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Public Sector Reform and Economic Success: Nordic lessons to be learnt?

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and of public policy, as to what extent the public sector and the welfare state actually has been reformed (see section three, below). Among welfare state researchers, a debate on when an observed institutional change should be classified as a change *of* a system or a change *in* a system (of e.g. health or income insurance), has been unable to reach any conclusion. Where some see radical reform, others see incremental adjustments to changing environments or to new social needs. It follows from this, that as long at there is no agreement on the extent of reform in the Nordic countries, no one should be surprised that political science has little to say about the causal chains between the institutional setup of governance systems and the outcomes in terms of economic efficiency.

The following paragraph reviews the literature on public sector reform in Scandinavia, and in section four we proceed to argue that, in order to advance our knowledge on the relationships between political-institutional reform and economic outcomes, political science should, - and probably contrary to our instincts, focus less on reforms and more on establishing specific hypotheses on the mechanisms that constitute and form the causal links between company-level behaviour and political decisions to change (or preserve) the institutional environment within which they operate.

III Public Sector Reform and New Public Management in Scandinavia

in the debates on public sector reform in the Nordic states centre on to what extent the changes over the last two decades should be classified as NPM reforms or whether NPM is merely a fad that has had relatively little impact. In Norway in particular, this has developed into a debate as to whether there has been 'too much' or 'too little' NPM reforms and whether they have had any impact on public policy and administration.

Although the term New Public Management has come to encompass such a wide range of reforms that there is a danger of it capturing everything and nothing, an essential core can be extrapolated from most definitions.[8] Drawing on the quest to introduce economy, efficiency and effectiveness into public administration and efforts to borrow from private sector management, the core of NPM reforms centre on i) disaggregating or splitting up public organisations into functional units and separating policy, oversight and service delivery; ii) introducing competition into the public sector, either directly or through quasi-market mechanisms, with a view to improving efficiency and user choice; and iii) increasing the use of incentives in public sector management. Taking this definition as a starting point, the term 'governance' may be seen as a softening up or more advance version of NPM, partly by use of more voluntary mechanisms, and thus as a complement rather than alternative to NPM. Stoker accordingly identifies five key features of governance: i) involvement of actors and institutions beyond formal government; ii) the blurring of boundaries and responsibilities for public policy; iii) horizontal power dependence between institutions; iv) the importance of autonomous networks; all of which results in v) that governments' capacity to achieve results may depend more on indirect instruments than on command or authority.[9] In this sense, governance entails a combination of radical instruments and inclusive decision making, and the Nordic public policy reforms come somewhat closer to this modified version of NPM. However, particularly the first element of NPM, splitting up and reorganising the public sector,

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[8] C. Hood, "A Public Management for All Seasons?", *Public Administration*, 69 (1991), 3-19; .

has been prevalent in the Nordic reforms; and user choice is invoked even more frequently than for example in Britain in some sectors.

Perhaps the most influential model of public sector reform in Norway (and this

Nevertheless, neither Olsen's nor Rhodes' analysis precludes the possibility that the Nordic reforms might turn out to be quite radical. Although Olsen remained unimpressed by the results of public policy reform in the Nordic countries by the late 1990s, he was open the possibility that the Norwegian 'tortoise' might eventually overtake some of the other West European reform 'hares'. Likewise, although Rhodes' analysis points to slow reforms, most of the core elements are equally compatible with radical reforms. Constitutional constraints and protracted negotiations to reach consensus, coupled with considerable professional and ministerial autonomy, make for considerable reform capacity once agreement has been reached. Once consensus has been reached in any given sector, reforms can be both swift and dramatic. Therefore, although the dominant picture has been one of partial, incremental and cautious reform, based on consensual decision making and a pronounced effort to maintain the welfare regimes, this has not precluded ambitious plans. Consensual decision making does not, per se, preclude radical reform.

To be sure, a number of Scandinavian schol administrative traditions. Other aspects, such as internal competition, are filtered out or adapted beyond recognition.

According to these sceptical analyses, NPM has therefore had a limited or regrettable impact on public administration in the Nordic countries. Lægreid questions the OECD thesis of global convergence and radical change. As far as the Nordic states are concerned, historical traditions and cultural norms have laid the basis for an alternative development. Although these states have a tradition of carrying through radical reforms, the effects of NPM have been more limited due to the "cultural conflict between market and management thinking and the Scandinavian administrative tradition."[14] As Christensen puts it, "NPM is a one-dimensional reform mostly geared towards efficiency hiking. It spread more easily as ideology and ideas than as practice. There is a lot of variety and inconsistency in the practical implementation of NPM. Its main action appears to render an integrated state into a disintegrated state or government system."[15] Most importantly, change has not been uniform, but complex. Both authors see Norway as the most reluctant reformer, employing a cautions and incremental strategy; whereas Sweden has gone the furthest in the direction of strengthening employers and independent agencies, and Denmark's 'negotiated reforms' fall somewhere between the other two.[16]

However, a number of scholars working in the very same tradit

to making the economies more competitive and public services more efficient. The report on Denmark praises the country's open economy and pragmatic reform of the adapted to evidence-based decision-making, and consistency is an issue."[27] Although the overall picture is one of gradual and ad hoc reform, the OECD report points to several important exceptions: electricity liberalisation is hailed as 'pioneering' at the time, and the programme for modernisation of the public sector and reform of state ownership are praised (as are the reforms of regulatory agencies, at least as they were envisaged in 2003). Overall, the OECD's assessment of Norwegian reforms leaves little doubt as the radical (and NPM-type) nature of reforms in several important sectors, let alone their impact. For example, although the health care reform is criticised for its limited focus on market mechanisms and failure fully to separate the state's role as purchaser and provider, it is also praised for the high impact in terms of promoting efficiency and patient choice. To be sure, the report calls for further reforms (especially in industrial policy, public services, labour markets and the overall framework for regulatory reform), but the OECD's positive appraisal of many aspects of Norwegian public policy reform indicate that not only do the reforms feature a number of NPM mechanisms, but they have had a considerable impact in terms improving the conditions for private firms' competitiveness.

The next section turns to a brief overview of some of these reforms in Norway, their common features and the mechanisms. We have classified reforms into three groups:

a) Those intended to provide economic actors with a more competitive environment, assuming this will induce innovation and cost cutting,
b) those intended to reduce the cost of providing goods for the population, assuming this will expand volumes and/or improve quality with less need for tax increases, and
c) reforms of the health and income insurance schemes, assuming this will ma72509 /Fb0.0006 o7rh .6203 Tj/TT1 ∕tive a8203 Tl

1. Improving the infrastructure for the market economy

The most radical changes in Norway, as in the other Nordic countries, over the last two decades have been the liberalisation of telecommunications and electricity markets. Both were driven by a combination of an internal logic and the anticipation of EU-level liberalisation. The electricity sector was liberalised in 1991, before the EUs proposals to liberalise energy markets got off the ground, and the common Nordic pooled market (Nord Pool) established in 1996.[28] However, this process did not involve large-scale privatisation, but rather separation of the production and grid elements of the state utility into two new government owned *statutory enterprises* (statsforetak) – Statkraft and Statnett. The telecommunications market was opened to partial competition, beginning with terminal equipment in 1998, and full competition was brought about in line with the deadline for liberalisation of the EU telecoms market in 1998. Telenor became a state-owned company in 1994.[29] Liberalisation has been slower and less radical in the transport sector, although reforms over the last decade have separated organisations responsible for policy and delivery across the board. The rail services and network were separated in 1996, and the rail operator NSB became an incorporated company in 2002 (and the maintenance division, Mantena, was separated). Competitive tendering for rail-services is at a pilot stage. In the road sector, the production unit became a separate (state-owned) company, Mesta, in 2003; the air traffic and airport management organisation was made into a separate company, Avinor, the same year. The monopoly of the state to provide postal services is also, gradually being replaced by a marked with liberalised entry for all. A series of tax and administrative reforms intended to relieve companies from excessive red tape also warrant mentioning in this context. The 'Simplifying Norway' project was launched in 1999, and successive plans have sought to map, document and reduce the amount of time spend by the business community on reporting duties. The World Bank Group currently ranks Norway 5th in the world in terms of the ease of doing business.[30]

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[28] T. Bye & E. Hope, "Deregulation of Electricity Markets – the Norwegian Experience", Discussion Paper 433, Statistics Norway, September 2005.
[29] K. A. Eliassen & J. From (eds), *The Privatization of European Telecommunications*, (Ahsgate, forthcoming), chapter on Norway.
[30] The World Bank Group's Doing Business database, www.doingbusiness.org. The other Nordic countries are all among the top 14 of the 155 states ranked, and the UK and Ireland are the only European economies to score above the lowest ranked Nordic country (Sweden).

These reforms (and more could be mentioned) share, we will argue, three common factors: First, they are top-down, elite driven, and promoted through a depoliticised parlance of modernisation, technological imperatives, efficiency and long-term benefits. Social democratic governments have been in the driver's seat for most of the time. Objections from employees and unions have, programmatically, been voiced but, more surprisingly, eased out after a fairly short time. Second, Norway entered the European Economic Area in 1994, and the EU regime for the internal market therefore applies in full to Norway (except for agriculture and fisheries). The fact that this provided the government and pro-reform elites with a convenient argument that 'EU-law leaves us no room' cannot be ruled out as a catalyst for the erosion of opposition to the reforms. Case-studies, however, show that most reforms in fact were driven by domestic factors, - and in some respects as a deliberate and strategic preparation for entry into the European market. The third factor is a hegemonic idea, - that all reforms of regulatory institutions should strive at establishing a state of 'industrial neutrality', - that all (historically developed) industry-specific attachments to political decision making should be dismantled, as should any other institutional protection against competition.

In sum, we will argue that far from being 'a tortoise', Norway has introduced a series of quite dramatic reforms with one significant common denominator, - that industries historically regarded as 'of vital national importance' should learn to live in a more global marketplace. The use of regulatory authority to deliberately expose industries to competition was at the core of a national elite consensus, implemented by the Labour party.

2. Improving efficiency in the provision of public goods and welfare services.

A characteristic on the Nordic model is the high level of (collectively financed) services provided for the population, through legal rights and administrative discretion. Production of health, education and services for children, the disabled and the elderly occupies close to one third of the total employment. During the 1970s, these services expanded almost entirely through more resources being put into hierarchical, command economy type of industrial organisation, owned and run by the municipalities. The capacity of the (435) local authorities to produce quantity and quality according to centrally set standards was, and still is, equalised through a comprehensive, state operated, system of indicator-based reallocation of resources

health expenditure has risen significantly, primarily reflecting the operation of the new income system.

Contrary to health insurance, the system of income insurance (in case of unemployment, maternity, disability and old age) has been virtually unchanged since the last significant reform in 1978 (when full wage continuation from the first day was introduced in the sick pay scheme). This is a significant observation, given the important role that (dis-)incentive arguments play in hypotheses about welfare state impacts on the labour market and economic efficiency. On the other hand, this picture of an extremely rigid system is only partly correct. Compared to other West-European countries, Norway has the highest (and rising) levels of sickness absenteeism and early retirement, - a phenomenon which can be explained neither by health and working conditions (because they have improved) nor by the social insurance schemes (because they have remained unchanged for nearly 30 years). Even though Norway has world record high employment rates and little unemployment, there is a national - across all political parties- consensus that the present level of economic incertifying the right to the social wage, to verifying (remaining) capacity to work. As a reform effort, this essentially corporatist arrangement is interesting, because its ambition is to maintain stability in the system of social rights by changing the conditions and environment in which the formal institution operate.

3) A grand reform, merging the whole system of income insurance with the institutions in charge of (all aspects of) labour market policies into one state organisation. This new ‘Work- and Welfare Institution’ is being set up in order to increase labour force participation, and to provide social security more through participation in (partial) employment, competence-improving programmes and proper activities, an less through (‘passive’) income transfers from the state to individuals.

Thus, to conclude, we find a picture of a Norwegian welfare state that was remarkably stable in the 1980s and 1990s, then, from the turn of the century, quite radical reforms are being implemented. In case of health, the top-down ‘increase efficiency through imposed reorganisation’ formula is obviously significant, whereas the reform agenda of the system of income insurance and labour market policies seems to be driven by other logics, primarily by an anticipation of a new demographic future. In contrast to politically controversial health reform, the social insurance reforms seem to be broadly based in extensive participation by all stakeholders.

The above, by no means systematic, exposition of Norwegian reforms warrants an important conclusion. Even by the somewhat arbitrary classification of public activities in market-creating, goods-producing and insurance functions, a clear picture emerges: it provides us with little insight to try to combine the reform record in the various policy areas into one measure of ‘Norwegian reform activity’. How should one compare and add high levels of market-creating reforms with low levels of reforms in other policy areas? Technically it can be easily done, but we would not know what is actually measured. One important implication is obvious: if we are to make hypotheses about the relationship between the extent of public sector reform/welfare state stability on the one hand and national economic performance on the other, one should specify the possibility that intense reform efforts in one policy area (or government function) *in combination* with stability in an other area, is the causal factor. Such a model of interaction should then compete with hypotheses that assume that regulation in some areas is more important to economic performance than others.

IV In lieu of a Conclusion: Some Speculations about the Way Forward

The very notion of a national competitiveness in a global marketplace is of course, a construct. Firms and companies compete (states do not), only they have market shares, take out patents, and generate income. Any hypothesis that assumes a relationship between the macro-political characteristics of a state and the (aggregate) success of individual companies operating on its territory therefore has to specify how these macro-level reforms and institutions actually operate at level of the firm level and across firms operating in the same market, but at different levels of productivity. Conventionally this macro-micro nexus has been captured by the tax-level imposed by the state and characteristics of the supply of labour (price, skills). During the 1980s, more focus was put on understanding regulation and social rights as rigidities, hampering the functioning of market forces. From this grew the neo-liberal and NPM reform agendas: reduce taxes, increase the supply of labour, remove rigidities by re-regulation. The basic idea was that public sector and welfare state reform should and could provide for the single firm a combination of, on the one hand, a more risky and hostile environment (i.e. a more open and competitive marketplace), and on the other hand, a more conducive set of lower production costs (i.e. taxes and labour costs).

The Norwegian (and Nordic) economic success has definitely not followed this (neo-liberal) formula. To be sure, some elements of this neo-liberal strategy can be found, most notably in the reforms of energy and telecommunications. What is not present are the reforms of the welfare state. This in turn suggests that Norwegian success can be explained by the *combination* of market-making reforms in the economic sphere and blocked reform efforts in the provision of public sector services (and social insurance) – figure 1.

Fig. 1 – combinations of public policy reform and stability	Radical public service and social insurance reforms	Modest (or blocked) public service and social insurance reforms
Radical market-making reforms	Neo-liberal/NPM agenda	Nordic states since 1990s
Modest (or blocked) market-making reforms	Czech Republic ca 1995[31]	Nordic states before 1980 (and the 'critical' agenda)

If the success of the Nordic cases owes something to their combination of radical market-making reforms (including utilities liberalisation and EU-style competition policy) with limited moves toward NPM-type regimes for public service provision, the challenge would be to specify what mechanisms, eventually, makes such a

These two mechanisms are based on an assumption that the reform/stability pattern across policy areas affects the distribution of risks for all individual actors, for workers as well as for companies. In order to modernise the economy and make it more competitive in a global economy, companies have to be exposed to increased levels of risk, - of going out of business unless they are innovative and competitive in the marketplace. This is the basic objective of regulatory reforms of market regimes and (formerly) state enterprises. Such a deliberate use of market mechanisms to restructure industries of course increases the levels of risk to employees. They will have to loose old jobs and find new jobs. The key to handle this risk lies in the

In short, developments in the Nordic states in the last decade or two suggest that the combination of relatively radical reforms in public administration that are geared towards market-making (liberalisation, privatisation, competition policy reform) sit easily together with high levels of social protection. The risks brought about by market-making reforms are offset, or at least mitigated, by high levels of security in the welfare sphere (which in turn is linked to individuals, not individual jobs). In contrast to the neo-liberal agenda, this suggests that aspects of NPM (or 'new governance') reforms can well be introduced and combined with public service reform that is less NPM-driven. The Nordic states have seen relatively successful radical reforms, in sectors such as utilities liberalisation. In contrast to the critical agenda, which emphasises the benefits of slow, path-dependent, change, the present reading of Nordic public policy suggests that radical reforms that break with the Nordic traditions are very much part and parcel of the recent economic success stories. This hold not only for the liberalisation of utilities, competition policy reform or changes in the tax regime, but also for the (much less market-oriented) radical reorganisations of public services in health and education, and even the unemployment and pensions regimes. The key clues to any Nordic lessons lie in the mechanisms that link institutional reforms and behaviour at the individual or company level.