Jon Erik Dølvik

Welfare as a productive factor

Scandinavian approaches to growth and social policy reform

Fafo

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Preface

This is a revised and updated version of a paper produced for a panel on "National growth strategies and welfare state reform" at 22nd International Conference of Europeanists at Sciences Po, Paris, 8-10 July 2015 (https://ces.confex.com/ces/2015/webprogram/Session4273.html). The panel was part of an international book project with similar title organized by professor Anke Hassel, Hertie School of Governance, Berlin, and professor Bruno Palier, Sciences Po. Gathering a range of international scholars, the project objective is to analyze how the development of national strategies to foster growth and welfare reform varies between countries with different production regimes and social models. In the context of economic tertiarization, digitalization, and globalization, the project examines how national differences in production structure and specialization influence national patterns of welfare and labour reform – and visa-versa – focusing on how such processes are shaped by the institutions and actor coalitions of the national political economies (Hassel & Palier 2015). The results will be published in two comparative books envisaged to come out in 2017-18.

In spite of globalization, EMU, and the rising salience of international finance, a striking feature explored by the project is the variation between European countries as regards the relative importance of domestic demand vs exports in national growth trajectories. While liberal market economies, like the UK and US, tend to rely on domestic consumer demand often fueled by household borrowing, coordinated continental economies, typically Germany, tend to rely more on export growth and restrain domestic demand, whereas several of the small, open European economies with extensive welfare states and egalitarian income distributions, typically the Nordic, have tended to follow growth trajectories where growth in exports and domestic demand are more balanced (Hassel & Palier,2015; Baccaro & Pontusson 2015; Picot, 2015). In the latter cases, private demand has in recent years – as in the UK and US – increasingly been fueled by asset based growth in household debt. Whether their dual-earner households, high private wealth, and extensive social safety nets make the Nordic economies less vulnerable to rising debt than more in-egalitarian economies remains to be seen, but the protracted consequences of bursting bubbles in Denmark, Iceland, and the Netherlands under the financial crisis warn against complacency.

Drawing on an earlier article "The Nordic Social Models in Turbulent Times: Consolidation and Flexible Adaptation" (2015, co-authored with Jørgen Goul Andersen and Juhana Vartiainen), this paper reviews the main adjustments of the Nordic models over the turbulent past quarter of a century, focusing especially on the cross-class producer coalitions that have used to shoulder crises and major adjustments in the past. Faced with the challenges of ageing and more heterogeneous populations, rising inequality, increased low wage competition, the much heralded fourth industrial revolution, the unfolding refugee crisis, and the restructuring towards a low-emission economy, the looming question is of course whether the Nordic societies can still muster coalitions of political and organized actors with capacity to steer a viable course through the rugged waters ahead.

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Oslo 2.2.2016

Jon Erik Dølvik

1. Introduction and overview

As strong unitary states with small, open economies, universalized social security, and powerful business and labour organizations, the Scandinavian political economies have been characterized as a Social Democratic or mixed type of coordinated capitalism (Esping-Andersen 1990, Pontusson 2009). Due to high taxes, expensive labour, and strong worker and social rights, the Scandinavian model has over and again been doomed incompatible with the exigencies of economic globalization and tertiarization of work. Still, since the postwar Keynesian-welfare state and Fordist mass production was declared bygone long ago, the Scandinavian economies have shown solid growth and remarkable adjustment capacity (Katzenstein 1985). With highly diverse industrial bases and specializations, they have also reconciled efficiency and equity better than most other capitalist market economies (Dølvik, Goul Andersen & Vartiainen 2015). However, structural change in production, labour markets and economic governance over the past decades have spurred shifts in the configuration of actor coalitions and power relations that may call the future adjustment capacity of the Scandinavian models into question.

This article traces the trajectory of adjustment in Scandinavian countries since their deep crises in the early 1990s, giving special attention to the political and cross-class producer coalitions that have shaped Scandinavian approaches to growth and welfare. [1] Section 2 presents the analytical perspective and main line of the argument. Section 3 sketches the background and key traits of the traditional Scandinavian models, pointing also to features of political coalescing where Finland and Iceland deviate. Section 4 analyses the economic and political dynamics of change in Scandinavian approaches in the wake of the 1990s crises, when Social Democracy to many's surprise came back in power. Section 5 discusses the impact of subsequent political shifts and the extension of the labour market in the 2000s. Section 6 reviews the diverging Scandinavian developments and responses in the aftermath of the 2008 financial crisis. Section 7 concludes.

[1] The emphasis is on Denmark, Sweden and Norway while references to Finland and Iceland are mainly included to highlight distinctions of these countries.

2. Analytical perspectives, main arguments, and overview

In line with theories of power resource mobilization (Korpi 1983) and the counter-movement of the «Great Transformation» (Polanyi 1944), the postwar evolution of the Scandinavian models was enabled by encompassing class-compromises struck during «critical junctures» of rising labour power and class conflict culminating during the 1930's Great Depression. As products of crises, the «conflict partnerships» that evolved through interplay between cross-class coalitions in export manufacturing, strong states, and alliances between the labour and peasant movements, contributed to institutionalization of power-balances and mechanisms for coordination of wage setting, economic, and social policies that eventually proved conducive to combining economic growth and social justice during the industrial postwar era (Dølvik 2013).

Rather than being rendered obsolete by subsequent periods of deindustrialization and market-liberal globalization, a central argument of this paper is that the specific Scandinavian pattern of welfare institutions, services job creation, skill formation, and labour market governance that emanated from this formative periode, turned out to entail comparative «early mover» advantages in the passage towards the post-industrial, knowledge economy. These institutional advantages (Hall & Soskice 2001) have not only proven an asset viewed from the functionalist, economic perspective of key producer coalitions (Streeck 2012) – or from a «risk-pooling» (Barth et al. 2003) and «social investment» view (Kvist 2013; Morel et al. 2012); they have also tended to regenerate patterns of interest formation that have sustained political support for the Scandinavian models (Ervasti et al., Andersen Ringdal 2012; Svallfors 2014), engendering a kind of institutional «self-insurance».[2]

A sometimes overlooked element of these dynamics has been the overlap – and interdependence – of interests between the growing numbers of public services producers and citizen users (*inter alia* voters), which have become important constituencies for main political parties and trade unions (Martin & Swank 2007). Constituting a broad support base for the welfare state, such dynamics have contributed to maintaining the public pillar of Scandinavian labour market tertiarization. By providing decent jobs, public employment accounting for almost 1/3 of all Scandinavian jobs and 2/3 of female jobs has served as a floor under competition in the labour market and did for long, together with the high «social wage», effectively close off the avenue for low-paid service job expansion seen in many other countries (Dølvik 2001). As a major vehicle for female education, participation, reconciliation of work and family life, and development of infrastructure suited to the needs of advanced, digitalized service economies, the role played by public sector in Scandinavian tertiarization fits well into historical-institutionalist accounts of path-dependency.

That applies also to the cross-class manufacturing coalition at the root of Scandinavian political economies. After losing ground in the 1980s, its resurrection in the 1990s and the ensuing re-balancing between the expanding public welfare complex and the shrinking manufacturing coalition would hardly have happened without the severe crisis into which the economies fell in the 1980-90s and the organizational realignments through which the manufacturing coalition could re-establish its leadership in wage coordination and social partner politics. In other words, the seemingly path-dependent traits of Scandinavian adjustment in the 1990s emanated from economic upheaval and clever strategies of coalition-building and power resource mobilization by core producer groups in the private sector.

A second argument pursued in the paper is that the external constraints associated with global market liberalization in the 1980s-90s turned out to serve as a «rescue» for these institutional regimes – a «vincolo esterno» (Dyson & Featherstone 1996) – disciplining governments and strategic producer groups to rein

[2] Thanks to Gudmund Hernes for clarifying this mechanism (see Elgvin & Hernes 2014).

in the excessively expansionary policies and economic imbalances that had built up in the 1970-80s. In the context of vanishing Social Democratic hegemony, the deregulation of credit markets, macro-economic coordination failures, and rising public expenditure had propelled huge bubbles followed by capital flight and severe financial, economic crises in Finland, Norway, and Sweden at the eve of the 1990s – and in Denmark a decade earlier, for somewhat different reasons. Prompting key political and collective actors to press through forceful adjustments in economic-, wage-, and social policies, it can be argued that the Scandinavian countries benefitted from another «early mover» advantage as politicians were still able to muster support for comprehensive reforms from traditional actor coalitions and voter groups, and – prior to the EMU convergence process – invoke monetary policy tools (i.e. devaluations) to kick-start export-growth and recovery, enabling swift consolidation of public finances. Especially in Finland and Sweden, the recovery came together with significant, ICT-related re-industrialization and growing «high-tech» export production and services (Erixon 2011; Thelen 2015) .

In parallel, the uncertain outcomes of the referenda over EU membership – and for Denmark, the Maastricht Treaty[3] – provided organized labour and allied forces legitimacy and clout in negotiating counterbalancing measures to safeguard the labour and welfare model – and, in Sweden and Denmark, to oppose entrance into the EMU.[4] Conversely, a central premise for the fragile national compromises over EU/EEA membership was that the labour movement, influenced by the export manufacturing coalition, accepted the deregulation of product and factor markets associated with entry into the single market, eventually contributing to industrial restructuring and increased productivity.

Although strong political and employer forces initially pushed for more radical neo-liberal reform agendas, the argument is thus that the timing and sequence of these «critical junctures» in the 1990s enabled mobilization of countervailing coalitions of labour and center-left forces that were still strong enough to influence successive reform compromises. This paved the way for a return to the virtue of provident macro-economic policies and coordinated wage setting that had marked the build-up of the Scandinavian models. As a whole this led to adjustment trajectories that combined preservation of the social models' main institutional tenets with re-balancing of macro-economic policies and wage setting, liberalization of product markets, tax and pension reforms, and re-orientation of social policies towards work, activation and investment in education, training, and social infrastructure. This reform agenda was evidently not the result of a strategic master plan hammered out in one «grand bargain» but emanated from a sequence in which successive liberal-conservative and social democratic led governments were in charge during different stages of the adjustment processes when compromises were struck in different and often separated policy areas in parallel with the ongoing struggles over EU-membership. The urgency of government action in critical phases of the crises – commonly requiring consent from central opposition parties – implied that many key economic measures were adopted through settlements across main party lines.[5] This also pertained to the longer term turn towards New Keynesian economic policies (Mjøset 2011; Erixon 2011), whereas some of the changes in labour market and social policies were more contested within the labour movement. The overall direction of this chain of incremental, piecemal reforms was thus shaped by shifts in the balance of power in politics and the relative influence of different coalitions of producer interests, at the same time as the dominant mainstream parties acknowledged the

[3] After the Danish rejection of the Maastricht Treaty leading to the Edinburgh Agreement in 1993, allowing the Danes a series of opt-outs (e.g. of EMU), the order of the 1994 referenda in Finland, Sweden and Norway aimed to spur contagion effects enabling uniform relationships to the EU, but the Norwegian LO and eventually the electorate narrowly rejected membership regardless of the Swedish and Finnish outcomes.
[4] Afonso (2011, 2015) describes how similar mechanisms enabled organized labour to forge coalitions in support of labour market re-regulation as condition for supporting the Swiss agreements with EU regarding free movement of labour and services.
[5] For an account on the Swedish case, see Steinmo (2013).

need to assure that the national models were not endangered and keep organized labour on board in order to win the EU referenda.

Hence, the resultant path of adjustment in the 1990s was product of a prolonged sequence of negotiations across and within the political blocks and main producer coalitions, where the initiative and power-relations shifted over time and across issues. Rather than merely a product of broad consensus or a one-off bargain within a static, institutionalized equilibrium of power-relations, the adjustment trajectories that evolved can be interpreted as the outcome of contingent processes of contestation, bargaining, and compromise between opposed political and actor coalitions. Their leverage varied with their respective control over power resources, votes, and levers of veto and exchange power that was pivotal in the different phases and issues at stake. As such, what can appear as a straightforward example of historical-institutionalist pathdependency was shaped through successive conflicts and power struggles between competing and, sometimes cross-cutting, political and actor coalitions. While the resultant path of adjustment,[6] in comparative perspective, was conditioned by the strength of organized labour, it was decisively influenced by voter responses in elections that brought the Social Democrats back in office after Liberal-Conservative governments had preceded over the initial phase of crises response.

Consequently, this paved the way for a trajectory where return to the virtue of provident macro-economic policies and wage setting that had marked the build-up of the Scandinavian models,[7] and revival of the old work-line in social policy through stronger emphasis on education, activation, upskilling, and social investment. Combined with entrance into the single market, supply side liberalization of the economies, and rising international demand, this approach turned out to propel remarkable recoveries and a new period of Social Democratic led governments. The Center-Right parties eventually realized that they couldn't win elections by frontal, systemic critique, and chose to embrace the Scandinavian (welfare) model, bringing them back in office during the boom in the 2000s. A longer term effect was that the Scandinavians, riding the wave of economic globalization and European market integration, could enter the 2008 financial crisis with robust public finances, positive current accounts, and largely flourishing business sectors. In the new millennium, changes in voter behaviour and the pattern of party competition have brought increasing swings and volatility in Scandinavian politics. With the main parties moving towards the centre, mushroooming green parties, and rising welfare-chauvinist parties on the right, the building of governable majority coalitions has proven increasingly difficult. Hence, after a period of prolonged Conservative-liberal coalitions in the 00s – most pronouncedly in Denmark and Sweden – instability has grown in the wake of the financial crisis, in several instances spurring fast shifts between (minority) coalitions of Red-green parties and Conservative-liberal parties reliant on support from the populist right.

The first generation of moderate Center-right governments did not bring much transformative change. Benefitting from previous consolidation and the 1990s' revitalized macro-coordination, the pre-crisis' flourishing economies were fuelled by tax reliefs. Under the radar, however, the rise in inequalities commencing in the 1990s continued; and when the crisis burst the impact of previous changes in taxes, transfer and credit policies came to the fore, illustrating that the distributive and efficiency dimensions of capitalist coordination should not be conflated (Thelen 2012). In parallel, the Eastward EU enlargement

[6] Distinguishing between three prototypical paths of "liberalization", i.e. Anglo-Saxon "deregulation", Continental "dualization", and Scandinavian "embedded flexibilization", Thelen (2012) suggests that the varieties of adjustment can be explained by differences in the evolution of political and producer coalitions in particular.

[7] In this view, the core Scandinavian countries begun deviating from their legacy of prudence during the 1970s (Hibbs & Locking 2000), leading to huge repercussions, volatility, political instability, and futile rectification efforts in the 1980s. More Leftist accounts, by contrast, highlight the 1970s as the peak era of the classic Scandinavian models and associate their "sin-fall" with the deregulation of the 1980s (see e.g. Bieler & Lindberg 2008).

brought rising influx of cheap labour, entailing new challenges to the Scandinavian labour-cum-welfare regimes. The effects of these dynamics were reinforced by the Great Recession, which affected the Scandinavians very differently. Whereas Sweden and Norway – until the oil-price dived – boasted significant growth in GDP and employment through the crisis, Denmark and Iceland suffered from severe bubble bursts. Finland, tied to the euro, was hit by structural crises in her ICT/Nokia cluster and paper industry, eventually magnified by European-style austerity policies, and was by fall 2015 still struggling with recession and high unemployment, prompting the new governing coalition to launch a radical agenda for austerity and structural reform. Finally, the European refugee crisis, bringing the Swedish system for reception of asylum seekers to collapse, has subjected the political and social cohesion of the Scandinavia to a severe test. Shaken by this sequence of economic and demographic shocks, the question is whether political and cross-class coalitions of the kind shouldering Scandinavian crisis in the past can still be invoked and prove able to negotiate reform strategies suited to handle the challenges presently arising without undoing the model.

3. Varieties and commonalities of Scandinavian capitalism

Although the Scandinavian countries are sometimes seen as a homogeneous bloc, they have followed different paths of evolution. While Sweden and Denmark have a long history of rivalry and hegemonic aspirations in Northern Europe, Norway gained independence first in 1905 (from Sweden), Finland in 1917 (from Russia), and Iceland in 1944 (from Denmark). Originating from these ties of dominance and subordination, the small Scandinavian states share a common history of interdependence, exchange, and mutual learning. During the upheavals of industrialization, nation-building, and introduction of parliamentarianism and universal suffrage on the eve of the 20th century, the rising labour movements propelled sweeping changes in national industrial relations, politics and party coalescing. Centrist and even Conservative parties felt compelled to engage in social and labour reform.

In the 1930s, large scale conflicts during the Great Depression culminated in broad class compromises. Settlements between the labour and peasant parties initiated a long-lasting era of Social Democratic led governments in Denmark, Norway, and Sweden, at the same time as organized labour and capital entered basic agreements, eventually followed up in Finland in the aftermath of WWII.[8] In quite different political and economic contexts, these transformative events paved the way for establishment of the encompassing systems of social protection, bargaining coordination and tripartite concertation distinguishing the Scandinavian models in the post-war era.

Economically, the Scandinavian countries have followed different paths (Mjøset ed. 2011; Dølvik, Andersen & Vartiainen 2015). Today, Denmark is distinguished by a strong food-industrial complex, pharmaceutical industry, shipping, renewable energy and energy-saving products, numerous "high tech" niche products, and has also become the only EU net exporter of oil. Sweden is renowned for its multinational companies in transport vehicles, machinery, paper, pharmaceutics, and ICT-related production and services. Finland was long dependent on forest industries but eventually became an international player in electronics and other advanced high-skill industries, until both legs recently run into structural crisis. Akin to Iceland's rich fisheries and industries built on hydro-electric power and rising tourism, Norway still relies on exports based on natural resources and cheap hydro-power, fisheries, and shipping, but has become a leading supplier of aqua-cultural products and fossil energy based on an advanced, internationalized offshore industry. Given the diverse national industry structures and dominant sectors, a distinct Scandinavian pattern of production regimes and growth strategies is hardly discernible. On a higher level of generalization, however, the particular Scandinavian combination of strong reliance on exports – traditionally in manufacturing and increasingly in advanced services – and high levels of domestic consumption facilitated by redistribution of income and demand via public sector, dual-earner households, and egalitarian, high wages, recently also supported by wealth-based private borrowing, can perhaps be viewed as a growth model distinguishing the Scandinavians from other export-reliant, coordinated economies as well as from liberal market economies mainly driven by domestic private consumption (Hassel & Palier 2015; Baccaro & Pontusson 2015).

Scandinavian variety is also found in politics. While Denmark has a tradition of minority coalition governments and compromises across the Left–Right divide, Sweden was for long periods of the twentieth century distinguished by its hegemonic Social Democratic party and more polarized class politics. Also in Norway, the Labour Party long had a dominant role, but recent decades have seen shifting coalitions. Finland and Iceland, by contrast, have been marked by predominant Centrist parties rooted in the primary sectors, smaller Social Democratic parties, significant Communist/Left parties, and highly

[8] In Iceland resembling arrangements were established through law in the late 1930s, but collective bargaining has tended to be more fragmented and volatile than in the other countries (Òlafsdottir & Òlafsson 2014).

variable coalitions. When entering the 1990s, Denmark, Finland, and Norway were all governed by Conservative-led coalitions, followed by Sweden in 1991 and Iceland, but in the early–mid-1990s the Social Democrats returned in office in all countries but Iceland.

After Denmark since 1972 had been the only Scandinavian member of the EC, in 1989 the EFTA-countries—Finland, Sweden, Norway, and Iceland —initiated a cautious adjustment to the EC along the EEA-track (European Economic Area). The economic meltdown in Sweden in 1990 spurred a swift application for EC membership, and Finland and Norway followed suit. Finland and Sweden became EU members in 1995, Finland also joining the Eurozone from day one. Norway and Iceland entered the single market through the EEA agreement in 1994 (excepting agriculture and fisheries). All five countries have thus largely faced the same international economic opportunities and constraints, except for monetary policies.

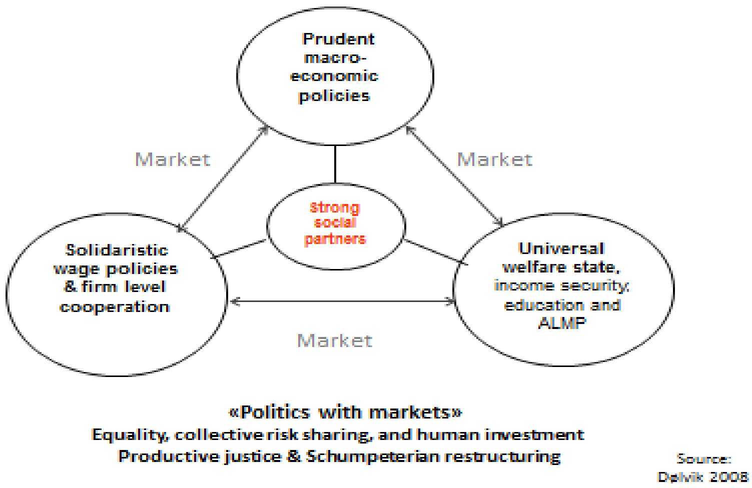
Traditional Scandinavian approaches to growth and welfare

In Scandinavia, like in most West-European countries, the postwar buildup of the national social models culminated in the mid-1970s. Built on a legacy of prudent economic policies and fixed exchange rates within the Bretton Woods-system, the traditional Scandinavian models were distinguished by their tax-funded universal welfare states and encompassing peak associations overseeing multilevel bargaining systems with strong company tiers, forceful dispute settlement mechanisms and strict peace duties between bargaining rounds. Vast investment in education, public services, and ALMPs contributed to rising participation rates for both sexes. The share of the labour force with higher education continued to double throughout the 1980s (Dolton et al. 2009). Denmark stood out with an apprentice-based vocational training system organized together with the social partners (Nelson 2012), while the others run school-based systems and Norway a mixed system (Hagen Tønder & Nyen 2014).

Fiscal policies in the postwar period aimed to secure balanced budgets in the medium term. Cyclical stabilization was underpinned by politically controlled credit policies and state banks[9] where low interest rates aimed to boost investment and growth rates in the export-dependent Scandinavian economies (Erixon 2011). Being less Keynesian than often believed, and, in the postwar era of scarce factor supply, viewing inflation as the main enemy, the Scandinavian growth strategies entailed strong Schumpeterian, supply-side elements aiming to spur enterprise restructuring and productivity (Vartiainen 2011a) alongside active public policies to mobilize labour and skills (Dølvik 2013).

[9] Hence, the term "credit socialism" has been used, especially in the Norwegian case (Mjøset et al. 1986).

Figure 1 The traditional Scandinavian model in small, open economies



In view of recent characterizations of Sweden as a prototypical case of permanent austerity – or "consolidation state" (Streeck 2012) – it is noteworthy that economic providence and stabilization in the traditional Scandinavian models was regarded crucial to stimulate productivity-enhancing restructuring and growth (Hibbs & Locking 2000). Moderate, uniform wage increases and compressed wages shaped by centrally coordinated bargaining rounds were seen as a key prerequisite for this growth strategy to work.

According to the Swedish Rehn Meidner strategy (LO 1953), the interaction between product market competition, solidaristic wage setting, and the welfare state was a major driver of restructuring. High wage floors and uniform pay increases forced unprofitable firms out of business and reallocated labour into the most productive firms and sectors, while income security and mobility-enhancing labour market policies assured unions of the benefits of productivity-oriented cooperation at the company level—a prime example of "politics with markets" (Dølvik 2008). The welfare state was thus seen as a productive arrangement. Social investment in child-care, higher education for free, and expanding public welfare services spurred female entry into the labour market and facilitated early transition to the post-industrial society without emergence of a low-wage sector.

The backbone of this growth model was the strong cross-class coalition of business and labour in export-oriented manufacturing (Moene & Wallerstein 1995; Barth, Moene & Wallerstein 2003). As an "alliance of ends" – the upper and lower parts of the income distribution – the shared aim of securing international competitiveness was achieved by squeezing the middle classes (ibid.). Irrespective of government color and industrial structure this coalition enjoyed firm support from the state, acknowledging the need to maintain balanced current accounts in the trade-dependent Scandinavian economies. Supported by growing industrialization and welfare expansion, organized labour's mobilization of power resources and political alliances with primary sector parties enabled voter support for enduring periods of Social Democratic governments. In Finland and Iceland, coalitions headed by dominant Centrist parties largely followed a similar course, sometimes referred to as Social Democracy without Social Democrats (Elgvin & Hernes 2014) – highlighting the role of organized labour and capital in shaping the Scandinavian political economies.

In spite of these common traits, the Scandinavian countries developed quite diverse institutional means and policy tools to pursue the tasks outlined above. Public social security arrangements often emanated from collective bargaining or occupational funds, and labour market based welfare still plays a prominent role in Denmark, Finland and Iceland in particular (Dølvik et al. 2015b). In Denmark, statutory employment protection has been considered an anomaly endangering the social partners' bargaining autonomy, whereas the bargaining systems have been underpinned by extensive legislation of workers' rights in the other countries. In contrast to most other European states, none of the Scandinavian states have statutory minimum wages, but in the 1970-80s Finland and established mechanisms for extension of collective agreements, followed by Norway prior to the opening for free movement in 1994. In Denmark and Sweden such mechanisms have been considered inappropriate.

4. From bust to boom: Consolidation and renewal in the 1990s

Adjusting the models in the wake of the 1990s crises

When entering the 1980s, the hegemonic era of Scandinavian Social Democracy came to an end at the same time as the international tide of market liberalization and rising fiscal and current account imbalances prompted economic volatility and political strife. When eventually Finland, Sweden and Norway fell into severe crisis around 1990 the viability of the Scandinavian models was called into question. However, the causes lay elsewhere. Faced with the credit market deregulation of the 1980s, a common feature was the breakdown of coordination between macroeconomic policies and collective bargaining alongside an inability to restrain the credit-induced boom with restrictive fiscal policy. With demand-driven wage-price spirals, devaluations, and eventually huge bank and housing bubbles, the pace-setting role of the export sectors in wage-setting came under pressure from inter-union struggles over relative wages. Towards the end of the decade, a doomed attempt to implement a strong currency policy aggravated the private debt burden and led to ballooning current account deficits. The resulting hard landings when the bubbles burst were worsened by the European post-unification recession and the crisis of the European Exchange Rate Mechanism (ERM), the predecessor to the EMU, within which the Scandinavian countries were caught up, led to existential crisis in Finland, Sweden, and Norway in the early 1990s.[10] With sharply falling property prices, bank collapses, skyrocketing interest rates, volatile currencies, and falls in production comparable to the 1930s, gross unemployment surpassed 20 percent in Finland, 10 percent in Sweden, and 9 percent in Norway. Denmark, slowly recovering from previous failures, also saw a new surge of unemployment in 1990–93. No wonder the Scandinavian models were doomed by many observers internationally as well as by the Scandinavian political Right:

> "The time for the Scandinavian model has passed … It created societies that were too monopolized, too expensive and didn't give people the freedom of choice that they wanted; societies that lacked flexibility and dynamism" (Swedish Prime Minister Carl Bildt, interview *International Herald Tribune*, February 24, 1992).

The crises in Finland, Sweden, and Norway in the early 1990s spurred significant shifts in Scandinavian politics and policy approaches. While Liberal-conservative parties were in charge during the initial phase of the crises, Social Democrats successively returned in government in the mid-90s. After initial currency depreciations central banks were made independent and charged with ensuring price stability. Forceful budgetary consolidations eventually morphed into rule-based fiscal policies, most pronouncedly in Sweden, underpinned by wage moderation through renewed forms of coordinated bargaining. Sweden and Finland also tightened certain social benefits. Product markets were deregulated and increased emphasis was laid on R&D and innovation policies. Sweden also opened for public funding of private schools and liberalized temporary work. As elsewhere, labour market, social, and tax policies were geared toward increasing labour supply. Marginal tax rates were lowered and tax bases broadened. Alongside greater emphasis on activation, conditionality of benefits, education, and arrangements to reconcile work and family life, proactive pension reforms aimed at strengthening welfare state sustainability.

This section looks closer into the adjustment and recovery of the Scandinavian models in the 1990s, concentrating on the changes in economic policies, wage setting, and social policies, ending with some reflections on the political economic dynamics that shaped this sequence of change.

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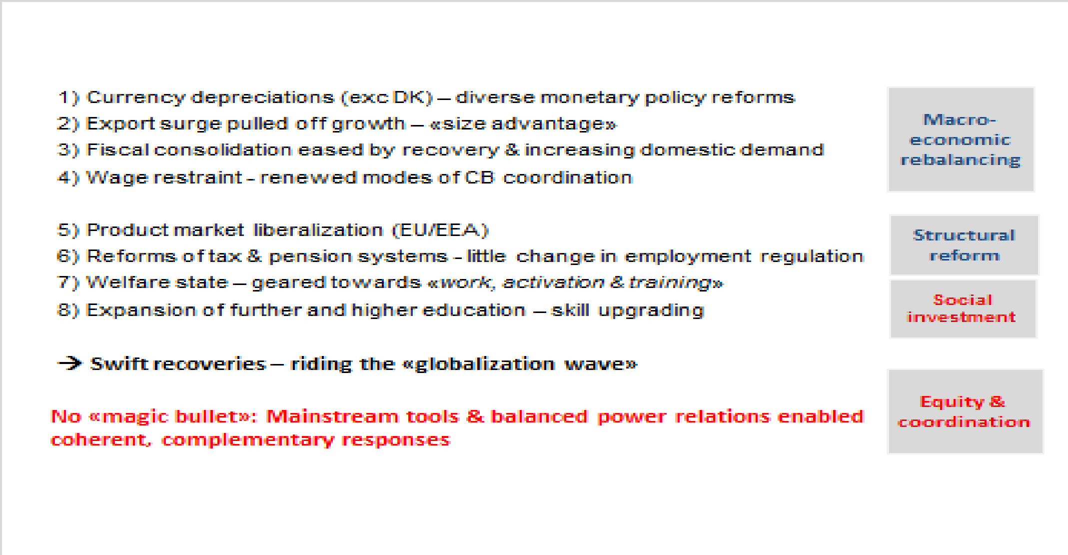
[10] After struggling with 30-40% inflation, Iceland experienced a similar crisis when the collapsing cod-fisheries threatened a domino-effect in the state bank system in the late 1980s (Òlafsdottir & Òlafsson 2014).

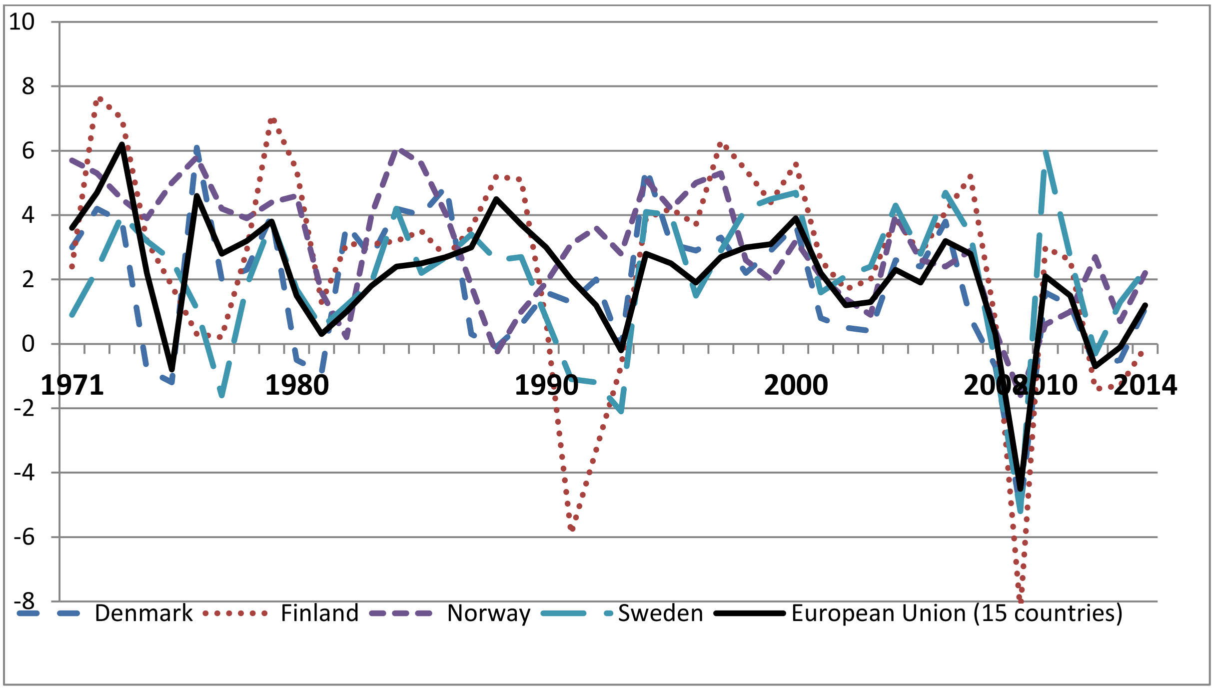
Figure 2 Scandinavian adjustments after the 1990s crises



Changes in macro-economic policy

Alongside the shift towards more restrictive fiscal policies as prescribed by the New Keynesian recipe (Mjøset 2011), the shaken financial systems were shored up by the state, letting shareholders incur losses, and imposing stricter regulations and supervision. A short-lived attempt to peg the currencies to ECU, was, except in Denmark, given up amid the ERM turmoil, leading to currency depreciations of 20 percent in Sweden, almost 40 percent in Finland, and 5–6 percent in Norway (Dølvik et al. 2015a). Supported by industrial restructuring, rising productivity, and falling unit costs, the depreciations spurred strong export growth. Still, in Finland and Sweden high debt and double-digit public deficits caused by the crises led to substantial budget cuts and tax increases – illustrated by the Swedish fiscal consolidation amounting to 11 percent of GDP in 1995–97 (Flodén 2012: 13–14). By 1998, the huge deficits were turned into surpluses in both countries, and Sweden established a strict, rule-based fiscal policy regime requiring a 1.0% surplus over the cycle (Erixon 2011). In contrast to the recently crisis-struck Eurozone countries, Sweden and Finland could thus combine tough fiscal consolidation with solid growth, largely due to the initial currency depreciations which kicked off export driven recoveries. Denmark, owing to the fiscal disciplining in the 1980s, was able to counter the European recession in 1993 with moderately expansionary fiscal policies and easing of credit policies, whereas Norway could rely on oil revenues. In parallel, revenue neutral tax reforms enabled steady rises in public incomes and domestic demand when exports recovered from 1994. The growth in domestic demand contributed to a more balanced growth trajectory than in most other export based economies (Baccaro & Pontusson 2015, Hassel & Palier 2015, see below). Sweden and eventually Norway maintained inflation-targeted monetary regimes with floating currencies, while Finland joined the euro in 1999, and Denmark upheld its stable exchange rate against the euro. The shifts in macro-economic policies were strongly influenced by expert communities in the Ministries of Finance and the Central Banks (Mjøset 2011) but gained support among all mainstream parties and among the social partners. While the macro-economic adjustments shared many similarities and all countries tried to spur innovation through R&D, there was no distinct Scandinavian approach to industrial policy. The only exception from the prevailing market-based, "industry-neutral" policies was Finland, where the state engaged much more directly in fostering industrial clusters and developing a national system of industrial science-and innovation-centers (Fagerberg & Fosaas 2014). In all Scandinavia, however, the increasing supply of general skills propelled by strong expansion of higher education eventually proved – as in liberal market economies – important for the ascent of knowledge-based export services in ICT, communication, and finance especially in Sweden (Thelen 2015).

Figure 2 – Annual GDP growth 1970-2014 Scandinavian countries and EU15 Source: OECD.stat



As shown in Figure 2, after the slumps in the late 1980s/early 1990s, the Scandinavian countries showed from 1994 until the financial crisis in 2008 persistently higher growth rates than EU15, except during the ICT-crisis. Compared with the euro-core countries, France and Germany, this was as seen in Table A1 not primarily due to higher export growth, but because of markedly stronger growth both in the household and government parts of domestic demand. The UK, on the other hand, suffered from weaker export growth than the others.

Restoration of wage coordination

A key area where the Scandinavian move away from orthodox Keynesian thinking did not follow international mainstream was in wage setting. During the overheating of the 1980s, centralized wage coordination had broken down, which contributed to wage-price spirals and inter-union rivalry. Denmark and Norway had already gone through a period of turbulence and government intervention – in Norway even statutory regulation of pay increases (1988-90) – when the Swedish employers' association (SAF) in 1990 declared its withdrawal from centralized bargaining and called for market-based wage-setting,[11] soon echoed by Finnish employers. These calls were not heeded. Influenced by the crisis and prodded by the state, key organized actors agreed to restore wage-moderation by re-establishing co-ordination based on the pace-setting role of the export-industries. This happened in very different ways, however, warning against confusing the formal level of negotiations with their coordinating functions. In Finland and Norway the pattern-setting role of manufacturing was reinvigorated through traditional tripartite incomes policies, after initial lockouts and large-scale conflicts. In Norway, the recentralization also entailed adoption of central criteria for company wage formation, and in Finland the 1995 pact aimed to

[11] According to accounts by Swensson & Pontusson (2000), Ahlèn (1989) and others, SAF's withdrawal from all participation in tripartite bodies and call for radical decentralization of wage setting was driven by the powerful group of large multinational Swedish companies. However, in the critical crisis phase in the early 1990s wage setting was in fact coordinated under the auspices of the state appointed Rehnberg Commission entailing all the main employer and union federations (Kjellberg 1998). Thus, contrary to the narrative of sharp decentralization, even Sweden relied on corporatist crisis management until normalized bargaining procedures were eventually re-established at the industry level.

compensate for the loss of the exchange rate mechanism in the EMU with increased aggregate wage flexibility (Dølvik 2004).

In Denmark[12] and Sweden, by contrast, the export industry's wage leadership was re-established through organizational realignments and strengthened coordination at the sector level – so-called "centralized decentralization" (Due et al. 1994) [13] – at the same time allowing more leeway for local pay and working time determination (Scheuer 1998; Elvander 2002).[14] In Sweden, the initiative to the path-breaking 1997 Industry Agreement was taken by the metalworkers union (IF Metall). Gathering all blue-and white collar manufacturing unions in a bargaining cartel (Unions in Industry/Facken inom Industrin) this spurred a similar concentration at the employer side and paved the way for industry-wide coordination (Elvander 2002).[15] . In Denmark, however, it was the uniting of manufacturing employer federations in Danish Industry (DI) – now representing around 60% of membership in the employer confederation (DA) – that prodded the union counterparts to build a cartel of LO unions (CO-Industry) and engage in sector-wide coordination (Andersen et al. 2014). In both instances the new mode of pattern-bargaining was followed by similar arrangements in other sectors. Hence, the much cited weakening of the union peak associations in Sweden and Denmark was counteracted by a reconfiguration of bargaining coalitions at sector level that actually strengthened the reach and clout of industrial unions and the traditional cross-class coalition in manufacturing. That is, a quite different outcome than the vision of market based wage setting launched by the Swedish employer confederation in 1990.

Contrary to arguments by advocates of the "liberalization" thesis, that the apparent stability in European bargaining systems with respect to main negotiating levels was undermined by rapidly shrinking coverage and density (Streeck 2009), the reconfiguration of the Swedish and Danish systems was underpinned by high and fairly stable rates of coverage and density in the 1990s.[16] The Scandinavian restoration of coordinated wage moderation was further facilitated by the shift in macro-policies. Inflation targets and interest rates set by the central banks disciplined wage setting in Sweden and Norway, whereas Finnish and Danish negotiators had to comply with Eurozone monetary conditions. Hence, after the crisis of the 1990s, Scandinavian industrial relations showed surprising resilience and adjustment capacity, evolving into a direction of both more efficient wage coordination and more micro-flexibility (Dølvik et al. 2015a).

Nonetheless, with low inflation and resurgent growth, real wages and productivity grew faster in the 1990s than in the 1980s (Kauhinen & Maliranta 2014). Enhanced by sweeping restructuring, digitalization, skills upgrading, increased innovation and R&D, and the rising ICT-sector in Sweden and Finland, falling unit costs and improved competitiveness enabled the export-based Scandinavian economies to benefit from globalization, surging Chinese growth, and improved terms of trade (Calmfors 2014, Fagerberg & Verspagen 2015: 53).

[12] In Denmark, a tripartite settlement about responsible wage setting was signed in 1987, prompting legislation linking pay rises in the public sector (and social transfers) to private sector wage growth, bolstering coordination.

[13] Norway eventually moved in the same direction, in line with the traditional front-runner model (Nergaard 2014).

[14] In the more fragmented Icelandic case, where wage policies had always oscillated between efforts to curb inflation by incomes policies in bust and local wage bargainers' efforts to improve purchasing power in booms, the credit-based bonanza in the 90s spurred huge wage drift and galloping inequalities (Òlafsdottir & Òlafsson 2014).

[15] The Industry Agreement bolstered coordination also through strict mediation procedures, which eventually was complemented by a National Mediator covering other sectors as in Denmark and Norway.[16] Union density rose 1990-95 and eventually showed a slow decline from very high levels, whereas employer density and CB coverage actually rose (Stokke et al. 2013).

[16] Union density rose 1990-95 and eventually showed a slow decline from very high levels, whereas employer density and CB coverage actually rose (Stokke et al. 2013).

Preserving and trimming the social models

In parallel with the shift in macro-economic and wage policies, the social pillars of the Scandinavian models were largely kept intact. While changes in institutions were few and incremental, universalism was largely maintained. Employment regulation underwent little change, except Sweden's liberalization of temporary work.[17] The EU minimum directives on workers' rights proved mostly uncontroversial and several directives led to strengthened workers' rights (Ahlberg 2005). The legislative transposition of EU rules sparked some concern that juridification would undermine collective agreements – an issue featuring in negotiations over the Maastricht Treaty in Denmark and the accession agreement in Sweden (ibid.) – but even Denmark eventually gave in to Commission demands that implementation via agreements was to be flanked by statutory regulation. This issue later resurfaced when the 2004 EU enlargement brought proliferating labour mobility from the accession states and judicial strife associated with the conspicuous Laval Quartet (section 4).

Apart from cost-containing measures enacted to close the gap in public budgets in Sweden and Finland, the Scandinavian trajectory of welfare state consolidation in the 1990s was distinguished by strengthened emphasis on skill formation and conditionality based activation supplemented by lower taxes on labour and better funded pension benefits with benefits adjusted to cohort specific life expectancy (Goul Andersen 2011). Expansion of further and higher education almost doubled the population share with tertiary education 1990-2005 (Dolton et al. 2009: 3) alongside strengthened vocational training and lifelong training especially in Denmark. In line with the "social investment approach" (Kvist 2013), the revived "work line" in social policies aimed was to stimulate and upgrade labour supply, thereby increasing revenues and reducing expenditures. The main areas of welfare state reform were thus related to:

Investing in education: From 1990 to 2005 the population-share (25–64) that had completed tertiary education rose from 15.7 to 33.0 percent in Norway and similarly in the other countries (Dolton et al. 2009: 3). Secondary education was made available to the large majority of youth, while efforts were made to improve and expand vocational training. Denmark in particular in the 1990s invested significantly in lifelong training in cooperation with the social partners.

Pension reforms: In spite of comparatively benign demographic prospects, the Scandinavians were proactive in reforming pension systems. By 1998, Sweden had already replaced its two-tier people's pension with a partly funded notional defined contribution scheme with a minimum guarantee. The retirement age at 65 was retained and the contribution rate was fixed at 18.5 percent, with pension benefits calculated according to age-cohort life expectancy and economic growth. Somewhat later, Norway followed roughly the same course with flexible retirement from the age of 62 (West Pedersen 2010), whereas the Finnish reforms came later, due to resistance among the social partners. In Denmark, fully funded "labour market pensions" were from 1991 introduced via collective agreements for nearly all workers not already covered. The flat-rate people's pension was maintained in a more targeted version (Goul Andersen 2011a).

Reforming taxes: In a series of tax reforms, high and progressive income tax rates were significantly reduced, especially aimed at lowering marginal taxes on wages. (Christensen 2013). Most of these reforms followed the principle of revenue neutrality and were financed by broadening the tax base and increasing "green" and other indirect taxes. As a result, marginal tax rates were substantially reduced.[18] Apart from Denmark, the Nordics also followed the trend towards a dual tax model where reduced taxes on labour were combined with lower flat-rate taxation of capital income.

[17] By 2000, the Scandinavians had also liberalized temporary work agencies in line with a 1997 ILO convention.

[18] After further reforms in the 2000s, by 2013 marginal tax rates on labour in Denmark and Sweden were below the average for the 21 OECD countries in the EU for 7 out of 8 household types. With regard to average taxes, Denmark was below the EU-21 average for all household types, while Sweden and Finland were in most instances just above average, Norway falling in-between (OECD 2014: 67, 77).

Strengthening and broadening the work line: In response to the high unemployment in the 1990s, the old Scandinavian "work line" was revived to bring people from "passive support" to employment or education. As the labour markets improved, recipients became subject to stricter activation duties; integration of immigrants gained priority, and employment efforts were extended to the disabled, the sick, and long-term social assistance clients. As the economy recovered, duration of unemployment benefits in Denmark was cut from 8 to 4 years in 1998. Sweden and Finland also saw some retrenchment in benefits after the 1990s' slump, but in general conditionality served as an alternative to cuts in benefits. In all countries, the "work line" won support from mainstream parties, employers, and the unions. Whereas generous minima, long duration, and low exit to social assistance boosted the Danish branding of "flexicurity," discouraging results of activation in the early 2000s made the Social Democratic government in Sweden cut ALMP substantially (Berglund & Esser 2014).

The successful Scandinavian strategies in the 1990s – linking change in macro-economic policy and liberalization of products markets with strengthened coordination of wage setting, labour market and social policies – spurred talk of a new "hybrid" Scandinavian model (Campbell & Pedersen 2007; Pontusson 2009) combining features of liberal and coordinated market economies in ways Thelen later coined "embedded flexibilization" (Thelen 2012). Whatever appropriate label, by the turn of the millennium the economies had recovered, budgets and current accounts were in surplus, unemployment was halved, and productivity had risen, especially in Sweden where ICT-driven reindustrialization engendered a "productivity miracle" (Lundgren et al. 2007). While this enabled the Social Democrats to remain in power well into the new millennium,[19] not only the political Right but also the far Left gave up its systemic critique and chose to embrace the Scandinavian model.

Political and scholarly interpretations of the changes in the 1990s – some additional remarks

During the turbulent 1990s the evolving changes in the Scandinavian models were subject to diverging interpretations. In scholarly debate many observers – especially internationally – tended to see the crises and the resolute responses to it as the final death-knell for the Scandinavian Social Democratic models, suggesting that the emergent mode of European and global market integration was irreconcilable with preservation of corporatist labour- cum welfare regimes at national levels (Olson 1990; Streeck 1993; Lindbeck 1997). Others took a more cautious view, some even suggesting that growing external pressures might unleash a strengthening of coalitions and institutions in defense of the national models (Mjøset 1992; Dølvik 1993, 1994). Politically, Social Democracy and other centrist parties saw the economic reforms as necessary adjustments to a world of open markets, low inflation, and free capital movements – and for a large part, also as much needed corrections of past policy excesses and failures – but maintained that the national labour and welfare systems were more important than ever in coping with increased international interdependence and volatility.[20] The radical Left denounced the changes in policies as a paradigmatic surrender to neo-liberalism and monetarism – deemed to propel dismantling of the social model – whereas the political Right saw the crisis as an occasion to call for more far-reaching systemic change.[21] In essence, both shared the perception that the social models in Scandinavia were irreconcilable with the emerging context of global market-liberalism.

In retrospect, when the dust had settled, more balanced views evolved. In scholarly context the Scandinavian comeback on top of international rankings brought renewed attention to the "Nordic puzzle" (Sachs 2004; Sapir 2005; Kuttner 2008). Contrary to the view that international market

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[20] See e.g. Nyrup Rasmussen 1997; Persson 1997; Brundtland 1998.
[21] See e.g. SAF 1990; Bildt 1992; Reinfeldt 1995; Fogh Rasmussen 1993.

liberalization inevitably would propel institutional convergence towards the UK/US model, the question arose whether the revised Scandinavian hybrids might in fact represent a viable new synthesis of liberal production regimes and coordinated labour-cum-welfare regimes (Pontusson 2009; Campbell & Petersen 2007; Dølvik 2007). Notable was also that the radical Left revived its former belief in the Scandinavian model and that even the political Right gave up its systemic critique and chose to embrace it – at least as far as the welfare state was concerned . Views were clearly more varied as to the model's labour pillar.

Strikingly, the Scandinavian way out the crises in the 1990s entailed a much more comprehensive and balanced approach to restoring growth and reforming the social models than the one pursued in the euro-zone under the recent crisis. The initial currency depreciations enabled macro-economic policy adjustments that could reconcile fiscal consolidation with demand stabilization and growth, contributing to making structural reforms of product markets, taxes, and pension systems work. In contrast to the "internal devaluations" recently imposed in the euro-zone, the availability of monetary policy tools implied that the Scandinavian governments could avoid systemic assaults on the welfare and wage setting systems. Rather than moving towards the lopsided "consolidation state" described by Streeck (2012), a more apt characterization is that the Scandinavians returned to the legacy of their former "stabilization states". Together with relatively even power-relations in working life and close cooperation with the unions and their main coalition-partners in export manufacturing, this entailed a mode of adjustment where the Scandinavians could work themselves out of the crisis and muster popular legitimacy for hard choices.[22]

While four of five Scandinavian countries were governed by Center-Right coalitions in the early 1990s, elections in the wake of the crisis initiated a new period of Social Democratic-led governments from 1993-95. Liberal forces in business circles and parties to the Right – most pronouncedly in Sweden – clearly wanted to roll back the welfare state and deregulate labour markets, but the context of crisis urgency, the EU referenda, and eventually the Social Democratic comeback facilitated more cautious, bipartisan approaches.[23] The resulting adjustments hence emerged from contested political processes and compromises conditioned by earlier institutional configurations. With major parts of the electorates and the unions seeing an interest in protecting their stakes in the existing social models, the liberal forces calling for more departures from the past were unable to muster sufficient political support. Underpinned by institutionalized balances of power and cross-class alliances in working life, this gave rise to sequences of coalition-building and change that in consequence were oriented toward maintaining roughly unchanged social outcomes (Dølvik et al. 2015a

The sequence of shifts in governments and electoral support implied that much of the macro-economic reforms were adopted through broad, bipartisan emergency settlements during the crisis – gaining social partner consent – mostly under Conservative-Liberal governments.[24] The processes of EU adjustment were supported by broad parliamentarian coalitions in which the Conservative and Social Democratic "catch-all" parties played leading roles, supported by the main employer and union confederations.[25] A

[22] For example, the Swedish Social Democrats under Ingvar Carlsson won the crucial 1995 election on virtually nothing but promises of belt tightening and higher taxes.

[23] The exception was Iceland, where informal networks rooted in the surging financial sector, the Central Bank, and the traditional national-conservative parties pushed for further neo-liberal reforms mainly of the financial sector (Mjøset 2011; Òlafsdottir & Òlafsson 2014).

[24] In Norway, this largely took place with Social Democrats in office as the Conservative coalition in power when oil-prices dived in 1986 collapsed, as did the one in charge when the EEA/EU issue resurfaced in 1991.

[25] The unions in public and sheltered sectors tended to be more EU-skeptical, while leaderships in the confederations and the manufacturing unions clearly were on the "integrationist" side. Yet, in Norway this powerful coalition was defeated at the union congress in 1994, narrowly saying no to EU membership.

basic precondition for the adjustment trajectory that evolved was the revival of the old, cross-class coalition in export manufacturing. Given manufacturing's dependence on international trade and competitiveness, both the shift to low inflation policies and equal access to the EU single market were seen as imperative by the employers and unions in manufacturing.[26] More remarkable was their key role in defeating the ideas of radical decentralization of collective bargaining circulating in employer peak associations, most spectacularly in Swedish SAF, and many liberal parties. Recognizing the costs of wholesale decentralization, involving the prospect of industrial conflict at company level, the industrial employers turned out to be more attracted by the gains of coordinated wage restraint than by increased micro-flexibility (Wrange, 2001). Hence they were crucial in the restoration of coordination through sectoral pattern bargaining in Denmark and Sweden, and centralized pacts in Finland and Norway. The revived power of the manufacturing federations also provided a strong support base for the market-oriented adjustment of the Scandinavian production regimes and economic policies. It is, for example, hard to envisage that the forceful tightening of public budgets in Sweden and Finland could have passed with so little union dissent if it were not for the strengthened grip of the manufacturing unions within LO and SAK.

When it came to reform of social policies, other actor constellations played more central roles. The growing share of union and Center-left party constituencies being dependent on public jobs or welfare services served as a counterweight to the pressures for more radical welfare retrenchment and privatization. In so doing, the union movements could mobilize their political power resources and historical ties with the Social Democratic parties. Though in the sweeping Swedish pension reform (1994-97), the governing Social Democrats stuck to a cross-party compromise in Parliament and relegated the unions to bystanders. This was different in Denmark, where the main pension reform was staged by the unions through collective bargaining (Due & Madsen 2003), and in Norway where the unions were essential in influencing and securing support for broad pension reform. In Finland, however, pension reforms were diluted by the "social partners" until the Great Recession.[27] When it came to activation and to making the welfare state more employment friendly, a peculiar two-level game of international exchange of political ideas was evidently at play. While the Scandinavian tradition of ALMP clearly was a source of inspiration for the OECD Job Strategy and eventually the EU Employment Strategy,[28] the Scandinavian reference to such "international" ideas was instrumental in creating broad political support for the reinvigoration of the "work line" in the 1990s.

Much political economy analyses of the Scandinavian models focus on the pattern of party coalescing and policy concertation with the strong, centralized union and employer confederations. For example, Iversen & Soskice (2011; 2014) point to the tradition of Center-Left coalitions built around Social Democracy to explain the greater responsiveness to macro-economic shocks in the proportional systems in Scandinavia than on the Continent, and Thelen (2014) points to the legacy of macro-coordination in explaining the "embedded flexibilization" of Scandinavia (Thelen 2012; 2014).[29] An often overlooked feature, however,

[26] While the unions tended to be less receptive to such moves towards more restrictive macro-economic policies in the 1980s, illustrated by the "war of roses" in the Swedish labour movement (Feldt 1991), the crises and the prospects of EU adjustment apparently softened their stances.
[27] Iceland is again an outlier, with its hybrid system of Beveridgian minimum support and extensive Bismarckian supplementary pensions governed by the social partners (Òlafsdottir & Òlafsson 2014).
[28] The former Swedish Minister of Finance and advisor in IF Metall, Allan Larsson, was chief architect for the launch of the European Employment Strategy as General Director of DG V from 1995.

[29] One might discuss how new this "turn" in Nordic policies towards human investment and facilitation of mobility and re-entry into the LM associated with "flexicurity" actually is. The 1990s turn to non-accommodative economic

is the role of the multileveled industrial relations systems. Locating industrial unions and cross-class coalitions at the core the Scandinavian political economies, these multilevel systems not only facilitate horizontal coordination – across industries and sectors – but enable the union movements to shift and coordinate negotiating strategies vertically, i.e. between the levels of industry/sector, companies, and the peak ("articulation") (Dølvik 2007, 2008).[30] Hence, international observers' tendency to overemphasize the weakening of union peak associations accompanying the decentralization in Sweden and Denmark and to overlook the ensuing strengthening of coordination at sectoral level (in line with the pattern in the 1950s), bolstering economy-wide wage coordination and increasing the scope for negotiated flexibility at company level in those countries (ibid.).[31] In parallel, the peak associations in Finland and Norway actually gained strength through tripartite concertation, much thanks to the manufacturing unions' key role in securing competitiveness and engaging workers constructively in restructuring. Striking thus is how the multilevel industrial relations systems enabled organized actors to engage in – and reap strength from – a range of issue-based coalitions at different levels, so that their main actors entered the 2000s with greater political influence and legitimacy than they entered the 1990s.

Rather than a straightforward case of "macro-coordination" under changing (non-accommodative) conditions (Thelen 2012), the role of producer organizations in shaping the Scandinavian trajectory of adjustment in the 1990s can be viewed as result of a reconfiguration of industrial relations towards more multi-levelled articulation and coordination, whereby they – and their political interlocutors – could invoke a variety of coalitions within and across their associational home grounds.[32] That is, the evolution of "embedded flexibilization" in Scandinavia in the 1990s cannot be properly understood without relating it to the renewed mode of "flexible" or "creative corporatism" (Ornston 2013).[33] The Scandinavian case may in this respect serve as illustration of Thelen's thesis that "institutions that in the past supported the more egalitarian varieties of capitalism survive best [….] when they are reconfigured – in both form and function – on the basis of significantly new political support coalitions" (Thelen 2012:1). It is a matter for

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policies was certainly new, but the emphasis on supply-side mobilization of labour and skills through human investment and ALMP was clearly a cornerstone in the traditional (Rehn-Meidner) growth model of the 1950-60s.

[30] On union articulation, see Waddington (2001) and Marginson & Sisson (2004). A precondition for effective articulation is what Traxler (1998) coined as governability, or vertical compliance, where the Scandinavian unions, with their strong company tiers, deviate significantly from their European counterparts. A key prerequisite for the Scandinavian move towards framework agreements, leaving ample room for local negotiations under peace clause, was the tradition that lower level actors can never deviate from higher level agreements to the detriment of workers.

[31] As emphasized in analyses of Denmark and Sweden in Iversen (1999) and Iversen, Hall, and Soskice (2000), the disciplining effects of globalization, independent central banks, and non-accommodative macro-economic policies strengthen the conditions for coordination based on industrial pattern bargaining, and may make it equally efficient as peak coordination in achieving macro-economic objectives, in contrast to the Calmfors-Driffil thesis (1988) that either fully centralized or fully decentralized systems are performing best.

[32] An important vehicle for such processes Scandinavia is the public commissions appointed by government to explore the need for policy adjustment and possible avenues for change. There organized actors, experts, and civil servants develop learning, networks and epistemological communities that shape understandings, perceptions and generating trust among core actors in a field. A typical example is the three Norwegian reports assessing the systems of bargaining coordination (NOU 2000: 21, NOU 2003: 13, NOU 2013: 13). Such processes provide checks and balances and contribute to continuity in public policies, assigning civil servants a key role as carriers of cumulated knowledge.

[33] Finland is a somewhat deviant case in this respect, due to the dominant role of the peak associations and the weakly developed company level (Vartianen 2011b). In was first in 2007 that Finnish employers seriously started fighting for decentralization along Swedish and Danish lines, but due to the worsening crisis these attempts failed and the tradition of peak level pacts was (temporarily?) restored.

discussion, however, to what extent major Scandinavian institutions were reconfigured in "both form and function", and whether the political support coalitions for their adjustment in the 1990s were "significantly new" (ibid.). The thrust of the analysis here is that the changes of the 1990s were rather more in form than in function – especially when compared with the traditional models of the 1950-60s, and not with the expansionary 1970s or the bubble economies of the 1980s – and that the main political support coalitions in the 1990s remained largely the same. What changed significantly, however, owing to the external and internal shifts in their conditions for agency, was the balance of power between the interest groups involved. The shift in the balance of power between capital and labour was compounded by changes in power relations within the employer associations, where, especially in Sweden and Denmark, the strong, internationalized corporations pressed for more company flexibility in pay and employment conditions.

Regardless of the successful adjustment of the Scandinavian models, the electoral support for Social Democracy trended downwards during the 1990s without a corresponding upward trend for the main conservative parties. In effect, there was a tendency towards reduced voter concentration along traditional block lines, greater electoral mobility, and a certain fragmentation of the party structure. The impact of these dynamics should attain increased significance with the rise of welfare chauvinist parties in the 2000s.

5. A change in direction of the new millennium?

Given the renewed performance and popularity of the Scandinavian model, the Conservative parties inferred that the road to power in the new millennium went via model acceptance, incremental reform, and broad coalition-building. In a context of prosperity, solid public finances, and pledges to expand welfare and reduce taxes, this strategy brought successive electoral victories – first in Denmark and Norway in 2001, then in Sweden in 2006, and in Finland in 2007. Iceland was a different story.[34] Despite growing parliamentary dependence on the rising welfare-chauvinist parties, these Center-Right coalitions proved quite durable – lasting to 2011 in Denmark and 2014 in Sweden. Electoral support for Social Democracy was in decline, but its Norwegian branch managed to return in office when in 2005 forming a pioneer Red-Green coalition ruling until 2013.[35] Similar coalition-building eventually brought Social Democrats back in government also in Iceland in 2009, Denmark in 2010, and Sweden in 2014.

Changes prior to the 2008 crisis

Their prior embrace of the Scandinavian model meant that continuity was high under the first generation Center-Right coalitions in the 2000s. Economic policies mostly followed the path adopted in the 1990s, except in Denmark where the government fueled the boom with tax freeze, welfare expansion, rising oil revenues, and credit liberalization, resulting in soaring house prices and private debt.[36] Rising investment in property and the financial sector came along with cumulating private debt also in the other countries, whereas investment in production and productivity growth flattened – most markedly in Norway and Denmark (Calmfors 2014). Soon to be followed by their neighbours, the Swedish government abolished wealth and inheritance taxes, and cut taxes on real estate. Tilting incentives towards asset-oriented investments, this fueled the growth in inequality driven by rising capital incomes.

The supply side emphasis on investment in R&D, innovation, and human capital was continued (see appendix figures A1-3), whereas a change of direction was visible in some areas of labour market and social policies. Most saliently, this pertained to changes in the unemployment benefit systems and the approach towards trade unions in Sweden and Denmark. The Swedish government also liberalized temporary work so sweepingly that the European Commission viewed it in contravention of EU directives. In social policies, tax credits for the employed and in-work benefits aimed to curb the alleged rise in "outsiders" were introduced in all countries but Norway. The pledge to reduce welfare-dependence led especially in Sweden to tightening of social benefits—mostly by stealth —bringing compensation levels down to the OECD average (Ferrarini et al. 2012). This strengthened the rise in private welfare services which by 2012 had doubled as share of GDP since 1993, weakening the social insurance system's capacity to form basis for political coalition building (Palme 2012). Sweden was also a forerunner in outsourcing and introducing "choice" in the publicly funded schools and care services, adding a new group of producers – including multinational corporations – to the welfare-industrial complex (Thelen 2015). Whereas poor activation results spurred a downscaling of Swedish ALMP under Social Democratic rule in the early 2000s (Berglund & Esser 2014), the Liberal Danish government – branding its notion of "flexicurity" – remained European champion in ALMP spending but gradually turned towards more disciplinary "workfarist" approaches (Goul Andersen & Pedersen 2007). It also made cuts in social

[34] In Iceland, a neo-liberal coalition of the Conservative and Independence parties held office from the mid-90s until the crisis burst and was replaced by a Red-Green coalition 2009 only to be replaced by the former parties in 2013.

[35] In 2013, for the first time in Scandinavia, a Conservative-led coalition including the populist Progressive Party came into office in Norway, being reliant on parliamentary support from two minor centrist parties.

[36] Also in Sweden, where the austere fiscal policies of Göran Persson's Social Democratic government brought persistently high unemployment and ultimately paved the way for the electoral defeat in 2006, the Alliance government from 2007 adopted a laxer fiscal stance with considerable tax reliefs.

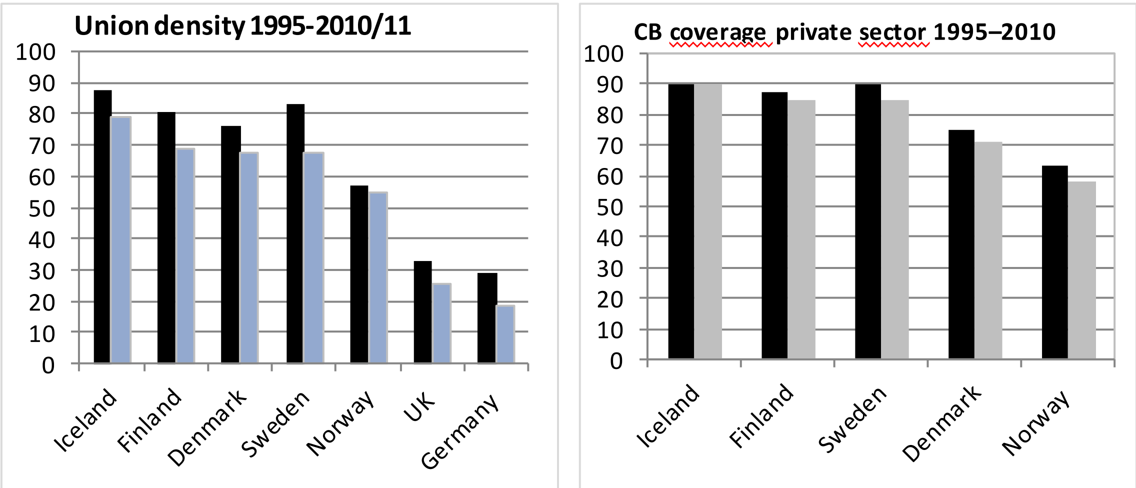
assistance de facto targeted at non-western immigrants, which -- after being repealed by its Red-Green successor – were reintroduced by the new Liberal government in 2015.

Weakening pillars of union strength

The most significant changes undertaken by the Center-Right governments were the weakening of the Ghent systems[37] of unemployment insurance in Denmark and Sweden, which had served as important recruitment vehicles for the trade unions. "Social Democratic" Ghent systems can be transformed back into liberal ones by breaking union monopoly, increasing members' contributions, relating contributions to unemployment risk, and making benefits less generous and more conditional (Goul Andersen 2011c). In different ways, this was what the Centre-right governments in Denmark and Sweden did. Denmark reduced tax deductions and broke union monopoly by allowing all funds to compete across occupational boundaries, leading to establishment of new funds run by non-bargaining Christian unions. In Sweden, tax deductions were abolished while contributions were tripled and subsequently linked with sector-specific unemployment risk, which in theory should incite unions to wage moderation.[38] Besides sharp decreases in fund members just at the brink of the financial crisis, blue-collar unions suffered big membership losses. As to benefit generosity, the link to earnings was practically cut in both countries, implying that unemployment benefits have de facto ended up as a basic security flat-rate scheme with average net replacement below 60 percent (Sjøberg 2011) Finally, duration was cut. After 300 days (or twice 300 days) people are in Sweden transferred to a "job and development guarantee" with markedly lower compensation, while duration remained at 4 years in Denmark until it was halved amid the financial crisis burst.

As a consequence of the Danish and Swedish reforms, the share of uninsured employees rose almost to 30 percent and the decline in union density accelerated sharply, dropping in Sweden from 77 percent in 2006 to 68 percent in 2008, mostly in low-wage groups in private services (Kjellberg 2010). A comparable decline was seen after an independent fund was established in Finland from 1995. In Denmark, the blue-collar LO-unions lost more than one quarter of their membership 1995–2010, and density dropped to 67 percent despite the rise of "alternative" unions organizing 12 percent of the employees (Due et al. 2010).

Figure 3 Trends in union density and private sector collective bargaining coverage



Source: Dølvik et al. (2015b), borrowed from Nergaard (2014)

[37] In countries with Ghent systems, named after the Belgian forerunner originating from Ghent, unemployment insurance funds were run and administered by the trade unions, eventually co-financed by the state.

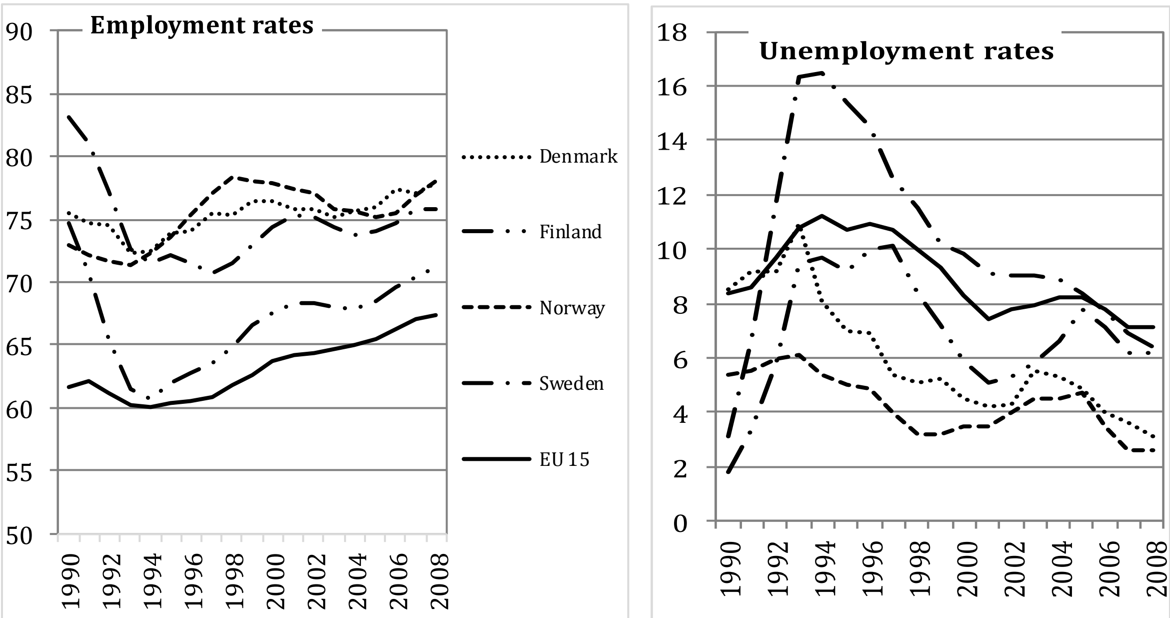
[38] After longstanding union pressure, this move was eventually reversed prior to the election in 2014.

Still, in comparative perspective Scandinavian unionization remains high – and is actually higher than it was in most European countries at the Golden Age peak. As the organization rates among employers remained stable or increased, collective agreement coverage changed little, except in some branches – varying in private sector from around 50 percent in Norway to almost 85 percent in Sweden and Finland (Andersen, Dølvik & Ibsen 2014). During the financial crisis the losses of blue-collar unions continued, at the same time as increased hiring of migrant workers after 2004 put unions and collective agreements under pressure in the lower ends of the private sector labour market.

Strong job growth in extended labour markets

Scandinavian labour markets showed impressive performance in the pre-crisis 2000s. The number of Scandinavian jobs rose in 1994-2008 from 10.6 to 12.5 million jobs, owing to average annual growth rates of 1-1.5 percent (Dølvik et al. 2015b).

Figure 4 Employment (15-64) and unemployment rates 1990-2008 (OECD LFS stat)



Still, Sweden and Finland never came back to the (un)employment rates predating the 1990s crisis. With laxer rules and higher levels of fixed-term work – exceeding 15 percent by 2013 – and markedly lower mobility, the Finnish and Swedish labour markets also showed stronger segmentation than in Denmark and Norway (Berglund et al. 2010).

The strongest job expansions occurred during the recovery in the 1990s and during the financial boom prior to the 2008 crisis, after the labour markets had been opened for citizens from the EU accession states in 2004. Except Sweden, where the government was voted down in Parliament, the Scandinavian states applied transitional arrangements. In Denmark, Norway and Iceland these arrangements implied free movement, except requirement of a fulltime job and wages in accordance with national agreements, whereas the strict quota-based Finnish scheme was repealed already in 2006. Surprisingly, perhaps, Sweden with no such arrangements received much weaker inflows relative to population than Iceland, Denmark, and especially Norway, where strong demand, entitlement to host country wages, and more accessible labour markets spurred surging inflows.

In Norway, EU migrants, including sizable influx of Swedish youth, have accounted for virtually all net job growth since 2004, implying that almost one of five employees in private sector are now immigrants (Bratsberg 2015). This has stimulated growth and curbed inflation, but also implied declining native employment rates, [39] reduced wage growth, and widened pay gaps in receiving sectors (Bratsberg, Raaum & Røed 2014; Bjørnstad et al. 2015). In parallel, the inflow of workers posted by foreign firms, combined with patchy wage floors and no regulation of agency work, prompted increased hiring of cheap labour from foreign subcontractors and agencies (Dølvik, Eldring & Visser 2014). As the latter categories of migrant labour were subject to laxer European and national regulations, loopholes for new forms of regime competition opened up for domestic companies through legal circumvention of agreements and legislation applying to ordinary labour migrants.

Growing turbulence in industrial relations and increased pressures on the welfare state

As epitomized by the Laval and Viking cases, attempts to counter low-wage competition have led to conflicts with the law-based EU regime and to strife among working life actors (Dølvik et al. 2014). Finland, Iceland, and Norway have (in a growing number of industries) relied on statutory extension and state enforcement of minimum wages in collective agreements in line with the Posting Directive (EC 71/1996), while Denmark and Sweden maintained their traditional regimes, wherein unions could invoke industrial action to obtain agreements with foreign companies. In the Laval case, Swedish construction unions did so against a Latvian company, but the ECJ deemed their action in breach of EU rules since the suggested agreement had no clear minimum pay provisions and entailed conditions outside the Posting directive (Malmberg 2010). Deeming the Swedish and Danish way of implementing the directive incompatible with the EU free-movement regime, the ECJ ruled that union action underpinning bargaining demands beyond the legal minimum was unlawful in cross-border contexts. In response, Denmark and Sweden amended their legal basis by invoking a special clause of the directive (3.8). The Danish actors, prodded by the liberal VK-government, signed a tripartite agreement with minimal changes in national practices, whereas the liberal Swedish government – under pressure from the employer confederation (SN), which had financed Laval's court trial – adopted rules severely constraining union action against foreign firms.[40]

Irrespective of national approaches, disputes over low-wage competition and application of EU-rules have in all five countries led to court cases and heightened levels of conflict often cutting across traditional lines. Except in Denmark,[41] employers have even voiced ideas of introducing minimum pay legislation,

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[39] At the same time, poor completion and high drop-out rates from secondary and especially vocational education in the 2000s indicated that new patterns of marginalization were emerging, among male and immigrant youth in particular. While Finland was still among the best in the PISA-studies, the others showed deteriorating results, especially Sweden. All countries have thus recently launched initiatives to reform the systems of vocational training.

[40] That is, union action aimed to obtain better terms than the minimum pay rates defined in nationwide agreements and legal minimum standards are prohibited, implying that foreign employers enjoy stronger protection against labour demands than Swedish ones (Evju 2010). In response, Swedish unions started negotiating minimum rates in agreements which had previously left pay-setting to company bargaining – an ironic example of reduced flexibility driven by EU-law. In 2013, committees under ILO and the Council of Europe deemed the new Swedish legislation in breach of the right to freedom of association and negotiations. A tripartite commission set up by the incoming Red Green government has thus proposed to ease the restrictions on union action against foreign companies aimed to underpin demands for so-called 'Posting Agreements' with minimum terms. Such action is allowed also if the employer proves that such conditions are in place, thereby improving the unions' ability to control company compliance by bringing disputes in for the Labour Court. The employer representative dissented, however, viewing the proposal as a serious hindrance for the free movement of services (SOU 2015: 83, see *EU & Arbetsrätt* 4/2015,'Många krumbukter för att värna svensk modell vid utstationering'.)

[41] In 2015, the employers' confederation (DA) and the main trade union confederation (LO) signed a joint declaration that introduction of statutory means for extension of collective agreements or statutory minimum wages

formerly a taboo in Scandinavia where that would establish a wage floor way below those set by most collective agreements and jeopardize the bargaining system (Eldring & Alsos 2012). In Norway, companies in export manufacturing – typically yards compensating for labour shortages and high labour costs by hiring cheap subcontracted labour from abroad -- have argued that the only alternative is relocation and opposed extension of agreements.[42] By contrast, employers in formerly sheltered services and construction faced with low-cost competition have tended to support union demands for extension and stricter enforcement. In Finland and Iceland, the long-standing practice of general application of minimum wages in collective agreements has meant that measures to prevent wage dumping have been less controversial, but recently even Finnish employers have called for a statutory minimum wage as part of their efforts to overcome the crisis by reducing production costs.

Reinforcing tendencies of erosion and raising doubts about the viability of traditional means to regulate labour markets, the rise in labour mobility from low wage EU countries has weakened the negotiating power of manual labour and put the cross-class coalitions underpinning the system of bargaining coordination under strain. While manufacturing employers can gain competitiveness through access to cheap subcontracted labour and services and tend to prefer market-driven deregulation (through inaction), such low-wage competition can undermine the competitiveness of organized employers in territorially bound services who therefore tend to prefer re-regulation (Afonso 2011). Challenging the "coalition of ends" that has distinguished Scandinavian coordination (Moene & Wallerstein 1995), the matter at issue here goes to the heart of the Scandinavian models, notably the basis for maintaining solid wage floors, compressed pay structures, and even terms of competition in the labour market that, acting as productive constraints, have served as engine for the Scandinavian model of growth, productivity, and social inclusion.

Indirectly, the welfare states are also affected by widening of the common labour market, as the EU regime for social security coordination grants migrant labour equal rights to host country benefits among which many are exportable. For national workers, the welfare system provides a reservation wage that especially bolsters the negotiating power of weaker groups, whereas for job-seekers from low-income European countries the prospective access to such benefits can produce inverse incentive effects; those landing a job by accepting inferior wages may obtain rights to portable cash transfers that easily exceed an average wage in the home country (NOU 2011: 7). There are no indications that "social tourism" has been a driver of recent migration, but there are examples that Scandinavian employers advertise this opportunity as justification for offering poor pay and working conditions (Ugebrevet A4, 2014). And there is clear evidence that labour migrants, when becoming aware of their entitlements, will rather choose to stay than return home if losing their job. For low-end employers this has opened opportunities to hire migrants on casual contracts and shift subsistence costs during periods with no work onto the welfare state, in effect implying subsidization of low-productive, labour intensive firms (Friberg 2014; 2015). Preempting the productivity-enhancing effect of high wage floors and benefits, the changing boundaries of the job market may thus weaken the productive functions of the Scandinavian labour-cum-welfare-

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would breach with basic principles of the Danish model. This can be viewed as an illustration of the uniquely strong social partner backing for the autonomous collective bargaining model, but given that several smaller unions and employer federations faced with low-wage competition have previously voiced that such measures may be needed, it can alternatively be viewed as an expression of the superior power of the industrial employers; by getting the unions to refrain from invoking any legal support for defense of national wage floors, industrial Danish employers may benefit from easy access to cheap labour provided by foreign (or unorganized national) subcontractors insofar as the unions face a sisyphus task in obtaining and enforcing collective agreements with such firms.

[42] In 2009, leading shipyards, supported by the employer federations, sued the state claiming that the terms for extending the collective agreement in yards breached EU law. After losing in the Supreme Court in 2013, the case have been brought in for the EEA surveillance agency (ESA), possibly ending in the EFTA or EU court.

regimes. Such concerns have prompted debates about development of more immigration-proof welfare schemes. Accentuated by the present refugee crisis, strategies in this vein might entail more two-tiered, contribution-based benefit schemes for the eligible core and flat minimum support for the periphery, in-kind services instead of cash transfers, and other more subtle ways to differentiate between newcomers and others.

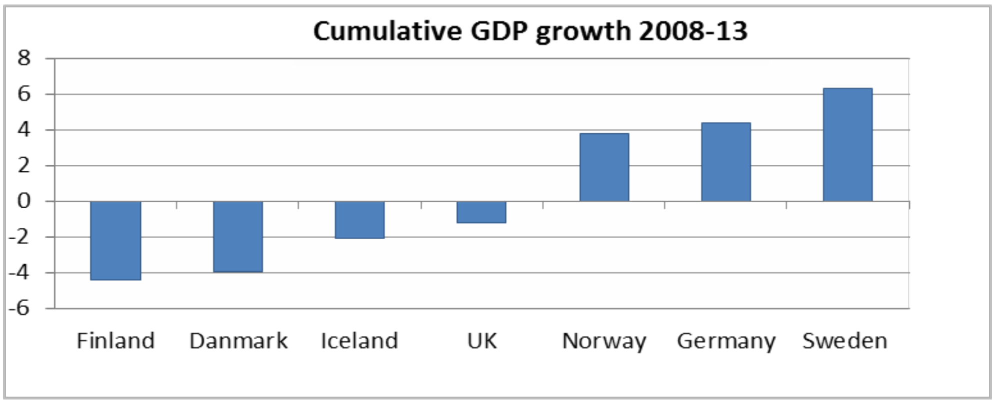
Erosion and destabilization of past support structures?

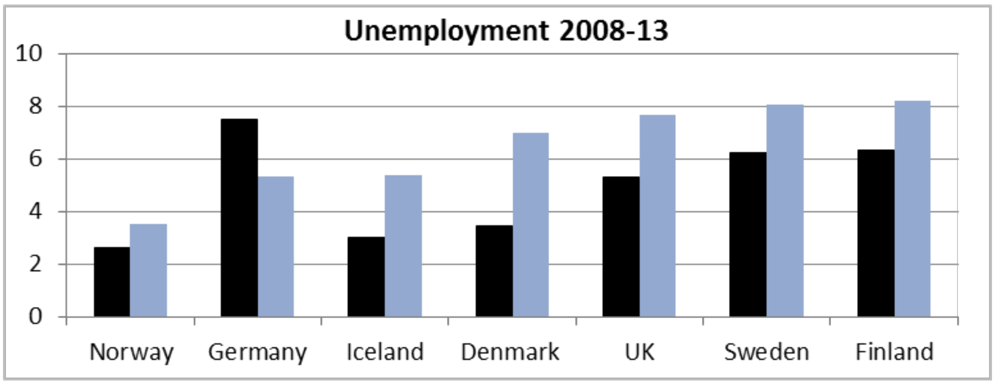
Through the large-scale movements of people from low- to high-income states in EU/EEA since 2004, the principal perforation of member states' control over who is eligible for residency and social rights heralded by Ferrera (2000, 2005) has turned into reality. As rich, semi-sovereign welfare states (Leibfried & Pierson 1995) are attractive for migrants in search of a living and security – recently reflected in the rising inflows of refugees -- the viability of the Scandinavian labour and welfare regimes has been called into question. Disturbing the balances between wages and benefits – hence also between contributors and consumers of welfare – the debate is related to the impact of the immigration flows on, first, the financial sustainability, legitimacy, and political support coalitions of the welfare state, and, second, on the cohesion of the producer coalitions underpinning the coordinated labour regimes. While the rise of welfare chauvinism is a salient pendant to the former, the mushrooming of firms circumventing, or exiting from, collective agreements, regulations, taxes and so forth causes uncertainty about the latter; tellingly, agreement coverage in Norwegian construction has dropped more than 15 percentage points since 2004 (Nergaard 2015). Causing increased collective action problems – not least on the employer side – as illustrated in the strife over the levels and means of minimum wage setting – a pertinent question is how long export manufacturing employers will continue engaging in burdensome coordination to curb domestic wage inflation when market forces and the boundless supply of manual labour press down wages among competing native labour as well. An indication that the question is not so farfetched is that employer voices in Sweden, Norway, and recently Finland, have called for introduction of minimum pay legislation – an idea that has gained momentum during the refugee crisis. Statutory minimum pay has formerly been a taboo in Scandinavian context, as it would establish an alternative wage floor way below those set by most collective agreements (Eldring & Alsos 2012), but in a scenario where the exporting sectors mainly see cheaper domestic sub-deliveries as a lever to improve competitiveness a statutory minimum wage could indeed accelerate the process and releave their employer federations of burdensome coordination exercises.

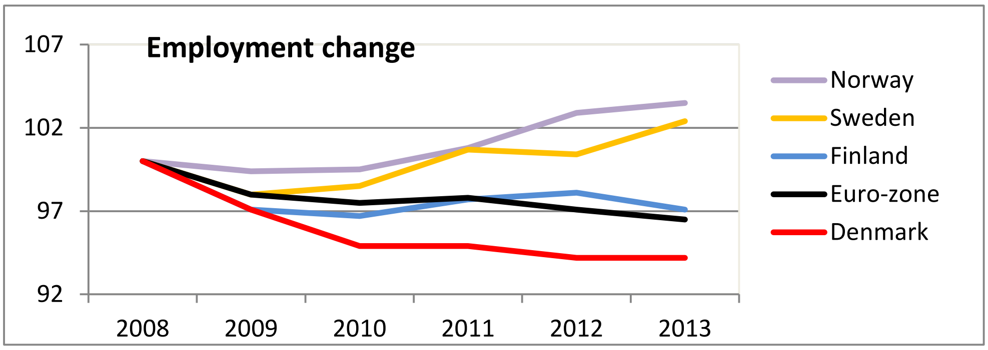
6. The financial crisis and beyond: Divergent Scandinavian trajectories

The small, open Scandinavian economies were hard hit by the collapse in trade in the wake of the 2008 financial crunch. While Sweden and Norway recovered swiftly – temporarily helped by depreciating currencies – Iceland experienced a spectacular financial crash and Denmark run into a severe slump when the bubble pumped up by profligate fiscal and credit policies under the prior boom burst. With monetary policy tied to the euro and protracted private debt deleveraging, the government turn to austerity in 2010 contributed to a prolonged squeeze of domestic demand while Danish exports actually grew faster than those of the other Nordic countries (Table A1). By 2013, the Danish GDP was still markedly lower than in 2008 (Figures 5-8), while unemployment had risen and employment had fallen by 6 percentage points . Finland, after a swift recovery in 2010, run into a double dip owing to the collapse of Nokia and the global paper industry markets and flat exports. Aggravated by a shift to austerity in 2011-12, the Finnish economy is still struggling with recession, a shrinking workforce, and rising unemployment.

Figures 5-8 GDP growth, unemployment rates, and change in employment 2008-13





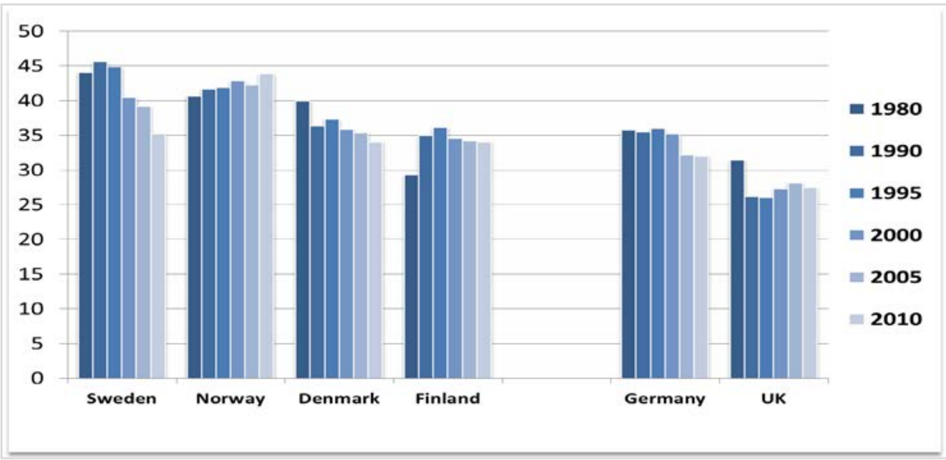


Source: OECD.stat, Dølvik, Goul Andersen & Vartiainen (2015).

During the kindling European recovery from 2013, harmonised unemployment rates in Finland rose further from 8,3 percent in 3.Quarter 2013 to 9,4 percent in 3.Quarter 2015 and from 3,6 percent to 4,5 percent in Norway, while they fell steadily in the other Scandinavian countries (OECD LFS statistics).[43] These divergencies reflect that employment remained flat in Finland (-0,3 percent), while job growth picked up strongly from Q4-2013 to Q4-2015 in Iceland (4,0 percent) and Sweden (2,8 percent), whereas the labour market recovery was slower in Denmark (1,8 percent) and stagnated in Norway (1,4 percent) in the wake of the oil-price dive.

Due to solid public finances, the Scandinavians were not forced to roll back their welfare states. Applying countercyclical fiscal and monetary policies, Norway and Sweden benefitted from healthy growth during the crisis.[44] Still, in Sweden unemployment rose – especially among youth – reflecting continued growth in the labour force especially among the immigrant population. The Social Democratic led government entering office in 2014 has thus scrapped the surplus criterium in the Fiscal Law, while the Central Bank have brought interests rates into the negative band. With monetary policies tied to the euro,[45] Denmark followed the EU turn to austerity and used the crisis as opportunity to undertake structural reforms of early-retirement and unemployment insurance schemes. Further reforms launched by the Red Green government elected in 2011 were stalled by revolting labour grassroots (Goul Andersen 2013), but the Liberal minority government installed in 2015 has picked up the relay and won support from the Danish Peoples Party and Social Democrats for some further cuts in the unemployment benefits to finance prolonged duration and laxer requalification. Finland, approaching the EMU debt ceiling, has adopted a tougher stance. After the Grand Coalition 2011-14 only landed a long stalled pension reform, the Conservative coalition taking office in 2015 has – in line with EU-style "internal devaluations" – adopted a programme for retrenchment and structural reform in welfare and labour arrangements, aiming to reduce unit costs by 5 percent (see below).

Figure 9 Social benefit generosity index 1980-2010



Source: The CWED database, Scruggs & Kauttio, cited in Dølvik et al. (2015b)

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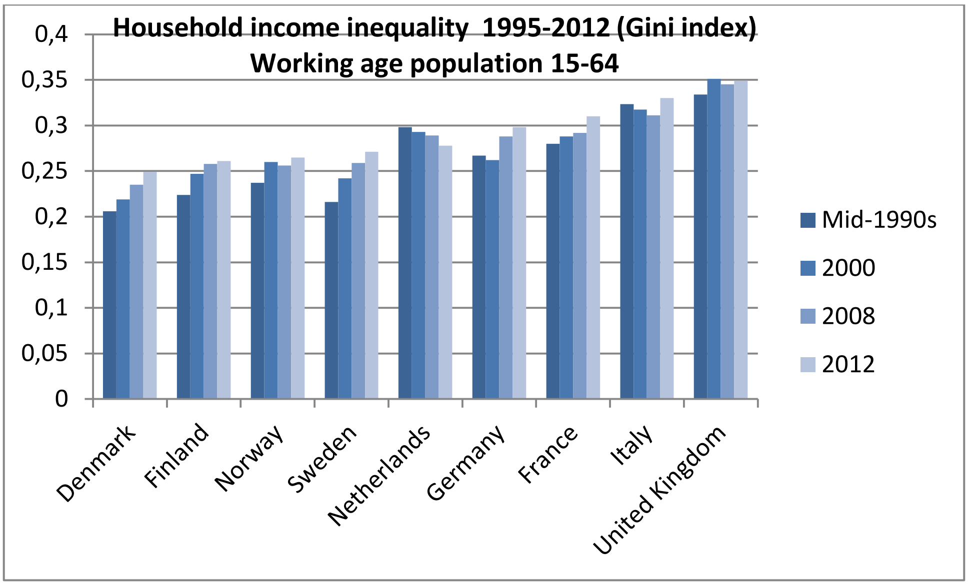
[43] Unemployment fell from 7,0 to 6,1 percent in Denmark, 7,9 to 7,2 percent in Sweden and from 5,2 to 4,1 percent in Iceland from Q3-2013 to Q3-2015.

[44] The recent dive in oil-prices and offshore investments grinded the Norwegian economy to a halt in 2015. The strong depreciation of the Krona, however, brought a 25 percent strengthening of competitiveness of traditional manufacturing export industries and a slow recovery is expected from 2016-17.

[45] This means that the interest rates of the Danish Central Bank have followed those of the European Central Bank into the negative band, which also applies to Finland.

Figure 10 Disposable household income inequality 1995-2012 (Gini index, working age population 18-65)

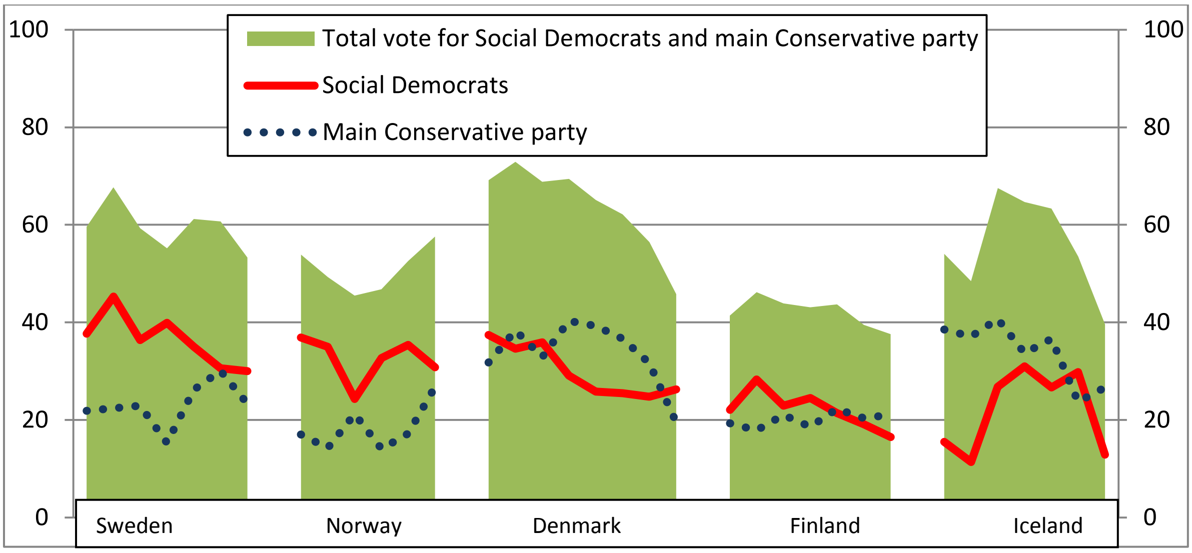


Source: OECD.stat, Andersen, Dølvik & Ibsen (2014, author update).

Although the Scandinavian welfare states look more solid than most European counterparts, they have become leaner and less generous in recent years –most pronouncedly in Sweden (Figure 9). Combined with stagnant employment rates, more heterogeneous populations, labour migration, tax reliefs, and rising capital incomes in the top, this has contributed to faster growth in income inequality than in most other European countries (Figure 10). Rising unemployment during the crisis accentuated the trend. The Scandinavians have had powerful means for equalization of wages and job opportunities, but have – since the failed Swedish wage-earner funds – had no effective mechanisms to counter disparities driven by capital revenues. Redistribution of demand for labour via the public sector has for long spurred female employment and prevented the rise in low-paid work seen elsewhere, but the past decade's cocktail of reduced taxation and welfare generosity alongside rising capital revenues and immigration has evidently weakened the welfare states' ability to offset market income equalities.

In contrast to the 1990s, the crisis did not incite tripartite crisis pacts. In all countries the unions offered wage restraint, including options to refrain from central increments. That was also the case in Denmark, but a call by the Red Green government for tripartite talks aimed to reduce costs by prolonging working hours was in 2012 resolutely rejected by the metalworkers. In Finland, the employers initiated decentralization of wage setting in 2007 – triggering an ill-timed wage hike – but as the crisis dragged on they had to go along with new incomes policy settlements from 2011. To save jobs, many local Scandinavian unions entered accords allowing new forms of working time and pay flexibility, often supported by state subsidized temporary lay-off schemes (resembling German "Kurzarbeit"). In Sweden, lacking any such scheme, demands from large company unions spurred in 2009 IF-Metall to negotiate a path-breaking "crisis agreement," allowing local actors to negotiate 20 percent reductions in working hours and pay. This enabled firms to save costs and retain skilled labour, while distributing the earnings losses among union members (Svalund et al. 2013). After some turbulent bargaining rounds (Lyhne Ibsen et al. 2011), the manufacturing actors in 2012 signed a new accord on the tackling of crises by means of larger working time cuts and partial pay compensation. The condition was that the government shouldered the costs, and eventually the Center-Right government established a short-time work and training scheme in instances of severe recession. The deal with the unions also entailed a promise to reverse the contested differentiation of unemployment insurance fees adopted in 2007 (Lagrådsremiss, May 30, 2013). Thus, by 2013 the Swedish unions seemed to regain some of the ground lost prior to the crisis, reminding that even Center-Right Scandinavian governments are often compelled to come to terms with their strong union counterparts when times get rough. Hence, as in earlier crises, the Scandinavian collective bargaining actors contributed to cushioning the crisis and appeared to emerge from the slump with strengthened legitimacy. Nonetheless, after several years of economic upturn where the lower paid groups had lagged behind, the blue-collar LO unions in Sweden failed to agree on a strategy for coordination in the upcoming 2016 pay round – thus breaking with the principle that the export-industries are to set the mark. In Finland the relationships between the unions, employers, and the state have become severely strained. After years of economic downturn and failed social partner attempts to meet the government's demand for reduced unit costs in the 2015 bargaining round, the Finnish government launched legislative cut-backs on pay for overtime, night- and Sunday work, sickpay, and unemployment benefits, harming especially low-paid workers and interfering broadly in issues regulated by collective agreements. Provoking union protest and a brief general strike, the government put the measures on hold on condition that the social partners found ways to agree on similar cost reductions –a prototypical example of bargaining in the shadow of the state (Visser & Hemerijck 1997). Eventually these attempts broke down and the employers left the table in December 2015, indicating a period of continued instability in Finnish industrial relations.

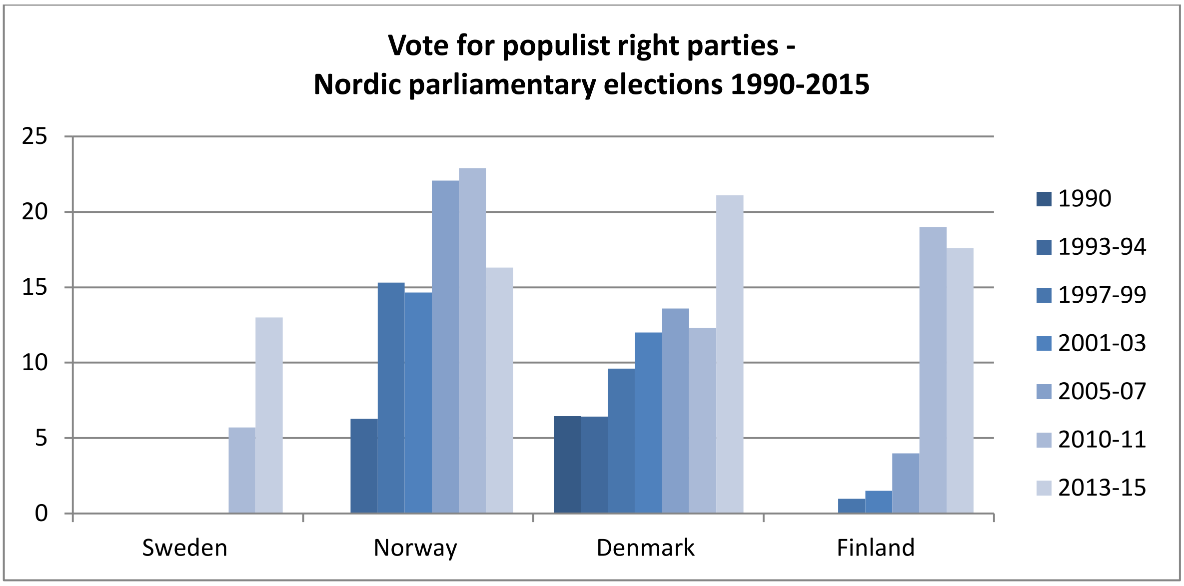
Figure 11 Share of vote for Social Democratic and main Conservative parties in parliamentary elections 1990-2015



*In Denmark, *Venstre*, and in Finland, the *Center Party.*

In politics, the crisis had no uniform impact but the pendulum swings between Left and Right-leaning coalitions have accelerated (see Figure 11 and 12, next page). With the main catch-all parties in decline, growing support for populist, EU-skeptical parties on the flanks – especially of the anti-immigration, welfare chauvinist brand – has favoured coalition-building to the Right (Iversen & Soskice 2015). Yet, in Sweden, collaboration among mainstream parties has thus far prevented the Swedish Democrats from exploiting its tipping position in the Parliament, enabling the Red-Green minority coalition appointed in 2014 to remain in office. In Finland, the True Finns were included in a Conservative coalition led by the Center Party after the 2015 election, whereas the Norwegian Progress Party, as mentioned. was included in a minority coalition with the Conservatives in 2013. In Denmark, by contrast, the surging Danish Peoples Party (DF) – often overbidding the Left in social policies – became the largest right of center party in the 2015 election . Still, refusing to take government responsibility the DF forced the loosing Liberal Party to form a minority government alone– placing itself in a powerful role as dealmaker in the Parliament. The disempowered governments resulting from the erratic coalitional dynamics in Denmark and Sweden illustrate how the populist rise creates growing difficulties in establishing governing coalitions with capacity to undertake substantial coherent reforms in Scandinavia. This bodes for complicated horse-trading and unlikely bed-fellows in the face of the unfolding refugee crisis.

Figure 12 Share of vote for populist Right-wing parties in Nordic parliamentary elections 1990-2015



Sources: Dølvik, Fløtten, Hippe & Jordfald (2015), updated by author.

7. Conclusion: Changing terrain, changing Scandinavian approaches?

So, where do the Scandinavian countries stand, and where are they heading, after the Great Recession? In this article I have argued that the predominant tendency over the turbulent past 25 years has been continuity. Even the political turns to the Right have thus far not brought about much transformative change. As parties meddling too much with the model foundations tend to get punished electorally, especially in hard times, the parties have learned to tread cautiously when interfering with the interests of core welfare state and labour constituencies.[46] That includes the main Conservative parties – recently presenting themselves as "the new labour parties" – and the welfare chauvinist parties, which appeal to such groups in particular. Hence, the refurbished Scandinavian models that emerged from the 1990s are still anchored in broad popular support.

Despite divergent performance during the Great Recession, the basic traits of the Scandinavian approach to growth and welfare appear well entrenched. Apart from the recent financial crunches in Denmark and Iceland, and the structural crisis in Finland, the economies have performed well over time and their institutional foundations remain quite solid. Distinguished by their mix of liberalized product markets, advanced human resource bases, high investment in R&D and innovation, risk-sharing, and coordinated pay setting –the Scandinavian economies seem better equipped for post-crisis recovery than most others. With mostly sound public finances, comparatively high productivity, and current account surpluses – Germany, UK, US, and other Scandinavian countries being major trading partners alongside sizable exports to China – they also benefit from more balanced demand structures than most other export-reliant countries (see e.g. Baccaro & Pontusson 2015). Thus the trust in the models, also in business and conservative circles, are associated with their acknowledged contributions to macro-economic efficiency, while perceptions of justice and security (their "Durkheimian effects[47]evidently count more among welfare state users and employees.

Yet, the Scandinavians are not insulated from the transformations unfolding in their European surroundings. Partly under the radar, the past decades have brought changes in the Scandinavian economies, demography (ageing and immigration), and labour markets that entail potential for transformative change in the models' *modus operandi* as well as in the actors' capacity for coalition-building, coordination, and compromise. First, the scope for macro-economic stabilization has been narrowed. While Norway, Iceland, and Sweden can still invoke monetary policy tools to stabilize growth, Finland and Denmark, tied to the euro, have become more reliant on "internal devaluations". With tighter fiscal constraints imposed by the EU, this puts a stronger burden on welfare and wage policies, restraining the scope for coordinated policy adjustments within the Scandinavian triangle model – as currently witnessed in Finland. Tax competition[48] and the Center-Right emphasis on tax reliefs may further weaken the

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[46]In the Danish 2015 election the now governing Liberal party (Venstre) appealed to labour voters by inviting the unions into tripartite talks on social reform (Weekend-avisen 12 June 2015). These are presently underway.
[47] The contributions of social models to efficiency are sometimes linked with their "Williamsonian effects" (referring to Williamson's analyses of institutions' ability to reduce transaction costs), while their contributions to social justice, integration, and security are sometimes coined their "Durkheimian effects" (referring to Durkheim's analyses of social cohesion and integration (Streeck 2012, Thelen 2012).

[48] A Scandinavian dynamic of competition regarding company taxation was set in motion under the crisis when the Red-Green Danish government reduced rates substantially and the others followed suit.[49] As emphasized by several authors, the Scandinavian countries stand out in international comparison with extraordinarily high levels of private household debt (Hassel & Palier 2015, Baccaro & Pontusson 2015). Viewed as a risk for bubbles eventually bursting, a question for further elaboration is to what extent the distributive structure and the high levels of employment, wages, dual-earner households, wealth, and social security make the Nordic households able to sustain higher debt levels and thus less vulnerable to credit market volatility than households in more in-egalitarian countries with lower employment and weaker safety nets.

capacity to respond to economic shocks, as do the rise in private debt associated with a shift of investment toward property and financial assets.[49] While contributing to growth in consumer demand, this has reduced the former high rates of investment in industrial production and heightened the risk for financial instability, as demonstrated by the Danish and Icelandic bubble bursts. Further, the "low road" to competitiveness opened by the ample supply of migrant labour has called the productivist ethos of the Scandinavian economies into question.

Second, demographic change associated with ageing and growth in the heterogeneous immigrant populations is likely to put welfare state finances and services under strain. A big question is how this will affect political support for the universalist principles underlying the Scandinavian welfare states, which are reliant on high employment rates to secure funding and curb rising expenditures. With stagnant workforces, most of the growth in the labour force will in coming years stem from the immigrant populations in which participation rates are presently 25-30 percentage points lower and welfare dependency markedly higher than among natives. In spite of huge efforts undertaken in activation and integration policies, the results have not matched expectations. In the 2000s, total employment rates have tended to trend downwards and the crisis has caused rising unemployment particularly among immigrants. If not the strengthened emphasis on activation and social investment succeed in reducing the high dependency rates among many immigrant groups, it is hard to see how the Scandinavians can avoid divisive debates about further retrenchment and restructuring of welfare benefits and services, where it remains to be seen how the majority populations behave when ethnic minorities account for a rising share of welfare expenditure.[50] While reforms in the welfare state sit uneasily with the unions and the parties to the Left, employers and the mainstream parties to the Right tend to favor retrenchment and tax reliefs, narrower application of universalism, and greater scope for differentiation e.g. between contribution based schemes and minimum support financed by taxes, pointing towards a more two-tiered welfare system (Kvist & Greve 2012). If benefit compensation decreases towards the level of minimum support, as in Sweden, and more middle class groups acquire supplementary private benefits, offered also by trade unions for instance in the case of unemployment insurance, a tipping point may be approaching where the majority sees little self-interest in the public schemes and prefers further tax reliefs to buy private insurance (Palme 2012).

Although the mechanisms of institutional self-insurance and path-dependency provided by the coalition of welfare users and producers may already be subject to erosion – most visibly in Sweden where public employment has shrunk since 1994 and the number on transfers have dropped more than 20 percent the past decade – popular support for the Scandinavian welfare states appears surprisingly well entrenched (Ervasti, Goul Andersen & Ringdal 2012) and has in recent years actually increased for key welfare services in Sweden (Swallfors 2014). Perceptions of increased risk, or insecurity, associated with globalization and higher unemployment in the wake of the crisis tend to reinforce such tendencies (Finseraas & Ringdal 2012) as also indicated by the rising support for protectionist, populist parties tending to oppose any retrenchment in welfare benefits, except for immigrants.

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[49] As emphasized by several authors, the Scandinavian countries stand out in international comparison with extraordinarily high levels of private household debt (Hassel & Palier 2015, Baccaro & Pontusson 2015). Viewed as a risk for bubbles eventually bursting, a question for further elaboration is to what extent the distributive structure and the high levels of employment, wages, dual-earner households, wealth, and social security make the Nordic households able to sustain higher debt levels and thus less vulnerable to credit market volatility than households in more in-egalitarian countries with lower employment and weaker safety nets.

[50] Recent research on this is inconclusive. Some studies of aggregate data indicate that increased heterogeneity does not significantly affect Nordic preferences for universal welfare (Finseraas 2011), while some studies at municipal level do indicate significant effects (Ervasti & Hjerm 2012).

Development of coalitions able to pursue coherent strategies of welfare adjustment is thus deemed to be politically complicated. In view of the electoral costs involved, the opportunism spurred by fiercer party competition in the center, and the resistance to change on both flanks, a likely prospect is that available majority coalitions will rely on cautious, incremental change and avoid major reforms unless forced by budgetary crisis to invoke more drastic measures – as seen in Germany in the wake of reunification. Such a trajectory entails the risk that the affluent middle-classes in the meanwhile have "opted" for market supplements to such an extent that the coalitions defending comprehensive public arrangements have withered (Barth et al. 2003; Palme 2012). Increased strains on the welfare state are, as now seen in Finland (Borg & Vartiainen 2015), likely to reinforce political pressures for developing a low-wage labour market where recipients of welfare and activation can be compelled to work by stricter conditionality requirements, tax credits, in-work-benefits, etc. Influential forces thus commend tolerance for greater inequalities in order to boost employment and reduce welfare dependence (Calmfors 2014). While markets for low paid work have previously been prevented by the high "social wage", the supply shock in the labour market and the inverse effect of benefits on migrants' reservation wage in the wake of the Eastward EU extension have fertilized the ground for such a trajectory.

Third, although the Scandinavian employment regimes look solid in a comparative perspective, there are signs of erosion and fragmentation on the margins of the labour markets propelled by increased outsourcing, casualization and low wage competition after EU enlargements. Accentuating the impact of longer term decline in private sector unionization and bargaining coverage, especially in services[51] – such dynamics may undermine the productivity whip, hollow out local tiers of unionism, tempt more employers to circumvent collective agreements and opt for the "low road" to competitiveness, and thereby spur further rise in job and income inequality. There are also indications that the rise in labour migration crowd out apprentices and low skilled, especially among immigrant youth, increasing the risk of skill mismatches, social cleavages, and exclusion along ethnical lines. If unchecked, such developments may lead onto a trajectory where collective bargaining covers shrinking parts of the labour market. The question is what such a trajectory would imply for the cross-class producer coalitions that have used to shore up Scandinavian coordination in hard times.

The coordinated labour and welfare regimes in Scandinavia evolved in the postwar era when immigration was restricted, and – except for sizable flows into Swedish manufacturing in the 1960s – mostly limited to high-skilled experts and cyclical movements within the common Nordic labour market. When international migration rose in the late 1960s, the Scandinavians followed the Continentals and invoked "immigration stop", explicitly aimed to preserve social and labour standards (Brochmann & Hagelund 2012). Hence, maintenance of the models in the context of trade liberalization and internationalization was premised on boundary control, i.e. "closure" in the lower half of the labour market (Ebbinghaus & Visser 1994). This provided continued basis for the specific Scandinavian constellation of producer interests in which the coalition of export manufacturing employers and unions had common interests in public risk sharing and securing international competitiveness through cross-sectoral wage coordination (Aukrust 1977; Barth et al. 2003; Bjørnstad, Nymoen et al. 2016).[52] As result of the rise in international

[51] For a fresh analysis of continued Danish decline, see Ibsen et al. (2015).

[52] To ensure low inflation, homogeneous returns on investment, and level terms of competition for labour across sectors, nominal wage increases in the sheltered sectors would have to follow the rate set by the negotiators in manufacturing. This mode of cross-sectoral coordination was premised on the ability, i.e. power, of the manufacturing actors to ensure compliance from their respective fellow organizations in sheltered sector. The latters' interest in this was to maximize employment and production in their industries by way of wage moderation, which was to be achieved through organizational internalization of the externalities of wage settlements, i.e. curbing members' temptation to free-ride. This was supported by a variety of mechanisms, notably the manufacturing actors'

migration and the influx of cheap labour after EU's Eastward enlargement in particular, the unspoken premise of closure undergirding the Scandinavian social models has been hollowed out. The rise in mobility of labour and services in the single market has implied a fundamental shift in the competitive conditions of many employers and workers, the reach of collective regulations, the orbit of union solidarity, and the constituencies with claims in the universalist welfare systems. Amplified by the unfolding refugee crisis – which seems to crystallize virtually all anticipated challenges to the Scandinavian social models in a veritable "moment of truth" – the big question is whether the reconfigured actor constellations of the Scandinavian political economies can hammer out strategic compromises and approaches that can reconcile the demands for growth, social reform, and redistribution arising from the current quandaries.

While the Left is reluctant to challenge universalist welfare state principles, the Liberal-conservative side seems more inclined to restrict such principles and move towards more two-tiered, contribution-based schemes. The welfare chauvinists ride two horses, tending to side with the Left in protecting the universal rights of their constituencies but want benefits for immigrants cut towards a minimum. In the shadow of the refugee crisis, the latter two approaches may gain legitimacy and contribute to sharpen political divisions regarding welfare reform at the same time as the challenge of integrating the refugees in work have strengthened political demands for downward flexibility of wages and employment rights. How the strife over the latter issue is going to play out will depend heavily on how the producer coalitions shaping the policies of labour and business peak associations will respond. As argued earlier, it is far from evident that employers in export industries are prepared to spend capital on preserving – or establishing – modes of collective regulation that bolster wage floors in home market services. They are indeed eager to keep wages in public sector under control, but they do not seem overly concerned about the downward pressures and deregulatory impact of the rise in labour migration – and during the refugee crisis the calls for introduction of a statutory minimum wage have become louder. Adding to these dynamics the "disruptive" prospects of the much heralded digital, technological revolution (Brynjolfsson & McAfee 2014; Carling et al. 2015) and the so-called "sharing economy", absence of shared, efficient strategies to halt the drift towards more dualized and fragmented labour markets might thus propel a scenario where organized class-cooperation within national boundaries is gradually replaced by disorganized class conflict in increasingly internationalized labour markets.

On this backdrop, it is an open question whether the constellations of political and producer coalitions that have used to shoulder strategic crisis compromises in the past at this critical juncture will once again prove able to steer the course out of the havoc. There are indeed signs that the gravity of the current challenges is spurring search for bipartisan crisis settlements.[53] However, given the complex nature of the tensions that are likely to arise, one cannot rule out that the present upheavals further down the road will be identified as a tipping point where dynamics of conflict, stalemate, and fluctuating majorities paved the way for development of more multi-tiered, divided, and less inclusive Scandinavian models. Whether such a scenario will be conducive to maintain the Scandinavian ability to foster growth and efficiency through flexible adaptation remains open for doubts.

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dominant positions in coordination within their respective peak associations, the sequence of pattern bargaining, and the institutions of mediation, arbitration, peace clauses, state intervention, and so on.

[53] For example, the main Norwegian employer and union confederations (NHO & LO) recently launched a new "Sustainability alternative" that, inspired by the 1990s "Solidarity Alternative", entailed the promise of renewed and strengthened social partnership. They argued that this was indispensable to handle the combined challenges of the fourth industrial revolution, the sharing economy, the refugee crisis, and the declining oil prices and revenues presently facing the Norwegian economy.

Appendix 1 Tables and figures

Table A1 Change in GDP, domestic demand, and exports of goods and service (constant prices, constant PPP, OECD base year)

GDP average annual growth

	1990-1994	1994-1999	1999-2004	2004-2008	2008-2014
Denmark	2,2	0,4	1,6	1,6	-0,3
Finland	-1,5	0,5	3,5	3,4	-1
Iceland	0,3	4,5	4,2	5,5	0,05
Norway	3,8	4,1	2,5	4,1	1
Sweden	-0,1	3,7	3,2	2,6	1,1
France	1,1	2,7	2,2	1,7	0,3
Germany	2,2	1,8	1	2,3	0,7
UK	1,5	3,1	3,1	2	0,9

Domestic demand growth, average annual growth

	1990-1994	1994-1999	1999-2004	2004-2008	2008-2014
Denmark	3,9	5	4,4	5,6	3,9
Finland	-1,6	7	5,6	6,4	-1,6
Iceland	2,5	11,6	10	10,7	2,5
Norway	5	7,8	6,3	10	5
Sweden	2,5	5,1	4,7	5,6	2,5
France	2,4	3,5	4,2	4,9	2,4
Germany	6,2	2,4	1	2,9	6,2
UK	5,1	6,7	6,2	5,3	5,1

Export of goods and services, average annual growth

	1990-1994	1994-1999	1999-2004	2004-2008	2008-2014
Denmark	4,5	6,8	7	11,7	4,9
Finland	13,3	10,3	5,6	10,7	-1,8
Iceland	13,3	6,8	9,8	25,9	11,2
Norway	3,3	9,2	10	11,2	3,1
Sweden	9,2	10,5	6,5	9,6	3,2
France	3,9	8,4	4,5	5,8	2
Germany	4	8,9	8,8	9,6	3,3
UK	8,8	5,8	5,3	9,4	3,7

Figure A1 Share of adult population (25-64) with tertiary education 1990-2011
(Source: OECD.stat, Dølvik & Martin 2015)

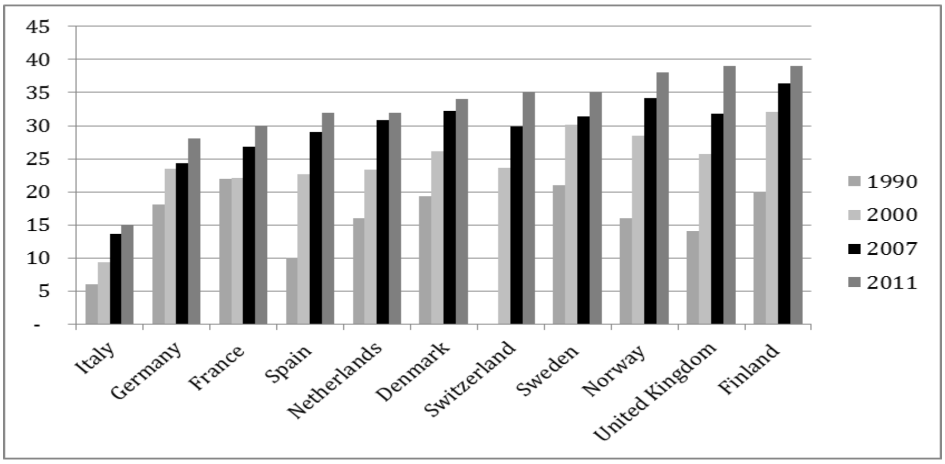


Figure A2 Innovation ranking – share of companies with radical innovations

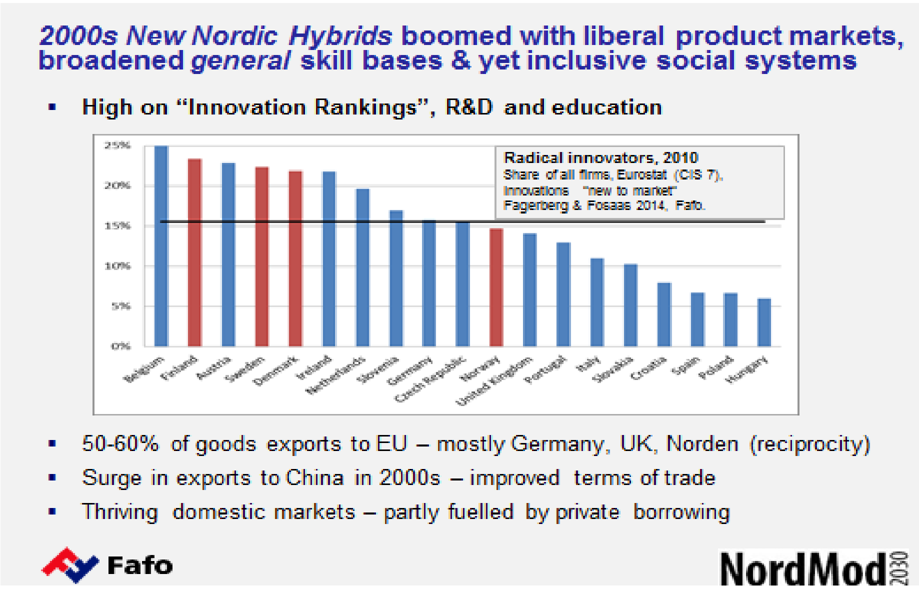
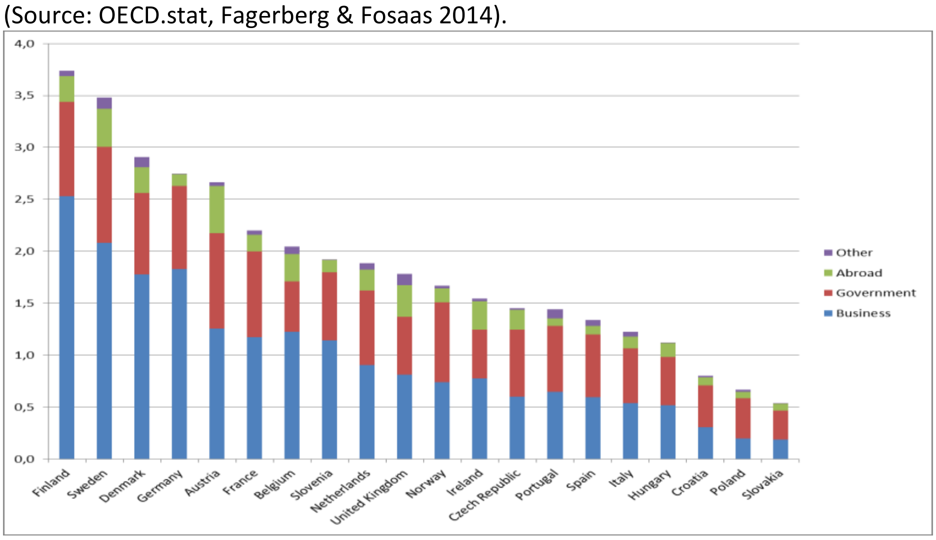


Figure A3 Expenditure on R&D as share of GDP average 2007-11- Business, government, abroad
(Source: OECD.stat, Fagerberg & Fosaas 2014).



Appendix 2 Further reflections on the prospects for collective bargaining coordination

How is the Scandinavian configuration of actor coalitions and institutions in working life likely to be affected by the changes in the labour market flowing from accession of the low-wage CEE countries and continued tertiarization and manufacturing decline? The heart of the matter is how this reconfiguration affects the product and labour market interests of the respective employer groups and hence their stakes in continued coordinated regulation. For reasons of simplicity it is plausible to assume that the unions in general will have a strong interest in maintaining coordination, leaving aside that associations of the high-skilled professions may have deviant views.

The "de-closure" flowing from the redrawn boundaries of the labour market and product market for services (and subcontracting) entails a profound shift in the competitive conditions of employers, in the reach of pre-existing labour market regulations, and hence in the conditions for union solidarity. First, manufacturing employers gain access to cheaper providers of services and labour from abroad, which will also have a disciplining effect on blue-collar union bargainers. The effect is a considerable improvement in competitiveness of manufacturing.[54] Second, by contrast, private employers in formerly sheltered medium-and low-skilled sectors – such as construction and labour intensive personal services – will face fiercer competition in their product markets chiefly owing to the cheaper labour of their foreign contenders. Due to harsher price competition, domestic firms will tend to follow suit by hiring cheaper migrant labour, either directly or, especially in firms bound by collective agreements, through various forms of subcontracting. As experienced in construction all over Scandinavia, such dynamics set in motion a downward shift in the terms of competition which increases pressures on labour costs and tempt more employers to move production outside the constraints of collective agreements ('exit'). In crude form, this might point towards a scenario where organized class-cooperation in national labour markets is replaced by disorganized class conflict in internationalized labour markets.

Yet, posing an existential threat to firms bound by collective agreements in the less organized services sector, the associations in labour intensive parts of this sector are inclined to join forces with their unions in seeking protection against "unfair competition" in the product market by demanding re-regulation of competition in the labour market, notably establishment of industry-wide wage floors. Hence, as formerly seen in manufacturing, internationalization of product markets tends to strengthen national cross-class coalitions aimed to safeguard competitiveness through stronger coordination in the formerly sheltered parts of the labour markets, albeit in this instance through upward harmonization of the lowest wages.

Manufacturing employers were traditionally in favour of cross-sectoral coordination to keep wage growth in sheltered sectors down. Now, with the prospect of lower costs for delivery services and access to cheap ancillary labour from abroad, they are – like employers in high-skilled ICT-industries and advanced, exportable services – inclined to support the deregulation flowing from the internationalization of the labour market and oppose cross-class initiatives of re-regulation in formerly sheltered sectors (Afonso 2015).[55] And why should manufacturing employers engage in burdensome coordination when the market forces press down wages in domestic services anyhow? The international extension of the labour market and associated opening of domestic product markets thus seems to spur an inverse shift in the sector interests in cross-class coordination, possibly breaking up the traditional "coalition of ends" (Moene & Wallerstein 1995). Whereas organized actors in labour intensive services sectors are inclined to stick together when faced with international competition at home, the employers in export manufacturing – the backbone of Scandinavian coordination – have recently been on collision course with their unions'

[54] This may to some extent also pertain to the growing ICT industries and advanced branches of business services which rely on high-skilled staff but may benefit from cheaper sub-delivery services and ancillary labour.

[55] Typical examples are the employer confederations' resistance of proposals to broaden the application of extended collective agreements in Germany and Norway (Dølvik et al. 2014), and the joint declaration of Danish employers' and union confederation to refrain from any statutory means to counter low-wage competition.

demand for re-regulation, as conspicuously demonstrated in the Norwegian Supreme Court case over extension in ship-yards.

Although the traditional cross-class coalition in manufacturing may be tempted by the prospect of continued deregulation of job markets in private services, the actors still have stakes in keeping wage growth in the large, skill-intensive public sector in check. That is hard to achieve without cross-sectoral coordination. Further, in line with the old "main-course model" (Stokke et al. 2013) they may also see an interest in keeping wage growth in private services sufficiently up to ensure that returns on investment remain comparable across sectors. If relative labour costs in private services fall too much behind, higher capital returns there may result in declining investment in manufacturing and further investment flight into property and other assets. Considering also that the wage floors emerging in Scandinavia through statutory extension entail minimum wages that are well below the going rate in collective agreements, it is doubtful that manufacturing employers are willing to spend much negotiating capital on resisting such re-regulation in other sectors.[56] Hence, a deliberate actor-driven dismantling of the Scandinavian pattern of wage coordination does not seem likely, although the power-relations between employers and workers definitely have shifted in favour of the former.

Thus, the main challenge to the coordinated Scandinavian approach rather seems to be associated with the institutional erosion from below flowing from the effects of labour migration, non-standard employment, and deindustrialization, and the associated decline in unionization and bargaining coverage. Irrespective of the attempts to rein in the deregulatory effects of these dynamics, the reach of existing regulatory tools is diminishing as the extended market provides individual employers and job seekers stronger incentives and opportunities to circumvent national collective jurisdictions through creative forms of regime-shopping. The collective action problems this give rise to for employers and unions may prove harder to come by than those they faced some hundred years ago.

Clearly, solidarity through collective action is easier to achieve in a context of "closure" than in a boundless market. In principle, the tendencies of fragmentation can be reversed if the political will and capacity are there, but that would require such a comprehensive strategy of re-regulation and renewal of policy tools that it is hard to envisage within the pattern of political and producer coalitions now emerging in the Scandinavian countries. While the traditional Scandinavian models, as pointed out by Hall (2015), were built around the class cleavage where close ties between the main actors in the cross-class producer coalitions and the main Social Democratic and Conservative parties enabled continued coordination also when politics changed, the current changes in the cleavage structures in the labour market and the fragmentation of the electoral-political landscape tend to obfuscate the ties between coalitions of producers and politicians. Creating less favorable conditions for encompassing coordination, a likely consequence is that the celebrated Scandinavian capacity for swift adjustment is weakened. More plausible than comprehensive re-regulation or wholesale dismantling of the Scandinavian labour regimes is therefore a trajectory of incremental change where coordination increasingly is confined to traditional manufacturing and the public sector, while the expanding private services become subject to growing dualization between high-skilled groups preferring individualized wage setting and the growing minority of weakly organized, low-skilled workers. In the longer term such a trajectory is likely to heighten political pressures and tolerance for more two-tiered welfare systems. If this proves true, the Scandinavian approach may still stand out, but it will become less distinct as the gaps between the majority of insiders and the minority of (often ethnic) outsiders are widening.

[56] The exception might Denmark, where the dominant organized actors in manufacturing see any moves towards statutory wage floors as fundamental breech with the Danish model.

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