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THE NORDIC UTOPIA?

**APPLICABILITY OF THE NORDIC MODEL IN OTHER
COUNTRIES**

Master's thesis

International Relations and European-Asian Studies

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I declare that I have compiled the paper independently and all works, important standpoints and data by other authors have been properly referenced and the same paper has not previously been presented for grading.

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ABSTRACT

The Nordic socio-political model is a concept that has been established in a certain group of countries of Northern Europe. These countries, with their unique economic and social policies, are believed to be successful in many respects. Despite its promises and deliveries, the model is often criticized for its high level of state intervention. This paper discusses the model's efficiency as well as applicability in other countries.

This research work treats any model as an analytical abstraction and argues that, in its essence, the Nordic model represents an attempt to combine socialism and democracy; therefore, it can be legitimately observed and discussed using Marxism and its postulates. The paper's findings indicate that the Nordic model is not generally applicable due to a diverse range of social, economic and political factors, which are discussed at length.

Key words: Nordic model, Marxism, model applicability, socialism, communism, welfare, role model.

We are not less clever or less industrious than our northern neighbors and, so, we should not settle for anything less than the living standard of the Nordic countries. I believe that Estonia will become a new Nordic country.

Taavi Rõivas, former Prime Minister of Estonia, 2016

INTRODUCTION

Cecil Rhodes once noted that “to be born an Englishman is to win the first prize in the lottery of life”; today, this expression can also be applied to the Nordic countries (‘The secret of their success’ 2013). Indeed, Northern Europe is known for its prosperity and welfare and, generally speaking, there are typical characteristics that distinguish the Nordic countries from those in any other part of the world. The Nordic model of capitalism or social democracy represents a set of distinct social and economic policies positively regarded by many for their accomplishments.

Nordic capitalism, with its advanced social welfare system, was initially neither treated as a model nor understood as a radical change. It was, rather, an accumulation of policies that the Nordic countries have built up over years. Christiansen *et al.* (2006, 9) noted that:

[a]t first, most often Sweden in particular was identified as the model country par excellence. But gradually, Norway and Denmark were added and from 1950s, the concept covers all five independent states.

In regard with a general definition of a model, as argued by Ryner (2007, 62), it is a construct that can be “established analytically as an abstraction, but it can be claimed that it is a valid and useful abstraction”; in this context, for example, the ‘Nordic model’ can be regarded as a Weberian ideal type. While other countries have their own solutions to fix ongoing problems, the Nordic countries are known for the concept of a social welfare state. As a model, it has been successfully practiced for some decades and, by now, it is possible to evaluate the model’s efficiency and the validity of the Nordic concept as a solution to certain issues like inequality.

Ultimately, the objective of this paper is to understand whether or not the Nordic model is sustainably applicable in other countries. This study argues that the Nordic model is considerably successful and theoretically applicable, but, generally, not suitable for every democracy due to social, economic and political differences. Moreover, the Nordic countries themselves also differ from each when it comes to economic and social policies. However, this paper is focused on the model formed by the characteristics that these Nordic countries share. When the study requires the analysis of a specific Nordic state, this will primarily be Sweden due to its pioneering status in the process of adapting the model. Since the paper focuses on the model, it does not offer a comprehensive discussion of a specific case study in terms of the application of the model, yet the US has often been referred to and used as a basis for comparison for this purpose. In view of the significant differences between these countries, the US was chosen because of the country's global influence through its own American model, which contributed substantially to shape the world's economic order especially in the era of globalization, and due to its frequent comparison to the Nordic model in the search for a solution to domestic issues concerning inequality, homelessness, and, poverty in general. For instance, Acemoglu *et al.* (2013) made headlines in academia with his *Can't we all be more like Scandinavians?*

From a theoretical view, the Nordic model follows for economic interventionism. Hence, the model, regardless of the Nordic countries' democratic political regime, is comparable with a Marxist framework due to a high level of state intervention that is not only limited to economy, but also affects society. The former Swedish Prime Minister Fredrik Reinfeldt (2006) once criticized the model commenting that "[t]he Nordic welfare model is in many aspects a good model but it needs more of a choice for individuals". The paper offers a Marxist theoretical perspective, while using Social Anthropology-related terminological elements. Thus, Marxism-related paradigms will be used throughout the paper, in particular, extensively in the theoretical discussion.

By its nature, the Nordic model conflicts with anti-interventionist liberal theory, as under the American model, and economic conservatism, which are discussed together with other related theories specifically after the theoretical discussion. This work, therefore, analyzes both supporting and opposing theories primarily using process tracing as a research method with the integration of quantitative data when required.

Furthermore, the study is narrowed down into certain focused research questions that should be answered in order to achieve the main objective. First of all, a literature review-bound criticism of the model is provided. Afterwards, a brief historical background of Nordic social democracy is set out in order to identify the historical development of the model in its place of birth. In the following chapter, an opposite approach to the Nordic concept is presented initially, because the model is blamed for its negative impact on the sustainability of economy. This is often linked to state intervention, but is also linked to other topics, such as high tax rates, lack of competition, the aging population and immigration. The strengths of the model are subsequently discussed. This section is divided into three categories representing different aspects. The discussion in this chapter is conducted to evaluate the success of Nordic social democracy. Moreover, given the advancement of the Nordic states on equality and human development, the study discusses the validity of Nordic capitalism as a role model for democracies, which posits the following research question of to what extent there has been a tendency toward socialism in contemporary democracies.

The study considers the factors of social acceptance, economic sustainability and political capacity in terms of the applicability of a model. These factors are especially used in the final chapter to investigate the applicability of the Nordic model in other countries. Historically, the model has been established in these countries not via a predetermined path, but rather alters and develops over time. The paper thus needs to focus on the emergence of Nordic capitalism and, more importantly, on the following research question of whether the Nordic model actually exists as a model that can be implemented by other countries. The classification of world's welfare state models and the general features of the Nordic model and the difficulties in its implementation are discussed. Finally, the reasons for the model not being applicable in other countries are examined with the conclusion that the model is theoretically applicable, but not possible for every country.

1. STRUCTURE AND METHODOLOGY

The framework of the study consists of three main chapters. In the first chapter, there is a general observation of the discussion from a theoretical perspective. The theoretical framework constructed here will be referred to in the remainder of entire paper. Since this debate is largely built on a theoretical structure, the preliminary observation of the model from a Marxist perspective is a necessity. The second chapter is a detailed criticism of the model to evaluate the efficiency of the Nordic concept. The final chapter of the study is the identification of three main factors for the application of a model. This chapter also includes an examination of the features of the studied model and where Nordic social democracy can be placed in this identified structure. Additionally, the main research objective in this chapter, applicability of the model, is discussed and the conclusion is provided based on the findings of the paper.

1.1. Research method

In essence, each of the chapters in the study require a different approach to the stated research topic. Thus, the research methods used in a chapter differ from that in the other chapters. First of all, a brief information is given on the aim of each chapter. Afterwards, these research methods and why they are chosen to be used in given chapters are explained.

The theoretical discussion in the first chapter contains a literature review representing the current theoretical views on the main research topic. In this chapter, the Nordic model will be analyzed theoretically and defined by Marxism-related theories. Essential data is collected mainly from publications and articles. The used research methods in this chapter are discourse and content analysis.

Discourse analysis is a widely used qualitative research method and can be defined as the analysis of language (Klotz, Prakash 2008). Gee (2014) describes the method in this way:

Discourse analysis provides a lens for examining the social context in which teaching and learning occur. By focusing on the type of language and symbols that are used, as well as the environment in which they are used, discourse analysis provides a way to uncover the hidden assumptions and political statements that are being made in order to (re)present reality.

Aside from discourse analysis, the first chapter also includes content analysis. This is a method that involves developing a set of procedures to make valid inferences from text (Weber 1990, 117). Content analysis can essentially be applied to a large number of fields, allowing the use of various types of data as a source. As the first chapter of the study includes a literature review, this requires the analysis of the paper's basis for argumentation. Both discourse and content analysis research tools will be used to examine the model based on theoretical information in the most efficient way. The research method for the second chapter of the study is a combination of both qualitative and quantitative research methods. The study here will primarily involve various types of qualitative research methods. However, as the objective in this chapter is to assess the efficiency of Nordic social democracy, this specifically requires reference to statistical data. Hence, quantitative research method will also be applied when needed.

Process tracing is the primary research method used in the final chapter to explain the causality mainly within the emergence of the concept in its place of birth and to analyze the applicability of the model outside the region in terms of social acceptance, economic sustainability and political capacity. Process tracing is an analytical tool belongs to the classic qualitative research methods. Beach (2017) describes the method as being useful "for tracing casual mechanism using detailed, within-case empirical analysis of how a casual process plays out in an actual case". Consequently, the casual mechanism is the core of process tracing. This chapter also includes a variety of figures and comparative data. As this chapter will discuss the applicability of the Nordic model, the findings from previous chapters will be concluded using process tracing.

1.2. Theoretical discussion

Capitalism is not established deliberately, it is rather an unplanned development within the world economic structure. This structure developed rapidly after the Industrial Revolution and subsequently caused strong growth in production and consumption. The new economic structure and the distribution of wealth created a distinct separation between classes. Karl Marx (1848, 14) is one of the best known philosophers on the topic of class conflict and in his *Communist Manifesto*, he describes class conflict with the following statement:

The history of all hitherto existing society is the history of class struggles. [...] The modern bourgeois society that has sprouted from the ruins of feudal society has not done away with class antagonisms. It has but established new classes, new conditions of oppression, new forms of struggle in place of the old ones. [...] Society as a whole is more and more splitting into two great hostile camps, into two great classes directly facing each other – Bourgeoisie and Proletariat.

As to this class identification, the bourgeoisie refers to the owner of production, whereas the proletariat is the owner of labor and sells it for a wage (Rummel 1977). Marxist theory, under a simple definition, was built on such class struggle and the conflict of these classes. This was proposed as the basis for the development of human society, particularly the proletariat; as a reaction for the elimination of social rank. In this respect, Marxism promises what the Nordic model has been attempting to achieve for decades in terms of equality and the elimination of social rank. While the birth of communism is linked to its opposition toward capitalism, the Nordic model does not entirely exclude it. The model is, rather, a compromise of liberalist capitalism and interventionist communism, in other words, the ‘third way’.

In the *Critique of the Gotha Program* (1875) which was sent to the Social Democratic Workers’ Party of Germany (which later became the Social Democratic Party of Germany or SPD), Marx states that “[b]etween capitalist and communist society there lies the period of the revolutionary transformation of the one into the other”. This transition before entering the last phase of Marxism is called socialism. Marx believed human society can only pass directly to socialism, while the transition to communism must be gradual. Lenin (1917) defines this transition in even more detail by distinguishing the features of both systems and describing socialism as a pre-stage for entering the pure state of communism.

Despite the comprehensive social policies and welfare system of the Nordic model, it cannot be considered pure Marxist socialism. The model includes a combination of free market capitalism with the advanced elements of socialism and collective bargaining at the national level. Marx's (1875) definition of socialism continues as follows: "Corresponding to this is also a political transition period in which the state can be nothing but the *revolutionary dictatorship of the proletariat*". This demonstrates one of the limited number of differences between Nordic social democracy and the socialism in Marxism. Because, as will be discussed in this paper, Nordic states are very successful when it comes to democratic performance. In this regard, socialist reforms in the Nordic countries are achieved gradually and by a democratic consensus, not by revolution. In addition to the achievement of socialist revolution, Marx (1848, 26) continues his manifesto as follows:

[T]he first step in the revolution by the working class is to raise the proletariat to the position of ruling class to win the battle of democracy. The proletariat will use its political supremacy to wrest, by degree, all capital from the bourgeoisie, to centralize all instruments of production in the hands of the State, i.e., of the proletariat organized as the ruling class; and to increase the total productive forces as rapidly as possible.

The term that Marx uses 'the battle of democracy' is actually domination by the proletariat. While there are certain references to democracy, Marx openly refers to dictatorship by the working class. Unlike Marx, Lenin (1917) defines democracy in communism by stating that democracy is significantly important to the working class in its struggle against the capitalist system for its emancipation. But democracy is not a boundary that cannot be overstepped. It is only one of the stages from feudalism to capitalism and from capitalism to communism (1917, 58). Lenin considers democracy to be a stage of communism, yet he stresses the importance of it for the rights of working class. Nonetheless, democracy is one of the fundamental principles of the Nordic democracy, which in reality differs from communism.

The Marxist solution to the elimination of classes and social rank is a revolution. In this context, the state owns all of the means of production within the country and an equal distribution of wealth can then be possible. In spite of these differences between Marxism and the Nordic model, not only did Marx desire the establishment of communism but, more importantly, he also predicted this to be the development of capitalism. This is because Marx believed that the lower classes in society will always demand social reforms and equal opportunities.

Marxism here actually leads to a whole new approach, which is the end point of capitalism. As a result of the demand for socialism, countries can then also evolve into a form of socialism. As the lower classes will make demands and where these demands are not met, the risk of political instability or unease within society will emerge. When this occurs, the state has no alternative but to accept or compromise on the social reforms to please the crowd. Thus, Marxism predicts the development of capitalism as a one-way path with no return. This study will, therefore, discuss this public demand and its relevance to the Nordic model in the following chapters.

In addition to demand for social reforms by the working class, Marx believes change can only occur in advanced capitalism, within industrialized countries where exploitation is at highest level. Marx (1848, 19) explains this further: “with the development of industry, the proletariat not only increases in number; it becomes concentrated in greater masses, its strength grows, and it feels that strength more”. As socialization in a supply and demand mechanism, it is proposed that for industrialized countries embracing communism is rather inevitable compared with undeveloped states. From the Marxist point of view, the countries that could not fully complete the industrialization process are already eliminated to progress in any form of socialism.

Additionally, in the *Erfurt Program* (1891) of the SPD, it is stated that:

Ever greater becomes the number of proletarians, ever more massive the army of excess workers, ever more stark the opposition between exploiters and the exploited, every more bitter the class struggle between the bourgeoisie and the proletariat, which divides modern society into two hostile camps and constitutes the common characteristic of all industrialized countries.

Shortly, unindustrialized countries are considered to be unable to implement socialism. The reason is simply that the demand for socialism would be insufficient to obtain social reforms and consciousness for proletariat. The demand at this stage must be stronger than the resistance of the bourgeoisie for change. Even if this happens, the external capitalist factors would not allow the establishment of socialism within this undeveloped state. The bourgeoisie here represents conservatism and desires to preserve the regime in order to preserve its wealth. In this aspect, all underdeveloped and developing nations are unfit for advanced socialist elements and consequently, for the Nordic model. So, the model can become applicable only to states in which capitalist exploitation and industrialization are highly developed. This explains the social acceptance of socialism from the Marxist perspective.

The world-system theory of Wallerstein (2004) brings a Neo-Marxist approach to economic development within countries. According to Wallerstein, the new capitalist world system is established on a three level hierarchy, based on an international division of labor. Core states dominate the world with their economic power benefitting most from the capitalism system. This is the category to which all Nordic countries belong. While periphery countries are the least developed and dependent on the capital of core countries, semi-periphery countries are placed between these, sharing the characteristics of both and lastly, external regions belong to no defined category.

Wallerstein (2003, 223) also argues the decline in the American capitalist system commenting that “the world capitalist system is, for the first time, in true systematic crisis, and we find ourselves in an age of transition”. Therefore, he claims that the world capitalist system is coming to an end and it will inevitably collapse. Wallerstein, however, does not propose any particular direction in which the global system will proceed. Marx, in this respect, claims that the world system will return to its root, where people lived in communes before the establishment of feudalism. Another similar view to Wallerstein’s world system theory comes from dependency theory, which was developed in the late 1950s as a response to modernization theory (Farny 2016). Dependency theory proposes, that while poor countries are exploited, wealthier or core countries are enriched. In addition, it is impossible for these poor countries to reach an equal level of development. From dependency theory’s perspective, Nordic countries are rich because they are enriched by peripheral countries in the world economic system, whereas peripheral countries could not possibly become one of them.

Another theorist Stuart Hall (1978) with his “a fully social theory of deviance” displays similarities to Wallerstein’s opinions on the end of capitalism. Hall examined moral panic over black criminality in 1970’s, concentrating on how capitalism caused crime. Unlike Wallerstein’s theory built on the economy, Hall considered the topic from a moral perspective. His conclusion was that capitalism faced a legitimation crisis and it does not seem to be working any longer (Hall *et al.* 1978). Even though Neo-Marxism does not have a unified ideology, as in conventional Marxism, the Frankfurt School and critical theory are perhaps the most influential movements in the New Left. Horkheimer (1982, 244) stated that the theory seeks “to liberate human beings from the circumstances that enslave them”.

In classical Marxism, abolishment of private property has been the main principle of Marxist socialism. Marx (1848) clearly shows this with his following statement: “the theory of the Communists may be summed up in the single sentence: Abolition of private property” (1848, 22). The private property of the bourgeoisie will be abolished, individuality vanishes and proletariat-controlled state owns the entire production capacity and property within the state. Marx (1848, 26) subsequently specifies the ten measures that need to be completed in order to establish socialism after indicating that the measures differ from country to country, as follows:

Nevertheless, in most advanced countries, the following will be pretty generally applicable.

1. Abolition of property in land and application of all rents of land to public purposes.
2. A heavy progressive or graduated income tax.
3. Abolition of all rights of inheritance.
4. Confiscation of property of all emigrants and rebels.
5. Centralization of credit in the hands of the state, by means of a national bank with state capital and an exclusive monopoly.
6. Centralization of the means of communication and transport in the hands of the state.
7. Extension of factories and instruments of production owned by state; the bringing into cultivation of waste-lands, and the improvement of the soil generally in accordance with a common plan.
8. Equal liability of all to work. Establishment of industrial armies, especially for agriculture.
9. Combination of agriculture with manufacturing industries; gradual abolition of all the distinction between town and country by a more equable distribution of the populace over the country.
10. Free education for all children in public schools. Abolition of children’s factory labor in its present form. Combination of education with industrial production, &c, &c.

These can be considered to be the key features of socialism under Marxist ideology. Despite the fact that certain measures above are not relevant, some of them directly concern the Nordic model. Accordingly, the measures concerned will be discussed in the following chapters of this study. From a theoretical perspective, abolition of private property and state ownership of all means of production are linked to a high level of high state intervention in the Nordic concept. In fact, the Nordic model does not intend to abolish private property or state owning all means of production. Rather, Nordic states are highly interventionist in the private sector and promote an advanced public sector in almost every field. Furthermore, Marx (1848, 34) completes his manifesto with the belief that the communist revolution must occur worldwide, with his famous call: “The proletariat have nothing to lose but their chains. They have a world to win. Working men of all countries, Unite!”

2. NORDIC SOCIAL DEMOCRACY AS A ROLE MODEL

The notion of ‘model’, referring to the Nordic concept, came into use after 1960’s. However, the beginning of the Nordic welfare states can be traced back to the last decades of the 19th century. Social reforms are initially associated with growing industrialization and urbanization in Europe. Alestalo (2009, 6) *et al.* noted on the historical identification of the model:

The Nordic model is normally identified by reference to characteristics of welfare state institutions (stateness; universalism) and welfare policy outcomes (equality). But it seems appropriate to add a third component, namely forms of democratic governance – which refers to the way in – or process through – which political decisions are made. In this respect, the decade of 1930s represented a political watershed in all Nordic countries with national class compromises between industrial and agricultural/primary sector interests, and between labor and capital through the major trade union federations and employers’ association.

As defined above, Nordic social democracy is a democratic compromise, a ‘middle way’ or ‘third way’ in essence. The Nordic model’s general structure can historically be categorized into three main components, which brought the Nordic states an almost peaceful and democratic class struggle through political consensus. Not a complete peace for this matter, the reason is even though a socialist revolution did not take place, there was still a strong demand by the working class for social reforms, which will be elaborated in the last section of this chapter.

Moreover, Nordic social democracy is often compared to a bumblebee with its heavy body and tiny wings. One person to make this comparison was the former Swedish Prime Minister Persson, speaking of the model as defying the laws of gravity on its impossible flight (Andersson 2009, 237). The Nordic welfare model, with high taxes and a large public sector, is predicted not to work in the long-term, yet it seems to have been working for decades. In this section, the strengths and weaknesses of the model will be evaluated in detail to determine whether or not the model has actually been efficient.

2.1. Arguments against the model

In spite of the model's functioning application in the Nordic states for decades, the model is criticized for being unsustainable. Evidence for this comes from the increase in the distribution of income, which is measured by higher values in the Gini coefficient. The claim is fundamentally that the Nordic states have been forced to alter the model, because it was unsustainable, which later resulted in a higher Gini coefficient. Sweden's income inequality has increased from 0.198 to 0.259 gradually from 1985 to 2009. The smallest change among the Nordic states was experienced by Norway with 0.16 over the same period, while in some other countries, inequality has even decreased (Andersen 2012, 10). This is clearly seen especially after the early 1990's, where the Nordic states have changed their corporate tax rates significantly. Although, the gap between the Nordic countries and liberal welfare states is still considerable based on the *CIA World Factbook* (2015 est.). As a matter of fact, it is not necessarily an indication of the model's unsustainability, but rather an indication of the need for change to gain higher efficiency in a changing global environment.

Another claim relates to large number of immigrants, which is also linked to the high level of social support, and an aging population. According to the *Eurostat* (2016), in terms of net immigrants per 1000 inhabitants; Iceland, with 15, has the highest number among the Nordic states, followed by Denmark, Sweden and Norway. When it comes to the foreign-born population, Sweden leads with 17% of the total population. Sweden, with this number, has the fourth highest rate of foreign born inhabitants in the EU. On the other hand, Finland, seems to be most isolated country. In reality, numbers have actually been growing equally quickly across Western Europe. The aging population is another argument on the model's unsustainability. It is a fact that Nordic countries are aging, however, Europe overall shows the same trend. In regard to median age, Germany has reached 47 years old, whereas the oldest Nordic country, Finland has only reached 42. Europe's median age average is 42.7, which is higher than all of the Nordic states (World Atlas 2017). In this respect, Nordic countries cannot be considered old, but rather gradually aging. As this is strongly linked to the application of the model, it will be discussed further in the relevant chapter. Moreover, social support, including maternity and parental leave, is certainly helping birth rates. For that reason, further details for this topic will be discussed on the success of the model.

Such a comprehensive social system as is found in the Nordic model is mainly financed by high taxes. This is also usually at the center of arguments against the model's workability. The high taxation in the Nordic states is blamed for creating an excessive burden on employers and thus, for becoming an obstacle to economic development. All Nordic countries have progressive income tax, which drastically increases proportionally to income. According to *Trading Economics* (2018), after the 5% raise in 2016, Sweden has the highest individual income tax rate in the world, currently at 61.85%. In fact, Nordic states have usually held their positions among the countries with the highest income tax rates. Oil-rich Norway, on the other hand, seems to be the exception with a tax rate below 40%. The tax rate is also an important reason, other than its pioneering status, of Sweden's being the primary case for this study. It is, however, commonly believed that Nordic citizens are happy paying such tax rates (Fouché 2008). Regardless of this satisfaction, the Nordic model is criticized for obstructing company growth and accordingly, causing unemployment and reducing economic growth rates. In a critique by Nima Sanandaji (2016) of Nordic capitalism and its historical economic development, he states that "[t]he prosperity in the Nordic countries has increased faster in periods of economic freedom than in those of democratic socialism". In this respect, he indicates that Sweden achieved the highest growth rate in the Western Europe at 2% by pursuing pro-market economic policies between 1870 and 1936. After this point and until 1970, its growth was not the highest in Europe, but still higher than its previous average. Finally, with the introduction of socialist reforms in the period to 1991, growth rates dropped to 1.4%. Based on his description, 'this socialist experiment' was then eventually replaced by renewed market reforms and reduced generosity of welfare programs and tax reduction this year. Subsequently, the Swedish economic growth rate rose to 1.8%.

In fact, Sweden's corporate tax rate was reduced substantially in 1991; afterwards, it remained more or less fixed until today, whereas there has been no notable change in personal tax rate. It is 'more or less' due to the fact that the corporate tax of Sweden was reduced again in 2013 and there has been no noticeable change in the growth rate since then (Trading Economics 2018). In any case, there were many other variables affecting these marginal values, including economic crises, which surely could have affected the economic growth of Sweden.

The fact is that Sweden's current corporate tax rate is essentially nowhere near to be the highest. The correlation between corporate tax rates and GDP growth rate for certain selected countries between 2015 and 2016 is presented in the following table (*see Figure 1*):

	<i>Corp. Tax Rate</i>	<i>GDP Growth `15-`16</i>
<i>Switzerland</i>	9%	1.1%
<i>Germany</i>	16%	1.8%
<i>UK</i>	19%	2.0%
<i>Estonia</i>	20%	1.9%
<i>Finland</i>	20%	1.0%
<i>Denmark</i>	22%	1.6%
<i>Sweden</i>	22%	3.6%
<i>Norway</i>	24%	1.5%
<i>France</i>	34%	1.1%
<i>US</i>	35%	2.2%
<i>Median</i>	22%	2.2%

Figure 1. Corporate tax rate and GDP growth

Source: Kopits 2017

As listed above, Sweden's tax rate is actually placed somewhere in the middle. The source of the data also states that Sweden achieved the highest GDP growth rate among all these listed countries with advanced economies over the period shown. Despite the US having the highest corporate tax rate, its GDP growth is rather listed average. All in all, it is clear that the Nordic taxation system has left the period of imposing high corporate tax rates. Higher taxes from corporations are, therefore, no longer a part of Nordic social democracy. Despite the US having the highest corporate tax rate, individual tax rate of the country is significantly lower than that of Sweden (Trading Economics 2018) and, as it will be discussed in the next chapter, the share of social expenditure in general government budget is lower due to high expenditures on military and police.

Another detailed study on the US economy suggests that past changes in tax rates have had no major or clear effect on economic growth and that periods of lower taxes are not associated with higher rates of economic growth. Additionally, the tax change possibly has an effect on the supply of labor and capital and on output. However, it is stated that the change is likely to be minor, if any at all (Gravelle, Marples 2014). It is important to note that all of these countries, including Sweden and the US, are quite developed, having advanced economies. As for developing or underdeveloped countries, the results might differ. These countries will be examined in the following chapter.

2.2.Success of the model

2.2.1.Social dimension

As mentioned, one of the structural components of the Nordic model is democratic governance, which is usually considered to be distinct from Marxist ideology. The democratic development of the Nordic countries could be linked to their advanced welfare system or their strong ties with a Western European identity. However, Nordic states are often regarded to be the most successful countries in the world when it comes to democratic performance. According to the *Economic Intelligence Unit* index (2017), all three Scandinavian countries, including Iceland, are ranked among the top five democratic states. This is obviously a better result than any other European country's democratic performance. From a Marxist point of view, this might be seen to be contradictory. Orthodox Marxism might differ from conventional Marxism in terms of democracy. A well-known Orthodox Marxist, Karl Kautsky (1918, 7), discusses democracy in socialism, stating that "[s]ocialism without democracy is unthinkable. We understand by Modern Socialism not merely social organization of production, but democratic organization of society as well. Accordingly, Socialism is for us inseparably connected with democracy. No socialism without democracy".

Aside from democracy, Nordic states are also successful in terms of work-life balance. This not only brings satisfaction in society, but is also believed to increase the performance of individuals in a work environment. Based on the *OECD* index on work-life balance (2018), all Nordic states perform very successfully. All Scandinavian countries are placed among the top ten in the list, with Denmark is ranked the second. Work-life balance is also highly related to other issues, such as working hours and social security. Since the Nordic model is defined as socialism, it expectedly protects the rights of employees exceptionally. According to a study by William Leung (2009) from the University of California, based on the collection of a dataset, there is a direct correlation between job security and productivity. In addition to productivity and work performance, various sources place the Nordic states among the happiest countries in the world. Based on one of the globally known sources, the *World Happiness Report* (2018), the four top places in this happiness report are shared among the Nordic countries without exception. Moreover, the *OECD* index on life satisfaction (2018) ranks these same four countries on the top five of the list.

2.2.2. Economic dimension

Similarly to social security, Nordic states commonly provide substantial social support to families, especially to mothers. This includes a sufficient amount of financial support and relatively long maternity and parental leave. In so-called ‘family-friendly’ Sweden, parents are entitled to 480 days of paid parental leave when a child is born or adopted (Swedish Institute 2018). More importantly, not only are mothers entitled to this leave, but parents can also share it equally. It is possible to speak of similar legislation in other Nordic states as well. Thus, the Nordic countries are rather gender neutral compared to other member states of the EU (European Parliament 2016).

This gender neutrality also promotes an overall gender equality within these countries. Nordic states are also expectedly global leaders in this field. According to a detail index from The Global Gender Gap Report (2017) of the *World Economic Forum*, the top-five places are shared among four Nordic countries. Based on another study of the reconciliation policies for social security in the Nordic countries, such policies indeed have a positive influence on the development of women’s employment integration and on fertility rates (Leitner, Wroblewski 2006). More women in employment generally implies a larger labor force and less unemployment in the country. In addition to fertility rates, the common feature of all Nordic countries is the gradually aging population, which does not differ greatly from the other member states of the EU. Hence, effective policies are already required to avoid population decline.

Without doubt, income equality is the main issue in terms of overall equality and providing equal opportunities. In an advanced welfare system with strong socialism elements, such as the Nordic model, equality in the distribution of income is a necessity. This is actually the major success that the model has achieved. In this respect, the *CIA World Factbook* (2015 est.) ranks Finland the most equal country in the world and places all other Nordic states highly in this ranking. From a Marxist point of view, this is not achieved by common property, but through strict and comprehensive economic policies. This will be elaborated in the following chapter. Moreover, income equality is also highly correlated to life expectancy (Hertog 2013). Further research concerning poverty and homelessness shows that “[p]overty and inequality are intrinsically linked” (Naschold, 2002). Numerous other academic sources also indicate the success of the Nordic states in regard to life expectancy, poverty and homelessness.

2.2.3. Political dimension

Even though similar legislation is in force in many other countries, another factor that has an effect on poverty is the existence of comprehensive unemployment benefits in the Nordic states. Social support is not only limited to parental or unemployment benefits, but a comprehensive health insurance system is also provided. This refers to universal health care, meaning that all citizens are insured regardless of their employment status. Many other European countries have actually a similar health care system. Distinctively, the health care in Nordic states are heavily dependent on public insurance. Especially in Sweden, Norway and Iceland, private insurance is either absent or plays a minuscule role in funding the health care for citizens. These three Nordic countries are closely followed by Denmark and Finland. Other EU member states are usually placed between five to fifteen percent in terms of the private insurance funding the health care. In the liberalist US, private insurance provides nearly half of the funding (McAuley 2014). As to the social benefits, Nordic countries rely on a different level of governance (Magnussen *et al.* 2009, 11). However, the social system is highly developed for all Nordic states. These benefits are all provided by people-focused social policies.

Trust in institutions is another important political issue, which is ultimately an outcome of corruption. This can be considered together with trust in others. According to an empirical research mainly based on surveys conducted in the European countries, all Nordic states, except for Iceland, are placed consecutively behind Switzerland with regard to trust in a country's political system. Finland is the top country for trust in the police and Denmark for trust in the legal system. Sweden, for trust in people, is noted being not only the highest in the world, but also remarkably stable. (Ortiz-Ospina, Roser 2014). Therefore, the trust environment in Nordic countries is outstanding. This is naturally supported by the low corruption rates. The *Transparency International* 2017 Corruption Perceptions Index places three Nordic countries in top three in this respect. This comprehensive social system is financed mainly by high taxation in the Nordic states. Nevertheless, other sources that are independent from those above show that the majority of Nordic people support such taxation, that is, the Nordic model with "only a small part of the population that justifies tax evasion despite high taxes" (Nordic Centre for Welfare and Social Issues 2013). Most importantly, all of this data also indicates that the Nordic welfare model is supported by citizens.

2.3. Nordic model as an endpoint of democracies

As previously discussed, despite its downsides, Nordic capitalism can be very successfully and efficiently implemented as in the Nordic states. First of all, it must be clarified that this study considers no model flawless. As countries have evolved in different socioeconomic and geopolitical environments, the models applied have accordingly differed from one country to the next. It must be acknowledged that countries alter their policies as a result of the changes in these environments or in regime. Nordic states, therefore, have also shifted from a model with heavier socialist elements to a relatively less-interventionist form of socialism. As mentioned previously, this alteration can be observed especially in the early 1990's. In fact, the model is the original model with certain modifications and it has not undergone any radical change since then. Policy change obviously does not occur only in the Nordic states, but also in many other countries.

In addition, the Nordic model has been successful in the Nordic countries, but this determines nothing about the model's applicability in other countries. Before entering the main discussion in this section, the Nordic welfare system could regardless become a role model for other countries for certain aspects, such as education or health. Jönsson (2003) describes education in Nordic countries, mentioning the difficulty of a complete gender-neutrality, stating that “[p]articipation of women in education has undergone a strong growth in recent decades, and the Nordic countries are world leaders in this respect”. In an article about the Scandinavian health care system, Magnussen (2009) defines the model's success by describing the Nordic social welfare:

The Scandinavian model of the welfare state has become internationally known. It is characterized by the state playing dominant role in the formation of the welfare policies and a corresponding extensive public sector for the implementation of these policies. Although, there are many country-specific attributes, similar features include a broad scope of social policies, universal benefits, and free or strongly subsidized services.

Magnussen also indicates the principle of universalism. In addition to the welfare policies, the state does play a dominant role in nearly every socio-economic aspect in the Nordic countries. As this is linked to the state intervention, it will be discussed further in the following chapter.

It was also noted previously that the Nordic model is the accumulation of both economic and social policies. Both are directly related to each other for the system to be able to function. As a result of high taxes, Nordic states can actualize high social expenditure and an advanced welfare system. Social expenditure, consequently, can be considered to be one of the most relevant measures to represent the tendency toward socialism; in other words, to understand whether countries already evolve into a form of welfare state or social democracy similar to the Nordic model.

Social expenditure as a percentage of GDP in certain selected OECD countries is listed as follows (see Figure 2):

	1980	2000	2016
<i>France</i>	20.2	27.5	31.5
<i>Italy</i>	17.4	22.6	28.9
<i>Sweden</i>	24.8	26.8	27.1
<i>Germany</i>	21.8	25.4	25.3
<i>Spain</i>	15.0	19.5	24.6
<i>Netherlands</i>	23.3	18.4	22.0
<i>UK</i>	15.6	17.7	21.5
<i>United States</i>	12.8	14.3	19.3
<i>OECD - Total</i>	14.9	18.0	21.0

Figure 2. Social expenditure

Source: OECD 2016

Since smaller states show no noticeable difference from the countries listed above, the table represents economically advanced major OECD states. Only Sweden is displayed from the Nordic states. Accordingly, it is possible to see the change in social expenditure for nearly all of the countries listed above by year. While the Netherlands remains the exception, an increase in social expenditure from 1980 to 2016 can be observed for all of the OECD countries.

Another interesting fact regarding social expenditure, as well as the corporate tax rate, is that the US differs markedly from Europe. Despite the fact that there is also an increase in social expenditure percentage in the US, based on the previously shown data from Andersen (2012, 10), income inequality in both the US and UK has increased since 1985. When it comes to the tendency toward socialism, a survey of American public support for capitalism or socialism shows the support in society for capitalism is 60%, whereas only 35% of Americans are positive about socialism. Interestingly, the figures for public support for socialism reach 55% among the young population and for Americans older than 65 years, it stays below 25% (Newport 2016). Even though it is presumably related to the Cold War and the numbers of socialism supporters are increasing, American society does not seem likely to accept it in the short term. As reflected in research into *Why Socialism Failed in the United States* (Lipset, Marks 2000), Marx and Engels evaluated the sociological differences between the European and American societies. From their perspective, America was a new nation and society. But, despite being the most democratic country, it lacked many of the institutions and traditions of feudal societies. As a result, the US had a “modern and purely bourgeoisie culture”. Marx, therefore, believed socialism could not be accepted by American society.

Another important opinion on social acceptance comes from Rose and Shiratori (1986). According to this research, America and Japan are alike in not accepting socialism or social democracy in a European-style mixed-economy. In Europe, a state is expected to manage the economy and own and coordinate activities by major industries. In the US or Japan, private enterprise is regarded as being responsible “to reap the benefits and run risks” (1986, 6). In Europe, a state is also considered to be responsible for providing welfare for all of its citizens through public education, health service, pensions and unemployment benefits. In summary, the findings in this section generally indicate that there is potentially an increase in the popularity of socialism and perhaps in demand for it, but no information verifies clearly that there is a tendency toward socialism or social democracy. From a theoretical point of view, however, it shows that social acceptance and support for socialism is highly related to a nation’s culture. This will be examined more in detail within the following chapter. Finally, Marx proposed a new world system, predicting that the end has come for capitalism. Unlike Marx, Wallerstein does not predict what the world system will look like in the future, as mentioned in the theoretical discussion, but claims that the capitalist world system has come to an end and it will collapse.

3. APPLICABILITY OF THE NORDIC MODEL

In the previous chapter, it was stated that the Nordic states have altered, or rather updated, the model to suit the changing social, economic and political environment. Andersson and Hilson (2009, 221) comments to this adaptation:

The early 21st century meaning of the ‘Swedish model’ is that of a welfare state that has successfully adapted its social system and labor markets to an area of globalization. This has very different connotations to Marquis Childs’ famous notion of Sweden as a ‘middle way’ between capitalism and communism, the planned society in which the profits of an efficient market economy were steered and redistributed for the common good.

In fact, Sweden still maintains its adapted socialist form of government and the ‘third way’ between capitalism and communism. Based on a research, Antikainen (2006, 235) describes the model as a third way that was forced to prove its credibility and gain the trust of both parties of the Cold War. As to the emergence of the model, lessons from the depression in the aftermath of the World War II, the sustained and rapid growth in the economy and ‘political will’ provided equality and formed favorable preconditions for building the Nordic welfare state. The milestones of the model were substantially defined in the same article: “[C]itizens’ equal social rights, responsibility of public authority (state) for welfare of all citizens, striving towards narrowing of differences in income and gender equality, striving towards full employment.”

In this final chapter, accordingly, a brief history of public demand for socialism in Sweden is also given. This is highly important for understanding the reasons for the model’s emergence. Moreover, the model’s applicability is examined, starting from responding to the question of whether Nordic capitalism actually exists. Afterwards, the study will focus on the application of the model and gather all the findings necessary to come to a conclusion.

3.1. Emergence and evaluation of the model

After the Second Industrial Revolution, industrialized countries started to establish new legislation and social reforms, especially at the beginning of the 20th century. This was in response to demands by the working class. In a very simple way, communism outweighed capitalism in some of these countries, thanks to the influence of Marx. Some countries resisted change and remained capitalist and the Nordic countries compromised by taking the ‘middle way’. This legislation and policy changes were actualized due to social demand and, consequently, public support. Since the Nordic model is a form of social democracy achieved by democratic consensus, any country that can apply the model is expected to be democratic in the first place. As public has the right to vote and the right to choose the candidate they wish for the government, social demand, public support and a determined political party willing to fulfill these public demands are the key factors for adapting the Nordic model in terms of political capacity. This section sets out how the model emerged in the Nordic countries, especially in Sweden. This can lead to the answer of whether Nordic social democracy is an actual, tangible model that can possibly be implemented and applied in other countries or rather a simple historical development of the Nordic states and their way of life.

In a material on Marxist analysis of the Nordic model, Johansson (2012, 48) explains the demand by the working class in Sweden, stating that “Sweden experienced very late industrialization. In the early to mid-19th century, it was an extremely backward country with mass poverty and emigration”. This is also known as the great emigration (Swedish Institute 2018). Post-World War II economic expansion caused capitalism to flourish and the class struggle reached its peak. Johansson (2012, 49) continues to comment on class struggle: “There would have never been a welfare state were it not for the strength of the Swedish working class”. It is also said that Sweden has always been a hothouse for class struggle, experiencing many riots and revolts. In the 1970’s, nearly 100,000 strike actions took place and industrial unrest forced new legislation, ending the golden years of capitalism in Sweden. In the 1980’s, neoliberalism became a global ideology, which affected Sweden as well. In the 1990’s, the ruling class used the economic crisis as an excuse to attack the welfare state, blaming the crisis on a bloated public sector, and with the fall of Soviet Union, the changes in the Swedish tax system mentioned above were introduced.

This means that there was a clear demand for socialist reforms in Swedish society. Similar events occurred in other Nordic countries and, more importantly, socialism was established when social democrats were elected and came to power in similar years, thanks to increasing public demand for socialism in all of the Nordic countries. Thus, the important question here is why this happened in the Nordic states and not in other countries. Actually, the strength of the demand by the working class always has a potential that can cause a tendency toward socialism. Social acceptance plays the greatest role in this. The public can embrace socialism or reject it. As to the US example, the public was affected by the Cold War and, thus, older people were against it, rather than the young generation. Nordic countries, on the other hand, were highly affected by the trend toward communism during the same Cold War period. Alestalo (1986) characterizes the ‘Scandinavian route’ as a peaceful process, as it did not require a revolution, in three transformations: “The increasingly strong position of the peasantry during the preindustrial period which was connected with, [t]he weakening position of the landlords and the power-holding aristocracy as a result of domestic crises and international conflicts thorough which Scandinavia, [b]ecame a peripheral area in the economic and political terms” (1986, 11-12).

Fundamentally, this explains how the demand for socialism could outweigh the resistance by capitalism in the Nordic countries without the need for a Marxist revolution. However, this does not disprove Marxism, because a communist society with common property was not established. The historical development of the Nordic model in Sweden indicates the existence of an actual model that has been changed through time by certain legislation to protect the rights of the working class and meet the demands of the public. In fact, a similar tendency toward socialism happened in Europe, where communism was strongest, with influence from and direct support by the Soviet Union. This also explains the gap between US capitalism and European socialism. However, a number of common features distinguish the Nordic states from Europe as well. Kuhnle (2016) describes these very important features in a conference volume, in *Estonia as a Nordic country*: all five Nordic states are small and have been dominated by the Lutheran Christianity since the 16th century. The historical role of peasants are as carriers of freedom and equality. Long tradition of political democracy, active civil society and strong emphasis on social equality. Most importantly, they are all homogenous and the political culture favors peaceful solutions. Andersen *et al.* (2007, 13) discusses whether Nordic social democracy exists as a model with this statement: “There is indeed a social and economic system that can be usefully be referred to as the Nordic model”.

3.2. Classification of welfare state models

A historical approach of the welfare states is given by Rose (1976):

Historically, the first concern of the state has been the maintenance of public order and the defense of its territory against foreign attack. The second concern has been the provision of transport and communication services required to create a modern economy. Welfare came later as a policy commitment of the modern state.

When it comes to political theory and, specifically, modern welfare state models, *The Three Worlds of Welfare Capitalism* is still commonly accepted in the present day. Esping-Andersen (1990) discusses the three types of welfare states. These are liberal, conservative and social democratic. Nordic countries are categorized as being of the social democratic type of welfare state. Most of Europe belongs to the conservative group, whereas the countries such as the US and Japan are liberals. As is commonly said in Marxist terminology, the higher the state scores in de-commodification, the higher the degree of market-interdependence. In a general sense, more socialist countries are expected to score higher. This is the main classification method that Esping-Andersen used to categorize the welfare states. As an example from his table from 1980, Sweden scores the highest. Anti-interventionist liberalism encourages market solutions or social enterprise for social issues, whereas social democracy pursues interventionist policies to promote equality and de-commodify welfare services, rather than considering human needs to be a tool of profit.

Based on Andersen's classification, Eklund (2010) illustrates the dynamics of power in modern welfare states in the following chart (see Figure 3):

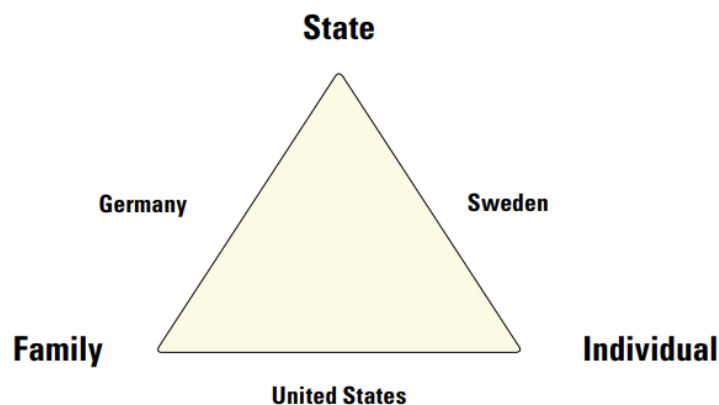


Figure 3. Power relations in modern welfare states

Source: Eklund 2010

In this context, 'state' also refers to the public sector, 'family' to households and 'individual' to the private sector. From an economic perspective, Sweden is a mixed economy, where the state is highly involved in certain economic activities within an economy based on free market. This also shows the positioning of liberal, conservative and social democrat state types in a welfare triangle.

Relative to the illustration above, another position can be defined relative to the social, economic and political dimensions. The power relation of these dimensions for the Nordic states can be illustrated as follows (see Figure 4):

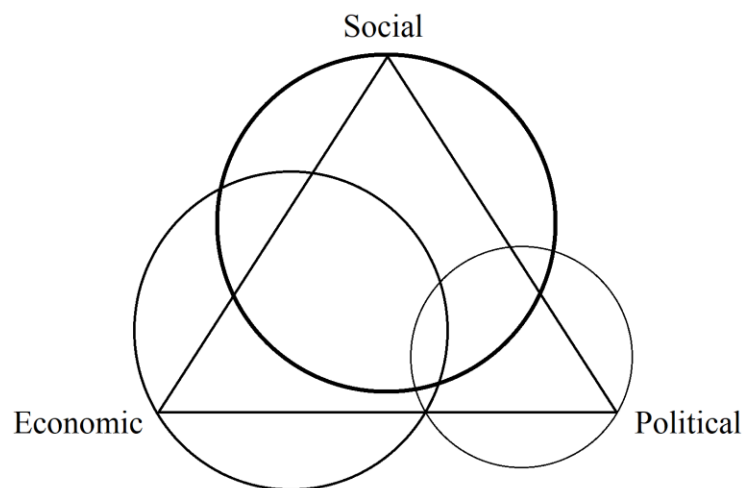


Figure 4. Power relationships of the three dimensions

Source: Completed by author

This power relationship represents the focus in the social, economic and political structure of the Nordic countries. Additionally, it represents the area that each dimension, also displayed as a circle, covers in the triangle above. The social dimension affects nearly every aspect of these countries' main structure. The power relation of these dimensions should obviously be different for each welfare state and the strength of these dimensions cannot be expected to be identical. For instance, the political and economic dimensions of the US are supposedly larger than the social dimension, which should only cover a small area in the same triangle above.

3.3. Application and difficulties in application

Ryner (2007, 62) first answers to the previous research question with that “social scientific research gives us good grounds for concluding that a Nordic model does indeed exist”. Afterwards, he refers to the Esping-Andersen’s identification by commenting that it is only one, “but in recent years definitely the most influential, contribution to such research”. Not the least on the basis of Esping-Andersen’s research, Ryner (2007, 62) specifies the Nordic model with the following definitional features:

A relatively “decommodified” wage relation that is, income and means of subsistence, independent of market forces, are guaranteed to a significant extent.

A high degree of public commitment to employment-promoting policies, flanked by implicit incomes policies and structural policies, characterized by corporatist interest intermediation.

Welfare state universalism, with services and entitlements provided at ‘normal standard’.

A large social service sector, which also provides the basis for high rates of ‘post-industrial’ employment.

[T]he constitution of a relatively ‘women-friendly’ welfare state.

Ryner indicates the similarity to the German model in terms of the public commitment of the Nordic model. However, he also states the sharp contrast to the German and other Christian Democratic welfare models, as well as the British dualism, which provides minimum universal public standards and private alternatives for the rich. Beside the features of these models, Nordic social democracy also counters social stratification. In regard to the large social service sector in the Nordic model, Ryner indicates another contrast with the German model. In addition to the ‘woman-friendly’ welfare state, as also previously discussed in this paper, the Nordic concept aims at establishing a combination of opportunities with the support that is independent of women status as wives and mothers. In conclusion, the model tends to reproduce the conditions of the class accord. Ryner’s research also underlines the differences in the application of the model in different Nordic countries.

Andersen *et al.* (2007, 13-14), while indicating these differences, focuses on the similarities that are more striking and continues to explain the principle features of the Nordic model rather in a general sense:

A comprehensive welfare state with an emphasis on transfers to households and publicly provided social services financed by taxes;

A lot of public and/or private spending on investment in human capital, including child care and education; and

A set of labor market institutions that include strong labor unions, relatively generous unemployment benefits and a prominent role for active labor market policies.

The difference from a classical social democracy in this case is, in particular, higher taxes and deeper socialism. As Andersen mentioned, this high public and private spending is financed by proportionally higher taxes. Unlike certain states in the US and countries such as Estonia, Nordic countries have progressive tax system. Since progressive and high taxes are some of the most distinct features of Nordic social democracy, it also shows clear similarities with classical Marxism. The second measure that Marx defined was “a heavy progressive or graduated income tax”. Nevertheless, there are exceptions like Norway having lower tax rates and some other non-Nordic countries having very high taxes. The common feature of the Nordic model is based on the simple fact that it is hard to be rich or poor. This is fundamentally the main outcome of Nordic social democracy and the approach to providing equal opportunities. The second principle feature given by Andersen is spending on items such as education. The Nordic model is also parallel to Marxism in this respect. The last measure defined by Marx was “free education for all children in public schools”.

Based on the *OECD* (2010) report, 99% of pupils in Norway and Iceland go to public education; whereas in Sweden, it is 90%. These are much higher numbers than the OECD average. Even though these numbers were higher averagely in the Nordic states in the past, Arnesen and Lundahl (2006, 292) comment that “[i]n the Nordic countries, private institutions in practice means government-dependent private, as private institutions without any public funding are non-existent”. As in education, the size of the public service can also be said for the health system of the Nordic countries. As for other measures, Marx refers to the state ownership for everything. In short, the public sector in the Nordic model is rather highly interventionist in the market with the power of the private sector reduced.

All these indicate that a state must have a dominant role when applying the Nordic model. Additionally, as mentioned in the arguments against the model, this dominant role of the state is blamed for being inefficient, and the model not sustainable with high taxes. Relative to this, Eklund (2010) states that “on the whole Nordic capitalism has proved remarkably sustainable, certainly according to the measures and data that we have available today.”

Thus, an informative data is given on the historical increase of GDP (PPP) per capita among different types of European welfare states in the following diagram (see Figure 5):

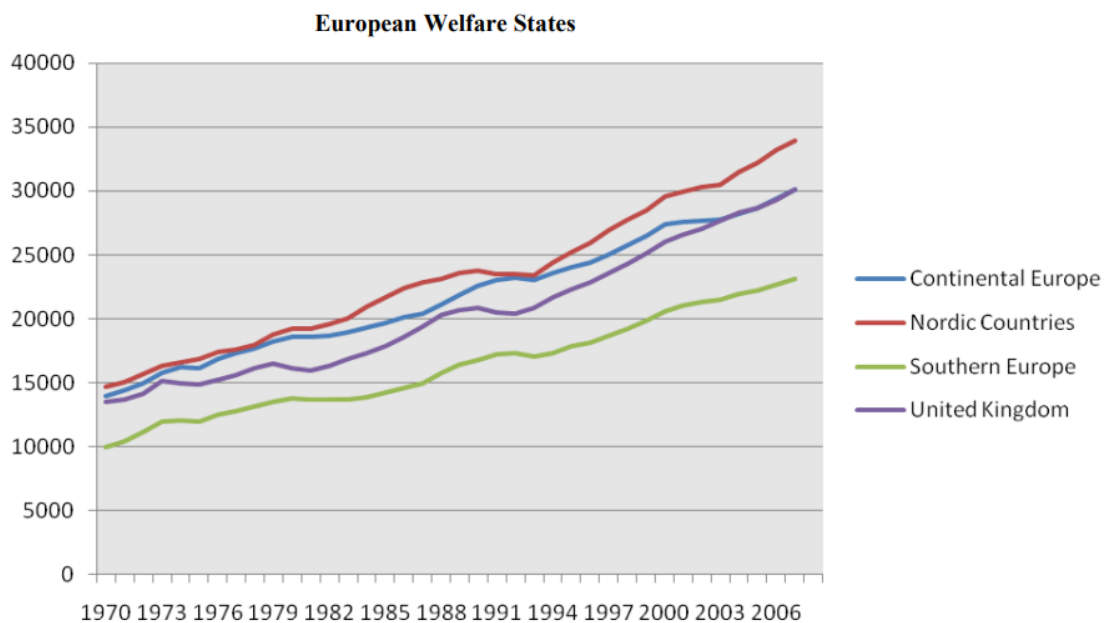


Figure 5. GDP per capita at fixed prices

Source: Alestalo *et al.* 2009

As shown above, the increase in GDP (PPP) per capita of the Nordic countries is noticeably higher compared to other European models, since particularly the Nordic model was established.

Based on the given information and findings thus far, Nordic social democracy can be considerably successful if implemented and applied correctly to establish an advanced social welfare model with competitive mixed-economy and, more importantly, through democratic consensus. As to the application of the model in other countries, the aspects of social acceptance, political capacity and economic sustainability is discussed and concluded in the following section.

3.3.1. Economic sustainability

In terms of economic sustainability, Marx claimed that communism can only occur in a highly industrialized country with advanced capitalism. A wide gap in the distribution of income, and heavy exploitation contribute to the emergence of public demand and social acceptance for socialism. Marx excludes the possibility of communism emerging within developing or underdeveloped countries, because demand would not be sufficient to overcome the resistance of capitalism and establish socialism. Dependency theory claims that peripheral or undeveloped countries cannot become core countries as they are naturally limited. There is another aspect to consider when it comes to economic sustainability. Findings showed that tax rates are not noticeably linked to the economic growth in developed countries with an advanced economy. This situation, however, does not necessarily have to be the same for lower-tier economies. Despite certain exceptions, there is a clear tendency to lower tax rates in these economies and it is, in fact, reasonable for them to do so. Considering the fact that high expenditure on social security can only be provided by high taxes, there is a drawback in increasing the taxes for these countries.

A study of the correlation between tax policy and economic growth in developing countries, in which the Croatian economy was given as an example, Kesner-Škreb (1999) states that high taxes introduce distortions in an economy and result in a loss of efficiency, which is called an excess tax burden or dead weight loss. Higher taxes lead to higher rates of distortion, higher loss of efficiency and consequently, lower growth (1999, 146). The research goes on to explain how it affects the growth, commenting that “[t]axes affect economic growth through various channels: they affect the amount of savings and investments and the amount of supply and demand of labor. By reducing the return on human and physical capital, they distort incentives for capital accumulation and inhibit growth” (1999, 200).

Developing or underdeveloped economies commonly lack industrialization. These countries intend to increase incentives for foreign investors. Even though less taxes affect a state’s budget, it makes the country more attractive for investors and more investors result in economic growth. This naturally applies to both corporate and personal income taxes. If the country is not highly industrialized, it means trade partner companies would be smaller, as would the purchasing power of fewer potential customers, and this restrains businesses from growing. In this case, an entrepreneur in an underdeveloped state would not have a rational reason to enter this country and keep paying most of his limited income to the state as taxes.

The same would not apply to developed countries unless taxes are astronomically high, because the companies can grow thanks to advanced trading partners and the greater purchasing power of more customers. This can be economically sustainable for advanced countries. But, in order to make it a profitable business for investors and attract them, countries with a lower level of economic power need to maintain low corporate and individual taxes. In every aspect, the country rationally needs to have an advanced economy to increase tax rates and to provide a social welfare system and accordingly, apply the Nordic model. This implies that a vast majority of countries are economically eliminated from applying the model.

Nordic states are not struggling with an aging population any more than any other country in the Western Europe. But, considering the dominance of the public sector and the intention to create such a comprehensive social system, as in the Nordic countries, the system heavily relies on people contributing to the public sector more than any other model. The major financial resource for social support, such as public education, universal health care, pensions and unemployment benefits is derived from the taxes of this working population. In a general sense, this is how the model usually operates in the Nordic states.

The net contribution to the public sector over the life cycle or as a function of age is shown in the following manner (see Figure 6):

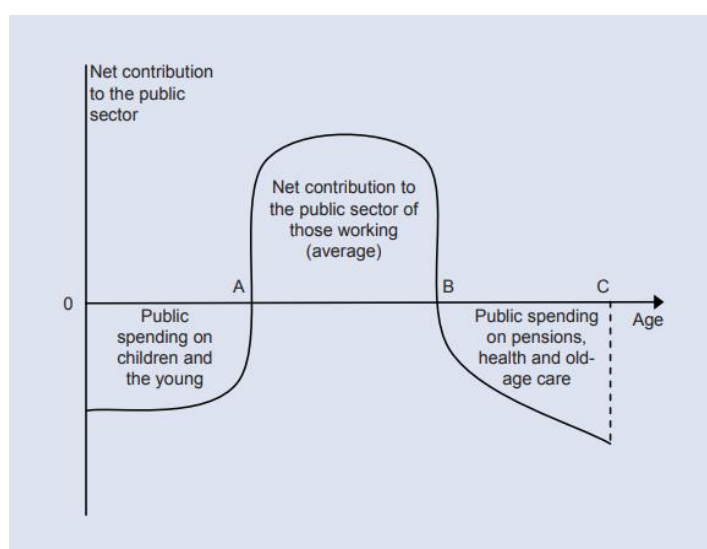


Figure 6. The social contract

Source: Andersen *et al.* 2007

Accordingly, the net contribution by the working population and the public spending on social support must be balanced in such an economic system. Another concern is old-age dependency, which is linked to the Welfare State Sustainability (WSS). The sustainability of the Nordic Welfare system is discussed in a study by Iacono (2017). WSS is formulated in the study as follows:

$$WSS_{i,t}(PSR, SE) = f\left(\frac{PSR_{i,t}}{SE_{i,t}}\right).$$

The equation above represents the potential support ratio and aggregate public social expenditure as a percentage of GDP. Accordingly, the WSS increases when there is an increase in the proportion of the working-age population.

The Welfare State Sustainability of the Nordic countries over the given years based on the same research is shown in the following diagram (see Figure 7):

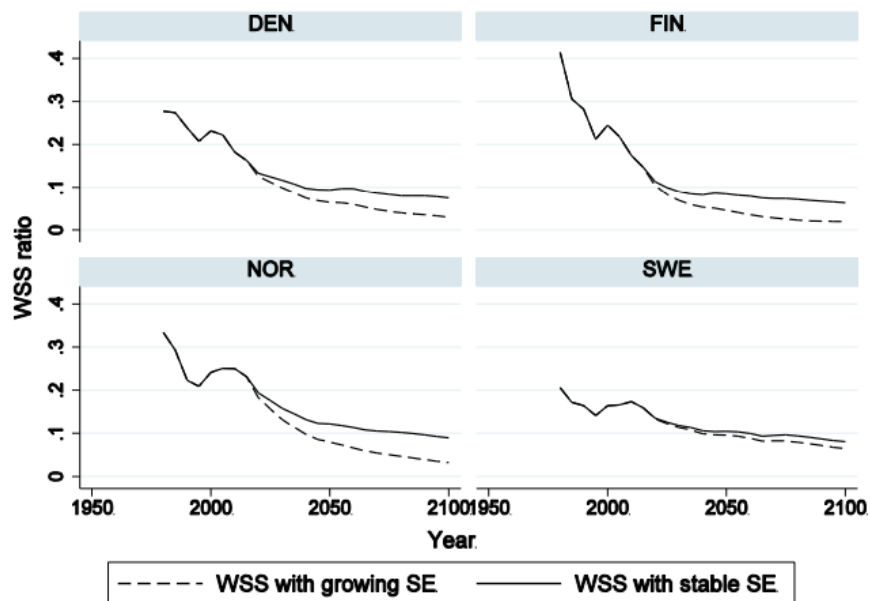


Figure 7. WSS of the Nordic countries

Source: Iacono 2017

As is shown above, the WSS of the Nordic countries has been gradually decreasing. This is highly dependent on the increase in the aged population. In conclusion, the model cannot be sustainable in the countries where economic conditions are not highly advanced and the model carries a high risk of decrease in the WSS due to an aging population.

3.3.2. Social acceptance and political capacity

In terms of the common features of the Nordic states, an important approach comes from the political culture theory in *The Civic Culture*. Almond and Verba (1963) propose four different categories: parochial, subject, participant and a combination of these political cultures can also create a civic political culture. In a simple way, the political culture determines the political direction of the country. According to this theory, the political culture of the Nordic states, which supports peaceful solutions to social and political conflicts, can be shown to be the reason for their reaction to the demand for socialism and maintaining the political concept of democratic consensus, rather than becoming a communist society. For this matter, the democratic consensus could not be assured in every country and the demand for socialism might surely be the reason for deviating from the democratic path, which is likely to result in communism, rather than building a social democracy, as in the Nordic countries.

Aside from the economic sustainability mentioned in the previous section, a social welfare state model is essentially very irrational even for certain developed countries considering their focus. As illustrated in the classification of welfare state models, countries cannot focus on all dimensions equally and expect to be the strongest in all these aspects. An advanced social system would most likely cause political weakness, as in the case with military expenditure. Based on an *OECD* (2015) report on general government expenditures, where the numbers are given rounded, US government expenditure on the military and police as a percentage of the GDP is 15%, which is slightly below the expenditure on social protection at 20%. Government expenditure on military and police in Sweden is only 5% of GDP, whereas social protection covers 42% of all governmental expenditures. In other words, social expenditure in Sweden is more than twice as much as the US as a proportion of their GDP. These numbers indicate the priority the US structure for military and political power. After all, this can be considered the way that the US became a superpower.

Another political aspect is the trust-based system, which mainly relates to the very low corruption levels, of the Nordic countries. This can be linked to both the development and culture of a state. Nevertheless, such welfare systems are vulnerable to misuse. A country is expected to have already achieved a certain level of development and low corruption rates in order to minimize the damage that can be caused by misuse in a social welfare system. Based on the data given in the political dimension of the model, Nordic countries do not carry a great risk of misuse, but it cannot be expected to be the same for countries with a low level of trust and a high level of corruption.

As discussed in the section under the emergence and evaluation of the model, Nordic states have common features. Perhaps one of the most important features was the homogeneity of these countries. A research into the homogeneity and the contextual effects of homogeneity in explaining trust, Öberg *et al.* (2011) present the results of their empirical analysis, showing a strong correlation between the homogeneous societies and trust. Based on another research on the homogeneity or fractionalization of a society from Harvard University, Alberto *et al.* (2002) uses various data and a specific measurement for fractionalization. It is formulated as follows:

$$FRACT_j = 1 - \sum_{i=1}^N s_{ij}^2$$

The formula refers to the share of group in country using ethnic and linguistic variables. According to the data provided in the research, the ethnic fractionalization in certain countries, which were also given in previous figures, are listed as follows (*see Figure 8*):

	<i>Data year</i>	<i>Ethnic fractionalization</i>
<i>United States</i>	2000	0.4901
<i>Spain</i>	1991	0.4165
<i>Germany</i>	1997	0.1682
<i>UK</i>	1994	0.1211
<i>Italy</i>	1983	0.1145
<i>France</i>	1999	0.1032
<i>Sweden</i>	1998	0.0600

Figure 8. Fractionalization

Source: Alberto *et al.* 2002

As shown above, the ethnic fractionalization of the US is expectedly the highest. Europe overall is considerably insulated compared with the US and all other regions. When it comes to Sweden, the fractionalization is significantly lower than in other countries. Similar to Sweden, lower ethnic fractionalization is also observed in all other Nordic states. This high homogeneity of the Nordic countries is shown to be similar in newer sources. However, as the formula is based on Alberto *et al.* (2002), the table above is preferred to ensure the integrity.

In another study on polarization and political institutions, Aghion *et al.* (2002) relate diversity to latitude and low GDP per capita. Moreover, the same research also correlates ethnic fractionalization with strong democracy, although, mentioning that it is not the only factor for strong democracy. The main idea is that in more fragmented societies, a certain group imposes restrictions on political liberty to control other groups. Consequently, it is relatively easier to maintain democracy in more homogenous societies due to less intense conflicts.

As a matter of fact, exceptions like Switzerland, which is a highly fractionalized society, do exist. But as mentioned, the research comments that it is not the only factor, and correlation and causation are not the same thing. Regardless of the ethnic fractionalization and its effect on democracy, political polarization is another factor in the acceptance of society. Polarization is also believed to correlate with the ethnic fractionalization due to the different demands of the society. This is ultimately related to social acceptance and how socialism can be supported by the public.

Finally, the findings in this study indicate that for the Nordic model to be implemented and applied efficiently, conditions such as economic development despite old age-dependency, political will and desire, including a functioning democracy with a low level of corruption, and the social acceptance provided by strong public support and homogeneity are expected to be similar to that in the Nordic countries. Otherwise, the model can neither be accepted by society nor can it be economically sustainable. In a study on the homogeneity *Is Utopia Sustainable?*, Sveen (2015) makes the following statement: “I contend that the Nordic model was only feasible as a government regime due to expansive and concentrated homogeneity in Scandinavia”.

SUMMARY

The Nordic concept that was initially established in Sweden offers a third way between capitalism and communism. To understand this concept and answer the main question of whether the model can be sustainably applicable in other countries, this paper is divided into three chapters. In the first chapter, Marxism-related theories are introduced to theoretically define the Nordic model. These theories support the discussion throughout the paper together with various other theories.

The evaluation of the model's efficiency in the second chapter started with the arguments against Nordic social democracy, which are mainly based on sustainability, immigration, an aging population and high taxes. Unlike the US, the major financial resource of the Nordic states is individual taxes. As for the sustainability, the model is blamed for creating distortion in an economy resulting in a decrease in growth rates. The conclusion here was that the changes in tax rates have no clearly identified effect on growth rates for economically advanced countries. In relation to these downsides, the model's success on social, economic and political dimensions was presented. The major topics on the social dimension were democracy and social security. From an economic perspective, the income equality that the Nordic states provide was considered to be the main aim of the model; whereas politically, trust in institutions and trust in others, as well as corruption, were the primary strengths of Nordic capitalism. This chapter had two aims. First, to understand whether the model can be regarded as successful and efficient, so that another country would have a reason to consider the model's application. Secondly, all of the important matters mentioned above summarize what the Nordic model actually features and offers. Accordingly, it was concluded that the model is highly successful when applied in the form practiced in the Nordic states.

The main argument in the discussion of the Nordic model as an endpoint of democracies is that if the model is as successful as it was claimed to be, it could then be also reasonable to define Nordic capitalism as a role model in the development path of democracies. More importantly, this argument required a discussion on the question of whether democracies already evolve toward a social system similar to which the Nordic countries have developed by a democratic consensus.

The causes of the changes in the Nordic model, specifically after 1991, are related to the need of adaptation to the changing economic environment and the new era of globalization. The Marxist approach in the same section was introduced to theoretically develop the concepts of public support and social acceptance. This chapter was concluded as that there is a potential increase in the popularity of socialism, but no clear indication to support a tendency toward socialism in the countries considered, especially in the US due to cultural differences. The emergence of socialism in Sweden of the following chapter shows the influence of communist trend in the establishment of socialism. This also showed how Swedish society accepted and supported socialism, which is a good example in terms of the social acceptance in a society. All these previous discussions also contributed to the conclusion of the following research question. The Nordic model can, in fact, be considered to be an actual or tangible model that is able to be implemented and applied.

Furthermore, the study is conducted with respect to the dimensions of social acceptance, economic sustainability and political capacity. These also refer to the framework used in this research to explain the applicability of the model in other countries. Thus, the power relationship of these three dimensions and how they are focused in a state model was described together with the classification of three different state models. After this classification and examination of different welfare state models, the general features of the Nordic model were explained to define what the model actually is.

In regard to the economic sustainability of the model, the focus was the incentives on domestic investors, the model economically cannot be sustainable unless the state has an advanced economy and the risk of decrease in the WSS due to the aging population is present. Moreover, it is a requirement that the public must demand socialism, but the political culture of the state must also favor democracy for the establishment of social democracy as in the Nordic states. Regardless, this social system can be misused in a trust-based model, which also relates to corruption. Finally, the findings indicate a positive correlation between the homogeneity of the Nordic states and the sustainability of the Nordic model. In conclusion, the social, economic and political conditions of a country should be similar to that in the Nordic states to be able to apply an efficient and sustainable Nordic model.

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