

## Commentary II

# The American Model & The Nordic Labour Market

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I appreciate the opportunity to participate in this seminar and to discuss the very important questions it raises. It seems to me that we lack this kind of broader perspective in Norway. Public debate tends to be more concerned with day-to-day issues, so that we often fail to see the inter-relationships between various policies, institutions and mechanisms.

It is my impression that Sweden, in general, has been conducting a more advanced debate than the other Nordic countries in this regard. It may have something to do with the fact that the political right in Sweden is stronger, or at least more antagonistic to the Nordic model of society. In Norway, we have never had anything like the Swedish Employers' Confederation, for example-- and we have never regretted the lack of it, either.

I was very impressed by Gösta Esping-Andersen's presentation. His observations sound quite convincing and well-balanced. He notes the advantages of the Nordic model, but at the same time points to some of the challenges it must deal with in order to be sustainable in the long run.

In my work with the Norwegian Trade Union Association ("LO"), I have tried to explain the Nordic model's advantages in a way that can be understood by two key groups, economists and politicians. In order to get through to economists, who are probably slower to learn, everything has to be expressed in figures. For the politicians, it has to be very brief.

### *Model comparison*

My simple explanation attempts to meet both of those requirements. It is based on figures which compare the two extremes in the developed world, in terms of economic and social policy-- the American (i.e. the United States) and the Nordic models. But I should point out that the following summary is a simplification of rather complex data and analysis. Also, it is based primarily on Norwegian data. But I am confident that the comparison is fundamentally correct, and that the Norwegian experience is fairly representative of the Nordic countries, in general.

I begin with productivity, which is the most important factor. As you know, what makes a country rich is not whether it has oil or something like that. It

is productivity-- how much it produces per hour. The latest OECD figures, from 1998, indicate that the level of productivity is roughly the same in both the U.S. and Norway.

As a result, the level of hourly wages is also more or less the same, given that real wages are closely tied to productivity. In Norway, the real wage in 1998 was about 130 crowns (NOK) per hour, after adjustment for differences in purchasing power.

<b>Comparison:</b>	<b>American Model</b>	<b>Nordic Model</b>
Productivity	100	100
Average hourly wage	100	100
Minimum wage	30	60
Top hourly wage	20,000	1,000
Working hours	125	100
Per capita income	125	100
Poverty	20%	5%
Prison population	1.5%	0.1%

Note: The figures for productivity, wages and income are indexed for purposes of comparison, and do not correspond to real wages, etc.

The big difference between the Nordic countries and the U.S. is the wage spread. The main reason is that the lowest-paid workers in the U.S. have very low incomes, indeed. The minimum wage there is equivalent to NOK 45 per hour, and that is the actual wage for many millions of workers. The minimum wage in Norway is twice as much, NOK 90 per hour, and even that level is regarded by LO as too low.

But there is quite a difference between earning less than NOK 100,000 per year and almost NOK 200,000 per year. It means that, in the Nordic countries, workers earning the minimum wage can have a decent standard of living. But their counterparts in the U.S. normally can not; they need to have two or three jobs, social assistance, or some other kind of support.

### *Dramatic difference*

The most dramatic difference between the two models has to do with the highest income levels. These figures refer to the average incomes of corporate management, in comparison with the average income of workers. In Norway, the incomes of corporate leaders are, on average, about ten times those of workers, i.e. 1000 vs. 100 per hour. The corresponding level in the U.S. is 200 times the average wage. (These figures are from 1997; the differential may be even greater now.)

Of course, these are the extremes of the income scale, but they say a lot about wage structure in general. This is very important for the distribution of

wealth in society, since wages account for nearly eighty percent of all income. For the individual, wages provide the basis of pensions, insurance coverage, credit rating and other components of the living standard.

The amount of time spent at work is also an important factor in determining income. It is correct to say that the U.S. is the richest country in the world, but that is very much due to the long working hours-- on average, about 25 percent longer than in Norway. It is this factor which explains the difference in *per capita* income.

Note that this does not have anything to do with productivity levels which, as noted previously, are roughly the same in the U.S. and the Nordic countries. Nor does it affect the poverty rate, which is about four times higher in the U.S. In the case of children, the difference is even greater.

The final figure in this brief summary of socio-economic conditions refers to the proportion of the population in prison, which is about fifteen times greater in the U.S. This has an obvious effect on unemployment rates: While 1.5 per cent of the U.S. population has been statistically removed from the labour force and placed in prison, the same proportion of the Norwegian population is involved in retraining programmes and other measures connected with the labour market.

This, in brief, is how I would characterize some of the more important differences between the American and Nordic models.

### *Labour-market issues*

Regarding the future of the Nordic model, Gösta Esping-Andersen has today presented a fairly optimistic view of its potential for adapting to current challenges. I am basically in agreement with that analysis. But a positive development in the future depends very much on what happens in the labour market, and there are a couple of issues which, in my view, require close attention.

It was not so long ago that we experienced exceptionally high unemployment rates, but the recent trend has been quite positive. For some years now, the Nordic labour market has been fairly successful at combining low inflation of 2-3 percent (which has become something of an international standard) with unemployment rates of about 4-5 percent. But continental Europe, especially in the larger countries, has experienced unemployment rates of around 10 percent at the same level of inflation.

There are several explanations for this. But in my view, a very important factor is the relative strength of labour organizations. An important aspect of the Nordic model is a high level of organization among the work force, which makes it possible to have a more or less co-ordinated wage policy. This, in turn, makes it easier to control inflation. So it is important to maintain a high level of organization, or "union density". This is a very

critical issue: Everywhere except in the Nordic countries, the union density has been declining; in the U.S., it is down to 15 percent of the labour force.

### *"Welfare paradox"*

Another important factor is the employment rate of older workers, who are finding it increasingly difficult to remain employed. The rates for males aged 55-64 show that Iceland is the current world champion, with over 90 percent in that age-group still working. The rates for the other Nordic countries are also comparatively high-- around 70 percent in Norway and Sweden, for example. At the other end of the scale, in France and Belgium, only about one-third of older males are still employed.

Although there are wide variations in this regard, they are not ordained by fate. These variations in employment rates are the result of policies and mechanisms that can be influenced by political decisions.

Yet another important factor is the male employment rate at 65. The data reveal a long-term downward trend in the proportion still employed at that age. To take Norway as an example, that figure was nearly 70 percent in 1980, now it is down around 30 percent.

All of this reflects a situation that has been called the "welfare paradox". We have better health and are living longer. But we also have shorter working hours, and are spending more time on leaves of absence, absenteeism and non-participation in the labour market. This is clearly reflected in the total working hours in Norway during a typical lifetime, for the years 1950 and 2000. Fifty years ago, the average number of hours worked during a lifetime was around 125,000. Now that figure has dropped to 75,000, nearly half. This is due to a later start in working life, earlier retirement, shorter work week and longer holidays. Even so, sick leave and early retirement due to disability are both on the rise.

In short, there has been a long-term trend of declining participation in the labour market. At the same time, the market demand for labour remains high. This suggests that it may not be possible to increase employment rates, especially among older workers, by simply adjusting the pension system.

### *Unresolved problems*

So, there are unresolved problems related to the growing imbalance between the working and non-working segments of the population. Consequently, there are questions about our capacity to finance the pension system of the future. It may be that we will be forced to abandon the current general-welfare principle, by which pension benefits are not entirely dependent on income level. It may be necessary, instead, to adopt a more actuarial principle by which benefits are directly linked to how much one has earned and how long one is likely to live after retirement.

There is already a trend in that direction. But if it goes too far, it may have negative consequences, not only for individual pensions, but also for the employment of women and older men. A more actuarial system would make both groups more expensive to employ due to the increased costs of pension coverage.

I am also somewhat sceptical about Gösta's idea that it will be easier to "recycle" older workers in the future, as he put it. While it is true that the general level of education is increasing, so are the educational demands of the labour market. There are also some remaining obstacles to gender equality, despite the advances made in recent years.

Thus, while Gösta's vision of the emerging post-industrial society is appealing, there are some difficult challenges in the labour market that we will have to deal with in order to make that vision a reality.

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