



The Nordic social welfare model

Lessons for reform



Preface

The Nordic nations – Finland, Iceland, Norway, Denmark and Sweden – have similar approaches to social welfare. Government programs in these nations tend to offer high levels of social support, but at the cost of high taxes. As Western societies grapple with challenges ranging from technological disruption to climate change, from immigration to globalisation, examining the Nordic model of social welfare may help. The model can offer insights about providing a social ‘safety net’, reforming the public sector and supporting economic competitiveness in the face of disruption.

TOO OFTEN, HOWEVER, the real lessons of how such a system works, and the challenges, are obscured by the underlying ideological debates, as the politics of social welfare take center stage. This report studies the Nordic nations’ approach to adapting and reforming their social model: what works, what doesn’t and why. It also looks at how past and current reforms have re-shaped this welfare model over time. Some of the analysis was conducted with the assistance of the Danish think tank Kraka.

It is our hope that the report can inspire thoughtful reflection through evidence-based analysis, as nations around the world develop solutions to pressing social challenges.

However, it is important to note that the analysis presented in this report was finalised in February 2020. Since then, all countries and societies have been confronted with massive challenges brought by the global spread of the coronavirus. Time will tell to what extent the Nordic model can adapt and handle the challenges. The resilience of the model will definitely be tested.

It is our hope that the report can inspire thoughtful reflection through evidence-based analysis, as nations around the world develop solutions to pressing social challenges.

The Nordic countries have some of the most digitalised, well-regulated, transparent and efficient public sectors in the world. In Deloitte Nordic, we have a long history of working with and developing the public sectors across the Nordics.

As a Nordic firm, we assist public sector clients in enabling their transformation with digital technologies, new regulatory models and in implementing reforms in important policy areas, including tax, justice and security, transport, labour market, social services, education, environment and climate. Find out more on [Deloitte.com](https://www.deloitte.com).

Contents

Snapshot of a sea change	6
The Nordic equation: Key features of the model	9
Measuring success: Economic and social outcomes	15
Challenges to the Nordic model	20
Modelling the future	33

Snapshot of a sea change

Western societies are undergoing enormous transformation. Does the Nordic model offer lessons for dealing with economic disruption?

YOU MAY BE aware of the perks of living in a Nordic country: free and equal access to social services, regardless of income or economic need. That privilege does come at a cost – a marginal tax rate that takes about half a resident’s income – but you won’t hear most citizens arguing. They’re funding the public sector and enjoying a relatively generous social safety net that covers a broad array of services. On top of that, they’re reaping the benefits of a well-functioning, competitive economy. This is the case among all the Nordic countries – an extensive, mainly tax-financed welfare system that exists hand-in-hand with a well-functioning economy – and it’s such an alluring curiosity to outsiders that it’s come to be known as the Nordic paradox. Just how do they do it?

You may be aware of the perks of living in a Nordic country: free and equal access to social services, regardless of income or economic need. That privilege does come at a cost – a marginal tax rate that takes about half a resident’s income – but you won’t hear most citizens arguing.

This social welfare model is similarly applied among all the Nordic countries. It has advocates and critics, but discussions often get bogged down by political disagreements and fail to cover the complete picture. For that reason, an evidence-based review of the experience of the Nordic nations can be instructive to executives of government departments and agencies globally, especially those seeking to explore alternative approaches to social services. This report looks at the Nordic model for lessons that are transferable to other societies facing challenges, aiming to generate a dialogue about solutions and reforms that are generally applicable to any public sector in the developed world.

First, we will describe the model, looking at the points raised by advocates and critics. Have the Nordic nations discovered the secret to maintaining a thriving economy despite generous benefits? Or is it only unique aspects of these societies that can produce such positive outcomes? Next, we will highlight evolving social welfare challenges of particular relevance to the Nordic countries. How can the Nordic model adapt to a rapidly shifting socio-economic landscape? Finally, we examine some past reforms, and some that are evolving in light of emerging challenges. What can these reforms tell us about social welfare policy and economic policies in general?

FIGURE 1

Facts about the Nordic countries

Geography	Denmark	Finland	Iceland	Norway	Sweden
Population	5,789,957	5,515,525	352,722	5,311,916	10,175,214
Area (km ²)	41,990	303,910	100,250	365,123	407,310
Population density (people/km ²)	138.1	18.2	3.5	14.6	25.0
Capital	Copenhagen	Helsinki	Reykjavik	Oslo	Stockholm
President/ Prime minister	Mette Frederiksen <i>Social Democrats</i>	Sauli Niinistö <i>National Coalition Party</i>	Guðni Th. Jóhannesson <i>Independent</i>	Erna Solberg <i>The Conservative Party</i>	Stefan Löfven <i>Social Democrats</i>
Economy					
GDP per capita (\$)	55.138	47.946	57.453	65.603	52.767
GNI per capita (\$)	56.410	47.970	55.190	68.310	53.560
Inflation rate	0.8%	1.1%	2.7%	2.8%	2.0%
Employment rate*	75.4%	72.1%	85.1%	74.8%	77.5%
Public spending as % of GDP	51.5%	53.1%	41.7%	48.7%	49.9%
Export as % of GDP	55.6%	38.6%	47.2%	38.4%	45.7%
Public debt as % of GDP	48.0%	69.2%		45.5%	58.4%
Employment in public sector as % of total employment	28.0%	24.3%		30.3%	28.8%
Business & innovation					
Share of private employment in small companies*	25.3%	26.4%	38.4%	32.8%	27.0%
Share of private employment in medium-sized companies*	29.3%	24.3%	32.4%	29.2%	24.1%
Share of private employment in large companies*	45.4%	49.3%	29.2%	38.0%	49.0%
Rating, European Innovation Scoreboard	140.9	145.9	118.9	127.7	147.7

*All data was collected before February 2020; effects of the crisis related to the coronavirus outbreak in spring 2020 have not been taken into account.

Sources: OECD.stat (Historical population; Level of GDP per capita and productivity; Employment: Labour force participation rate, by sex and age group; Government at a Glance - 2017 edition: Public employment and pay), OECD Data (Trade in goods and services; General government debt; Employees by business size), the World Bank Data (GDP per capita, PPP (current international \$)), European Commission (EIS 2019-database).

Note: Data are from the most recent year available. GDP (gross domestic product) and GNI (gross national income) are calculated in current prices and current PPP (purchasing power parity). Employment rate includes all citizens between 25 and 64 years old. There is no data for Iceland on employment in the public sector as a percentage of total employment. Small companies are defined as companies having fewer than 50 employees, medium-sized companies as having 50 to 249 employees, and large companies as having more than 250 employees. Share of employment by business size is measured as the number of employees in manufacturing.



By addressing these questions, we can hopefully find answers that can be extended to other regions. We can also better consider how the social welfare model sustains itself in the Nordic countries as the world grapples with technological innovation, globalisation, ageing populations, immigration, off-shoring and global warming, among other disruptors. These phenomena have cultivated a shifting economic landscape – one that’s creating winners and losers, and leading policymakers to consider which social provisions are best suited to this new reality. And on a larger scale, which societal welfare model can best accommodate and adapt to changes.

To deal with disruption and support long-term competitiveness, advocates point to public provision and free/low-cost access to a wide range of public services as a winning approach. But critics note the Nordic countries’ unique cultural circumstances that allow this welfare model to succeed and argue that these generous benefits come at a great price: some of the highest personal taxes in the world to fund the large public sector.

What cannot be argued is that the Nordic model has faced serious challenges over time. Several Nordic economies faced severe economic and structural crises in the 1970s to 1990s. Their response was to reform the economies to adapt; it turns out that the Nordic model isn’t a static vision but an evolving set of policies that morph to accommodate changing circumstances. By reflecting on past and current circumstances, we can explore how such adaptability can potentially be extended to other regions. Our findings suggest that there need not be a trade-off between equality and growth or material prosperity, especially if there’s willingness to consider a malleable approach.

The Nordic equation: Key features of the model

The Nordic model is unique from many other approaches by being underpinned by a 'social contract': a foundation that supports a handful of core aspects to serve the public.

What exactly does the Nordic model entail?

The individual social welfare approaches adopted by the Nordic nations – although far from identical – exhibit a great deal of similarity, generally featuring:

1. High taxes and a large public sector
2. Broad universal services and substantial support
3. Productive investment in health, education and job training
4. Strong work incentives and requirements

High taxes and a large public sector

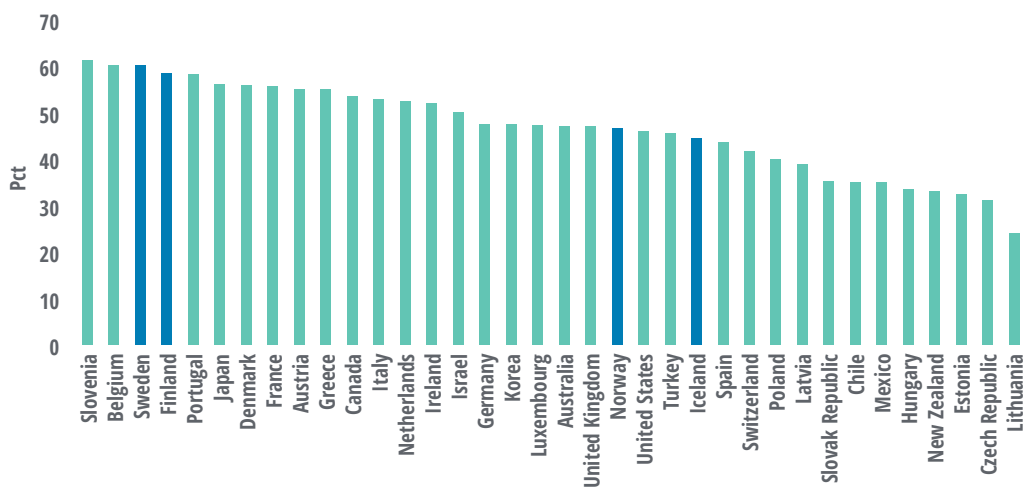
Perhaps the most prominent aspect of the Nordic model is the size of the public sector and the role it plays in the overall economy. Critics of the model often focus solely on the tax levels, but proponents contend that an active public sector contributes to the success of the overall economy – such as by investing in health, education and training, which is designed to alleviate a potential market failure stemming from underinvestment. With this view, high taxes are not considered a hindrance; they are seen as a mechanism that supports equal opportunities and fosters overall national competitiveness.

Approximately half of individuals' total income in the Nordic countries is channelled through the public sectors of the Nordic countries. The marginal tax rate is above 55 per cent in Sweden, Finland and Denmark, and somewhat lower in Norway and Iceland (figure 2).

The level of public spending is approximately 50 per cent of the GDP or more in Finland, Denmark, Sweden and Norway, and somewhat lower in Iceland (figure 3). For comparison, the level of public spending is slightly below 40 per cent of the GDP in the US. Notably, public spending in France and Belgium is around the same level as that of the Nordic countries.

FIGURE 2

Marginal tax rates on personal income and social security, by percentage of GDP, 2018

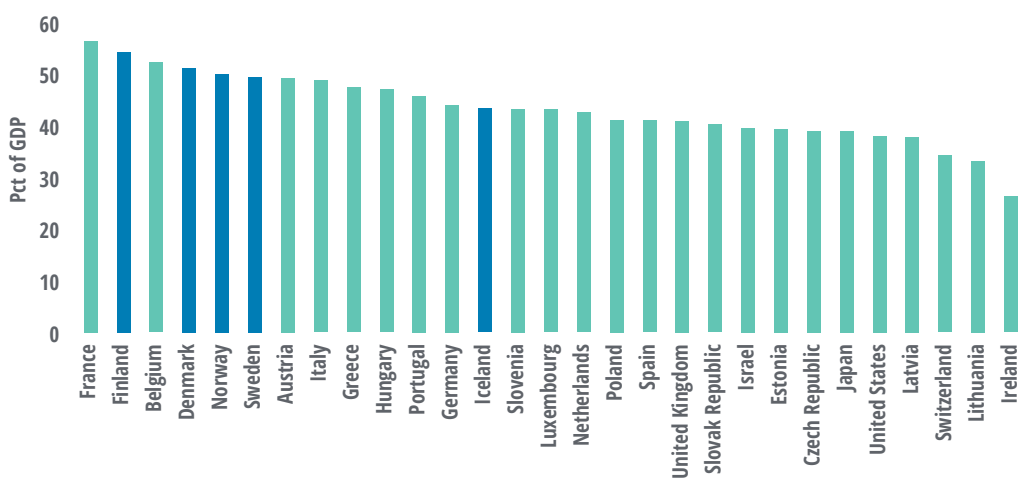


Source: OECD.stat, table: Top statutory personal income tax rate and top marginal tax rates for employees.

Note: All rates include employee social security contributions.

FIGURE 3

Public (general government) spending as a percentage of GDP, 2017



Source: OECD.stat, tables: Government expenditure by function (COFOG), Gross domestic product (GDP).

Broad universal services and substantial support

The Nordic model differs from other welfare state models partly because of its universalism regarding the rights to services and benefits, the role of the public sector in providing services, and the importance of redistribution as a principle of providing benefits. Many public services and benefits in the Nordic countries are provided to the entire population for free, or at a reduced price, independent of market mechanisms (see figure 4 on page 12).

Free and equal access to these social services is the core universal principle of the Nordic model. Access is not based on the ability to pay, nor economic need. The services are intended to allow individuals accessing them to maintain a relatively decent standard of living.

There are some important differences among the Nordic countries. For example, the size of public pensions in Norway, Sweden and Finland depends directly on how much the individual has earned and contributed to the pension system. In another example, unemployment insurance is provided through voluntary schemes in Denmark, Finland and Sweden, but is mandatory in Norway and Iceland. Despite such differences in specific policy areas, there are more likenesses and, as described in the next section, Nordic countries also exhibit similarities in growth, equality, social progress and inclusion.

Productive investment in health, education and job training

Public spending in Nordic countries is higher than in many other countries partly because of greater spending on benefits, and partly because of investments in services that generate an economic return in the form of a healthy and well-educated workforce. Education is one such service, covering pre-primary (child care), primary, secondary and tertiary education and supported by various grant

and loan schemes. Proponents of the Nordic model contend that investment in such a key public service – along with child care, health care and job training – helps increase productivity and employment.

Compared with other countries, Nordic governments financially support health and education generously, averaging more than 12 per cent of the GDP. This places them at the top of the list of OECD countries in that regard, alongside the US, Belgium, France and Austria (figure 5 on page 13).

A healthy and well-educated workforce can drive productivity and lead to high income. Another benefit cited by proponents lies in the fact that education and health care are provided to the entire population through public mechanisms, helping ensure equality of opportunity and promoting social mobility (a concept covered later in this report); the by-product is expected to reduce inequality. Moreover, in pure monetary terms, free access to education is of more value to the low-income share of the population.

Strong work incentives and requirements

Financing the Nordic welfare model relies on high employment rates, and despite providing generous benefits for unemployed individuals, the Nordic countries boast better employment numbers than the OECD average. Budgeting for generous benefits is only possible if you have an abundance of people working (contributing taxes) and relatively few people receiving social benefits.

The Nordic countries all have employment rates above 70 per cent, and most land near the top of the list of OECD nations (figure 6 on page 13). Iceland and Sweden, in particular, stand out with employment at approximately 85 per cent and close to 80 per cent, respectively. These high overall employment rates are supported by especially high employment rates for women (figure 7 on page 14).

FIGURE 4

Examples of broad, general services and benefits provided in Nordic countries

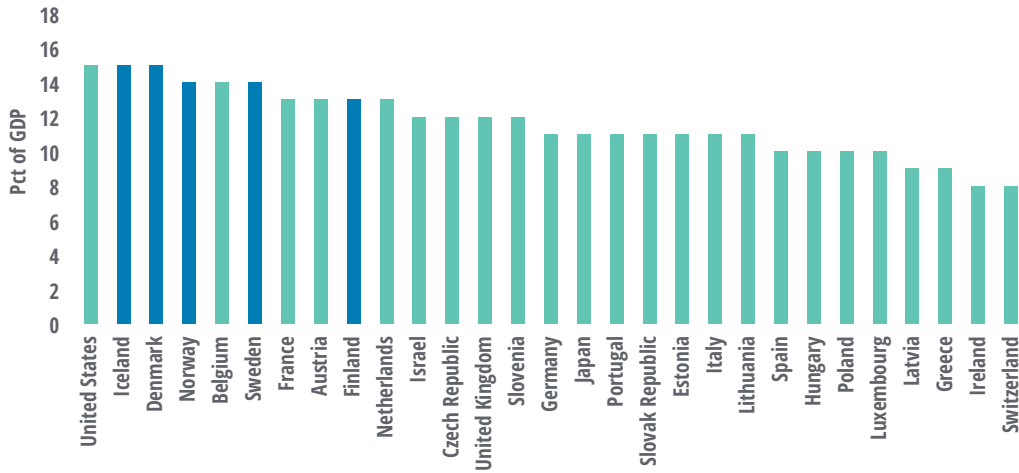
	Denmark	Finland	Iceland	Norway	Sweden
Examples of services					
Child care	Parental fee of up to 25% of cost decided at municipal level	Parental fee to a certain level dependent on household income	Municipality decides applicable fee	Parental fee of an average of 15% of cost	Parental fee to a certain level dependent on household income
Education	Free	Free	Free	Free	Free
Health care	Free	Free	Partially free: patient fee applies to primary and secondary health care	Partially free: basic flat fee applies to primary health care	Partially free: basic flat fee applies to primary health care
Example of benefits					
<i>Unemployment insurance</i>					
Voluntary/Mandatory	Voluntary	Voluntary	Mandatory	Mandatory	Both
Coverage period	24 months	18 months	30 months	12-24 months, depending on previous income	11 months
Compensation level	Up to 90% of previous salary, capped at a certain amount	48%-69%, depending on previous salary level	70% of previous salary, capped at a certain level	62.4% of previous salary, capped at a certain amount	Up to 80% of previous salary, capped at a certain amount
<i>Old-age pension</i>					
Basic pension as percentage of average pay, after tax	44%	26%	55%	41%	28%
Pension age	65	63	67	67	65

Source: European Commission (2019), Nordic Council of Ministers (2008).

Notes: Child care: In Denmark, the exact share of parental pay up to 25% is decided at municipal level. In Norway, contribution from parents is capped at NOK 3,135 (\$348)/month. The household income determined parental pay is capped at SEK 475-1,425 (\$50-\$150)/month, dependent on the age of the child, in Sweden, and at EUR 289 (\$320)/month. Education: Also includes higher education; some special educations may come with a fee; in all Nordic countries there is also a monthly grant to all students over 18, and access to government-guaranteed loans; in Denmark, Sweden and Finland the grant is free and not to be repaid, in Norway the grant is a loan. Health care: Includes primary and secondary health care, but not dental appointments; Norway's fee is capped at NOK 2,369 (\$263)/year; Sweden's fee is capped at SEK 1,150 (\$122)/year. Unemployment insurance: In Norway, capped at NOK 362,543 (\$40,388.63) and compensation is calculated as 62.4% of previous salary up to NOK 580,998 (\$64,725.33); in Iceland, capped at ISK 440,970 (\$3,572.90)/month with compensation calculated as 70% of previous income; in Denmark, capped at DKK 233,376 (\$34,720.82); in Sweden, capped at SEK 910 (\$96.54)/day for the first 100 days and SEK 760 (\$80.63)/day for the remaining days with compensation calculated as 80% of previous salary for first 200 days and 70% of previous salary for remaining days. Old-age pension: Only basic/guarantee public pensions; does not cover early-retirement schemes; this basic security entails a right to a certain pension that is payable regardless of previous earnings or contributions paid in; in addition, there is an income-dependent pension supplement in Denmark, Sweden and Finland; in Norway there are also schemes for supplementary pensions; the Nordic countries also have a labour market pension and voluntary private pension; regarding pension age, in Denmark, Finland and Sweden the statutory retirement age is linked to life expectancy, so pension age will change gradually.

FIGURE 5

Government expenditures on health and education, by percentage of GDP

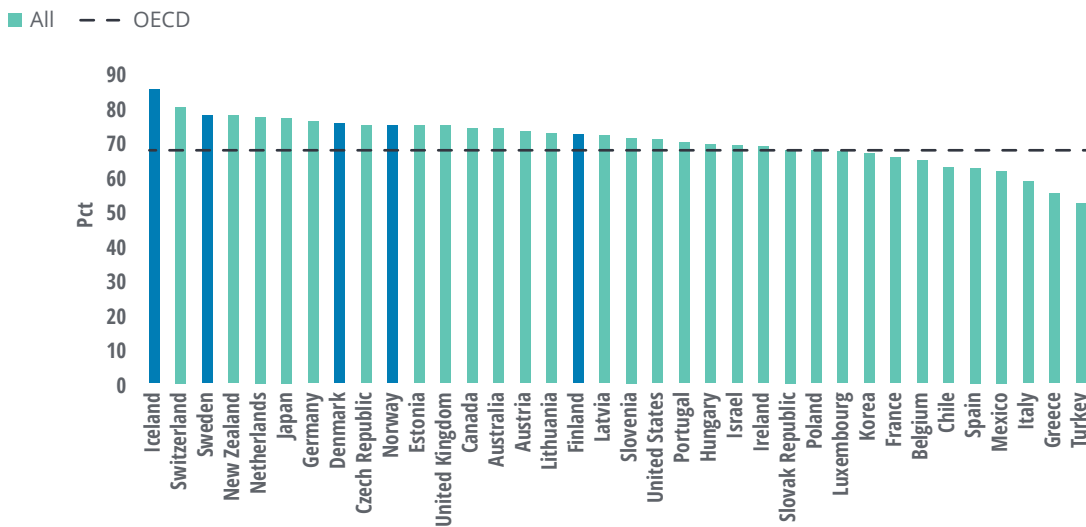


Source: OECD.stat, tables: Government expenditure by function (COFOG), Gross domestic product (GDP).

Note: Calculations reflect the sum of government expenditures on classification of the functions of government (COFOG) category '70 Health' and '90 Education' divided by GDP.

FIGURE 6

Percentage of population employed in various nations (ages 15-64)



Source: OECD.stat, table: Short-Term Labour Market Statistics.

How do the Nordic countries achieve these high employment rates when they offer such generous social benefits, which are not limited to the poor? Why don't more individuals simply take advantage of the broad social security net? The answer seems to lie in the gradually 'tougher' policies the Nordic countries have adopted, which increase incentives to work in various ways and balance the provision of social security.

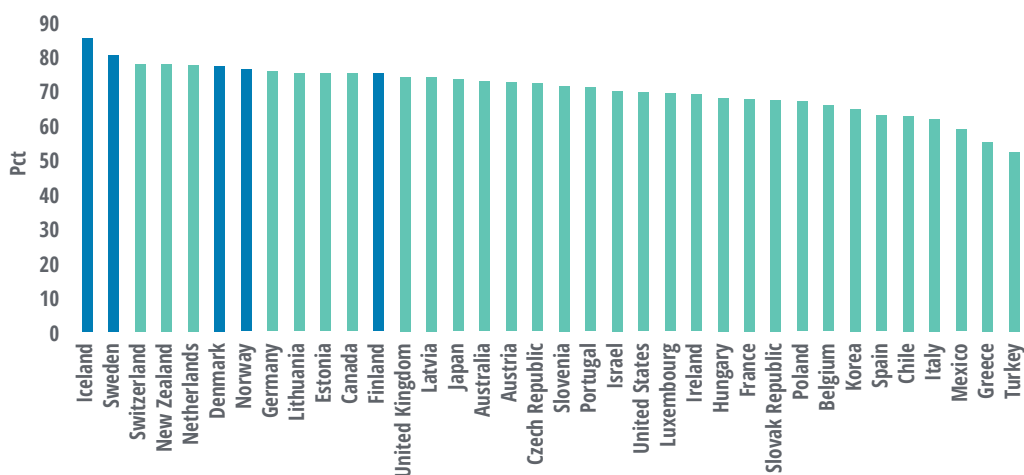
For instance, the unemployment benefit period has been progressively reduced, as has the amount of compensation.

Furthermore, work is expected of all able-bodied adults; it isn't a free choice to work or not work. To be eligible for social transfers, you must be unwillingly unemployed and actively seeking a job. For example, the Nordic countries spend a lot of resources on active labour market policies (figure 8): government programs that intervene in the labour

market to help the unemployed find work. Policies typically cover education; guidance; skill upgrades; job provision, subject to wage subsidy, with public or private employers; and practical work training at public and private enterprises. A great deal of attention is paid to requiring that individuals who are eligible for social transfers must actively seek work.

FIGURE 7

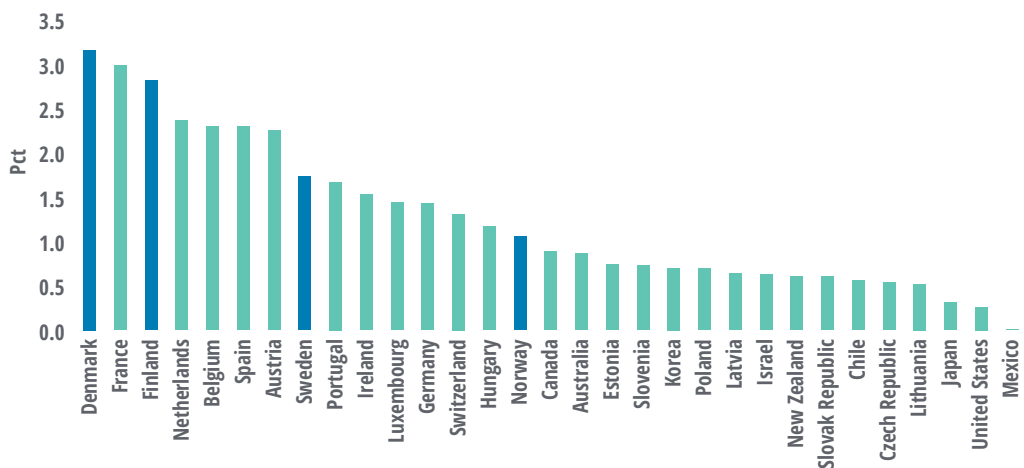
Percentage of female workforce employed in various nations (ages 15-64)



Source: OECD.stat, table: Short-Term Labour Market Statistics.

FIGURE 8

International comparison of public spending on active labor market programs as percentage of GDP



Source: OECD, stat, Public spending on labour markets.

Note: Data on Iceland is not available.

Measuring success: Economic and social outcomes

What has been the outcome of the Nordic model, and how well has the model performed?

From a broad perspective of looking from the 'top down' at society as a whole, the model can be assessed by gauging:

1. Satisfaction with the model
2. Prosperity and equality
3. Productivity, employment and business competitiveness
4. Overall social progress and happiness
5. Trust in people and institutions

Satisfaction with the model

Given the tax rates and size of the public sector, some might not like the Nordic countries' vision of society. Regardless, the Nordic welfare model has generally, and consistently, attracted a high level of support. Concomitantly, the Nordic political parties that historically have been in power – whether social democratic, liberal or conservative – have been fundamentally supportive of the Nordic welfare model.

However, support from the population is conditional. The welfare model is not just about solidarity and must function in terms of both financing and delivery: a fairly shared tax burden, minimal misuse of provided benefits and efficient delivery. Furthermore, the model must be economically sustainable. These conditions for the model's support may help explain why so many reforms have been carried out – which, to some extent, has tightened benefits but has not led to a decline in overall support.

The welfare model is not just about solidarity and must function in terms of both financing and delivery: a fairly shared tax burden, minimal misuse of provided benefits and efficient delivery.

Prosperity and equality

The Nordic countries have been able to achieve a high level of prosperity, while simultaneously securing a more even distribution of income with less difference between high- and low-income groups. The level of income per capita places Nordic countries in the top ranks of OECD nations, along with the US, Germany, Switzerland and Luxembourg. At the same time, the Nordic countries have a very low degree of income inequality, well below the OECD average (figure 9).

Productivity, employment and business competitiveness

Increased productivity is the main contributor of economic growth and increased prosperity. Measuring the GNI per hour worked indicates the extent to which a country can generate

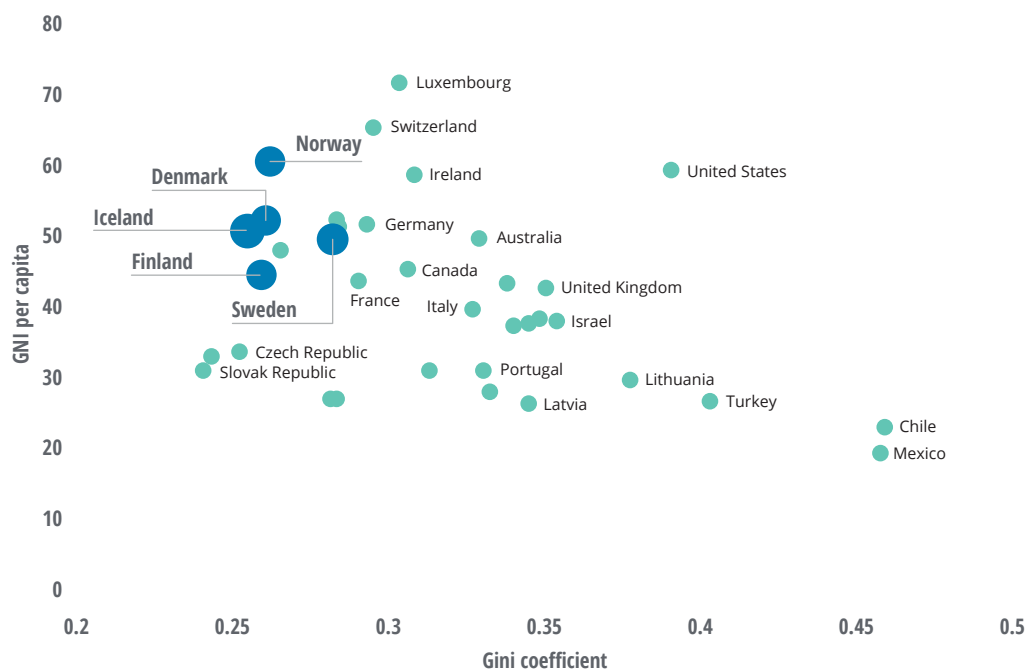
income for every hour worked. As seen in figure 10, the Nordic countries are among those with the strongest ability to generate income.

Although the size and role of the public sector generates much attention in Nordic countries and is at the core of ongoing reforms, defining elements of the Nordic model's sustainability are often considered a competitive private sector and favourable business environment. These are designed to enhance productivity and, thus, income.

The Nordic countries are all ranked within the top 30 internationally in terms of competitiveness, ease of doing business, economic freedom, entrepreneurship and lack of corruption. Often, they're ranked in the top 10. As figure 11 indicates, the Nordic countries score relatively low in terms of economic freedom, compared to the other categories, but are generally still ranked high globally.

FIGURE 9

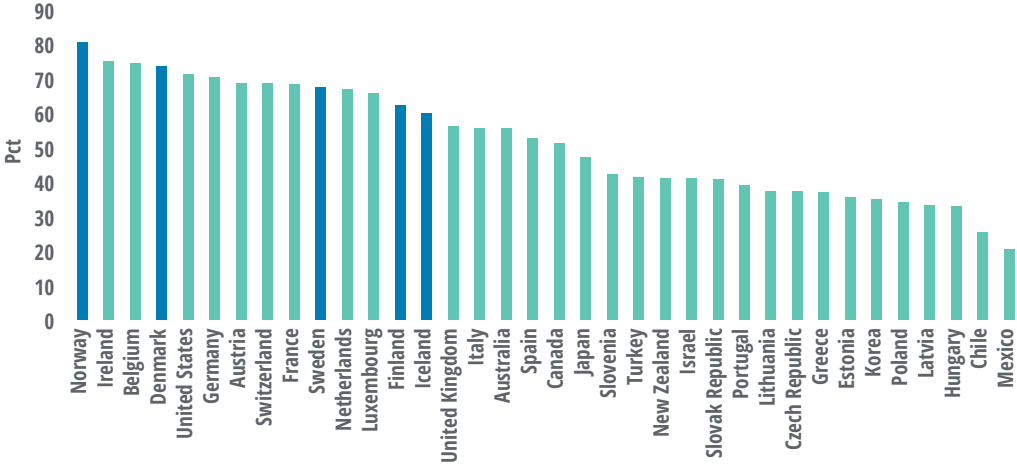
Gross national income (GNI) per capita in US dollars vs. Gini coefficient, 2016



Source: OECD.stat, tables: Disposable income and net lending – net borrowing, Income distribution and Poverty.

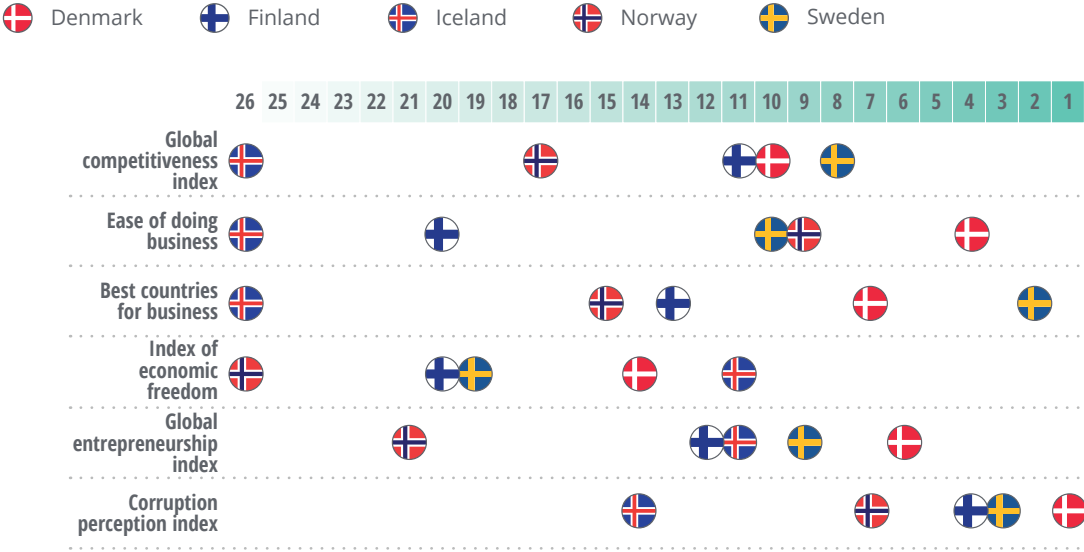
Notes: The Gini coefficient is a standard measure of income inequality that ranges from 0 (everybody with identical incomes) to 1 (all income goes to only one person). GNI is measured in current purchasing power parity (PPP) in US dollars. GDP measures the income within a country, but GNI measures the complete income of a country regardless of whether it is produced within or across borders.

FIGURE 10
GNI per hour worked for various countries, 2016



Source: OECD.stat, tables: Disposable income and net lending – net borrowing, Level of GDP per capita and productivity.

FIGURE 11
Rankings of Nordic countries' business environment and framework conditions

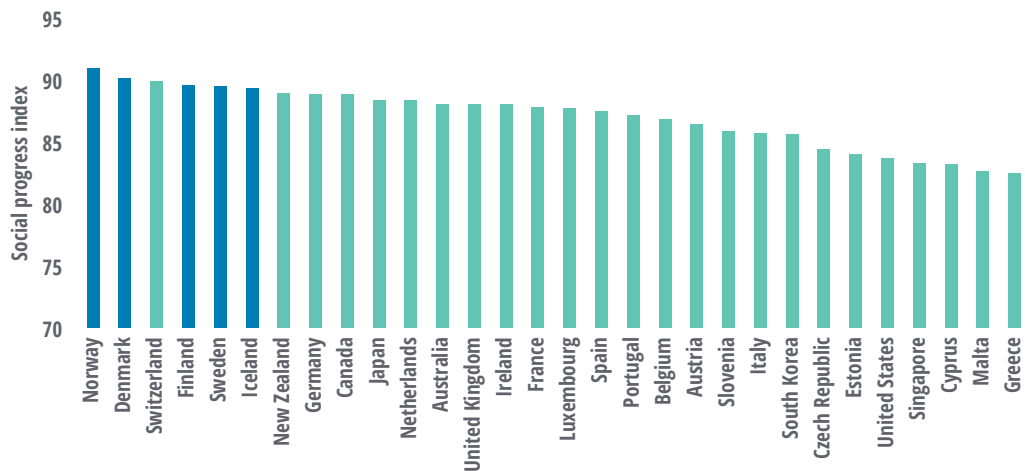


Source: World Economic Forum (2019)¹, World Bank (2019)², Forbes (2019)³, Heritage.org (2019)⁴, The Global Entrepreneurship and Development Institute (GEDI) (2018),⁵ Transparency International (2018).⁵

The level of income per capita places Nordic countries in the top ranks of OECD nations, along with the US, Germany, Switzerland and Luxembourg.

FIGURE 12

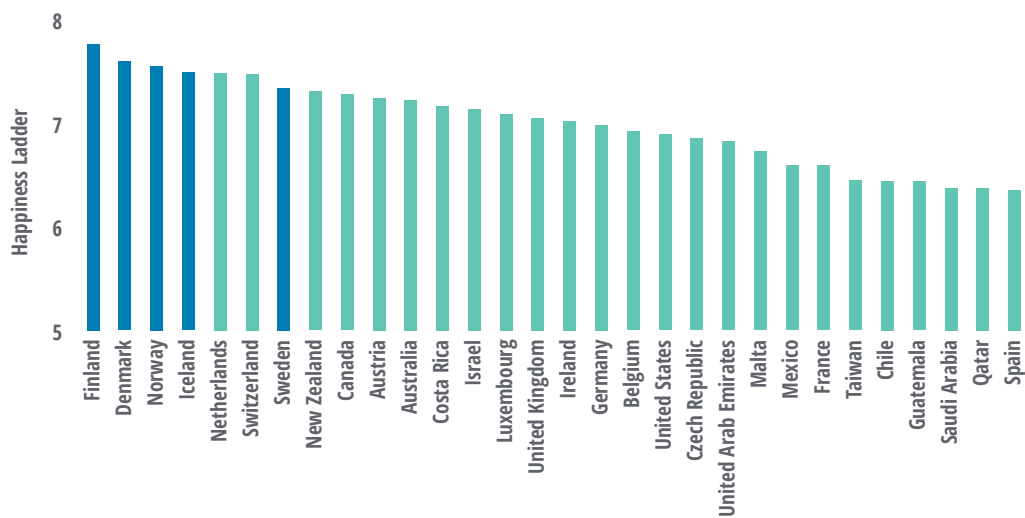
Top 30 countries rated on social progress



Source: Social Progress Imperative (2019).⁷

FIGURE 13

Top 30 countries rated as having the happiest populations



Source: Helliwell et al. (2019).⁸

Note: Happiness ratings are based on the following indicators: GDP per capita, social support, healthy life expectancy, freedom to make life choices, generosity and perceptions of corruption.

FIGURE 14

International comparison of interpersonal trust levels among various countries, 2016



Source: European Social Survey Round 8 Data (2018)¹⁰, European Social Survey Round 7 Data (2016).¹¹

Note: The values 0 and 10 indicate the statements “You can never be too careful” and “Most people can be trusted”, respectively. Values for Denmark are from 2014.

Overall social progress and happiness

Another measure of performance is social progress and perception of happiness. According to one study, the Nordic countries placed at the top on both counts, alongside other smaller countries, like Switzerland, the Netherlands and New Zealand. Specifically, the Social Progress Index, which measures the provision of basic human needs, foundations of wellbeing and opportunity, ranks the Nordic countries first, second, fourth, fifth and sixth (figure 12).

The inhabitants of Nordic countries are some of the happiest in the world, according to the World Happiness Report (figure 13). Finland, Denmark, Norway and Iceland are ranked first to fourth for perceived happiness, and Sweden is ranked seventh.

Trust in people and institutions

The Nordic countries often stand out for the degree of trust their citizens place in people and institutions (figure 14), which is necessary for them to support the social welfare model and for it to be economically viable. They need to trust that others will not exploit the social security net. In addition, if they place trust in courts, transaction costs may be reduced: There may be less need to pay for lawyers and spend resources on bribes, and increased incentive to reach settlements.

A society with substantial social trust also generally tends to have better institutional quality and less corruption. Furthermore, high levels of trust may facilitate necessary reforms that alleviate funding problems in the Nordic welfare states.⁹

Challenges to the Nordic model

The Nordic model has performed well, but a new chapter in the history of the Nordic model is being written according to current global challenges. Is it sustainable in the long term?

DEVELOPED ECONOMIES ARE affected by the larger, current shifts in the global economy, and the Nordic countries are no exception: Globalisation, inequality, demographic changes and immigration have fuelled social protests, diverging societal values and burgeoning support for various political movements.

So far, the Nordic countries have been able to adapt the welfare model, and – as discussed earlier – basic trust in institutions appears to have remained strong. Some believe these countries are more resilient to economic, technological and social changes because social cohesion is actively supported in those societies. But the counter-argument might be that the Nordic model will become increasingly difficult to sustain, and must adapt by reducing welfare benefits and departing from some basic principles of the social contract to remain globally competitive.

Deloitte took a close look at five of the challenges the Nordic countries are facing: securing contribution from the whole population, providing the necessary competencies, strengthening response to climate change, dealing with the productivity problem of the public sector and increasing innovation in government. In this section we investigate what action may be needed, and what policies and reforms are on the drawing board or being implemented.

The challenges

Some of the concerns that spawned these challenges have been voiced in Deloitte's interviews with public and private sector executives in Nordic countries. Top executives have highlighted risks related to polarisation in society, and the need to secure the integration of foreign labour and people on the edge of the labour market. They also point to the need for public sector institutions to be able to cooperate and act differently to handle the increasing complexities of societal problems.

Core challenges to the Nordic model

Challenge 1: Secure contribution from the whole population

Challenge 2: Provide the necessary competencies

Challenge 3: Strengthen response to climate change

Challenge 4: Address the productivity problem of the public sector

Challenge 5: Increase innovation in government

“The biggest challenge is that there must be a better structure of cooperation across organisations and states and local authorities.”

— *Sigríður Björk Guðjónsdóttir, Director, Reykjavik Police, Iceland*

Challenge 1: Secure contribution from the whole population

As we've explored, the welfare model in Nordic countries relies on high labour market participation. Ageing populations and a lack of incentives to work, particularly for those groups on the edge of labour markets, may affect participation and, thus, long-term sustainability.

ACTION: REFORM STATUTORY RETIREMENT AND PENSION SCHEMES

Ageing populations implies a worsening dependency ratio: Fewer people are contributing to the welfare state and more people are receiving benefits from the welfare state. This tests the ability to finance any kind of welfare state, but the problem could be even larger for the Nordic welfare model because of the high degree of redistribution from workers to non-workers. Public finances will not be sustainable unless the dependency ratio is kept in check.

Pension reforms

Denmark, Finland and Sweden have all implemented reforms that link the statutory retirement age to life expectancy, to delay pension payments and keep the dependency ratio in check. In **Denmark**, the retirement age is 65.5, which will increase to 67 years in 2022, and 68 years in 2030. New-borns can anticipate retiring when they are 74 years, based on their life expectancy. The effect of the first adjustment of retirement age has been encouraging: Many seniors are choosing to stay in the labour market, raising the employment rate for 55- to 64-year-olds.¹²

In **Finland**, the earliest retirement age is 63 years for persons born in or before 1954, rising incrementally to 65 years for persons born in or after 1962. A Finnish reform in 2017 bound the future retirement age to average life expectancy, as it did in Denmark.¹³ In **Sweden**, a reform with the same ambition is gradually increasing the standard retirement age of 65 years, in two stages: by one year in 2020 and by an additional year (to 67) in 2023.¹⁴ In **Iceland**, a public committee has suggested increasing the retirement age from 67 to 70 over a 12-year period, but no bill has been put forth.¹⁵

“We must also address the increasing polarisation in society. We see it in the US, we see it in Europe, and we see it in Norway: lack of understanding the importance of diversity and acceptance of differentness. Polarisation is dangerous, and it may lead to a destabilisation of our society.”

— *Petter Stordalen, CEO, Strawberry, Norway*

ACTION: INCREASE INCENTIVES TO WORK

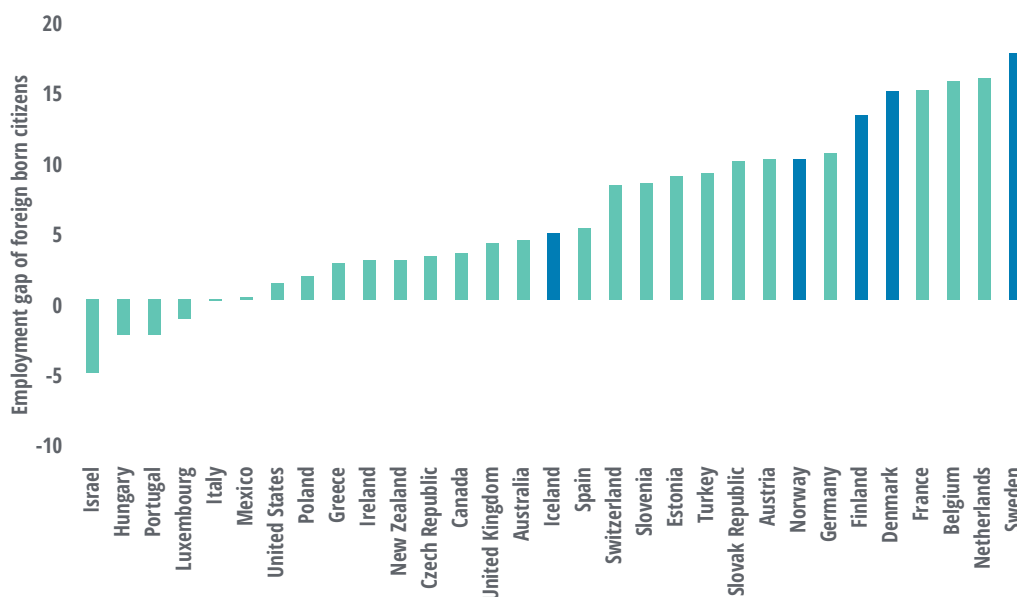
An ongoing concern in Nordic countries is balancing social security and incentives to work, for instance, through active labour market policies. During recent decades, the primary focus has been on the sustainability of public finances by increasing incentives to work.

Labour market reforms

In **Denmark**, a string of reforms in recent decades illustrates the attention given to labour supply and incentives to work. Tax reforms have been introduced to increase financial gain achieved through work. Consequently, a typical working-class family has seen a larger increase in their disposable income since 1995 than a family on social benefits. Other reforms have shortened the benefit period, lowered the benefit amount for certain groups, including recipients younger than 30, and tightened benefit eligibility criteria.¹⁶

FIGURE 15

Employment gap between foreign-born and native-born individuals in percentage points, 2015



Source: OECD.stat, table: Employment rates by place of birth and educational attainment (25-64).

Note: A positive gap means that foreign-born citizens have a lower employment rate than native-born ones.

In **Finland**, various reform packages implemented within the past decade have sought to secure a balance between social security levels and incentives to work. Among the most notable are stricter activity requirements (such as part-time work or training) to receive full unemployment benefits, as well as shorter unemployment benefit periods. Investments in pay subsidies for companies, to encourage them to hire unemployed workers, have also been prioritised, and income tax rates have been reduced to favour low- and middle-income earners since 2015.¹⁷

Reforms targeting immigrants and refugees

Ensuring the employment of immigrants and refugees, including those reunified with their families and descendants of non-Western origin, has become a more difficult and intrusive challenge in Nordic countries, given the increase in the number of refugees and immigrants. The employment gap between natives and immigrants is larger in Nordic countries than in most other OECD countries (figure 15); ultimately, the lower employment rate for foreign-born individuals may affect the economic sustainability of Nordic countries.

“We can already see society becoming polarised. It is not sufficient that young people can get their livelihood from social security – integrating them into society is essential. An individual has both the right and the responsibility to integrate.”

— *Elli Aaltonen, Ex-Director General, Kela, the Social Insurance Institution of Finland, Finland*

Over recent decades, several reforms have been implemented in **Denmark** to change this large employment gap, by limiting the inflow of immigrants and increasing the employment rate. Most notably, newly arrived refugees and reunified foreigners must participate in a one- to five-year integration program that consists of a Danish language course, job guidance, job training and an internship and/or employment with wage subsidy.

In 2016 Denmark introduced a new job and training program targeting refugees and reunited foreigners. They are brought into regular employment for two years under special wage and working conditions.

In 2016, Denmark introduced a new job and training program targeting refugees and reunified foreigners. They are brought into regular employment for two years under special wage and working conditions. Furthermore, Denmark has initiated financial incentives for municipalities that provide intensive integration efforts, and the social benefit system has been changed: There's a cap on the total amount of social benefits a household can receive, and benefits are further reduced if the recipient works fewer than 225 hours a year. Education has also been adjusted to address the issue: In primary and lower secondary schools, basic education in Danish as a second language for newcomers is a mandatory subject, and in some areas pupils' progression in school depends on their abilities in Danish.¹⁸

To boost integration and employment of migrants, in 2017 **Finland** launched the world's first migrant-focused Social Impact Bond: the Koto-SIB. The bond's purpose is to provide funding to private companies and other partners providing services that focus on improving migrants' potential and capability to become employed. Funds are collected from investors, who bear the economic risk, and the state pays only for the outcome. The bond's investment yield and payment structure for service producers depend on the actual accomplished employment. As of 2019, nearly 2,000 immigrants have participated and 50 per cent are permanently employed. Public savings, with regard to unemployment benefits, are estimated at approximately EUR 20 million so far.¹⁹

Challenge 2: Provide the necessary competencies

In the Nordic countries, education has been an important instrument to provide equal opportunities for all and achieve social mobility. Thus, investments in the educational system encourage social mobility, mainly by preventing ‘sticky floors’; citizens with low-educated parents are enabled to achieve relatively higher levels of education over time.²⁰ In Denmark it takes just two generations for the descendants of citizens in the bottom 10 per cent of the income distribution to reach the middle of the distribution (figure 16); by comparison, in the UK and the US, it takes five generations.

In monetary terms, free access to education is of higher value for the share of the population with lower income. From a broader socio-economic perspective, education is often considered a prerequisite for high productivity and high employment: two core elements of the Nordic welfare model’s success.

ACTION: ADAPT EDUCATION TO DEMAND

In a system where education is free or nearly free, there is an increased risk of mismatched demand and supply of skills, because individuals focus less on job and income prospects when they choose education. That risk may be accentuated as new technology, and increased international integration, are rapidly changing the demand for skills.

For example, technology progress raises the overall demand for skills and increases the value of some skills, while making others obsolete. Research shows that automation has decreased the importance of routine-based cognitive and manual tasks, while non-routine cognitive tasks, such as complex communication, have grown in importance.²² For example, studies have shown a large increase in Denmark for programming, problem solving, basic skills (math, writing, reading, active learning, critical thinking), social skills and leadership skills.²³

Education reforms targeting mismatch and need for continuous learning

Denmark has acknowledged an inadequate focus on job prospects when regulating how many students are admitted to selected higher-education institutions. To address this, a few years ago the government decided to limit the number of students admitted to institutions that, over a long period of time, produced a graduate body that featured high unemployment and low wages: a process known as dimensioning. In total 4,500 selected positions were removed, thereby encouraging admission to higher-education institutions that resulted in better employment rates for graduates.

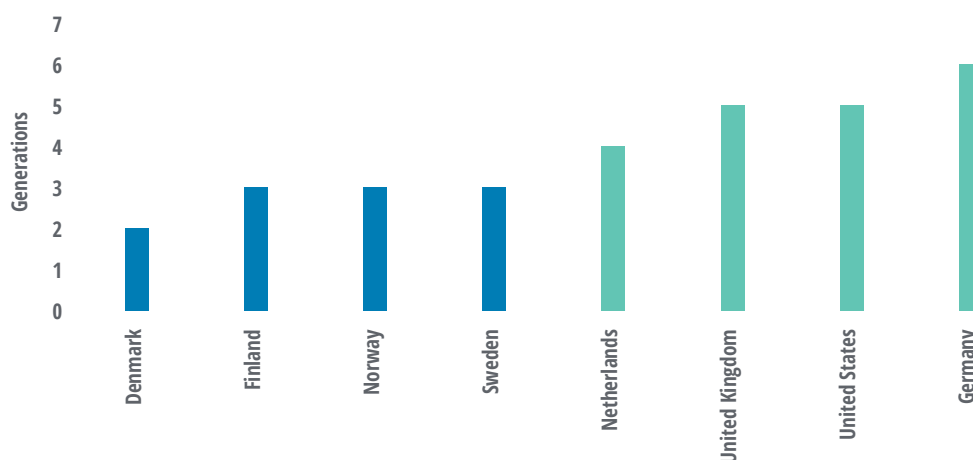
An interim evaluation of the dimensioning initiative showed a 12 per cent decline in admissions to institutions producing high unemployment and low wages, and a 7 per cent surge in admissions to non-dimensioned institutions. This is an example of a Nordic country attempting to mitigate unintended consequences of free education through central regulation.²⁴

Also in Denmark, as a response to the changing demand for technical skills and the need to educate children in dealing with digital technologies, digital literacy is being introduced as a specific subject in primary and secondary schools. A three-year project has been initiated to test and develop digital literacy as a new subject that combines the humanities with social, natural, formal and applied sciences. The purpose is for young people to be able to critically relate to technology and shape it, rather than just use it, becoming active, critical, democratic citizens in a digitalised society where technology plays an ever-increasing role.²⁵

Continuous education is another means of adjusting the supply of skills. In **Finland**, the current education system has been recognised as inefficient in meeting new requirements. Thus, in 2019 the government began a reform of continuous learning that should address the skills of working-age people: increasing opportunities for retraining, continuing professional development and professional specialisation education throughout working life, developing apprenticeship training, and providing flexible opportunities to study at higher-education institutions. The reform’s implementation will be complete in 2023.²⁶

FIGURE 16

Number of generations needed to ascend in social mobility in selected countries



Source: OECD (2018).²¹

Challenge 3: Strengthen response to climate change

Average global temperatures are rising, and five of the warmest years have occurred since 2010. The Nordic countries must tackle this challenge along with the rest of the world. All the Nordic countries have high ambitions regarding greenhouse gas emission reduction: To achieve carbon neutrality, Finland has a target of the year 2035, to be implemented by law; Iceland, 2040; Sweden, 2045; and Denmark and Norway, 2050 (figure 17 on page 26). The European Council has decided on a target of climate neutrality in 2050 for the European Union (EU).

The starting points for the Nordic countries are very different (figure 18 on page 26). Denmark, Finland and Sweden have already reduced emissions by approximately 20–30 per cent. Norway has slightly increased emissions since 1990. Iceland has increased emissions by more than 50 per cent, through processes related to road transportation, industry and agriculture – as well as, in recent years, increased aviation traffic owing to the sharp increase in tourism in Iceland.

ACTION: DEVISE POLICIES TO REACH AMBITIOUS TARGETS

All countries remain in an early stage of devising policies and developing specific plans and initiatives that will allow them to reach their targets. It remains to be seen whether such policies will conflict with other important policy objectives, including that of equality. Even if Denmark, Finland and Sweden – countries on a reduction track – continue to reduce emissions at the same speed as in the past 15 years, it will not be enough to meet the targets. They must come up with new initiatives if they want to lower emissions further and meet their targets.

Denmark's emission reduction target of 70 per cent by 2030 has broad support from parties on both sides of the political aisle, as well as from local authorities, civil society and the business community. With the implementation of the law, the Danish government has adopted a collaborative approach. The business community has been engaged in climate partnerships covering key sectors and specifying policies needed to reach the emissions targets.³³

Sweden has already passed climate laws and adopted an initial range of initiatives to achieve significant reductions. The Green Industry Leap is one such significant initiative already underway, boasting a yearly budget of \$30 million per year and plans for more funding in the future. The initiative focuses on the need to reduce emissions from industrial processes. The decline in emissions in Sweden since 2006 has been mainly thanks to changes in fuel consumption and reduced production volumes. But without further action, emissions from industrial processes are expected to increase in the coming decades.

Through the Green Industry Leap initiative, businesses and industries can receive financial support for feasibility studies, design studies, research or high-risk innovation projects that develop new technology to reduce or capture carbon emission. One example is the funding of the project HYBRIT, which investigates whether steel can be manufactured with fossil-free electricity and hydrogen (replacing coal). Another example is a Swedish-Norwegian project to capture and store carbon dioxide in a hydrogen production plant in Lysekil. HYBRIT has the potential to reduce Sweden’s total carbon footprint by 10 per

FIGURE 17

Overview of Nordic and EU goals for reduction of CO2 emissions, by year

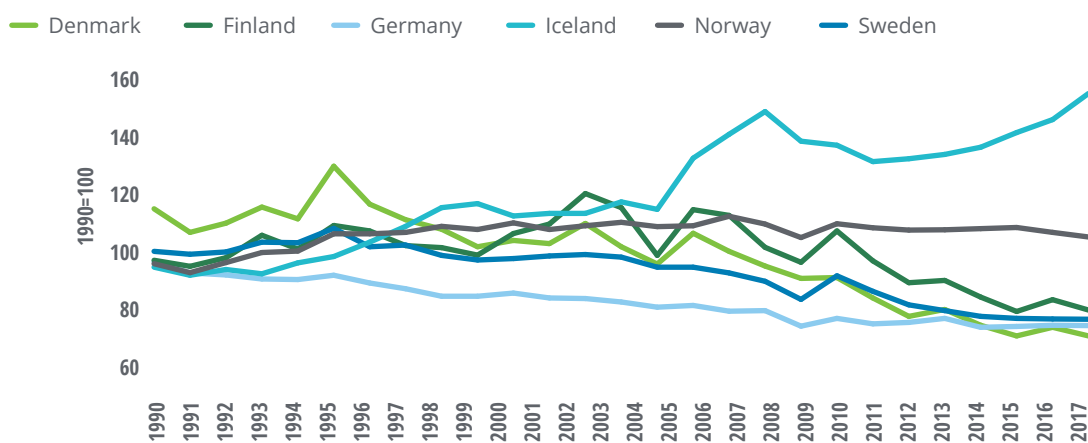
Year	Denmark	Finland	Iceland	Norway	Sweden	EU
2030	70%		30%	100%		40%
2035		100%				
2040			100%			
2045					100%	
2050	100%			100%		100%

Sources: The Government of Denmark (2019),²⁷ Swedish Environmental Protection Agency (2019),²⁸ Climate Action Tracker (2019),²⁹ Finnish Government (2019),³⁰ European Commission (2018),³¹ European Council (2018).³²

Note: Reduction goals refer to the reduction of CO2 emissions compared to the 1990 level.

FIGURE 18

Changes in emissions levels since 1990, index 1990 = 100



Source: Eurostat, table: Greenhouse gas emissions per capita.

The Y-axis indicates the emissions of greenhouse gasses relative to 1990. A value of 80 means that emissions are 20 per cent lower compared to 1990.

cent, and the carbon-capture and storage project aims to reduce carbon emissions from the plant by up to 500,000 (metric) tonnes per year.³⁴

In **Norway**, a climate law has also been passed, and the specific plans for reducing emissions is under way. With regard to policies concerning electric vehicles, Norway is considered the undisputed world leader. Over half of all new cars sold in 2019 will be electric, and by 2025 all new cars should be zero-emission (electric or hydrogen). Norway has several initiatives in place to incentivise using electric vehicles instead of fossil-fuelled cars. Electric cars are exempt from purchase tax and value-added tax; this means an approximate EUR 12,000 reduction in purchase and value-added tax for an electric Volkswagen Golf, as compared to a fossil-fuelled Golf. Furthermore, electric vehicles are eligible for reduced parking and ferry fees, are exempt from tolls and from registration fees when changing owner and incur fewer company-car taxes. In addition, 10,000 publicly available charging points have been established throughout Norway.

CO₂ emissions in Norway's transportation sector have been declining. The EU has an average fleet CO₂ emissions target of 130 g of CO₂/km in 2015 and 95 g of CO₂/km in 2021. As of 2018, the average CO₂ emissions from new passenger cars in Norway were already reduced to 71 g of CO₂/km, and September 2018 marked a new low with 55 g of CO₂/km. The reduction comes with a substantial cost to the government of NOK 10 billion per year because of the lower tax income.³⁵

Challenge 4: Address the productivity problem of the public sector

The public sector in the Nordic countries may inherently face a financing problem in the long term, stemming from slowed productivity growth in services. One solution, political in nature, is to increase taxes to finance the increasing costs of providing public services. Alternatively, the government could change the nature of the services provided by the public sector (such as quality, extent and/

or coverage). Other solutions revolve around controlling costs across the public sector. There are potentially also large opportunities in further digitizing the public sector, and the Nordic countries are already among the leaders in that regard.

ACTION: COUNTER THE BAUMOL PROBLEM

Generally, services inherently exhibit slower productivity growth than goods. Because the public sector mainly provides services, such as education, child care and health care, its productivity grows slower than the private sector, which produces a mix of services and goods.

Despite the productivity differences, salaries in the public sector tend to follow salary levels in the private sector. This implies that public services, over time, become more expensive to produce and require an increase in funding to maintain a similar level of services: a problem known as the Baumol cost disease, and one that may be exacerbated by an increasing demand for services when incomes rise. Because of the Baumol problem, it can be more difficult for Nordic countries to secure a balance in public-sector budgets in the long term.

Several of the Nordic countries, including Denmark, have applied general cost-cutting measures – for instance, in the form of a 2 per cent cost reduction for all central government institutions. However, such measures will not, in themselves, secure service provision of the quality that is demanded and increase productivity in service delivery.

Applying innovation and new technologies: Digitization and automation in the public sectors

There is the realisation in the Nordic countries that innovation and greater use of digital technologies offers numerous opportunities to increase efficiency and productivity in the delivery of many public-sector services. The Nordic countries are already ranked among the leaders in the application of digital technologies.³⁶ They have embraced digitization primarily as a means of increasing efficiency and delivering better services.

FIGURE 19

Key levers aiding digitisation of the public sector in Nordic countries



Cross-National Strategy Process

- Establish close cooperation and involvement of many stakeholders from different sectors and government levels to establish a cross-national strategy process, for example:
- Involvement of local and regional authorities in formulating investment priorities.



Centralised Agency

- Reduce organizational complexity and implementation overlaps and strengthen governance at state level, for example:
- Centralising tactical and strategic role in one agency.
 - Ensuring horizontal coherence within state and align entities to reduce silos.



Hard Instruments

- Include hard instruments in the steering setup to fully implement strategy, for example:
- Allocation of funds.
 - Determination of actor's authority (mandate for digitalisation councils or central state agencies).
 - Use of legislation to enforce mandatory strategy implementation.



Innovative Models on Decentralised Levels

- Support innovative models which address a need to re-think cooperation at the decentral level, for example:
- Furthering collaboration between local and regional communities.
 - Operational role of industry associations.

Source: Struensee & Co.³⁷

Certain government levers (figure 19) have been important in securing public-sector digitisation in the Nordic countries, despite differences in their approach. Some 'hard', centrally devised measures have been applied to secure key elements in the implementation of digital solutions across various government bodies.

A prerequisite of the further digitisation and use of new technologies in the public sector is a new level of technological and organisational capacities and competencies. More digitisation and automation can drive complex transformations, with potential for tax administration and health, especially. Some of the key levers are expected to include the quality and use of data; improved data models, including AI; development of modern IT infrastructure; and simplified legislation that allows for easier and digitalised administration.

Digitalised tax registration

Over the coming decades, the Nordic countries' tax administration will likely undergo a significant development; as described below, several tax areas have already been digitalised to some extent, for decades, but more could be transformed based on the principle that legislation, digitisation, IT and data must work in tandem.³⁸

In the Nordic countries, personal tax collection is based on a retention tax system, whereby income tax is paid by the payer of the income rather than by the recipient of the income. In this system, tax payments and administration are highly digitalised and automated. Tax authorities automatically receive data on citizens from banks and employers, and on this basis, conduct controls and generate an annual statement. In another example of personal taxation digitisation, each Nordic country has implemented a user-friendly, self-service platform where customer service and control are integrated. There, citizens can correct or add to information that is otherwise automatically generated from banks and employers. Through MyTax in Finland, Skattemelding in Norway and TastSelv in Denmark, taxpayers can pay all their taxes, request a tax card, view tax details and make corrections to tax returns.³⁹

In the area of business taxation, many countries in the Asia-Pacific region, the Americas and Eastern Europe have adopted the SAF-T (Standard Audit File for Tax) standard, which is an international standard for the electronic exchange of reliable accounting data from businesses to a national tax

authority. Norway has begun implementation with the aim of reducing the burden on businesses and giving tax authorities easy access to relevant data to allow more efficient and effective tax inspections.⁴⁰

Regarding property taxation, there are opportunities in the digitisation and automation of property assessment. Prior to 2016, several cases showed that the Danish tax administration's property assessments were inaccurate, uneven, opaque and led to distortions that were caused by limited data, outdated IT support and antiquated legislation. In **Denmark**, a new, data-driven property assessment system is under way, aiming for more accurate, data-driven and transparent assessments. The multi-year project uses several interconnected levers, including new, better data and simplified legislation, making administration easier and better able to be digitalised. The first assessments of 1.7 million owner-occupied Danish homes will be launched in 2020. The project is a case study of a complex transformation of public administration.⁴¹

Targeted patient information system

Finnish studies indicate that 10 per cent of the population generates approximately 80 per cent of the costs of social services and health care. Hence, there are several initiatives ongoing in **Finland** to combine data and provide better IT support for health and social care professionals to control costs and provide more-focused services for recipients of multiple public services.

One of the most important initiatives is Apotti, a regionally uniform IT solution for Finnish social services and health care that would support the care of 1.6 million residents. The goal is to provide tens of thousands of health and social care professionals in the Helsinki metropolitan area with a user-friendly tool that makes working easier, catalyses cross-sector collaboration and provides best practices. The benefits are expected to include better operational practices, more efficient utilisation of data, improved availability of services, and services more appropriately targeted to those in most need. Apotti can also be used to prevent medication errors, avoid overlapping laboratory tests and support a digital patient e-clinic.⁴²

Challenge 5: Increase innovation in government

The opportunities in digitisation and automation are not the only drivers for transformations in the core business of the public sector. Also challenging traditional models of government are increasing expectations of citizens and businesses with regard to service levels and responsiveness, the emergence of more complex problems and the emergence of new technologies and business models.

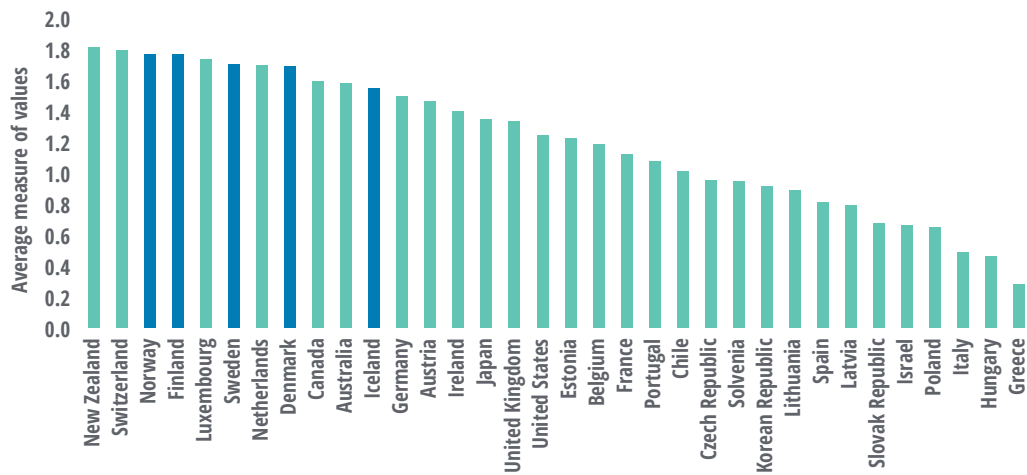
In general, there is a perception that the public sector in Nordic countries delivers high-quality services, particularly in terms of governmental effectiveness, control of corruption and regulation, for example. Transparent, effective and reliable regulation affects the ease of doing business, and the Nordic countries apply it extensively (such as to health, safety and the environment). Measurements of institutional quality by the World Bank and other bodies have placed the Nordic countries among the list of top countries globally (figure 20 on page 30), and a recent study of the EU and OECD countries showed that institutional quality of government is an important factor in explaining prosperity.⁴³

ACTION: ADAPT PUBLIC SECTOR INSTITUTIONS TO INCREASING REQUIREMENTS

There is a growing perception that the Nordic model is challenged in being able to address and solve difficult, long-term societal problems that require coordinated efforts across sectors. Public executives are questioning how the existing model can respond to current and emerging complex challenges, as illustrated earlier in the quotations from executives. Examples are young people who fall out of the school system and do not get a job, or immigrants with low employment levels; these problems remain unresolved and likely require cross-sector solutions that the current model generally does not deliver. The public sector tends to deal with issues in specific administrative domains: in silos, which can complicate the handling of complex and cross-sectoral problems and limits innovation in the public sector.

FIGURE 20

Ranking of OECD countries in terms of institutional quality



Source: The World Bank (2018)⁴⁴

Note: Institutional quality was calculated as the average of six World Bank indexes: ‘Voice & accountability’, ‘Political stability and absence of violence/terrorism’, ‘Government effectiveness’, ‘Regulatory quality’, ‘Rule of law’ and ‘Control of corruption’. The index ranges from -2.5 (minimum level of institutional quality) to 2.5 (maximum level of institutional quality).

Furthermore, public-sector executives seem concerned about an effective response in Nordic countries to new technologies and business models. Ultimately, regulation can be a catalyst for, or a hindrance to, technological innovation. Adapting regulation to accommodate today’s fast transformation in technologies and business models may require new solutions, including across sectors.

However, in a traditional model, a ministerial department or a municipal administration is accountable to a certain minister or mayor and has weak incentives for cross-sectoral solutions. Furthermore, the goal-oriented focus of public departments and agencies may be reinforcing a tendency for each organisation to seek specific solutions that can only achieve the performance criteria of individual institutions. Again, that approach does not necessarily support the cross-sectoral collaboration that seems needed.

Regulators in the future should be far more agile and adopt new tool kits and modes of collaboration.⁴⁵ The assumption that regulations can be crafted slowly and deliberately – and remain in place, unchanged – has been upended in today’s environment. As elsewhere, regulators in Nordic countries are sometimes struggling to apply new models of operation and regulation, and to find new ways of interacting with various industries and cooperating with other social partners to pave the way for new solutions and innovation. But there are numerous examples of initiatives and experiments that are gaining progress in making governmental regulation more adaptable and finding solutions that cross sectors.

Devising solutions to complex problems

In **Finland**, a new governmental program began in 2019, grounded in the so-called phenomenon-based administration principle: cross-functional ministerial working groups are being formed around phenomena and will lead the work of ministries and public authorities in cooperation with the prime minister’s office. Currently, the groups are making assessments and defining strategies to align future initiatives with the prioritised phenomena.

As with other countries, Finland is challenged by new global trends, such as climate change, loss of biodiversity, immigration and digitisation. The approach adopted by the Finnish government to address cross-sectoral issues explicitly fosters the public sector's ability to handle emerging, complex challenges by limiting the siloed focus within ministries. The approach builds on a model developed by the Finnish innovation fund SITRA, which proposes five specific reforms:

Reforms towards a phenomenon-based public administration

1. Ensure a more strategic approach to management in the public sector through a shared governmental vision and strategic government programs
2. Strengthen political steering in implementation of the government agenda by changing ministers' roles
3. Ensure support for phenomenon-based public administration through better communication and the creation of cross-ministerial situation rooms
4. Establish a cross-sectoral approach through increased mobility and a more active prime minister's office
5. Improve the preconditions for information-based management through training, evaluation of legislation, and rotation of senior management⁴⁶

Applying design thinking and co-creation to government processes

In **Denmark**, government agencies are experimenting with the use of design thinking and co-creation methods to address specific problems. Fundamentally, this helps public-sector institutions focus on problems they are faced with and identify implementable solutions in collaboration with stakeholders and other relevant agencies. Critical internal and external stakeholders are involved in diagnosing the problem, identifying possible solutions, qualifying them and considering the possibility of implementation.

The specific tools that can be applied in the overall process may vary considerably, depending on the specific context. They can range from extended innovation processes and 'hackathons' to more specific business-case and feasibility-type analysis.

One specific example of the use of design thinking and co-creation is in the area of regulation of product safety. Often, new products are legally marketed but present safety risks to consumers. The Danish Safety Technology Authority successfully applies a co-creation approach to device regulation in order to impact behaviour in the market. In the process, the authority involves its own experts, other agencies, business associations representing importers of new products and representatives of consumers. A benefit is that co-created solutions can, to a larger extent, take into account all perspectives of a given problem. A bonus is that potential solutions are typically developed faster than they would be through a traditional process.⁴⁷

Devising new forms of agile, digital-ready legislation

The Danish government has a stated goal that all future regulation in **Denmark** must be 'digital-ready' and 'agile'. Digital-ready regulation must be drafted in a way that is both easily manageable and enables digital administration. Agile regulation supports companies' opportunities to test, develop and apply new digital technologies and business models.

To succeed, secretariats have been established to guide law-writers when implementing new legislation. In addition, all ministries must now assess new business-oriented regulation, to ensure that it supports companies' ability to test, develop, and apply new digital technologies and business models by checking whether they:

Seven principles for digital-ready legislation

1. Simple and clear rules
2. Digital communication
3. Possibility of automated case processing
4. Consistency across authorities – uniform concepts and reuse of data
5. Safe and secure data handling
6. Use of public infrastructure
7. Prevention of fraud and errors⁴⁸

As an example, new regulation of payment services must ensure that not only banks, but other businesses can offer new digital services based on customers' payment data.

Likewise, all ministries must consider the extent to which new regulation exhibits the seven features listed left, to ensure that legislation can be digitalised easily – in terms of digital administration and digital services for citizens and businesses.

“The old office- and ministry-managed public service production must be amended to operate cross-functionally over the organisational boundaries. As the societal challenges are becoming more complex, the public sector must be able to co-operate and react accordingly and jointly with other offices. We need strong dialogue about the organisational boundaries in order to overcome the forthcoming challenges.”

— Päivi Nerg, Permanent Under Secretary, Ministry of Finance, Finland

Modelling the future

The Nordic model seems to be a ‘perfect fit’ for the smaller and fairly homogeneous Nordic countries. So far, it’s been able to achieve growth and substantial equality, and support for the model and the social contract underpinning it seems to be intact. However, that support is likely contingent on the ability of the Nordic welfare state to function in terms of delivery and financing.

REFORMS IN THE Nordic countries have been largely successful in driving toward long-term economic sustainability, for instance, by addressing statutory retirements and incentives to work, and eligibility for benefits and services. As the latest chapter in the model’s history is being written to meet current challenges, further reform could be necessary, but just as important might be new solutions and new government approaches to handle more complex problems.

For example, although there have been changes to encourage new competencies and skills, difficult changes and larger reforms within the current education system may lie ahead. Regarding the inherent productivity problem, further digitisation and automation of the public sector may be called for. To continue to sustain financing, Nordic countries need to secure contribution from the whole population, including from all labour market

groups and immigrants. To address environmental challenges, a more collaborative approach to identifying solutions may take precedence over the traditional means of modifying regulations. And finally, Nordic governments are experimenting with new forms of cross-sectoral organisation and new forms of regulation, but more thorough changes could undoubtedly be required to allow better solutions to complex and pervasive problems, and to support innovation across society.

Ultimately, it may be the unique aspects of the Nordic societies that presumably have helped produce a positive outcome. But it stands as a hypothesis that policymakers in other countries can learn important lessons from the Nordic model in their efforts to raise incomes for all and prosperity in the longer term.

Endnotes

1. World Economic Forum, The Global Competitiveness Report 2018, 2019, <http://www3.weforum.org/docs/GCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf>, accessed 21 January.
2. The World Bank, Doing Business 2020, 2020, <https://openknowledge.worldbank.org/bitstream/handle/10986/32436/9781464814402.pdf>, accessed 21 January 2020.
3. Forbes, Best Countries for Business, 2019, <https://www.forbes.com/best-countries-for-business/list/>, accessed 21 January 2020.
4. The Heritage Foundation, 2019 Index of Economic Freedom, 2019, <https://www.heritage.org/index/ranking>, accessed 21 January 2020.
5. The Global Entrepreneurship and Development Institute, 2018 Global Entrepreneurship Index rankings, 2019, <https://thegedi.org/global-entrepreneurship-and-development-index>, accessed 21 January 2020.
6. Transparency International, Corruption Perceptions Index 2018, 2019, <https://www.transparency.org/cpi2018>, accessed 21 January 2020.
7. Social Progress Imperative, Results - Social Progress Globally, 2019, https://www.socialprogress.org/assets/downloads/2019-SPI_RankingTable.pdf, accessed 21 January 2020.
8. John F. Helliwell, Richard Layard and Jeffrey. D. Sachs, World Happiness Report 2019, 2019, <https://s3.amazonaws.com/happiness-report/2019/WHR19.pdf>, accessed 21 January 2020.
9. See, for example, Christian Bjørnskov and Gert Tinggaard Svendsen, Does social trust determine the size of the welfare state? Evidence using historical identification, *Public Choice*, 157, 2013; and Ulf Andreasson, Trust – the Nordic Gold, Nordic Council of Ministers, 2017.
10. European Social Survey Round 8 Data, Data file edition 2.1., NSD - Norwegian Centre for Research Data, Norway – Data Archive and distributor of ESS data for ESS ERIC, 2018.
11. European Social Survey Round 7 Data, Data file edition 2.2. NSD - Norwegian Centre for Research Data, Norway – Data Archive and distributor of ESS data for ESS ERIC, 2016.
12. Danish Government, Aftale om fremtidens, velstand og velfærd og investeringer i fremtiden, 2006. Danish Government, Aftale om senere tilbagetrækning, 2011. Danish Economic Council, Dansk økonomi forår 2018, 2018.
13. The Finnish Centre for Pensions, Pension Reform in 2017, 2020 <https://www.etk.fi/en/the-pension-system/dynamic-pension-scheme/pension-reform-in-2017/>.
14. European Commission's Directorate General for Economic and Financial Affairs, Pension Reform in Sweden: Sustainability & Adequacy of Public Pensions, Economic Brief 048, 2019, accessed 10 March 2020.
15. OECD, Pensions at a Glance 2019: OECD and G20 Indicators, OECD Publishing, Paris, 2019.
16. The Danish Agency of Labour Market and Recruitment, Recent labour market policy reforms, 2019, <https://star.dk/en/recent-labour-market-policy-reforms/>, accessed 21 January 2020.
17. Finnish Ministry of Finance, Europe 2020 Programme, Finland's National Reform Programme 2019, 2019. The European Social Policy Network (ESPN), The "Activation Model" in the Finnish unemployment protection system, ESPN Flash Report 2019/05, 2019.
18. Danish Ministry of Immigration and Integration, International Migration – Denmark, Report to OECD, 2019.

19. European Investment Bank & Ministry of Economic Affairs and Employment of Finland, Using social outcomes contracting to support migrant integration in Finland: the KOTO SIB case study, 2019, <https://www.eib.org/en/videos/using-social-outcomes-contracting-to-support-migrant-integration-in-finland-the-koto-sib-case-study>, accessed 21 January 2020. Ministry of Economic Affairs and Employment of Finland, Integration SIB project, 2017, <https://tem.fi/en/integration-sib-project>, accessed 21 January 2020. European Commission, The Commissioners, 2019, https://ec.europa.eu/commission/commissioners/2014-2019/katainen/announcements/investment-plan-europe-first-social-impact-bond-scheme-europe-supports-integration-finland_en, accessed 21 January 2020.
20. OECD, A broken social elevator? How to promote social mobility, OECD Publishing, 2018, <http://dx.doi.org/10.1787/9789264301085-en>, accessed 21 January 2020.
21. OECD, A broken social elevator? How to promote social mobility, OECD Publishing, 2018, <http://dx.doi.org/10.1787/9789264301085-en>, accessed 21 January 2020.
22. See, for example, David H. Autor, Frank Levy and Richard J. Murnane, The skill content of recent technological change: An empirical exploration, National Bureau of Economic Research, 2003, <https://www.nber.org/papers/w8337.pdf>, accessed 21 January 2020; Hasan Bakhshi, Jonathan M. Downing, Michael A. Osborne and Philippe Schneider, The future of skills: Employment in 2030, Nesta, 2017, https://media.nesta.org.uk/documents/the_future_of_skills_employment_in_2030_0.pdf, accessed 21 January 2020; and David J. Deming, The growing importance of social skills in the labor market, The Quarterly Journal of Economics, 132, no. 4, pp. 1593–1640, 2017 <https://doi.org/10.1093/qje/qjx022>, accessed 21 January 2020.
23. Kristian Binderup Jørgensen and Therese Aunbirk Jeppesen, Hvilke kompetencer får vi brug for i fremtiden?, Kraka, 2018, http://kraka.org/small_great_nation/hvilke_kompetencer_faar_vi_brug_for_i_fremtiden, accessed 21 January 2020.
24. Produktivitetskommissionen, Analyserapport 4 om Uddannelse og Innovation, 2014. The Expert Committee on Quality in Higher Education in Denmark, New Ways & High Standards, 2015. Uddannelses- og Forskningsministeriet, Evaluering af den ledighedsbaserede dimensioneringsmodel, 2018.
25. Teknologiforståelse i folkeskolen, Teknologiforståelse – en alment dannende, kreativ og skabende faglighed, 2019, <https://teknologiforstoelse.dk>, accessed 20 March 2020.
26. Finnish Ministry of Education and Culture, Reform of continuous learning launched to alleviate skills shortages and to improve upskilling opportunities for working age people, 2019, https://minedu.fi/artikkeli/-/asset_publisher/jatkuvan-oppimisen-uudistus-kaynnistyy-tavoitteena-helpottaa-osaajapulaa-ja-sujuvoittatyoikaisten-osaamisen-paivittamista?_101_INSTANCE_vnXMrwx9pG9_languageId=en_US, accessed 21 January 2020.
27. The Government of Denmark, Retfærdig retning for Danmark, 2019, https://ufm.dk/ministeriet/regeringsgrundlag-vision-og-strategier/regeringen-mette-frederiksen-forstaelsespapir/retfaerdig-retning-for-danmark_2019-06-25_endelig.pdf, accessed 22 January 2020.
28. Swedish Environmental Protection Agency, Sweden's Climate Act and Climate Policy Framework, 2019, [http://www.swedishepa.se/Environmental-objectives-and-cooperation/Swedish-environmental-work/Work-areas/Climate/Climate-Act-and-Climate-policy-framework-/,](http://www.swedishepa.se/Environmental-objectives-and-cooperation/Swedish-environmental-work/Work-areas/Climate/Climate-Act-and-Climate-policy-framework-/) accessed 22 January 2020.
29. Climate Action Tracker, Norway, 2019, <https://climateactiontracker.org/countries/norway/>, accessed 22 January 2020.
30. Finnish Government, Finland has an excellent opportunity to rebuild itself in line with the principles of sustainable development, 2019, <https://valtioneuvosto.fi/en/rinne/government-programme/carbon-neutral-finland-that-protects-biodiversity>, 22 January 2020.
31. European Commission, 2030 climate & energy framework, 2018, https://ec.europa.eu/clima/policies/strategies/2030_en, accessed 22 January 2020.
32. European Council, 2050 long-term strategy, 2018, <https://www.consilium.europa.eu/en/meetings/european-council/2019/12/12-13/>, accessed 22 January 2020.

33. The Ministry of Climate, Energy and Utilities, During the COP, Denmark passes Climate Act with a 70 percent reduction target, 2019, <https://en.kefm.dk/news/news-archive/2019/dec/during-the-cop-denmark-passes-climate-act-with-a-70-percent-reduction-targetws-page-eng/>, accessed 10 March 2020. The Confederation of Danish Industry, DI's 2030-plan – Sammen skaber vi grøn vækst, 2019. Statsministeriet, Statsministeren og den danske pensions-branche annoncerer milliardinvesteringer i grøn omstilling, 2019.
34. Regeringskansliet, Regeringen satsar på negativa utsläpp, 2019, <https://www.regeringen.se/pressmeddelanden/2019/06/regeringen-satsar-pa-negativa-utslapp/>, accessed 24 January 2020. Energimyndigheten, Industriklivet, 2018, <https://www.energimyndigheten.se/forskning-och-innovation/forskning/omraden-for-forskning/industri/industriklivet/>, accessed 20 March 2020.
35. Norsk elbilforening, Norwegian EV policy, 2019, <https://elbil.no/english/norwegian-ev-policy>, accessed 21 January 2020. Jon Georg Dale, Norway and electric vehicles – a successful combination, <https://www.regjeringen.no/no/aktuelt/norway-and-electric-vehicles--a-successful-combination/id2644216/>, 2019, accessed 21 January 2020. Dr. Karoline Steinbacher, Minke Goes and Korinna Jörling for Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU), Incentives for Electric Vehicles in Norway, 2018.
36. United Nations Department of Economic and Social Affairs, 2018 UN E-Government Survey, 2018, <https://www.un.org/development/desa/publications/2018-un-e-government-survey.html>, accessed 21 January 2020.
37. Struensee & Co, The Nordic countries: Leaders in public sector digitalization, 2017, https://struensee.dk/wp-content/uploads/2017/11/struensee_and_co_nordic_country_digitalization_report.pdf, accessed 21 January 2020.
38. Implementeringscenter for Ejendomsvurderinger, Nye og mere retvisende ejendomsvurderinger, 2016, <https://www.skm.dk/media/1385500/Nye-og-mere-retvisende-ejendomsvurderinger.pdf>, accessed 21 January 2020.
39. Finnish Tax Administration, MyTax, 2020, <https://www.vero.fi/en/e-file/mytax/>, accessed 10 March 2020. The Danish Customs and Tax Administration, Guide to E-tax, 2020, <https://skat.dk/skat.aspx?oid=2244314>, accessed 10 March 2020. The Norwegian Tax Administration, Taxes, 2020, <https://www.skatteetaten.no/en/person/taxes/>, accessed 10 March 2020.
40. The Norwegian Tax Administration, Questions and answers - SAF-T Financial, 2020, <https://www.skatteetaten.no/en/business-and-organisation/start-and-run/rutiner-regnskap-og-kassasystem/saf-t-financial/questions-and-answers---saf-t-financial/>, accessed 10 March 2020.
41. Implementeringscenter for Ejendomsvurderinger, Nye og mere retvisende ejendomsvurderinger, 2016, <https://www.skm.dk/media/1385500/Nye-og-mere-retvisende-ejendomsvurderinger.pdf>, accessed 21 January 2020.
42. Oy Apotti AB, Apotti as a project, 2020, <https://www.apotti.fi/en/what-is-apotti/>, accessed 21 January 2020.
43. Deloitte and Kraka, Small Great Nation: Options and challenges, 2017, <https://www.sgnation.dk/analyser/danmarks-potentialer-muligheder-og-udfordringer>, accessed 28 January 2020.
44. The World Bank, Worldwide Governance Indicators, 2018, <https://databank.worldbank.org/source/worldwide-governance-indicators>, accessed 22 January 2020.
45. Deloitte, The Future of Regulation: Regulation for innovation, growth, and safety, 2019, <https://www2.deloitte.com/us/en/insights/industry/public-sector/future-of-regulation/regulating-emerging-technology.html>, accessed 24 January 2020.
46. Finnish Government, The Programme of Prime Minister Sanna Marin's Government - Inclusive and competent Finland – a socially, economically and ecologically sustainable society, 2019, <https://valtioneuvosto.fi/en/rinne/government-programme>, accessed 21 January 2020.
47. Public Perspectives, Sikkerhedsstyrelsen designer nye løsninger – sammen med kunderne, 2018, <https://publicperspectives.dk/sikkerhedsstyrelsen-designer-nye-loesninger-sammen-med-kunderne/>, accessed 10 March 2020.
48. Danish Agency for Digitisation, Digital-ready legislation, 2019, <https://en.digst.dk/policy-and-strategy/digital-ready-legislation/>, accessed 21 January 2020. Erhvervsstyrelsen, Agil erhvervsrettet regulering, 2019, <https://erhvervsstyrelsen.dk/vurdering-af-agil-erhvervsrettet-regulering>, accessed 21 January 2020.

About the authors

Claus Frelle-Petersen

Claus Frelle-Petersen is a director at Deloitte Consulting in Copenhagen, Denmark. He has +10 years' experience as a consultant. He is specialised in socio-economic analysis, policy analysis, evaluation, and impact assessment. He advises mainly public sector clients in the area of regulatory strategy and design, and economic growth.

Andreas Hein

Andreas Hein is a manager at Deloitte Consulting in Copenhagen, Denmark. Andreas is specialised in public strategy development and regulatory design with a focus on developing regulatory models that balance innovation, economic development, and just service delivery, while still reaping the potential benefits of data and technology.

Mathias Christiansen

Mathias Christiansen is a business analyst at Deloitte Consulting in Copenhagen, Denmark. In his work, Mathias supports public sector organisations in driving organisational and technological transformation. Drawing on the fields of political science and public administration, Mathias focuses on how the ongoing digitalisation of the public sector affects the relation between citizens and the state.

Contact us

Carsten Jørgensen

Nordic and Danish Industry lead for
Government and Public Services
Partner | Deloitte Denmark
+45 25 24 00 44 | cajoergensen@deloitte.dk

Katrine Minken

Partner | Deloitte Norway
+47 23 27 95 46 | kminken@DELOITTE.no

Markus Kaihoniemi

Partner | Deloitte Finland
+358 20 75 55 37 0 | Markus.Kaihoniemi@deloitte.fi

Kim Hallenheim

Partner | Deloitte Sweden
+46 76 847 22 11 | khallenheim@deloitte.se

Jon Eyfjord Fridriksson

Partner | Deloitte Iceland
+354 58 03 39 7 | jfridriksson@deloitte.is

Acknowledgments

The authors would like to thank Kristian B. Jørgensen of Kraka Thinktank, Lauri Byckling of Deloitte Finland, Maria Skuladottir and Haraldur I. Birgisson of Deloitte Iceland, Ellen Linde of Deloitte Norway, and Charlotte Goliath of Deloitte Sweden for their contributions to this report.

Deloitte.

Insights

Sign up for Deloitte Insights updates at www.deloitte.com/insights.



Follow @DeloitteInsight

Deloitte Insights contributors

Editorial: Sara Sikora

Creative: Mark Milward

Promotion: Maria Martin Cirujano

Cover artwork: Doublelix

About Deloitte Insights

Deloitte Insights publishes original articles, reports and periodicals that provide insights for businesses, the public sector and NGOs. Our goal is to draw upon research and experience from throughout our professional services organization, and that of coauthors in academia and business, to advance the conversation on a broad spectrum of topics of interest to executives and government leaders.

Deloitte Insights is an imprint of Deloitte Development LLC.

About this publication

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or its and their affiliates are, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your finances or your business. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

None of Deloitte Touche Tohmatsu Limited, its member firms, or its and their respective affiliates shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the "Deloitte" name in the United States and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see www.deloitte.com/about to learn more about our global network of member firms.