

## Once Again a Model

### Nordic Social Democracy in a Globalized World

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What are the prospects for social democracy in the current era of global economic crisis? The answer to this question surely depends on what we mean by “social democracy.” And to specify this we need empirical referents. By my reading of public debates as well as academic literature on both sides of the Atlantic, it has become increasingly common over the last couple of decades to conflate “social democracy” with “Social Europe.” This is unfortunate on two counts. First, the economic performance of continental Europe has been sluggish by comparison to that of liberal market economies such as the United States and the United Kingdom. Second, the notion of “Social Europe” usually connotes institutional arrangements—patient capital, codetermination, vocational training—that cannot readily be transposed to other settings. To the extent that this is what social democracy is all about, its relevance to contemporary politics in the United States or other liberal market economies would appear to be very limited.

The basic aim of this chapter is in a sense to rescue social democracy from the economic travails of continental Europe by reinstating the Nordic countries as the main exemplars of the social democratic approach to managing capitalism. The reasons why the Nordic countries have figured so prominently in discussions of social democracy hardly need to be rehearsed. In a nutshell, unions and social democratic parties have historically been stronger and more influential in the Nordic countries than in any other liberal democracies. Social democratic parties governed Sweden, Denmark, and Norway more or less continuously from the 1930s into the 1970s and remain major contenders for government power in all the Nordic countries, including Finland.<sup>1</sup> As commonly noted in the existing literature, moreover, even center-right parties in the Nordic countries have to a large extent embraced social democratic policy priorities. All of this is well established. The “news” that

my discussion builds on is that the Nordic countries again became economic success stories over the period stretching from the mid-1990s until the onset of the global economic crisis in 2008. Not only did the Nordic countries experience more rapid growth than just about any other OECD economies in this period (except Ireland), they also appear to have adjusted successfully to changes in the global economy by shifting into more knowledge-intensive services and manufacturing. The question becomes whether there is something social democratic about the recent success of the Nordic economies. If the answer to that question is yes, then it becomes plausible to argue that social democracy represents a realistic alternative to market liberalism, worthy of examination and perhaps emulation by progressive political forces outside the Nordic area.

The chapter consists of three parts. In the first part, I delineate what is distinctively social democratic about the four Nordic countries by identifying policies (and policy outcomes) on which these countries differ from Germany and other “social market economies” in continental Europe. Building on several existing typologies, I use the term “social market economies” (SMEs) to encompass France as well as Germany and its smaller next-door neighbors: Austria, Switzerland, Belgium, and the Netherlands.<sup>2</sup> In essence I consider policies that the Nordic countries have in common to be core social democratic policies provided that they also distinguish the Nordic countries from continental SMEs and that they can be traced to social democratic initiatives. This exercise yields the following broad features of what I will refer to as the “social democratic policy regime”: universalism in the design of social insurance schemes, direct public provision of social services, solidaristic wage bargaining, active labor market policies, policies to promote female employment and gender equality in the labor market, and finally, high levels of investment in public education and policies to equalize educational opportunity. Throughout the following discussion I emphasize complementarities among these policies. I also emphasize that these policies were designed to promote labor mobility and productivity as well as to redistribute income and equalize opportunity.

In the second part of the chapter I address the institutional conditions for the success of social democratic policies by engaging with the varieties-of-capitalism literature. Contrary to what this literature seems to imply, I do not believe that the economic benefits of social democratic policies are contingent on the persistence of “patient capital” and manufacturing systems that rely on the kinds of skills acquired by workers through vocational training along German lines. I argue that social democratic policies have benefits for a wide range of business activities and that more footloose or short-term inves-

tors should be able to recognize these benefits. At the same time, I argue that the effective implementation of core components of the social democratic policy regime depends on the participation of organized business and above all on the existence of encompassing and cohesive unions.

In the third part I contrast the economic performance of the Nordic countries since 1995 with that of continental SMEs. Here my core arguments are that the welfare states of the Nordic countries facilitated the adoption of de-regulatory reforms that contributed to economic growth and restructuring and that the egalitarianism of these countries, particularly in the realm of education, has also contributed directly to their economic success. In addition to developing these arguments, I present data showing that the growing gap between labor-market “insiders” and “outsiders” is first and foremost a continental phenomenon. This and other dualist trends have been much less pronounced in the Nordic countries.

By way of conclusion, I will briefly address the implications of the current economic crisis for the social democratic project as I understand it, as well as the lessons that progressive forces in the United States might draw from the Nordic experience.

### **Nordic Egalitarianism versus Continental Social Protection**

In emphasizing differences between Nordic and continental political economies, my discussion builds on the insights of Esping-Andersen (1990) and subsequent comparative welfare-state literature (notably Huber and Stephens 2001 and Swank 2002). This literature teaches us that the “conservative” welfare states of continental Europe—above all Germany and France—provide insurance against income losses associated with unemployment, poor health, and old age that is roughly comparable to the insurance provided by Nordic welfare states, but they do so in ways that to a much greater extent preserve existing income and status differentials. Generalizing, we might say that the two core pillars of social protection in continental Europe are legislation and regulatory practices that restrict the ability of employers to fire workers, and mandatory social insurance based on earnings-differentiated benefits.

Relative to the continental model, the welfare states built up by Scandinavian social democrats in the 1940s and 1950s were based on the idea of “social citizenship,” which concretely manifested itself in the emphasis on flat-rate benefits and government-provided services financed out of general taxes (rather than earmarked payroll contributions). Starting with the introduction of supplementary pension schemes in the 1960s, earnings-related benefits assumed a prominent role, but the emphasis on the public sector has remained

a distinctive feature of Nordic welfare states. Equally important, these welfare states incorporated the principle of earnings-differentiated benefits into comprehensive social insurance systems that covered everyone, as distinct from the occupationally (and sometimes sectorally) segregated insurance schemes characteristic of continental welfare states.

Setting aside the public provision of services, the Nordic countries do not spend significantly more of their GDP on income transfers, yet they achieve a much larger reduction of household income inequality through income transfers than most of their continental neighbors do.<sup>3</sup> Redistribution through taxes and transfers is clearly one crucial reason why the Nordic countries have a much more equal distribution of disposable income and also lower poverty rates than the social market economies of continental Europe, let alone the liberal market economies of the Anglophone world (see table 1).<sup>4</sup>

It is important to note that redistribution was not the only motivation behind the distinctive approach to welfare-state design adopted by Scandinavian social democrats. Another important motivation was the idea that public provision of benefits, organized on a universalistic basis, would facilitate labor mobility across firms and across sectors of the economy and thereby provide for a more efficient allocation of labor. The attitude toward employment security adopted by the Swedish social democrats in the 1950s and 1960s is also very relevant in this context. Cognizant of Sweden's export dependence and the need for economic restructuring in response to changes in world markets, Swedish union leaders and social democratic politicians very explicitly eschewed the idea that the government should provide workers with security in their current jobs. Their stated goal was to provide for "security in the labor market," as distinct from "job security." Pursuing this goal entailed generous unemployment compensation to protect workers against the income losses associated with unemployment, but also active labor market policies to help workers find new, higher-paying, and otherwise better jobs.

In the context of severe industrial adjustment problems, the Swedish labor movement in the 1970s pushed for new laws restricting the ability of employers to fire workers. By recent OECD measures, employment protection in Sweden is slightly stricter than in Germany and less strict than in France (Pontusson 2005a, 120). Yet Denmark stands out as one of the West European countries with the least restrictive laws governing the ability of employers to fire workers. In this respect Denmark might be said to have remained more true to traditional social democratic principles than Sweden, but it should also be noted that standard OECD measures ignore the fact that Swedish employment protection legislation gives firms and unions the right to negotiate alternative arrangements, and the typical tendency is for collective bargain-

Table 1. Measures of Inequality, circa 2000

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Household	Poverty	90-10	Female/ Male	Female/ Male	95-5	Information-
	Income	Rate	Full-Time	Full-Time	Employ-	Ratio	Age
	Inequality		Wage	Wage	ment	Literacy	Literacy
			Ratio	Ratio	Rate	Tests	
LME average	.332	14.4	3.58	.767	.812	2.53	52
United States	.370	17.7	4.35	.755	.857	2.79	53
Continental average	.267	7.3	3.00	.797	.781	2.00	58
Germany	.275	8.4	2.93	.760	.797	1.73	59
Nordic average	.244	5.9	2.23	.817	.919	1.76	68
Denmark	.225	5.4	2.16		.893	1.65	65
Finland	.247	5.4	2.41	.788	.929	1.86	63
Norway	.251	6.4	2.00		.906	1.75	69
Sweden	.252	6.5	2.35	.845	.949	1.79	74

Limited market economy (LME) average = unweighted average for Australia, Canada, Ireland, the United Kingdom, and the United States

Continental average = unweighted average for Austria, Belgium, France, Germany, the Netherlands, and Switzerland in columns 1-5, Belgium, Germany, the Netherlands, and Switzerland in columns 6-7

Nordic average = unweighted average for the four Nordic countries (except for column 4)

(1) Gini coefficient for disposable household income (adjusted for household size). The figures refer to 2000 except for Australia (2001), the United Kingdom (1999), and the Netherlands (1999). Source: <http://www.lisproject.org/keyfigures.htm>.

(2) Percentage of population living in households with less than 50% of the median disposable household income. Same years and source as column (1).

(3) The ratio of earnings in the 90th percentile to earnings in the 10th percentile, gross earnings for full-time employees. The figures refer to 1999-2000 except for Denmark (1990). Source: Organisation for Economic Cooperation and Development (OECD) Relative Earnings Database (unpublished).

(4) The ratio of the median female wage to the median male wage, full-time employees only. Same years and source as column (3).

(5) The ratio of the female employment rate to the male employment rate in 2000 (employment rate = employed individuals as a percentage of the population between the ages of 15 and 64). Source: OECD 2004, 295-96.

(6) The ratio of 95th-percentile test scores to 5th-percentile scores on literacy tests for population aged 15-65 in 1994-98. Source: OECD 2000, 135-36.

(7) Percentage of the population scoring at level 3 or better on literacy tests. Same years and source as column (6).

ing agreements to be more flexible than what the law prescribes. Particularly if we extend our perspective to encompass additional issues such as health and safety, the Nordic countries are still distinguished not only from France but also from Germany by their (de facto) reliance on collective bargaining rather than government legislation to regulate employment conditions.

Alongside welfare-state universalism, the so-called Rehn-Meidner model deserves a prominent place in most discussions of Nordic social democracy as a distinctive policy regime. Conceived by economists working for the Swedish confederation of blue-collar unions in the 1950s, this intellectual construct became the justification for an aggressive union push for wage leveling and for the expansion of active labor market policies in the 1960s and 1970s. To varying degrees and with some modifications, unions and social democratic parties in the other Nordic countries emulated the policies associated with the Rehn-Meidner model.

The Rehn-Meidner model articulated the egalitarian goals of the labor movement as part of a strategy to promote productivity growth and contain wage inflation. On the one hand, a concerted union effort to provide low-wage workers with higher wage increases than market forces dictated would squeeze the profits of less efficient firms (or sectors) and force them either to rationalize production or go out of business. On the other hand, wage restraint by well-paid workers would promote the expansion of more efficient firms (or sectors). For the unions to pursue this strategy the government needed to develop active labor market measures that would ease the transition of workers from less efficient to more efficient firms and sectors and also to curtail wage drift caused by bottlenecks in the supply of labor.<sup>5</sup>

The insight at the core of the Rehn-Meidner strategy is that low wages represent a subsidy to inefficient capital. At the same time, Rehn and Meidner recognized that wage differentials were necessary as an incentive for workers to acquire skills and take on more responsibility in the production process. The goal of union wage policy should be to eliminate differentials based on corporate profitability while maintaining differentials based on skills and effort. In other words, the goal of union wage policy should be “equal pay for equal work,” as distinct from “equal pay for everyone.”

In practice it proved difficult for Swedish unions to maintain the distinction between “good” and “bad” wage differentials in the context of full employment and economy-wide wage bargaining. Solidaristic wage policy may have become too egalitarian in the course of the 1960s and 1970s, producing a generalized profits squeeze and ultimately a campaign by employers to decentralize wage bargaining in the 1980s (Pontusson and Swenson 1996). While Norway has retained peak-level wage negotiations, the locus of Danish

wage bargaining has also shifted to the industry level (Wallerstein and Golden 2000). With respect to formal institutional arrangements, we can no longer speak of a Nordic model of wage bargaining that is clearly distinct from the continental model. In marked contrast to the social market economies of continental Europe, however, union membership held up quite well in the Nordic countries in the 1980s and 1990s (see table 2), and partly as a result of this, Nordic unions appear to have retained a greater capacity to coordinate their wage demands based on solidaristic principles. As table 1 shows, wage compression remains a distinctive characteristic of the Nordic countries as a group.

The Nordic social democrats began to articulate gender equality as a core component of their reformist project in the 1960s and policies to promote women's participation in the labor force—chiefly parental leave insurance and public childcare—emerged as a widely admired feature of the Nordic model in the 1970s. The literature on gender and the welfare state (e.g., Sainsbury 1999) commonly draws a sharp contrast between the progressive, gender-egalitarian approach to family policy characteristic of the Nordic countries and the conservative, “male-breadwinner” approach of Germany and other continental countries in which Christian democratic ideology has been influential. Relatedly, I want to emphasize the affinity between gender-egalitarian policies adopted in the 1970s and existing social democratic commitments to the public sector and to solidaristic wage policy. While the expansion of welfare-related public services became the principal source of new employment for women from the 1960s through the 1980s, the closing of the pay gap between men and women was from the beginning a major objective of solidaristic wage policy.

Column 4 in table 1 reports on gendered pay differentials, measured as the ratio of the median female wage to the median male wage, but these data pertain to full-time employees alone, and we only have data for two of the Nordic countries, Sweden and Finland. Combining these two, quite disparate observations yields an average that is two percentage points higher than the average for continental SMEs, but there is also a lot of variation among continental SMEs in this regard. The contrast between the Nordic countries and the continental SMEs is much clearer in column 5, which reports on employment-rate differentials between men and women. Women have a much higher labor force participation rate in Nordic countries than in either continental SMEs or Anglophone LMEs.

The final contrast that I wish to draw between Nordic and continental political economies concerns education and skill formation. This is a topic that has recently caught the attention of students of comparative political econ-

omy. In the Varieties-of-Capitalism (VofC) tradition, skill formation has come to be seen as the crucial link between social provisions and production strategies (cf. Estevez-Abe, Iversen, and Soskice 2001; Iversen 2005; and Iversen and Stephens 2008). In a nutshell, the standard VofC argument is that high levels of employment protection and social insurance in the Nordic countries as well as continental Europe are associated, as both cause and effect, with the fact that these economies rely more heavily than liberal market economies do on firm- and industry-specific skills. Investment in specific skills is riskier than investment in general skills, and if this sort of investment is to be undertaken, there must be some assurance of good long-term employment prospects in the firm or industry to which the skills apply, as well as some assurance of income support during possible spells of unemployment. In turn, firms that rely on specific skills can be expected to join with skilled workers in a cross-class alliance in support of social protection as well as vocational training.

In my view this argument captures something quite essential about the social market economies of continental Europe, but it misses several important things about the Nordic experience. To begin with, the tension between vocational training that follows the German model and social democratic ambitions to remove barriers to class mobility through educational achievement deserves to be noted. In Sweden education reforms in the 1950s and 1960s incorporated vocational training for fifteen- to eighteen-year-olds into the new (comprehensive) secondary schools, effectively eliminating apprenticeship-based training (Pontusson 1997). Though some apprenticeship-based training survived in Denmark, the thrust of postwar educational changes in the other Nordic countries appears to have been similar to what we observe in Sweden. While the UNESCO sources cited by Iversen and Stephens (2008, 616) indicate that the proportion of school-age cohorts engaged in “vocational training” is about the same in the Nordic countries as in Germany (and much higher than in Austria or Switzerland), the question becomes whether the figures are really comparable. Based on the results of adult literacy tests, there is good reason to believe that the general-skills component of vocational training is more pronounced in the Nordic countries.

A second and related point is that Denmark, Norway, and Sweden stand out as the three OECD countries that spend the largest share of their GDP on public education, with Finland ranked fifth (following New Zealand) on this measure (Iversen and Stephens 2008, 616; see also Pontusson 2005a, 134). Partly in response to deteriorating employment conditions, the Nordic countries increased spending on higher education quite dramatically in the 1980s and 1990s, but their most remarkable achievement in this realm has



to do with basic skills. In the international adult literacy study carried out by the OECD and Statistics Canada in the second half of the 1990s, the four Nordic countries stood out not only as the countries with the highest mean scores but also as the countries with the most compressed distributions of test scores (see table 1, column 6). The proportion of the population that passed the study's threshold for "information age literacy" was also higher in the Nordic countries than in any of the countries included in the study (table 1, column 7).

The Nordic experience suggests that educational equality and economic equality are closely linked. As Blau and Kahn (2005) point out, compression of educational achievement can be invoked to explain cross-national variation in wage inequality. At the same time, we might reasonably suppose that children from low-income households are better able to take advantage of educational opportunities when the distribution of household income and living conditions is more equal (cf. Iversen and Stephens 2008, 621–22). The very low rates of child poverty in the Nordic countries deserve to be mentioned in this context (see Pontusson 2005a, 160).

Relatively high skill levels at the bottom of the skill hierarchy may have enabled employers in the Nordic countries to contend with the challenges posed by solidaristic wage policy, allowing them to deploy new technologies and thereby improve productivity with low-skilled workers. Also, the expansion of higher education has undoubtedly curtailed the growth of returns to education in these countries. In both these ways public investment in education has made it easier for unions to practice wage solidarity. In the realm of traditional manufacturing, the argument about skills facilitating the deployment of new technologies surely pertains to technical as well as general skills. What is most distinctive about the skill profile of the Nordic countries, however, is the quality of general skills at the bottom of the distribution. Public investment in education is particularly relevant to explaining why the Nordic economies have outperformed the continental economies in knowledge-intensive manufacturing and private services over the last fifteen years (a topic to which I shall return).

To sum up, the preceding discussion calls into question the attempt by Esping-Andersen (1990) to capture what Nordic social democracy has been about with the concept of "decommodification." Socializing social benefits or, in other words, reducing the role of firms (and families) as providers of social benefits has indeed been an objective of Nordic social democracy, but none of the policies enumerated above have entailed decommodification in the broader sense of an emancipation of workers from their dependence on the labor market. Quite the contrary, the thrust of the social democratic project

is to bring people into the labor market and then to *empower them as sellers of labor power*. In a sense the concept of decommodification is more applicable to policies associated with Christian democracy and other strands of traditional conservatism on the European continent (including the Mediterranean countries): employment protection, early exit from work, and policies designed to keep women in the role of homemakers.

From a social democratic perspective the empowerment of workers as sellers of labor depends not only on the existence of a finely meshed social safety net but also on full employment, access to education (skills), and union representation. These should be considered core components of the social democratic project. My discussion also suggests that egalitarianism represents a more prominent feature of Nordic social democracy than Esping-Andersen's seminal interpretation recognized.

As indicated above, rejection of the idea of a trade-off between equality and efficiency is a defining feature of Nordic social democracy. In this regard I want to emphasize that the main intellectual tradition of Nordic social democracy conceives "economic efficiency" in terms that are quite consistent with mainstream economics. At least as I understand them, Nordic social democrats do not deny that egalitarianism might conflict with efficiency. Their core claim is rather that it is possible to redistribute income in ways that also promote productivity growth and a more efficient allocation of resources.

### Social Democracy and Varieties of Capitalism

The question of why social democratic ideas have been particularly influential in the Nordic countries lies well beyond the scope of this chapter, but I want to briefly address the related question of the extent to which social democratic policies presuppose a particular type of capitalism. Specifically, I wish to question—or at least qualify—what I take to be an implication of the VofC literature, namely that the institutional framework characteristic of "coordinated market economies" (CMEs) constitutes a precondition for successful social democracy.<sup>6</sup>

According to the VofC literature, encompassing and organizationally coherent (more or less centralized) unions and employer organizations are an important part of what distinguishes coordinated market economies from liberal market economies, but the distinction between these two types of capitalism ultimately hinges on corporate finance and ownership (cf. Soskice 1999; Hall and Soskice 2001). Coordinated market economies are first distinguished by limited firm exposure to capital markets, with banks providing

long-term finance to the corporate sector and ownership being concentrated in the hands of a few long-term stakeholders. Cross-share holdings among firms are also common in coordinated market economies, protecting firms against volatile capital markets and the threat of hostile takeovers while also providing the basis for coordination among firms.

We can distinguish several arguments that construe the dynamics of coordinated market economies as supportive of social democracy—and conversely, construe “stock-market capitalism” as a force working against social democratic policies. To begin with, patient capital arguably allows firms to provide long-term employment for their employees, and long-term employment in turn provides the basis for trust and employees’ commitment to the success of the firm. Partly as a result of cooperative labor relations within firms, the comparative advantage of CMEs lies in the production of industrial goods of high quality. Their production strategies in turn allow for the high wages and taxes upon which the social democratic project depends. They may also allow for the compression of wage differentials. More specifically, as we have already seen, recent contributions to the VofC literature argue that reliance on specific skills makes employers in coordinated market economies interested in employment protection and generous social insurance schemes.

These arguments pertain to the congruence of social democratic policies with the production strategies of dominant business segments. In a different vein, one might also argue that the effective implementation of social democratic policies depends on the cooperation of organized business as well as organized labor or, in other words, that the effective implementation of these policies presupposes “corporatist” institutional arrangements. From this perspective firms in liberal market economies might stand to gain from social democratic policies, but they do not have the capacity to help governments implement these policies (e.g., Martin 2004).

For the VofC literature, then, social democracy does not represent a viable policy regime for liberal market economies, while its prospects in coordinated market economies are quite favorable. At the same time the VofC literature argues strenuously against the proposition that capital mobility and intensified international competition favor LMEs over CMEs. The standard VofC argument on this score is that the institutional differences between CMEs and LMEs are the source of different comparative advantages: CME firms and LME firms pursue different innovation and production strategies, but these strategies are equally viable. Rather than generate pressures for convergence on the liberal model, globalization actually serves to crystallize differences between the two types of capitalist economies (Soskice 1999).

In my view the implications of capital mobility and the globalization of

finance over the last two decades are more far-reaching than VofC scholars typically recognize. On average, European firms may still be less exposed to capital markets than American firms are, but ownership structures and corporate governance practices have clearly shifted in a “liberal” direction across the coordinated market economies. In addition, the VofC argument about comparative advantage is strikingly manufacturing-centered and ignores the macroeconomic implications of differential growth rates across industrial sectors.<sup>7</sup> CME firms specializing in “incremental innovation” may well be able to thrive in the new world economy, but if sectors in which competition hinges on “radical innovation” grow at a much faster rate, this surely poses a problem for countries that have a comparative advantage in incremental innovation.

On the other hand, I want to suggest that the VofC literature exaggerates the extent to which the fate of social democracy is tied to the persistence of “patient capital” and manufacturing systems that rely on the kinds of skills that workers acquire through vocational training of the sort given in Germany. As noted above, what distinguishes the Nordic countries in the realm of education and skill formation is not vocational training but rather public investment in human capital in a much broader sense. Such investment facilitates productivity growth across a wide range of business activities, and more footloose or short-term investors should be quite readily able to recognize its benefits. The same basic argument holds, it seems to me, for other components of the social democratic policy regime, notably the promotion of women’s participation in the labor force, the emphasis on getting the unemployed back to work, and the mobility-enhancing implications of universalistic social insurance schemes. As for wage solidarity, let me simply reiterate that it is a policy designed to benefit any and all firms with above-average profits. In short, I fail to see any compelling reason why the economic and social benefits of social democratic policies should be more pronounced in coordinated market economies than in liberal market economies.

The proposition that the effective implementation of social democratic policies presupposes institutional arrangements of the CME type cannot be as readily dismissed. Solidaristic wage bargaining and active labor market policies surely require participation and coordination by employers as well as unions. While this is less obviously so for other components of the social democratic policy regime, such as parental leave insurance and public spending on primary and secondary education, the notion of a “policy regime” implies interdependence among different policies. However, the argument about institutional capacity has more to do with encompassing unions and employer associations than with corporate finance and governance institu-

Table 2. Unionization Rates, 1980 and 2000

	1980	2000	Change
LME average	43	27	-16
United States	22	13	-9
Continental average	35	23	-12
Belgium	54	56	2
Germany	35	25	-10
Nordic average	72	71	-1
Denmark	79	74	-5
Finland	69	76	7
Norway	58	54	-4
Sweden	80	79	-1

Note: Continental average excludes Belgium; otherwise countries included in group averages are the same as in table 1 (columns 1-5).

Source: OECD 2008b, 24-25, 34-35.

tions. Historically the concentration of ownership and capitalists with interests in a number of different firms may have been a precondition for the emergence of relatively centralized employer and trade associations in northern Europe, but it does not follow that recent changes in the structure of ownership and control undermine existing corporatist arrangements.

Even more so than strong business organizations, strong unions must be considered an institutional prerequisite for successful social democracy. By "union strength" I have in mind both high levels of unionization and an organizational structure that makes coordination among unions possible. The latter feature is not adequately captured by centralization of authority in the hands of national union officials. Union strength involves limits on the autonomy of locals and shop stewards but also, perhaps more importantly, clear jurisdictional boundaries and the absence of inter-union competition over members. As emphasized by Kjellberg (1983), Nordic unions are distinguished by strong locals as well as strong peak associations.

Strong and coordinated industrial unions are clearly critical to the implementation of solidaristic wage policy. Here I want to emphasize the less commonly recognized point that strong local unions have made it possible for Nordic social democrats to eschew detailed government regulation of employment and working conditions, instead relying on local unions to protect workers in this realm. I have yet to puzzle through the micro-foundations of this argument, but I am strongly inclined to believe that collective bargaining provides a more flexible path to employment security than government

legislation and that reliance on this method attenuates the trade-off between employment security and employment growth.

Does union strength ultimately depend on the broader (or deeper) institutional conditions emphasized by the VofC literature? Leaving aside Belgium, average union density in continental SMEs was actually lower than in Anglophone LMEs in 1980 and fell by nearly as much over the last two decades of the twentieth century (see table 2). It is possible that some of the institutional features of continental SMEs actually contributed to union decline. The practice of extending bargained wage contracts to firms (or workers) that were not party to the contract poses the obvious question of why workers would choose to join unions in these countries. Similarly, employment protection legislation and works councils would seem to deprive unions of an important role at the local level. Here is another complementarity (or “virtuous circle”) that deserves to be noted: the social democratic policy regime depends on strong unions, but it also sustains strong unions.<sup>8</sup>

### **Economic Growth and Social Solidarity, 1995–2007**

As Martin and Thelen (2007) have recently asserted, using Denmark and Germany as illustrative cases, the trajectories of the Nordic countries and continental Europe have diverged since the early 1990s. Economic growth and cooperation between unions and employers have been restored and social solidarity has been maintained in the Nordic countries. By contrast, Martin and Thelen observe an erosion of social-market institutions and rising labor-market dualism in Germany and other continental countries. In what follows I will elaborate on this divergence and relate it to my earlier discussion.

To begin with, table 3 brings out the contrast between the Nordic countries and continental Europe with respect to overall economic performance. To summarize, the Danish, Norwegian, and Swedish economies have grown by an average annual rate of about 3% per capita while the Finnish economy has grown by an annual rate of nearly 4% since the end of the economic crisis of the early 1990s. For Finland and Sweden in particular, but also for Denmark, this represents a strong improvement on the 1980s and early 1990s, when Nordic growth—except for Norway, which benefited from oil exports—lagged behind not only the United States but also continental Europe by a significant margin. Over the thirteen years from 1995 through 2007 even Denmark, which grew more slowly than the other Nordic countries, grew at the same rate as the average for Anglophone LMEs (slightly higher than the United States growth rate) and outperformed the average for continental SMEs by one percentage point per year.<sup>9</sup>

Table 3. Average Annual Growth Rate of Real GDP per Capita

	1984–94	1995–2007
LME average	2.8	2.9
Ireland	4.0	7.5
United States	3.0	2.8
Continental average	2.3	1.9
Germany	2.8	1.5
Nordic average	1.9	3.2
Denmark	2.0	2.9
Finland	1.2	3.8
Norway	2.8	3.1
Sweden	1.4	3.1

Note: Countries included in group averages are the same as in table 1 (columns 1–5), except that LME average excludes Ireland.

Source: OECD 2008a, 249.

Like the rest of Western Europe, the Nordic countries have relied heavily on productivity growth to achieve economic growth, and employment growth has been sluggish. In Sweden and Finland unemployment remains much higher than it was before the economic crisis of the early 1990s. Without minimizing this problem, which was the main reason why the Swedish social democrats lost the election of 2006, it is noteworthy that Sweden and Finland managed to avoid the pattern of Germany and other continental SMEs from the mid-1970s through the mid-1990s, when each successive recession was associated with a ratcheting up of the “equilibrium rate” of unemployment. In Sweden open unemployment jumped from 1.2% in 1991 to 9.9% but subsequently fell back, fluctuating in the range of 5 to 7% between 2001 and 2007. In Finland the rate of unemployment peaked at 15.1% in 1995 and fluctuated between 7% and 9% in 2001–7. It also deserves to be noted that Norway and Denmark have successfully maintained very low rates of unemployment over the last ten years, significantly below the United States rate, let alone the EU rate.<sup>10</sup> Perhaps most importantly, economic growth has been accompanied by a very significant reduction in the duration of average unemployment spells in the Nordic countries since the mid-1990s (see table 8).

Nordic economic success over the last ten to fifteen years has occurred in the context of a continued shift to services as the principal source of employment. As table 4 illustrates, the continental SMEs experienced the biggest shift toward a postindustrial employment structure in the 1990s and early 2000s, but the Nordic economies had gone farther down this path by the late 1980s and the Nordic economies remained more postindustrial than the con-

Table 4. Services as Percentage of Total Civilian Employment, 1991–2007

	1991	2007	Change
LME average	68.1	74.7	6.6
United States	71.8	78.8	7.0
Continental average	60.5	71.2	10.7
Germany	55.0	67.7	12.7
Nordic average	67.0	73.9	6.9
Denmark	66.6	73.6	7.0
Finland	62.3	69.7	7.4
Norway	70.5	76.0	5.5
Sweden	68.4	76.1	7.7

Note: Countries included in group averages are the same as in table 1 (columns 1–5).

Source: OECD 2008b, 24–25, 34–35.

tinental SMEs by the end of the recent boom. The continued shift to service employment is particularly noteworthy because the public sector's share of total employment has either contracted or remained constant in the Nordic countries since the early 1990s.

By all accounts the embrace of information-processing and communication technologies was a very important component of economic recovery in Sweden and Finland in the 1990s. Alongside the rise of Ericsson and Nokia as global ICT firms, these countries have become home to clusters of smaller ICT companies (Richards 2004). Relatedly, the spread of ICT use across manufacturing and public as well as private services appears to have been an important factor behind rapid productivity growth not only in Sweden and Finland but also in Denmark and Norway.

For 1995–2006 table 5 reports on annual growth of value added in four broad sectors: (1) low-technology manufacturing, (2) high and medium-to-high (HMH) technology manufacturing, (3) finance and business services, and (4) other private services.<sup>11</sup> As the table indicates, the United States outperformed Germany and the average for continental SMEs in every one of these sectors, but the performance gap was particularly pronounced for HMH manufacturing and other private services. Interestingly, HMH manufacturing and other private services are also the two sectors in which Sweden and Finland clearly outperformed the continental SMEs in this period. The very strong performance of these countries in HMH manufacturing, with growth rates one and a half times the United States rate, is particularly striking. It



Table 5. Average Annual Growth of Value Added by Sector, 1996–2006

	Low- Technology Manufacturing <sup>a</sup>	High and Medium- to-High- Technology Manufacturing <sup>b</sup>	Financial and Business Services <sup>c</sup>	Other Private Services <sup>d</sup>
United States	1.1	6.0	3.7	4.5
Continental average <sup>e</sup>	0.7	3.4	2.8	2.4
Germany	0.4	1.0	3.5	2.1
Denmark	-1.0	1.7	2.9	3.1
Finland	2.5	9.1	2.5	4.7
Norway	1.0	1.5	4.3	4.2
Sweden	0.9	9.1	3.2	4.0

<sup>a</sup> Food products, beverages, tobacco, wood and wood products, pulp and paper products, printing and publishing, other manufacturing and recycling.

<sup>b</sup> Chemicals and chemical products, machinery and equipment, transport equipment.

<sup>c</sup> Finance, insurance, real estate, and business services (computer and related activities, research and development, renting of machinery and equipment, etc.).

<sup>d</sup> Wholesale and retail trade, restaurants and hotels, transportation, storage, and communications.

<sup>e</sup> Same countries as in table 1 (columns 1–5).

Source: OECD, STAN Structural Analysis Database, version 2008 (<http://stats.oecd.org/>).

is also noteworthy that all four Nordic countries enjoyed stronger output growth than the continental SMEs in a wide range of private services.

The emergence of the Nordic countries as models of how high-wage countries can meet the challenges of globalization by shifting to more knowledge-intensive manufacturing and service production is reflected in recent reports by the World Economic Forum (WEF). According to the forum's most recent report on information-age preparedness (released in April 2008), Denmark is the most "networked economy" in the world, followed by Sweden in second place, Finland in sixth place, and Norway in tenth place. On the forum's broader index of global competitiveness, Denmark, Sweden, and Finland ranked third, fourth, and fifth in 2008. By contrast, continental SMEs other than Switzerland are notably absent from the top-ten list on both WEF indexes.<sup>12</sup>

The WEF rankings take into account the regulatory environment as well as the quality of human capital, infrastructure, and government support for research and development. It is commonplace in OECD publications to attribute the recent successes of the Nordic economies to deregulatory, liberalizing reforms undertaken in the 1980s and 1990s (e.g., OECD 2007a). Let me briefly

illustrate the kinds of reforms involved here with reference to Sweden. To begin with, the Swedish social democrats engaged in deregulation of capital markets and financial services on a scale quite similar to Mrs. Thatcher's "Big Bang" in the second half of the 1980s. By all accounts this reform contributed to the ensuing assets bubble and the banking crisis of 1991–92, but it also seems to have improved access to capital for Swedish firms—and certainly had important consequences for the ownership and governance of Swedish business. Foreign capital entered on a massive scale through the foreign acquisition of Swedish firms as well as portfolio investment in the 1990s (Henrekson and Jakobsson 2005).

In eliminating a variety of tax expenditures while lowering the nominal rate of profits taxation, the Swedish tax reform of 1990 was also inspired by market-liberal thinking. Less commonly noted, the social democrats presided over a comprehensive dismantling of price supports and other regulations of agriculture in 1990. Furthermore, successive Swedish governments in the 1980s and 1990s enacted measures that effectively broke up public utilities and telecommunications monopolies and partially privatized the ownership of relevant state enterprises. Across the entire range of markets for manufactured goods and private services, government reforms have sought to encourage competition and entrepreneurship.

With Norway as something of a laggard, the other Nordic countries have engaged in similar deregulatory reforms. A systematic comparative analysis lies far beyond the scope of this chapter, but I doubt that anyone would contest the proposition that Sweden, Denmark, and Finland have embraced and implemented the deregulation of capital markets, product markets, and private services to a considerably greater extent than continental SMEs like Germany and France.<sup>13</sup>

The Nordic countries reduced the income replacement provided by various social insurance programs and also cut spending on public services in the early 1990s, but reforms of the welfare state were far more circumscribed than the deregulatory reforms enumerated above. Budgetary pressures rather than market-liberal ideas clearly constituted the primary motivation behind these reforms, and spending cuts were restored as economic growth picked up in the second half of the 1990s. Under the umbrella of "flexicurity," Denmark reformed its system of unemployment support in the 1990s, restricting the duration of passive income support while expanding the rights of the long-term unemployed to individually tailored retraining (Madsen 2002), but this reform can hardly be described as "market-liberal." To the contrary, it represents an embrace of the principles of Swedish active labor market policy. Other social policy reforms can also be said to have shored up existing

welfare states. Perhaps most importantly, it is striking that after two decades of reform, public monopolies in the provision of education, healthcare, childcare, and elderly care remain effectively intact in the Nordic countries.

The trajectory of Nordic political economies might thus be characterized as one of far-reaching but targeted or “asymmetric” liberalization, as distinct from the across-the-board liberalization of Thatcher’s Britain. As I have emphasized throughout this chapter, the asymmetric embrace of markets in some realms and rejection of market solutions in other realms has long been a hallmark of Nordic social democracy. With the benefit of hindsight, the deregulatory reforms enumerated above may have been an essential part of the political process that enabled the social democrats to regain their capacity to define the terms of economic and social policy debate. At the same time, it seems plausible to argue that the Nordic countries have been able to engage in far-reaching deregulation precisely because their citizens enjoy generous, publicly provided welfare provisions that render them less sensitive to the fate of the companies in which they work. In other words, the Nordic experience of the last couple of decades suggests that the compensatory logic of social welfare articulated by Katzenstein (1985) applies to domestic liberalization as well as trade liberalization.

Released shortly before the election of 2006, a report on the Swedish economy by a team of American and Swedish economists (Freeman, Swedenborg, and Topel eds. 2006) concluded that “excessive egalitarianism” remained a drag on economic growth and that the economic boom provided a favorable environment for allowing income differentials to rise. By contrast, I suggest that the egalitarianism of the Nordic countries has contributed positively to their economic success since the early 1990s. As I see it, three mechanisms are at work. First, coordinated wage bargaining with strong unions has limited wage differentials resulting from corporate profitability and kept pressure on firms to improve productivity. Even within the private service sector, the logic of the Rehn-Meidner model still seems to work.<sup>14</sup> Indeed, it is tempting to argue that the shift from peak-level to industry-level wage bargaining has reduced the need for unions in the Nordic countries to pursue inter-occupational leveling and hence enabled them to pursue wage policies based more exclusively on Rehn-Meidner principles.

Second, there can be little doubt that high levels of public investment in families and education since the 1970s (or earlier) contributed to the strong performance of the Nordic economies in the 1990s and 2000s, and especially to the growth of more knowledge-intensive sectors. The broad base of general skills—or in other words, the relatively high level of general skills at the bottom of the skill distribution—clearly represents the distinctive ad-

vantage of the Nordic countries, not only in allowing for the use of information technology in the production of goods and services but also in making for more sophisticated consumers of ICT products. As noted earlier (table 1), “information-age literacy” is more widespread in the Nordic countries than in any other OECD countries.

Finally, the Nordic economies have benefited in more or less tangible ways from high levels of female labor force participation and gender equality. Though I have no quantitative evidence on this score, the large-scale entry of women into managerial positions in the corporate sector represents an important new development in the Nordic countries over the last two decades. There is every reason to suppose that the quality of management improves as the pool of potential managers increases.

The final contrast that I want to draw between Nordic and continental trajectories since the early 1990s concerns labor-market dualism. The growth of precarious forms of employment and conflicts of interest between labor insiders and outsiders has recently emerged as a prominent theme in the comparative political economy of advanced industrial states. While King and Rueda (2008) treat dualist tendencies as a common feature of all OECD countries, others (e.g., Iversen and Stephens 2008, 605) conceive growing dualism as a distinctively continental European phenomenon. In the latter vein Palier and Thelen (2010) argue that growing labor-market dualism in France and Germany is a result of the distinctive political dynamics of labor-market and social policy reforms in these countries.

Tables 6–9 present some preliminary evidence in support of the proposition that dualist tendencies have been less pronounced in the Nordic countries than in continental Europe over the last ten to fifteen years. To begin with, table 6 reports on the percentage of the labor force employed under fixed-term contracts. In the mid-1990s fixed-term contracts were more common in the Nordic countries than in Germany and the continental SMEs as a group. However, the incidence of fixed-term employment declined in the Nordic countries (except for Sweden) while it increased on the European continent in the late 1990s and early 2000s. In this respect the Nordic experience seems to resemble the experience of the United States more than that of continental Europe.

Part-time employment is commonly viewed as another form of precarious employment (e.g., King and Rueda 2008). As shown in table 7, part-time workers as a proportion of all workers increased very markedly in Germany from 1994 to 2007. The incidence of part-time employment also increased in the other continental SMEs over this period, but it declined in Sweden and Norway, as in the United States, and remained constant in Denmark. Start-

Table 6. Fixed-Term Employment as Percentage of Total Labor Force, 1994–2002

	1994	2002	Change
LME average	8.1	7.1	-1.0
United States	5.1	4.0	-1.1
Continental average	9.3	11.3	2.0
Germany	10.3	12.0	1.7
Nordic average	14.5	12.4	-2.1
Denmark	12.0	8.9	-3.1
Finland	18.3	16.1	-2.2
Norway	12.9	9.9	-3.0
Sweden	14.6	14.8	0.2

Note: LME average excludes Australia; otherwise countries included in group averages are the same as in table 1 (columns 1–5). Figures in column 1 are from 1997 for Finland and Sweden, 1996 for Norway.

Source: OECD Labour Market Statistics Database (downloaded and compiled by David Rueda).

Table 7. Part-Time Employment as Percentage of Employed Population, 1994–2007

	1994	2007	Change
LME average	17.3	18.6	1.3
United States	14.2	12.6	-1.6
Continental average	18.8	28.8	10.0
Germany	13.5	22.2	8.7
Nordic average	15.9	16.1	0.2
Denmark	17.3	17.7	0.4
Finland	8.9	11.7	2.8
Norway	21.5	20.4	-1.1
Sweden	15.8	14.4	-1.4

Note: Part-time employment defined as less than 30 hours per week in one's main job. For lack of data for 1994, LME average excludes Australia and continental average excludes Austria; otherwise countries included in group averages are the same as in table 1 (columns 1–5).

Source: OECD 2008c, 352.

Table 8. Long-Term Unemployment (More Than 6 Months) as Percentage of Total Unemployment, 1994–2007

	1994	2007	Change
LME average	49.9	30.2	–19.7
United States	20.3	17.6	–2.7
Continental average	60.0	60.1	0.1
Germany	63.8	71.3	7.5
Nordic average	48.1	27.3	–20.8
Denmark	54.0	29.5	–24.5
Finland		37.9	
Norway	43.7	25.1	–18.6
Sweden	46.7	27.3	–19.4

Note: To capture change over time, Nordic average excludes Finland; otherwise the countries included in group averages are the same as table 1 (columns 1–5).

Source: OECD 2008c, 355.

Table 9. Incidence of Low Pay, 1994–2004

	1994	1996	1997	1999	2002	2003	2004
United States	25.1					23.3	
United Kingdom	19.5				21.4		
Germany	11.6				15.8		
Netherlands	11.9			14.8			
Denmark		7.3				9.3	
Finland					7.3		
Sweden			5.7				6.4

Note: Figures represent percentage of full-time employees earning less than two-thirds of the median wage for full-time employees.

Source: OECD Relative Earnings Database.

ing at a much lower level, Finland is the only Nordic country that conforms to the continental European pattern with respect to the growth of part-time employment.

Trends in the incidence of long-term unemployment constitute another point of contrast between the Nordic countries and continental Europe that is relevant to the theme of labor-market dualism. Table 8 reports on the percentage of the unemployed who have been unemployed for more than six months. During the economic crisis of the early 1990s this figure shot up in the Nordic countries, but it never quite reached continental levels, and it has

subsequently been more or less halved in Denmark, Norway, and Sweden (with data for the mid-1990s missing for Finland). Again, the contrast with continental Europe is striking. In Germany the incidence of long-term unemployment rose dramatically while the overall unemployment rate held more or less steady from 1994 to 2007. Averaging across six continental SMEs, the incidence of long-term unemployment remained constant while the overall unemployment rate dropped.

Finally, table 9 presents some fragmentary data on the incidence of low-pay employment, defined here as the percentage of full-time workers earning less than two-thirds of the median wage. The evidence suggests that the low-pay labor force has grown in the Nordic countries as well as continental Europe, but the increases in Denmark and Sweden are notably smaller than those observed in Germany and the Netherlands. As the incidence of low-pay employment in continental Europe has begun to approach levels characteristic of liberal market economies, represented by the United Kingdom and the United States in table 9, the Nordic countries stand out even more by this measure.

It deserves to be noted that overall wage inequality among full-time employees and inequality of gross earnings among working-age households have actually increased more in Sweden than in Germany since the 1990s (Pontusson 2005a, 45). In Sweden low-skilled and low-paid workers have fared relatively well while highly educated workers have gained relative to the middle. This pattern of inequality growth, which resembles that of liberal market economies, may be more conducive than the continental pattern to the persistence of a redistributive coalition of low-income and middle-income voters (cf. Lupu and Pontusson 2010). For our purposes, suffice it to say that the recovery and successful restructuring of the Nordic economies over the last fifteen years have not brought about any dramatic increase in the gap between labor-market insiders and outsiders.<sup>15</sup> Relative to continental SMEs, the Nordic economies may be less in need of labor-market dualism because they rely more extensively on general skills and because their labor markets are more flexible.

THE POLICY REGIME associated with Nordic social democracy cannot be captured by a simple formula along the lines of “politics against markets” (Esping-Andersen 1985). Rather, this policy regime represents an essentially pragmatic approach to managing contemporary capitalism, characterized by a combination of collective bargaining and government intervention to regulate labor markets, direct government provision of public goods, and redistributive taxes and incomes transfers to correct for inequalities generated by markets. Nordic social democrats have not only been willing to concede

a lot of terrain to markets, they have celebrated the efficiency of markets as mechanisms to allocate productive resources. The “market-friendliness” of social democracy became more pronounced in the 1980s and 1990s, but it was also quite pronounced in the 1950s and 1960s, and the generous boundaries that social democratic ideology sets for market solutions to societal problems remain. To my mind, it is the radical trade-union initiatives of the 1970s (Pontusson 1992) rather than the deregulatory reforms and budget-balancing measures of the 1990s that represent a radical break with the social democratic tradition. In particular, it is noteworthy that postwar Nordic governments pursued quite restrictive fiscal policies (premised on full employment, the Rehn-Meidner model incorporated this policy stance).

What are the consequences of the global economic crisis that began to unfold in the fall of 2008 for the social democratic policy regime as I have conceived it in this chapter? A few brief comments must suffice. The origins of the crisis clearly call into question the *laissez-faire* approach to financial markets adopted by Nordic social democrats, along with just about all other major political parties, in the 1980s and 1990s. It also seems clear, already, that recovery from the crisis will require fiscal stimulus on a scale that exceeds anything the Nordic countries have experienced since the 1930s. The Nordic countries are neither immune to the crisis nor particularly vulnerable. Most importantly for present purposes, the main policy challenges would seem to lie outside the realm of the social democratic policy regime. The social democratic policy regime itself does not prescribe a particular fiscal policy stance, restrictive or expansionary, and macro-economic conditions do not alter the (desirable) effects of its core components. The same argument holds, I think, with respect to the question of how financial markets should be regulated. These observations imply an important clarification of the preceding discussion: the social democratic policy regime as I conceive it is not a comprehensive regime that encompasses all aspects of economic and social policy.

I have argued that the social democratic policy regime remains viable under conditions of globalization and liberalization. To clarify further, this part of my argument pertains specifically to the political and economic viability of the social democratic policy regime. Throughout this chapter I have quite deliberately shied away from the question of which conditions will enable parties pursuing social democratic policies to be electorally successful. As Moschonas (this volume) shows, a secular decline of electoral support for mainstream social democratic parties has occurred across northern Europe over the last two or three decades. The reasons for this are complex, but one thing seems clear: societal demand for social democratic policies has not di-



minished. With rising inequality and employment insecurity, the opposite is surely true. One might plausibly argue that the decline of unions and other social and political trends have diminished the voice of those who benefit most from social democratic policies. The Nordic experience suggests another possibility, namely that other political parties—other left parties as well as centrist and center-right parties—have embraced social democratic policies and thereby weakened the electoral appeal of social democratic parties. In my mind the extent to which the social democratic policy regime depends on electoral mobilization by social democratic parties is an open question.

In closing, let me very briefly address the question of the relevance of the social democratic policy regime for progressive politics in the United States and other liberal market economies. In contrast to adherents of the Varieties-of-Capitalism school, I have emphasized in this chapter that core policies associated with Nordic social democracy are broadly conducive to productivity growth and benefit more efficient and knowledge-intensive firms across manufacturing and services. In addition, I have tried to suggest that “stock-market capitalism” does not necessarily render these policies inoperative. The pragmatic nature of the social democratic approach also deserves to be noted in this context. With regard to wage solidarity, for example, the social democratic approach does not prescribe some particular leveling of wage differentials that must be obtained: any standardization of wages across firms with variable profitability is considered desirable.

In short, I believe that there is quite a lot of room for social democracy in liberal market economies. At the same time, I have emphasized that the implementation of solidaristic wage policy and other components of the social democratic policy regime presuppose relatively strong unions. To some extent government may be a “functional substitute” for strong unions. Most obviously, we might think of minimum wage legislation as a substitute for solidaristic wage bargaining, curtailing the extent to which low wages subsidize inefficient firms. Similarly, government legislation can obviously provide workers with protection against unfair dismissals and serve to enforce occupational health and safety standards. I do not wish to imply that government should desist from these activities, but the comparison of the Nordic countries and continental Europe introduces a cautionary note, for it suggests that extensive government regulation of labor markets and employment conditions may preempt unionization. Building stronger unions must surely be an indispensable part of any effort to move economic and social policies in the United States in a social democratic direction.

## Notes

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1. Perhaps it is needless to say that I use the term “Nordic” rather than “Scandinavian” because I think that Finland deserves to be included among the countries with a social democratic policy regime. From a comparative Nordic perspective, the Finnish experience is exceptional on at least two counts: the country industrialized much later than in Scandinavia, and political and ideological struggles on the left divided the labor movement. As a result, the Finnish social democratic party never assumed the same position as its Scandinavian sister parties held in the 1950s and 1960s, yet Finnish politics clearly shifted in a social democratic direction in the 1970s and 1980s. Arguably, policy diffusion among the Nordic countries contributed to this development.

2. “Liberal market economies” (LMEs) constitute another comparison group to which the following discussion will refer. Exemplified by the United States, this group also includes Australia, Canada, Ireland, and the UK. Pontusson 2005a juxtaposes LMEs and SMEs and then distinguishes between Nordic and continental SMEs. To emphasize differences between Nordic and continental political economies, I here reserve the term “social market economies” (coined by German Christian Democrats in the 1950s) for continental countries with comprehensive systems of social protection. This terminological change is part of an effort to correct what I now consider a fundamental ambiguity in *Inequality and Prosperity* (2005). See Pontusson 2006 for an earlier “correction” along similar lines.

3. Among continental welfare states Belgium stands out as comparable to the Nordic welfare states in terms of its redistributive impact. See Pontusson 2005a, 153–62.

4. Like most of the tables that follow, table 1 sorts countries into three groups and reports group averages as well as individual figures for the United States, Germany, and the four Nordic countries. Of course group averages sometimes hide significant variation within groups: the main instances of divergence within the continental and Nordic groups will be noted in the text.

5. See Pontusson 1992 for a more detailed discussion of solidaristic wage policy as a form of industrial policy.

6. To clarify, the Nordic countries and the continental European countries that I call “social market economies” are all (with the possible exception of France) “coordinated market economies” by the criteria of the VofC literature. Japan is commonly thought to exemplify yet another CME variant.

7. See Pontusson 2005b for a more comprehensive critique of the VofC approach.

8. Rothstein (1992) makes a similar argument about unemployment insurance. It is hardly a coincidence that public subsidies to union-administered unemployment

funds play a very prominent role in the unemployment insurance systems of Sweden, Denmark, and Finland and that these countries also have very high and apparently resilient rates of unionization. Among continental SMEs Belgium alone has a Ghent system of unemployment insurance. For the Nordic countries this feature represents a very notable departure from welfare-state universalism.

9. Note that in making these comparisons I do not include Ireland in the LME average, for the simple reason that Ireland grew at twice the rate of any other country included in table 3 during the 1990s.

10. At 2.6%, the Norwegian unemployment rate was the lowest of any OECD country in 2007. Three other countries performed better than Denmark (3.8%) by this measure: Korea, the Netherlands, and Switzerland. The unemployment rates reported here are standardized rates from the OECD (2008b, 335).

11. I follow OECD convention in classifying manufacturing sectors as either “low-technology” or “HMH.”

12. In 2008 the Netherlands ranked seventh on networked readiness while Germany ranked tenth on global competitiveness. For further details see <http://www.weforum.org>.

13. See OECD 2007, 44, for comparative data on product market regulations.

14. By contrast, Iversen and Wren (1998) seem to posit (for reasons that I do not fully understand) that the logic of the Rehn-Meidner model only applies to manufacturing.

15. The pioneering discussion by Rueda (2007) of the politics of insider-outsider conflict misses this contrast between Nordic and continental political economies (which all score high on his measure of “corporatism”).