the model offers universal coverage and services from "cradle to grave", financed largely by the government budget. However, the model keeps Nordic societies together and prevents disruption in well-functioning public services — not perfect, far from it, but better than almost anywhere else. The Nordics understand that a societal model is a product of its history, experience and traditions.

From as young as three to four years old, children in Nordic countries receive free education to start them on a lifelong journey of learning.

There are few, if any, impediments for everybody to get a higher education because it is free or cheap. Grants and loans are also easily available. The result is an almost 100 per cent mobilisation of the talent mass.

The labour market offers a handsome unemployment allowance, but the focus is on helping workers to acquire new skills through various programmes. The Nordic countries understand that in the global economy, a job lost is forever gone for good. "Retooling" and retraining the labour force become priorities. Retirees receive pension from the state.

The virtues of this system are social coherence, strong public trust and a high degree of equality. Few countries of Denmark's size have managed to forge its unique combination of creativity, individualism, teamwork and social coherence. The social fabric constitutes a bulwark against turmoil



Swedish pupils taking photographs of Prime Minister Fredrik Reinfeldt during his visit to learn more about the use of tablets in schools. From as young as three years old, children in Nordic countries receive free education. PHOTO: REUTERS

ignited by external shocks.

The Nordic welfare model has been refined over the past half century and tested during the oil crisis of the 1970s and the global financial crisis in 2008. It worked but the alarm bells are now ringing.

## CORRECTING THE FLAWS

The Nordic welfare model is costly and its financing by taxes makes this apparent. It is also too generous and easily exploited. Some people exploit the loopholes and even brag about it.

There is a growing fear that high taxes may scare multinational com-

panies away and undermine efforts to attract foreign talent — managers, students and researchers. So far this does not look to be an imminent danger but the risk is there.

The strong social coherence is also coming under pressure from immigrants who are sometimes accused, mostly wrongly, of abusing the access to welfare benefits. However, it provides a fertile ground for political parties advocating a xenophobic policy and threatening to destabilise what used to be government by consensus.

The apprehension is palpable among the people. The large majority feel that the over-arching objective of the social welfare model must be kept intact but loopholes should be closed so the system does not buckle under the weight of providing for freeloaders. The trend is shifting somewhat away from constantly offering better services to a higher awareness of abuses and manipulations.

Many observers misinterpret this shift as some kind of backlash eroding support for the principles of the social welfare state. That is not a correct reading. The opposite is the truth.

The Nordic people want to preserve the welfare state, but they acknowledge that they can no longer blindly introduce new schemes without costs. Those who pay the bill (those who work, pay taxes and do not use the system) and have remained silent over the years are now speaking up.

The result is a trimmer welfare state, where its original principles are preserved.

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