

A stylized world map composed of a grid of dots in various shades of gray, with several dots highlighted in red. The map is centered behind the title text.

# Scandinavian Labour and Social Policy

## Models for a Preventive Welfare State

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- Reference is often made in discussions of the preventive welfare state in Germany to Scandinavian welfare states. This paper provides a systematic account of the implementation of preventive social policy in the Nordic countries.
- The Nordic welfare states offer comprehensive protection against social risks and invest positively in lifelong learning. The integration in the labour market of as many people as possible is one aspect of a preventive welfare state; another is highly organised and high quality services.
- Preventive social policy in the Nordic countries is based on particular institutions and traditions. It is embedded in a tax and fiscal policy regime in which extensive redistribution is combined with principles of robust public budget management.



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## Summary

The preventive (»vorsorgende«) welfare state does not conflict with a »remedial« (»nachsorgende«) welfare state. Rather, financial security in situations of social vulnerability is the foundation of preventive social policy – even though there is necessarily a constant tension between the two principles.

The Scandinavian countries have successfully institutionalised the two »legs of the welfare state« (see Allmendinger 2009): namely, lifelong learning and comprehensive social security. Scandinavian social policy provides the following lessons for the principle of a preventive welfare state in Germany:

- The preventive welfare state is based on the principle of a society based on employment and knowledge (»knowledge society«) and its systems are designed accordingly. Nordic labour policy fosters the human capital of the population in diverse ways and, at the same time, deploys activation mechanisms which also include an obligation to work. The ideal of comprehensive social integration in the labour market does not protect people from economic change in open economies, but it does enable them to accept it and to organise themselves accordingly.
- The preventive welfare state is administratively decentralised and aimed by and large at all citizens. A preventive social administration offers timely and high quality assistance – and not only of a monetary nature – in all circumstances of social and economic vulnerability.
- The preventive welfare state emphasises the quality of social services. The occupational and skill requirements with regard to the staff of Nordic welfare states are high. Regular evaluations and examinations of their knowledge are the norm.
- The preventive welfare state is based on an invasive tax system which is embedded in a norm-based and rigorous fiscal policy framework. Robust public finances and a cost-intensive preventive social policy are not necessarily mutually exclusive.
- Considerable political stamina is needed to bring about a preventive welfare state in Germany. Reforms in individual social policy fields should be more closely combined with fiscally funded tax policies and social

partnership should be developed. A reform policy oriented towards the preventive welfare state will be difficult without reform of welfare state funding.

## 1. Introduction

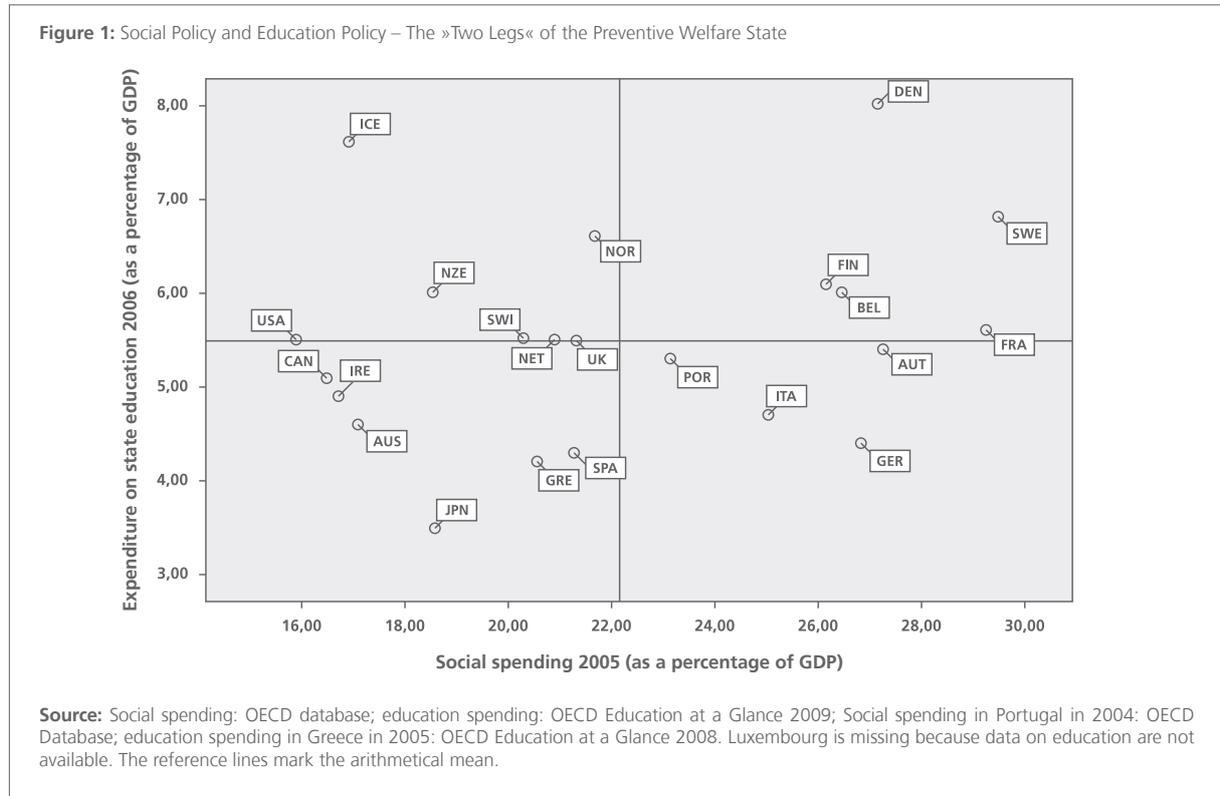
The concept of the preventive welfare state is ambiguous or, in more positive terms, open to further specification. Since its introduction into the political debate and integration in the SPD's Hamburg Programme in 2007 the concept has been constantly refined and subject to critique (see Schröder 2007/2008 and Walter 2007). The aim of this article is to present the goals, programmes and administrative anchors of Scandinavian social policy with a view to showing that the Nordic welfare states have already implemented important aspects of a preventive social policy in many areas.<sup>1</sup>

Reference is often made in articles on the preventive welfare state to Scandinavian welfare states but without going into detail (cf. Allmendinger 2009; Schroeder 2007/2008; and Steinbrück 2010). We have chosen to carry out a systematic analysis of, specifically, Scandinavian social policy for the following reasons: first, the Nordic countries have long featured prominently in the evaluation of welfare state policy since they combine strong economic performance,<sup>2</sup> a low poverty rate, low corruption and a very high level of social trust (see Rothstein 2010a). Finally, Nordic societies – for many years now – are supposedly the »happiest« in Europe.<sup>3</sup> The fact that there is a region of Europe which sets an example to the rest with regard to both economic efficiency and high quality social policy and that this appears to make people happier seems a very good reason to analyse Nordic welfare states.

1. It is important to emphasise here that there are certainly differences between individual Nordic countries with regard to labour and social policy. This article is far from claiming that there is a uniform social policy template for all five Nordic welfare states (for details on the differences, see Jochem 2011 – the extent to which the foundations of Nordic labour and social policy have changed in recent years is also dealt with there).

2. The most recent observations by the World Economic Forums rank three Nordic countries among the ten most competitive countries in the world (Sweden comes in second behind Switzerland, while Finland is ranked seventh and Denmark ninth; Norway came in fourteenth place, while Iceland was ranked thirty-first out of 132 countries). Germany was ranked fifth (World Economic Forum 2010).

3. At least if one can believe the results of international surveys (on this see Rothstein 2010a). It remains to be seen to what extent the consequences of the global financial crisis impair the happiness indicators of Icelanders in particular.



Another reason for choosing this topic – and the decisive one for this research report – is that the Nordic countries have successfully institutionalised the »two legs« of the modern welfare state (see Allmendinger 2009): a comprehensive social safety net and a high quality education policy. This can clearly be seen from the levels of spending on social security, on the one hand, and on the education system, on the other (see figure 1). In addition, the Nordic countries display the highest level of labour market integration in Europe – with their trend towards lower open unemployment and very low long-term unemployment (see section 2).

It is clear from the data presented in Figure 1 that the Nordic countries in the upper right quadrants cover both dimensions – in other words, spending on social security and spending on education – at above-average levels (only Iceland and, to a limited extent, Norway can be regarded as »anomalies« within the Scandinavian group here). At the same time, the precarious situation of the German social model is also clear: while Germany is in the leading group with regard to social spending, as far as education spending is concerned it ranks with Greece, Spain and – as an extreme outlier at the bottom – Japan

at the end of the international distribution. From this cursory overview of the data it is apparent that investment in education and social spending are not – as the German reform debate sometimes suggests – mutually exclusive.

It is not possible, within the confines of this article, to analyse extensively all aspects of a preventive social policy and illustrate them using Scandinavian examples. On the grounds of relative importance, the following account is focused on labour market and employment policy, education policy and a general overview of various areas of human (social) services.

## 2. Job Creation and Labour Market Policy

The aim of the Scandinavian welfare state is a thoroughly integrated knowledge society based on employment and it is designed accordingly. To that extent, particularly important to the ideal model of the preventive welfare state are policies aimed firmly at the employment situation and the integration of as many people as possible in the labour market.



Tables 1 and 2 present Germany's employment and labour market situation. Based on these numbers, Germany's employment and labour market profile is characterised by the following defects:

- Employment has risen in recent decades, although the employment level in 2008 was still below the international average.<sup>4</sup>
- The standardised unemployment rate is well above average.
- Particularly grave is the increasing long-term unemployment in Germany, which is very high by international comparison.
- Part-time employment is distinctly above average and women's participation in such employment is well above average.
- Over half of all older workers (over 55 years of age) are no longer in the labour market. There is nothing unusual in this, but the examples of New Zealand, Sweden and Iceland show that it is not inevitable.
- Germany's spending on active labour market policy is in line, on average, with the other OECD states, but here too the Nordic countries show that higher investment is politically viable.
- Since 1995, growth in real wages has been below average; indeed, since 2000, there has been virtually no real-wage growth at all.

This overview of comparative data shows that, although Germany's labour market performance is not the worst statistically, the »middle course« steered by the German welfare state (Schmidt 2009) is nothing to cheer about.

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4. At this point it is sufficient to mention that the expansion of German employment in recent years has in large part been due to so-called atypical employment (Bundesagentur für Arbeit 2010). More full-time employment with social security coverage would be desirable.

Tabelle 1. Employment Profiles in International Comparison

|                          | Employment rate |             | SUR<br>2008 | Long-term unemployment |             | Part-time employment |                 |
|--------------------------|-----------------|-------------|-------------|------------------------|-------------|----------------------|-----------------|
|                          | 1994            | 2008        |             | 1994                   | 2008        | % total<br>2008      | % women<br>2008 |
| Australia                | 66.0            | 73.2        | 4.2         | 36.1                   | 14.9        | 23.8                 | 71.7            |
| Austria                  | 68.4            | 72.1        | 3.8         | 18.4                   | 24.2        | 17.6                 | 80.4            |
| Belgium                  | 55.7            | 62.0        | 7.0         | 58.3                   | 52.6        | 18.7                 | 82.9            |
| Canada                   | 67.0            | 73.7        | 6.1         | 17.9                   | 7.1         | 18.4                 | 67.8            |
| Denmark                  | 72.4            | 78.4        | 3.4         | 32.1                   | 16.1        | 18.0                 | 61.7            |
| Finland                  | 60.7            | 71.9        | 6.4         | NA                     | 18.2        | 11.5                 | 63.0            |
| France                   | 58.4            | 64.6        | 7.8         | 38.5                   | 37.9        | 13.4                 | 79.5            |
| Germany                  | 64.5            | 70.2        | 7.3         | 44.3                   | 53.4        | 22.1                 | 79.9            |
| Greece                   | 54.1            | 62.2        | 7.7         | 50.5                   | 49.6        | 7.8                  | 67.4            |
| Iceland                  | 78.5            | 84.2        | 3.0         | 15.1                   | 4.1         | 15.1                 | 71.2            |
| Ireland                  | 51.9            | 68.1        | 6.3         | 64.3                   | 29.4        | 21.0                 | 79.0            |
| Italy                    | 51.5            | 58.7        | 6.8         | 61.5                   | 47.5        | 16.3                 | 75.8            |
| Japan                    | 69.3            | 70.7        | 4.0         | 17.5                   | 33.3        | 19.6                 | 70.4            |
| Luxembourg               | 60.2            | 64.4        | 4.9         | 29.6                   | 38.6        | 12.7                 | 91.9            |
| Netherlands              | 63.9            | 76.1        | 2.8         | 49.4                   | 36.3        | 36.1                 | 75.5            |
| New Zealand              | 68.0            | 74.9        | 4.2         | 32.7                   | 4.4         | 22.4                 | 72.3            |
| Norway                   | 72.2            | 78.1        | 2.5         | 28.8                   | 6.0         | 20.3                 | 71.7            |
| Portugal                 | 64.0            | 68.2        | 7.7         | 43.4                   | 48.3        | 9.7                  | 68.5            |
| Spain                    | 47.4            | 65.3        | 11.4        | 56.2                   | 23.8        | 11.1                 | 80.6            |
| Sweden                   | 71.5            | 75.7        | 6.2         | 25.7                   | 12.4        | 14.4                 | 64.6            |
| Switzerland              | 75.6            | 79.5        | 3.5         | 29.0                   | 34.3        | 25.9                 | 81.2            |
| UK                       | 68.7            | 72.7        | 5.6         | 45.4                   | 25.5        | 22.9                 | 76.1            |
| USA                      | 72.0            | 70.9        | 5.8         | 12.2                   | 10.6        | 12.2                 | 68.1            |
| <b>Arithmetical mean</b> | <b>64.4</b>     | <b>71.1</b> | <b>5.6</b>  | <b>36.7</b>            | <b>27.3</b> | <b>17.9</b>          | <b>74.0</b>     |

**Note:** Employment rate = percentage of employees in the working-age population (15-64 years of age); long-term unemployment = percentage of long-term unemployed (12 months or more) out of total unemployment; part-time employment: total = percentage of part-time employment out of total employment; part-time employment: women = percentage of female part-time employment out of total part-time employment.

**Source:** OECD Employment Outlook 2009 (Statistical Annex).

**Table 2.** Labour Market Profile in International Comparison

|                          | Employment rate | SALMP      | Real average wage growth (%) |            |            |            |
|--------------------------|-----------------|------------|------------------------------|------------|------------|------------|
|                          | 2008            | 2007       | 1990-1995                    | 1995-2000  | 2000-2005  | 2006-2007  |
| Australia                | 57.4            | 0.32       | 1.0                          | 2.1        | 1.2        | 1.1        |
| Austria                  | 41.0            | 0.68       | 1.2                          | 0.6        | 0.9        | -0.1       |
| Belgium                  | 32.8            | 1.30       | 2.1                          | 1.3        | 0.3        | -0.1       |
| Canada                   | 57.5            | 0.29       | -0.2                         | 2.0        | 1.1        | 2.6        |
| Denmark                  | 57.7            | 1.31       | 0.8                          | 1.6        | 2.0        | 0.3        |
| Finland                  | 56.4            | 0.86       | -0.1                         | 1.4        | 2.4        | 1.3        |
| France                   | 38.2            | 0.92       | 1.1                          | 1.3        | 1.4        | 1.0        |
| Germany                  | 53.8            | 0.77       | 2.1                          | 0.8        | 0.3        | 0.0        |
| Greece                   | 42.9            | --         | 3.2                          | 2.4        | 2.8        | 2.2        |
| Iceland                  | 83.3            | --         | --                           | --         | --         | --         |
| Ireland                  | 53.9            | 0.62       | 2.5                          | 2.2        | 2.7        | 3.2        |
| Italy                    | 34.4            | 0.46       | -0.7                         | 0.8        | 0.3        | 0.1        |
| Japan                    | 66.3            | 0.16       | 1.3                          | 0.5        | 0.3        | -0.4       |
| Luxembourg               | 38.3            | 0.48       | 1.9                          | 1.2        | 1.1        | 1.9        |
| Netherlands              | 50.7            | 1.09       | 0.3                          | 0.0        | 0.4        | 3.3        |
| New Zealand              | 71.9            | 0.35       | NA                           | NA         | NA         | NA         |
| Norway                   | 69.3            | 0.56       | 1.2                          | 2.2        | 3.2        | 6.0        |
| Portugal                 | 50.8            | 0.53       | 1.1                          | 2.6        | 0.3        | 1.0        |
| Spain                    | 45.6            | 0.80       | 1.9                          | -0.5       | -0.1       | 0.2        |
| Sweden                   | 70.3            | 1.12       | -0.3                         | 3.3        | 1.4        | 3.7        |
| Switzerland              | 68.4            | 0.60       | 1.0                          | 0.9        | 1.1        | 0.3        |
| UK                       | 58.2            | 0.32       | 1.0                          | 2.6        | 1.6        | 1.4        |
| USA                      | 62.1            | 0.13       | 1.0                          | 2.9        | 0.4        | 1.0        |
| <b>Arithmetical mean</b> | <b>54.8</b>     | <b>0.7</b> | <b>1.1</b>                   | <b>1.5</b> | <b>1.2</b> | <b>1.4</b> |

**Note:** Employment rate 55-64 = employment rate of older workers between 55 and 64 years of age as a percentage of the age-specific population; SALMP = Spending on active labour market policy as a percentage of GDP.

**Source:** OECD Employment Outlook 2009 (Statistical Annex).

## 2.1 Innovation and Employment Policy

Historically, the Nordic countries' modernisation path has deviated from that of Germany and implies a different form of mutual adaptation between state and market. Strengthening of the state's responsibility for social matters can be dated back to the Reformation in the North. The unitary »regimes« of the North made possible a hands-on state which, at the same time, granted regional and local administrative bodies considerable social policy leeway. Extensive public sectors began to form in the 1960s in the North (see Kangas/Palme 2009). Recently, however, even social democratic parties in government have deregulated and sometimes even privatised previously firmly established areas of public employment (see Klitgaard 2007). In contrast, the German state is characterised by a close interweaving of the federal government and the individual states. The public sector is relatively weak and, due to the historical role of subsidiarity in Germany, the welfare state there features numerous quasi-governmental social organisations.

There is already a variety of programmes at the different federal levels in Germany designed to improve competitiveness. However, a comparison of German economic policy with that of the Scandinavian countries makes it clear that in the latter there is less emphasis on preserving the existing industrial base and more on promoting new centres of dynamism in a work-oriented society (*Arbeitsgesellschaft*). History has taught Nordic governments that change cannot be inhibited in small and very open economies; instead, it must be promoted and supported. This attitude was clearly illustrated in the global financial crisis, for example, when the Swedish government refused to selectively subsidise the Swedish car industry on the grounds that supporting one industry would be unfair to the others. Instead, the Swedish government adhered strictly to its policy of expanding education and extending its active labour market policy (see Jochem 2010b).

Economic innovations cannot be planned. However, the government can put in place a framework within which innovation can be fostered. International comparative studies confirm that the Nordic countries are global leaders in technological innovation. In the rankings of the Global Innovation Index (see INSEAD 2010) Iceland comes top in a sample of 132 countries, followed by Sweden (second), Denmark (fifth), Finland (sixth) and,

finally, Norway (tenth). Germany is ranked sixteenth. In the literature, the following reasons are given for the strong performance of the Nordic countries:

- Innovative firms are global players. Research-intensive locations are selected predominantly where human capital is highly developed, in the form of well qualified and flexible workers.
- Innovative firms depend on open markets. Nordic companies are closely integrated with technological clusters worldwide. They also expanded into Eastern Europe early and intensively.
- Governments can establish a basis for innovation by developing a high quality education system. For example, the language skills of the workforce are crucial for innovative firms. In addition, the state can prepare the ground and foster innovations by developing clusters of research institutes and firms, and thereby lay the foundations for infrastructure based on state-of-the-art communication technologies.

The Nordic countries make every effort to foster innovation in their economies. To that end, education policy is a key political issue. Specific forms of political cross-linking include various committees in which innovation policy plans for the future are discussed with the trade unions and the employers' organisations. For example, in Finland recently a »future committee« was established with links to the Finnish Parliament. Similar concertation practices may also be observed in Sweden and the other Nordic countries. In addition, interministerial committees have been set up to address key research implications, for example, in medical research (in Finland and Denmark). This is aimed at overcoming administrative obstacles and establishing close institutional links between the ministries responsible for health care, social security, education and research with regard to planning issues (Ds 2009: 21).

## 2.2 Wage Policy and Quality Assurance with regard to Working Conditions

Wage setting is the task of the social partners and should take place without interference from the state. This conception is an essential part of the tradition in Federal Germany and is known in the literature as »free

collective bargaining« (*Tarifautonomie*). There are no financial markets without state regulation and similarly no market for wages and working conditions is conceivable without state regulation.

The German social partners have a particularly challenging task since their agreements are regarded as benchmarks throughout Europe. However, it can be shown that wage development in Germany is below the European average (see table 2). There is therefore room here for upward movement without directly undermining the competitiveness of the German economy.

There are no minimum wages in Scandinavia. Instead, the social partners autonomously negotiate wage floors in individual branches. In contrast to the situation in Germany, the scope of such agreements in Nordic labour markets is very wide. Having said that, recent decisions by the European Court of Justice (ECJ) have partly undermined the Nordic model of self-regulatory labour relations (see Höpner 2008). As a result, voices have begun to be heard in Scandinavia calling for national minimum incomes. The Finnish trade union federation SAK demanded a minimum income from employment of 1,500 euros a month in 2009. This represents in the case of an average collective working time of around 37.5 hours a week a minimum hourly wage of 9.2 euros (see Schulte 2010). Although the Finnish trade unions are trying to enforce these demands through wage negotiations they have not ruled out the legislative route.

The Nordic countries are famous for their solidarity-based wage policy. Wage and income equality is very pronounced by international comparison. The background to this achievement is the firm conviction of the Nordic trade union movements that high wage differentials are to be avoided for reasons of fairness. Over the past decade, however, wage setting processes have become more localised and individualised, even in the Nordic countries. As a consequence of these developments wage differentials have recently begun to increase. At the same time, in many of these countries this development is (for the time being at least) counteracted by a tax policy oriented towards relatively homogeneous income distribution.

From a German perspective »statutory minimum wages« and »wage and income equality« are now on the po-

litical agenda. The eroding German model of extensive social partnership, however, cannot alone impose wage and income floors. A legislative initiative would be in line with developments in virtually every other European country (see Schulte 2010). The issue of »social and economic inequality« is particularly resonant. Economic inequality has a tendency to make people unhappier and unhealthier and even to make them less satisfied with basic democratic structures (see Rothstein 2010a and Schäfer 2010). To this extent, German policy on poverty can be regarded as a failure. Since around 2000 inequality has increased rapidly in Germany (see Grabka 2009). Targeted support for particular groups – such as immigrants and single parents – has so far not managed to reduce the risk of poverty.

One particular source of increasing inequality is the increase in atypical employment. While in the 1990s a full-time job covered by social insurance was still the standard and ideal of social partnership this ideal is increasingly fading for a growing number of low paid jobs – covered by social insurance – as well as a rapidly rising number of pseudo self-employed, part-time or temporary workers and those with so-called mini- or midi-jobs. With regard to socio-economic inequality and job quality in Germany, »American conditions« began to characterise the labour market »long ago« (see Grabka 2009). Empirical studies show that this does not have to be the case even within the framework of Danish flexicurity. For example, Seifert and Tangian (2009) have shown, notwithstanding various methodical imponderables, that the quality of Danish employment conditions, like those of the other Nordic countries, is much higher than in Germany. Both »normal employment« and atypical employment are on a more secure legal foundation in the Nordic countries and integrated in company training cycles than in Germany (see also Bredgaard et al. 2009).

### 2.3 Active Labour Market Policy

Active labour market policy is no panacea against unemployment or falls in employment. The instruments of labour market policy are mainly directed towards improving matching processes in the labour market in an effort to ensure that employment demand on the part of companies is satisfied by qualified workers. It is clear from table 2 that there are major differences between the OECD countries with regard to the level of funding

for such programmes. The Nordic countries, especially Denmark and Sweden, are international leaders in this regard. The Danish model of labour market policy and its system of so-called flexicurity has attracted considerable attention from both the EU and many European national governments.

The Danish flexicurity system has three pillars: (i) stable monetary protection against unemployment risk (with a wage replacement rate sometimes as high as 90 per cent of the previous wage), (ii) an active labour market policy, aimed at improving human capital and (iii) also instruments of compulsion, as well as flexible labour markets, which takes the form in particular of weaker protection against dismissal (see Jørgensen, Nørup and Baadsgaard 2010).

The conceptual basis of Danish active labour market policy was laid in the 1980s and has been constantly revised and re-organised since the comprehensive labour market reforms of 1994 (see Teknologisk Institut 2009). To begin with, the basic policy programmes which made up active labour market policy in Denmark were still aimed at comprehensive rules on sabbaticals. These were gradually reduced or abolished. In recent decades, the following trends have ensued: first, measures were taken to increase working time flexibility; second, parental leave was extended; third, greater efforts were made to expand opportunities for education and training; and fourth, recently administrative responsibilities were fundamentally reformed, active labour market policy decentralised and state control instruments were tightened up.<sup>5</sup> All these policy reforms were negotiated on the basis of social partnership between representatives of the state, the strong trade union movement and the employers' organisations.

Denmark's economically active population numbers around 2.9 million. In terms of full-time equivalents about 60,000 people a year – that is, around two per cent of the labour force – are affected by active labour market policy measures, at a cost of around 1.3 per cent of Danish GDP. In Denmark, the bulk of both active and passive labour market policies are funded from taxation. If Germany wanted to emulate such intensity – starting from the current resource deployment of around 0.7 per cent of German GDP – the German

government would have to almost double its funding. This would entail additional annual expenditure of around 14.5 billion euros, to be raised primarily from tax increases.

## 2.4 Programmes to Counter Youth Unemployment

Youth unemployment is a serious problem in Scandinavia. It is therefore not surprising that all Nordic countries have extensive programmes for the targeted development of employability among young people. The basic programmes can be divided into the following phases:<sup>6</sup>

- In the initial period of unemployment individualised action plans are worked out after extensive discussions between young people and the employment agency. Sometimes, targeted allowances are paid out to improve labour mobility.
- In a second phase, the employment agency can arrange traineeships or outline specific training.
- In a third phase, guaranteed employment in the public sector can be offered. Community service should ensure that young people do not lose contact with the labour market. Investment in training is increased.

This schematised schedule is based on two pillars. On the one hand, the relationship of care between employment agencies and young job seekers is very close (and markedly more »labour intensive« than in Germany). On the other hand, young people are encouraged by means of a variety of sanction mechanisms – for example, reduction or termination of financial support – and sometimes are compelled to accept the jobs offered to them. In the recent past, various Nordic governments have tried to further concentrate active labour market policy on young job seekers. For example, in Denmark, a project was launched – »Unge godt i gang« (Arbejds-marketsstyrelsen 2009) – with the following features:

- The consultations between job seekers and the employment agency take place early and intensively: first contact occurs during the first week of job seeking.

5. This reform was embedded in a fundamental reform of state structures. The number of local authorities was reduced from 271 to 98 and the number of regions from 14 to five.

6. On this, see Sibbmark (2009), Martinson (2010), Martinson/Sibbmark (2010) and Teknologisk Institut (2009).

- Literacy skills are assessed systematically. If any shortcomings are identified targeted education measures are provided.
- Special mentors are assigned to young people who are difficult to place and look after them throughout their training and job seeking. Sometimes, the labour market authorities also offer psychological support.

## 2.5 Administration of Active Labour Market Policy

Recently, especially in Denmark, the tasks of the employment agencies have been radically decentralised and partly outsourced to the private sector (see European Commission 2010). In the context of the comprehensive reform of the public administration in 2007 the system of state employment agencies in Denmark was ended and all administrative matters connected to active labour market policy were transferred to local authorities. Payment of wage replacement benefits in the event of unemployment is still administered by the unemployment funds. For this purpose local authorities receive transfer payments from central government, which are higher for active measures than for passive ones. The state, regional and local labour market authorities are complemented by tripartite committees which are responsible for regular evaluations and further development of local, and sometimes strongly contrasting policy programmes at every administrative level. Cooperation with private sector providers of active labour market policy measures have intensified. This has made it possible to reduce the cost of provision for the labour market authorities without – so far – resulting in a serious fall off in quality. Finally, such cooperation has also led to the more intensive use of wage subsidies for fixed-term jobs. In particular, problem groups in the labour market appear to benefit from this kind of activation.

## 2.6 Integration of the Older Working Population

In Germany, half of the older working population – those over 55 years of age – are no longer working. It is not just that this early withdrawal from the labour market has considerable negative consequences for the public finances; current policy can also be questioned with regard to integration. Sweden, by contrast, has the

highest participation rates for older workers in the world (see table 2).

Swedish policy on promoting the integration of the older labour force in working life is based on a variety of things, only a few of which can be directly affected by the government. For example, recent studies (Sjögren Lindquist/Wadensjö 2009, SOU 2009: 93) show that good health leads to longer labour market participation, as does a high proportion of self-employed among older workers. In addition, many older males work in the areas of science, research and technology, while the majority of older women workers are employed in the public sector. In this respect, Sweden benefits to some extent from the changing of the economic structure in recent decades, as well as from the fact that the public sector is able to facilitate the integration of the older labour force by means of flexible working conditions (thereby blazing a trail for others to follow). It can also be argued that the integration of older workers in the labour market is the result of a basic cultural value. With regard to the factors which governments can influence directly we shall discuss two in detail: the interaction of social security systems (health care, pensions and passive and active labour market policy) with the integration of older workers and Sweden's particular employment protection regime.<sup>7</sup>

The Swedish pension system – de facto – does not recognise a legally binding retirement age. Although, as a rule, most old age pensions are claimed at the age of 65 – and many insurance systems are oriented towards this threshold – the possibility exists to work on until the age of 67, with full employment protection. This employment protection was relaxed only in the recent past by the centre-right government: now a 67 year old employee can be dismissed without the employer having to provide substantive justification. Pensions can be drawn only from the age of 61. At the same time, receiving a pension does not automatically mean that a person withdraws from the labour market. According to recent estimates (see Sjögren Lindquist/Wadensjö 2009: 40) around one-tenth of pensioners remain in the labour market, although on reduced hours.

7. It is worth mentioning here that the high degree of integration of older workers in Sweden (and the employment protection regime that is conducive to this) is blamed in the literature for the high youth unemployment in Sweden. Such crowding-out seems to characterise the situation in Nordic labour markets in general. Nordic governments have responded to this by stepping up their efforts with regard to school and college education, adult education and active labour market policy.

Early withdrawal from working life – under current law, not before the age of 61 – is subject to proportionate pension reductions. Certainly, the importance of the state pension in total old-age pensions has fallen in recent years. This is the result of the spread of company pension schemes. On this basis, falling state pensions could be compensated by company pensions (Sjögren Lindquist/Wadensjö 2009: 34). The maximum period of entitlement to unemployment benefit for older workers was also reformed recently. The previous extended period of up to 450 days was brought into line with the maximum of 300 days which applies to all Swedish workers.

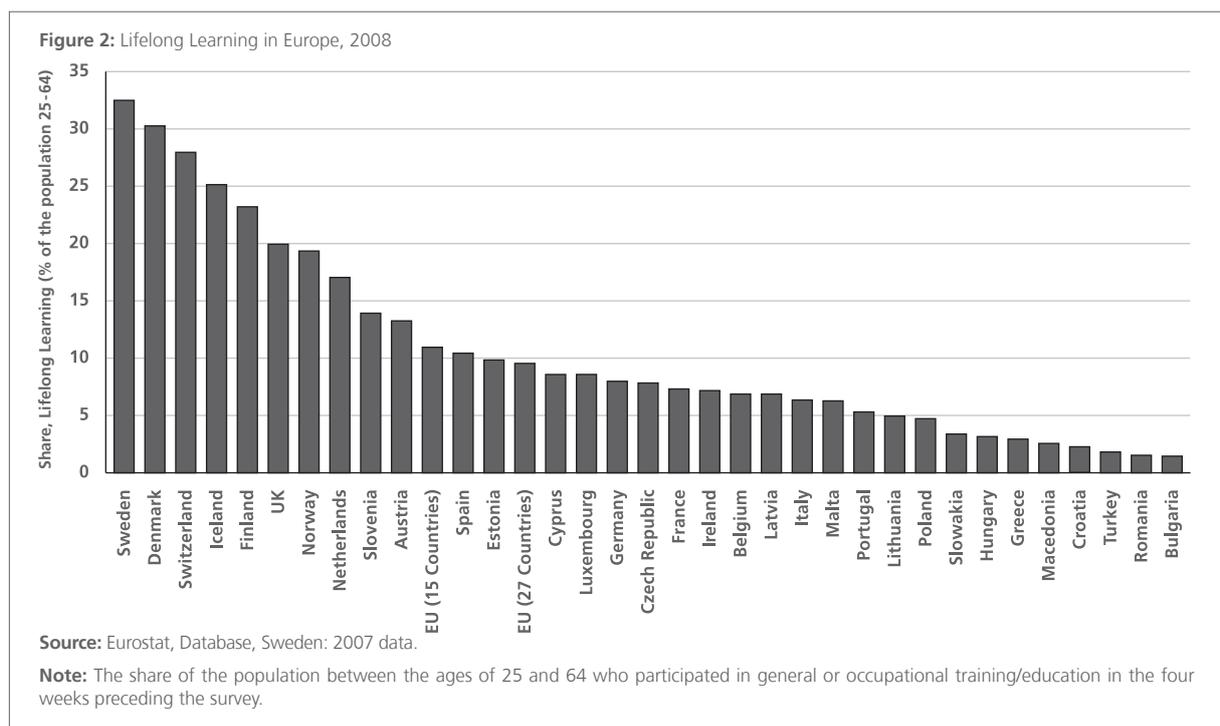
Early withdrawal from the labour market is recognised solely on medical grounds (early retirement on the grounds of a difficult job market was abolished). Needless to say, some systems of early retirement are in use. The Swedish welfare state also provides alternatives to complete early withdrawal from the labour market. One variant is a combination of drawing a pension and work. The other variant consists of a specific form of sick pay granted for an extended period on the basis of which the recipient is officially still economically active. Finally, there are flexible part-time employment contracts which enable older workers to reduce their working hours in accordance with individual preferences. From a financial standpoint this form of work can be made easier for older workers by means of part-time pensions.

The main policy instrument used in Sweden to keep older people economically active is the provision of economic incentives. The most recent reforms instituted by the centre-right coalition involve targeted tax cuts for all economically active people according to income (earned-income tax credit/*Jobbskatteavdraget*). In order to extend employment beyond the age of 65 the government introduced a large tax deduction for economically active people above that age.

Swedish regulations on employment protection are based on the principle »first in, last out«. The very high level of labour market integration among older workers has been attributed to this long established principle. The centre-right government coalition has recently made this regulation more flexible: companies are now able to deviate from this approach if they can reach agreement with the relevant trade union.

### 3. Education Policy and Lifelong Learning

The current debate in Germany on a future-oriented social policy is oddly one-sided. There is no question that Germany is lagging behind with regard to education policy. Other European countries spend more money and also are more successful according to the various criteria of the PISA studies. Of course, early child devel-



opment is extremely important. However, in the German context the integrative imperatives of education policy can be satisfied only when the principle of lifelong learning also comes into play. As international comparative studies show, it is primarily the Nordic countries and Switzerland from which Germany has most to learn.

The institutional structure of Nordic education policy is based on the following: education policy is funded by the state and the local authorities. Local authorities are responsible for running schools, providing teaching materials, school buildings and so on. Nordic schools have considerable leeway with regard to the curriculum, within a framework set by the state. Schools are also continuously evaluated. These schooling arrangements are complemented by adult education centres, which differ significantly from those in Germany. Another Nordic peculiarity is the adult educational institutions for specific groups which offer a wide range of educational opportunities within the framework of the local authority, known in Sweden, for example, as *Komvux*.

### 3.1 Adult Education Centres in Scandinavia

The Danish writer, philosopher and politician Nikolai Frederik Severin Grundtvig suggested in the early nineteenth century that responsible democratic participation should be based on an educated populace. In 1844, the first Nordic adult education college was set up in accordance with his ideas in Rødding. Adult education colleges are supported to this day by offshoots of Nordic grassroots movements devoted to improving education (as well as the quality of democracy). Nordic adult education centres are also boarding schools, offering courses in a wide range of subjects, with courses lasting from two to 12 months.

The state or the local authority picks up most of the tab for this education (around 60 per cent of the overall cost). In this way, students' contributions can be kept low. Sometimes employers pay the tuition fees, and the labour market authorities do the same for the unemployed. The main target group is young adults seeking to improve and extend their qualifications. Course participants »sacrifice« primarily their free time. Sometimes, agreements are reached with employers to allow longer periods of study. The public authorities assume the lion's share of the costs, although over the past decade in Sweden it has been noticeable that local authorities

have increasingly withdrawn from funding. The main funding burden therefore falls on central government (see Folkbildningsrådet 2010). The Swedish statistical authorities monitor the performance of adult education centres and regular evaluations are mandatory, supervised by the state education authorities.

### 3.2 *Komvux* (Sweden)

This is directed towards adults who wish to obtain their school-leaving qualifications or who wish to continue their education. School examinations can be taken for this purpose. In this way, workers can improve their qualifications to a level which opens up the prospect of going to university. The responsible body is the state education authority (*skolverket*). Participation is almost free of charge. Local authorities bear most of the financial burden, although they receive transfer payments from the state for this purpose. Because of the centre-right government's austerity measures and the accompanying pressure on local authorities to make cuts participation rates have fallen markedly since 2007 (Skolverket 2009a: 144-146). The teaching provided within the framework of *Komvux* can also be provided to some extent by the regular school system. Recently, the trend among local authorities has been to establish special centres for adult education (*lärcentra*) in which the full range of adult education programmes can be provided (Skolverket 2009b: 8).

The system of adult education is closely integrated with active labour market policy. Efforts have been stepped up recently to transfer the unemployed – young people – to the *Komvux* training scheme (*Kunskapslyftet*). To this end, local authorities received special transfer payments from central government. This practice was ended by the centre-right coalition, resulting in the decline in student numbers observable in the statistics (see Skolverket 2009a and 2009b).<sup>8</sup> Around 67 per cent of *Komvux* participants are women. *Komvux* is also a popular education option among immigrants seeking access to Swedish colleges and universities. In 2007/2008, 40 per cent of all participants were foreign born (Skolverket 2009a: 145).

8. At the same time, since January 2009 the centre-right coalition has consolidated vocational training and further training in a new form, the so-called »*Yrkeshögskolan*«.

#### 4. Social Services as the Basis of the Preventive Welfare State – Examples from Family and Health Care Policy

The preventive welfare state offers institutionalised assistance in an increasingly complex working and living environment. Administrative measures are necessary for this purpose which go beyond simple financial security. Precisely this kind of administratively embedded social policy is a key characteristic of Nordic social policy (see Sipilä 1997). In what follows, exemplary developments in the areas of family, integration and health care policy will be examined.

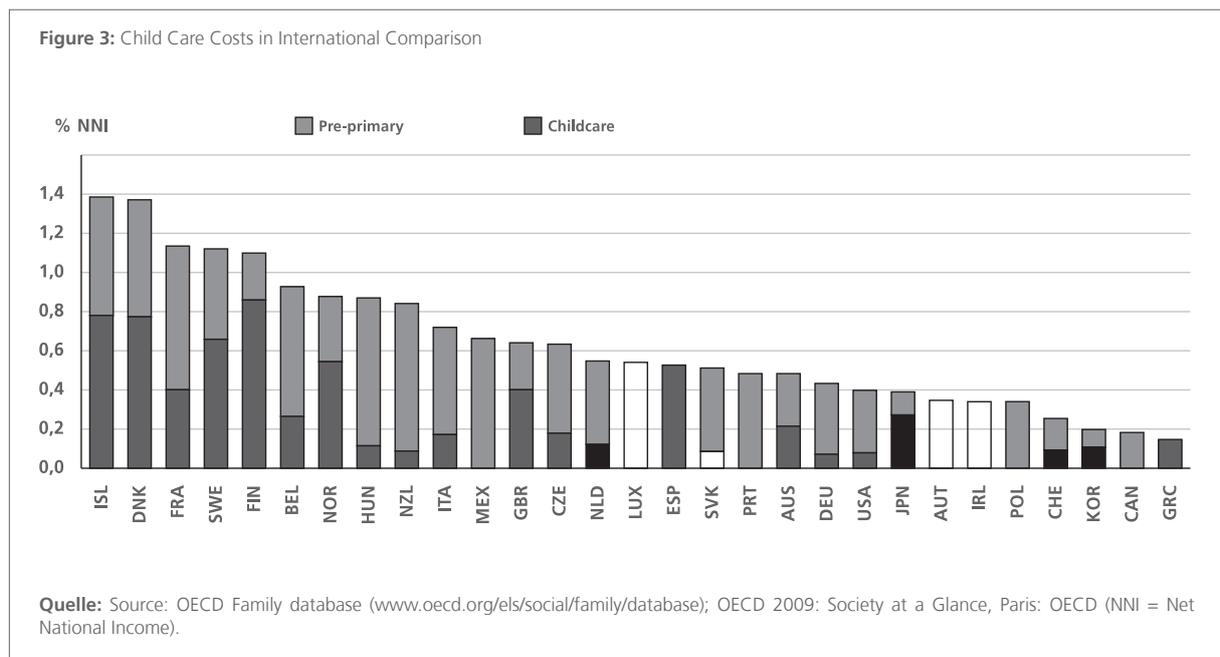
##### 4.1 Policy on the Family

Financial protection for families in the Scandinavian countries primarily concerns families with children up to the age of 18. For parents with offspring in early childhood institutionalised child care arrangements are crucial if they wish to reconcile family life and work. The Nordic countries offer comprehensive, usually state-run child care. Child care facilities are funded by local authorities. State institutions are predominant in all Nordic countries, although private or cooperative alternatives are authorised in principle (the relevant quality requirements are laid down by central government and supervised through regular evaluations).

In comparative terms, child care funding in the Nordic countries is the highest in the world (see figure 3). Spending on preschool education, on the other hand, is very high in France, while public spending in Germany is significantly lower than in Scandinavia. In fact, Germany – behind Mexico – spends least on early childhood care.

It is therefore no surprise to find that Nordic children are raised primarily in state child care institutions. While in Germany only nine per cent of children under three years of age are cared for in child care institutions, in Scandinavia the figures are much higher: for example, in Denmark the proportion is around 62 per cent.

Critics of the Nordic model allege that the family has been »nationalised«. However, with family life today under increasing pressure, a high employment participation rate among women can scarcely be achieved unless the state takes on a significant portion of child care responsibilities. This is a consequence of Nordic working societies. Recent reforms in Sweden also show, however, that this policy is not without controversy. The centre-right coalition, at the behest of the Christian Democratic Party, made available in July 2008 a financial grant for parents who do not want their children to attend child care institutions (*vårdnadsbidrag*). It was left to the local authorities to decide whether to introduce this assistance. The maximum sum of 3,000 Swedish kronor (about 300



euros) per child (between one and three years of age) per month is also given to parents who receive no other benefits (for example, unemployment benefit). The parent staying at home to care for children is exempted from work.

The quality of child care institutions is a central topic of public debate in Scandinavia. Particular attention is devoted to the qualifications of teachers and other educators. In Scandinavia, as in many other countries, such jobs are not particularly well paid; nevertheless, specific university degrees are required.

The importance in the Scandinavian context of administrative social policy is illustrated by a particular family policy programme which is aimed first and foremost at consolidating and raising awareness of preventive social policy assistance for families: »*Nationell strategi för ett utvecklat föräldrarstöd – En vinst för alla*« (National strategy for developed family assistance – a »win« for everyone).

In 2009, the Swedish government launched a project aimed at improving the situation of parents with children up to the age of 17. Altogether, 70 million Swedish kronor (about seven million euros) has been made available by central government in sub-projects. The money was distributed to selected project authorities by the state health authorities (*Statens folkhälsoinstitut*). The aims of the project are as follows:<sup>9</sup>

- Individual programmes are not directed towards certain target groups and are not compulsory; they are open to all parents, not only so-called problem groups.
- To raise awareness among parents of the preventive social programmes available in Sweden. The various services are to be more closely integrated, bringing all relevant actors in contact with one another, including, for example, local sports clubs.
- Further strengthening and development of so-called »family centres« (*Familjecentraler*). There were 131 such centres across the country in 2008. They are exclusively service oriented and preventive in nature. They

are to be developed as general information platforms for families and for the physical and mental well-being of children.

- Parents are to be brought into contact with one another. Special arenas are to be established for the purpose at family centres, as well as internet forums. In addition, cooperation with schools will be intensified. In particular, parents are to be closely involved in Sweden's compulsory teaching unit on drug and smoking prevention.

- National strategy instruments and the quality of local programmes are systematically evaluated and annual reports are published.

This project is based on rather meagre funding. It is characteristic of Swedish or Nordic administrative policy, however, that existing care institutions are being integrated and local contact points reinforced. Local social workers work on a purely preventive basis and establish case-specific contacts, in particular with cultural associations or sports clubs. In addition, the embedding of schools is especially important. Previous evaluations show that scientific assessment can result in proposals for significant improvements with regard to administrative social policy in local communities (see Statens Folkhälsoinstitut 2010).

## 4.2 Health Care Policy

The principle of prevention is nowhere more strongly anchored than in health care policy. In Germany, too, prevention is a core criterion of health policy and a key concern of health policy actors. In contrast to developments in Germany, however, health policy prevention in Scandinavia is more strongly institutionalised and more intensively integrated with other policy areas.

As already mentioned, preventive health policy in Scandinavia is focused on the integration of education, family and labour market policy. Family centres in Sweden in this respect are contact centres for families and guides to the right kind of assistance for children with physical or psychiatric problems. Similarly, in schools parents and even local sports clubs are closely

9. For details, see Regeringskansliet (2009), Statens folkhälsoinstitut (2010), and the descriptions of local authority arrangements and programmes at: <http://www.fhi.se/Vart-uppdrag/Barns-och-ungas-halsa/Regeringsuppdrag/foraldrastod/Kommunala-strategier/> (accessed on 12.9.2010).

involved in drug prevention.<sup>10</sup> That being the case, it is not that preventive health policy in Scandinavia is deploying new policy instruments. Rather the Nordic countries are characterised by a combined policy approach. Illustrative of this is the fact that, for example, the Swedish government regards exclusion from the labour market as a potential source of health problems. On that basis, a policy of full employment is also a form of preventive health care policy according to the philosophy of the Swedish government and other Nordic governments.

To be sure, certain policy programmes are directed towards preventive action with regard to public health. Examples of this are drug prevention policy and health and safety policy.

Alcohol and, more recently, drug policy is of enormous significance in Scandinavia. Key stages of development in Nordic welfare states were shaped by struggles over alcohol policy. Influential temperance movements in the early part of the twentieth century put the fight against alcohol abuse on the political agenda. For that reason, it is not surprising that even today the sale of alcohol in Nordic countries is strictly regulated – although here too European integration has undermined this characteristically Nordic approach. Nevertheless, alcohol policy remains a key component of anti-drug policy, alongside harder narcotics, nicotine and performance-enhancing drugs.

Preventive health care policy measures include rigorous taxation of legalised drugs. Nordic governments – although Denmark tends to be an exception – endeavour to maintain monopolistic sales channels for legalised drugs, although EU pressure to open up the market continues to increase. So far, for example, cigarettes and alcoholic drinks have been heavily taxed, which curbs their (legal) consumption.

One Swedish programme is directed towards involving parents in drug prevention policy. The so-called Örebro Prevention Programme (ÖPP) was developed at the University of Örebro and, after a test phase, is now being rolled out country-wide. The parents of school children and, in particular, young people

are invited to short meetings held in schools. Social workers present information on drug abuse and, especially, alcohol consumption. The aim of these meetings is to encourage parents to develop a united front against drug abuse, which means taking a restrictive approach – and setting an example – with regard to alcohol consumption. Parents who do not attend receive these agreements by post. Evaluations of the programme show that particular forms of drug abuse, such as »binge drinking«, among the young people covered by the ÖPP are less prevalent than among peer groups. This also applies to children with so-called problem backgrounds (Regeringskansliet 2009: 35).

Preventive health care policy in Scandinavia also includes health and safety measures. A key element of this preventive policy is, on the one hand, a comprehensive research initiative. A number of research institutions are dedicated – for example, in Sweden – to this topic and work closely with the Swedish labour inspectorate (known as the Work Environment Authority or *Arbetsmiljöverket*), making available their expertise in this area. On the other hand, every effort is made to improve the »work environment« in Swedish companies (SOU 2009: 47, SOU 2009: 93). This includes the establishment of an advisory commission (*Arbetsmiljöpolitiska kunskapsrådet*) in which academics from various disciplines present their research results and work out concrete legislative proposals.

Specific measures also include traditional areas, such as health and safety measures in craft enterprises. More recently, efforts have been made to identify stress factors arising from new forms of division of labour in manufacturing and to find remedies. To this end, academic analyses are published which evaluate work routines and identify improvements which could curb stress factors and reduce health impairments. A recent government report sought to make the case that improved working conditions also increase corporate profitability (SOU 2009: 47). A very wide range of areas of work are analysed; in 2007, even the ways of working of the Swedish church were analysed and a report urged improvements in work organisation (see *Arbetsmiljöverket* 2007).

10. Typically, the *föräldrarstöd* family policy programme is addressed in government documents under the rubric of preventive health care.

## 5. Fiscal Resources of the Preventive Welfare State

The central idea underlying the preventive welfare state implies a turning away from the reactive welfare state – the »standby welfare state« (see Allmendinger 2007) – in the direction of an active welfare state with the central aim of comprehensive provision. The fiscal basis of such a reform strategy is of immense importance.

The fiscal basis of the German welfare state is chronically precarious. The German social model is based largely on the organisational principle of social insurance. This has various consequences (see Jochem 2001 and 2009a). For the purposes of this article the key consequence is that the funding of the German federal welfare state is, on the one hand, coupled to social insurance contributions (and so to labour market developments). On the other hand, in the face of increasing international competition both workers and businesses appear to have reached their financial limits in this regard. It is also important to note that funding via social insurance contributions has a negative influence on employment dynamics, especially in the area of low paid services (see Scharpf 2000, Siegel/Jochem 2000). Also relevant in this connection is the fact that in recent decades federal subsidies to parafiscal institutions responsible for social insurance have increased constantly. The intention is to safeguard the financial basis of the various social insurance funds using these tax resources, even during periods of falling social insurance contributions (see Streeck/Mertens 2010).

The global financial crisis has further exhausted the German federal state. Recent government efforts to cope with the crisis were extremely ambitious (see Steinbrück 2010). Nevertheless, the so-called »debt brake« which is now enshrined in the Constitution, as well as the current tax policy reform debate, severely constrain the state's ability to act. The budgetary funds of the federal state are becoming ever more tied up structurally, while fiscal room to manoeuvre with regard to reform is progressively shrinking (see Streeck/Mertens 2010). In addition, federal states and municipalities find themselves in a fiscally precarious situation. On the one hand, their tasks and what is expected of them continue to increase – one might mention above all education policy. On the other hand, the federal states are not able to get out of the debt trap on their own by means of an autonomous tax policy. One of the fundamental problems of the German welfare state is the financial regime.

The Nordic countries are characterised by a robust fiscal policy and balanced budgets. The global financial crisis and its accompanying crisis programmes have shown that the state of their fiscal policy at the outset enabled the Nordic countries, to a considerable extent, to implement effective crisis programmes (see Jochem 2010b). So far, these crisis programmes have not seriously undermined fiscal soundness (with the notable exception of Iceland).

Nordic tax and finance policy extracts enormous sums from the economy and redistributes them in accordance with policy guidelines. The basis of the Nordic welfare state is precisely an invasive tax policy, which is what makes it possible to implement their social policy measures and economic crisis programmes (see Palme 1999). This policy is by no means uncontroversial. Not least the success of right-wing populist parties in the Nordic countries can be traced to an increasing opposition to high taxes. In that respect, tax policy is not only the Achilles heel of the Nordic model, but also of any ambitious (preventive) social policy (see Kuivalainen/Nelson 2010).

Tax policy in the Nordic countries is currently changing. Although tax rates for individuals – not for companies – are high by international comparison, different governments in recent years have introduced tax reductions. Taking the example of Sweden, the centre-right coalition has tried to enable systematic tax reductions for lower income groups by introducing an earned-income tax system (*Jobskatteavdrag*). Since the system's introduction in 2007 it has been very popular. Another notable tax policy development was the selective lowering of VAT on household services (*ROT-Avdrag*). The buyers of such services were able to obtain the discount in the price (half of the VAT up to a maximum of 5,000 euros per tax payer per year), while the service provider had to claim it back from the tax authorities. These examples show that Nordic tax policy is trying to reduce the tax burden. In any case, tax policy resources are so extensive that the quality of Nordic social services has not yet suffered. These tax policy reforms have also been offset somewhat by the extension of charges and co-payments in the Nordic welfare state model.

This invasive tax system in the Nordic countries is embedded in a robust fiscal policy framework. During the past decade this framework has changed rapidly, however. Also as a result of EU membership and the assumption of European monetary and interest rate



policy fiscal policy in the Nordic countries became strongly norm-based. Zohlnhöfer (2009) presents a detailed overview of Danish developments. Swedish fiscal policy can be described for various reasons as exemplary by international comparison (see Calmfors 2010 and OECD 2008):

- There are concrete fiscal policy targets which apply to all levels of the public administration: over successive economic cycles the budget must show a surplus of at least one per cent of GDP.
- To this end, strict guidelines are to be maintained with regard to public debt (although they do not have constitutional status). Central government can reduce equalisation payments if the norms are violated. In addition, there is a comprehensive monitoring procedure at central government level.
- Within this strict fiscal policy framework regional and local administrative bodies have some leeway in the setting of certain taxes (also with regard to a proportion of income tax), as well as in the imposition of charges and contributions. This is one reason why the tax burdens in various regions of Sweden differ.<sup>11</sup>
- The centre-right government has established an independent committee tasked with the annual evaluation of fiscal policy (*Finanspolitiska Rådet*). This committee, consisting entirely of academics, evaluates broad aspects of state fiscal policy. It formulates specific reform proposals and can table the shortcomings of state policy for public debate. In the literature, the demand is that all EU countries should strengthen their national evaluation bodies (see Calmfors 2010).<sup>12</sup>

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11. Payments other than for health care are a political hot potato. The introduction of a toll system (*Trängselskatt*) in the Stockholm area gave rise to particular public controversy.

12. Germany already has such an arrangement in the form of the so-called »five wise men« (»Council of Economic Advisers«). In any case, Calmfors calls for a clearer focus on fiscal policy and a boosting of the committee's political and public position; for example, it should operate continuously, not just once a year (see Calmfors 2010).

## 6. Outlook – The Preventive Welfare State as a German Reform Project

The ideal model of the preventive welfare state can be given more concrete form if it is enriched by international comparative examples. To be sure, the preventive and solidarity-based welfare state in the Nordic countries developed historically and has been influenced by a multitude of circumstances over the decades. How, against the background of the path dependent dynamics of modern welfare states, can the prospects of a preventive welfare state coming into being in Germany be evaluated?

(1) It must be emphasised that the welfare state literature is dominated by path dependent explanations. According to this line of argument welfare state reforms are possible only along historically established lines or may deviate from them only marginally. However, the recent history of German reform shows that, despite a number of institutional and situational hindrances, ground-breaking reform of the German welfare state is possible. Examples of this include the so-called »*Riester pension*« and the reforms of labour market policy (see Jochem 2009a).

(2) A preventive social policy depends on the financial robustness of the German economy. The major hurdle in the German reform debate is comprehensive tax reform. It is not just a matter of how to increase tax revenues. Another important issue is how to ensure fiscal security for decentralised providers of preventive social policy – the federal states and municipalities will be responsible for this to a much greater extent than in the past. Besides tax policy, a number of topics will come onto the policy agenda which previously were dealt with unsatisfactorily, such as federal redistribution of wealth to the states and local government and the tax competencies of the states.

(3) Education reform should not be confined to issues of school organisation or preschool education. The aim of the preventive welfare state should be ambitious: lifelong learning is the key to success and this requires large-scale reforms.

(4) The labour market and its dynamics are key to the preventive welfare state. Work is a source of social recognition (see Honneth 2010). The government has a responsibility to ensure that high quality jobs prevail in

Germany. To that end, a quality offensive is needed in human services (health, care and education). Downward wage drift must also be curbed. The central problem of the German labour market is by no means an exceptionally generous passive labour market policy, but the various forms of atypical employment characterised by precarious wages. Besides demands for statutory minimum wages the social partners also have a certain macroeconomic responsibility.

(5) The chances of all this being realised in Germany's – »defective« – bargaining-oriented democracy (see Siegel 2003) are controversial. It remains to be seen whether the red-green camp manages to attain a majority in both the Bundestag and the Bundesrat in the near future. Nevertheless, some agreement seems to have been reached between the SPD and the CDU/CSU concerning education and child care. Generally speaking, the political hurdles that such ambitious reform projects will have to overcome are formidable.


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