

The Nordic model - a model for Lisbon?

*Contribution made by the Danish, Finnish and Swedish Social Democrats
in the European Parliament*

Foreword

The Nordic countries – Denmark, Finland, Iceland, Norway and Sweden – are the bumblebees of Europe. They seem too heavy to fly, but surprise you by being quick, agile and solid. They are proof that relatively high taxation, a strong public sector, high salaries, good welfare provisions and high social protection do not exclude growth and prosperity, but, on the contrary, support it. The features that in many eyes would make them slow and undynamic in a modern economy have indeed proved to be their main assets.

The Nordic countries are a living manifestation of how a sophisticated social model can provide the basis for competitiveness and growth. They confirm that social policies are a productive factor, that social security and competitiveness are not contradictions, but preconditions.

The Nordic countries have some of the highest living standards in the world, are home to a range of successful multinational corporations, and enjoy wide and deep social cohesion. They are ranked among the most competitive countries in the world, and most significantly, their high competitiveness is attributed to the features that make them appear heavy, a bit drowsy and slow in reorienting their paths: a dominant public sector and extensive societal responsibility. The exact opposite of what neo-conservative economists and neo-liberal politicians have been preaching during the last decades.

When we look at Europe's competitiveness it is clear that what makes it strong – not only in the Nordic countries, but in the whole of Europe – is the best parts of the European model. The most competitive countries in Europe are the ones that have developed these to the largest extent, and the economically fastest growing countries are the ones that are doing most in this respect. We therefore believe that there should be more countries in Europe embracing their social model rather than abandoning it, and more countries taking a holistic approach to their development instead of a minimalist one.

Just as the Nordic countries can learn from other European countries, we believe that the Nordic model can be of inspiration to the rest of Europe. We acknowledge that the Nordic countries have special features that have made their development possible and that our European neighbours should not try to copy the Nordic countries completely. Each country must develop its model according to its specific circumstances. Nevertheless, we believe that by sharing our experiences we can show a possible way forward for Europe that combines economic, social and environmental excellence.

The Nordic model has been praised by many, but not that many actually know the details and components of it. This paper should provide that knowledge and hopefully contribute to the future debate in Europe on the Lisbon Strategy.

1. Introduction

Five years have passed since the European heads of state and government agreed upon the so-called Lisbon Strategy in 2000. This strategy should make Europe "*the most competitive and dynamic knowledge driven economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion*" in 2010, and was aimed at giving a clear response to the challenges Europe was and still is facing:

- Globalisation and growing competition
- The rapid and accelerating pace of change
- The chronic economic and political instability in the international situation.

The strategy builds on the presumption that it is possible to create economic growth as well as high social and environmental standards at the same time. The strategy puts the three elements on an equal footing and sees them as a precondition for one another, which is unique. The goal is to create economic growth and increase employment on a socially and environmentally sustainable basis.

The clear message is that it is possible and attractive to combine labour market flexibility and competitiveness with a high level of social and job security as well as high environmental standards. The strategy focuses on the transition to a knowledge-based economy and society, on modernisation of the European social model where we invest in people and combat social exclusion, on the creation of sustainable economic growth and on keeping high environmental standards.

How far are we now in 2005? Well, we are in a situation where Europe is facing diminishing growth and employment despite the fact that we are midway in a process which should make Europe the most competitive region in the world.

On 2nd February 2005, the European Commission presented its mid-term review of the Lisbon Strategy. The conclusion was that there is a need to give the strategy a new start, since we are far from reaching the goals stated in 2000.

Therefore, the Commission suggests focusing on creating new jobs and growth, leaving real progress for the European social model and environmentally sustainable development on hold. As the Commission states: *Without growth and jobs it is not possible to advance sustainable development and modernise the European social model.* Furthermore, it appears that many industries believe it is the way forward.

However, it is not. We should not work harder, longer and for less pay in the name of economic growth. We do not agree that this is the way forward. A strong European social model and sustainable development will create more jobs and growth. It will enable us to work smarter.

We believe that the original Lisbon Strategy can fulfil its goals if, among other things, the Member States start feeling that they own the process and implement the necessary measures and legislation. We agree with Jean-Claude Juncker, President of the European Council, when he said:

“If Europe wants to be strong, she needs three things together that go together: improved competitiveness, greater social cohesion and a more balanced ecological environment. I say yes to competitiveness; I say no

to abandoning our social and ecological goals.” (Address to the European Parliament, 12.01.2005)

We should not forget that the Lisbon Strategy is a strategy for competitiveness and growth, as well as social cohesion and environmental protection. We believe we should continue to follow the original path. The Nordic countries provide clear examples that this model works.

The Nordic model shows that it is possible to combine the three pillars (economic growth, social and environmental protection). We have a system where we combine labour market flexibility and competitiveness with a high level of social and job security as well as high environmental standards. That is why we believe that there is an added value to a Nordic perspective to future work with the Lisbon Strategy. However, it is clear that we cannot reach our goals without simultaneously aiming at creating stronger growth, coordinating our investments, and conducting a modern reform process of our education systems and labour markets. Proactive and ambitious macroeconomic policies should be pursued as a fundamental addition to private business innovation and entrepreneurship.

At the same time, we have the most competitive economies in the world. For instance, Nordic competitiveness is stressed by the *The Global Competitiveness Report 2004-2005* released by the World Economic Forum. The report demonstrates that the three Nordic countries remain in the top five for competitiveness for the second consecutive year together with the United States. It points to the fact that the American model, which only focuses on growth, is not the only way forward, but that the Nordic model, where you combine economic competitiveness with strong social welfare and high environmental standards, is a successful alternative. It shows that relatively high taxation and a strong public sector do not exclude growth and prosperity - on the contrary, they support it. The Nordic countries manage to combine high employment rates with high salaries, good welfare provisions and high social protection. This has been done by reform of the labour market and investment in an active labour market policy. Moreover, we have prioritised education, life long learning and reducing to a minimum the time spent between jobs; we have stressed the importance of gender equality, non-discrimination, high quality jobs and investment in new environmentally friendly technology research and development.

The American and the Nordic models are very similar when it comes to economic productivity, but they clearly differ when it comes to distributing the fruits of that productivity, as we can see above. We are afraid that the European Union is now heading the American way. If that is the case, the American dream could easily turn into the European nightmare. It would put the European social model and welfare for European citizens in danger. Therefore, in this paper we wish to give a clear idea of an alternative. We want to illustrate some of the main points of the Nordic model to show that there is another way and to show that the Lisbon Strategy, as first intended, can be successful if we all assume our responsibility and act together.

2. Welfare and competitiveness

As already mentioned, the Nordic countries manage to combine high employment rates with high salaries, good welfare provisions and a high degree of social protection. We rank in top positions in various competitiveness and productivity studies. This goes together with social security: according to the International Labour Organization (ILO), the employees in the Nordic countries enjoy a higher and more secure status than anywhere else in the world.

We do not want a society of winners and losers, like in the USA. Whereas the USA and the Nordic countries are quite similar in terms of productivity, the wealth and the fruits of this productivity are shared much more equally in the Nordic societies. Active labour market policies and strong social dialogue between labour market organisations safeguard these policies of equality.

- *The Nordic countries offer the highest economic security in the world to their wage-earners. The International Labour Organisation (ILO) rated more than 90 countries on various forms of work related security, including issues like income protection, equality and skill acquisition. The economic security table was headed by four Nordic countries - Sweden, Finland, Norway and Denmark. The United States was ranked 25th. Source: Economic Security for a Better World Programme on Socio-economic Security, ILO, September, 2004.*

3. Active labour market policies for active labour

One reason for the success of the Nordic countries is our labour market system and the way we deal with labour market issues.

An active labour market policy is one of the most important characteristics of the Nordic model. It promotes full employment, equal opportunities and equal distribution of wealth. It is an essential tool to increase and improve employment by evaluating and developing working conditions, co-ordinating and re-locating workforce resources in society. Its basic message is that no-one should be left behind, but looked after in one way or another. At the same time as the unemployed receive financial support from the state, the unemployed have to be at the disposal of the labour market. The purpose is for the unemployed to be employed as soon as possible. Apart from bringing the unemployed back into the labour market, it is also important to invest in life-long learning and training at the workplace to avoid the risk of unemployment. We can clearly see that this thinking brings dividends in terms of productivity and competitiveness.

An effective active labour market policy aims to improve the skills and competences of the labour force in order to equip them for forthcoming changes in the labour market, especially during times of unemployment. This way the labour force is ready to tackle new responsibilities after the economy has recovered. However, much more attention has to be paid to the integration of young people and long term unemployed into working life.

- *Statistics show that the Nordic countries have an active and effective labour market with a higher level of employment and a smaller pay gap than the rest of Europe. Denmark has succeeded in reducing unemployment drastically in the 1990's with active labour market measures and at the same time kept inflation low. After a downturn in the beginning of the 1990's, Sweden and Finland managed to return to high employment levels.*

4. Independence and responsibility of the social partners

The social partners in the Nordic countries have a large degree of responsibility for upholding labour market regulations. They are responsible for following up agreements and they receive a lot of independence from the state. The responsibility and independence of the social partners are made possible by the high proportion of trade union membership. The governments do not interfere in negotiations between the social partners, unless there is an added value where the government can promote and facilitate agreements.

4.1 Unions and governments in partnership

The Nordic countries value 'trust in society' very highly. In fact, they have been called consensus-based societies. An active labour market policy with strong trade unions and collective agreements between unions and employers are a manifestation of this trust. Labour market organisations enjoy recognition by the citizens, by the state and by each other.

• The vast majority of the work force in the Nordic countries are organised in unions which form collective agreements with employees and the state. The level of organisation is around 80% in Finland, Sweden and Denmark.

In the Nordic countries the labour market organisations and the governments have concluded centralised income policy agreements for many decades, aiming at improving working conditions and the social security system. The central confederations of employers and employees negotiate centralised income policy agreements between themselves and sometimes tripartite agreements with the state, including not only wages but also evaluations and improvements in working life. The agreements aim at promoting equality between men and women, improving the balance between work and family life and safeguarding principles of good conduct in the labour market. The agreements also include benefits and contributions to social welfare and pension schemes.

• The Nordic countries provide examples of achievement of income settlement agreements, including for example earnings related unemployment benefits, tax relief, holiday return bonuses and shortened working hours. In the last incomes policy settlement, for example, Finland substantially improved the position of redundant employees.

The income policy agreements in recent years have succeeded in reducing unemployment and maintaining a low level of inflation, and have thus improved the purchasing power of the employee. These agreements normally last one or two years, or even longer. The longer the collective agreement, the better and more predictable the circumstances are for employers to plan their future actions and investments. This is why most employers actually welcome this model and the atmosphere which follows an agreement, because it

also means a calm period during which all parties can concentrate on the most important thing: work.

However, we have to be flexible. Collective agreements in public and private sectors are increasingly open to sectorial or local agreements on working time and labour market conditions.

• There are examples of Nordic trade unions which have themselves initiated a model with employers in which working time can be flexible and agreed on locally, while wages and workers' rights remain as agreed in the central agreements. Enterprises in other sectors have also had more freedom for manoeuvre.

5. Restructuring of labour markets and managing industrial change

Job security and labour market laws in the EU need to be reformed – towards *more* security. In order to reach the Lisbon goals, we need the kind of labour market that provides the worker with *real* job security; job security that is as well inoculated as possible from the consequences of on-going industrial change and other tensions. Instead of relying on the security of retaining the same job all our life, we need to rely on the security of knowing that our skills are kept up-to-date so that we can remain and progress in the labour market. Clearly, we need to take determined action to provide everyone with opportunities for life-long learning.

We believe that the labour markets of the Nordic countries can serve as an inspiration. Our labour markets are, on the one hand, relatively flexible. On the other hand, the level of security for workers is high. This is thanks to strong unions, a healthy social dialogue, an active labour market policy – including public and private systems for vocational training and job-matching – and a social security system that does not leave anyone behind.

However, we cannot reach our goals without simultaneously aiming at creating stronger growth, coordinating our investments, and conducting a modern reform process of our education systems and labour markets. Proactive and ambitious macroeconomic policies should be pursued as a fundamental addition to private business innovation and entrepreneurship. Proposals should be made on how to link the Lisbon Strategy with macroeconomic instruments.

- *According to statistics, the Nordic countries allocate the highest proportion of GDP in Europe to social expenditure and a substantial part of their GDP is used for an active labour market policy and family policy.*
- *Sweden and Denmark had already reached the employment goal for 2010 from day one of the Lisbon Strategy.*

Industrial change on a structural level is a fact of life in today's EU. It is easily observed for instance in the traditional industrial manufacturing sector, where job losses through out-sourcing are frequent. This is a development that cannot be stopped, but to which EU countries need to adapt and which needs to be managed.

We need to give workers the opportunity to benefit from life-long learning, and in that way we will have a well-educated European work-force that has the ability to absorb and adapt to changes. In order to cope with restructuring within companies as well as in the labour market, employees need to be involved not only in the process of change but also have a very real influence as changes occur. Issues of work organisation and the working environment are decisive in this respect.

There is a Nordic contribution to be made here. Along with the kind of inclusive yet flexible labour market outlined above, a high degree of employee involvement and influence and a modern work organisation are key factors in order to manage change in a way that retains competitiveness *and* social progressiveness. Companies that face restructuring and that opt for out-sourcing need to be made aware of what their social responsibility entails. With strong unions and a workforce that is well prepared for change, industrial change can be managed and social costs minimized.

- *Statistics show that the Nordic countries have the highest levels of employment for women and young people and that elderly people retire later than in the rest of Europe. There are also relatively small differences in salaries.*
- *Statistics for life-long learning (percentage of the population aged 25-64 participating in education and training) show that the Nordic countries come top in the EU.*

The EU must strive for *more jobs*, but also for *good jobs*. Stress and mental health problems at work must be countered, along with absence through sickness. In the long run, a labour market where workers do not feel well is unprofitable for society as a whole. A safe and healthy working environment and work organisation are performance factors for the economy and for society.

The European labour market and its population have changed in many aspects and as a consequence new health hazards have been created. These hazards do not only consist of physical risks, but also psychosocial threats. Actions for better working conditions and well-being are important in this regard. Physical working environment problems have still to be resolved, while many new, more social and psychological working environment problems have also arisen. It is important to take political measures to handle this new situation.

To create a sustainable labour market, to make people want to stay longer in the labour market and able to do so, we need to ensure jobs of high quality. We need to ensure that the Union's strategy on health and safety is implemented. Furthermore, we need to make sure that people are not worn out. We should not work harder but smarter. Quality of jobs, high employment and high productivity go hand in hand, and the Nordic labour markets give some useful examples.

6. Gender equality

Employment rates for women in the Nordic countries are the highest in Europe. We can draw on these experiences to increase the participation of women in the labour market in the rest of Europe.

We need to ensure that EU legislation on gender equality is adopted and implemented. Moreover, we should be careful not to create unnecessary obstacles for women. Proposals which make it more difficult to keep a balance between work and family life impede women's participation in the labour market. The Union and the Member States should therefore pay special attention to this problem when they legislate and organise their labour markets. Member States should for instance provide for availability, affordability and good quality of childcare and care of the elderly.

The statistics from the Nordic countries speak their own clear language. Nevertheless, there is still much to be done to ensure total gender equality. This is especially the case in income distribution. To promote equality in income distribution, wage reform projects based on evaluation of the demands imposed by various kinds of work have been launched in many sectors.

Family planning, child day-care, maternity leave and benefit and employment security in cases of maternity are self-evident rights of women in the Nordic Countries. Although parental leave may be taken by mothers or by fathers, it has been unusual for the latter to do so until recently. On the other hand, around half of fathers exercise the right to take paternity leave for a period not exceeding three weeks.

Furthermore, we need to recognize the issue of the gender segregated labour market. For instance, special focus should be given to women in research. In their action programmes the Member States should look at how to involve more women in research. In order to put an end to the gender segregated labour market it is also important that the EU and its Member States encourage both women and men to engage in different sectors of the labour market.

Another challenge within the labour market is women in part-time work. In comparison with men, women predominate in part-time work in various sectors. In order to increase the employment rate for women, to the extent set out by the Lisbon Strategy, the EU and its Member States should aim at promoting the right to full-time work, paying special attention to women.

Finally, the Nordic perspective recognizes that economic growth is not possible without an increased level of employment among both women and men. This means that economic growth and issues of gender equality are closely linked.

- *Statistics show that the Nordic countries are in the top 4 for employment rates for women, with over 70 % employment of women aged 15-64 in Sweden and Denmark.*
- *In Finland, in workplaces of at least 30 workers, employers must incorporate measures to bring about equality between women and men in annual staffing and hiring plans. The Act on Equality between Women and Men prohibits all gender discrimination in recruiting. An Ombudsman for Equal Opportunities oversees the application of the Act.*
- *Parental benefits in the Nordic countries give parents the opportunity to take leave in order to take care of their children. In Sweden, for example, the parental leave allowance lasts for 480 days.*

7. Labour supply

The population of the EU is ageing. In the not too distant future, it will be difficult to find an adequate supply of labour. According to the demographic development in the Nordic countries the workforce will decline and the dependency ratio is bound to increase. The same picture is seen in the rest of Europe. For that reason, we need to look carefully at the supply of labour. In the future we will need to draw on all the resources we can to compensate for a declining workforce and an ageing population.

That is why we need an active labour market policy that strives to reach those outside the labour market and to get them back in. This applies to all those, relatively speaking, older workers who leave or are being forced out of the labour market too early. If we want them to stay in the labour market longer, we need to make sure that there is a real job market for them.

This applies to women, who more often than men find themselves unemployed and who often work part-time. We need to have an active strategy on how to get women integrated into the labour force as mentioned above. In many Member States women are lagging behind.

This also applies to all the people from other parts of the world who have come to the EU and who all too often are forced into unemployment. A lot of immigrant workers have high professional qualifications and we need to find a system that makes it possible for us to take account of their experience and knowledge. We need to work on a strategy for a possible future need for immigrant workers. We need such a strategy so that we do not, some time in the future, run into a labour supply shortage, and so that we can identify a good way of coping with the integration of the people who come into the EU.

Furthermore, we should focus on early school leavers and how to integrate them into the labour market. European youth is a vital resource in working towards the Lisbon objectives and in tackling the demographic development. To create a competitive and knowledge based economy a youth perspective should be mainstreamed in all relevant existing processes and instruments within the Lisbon Strategy. A knowledge based economy demands a higher level of educational attainment. The young people who are already in the labour market should have a chance to increase their competence through theme days in the workplace, courses or leave of absence for further education.

In 2004 the French, German, Swedish and Spanish governments launched the idea of a European Youth Pact. The idea of the Pact is to integrate a youth dimension in the Lisbon strategy, which, as set out in the Spring European Council Meeting 2005, has stressed the urgency of addressing the growing European demographical imbalance of an ageing population.

We find that the use of the Open Method of Coordination is an adequate and useful tool in European coordination of youth policy. But it is important that good intentions are backed by concrete political initiatives, and therefore we should focus on young people with regard to a national action plan for the Lisbon strategy. Youth research should be strengthened - both in respect of democratic participation and living conditions - and national youth research programmes should be adopted by all countries. Furthermore, numerous reports demonstrate the role of mobility in strengthening young people's

confidence and broadening horizons. Greater effort must be made to inform young people of the existing opportunities to gain experience abroad, and a special effort should be made to help those worst off to gain experience abroad.

- *Swedish efforts top the EU league tables for education and skills development in the labour force.*
- *Almost 70% of people in Sweden between the ages of 55 and 64 are working. In Denmark (second highest in the EU) the figure is almost 60%. In Finland (in 8th place) it is almost 50%. The Nordic countries are at the top of the list when it comes to employment rates for women in this age group.*

8. Education - the backbone of society

Education plays an important role in every society. We in the Nordic countries have realised that education is the key to competitiveness and the smooth functioning of our societies. Actually, it is one of our most precious resources. Nordic countries are often hailed as having the most successful education systems in the world. Almost two-thirds of young people enter higher education. But what makes the system so different from those in other countries? Perhaps the most important feature is that education is less politically charged than in many other countries. This makes it possible for all stakeholders, parents, teachers, students and authorities to concentrate on what really is important.

In the Nordic countries education belongs to everyone. The main philosophy is that we cannot afford to lose even one pupil. Education facilities from kindergartens to universities are practically free. This is perhaps the most important feature of education. Education is not only seen as a privilege but also as a right and a duty. It is the foundation of one's life and everybody should have the possibility to set goals and have dreams. Equal rights and access to education reflect directly on societal know-how and also on key figures such as health and life expectancy. In other words, education is the key to welfare.

There is a wide consensus in Nordic countries that society benefits the most by raising the level of education of everyone. We do not separate at an early stage students who do well and those who do not progress so well in school. Comprehensive school starts at the age of seven and pupils stay there until they are 16. They then choose between a three-year upper secondary school which ends with a university-entrance diploma and a vocational school. Schools as well as universities are practically free until post-graduate level. This has been the most important feature of education.

"We believe that if we invest in all children for nine years and give them the same education, we will reach the best results." Finnish Education Minister Tuula Haatainen

This policy has been proven very successful. Several studies examining the results of education have shown that the Nordic countries score comparatively high.

- *Approximately 86 % of the total population in the Nordic countries (age 20-24) has completed at least upper secondary school*

- *PISA - an OECD- conducted study- aims to assess the knowledge and skills needed for full participation in society, rather than mastery of a curriculum. 15-year old students from over 40 countries are tested in mathematical, scientific and reading literacy as well as in problem solving. The results of the 2000- and 2003-studies follow more or less the same pattern: Finnish 15-year olds came out on top in all four areas assessed; other Nordic countries ended up also clearly above average.*

Due to sweeping changes in society, it is not enough to have an extensive and good basic education. We also need continuous education through the whole of our working life, what we call life-long learning. This is important, not only for the individual, but also to create strong and sustainable competition.

9. Investment in Science and Research

One aspect of relatively high taxation and consequent public spending that has greatly contributed to the Nordic countries' success is investment in science, research and development (R&D).

In research on achievement of the Lisbon goals (World Economic Forum 2004), Finland came out top in all fields assessed and was the most competitive country in the EU. Denmark was second and Sweden third. This study measures for example the effectiveness of the information society and economic services, as well as investment in innovation and R&D.

- According statistics on European innovation (European Innovation Scoreboard 2004, EU), the leading European countries were Sweden and Finland.
- Investment in research and development is highest in the Nordic countries. Sweden invests more than any other EU country in research and development, 4.3 % of GDP. Finland comes second with 3.4 % of GDP and Denmark 4th with 2.4 %.

The average for EU-15 is still very much behind the target of 3 % of GDP set in the Lisbon goals. The percentage of public investment in R&D is also significantly higher in the Nordic countries than the EU-15 average.

The Nordic countries have a long tradition of working together (dating from before Swedish and Finnish membership of the EU) and creating Nordic centres of excellence where researchers and post-graduates from different Nordic countries have gathered to do research in different fields. The constant exchange of information on research between publicly financed institutions and private companies has also been important.

All these aforementioned aspects are the current goals set by the Commission in its proposals for the 7th Framework Programme as well as the Lisbon Strategy.

10. A sustainable environment

The Nordic countries are known for their environmentally progressive strategies and we have had a long tradition of working closely together on various environmental questions.

We have invested in the innovation of environmentally friendly technologies and have reached good results in this field. These have given the Nordic countries a competitive advantage in this field.

Environmental technology is a fast growing branch of technology. The market is worldwide and, in addition, more than two million citizens are employed in this sector within the EU. With the development of environmental technology and the inauguration of it, we can find new solutions for environmental problems.

However, we need to promote research and development and the implementation of eco-innovations in all suitable sectors. Research in environmentally friendly technologies, as well as better use of our know-how in this area, will result in jobs and sustainable development. As important as it is to develop new technologies and to make it easier to introduce them, we need, in addition, to create demand for environmental technologies. Environmental legislation and standards in the European Union have to be ambitious enough to create a market for these technologies. Greater focus on environmental technologies can lead to more jobs and more research activities, and reduce environmental and social costs. Therefore, we need to expand effective and sustainable solutions.

Research in renewable energy must also become a top priority. The EU aims to generate 21% of electricity from renewable energy by 2010. Renewable energy should thus be seen as a factor of competitiveness. This sector will also be an important asset for the export trade in the future. The Nordic countries have been in front when it comes to research in and production of renewable energy such as solar, wind and water power.

When it comes to chemicals, the Nordic countries have been leading in international chemicals work for a long time. This will also be the case when it comes to REACH. The REACH strategy is a key tool in creating and maintaining sustainable development. When implemented, it will lead to great benefits for the environment and public health, and for a healthy working environment. Industry will benefit from REACH in the long run. They will be able to sell and compete due to their special know-how.

- *In the report "2005 Environmental Sustainability Index", which was presented at the recent world summit in Davos, a number of the Nordic countries are amongst the most environmentally friendly countries.*
- *Finland, Norway, Sweden and Iceland are number one, two, four and five on a list of the world's cleanest and most environmentally friendly countries, drawn up by experts from the universities of Yale and Columbia. The list consists of 21 different environmental factors in 146 countries.*

11. Sustainable development

Sustainable development has, like the Lisbon Strategy, three pillars: sustainable economic growth, a sustainable society and a sustainable environment.

Sustainable development presupposes solidarity between the generations. Environmental policy is a good example of this. Growth and development must be sustainable; they must not exhaust resources for future generations. This means ecological thinking must be integrated into all areas of society.

Sustainability also means that pension systems need to be reconsidered in such a way that they are able to bear the pressure when fewer and fewer gainfully employed people have to support increasing numbers of elderly Europeans.

Furthermore, sustainable development is about solidarity in daily politics. We need a policy that distributes growth so it does not add to the gaps in society. The income gap between low-income and high-income earners has to decrease. Social cohesion is an important part of a sustainable society, and more and better jobs are important for social justice.

Finally, growth that leads to increased disparities between regions in the Member States is not sustainable in the long term. The EU countries must narrow the gaps between the regions and achieve greater regional cohesion.

12. Public investment

The Nordic countries have a long tradition of using public investment proactively to stimulate growth, create jobs and improve living conditions. High investment in education, research, upgrading of the workforce, infrastructure as well as health- and childcare, has not only secured a strong foundation for the Nordic countries' competitiveness, but also influenced the cyclical movements of their economies. Macroeconomic policies have thus been a direct instrument for securing the prosperity of the Nordic countries.

- *Denmark, Sweden and Finland are the EU countries making most public investment in education. They top the latest statistics: Denmark with 8,5 % of GDP, Sweden with 7,66 % and Finland with 6,24 % against the EU average of 5,1 %.*

We believe that this should inspire Europe. Reforms in the labour market and in employment policies – the supply side of our economies – do not, by themselves, deliver sufficient new and better jobs for Europe. Higher demand is also needed to achieve this. The dominating supply-side policies of the mid-term review of the Lisbon Strategy should therefore be complemented by active demand-side policies in the form of proactive investment plans in the key areas identified in the original strategy.

The interdependence of the European economies has a great potential that can be used positively. More than 80% of exchanges of our goods and services take place within the EU. Moreover, we spend more than 1/3 of our GDP on trade within the EU, but only 1/10 on trade with countries outside the EU. Thus, internal European demand is of

great importance, and at least as important as our exports. The development of our internal demand is, however, not too great. Growth in internal demand in the Eurozone fell from 4% at the turn of the millennium to less than 1% in 2003 and just above 1,5% in 2004.

Stimulating internal European demand can therefore enhance growth and the creation of jobs. This should be done by intelligently coordinating investment in the 'right' areas. If we do so, we will be able to increase our growth by 1 percentage point per year, going from the present 2% growth per year to 3%. This will make a tremendous difference for our citizens – especially in relation to employment. It can, in fact, create up to 5 million new jobs by 2010.

This 'extra' growth and the new jobs can be achieved by using a set of proactive economic policies. What needs to be done is to improve the internal market, lower interest rates, utilise the entire EU budget, and make intelligent public investments in areas which have a longlasting effect on the growth rate – research and development, education and childcare. The key to the formula is the coordination and timing of investments. If they are made simultaneously across Europe all of our countries will share their positive effects.

The central part of this investment scenario is, therefore, identifying the right areas where investments should be made and coordinating them. This means that it is very far from any form of traditional 'let go' Keynesianism.

Danish economists have made calculations that show that this kind of action and investment will increase growth and reduce unemployment in the following way.

Present scenario (EU 15)

	2004	2005-2006	2007-2008	2009-2010
GDP growth (%)	2.2	2.3	2.4	2.4
Export growth (%)	7.0	6.3	5.7	5.7
Employment rate end of period (%)	64.7	65.4	66.3	67.1
Unemployment rate end of period (%)	8.1	7.9	7.8	7.8
Fiscal balance end of period (% of GDP)	-2.7	-2.3	-1.8	-1.2
Inflation (private consumption deflator)	1.9	1.9	1.8	1.8

A scenario for higher growth (EU-15)

	2005-2006	2007-2008	2009-2010
GDP growth average (%)	3.2	3.1	3.1
Export growth (%)	7.8	6.7	6.8
Employment rate end of period (%)	66.2	67.6	68.8
Unemployment rate end of period (%)	7.3	6.9	6.7
Fiscal balance end of period (% of GDP)	-2.0	-1.0	0.1
Inflation average (private consumption deflator)	2.1	2.2	2.0

Conclusions

Europe is caught at a crossroads. Growth is stagnant and it is clear that the pace of reforms is much too slow. The proportion of people at work among the working age population is still off target and there are far too many people who are looking for work. Europe's strategy for growth, employment, social cohesion and environmental superiority – the Lisbon Strategy – is under mid-term review. It is imperative that it is revitalised. It is crucial that it regains momentum, picks up pace and is implemented across the continent.

Opinions on how this should be done are many. Should the strategy be pursued in its entirety, as a balanced approach to our concerns? Or should it be reformulated in a minimalist way where economics and competitiveness are the main priorities and the strategy's other pillars are left for better times? These are the present dividing lines of Europe.

The experiences of the Nordic countries and the model they have developed suggest that there is no choice: Europe will only prosper if economic, social and environmental excellence are combined as complementary forces and if the Lisbon Strategy is pursued and implemented in a way where its pillars support each other.

Flexibility – in the workforce, labour markets, industry and public administration – is called for by economists, decision-makers and politicians across Europe. For most of them it is implied that the sought after flexibility is contrary to security. However, the Nordic model proves that these are not contradictions, but rather mutually complementary. In fact, the Nordic model works through the complementary nature of most of our policy areas. It takes advantage of these in a proactive and ambitious way. It capitalises on them.

The Nordic model was very much the creation of the Social Democrats, in cooperation with trade unions. But over time, other political parties have supported this model. The lessons learned from the experiences of the Nordic countries are clear:

- High productivity and income equality can be combined positively.
- Active labour market policies can ensure that people spend as little time as necessary between jobs.
- Strong dialogue between the social partners is at the root of stable relations between employers and employees.
- Labour market flexibility and security are not contradictions, but preconditions.
- Lifelong learning, training and development of skills of employees are the key to a competitive and dynamic workforce.
- Integrating women in the workforce is a central element in obtaining sustained prosperity.
- Open and inclusive labour markets are the only way to tackle the demographic challenge Europe is facing.
- Progressive environmental laws and requirements can create 'first mover' advantages that enhance competitiveness.
- Proactive, 'intelligent' and coordinated public investments can spark growth in periods where demand is low.

We hope that the experiences of the Nordic countries can be of inspiration to the revitalisation of the Lisbon Strategy. They are proof that the ambitions of the strategy are not only ideal, but also realistic and practically achievable.