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Caroline de la Porte and Trine Larsen

The Nordic Model: Capable of Responding to the Social Side of Crises and Sustaining Social Investment?

Among scholars and practitioners, Nordic countries are known for their comprehensive welfare states with universal high-quality services and an industrial relations model that fosters competitiveness, high wages and good working conditions. This explains why Nordic solutions are often highlighted as examples for European Union countries, especially in social and labour market policy (de la Porte and Palier, 2022). Yet, the Nordic countries also face short-term crises – like the COVID-19 pandemic, whereby sectors of the labour market were adversely affected – and longer-term challenges such as declining fertility rates – potentially undermining the quality of public welfare services. The key question is whether the Nordics have been able to successfully address these challenges, while maintaining a high level of growth, welfare and labour market integration. This paper examines how Nordic countries responded to challenges posed by the adverse labour market effects of the COVID-19 pandemic, as it stress-tested the welfare states. After that, we discuss whether there is (still) scope for social investment, focusing on early childhood education and care. We then assess whether the Nordic welfare model is resilient and if there are lessons to be learned for other countries in terms of governance and policy (see also de la Porte et al., 2023a).

The Nordic economies and the COVID-19 pandemic

The recent COVID-19 pandemic stress-tested the Nordic model with historical drops in GDP and rising unemployment figures, where many workers lost their jobs or were temporarily laid off. This resulted in rising unemployment in the first two quarters of 2020, as illustrated in Figure 1 (see also Larsen and Ilsøe, 2022).

There was significant variation in the governance of tackling the public health crisis regarding the COVID-19 pan-

demic (Christensen et al., 2023). However, with regards to the response to the loss of income and jobs, the Nordic countries reacted swiftly. This is partly due to the active role of government in close collaboration with social partners. For example, the Finnish government called upon social partners to discuss emergency measures to safeguard jobs during the COVID-19 pandemic at their press conference on 16 March 2020, and the first wave of policy responses was largely based on the joint proposals by Finnish social partners (Finnish government, 2020; STTK, 2020; Larsen and Ilsøe, 2021). Across the Nordics, the relief packages were typically the result of tripartite consultations involving trade unions, employers' associations and national governments and resembled tripartite agreements, echoing the Nordic industrial relations traditions (Greve et al., 2021; Larsen and Ilsøe, 2022; Andersen et al., 2014). There was also broad support for the relief packages in the Nordic parliaments. More specifically, more than 130 relief packages were passed to assist crisis-ridden companies and workers (Larsen and Ilsøe, 2022; Greve et al., 2021). The various policy measures were accompanied by increased social protection spending, notably in labour market policy, especially on unemployment benefits.

Through multiple relief packages, the Nordic countries increased benefit levels, temporarily expanded income protection to groups typically struggling to qualify for support and introducing novel measures (Larsen and Ilsøe, 2022; Trygstad et al., 2023). The eligibility criteria for unemployment benefits, including obligations for job-search and participation in various activation programmes, were temporarily suspended or relaxed in all five Nordic countries, enabling access to income security in case of job loss for a large number of part-time workers, fixed-term workers and other atypical workers (Larsen and Ilsøe, 2021). Specific and often novel measures were also introduced to support freelancers, entrepreneurs, artists and solo self-employed in all five Nordic countries, i.e. groups that are often excluded (Norway) or are only partially (Denmark, Sweden, Finland, Iceland) covered by the "ordinary" income protection systems (Larsen and Ilsøe, 2022; Hedenus and Nergaard, 2020; Hotvedt, 2020; Kolsrud, 2018). To safeguard jobs, the Nordic governments, together with social partners, also broadened the coverage of their temporary lay-off schemes (all five Nordic countries) and introduced novel temporary lay-off schemes (Denmark, Iceland) along with specific measures to keep businesses afloat and to stimulate innovation and employability (Larsen and Ilsøe, 2021; Berglund, 2021; Sip-

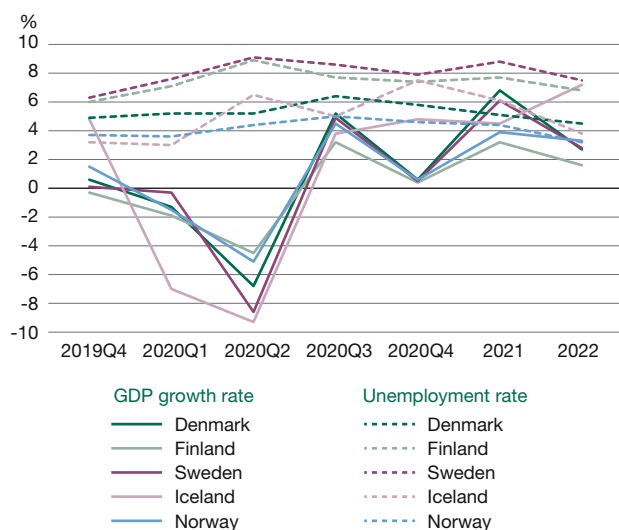
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Figure 1
Real GDP growth and unemployment rate per quarter and annually, volume percentage change (2019Q4-2022)



Source: Eurostat (2021a; 2023a).

polä, 2021; Svalund, 2021). These initiatives embody path-breaking reforms in that they relied on targeted measures to supplement and thus strengthen the income protection system, but in a way that protects the most crisis ridden – but not necessarily the poorest – groups (Larsen and Ilsoe, 2022).

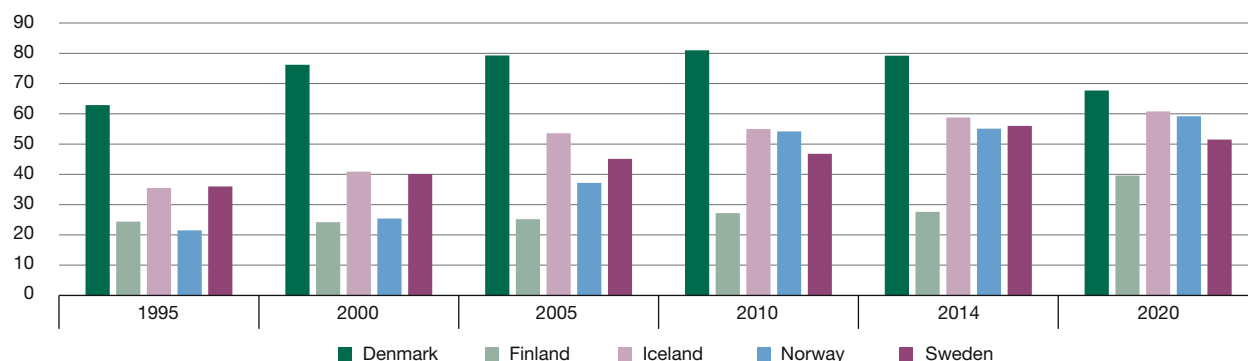
In most Nordic countries, the budgetary effort was considerable; yet it was possible because public finances prior to the COVID-19 pandemic were in balance, with very low levels of public debt overall (except for Finland). As the effect of the pandemic on labour markets started to ease off, the unemployment rate decreased after peaking in the second quarter of 2020. However, the unemployment rate remains higher in Finland and Sweden than before the COVID-19

pandemic, while the unemployment figures for Denmark, Iceland and Norway are slightly lower than in the pre-pandemic years (Figure 1). The social protection spending, including labour market spending, has been curbed between 2020 and 2021 (Eurostat, 2023b). However, this has been without jeopardising the social investment component of Nordic income protection. Active labour market policy spending has been fairly stable over the past decade and remains comparatively high in the Nordic countries, ranging from 1.78% of GDP in Denmark to 0.95% of GDP in Sweden, 0.83% in Finland and 0.42% of GDP in Norway, complementing unemployment benefits (OECD; 2023; Bredgaard and Rasmussen, 2022). The social investment component in Nordic active labour market policies appears fairly resilient, remaining an important instrument to secure a highly skilled workforce in the Nordic countries. Beyond the labour market, it is relevant to investigate what has happened in other areas of social investment. In the following, we explore the developments in early childhood education and care (ECEC) in the Nordics, which is one of the cornerstones of the social investment state (Morgan, 2022).

Early childhood education and care in the Nordics: Still the golden standard?

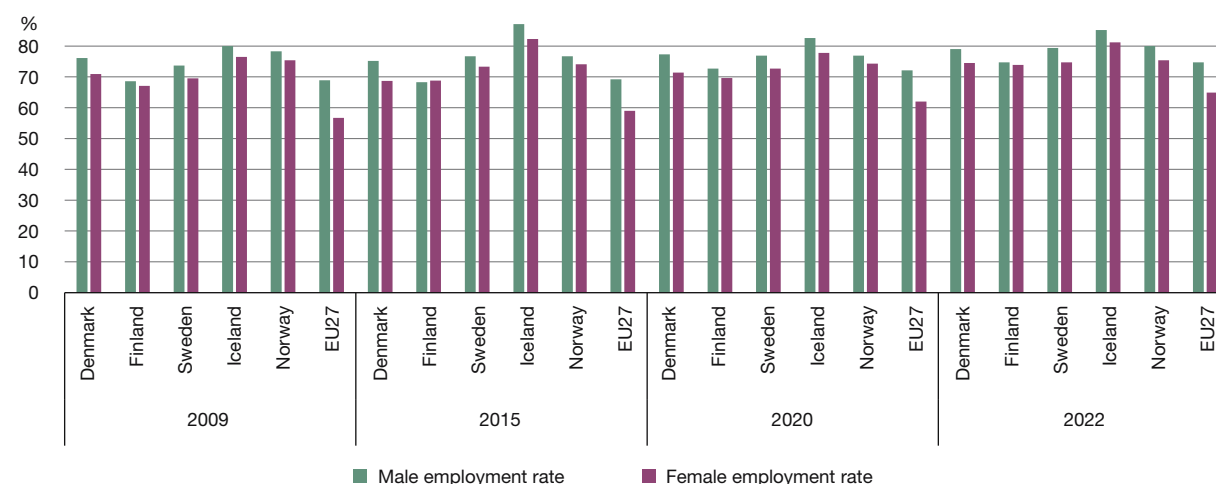
High quality ECEC – for children up to the age of three – enables women and men to participate in the labour market during periods of childrearing while investing in children's ability to learn and to play (Borchorst, 2012; Lundqvist, 2017; Morgan, 2022; Scherer and Pavolini, 2023). ECEC in the Nordic countries is considered a flagship of the social investment state – focusing on skills development throughout the life-course – due to its rights-based universal availability, with guaranteed placement for all children and high quality of integrated care and education services. Furthermore, ECEC is heavily subsidised in the Nordic countries, with a low maximum threshold of parent contribution, making it affordable for

Figure 2
Children aged less than three years attending formal day care in the Nordic countries
 in % of all children in that age group



Source: EU-SILC (2021).

Figure 3

Male and female employment rate (aged 15-64) in the Nordic countries, compared to the EU27 average

Source: Eurostat (2023).

families with differing levels of income. In addition, there are extra reductions for low-income families via means testing. This signifies that ECEC is de facto a universal right across social classes in the Nordic countries. Recent analyses confirm that the use of ECEC is not stratified across social class in the Nordics (Ferragina and Magalini, 2023). Figure 2 shows that the use of ECEC among the Nordics has been increasing steadily during the past two decades. A facilitating feature, which has enabled the wider use of ECEC, is the support of most political parties, as well as key stakeholders, including unions and employers (de la Porte et al., 2023b; Larsen and de la Porte, 2022).

Although ECEC is considered of high quality in the Nordics, ageing populations put pressure on welfare states. This is accentuated during financial crises, where the quality of ECEC is compromised due to cost cutting. This can be seen, for instance, when we look at adult-to-child ratios or class sizes. This development, in turn, leads to mobilisation among grassroots organisations to improve the quality of ECEC. In Denmark, this mobilisation led in 2020 to a decision by the minority social democratic government to have an average staff-to-child ratio of 1:3; while in Sweden, it led in 2016 to a cap on group sizes for small children between the ages of one and three of 6-12 children per group. In both countries, the decisions on the quality of ECEC were made through an inclusive regulatory model, where stakeholder influence is tangible. This example illustrates that incrementalism that characterises the policy process – that is, decisions are made to address challenges as they surface (de la Porte et al., 2023).

ECEC is also aimed at labour market participation. As seen in Figure 3 and confirmed in recent research (Scherer

and Pavolini, 2023), female and male labour market participation rates have consistently been high. The labour market participation of men is marginally higher than that of women, but the differences are small compared to the EU average. Yet, even across the EU, the difference between male and female labour market participation has declined during the past decade. It thus becomes even more relevant for EU member states to implement the Council Recommendation on the European Child Care Guarantee (2021), which calls for universally accessible high ECEC institutions (European Council, 2021). This is particularly important to implement in countries where fertility rates are low – such as in Southern or Eastern Europe – where women delay childbirth sometimes due to the lack of available ECEC (Beaudjouan, 2020).

Lessons to be learned from Nordic policies and policymaking processes

The Nordic model has proven to be both flexible and robust in response to acute crises, such as the COVID-19 pandemic. At the same time, the Nordic welfare model continues to be resilient and to sustain social investment, which has changed incrementally, as illustrated by the case of ECEC.

Regarding the COVID-19 pandemic, the Nordic model demonstrates the advantage of displaying timely due diligence regarding challenges that are addressed early on. This is exemplified by the pandemic-related relief packages. By acting proactively, the fiscal efforts overall are smaller than they would be if implemented later. Furthermore, the citizens' needs are addressed proactively and comprehensively, as illustrated by the example of the Nordic relief packages. The policymaking process was consensus-seeking and inclu-

sive, legitimising the role of the state and covering distinct groups of citizens.

Regarding social investment, the case of ECEC has been broadly supported by political parties ranging from left to right and is supported by employer organisations and unions. ECEC was institutionalised decades ago, and it is an important point of contact between citizens and welfare providers. This, in turn, provides legitimacy to the welfare state, which has a positive connotation for most citizens in the Nordics.

These two examples embody the style of Nordic policymaking, which is often characterised by broad-based coalitions. Yet, it is based on underlying cultural and institutional factors that are not necessarily present in other countries and could take a long time to cultivate. These include a high degree of trust between the citizens and trust in institutions, especially those who are responsible for providing welfare solutions.

Despite this, there are some lessons to be learned. Firstly, the Nordic governments' consensus-seeking policymaking is noteworthy, especially in times of political polarisation. Secondly, inclusive policymaking enhances the legitimacy of decisions, and thereby their potential impact. Third, the focus on social investment is well institutionalised in the Nordic welfare models, as illustrated by the case of ECEC. This is, however, difficult to emulate in countries where rights are stratified rather than universally provided.

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