What’s so special about the Nordics?

In international comparisons, not least the World Economic Forum’s global competitiveness index, the Nordic countries are almost always found at or near the top. In one meta-index that is an aggregate of 16 different global indices (competitiveness, productivity, growth, quality of life, prosperity, equality etc) the four main Nordic countries − Sweden, Norway, Denmark and Finland − top the list.

What are the reasons? Is there such a thing as a common “Model” particular to the Nordics and if so, will it last? Is it sustainable, even transferable to other parts of the world?

In this little brief we would like to provide bits and pieces of what we believe are some plausible explanations for the relative success of the Nordic societies. If these experiences can improve the understanding of our way of doing things and inspire debate and development in other parts of the world we will be very pleased.

Shared values are also about sharing values and experiences with others.

The fact that Nordic countries showed resilience during the recent financial crisis largely seems to be the result of previous deep crises in the Nordic region in the 1980s and 90s. During these crises, the Nordic countries renewed and modernized their respective economies in ways which sometimes constituted a break with previous regulations and tax systems.

Klas Eklund (senior economist at SEB and adjunct professor of economics at Lund University) consequently claims in his contribution “Nordic capitalism – lessons learned” that what we ought to search for is not a crisis-free “Nordic model” but rather a “Nordic experience” – efficient ways to handle deep crises. However, that raises the question of why the Nordic countries were able to meet these challenges. Here, social cohesion seems to have played a role in making tough reforms possible.

The second article by Henrik Berggren (historian, former political editor of Dagens Nyheter) and Lars Trägårdh (historian, professor at Ersta Sköndal University College) addresses precisely this issue, in their contribution “Social Trust and Radical Individualism”.

Many people see the Nordic countries as some kind of compromise between socialism and capitalism. This is not at all the case, according to Berggren-Trägårdh. Instead, it is the combination of extreme individualism and a strong state that has shaped the fertile ground for an efficient market economy. Less tied down by legal, practical or moral obligations within families, individuals of both sexes become more flexible and available for productive work in a market economy. Gender equality has resulted in both higher fertility rates and higher female participation in the labor market than in other parts of Europe.

Economic performance also benefits from low transaction costs, generally delivered by social trust, adherence to laws and low levels of corruption. According to some studies it is the most modern and individualistic countries, most notably the Nordic countries that are characterized by such broad social trust.

We believe – like the three authors – that it is not enough to share values. Values also have to be translated into institutions, rules and legislation. Cultural and social values are not easily transferable across borders, but systems and policies that have proved to work well might still serve as an inspiration for others.

Stockholm, December 20, 2010

Jacob Wallenberg Kristina Persson
Chairman of Investor President of Global Utmaning and The Norden Association

1. Taillberg Foundation, 2009  2. World Value Surveys, Eurobarometer, ESS, EVS
is an EU member, with an opt-out from the currency union – but still keeps its currency tightly pegged to the euro. Sweden is also an EU member with no opt-out – yet is nonetheless not a member of the euro zone and has a floating currency. Norway, finally, is neither in the EU nor in the euro zone. Four countries, four different strategies.

Of course, there are economic similarities. All four are small, open economies with high per capita incomes. All have a rather large public sector with high taxes, and all have inclusive welfare states. But they have different histories and structures. The richest Nordic country – Norway – largely bases its accumulating wealth on oil and gas revenues. Denmark’s economy is based on transport and agriculture; Sweden is successful in manufacturing, pulp and paper, telecom and design. Finland’s industrial structure is similar to that of Sweden but the manufacturing sector is not as

During the recent financial crisis, the four main Nordic countries showed resilience. They suffered during the downturn but rebounded fairly quickly. None of them went through any devastating banking crisis. Although the Danish real estate market took a beating, none of these countries is showing dangerous budget deficits, and none of them has current account problems.

Their resilience has rekindled international interest in what sometimes is called “The Nordic Model”. However, one should be very careful about using such a term. It is difficult to find any kind of common Nordic economic blueprint that is transferable to other countries. Actually, in important respect the Nordic countries follow different economic strategies. This is most visible in their stance toward the euro. Finland is a member of the European Union and has adopted the euro. Denmark
Denmark and Sweden have the highest tax-to-GDP ratios in the world. Finland has lower taxes.

Learning from previous crises

More importantly, the Nordic countries have not been free from crises. On the contrary, I would claim that one important reason for their relative success today is the fact that they suffered deep crises in the 1980s and 1990s – and were able to learn from them. All of them used their crises to modernize their economies, reforming rather staid systems and making them more flexible.

In this sense the Nordic countries are turnaround cases. Within a few decades they have gone from poorly performing to strongly performing economies. But there is no clear common pattern in their crisis strategies. The Danes started their turnaround as far back as the late 1970s, the Norwegians had their crisis in the 1980s, while the Swedes and Finns did not suffer theirs until the 1990s – then in a more brutal way.

- Denmark used to have the most troubled economy in the Nordic area, suffering both from inflation and high unemployment. It joined the European Union as early as 1973 (far ahead of Finland and Sweden) and decided early on that a fixed currency was necessary to overcome inflation and lack of economic policy credibility. In 1982 the Danish krone was pegged to the D-Mark. A number of tough austerity programs in the 1980s – notably the "potato cure" – made stability possible and the exchange rate credible, but at the same time pushed up unemployment. As a response, labor market policy became much more flexible. Eventually, the result was low inflation and a gradually improving labor market.

- Norway suffered a prolonged financial and real estate crisis in the late 1980s, after a mismanaged credit boom, which ended in a systemic crisis and the nationalization of major banks. In the early 1990s, government, labor and management made an agreement according to which tight fiscal policy should contribute to stabilizing production and employment and wage policies should aim at competitiveness in the export sector, while monetary policy was initially geared toward a stable exchange rate. During the European currency crisis in 1992, monetary policy makers instead adopted an inflation target and accepted a floating currency.

- In both Finland and Sweden, the 1980s were years of high inflation and weak currencies. Both nations had gone through several devaluation cycles, with ensuing high inflation. Both – like Norway – had

---

When the World Economic Forum compiles its competitiveness index, this is based on a weighting of twelve ‘pillars’, such as education, infrastructure, market efficiency etc. In the recent Report, the four main Nordic countries outclassed the European Union, beating the EU in all different pillars. At the same time the Nordics beat the US in nine out of twelve pillars, losing out only in market size (of course), innovations and ‘labor market efficiency’. The latter definition, however, is debatable since the “flexicurity” of the Nordic economies is another way of organizing the labor market than the Anglo-Saxon way - different, but not necessarily less “efficient”.

problems in controlling the aftermath of credit market deregulation, and both were hit by economic shocks in the early 1990s: Finland suffered from the collapse of trade with the Soviet Union and Sweden from high interest rates to protect a fixed exchange rate. The result was banking crises, followed by severe recessions with falling GDP levels and rapidly rising unemployment. The numbers were astounding. In Sweden, the budget deficit peaked at 12 per cent of GDP, and the central bank’s key interest rate peaked at 500 per cent. Unemployment quadrupled; in Finland, joblessness reached almost 20 per cent. Not until hard currency policies were abandoned in 1992 was it possible to lay the foundations of a turnaround, but a period of tight fiscal policies made the recovery painful.

So Nordic economic performance in the 1970s and 80s was not very successful, to put it mildly. Instead, all four countries suffered deep recessions.

Since then, these countries have shaped up. The reason, however, is not that taxes have been hikes or benefits have become more generous or any other such actions which many people may associate with a “Nordic model”. On the contrary, economic policy in all four countries, but to a different extent, has been modernized, not least by market reforms.

Policy makeover

The high inflation policy of previous decades has been replaced by national inflation targets in both Sweden and Norway, whose central banks have been pioneers. Denmark and Finland, of course, adhere to the ECB target. In this sense, they all have inflation targets, albeit in the Danish case via a fixed exchange rate. The sloppy budget practices of yesteryear have been replaced by strict budget rules. In both Sweden and Finland, fiscal tightening amounted to some 7–8 per cent of GDP in the mid-90s, mainly through expenditure cuts. In Sweden, the national budget targets today are much tougher than in the euro zone, requiring the government to show a hefty surplus in good years in order to obtain a small surplus over the economic cycle as a whole, aiming to reduce government debt.

In Norway, revenues from oil and gas now have to be handled according to strict rules in order to keep the government budget more or less balanced. The bulk of revenues is put into a sovereign wealth fund − the Government Pension Fund Global − for future needs and investments. Moreover, a “fiscal policy rule” limits the structural non-oil budget deficit over a full economic cycle to the 4 per cent expected real return on the Fund.

In all four countries, several markets have been deregulated. Taxes have been cut, as well as benefit levels. In Sweden, the tax ratio (total tax revenue as a share of GDP) has fallen from 56 per cent in the late 1980s to 47 per cent this year. Expenditure has come down even faster, turning a budget deficit into a structural surplus.

Both Finland and Sweden − mainly because of the political trauma created by deep recessions − were able to push through comprehensive reform programs. In only a few years in the mid-90s, a radically new macroeconomic framework was put in place, with independent central banks, strict budget rules, deregulation and lower benefit levels. This framework has given both countries a stable low-inflation environment. In Sweden, a new partly defined-contribution public pension system replaced the old defined-benefit system.

On top of that, Finland and Sweden were well positioned to reap huge benefits from the “new economy”. They have world class IT and telecom companies, as well as a tradition of good international management. The result is largely due to the crisis management of the early 1990s, Nordic banks did not venture into exotic and dangerous credit derivatives.

The policy lessons from the Nordic experience show it is possible to regain stability and for crises-ridden economies to recover. However, we should be aware that in all countries it took deep crises to trigger the necessary reform programs.

In my mind, this relative Nordic success story is largely due to the crisis management of the 1980s and 1990s. Here, of course, is a lesson to be learned by continental European countries: a swift and resolute reform strategy may yield better results than a wishy-washy, drawn-out one.

A Nordic experience in crisis management?

The policy lessons from the Nordic experience show it is possible to regain stability and for crises-ridden economies to recover. However, we should be aware that in all countries it took deep crises to trigger the necessary reform programs.

But this conclusion, of course, raises a more fundamental issue. What made it possible for the Nordic countries to actually make
good use of their respective crises? President Obama’s former Chief of Staff, Rahm Emanuel, famously quipped “Never let a good crisis go to waste.” But many countries do. How come the Nordic countries did not waste theirs? Are there some common elements in the Nordic way of handling crises which are beneficial and could be emulated in other countries? Is there a certain “Nordic experience” from which we might learn?

Once again, it is almost impossible to create blueprints for other countries, with different characteristics, in different times. And as seen above, the four countries followed different strategies as regards currency policy, income policy etc. Nonetheless, there are certain common traits in how these countries answered the challenges. All four have a tradition of consensus-seeking policy solutions – the obvious example here is the Norwegian deal between the government, labor and management.

Also, their economies are open and protectionism is out of the question. Labor unions are positive toward new technology. And they all – more or less – adhere to the view that sick leave and unemployment insurance systems should be shaped in ways which are both generous and growth-promoting. This creates a certain social cohesion, which may have beneficial effects on policy-making and growth. The combination of liberal labor laws – it is comparatively easy to hire and fire – with generous benefit levels and an active labor market policy has been dubbed flexicurity, since it aims to combine both flexibility and security.

This system, however, does not always function as intended. It has not prevented unemployment from rising over the long-term and during the recent crisis. And it has not been able to fully prevent the creation of a large group of structurally unemployed immigrants, who are now creating rifts in previous homogeneous countries. Nonetheless, it may be an important part of the answer to the questions about the Nordic experience.

However, this raises new questions and pushes us to the next analytical level: How come the Nordic countries have adopted this flexicurity model, with its strong emphasis on labor and work ethics? Here, the wretched economist must leave the floor to the historians. Precisely this issue is analyzed in the next essay by Lars Trägårdh and Henrik Berggren.

Is there a certain “Nordic experience” from which we might learn?

One of the indices in the World Economic Forum Competitiveness report concerns the transparency and efficiency of public institutions. In the recent report, four out of the six top spots in this “pillar” were clinched by the main Nordic countries.

In a broad global perspective, the Nordic region may seem of marginal significance. The combined population of the Nordic countries is only 25 million people, but in qualitative terms there is an argument to be made for the viability of the Nordic strand of capitalism.

As Klas Eklund shows in his article, the region has emerged in good shape from the recent financial crisis, with budget surpluses and low levels of public debt. In a longer perspective the four main Nordic countries are characterized by steady growth, long-term political stability, transparent institutions, technological adaptability, flexible labor markets, open economies and high levels of education. All these factors tend to put the Nordic countries at the top of international ranking lists both in terms of economic clout and quality of life. It has also been argued that this makes the Nordic countries better equipped to deal with fundamental challenges concerning sustainability in general and global warming in particular.

Social trust and radical individualism
The paradox at the heart of Nordic capitalism

In a broad global perspective, the Nordic region may seem of marginal significance. The combined population of the Nordic countries is only 25 million people, but in qualitative terms there is an argument to be made for the viability of the Nordic strand of capitalism.

As Klas Eklund shows in his article, the region has emerged in good shape from the recent financial crisis, with budget surpluses and low levels of public debt. In a longer perspective the four main Nordic countries are characterized by steady growth, long-term political stability, transparent institutions, technological adaptability, flexible labor markets, open economies and high levels of education. All these factors tend to put the Nordic countries at the top of international ranking lists both in terms of economic clout and quality of life. It has also been argued that this makes the Nordic countries better equipped to deal with fundamental challenges concerning sustainability in general and global warming in particular.

How, then, can we explain the relative success of Nordic capitalism in a globalized world? One possibility is that Nordics by nature are unusually cooperative, rational and less prone to succumb to the lure of market egoism than other people. If that is the case, there is not much to be learned from the outside – other than that the world might be a more reasonable but also possibly dullest place if it were inhabited solely by Swedes, Danes, Norwegians and Finns.

However, if we assume that the citizens of the Nordic countries are on the whole similar to other human beings in their passions, both good and bad, other factors come into play: the social practices, the long-term institutions and historical experiences that underpin Nordic capitalism. This is not to imply that there is a free-floating Nordic model that can be applied to other countries. But it does mean that some aspects of Nordic capitalism might be relevant in addressing the problems of globalization, social fragmentation and the instability of modern finance capitalism.
Individual autonomy and social trust

What then, are the most outstanding characteristics of Nordic society that are specifically relevant to the efficiency of its economy? Traditionally, outside observers have put a strong emphasis on social solidarity − an ability to subordinate individual interest to collective rationality. Often, this stress on solidarity has been understood in opposition to the fundamental logic of the market: certain collective goods have been “decommodified” and effectively removed from the cold logic of the market society. Indeed, this was a perspective that Marquis Childs made famous as early as the 1930s, when he wrote Sweden: the Middle Way, suggesting that Sweden had found a way to a healthy balance between altruistic socialism and selfish capitalism.

But this is, at best, a half-truth. This emphasis on social solidarity hides the strong, not to say extreme, individualism that defines social relations and political institutions in the Nordic countries. Indeed, it is precisely the fundamental harmony between the Nordic social contract and the basic principles of the market − that the basic unit of society is the individual and a central purpose of policy should be to maximize individual autonomy and social mobility − that we see as the key to the vitality of Nordic capitalism. In a European perspective, the Nordics do not hold particular-

Nordic individualism

While much has been written about the institutionalized aspects of the Nordic welfare state, few have paid much attention to its underlying moral logic. Though the path hasn’t always been straight, one can discern over the course of the twentieth century an overarching ambition in the Nordic countries not to socialize the economy but to liberate the individual citizen from all forms of subordination and dependency within the family and in civil society: the poor from charity, the workers from their employers, wives from their husbands, children from parents − and vice versa when the parents become elderly.

In practice, the primacy of individual autonomy has been institutionalized through a plethora of laws and policies affecting Nordics in matters minute and mundane as well as large and dramatic. Interdependency within the family has been minimized through individual taxation of spouses, family law reforms have revoked obligations to support elderly parents, more or less universal day care makes it possible for women to work, student loans without means test in relation to the incomes of parents or spouse give young adults a large degree of autonomy in relation to their families, children are given a more independent status through the abolition of corporal punishment and a strong emphasis on children’s rights.

All in all this legislation has made the Nordic countries into the least family-dependent and most individualized societies on the face of the earth. To be sure, the family remains a central social institution in the Nordic countries, but it too is infused with the same moral logic stressing autonomy and equality. The ideal family is made up of adults who work and are not financially dependent on the other, and children who are encouraged to be as independent as early as possible. Rather than undermining “family values” this could be interpreted as a modernization of the family as a social institution. While accepting the fact that long-term spousal commitment is no longer the norm, the “new Nordic family” takes parenthood seriously, both in a demographic sense (the Nordic countries have higher birth rates than more traditional family cultures in southern Europe) and in terms of the time that parents, married or not, spend with their children.

Has Sweden found a way to a healthy balance between altruistic socialism and selfish capitalism?
In quantitative terms, data from the World Values Survey confirm this picture, indicating that the Nordic countries stand out as a cluster of societies in which people put a strong emphasis on the importance of individual self-realization and personal autonomy. In the language of WVS, the Nordics are characterized by their embrace of “emancipatory self-expression values” on the one hand, and “secular-rational values,” on the other.

One effect of this radical individualism is that, relatively speaking, people in the Nordic countries are more willing to accept the market economy both as consumers and producers. Less tied down by legal and moral obligations within the family, yet still protected from extreme risk by a universal safety net, they become more flexible on the labor market, while as individual consumers they have developed far-reaching needs of products and services that previously were satisfied within the traditional family. This market orientation is enforced in a number of ways in the Nordic countries, not least by a social insurance system based on the recipient’s level of earned income on the open labor market, thereby creating an incentive to work while at the same time providing adequate coverage for illness, unemployment and parental leave. Currently, the most famous example is the Danish “flexicurity system.”

To this should be added the historical legacy emphasizing equal access to fundamental goods, not just healthcare and pensions, but also education. This has translated into a long history of investing in individuals and providing access to resources that allow them to maximize their value in the market place. Historically the countries with the highest rates of literacy, Nordic countries have for a long time scored at the very top when it comes to basic education and investment in research.

The institutional foundations of social trust

The image of a strongly individualized market society filled with solitary consumers might seem bleak and materialistic. But although this may be true in some sense, the significant social phenomenon is that Nordic individualism has not led to the anomie, alienation and breakdown of general trust that traditional social theory has associated with the shift from warm Gemeinschaft to cold Gesellschaft.

The underlying assumption of these theories is that trust arises in small, closely-knit communities where there is large degree of interdependence. More recent research has shown, however, that it is precisely the most modern and individualistic countries, most notably the Nordic countries, that are characterized by a broad social trust extended beyond the intimate sphere of family and friends to include other members of society.
a great systemic advantage, which we fundamentally can describe in economic terms as “low transaction costs.” Here, it should be added, we include not only sheer or direct economic transaction costs related to a lower need to resort to written contracts, legal protections, law-suits, and huge amounts of bureaucratic paperwork, but also social and political transaction costs that constitute indirect burdens and inefficiencies that ultimately translate into added financial costs.

One clear example of how a combination of social trust and respect for the rule of law results in lower transaction costs is the Land Survey of Sweden (Lantmäteriet) which has been registering the ownership of property since the 17th century. Because of the exact recording of property boundaries and the general trust in the impartiality of this state agency, the amount of litigation over property rights has been negligible, which both lessens the economic costs for the individual and preempts many possibilities of social conflict.

Another example is labor market relations in the Nordic countries, which, though not always peaceful, have been characterized by a mutual respect for negotiated contracts among both employers and unions. It should be noted that for most of the 20th century, political legislation has played a much smaller role in regulating labor market relations than voluntary agreements between strong unions and equally strong employer’s federations, often at the national level.

What are the historical roots of the Nordic social contract?

As we noted, social trust and trust in institutions also co-vary with low levels of corruption. Historically the Nordic region also stands out as a “community of law”; indeed it was a community of law before the individual Nordic states were consolidated. Rule of law was central to the social contract that underpinned the emerging state, and adherence to the law by the King and his administration was crucial to the legitimacy of the state.

The trust in and reliability of institutions thus depends on the acceptance of the rule of law, but even more important is the extent to which the values implicit in formal law are also internalized and embedded as social norms. Or put differently, the extent to which laws, rules and institutions are viewed as legitimate, as the outcome of a democratic decision-making process and grounded in common values, will determine how well they work. The more accepted and internalized, the less prominent the specter of corruption and lawlessness.

The central axis around which the Nordic social contract is formed is the alliance between state and individual, what we call “statist individualism.”

Again we find that the Nordic countries (and the Netherlands) stand out in studies such as World Values Survey, European Social Survey, European Values Study and Eurobarometer. In addition to putting a strong emphasis on individual self-realization these countries are characterized by a high degree of social trust: well over 50% of respondents claim to trust other people, including strangers. This social trust furthermore co-varies with a high degree of trust or confidence in common institutions, such as the system of justice, public administration, the institutions of the state etc.

From an economic point of view, social trust and adherence to the rule of law translate into
Power Relations in Modern Welfare States

State

Germany

Family

United States

Sweden

Individual

Dynamics of power in modern welfare states. Graphically illustrated as a “triangle drama” by contrasting the position of state, family and individual in the U.S., Germany, and Sweden.


individualism”. Here an emphasis on individual autonomy coincides with a positive view of the state as an ally of not only weaker and more vulnerable citizens, but the citizenry at large. This is coupled with a negative view of unequal power relations between individuals in general and hierarchical institutions in particular, such as the traditional patriarchal family and demeaning charitable organizations in civil society. In this regard, the Nordic model differs from both their Anglo-American and continental European counterparts.

Above we try to capture these different dynamics of power in modern welfare states graphically as a “triangle drama” by contrast-

ing the position of state, family and individual in the U.S., Germany, and Sweden. In the Nordic countries, as we have indicated, the state and the individual form the dominant alliance. In the U.S., individual (rights) and family (values) trump the state (always seen as threat to liberty). In Germany, finally, the central axis is the one connecting state and family, with a much smaller role of either U.S.-style individual rights or a Nordic emphasis on individual autonomy.

This came to the forefront after World War I, when the Nordic countries undertook a joint effort to modernize family legislation in each country that, with some variances, resulted in the most gender-equal marriage laws according to the general European standards of that era. These laws determined that man and wife were equal in terms of the marriage contract, though still responsible for different spheres within the domestic arrangement.

The egalitarianism of Nordic society is, of course, an oft-noted feature of social and political life in these societies. This is also true of the prominence of gender equality. It has been noted in comparative research that both equality and gender equality are correlated with a number of other social virtues and collective goods, including social trust, happiness, and economic development. What is less noted, since equality in the academic literature is often linked to social engineering and collectivist politics, is that equality in the Nordic context is inseparable from individualism and the value of autonomy.

According to what we have called “a Swedish theory of love”, authentic relationships of love and friendship are only possible between individuals who do not depend on each other or stand in unequal power relations. Thus autonomy, equality and (statist) individualism are inextricably linked to each other. Whatever political and cultural drawbacks there might be to this commitment to personal autonomy; a strong state and social equality – the usual criticisms are conformity, loneliness and an intrusive bureaucracy – one should note the upside: citizens, who feel empowered, accept the demands of modernity and are willing to make compromises to achieve economic efficiency and rational decision-making.

Is the Nordic instantiation of capitalism sustainable?

The imminent death of the Swedish or Nordic model has been announced many times. It dates back to the Cold War disenchantment with Childs more celebratory account of a “middle way”, which resonated better during
the era of the Depression and the New Deal. And since then it has been a recurring trope, especially in the U.S. To some extent, the failure of these predictions can be traced to a misunderstanding that has been shared by enthusiasts and critics alike, namely that the Nordic countries were built on a compromise between socialism and capitalism. For critics that meant that given enough time, the costly and unproductive “socialist” elements of the model were bound to overwhelm the productive “capitalist” aspects that had been allowed to remain. However, as we have argued in this essay, these arguments rest on flawed assumptions that tend to underplay the fundamental coherence and vitality of Nordic capitalism.

Of course, this is not to say that these countries are any more immune to recessions and global financial crises than other capitalist countries, or that they have not been set back economically from time to time by bad policy decisions at the national level. However, on the whole Nordic capitalism has proved remarkably sustainable, certainly according to the measures and data that we have available today.

Still, questions can be raised about the future sustainability and relevance of the model. Some argue that the increased ethnic, racial, and religious diversity linked to the influx of refugees constitutes a deep challenge to the social cohesion of Nordic society. The political consequences are already visible in the rise of anti-immigrant parties throughout the Nordic countries. Insofar as immigrants and minorities are perceived as both burdens to the welfare system and as a threat to national culture, questions are also raised as to whether broad support of a tax-based system of social services can be sustained.

Another pessimistic line of argument centers on the impact of neoliberalism on the Nordic social contract. Alarmists point to trends toward increased economic inequality and the introduction of voucher systems and privatization in education, healthcare, and pensions. Such developments, it is argued, will over time undermine the universalism of the classic Nordic welfare state in favor of a more pluralistic system characterized by private, market-based alternatives leading to segregation and a decline in social trust.

Against this gloomy account, currently focused on the rise of anti-immigrant political parties in the Nordic countries, it is nonetheless quite possible to counter with a more optimistic scenario. The central argument is at heart very simple and rests on two ideas: (1) that the striving for individual freedom and prosperity (life, liberty, the pursuit of happiness) is a rather universal drive, and (2) that this desire can only be realized in an enabling social, legal and institutional context. From this point of view, the Nordic institutional framework is characterized precisely by its capacity to promote both social trust/confidence in institutions and rule of law, and individual autonomy consistent with the logic of the market society.

In this more optimistic account, the combined lure of individual freedom and social security is more likely to “naturalize” immigrants over time than seriously challenge the Nordic culture and its institutional system. And with respect to the neoliberal challenge – the rhetoric of “free schools”, “free choice” of healthcare producers and the introduction of a private component in the government pension plan package – these systems still remain highly regulated within the confines of the moral logic of equal access to fundamental public goods. Even if these market elements within the public sector raise questions concerning accountability, quality and fair distribution of health, education and other services, they still operate within a system that is very different from a truly marketized society like the United States.

Thus, the combination of cultural and moral forces that underpin the Nordic social contract and the firm institutional framework that pro-
motes this seemingly paradoxical coexistence of emancipatory individualism and social security may well prove both a major systemic advantage in a globalized market society and an attractive arrangement from the individual’s point of view. Whether it is strong enough to withstand the polarizing impact of immigration and increased diversity – combined with widening differences in wealth, income and access to education and work – is an empirical question to be continuously revisited.

Are there lessons to be learned from the Nordic variety of capitalism?

Obviously many of the salient features of Nordic capitalism are idiosyncratic. They have been created by a combination of contingent factors, ranging from geography and natural resources to religious inclinations and political coincidences. But this also true of the classical model of market economy that is often been presented as ‘universal’. Specific British and American experiences of modernization have been generalized into historical truths that have been applied to other cultures, sometimes with great success but also with astounding failures. The point is not that it is wrong in principal to try to emulate other successful cultures (how else is mankind to learn anything?), but rather that we should do so with great deliberation and – most importantly – not assume a priori that only one kind of capitalism is relevant as a source of inspiration.

However, it is not an easy task to identify and transfer such experience in a form that becomes useful and accessible. To be sure, there are a number of important lessons implicit in the development of Nordic capitalism. The first one is that vague references to “values” and “culture,” would not be helpful; what is needed is a down-to-earth analysis of concrete institutions and policies. However, even specific laws, policies and institutions are far from easily translated and transferred to other environments with different traditions and historical experiences. Still, we would like to point to a cluster of institutions and policies that do tend to instrumentalize a set of experiences in the Nordic countries, which have kept the socially destructive aspects of capitalism at bay while still retaining the dynamics of market economy, with an eye to whether they might be applicable in other parts of the world.

1. Nordic capitalism shows that individualism need not lead to social fragmentation, distrust and short-term maximization of mate-
rial interests. Promoting individual autonomy through policy can, on the contrary, lead to greater social cohesion if it is done in an egalitarian way. Less dependence and weaker patriarchal structures means that more people feel empowered and satisfied with their lives. This is especially relevant for women, who want to participate in the labor market without relinquishing the possibility of becoming mothers. In authoritarian and hierarchical societies where the individual desire for autonomy is given insufficient space, political tensions are likely to arise while social trust and confidence in institutions are likely to decrease.

In this perspective, promoting policies like gender-equal educational systems, individual taxation, universal day care and anti-patriarchal family laws seems to be a generally good idea, even if obviously in conflict with long-standing traditional norms in some cultures. This may not be the right moment in time to suggest that the European Union should expand its mandate in relation to the member states' national sovereignty, but in a longer perspective it might be necessary to develop a common and more individualized family policy if Europe is to remain economically viable.

2. Nordic capitalism also demonstrates the systemic advantage of having a positive view of the state, not just as an ally of the weak but as the promoter of ideals of equality and individual autonomy. The stress on social trust and confidence in the common institutions of the state is, of course, not peculiar to the Nordic countries, nor is the awareness that a positive view of the state cannot be upheld if social and economic divisions grow too large. Indeed, the objectives of keeping unemployment down and having welfare systems that are tied to employment and the work ethic are not specific to the Nordic countries, but constitute central goals for most European welfare states. However, they are pursued with varying degree of success. In the Nordic countries social trust, confidence in state institutions and relative equality coincide.

Perhaps most crucial to the positive feedback cycle that has managed to stabilize the Nordic economies at a productive equilibrium, allowing for individual social mobility, economic efficiency and sustained relative equality, is the degree and extent of inclusion of citizens and civil society in the governance process. Churches, labor unions, charities and other associations in civil society should be supported consulted and involved through commissions, round tables and other forums of interaction between state and society. In the Nordic countries such state/civil society interaction has been institutionalized and routinized in ways that may provide useful inspiration.

3. A strong state and individual autonomy are not a threat to civil society, but are instead its prerequisites. Citizens who join together not mainly to protect themselves from arbitrary abuse by vested state or business interests but rather to increase their potential for self-realization and personal independence are more likely to make positive contributions to society as a whole. This allows for a more constructive engagement, at best, or too close an entanglement with the state (the corporatist dilemma), at worst. One example is labor market relations in the Nordic countries, where the unions have generally not had a narrow self-interested view of their role in society but rather have assumed a macroeconomic responsibility. To achieve this social responsibility, it is necessary that these and other grassroots organizations be supported both through legislation and economic subsidies that encourage the formation of an effective and inclusive civil society network.

In the face of reality, the above suggestions might seem like the ultimate expression of a delusional kind of Nordic naïveté. But even if there is very little in the Nordic historical experience that is transferable to other cultures, it does bring one important point to the discussion: economic policies that cater both to our desire for individual autonomy and our need of community and security can be remarkably successful.
“In the World Economic Forum’s global competitiveness index, the Nordic countries are almost always found at or near the top. But what are the reasons? Is there such a thing as a common “Model” particular to the Nordics and if so, will it last? Is it sustainable, even transferable to other parts of the world?

In this little brief we would like to provide bits and pieces of what we believe are some plausible explanations for the relative success of the Nordic societies. If these experiences can improve the understanding of our way of doing things and inspire debate and development in other parts of the world we will be very pleased.

Shared values are also about sharing values and experiences with others.”