SOCIAL SOLIDARITY IN SCANDINAVIA
AFTER THE FALL OF FINANCE CAPITALISM

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INTRODUCTION

The global financial crisis of 2008 initially seemed to mark the bankruptcy of neo-liberal deregulation and a transition to a new era of renewed faith in government, yet the stranglehold of the budgetary constraints of slow economic growth and the rising fortunes of parties and populist movements on the right have belied this easy lesson. To date, nations and regimes seem to have learned vastly different lessons from the crisis. For example in Liberal Britain, the David Cameron coalition government has made incisive cuts (albeit contested) into the welfare state and has sought to reverse Blair’s decade-long human capital investment experiment. Moreover, the touchstones of liberalism – government deregulation – have enjoyed a resurgence of enthusiasm among significant constituencies (think Tea Party) within Liberal countries. While the Nordic countries have also experienced post-crisis economic malaise, the global meltdown prompted comparatively limited changes to the welfare state and governmental controls, and much blame has been placed on neoliberal deregulation, for example, in the implosion of the Danish housing market. Finally, the Scandinavian countries have attempted to use the crisis to redirect investment into emergent green technologies.

Perhaps these differences are not surprising, as Scandinavia has been something of an outlier in the past quarter-century of liberalism. Despite some disorganization among workers and some penetration of neoliberal ideology, continuing high levels of labor market coordination prevented the soaring rise in inequality – so ubiquitous among other advanced countries – and strongly-organized social partners negotiated comparatively solidaristic pacts in response to the challenges of globalization and deindustrialization (Martin, 2004). Yet after the crisis, countries faced a different set of challenges such as the reduction of global linkages and decline of major service sectors; and it was not certain \textit{a priori} that the recipe for success before the crisis would
be equally attractive or deliver felicitous outcomes thereafter. At this critical juncture, then, economic and political choices seem somewhat open and fluid; in this state of uncertainly, one wonders how countries settle on their future paths and what will happen to coordinated and relatively egalitarian capitalism.

The task of this chapter is to consider why nations have diverged in their responses to the global financial crisis and, in particular, to examine the impact of the financial crisis on the Scandinavian brand of coordinated capitalism and social democratic welfare state. I argue that nations’ differential responses reflect, in part, the varying societal capacities of countries to adapt to new challenges – to arrive at and to enact new solutions to economic malaise. Scandinavian employers, in particular, diverged from their compatriots in liberal countries in the past by joining political coalitions to sustain welfare state spending, to invest in the human capital of marginal workers, and even to support redistribution (Martin 2004). It is possible, of course, that the financial crisis would reduced support for solidaristic coalitions, because the rules of the game have changed with the recent economic upheaval. Yet I find that the strong state-society relations found in the Nordic countries have persisted, that the social partners have jointly struggled to articulate non-zero-sum solutions (for example job-sharing to cope with unemployment) and that these efforts have helped to preserve greater social solidarity.

This discussion has bearing on larger questions about institutional and policy change at critical junctures, namely, processes of collective political engagement are particularly important to redirections in public policy in response to seismic economic transformations. While scholars widely ascribe to the importance of policy legacies in the evolution of welfare states, path dependencies are less salient and informative at acute transitional moments, when profound economic shocks call into question the prior ruling paradigms. At such critical junctures,
redirections in public policy depend less on ideas about the appropriate new course of action (as ascendent ideas are often shared by decision makers across the political and geographical landscape) than about the societal capacities for adjustment. Organized social partners – acting in conjunction with state leaders – have differing collective capacities for redefining problem and solutions, and these cross-national differences in societal capacities are profoundly important in shaping a country’s transition to a new order. While these processes of collective political engagement, themselves, evolve when confronted with new challenges and do not always deliver functional solutions, nations’ characteristic modes of engagement in social deliberation have a somewhat enduring quality. The Scandinavian mode – while battered and stressed – remains in evidence at this critical juncture (see also Martin and Swank 2012).

The chapter proceeds in three parts. First, I consider broad cross-national differences in the negotiating capacities of social partners, and discuss the linkages between high levels of labor market coordination and high levels of equality and social solidarity. This enables us to understand why the Scandinavian regimes sustained higher levels of social protection and equality throughout the neoliberal period and why we might expect similar policy outcomes in these countries after the financial crisis. Second, I identify the economic and ideological impacts of the financial crisis and consider their potential impacts on views about neoliberal ideology, government intervention and social investment. Third, I explore how Denmark and Sweden have dealt with the crisis and reveal how the high levels of labor market coordination and capacities for adjustment have enabled this distinctly Scandinavian response.

BUSINESS COORDINATION, SOCIAL PROTECTIONS AND EQUALITY

In the decades before the financial crisis, deindustrialization and globalization in most countries prompted at least some measure of neoliberal attacks on the state, the deregulation of
governmental controls, diminished support for national Keynesian macro-economic stabilization policies for demand-led growth, and rising inequality. Technological restructuring shifting production from industrial to services pressures welfare states, because service sectors typically have lower rates of productivity growth (Iversen and Wren, 2006). The impact of globalization has been somewhat mixed: social spending may add to labor costs, pressuring countries to scale back welfare provision to protect against imports from newly industrializing countries. Yet, states with open economies may also be motivated to expand social expenditures in order to protect workers from the insecurities trade exposure (Cameron 1979; Katzenstein 1985).

Yet the Scandinavian model enjoys a high level of coordination that resists a full embrace of neoliberalism and that sustains high levels of social investments (especially in skills for low-skilled workers), relative equality, and redistribution against post-industrial threats. As Duane Swank and I (2004, 2012) argue elsewhere, cross-national variations in labor market coordination and the organization of the social partners contribute significantly to the different levels of defense against the neoliberal invasion. Firms in a well-organized business community are more likely to join coalitions to sustain welfare state spending and skills investments, and employers are crucial actors in determining distributive outcomes. Highly-organized corporatist business associations aid government policy entrepreneurs in their efforts to reintegrate marginal groups into the core economy and make firms more likely to support social protection, redistribution, and relative levels of equality. Corporatist associations, in particular, have political economic, collective action, and cognitive effects that are lacking in their fragmented pluralist counterparts. The political economic effects under macro-corporatism are such that highly coordinated, centralized bargaining produces wage compression and a narrow wage gap between the most and least skilled blue collar workers. Wage compression motivates employers
to eliminate low-skilled jobs and provides a rational for business to support high levels of vocational training and unemployment insurance to encourage workers to invest in specific skills. Macrocorporatist associations’ also have collective action effects: only some employers will provide collective benefits such as skills training, but encompassing employers’ and labor associations can foster collaboration on the provision of these benefits with, for example, highly-coordinated vocational training systems. Support for social protections for core workers have quite different logic than support for redistributive policies geared to address the needs of marginal workers; therefore, it is also important to note the cognitive effects of macrocorporatist associations. Employers have a range of possible interests, and highly-organized business associations help employers recognize the profit-maximizing benefits of social policies and bring them into contact with policy experts from other realms.

A large public sector also works to sustain high levels of labor market coordination that, in turn, contributes to continuing support for social protections and equality. While we might expect countries with large public sectors to be more pressured by deindustrialization and to endorse neoliberalism, countries with large and capacious public sectors have higher levels of employment. Low-skilled workers are more likely to avoid social assistance, and this reduces distributive conflicts between skilled and unskilled workers (Martin 2004, Martin and Thelen 2007). While a large public sector are feared to be a drag on private investment, high levels of public spending create higher levels of employment with a multiplier effect. This mitigates tax increases to balance the budget during times of slow growth, that threaten to constrain GDP and employment growth (Riedl and van Winden, 2001). Bureaucrats in countries with large public sectors need to improve productivity within the state sector and enhance the skills of low skilled workers, many of whom end up working within government. Because public sector workers are
predominantly female, both women and their employers recognize the special needs for welfare services for women and prefer that these services not be linked to employment status. A large public sector also gives the state the means to push social groups into coalitions for social solidarity, because public sector unions and sectoral employers’ associations gives state actors greater political power in collective bargaining forums. Private employers and workers, in fact, may become more willing to cooperate to preserve their jurisdiction against the intrusion of a large state: they are loathed to lose their own policymaking authority, and tend to participate in these state campaigns to stay in charge. Thus a representative of a Danish peak association told me that “business and labor are like Siamese twins” in seeking to preserve their jurisdictional authority against the state (See also Martin and Swank 2012).

Both Denmark and Sweden experimented with neoliberal reforms in the decades leading up to the crisis, raising questions about the persistence of social democracy in both countries; however, both ultimately negotiated a pragmatic response to deindustrialization that preserved high levels of social investment and equality, and the highly-organized social partners were an important part of the policy-making process. For example, Denmark moved toward neoliberal reforms when a bourgeois government gained power after 1982 and continued, in a more diluted form, with a social democratic government in the 1990s. Denmark was confronted with unemployment problems before many other CMEs with rates of 8.3 percent by 1978 (Scharpf and Schmidt, 2000: 46-7). In a context in which generous unemployment benefits came close to full income replacement on a rather long-term (four year) basis, the state found itself supporting a growing population of welfare recipients (Scheuer, 1992). Yet the solution was a blend of some fiscal retrenchment, largely in the end to indexing of wages and social benefits, combined with greater universalization of the Scandinavian welfare state; consequently, renewed growth
was accompanied by continuing equality.\textsuperscript{1} The major welfare state reforms, active labor market and social policies, were viewed as a profound deviation from the past: the object was to move the unemployed into compulsory jobs and training programs, and observers interpreted this as a move toward liberalism (Campbell and Pedersen 2007). A leader in “decommodification,” Denmark was suddenly at the forefront of efforts to recommodify the unemployed (and potentially strip citizens of their social rights by taking away unconditional legal claims to support) (Abrahamson, 1998).

Yet the active labor market reforms were negotiated in strongly consensual, tripartite bargaining, which contributed to their positive benefits for social solidarity. The Social Democratic government asked the social partners to accept responsibility for the long-term beneficiaries of social assistance, a group that had been left to the state in the past. Social Democratic politicians also took measures to incorporate the major business and labor organizations into national negotiations that both strengthened the organizational power of the peak associations and augmented their resolve to remain crucial actors in the negotiations (Martin 2004). Even after a bourgeois coalition gained power in 2001 (with support from the far-right Danish People’s Party), both the employers’ associations and unions defended the system of social protections and worker retraining against threatened cutbacks. The rightist coalition government, under the leadership of Anders Fogh Rasmussen, sought to engineer a neo-liberal make-over. To this end, the government sought to create greater freedom in the labor market (and to erode the social partners’ control of industrial relations), to create more private social benefits (and expand dualism), and to cut back the amount spent on activation

\textsuperscript{1} The introduction of a nearly universal, fully-funded occupational pension together with the active labor market policies discussed below contributed to the growing equality of the Danish welfare state (Goul Andersen 2011, 13).
Resenting an erosion of their jurisdictional authority, the social partners resisted these neoliberal reforms; for example, both the peak union (LO) and the Confederation of Danish Employers (DA) strongly objected to the budget cuts in active labor market policy, fearing that this would result in bottlenecks (“LO og DA enige i kritik af besparelser,” LO Aktuelt, 10 Januar, 2002). The bourgeois government sought legislation to give individuals a statutory right to work part time, which would not fall under the rules of collective bargaining (“Regeringsgrundlag 2001, Vækst, velfærd – fornyelse”). The DA testified to the Parliament that such law was acceptable only if it built on a negotiation by the labor market partners (Muntzberg, 10 januar 2002). Dansk Industri joined LO in signing an open letter to the parliament, protesting that politicians had no right to legislate when collective agreements had already been concluded and LO applauded Dansk Arbejdsgiverne’s criticism of the reform (LO tilfreds med DA’s kritik af deltidsforslag, 11 March 2002).

Sweden seemed poised to abandon core social democratic commitments after a dramatic financial crisis in the early 1990s allowed the bourgeois parties to gain power in 1991. The right – and even the social democrats before them – began a campaign to decentralize wage bargaining (to allow the export-oriented sectors to raise wages consistent with productivity gains without comparable wage increases for less productive public sector workers. The Swedish Employers Association (SAF) decentralized collective bargaining to its member associations and, periodically, also drew back from participating in some tripartite commissions advising government agencies. Moreover, the bourgeois government implemented cuts in social entitlements, cut taxes, created user fees, deregulated financial markets and embraced non-accommodating monetary policies (Pontusson 1997).
Yet Sweden also avoided a dramatic turn toward neoliberalism in the decades leading up to the 2008 financial crisis. Sweden had gone far in deregulating the financial sector in the 1980s, with the reduction of lending ceilings and government bond requirements; however, a rapid decline in asset values in the early 1990s caused a crisis of the banks’ bottom line, when the large banks could not meet their regulatory capital requirements, and a liquidity crisis ensued. Sweden rather dramatically interrupted its trajectory of financial deregulation after this banking crisis and brought together a group of financial experts and major stakeholders across the political spectrum to put into place a new regulatory system. These consensual negotiations – with broad societal support – permitted a very rapid response in which the needs of the banking system were placed above the interests of bankers and shareholders, and transparent rules were implemented to protect against future financial instability (Bayram, DeWit and Steinmo, 2011). The Swedish state assumed control over banks, in exchange for an influx of emergency cash, and then sold off its holdings after the crisis had passed (Jackson, 2008), and later implemented a bank “stability” fee to help banks manage their own recovery (Saltmarsh 1/21/2010). Moreover, while collective bargaining was decentralized, Sweden has retained high levels of coordination and unionization (Pontusson 2009). As in Denmark, the Swedish social partners were deeply involved in the development of national action plans for employment, in expanding active labor market policies and in other aspects of working life (Berg 2002; Pontusson 2009).

THE NEW LOGIC OF POST-FINANCE CAPITALISM

Coordination may sustain social solidarity (and a large public sector may shore up coordination) under globalization and deindustrialization, but what happens with de-globalization and the collapse of major service sectors (in particular finance and retail)?
Will the havens of security gain the upper hand, or will the coordinating capacities of egalitarian countries be scaled back? When the rules of the game change, will the old logic still apply?

The financial crisis seems to have created somewhat mixed incentives for future trajectories in public policy. First, the financial crisis initially seemed to have had a positive impact on conceptions of regulation and big government and negative implications for neoliberal assumptions about economic growth. The decades before the crisis were dominated by a new growth model based on the deregulation of finance capital, which enabled major restructuring of the economy and deindustrialization. Finance capital drove growth through successive assets bubbles – in shares, housing, and commodities such as oil; moreover, this was facilitated by an expansion of credit, decline of savings ratio and conspicuous consumption (Gamble 2009, 7-15). Before 2006, there was a consensus about central bank autonomy; fighting inflation was the most critical goal, while fiscal and regulatory policies were seen as failures; yet since the crisis, these assumptions and priorities have been significantly altered (Gieve).

The crisis of finance capitalism raised questions about the legitimacy of the growth model, the validity of neoliberal ideology, and the appropriate role of the state in the economy, and many initially celebrated the death knell to deregulation and neoliberalism in the wake of the downturn. The crisis pointed to the need for systemic solutions, and the sense that the state must intervene to solve market externalities seemed poised to usher in another era of big government. The prior financial regime put a high priority on depoliticized economic management, but its crisis encouraged revisiting debates on the appropriate role of states and a return to repoliticized forms of financial management (Burnham 1999). One had only to look at Iceland, whose aggressive experiments with rampant deregulation led to its bankruptcy: the country was destroyed by its banking liabilities of about 10 percent of GDP, mostly in foreign
currency (Economist 2/14/09, 65-7). The Warwick Commission observed a greater need for systemic regulation due to the interdependence of institutions; the verdict was that old forms for monitoring individual financial instruments were insufficient. Immediately after the financial crisis, public opinion seemed to be rejecting neo-liberal ideology and espousing greater controls. Obama’s victory seemed to signal a rise of progressive ideas in political circles. Seven out of ten Americans said government should do more for people who cannot care for themselves, and 68 percent wanted major firms to have less influence than they currently have – down from 52 percent in 2001. *Newsweek* (2/16/09) declared that “Big Government Is Back – Big Time.”

In the wake of the crisis, there was a huge rise in use of expansionary fiscal policies and government stimulus programs, and a seeming break with the monetarist policies of Thatcher and Reagan. In a moment reminiscent of Nixon’s famous declaration “We are all Keynesians now,” Sarkozy remarked, “Am I a socialist? Perhaps.” Gordon Brown proposed a 37 billion pound deal, in which the British government would assume shares in order to recapitalize the Royal Bank of Scotland and the newly-merged HBOS and Lloyds TSB banking group, and this prompted the United States to develop its own $700 billion bank bailout plan (Economist 2/21/09, 56).

Yet, the failures of finance capitalism have ultimately delivered a rather mixed ideological legacy. Deregulation was not the only negative lesson learned from the era of finance capitalism and despite lip-service to supply-side economics, economic growth in the past decades has been fueled by stimulating demand with consumer debt. If attention is focused on the failings of debt-driven consumption rather than failure of deregulation, the resurgence of big government is in trouble. There has been a decoupling of economic policy from other policymaking realms; consequently, macroeconomic stabilization policies with strong
commitments to enhancing employment are unlikely to emerge with this crisis as they did during the Great Depression (Lindvall (2009). The past 30 years are better characterized as an era of “reregulation” rather than “deregulation,” because altering regulations allowed firms to renge on worker commitments and to create new risky derivatives markets (Block 2009).

The political implications of the crisis are rather unclear, beyond augmenting the general mistrust of politicians. Even before the crisis, many victims of deindustrialization and globalization embraced the populist right, and the global financial crisis has fortified their sense of vulnerability. In response to a Guardian poll asking whether people trusted government to deal with national problems, 66 percent of people in Britain, 80 percent in Germany, 82 percent in France, 78 percent in Spain and 82 percent in Poland responded “not very much” or “not at all” (Guardian 2011.) In the United States, the right has tried desperately to deny ownership of the problem; for example, the Republican opposition in the House of Representatives cast not a single vote for Obama’s stimulus package and Tea Party members of Congress are determined not to vote for a compromise measure to raise the debt ceiling.

Second, the financial crisis has had profound budgetary impacts, and while the failures of finance capitalism may have undercut neoliberal ideology, they also have undercut social investments. Bubble economies created fiscal slack for social solidarity and high rates of employment created a labor market need for the low skilled workers; yet after the fall, financial woes both reduced funds available for social investment and increased unemployment. The magnitude of the economic problems is overwhelming and a year after the crisis, the Economist (9/26/2009, 29-32) announced that “a leaner and fitter state should emerge” from the crisis, and recommended various forms of “liposuction” to cut away the fat. Generous welfare states have co-existed with large international financial markets for years, but even in normal times these
markets discipline governments in rich countries that run-up deficits and debt. After the crisis, welfare states may well face extremely lean years for the foreseeable future.

**COPING WITH THE FINANCIAL CRISIS IN THE SCANDINAVIAN CASES**

Our essential concern is to pinpoint how institutional characteristics of state-society relations might protect again or exacerbate national exposure to the crisis. How do institutions shape collective responses that sustain or erode social solidarity and prepare nations for future growth paths? This section evaluates whether the institutional characteristics of the Scandinavian model – and especially macrocorporatism – have sustained some measure of social solidarity against the new challenges, at least from a comparative perspective.

It is immediately apparent that the financial crisis had a powerful negative impact on economic growth and employment in Scandinavia. With a sharp contraction of private consumption, GDP growth in 2011 was projected to be 3.2 percent in Sweden, 2.0 percent in Denmark, and 2.5 percent in Finland; compared to 3.2 percent in the US and Canada and 2.5 percent in the US. Celebrated as employment miracles a few years before, unemployment also increased precipitously in Scandinavia, although the new levels were comparable to post-crisis rates of unemployment among liberal countries as well. Unemployment was projected in 2011 to be 6.9 percent in Denmark, 8.7 percent in Sweden, 9.0 percent in Finland, 8.9 percent in the US and 7.9 percent in the United Kingdom. The continental countries – with the worst rates of unemployment in the pre-crisis part of the decade – did not fare significantly worse during the downturn: Germany was projected to have rates of 8.0 percent in 2011; France, 9.5 percent; Italy, 8.7 percent; and Austria, 4.9 percent (OECD 2010).

Denmark, for example, enjoyed very high rates of economic and employment growth until the summer of 2008, but after the crisis, it endured a sea change from being noted to be one
of the most vibrant among advanced industrialized economies to joining other countries in having much slower rates of economic growth and much higher rates of unemployment. Exports fell dramatically in Denmark, in part, because Sweden, Norway, and the U.K. engaged in currency devaluation; however, exports began to stabilize after the initial percent drop. Sweden’s export economy initially also suffered greatly with the crisis and youth unemployment significantly exceeded the EU average in 2009 (Loven 2010).

The severity of the economic crisis in Denmark and initial problems in Sweden does not mean that the Scandinavian welfare state is doomed to whither away. First, in Denmark, while the immediate figures on economic growth and unemployment inspire pessimism, many of the country’s specific economic problems harken back to neoliberal policies rather than to its signature social democratic programs or to underlying structural problems. These neoliberal reforms were largely imposed by the bourgeois government since 2001, although the problematic credit policies began even earlier under the social democratic government in the 1990s. Most importantly was the massive expansion of credit and creation of interest-only loans that propelled the biggest housing bubble in Europe, as housing prices went up 60 percent from 2004 and 2006. Danish citizens came to lead in debt-equity ratio among the industrialized world. In addition, the bourgeois government introduced an expansionary fiscal policy composed of unfunded tax cuts targeted to the highest income brackets, which did little to expand consumption in the wake of the crisis (Goul Andersen, 2011, 30-7; Madsen 2011). Faith in government reached a 30 year low in 2011 and the social democrats are strongly projected to regain government in the next election.²

² Synovate/Mandag Morgen. 2011. “1971-2007: Valgundersøgelserne. (27. juni 2011). Thanks to Jørgen Goul Andersen for providing this to us. It is important to note that the bourgeois
In comparison, Sweden has rebounded from the global financial crisis much more quickly than Denmark (or in fact than most other European countries) and its growth rate is projected to be as high as 6.4 percent in the first quarter (*The Economist*, 6/1/2011). Sweden’s vitality partly reflects its very strong export manufacturing sectors and, like Germany, countries that retain strong manufacturing are more likely to show stronger productivity and growth rates. Sweden also parts ways with Denmark because financial deregulation was much more muted. Sweden went through a major banking crisis in the early 1990s and introduced a strong financial regulatory system thereafter, which served to protect the Swedish economy in the recent downturn (Bayram et. al, 2011).

Second, the Scandinavian countries with the largest public sectors and reliance on Keynesian macroeconomic interventions have surprisingly fared the best. The crisis prompted budgetary deficits everywhere with the ubiquitous use of stimulus packages and automatic stabilizers, yet countries have been affected in disparate fashion. One might surmise that because their currencies are separate from the Euro, Denmark and Sweden had a greater freedom to utilize deficit-producing macroeconomic stabilization policies; however, these currencies are firmly fixed to the Euro which accords them defacto Eurozone membership (Goul Andersen, 2011). Rather, these countries had small crisis-inspired deficits due to their fiscal positions in advance of the crisis and to the size of their public sectors. High support for the tax state meant that the Scandinavian countries largely enjoyed budget surpluses before the crisis; therefore, the budgetary implications were not as severe as they were elsewhere. For example, Denmark had an estimated surplus of 3.3% of GDP in 2008 (EIU Views Wire. Mar 12, 2009.)

coalition gained power in large part because of its alliance with the Danish People’s Party, a far-right anti-immigrant party that grew in popularity after the tragedy of 9/11.
In 2011, Sweden was projected to have a deficit of -1.7 percent of GDP; Denmark, -4.8; Finland, -3.8; US, -8.9; UK, -10.3; Germany, -4.5; and France, -6.9 (OECD Economic Outlook 87, 2010). European countries with deficits of less than half the EU average (of around 9 percent) include Norway, Finland, Denmark, Sweden (as well as Switzerland and Hungary), and these are not expected to have any fiscal consolidation after they have ended temporary fiscal stimulus packages. In comparison, neoliberal countries comprise many of the OECD countries with more than the EU average: these include the United States, the United Kingdom, Ireland and Spain, and these are expected to require seven years of fiscal consolidation. Finally, the countries with a medium-level of coordination tend to have a medium amount of financial deficit (defined as greater than 4.5 percent but less than 9 percent) and are expected to require three years of consolidation: these include countries such as Germany, France, the Netherlands, Austria, Italy, as well as Australia and Canada (OECD. 2008. *Economic Outlook* 85, 231).

This is not to say that taxes are universally loved in these countries, but the distribution of the taxes – with reliance on a broader base and fewer loopholes – means that individuals tolerate the costs and benefits of a large public sector more readily and public support for the welfare state remains very high (Svallfors 2004).³ Both Denmark and Sweden have engaged in substantial reform of their tax systems in recent years. Danish reforms have broadened the tax base while reducing marginal taxes and its marginal rates are now well below those of most European countries except for the very high income people (Goul Andersen, 2011). Sweden has engaged in wealth and inheritance tax reform, causing some observers to declare that the country “no longer stands out for welfare state excesses” (*The Economist*, 6/1/2011).

³ There is also some evidence that egalitarian societies have lower compensated elasticities of taxable income (Slemrod and Kopczuk 2002).
Yet public sectors in these countries remain large and the welfare state remains robust (Bergh and and Erlingsson 2009). For example, between 2004 to 2007 Sweden devoted 54.4 percent of the GDP to public spending; Denmark, 52.5 percent; France, 52.9 percent; Germany, 45.8 percent; the United Kingdom, 43.9 percent, and the US 36.7 percent (Dewan and Ettlinger 2009, 5). The above statement in *The Economist* fundamentally misunderstands the importance of capacious public sectors to Scandinavian economies and the beneficial impacts of public investment to economic growth. According to Sweden’s chief economist, investments by municipalities were an important economic stimulant, especially important as this export economy is so vulnerable to international markets. Local governments managed to engage in economic stabilization policies without excessive deficits, so that only 26 of the 290 municipalities produced deficits for 2009 (Chefekonomens blogg, 2010.) Moreover, if one takes into account the value of postponed taxes in pension funds, Denmark has no debt whatsoever (Goul Andersen, 2011, 50-1).

Third, while employment has declined, the Nordic countries offset the pain with training interventions and the Danish model of “flexicurity” was intended to work precisely as macro-economic events have predicted. In a flexible labor market with very few labor market regulations, firms can hire and fire at will: this flexibility tends to elevate employment during periods of rapid economic growth, but depresses employment more rapidly during recessions (Kongshøj Madsen 2011). Granted, the active labor market policies put in place in the 1990s, which sought to take individuals off of the passive welfare roles and to reintegrate them back into the core economy, have a more difficult time working in an economy dominated by high unemployment. Moreover, there has been some erosion of unemployment coverage, most significantly in May 2010, when the bourgeois coalition partner, the Danish Folk Party, suddenly
recommended cutting the length of unemployment benefits from four years to two (Goul Andersen 2011). But because most individuals are activated long before four years in any event and can go on active social policy when their insured benefits end, this change in the law is less significant than one might assume.

The big picture illustrates that many Danes have continued to receive high levels of worker retraining and the safety net remains comparatively strong. Indeed, in the face of the economic crisis, Danes are much more optimistic about getting another job than citizens of other countries; therefore, brief periods of unemployment have a more limited significance. Danes feel more secure in their work; even though they lack job security, they have broader employment security, according to economist Per Kongshøj Madsen, a major proponent of Danish “flexicurity.” A full 67 percent of Danes believe that they would find a new job within six months if they got laid off, compared to only 45 percent of all EU citizens (Hansen, 2010.) Thus, Steen Bocian, the chief economist of Den Danske Bank, noted that while employment in Denmark fell more rapidly than the EU average in 2009, production levels fell in other countries at a similar rate, but labor market rigidities prevented the lay-offs (Elmer and Hansen. 2010.)

Sweden has had a somewhat more rigid labor market than Denmark (Pontusson 2009) and has privatized the welfare state more than Denmark (especially in pensions and child care), but these policy changes have been characterized as “liberalization without [welfare state] retrenchment” (Bergh and Erlingsson 2009). In the past decade both employers and workers have been fascinated with the Danish flexicurity model. Thus the Confederation of Swedish Enterprise called for “more Danish design” in the construction of the economy (Ludvigsson 2006). Since the crisis, the Swedish bourgeois government has moved toward greater centralization of the labor market board, in an explicit recognition of the failed experimentation
with private service delivery, a central principle of the neoliberal new public management philosophy. Thus while devolution to private service providers was once considered a way to improve the efficacy and efficiency of the welfare state, centralized government control came back into fashion after the crisis (Niklausson).

Fourth, Scandinavian economies are also making the most of the crisis with industrial restructuring. A movement has been afoot in Denmark to take advantage of the crisis in restructuring the economy by making the economy more “green,” both to cut back damage to the environment and to boost the economy by achieving more efficient use of energy. The social partners have, in fact, been more proactive in this regard than the bourgeois government. Thus the government issue policy packages to spur lending, which had no “green” aspect, and an environmental bill (“Green growth – a green vision of growth for nature, environment, climate and agriculture”) which set a priority on environmental protection but largely ignored energy concerns and economic growth. In sharp contrast, much more aggressive interventions were advocated by The Environmental Economic Council (Det Miljøøkonomiske Råd), an advisory board made up of business, labor, environmentalists and government representatives, which felt that the government’s interventions were insufficiently ambitious and largely covered by EU directives (Jørgensen. 9-18-2009).

The Swedish government has also been criticized by the social partners for failing to integrate sufficiently the tasks of jump-starting the economy, with a stimulation package for immediate job creation, and advocating for green industry, with its extensive environmental plans. These two ambitions have been most successfully unified in the Swedish automobile industry, where the state invested € 273 million in a joint-stock company for auto R & D, and
offered credit guarantees for loans by the European Investment Bank to firms who would adopt green technology (Olsson, 2009).

Fifth, while the significant industrial restructuring prompted by the crisis has certainly put stress on industrial relations, the social partners have largely managed to sustain processes of negotiated bargaining and have advocated creative non-zero-sum policy solutions to the new climate of economic scarcity. The countries’ greater capacities for coordination have continued to aid in adjustment post-crisis. In Sweden, the stresses of the financial crisis and subsequent restructuring appeared in the most recent collective bargaining round; for example, the Swedish Service Employers’ Association charged that the Swedish system for resolving industrial conflicts is outdated and industrial relations should become more flexible (Loven 2009). The Association of Swedish Engineering Industries left the bargaining round, which deeply angered both employers and workers in other parts of the economy. Ultimately, however, the peak associations on both sides made serious concessions to cope with the economic crisis: the Confederation of Swedish Enterprise (the peak employers’ association) accepted about half of the wage increases demanded by the LO and a broad collective agreement was achieved survived despite fiscal stress and industrial restructuring. Analysts concluded that the greatest victor was the model itself (Kullander and Henriksson, 2010).

In Denmark, the most recent collective bargaining round was also more stressful than the prior one concluded during economic prosperity, but the centralized bargaining model also endured and the social partners have struggled to find creative ways to cope with the reductions associated with recess (Jørgensen, 2010.) Employers and workers have been exploring job sharing arrangements rather than advocating major welfare state cutbacks. Two of the leading socially responsible Danish companies, Grundfos and Danfoss, began job-sharing arrangements
in 2009. The National Labour Market Authority (Arbejdsmarkedsstyrelsen), reported that 107 companies issued pink slips in early 2009, compared with 21 in 2008; however, job-sharing had increased from 33 cases in 2006 to 500 in the first two months of 2009. The social partners, DA and LO, jointly asked the government to take the lead in developing more flexible work-sharing rules, so that companies could be protected from making deeply invasive cuts. In March 2009, the government proposed faster access to training, a national alert system, expanded monitoring of labor market trends and more flexible rules for work-sharing; for example, employees would be permitted to work for two weeks and then take one or two-week leaves. But both employers and workers expressed dissatisfaction that government’s efforts to create more flexible work-sharing rules did not go far enough. Peter Norman (Danfoss HR Manager) explained, “We have reached a point where it is almost impossible to fire without hurting the company deeply. Only core competences are left and if they are lost it will be very difficult to recover when the recession turns and the capacity of the industry will be needed again” (Jørgensen. 6-1-2009).

Thus, macro-corporatism has contributed to the capacities of these countries to stay the course against the ideological attacks by the right. Since the crisis, the peak employers and labor organizations have been quite involved with the government in offering innovative and non-zero-sum solutions to the unemployment generated by the financial crisis, such as the aforementioned job sharing arrangements, and in warding off the political assaults on the welfare state by neoliberal forces on the right. Danish firms are benefitting from strong institutions for

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4 One saw in the strongly corporatist Netherlands a similar joint effort by the social partners to weather the storm. For example, the Dutch government was requested by the social partners to expand more flexible regulations and benefits regarding unemployment insurance (over the opposition by some conservative politicians) (Grünell, 2009).
business-government coordination during these troubled times; thus the Danish Ministry of Foreign Affairs declared the crisis good for Danish energy companies because the vibrant public-private cooperation would improve firms’ competitive positions (“Financial Crisis is Good for the Danish Energy Companies, 10/28/08”).

CONCLUSION

This essay reflects on the distinctive response of Scandinavian countries to the recent financial crisis, and suggests that the Nordic policy actions have been shaped, in part, by the high levels of coordination among the social partners and the state. Prior to the crisis, high levels of coordination seemed to help Scandinavia to sustain social protections and equality against the threats of deindustrialization and neoliberal ideology. While we might expect the financial crisis to alter the logic of cross-national distinctions that held true during the golden age, it would appear that the Nordic high level of coordination, positive attitudes toward the state, and solidaristic policies endure. Social democratic, continental and liberal countries seem to be learning rather different lessons from the crisis; thus, while the new British government has attempted to cut spending to the bone, the Scandinavians believe that Keynesian anti-cyclical spending continues to be the appropriate course of action and their strong fiscal positions enable them to hold to this policy course. Rather than seeking to prevent private employers from laying off excess workers, these countries are permitting much higher rates of unemployment, but are trying to ease the burdens of those temporarily cast out of the labor market with continuing high levels of training and generous unemployment benefits. While the jury is still out, it is likely that model countries will continue to diverge in their chosen policy paths after the crisis in much the same way that they did before.
The financial crisis, thereby, seems to confirm our beliefs about the institutional benefits of coordinated capitalism and a large, vibrant state: coordinated countries with high levels of macrorporatism, infrastructure bolstering social investments, and large states enjoy certain advantages in make the transition to a new economic order. Social partners joined the struggle to find solutions to the global financial crisis and this effort has helped to shelter these countries from the economic storm. Yet, at this moment of transition, a big question about the persistence of social solidarity concerns solidarity for whom? Are we only concerned about the insular countries of Western Europe or should we worry about a broader cross-section of humanity? Perhaps the financial crisis reinforces our beliefs about the benefits of coordination and a strong state, but one wonders what will be the impact of the end of finance capitalism on the truly disadvantaged.


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