



Welfare

## More for less

### A generous welfare state that does not cost the earth

IN "THE LION AND THE UNICORN", written in 1941, George Orwell invoked the spirit of England in a handful of images—"solid breakfasts and gloomy Sundays, smoky towns and windy roads, green fields and red pillar-boxes". When this correspondent tried to summon up appropriate images for the spirit of the Nordic region he found himself turning to the welfare state: Swedish fathers enjoying a leisurely lunch while their children sleep in prams (Sweden's paternity leave is among the most generous in the world); Danish mothers cycling, helmetless, through the early morning mist with their children in sidecars (Copenhagen has more than 350km of cycle lanes, and a third of the population cycles to work); a Finnish physics teacher discussing the nature of elegance with a class of 15-year-olds (Finland regularly comes near the top of international league tables for educational attainment).

The Nordics still have the world's most generous welfare states, but a succession of crises put an end to the region's magical thinking about welfare. Denmark went into freefall in the early 1980s. Finland imploded in the early 1990s when the collapse of communism killed its most reliable market. Sweden and Norway faced serious financial crises at about the same time. These events are still fairly fresh in people's memories.

Policymakers responded to these near-death experiences by changing their habits, above all by putting their budgets back into balance. The Swedes, for instance, reduced their national debt from 84% of GDP in 1996 to 49% in 2011. They also tackled entitlements to take account of ageing populations. In 1998 Sweden passed the most sweeping pension reform in any rich country, replacing a defined-benefit system with a defined-contribution one and bringing pensions more in line with lifetime incomes.

Denmark has been slower than Sweden to clean out its closets. Public spending as a proportion of GDP increased from 51% to 58% after the 2007-08 financial crisis and is now the highest in the OECD. But the pace of reform is speeding up. In 2006 Denmark increased the state pension age from 65 to 67, to be phased in by 2024-27. In 2010 it halved the upper limit on paying out unemployment benefit from four to two years. In 2011 it hastened the demise of an early-retirement scheme which gave some people the option to leave at 60. In 2012 it announced plans to increase the differential between wages and benefits.

### Welfare capitalism

Even more striking than the Nordic world's commitment to balancing its books is its enthusiasm for experimenting with new ideas. The Swedish state now allows private companies to compete with government bodies for public contracts. The majority of new health clinics and kindergartens are being built by private companies, frequently using private money. The state also allows citizens to shop around for the best services and take the money with them.

The Swedes have done more than anyone else in the world to embrace Milton Friedman's idea of educational vouchers—allowing parents to send their children to whatever school they choose and inviting private companies or voluntary groups to establish "free" schools. Almost half the country's schoolchil-

fully: innovation and social inclusion. BCG, as the Boston Consulting Group calls itself, gives all of them high scores on its e-intensity index, which measures the internet's impact on business and society. Booz & Company, another consultancy, points out that big companies often test-market new products on Nordic consumers because of their willingness to try new things. The Nordic countries led the world in introducing the mobile network in the 1980s and the GSM standard in the 1990s. Today they are ahead in the transition to both e-government and the cashless economy. Locals boast that they pay their taxes by SMS. This correspondent gave up changing sterling into local currencies because everything from taxi rides to cups of coffee can be paid for by card.

The Nordics also have a strong record of drawing on the talents of their entire populations, with the possible exception of their immigrants. They have the world's highest rates of social mobility: in a comparison of social mobility in eight advanced countries by Jo Blanden, Paul Gregg and Stephen Machin, of the London School of Economics, they occupied the first four places. America and Britain came last. The Nordics also have exceptionally high rates of female labour-force participation: in Denmark not far off as many women go out to work (72%) as men (79%).

### Flies in the ointment

This special report will examine the way the Nordic governments are updating their version of capitalism to deal with a more difficult world. It will note that in doing so they have unleashed a huge amount of creativity and become world leaders in reform. Nordic entrepreneurs are feeling their oats in a way not seen since the early 20th century. Nordic writers and artists—and indeed Nordic chefs and game designers—are enjoying a creative renaissance.

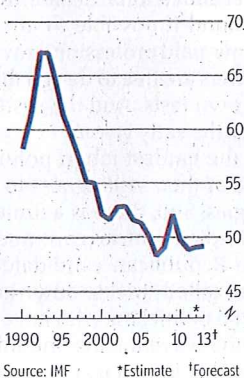
The report will also add caveats. The growing diversity of Nordic societies is generating social tensions, most horrifically in Norway, where Anders Breivik killed 77 people in a racially motivated attack in 2011, but also on a more mundane level every day. Sweden is finding it particularly hard to integrate its large population of refugees.

The Nordic model is still a work in progress. The three forces that have obliged the Nordic countries to revamp it—limited resources, rampant globalisation and growing diversity—are gathering momentum. The Nordics will have to continue to upgrade their model, but they will also have to fight to retain what makes it distinctive. Lant Pritchett and Michael Woolcock, of the World Bank, have coined the term "getting to Denmark" to describe successful modernisation. This report will suggest that the trick is not just to get to Denmark; it is to stay there.

The final caveat is about learning from the Nordic example, which other countries are rightly trying to do. Britain, for example, is introducing Swedish-style "free schools". But transferring such lessons is fraught with problems. The Nordics' success depends on their long tradition of good government, which emphasises not only honesty and transparency but also consensus and compromise. Learning from Denmark may be as difficult as staying there. ■

### It can be done

Sweden's government spending  
As % of GDP







**The Finns have one of the world's most successful educational systems without so much as a nod to Friedman**

wheelchairs from the same old provider it now plans to order "mobility solutions" from competing companies and then encourage the most successful ones to export their products. "We need to learn how to make businesses out of things that we want to do for political reasons," says Lars Andersen, head of the Economic Council of the Labour Movement, a think-tank.

It would be an exaggeration to describe these welfare reforms as a triumph for Friedmanism. The most comprehensive study of school reform in Sweden demonstrates that choice has had a positive effect. Anders Bohlmark and Mikael Lindahl examined data for all Swedish schoolchildren between 1988 and 2009 and found that increasing the share of "free" schools in a particular district leads to better performance on a variety of measures, from school grades to university attendance.

The biggest gains are recorded in the regular public schools rather than in the "free" schools. At the same time, though, Sweden's ranking in the OECD's annual PISA tables on educational achievement has declined. The Swedish press is full of stories about the misdeeds of private schools and hospitals. Private companies have promised to generate profits year in, year out, particularly if they are backed by private-equity companies; but after the first wave of rationalisation it often becomes more difficult to squeeze savings out of schools and hospitals.

The Finns have one of the world's most successful educational systems (as measured by the PISA tests) without so much as a nod to Friedman. They have dispensed with the machinery of educational accountability such as detailed national curriculums, school inspections, high-stakes examinations and school vouchers. All children attend comprehensive school from age seven to 16; there is no break between primary and secondary school. Teachers experiment with lots of different styles of teaching but tend to emphasise creativity and group learning. They make extensive use of tests, but only to diagnose students rather than to classify them.

Yet the Finns have also dispensed with many of the shibboleths of the educational left. At age 16 they rigorously divide children up between academic and vocational streams. And they do not spend a huge amount on education: 6.4% of GDP in 2009, compared with 7.3% in America. Finnish teachers talk enviously about how much their British colleagues are paid.

Finland's success depends neither on accountability (the right-wing panacea) nor on resources (the left-wing one) but on two things that are ignored in the wider educational debate: trust and stability. The government has found it possible to attract high-quality people into a relatively low-paid profession provided they are treated with respect. Teachers are free to design their own curriculums and develop their own tests. And the system has remained almost unchanged since the early 1970s.

Controlling public spending is the hardest job in politics. The Nordics have succeeded because of their willingness to focus on results rather than on ideologies. Still, there is a limit to what pragmatism can achieve. The Nordic countries continue to suffer from what Mitt Romney, the Republican candidate in America's recent presidential election, called "trickle-down government". They are run by professional politicians who have no idea that mandating a year's maternity leave means one thing for a government department and another for a start-up. ■

► dren choose not to go to their local schools. More than 10% of students under 16 and more than 20% of those over 16 attend "free" schools, two-thirds of which are run by private companies.

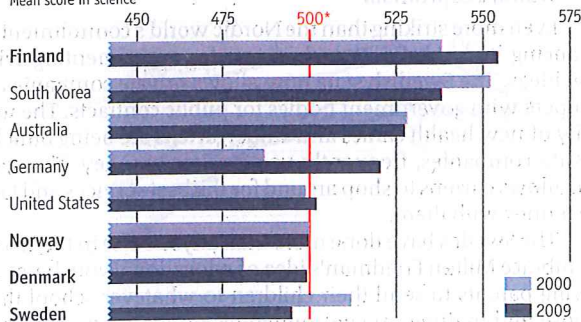
Denmark has added a useful twist to the voucher idea. It not only allows parents to take their public funds to private schools with them but also to top them up (within limits) with their own money. This is creating a flourishing market, particularly in Copenhagen, ranging from academic schools for traditionalists via religious ones for Muslims to experimental ones for ageing hippies. "One of the most popular entertainments in Denmark", says Mr Mogensen, the historian, "is to spot the latest left-wing politicians to send their children to private school."

In the workplace Denmark is a pioneer of flexicurity: companies can sack employees with almost American ease but the government provides displaced workers with generous benefits and helps them get new jobs. Most employers like the system because it frees them from one of continental Europe's biggest problems: a dual labour market divided between heavily protected insiders and casualised outsiders.

Denmark is also a pioneer of what might be called the intelligent state. The government abandoned its fat tax which was intended to nudge people into leading healthier lives because the results were disappointing. But it is also using its purchasing power to encourage innovation: for example, instead of ordering

**Fabulous Finns**

Education performance of 15-year-olds, selected countries  
Mean score in science



Source: OECD PISA

\*Mean PISA score for all countries