

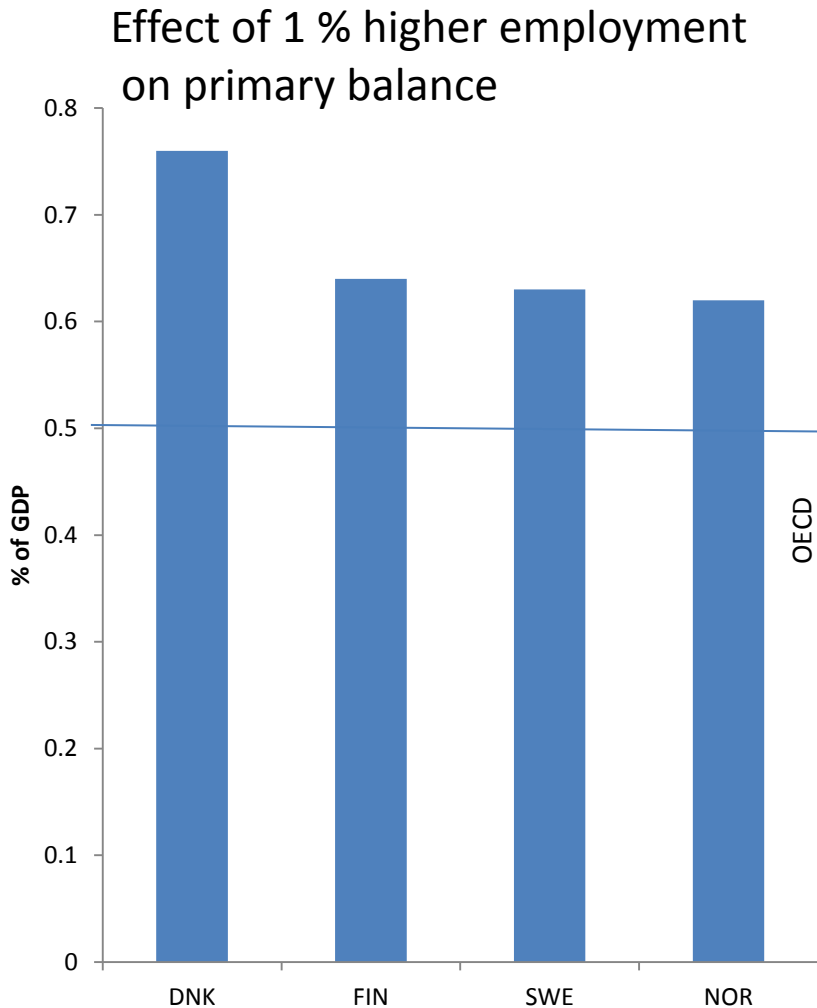
# Nordic welfare model: Employment, equality and fiscal viability

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# Nordic model

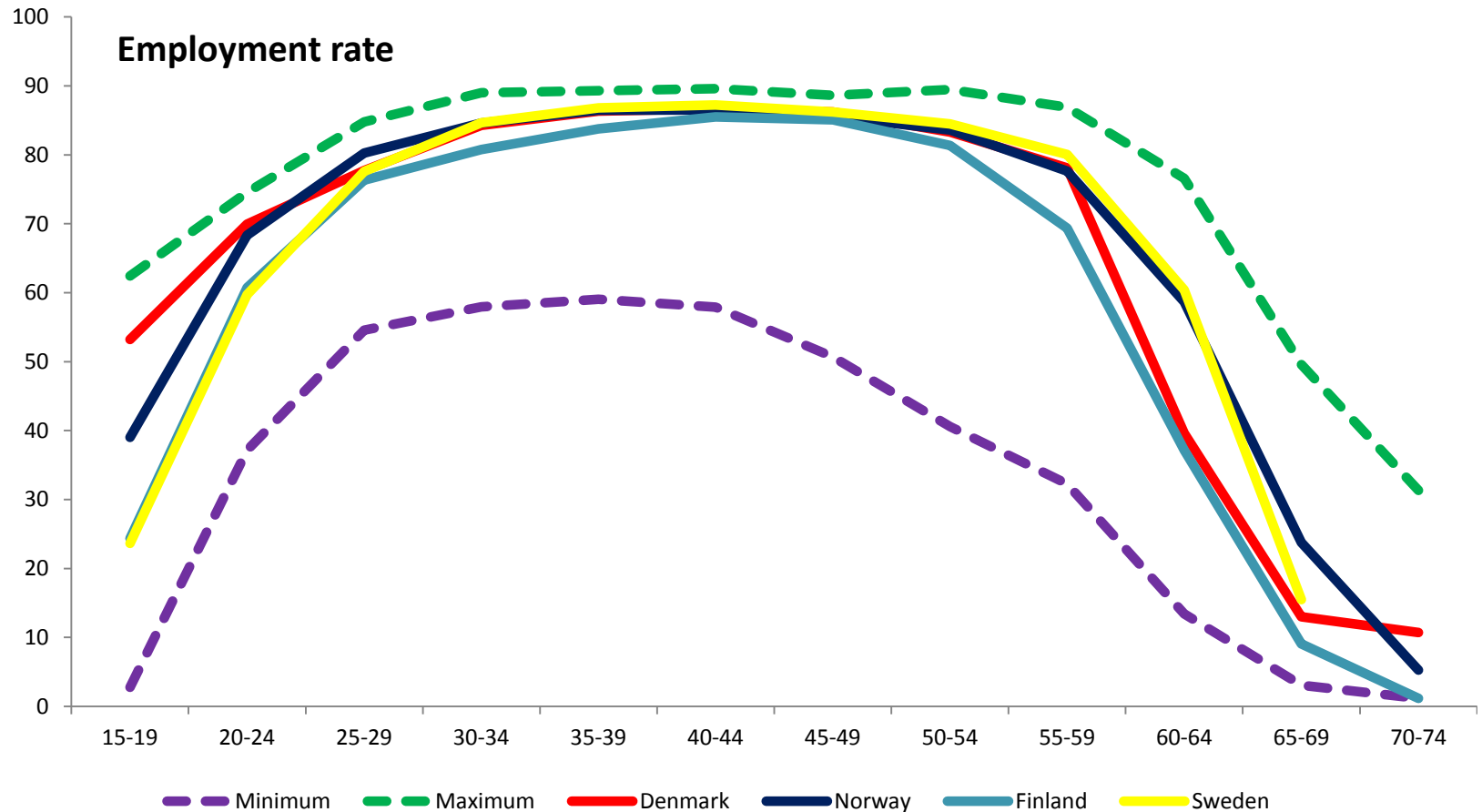
- Extended welfare model
    - Social safety net
    - Provision of welfare services
  - High income, and egalitarian outcome
- One model – four exceptions!
- No unique instruments/policies
  - Many differences in specific policies across the Nordic countries:
    - Unemployment insurance
    - Pensions
    - Tax systems
  - Shared objectives
  - The policy package matters!
  - Simple "copy and paste" discussion is misleading
  - Glue – Political capital
    - Trust
    - Norms and attitudes (but also many checks and balances)

# The model is dependent on a high employment rate



- **High budget sensitivity**
- **Cycle: large budget variations**
- **Medium-run: High employment rate needed to ensure financial viability**

# Employment over the life-cycle

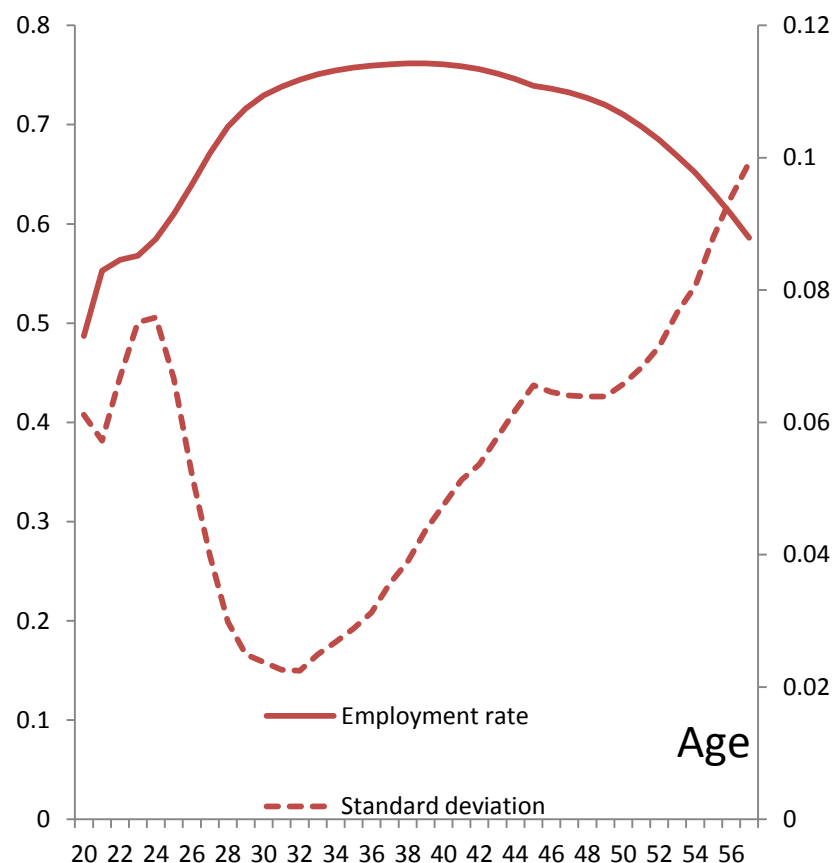


# Employment and age

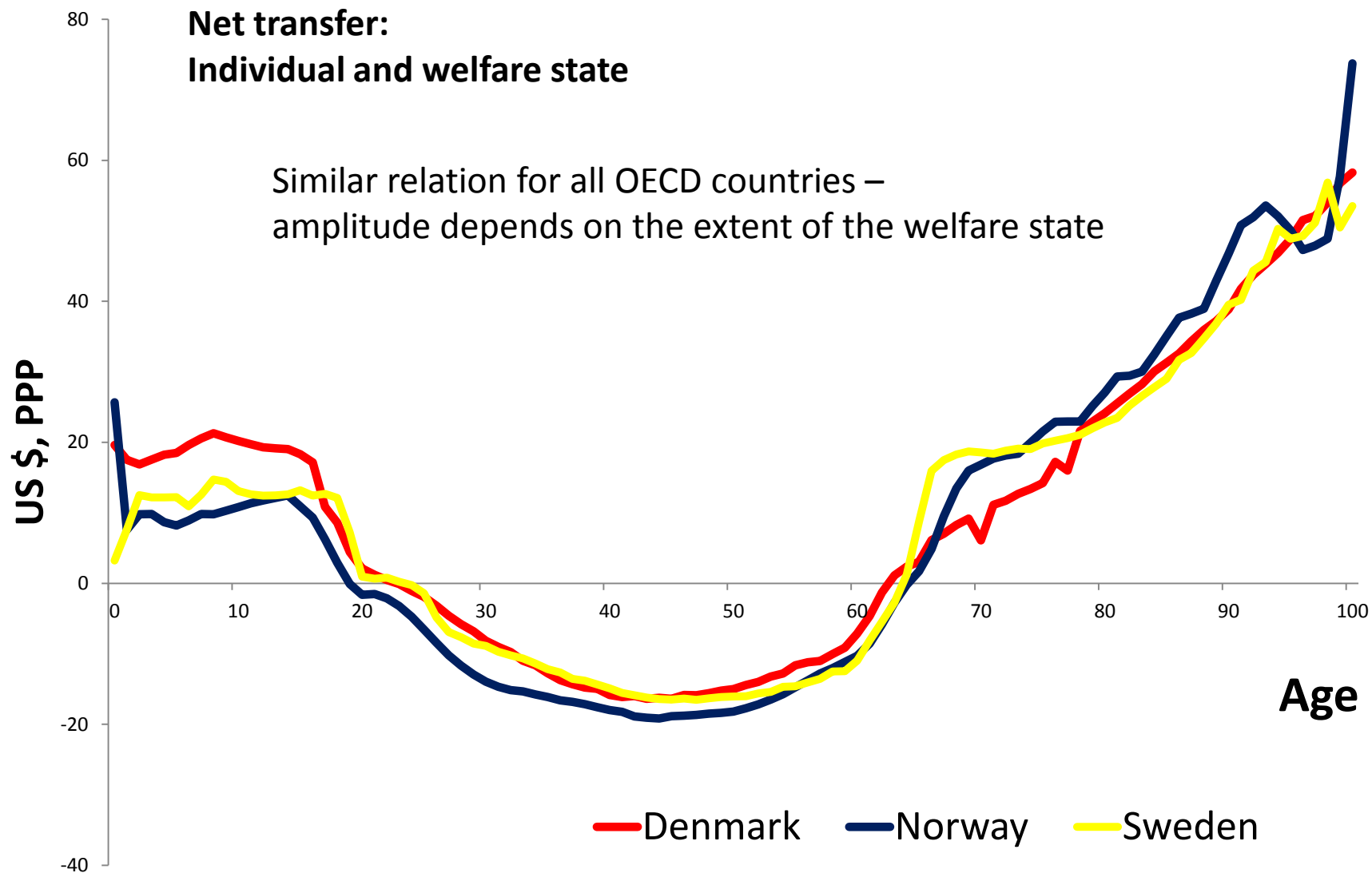
**Men**



**Women**

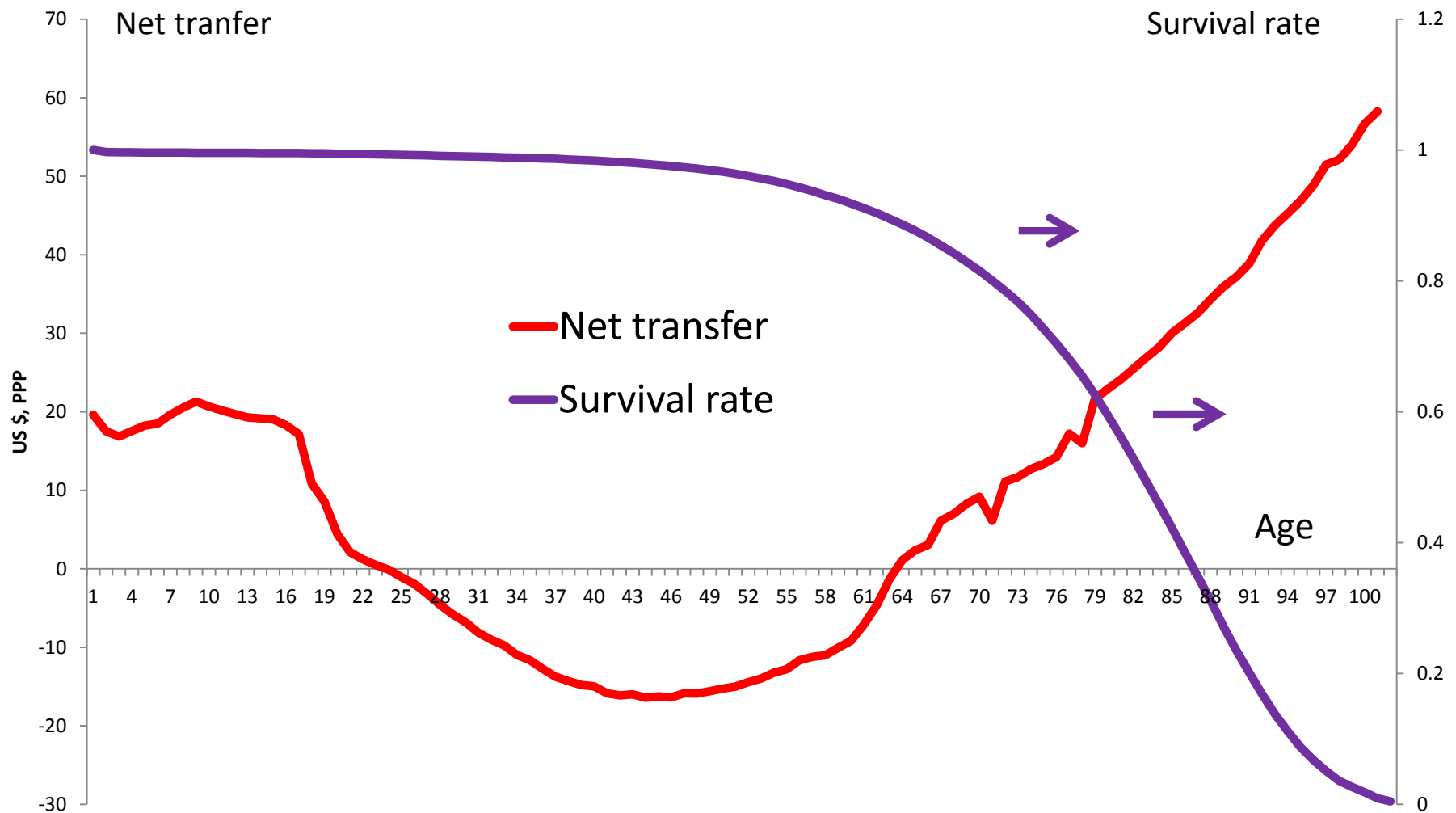


# The social contract



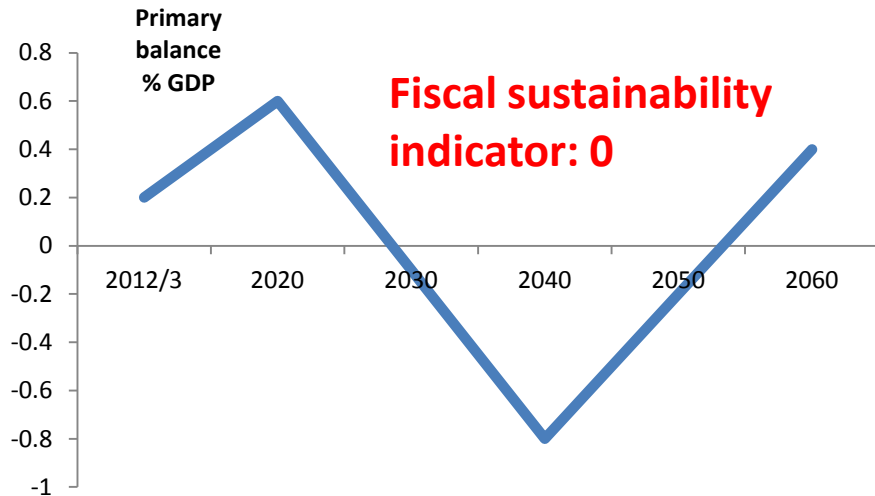
# The challenge – ageing

## The balance of the contract is changing!

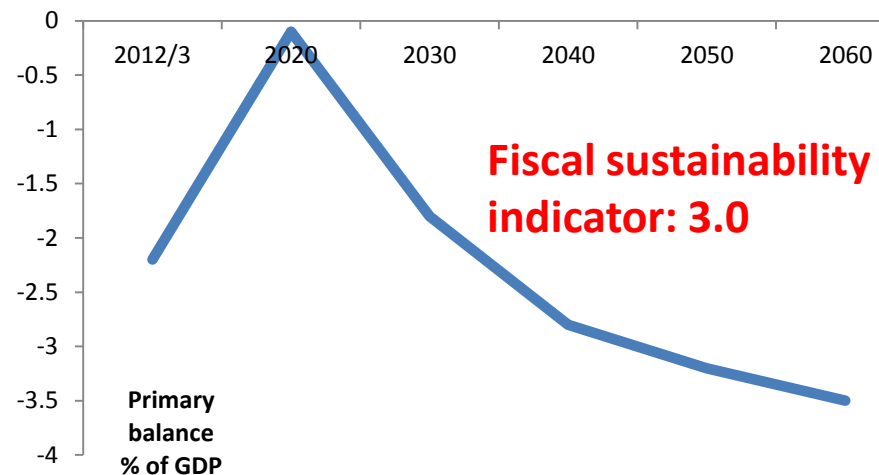


# Public finances and fiscal sustainability

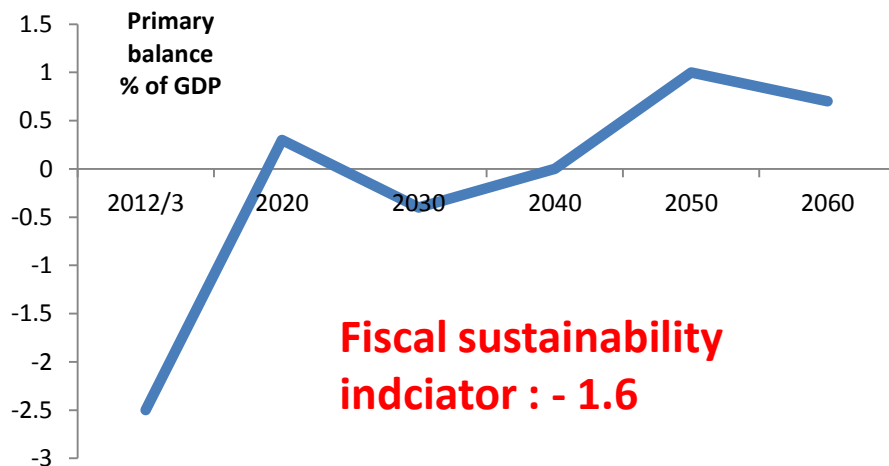
## Denmark



## Finland

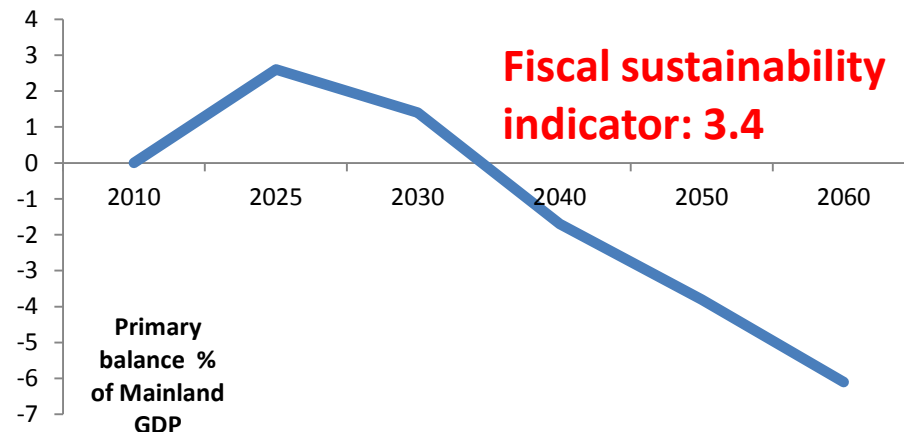


## Sweden



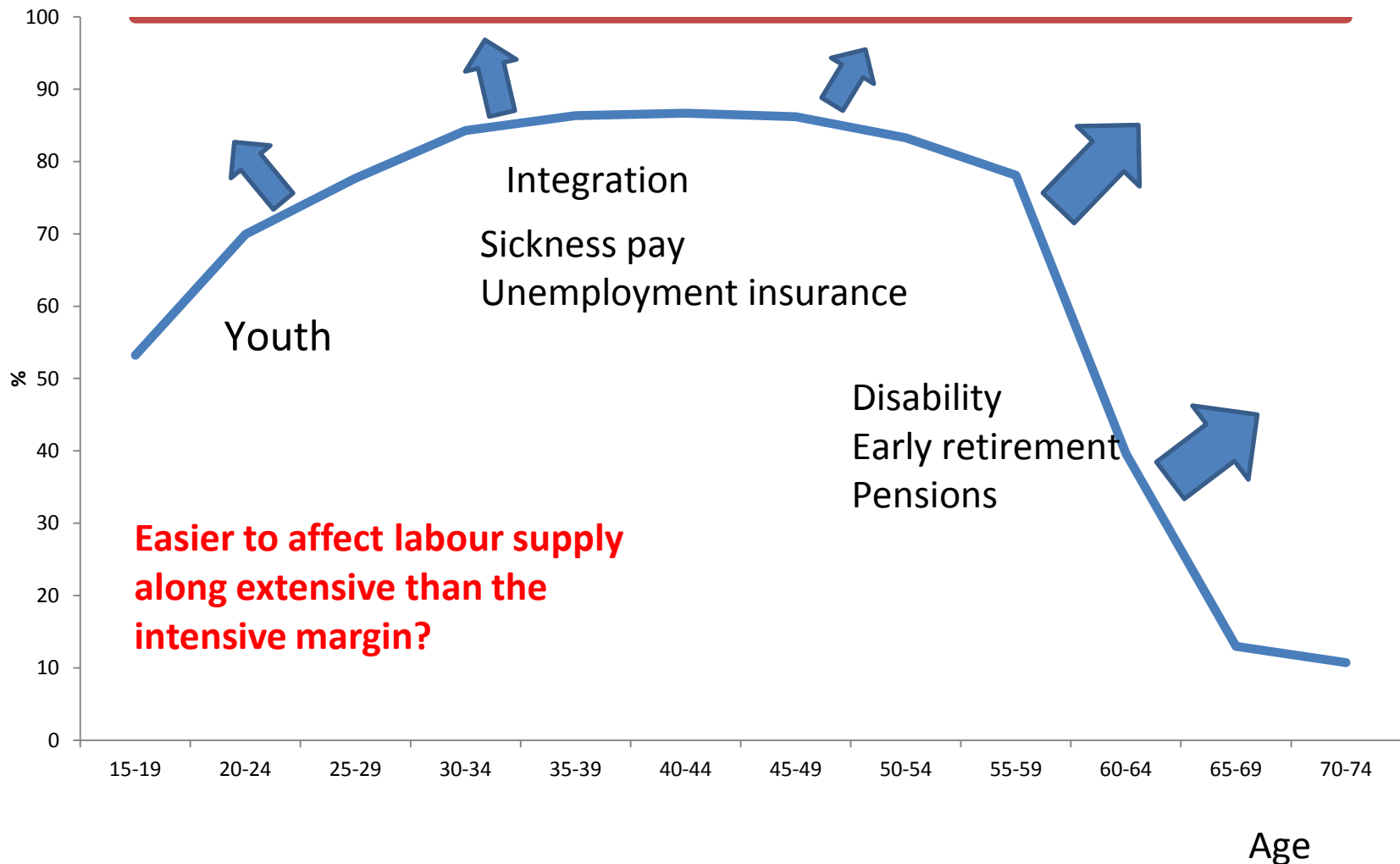
## Norway

Including revenue from pensionfund





# Policy agenda: Labour supply and employment



# A closer look at:

- The design of the social safety net
- Ageing and retirement
- (In)equality

# High taxes and a generous social safety net

## Individual:

- Non-work to work
  - Work: wage – tax
  - Non-work: transfer
  - Gain: wage- METR
  - METR = tax+transfer

\* High METR = incentive problem

## Economy-wide:

- Change in employment:  $\Delta E$ 
  - More tax revenue
  - Less expenditures on transfers
  - Net effect:  $\Delta E \times \text{METR}$

• Short-run: Strong automatic stabilizers

\* Medium-run: Financing requires a high employment level

# Empirical evidence on automatic stabilizers/insurance

- **Cushion individual disposable income - Private alternatives for this type of insurance are highly imperfect and incomplete;**
- **Contribute to stabilization of the aggregate economy via their stabilizing effect on disposable income and hence private consumption and aggregate demand;**
- **Mute the consequences of economic crises on income inequality;**
- **Rule-based inducing an automatic response to a change in the business cycle situation.**

# Entitlements to welfare benefits

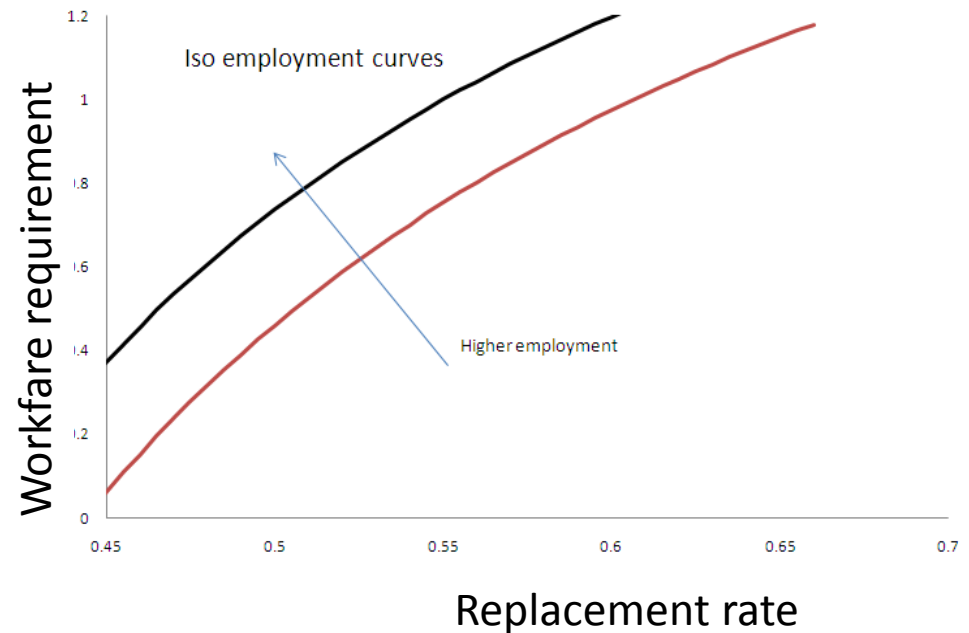
## (Unemployment benefits, social assistance)

- **Conditionalities with a strong employment focus**
  - Availability/job search test
  - Enhance job finding possibilities
  - Overcome qualification barriers
- **Aim to provide income support/insurance, not to subsidize leisure**
- **Active labour market policies. Continuous change in requirements and contents**
  - Business cycle situation
  - Evidence

# Incentives vs distribution

## Standar search model:

- Unemployment benefits distort job search
- Activation strengthens job search
- Improve incentives:
  - Lower benefits
  - Workfare requirements (programme participation)



**A high employment level can be supported despite a generous social safety net**

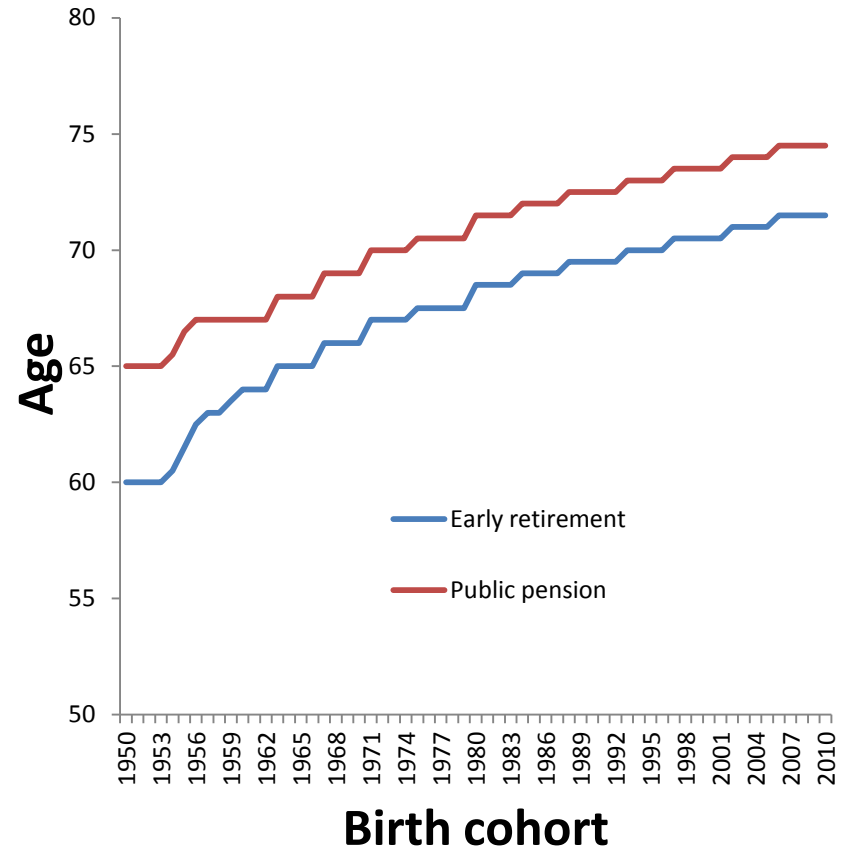
# How to ensure a higher retirement age?

- Increase statutory retirement ages (e.g. link it to life-expectancy at 60)
- Strengthen incentives for later retirement
  - Annuity principle
- Will it work?
  - Tax distortion
  - Preferences
  - Income/wealth

# Denmark

## Denmark:

- Statutory retirement age
- Benefit level independent of cohort specific longevity
- Retirement age linked to longevity
- Younger cohorts higher statutory retirement age

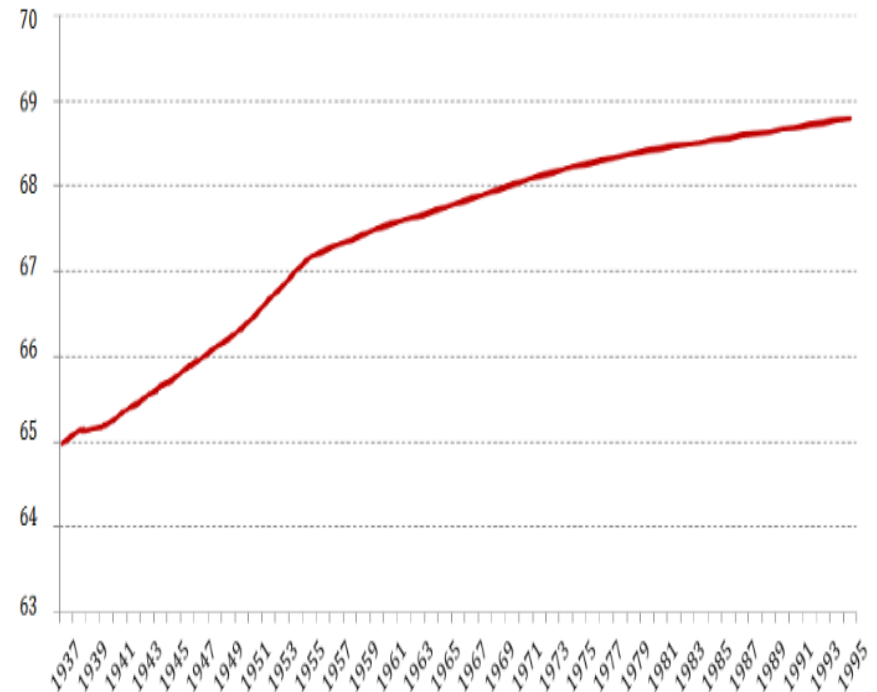




# Sweden

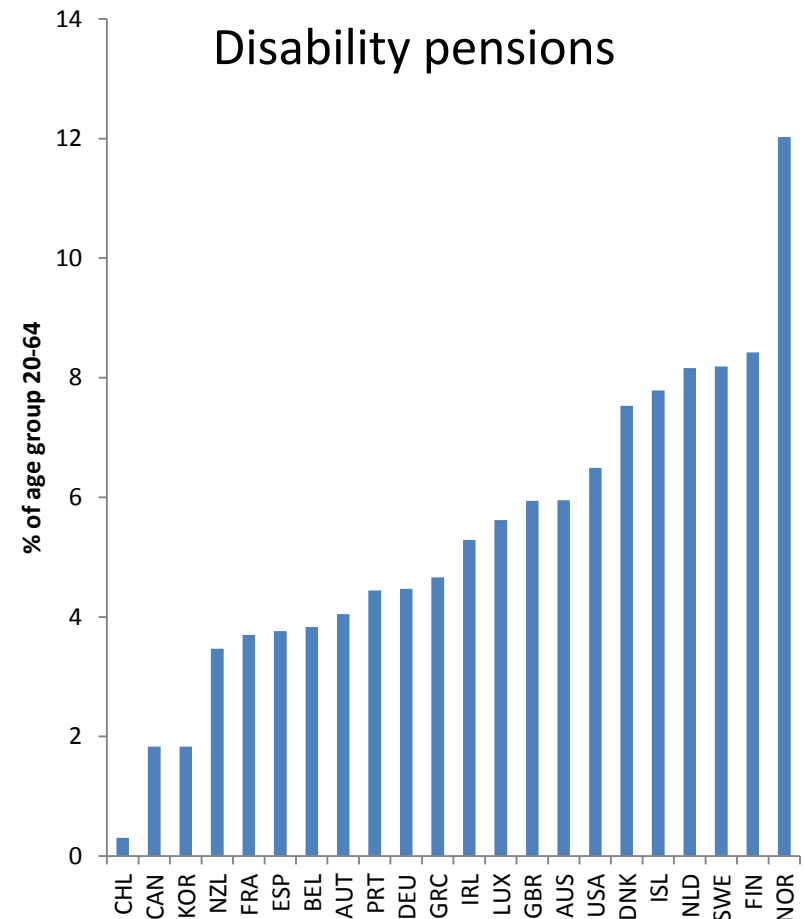
- **Minimum retirement age**
- **Benefit level dependent on cohort specific longevity**
- **Younger cohorts to retirement later to maintain the same replacement rate as older cohorts**

Retirement age to maintain unchanged replacement rate



# Will these strategies work?

- How will people respond?
- Is it realistic with so high retirement ages?
- Disability pensions – from physical to psychological reasons
- Inequality in health: socio-economic gradient is strong– and seems to become even stronger



# Labour market trends: Inequality?

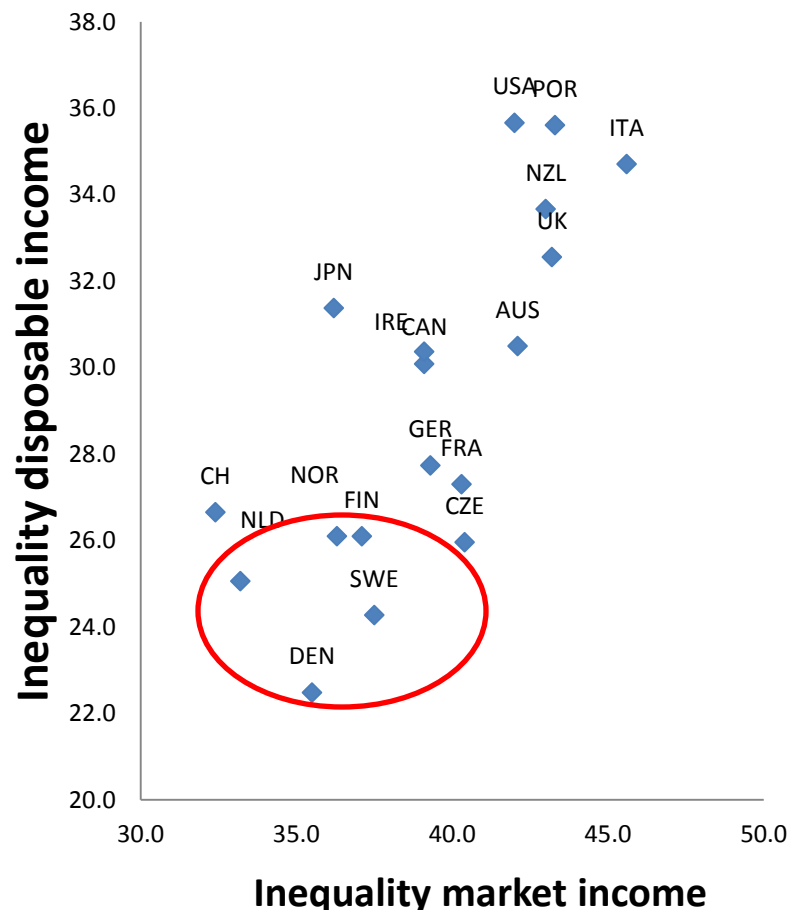
- **Structural:**  
**Technology + globalization**
  - = skill-bias
  - = task-bias
- **Consequences:**
  - Widening wage inequality
  - Declining employment rates
- **Scope for redistribution is constrained**
  - Public finances are under pressure
  - Trade-off between efficiency and equity - more steep trade-off due to globalization, structural changes etc.

# Active vs passive redistribution

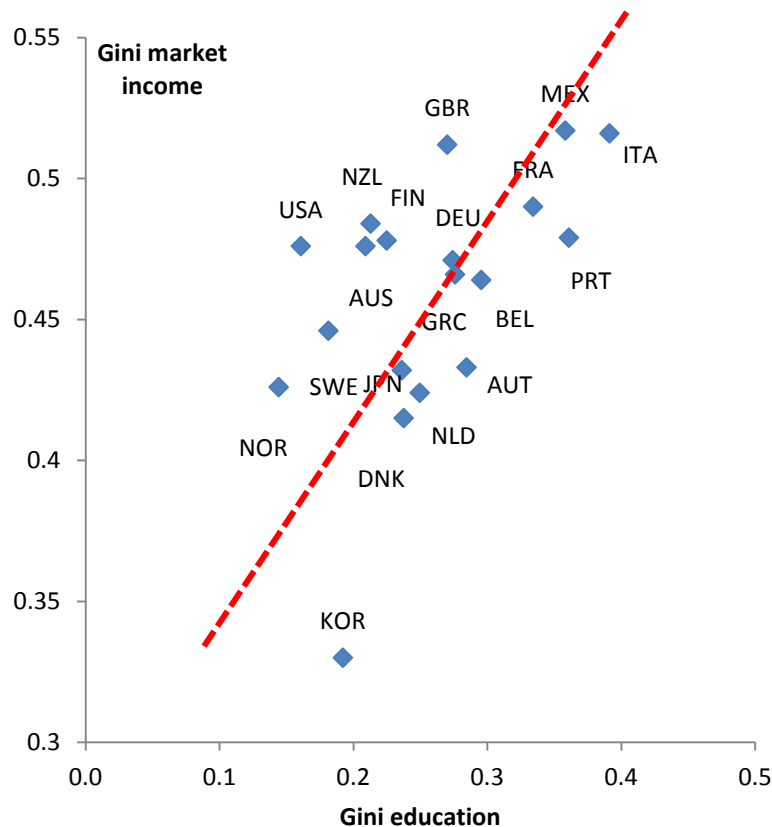
- Taxes and transfers are important

**BUT**

- The basis for equality is created via education and labour market policies



# Education and the labour market



## Micro evidence:

- **Strong educational gradient**

- Employment
- Wage
- Job security
- Retirement
- Health
- Social participation

–  
–

# Active vs passive redistribution policies

- **Redistribution: taxes and social safety net**
- **Passive: Attempts to repair market outcomes (financing requirement, insurance, distortions).**
- **Active: Forming market outcomes via education/qualifications – structural change**

# Is the Nordic model robust?

- **Not a crisis-free model**
- **Model has proven to be resilient**
- **Strong political capital/consensus tradition = reform capacity**