

Reforming the Nordic Model

A study of labor market policies in social-democratic welfare
state regime 1980-2015

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Abstract

This paper focuses on labor market policies across countries belonging to the social-democratic welfare state regime. Since 1980 Denmark, Finland, Norway and Sweden have undergone a number of reforms and modifications within labor market, which identify the shift from traditional politics of expansion towards what many refer to as welfare retrenchment or restructuring. This paper attempts to observe how the Nordic states have reformed their labor market policies and to understand to what extent the partisan shade of government can explain their reform activity. In order to assess the dynamics of labor market policies across the social-democratic welfare regime, the paper utilizes the concept of path dependency, power resource theory, Nixon-goes-to-China argument and insider-outsider theory. The results of the study show that labor market policies across Scandinavian states have undergone a number of changes: the provision of unemployment insurance has decreased, while the expenditure on employment incentives has increased in various degrees, depending on the analyzed country. The paper argues that the labor market reform activity which has taken place in countries belonging to social-democratic welfare regime is to be explained by parties' vote-seeking strategy, rather than ideological preferences, pursued by parties. Furthermore, such reforms are uncovered by external factors, such as economic constraints and unemployment, which stimulate insider-outsider preferences dilemma, and thus push parties to undertake specific measures.

Key words: The Nordic model, Labor Market Policies, Path Dependency, Partisanship, The Comparative Historical Analysis

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1 Introduction

In one of its recent articles on the Nordic countries, *The Economist* skillfully adapted Cecil Rhodes' remark that "to be born an Englishman is to win the first prize in the lottery of life" to the context of being born Nordic (2013). Indeed, one can claim that not only have the Scandinavian states largely succeeded in dealing with economic constraints still apparent in Europe, they have also remained committed to social equality (Valkonen and Vihriälä 2014:48). While this image of Nordic countries is still prevalent among many (including worldwide organizations, scholars, and mass media), others believe that the praised model is facing mounting challenges, specifically within its labor market sector.

1.1 Problematization of research question

There are some general characteristics associated with the concept of Scandinavian welfare states. Since the 1930s they have been hailed as an exceptional case in worldwide political affairs, making up both political science studies and comparative welfare state research (Christiansen 2006:9). Undeniably, the notion of the Nordic model has developed into a customary term for the states uniting substantial welfare state privileges with ongoing economic development, low levels of unemployment and increasingly great labor force participation, above all among women (ibid). The states appeared to have succeeded in combining the notions of social equality and economic competitiveness; and as recently as in 1988, Sweden, Norway and Finland still performed as worldwide guardians of upholding low unemployment and expanding welfare state provisions (Stephens 1995:1). Moreover, the presence and the essential increase of the entitlements in the previous decade is often stated to be a reason behind these countries' success in attaining minor degrees of unemployment (ibid).

Nevertheless, the Nordic model has not been without problems. Denmark became the first state, characterized by years of growing unemployment and the linked economic difficulties.

Soon enough, all associates to the Nordic model had witnessed the formerly unfamiliar upsurges in unemployment rates (Andersen 2008:34).

Various scholars have connected the development of economic challenges within the Nordic model largely to its welfare states rather than external factors like economic crisis or globalization. These scholars argue that the generous citizen rights and social insurances come at a very high cost and, thus, contribute to the inability of the Scandinavian economies to compete globally (Stephens 1995:1). One of the greatest challenges faced by the Nordics is growing unemployment, which has caused states to reconsider entitlements, specifically when it comes to unemployment insurance and other related provisions. During this reconsideration, the coverage against redundancy occupied the states' attention as it in reality remained a significant component of the universal welfare and social insurance system. However, in recent years, the settlement of benefit retrenchment (including the reduction of replacement rates and the introduction of benefits waiting periods) has been robustly discussed among political actors across advanced capitalist societies as a substantial shift from the Nordic labor market strategy (ibid). Moreover, the critical outlook towards the Nordic model seems to have established partial acceptance even among the principal welfare state constituents in the countries: the Social Democrats and trade unions (ibid).

These recent changes in regards to labor market strategies have stimulated an enormous attention within social science academia for a number of reasons. Firstly, the notion of the welfare state is "a highly important phenomenon" in advanced capitalist societies, strongly influencing the life of just about the whole populace of the Western world (Green-Pedersen 2002:13). Secondly, investigating the development of modern welfare states has been lastingly associated with studying their expansion, whereas the changes in social insurance provision across countries have in fact proven the opposite (ibid).

1.2 The aim, research question and the scope

The main aim of this paper is to establish how the labor market policies in Denmark, Finland, Norway and Sweden changed throughout the period from 1980s until 2015. Labor market policies are divided into two categories: unemployment insurance provision and employment incentives expenditures, which are treated as dependent variables. The study is specifically interested in cut-backs of passive and benefit-based unemployment policies and spendings on

active labor market measures, as they reflect what many scholars believe to be the shift from traditional politics of expansion in Scandinavian welfare states (Clayton and Pontusson 1998:67; Pierson 1996:143-45). The additional aim of the paper is to analyze how such changes in entitlements provision and spending might be affected by partisan politics in each state.

The case selection of the study excludes Iceland and, accordingly, the paper utilizes Esping-Andersen's concept of social-democratic welfare regime instead of the Nordic model. Despite its social-democratic grounds, the welfare system of this country is "smaller, less costly, less generous, and less redistributive than other Scandinavian welfare systems" (Ólafsson 2005:214). Nevertheless, as later discussed in the paper, the concept of the Nordic model is tightly integrated and shares similar characteristics with what is now known to be the social-democratic welfare state regime. Developed by the Danish scholar Gøsta Esping-Andersen, the notion of the welfare state regime corresponds to the typology of the welfare states by their nature and distinct features that would position them into various clusters. The fundament of each regime rests upon three variables, namely the notions of decommodification, stratification and the relationship between state, family and market, which will be further discussed in the background section of the paper. These concepts consequently divide welfare states into three represented types: liberal (low decommodification and stratification, encouragement of the market), conservative (low decommodification and high stratification, traditional family-hood preservation) and social-democratic (high decommodification and low stratification, prominent role of state in welfare delivery) welfare state regimes (Esping-Andersen 1990:26-29). The social-democratic welfare states lie in the focus of the study as they are claimed to be more dependent on government and party composition structures, and have large and expensive public sector and dominating principle of universalism (Christiansen 2006:11).

As such, this study focuses on answering the following two-folded research question: ***How have countries within Esping-Andersen's social-democratic welfare state regime reformed their labor market policies over the last 35 years? To what extent does the partisan shade of government explain their reform activity?***

In order to empirically examine the recent developments within the social-democratic welfare cluster, this study utilizes the provision of employment-related transfers and services (further referred to as labor market policies), which include the unemployment insurance and the employment incentives expenditures. These provisions make up significant facets of the

Scandinavian social security system and can play a crucial role in combatting unemployment and economic insecurities (Howell and Azizoglu 2011:4). They are therefore key components in assessing what route of development the social-democratic welfare states pursue. Notably, the unemployment insurance is applied as a passive approach towards labor market policies, whereas expenditures on employment incentives signify an important share of active labor market policies (ALMPs).

This thesis analyzes the major changes that the labor market policies have undergone for the last 35 years. Furthermore, it aims to assess the role of partisan politics behind the related reform activity. In order to do so, the study will make use of the path dependency concept, power resource theory, the Nixon-goes-to-China argument and the insider-outsider theory, which represent the long-time predominant trends in addressing the role of political actors when responding to a range of pressures on welfare states. The contrasting concepts and approaches are used as the theoretical grounds to assess the degree and the nature of labor market policy changes.

1.3 Motivation

The motivation behind choosing Scandinavian countries as a representative case rests upon a number of concerns. Firstly, the existence of detailed and accessible data on social insurance programs in Denmark, Finland, Norway and Sweden contributes to paper's validity and reliability criteria. Secondly, the Scandinavian welfare states have often been accused to be under threat when taking into account their belonging to a distinct labor market regime (Stephens 1995:8). Indeed, one can claim that much has changed since Esping-Andersen introduced *Three Worlds of Welfare Capitalism*, but do the retrenchment dynamics really signify the crisis in the welfare state development and, thus, pose a threat to social-democratic welfare cluster as a distinct regime? Lastly, Scandinavian unions claim the highest union density rates among industrial societies and are extremely centralized, which allows for testing of main projections of power resource theory, weighting them with the alternative Nixon-goes-to-China and insider-outsider frameworks and, thus, assessing the role of partisan politics within the Nordic model.

The study, thus, contributes to already existent knowledge through a number of channels. Firstly, it re-examines the main notions of the already recognized social-democratic regime, thus, questioning how the current characteristics of Esping-Andersen's typology can clarify the mechanism of change within labor market policies. Hence, the paper helps to establish possible patterns across social-democratic welfare states, depending on their political system composition, namely the dominating parties in power. Secondly, it supplements the ways one can understand the long-term delivery of the unemployment insurance and stimulation of employment incentives, as well as the role of interest groups in it.

1.4 Thesis outline

The remainder of this study is structured as follows: Section 2 briefly describes the concept of the Nordic model of welfare, how it is reflected in Esping-Andersen's welfare regime classification, the main notions and characteristics connected to the social-democratic welfare regime and the review of previous research and literature on the issue of change within the Nordic model. Section 3 outlines the comparative historical analysis research method used in the study, defines the major data sources, variables and case selection. Section 4 arranges for the comprehensive theoretical perspectives the thesis is based on, namely the path dependency concept, the power resource, insider-outsider theories and Nixon-goes-to-China argument, followed by hypothesis formulation. Subsequently, section 5 covers the analysis of the study results in accordance to the presented operationalization of the variables. The chapter is further supported by the empirical framework and analysis of the outcomes across each country belonging to social-democratic welfare state regime. Finally, Section 6 concludes and provides suggestions for the further research.

2 Background

The notion of a ‘Nordic or Scandinavian model’ or ‘welfare regime type’ has successfully been used to mainly describe the social and economic models of Nordic states, namely Denmark, Finland, Iceland, Norway and Sweden (Alestalo, Hort and Kuhnle 2009:1). Contrasting other European societies, the Nordics, with some exceptions in Iceland, share the combination of common fundamental principles. They might deal with welfare provision in different ways, but the resemblances between the states are sufficient enough to establish a recognizable and distinct Nordic model of welfare (*The Nordic Council* 2015). This section briefly presents the central characteristics of the Nordic model, connects them to Esping-Andersen’s classification of welfare states and illuminates some important labor market and political differences between the states that make up the discussed cluster. Furthermore, the section outlines scholarly accounts of the changes to the model.

2.1 The main characteristics of the Nordic model

To begin with, the fundament of the Nordic model is argued to be the improvement of society’s ability to “master its problems and to enrich and equalize the living conditions of the individuals and families” (Erikson in Greve 2007:44). The model has been also outlined by mobilization of labor and high degree of women participation in the labor market which has influenced the development for a comprehensive latitude of public social policy, a political assurance to full employment and reduction of inequalities within various domains (Kautto and Kvist 2002:3). As such, the cornerstone characteristics of the model are universalism, stateness, and equality.

The divergent Nordic welfare model characteristics are broadly recognized and are often referred to reflect Esping-Andersen's features of social-democratic welfare state regime (Kautto and Kvist 2002:3). The author has outlined the fundamental benchmark for the distribution of well-being within states, namely their persistent “responsibility for securing some basic modicum of welfare for its citizens” (1990:18). The idea is grounded in the

concept of social citizenship as a vital pre-requisite for welfare state functioning. The concept itself encompasses aspects as social rights (decommodification of one's position within market structure), social stratifications ('being a citizen' contends with/substitutes one's belonging within class structure) and the combination of various institutions (the state, market and family), as well as their involvement in delivering welfare services (Esping-Andersen 1990:21). Esping-Andersen distinguishes between three main welfare regimes, namely liberal, conservative and social-democratic models of the welfare state. The latter have remained the most distinctive among other state clusters acknowledged in the scholar accounts (Kautto and Kvist 2002:3). The Scandinavian states' main characteristics are mirrored in social-democratic welfare state cluster, namely the high levels of decommodification, low stratification (universalism) and stateness. As such, these notions will be in detail explained further.

2.1.1 Decommodification

Decommodification is one of the central notions used to differentiate social rights used in each welfare regime. It refers to "a service rendered as a matter of right, and when a person can maintain a livelihood without reliance on the market" (Esping-Andersen 1990:22). Esping-Andersen recognizes that each welfare state regime differs in regards to the degree of decommodification, which accordingly reliant on how states achieve a particular set of social rights dimensions. These dimensions include the accessibility of welfare benefits, income replacements and privileges delivered by the state (Esping-Andersen 1990:47; Panitch 2011:5). The first set is linked to admissibility requirements and boundaries of entitlements: a welfare scheme is more likely to attain higher decommodification potential if the benefits access is easy. Moreover, the entitlements to an adequate living standards must be assured irrespective of "former employment, performance, needs-test, or financial contribution" (Panitch 2011:5). The second occurs in case when social insurances considerably plunge inferior to average incomes, or when "the standard of living considered adequate and acceptable in the society," which introduces higher work incentives to the receiver of assistances (Esping-Andersen 1990:47). As a consequence, there is a growing reliance on the market among those people who search for an adequate standard of living.

As such, high level of decommodification in Scandinavia is guaranteed through a so-called minimum 'living-wage' for the unemployed, which can be re-calculated, depending on states' considerations of economy and applications (*Socialstyrelsen* 2015). In case when the state cuts the total that the unemployed are eligible for, then the likeliness of individual's market reliance to keep the same standard of living becomes greater, and the level of decommodification decreases (Esping-Andersen 1990:47). Lastly, the third dimension is based on the breadth of entitlements. Esping-Andersen claims "advanced capitalist societies recognize some form of the social right to protection against the basic social risks: unemployment, disability, sickness and old age" (ibid). Moreover, the author introduces an advanced case with the notion *de facto* guaranteed citizens' wage, where of a social wage might be introduced to citizens irrespective of the cause (Panitch 2011:5).

2.1.2 Stratification

Social stratification within the welfare state refers to the way the pursued system affects individual's status in society. In other words, it is "an active force in ordering social relations" and a way to change the dynamics of social inequality (Esping-Andersen 1990:23). As such, the author outlines three ideal types of social stratification, followed by principles they endorse: hierarchy and status, dualisms and universalism (Esping-Andersen 1990:23; Van Kersbergen and Vis 2015:60). The latter is the well-recognized value to characterize social-democratic welfare states. As Esping-Andersen stated: "it was the social construction of solidarity that mattered" and further corresponded to the notion of social-democratic regime (1990:65). Therefore, driven by the idea of attaining maximum solidarity between workers, universalism requires the reduction of alterations between various groups of workers (ibid).

2.1.3 Stateness

The Scandinavian model of welfare is grounded on a widespread dominance of the state within the welfare provision. Such state prevalence is deeply rooted into social-democratic states account and thus exemplifies close and constructive relationship between the state and the inhabitants. The consequence of such relationship is not of what Marx defined as state distributing "rain and sunshine from above", but rather that the "20th century state has not

been a coercive apparatus of oppression in the hands of the ruling classes” (Alestalo, Hort and Kuhnle 2009:1). It has, therefore, advanced into a diplomatic arena for various classes, carrying a significant purpose of “agency through which society can be reformed” (Korpi 1978:48). The stateness also characterizes the less prominent power of family and market, as well as the in-between organizations, such as church, common-interest associations and others. Nevertheless, it also contains fairly solid essentials of social citizenship and reasonably unchanging and incorporated institutions (ibid). The class struggle remained a significant component of the Nordic welfare state establishment (ibid). The state is considered to be a vital provider of generous public services, employment and a number of tax-based cash assistance organizations. Nevertheless, it is important to state that social provisions are generally structured at the local level through various municipalities, which network between the policy decision makers and the society (ibid).

It is also important to note that when examining changes within the Nordic welfare model, not only similarities, but differences in regards to Scandinavian countries’ labor market governance and political compositions must be taken into account (Andersen 2007:14). While Denmark is characterized by more liberal labor market with very limited legal protection of the worker, other Scandinavian states have a compound interaction between substantial statutory minimum parameters and collective arrangements (Dølvik, Andersen and Vartiainen 2010:4-5). At the same time, the unemployment insurance represents a share of the state social security scheme in Norway, while neighboring states remain loyal to their Ghent systems with assistances provided by both trade unions funds and the state financial support (ibid). As a consequence, union density around 70-80% remains significantly higher in these states than in Norway, where it hang about 53% throughout the years (ibid).

In political terms, Denmark is renowned by weaker positions of Social Democrats and a long-lasting practice for alternative governments and consistent politics. In contrast, Sweden has long been distinguished as a separated outline of class politics and power-relations with a dominant Social Democratic party in office during most of the post-war period (ibid). Finland, with its comparatively small share of Social Democratic party and strong leftist parties, has been subjected to changeable centrist alliances. Lastly, Norwegian Labor Party has been a significant actor throughout the post-war period. Nevertheless, the political landscape in recent years has pursued the direction similar to Danish, with changes from Social Democratic to Centre-Right minority governments and vice versa since the 1970s (ibid).

Despite all differences across Scandinavian states, there has been a number of anticipated outcomes, connected to the concept of the Nordic model. They are the attainment of “low income and gender inequality, low poverty rates, and small disparities in living standards” (Kautto and Kvist 2002:3). To establish the entire concept of social-democratic or Nordic model of welfare, the outcomes mentioned above must work together and strengthen each other (Esping-Andersen and Korpi 1987:69-74).

2.2 Previous research on the changes to the Nordic model

As noted earlier, there is a mounting number of scholar accounts on the welfare state development – this study is thus not the first, nor the last to examine the matter. Nevertheless, in order to position itself in relation to former studies, this thesis outlines previous research and empirical findings on the issue of social insurance retrenchment and welfare state development, specifically within the Nordic welfare model. The review is focused on relating and opposing the works of prominent authors within the field of welfare state development and, thus, does not discourse around each single article or work individually, but rather introduces common themes and arguments, as well identifies and evaluates the differences.

Notably, the period of 1990s is often characterized by a prevalent belief that the direction of welfare state development is rather predictable in terms of maintaining the politics of expansion. In contrast, the in-depth changes in social policy introduced several possible directions for the future of the welfare state development. As such, the ongoing modifications in labor market policies have trapped academia in the midst of a systematic reform, where policies, insurances and rights transform in accordance to new challenges, actors and struggles for power (Andersen 2005:257).

The research on the linkage between welfare state development and the politics of social insurance, specifically unemployment insurance retrenchment, encompasses more than a number of articles. Since the very identification of unemployment challenges in Northern Europe, a vast majority of scholars turned into addressing possible economic and social consequences for the hosting countries and their position within the welfare regime classification. Furthermore, many of the findings have made an enormous effect and have

contributed to the conduct of further research on the issue of ongoing reduction of expenditure. There has been a number of fundamental approaches towards the studies of such development, resulting in a critical reconsideration of the mainstream literature on welfare state expansion (Anderson 2001:1064). The main attitudes taken towards the issue either state that there are no considerable grounds to believe that retrenchment of social insurance has qualitative change in the Scandinavian welfare system or that there is a change, provoked by various factors, such as institutional or partisan politics.

In his work “The Scandinavian Welfare State Achievements, Crisis and Prospects” (1995), John D. Stephens suggests that reforms undertaken towards social insurance are insignificant, whether the amount of unemployment benefits and composition is still more liberal than it used to be in 1970s. Nonetheless, the author outlines the importance of a long-term shift. In other words, there is a declining number of resources available to preserve the certain level of income through nationals’ rights to unemployment insurance. Moreover, there is a growing amount of funds invested in solidification of labor activation policies and labor market enrollment. Additionally, there has been an upsurge when expanding market ideologies to assess the amount of public services. Stephens puts into question whether the Nordic model will, in the long run, involuntarily alter their welfare agendas to the “lowest common denominator” (1995:30). Eventually, it does not represent the case in social-democratic welfare states, as they share a high degree of labor efficiency and, thus, can maintain worldwide competitiveness. Furthermore, the Nordic model is predominantly unaffected by changes encouraged by the international struggle for economic leadership as the export-oriented development models have been contingent upon above-mentioned competitiveness. As a final point, the welfare state has always been characterized by comprehensive political patronage in Scandinavia, which allowed it to spread far beyond the social strata. Therefore, any short-term reform appears as the one of a limited nature while those insightful deviations would entail long-term changes in political coalitions across these states (Stephens 1995:31).

Furthermore, Andreas Bergh has examined alterations and restructuring within Swedish welfare model, also known to fit as a ‘pure’ representative of Esping-Andersen’s welfare regimes. When the author analyzes the requirements entailed by Swedish model, he considers the model to be arguably dead (Bergh 2010:109). For such purpose, the Swedish pension reform in 1990s is taken as an illustration. The presented pension system comprised of two virtually autonomous components: a notional defined contribution pay-as-you-go system and the defined contribution system (Bergh 2010:116). Contingent on what aspects of the lately

introduced pension system to be highlighted, the reform can represent both the rollback of Swedish welfare state and the accomplishment of democratic welfare capitalism.

Nevertheless, it is difficult to establish the appropriate assessment of the reform since one is incapable to access the consequences of a counterfactual case where no policy was accepted. As such, there should be a degree of awareness when comparing the effects of policy in the new system with the estimated outcomes of the former system. Yet, the author confirms that regardless of some benefit reductions, Sweden continues to embody a universal welfare state, and that such reduction policies can be well defined as “liberalization without welfare state retrenchment” (Bergh 2010:109).

An optimistic forecast was offered by Ferrera and Rhodes (2000). Based on the OECD study of 15 cases of fiscal consolidation across 11 countries, the authors contradict that welfare states collapse under global and internal forces. Despite being labeled as crisis-affected and subjected to the dynamics of retrenchment, welfare states haven't changed much during past years. As such, welfare states are experiencing a so-called route of re-organization and re-definition but so far “not one of retrenchment along the lines of a neo-liberal *pensée unique*” (Ferrera and Rhodes 2000:442). Therefore, the European welfare states can deal with the most serious economic, political and social issues at the same time as combining the fundamental values of the European social model. In case the European societies attempt to follow the route of plain expenditure, they must not only re-adjust the institutions responsible for welfare delivery to the current context, but also upsurge the general adaptability. Such actions will ensure improvement of their social and policy learning competencies. Additionally, the mentioned countries are presumed to pursuit for new conducts of linking the concept of security with flexibility, as well as affordability with solidarity (Ferrera and Rhodes 2000:442).

Paul Pierson's “The New Politics of the Welfare State” (1996) has become a new catalyst for the scholarly dispute about the impact of retrenchment politics for the welfare state. In his work, the author links the challenges met by traditional governments in Germany and Sweden when reducing expenditure on citizen privileges to the decrease of political grounds in welfare states. Nevertheless, his attempt did not constitute to the expected results, and, thus, resulted in the obvious deficiency of comprehensive retrenchment. As a consequence, Pierson developed a theoretical framework, also known as ‘new politics of the welfare state’. The theory states that specific institutional structures have a greater capacity to clarify the existing paths of new policies (Pierson 1996:152-154). Moreover, the author believes that former

approaches towards welfare state expansion, such as socio-economic functionalism and power resources theory, are unable to provide feasible justifications for the modern welfare state development (1996:147-148).

The innovative approach of division between old and new politics has become a point of departure for many later scholars, indicating Pierson's work as central to the issue of retrenchment. In contrast to Pierson's assumption, Karen M. Andersen claims that granting that economic crisis produced the pressure to reduce expenditure on social insurance, it was up to partisan politics to control the expenditures. In her *The Politics of Retrenchment in a Social Democratic Welfare State* (2001), the author claims that the cutback followed only when the Social Democratic Party and other sectors of the labor movement reinforced the reform. Such outcomes advocate that organized labor has the undeniable political prominence in retrenchment politics. Moreover, the dynamics of retrenchment directly "depends on the relationship between welfare-state programs and interest group structure" (Andersen 2001:1088). As soon as the interest group composition reflects principles of solidarity, and has centralized, encompassing system of administration, the prior class-based power resource framework can offer a more explanatory method than Pierson's new politics of the welfare state (Andersen 2001:1088).

Herbert Kitschelt offers an outline, suggesting that the politics of party struggle is among a number of instruments that impact the retrenchment of social policy (2001:300-302). By using the case studies from Sweden, the Netherlands, Germany, and Japan, he demonstrates how mechanisms of party rivalry affect the change of social policy. Furthermore, he grounds the general assumptions of his claim on other academic judgments around social policy retrenchment in the more extensive set of countries. Therefore, his chief statement is to a high degree dependent on the idea that leftist parties claim for a larger, more generous state, "even though he allows for left parties to pre-empt greater retrenchment by the right" (Scruggs 2002:13).

Some scholars believe that despite the ongoing discussion of "retrenchment" in welfare state research, numerous works, in fact, highlight its resilience. Peter Taylor-Gooby (2002) has categorized various scholar methods and accounts into three study points, concluding that welfare states simply "respond to pressures through adaptation rather than simple retrenchment" (2002:601). The examined studies have presented an extensively alike scenario of welfare state modification. Firstly, the author concludes that high-spending and generous welfare structures will persist and develop. Secondly, the development of welfare states plays

a central role in the expenditure increase in two ways – through the political obligations of welfare states in general, and, about the individually designed programs. Lastly, only in cases where governments did not react to new pressures by cutting back some welfare provisions, there have been significant alterations in approach (Taylor-Gooby 2002:601). In practice, the negative forecasts on globalization and social change haven't contributed with much evidence. Nevertheless, the fundamental issue for the future of the welfare state development is rather the potential duration of resilience. The issue encompasses the careful deliberation of the factors that might affect the expansion and development of welfare states.

3 Method

The research interest of this study is to assess empirically how the labor market policies in social-democratic welfare state regime have been reformed in the period from 1980 until today. As such, this section accounts for the following purposes: 1) describing the method framework consisting of the comparative historical analysis, 2) outlining the choice of variables used in the study, 3) overviewing the empirical data which lies in the basis of the study and 4) explaining the logic behind the case selection.

3.1 The Comparative historical analysis

The comparative historical analysis is among the oldest research methods, which possesses a long-lasting and distinguished history within the social sciences (Mahoney and Rueschemeyer 2003:10). And though one might be lured to outline this method as generally as the practice, which incorporates any and all studies with comparison of chronological patterns across cases, this thesis will pursue less inclusive characterization due to the relatively narrow scope of the study. This study, therefore, utilizes Stefano Bartolini's definition of comparative research combined with Edwin Amenta's understanding of historical research, and further followed by three distinctive features of historical comparative analysis by James Mahoney and Dietrich Rueschemeyer. By following this delimitation, the study will be distanced from fields, which are often linked to the preference of 'interpretive' approaches over causal analysis. What is even more significant in decision behind choosing comparative historical analysis for directing this study, is the useful consensus in social policy understanding, provided by both historical and comparative works (Amenta 2003:121).

According to Bartolini, the central idea behind comparative research conduct has been reflected in recognizing the patterns in social and political matters and establishing theoretical and empirically assumptive schemes to explain these patterns (1993:139). As a consequence, the comparison of specific political phenomena across at least two or more situational

frameworks is required (ibid). To supplement this definition and add up to understanding of cross-temporal comparative research, one should take into account what is meant by historical research. As such, the practitioner must position the study within the relevant chronological frameworks, pursue a sophisticated line to historiography, truly consider the issues of “process, timing, and historical trajectories and gain a deep understanding of the cases” (Amenta 2003:94). Nevertheless, the concept of comparative historical analysis does not merely comprise of combination of the above-mentioned notions; it must be accepted as a certain kind of research, preserved as its distinctive scholarly approach (Mahoney and Rueschemeyer 2003:11).

Accordingly, it takes account for the further features. Firstly, the method is primarily concerned with clarifying and identifying the causal patterns that generate key products of interest. The causal arguments play a central role to analysis and, therefore, must be wisely selected and tested, not simply led as secondary components of a general narrative (ibid). Secondly, the method explicitly examines chronological series and makes solemn considerations to the clarifying of specific development over time. To be sure, such developments represent temporal processes, and might even overlap with each other, which can be crucial when conducting the analysis (ibid). Thirdly, cross-temporal comparative research represents a unique field as its investigators are occupied with systematic and in-detail comparisons of alike and opposing cases. Through retaining a lesser number of cases, comparative historical studies can easily balance between theory and empirical evidence in many iterations, determine new accounts and improve previously existent theoretical outlooks in consideration with comprehensive case evidence (ibid).

Despite a substantial number of advantages brought by cross-temporal comparative research, one must also recognize certain challenges associated with this method. Bartolini emphasizes the importance of such recognition in regards to social policy studies over several diverse time sequences (1993:147). He then outlines the major issues when conducting comparative historical analysis, namely selection of temporal units, developmental generalizations and historical multi-collinearity (ibid). The first difficulty refers to periodization, also known as the creation of temporal variance of the investigation (ibid). As stated earlier, the paper utilizes period between 1980 and 2015. The justification behind such choice represents a number of political, economic and policy changes, as well as the discussed transition from what was known as Golden Age of welfare state towards the assumed dynamics of retrenchment (Stephens 1995:1). There is an existence of factors limiting the investigation

within the chosen unit of time, namely some states lack the data for the earliest and recent years. Nevertheless, the issue can be addressed with no significant policy changes in those states.

The core of the second problem lies in implying a relationship between two or more variables. As such, the cross-time variance significantly deviates from the cross-unit one (Bartolini 1993:153; Skocpol and Somers 1980:191). It is, therefore, important “to identify the ‘sequential rules’, which define the probability of transition and change in a given variable from one status, value, or phase to another” (Bartolini 1993:153).

The third problem identified by comparative historical analysis scholars, concerns the potential historical multi-colinearity, also referred to as the likelihood of all the series to be strongly linked to each other (Bartolini 1993:153; Skocpol and Somers 1980:194-196). As such, an issue remains in unraveling time-based existence and relative prominence (ibid). Furthermore, defining whether a change in labor market policies can be plainly reliant on partisan politics instead of any other sequential occurrence, taking place at the same time, is problematic. Of course, one can address the problem by relying on explanation that “within a single unit a general development cannot be adequately explained in causal terms by other general developments” (Bartolini 1993:153). However, such clarifications do not eliminate the reliability issue. Instead, this thesis focuses on investigation numerous variables in four countries over the long-lasting period, divided into subsections of political parties in office. Such wide-ranging selection of variables, cases and time units is believed to contribute to the increased validity of the study (ibid).

3.2 Data

The data used in the study is mostly regained from primary sources, specifically from OECD databases, Parliaments and Governments database (*ParlGov*), various institutional papers and peer-reviewed articles, covering the data on the variables and reforms undertaken by governments of Denmark, Finland, Norway and Sweden. The study also uses *Comparative Welfare Entitlements Dataset* by Scruggs, Jahn and Kuitto (2014), which covers information data about various institutional features of national social insurance programs.

It is important to stress that there are existing limitations, especially while using the chosen method of cross-country comparisons. Firstly, the utilized dataset is partial to the consideration of a single unemployment benefit practice in all states, while the benefit experiences are expected to differ in regards to categories of job-loser (Smith and Zhang 2008:20).

Another important aspect, dealt with the majority of quantitative data, is the reliability deficiency when it comes to the results (Goldstein 1986:610-614). Nevertheless, since the researcher can never be sure whether the presented variables surely depict what they are thought to, the operationalization presented in original databases is used.

3.3 Variables

To be consistent with the background and to conduct a comprehensive investigation of how the labor market policies have changed in social-democratic welfare cluster, the variables are to be classified and clearly operationalized. As such, this study utilizes several variables, each indicating the direction of welfare state development, namely the unemployment insurance generosity score and the expenditures on employment incentives. The unemployment insurance presented in the study refers to the four variables of generosity score on unemployment, namely the replacement rates, qualification period, duration and coverage. The variables were chosen, following Scruggs (2004) generosity index, a notion similar to Esping-Andersen's decommodification. Public spending on employment incentives refers to OECDs operationalization and, thus, includes recruitment incentives, employment maintenance incentives, and job rotation and job sharing.

The investigation of unemployment insurance generosity allows this study to measure the change in decommodification level, as the two concepts are similar. According to Scruggs, the first motive behind utilizing the concept of 'generosity' is to distinguish the results from Esping-Andersen's widely-cited measure (2014:5). Furthermore, the used concept more correctly defines what is, in fact, being measured in the decommodification index (ibid). As such, the study covers changes in four different counterparts of unemployment insurance: the replacement rates, qualification period, benefits duration and coverage. In accordance to

Pallage, Scruggs, and Zimmermann, unemployment insurance policies consist of numerous “different dimensions and thus are extremely difficult to compare through time and space” (2008:2). There is, therefore, a need to rely on more specific metrics in comparison studies, such as the measurements presented above (ibid). Furthermore, one must keep in mind that presented unemployment insurance schemes are only applied as state insurance provisions received irrespective of income testing (ibid).

Moreover, the study aims to assess to what extent the partisan shade of government affected the labor market reform activity. In order to do so, the changes to variable means are analyzed in accordance to what parties took place in office between 1980s and nowadays. Additionally, the study takes a closer look at particular reforms associated with labor market policies. The central aim of this investigation is to assess whether the decisions on cutbacks or expansion were initiated by a specific political party, and what were the motivations behind such decisions.

To begin with, the income replacement rates are calculated for an individual, namely a fictional average production worker within industrial sector who is 40 years old, and has been previously employed for the 20 years before the eventual redundancy or the assistance period (Scruggs, Jahn and Kuitto 2014:8). Such operationalization is considered as an adequate estimate of the overall situation of a jobless person (Martin 1996:101). Furthermore, the replacement rates are subtracted through annualizing the unemployment support for the first six-month spell of unemployment (Scruggs, Jahn and Kuitto 2014:8).

Furthermore, qualification period corresponds to the amount of coverage weeks required for qualification for the benefits reception (ibid).

Duration represents the number of assistance weeks exclusive of times of means-tested support (ibid).

Coverage refers to the percentage of the labor force insured for redundancy threat (ibid).

Public spending on employment incentives is measured as a % of GDP expenditure on recruitment incentives, employment maintenance incentives, job rotation and job sharing (OECD 2015). The study uses a common mean, which represents a sum of expenditure on each activity. As such, recruitment incentives refer to programs, which deliver financial support for a limited period of time, with the purpose to enable the employment of jobless people into sectors where most of the labor cost is undertaken by the employer. They comprise of payments to persons that are conditional upon the acceptance of a new

occupation, specifically to those long-term unemployed (OECD 2014). **Employment maintenance incentives** remain alike but assist the enduring employment, in case of restructuring or related (ibid).

Job rotation stands for the programs endorsing the full replacement of a worker by an unemployed person for a fixed timeframe.

Lastly, **job sharing** reveals around arrangements endorsing the partial replacement of an employee by a jobless individual (ibid). Such programs enable cross-training possibilities, higher incentives and interests both among active labor market participants and people seeking for a job.

All the measures presented in the study are to be calculated as a mean of provision are represented in accordance to a specific timeframe, depending on what party was governing during the corresponding period. Notably, the study assumes that a party have no influence over the social policy unless it is in office for more than a half year. Therefore, the number of years is calculated in accordance to the assumption. The operationalization of the variables hasn't been changed from the one offered by used datasets or peer reviewed studies so that the issue of reliability deficiency would be minimized.

3.4 Case selection

For the purpose of this study, the labor market reforms in Denmark, Finland, Norway and Sweden seem to be reasonably appropriate candidates for a comparative historical analysis method. All countries belong to Esping-Andersen's social-democratic welfare regime; are open economies and have faced likewise economic and labor market constraints in different times of selected timeframe in the study.

At the same time, partisan composition in Nordic states is quite diverse: whereas Sweden has a long-lasting tradition of Social Democrats in power, Denmark and Norway have witnessed changes from Social Democratic to Centre-Right minority governments and vice versa since the 1970s (Dølvik, Andersen and Vartiainen 2010:4-5).

The reforms in these states are of a great importance due to a number of reasons. Firstly, because of their scale and direction: contrary to preceding politics of welfare state expansion, many claim that labor market policies have witnessed retrenchment direction and, thus, have

brought fundamental change to the whole concept and idea of the Nordic model (Stephens 1995:30). Secondly, because of the ideological interpretation of the social-democratic parties, which though dominating in Scandinavian countries, still call for reform activity.

4 Theory

In order to explain the labor market reform activity in countries belonging to the Nordic model, this thesis utilizes several theories and concepts. Each of them also allows for the assessment of the role of partisan composition in shaping and reforming the transformations.

The premises of the first one, namely the notion of path dependency, state that despite the reform adaptations pursued by governments of Scandinavian states under welfare state pressures, the distinctiveness of the Scandinavian model remains intact and the labor market policies have maintained their status quo (Cox 2004:204). In contrast to this account, a number of theories identify that there have been changes to labor market policies in virtue of Nordic states' partisan composition. The literature on why and how the politics matter is capacious. Yet, the nature of party attachments (partisanship as social identity or rational maximization of expected utility) is still largely discussed (Lupu 2013:49).

The remainder of this section, thus, outlines partisan theories of power resource, 'new politics' and insider-outsider dilemma to assess the degree to which partisan shade of government explains the labor market reform activity. Consequently, hypotheses are formulated and put to an empirical test.

4.1 Path dependency

Among various approaches towards welfare state development, a number of studies have commonly claimed that despite ongoing restructuring and new policy directions, the modifications made in response to the pressures on welfare state would in fact have been made regardless of these pressures.

The nature of the post-Golden Age welfare regimes is regularly argued to limit the possible range of development courses. In accordance to the central premise of path dependency, the states might experience even non-incremental changes, but still have little tendency to depart from their original paths (Graefe 2004:1). Therefore, the social-democratic welfare regimes

will maintain the status quo of their labor market policies regardless of decisions pursued by the governments.

The concept of path dependency has been widely used to describe current transformations of welfare regimes and their systems of production, yet there is no single universal definition. This thesis will utilize the definition suggested by Margaret Levi, specifically that “path dependence has to mean, if it is to mean anything, that once a country (regime) has started down a track, the costs of reversal are very high” (1997:28). The track might as well refer to the notion of critical junctures, namely the “choice points when a particular option is adopted from among two or more” (Mahoney 2001:113). As such, path dependence represents the idea that it is problematic for actors to reverse the impacts of choices undertaken in the course of critical junctures; thus, they will upsurge the likelihood of countries to follow the established path of development (*ibid*).

Path dependency is considered to be prevailing within the politics debate, as the political arena of action is commonly described by ‘increasing returns’ practices, which at no time “increase the cost of changing paths or reversing past decisions” (Graefe 2004:2). Such practices consist of a number of requirements. One can identify the collective nature of politics among them, as it calls for close cooperation of involved actors in order to withstand issues connected to collective actions. Furthermore, the practices include the institutional solidity of politics, characterized by variety of compulsory regulations, which constrain and shape one’s behavior. Power asymmetries, the struggle of learning in politics, and the development of “selective affinities” between policies also contribute to the changing of policy, and result in further compensating changes in a sum of linked policies (Pierson 2000:258-60; Graefe 2004:2; Ebbinghaus and Manow 2001:12). As such, path dependency integrates an important share of what is praised by power resources supporters in regards to the historical change of welfare states and the consequent regime cluster typology (Pierson 2001:415). Nevertheless, the explanatory capacity of partisan compositions regarding public policy consequences is often imperfect when institutions impacting political actors are not considered (Kittel and Obinger 2002:7). Even though institutions are not the primary actors in defining public policy, they do outline actor preferences, choices and the modes of the interface (*ibid*). Through outlining the guidelines of the political game, they affect the level of political choice freedom. As such, in a nutshell, political actors have limited capacity to maneuver in any possible way as previously expected by partisan influence accounts (*ibid*).

Therefore, when applied to the welfare state regimes, the path dependency claims that regardless of various changes witnessed throughout time, the distinctness amid clusters is assured to remain. Path dependency assumes that challenges, such as economic constraints, globalization and demographic pressures do not result in cross-border convergence but, highlight the importance of national paths, “as actors process international dynamics in ways that correspond to country-specific patterns” (Fetzer 2009:9). The reform discussions across the welfare state clusters are there to stay since the congenial institutions influence potential policy reactions on the behalf of their control over “administrative capabilities, potential reform coalitions, and societal ideologies” (Graefe 2004:2). As such, Huber and Stephens do not fully support, but nonetheless lean towards the belief that initial social democratic partisan governance combined with centralized and solid business and union association “led to the development of social corporatism then locked in later development” (2001:31).

The main critique of path dependence theory claims that its core theoretical arguments remain problematic on the following grounds (Graefe 2004:6-7). Firstly, they have been principally neglecting any deliberation on the role of agency, particularly when impacting institutionalized paths. The theoretical premises of path dependency are appropriate in apprehending “the reality of constraint and inertia, but not very well at anticipating and explaining change” (ibid; Crouch 2001:110).

Secondly, when granting a greater emphasis to the agency concept, one enables examining “path shaping strategies within a path-dependent context” (ibid). In other words, the role of social forces is thought to represent an intervention to restructure institutions with the purpose of creating new trajectories. In a similar manner, Colin Crouch demands to observe states as the holders of a diversified legacy of acting opportunities (2001: 110-112). Such path correspondence should thus refer to several possible paths in regards to social acts, rather than a constricted, organized trajectory offered by a single actor holding a central power (ibid).

For the purpose of this thesis, path dependency serves as a framework to explain whether, not why, the labor market policies have changed throughout the time. The explanatory capacity behind the changes will in traditional manner refer to the agency, with the conventional arguments going back to partisan composition and interests of the Scandinavian states.

4.2 Power resource theory

From the 1970s and up to the early 1990s the research on welfare state development focused specifically on the development of national social policies and the post-war welfare state enlargement that reached its peak in the mid-1970s and then started to eventually decline (Myles and Quadagno 2001:36). The issue to be explained among scholars was not much of why welfare states have developed rather than why they have developed in considerably diverse ways. Moreover, it was specifically interesting why the welfare states obtained their peak at such remarkably different degrees of expenditures (ibid). The number of studies concerned with state expenditures and development soon turned towards the logic of industrialism and economic development explanation. Throughout the late 1970s, the group of academics attempted to discover a new approach fitting between the formerly prevalent understanding of the welfare state as purely functional fundament for capitalist exploitation, and the alternate belief that welfare state tracks functionalist reasoning of industrialization (Rothstein, Samanni and Teorell 2012:3). It was not until the end of 1970s, when class-analytical accounts examined other approach, motivated by idea that “politics matters” in clarifying the diversity in welfare states development (Myles and Quadagno 2001:36; O’Connor and Olsen 1998:6). The notion was later transformed in what is now known as power resource theory, profoundly rooted in a theory of distribution within capitalist democracies.

A theoretical product of evolutionary Marxist adherents, the power resource framework has been long focused on the scenarios for social democracy across the European continent, predominantly in Sweden. Originally the concept was introduced by Walter Korpi, who specified the prior accounts of Lenski (1966) and Hewitt (1977). The accounts included that egalitarian polities deliver the possibility for majorities to withstand the ‘few’; and that only the lower classes practice their votes to elect clearly “class-based parties to represent their interests will democracy result in more equality” (Myles and Quadagno 2002:37). The power resource framework has shortly after developed into a central paradigm in the field, establishing the standard assumptions against which other theories would be confirmed or falsified (Orloff 1993:306).

Walter Korpi defines power resources as “the attributes (capacities or means) of actors (individuals or collectivities) which enable them to reward or punish other actors” (1985:33). The author considers that one must access and examine the distributive developments in capitalist democracies in order to revise the development of welfare states. As such, he states that in the case when labor and capital remain utmost directly opposed in the capitalist, “labor

is strictly accorded a subordinate role” (1985:37). The reason behind such statements is an apparent assumption that in capitalist democracies, employers enjoy more power resources than the workers, and such uneven dispersal of power resources is institutionalized (ibid). As a consequence, two classes end up with receiving different gains from the state institutions’ management; thus, generating a conflict of class interests (ibid).

Furthermore, Korpi claims that such ‘subordination’ of the working class can change throughout time and might vary across countries, due to the level of an employee organization. The given level refers to the exercise of collective action through unions and political parties; thus, the difference in state operating can significantly vary “as a reflection of the distribution of power resources in these societies” (ibid). In cases where the workers are better organized and have a considerable share of power over the government, one can track a minor change in the control of power resources between the prominent classes (Korpi 1980:309). Therefore, the working class owns a superior position and is equipped with the greater capacity to act. As a consequence, power resource theorists predict that workers will attempt to affect government’s policy-making decisions and push for more generous and distributive policies to be implemented.

In contrast, the industrial arena will try to confront such policies, and thus the struggle between the classes is inevitable (ibid). Accordingly, states, characterized by highly mobilized working classes and lasting social democratic control in the government, have less income disparity, greater redistributive outcomes and a smaller amount of poverty than other countries (ibid). In the case where states’ common laborers are not as mobilized and are omitted from the administration, the industrial conflict will persist amongst various classes. As a result, such states lean towards having a higher level of earnings inequality, a larger share of poverty and government resources with minor redistributive purpose (ibid).

Power resource theory has delivered significant explanations of size deviation, features, and consequences of the welfare state. The framework emphasizes that power resources in capitalist democracies are tightly connected to their class structure. Moreover, the power of working class is accomplished through interests of labor unions or left political parties, and, thus, results in creating equal and democratic distributional effects (Korpi 1980:298). The social policies carried out as the state intervention into the distributive process are commonly established through administrative sections and agencies. Such interventions are significant in terms of income change to power buying as they enter in different stages of transfer programs and are related to both economic and monetary policies (Korpi 1980:301). Thereby, social

policies might be divided into two models, namely marginal and institutional types. The former is aimed at targeted population groups, “separating the poor and minorities from the better-off majority of the population” (Korpi 1980:305). The latter enters the distributive process in relatively early terms and is oriented to generous, non-excluding protection, as well as the increase in labor-market participation and decrease unemployment. The countries belonging to the social-democratic welfare regime tend to pursue the institutional model of social policy, as the result of the strong worker class mobilization and the share of social democratic parties in power.

Furthermore, Korpi claims that the major themes behind the power resource approach focus on the distributive conflicts, which mirror the basic splits in employment associations and labor markets (2006:168). Such splits have a tendency to cause interactions between class, life-course risks, and resources. For that reason, the classifications with greater life-course hazards are more likely to partake lower individual funds to manage the risks, which in a long-run fosters a perspective for the class-based collective action. The political parties grounded in socioeconomic groups are reasonably underprivileged in relation to their economic means and, thus, depend on the labor force. They are, therefore, projected to be protagonists towards the welfare state expansion and policies meant to transform conditions and consequences associated with market distributive practices (ibid). Furthermore, the power resources approach results in defining welfare states as policies influencing outcomes of and requisites for distributive courses in the sphere of markets, which aim to reduce inequality and poverty (Korpi and Palme 2003:428)

Furthermore, it is also important to note that one of the principal researchers within the power resource approach, Gøsta Esping-Andersen, perceives universal welfare states not as a pure political objective of social democracy, but as a significant tool within partisan politics (1985:8-9). The collective welfare programs correspondingly establish an essential administrative device for social democratic parties and thus largely contribute to outlining the road to power (ibid). As such, the expansion of universal welfare state in Nordic countries is believed to be an outcome of careful social democratic approach, which encompasses the elimination of market from the social policy domain and benefits the state grounded on collectivism and interaction between various social layers (Klitgaard 2007:173). The universal welfare policies join numerous citizens under the theme of welfare recipients and consequently equip a great share of the voters with incentives to upkeep the welfare state.

Such policies substitute a party-political connection between Social Democrats and the electorate, resulting in generating a vital tool in activating the political support (ibid).

4.3 The ‘new politics’ of welfare and Nixon-goes-to-China

As claimed by Theodore Lowi, “new policies determine new politics” (1972:299). Such formulation serves as one of the fundamental premises of the ‘new politics’ of welfare framework, a notion developed by Paul Pierson in order to distinguish the popular politics of welfare state expansion and the unpopular politics of welfare state retrenchment (Ross 2000:155). While the expansion policies enjoy a vast share of support and acceptance among actors, the inventiveness of expenditure reduction tends to provoke public resistance. Therefore, the retrenchment process is often a politically complex process, dependent on the activating capability of interest groups and policy supporters, shaped by prior policies. In fact, Pierson does not deny changes provoked by partisan composition, but he concludes that the partisan center of gravity has a minor impact on welfare state retrenchment (Scruggs and Allan 2002:10). The role played by previous policies appears to be prior to what partisan politics, social movements, and labor unions can influence. Therefore, they represent the central variable in illuminating the institutional struggle of welfare states to change (Pierson 1996:153; Andersen 2001:1064).

The notion widely refers to the idea of blame avoidance amid political parties, where the new politics accounts outline several elements to assist leaders in responsibility distribution in regards to conflictual and often unwanted policies of welfare distribution (ibid). As such, the new politics approach argues that the post-war period, characterized by welfare state expansion is not simply the ideological struggle between political parties, but a reasonably straightforward rivalry amid office-bearers to deliver widely popular reforms to the electorate (Korpi and Palme 2003:430). At the same time, the retrenchment period allows political leaders to mobilize undesirable prejudice at the time they try to withdraw entrenched social rights from their voters (ibid).

Comparative welfare state literature has so far dedicated much less attention to the reasons behind welfare state policies execution, rather than the difficulties associated with undertaking the policies (Klitgaard 2007:174). The causes that open the way for reform existence are expected to be a foundation in accordance to which the analysis is executed; the causes are rarely researched empirically. Such occurrence also takes place within the ‘new politics’ approach when applied to current welfare state research. In this manner, the issue of what the driving forces behind office-bearers decision to carry out a reform are, is vastly neglected, and, thus, largely depends on the assumption that reforms mirror the economic challenges (ibid). The same issue applies for the ‘new politics’ accounts, where there is a “certain prominence of the relationship between welfare state reforms and social democratic parties” (Kitschelt 2001:275; Green-Pedersen 2002:274-275). In this context, the central arguments of ‘new politics’ theoretical framework about policy as the tactics of blame avoidance, is summarized into a single statement. The statement, accordingly, outlines an amazing reform capacity of social democratic governments to use a ‘Nixon-goes-to-China’ in order to escape the blame for service retrenchment (Klitgaard 2007:174; Ross 2000:162-165). The capacity itself applies to the situation in 1972, when an anticommunist Republican president of United States Richard Nixon could “reconcile with Chinese communists without raising suspicions of selling out American interests” (Klitgaard 2007:174). As such, political frontrunners who are thought to be bordering on the edge of politically delicate matter are more likely to be constrained; and the capability for leadership is uppermost where a feared path of action was considered as improbable (ibid). When applying such reasoning to the social policy domain, one should expect that the social democratic governments participate in unpopular retrenchment reforms since they receive greater trustworthiness in defending the system among the voters than right-wing oriented reformers (ibid). By this premise, widespread market-oriented policies in the welfare state might mirror the presence of social democratic parties in office. Nevertheless, the strategy does not offer any rational response to why the social democratic administrations participate in restructuring the welfare state and initially follow the market-oriented values.

Accordingly, ‘the new politics’ thesis rests upon three central grounds. Firstly, the cutback initiatives represent unpopular in regards to both general public and specific interest groups. Secondly, any policies have the impact on politics direction and, therefore, must be addressed by political frontrunners in a way to develop innovative and creative strategies to avoid blame. Thirdly, each policy is path dependent, which means that the prevailing welfare

agendas determine options for blame avoidance and retrenchment (Ross 2000:156). There is, however, an important omission that the theoretical framework is often criticized for. In spite of the widespread consideration of policy structures, institutions, and interests, the new politics has limited deliberation around partisan politics. The theory holds quite implicit assumptions, supposing that within the so-called 'old politics', left parties aim to expand the welfare state regardless of external challenges, whereas the main purpose of the right-wing parties is to downsize the welfare state (ibid).

There are some issues concerned with the 'new politics' framework. The first one concerns parties' motivations and incentives behind pursuing the unpopular policies of retrenchment. As such, both left- and right-wing parties around the world have established an outline that contains both expenditure reductions and reorganization (Ross 2000:159). In order to adopt the notion of unchanging partisan impacts throughout governing context, one must regard parties as purely utility maximizing units, profoundly indifferent to the changes within their prevailing environment and with ideological stands shifting with regards to the interests. Notably, the preferences, morals, and institutional composition deviate from country to country, but there is a growing trend of left-wing and center parties to turn towards market-oriented policy solutions, partly because of the external challenges faced by the welfare state (ibid). And while it becomes more common for the left-wing parties to shift to the right when in office, some of the left and center administrations have considerably changed to the right within the rhetoric, reforms, and control. Workfare and shift towards lesser dependency on the state provision have become the common themes on for a number of leftist matters, which puts a new challenge for the 'new politics' of welfare (ibid). The role of parties must be reshaped with consideration of first choices, values, and principles, which are certainly important.

Yet, the latter does not arrange for the distinct incentive for action. A partial explanation for left-wing parties' shift towards right lies in the trustworthiness gap pursuing leftist parties since the 1970s, characterized by generous social policies, relatively high taxes and expenditures (ibid). As a consequence, the growing necessity for parties to attract employers and market-dependent actors forced a number of Social Democrats rightwards while the right-wing parties sought to diminish any charges for the retrenchment of social insurance. Indeed, in line for risking the unfavorable election outcomes and the deficiency of voter support for essential cutbacks in public provisions, the policy freedom of the right has been significantly reduced (ibid).

4.4 Insider-outsider politics

According to Herbert Kitschelt, uncovering strategies of social democratic parties involves a “bridge across the familiar divide between students of comparative political economy and parties and elections” (1999: 318). Noteworthy, parties in this sense represent a concept, combining both the premises of the power resource theory and the ‘new politics’ of welfare. They are the set of politicians, committed to ideological beliefs but oriented on satisfying historically meaningful groups of the electorate to win the election (Garrett and Lange 1991:543).

David Rueda has contributed to a better understanding of partisanship role in establishing market policies through differentiating between insider and outsider preferences (2006). As such, the framework refers to the interest rivalry between those workers whose positions are secured by labor revenue costs (insiders) and those who do not enjoy such protection (outsiders). The insiders possess greater influence than the outsiders as they have market power: they can partake in income negotiations, take industrial action and use many other ways to demonstrate their power (Sigeman 1999:265). As a consequence, insiders try to uphold their employment positions through firmer work protection regulation while the outsiders care about unemployment and the ways to grant their belonging to the insiders’ niche. As such, the latter favor active labor market policies (ALMP), specifically the greater expenditure on employment incentives. Such deviation in preferences serves as the major explanation for parties’ strategic behavior. According to Rueda, “social democratic parties have strong incentives to consider insiders as their core constituency” since the latter are connected to greater work protection regulation instead of labor market policies (2007: 2). The insider-outsider theory tends to define labor market partakers as particularly rational actors. Assuming such rational behavior, the insiders are anticipated to emphasise their own workforce engagement and to request income increases, which are beyond the interests of outsiders, thus preserving somewhat higher unemployment rates (Lindbeck and Snower 2001:172). Nevertheless, Rueda also considers the changing nature of insiders’ first choices, which sequentially affects the approach undertaken by social democratic governments (ibid). Such changing preferences usually occur when insiders come to be more like outsiders, namely under the conditions of high levels of unemployment vulnerability and low degree of corporatism (ibid). For the reason of blame avoidance and manipulating payoffs, political parties seek to increase their electorate through appealing to the largest group, gaining from

the introduced reforms (Vis 2013:13). Such policies aim to decrease the degree of blame, and by this means upsurge reform's success through handling the prevalence of gains and losses among individuals impacted by the reform (ibid). Nonetheless, manipulating payoffs do not come easy, mainly because of the difficulty in determining which group represents the best choice (from a vote-seeking perspective) "to let bear the burden of retrenchment" (ibid). There has also been a discourse around this insider–outsider conflict often faced by the Centre-left parties (specifically the Social Democrats) (2013:2). In the case when these parties give emphasis to insiders' preferences, outsiders tend to either vote for other political parties or simply refrain from voting and vice versa (ibid).

Accordingly, this conventional framework takes a shift from traditional theories of partisan politics, while it still assumes political parties to have "a core constituency whose support is needed to win elections" (Rueda 2006:389). Since the 1980s (1970s in Denmark), Scandinavian states faced severe economic constraints, followed by higher levels of unemployment and the eventual emergence of 'outsiderness'. While the degree to which insiders are safeguarded from redundancy, provide grounds to oppose greater employment incentives, their interests considerably contrast to those of outsiders. The possible advantages of such labor market policies for insiders are minor while the actual costs (taxes and low-wage competition) are great (ibid). Nevertheless, influences that increase insiders' vulnerability to unemployment, such as the increase in unemployment rates, determine groups' support for outsiders' preferences, as well as parties' strategies towards labor market reform activity. Unlike other employment-related policies, stimulating employment incentives are intended to crop secure engagement in the workforce for those who are jobless, which turn outsiders into unmistakable beneficiaries. The insider-outsider dilemma, thus, clarifies changes within labor policies, as the reaction of both social democratic and right-wing parties to pressures from the outside to the welfare state, and, more fundamentally, the prerequisite to maintain it with purpose of achieving voters' support (Volckmar and Wiborg 2014:119). Consequently, parties are thought to pursue the logic of vote-seeking behavior and apply to the greater electorate, which, in this case, would be those affected by growing unemployment, namely outsiders and those insiders, vulnerable to unemployment. In case they do so, the expenditures on employment incentives should grow.

4.5 Hypotheses formulation

Taken into account the preceding literature and empirical findings on the issue, this study turns to the assessment of several research hypotheses to address how the countries within the social-democratic regime could have reformed their labor market policies and the role played by partisan politics in such reform activity. The formulations are the following:

H1: The nature of social-democratic welfare state regime is path dependent, which means that labor market reforms have not undergone any systematic changes throughout the past 35 years, or that there have been only small-scale changes. Hence, the concept of retrenchment does not seem to be an adequate and applicable notion to the unchanging dynamics of labor market policies.

The hypothesis does not seem to be easily supported in the light of the previous results on the changes to the Nordic model. Yet, the discordance in scholar accounts on the matter serves as an additional motivation to verify whether path dependency assumptions hold true or not.

H2: In accordance to power resource theory, the labor market policies are modified in regards to partisan composition in each state. States characterized by strong leftist parties and high union density will pursue more generous/less retrenching policies.

As such, states where social democratic parties have strong governing positions and high unionization rates, might be limited in the expansion of welfare services due to the ‘era of austerity’ concerns, but will tend to have lower degrees of cost-cutting than those where actors demonstrating “narrow interests have strong incentives to engage in rent-seeking behavior” (Anderson 2001:1072). In addition, based on unemployment insurance provision and employment incentives expenditure, the Scandinavian countries might have different levels of benefits provision due to the different composition of the parties in power.

H3: The ‘new politics’ framework assumes that the retrenchment of unemployment benefits policies are easier pursued by social democratic governments as they possess the capacity to exploit a ‘Nixon-goes-to-China’ strategy to avoid the blame for retrenchment.

Therefore, the changes in labor market policies represent nothing less than the politics of retrenchment, opposite to what Nordic states experienced in Golden Age of expansion. The parties do not act on the behalf of their ideological beliefs, but rather pursue their interests to remain in power under the economic challenges throughout avoiding the blame for reduction of expenditure in social provision.

H4: Lastly, the insider-outsider framework suggests that in their search for power, both social democratic governments and their opponents act on the behalf of vote-seeking perspective

and, therefore, use various strategies of either benefit retrenchment or expansion to appeal to preferred electorate. In the case when the work protection is insignificant, the social democratic governments are not as exposed to insiders' burden and thus tend to follow policies to support outsider. Consequently, social democratic governments will spend more on employment incentives and liberalizing the labor market.

5 Analysis

This section summarizes the output obtained after collecting and calculating the data on labor market policies in Denmark, Sweden, Finland and Norway between 1980s and 2015. In order to measure the dynamics and the direction of welfare state development within each country belonging to the social-democratic welfare state regime, and the impact of partisan composition on such dynamics, it is important to determine how the unemployment insurance provision and employment incentives expenditure have transformed throughout time, space and political context. As noted earlier in the Method section, all the measures presented in the study are calculated as a mean of provision throughout the period a certain party was in office. As such, they represent a common result. After the adjustment of data, the calculation of six different variables across Sweden, Denmark, Finland and Norway in the period of 1981-2015 remain. Table 1 presents variable means, followed by a summary of extracted results and reflections.

Table 1. Policy change by Government

Country	Government	In office	Replacement rates (%)	Qualification period (weeks)	Duration (weeks)	Coverage (%)	Public spending on employment incentives (% of GDP)
	Carlsson (Social Democrats)	1984/03/12-1991/09/15	0.847	52	60	0.79	0.427
	Bildt (Conservative)	1991/09/15-1994/10/06	0.839	52	60	0.853	0.863
SWE	Carlsson (Social Democrats)	1994/10/06-1996/03/21	0.786	52	60	0.87	0.67
	Persson (Social Democrats)	1996/03/21-2006/10/02	0.729	52	60	0.85	0.499
	Reinfeld (Conservative)	2006/10/05-2014/10/02	0.63	52	60	0.685	0.513
	Schluter (Conservative)	1984/01/10-1993/01/25	0.689	52	442	0.7	0.423
	Rasmussen N (Social Democrats)	1993/01/25-2001/11/27	0.634	52	286	0.83	0.438
DNK	Rasmussen F (Liberal)	2001/11/27-2007/11/23	0.572	52	208	0.8	0.28
	Rasmussen L (Liberal)	2007/11/23-2009/04/05	0.493	52	208	0.7	0.13
	Thorning-Schmidt (Social Democrats)	2009/04/05-present	0.534	52	139	0.71	0.325
	Sorsa (Social Democrats)	1983/05/06-1987/04/03	0.457	26	38	0.645	Data unavailable
	Holkeri (Social Democrats)	1987/04/03-1991/04/26	0.606	26	100	0.668	0.05
FIN	Aho (Centre Party)	1991/04/26-1995/04/13	0.657	26	100	0.728	0.14
	Lipponen (Social Democrats)	1995/04/13-2003/04/17	0.604	39	100	0.746	0.136
	Vanhanen* (Centre Party)	2003/04/17-2010/06/07	0.566	43	100	0.741	0.15
	Kiviniemi** (Centre Party)	2010/06/07-2011/06/22	0.563	34	100	0.74	0.13
	Willoch (Conservative)	1981/10/14-1986/05/09	0.672	4	40	0.845	1.07
	Brundtland (Social Democrats)	1986/05/09-1989/10/16	0.672	4	80	0.855	1.062
	Syde (Conservative)	1989/10/16-1990/10/25	0.675	4	80	0.86	2.02
	Brundtland (Social Democrats)	1990/10/25-1996/10/25	0.659	4	80	0.9	2.328
NOR	Jagland (Social Democrats)	1996/10/25-1997/10/17	0.658	4	80	0.91	1.52
	Bondevik (Christian democracy)	1997/10/17-2000/03/17	0.658	4	156	0.91	1.195
	Stoltenberg (Social Democrats)	2000/03/17-2001/10/19	0.658	4	156	0.915	1.05
	Bondevik (Conservative)	2001/10/19-2005/10/17	0.661	4	130	0.883	1.045
	Stoltenberg (Social Democrats)	2005/10/17-2013/10/16	0.665	4	104	0.915	0.885

Source: Parliaments and governments database, OECD, Scruggs (2014)

Notes: ** Prior to Paavo Lipponen, Anneli Jäätteenmäki had been in office between 17 April 2003 and 24 June 2003. Due to the brief time in office and the fact that she was followed by the same party representative, the study doesn't include her in the database.

*** Kiviniemi was later followed by representatives of the Conservative party in office, but due to the lack of data, she will remain the last examined case in Finland.

As seen from the Table 1, all countries belonging to social-democratic welfare state regime experience the change towards lowering the so-called benefit provision, whereas replacement rates dropped significantly in Sweden, Denmark, and Finland, they remain somewhat at the same level in Norway. Qualification period remains the same in Denmark, Norway and Sweden, while it started growing under the Social Democratic party in office in Finland. In regards to the benefit duration period, it persisted to be unchangeable in Sweden while faced significant cutback in Denmark, which, nevertheless, upholds to be have the most extensive duration period among social-democratic welfare states. Furthermore, it grew in Finland under the Social Democrats and has stayed relatively high afterwards. In Norway, the number of benefits weeks grew under Christian Democrats, but then dropped closer to the former level under the Conservatives and the Social Democrats. The percentage of insured labor force in Sweden started growing under Bildt government and maintained high under the Social Democrats, but then dropped significantly under Reinfield, which might also be the consequence of 2008 economic crisis. In Denmark, Norway and Finland the coverage remained higher under the Social Democrats. Public spending on employment incentives tends to grow in Sweden under the Conservatives, in Denmark under the Social Democrats, and stays at the similar level in Finland and Norway.

5.1 Labor market reforms

The four states investigated in this thesis undeniably vary from each other when it comes to unemployment insurance provision and employment incentives expenditures even though they all represent the theoretical belonging to the same welfare state regime. Their welfare state, political and economic development, unemployment insurance schemes and attitudes towards labor market participation share different historical backgrounds, which makes it

crucial to analyze each country separately before trying to simply group all the results under the same theme. As seen from Table 1, labor market policies have transformed throughout 35 years. Uncovering the process of labor market policies reforming in regards to partisan politics, also includes a closer look at pursued policies rather than simple tracing of provision under the definite timeframes. For this reason, the study analyzes each state in terms of its political composition and the impact it has on changing nature of unemployment insurance provision and the dynamics employment incentives spending. The section will accordingly evaluate how each state developed and what could be the political (and even economic) factors, impacting the welfare state development in these countries from 1980s.

5.1.1 Denmark

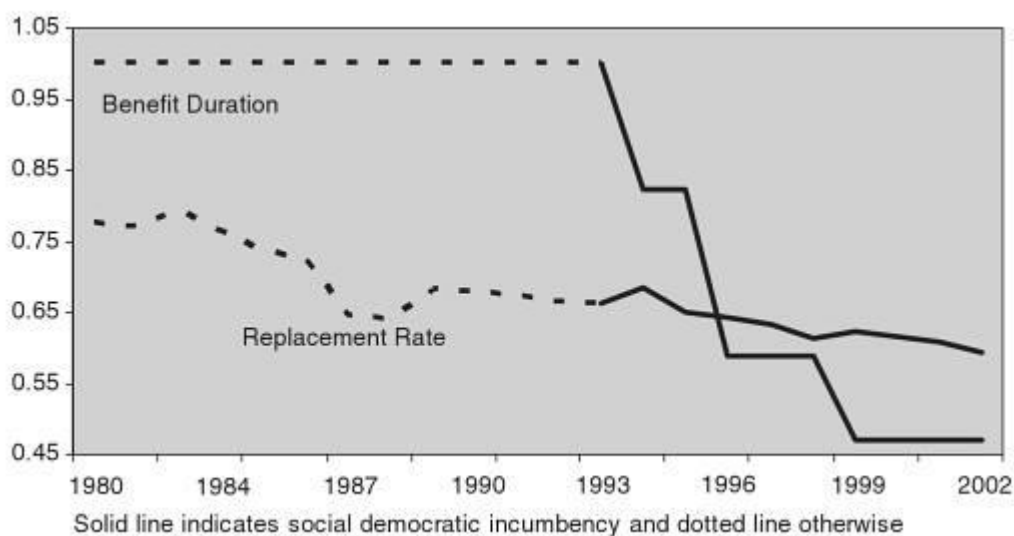
In contrast to other countries belonging to the social-democratic welfare cluster, Denmark was at the outset to face the severe increase of unemployment, stimulated by the 1970s oil crisis. The precedent policies of generous unemployment benefits and substantial social security provisions appeared to intensify the issue of redundancy even more. As such, the unemployment and inflation amounts rose as high as 10% while the state deficits had extended to the same degree, and foreign debts stored promptly by 1982 (Andersen 2008:34). Consequently, this affected in Conservative-Liberal government to take power between 1982 and 1993; it directly loosened the capital markets and moved towards strict expenditure restraint policies within the public segment. In conjunction with introduced actions aimed at reducing sequestered consumption, the reforms assisted in preserving structural inequities in Danish budget. Nevertheless, the cost of the reforms reflected in the degree of unemployment mounting up to 12.4% in 1993 (ibid). There was an apparent need for further reforms, which was satisfied straight after the Social Democratic-Radical Liberal governments came to office in 1992. As well as their predecessors, the party highlighted the importance of economic responsibility, but discarded the temporary reduction of expenditure and consigned the primacy to employment stimulation (Huo 2009:202). Indeed, before the Social Democrats took place in the office, the unemployment insurance system in Denmark remained submissive rather than active. It has correspondingly endured the superior liberality towards welfare provision, standing for the indisputable peak of the social rights of citizenship (Marshall 1950:47). One must also understand that the main difference between the Social Democratic coalition administration in 1993 and the forerunning Conservative-Liberal

government was the political capacity of the former mentioned to perform in accordance with the new model. The model was intended to function on the instruments of alternative policy solutions, supported by Keynesian demand-activating reforms (Andersen and Pedersen 2007:6). As such, the Social Democratic party presented a labor market reform in 1994, which indicated the initial challenge to transform the central purposes of social insurance in Denmark. The undertaken reform was scheduled to be implemented throughout three stages, namely in 1994, 1996, 1999. It has required the emergent accent on the duty to accept job proposals as a measure to receive the maintenance of unemployment assistance.

Simultaneously, the launched policies were intended to advance occupation abilities required among the unemployed. In addition, the rough guide to new individual action plans, recruitment incentives, job sharing and rotation programs were among the means aimed at the achievement of the policy goals. Another vital component of the undertaken reform represented an extensive economic strategy to push for “private consumption and the demand for labor” (ibid). As a final point, there were also foundations connected to the policies that assisted in labor supply decrease. Accordingly, individuals who took part in the labor market programs mentioned above, ceased to remain listed as jobless.

The 1994 labor market reform wasn't the only modification undertaken by Danish Social Democrats. As can be noticed in Figure 1, it was the initial length of redundancy benefits at the outset of drawback: to seven years in 1995, five years in 1996 and four years in 1999. These alterations appeared to be groundbreaking within the Danish case framework, as the duration of unemployment benefits was practically unlimited to aforementioned labor market changes (Huo 2009:203).

Figure 1. Unemployment Benefits Replacement Rate and Duration in Denmark 1980-2002



Source: Scruggs 2004 in Huo (2009)

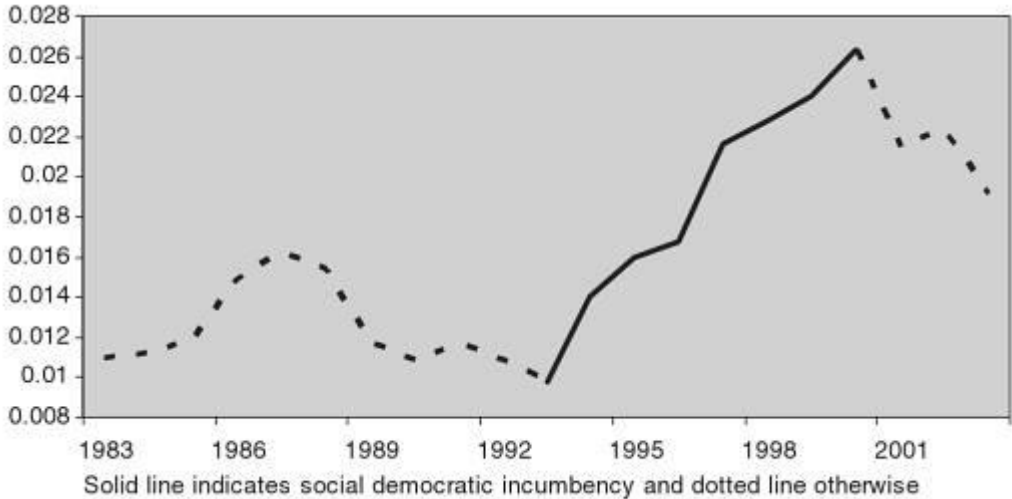
Notes: Benefits duration in 1980 (442 weeks) is re-coded as 1.

The choice of limiting the determined period of redundancy benefits in 1994 represented a unique and initial case in history where an actual limit was practiced. Besides the reduction of the benefit duration, the Social Democratic party has too enforced the idea of working conditions based on appropriateness for redundancy assistances: 6 months of non-supported employment in 1995 and extended to 12 months in 1996 (ibid).

Whereas the unemployment compensation scheme in Denmark had formerly been associated with more liberal approach towards replacement rates and tremendously long period of benefits, the reforms launched by the Social Democratic party took the country closer to European average (ibid). The reforms do not mean, however, that the dynamics of retrenchment substituted the general development of the welfare state. In accordance to Korpi, the social policies implemented as the state involvement appear to be important in regards to income change and power buying ratio (1980:301). They are similarly connected to both economic and monetary policies; thus, in social-democratic welfare states they are aimed at generous, non-excluding protection, as well as the increase in labor-market participation and decrease unemployment (ibid). The reforms made by Social Democrats didn't affect the generosity level that much (the duration period and the replacement rates for lowest income groups remain extremely high in comparison to other OECD countries), but did contribute to fostering growth of employment rates. Moreover, the undertaken direction towards employment stimulation prioritization over the generous replacement rates resulted in

increased expenditure on employment services. As such, Figure 2 also represents the risen levels of expenditure on employment services (including the employment incentives) at the time of Social Democrats incumbency.

Figure 2. Employment Service Expenditure as Percentage of GDP in Denmark 1983-2003



Source: OECD 2006 in Huo (2009)

At the same time, Denmark, together with Finland and Sweden, are representatives of a Ghent system, in which the redundancy funds are connected to labor unions. The latter hold a substantial share of administration over how the funds are to be used. Nevertheless, the pre-reform organization in Denmark decreased the prospects for unions to make capital entitlements on the social security system as it was already close to being purely tax-financed (Huo 2009:202; Andersen 2008:40). In response to the faced challenges, labor unions in Denmark pursued an unusually dissimilar strategy as the one accepted by labor unions in other states. Through choosing to avoid industry or government clash about labor market challenges created by external pressures, they incorporated the concept of flexicurity and new jobs creation as a central approach towards employment protection in the state (ibid).

As a response to unions and government actions, Danish population didn't feel confounded about the retrenchment of unemployment benefits, but rather enjoyed the feeling of safety: in case people lost work, they could find new employment in relatively short terms. The studies represented by Auer suggest that even with the lower degree of official employment protection, all categories of workers in Denmark enjoyed the higher belief in securing their future workplace (2007:16-17).

The 1994 changes were essentially continued by the following Liberal-Conservative government under Anders Fogh Rasmussen, which took over the office in 2001. Already in 2002 the new administration (in agreement with country's Social Democratic party) accepted the so-called fourth stage of former ALMP, followed by *More people to work* and an integration package *A new chance for all* in 2005 (Anderson 2008:38). The political discussion over the latter package initially included the Social Democrats participation and contribution, but the party has drawn back its approval before the very implementation of the policy. The reason behind such decision, given by the Social Democrats is the greater accent on encouragements rather than on the concept of social citizenship from the bourgeois alliance (Andersen 2002:160; Madsen 2003: 105).

The 2002 reform sustained a consolidation of conditionality notion: obtaining an applicable occupation from the beginning of redundancy period, individual contact arrangements with “conversations every 3 months and CV talks after 4 weeks at the latest are introduced with the reform” (Anderson 2008:39; *The Danish Government* 2011:15). Moreover, its central aims represented the overall solidification of the economic encouragements to attract more people into the labor market. The means for successful implementation included both the benefit/allowances schemes and the tax system reconsideration. As such, the directive to the degree of social support was reduced, and the ceiling for the total of the support has been presented (ibid). Furthermore, the integration agreement “A new chance for everyone” suggested an upgrading of work encouragements relative to acceptance of social coverage.

The new Social Democratic government that entered office in 2009 has faced a number of serious issues linked to 2008 economic crisis, which has impacted on an intense growth of unemployment rates. Inspired by the successful achievements of their forerunners, the government intended to implement a reform of the unemployment benefits system. The main goal of the reform was the intensification labor supply through encouraging the jobless to seek for a job more keenly (Madsen 2013:12). The means of motivation represented a shorter duration of unemployment and fear of exhausting the assistances. Nevertheless, opposed by labor unions and decline in insured employees, the administration didn't pursue the further conditionality approaches, but rather restructured the activation policy in the way that could be more contributive for the labor market demands. The government introduced several policies intended to upgrade the skills of individuals without a job, namely the broader admission to tutoring for unemployed and the reinforced efforts to decrease the drop-out rate from job-related training system (ibid).

5.1.2 Sweden

Until the beginning of 1990s Swedish unemployment insurance did not experience any major changes linked with the cutback of provision or benefits. Like many others, the Swedish system of unemployment assistance carries the features of the progressive compensation scheme, with higher replacement rates for low-income employees and vice versa. The scheme functions on the behalf of a ceiling for the benefits amount. It wasn't until 1993 when the liberal-conservative government decreased the so-called benefits ceiling; and, further, cut the replacement rates from 90 to 80% in response to the severe economic and fiscal crisis (Huo 2009:207). The key approach of the administration in combating the growing unemployment rates represented the decline of benefit total and narrowed the admissibility criteria (ibid).

It was rather a short period in 1996 when the social democratic government continued the line of preceding bourgeois administration and cut the replacement rates by 5%. Under the growing opposition of labor unions, they returned the replacement rates back to the 80% level in 1997; and further increased benefit generosity for the first 100 days of redundancy (Carling, Holmlund and Vejsiu 2001:767; Huo 2009:2007-209). It is important to state the significance of unions' role in the case of Swedish unemployment insurance evolution. Besides the amount and duration of assistances, unions have a stable share of power when managing the distribution of assistances. Not only have the Social Democrats reversed the reduction of replacement rates, but have they also upturned the intentions of predecessor bourgeois government to replace unions from unemployment insurance management (Huo 2009:209). In other words, the Social Democratic party have pursued the stimulation of union strength significance, and the organized workforce has remained with its corporatist domination.

Indeed, right after the unemployment rates started to decline, the Swedish Democratic Party turned to the reverse strategy and aimed at restructuring rather than retrenching the unemployment insurance. In conjunction with high replacement rates, they launched a narrowed eligibility criteria for benefits collection (ibid). This strategy echoed the approach of Danish Social Democrats, whose relatively generous assistances are combined with a tough work-conditionality would result in a solution to emerged issue of unemployment. The

cutback in replacement rates and higher demands for admission criteria in services and benefits as sick pay, work injury, and unemployment insurance schemes were complemented by the enlarged expenditure on employment incentives (Huber and Stephens 2001:253; Iversen 1998:72). By the power resource theory, such marked-oriented measures should be rather understood as the connection to welfare support. As such, to operate in terms of power resource capacity, the welfare state appears to be subjected to popular trust and democratic electorate. Such subjection allows the state to identify welfare institutions as an appropriate foundation for collective action (Klitgaard 2007:173). As well as in Denmark, the Swedish Social Democrats tried to appeal to the low-income interest group, where the provision of unemployment services didn't change a lot. Instead, the cutbacks in unemployment insurance provision were targeting the long-term unemployed, who would potentially represent a free-rider problem. Through such means, the government aimed at receiving more support from those trying to secure the place in work through various activation and education programs. For this reason, in case when Social Democrats believe that certain policy problems pose a risk to welfare state legitimacy, they tend to apply market-oriented modifications to avoid the loss of legitimacy and letdown in electorate support (ibid).

The new social democratic government under Persson has moderately upturned the course of gradual growth in benefits system progressivity. Instead, it introduced some reforms that included upsurges in benefits ceilings and the introduction of a two-tiered benefits structure. As such, the 2001 reform has also brought changes on the topic of search and admission requirements and assistance approvals (Benmarker, Carling and Holmlund 2005:90-92; Forslund and Krueger 2010:172). The mentioned changes came into effect as soon as on 5th of February, 2001. Also, the launched policy resulted in job search constraint within one's occupation and the limited labor market in the first 20 weeks of redundancy. After this period has been exhausted, the search scope must be extended (ibid). In this context, the introduced reform provided an access towards improved generosity as the prior government didn't contain entitlements to limit the search. Nevertheless, it could have also represented the case that guidelines, tolerating constrained search, existed correspondingly before 2001, as a minimum during the initial weeks of redundancy (ibid). The 2001 reform established the determined duration of unemployment insurance at 60 weeks for all entitled job seekers, regardless of age (in comparison to the former system of 90 weeks for older workers). Additionally, the partaking in the labor market programs didn't represent a prerequisite for unemployment insurance anymore. The guidelines for 'punishing' an individual without a job

and not undertaking active search measures were modified by Persson's government in 2001. As such, the new arrangement contained minor sanctions, such as an assistance cut down of 25 or 50% (ibid). In comparison to this, the forerunner government pursued somewhat punitive penalty for failure to search requirements eligibility, namely the total removal of assistances for a specific timeframe. The idea behind the new system sanctions was to enforce them on the more regular basis (ibid).

The further striking reform of 2002 targeted the supplementary benefits hikes and the two-tiered cap arrangement, grounded upon whether persons are occasional or regular applicants for unemployment insurance assistances. When the reform took place in on the 1st of July 2002, it consisted of two major modifications. Firstly, the assistance upper limit for the initial 20 weeks was outstretched by 7.4%, which was consistent with the upsurge of threshold incomes. Secondly, the ceiling was further raised by 17.2% for the periods greater than 20 weeks (ibid).

With the victory in 2006 election, the Conservative party, led by Fredrik Reinfeldt, took the office. The main idea, which attracted a vast share of party's electorate was represented in election statement: "*Fler i arbete - mer att dela på*", namely the more people in work - the more to share (Agius 2007:587). The government has, thus, claimed that some groups are excluded from the workforce and that the country requires changes towards approaching businesses. The notion behind such statement represented the danger of encouraging dependence on the welfare state that discouraged persons from producing their security through employment. In other words, Conservatives contended that individuals must work in order to maintain the welfare state (ibid). For this reason, the labor market reforms introduced by the government between 2007 and 2009 encompassed a shift towards unemployment assistances cut downs. They likewise included lower benefits ceilings, based on the three-tiered replacement rate structure: 80 % during the first 200 days, 70 % after 201 and until 300 days; and from day 301. In addition, the time spent in activation labor market programs weren't considered as the time of redundancy. Other important modifications to the reform were: the upsurge of the waiting period (from 5 to 7 days), harsher admission requirements, reduction in subsidies to the unemployment insurance funds, ALMPs for the long-term unemployed, and the 65% replacement rates (Benmarker 2011: 4-5; Benmarker, Carling and Holmlund 2007:97-99; Lefresne 2010:23).

The claim of Conservative government to preserve the welfare state, as well as the so-called Swedish model, not only took the social democratic line for managing affairs, but similarly

indicated a change from “the non-socialist bloc, which has been one of the welfare state’s most prominent critics” (Agius 2007:587). Indeed, one can claim that Swedish politics of the last decades has witnessed parties of both left and right shifting towards the center ground, where conservatives aimed more at the Swedish model implementation, whereas the Social Democratic party was more oriented towards market economy changes. According to Arndt, such transformations have permitted the Conservative party to achieve a position outside its ideological scope and, thus, electorate and “to compete with the Social Democrats at eye level, which had not been the case for decades” (2013:179).

As a consequence, over the years covered by the study, the Social Democratic party in Sweden has indeed launched several welfare state reforms and reductions in unemployment insurance assistances (Allan and Scruggs 2004:505-510). Nevertheless, such measures can be seen as a response to the severe consequence of economic and financial crisis in Sweden during the 1990s. The party itself was aware of possible electorate reactions towards the undertaken measures, but the measures represented a necessity, not pure ideological positions of the party. Furthermore, the party reserved a more traditional position in the period of Persson’s government in the office. The so-called retrenchment changes were mostly short-term and can be characterized as reasonable, as they were in line with the Social Democrats customary values of active labor market policies and workfare (Arndt 2013:179-182; Benmarker, Carling and Holmlund 2007:86-92).

5.1.3 Finland

After the booming economic growth in 1980s, the historical events of welfare development have positioned Finland somewhere in the middle, with unemployment rates lower than in Denmark, but higher than in Sweden and Norway (Ploug 1999:80). As well as Sweden, Finland has faced serious economic constraints in 1990s, resulted by rocketing unemployment rates. Moreover, the collapse of Soviet Union affected in the intensification of the economic crisis and left the country to reconsider its social insurance provisions. As such, the 1990 social democratic government was facing a number of bad decisions, also affected by the lack of counterbalancing strategies during the 1980s economic boom (Ploug 1999:80; Stephens 1995:26). The decisions were mainly targeting the maintenance of a stable exchange rate, but

eventually devaluated the Finnish markka, causing a number of personal bankruptcies (Kananen 2014:142).

The discussions on policy implementation at the beginning of 1990s were evolving around two contrasting opinions on the subject of Finland's economic survival strategy and the maintenance of the welfare state. As such, the first belief, advocated by the mainstream of the Centre-Right government (in office between 1991 and 1995), stated that spending on social insurance must be cut. Furthermore, they suggested that the Finnish economy should be enhanced through minor expenditures rather than temporary reductions (Timonen 1999:257). The conflicting opinion, mainly encouraged by the leftist opposition and labor unions, underlined the importance of Keynesian demand administration as a prerequisite for the successful struggle against the economic downturn. The advocates of the approach blamed the Centre-Right government in "putting healthy state finance above citizens' welfare and jobs" (ibid).

The new Finnish Centre government pursued to narrow the admissibility criteria of income-based unemployment assistance in 1994 (Kananen 2012:567). Before this unemployment policy reform, the uninsured job seekers could request the so-called 'Basic Unemployment Insurance' (*peruspäiväraha*) while an income-based support was accessible for the union member job seekers. The reform introduced a 500 days maximum duration period and a condition of a six-month work account for the 'Basic Unemployment Insurance', while those not eligible would be transferred to the new means-tested 'Labor Market Support' (ibid). Despite the predictions offered by institutional theories, the reaction to the cutback in employment benefits provision appeared somewhat beneficial for unions. Even though the leftist parties stood in opposition during the Aho government and the unemployment rates were mounting fast, the membership in unions has increased, and the struggle against unemployment benefits reductions was often efficient (Timonen 2003:32). As well as in Sweden, strong unions had the possibility to withstand harsh social insurance provision cutbacks.

When Social Democrats (within the so-called Rainbow Coalition, encompassing the Left Alliance, the Conservative Coalition Party, the Swedish People's Part and the Greens) entered the office in 1995, they carried out the reform aimed at restructuring income support and unemployment insurance policy, with the key principles of conducting the shift from passive to active policies (Kananen 2014:145; Sakslin and Keskitalo 2005:361). Such changeover from previous ideological claims of the left-wing parties represented a captivating

development. The development, thus, included a move from the Centre–Right government accusation of austerity that was destroying Finland’s economy and welfare to the rhetoric of accountability for the maintenance of the welfare state through the means of fair and reasonable restructuring (Timonen 1999:257). The reform offered by the new government, was carried out in form of so-called negative incentive, where the recipient is obliged to accept job offer or take on recruitment incentives in order not to lose a share of the assistance. Moreover, the reform was framed in such way that the benefit could not be withdrawn in the case where the withdrawal was unjust. Therefore, unlike Sweden and Denmark, Finland’s 1995 reform didn’t directly influence the realm of rights and obligations (Salsklin and Keskitalo 2005:361).

In 1997, the new Income Support Act was launched by the Social Democratic government, which outlined that requirements criteria for income-based redundancy assistance were constructed. The government claimed that structural modifications and cost-cutting measures were compulsory in order to safeguard the fundamental principles of the Finnish welfare state (Timonen 1999:257). At the same time, the Social Democratic party outlined that efficiency measures and the avoidance of redundant expenses as social spending must not exceed the economic performance of the country (*ibid*). Furthermore, the reason behind the 1997 limitations was to prevent the eligibility renewal through involvement in activation methods. As a result, the eligibility criteria were further tightened to 10 months, which caused the devaluation of the coverage value since it imposed the two-year ceiling for duration period of income-based unemployment assistances (Kananen 2014:150). Due to such changes, a number of jobless persons had to become a subject to the means-tested benefits (*ibid*). The processes contrasted slightly in Denmark and Sweden, where the principle of coverage became only stronger with the actions undertaken by governments. The idea of insurance has contradictory debilitated in Finland with the consequence of labor market outsiders upsurge (*ibid*). It has consequently appeared that the Centre–Right and the Rainbow Coalition administration have implemented identical basic values of required economic policy. As such, both leftist, centrist and rightist parties which took part in the Aho and Lipponen administrations have recognized low inflation, public debt and budget deficit lessening as the most essential aims of economic and therefore benefit provision policies (*ibid*). The Social Democrats have frequently claimed that decreasing unemployment rates represented the issue of greatest importance, which paved the way for the introduction of employment incentives and the so-called negative incentive to work.

At the beginning of 2000s, the social democratic government have continued in the direction of reinforced sanctions and harsher employment guidelines. The authorized requirements on activation measures directing social benefits recipients were introduced in 2001 Act on Rehabilitative Work Activity (Aerschot 2011:33). They were intended as a supplement to the active labor market policies, which were already implemented, and their goal was to “apply activation measures to long-term unemployed recipients of either unemployment benefits or social assistance” (ibid).

In order to simplify the assistance application procedures and norms, the unemployment coverage system in Finland was restructured shortly after in January 2003. The compensation pay scheme that had been in force until the end of 2002 was, thus, interrupted and the daily unemployment insurance payments had respectively risen to 150 days. This resulted in the overall upsurge in the everyday unemployment insurance payment by 15% while only the long-term out of work individuals were entitled to the higher insurance payments (Uusitalo and Verho 2010:643).

As a response to the 2008 financial crisis, the Finnish government established to extend the limitations in social assistance in regards to the recipients under 25 years of age (Kananen 2012:570). The reform additionally reinforced the insider-outsider splitting up in the Finnish law, which was recognized as a partisan subject and was significantly greater than in Sweden and Denmark. These separations may as well impact working insiders' options, specifically when they believe they can end up as outsiders group (ibid).

To sum up, in the case of Finland, the local partisan and economic leaders were evidently concerned over the modifications that took place in the global arena, as well as Finland's location within. The vast majority of political decision makers didn't see other options to austerity that confidently would impact social and unemployment situation. Nevertheless, one can claim that the cutbacks in governmental spending posed a little threat to the fundamental structures of the welfare state in Finland. Moreover, the reduction of expenditure was implemented in such way, that it had no harm on the original model of unemployment services provision. As a consequence, in the period of severe economic crisis and the followed rising unemployment, Finish Social Democrats generated a number of reforms that are hardly connected to the notion of welfare retrenchment. It is rather the restructuring of the system to maintain welfare state, which still represents parties as an important strategic actor in policy decision making.

5.1.4 Norway

Norway is an exceptional case within unemployment insurance in the Nordic model: it has introduced obligatory unemployment coverage while other states, making up social-democratic welfare cluster, have reserved their voluntary coverage systems (Edling 2006:99). Moreover, the economic situation in Norway remained slightly different to other Nordic countries. Ever since the state could rely on the profits from its oil exports, which subsidize to large shares of GDP, Norway has skipped the pattern of the serious unemployment crisis, faced by other Scandinavian neighbors (Ploug 1999:99). Furthermore, it has also avoided the large welfare state cutbacks that took place in Sweden and Finland in 1990s, and earlier in Denmark (Stephens 1995:24; Bratberg and Vaage 2000:154).

As such, when related to the majority of other OECD states, the Norwegian redundancy rates have occurred to be extremely insignificant during the 1980s, generally remaining between 1.5 and 3% in 1988 (Bratberg and Vaage 2000:154). Subsequently, in 1989, the unemployment rates have suddenly risen and remained at roughly 5–6% of the labor force throughout the early 1990s (ibid). As already mentioned, Norway is the only representative of universal unemployment protection among Scandinavian countries, where all workers with minimum level incomes are covered. As such, the determined benefits duration accounted 80 weeks, which were accompanied by 26 weeks without benefits until 1991 (ibid). An additional 80-week period could be granted for the further collection of unemployment insurance assistance. The means-tested social benefits represent an alternative option for unemployment insurance for those persons who did not succeed in obtaining a workplace (ibid).

Once the Norwegian economy has crossed the threshold of the economic downturn in the period of early 1990s, the social democratic administration under Brundtland didn't present any significant assistance reductions. In 1991, the social democratic government decreased the duration of the period without unemployment benefit by 13 weeks. In such way, the administration believed to impact the growing amount of long-term unemployed (Huo 2009:211). Furthermore, the government put extra pressure on unemployment agencies to suggest a new workplace or a labor market program for a job seeker after 80 weeks. In case the requirements weren't met, the assistances are no longer to be retreated for the following

13 weeks period (ibid). Moreover, between 1992 and 1993, the Social Democratic party additionally prolonged the duration of unemployment support up to 186 weeks (ibid). The reason behind such decision was similar to Swedish reasoning around increasing replacement rates, namely the faced pressure from labor unions concerned with longstanding redundancy. Interestingly enough, in comparison to other Scandinavian states, trade unions in Norway encompass less than 55% of manual workers (Huo 2009:57; Edling 2006:99). The numbers are relatively high when considering the fact that the Ghent system was abolished in 1938 in Norway, and the unemployment insurance has been controlled by the state (ibid). The corporatist nature of Norway means that the state principally functions as a negotiator between contrasting interests within the state. Not only the phenomenon explains the lower unionization rate in the country, but it also accounts for actions undertaken by Norwegian Labor Party (Det Norske Arbeiderparti) during the 1990s. The minor degree of change in passive protection was considered to be more obvious in light of unemployment assistances in Norway as noncontributory and tax-funded. This type of funding simplifies the way government can affect changes in the system. As the assistances are not requested by employees as delayed wages, it becomes “less likely for collective action failure among unions to be an issue in impeding reforms” (Huo 2009:215).

Nevertheless, though the social democratic administration continued to pursue the line of generous benefits stimulation, it has correspondingly enforced tougher requirements to work on those jobless. The requirements included constriction of the privileges to social security benefits. This case of the Norwegian Labor Party somewhat corresponds to the one of the Swedish Social Democrats. The party has reasonably restructured a new dialogue called ‘work line’ (Arbeidslinje) as a reaction to rising unemployment (Arndt 2013:203; Huo 2009: 70; Dahl & Drøpping 2001:273). The established strategy direction underlined the importance of activation labor market policies and narrowed the eligibility conditions and the duration of entitlements. Nevertheless, they didn’t represent either an essential contradiction to party’s ideological stances towards social policy or did they profoundly restrict or cut back the Norwegian welfare state (ibid). The Labor Party’s electorate share has been changing but remained in the scope of 35% in the time between 1989 and 2009, with the omission of 2001 (Arndt 2013:203). At the time, it has merely achieved 24.3% of votes after a transitory shift as an ineffective minority government (ibid). Therefore, the example of the Norwegian Labor Party bears a close resemblance to the pattern outlined by its Swedish sister party. Namely, the restructurings appeared as reasonable, and they didn’t affect party’s popularity or the

long-lasting penalties but allowed the social democratic administration to ensure strong positions throughout the years.

The quality of Norwegian employment policies remained relatively high throughout the 1990s period, but weakened to comparatively average level in 1997. The potential reason behind the change is predominantly the expanded proportion of young to overall unemployed (Kvist 1999:245). As such, the situation of Norwegian restructuring must be understood with regards to state's new highlighting on the above-mentioned 'work line'. In accordance to the Arbeidslinje directives, the precedence is duty-bound to withstand redundancy and non-employment through intensifying active labor market policies. Furthermore, 'free-riders' problem is addressed by forcing the supposed 'passive' distribution of cash assistances to conditionality, namely job or another type of activity acceptance. One can also trace a striking resemblance to the Danish 'active line' policies (ibid).

In 2006, the Social Democrats under Jens Stoltenberg's administration launched the reform of the Norwegian Labour and Welfare Organisation (NAV), which still characterizes one of the major public-sector transitions in the current history of Norway. The general purpose behind the reform represented the intensification in labor market participation and reconstructing the management towards more comprehensible, universal and effective. As for now, the NAV controls nearly one-third of Norway's national budget (Lægreid and Rykkja 2013:4). At the central state level, the undertaken transformation combined the employment and domestic protection schemes into a new labor and welfare provision (ibid). For this reason, the NAV entailed further formal obligatory partnership between the central state and the local government administration. The general aims of the reform were the following. Firstly, it intended to upsurge the employed population and reduce the number of individuals exploiting social or welfare assistances, making up for the so-called work orientation route. The work orientation was planned to transfer individuals from the group of inert benefit recipients into employment, training or other work-related activities. Secondly, the NAV projected to contribute to services accessibility and adjustment towards residents' demands, also known as user orientation plan. User orientation was designated as a way to provide users with greater impact on the way the services were shaped, and deliver facilities that were accustomed to the specific user. Thirdly, the reform aimed to establish a comprehensible and effectual management of employment and welfare provisions (ibid). More efficiency represented the linkage between the cost advantages and an anticipation that a sturdier management between the services would avert the overlap (ibid).

Until July 2008, Norwegian welfare state provided the ‘waiting benefit’, also known as *ventestønad*, which was targeting the long-term unemployed individuals (Duell, Singh and Tergeist 2009:73). The support was provided to those applicants who had previously been engaged in labor market activities for the minimum of three years throughout the past four years, and had exhausted the duration of assistance to unemployment insurance. It has aggregated to approximately two-thirds of preceding unemployment insurance assistances, but formally had no determined interval. Despite the fact that the assistance has been seen as a temporary measure for those anticipating for appropriate labor market activities or employment, a great number of applicants at no time entered active labor market policies or productive workplace. Instead, they endured to accept the assistances on a constant basis (ibid). As a consequence, the incentives to participate in the labor market or related activities appeared as particularly weak, the assistance was at the time withdrawn by the social democratic government (ibid).

Having analyzed the provision of labor market policies in Norway, it is clear that the state has largely avoided any welfare cutback. Furthermore, there has been no substantial conversion in any form of social security, and it undoubtedly remained far from the residualist position, where the benefits must be delivered only when traditional means are unable to fulfil minimal necessities of life (Huo 2009:215). Instead of limiting unemployment support and its duration, the flourishing oil economy allowed Norwegian Labor Party to uphold further and even upsurge the welfare assistances. Furthermore, the party has also reinforced the work orientation of agendas, emphasized the importance of ALMPs, as well as applied targeting to direct assistances to the ones in need (ibid). Such development indicates that not only the Norwegian welfare state has been preserved, but also that strong Social Democratic party and high union density do matter when shaping and the welfare structure.

5.2 Discussion

As seen from the data analysis, some significant systematic changes within social insurance provision have occurred, which has put into question the initial solidness of the welfare state egalitarian properties, specifically in the area of unemployment insurance and employment incentives expenditures (Iversen 1998:72). Consequently, the premises of labor market

policies being path dependent are not pertinent, and thus contribute to H1 not being supported by this study.

Furthermore, the study has found that countries of the social-democratic welfare cluster vary when it comes to labor market policies. As such, independently of parties in power, first Denmark, then the other Scandinavian states have executed a noticeable reduction in the average income replacement rates, duration, qualification, and coverage. Even though most of the reductions were introduced and enforced by Center-Right governments, not only have they been maintained by subsequent social democratic governments, but in some cases well promoted. Such results have therefore been counter-intuitive to the premises earlier expressed by power resource scholars, specifically that social democratic parties will pursue the fewest retrenchment policies they possibly can (Korpi 1985:39). Subsequently, H2 is not supported.

As seen from the analysis section, most of the unemployment provision cutbacks have occurred as a response to severe economic challenges, even though the transformation of labor market policy has not been principally about economic saving in times of alleged austerity. Notably, the cutbacks were applied mostly to the passive benefits provision sector, whereas greater amounts of finance were introduced to stimulate employment incentives and ALMPs. Policies have, therefore, started to reflect elements of workforce policies, directed towards the supply-side of economics, but alternate to the neoliberal suggestions (Andersen 2008:41).

In regards to how changes in entitlements provision might be affected by partisan politics in each state, the thesis suggests that policies pursued by social democratic governments in universal welfare states cannot be completely assumed from the 'new politics of the welfare state' approach, offered by Paul Pierson. The Nixon-goes-to-China argument has limited power when applied to Denmark or Norway since both of the countries experienced growth of entitlement provision under the Social Democrats. Therefore, H3 is not supported by the study.

Consequently, this study believes that when facing a number of economic constraints and related issues of unemployment growth, the parties in each state act in search for power. Therefore, both social democratic governments and their opponents pursue specific reform activity guided by vote-seeking perspective and use various strategies of either benefits retrenchment or expansion to appeal to the preferred electorate. The economic crises that hit Nordic countries in different decades were presumably instigated by macroeconomic

influences and the enduring financial shortages that unexpectedly occurred (Sigeman 1999:278). And while it is often difficult or even unmanageable to validate a causal relation between numerous phenomena and their impact on the labor market policies, some undeniable support can be found for the H4, signifying a linkage between the negotiating power of the insiders and their unions and the reform activity of the parties in power. The expansion of the welfare state and related entitlements in the 1980s across Sweden and Norway (earlier in Denmark and Finland) has led to the increase of nominal salaries and thus resulted in inflationary tendencies, followed by currency devaluations and subsequent decrease in economy. Such a course of development, supported by reasonably high minimum incomes, contributed to a drastic increase in the number of unemployed outsiders, which in turn called for relevant reactions from the parties aiming for power.

Thus, one can observe a decrease in unemployment insurance provision in Nordic states at times of preceding unemployment growth, also supported by the increase in spending on employment incentives. In Denmark and Finland, the introduced labor market policies were often supported by relatively important share of the population, specifically by the unemployed outsiders. Indeed, the generous unemployment insurance is believed to foster the unemployment growth either through the lack of job search motivation and the unwillingness to accept an offered employment or through the greater power of insiders. For Sweden not only the severe economic crisis became a point “of accepting the need of that overhaul of the unemployment insurance program into a drastically more activating direction”, but it has also opened a way for parties to attract new “affected by crisis” voters (Van den Berg 2008:12).

Contrary to conventional ideas, which support political gridlock, this study believes that there might be a vote-seeking motivation behind undertaken labor market policies and reforms. Despite the fact that partisan compositions across states differ, as well as the goals and electoral schemes of numerous social democratic parties, each strive for attracting greater electorate support to maximize power through appealing to voters’ preferences. When Social Democrats push for retrenchment of unemployment benefits or maximize expenditure on employment incentives, as part of ALMPs, it is not due to the lack of options, but because they strategically choose to do so.

5.3 Further remarks

Due to the different assumptions each theory of partisan politics has to offer, there is an excessive room to maneuver when interpreting to what extent the partisan shade of government affects the reform activity. Taking the various bits and pieces together, this study suggests following conclusions on the development of labor market policies in Nordic countries. Firstly, such policies are not path dependent. Secondly, politics matter. Nevertheless, to receive a clearer picture of the degree to which political parties influence the direction of welfare state development, their preferences and motivations behind pursuing a certain policy must be taken into account. Therefore, the study believes the scope should be extended, namely by including the latter aspects.

6 Conclusion

The present study aimed to assess how the labor market policies in the countries belonging to social-democratic welfare regime have been reformed throughout the last 35 years, and how the politics of partisanship can explain such reform activity. Previous literature offered some insights of whether there is a retrenchment of social insurance and the role of various interest groups behind it. Nevertheless, the relation between reform activity and partisan composition haven't been sufficiently analyzed in regards to cross-country temporal aspect, which lies in the heart of this thesis.

The study utilized path dependency concept to assess whether its premises reflected the realities of the development of labor market policies within the Nordic model. Furthermore, theoretical claims of power resource, Nixon-goes-to-China, and insider-outsider frameworks constituted grounds to explore how the partisan shade of government affected reformation of labor market policies.

To sum up, the results of the study show that labor market policies across Scandinavian states have undergone a number of changes, whereas the provision of unemployment insurance had decreased, the expenditure on employment incentives increased in various degrees, depending on what country was analyzed. The paper argues that the labor market reform activity that has taken place in countries belonging to social-democratic welfare regime is to be explained by vote-seeking strategy, rather than ideological preferences, pursued by parties. Furthermore, such reforms are uncovered by external factors, such as economic constraints and unemployment, which stimulate insider-outsider preferences dilemma, and thus push parties to undertake specific measures.

6.1 Suggestion for further research

Whereas the present paper primarily deals with labor market policies and the role of partisan composition behind their reformation, the study could be extended to the analysis of other

central facets, which lie in fundament of the Nordic model. The extension of the present research could shed light on how the delivery of welfare services as education, healthcare, and child-related services has changed since the Golden Age of the welfare state. Notably, that since all countries belonging to the social-democratic welfare state regime differ so much in their provision of entitlements and expenditures, one can put into question whether they can claim to form a distinct regime or whether the characteristics of the regime are outdated and need reconsideration. Thus, measuring how entitlement provisions affect decommodification and universalistic principles of Scandinavian states, as well as the role of the state, market and family behind welfare delivery represents a recommendation for further research.

7 References

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