

## Evolutions of the Social Sphere and of the Labour Market in Process of European Integration – is the Nordic Model Worth Following?

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**Abstract:** Economic integration in Europe knows different stages and degrees of integration, Economic and Monetary Union (EMU) being the penultimate stage which involves harmonizing fiscal and monetary policies. In this respect, in the desire to show the contribution to the increasing of economic integration in the European Union (EU), the article sets as the **objectives**, in tandem national-European, the identification of discrepancies of social indicators of EU countries in report to the targets of the Europe 2020 strategy. Thus, we used an **approach** based on a case study of EU countries, comparing the performance of social indicators in EU countries against European targets. The **results** showed that the Nordic countries are the closest to the social objectives of the Union, offering a good performance of these indicators. The **prior work** in the literature identifies many types of social models, from which the Nordic model is described as the one that provides the highest level of social welfare. Thus, the **value** of the study consists in clearly pointing out the qualities of the Nordic social model, arguing with figures and information why it may be more appropriate to its expanded implementation at the level of the European Union. As far as social policies of EU member states may be at least partially adapted to meet the performance of Nordic social model, the research can have several benefic **implications**, especially for policy makers.

**Keywords:** Europe 2020; social cohesion; social convergence;

**JEL Classification:** E24, I21, I25, I32

### 1 Introduction

Global financial and economic crisis has affected some aspects of the European economy and the euro area, so that a qualitative analysis of discrepancies between the social indicators of European Union countries in relation to the targets set by Europe 2020 strategy is extremely interesting in the current context. Moreover, following the evolution and other social and economic indicators than those mentioned by Europe 2020 strategy, we can argue that the Nordic countries register

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performances compared to other EU countries. Thus, the article proposes an identification of gaps of social indicators of EU countries in achieving the targets set by the Europe 2020 strategy, with emphasis on the realities of the Nordic countries, which are offering a good performance of these indicators, as well as other indicators from the economic and social sphere.

The context of the current global financial and economic crisis led to a deepening and an intensification of economic and social problems, highlighting structural weaknesses in Europe's economy. In order to solve the difficulties the EU has proposed a strategy to allow the exit from the crisis and the transform of the EU into a smart, sustainable and inclusive economy characterized by high levels of employment of labor productivity and social cohesion. Thus, the EU has defined its developing direction until the year 2020 through the Europe 2020 strategy, in which vision the Europe's social market economy is described by the fulfillment of three mutually reinforcing objectives. These priorities aim at: - a “smart” growth, namely an economy development based on knowledge and innovation; - a “sustainable” growth, for example promoting a greener economy, more competitive and more efficient in terms of resource utilization - an “inclusive” growth, namely promoting an economy with a high rate of employment, able to provide social and territorial cohesion.

## **2 Literature Review**

The literature abounds in the studies and information related to the European integration, economic integration, macroeconomic convergence, social convergence and there is a broad set of indicators used as proxy for human welfare. Numerous studies (Mankiw et al., 1992; Barro & Sala-i-Martin, 1997; Lopez-Bazo et al., 1999; Bivand & Brunstad, 2005) use GDP developments in order to assess the degree of human welfare and macroeconomic convergence at international, regional or local level. For the social convergence process are often used a wide range of social indicators such as life expectancy, infant mortality, environmental degradation, literacy, enrolment in various educational levels (Bourguignon and Morrisson, 2002; Becker et al., 2005; Dorius, 2008). The results concerning social convergence are often ambiguous or mixed, which is not surprising especially since studies are selecting either different geographical and temporal areas or different indicators.

Given the extensive “baggage” of studies on convergence and in particular social convergence at international, regional and local level, we have tried to detach ourselves and to realize just an analysis at the regional level, dealing with Europe and especially EU countries according to indicators of the Europe 2020 strategy. Moreover, noting that the best results have been obtained by the Nordic countries, we have argued on the basis of previous research (e.g. Ferrera, 1998, Bertola et al.,

2001) why the Nordic social model seems to have the best reaction to the requirements of the Europe 2020 strategy.

### **3. Methodology**

The methodology consists of a qualitative and comparative approach at the level of European Union countries, without trying the use several techniques as  $\beta$ -convergence,  $\sigma$ -convergence and kernel density estimates. The study is aiming to be more like a pleading, substantiated with figures and information, for the Nordic model as far as future research will prove that it is useful and adjustable to the realities of the euro area countries and the European Union as a whole.

### **4. Realities of the Social Field and Labour Market in the European Integration Process - Discrepancies in report with Europe 2020 targets**

In order to meet the objectives of the strategy, at least in terms of socio-economic aspects, the European Commission has selected several indicators (e.g. employment rate (%), research and development expenses as a percentage of GDP, the rate of early school leaving (%), tertiary education (%) and reducing the population at risk of poverty or social exclusion (% of total population)) through which it should be achieved a characterization of the structure, interdependencies and changes in time of different socio-economic phenomena in the European Union in relation to a number of EU objectives.

Objectives are interrelated and translated into national targets and trajectories, they aim at:

- 75% of the population with age between 20 and 64 years should have a job;
- 3% of EU's GDP should be invested in research and development (R & D);
- The rate of early school leavers should be under 10% and at least 40% of the young generation should have a tertiary degree;
- Number of persons at risk of poverty should be reduced by 20 million of people at the EU's level.

Indicators proposed by Europe 2020 strategy are only a part of statistical indicators that characterize the extent to which social area, including labour market and demographic aspects are in a process of convergence or divergence, describing the process of European integration.

We can notice that although we speak in Europe 2020 strategy of objectives having a social character, not all indicators proposed belong strictly to this sphere (e.g. early school leaving and tertiary education, spending on research and

development). However, at European level there is logic for choosing these indicators or these selection criteria for improving the Union's social performance. Labour force and implicitly a good rate of employment of the labour force provide the sustainability of Union's economies; expenses to support research and development ensures the creation of jobs and hence a good employment of the active population; early school leaving and tertiary education represents the maximum and respectively the minimum to which educational level should reach in order to maintain an adequate level of employment and hence economic and social security of the EU countries and the reduction of the population at risk of poverty or social exclusion expressed in number of individuals, is an "centralizer" indicator of the success or failure of reaching the others. However, there are many interdependencies between these factors, their performance being often mutual conditioned (e.g. an increased risk of poverty in the EU population could jeopardize further education and foster youth to drop out school).

Though Europe 2020 strategy is in the Commission's view, a credible exit strategy, to pursue the reform of the financial system, to ensure budgetary consolidation for long-term growth, and to strengthen coordination within the Economic and Monetary Union.", however, it is integrated into a series of projects, programs, strategies and pacts that are centered rather on achieving stability and financial sustainability (particularly of the public finances) than achieving social and human stability. Furthermore, through restrictive policies aimed at the reduction of sovereign debt and the mitigation of financial markets unrest - objectives placed in the center of policies ensuring stability and financial sustainability - achieving the objectives of the development of social market economy has become impossible or at least extremely difficult. Instead, reaching social and human stability and sustainability would make a solid and relevant base for economic and financial sustainability in the EU and worldwide.

For this reason, choosing of the Europe 2020 strategy as a benchmark for assessing the status and trends of social domain (implicitly of labour market) may constitute that starting point, concrete and objective, in order to see if and to what extent the social sustainability defines at least a part of economic and financial sustainability of European Union. The relevance of this approach starts with defining the scope of the analysis, more precisely an analysis of discrepancies between social indicators of European Union countries and Europe 2020 set targets, in order to monitor the effectiveness of social and labour market strategies and policies, highlighting the extent to which the social indicators are getting close or not of European targets, pointing out the realities of the countries that perform in this area.

The analysis of indicators in terms of measurement of the discrepancy between reality and the objectives set by the strategy could, at least partially, answer to a series of questions such as:

- Are the indicators and chosen targets the most relevant to characterize the state and the social developments in the European Union?
- Can make a real contribution to the improvement of the social performance of the Union?
- Can motivate also the choice of other indicators (implicitly targets) regarding social policy and labour market?
- Are the monitoring and social management tools used effectively in order to support the social policies in the field?
- Can contribute to more rigorous and targeted planning of the policies concerned?

To all these questions the answer may be yes, if we consider that the results of the measurement between the objectives of the strategy and the current situation should provide sufficient evidence on positive or negative measures already implemented by Member States and which have led to this situation, and what could be done in addition to remedy the shortcomings noticed in the social convergence.

Thus, given the Eurostat data and seeking the discrepancy between employment rate (%) and the proposed target of the Europe 2020 strategy (which is 75%), on average over four years (2008-2011), we see that in the top ranking on the convergence of the indicator are countries like Sweden (79.4%), Netherlands (77.9%), Denmark (77.2%), Cyprus (75.4%), Austria (75%), in ongoing convergence we can notice countries like: Germany (74.9%), Finland (74%), Czech Republic (71.2%), Estonia (71%), Portugal (71%), Slovenia (70.9%), Luxembourg (70%) and France (69.5%), while the remaining EU member countries are well below the target of the Europe 2020 strategy.

When referring to research and development expenses (as a percentage of GDP) compared with the Europe 2020 target (3%) we can notice (according to Eurostat data), as the average three-year trend (2008-2010), that in the top investors in this area are countries such as Finland (3.8%), Sweden (3.6%) and Denmark (3%) and in a convergence process towards this goal are countries such as Germany (2.8%), Austria (2.7%) and France (2.2%), the rest of Member States of the European Union can be considered as not making enough effort to comply with the target of the strategy concerning R&D.

When concerning the early school leaving rate (%), which according to the strategy should not exceed 10% of the young population, we can see from Eurostat data that in the period 2008-2011, on average, only certain countries have been preserved in this limit (Slovenia (4.9%), Czech Republic (5.2%), Slovakia (5.2%), Poland (5.3%), Lithuania (8%), Luxembourg (8.6%), Austria (8.9%), Sweden (9.8%), Finland (10%)), the rest of the European Union placing themselves over this limit.

The indicator targeting at least 40% of the younger generation having higher education, namely the indicator of tertiary education (%) according to Eurostat statistics reveals that only countries such as Ireland (48.6%), Finland (45.8 %), Cyprus (45.7%), Luxembourg (45.2%), Sweden (44.8%), Belgium (43%), France (42.8%), Lithuania (42.4%), Netherlands (40.8%), Denmark (40.6%), Spain (40.1%) seem concerned with this problem. However, the indicator of reducing the population at risk of poverty or social exclusion (% of total population) determines that in the certain trend of convergence towards the strategy goal are countries such as the Czech Republic (14.8%), Netherlands (15%), Sweden (15.5%), Luxembourg (16.8%), Finland (17.3%), Austria (17.3%), Denmark (17.4%), Slovenia (18.3%), France (18, 8%) and Germany (19.9%).

Thus, we see that on average, taking into account all the above indicators and assessing them for a period of 4 and 3 years, depending on Eurostat data availability, only Sweden, Finland and Denmark tops the rankings of social convergence, other countries trying shyly achieving the Europe 2020 goals.

Without taking into account the negative aspects, we shall only refer to these three countries with good performances in the social field and labour market.

## **5 Social Convergence a Reality or Utopia? Why Nordic Model May Be Worth Following?**

As it is known, there is not a general consensus regarding the most viable social model, but Western social models are often an example for all countries, demonstrating that not only economic development is not jeopardized by a conscious and rational development of a model social but also many times it have supported each other.

Literature broadly identifies four distinct types of social models, which group countries with similar social policies and practices: - Mediterranean countries (e.g. Spain, Greece, Italy, Portugal) which are using a model based on social insurance, where benefits are allocated based on insured status; - Anglo-Saxon countries (e.g. UK and Ireland), which assigns employees a great deal of social transfers and assumes a well-developed social network; - continental countries (e.g. France, Germany, Austria, Belgium and Luxembourg), where the employees contributions finance the social security schemes and - the Nordic countries (e.g. Sweden, Denmark, Finland, Netherlands, Norway), which carry out relatively high social spending and define eligibility depending on the nature of citizenship, using a wide range of active social policies and instruments, while imposing liberal expansionary fiscal policy in order to support these extensive social programs (Ferrera, 1998, Bertola et al., 2001). Therefore, it is no wonder why the social protection in the European Union, the Nordic countries (Sweden, Finland and

Denmark) offers a higher level of social protection, while Mediterranean countries (Greece, Italy, Portugal and Spain) gives the lowest level of social protection, often intervening in setting the pensions and wage regulations.

Thus, we can say that the Nordic model, which groups countries such as Denmark, Iceland, Sweden, Norway and Finland, is built on a system of mixed economy that has at its heart the welfare state - a universal health insurance system based on a high level public spending financed rather by high level of taxes (the progressive type), than by social security contributions. This model contributes to strengthening individual autonomy, ensuring the universal provision of basic human rights based on maximizing labour force participation on labour market, on promoting gender equality, on high levels of social benefits, as well as an extensive redistribution of wealth. Northern active labour market policy aims two main objectives: - providing access to the labour market of every citizen through incentive programs, education and labour market integration, and - providing the necessary labour force for companies through policies of reducing unemployment.

It should not surprise us the distinct vision on the economy and social realities of the Nordic countries since they have always had, even before the year 2000, a GDP per capita in purchasing power parity well above the EU average and the average euro area. These countries reflects an economy structured, modern, liberalized and prosperous based mainly on strong industrialization, which may explain the rapid recovery of GDP growth after 2009 when indeed in this year along with the rest of Europe, according to Eurostat data, the rate GDP growth suffered a sharp contraction also in these countries. The increased competitiveness of these countries is also reflected in the model of “flexicurity” (successfully implemented especially in Denmark), which marks a high freedom of the labour market that allows rapid hiring and firing of employees (extremely high freedom of employers - flexibility) while offering, between jobs, a high unemployment allowance for those who have lost their jobs (which mean safety, security). Sustained by a high level of taxation, according to Eurostat data for recent years, the workforce is well educated in these countries, the percentage of people with a poor education is well below the European average, the rate of persons in a process of lifelong learning is at least twice the European average (e.g. in 2011, the indicator Life-long learning (%) was 8.9% for the EU27, while in Denmark it was 32.3%, in Sweden it was 25% and in Finland it was 23.8%), the active life in employment is much higher than the European average (e.g. in 2010, the average for the three countries was 38.8 years, above the EU27 average of 34.5 years), the gender inequality in terms of income is below the European average (at least for Denmark and Sweden), the rate of persons employed at the risk of poverty is well below the European average and the long-term unemployment rate stands at less than half the European average. All these indicators show that the Nordic economic and social model is successful and where a large part of society is working for the society (about 40%

of employees work in the public sector). Also the education, from primary, secondary and higher education, is free of charge and the graduates of secondary and upper school aged over 18 can apply for student social aid, receiving internationally recognized qualifications, including in English.

In the Nordic countries, the family plays an important role in social construction, for which the state supports families through income transfers and income complex networks (Leira, 2002). Nordic countries, despite differences of the ideological, political and social systems from each others, have been grouped together to emphasize that family policies in these countries are designed to support dual social responsibility: family and work. Led by a rather social-democratic rationale, the Nordic model imposed the state as an important factor in the development of family policies, providing adequate social services and support, a model based on universalism, being different from countries' state with liberal politics (e.g. UK, Canada and the United States) which intervenes selectively only when the family can not provide an adequate income for a decent everyday living. According to Gauthier (1996) and Ferrarini (2003), this situation is reflected by the social spending allocated to sustain the family, being much higher in the Nordic countries compared to countries with a rather liberal policy. Nordic model also tries to equalize the role of women and men in the family and in society in general, considering that this creates a more harmonious social development.

Expanded social role of family policies is highlighted also by Esping-Andersen (1999), social actions concerning the family are not only on behalf of supporting the children but also of sustaining the population structure, in general, and in particular of the birth rate. Therefore, Esping-Andersen (1999) points out that a low birth rate and an inadequate population structure is a direct consequence of family policies insufficiently developed, which do not allow earlier return to work of the mothers, because of lacking social infrastructure (e.g. nurseries, kindergartens and schools subsidized by public funds) in order to allow this. Poverty seems also a consequence of precarious family policies, the part-time work and the poorly paid work favouring also the limited capacity of families of getting out of poverty (Forssén, 2003). However, the Nordic model seems to elude the poorly designed pattern of the family policy. The Nordic countries differ from others not only by a high share of social spending, but also by high rates of female employment, the social benefits increasing at the same time with the rising of the participation rates of women in the labour market. Increased participation of women in the labour market in the Nordic countries was due to the public sector expanding, which helped women to get rid of a number of tasks they have been taking in the family (Montanari, 2000). Thus, we can say that the benefits were mutual, on the one hand, the increase of the public sector has facilitated the return of women to the labour market, on the other hand, the women returning to the labour market has led



to a gradual growth in employment in the public, both in the medical and social services (starting with the 70s and 80s).

## 6 Conclusions

The analysis undertaken towards the identification of discrepancies in achieving social indicators of the European Union countries in report to the targets set by Europe 2020 strategy showed that the Nordic countries are the closest of the social objectives of the Union, providing a good compliance with these indicators, but also of the others from the social and economic sphere. Thus, if we refer to the employment rate, to the spending with research and development as a percentage of GDP, to the rate of early school leaving, to the proportion of young people with higher education and to reducing the population at risk of poverty or social exclusion we can notice that on average, taking into account all the above indicators and assessing them for a period of 4 and 3 years, depending on Eurostat data availability, only Sweden, Finland and Denmark are in the leading position on social convergence, other countries trying shyly to reach the Europe 2020 objectives. Referring only to these three countries which are performing in social field and labour market and fits them as belonging to the Nordic social model, we notice that they can be described as well-structured economies and industrialized, modern and prosperous, with a GDP per capita expressed in purchasing power parity superior to the European Union and to the euro area average, with a social model that offers both enhanced freedom of the labour market and adequate protection of employees (a high unemployment aid). In these countries the education, employment and gender equality in labour income plays a fundamental role, which is why women are part of active labour market unlike other countries, which are often being the source and the destination of important social benefits. For this reason, the European Union should focus attention on the Nordic model in the sense of developing a social policy more closely in supporting families and especially women. Facilitating an easier integration of women into the labour market and providing an income equivalent to the men can help reduce poverty, increase education among young people, rise of birth rates and generally a more appropriate demographic structure to the present and future budgetary constraints of EU countries.

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