

The Regional Labour Market Policy Response to Ageing: A Review of the Nordic Countries

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Abstract

The aim of this study is to discuss the Nordic regional labour market policy response to demographic ageing and its consequences on the labour supply. The study proposes to answer the following questions: (1) is there a policy response to ageing and its consequences on labour supply in the Nordic countries? (2) Is ageing and its consequences on the labour supply addressed in regional policies? (3) To what extent are labour market institutions dynamic to ageing and its consequences at the regional level?

The theoretical framework is based upon institutional economics, the segmented labour market theory and the new economic geography. The study does not consider demography as destiny for economic development and that the regional level is a good starting point for analyses on the effects of ageing and labour market. It is also of outmost importance to focus on long-term policies for structural problems. The empirical material is based upon policy documents at European, Nordic, national and regional level as well as previous studies and analyses of demographic and labour market problems.

Employers in peripheral regions face the challenge of a declining labour force due to population ageing, out-migration and low fertility rates. Not until recently have employers however begun to realise the implications of this and started to take action to mitigate these population trends. The labour market policy actions have so far concentrated on the short-term measures. The demographic trend thus calls for more attention to be paid to long-term measures. The policies should demonstrate a diversified approach to develop potential labour supply, because short-term adaptations do not always match long-term perspectives. More attention must be paid on policies to include young adults and immigrants in the labour force; too much attention is paid on keeping the older labour in work while young adults and immigrants are rejected at the labour market.

KEYWORDS: Ageing, labour force, labour market policies, regional diversity

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1 Introduction

In the coming decades the population and work force will become older in the Nordic countries. This process of ageing will be unevenly distributed across the Nordic regions. Young adults are moving out of the periphery, headed for the metropolitan areas, with the result that the ageing in the periphery increases even more. The metropolitan areas will have a significantly more favourable age-structure due to this. Labour immigration can only cover for some of the labour need in the Nordic regions, partly because labour immigrants are reluctant in moving to peripheral areas (Eðvarðsson *et al.* 2007, Rauhut & Kahila 2008).

Generally, what impact ageing will have on the future labour supply is an issue addressing a long-term perspective.¹ This study is, however, on the long term impact of ageing on labour supply in the Nordic countries. The labour force is restricted by age since children and retired people are excluded. People who are long-term sick, disabled, or for some other reason are unable or unwilling to enter the labour market are not part of the labour force. Participation in the labour force is thus *for those who are able and willing*. The labour force participation rates are high in the Nordic countries, partly because of high female labour participation (Jaumotte 2005). During the last twenty years, most of the countries in the western world have relied on various incentives to improve the supply side to reorganise or create positive conditions for growth. Employability can be improved through training programmes, employment services and through subsidies that favour the maintenance of employment for marginal groups (European Commission 2004).² Seen from the perspective of an ageing labour force the supply side and the question of employability of the labour force is vital.

The centrality of ‘employability’ can be found in policy papers at all administrative levels. In the Nordic welfare model the public sector is responsible for employment through the objective of achieving full employment (Garsten and Jacobsson 2004). This has meant that the role of the individual has been superseded by that of the (welfare) state which has actively pursued this role since World War II. Recently, the emphasis has shifted, and more emphasis is now placed on individual responsibility and individual rights. In this perspective, employability can then be seen as a shared risk between state, enterprises and individuals.

Young people face noticeable difficulties to enter the labour market that involves both less qualified and highly qualified people. What it comes to enhance employability in the EU member states, various efforts of labour market policy have shown positive results to increase employment rate of women and recently also to some extent ageing population, but attempts to increase employment rate of young people have still remained limited (Fredericks *et al.* 2010). As a result, they have also restricted opportunities to contribute towards formation of social resources. Youth employment is a challenge especially in Sweden and Finland where high unemployment and considerably lower employment levels pertain among young people (Kahila and Rauhut 2009). The real policy challenge is to eliminate variations in regional growth and remove the various labour market obstacles generated by differences in social background, ethnicity etc.

The Nordic countries have a long tradition of labour market integration as already in the 1950s countries made an agreement that removed formal barriers of labour migration. Since then Sweden has been the main destination for immigrants in the Nordic and today continues to attract almost half of all immigrants to the Nordic countries (Eðvarðsson *et al.* 2007). Persons with immigrant background

¹ The financial crisis in 2009 and short term economic fluctuations with high unemployment and labour market exclusion address short-term problems and, consequently, will lead to a temporary shift towards a short-term perspective.

² The European Union has adapted the concept of employability in its policy formation and education and training are strongly emphasised as a way of improving employability. For instance employability has been adapted to the needs of the European Employment Strategy as it addresses the employability of people through training and the recognition of competences (European Commission 2004).

perform not as well as natives in the labour market and they also generally collect more social benefits than natives. We have to bear in mind that the integration of humanitarian migrants in the labour market seems to be undoubtedly slower in relation to other forms of migration in all countries (Lemaître 2007). Labour immigration has only limited possibilities to meet the labour needs in Nordic countries.

Older workers' participation rate in labour force has steadily decreased in all EU member states, and this early exit can be explained by early retirement and disabilities to participate the labour market (Hamblin 2010). The crucial question is how this downward trend can be reversed, and thereby ease the future financial problems resulting from demographic changes. The misuse of available labour supply, leading to social exclusion and exit from the labour market is thus an issue that must be discussed when analysing the potential labour supply (Holm and Lingärde 2007). Older workers have stronger tendency to exit from the labour force than younger workers and they also have more difficulties to re-enter the labour market after time of unemployment.

The labour market is frequently disturbed by mismatching problems, which very often are linked to structural changes in the economy at branch or sectors levels. Labour markets may at the same time confront both high rates of unemployment and labour shortages. A traditional motivation for labour market policy measures has been to facilitate the matching problems in the labour markets. Regardless of various labour market interventions and training schemes, labour demand and supply do not meet efficiently enough. The matching efficiency in the Nordic labour market has decreased, i.e. the mismatch has increased, in recent decades (Johansson and Persson 2001). There are also large regional differences in labour market matching efficiency (Kangasharju et al. 2005, Hynninen et al. 2006). The reality is that geographic mobility has decreased, people reject low paid low status jobs and finally people are rejected from the labour market (Rauhut and Kahila 2008). This development has a specific influence on younger and older workers. Labour market mismatching problems has generally been engaged to short-term measures and solutions, which are designed to cover the action necessary during the crisis. However, the demographic trend calls for more attention to long-term measures. The policies should demonstrate a diversified approach to develop potential labour supply, because short-term adaptations do not always match with long-term perspectives (Kahila and Rauhut 2009).

The mismatch between labour supply and demand will have major effects to labour mobility. New jobs are normally after a restructuring phase not created in the same branches or locations where jobs were lost during the restructuring phase. Therefore, mobility is an essential part of the restructuring of enterprises and improvements of the employment. The introduction of new technologies and competition between enterprises are the most important motivations behind the change, which leads to the creation as well as reduction of jobs (Magnusson 2006).

However, segmented labour markets, and regional labour markets make that unemployment and labour shortages can coexist in different sectors within a country. Structural transformations of the economy refer to the changes from agriculture, to manufacture and services. Such transformation has altered the labour market in that way, that the greatest demand today is for educated labour in service industries. Globalisation has led to outsourcing of products and services, deregulations and free trade. One consequence of that is that activities and jobs have moved between regions and countries on a larger scale than before. Labour mobility is therefore more common, and regional variations in employment can be considerable (Dall Schmidt & Eðvarðsson 2009).

The aim of this study is to discuss the Nordic regional labour market policy response to demographic ageing and its consequences on the labour supply. The study proposes to answer the following questions: (1) is there a policy response to ageing and its consequences on labour supply in the Nordic countries? (2) Is ageing and its consequences on the labour supply addressed in regional policies? (3) To what extent are labour market institutions dynamic to ageing and its consequences at the regional level?

2 Theoretical considerations

A theoretical framework will be constructed and it is based upon institutional economics, the segmented labour market theory, the new economic geography and theories on the interrelationship between ageing and economic performance. The theoretical discussion will set a number of empirically testable hypotheses.

Most analyses are based on *neoclassical* economic theory and, to some extent, *new classical* economic theory. These two theoretical approaches find very negative implications from demographic change. Other economic theories, with different points of departure indicate other results, though they are seldom heard (e.g. Ohlsson & Broomé 2003).

2.1 Institutional economics

Institutions can contribute to both change and stability in political, social and economic life. Instead of being mere echoes of social forces, institutions, by transcending moral individualism and self-interest, buffer or transform social currents and define the norms, interests and beliefs in society (March & Olsen 1989). According to North (1999) institutions play an important role in a society reducing uncertainty by establishing a stable, though not necessarily efficient, structure to human interaction.

Resource input in the production from land, labour and capital are involved in the transformation of physical attributes into goods and in transacting. Together they constitute the total costs of production. In consequence, the institutional framework can stimulate or obstruct economic change with regard to production inputs (North 1999). This institutional dynamism is vital for progress, economic or social. The more dynamic are our institutions the more prosperous is our society. A prosperous society however leads to vested interests with the aim of rent-seeking, which, in turn, will reduce institutional dynamism. If the dynamism in institutions disappears, so will the prosperity of a country (Olsson 1982, Rosenberg & Birdzell 1986, North 1999, Schön 2000).

Olson (1982) argues that institutions, in the form of organisations and vested interests, can actually create social and economic rigidities due to their rent-seeking activities. According to him (p. 41), “stable societies with unchanged boundaries tend to accumulate more collusions and organisations for collective action over time”. Olson (1982) follows the reasoning of Weber (1947) here, arguing that an organisation can retain its power and influence after its original purpose is long gone. Organisations for collective action take a long time to establish themselves, but the longer the period of time they manage to function the deeper they are able to penetrate society.

By supporting subsidies for unprofitable production and an obsolete economic structure the rent-seeking organisations obstruct the structural change in the economy. They also have a tendency to obstruct innovations in the workplace which would increase productivity, but reduce labour. This issue is a sensitive one during economic recessions (Olson 1982). He also argues that “the accumulation of distributional coalitions increases the complexity of regulation, the role of government, and the complexity of understandings, and changes the direction of social evolution”. More and more complicated regulations arise from the rent-seeking sectors of society, regulations that must be administrated. For this, specialists are needed who will have no incentive to change the current order; they make a living from the current order, so why ‘rock the boat’? At this point, greater effort is spent on preserving the current order than on production and ‘growing’ the economy (Olson 1982).

The institutions and interest organisations of the industrial economy are still strong and are trying to maintain the structure of the industrial society. A structural change towards a post-industrial or service society would benefit society in general and promote economic growth. The remnants of industrial society and the vested interests they represent would however be the losers here.

2.2 The segmented labour market theory

The underlying theme of segmented labour market theory is that the labour market is composed of self-contained sub-markets or segments. One such segment may consist of high-waged, white, male workers, for example, and another of low-waged, female, non-white workers. Ignoring the different identities of these segments and the constraints they place on the workers concerned makes it difficult to understand the nature of labour market disadvantage. Working conditions in the primary segment are generally favourable; there is steady employment and job security, and the rules that govern the organisation of employment are well defined and equitable. The characteristics of secondary employment are less favourable. Work has little job security and there are high turnover rates. There are few opportunities for training or advancement and the work tends to be menial and repetitive.

One way of explaining why segmentation occurs focuses on the evolution of the product markets, from the competitive and the localised to the producer dominated, and from the national to an international market. Technological change makes capital-intensive methods of production possible. Employers, however, are unwilling to undertake large-scale investment unless the product demand is stable and predictable; when demand is variable, labour-intensive techniques are preferred. A growing division is found between firms which cater for stable markets and those in unstable markets. Employers with stable product demand create primary conditions of employment, including, notably, job security. Employers who face unstable demand operate in the secondary segment of the labour market (McNabb & Ryan 1990, Doeringer & Piore 1971).

The key institutions in this study are related to the labour market and the social welfare system. If a shortage of labour appears the relative price for labour will increase, *i.e.* employers will have to pay higher wages if they want to keep/attract labour. As a result employers will respond by charging the consumers higher prices and/or raising taxes (short term perspective) and reduce the input of labour in the production of services or goods (long term perspective). This process can be promoted or obstructed by institutions and the outcome depends on which segment of the labour market sees the change of relative prices for labour taking place.

The *radical changes to the economic structure and its organisation* Piore is talking about are in fact a *structural change* in the economy. The existence of institutions at the segmented labour market favouring a demand for cheap labour to do the work nobody else wants to do imply the existence of strong vested interests. It is implied that these institutions are obstructing a structural change in the economy by their attempt to preserve the current order, hierarchy and structure of the labour market.

2.3 New economic geography

The theory of new economic geography takes into account social, cultural, and institutional factors in the spatial economy when studying the location, distribution and spatial organization of economic activities. This theory is based on a concept in which the introduction of labour mobility between regions implies that the spatial distribution of economic activity becomes endogenous (Krugman 1991). The central message of the new economic geography is that regions with larger populations have a more diversified economy and better grounds for economic potentiality than sparsely populated or small regions. However, new economic geography reflects regional differences with strong endogenous underpinnings, in which regional differences may or may not emerge. In this respect, we may consider new economic geography as a first successful attempt to clarify why similar regions do not undergo the same level of economic development (Behrens & Thiesse 2007).

We may recognize, regionally, some policy issues which are the consequences of these economic geography developments. In general, country specialization in specific branches of the economy and the concentration of industries in regions or countries has conventionally been treated as closely related economic phenomena, if not one and the same (Krugman 1991). Economic activities may have to specialize in order to achieve the increased amount of interactions and thus the learning and growth

stimulating processes. Enterprises in different clusters may also build learning networks in regions where the scale of economic activity is rather low (Cooke 1997). If economic activities from urban regions spread out into other regions, do they attract people and jobs away from more disadvantaged regions or do they distribute growth also to these regions? We may say that within the limits of the population size in a region, an increase in the dynamics of employment is also a way to promote density. Operational labour markets will offer better employment possibilities for people and at the same time more employees to select from for the employer. A flexible labour market can facilitate a transfer of labour from economic sectors in decline to expanding economic activities

The new economic geography has been the foundation for an urban based regional policy. Key concepts in the spatial policies have been economics of scale, regional specialization, dynamic institutions and the flexibility of labour market. The core regions have advantaged environments, with a diversified demand, supply of qualified workers, efficient infrastructure and innovative capacity. Peripheral regions are far from the centre of demand (the core regions), have much lower domestic demand (Gatrell 1999). This theory formalizes the gains and losses of agglomeration by emphasising the causality in location choices: economic activities are likely to locate near the market and the market increases where economic activities are located. Well performing regions tend to represent successful private businesses and branches, but lagging regions are characterized by developments that may reflect the impacts of regional policy measures (Ceccato & Persson 2001).

Maskell (2001) argues that regions without specialisation in advanced economies are not necessarily left in the backwaters of economic development. Adaptation entails the ability to acquire and combine different tangible resources (like skilled and inexpensive labour) and intangible assets (knowledge, partnerships, social relations and institutional trust) to form better local competence for enterprises. This means that enterprises' competences may be put up to create 'localised capabilities' ensuring that the regional environment is unique (Malmberg & Maskell 2002). The agglomeration advantages may be driven on the basis of regional differences in the physical or locational nature, or alternatively on the basis of human capital or external assets, which stimulate regional growth differences as the driving force of agglomeration. It can be argued that the most significant hindrance to employing agglomeration advantages in the Nordic peripheries is the lack of capability to increase the effective use of their institutional structures and operational environment.

2.4 Ageing, the labour market and economic performance

The causality, both in terms of direction and magnitude, between demographic change and its economic effects is, to say the least, unclear. Prominent scholars in the field have concluded that depending on the institutional and organisational changes that take place at the time of the population changes, a population change could lead to positive as well negative economic development (Rosenberg & Birdzell 1994, Easterlin 1996, Kelley & Schmidt 1994, Coppel *et al.* 2001 and Coale & Hoover 1958).

According to standard economic theory, the demand for labour depends on the fluctuations of short-term business cycles. In a short-term perspective, the opportunity cost of replacing labour with capital, *i.e.* investing in new technology, will be too high. If the labour shortage continues, or even worsens, over time, the opportunity cost of not replacing labour with capital will be too high. In a long-term perspective, labour shortage is not about being short of labour, but about lacking the capacity to adjust to the structural changes in the economy (Begg *et al.*, 1987; Wonnacott & Wonnacott, 1986; Elliott 1991; Fallon & Verry, 1988).

It is possible to estimate the effects of changes in the relative prices of a factor commodity, according to economic theory, especially when it comes to the demand for that specific factor commodity and substitution effects. Given the assumption that a company is profit-maximising, the shortage of a factor commodity will result in an increase in its price. As a consequence, this specific

factor commodity will be replaced by another, cheaper, factor commodity. If it is labour that is in relative shortage, capital will be substituted for labour. Elliott states that the “substitution effect distinguishes the firm’s reaction to the change in the relative price of capital and labour, holding constant the scale of production” (Elliott, 1991: 236).

An increase in wages is to be expected when labour is scarce, which leads to an increasing wage ratio in the production. When the marginal cost of a continued increase in production is higher than the marginal cost of substituting capital for labour, institutional, organisational and technological changes will be required in order to replace the scarce and expensive factor commodity labour in production (Fallon & Verry, 1988).

In a market economy, there is really no such thing as a true shortage. If you want more of something, you can simply pay more to have it. When employers say that there is a shortage of workers, what they really mean is they cannot get enough workers at the price they want to pay. If employers raise wage levels more labour is willing to pick up that work, *i.e.* the supply of labour will increase (Björklund *et al.* 1996). The conclusion here is that the changes in labour supply can speed up or slow down the process of structural change in the economy.

2.5 A theoretical synthesis

Ageing will cause a change in the relative supply of labour, ΔL_S , something which will lead to a change in the relative factor price for labour, ΔRP_L . This will stimulate a structural change, SC , in the economy. A structural change in the economy will lead to a relative change in the demand for labour, ΔL_D , qualitatively and quantitatively. A consequence of a change in the relative demand for labour will be that welfare, ΔW , in general terms, will also change. Both the relative supply of labour, L_S , and the relative price for labour, RP_L , will be affected by a relative change of welfare in a broad sense.

The links between L_S and RP_L , between RP_L and SC , and between SC and L_D will, to a large extent, be determined by the flexibility in the institutional framework, ΔI .³ I contain elements from institutional economics, the segmented labour market theory and New Economic Geography. If the institutional framework is dynamic the adjustment to new conditions will be relatively rapid and easy while a static and un-dynamic institutional framework will obstruct a structural change in the economy. The result will then be a long and painful process of adaptation to the new conditions.

Three distinct implications from I can be identified: (i) it is theoretically possible for the actors to keep I at a constant level, *i.e.* no institutional changes take place although changes in L_S , RP_L , SC and L_D take place. (ii) Even if it is theoretically possible to keep I constant when the other variables in the model change. (iii) I is dependent on the context in which it operates. The laws, regulations, norms and alliances that are the lubricants of one economic and social structure may constitute bottlenecks in another. At a higher level of abstraction flexibility may then be expressed as a tendency by I to respond to – *i.e.* be determined by SC and ΔW . If we assume that the flexibility in the institutional framework, I , has a value between 0 and 2, *i.e.* $0 < I < 2$, the flexibility in I can be quantified.⁴

There are several other factors that can change the supply of labour and change the relative factor prices for labour. This means that the causes of a structural change do not have to be triggered by demographic factors at all. Eðvarðsson *et al.* (2007) show that the Nordic regions have experienced an ongoing process of de-industrialisation since the early 1990’s; this de-industrialisation is nothing but a

³ I will then be related to three (metaphoric) elasticities – RP_L , SC and W – that are derived from the synthetic theoretical framework. Two of these variables – SC and W – as well as I cannot be translated to prices or quantities, which is the reason for viewing the elasticities as metaphoric terms. It is, however, theoretically possible to express SC , W and I – in broad terms – together with quantitative indicators. Although the interplay will be very complex in reality, it is theoretically likely that the three elasticities are so strongly correlated with each other in the model that they can be assumed to be functions of one single variable, I .

⁴ Theoretically it is possible for I to be infinite, *i.e.* I will have a value between 0 and ∞ : $0 < I < \infty$. To simplify the model I will have a value between 0 and 2, *i.e.* $0 < I < 2$, in this study.

structural change. The causes of this structural change in the Nordic regions are mainly connected to increasing competition and globalisation (Andersen *et al.* 2007, Neubauer *et al.* 2007, and Eðvarðsson *et al.* 2007). This has, in turn, changed the relative factor prices – not only for labour.

Since not only the supply of labour has an influence on the relative factor prices for labour it is a good idea to use the relative factor prices for labour as a point of departure in the theoretical framework. The model below summarises the reasoning:

$$\frac{\partial SC}{\partial RP_L} \cdot \frac{\partial L_D}{\partial SC} \cdot \frac{\partial W}{\partial L_D} = \frac{\partial W}{\partial RP_L} \quad (2.1)$$

The model shows that the marginal change of RP_L will determine the marginal change of welfare, W . The institutional framework and dynamics must, however, be included in the model. This is done in equation 2.2:

$$I = \frac{\partial W}{\partial RP_L} \quad (2.2)$$

Since the focus in this study is the welfare policy response the model can be expressed as

$$\partial W = \partial RP_L \cdot I \quad (2.3)$$

The model has to be supplemented by a spatial dimension to control for regional differences, both in terms of labour supply and welfare but also in institutional dynamics. The regional differences will be included as i in the model. Furthermore, all changes in the model will not take place immediately after one of the indicators changes; time lags are to be expected and they are labelled $t-n$.

$$\partial W_{i,t} = (\partial RP_{L,i} \cdot I_i)_{t-n} \quad (2.4)$$

In equations 2.3 and 2.4 the importance of a functioning labour market, with dynamic institutions, is in focus; dynamic labour market institutions have an implication on the relative factor prices of labour *e.g.* through the matching efficiency at the labour market (*e.g.* Fallon & Verry, 1988, Elliott 1991, Björklund *et al.* 1996).

2.6 Hypotheses

Derived from the theoretical synthesis three hypotheses will be tested in this study:

- A. There is no explicit labour market policy response in the Nordic countries to ageing and its consequences on labour supply. This is the zero hypothesis (H_0). The alternative hypothesis (H_1) is that there is an explicit policy response.
- B. The policies addressing ageing and its consequences are not focusing the national level in the Nordic countries. This is the zero hypothesis (H_0). The alternative hypothesis (H_1) is that the policies address the national level.
- C. There are many vested interests at the labour market with an influence on regional economic performance and welfare production. These interests will constitute an institutional inertia obstructing an efficient and functioning regional labour market which is able to respond to supply changes at the labour market in a dynamic way. The alternative hypothesis (H_1) suggests that the labour market institutions are static, while the zero hypothesis (H_0) suggests the opposite.

3 Methodological points of departure

The point of departure for this study is that *demography is not a destiny*, that is to say, the future of the Nordic countries will be influenced not only by demographic processes (low birth rate, ageing population etc.), but also by the political and economic choices made by individuals and institutions in the ongoing adjustment process designed to help utilise scarce resources more efficiently. The size of the labour force and the share of the labour force that is actually in work are, however, short-term aspects of economic growth, prosperity and welfare. Long-term economic growth, prosperity and welfare are determined by factors such as e.g. the capability to produce technological innovations, the social capability to adapt to new technology, the educational level of the labour force and the values in society towards economic activity and existing institutions (Abramovitz 1956, 1995; Gerschenkron 1952; Kuznets 1966; Lucas 1988; Romer 1986, 1987, 1990; Rostow 1960, 1990; Solow 1956, 1957. See also ITPS 2008). In the political debate today the short-term aspects of economic growth have a tendency to constitute the main focus of debate while the long-term aspects are seldom considered.

Secondly, at all administrative levels, a new strategic approach to ageing is noticeable. It can be argued that the *regional level becomes more important* in this respect. The regional level has an advantage because it is in close proximity to the complex interaction of factors that describe different patterns of demographic change thus enabling corresponding policy responses on ageing to develop. Regions now also have certain capabilities in terms of policy delivery. They have growing political autonomy and financial recourse to develop ageing strategies that cut across different policy areas and region specific aspects. As such different kinds of combinations of regional ageing strategies dealing with factors related to ageing can be identified.

The regional governance reforms in the Nordic countries are mostly bonded to welfare service provision and to the betterment of administrative efficiency. The pressures on service provision have however resulted in a need to clarify responsibilities between the various administrative levels. In many cases, *regional authorities will take the lead in the process of policy delivery*, especially where regional ageing strategies have already been launched. Broadening the scope of regional ageing strategies, there is a danger that poor policy coordination between the national and regional levels may lead to the delivery of contradictory policy actions. National-regional policy coordination is thus particularly important as attempts to develop ageing strategies are being driven by the regions. National frameworks and regulation nevertheless remain pivotal factors in determining a number of important aspects in the setting out of ageing strategies. National frameworks still decide the most important aspects of the ageing agenda, such as questions relating to retirement, to the structure of welfare services and the labour market. They might not always however correspond to priorities in regional strategies.

Furthermore, the choice between a *macro and micro economic approach* to the problem will have an impact on the outcome of the analyses. Thus far most analyses have only dealt with national analyses of the average population or have simply focused on the impact on individuals. The existing regional and local diversity is, however, ignored. This is surprising since e.g. the European Union is currently advocating stronger regions. The absence of a *meso level* in the analyses is surprising, and is something that has been pointed out in other studies (e.g. Eðvarðsson *et al.* 2007). The meso level, *i.e.* the *regional level*, contains a lot of heterogeneity and variation, both in regard to welfare (ESPON 2006) and demography (Rauhut *et al.* 2008. See also Gaspar *et al.* 2005, ESPON 2005).

Most of the previous studies do not distinguish between *short and long term effects*, declining population and labour shortage when they analyse the economic effects of ageing. What can be a devastating effect from a short term perspective can also produce successful effects in the longer term, and *vice versa*. This *lacunae* in respect of the short and long term economic effects of e.g. ageing, declining population and labour shortage narrows the possibilities for policymakers to make good decisions (ESPON 2005).

4 Current policies

Labour market and employment practices and measures vary between countries. Policies on employability represent a changing agenda rather than a fixed set of permanent and precise measures, which can be recorded and assessed between countries. Employability as such can be approached from individual and institutional points of view (e.g. Garsten and Jacobsson 2004). Employability from an individual perspective includes the notion that it is an individual responsibility to ensure that one is employable in the labour market. Institutional employability can be related to a set of wider issues, in which the notion of employability is seen as a way to make people employable (or ready) for labour market, i.e. different measures and practices like training courses and targeted services are ways of improving employability.

4.1 The European level

At the European level, the Lisbon strategy aimed earlier at full employment, and the strengthening of social cohesion by 2010, (European Commission 2004a; 2004b). The European Union decided at the beginning of 1990s to design an employment policy which focused on the problem of unemployment in most of the member states. The European Commission thus introduced a new emphasis on employment issues and policies in its white paper on growth, competitiveness and employment (European Commission 1993). Since then, employment has received greater attention and has exerted a broader influence at least at the EU level. Specific targets have been defined on overall employment rates (70 %), employment rates of women (60%) and employment rates of older workers (50%) (European Commission 2005). Many member states applied most of these measures more or less successfully.

The European Union organised an Employment Summit on 7th of May 2009 to undertake special actions as a response to the current economic crisis (European Commission 2009). The summit's aim was to fight unemployment and create new jobs. The main outcome of the summit was a broad consensus among participants over directing future employment policy in the member states to increase access to employment particularly to the young while also focusing on upgrading skills, matching labour market needs and promoting mobility. The Summit defined the actions planned to be realized through the Structural Funds including co-financing and legislative measures on the national level. It can thus be expected that these actions will also have an effect on adapted employment policies on the national level.

The Lisbon strategy didn't directly fail to reach its objectives but there was a need to broaden the social aspects of employment. The Europe 2020 strategy (European Commission 2010a) is a successor to the Lisbon strategy. Main target of the Europe 2020 strategy is to turn the EU to smart, sustainable and inclusive economy by delivering high levels of employment, productivity and social cohesion. Inevitably the Lisbon strategy failed to reach its ambiguous targets, not because of its context, but rather, because it did not have any clear instruments to reach the targets (Cantillon 2010). Within the priority framework of the Europe 2020 strategy, the European Commission puts forward seven flagship initiatives, which are meant to commit both the EU and member states. This arrangement will allow the Commission monitor more efficiently target achievements in the member states.

The Europe 2020 strategy has five ambitious objectives: employment, innovation, education, social inclusion and climate/energy. The main target in employment is to achieve an employment rate of 75% by 2020. In order to meet these challenges, the EU has to raise employment rates especially for women, young and older workers by focusing on four key priorities (European Commission 2010b): better functioning labour markets, more skilled workforce, better job quality and working conditions and stronger policies to promote job creation and demand for labour. The EU member states are expected to implement flexicurity approach through concrete national measures in order to enhance

better functioning labour markets. Peoples' employability will be developed through the acquisition of new skills to adapt new conditions and potential career shifts. This priority can be regarded especially important for older workers and also for migrants whose input in the labour market is not fully utilised. Better job quality and working conditions are key issues for older people to avoid early exits from the labour market, and it is also closely related to learning new skills. Job creation is a vital factor especially in regions, which are going through a restructuring phase. Targeted actions like reductions in labour costs may prevent people drifting from the labour market.

In order to reach the set 75% target, it is important to concentrate on increasing the employment rate of *young and older* workers. National governments need to have active ageing strategies to make it easier to enter and to stay in the labour market. These efforts need to be, however, supported by various policies targeting to job creation and labour demand. It is not enough to ensure that people will stay active and obtain the proper skills to enter to the labour market.

4.2 The Nordic level

The Nordic policy agenda is based on a balance between individual obligations and rights and the responsibility of the public employment service to assist unemployed people. This interaction refers to the individual's right to employment and to their obligation to remain employable, while the public employment service is obliged to look for and register vacant jobs. The Nordic countries have implemented different policies and approaches in respect of the total individual working life. In Denmark and Iceland, there have not been specific reasons to restructure the pension systems, because people have longer working histories in comparison to other Nordic countries.

The Nordic countries have put into operation several measures to increase female and older people's employment rates in order to reduce the outflow from labour markets. Active policies between the Nordic countries share similar approaches because of the common state structures and similar population and societal characteristics. They have also applied similar policy approaches at the Nordic level, but it appears that the Co-operation Programme Labour Market and Working Environment 2005-2008 (*Nordisk Ministerråd* 2005) was not successful in influencing individual policy choices in the Nordic countries.

The programme stipulated that the Nordic countries should, in the context of their employment policies, pay more attention to population ageing in the labour market and develop an active and inclusive working life. Despite this common programme, the Nordic countries have not included matching instruments or approaches in respect of current and forthcoming challenges in the labour market (Rauhut and Kahila 2008). The welfare state model is similar across the Nordic countries though the major challenges currently faced in respect of labour market issues are not commonly addressed. Additionally, the high current rate of public expenditure in the Nordic countries may put additional financial pressure on the welfare policies of the future.

The similarities between the Nordic countries is also discernable in the cooperation between employers, employees and government, the active labour market policy and the guarantee of a healthy and safe working environment. The purpose of the Co-operation Programme *Labour Market and Working Environment 2005-2008* was to influence working procedures with the public sector in particular beginning to react actively to manage age related questions in employment (e.g. Piekkola 2006).

Various aspects of marginalisation have evolved rather differently across the Nordic countries both as a result of changes in the labour market and in society more generally. Formerly, members of particular social groups, such as women, young people and immigrants were, more or less directly integrated into the labour market. Most European societies are now facing structural labour market problems and the integration of different social groups into the labour market is no longer a simple process. For instance, immigrants without a legal status are excluded from the labour market.

Moreover, the forms of labour market integration for older people have radically changed during the past thirty years, as instruments in respect of early retirement have, for instance, been applied in order to reduce the number of workers (Maltby *et al.* 2004).

The new Programme for *Nordic Co-operation on Working Life 2009-2012* concentrates on advancing employment and labour market policy, the working environment and labour law (Nordisk Ministerråd 2008). The content of the programme is, in relation to previous programmes, somewhat more focused on the structural sustainability of Nordic labour markets. Programme initiatives include the employability of potential labour market groups, but they are now also targeted to sharpening the requirement of individuals to accept work when offered. A red line running through the programme is however the intention to protect and develop the 'Nordic model' by maintaining the goal of full employment.

The general impression of the Nordic welfare state model outside Nordic countries frequently stresses the close relationship between labour market incentives and social welfare policy which permits people to live by means other than labour. This safety net was however principally designed to give people a chance to change employment and recover from unemployment in order to enter the labour force again – not to simply avoid labour. Currently, the economic crisis and the shortfall in public financing are endangering this system of 'safe return' to the labour force.

4.3 National policies

Current policy in each Nordic country includes some sort of reform of the national pension system. Finland has undergone the most profound change in its pension system while pushing through important policy changes. According to Kyyrä (2010) there has been two sorts of policy changes in Finnish pension system. First, smaller revisions were introduced in 1990s and more fundamental changes were effective from 2005. This latest change included reduction of benefit ratios as replacement rate was linked to expected life span and to retirement age. Second, the pension funding was increased and the state indebtedness was reduced. At the other end of the scale Norway has reacted more slowly to the challenges posed by population ageing. National differences thus remain clear explanatory factors behind these policy choices. Finland has recovered from a severe economic restructuring process and has conditioned its policies on the basis of an ageing population, whereas population is ageing more slowly in Norway while the strength of the public financing system has meant that policy reform or redirection in this regard is not so pressing. Sweden also lacks a comprehensive strategy to advance the labour market situation of ageing people, and the policies have thus far developed almost solely in relation to the different incentives related to welfare services. Targeted policies to improve the attitudes of employees towards ageing people in the workplace have not been tried. Iceland and Denmark have as yet not seen any reforms or remarkable changes in pension system. The Danish system comprises more practical solutions than political decisions, while pension system has been reformed in the case of labour market or economic crisis on the basis of agreements between governments, political parties and trade unions (Kangas *et al.* 2010). People are also longer in Denmark involved in the labour in relation to other Nordic countries. The statutory retirement age was reduced in 2004 from 67 to 65 in Denmark, and in Iceland it is still 67. Both countries have in recent years however introduced new policy approaches to develop the position of older people in the labour market.

The co-ordination of labour market policies and social policies is a necessity in order to mainstream social inclusion problems into various sectoral policies. In Finland less attention has been paid to the integration of labour market policies, income support schemes, and public services all of which have been developed separately within their individual legislative frameworks (Begg *et al.* 2006). The only area where Finland has been a frontrunner in Europe is the application of an integrated approach to population ageing.

One other possible solution would be the incorporation of provisions to compensate for the risk of career interruption into pension benefits, or the transformation of pension or unemployment benefits into gradual retirement schemes (Schmid and Schömann, 2004). Finland has used a combination of several measures to increase the employment rate of older workers by over 15% in the past 10 years, including pension system reforms, specialised training, measures to improve the welfare of older people in the workplace, and targeted subsidies for low-paid jobs (European Commission, 2006). One important issue is to reduce disability benefit enrolment rate of older workers. It seems to encourage employers to take preventive actions to diminish the leave into sick leave, and also, lay stress to get their employees on sickness benefits back to work (Korkeamäki & Kyyrä 2010).

During the past two decades Danish labour market policy has developed in the favourable wind of international economic trends and succeeded in producing remarkable results. Danish employment policy has targeted economic feasibility, in which a traditional rather liberal and unregulated labour market is combined with normal unemployment protection. The structural dynamics of the Danish labour market have been described by the term “flexicurity”, which is a system that combines a high degree of flexibility with social security (Bredgaard *et al.* 2009). The flexicurity model combines labour market flexibility and welfare state security and at the individual level blends a short spell of unemployment between two jobs. Persons who are in danger of falling out of the labour market see that the active labour market policy provides a possibility to improve their qualifications and thereby advance their potential for labour market reintegration. The Danish flexicurity model has received more attention and political weight as it has been designed one of the cornerstones in the Europe 2020 strategy.

The Danish action plan ‘*More people in work*’ from 2002 expects that active labour market policy has to be made simpler and more effective, and the focus in terms of labour market policy has to be on the activation of directly qualified persons. This expectation level directly relates to the implementation of the ‘flexicurity’ model (OECD 2003a). Simultaneously, initiatives in respect of young people will be developed and the integration of refugees and immigrants will be implemented (OECD 2006). The plan also stressed the need to focus on the employment of older unemployed persons who have left their work early or who had faced difficulties in re-entering the labour market. In the new Denmark 2020 strategy (Danish Government 2010), employment is one of the ten main goals. In the short term, Danish government will target measures towards young people and migrants and make it easier for dismissed people to enter back into the labour market. In the medium term, the Danish government proposes a change to the early retirement pension scheme and encourage students to complete their education programmes sooner.

The Norwegian efforts to eliminate obstacles and to better manage the various processes of exclusion in the labour market have been rather modest. For instance, Christensen (2003) argues that the concept of active ageing has not attracted much attention in terms of policy formulation, and the basis for policy reformulation has been grounded on a negative definition of ageing as such. The OECD report on Norwegian ageing and employment policies (2004) stresses that the older workers need to be better supported in their desire to participate longer in the labour market, and that this policy requires a comprehensive reform strategy in order to enhance the work incentives set out in the welfare system.

In recent years, Norway has experienced a better employment situation and lower unemployment rates than other European countries because of the strong GDP and productivity growth (Duell *et al.* 2009). There remains however a large group of people who are not unemployed but are nevertheless outside the labour force on long-term sick leave or vocational rehabilitation. As in many other countries, Norway will in the future face a problem in terms of a shrinking labour force and thus a labour shortage. In addition to the question of ageing there is also a need to enhance the labour force participation of other potentially excluded groups such as immigrants and young people. In its 2004 report, the commission to reorganise the employment and welfare administration stated that the main

goals for labour market policy had generally been met, but there were still some improvements to be made in activating marginalised groups like immigrants and older people (Christensen 2006).

Sweden has a long tradition in terms of active labour market policies which have been implemented side by side with the development of the welfare state (Junestav 2007). The policies have targeted the general development of the labour market and upgrading skills across the labour force in order to achieve full employment in the country. A number of important steps have also been taken in relation to improving the labour market participation of older workers, but these incentives should also be reinforced and targeted on the demand side in the labour market (OECD 2003b). The inflexible standpoint of some employers is however, in part, said to be inhibiting the possibilities of employing older workers (Cf. *Finansdepartementet* 2007).

Labour market activation is not unambiguously defined in the labour market terminology in Sweden. Several reforms have taken place over the last ten years in the Swedish labour market. Reforms have included intentions to activate labour market policies so that unemployed people will have more personal responsibility in terms of finding a new job with them now having to face a number of new 'activation requirements' in return for receiving income support from the state (Köhler *et al.* 2008). This has meant that the focus of labour market policy has shifted from training and subsidised programmes to long-term activation measures in order to improve the matching process in the labour market.

In relation to the other Nordic countries, ageing is not a significant challenge in Iceland, because the age distribution is rather positive and the number of retirees will remain low. Iceland does not currently apply any specific programmes or incentives to reduce or prolong labour market participation of its older workers. Labour immigration flows have been rather strong in Iceland which has faced a sharp increase in demand for migrants while continuing to show high participation rates among immigrants (Rauhut & Kahila 2008). The economic collapse in Iceland at the end of 2008 has, however, changed the whole setting in the Icelandic labour market. The labour market situation has taken a full turn and worsened rapidly. The creation of new jobs has stagnated and in some cases Icelandic people have started to look for new employment opportunities in other Nordic countries, and in Canada.

4.4 The regional level

It is necessary for regional strategies and policies to understand the impact of population ageing and the necessity to develop a strategic response. Regional demographics are often unique and regions thus require detailed assessment and responses. The regional level needs to retain a strong emphasis, mainstreaming the regional dimension into national policies and structures. There is, moreover, a need to apply greater functional coordination between the national and regional levels but also between the regions themselves. Possible future actions should include supporting effective coordination at the regional level and facilitating information exchange.

The regional level and regional organisations are gaining in importance in respect of the governance of all European Member States, and the strategies and policies they develop and deliver will thus have an important impact on the economic and social development of their regions. These regional strategies and policies are being developed at a time of profound change both within Europe and internationally (Rauhut and Kahila 2008).

European Union policies emphasise the importance of a greater devolution of responsibilities and tasks as well as the integrated delivery of labour market and social services (European Commission 2002). The labour market policy integration of services will bring clear advantages as services for disadvantaged people can be organised separately with sufficient resources and qualified personnel. Welfare and work are now ever more connected in terms of different measures of activation and rehabilitation.

Kahila and Rauhut (2009) conclude in their study that labour market competences are set rather uniformly across the Nordic countries though differences remain in the upward and downward modification of powers and tasks. The Nordic countries have an additional common feature in that they use integrated activation arrangements between social and labour market services at different regional tiers.

The governance mechanism in the integration of services comprises the creation of combined and simplified implementation elements such as jobcentres and one-stop-shops. This has also required new modes of policy implementation, organisation, and delivery of services. Functional policy reform has been evident in all Nordic countries extending its influence far beyond employment and social policies. Reforms and new modes of policies, i.e. flexible solutions in labour market services, reshape relations between societal organisations, between private and public actors and between the state and citizens.

The national level in the Nordic countries retains a significant degree of power over regional labour market services. The regional level will however undoubtedly receive more power to influence its own actions but real power in defining labour market schemes will, ultimately, remain at the national level.

It must be questioned however why no policies addressing the regional level have been implemented. This is surprising, especially as the challenges ahead are regional rather than national.⁵

4.5 Conclusion

Although the Nordic countries show marked similarities in terms of socioeconomic and social conditions, there are also marked differences. When the conditions for young adults to establish themselves in the labour market are examined significant variations emerge – even if the general ambitions of welfare policy are similar. Recent studies show that young adults experience considerably less favourable labour market conditions in Finland and Sweden than in the other Nordic countries (Cf. Olofsson and Wadensjö 2007).

Significant differences can also be found between the Nordic countries regarding labour market performance for persons with an immigrant background. Large differences between the Nordic countries as well as significant intra-regional differences within the Nordic countries exist in respect of long-term sickness leaves and early retirement. Most of the implemented policies deal with the issue of how to keep ageing labour in the workforce and postpone labour market exit for ageing workers. Ineffectual attempts have, in addition, been made to improve the situation for e.g. young adults and persons with an immigrant background. To a large extent ageing, welfare provision and labour supply are *regional challenges*. Alas, the policies implemented thus far address only the national level.

5 Policy designs in the Nordic countries and regions

In some peripheral regions with a “labour shortage” only two in three persons of working age are actually working (Rauhut and Kahila 2008). This indicates that the supply of potential persons to the labour force is not the main problem in respect of the labour supply, but rather that the institutions in the labour market continually fail to allocate labour efficiently and thereby fail to fill the vacancies. This potential labour reserve of those able and willing to work can, however, only be utilised if there is a real demand for the kind of labour which this group contains. If employers continue to reject e.g.

⁵ Several studies on the division of responsibilities between state and region as well as on which administrative level the major regional challenges should be addressed have concluded that the challenges are regional. To meet these challenges the lines of responsibility between state and region need to be clarified. By tradition the regional level has been weak in the Nordic countries (Aalbue *et al.* 2008, Karlsson *et al.* 2009, Moxnes Steinecke 2009).

persons of 50+ years, immigrants, single mothers, young adults and those from the ranks of the former long-term sick no changes will take place.

The inclusion of marginal groups at the labour market has been on the policy agenda for quite a long time. Many reforms and programmes have been launched to address these issues, but no major changes can be observed. The main issue to be discussed here is why these efforts to include marginal groups in the labour market, groups which constitute a potential labour supply, have not been as successful as desired.

5.1 Institutional inertia and vested interests

Andersen *et al.* (2007) argue that the institutions governing the labour market and the educational systems need to be reassessed and remodelled. The authors also emphasise the need for the Nordic population to work more and longer and the easiest way to reach this goal is to improve the employment rates for marginal groups (e.g. young adults, persons with an immigrant background and persons aged 50+).

It is also important to define the core activities of the welfare state, set the limits for what the government is responsible for and enhance the efficiency of public services. By reforming the public services, the labour market and educational institutions the foundation of the 'Nordic model' can be defended even if ageing and globalisation put it under pressure. "What has worked well in the past is unlikely to be good enough in the future" (Andersen *et al.* 2007, p. 158).

Rauhut and Kahila (2008) argue that there is a mismatch between the labour market institutions and the functioning of the production system. While the production system in a post-industrial service economy is different, it is often the case that the labour market institutions lag behind and often remain tied to the policies and dictums of the industrial economy. Labour shortages, a mismatch between job-seekers and employers, low mobility, labour market segmentation etc., are all outcomes of the inertia in the labour market institutions and their inability to quickly adjust to the post-industrial economy.

Many of the institutions and interest organisations of the industrial economy are still strong and continually attempt to maintain the structure of the industrial society. A structural change in the direction of a post-industrial or service economy would benefit society in general and promote economic growth. The remnants of industrial society's vested interests groups would however be the losers.

The conclusion by Rauhut and Kahila (2008) is that the development we see today is a predictable outcome of an unfinished or incomplete structural change in the economy. The vested interests of the industrial economy are unwilling to enter the post-industrial economy. Institutional dynamism is therefore vital for progress, both economic and social. If the dynamism of its institutions disappears so will the prosperity of the country.

There is already an extensive theoretical literature on this topic. Institutions can contribute to both change and stability in political, social and economic life. Instead of being mere echoes of social forces, institutions, by transcending moral individualism and self-interest, buffer or transform social currents and define the norms, interests and beliefs in society (March and Olsen 1989). Institutions play an important role in a society reducing uncertainty by establishing a stable, though not necessarily efficient, structure to human interaction. Resource inputs in production terms from land, labour and capital are involved in the transformation of physical attributes into goods and in transactions for those goods. Together they constitute the total costs of production. In consequence, the institutional framework can stimulate or obstruct economic change with regard to production inputs (North 1999).

This institutional dynamism is vital for progress, economic or social. The more dynamic are our institutions the more prosperous is our society. A prosperous society however leads to vested interests with the aim of rent-seeking, which, in turn, will reduce institutional dynamism. If the dynamism in

institutions disappears, so will the prosperity of a country (Olsson 1982, Rosenberg and Birdzell 1986, North 1999, Schön 2000).⁶

One of the hypotheses constructed in the theoretical part of this paper suggested that the labour market institutions are static due to the many vested interests at the labour market with an influence on regional economic performance and welfare production. The zero hypothesis (H_0) suggested the opposite, i.e. that the institutions are dynamic. These interests appear to constitute an institutional inertia obstructing an efficient and functioning regional labour market and, consequently, the institutions are not able to respond to supply changes at the labour market in a dynamic way. The findings in this paper indicate support for this hypothesis.

5.2 Policy norms

Many short-term policies have been launched, *e.g.*, the raising of the retirement age, enabling older people to work longer, changes in labour market legislation to favour older workers and the promotion of labour immigration. Rauhut and Kahila (2008) show that few, if any, medium to long-term policies have been launched and implemented to deal with the upcoming challenges of the welfare burden, *e.g.* related to the ageing of the population. At first glance this may seem odd, but not when a fuller picture is understood.

The introduction of ‘flexicurity’ and the liberalisation of the labour market could *e.g.* improve matching between jobseekers and employers thus increasing geographical mobility. These suggestions are not only highly ideological in nature but also challenge the interests of many vested interest groups. The same can be said of providing tax incentives to make labour move in the desired direction or even to make it (re)enter the labour market.

The same problem emerges perhaps even more clearly when discussing long-term policies and one such policy is to promote the necessary structural change in the economy which would enable the post-industrial economy to create its own labour market institutions. This would not only produce new institutions, but also a different type of demand for labour. Again, this is something which seems not to be welcomed by the vested interests of the industrial economy.

Rauhut and Kahila (2008) conclude that the short-term policies adopted thus far are simply designed to prop up the basic structures of the industrial economy, which suits some vested interests just fine. Medium to long term policies to address the dysfunctional nature of the labour market and the challenges related to ageing actually ‘rock the boat’ and challenge the current institutional order. A structural change means that old structures and static institutional arrangement collapse to make way for expansive structures and dynamic institutional arrangements. The most successful regions of today may not necessarily then be the winners of tomorrow.

Policy norms in respect of employability potential are built upon the notion that the current order should be preserved. Therefore, to change the organisational setup the policy norms must change, which has been pointed out by *e.g.* Andersen *et al.* (2007) and Rauhut and Kahila (2008).

The first hypothesis which was set up in the theoretical section stated that there is no explicit labour market policy response in the Nordic countries to ageing and its consequences on labour supply. The zero hypothesis (H_0) suggested the opposite, i.e. that there is an explicit labour market policy response to these questions in the Nordic countries. The findings in this paper show that the main policy efforts to counteract the effects of ageing have been to postpone the retirement age while little (if any) effort has been made to include young adults and immigrants on the labour market. The conclusion is

⁶ Olson (1982) argues that institutions, in the form of organisations and vested interests, can actually create social and economic rigidities due to their rent-seeking activities. According to him (p. 41), “stable societies with unchanged boundaries tend to accumulate more collusions and organisations for collective action over time”. As a consequence an organisation can retain its power and influence after its original purpose is long gone (Weber 1947). Organisations for collective action take a long time to establish themselves, but when they are established social collapses *etc.*, is often needed to make them disappear. The longer the period of time they manage to function the deeper they are able to penetrate society.

inconclusive. While there are explicit labour market policies in most Nordic countries⁷ to deal with the effects of ageing on the labour market, they appear to include the elderly work force only.

5.3 One-size-fits-all

Rauhut and Kahila (2008) find that the policies to improve labour market imbalances in the Nordic countries have been implemented on national level, and welfare service provision has been national or local. The labour market imbalances are embodied predominantly on regional level and, therefore, require regional approach. Within this regional context, could we expect that welfare service provision is also to larger extent a regional and not national or local challenge?

National regulations and frameworks decide the most significant aspects of the ageing agenda, such as questions related to retirement, to the structure of welfare services and the labour market. The provision of welfare services is sensitive to administrative reforms. Therefore national-regional policy harmonization is crucial element of policy delivery. Major challenge is to find ways to modify welfare system in order to encourage efficiency and improve labour market incentives (Kahila & Rauhut 2009).

The policies used to deal with labour market problems have been designed to solve the problems in an industrial economy on national level. This has been the reason for the moderate results in solving the problems of the post-industrial economy on regional level. Since the problems at the post-industrial labour market are somewhat different than the problems at the industrial labour market, the policy tools must be designed to deal with them. This means that new ideas, new trains-of-thought and long-term visions are needed to design new policies in regions, and labour market institutions must adjust to the post-industrial reality. The conclusion drawn from this discussion is that an increasing regional diversity on the labour market and ageing have made policies in line with a “one-size-fits-all” ideology outdated. Nevertheless, we still hang on to it.

The second hypothesis suggested that, despite the regional character of ageing and labour market challenges, ageing and its effects on the labour market are dealt with at a national level. The zero hypothesis (H_0) suggested the opposite, i.e. that policies addressing ageing and its consequences are not focusing the national level in the Nordic countries. The results in this study indicate support for the tested hypothesis.

6 Discussion and conclusion

The aim of this study is to discuss the Nordic regional labour market policy response to demographic ageing and its consequences on the labour supply. To do this three questions needed to be answered: (1) is there a policy response to ageing and its consequences on labour supply in the Nordic countries? (2) Is ageing and its consequences on the labour supply addressed in regional policies? (3) To what extent are labour market institutions dynamic to ageing and its consequences at the regional level?

The historic aim of the Nordic welfare systems has been full employment. Labour markets in the Nordic countries have been better at activating the labour force as compared to other European countries. Current high employment rates in the Nordic countries may in the future be difficult to match. The existing challenges in the Nordic labour market are relatively limited compared to the emerging challenges in other European countries like in Italy or Germany. The general problems in the labour market are adequately addressed; undoubtedly however disadvantaged groups nevertheless remain and require more attention.

⁷ Ageing is not an issue on Iceland and Norway.

Population ageing is usually viewed as a challenge at the national level. Regional differences regarding population development and age-structure will put pressure on the labour market. The labour market is however already in some regions not operating efficiently. Regional disparities related to population ageing are not adequately addressed, but in many cases the major hurdle to an active regional approach lies in national level decision-making and regulation. What is needed then is more room for regional policy approaches.

Currently the general approach to the question of ageing focuses, in the main, on the negative aspects associated with increased spending on pensions, direct labour shortages and naturally on challenges in the field of welfare services. The focus should instead however be directed towards finding flexible solutions to helping older people stay in the labour market while supporting active ageing. Similarly, the national level should not only be in the spotlight, regional solutions have also to be considered in shaping new responses to population ageing. Policies should be pursued at an appropriate level.

Questions over the retirement age are often placed on the back burner although discussion over the issue continues. The retirement age is however only a short-term measure in the labour market, because the main concern is to better utilise the potential labour force in as efficient a manner as possible. Flexibility in the labour market should also underscore the provision of incentives to individuals to help them change their behaviour in respect of working longer after retirement age is reached. Attitude changes towards older people in the labour market have to be advanced, while support for “active ageing” should also be advanced thus helping to sustain people in the labour market for longer. It is valuable in the changing labour market to thus consider the advantages of hiring older workers where their valuable experience and willingness to work different schedules and serve as mentors can be seen as positive benefits, rather than simply viewing the older age population as an additional cost that needs to be compensated for.

Regional differences in population ageing and potential labour supply exist. In the Nordic countries, a considerable number of people leave the workforce before the official retirement age. This will further increase regional disparities and accumulate problems in regions which already today are in difficulty. If regions are ageing in different steps, flexibility is required not only in the labour market but also in view of the retirement age. This would increase the need for regionally differentiated pension plans.

Immigration is thought by many to be the solution to the problem of labour shortage in peripheral regions. Some employers have used immigrants to fill vacancies for which there have been no local applicants. Immigrants have also played an important role in the economic development of many peripheral regions, but it is unlikely that they will do so in the future. First, the volume of needed immigrants is so high that it is unrealistic that this method would offer a sustainable solution. Secondly, immigrants offer no long-term solution to labour shortage – only a short-term solution. Finally, immigrants tend to cluster in metropolitan regions. The political question that emerges then is to what extent a settlement policy for immigrants should be implemented: the immigrants must reside where they are needed and not where they want to live. The problem is that EU-citizens must be allowed to settle down wherever they chose to do so.

There are several groups in the labour market who require special attention because of the severe employment situation. Youth employment is a challenge especially in Sweden and Finland where high unemployment and considerably lower employment levels pertain among young people. Thus it is clear that the situations and experiences of the various Nordic countries are not the same. The fundamental policy implication is however that these dissimilarities reflect the diversification evident at the regional level. The variations at the national level are important to reveal and discuss, but the real policy challenge is to eliminate variations in regional growth and remove the various labour market obstacles generated by differences in social background, ethnicity etc.

Social exclusion is in the first place a consequence of the fact that people, for one reason or another, do not have a connection to the labour market. People who are socially excluded do have

difficulty in re-entering the labour market again, especially during an economic recession. Therefore, preventive actions and policies are critically important to counteract tendencies towards social exclusion and to reduce obstacles to entering the labour market.

It has also to be noted that social exclusion has more than just a macro-level dimension. Better individual preparation improves the ability of an individual to deal with crisis and to take more responsibility for their own personal development. Furthermore, people might not just be excluded, they can also exclude themselves from the labour market, e.g. by choosing to 'drop out' of training or rejecting a job opportunity. Dealing with exclusion from the labour market, it is necessary to be aware of the interplay between the public and individual spheres and also of the social environments shaping individuals life. Labour market exclusion is often linked to an inadequate level of human capital and to geographical immobility.

In disadvantaged regions, the attempts to restructure economic structures have failed and they have thus become even less appealing for businesses and labour. Such regional labour markets are characterised by labour intensive and low productive employment. From this point of view, such regions are experiencing a structural economic decline and face persistent structural economic challenges. This has important policy consequences because regional differences are obvious across the Nordic countries, even though regional policy has traditionally been based on ensuring an even distribution of the provision of welfare services.

The policy approach has been to improve the employment opportunities and incomes of people in their municipality or region as a response to the failure of markets. The question, however, remains as to whether this is a policy designed to actually develop or simply to sustain such regions. The employment and development policies implemented thus far have not proven capable of removing regional disparities in regional attractiveness. The negative level of development seen in many regions has not been addressed by the creation of policies to improve their regional attractiveness thereby attracting labour and business (*Cf. Eðvarðsson et al 2007*).

Regions with larger populations have a more diversified economy and a better economic potential than sparsely populated or small regions. Economic development, however, also reflects strong endogenous underpinnings, in which differences between regions may or may not emerge. If competition is a key driver for positive economic performance in the peripheral regions, the key to development then is the growth in productivity and innovation. A growth in productivity and innovativeness tends to favour concentrations of population and economic activities that, in turn, do not really promote economic development and employment in peripheral regions. Some peripheral regions previously improved, initially at least, their economic situation due to the diffusion of manufacturing activities but were often subsequently unable to effectively compete against more developed regions.

Enhanced economic performance does not necessarily lead to the reduction of a potential labour supply, because increased productivity in the enterprises replaces the need to employ more labour. Improving the employability of marginalised groups necessitates more effective policies that will adapt targeted measures like incentives for occupational and geographical mobility.

Regional diversity has been approached through a compensation mechanism from successful regions to less-successful regions, i.e. the policy regime is designed to keep all regions 'alive'. The question however is whether such policies can be justified. The danger is that the gap between these regions will become so large that at some stage the compensation levels needed will begin to impinge upon the development possibilities of the successful regions.

Regional variations will be even more marked in the future. Strong reasons emerge favouring a region-specific policy setting: economic structures and labour markets are connected to regional specificities. The organization of production has changed in ways which give space for greater incentives and flexibility on the labour market. Functional labour market policy facilitates a mobilisation of labour from weakening economic sectors to strengthening economic sectors.

Important efficiency gains could be obtained from pursuing regionally differentiated labour market policies. Different policies must address regions according to their characteristics and state of development. Policies however do also have to address the needs and concerns of regions which have few problems, in their effort to develop competitive strengths.

Even if regionally differentiated policies can be encouraged to embrace more efficient labour market policy, the crucial issue is not on which level policies should be implemented. Instead, solving existing labour market rigidities is urgent. The post-industrial reality needs flexible labour market solutions and, accordingly, policies should not only be launched and implemented at a national level but also at a regional level.

The implication for labour market policy-making, therefore, is that uniform policy for all regions, i.e. a policy based upon a national average, is neither desirable nor effective. It cannot be assumed that policies can be 'borrowed' from other regions and prove equally effective. To the extent that policy borrowing is ever appropriate, it is most likely to be effective among regions with similar types of labour market challenges. Some of the problems regarding the employability of the labour force can be solved by institutional reforms in the labour market while other problems will remain. One challenge to improving employability concerns the desire to create an institutional structure which allows regional diversity; there are however significant regional differences remain in employments and unemployment rates, long-term sickness leaves, early retirement rates, the educational level of the labour force etc. 'One-size-fits-all' solutions worked well in the industrial economy but are unlikely to do so today (*Cf. Rauhut et al. 2008*).

Magnusson (2006) argue that the 'third industrial revolution' or the transition to a post-industrial economy is not only about technology but also about the geography of production. The ICT-revolution and service production does not show the same geography of production as the industrial production. Furthermore, many permanent positions in the labour market have been replaced by fixed contracts for a certain period of time. This transition from an industrial economy to a post-industrial one requires dynamic and efficient institutions in the labour market. The problems with unemployment, mismatch, labour shortage, early retirement and long-term sickness leaves indicate that these institutions have not been as efficient as they could have been.

Employability will not however be increased simply by lowering the level of welfare benefits in the case of e.g. unemployment and long-term sickness, nor would a raised threshold in the e.g. unemployment and sickness insurance necessarily work either. Using the 'stick' to force people to change behaviour will be costly, especially as many of the unemployed and sick will be completely marginalised. Some of the traditional social security programmes do lock people into non-working (the so-called 'benefits' trap), and these have to be reformed. To obtain a higher geographical mobility and, perhaps, increase the incentives to accept fixed contracts other means are however necessary (Magnusson 2006). One such 'carrot' could be tax reductions – a long-term sick or unemployed person who re-enters the labour market and reallocates may need that kind of incentive to do so (Rauhut and Kahila 2008).⁸ It is however important that we also acknowledge that there is a limit to what can be achieved by education and increased mobility alone – some problems, but not all, can be solved and the employability level can be improved to some extent (Magnusson 2006).

The overall conclusion is that labour market policies addressing the consequences of age must include two aspects: (1) they must allow for regional variations as ageing and the population structure is not evenly distributed geographically, and (2) they must focus on the labour market inclusion of especially young adults – if the young adults face such long unemployment and exclusion so that they become unemployable, who is then going to work and pay for the welfare of the elderly?

⁸ Tax-reductions for private persons and companies could be introduced. Furthermore, studying loans could be written off after a certain number of years for persons moving there.

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