At a Crossroad in Social Policy Reform?
Choices for Scotland: Evidence from the Baltics and the Nordics

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Abstract

With the debate around Scotland's constitutional future dominating Scottish political discourse, the discussion has widened to broader considerations about the future of Scottish society and the nature of the state. There are, broadly speaking, two Weberian-type models which Scotland could follow: a social investment (and, broadly, social democratic) model, in the style of the Nordic states, or a market competition (and, thereby, more neo-liberal) model, practiced in part by the Baltic states. Both groups of states are instructive in providing lessons for Scotland in terms of how the state is organised and how social policy operates within these distinct models. This paper utilises case study analysis to consider these models and their resonance for social policy reform in Scotland.

Introduction

September's referendum will decide whether Scotland's constitutional future lies within or without the United Kingdom. Beyond the apparently simple question of independence, however, the referendum outcome will tell us relatively little about the future direction of Scotland's political economy. Indeed, even with independence, the scope of and ability for Scotland to control its own destiny will be somewhat limited: by membership of international organisations; by geography and geopolitical neighbourhood considerations; by the international political economy; and by internal institutional political and societal structures. In short, while the constitutional status of Scotland is to be decided by the electorate in a referendum, very little else will be decided on 18 September.

This fact, however, has not stopped either campaign from widening their focus from the constitutional question, sometimes not entirely consistently. The Scottish National Party (SNP), from their position in the Scottish Government, have promoted a vision of Scotland which draws upon the Nordic model, in particular in the fields of childcare and universalism in higher education – spending commitments which have proved popular with the Scottish electorate. However there has been virtually no discussion of the revenue side of the ledger which, given the likelihood of a substantial increase in public spending, is likely to require higher levels of taxation. The Scottish Parliament currently receives a block grant from the UK – and as such, does not need to consider how revenue is raised, merely how to apportion the spending – so the institutional setting may be partly to blame here. However, as this paper will articulate, the logic of the social investment model requires just that: investment in social spending. If that spending is increased, consideration must be made as to where the money comes from to pay for it.

Two models of political economy

Keating and Harvey (2014) identify two distinct models – Weberian ideal-types – around which states can organise their political economies. These are the market liberal model and the social investment model.

The market liberal model accepts the logic of global competition, attempting to compete in global markets by keeping production costs low and incentivising foreign investment. It seeks to promote business by allowing flexibility in internal markets, limiting regulation and costs, and ensuring that wages remain low. The outcome for public policy is low taxes on business, and, given low wages, on income taxation. The public sector is seen as expensive, a drain on the productive economy, and as such, market liberals look to keep it small. High wage differentials are common in order to incentivise promotion, and often flat-rate (rather than progressive) taxation systems are pursued. This model has been pursued in the Baltic states of Estonia, Latvia and Lithuania, and was seen internally as a logical extension of their transition from Soviet communism to market economies. Rapid privatisation of formerly nationalised industries, removal of barriers to foreign direct investment, fixed currency pegs and low, flat-rate taxation were quickly introduced in all three states as a means of declaring economic independence alongside political independence. This was a double transition of simultaneous radical constitutional and economic reform (Vilpišauskas, 2014). Each was concerned that Russia remained the largest threat to their security, and that moving swiftly from a Soviet model to a western, neo-liberal model would help to solidify national independence and provide a departure from the Soviet history. In this respect, socio-economic policies and the emergence of liberal market states in the Baltics was tied specifically to nation-state building (Bohle and Greskovits, 2013). This is of note because it suggests that neo-liberal economic models were not selected necessarily for economic or normative reasons, but as part of a new identity for the independent Baltic states. Thus, some of the reasons for adopting a liberal market model such as global competitiveness, incentives for investment to encourage economic growth, and a small public sector to limit drain on productivity, were not among the primary considerations for Baltic nation-builders as they moved from centralised to deregulated economies.

However they might work in transition countries, it is difficult to reproduce these conditions elsewhere. In a mature welfare state, public services cannot easily be dismantled. Trade unions have been greatly weakened in western

Europe, but they are still part of the national life. Voters will not gladly tolerate sharp fluctuations in living standards. The market liberal model is marked by sharp inequalities in income and wealth. This is because mobile firms, managers and professionals can command higher incomes – because of the weakness of trade unions – and because high incomes are used as work incentives. This may be considered socially and politically undesirable, according to one's political preferences.

The social investment model sees public expenditure not as a drain on the public economy but a productive part of it. The issue is not whether expenditure is undertaken by the public or the private sector, but rather what it is spent on. So education represents investment in human capital while health spending can enhance productivity. Expenditure on childcare allows mothers with young children to remain in the labour market, so expanding the workforce and retaining skills. Investment in the early years of childhood more broadly contributes to economic prosperity, improving skills while reducing the later burden of social marginalisation. Some of this might be mere rhetoric aimed at justifying the welfare state, at a time when critics claim that is unaffordable, by simply relabeling expenditures. Taken seriously, however, the social investment strategy implies shifting priorities from traditional, passive welfare support towards active measures aimed at getting people into employment. There is now a broad consensus that the most effective way of tackling deprivation and other social problems is to get people into work, but sharp differences on how it might be achieved. While neo-liberals favour punitive approaches to unemployment, by reducing welfare benefits and imposing strict requirements, the social welfare approach privileges preparation. So active labour market policy, seeking to align training, benefits and economic development, has become central to policy debates. The Danish 'flexicurity' model, is one example: labour markets are deregulated and it is possible to dismiss people rather easily – therefore helping flexibility and adaptation – but unemployed people are generously compensated and there are active measures to get them back into work.

The social democratic social investment states of Denmark, Norway and Sweden have, for several decades, provided something of a benchmark for proponents of a high tax, high spend model. Indeed, the 'Nordic Model' has been celebrated by social democrats – in Scotland as much as anywhere else – as a successful means of combining economic growth with social assistance programmes. It has been lauded in other small polities such as Scotland as an attractive model to follow, and derided by neo-liberals as paternalist and anti-business. The Nordic Model, at least, as a Weberian ideal-type, combines a comprehensive social security system with institutionalised social rights; social solidarity; and a tripartite bargaining system which requires co-operation between employers' associations, employees (organised through widespread unionisation) and the government. It requires high levels of taxation to provide for generous active labour market policies such as universal unemployment and sickness insurance, and correspondingly high levels of employment to ensure that revenue from taxation exceeds spending on welfare payments. It also requires high levels of social solidarity, which is achieved through universal programmes, ensuring that the middle classes receive the benefits they pay for through taxation. It is a social investment model that relies on human capital to provide social protection to citizens (Keating and Harvey, 2014).

There are, however, some important preconditions for the social investment state. The first is that some states have a better starting point than others. Even among the transition states of eastern and central Europe, emerging from Communism, some were better placed than others because of historic legacies or because they had started to adapt even before the Berlin Wall came down (Bohle and Greskovits, 2013). An independent Scotland would not start in the same place as the Nordic countries to which it often looks for inspiration. Some of their legacies go all the way back to the nineteenth century while others date to historic crises and social compromises in the twentieth. Second, social investment is a long-term strategy whose benefits are necessarily a long time in coming. States thus need to learn to defer consumption and immediate gratification in favour of the long term and the present generation needs to think of future ones. Third, social investment is expensive. It may, in the long run, produce a more productive economy but it still needs to be financed, in both the long and the short term. This implies higher taxes. Given the volatility of taxes on high earners and their propensity to migrate, taxes need to be broad and weigh also on the middle classes. Politically, this is likely to be sustainable only when all citizens feel that they benefit from the public services financed by taxation. A state that limits itself to taxing the rich to redistribute benefits to the poor risks a backlash from the better-off sections of society, especially when they themselves are using private provision in matters like education, health and transport. This explains the tendency in the Nordic countries to universal rather than selectively-available public services, so binding in the whole population to the social contract. Social justice is assured by providing the same level for rich and poor rather than by explicitly redistributive tax policies.

A fork in the road

These two models of political economy are almost diametrically opposed. One promotes low taxes to encourage business investment, and as a result has limited public spending and a generally small public sector, while the other provides generous public spending (with high levels of taxation) and treats this spending as an investment in the state's future. Each has consistency in logic, thus mixing and matching elements of both is unlikely to provide any measure of success – Ireland's 'hybrid' model provides a cautionary tale here (Keating and Harvey, 2014). While the ultimate outcome of the independence referendum remains unknown, the 'Better Together' parties have each committed to an extension of the Scottish Parliament's powers in the event of a 'No' vote. This being the case, we can reasonably expect that, whatever the outcome of the referendum, the Scottish Parliament will soon become a more powerful institution. And on the basis that Scotland has an already established welfare system which would not be easily dismantled, it is unlikely that the Scottish public would countenance taking the market liberal road. Indeed, with much of the public discussion within the independence referendum debate centring upon the current UK government's attempts to tackle public debt by reducing spending, it would be surprising if Scottish politicians followed a similar philosophy. The Scottish Government's White Paper on independence, titled

'*Scotland's Future*' outlined several public policy areas in which, should Scotland vote for independence, it would seek to follow the social investment model, including an expansion of childcare and continuation of universal free higher education. In light of their influence on the White Paper, it is worth considering how the Nordic states' welfare systems have developed, and the ways in which Scotland might follow.

The Nordic Model as an ideal-type

Much academic analysis of welfare systems derives from the work of Esping-Andersen (1990) in developing a typology. His was not the first attempt to categorise welfare states, but became the most widely utilised (and criticised) model (Abrahamson, 1999). Esping-Andersen identified three model-types: liberal, conservative and social democratic (see table 1.1). Esping-Andersen divided the members of the OECD into his categories based upon their welfare systems. Denmark, Finland, Norway and Sweden, along with the Netherlands, were, unsurprisingly placed in the social democratic category while the US, Canada and Australia were classed as liberal. The UK, Ireland and New Zealand Esping-Andersen determined not to fit a clear category (1990: 70).

Table 1.1: Esping-Andersen's Welfare Models

Liberal Welfare State (Anglo-Saxon)	Conservative/ Christian Democratic Welfare State (Continental EU)	Social Democratic Welfare State (Nordic)
Market primary social security	Social insurance primary social security	Public sector primary social security
Means-tested Assistance	Corporatist-statist legacy	Universalism
Modest universal transfers	Minimal redistributive impact	Upgrades benefits and services to middle class levels
Modest social-insurance plans	Fringe role of private insurance	Universal solidarity with welfare state
Benefits for low-income	Social insurance = non-working wives	Heavy social service burden
Strict entitlement rules	Family benefits encourage motherhood	Full employment guarantee
State encourages market	Patriarchal, shaped by church	Enormous cost
Source: Esping-Andersen (1990)		

Adding to Esping-Andersen's work, both Leibfried (1992) and Ferrera (1996) proposed a fourth category of welfare system, with Leibfried identifying it as a "Latin Rim" and Ferrera "Southern Europe". Both took the position that, with the focus on family as the primary provider of social security, these states had a different welfare focus from their continental counterparts – a lack of a clearly articulated social minimum or a right to welfare for citizens – and that a further category was required to describe their welfare status. Others, like Castles and Mitchell (1993), ignore the differences in southern European states and instead divide Esping-Andersen's 'liberal' category into standard liberal and 'radical' categories, with the latter including Australia, New Zealand and the UK. Nevertheless, while the labels differ somewhat between typologies, the placing of states is broadly similar to Esping-Andersen's original typology, with the Nordic states always appearing under the label in column four of table 1.2 – marking them out as a clearly distinct welfare model.

Table 1.2: Seven welfare state typologies

	1	2	3	4	5
Esping-Andersen	Liberal	-	Conservative	Social Democratic	-
Leibfried	Anglo-Saxon	-	Bismark	Scandinavian	Latin Rim
Castles and Mitchell	Liberal	Radical	Conservative	Non-Right Hegemony	-
Siarnoff	Protestant Liberal	-	Advanced Christian Democratic	Protestant Social Democratic	Late Female Mobilisation
Ferrera	Anglo-Saxon	-	Bismarkian	Scandinavian	Southern
Bonoli	British	-	Continental	Nordic	Southern
Korpi and Palme	Basic Security	Targeted	Corporatist	Encompassing	-
Source: Arts and Gelissen (2002)					

Considering the Nordic model as an ideal type, Esping-Andersen and Korpi (1987) identify three key features of the Nordic model: the comprehensiveness of social security systems; institutionalised social rights; and social solidarity accompanied by universalism. More modern considerations also identify three pillars of the Nordic model, although these are broader than the welfare state itself: comprehensive, universal welfare; the tripartite bargaining system based upon co-operation between employers, employees and the government (inclusive of widespread unionisation); and the wider political economy, inclusive of taxation and macro-economic management (Brandal, Bratberg and Thorsen, 2013: 77). An even more inclusive definition could also run to including the political culture of consensus and, more broadly, the practice of social democracy in the Nordic states. Indeed as part of the culture of consensus, Arter (2006: 6-7) notes seven characteristics of an ideal-type Nordic model of government:

- Dominant/ numerically strong social democratic party (which co-operates with blue-collar trade union federation.
- Moderate working party system where parties work together to produce public policy.
- A consensual rather than adversarial approach to policy-making.
- Extensive and regular consultations on issues of public policy
- A centralised system of collective bargaining
- An active role for the state in regulating the market and in the provision of social protection
- The personalisation of relations among the political elites

Thus, it is clear that an ideal-typical definition of the Nordic model – in terms of welfare state provision (universal, generous), clear and distinct tripartite wage-bargaining processes (involving unions, employers and the state) and characteristics of institutions which assist in building consensus and delivering public policy – exists. But how far has the development of the Nordic model in Denmark, Norway and Sweden fitted this definition?

The reality of the Nordic model

The welfare model typologies offer only a consideration of ideal-types and, as ever, we must be careful with the use of typologies – with Esping-Andersen (1997) himself noting that while it is useful to construct typologies to help consider the spread of welfare policy, more often than not countries now present a system mix, a hybrid of public policy initiatives designed to best serve their individual needs.

Nevertheless, the some of the principles which would underscore Nordic thinking with regards to welfare systems emerged at an early stage of their national developments. Education, already seen as a public good, was established, with Denmark leading the way in 1814 on a seven year school programme. Sweden followed in 1842 and Norway in 1848. Medical services for the needy were also established around this time (Kildal and Kuhnle, 2005). An extension of government spending into welfare programmes followed in the early 1900s, with the provision of better working conditions an attempt to overcome class conflict and build a sense of social solidarity among the population (Brandal, Bratberg and Thorsen, 2013). Only with the emergence of trade unions – and, in particular, their alignment with social democratic parties – did social democracy come to the fore in the Nordic states. Social democratic governments – as minorities, majorities and coalitions – began to lead the Nordic states down the social investment path. Global conditions (two world wars) helped to forge social cohesion within the states, and a distinct Nordic model of social investment developed (Keating and Harvey, 2014). Bismarkian welfare systems – favoured by much of post-war Europe – were abandoned in favour of tax-financing, and women were accepted in the labour market as equal actors (Christiansen and Markkola, 2006). As a result, 'a truly distinct Nordic – and especially, Swedish – model came into being' in the post-war period (Esping-Andersen, 1996: 11).

As Esping-Andersen alluded to, Sweden was a leader in bringing social democratic principles to the fore in the Nordic states. The implication being that Sweden had developed a more distinct 'Nordic' system (to use Esping-Andersen's own typology) than Denmark and Norway. This is important, because it indicates that there is not, and never really has been, one single Nordic model, but a plethora of different policy objectives and priorities within the Nordic area. Hilson (2008) argued this very point, that there is 'no set path for the development of a Nordic welfare model, and no blueprint for how it should be constructed'. However, though each state has developed its own unique take on the Nordic model, there are certain common principles which each manifestation shares. For example, the major expansion of welfare systems in all three states after the Second World War met with little resistance from their respective populations due to the social cohesion forged as a result of the war effort. The post-war period saw social democratic parties sloganize their principles in an attempt to popularise the extension of welfare systems. Sweden's *Folkhem* ('people's home') proved a successful rallying cry, and was soon copied by social democrats in Norway (*Norge for folket*) and Denmark (*Danmark for folket*) (Christiansen and Markkola, 2006). Social democratic majority governments followed in Norway and Sweden in the 1950s and 1960s, pre-empting the start of the 'Golden Age of social democracy' (Esping-Andersen, 1996).

The popularised slogans set the normative standard which the social democratic parties were to be judged against, and soon there was a gap between the expectation generated by these slogans and the social reality. Parties had to work hard to fill the gap (Kettunen and Peterson, 2011). Collectivist solutions were the generally-accepted solution, seen by the public to be pragmatic and efficient. Redistributive taxation, state planning, public ownership of industry and wage bargaining all emerged as part of an extensive reform package aimed at delivering broad social democratic policies. The comprehensiveness of the welfare state was the key principle in the early post-war period. Universalism ensured that everyone, irrespective of levels of income tax or personal wealth, qualified for benefits. This tied the middle classes into the welfare system and provided the legitimacy the welfare state required through social solidarity: everyone paid into the system, and everyone benefited from it. Alongside the expansion of the welfare system – and, indeed, a key contributing factor to it – was the institutionalised system of wage negotiation adopted in the Nordic states through the 1950s and 1960s. The tripartite negotiations, revisited on a regular basis, featured representation from employers associations, trades unions (representing the employees) and the government. Each of the three had to compromise, though each received benefits from the arrangement. Wage restraint on the part of the unions was secured by deals between government and employers' associations to deliver full employment or provide assistance to those out of work.

It was not only the social democrats that promoted the Nordic model during the 'Golden Age'. Political consensus played a key role in maintaining the strength of the social investment model. While social democrats had spent lengthy periods in office – in Norway and Sweden, as majorities until the late 1960s – after this they faced tougher electoral competition, and majority government was much more rare. Other, non-social democratic, parties subsequently played a role in governing: as coalition partners or providing support to minority social democratic parties and even in non-social democratic governing coalitions. Wide co-operation across ideological lines was not uncommon as political parties sought to identify themselves closely with the success of the Nordic model. Consequently, even in periods of government dominated by social democratic parties, liberal and conservative parties played a role in shaping welfare states. As a result of their public policy input while out of office, centre-right parties were also tied to the key principles of the welfare state and little attempt was made to dismantle it. (Christiansen and Markkola, 2006). Social democratic thinking thus extended beyond the social democratic parties, not only to other political parties, but also to society more widely.

Keynesian economics dominated Nordic thinking and full employment remained the dominant public policy objective in the 1970s. An enlarged public sector helped to sustain employment and, with high taxation, provided universal services (Esping-Andersen, 1996). The perception of the Nordic states as 'strong work societies' assisted in the shift to an active labour-market approach (Kildal and Kuhnle, 2005). From there, it was a small step to what was described as a 'work approach', which incentivised participation in the labour market by linking contributions into the system with benefits. In this way, reciprocity – what you put in, you get out – began to replace universalism as an informing principle of the system.

The Nordic Model under pressure

Changes to the Nordic model began to occur from the late-1970s onwards. Social changes were one catalyst (with more women entering the workforce) while political changes were another. With a conservative government in Denmark from 1982 until 1983, social democrats there moved to a more centrist position in order to compete. This situation was replicated across the Nordics as moderation of welfare policy began to occur. Change to the welfare system itself were limited in nature, and not fundamental changes. However, this was to change in the final years of the twentieth century as each of the Nordics recovered from financial crises. The abandonment of Keynesian economic thinking in favour of a more deregulated credit and currency market had an enormous impact on the Nordic states, and a lending boom was followed by an almost inevitable property crash. The Danish economy suffered considerably in the immediate aftermath of the 1970s oil crisis, but during the late 1980s and into the early 1990s, economic development remained relatively stable, in spite of the wider economic crisis (Kangas and Palme, 2005). Norway, shielded somewhat from the later crises by virtue of their oil economy, was affected from the late-1980s until the mid-1990s, while Sweden's experience of the financial crisis only began in the 1990s, but that experience was more severe than their Nordic neighbours. All three countries floated their currencies to restore competitiveness, starting with the general realignment of European currencies in 1992. The subsequent depreciation resulted in a reduction in interest rates, lower inflation and an economic recovery. Productivity and economic growth quickly improved, and negative GDP growth was quickly reversed.

However, the impact of the financial crises was substantial. High levels of unemployment continued until the turn of the century, requiring adaptation of the Nordic model to the changed circumstances (Kiander, 2005). The key adjustment made at the time of the crisis in each case was not dramatically to alter the nature of the welfare state, but to raise tax levels while at the same time limiting public expenditure until the recovery was well under way. By doing so, the Nordic states were able to maintain their benefits at a level commensurate with their global perception as advanced social investment states (Kangas and Palme, 2005). Nevertheless, some significant philosophical changes to the thinking on welfare systems was undertaken in this period.

In Denmark, the return to government of the social democrats in 1993 after 11 years of centre-right rule meant a significant shift in the political centre. Rising unemployment presented a challenge to the new government, which instituted reforms to active labour market policy. They also sought to encourage Danish citizens to be more willing to take up employment when opportunities to work arose. A new system of active measures was introduced to provide good offers of employment to citizens without jobs (Jørgensen and Schulze, 2011). Here began Denmark's much-lauded 'flexicurity' model, combining flexibility for both employers and employees. There was some deregulation in the labour market but also security, delivered through generous, albeit stringent welfare provision for the unemployed and the extension of the active labour market (Jørgensen, 2000).

In Norway the government, like its Danish counterpart, aimed to reduce unemployment by introducing active labour market and training policies in a Solidarity Alternative agreement with unions, which reduced unit costs. In return, welfare rights, including the retention of a right to 100 per cent compensation in the event of sick leave, would be safeguarded (Dølvik, 2007). A strong economic recovery, based predominantly on offshore investments and oil revenues saw an economic turnaround in the mid-1990s. As unemployment came down significantly, Norway's welfare system escaped any substantive adjustments in the period.

Sweden, for so long the epitome of the Nordic Model, saw a substantial contraction of its welfare state as a result of the economic crisis of the 1990s. By the height of the crisis, the tripartite bargaining model began to erode. The tipping point came when the employers' federation SAF withdrew from wage negotiations, claiming that market-based solutions to control wages were more effective (Dølvik 2007). The end to centralised bargaining made wage restraint difficult to enforce. Swedish social democrats attempted to move away towards the so-called Third Way between the Keynesian reflation policies, which had served the Nordics well to that point, and Thatcherite austerity politics. For Sweden, this meant a cut in spending as a percentage of GDP and a cut in welfare spending. The subsequent centre-right government (which followed the social democrats' worst electoral performance since 1928) cut budgets, tightened benefit eligibility, reformed public services and turned – in some cases – to private sector and managerial solutions to help cut unemployment from a height of 14 per cent in 1994 (Peterson, 2009).

The Nordic Model in the 21st Century

In the late 1990s, Denmark, Norway and Sweden each experienced a swift and strong recovery, with productivity and economic growth improving while unemployment returned to levels that could sustain the welfare state. Nevertheless, reforms to the Nordic welfare states during the 1990s meant considerable variation between the states. Norway, in spite of high unemployment levels, continued to expand its welfare spending, with maternity and paternity benefits extended from 35 to 52 weeks and maintenance of sickness pay at 100 per cent levels when other states were (in some cases, drastically) reducing theirs (Eirtheim and Kuhnle, 2000). Denmark also maintained a high level of social protection during the 1990s and the Danish welfare state remained on a similar trajectory to the Norwegian one. Sweden, by contrast, suffered much more as a result of the economic crisis. Prolonged high levels of unemployment – higher than Denmark and Norway had experienced – saw social democratic parties accept welfare cuts in order to ease the pressure on government spending. In contrast to Norway, which had maintained replacement pay at 100 per cent, Sweden reduced sickness, maternity and unemployment benefit from 90 to 75 per cent while also increasing waiting periods and tightening eligibility requirements. More widespread use of market-driven administrative practices, decentralisation of services and user-financing in some areas were also introduced or adapted, a clear departure from the universal, tax-financing model of the 'Golden Age'.

Electoral politics inevitably played a role in some of these changes. In 2001, Denmark saw someone other than the social democrats win the most seats in the *Folketinget* for the first time since 1924, and a first centre-right majority government since 1928 (Qvortrup, 2002). The coalition was re-elected twice, in

2005 and 2007, and during this period tighter controls on immigration and a controversial tax freeze moved politics away from the broad consensus on tax-and-spend which had previously existed. After the global financial crisis, unemployment rose to 7.5 per cent in 2010, and welfare spending came under pressure once more. The centre right government responded by instituting a zero-growth policy for public sector wages, and further reducing unemployment benefits. Functionally, the welfare model in Denmark remains largely unchanged in the twenty-first century, but there is more of a focus on the active labour market policy and the principle of 'flexicurity', in a bid to improve not only the economic circumstances of the welfare model but also its functionality.

Norway's electoral politics mirrored that of Denmark in the early part of the 21st century. Like Denmark, in 2001 the Norwegian Labour Party suffered their worst electoral performance since the 1920s (Madeley, 2002), though the Norwegian electorate's experiment with a centre-right government was limited to one term, and the social democrats returned to office in 2005. During this period, however, the Norwegian economy had gone through something of a boon, with low unemployment, steady interest rates of around 2 per cent and general economic growth. It was only controversy over the centre-right government's decision to utilise the oil fund surplus – to spend *more* – which brought the social democrats back into power (Sitter, 2005). The Nordic model in Norway thus never faced the same challenge from the centre-right as it did in Denmark and Sweden. Rather, during the 2000s, Norway actually saw further expansion of its welfare state. And while the global financial crisis that occurred in 2008 damaged global economies much more severely than Norway, the red-green coalition was able to deliver a budget that provided more employment opportunities and attempted to stimulate the economy, particularly for businesses (Allern, 2010). However, in 2013, the coalition was ousted by a minority coalition government of the right, comprising the Conservative and Progress parties, the latter a right-wing populist party, with support from the smaller Christian Democrat and Liberal parties. Welfare issues played a key role in the campaign, though the focus was more on improved delivery of services and efficient administration than philosophical debate about financing welfare services.

As in Denmark and Norway, so too voters in Sweden elected a centre-right government, though not until 2006. And like their colleagues in Denmark and Norway, the Swedish social democrats suffered their worst electoral performance since 1920 (Aylott and Bolin, 2007). However, even prior to the departure of the social democrats from government office, the turn away from model student of the Nordic Model had already been made. The election of the centre-right Alliance merely accelerated this process. During the election campaign, the Alliance cited reductions in unemployment and sickness benefits instituted by the social democrats as evidence of the weakening of the model, but, in office, the Alliance went further. Unemployment benefits were reduced from 80 per cent to 70 per cent of salary after 200 days of unemployment, then to 65 per cent of salary from 300 days onwards. Sickness insurance was similarly affected (Aguis, 2007). At the same time, government revenue was reduced through a series of tax cuts. These included reductions in income tax for low and middle-class earners, as well as abolition of the wealth tax and streamlining of business regulation. Here, the challenge to the Nordic model was not merely functional, as the changes to the Danish system had been, but ideological. The centre-right government's reforms carried much more of an individualistic streak with less of a focus on the relationship between individual citizens and the state.

As a result of economic challenges and political differences, divergences emerged within the Nordic model. A Danish Model, with its active-labour market policy and pursuit of 'flexicurity' was lauded by the European Union as providing employees with more freedom in the labour market. A Norwegian Model, retaining much of the elements of the classic Nordic Model, flourished and expanded welfare in some areas, most notably, childcare, while Norwegian economists were ever careful not to overspend the oil fund surplus. The new Swedish Model departed from its position as flag-bearer for the Nordic Model, with a decline in corporatism and a shift in focus to macro-economic stability, economic growth and fiscal discipline (Hilson, 2008). Nevertheless, the basic principles informing the model remained in place. Citizens in Nordic states remain some of the highest taxed in the world. Spending, in particular, social spending, remains high, as a means of maintaining the social investment model, and universalism remains a prominent feature, although some selectivity has been introduced. The politics of deliberation, consensus and compromise remains an integral part of the system although tripartite bargaining has been weakened by declining union membership and a change in business focus.

Whither social investment

Despite the economic challenges which faced the Nordic model in the 1990s, and again after the global economic crash in the 2000s, there have been no shortage of admirers of the model in Scotland, not least from within the Scottish Government. *Scotland's Future* articulated the (SNP) government's vision of what Scotland would look like post-independence. The emphasis here was on a "social investment approach" to "develop more targeted labour market policies" (Scottish Government, 2013). The social investment model was seen as a means to foster

> *a culture in society that is more inclusive, more respectful and more equal. It also places the cash transfers that people traditionally think of as welfare – such as out of work benefits and tax credits – in a wider, more cost-effective and socially beneficial context when viewed over the longer-term*
>
> (Scottish Government, 2013)

The Scottish Government also proposed a substantial increase in childcare facilities and services in the event of independence, increasing the provision of hours of childcare available over the lifespan of the next two Scottish Parliaments, with the establishment of 35,000 new jobs in childcare services and the opportunity to help 100,000 parents (predominantly mothers) back into the workforce. That the Scottish Government was criticised on several counts here – that the policy was un-costed, that there were not 100,000 mothers who wanted to return to the work force (nor 100,000 jobs for them to take) and that the Scottish Parliament already had the power to deliver such a policy and that not doing so was simply a "bribe" to attract more 'Yes' votes in the referendum – was not a surprise. Nevertheless, the explicit argument that "childcare has important benefits for children and it also provides a key support to participation in the labour market, particularly for women" saw the Scottish Government clearly endorse a move towards a Nordic-style social investment model in Scotland (Scottish Government, 2013). However, while they recognised that future Scottish governments – not mentioning specific parties by name – might want to vary tax rates, they believed there would be "no necessity to do so to pay for current spending" (Scottish Government, 2013). Indeed, the proposals in *Scotland's Future* regarding taxation outlined changes only to how tax would be collected with independence, and not to the rates, with the exception of Corporation Tax, which it was intended to cut by 3%. Here then, there were legitimate questions to be raised about how the social investment model would be paid for.

Conclusion

Envious glances across the North Sea have indeed played a part in the constitutional debate in Scotland. Interpretations of 'how things work' in the Nordic states have influenced policy proposals, aspirational thinking and have the potential to have an impact on the outcome of the referendum. However, much of the public discourse surrounding the Nordic model has – at least from a Scottish perspective – been considered through rose-tinted glasses. The envious glances to Norway in particular focus on the comprehensive, universal welfare system and the oil fund surplus, while quietly ignoring the levels of taxation required to finance such a system – and, as importantly, the high wage economy which helps to sustain taxation at such levels.

The Nordic states of Denmark, Norway and Sweden are social investment states, and their economies rest upon the principles underpinning these ideals: high taxation to fund (in particular) high levels of social spending on (predominantly) universal services; wage bargaining through tripartite negotiations between employers, employees and the state; social solidarity fostered through universalism; and consensus-based political institutions and policy-making processes. Irrespective of the diversity within the model brought about by global financial challenges, the principles of the social investment states remain the same. And while some of these principles are desirable in Scottish political circles – not least the universal and generous welfare system – the reality is that the model comes as a package.

It is impossible to 'pick and mix' elements from the social investment model with that of a Baltic-style market liberal approach without sustaining incredibly large public debt. The high wage economy is a result of decades of tripartite bargaining, with trades unions accepting wage restraint in periods of economic decline as a trade off for high levels of unemployment benefits. The social solidarity of the Nordic states, forged in the inter-war period and exploited to deliver universalism in the post-war period continues to develop as a result of the same universalism that it helped to create. The principles and the outcomes are delivered as a package. And this contrasts sharply with some of the contributions of the Nordic model to the constitutional debate in Scotland thus far. Scotland has a great history of trades unions, with the movement heavily aligned to the Labour Party throughout the twentieth century. However, the trades unions have not been involved in wage negotiations in the same manner as in the Nordic states – tripartite bargaining is non-existent. And while the Scottish Parliament was established as a 'Scandinavian-type assembly', with attempts made to deliver consensus politics, the reality has been a return to Westminster-style conflict. With independence, or, indeed, with further powers devolved to the Scottish Parliament, politicians in Edinburgh could deliver some aspects of the Nordic model – the lack of university tuition fees or prescription charges for medication show that there is an appetite for universalism within public services – however any expansion of universalism into other fields would carry a cost burden, and there is little evidence that politicians want to deliver tax increases or that the public would accept them.

And therein lies the fundamental problem for Scottish politicians learning from the Nordic states: the Scottish public want to have their cake and eat it – they like the idea of generous universal services, but would resist any increase in taxation to fund such an expansion. While there is the potential for policy-learning on an area-by-area basis, and indeed, much empathy with the principles of the Nordic model, the potential to adopt the model outright is slim. There are prospects for changes in social policy in Scotland, irrespective of the outcome of the referendum. However, while a Scottish variant of the Nordic model might be the outcome of the constitutional debate, it would fall a long way short of being a fully-fledged member of the Nordic model.

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