

## **The Nordic welfare model in the 21st century: the bumble-bee still flies!**

Rune Halvorsen<sup>a, b</sup>, Bjørn Hvinden<sup>b</sup> and Mi Ah Schøyen<sup>b</sup>

<sup>a</sup>Department of Social Work and Social Policy and <sup>b</sup>NOVA Norwegian Social Research, Oslo and Akershus University College.  
E-mail: rune.halvorsen@hioa.no

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## **The Nordic welfare model in the 21st century: The bumblebee still flies!**

*The Nordic countries are admired for high employment, low levels of poverty and inequality, encompassing welfare states, and peaceful industrial relations. Yet, the model is criticised for hampering the employment opportunities of vulnerable groups. The literature identifies several potential mechanisms of exclusion. Compressed wage structures may make employers reluctant to hire certain workers for fear that their productivity is too low to justify the cost. Second, generous benefits lower individuals' incentive to work. Third, businesses increasingly specialise in high-skill activities. We explore these arguments comparatively by considering the employment chances of two vulnerable groups – disabled persons and migrants. Nordic countries are compared with other rich democracies that take different approaches to social protection and wage dispersion. The Nordic countries do not perform systematically worse than other 'varieties of capitalism.' In line with recent research we also find that there is considerable intra-Nordic variation which calls for further study.*

**Keywords:** employment, globalisation, Nordic model, vulnerable groups, wage distribution

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## Introduction

From a comparative perspective there is much to admire about the Nordic economies and their societies more broadly. Even the weekly newspaper the Economist – not known for its support of large social spending programmes and an active state – recently referred to the Nordic ‘super model’ (Economist, 2013). The Nordic countries are associated with a range of desirable<sup>i</sup> outcomes like high employment rates, equality, low poverty rates, peaceful industrial relations and generous and comprehensive welfare states. Thus, internationally they are often hailed as examples from which to learn. Yet, to argue that the Nordic countries have been successful on many accounts does not imply the absence of weak spots. Rather, continued success will also depend on the capacity for critical self-assessment and innovation in order to adapt economic and social policies to changing demographic and economic circumstances. This article offers a contribution in this regard as it scrutinises one criticism that is frequently launched against Nordic welfare states.

It is often assumed that the Nordic economic and social model creates exclusionary mechanisms with respect to vulnerable groups, such as the low-skilled, persons with disabilities and other groups whose work-capacity or productivity potential employers perceive as uncertain. The reason for this, the argument goes, is that high wages, especially at the bottom end of the earnings distribution, contributes to squeezing out less attractive workers, while generous social transfers may create negative incentive effects on the supply side. In the comparative political economy literature such views are associated with pleas for fiscal austerity through cuts in social spending and monetarist economic ideas (for overviews, see Hall, 1993 and Pierson, 2001). Jessop (2002), in fact, argues that we are seeing a turn to a new kind of state, the ‘Schumpeterian competition state’. Right-wing economists have played a particularly important role pushing this approach within international

organisations like the IMF and the OECD as well as at the national level. Vito Tanzi (2002), former Fiscal Affairs Director at the IMF, and professor Hans-Werner Sinn (1999), one of Germany's most influential and most cited economists, are only two examples in this regard.

In the Nordic context such views are exemplified by the Norwegian economics professor and former Minister of Labour for the Conservative party (Høyre) Viktor Norman. Some years ago he asserted that the Norwegian model produces a 'harsh separation into winners and losers' (Norman, 2011).

The aim of this article is to explore to what extent these assumptions and arguments hold empirically by examining how the Nordic countries compare to the rest of Europe with regard to labour market integration of some selected vulnerable groups. Relying mainly on international data sources (above all Eurostat and the OECD) we investigate how the Nordic welfare states do in this area compared to other rich democracies that take different approaches to social protection and have more unequal earnings distributions. We look in particular at persons with disabilities and migrants, two groups that generally face a higher-than-average risk of labour market exclusion. When hiring, employers face imperfect information. In the case of migrants there may be concerns that cultural and linguistic differences would lead to a 'lack-of-fit' at the workplace or organisation (Halvorsen and Hvinden, 2015). As regards disabled persons, there may be considerable uncertainty on the part of employers about whether impairments represent an obstacle to work capacity and productivity (Vedeler, 2014). There are, thus, good reasons to examine the situation of these two groups in particular.

To anticipate our findings, we show that the picture is much more mixed than the conventional arguments suggest. The Nordic countries do not perform systematically worse

than other models of capitalism. . Despite the theoretical claims to the contrary – a little like a bumblebee – the Nordic model still performs quite well overall. However, we find considerable internal variation that calls for an explanation. This is in line with much of the recent research on the Nordic welfare regime (see various chapters in Kvist et al., 2012).

The article is organised in three further sections. Next we offer a brief discussion of the scholarly debate concerning the relationship between minimum wages, the wage distribution in an economy and employment levels. Then we turn to the available data. We analyse how the Nordic countries compare to the rest of Europe while also paying attention to intra-Nordic variation. Finally, we discuss the empirical findings in light of the theoretical expectations. We end by highlighting some important tasks for future research.

### **Obstacles to employment of vulnerable groups**

The Nordic countries are not classified as a category of its own within the ‘varieties of capitalism’ approach (most notably Hall and Soskice, 2001) like they are in the welfare state research tradition (for a useful overview, see Arts and Gelissen, 2002). Yet, also from a comparative political economy perspective, the Nordic countries enjoy certain characteristics which make them in some ways distinct from other clusters. A key trait of the Nordic model is the combination of active social and economic policies. It supports the equalisation of life chances by ensuring free access to education, promoting participation in paid work for the whole adult population (including women) and, finally, by offering a comprehensive system of social protection. The Nordic social or welfare model is combined with economic and industrial policies oriented towards competitiveness and efficiency (Pontusson, 2005; Johansson and Hvinden, 2007). To this end, economy-wide coordinated wage setting through collective agreements has long been a key feature of Nordic industrial relations.

As a result, one has come to associate the Nordic political economies with relatively small income differentials and good employment standards. Thus, it probably comes as no surprise that the Nordic countries experience lower poverty rates among the employed population than most other European countries (Eldring and Alsos, 2012; Hussain et al., 2012; Spannagel, 2013). Most observers consider these outcomes as positive traits of the Nordic political economies. However, as noted above, there are concerns that the success of the ‘Nordic model’ comes at a price. More specifically, the worry is that the way Nordic political economies function is not equally advantageous for all social groups. Especially with regard to the creation of employment opportunities for less profitable or less attractive workers, there are reasons to fear that the Nordic political economies are less successful.

A number of theoretically distinct but in practice largely inter-connected pressures make us expect that certain social groups are particularly disadvantaged in Nordic labour markets. These problems should be particularly apparent when comparing the Nordic countries with political economies that are associated with leaner welfare states and more wage inequality. Liberal market economies such as Ireland and the United Kingdom represent examples of the latter. We shall highlight in brief four of these arguments. First, a compressed wage structure implies that at the bottom end of the earnings distribution, wages are high and there are relatively few working poor. The flipside is that it might make potential employers more reluctant to hire certain types of workers. The concern is that their productivity will be too low to make up for the relatively high labour costs. The associated logic is similar to that of introducing a statutory wage floor in a market economy. When the lowest wages go up, conventional economic theory predicts that the number of low-skill and low-productivity jobs in the economy will be reduced (e.g. Card and Krueger, 1994; Barth and Moene, 2012).



Second, it is commonly assumed that the generosity of social transfers affects labour supply. Generous benefits may reduce individual incentives to work leading, in turn, to economic inefficiencies (see e.g. Lindbeck et al., 1999; Lusynian and Bonato, 2007). Since the Nordic welfare states offer comprehensive and relatively generous social benefits, one would expect the supply side to be more vulnerable to moral hazard problems than in countries offering a more limited degree of social protection (Markussen, 2007). Some individuals may prefer to live on unemployment, sickness or disability benefits if the choice is between benefits or taking up (or continuing in) a low-paid job. The opportunity cost of not working is lower with a generous and accessible social protection system. Note, however, that if the lowest wages are lifted – through either wage compression or a minimum statutory wage floor – we should, *ceteris paribus*, also expect that more people would seek paid work.

Third, for the high wage levels in the Nordic countries to be sustainable in the face of international competition, many businesses choose to specialise in more advanced technologies and products that demand highly qualified workers. Activities, which can be performed more cheaply elsewhere, are either transferred abroad or dropped completely (Andersen et al., 2007; Hvinden, 2010). In addition, the spread of multinational firms and the increased movement of workers have to some extent made it more difficult to go down the traditional corporatist route characterised by peaceful and constructive relations between business and labour and founded on highly centralised collective bargaining (Einhorn and Logue, 2004). Again, these aspects speak against high employment rates of groups whose productive potential is (perceived as) uncertain.

Forth, and linked to the other sources of pressure, Iversen and Wren (1998) have forcefully argued that post-industrial service economies face a trilemma or three-way choice between employment, wage equality and budgetary control. In the Nordic countries, highly centralised and solidaristic bargaining may in the past have contributed to economy-wide wage restraint that stimulated investments in high-productivity activities, an argument advanced by Moene and Wallerstein (1997; 2005). However, according to Iversen and Wren, this is no longer possible (for a similar argument, see Lindquist, 2005). The shift from economies driven by the production of manufactured goods to economies dominated by the service sector has produced a trade-off for governments. They can achieve two but not three of the goals simultaneously.<sup>ii</sup> Extending this line of reasoning, one may argue that tight budgetary control and spending review are the order of the day. In the current era of globalisation and a protracted world economic crisis, governments effectively have only a two-way choice between employment and wage equality (for hardline views on public spending and the role of government, see Tanzi and Schuknecht, 1997; Tanzi, 2002).

All of the above claims make sense theoretically and deserve serious consideration. Even if an assessment of the empirical validity and relative weight of each of them is beyond the reach of a single article, as a whole, they provide a powerful case. They all point at potentially exclusionary mechanisms that may be inherent in the Nordic model. In short, we should expect the Nordic countries to struggle in the case of labour market integration of the low-skilled and other vulnerable groups. However, the extent to which this is true is ultimately an empirical question. In fact, for policymaking purposes, the relevant question is whether these fears fit with observable, real-world outcomes. Such insights should be used to advance our knowledge about what kind of policies might facilitate inclusion of persons at the margins of modern labour markets.

The present article offers a contribution in this regard by examining the labour market performance of two specific vulnerable groups – persons with disabilities and immigrants – relative to the majority population. Barth and Moene (2012) have carried out a similar exercise, but empirically they focused on labour market integration of individuals with low levels of education and on vulnerable age groups. Therefore, by exploring similar relationships but for a different set of vulnerable groups, this article complements previous comparative research on income differentials and employment.

Among scholars who have assessed the expected trade-off between employment and income inequalities, the jury is still out. Opinions differ as to whether a statutory minimum wage reduces the demand for labour (Dickens et al., 1999; Bauer et al., 2008; Schmitt and Rosnick, 2011; Low Pay Commission, 2013; Neumark et al., 2013) as well as in relation to the effects of compressed earnings structures for employment (for contrasting views, see Howell and Hubler, 2005; Lindquist, 2005). To further complicate the picture, some economists suggest that there is a hump-shaped relationship between centralisation of wage-setting and employment performance. This implies that it is generally better to have a highly centralised or alternatively a highly decentralised wage bargaining system rather than taking a middle position (Calmfors et al., 1988; Freeman and Nickell, 1988). While the former is associated with a compressed earnings structure, a decentralised wage bargaining system typically corresponds to more substantial differences between the highest and lowest wages

## **Wage structure and employment of vulnerable groups: An empirical overview**

In this section we examine the extent to which the Nordic countries struggle to integrate vulnerable groups into the labour market like theory suggests. Based on OECD and Eurostat data, we compare the Nordic countries with other advanced democracies that take different approaches to social protection and have more unequal earnings distributions. The advantage of these cross-sectional data is that they are harmonised and available for a large number of rich countries. Many of the indicators are updated yearly making it possible to follow developments over time. However, missing observations are more frequent as we go back in time. Moreover, labour market data shedding light on outcomes for the two selected vulnerable groups – migrants and persons with disabilities – are not always readily available and are sometimes of uncertain quality. Especially in the case of disability, the comparability of data is made difficult by the fact that no standard definition of disability exists. Consequently, data are not gathered in a consistent way from one survey to the other.<sup>iii</sup>

Below we combine several measures of wage dispersion with information about employment outcomes of the two vulnerable groups, individuals with migrant backgrounds and with disabilities. The purpose here is to provide a descriptive picture, which can give a further indication of whether vulnerable groups are the ‘losers of equality.’

[FIGURE 1 ABOUT HERE]

Figure 1 simply ranks most of the OECD countries according to the dispersion of gross earnings in 2012. As a measure of wage dispersion, we use the ratio of the 9<sup>th</sup> to 1<sup>st</sup> deciles based on gross earnings. Subject to data availability, the figure also shows the values recorded

in 2002. As expected, the Nordic countries appear among the most compressed earnings distributions – all situated in the bottom quarter of the ranking.<sup>iv</sup> Especially in Denmark and Norway there has been a pronounced increase in the earnings gap between the top and bottom deciles. Nevertheless, since earnings inequalities have increased in many countries, the relative position of the Nordic countries compared to the rest of the OECD has not changed much. Not surprisingly, the United States represents the other extreme. Experiencing a noticeable increase in wage inequality over the previous decade, the Americans look set to keep this position.

[FIGURE 2 ABOUT HERE]

Figure 2 plots the earnings decile ratio for 2010 (as in figure 1) against the employment rate of foreign-born individuals. What stands out is the absence of a significant relationship between the two indicators. In line with the theoretical expectations, some of the liberal market economies like Canada and the United States are among the better performers when it comes to employment of foreign-born. However, some countries with a compressed earnings distribution, Norway being the clearest example, do just as well or better than most of the more liberal market countries. A liberal economy like Ireland performs rather poorly, and the same does Belgium that has among the most compressed wage structures.

[FIGURE 3 ABOUT HERE]

There are several ways to explore these relationships. A different picture emerges if we look at the employment gap – measured as the percentage point difference in the employment rate of native- and foreign-born individuals respectively. This is arguably a more useful indicator

for our purposes since it captures whether foreign-born individuals are actually more vulnerable than native-born. The results are displayed in figure 3. The data demonstrate that migrants do tend to have poorer employment outcomes than the native population in countries with compressed earnings. While having relatively low levels of wage dispersion, the Nordic countries have among the largest employment gaps if we compare the native-born with the migrant population. Norway, which had among the highest employment rates of foreign-born persons, emerge as an average performer when we look at the gap in employment between the two groups. Along with the Nordic countries, we note that Belgium and the Netherlands, which are often found to be similar to the Nordic countries for instance with regard to income inequality and comprehensive welfare states, display employment gaps similar to the levels found in Northern Europe. With a correlation coefficient of  $-.48$  the negative relationship between the size of the employment gap and the degree of earnings dispersion is quite strong and statistically significant.<sup>v</sup>

Although the noted relationship is striking, we caution against drawing making inferences about causality. Instead, we refer to a tendency that should be explored further to uncover potential underlying mechanisms. Our simple bivariate analysis says nothing about potential intervening variables. For instance, it would be interesting to investigate whether the relationship may – at least in part – be driven by systematic differences in anti-discrimination legislation and affirmative action policies related to hiring processes (for an overview of policy instruments, see OECD, 2013). In addition, supply side factors such as cross-country differences in the qualifications and skills of the migrant population are likely to influence aggregate employment levels.

[FIGURE 4 ABOUT HERE]

When we instead look at persons with disabilities (see e.g. Hvinden, 2013), a different picture emerges compared to the one we reported for foreign-born individuals. We use data compiled by the OECD in the 2000s (OECD, 2010). One observation that stands out is that employment rates generally appear lower for this group compared with migrants. However, it should be noted that the employment data are not directly comparable since the year of reference is not the same for both groups. We return below to a comparison of employment outcomes of the two groups across Europe. Furthermore, contrary to the theoretical expectations, there is a modest, statistically significant,<sup>vi</sup> negative relationship between earnings dispersion and the employment level of persons with disabilities. That is, countries with more compressed earnings tend to have a higher share of persons with disabilities in employment than countries with a high degree of wage dispersion.

As far as individual country results are concerned, Sweden and Iceland emerge as the two countries most successful at integrating persons with disabilities into the labour market. By contrast, we recall that the Sweden was found to perform somewhat below average with regard to foreign-born (figure 2). Also Denmark performs quite well when it comes to employment of persons with disability. Then there is a notable gap down to Norway and Finland, the two remaining members of the Nordic group. Belgium that has a degree of earnings compression on par with Norway and Sweden, does rather poorly for both groups under consideration, again suggesting that there are other intervening or more important factors, which this simple bivariate analysis is not able to pick up.

[FIGURE 5 ABOUT HERE]

We repeat for persons with disabilities the same exercise as we carried out with regard to the employment of migrants. That is, we consider earnings dispersion in relation to the employment gap (measured in percentage points) between the healthy and the disabled population. The results presented in figure 5 suggest that earnings dispersion is associated with a higher risk of labour market marginalisation of persons with disability compared than for the majority population. United States is the most extreme case in this regard. In fact, the difference in employment between the majority and the disabled population is a staggering 45 percentage points, which is the largest gap recorded in our country sample. This contrasts with the finding that foreign-born individuals in the United States do not face a higher risk than native persons of not being in employment. Sweden and Italy position themselves right at the other end – in terms of wage compression and with regard to the employment differential between persons with and without disability. Norway stands as a notable contrast to its Nordic neighbour since, despite highly compressed wages, employment of disabled persons lags much behind the healthy population.

We recall that in the case of migrants, we found a slightly different ranking of countries and the emergence of a statistically significant relationship when moving from employment rates to a comparison of the *gap* in employment between the majority population and migrants. With regard to persons with disabilities, the change of measurement does not alter the picture in the same way. Rather, since the slope is now positive and still statistically significant,<sup>vii</sup> we are given further support – whatever the underlying reason(s) may be – for the existence of an empirical tendency that countries with more compressed wages are better at integrating disabled individuals. That is, with a correlation coefficient of .47, the relationship is far from perfect but it is large enough to call for further explanatory efforts. Even if these data are not



able to uncover the mechanisms underlying the observed relationship, the findings weaken the theoretical propositions about the exclusionary nature of Nordic political economies.

In terms of potential explanatory factors one may ask whether aspects of employment protection legislation such as dismissal rules play a role, and if so in which way. There is some literature suggesting that dismissal rules may be important, but it is not evident whether, overall, a higher degree of strictness promote or hinder persons with reduced work capacity. For employed persons experiencing long-term illness and/or having their work-capacity reduced, strict dismissal rules may help them maintain their attachment to the labour market (ISSA, 2002). However, the logic of flexicurity suggests that such institutional arrangements make employers more cautious or risk-averse when hiring, making it more difficult for disabled persons to find employment in the first place (Greve, 2009).

More generally, comparing the results in figure 2 and 3 with those in 4 and 5 we observe that the United Kingdom and Canada, which are liberal market economies with a more moderate degree of wage inequality than the United States, achieve a higher share of employment of persons with disabilities than do the Americans. Conversely, Australia stands as the liberal market economy with the smallest degree of earnings dispersion. Yet, the achievement in terms of employment of disabled people is not particularly impressive (albeit not as poor as for the United States). Our data also suggest that the Nordic countries differ a great deal in their outcomes. Iceland boasts high employment rates for both migrants and disabled. This is perhaps not surprising given that Iceland typically features on top when countries are ranked according to the employment rate of the total population. Denmark achieves average results with regard to both population groups and with regard to the different indicators examined. In

Finland, persons born abroad face a rather high risk of exclusion, and the same can be said about disabled individuals.

Among the ‘Nordic five’, arguably the most interesting comparison is that between Norway and Sweden. While Norway does clearly better with regard to the employment opportunities of migrants, the relationship is reversed when we look at persons with disabilities. Both countries have highly compressed wage structures. Thus, there are reasons to question whether a compressed earnings structure *per se* actually generates ‘squeezing-out’ pressures on less productive workers as argued by theory. A final observation in light of the discussion in section 2 is that our data do not strengthen the hypothesis that there is a hump-shaped relationship between earnings structure and employment. Countries that display a moderate degree of wage compression do not perform systematically worse than countries located towards the extremes of the earnings distribution continuum.

[FIGURE 6 ABOUT HERE]

Unfortunately, comparative data tracking the labour market situation of persons with disabilities are not readily available. Thus, the reported employment rates for foreign-born and disabled persons could not be compared directly. In an effort to obtain a more reliable cross-national comparison of the labour market situation of the two groups, we combine data from the European Union labour force survey (LFS) ad hoc module 2011 on employment of disabled persons<sup>viii</sup> with regular LFS data on employment of foreign workers, also from 2011. Since immigrants from Africa and Asia are likely to be more vulnerable to labour market exclusion than migrants from EU countries, we use the employment rate for persons born

outside not only the reporting country but also outside Europe (following the example of Causa and Jean, 2007).

Although figure 6 shows a static picture, we can make several observations. In particular, countries that – comparatively speaking – are among the best performers when it comes to labour market integration of persons with disabilities, do not necessarily rank equally at the top when we turn to the employment of non-native workers. Even though the OECD and Eurostat data are not directly comparable due to different methodologies and reference years, data from both sources support the latter conclusion. Particularly some of the Mediterranean countries – most notably Portugal, Cyprus, Greece and Spain – do clearly better than the Nordic countries. It is not within the scope of the present article to explain these differences, but the data nonetheless remind us that we should not take for granted that the Nordic countries are always forerunners. Moreover, the Nordic countries vary considerably with regard to the employment prospects of disabled persons. On the one hand, Denmark records an employment rate just below the EU-28 average. Similarly, the Norwegian performance appears rather mediocre.<sup>ix</sup> On the other hand, Finland, Iceland and Sweden belong among the few countries that boast an overall employment rate above 60 per cent for disabled persons.

### **Some caveats**

There are a number of limitations to the descriptive analysis presented in this article. The above aggregate data mask the fact that both vulnerable groups examined are characterised by a high degree of heterogeneity. For example, in the case of migrants it surely makes a difference whether you arrive from a country in which the education system is poorly developed, the skills you can offer do not match the demand in the labour market you try to enter, and/or your culture and language are very different to the host country. Consequently,

among migrants from Africa and Asia, employment rates and also wage levels vary according to region of origin of the migrants (Adsera and Chiswick, 2004). Such differences are not picked up by the data presented in this article. To provide an assessment of countries' actual ability to integrate migrants in the domestic labour market, one should ideally control for differences in migration policy. Countries with stricter immigration laws are likely to admit a smaller share of unskilled individuals, making it easier for such countries to achieve a high employment rate for the migrant population.

Furthermore, the tradition of measuring unemployment and employment levels in the work force goes back several decades (see Card, 2011). Indeed, such indicators belong to the standard output from a range of public statistics agencies both nationally and internationally. Even so, the task of studying these differences cross-nationally is made more difficult by variation in methodologies. There is a continued need to improve the access to harmonised data that can give us a more nuanced and reliable picture about migrants' situation (see e.g. Causa and Jean, 2007).

An even stronger note of caution is warranted when assessing the labour market situation of disabled persons. Empirically oriented researchers are inevitably faced with several sources of uncertainty and are advised to proceed with care. This becomes even more evident for anyone intending to carry out comparative research in this area. As Molden and Tøssebro (2011) point out in a careful investigation into the consequences for research results of employing different existing operational measurements of disability, a consensus on how to define disability is lacking on the theoretical as well as practical level.

One major reason for the lack of a standard measure of disability is that while a person's gender and age can usually be established objectively from administrative registers, it is less clear-cut whether (and to what degree) an individual has a disability or impairment. Information about persons' disability status derives from population surveys, based on screening and self-reporting in interviews and questionnaires. The results are sensitive to respondents' interpretation of the question(s) and their willingness to self-identify as disabled. Notably, Molden and Tøssebro (2012: 353) report that employment rates, the degree of disability and the distribution of different types of impairment are particularly sensitive to the operationalisation of disability. Even when efforts are made to employ the same survey design and questions across countries, such as in the EU LFS ad hoc modules on employment of disabled people, comparability is weakened by variation in the meaning of key terms across different languages.

All the above considerations should be kept in mind when comparing the employment results of marginalised groups across countries. The point is that data cannot always be taken at face value and should be interpreted judiciously. Nonetheless, conditional on due recognition of uncertain data quality and potential weaknesses, we submit that exercises like the ones carried out in this article are worthwhile. They contribute to pushing the research agenda forward stimulating efforts to improve prove methodological tools and data availability as well as theoretical and empirical knowledge.

## **Concluding remarks**

Overall, what conclusions can we draw from the empirical findings, and where should we go from here? We have demonstrated that the empirical picture is much more mixed than what theory leads us to expect. Exploring employment outcomes across the OECD for two

vulnerable groups (migrants and persons with disabilities), we found no unequivocal indication that their labour market opportunities are poorer in the Nordic countries. On the one hand, the employment level of migrants is lagging further behind that of the native population in countries with more compressed wages. On the other hand, the opposite seems to be true when it comes to persons with disabilities. In countries with compressed wages, persons with disabilities have employment rates closer to those of non-disabled individuals than in countries where wages are more unequal. These contrasting results suggest that there are different mechanisms at work for the two groups. Moreover, the data revealed considerable variation in employment rates across the Nordic countries.

Thus, as a whole the empirical results do not lend support to the various theoretical arguments suggesting that small earnings differentials hamper the employment chances of population groups situated at the margins of the labour market. These are good news if one believes that income equality and social equality more broadly are generally a good thing (see, e.g., Kvist et al., 2012: ch.1). For example, one important side effect of having relatively high wages at the lower end of the income distribution is that the Nordic countries record the lowest rates of in-work poverty. This phenomenon has become a particularly pronounced problem in Anglo-Saxon and Southern welfare states (Hussain et al., 2012).

Our findings are largely in agreement with Barth and Moene (2012) who used slightly older data and focused on a different set of vulnerable groups (young and old workers and low-skilled individuals). In explaining why the compressed earnings structures in the Nordic countries are not detrimental to employment of groups with traditionally a high risk of marginalisation, they emphasise almost exclusively differences in wage bargaining systems as

the key causal mechanism. While their arguments seem plausible, we would leave the door open for a more multi-dimensional explanation.

More specifically, we know that there are substantial differences in how governments address the challenge of labour market inclusion of persons at risk of exclusion. Thus, we need to look more systematically at how different policy ideas and instruments (redistributory and regulatory) matter in affecting outcomes. In recent years several authors have pointed to the increasing relevance of regulatory instruments that seek explicitly to protect specific vulnerable groups from discrimination and enhance their employment chances (e.g., OECD, 2013; Halvorsen and Hvinden, 2014).

Aiming to offer a more conclusive analysis than we have offered in this article, a number of (not mutually exclusive) avenues may be pursued. The analysis should arguably be expanded to include data on unemployment. When thinking about issues of social citizenship and opportunities to participate, it is relevant to know to what degree individuals who want to be active in the labour market are actually allowed to do so. Measures of unemployment, perhaps more so than employment rates, can help us ascertain how countries do in this regard.

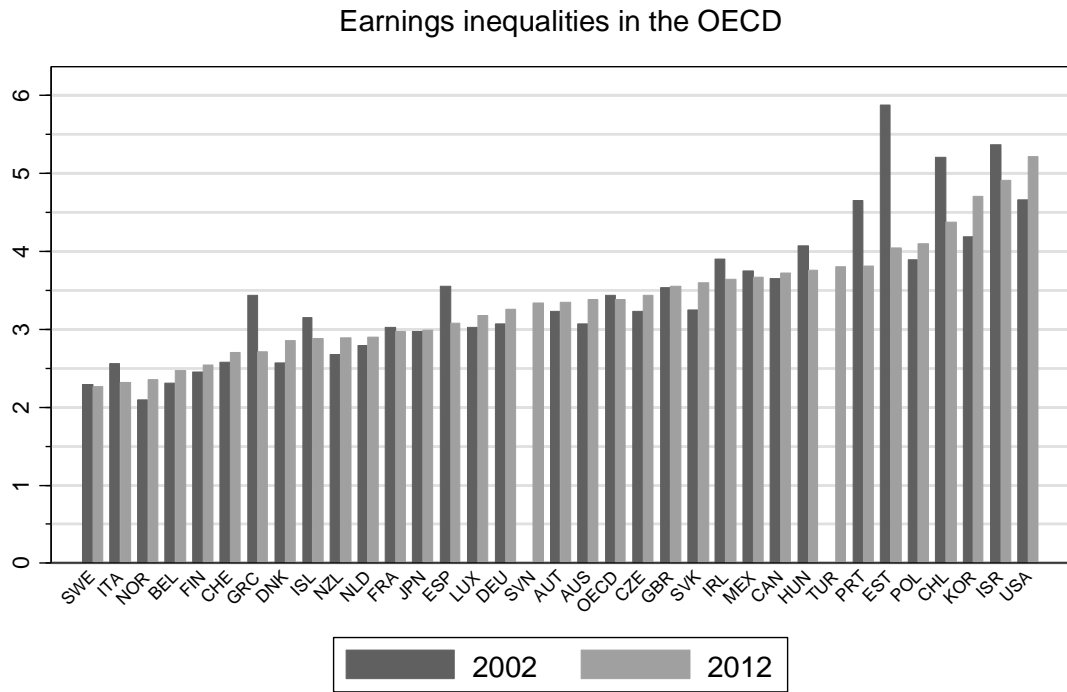
Developments over time are another aspect that would be worth pursuing. The data presented in this article have been cross-sectional and have only provided static snapshots. Ideally, a next step should examine changes in earnings distribution in relation to changes in employment rates to see whether this might give us results that point more clearly in one direction. In practice, due to serious problems relating to availability as well as comparability of data, it is probably not possible to carry out such an analysis going several years back. For reasons highlighted above, especially the data that concerns persons with disabilities suffer

from too many gaps and uncertain quality even in the Nordic countries which are known to have very high quality micro-level data. Therefore, from a methodological point of view, a main conclusion is that there is much to be gained by an easier access to high-quality harmonised cross-national data collected at regular intervals. At present comparative assessments are hampered by data that are at best uncertain and to which access is too cumbersome. Few comparative research projects have the resources to collect and harmonise data on their own.

Finally, a study with some resources available would also try to dig deeper into the factors producing a given earnings distribution, such as the wage bargaining system. Such insights should be linked to the efforts made by the welfare state through, for instance, active labour market programmes targeted at particular vulnerable groups. To enable the inclusion of in-depth institutional information of both the industrial relation system and the welfare state (including social regulations) within the same comparative study, we would welcome cross-country analyses with a relatively small number of carefully selected cases. Such analyses would supplement large-n comparative studies of aggregate data from international sources like the OECD and Eurostat.

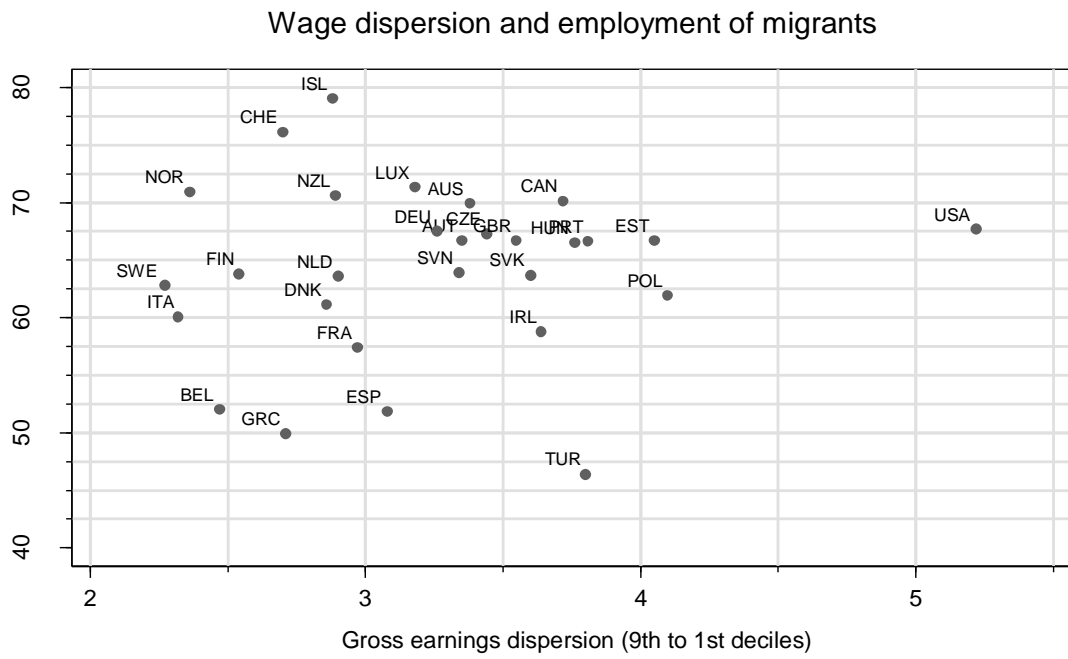


Figure 1



Source: OECD Employment Outlook 2014

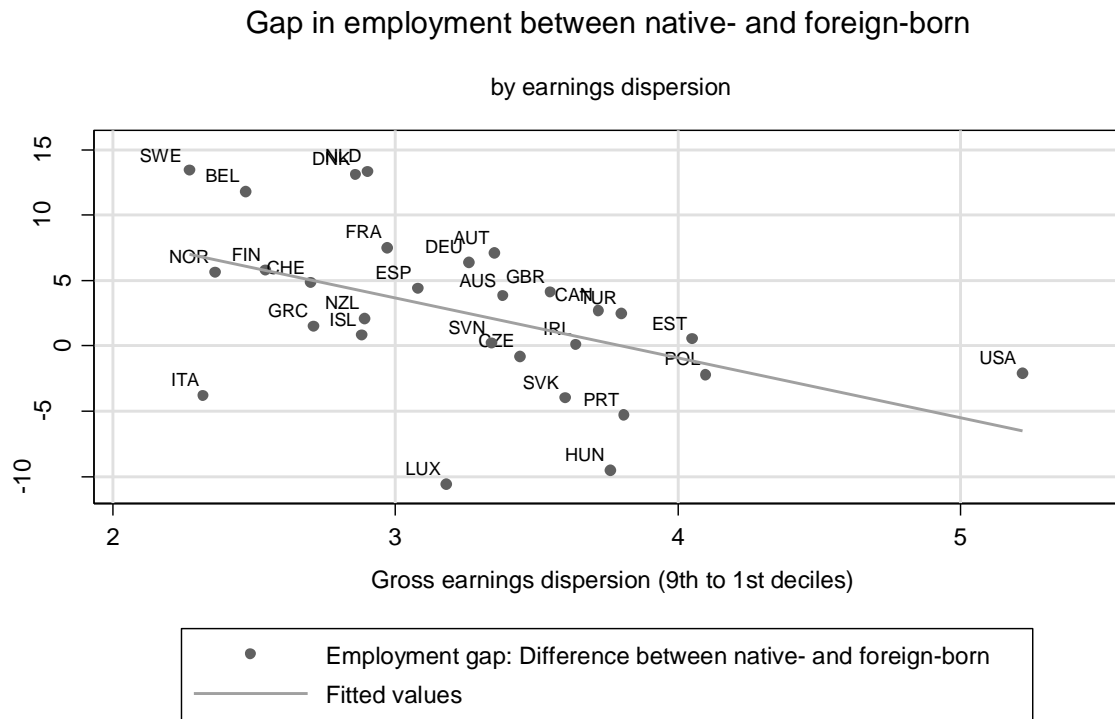
Figure 2



Reference year 2012.

Source: OECD Employment Outlook 2014 and OECD Migration Outlook 2013

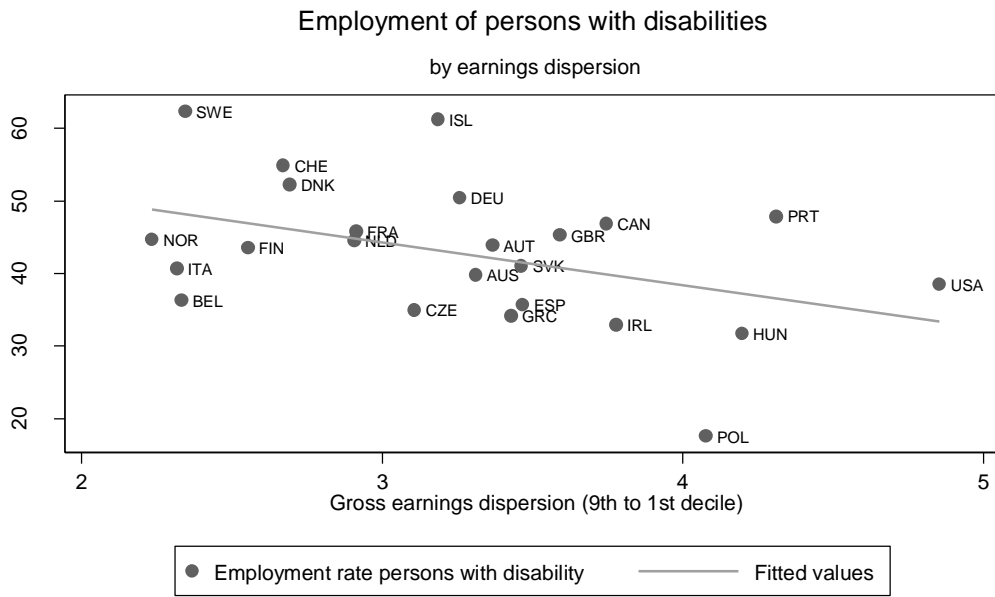
Figure 3



$R^2 = -.48$  (significant). Reference year 2012.

Source: OECD Employment Outlook 2014 and OECD Migration Outlook 2013

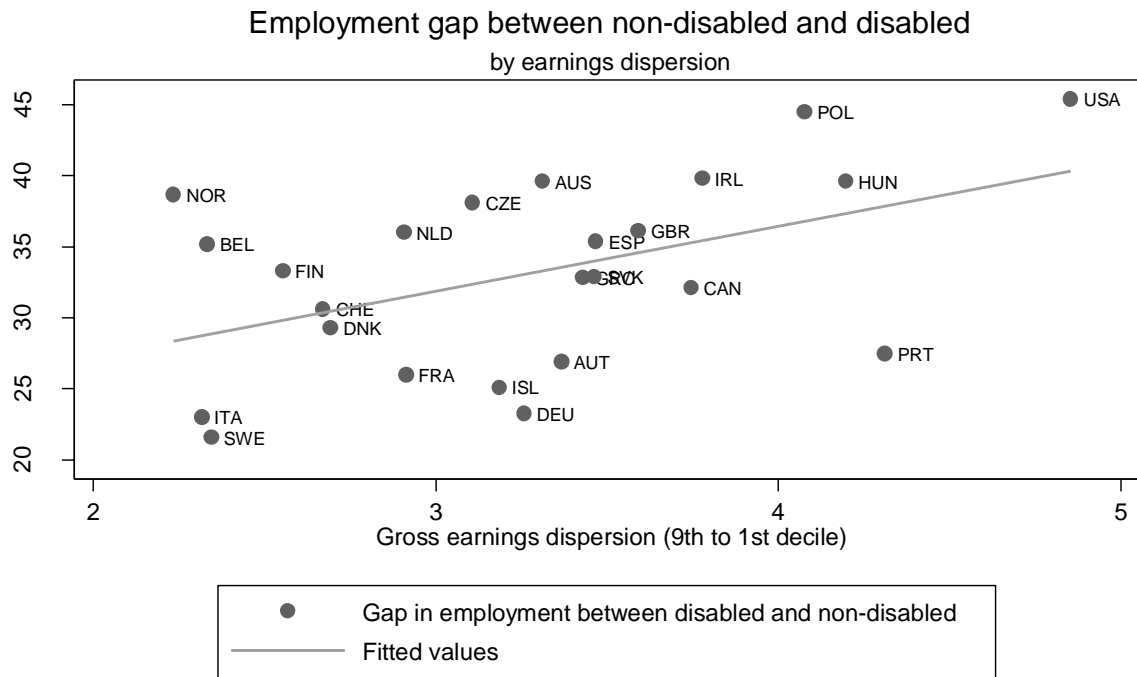
Figure 4



$R^2 = -.42$  (significant). Reference year 2007 or closest year for which value is reported

OECD iLibrary and OECD (2010)

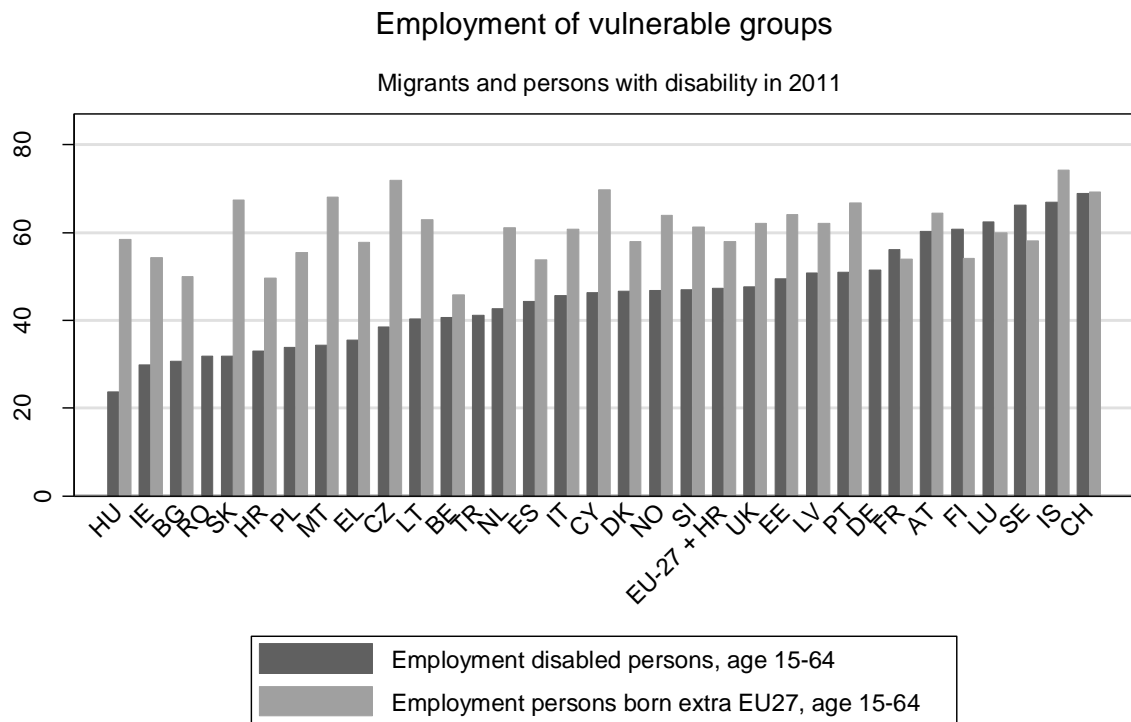
Figure 5



R<sup>2</sup>= .47 (significant). Reference year 2007 or closest year for which value is reported

OECD iLibrary and OECD (2010)

Figure 6



Source: EU LFS 2011 (incl. ad hoc module on employment of disabled people).

Statistics Norway has provided the employment rate of disabled persons in Norway.

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## Endnotes

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<sup>i</sup> At least as we see it. A right-leaning American might take a different view.

<sup>ii</sup> The emphasis on service economy expansion rests on the classical insights of Baumol who pointed out that it is harder to enhance productivity in service activities than in manufacturing. More output per unit of labour, a standard definition of increased (labour) productivity, is not easy to come by without reducing the quality of a service. Therefore, productivity in services is difficult to measure. For an elaboration of these arguments, see Baumol (1967).

<sup>iii</sup> A case in point is the Eurostat LFS ad hoc module on employment of disabled people. Results from the two rounds (2002 and 2011) that have covered persons with disability are not directly comparable due to changes in the questionnaires. Hence, we are unable to consider changes over time based on these data.

<sup>iv</sup> Readers may be surprised that Italy ranks second with regard to wage compression (on wage bargaining in Italy, see OECD, 2003). However, in part owing to the high number of self-employed workers, whose income is not captured by this indicator, the overall earnings differentials in the Italian economy are probably underestimated (see Erikson and Ichino, 1994). In fact, when using measures of disposable income instead, inequality in Italy typically appears much higher (e.g., figure 2 in this article).

<sup>v</sup> 1 per cent level.

<sup>vi</sup> 5 per cent level.

<sup>vii</sup> 5 per cent level.

<sup>viii</sup> Employment rates of disabled people in figure 6 refer to persons declaring difficulties with one or more basic activities (as listed in the questionnaire). For details, see [http://epp.eurostat.ec.europa.eu/portal/page/portal/employment\\_unemployment\\_lfs/document/s/Explanatory%20notes%20AHM%202011.pdf](http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/document/s/Explanatory%20notes%20AHM%202011.pdf).

<sup>ix</sup> One may question the Norwegian comparison on the grounds that the employment rate here relies on a slightly different definition of disability. However, we note that for the 2002 LFS ad hoc module Norway applied the same disability definition as the rest of the EU and achieved an employment rate a little below the EU-25 average.