

The Nordic Model: Is it Sustainable and Exportable?

Draft version



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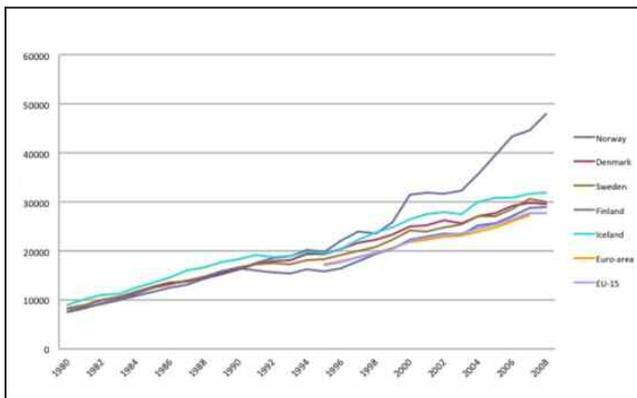
1. The Nordic Model: How Sustainable or Exportable Is It?

Atle Midttun and Nina Witoszek

Among the unique features of the Nordic model, is a balance between seemingly contradictory polarities. The model represents a soft, but productive mode of capitalism, which is highly dynamic and flexible, but it also has an extensive welfare provision and efficient market regulation. It strikes a balance between individualism and collectivism not only in the economic, but also in the civic sphere, where it unites a strong sense of domestic community in welfare provision with promotion of universal human rights abroad. Like other countries with small economies, the Nordics are highly dependent on open markets to achieve advantages of scale and scope. Yet some observers hold that the advanced welfare rights entail a need for entry restrictions to prevent erosion of the existing legacy.

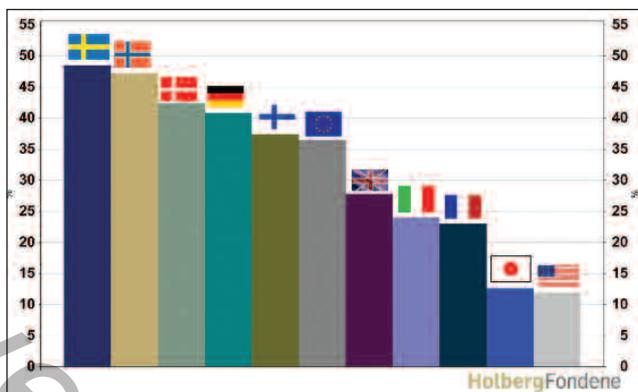
For decades, this model has delivered world class GDP per capita in the upper range of Euro-pean performance, in the conditions of tough international competition (figures 1 and 2).

Fig 1: GDP per Capita in Euro (PPP) in the Nordic countries, EU-15 and the Euro-area, 1980-2008



Source: Nordic Council of Ministers (2010), Nordic Statistical Databank

Fig 2: Export share of GDP%



Source: Holberg Fondene (2010), Ukens Holberggraf 3. september 2010

The Nordics have combined economic growth with wider welfare concerns, and have done so in a highly egalitarian way (figures 3 and 4).

Fig 3 : Human Development Index 2007, top 15 countries

Rank	Country	HDI-value in 2007*
1	Norway	0,971
2	Australia	0,970
3	Iceland	0,969
4	Canada	0,966
5	Ireland	0,965
6	Netherlands	0,964
7	Sweden	0,963
8	France	0,961
9	Switzerland	0,960
10	Japan	0,960
11	Luxembourg	0,960
12	Finland	0,959
13	United States	0,956
14	Austria	0,955
15	Spain	0,955

*Scale between 0 (no achievement) and 1 (goal reached) indicating how close countries are to reaching goals for social and economic development.

Source: UNDP (2009), Human Development Report 2009

Fig 4: Distribution of Wealth (Gini Index)

Country	Gini - coefficient	Rank
Denmark	0,23	1
Sweden	0,23	2
Luxembourg	0,26	3
Austria	0,27	4
Czech Republic	0,27	5
Slovak Republic	0,27	5
Finland	0,27	7
Netherlands	0,27	8
Belgium	0,27	9
Switzerland	0,28	10
Norway	0,28	11
Iceland	0,28	12
France	0,28	13
Hungary	0,29	14
Germany	0,30	15
OECD average	0,31	...

Source: OECD (2010), OECD Factbook 2010: Economic, Environmental and Social Statistics

Furthermore, they are generally seen as responsible and relatively non-corrupt economies which delivered welfare without excessively overburdening the state (figures 5 and 6).

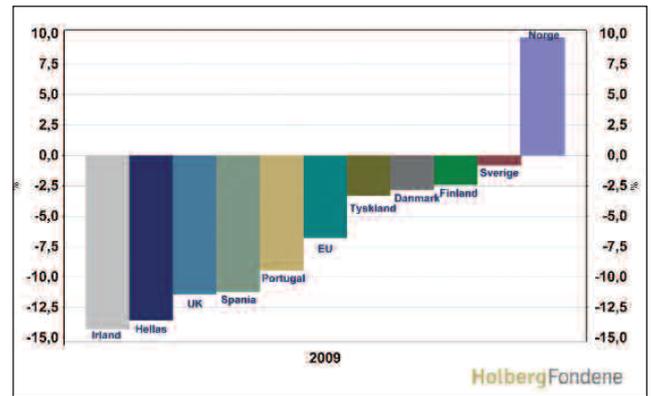
Fig 5: Corruption Perception Index 2010, best and worst countries

Rank	Country	Score*
1	Denmark	9,3
1	New Zealand	9,3
1	Singapore	9,3
4	Finland	9,2
4	Sweden	9,2
6	Canada	8,9
7	Netherlands	8,8
8	Australia	8,7
8	Switzerland	8,7
10	Norway	8,6
11	Iceland	8,5
11	Luxembourg	8,5
13	Hong Kong	8,4
14	Ireland	8
15	Austria	7,9
15	Germany	7,9
172	Uzbekistan	1,6
175	Iraq	1,5
176	Afghanistan	1,4
176	Myanmar	1,4
178	Somalia	1,1

* Scale from 10 (highly clean) to 0 (highly corrupt)

Source: Transparency International (2010), Corruption Perception Index 2010

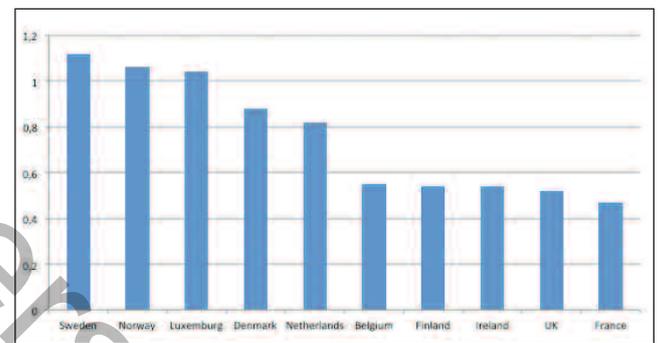
Fig 6: Governmental surplus/deficit in 2009 as percentage of GDP



Source: Holberg Fondene (2010), Ukens Holberggraf 3. september 2010

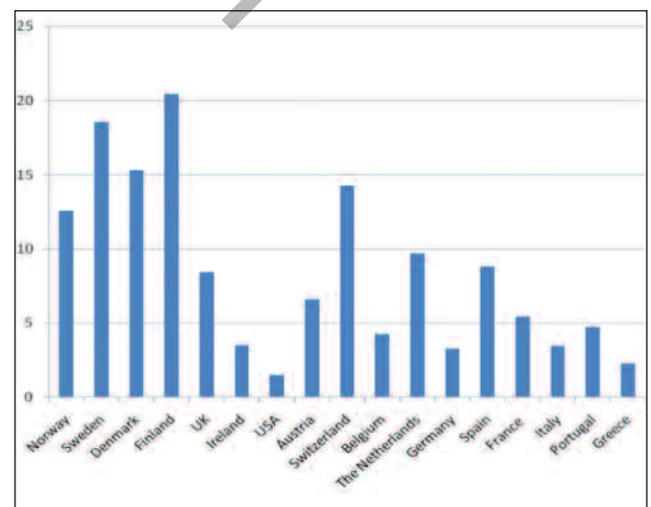
The Nordics are also seen to be virtuous players in the international arena. They share more of their wealth with developing countries than others and practice extensive corporate social responsibility (fig 7 and 8).

Fig 7: Foreign Aid in % of GDP



Source: OECD (2010), OECD DCD-DAC Aid Statistics for 2009

Fig 8: Average CSR Rating for Enterprises by Country¹



1) The numbers on the vertical axis are index scores based on companies' CSR reporting, adherence to CSR standards, membership in CSR networks/communities, and ranking on SRI indexes. Data found in Midttun, Atle, Kristian Gautesen og Maria Gjolberg (2006): "The Political Economy of CSR" The Corporate Governance vol 6 no 4, pp 369-385

The stress test of the Nordic Model for the 21st century will be how it handles new combinations of issues like climate, globalizing markets, migration, and ethnic identity. The new questions are related to the following social and economic shifts.

Firstly, the Nordic model has functioned well in the 20th century under open trade in commodities. Will it work under open flow of people and services in the 21st? Work solidarity and trust based relations between workers and management, actively supported by the state, have been hallmarks of the Nordic model. This has strengthened productivity and facilitated flexible industrial transformation. However, the extensive “labour” rights of the Nordic work force against layoffs and in the event of illness makes it dependent on a will to undertake collective financing which may be challenged by increased immigration.

Secondly, with 21st century immigrants increasingly developing diverse and strong cultural-ethnic identities, what happens to the Nordic communities and universalistic ideals? Will they turn into segmented, multiethnic, low-solidarity societies or will there be a common socialization through a buy in of the third generation? The Nordics have evolved into semisecular societies with strong state guaranteed individual rights. They now find themselves challenged by new immigrants with traditional patriarchal family values and, frequently, theocratic visions of social organization.

Thirdly, high and widely distributed welfare consumption lies at the heart of the Nordic Model’s success in the 20th century. How can it be reconciled with the ecological challenges of the 21st? On the one hand the Nordic governments are engaging actively to advance global collective action. On the other hand, they are strongly pressed to deliver on domestic welfare expectations.

Fourthly, as small welfare states with open economies, the Nordics have an interest in global fair play under high social and environmental standards. How can they maneuver between hegemon and underdog in today’s multipolar globality? Needing hegemon more than the other way round, the Nordics are forced to play along, even if a hegemon's policy is tough militarism or rough international trade. Humanistic or social and ecological concerns in both military conflicts and international trade can at most be addressed through soft legal channels. Furthermore, ecological and social upgrading of the global economy may not mix well with developing countries either, as they often accuse the Nordics of trade barriers to secure their workers at home.

Fifthly, the Nordic countries have seen a strong upsurge in “Folkhems-Populism” with demands for consolidation and restrictive immigration laws. Parties like Danish People’s Party (Dansk Folkeparti), the Swedish Democrats and the Norwegian Progress Party have argued for entry restrictions with ethnocentric overtones. Are the populists challengers or saviors of the Nordic Model? Destroyers because their ideology could be seen to undermine basic Nordic values and prevent creative impulses from abroad; saviors because they attempt to protect the Nordic model from overload and cultural implosion.

The Nordic Model’s sustainability, facing these and other hurdles in the 21st century, will be examined by a group of leading Nordic scholars through the lenses of culture, politics and economics.

2. The Nordics and the Myth of the Welfare State

Carlos Joly and Per Ingvar Olsen

Since the days of Reagan in the US, Thatcher in the UK, and Aznar in Spain, there has been a largely successful ideological campaign of propaganda to characterize the welfare state as wasteful and inefficient, penalizing good hard-working people with excessive taxes in order to subsidize an increasing mass of unemployed that would rather live on state largesse than work for a living. Growing public expenditures and rising ratios of government debt to GDP have led the bond markets to loose confidence in the debt servicing capacity of a number of Eurozone countries. This would seem to support the conclusion that the days of the welfare state are doomed; not only doomed, but themselves guilty of this predicament as a consequence of the welfare state's own internal contradictions. Conventional wisdom has it that the cure is austerity: drastic cuts in distributive payments for public health, education, infrastructure renewal, unemployment insurance and non-carbon energy subsidies. In this context, the curious anomaly of the Nordics poses a riddle. How can countries like Sweden, Norway, Denmark and Finland prosper even though they have high levels of taxation and public expenditures? Why do they have the highest overall employment rates among the OECD countries, despite state largesse, and how can they manage to compete in global markets in spite of well-paid workforces? Some believe it must have something to do with the Protestant work ethic or cultural, ethnic and religious homogeneity. Others even say luck, or perhaps the fact they are small countries. They are wrong.

We contend that the Nordics are successful because they are not welfare states, not in the distorted sense the “welfare state” has come to be identified with. The Nordics are what we prefer to describe as highly efficient, rational and democratic Human Resource States (HRS for short). A modern HRS seeks full employment through dynamic adaptation of industry and service sectors rather than protectionism. It avoids class conflict with appropriate work-life (“*arbeidsliv*”²) constitutional arrangements. And it encourages democratic governance that prevents extremes of income inequality. Natural resource management is based on the idea that natural resources are public goods whose private exploitation must be properly compensated. In short, the architecture of the HRS is

meant to manage human, capital and natural resources for the benefit of all of its people rather than for the primary benefit of financial or corporate elites. These goals are achieved through a particularly artful engineering of industrial and political relationships, expressed through governance mechanisms and institutions that have been deliberately implemented for these purposes. We therefore claim, as well, that the particularities of the Nordics can to a significant extent be applied elsewhere, as an alternative model to the neoliberal framework that is making its comeback through the bond market. Neoliberal economics and the ideology of market self-regulation, or even no regulation at all, is at the root of the troubles in which the US is now mired; and is very much at the root of the disasters that have hit Ireland, Iceland, Portugal, Spain, and Greece. Globalization ensures that the US crisis propagates like an epidemic to its trading partners and to those countries too reliant on financial center funding. Even so, real-time revisionism in the US Congress would have it that this is, once again, due to “big government.” As distinct from that, the Nordics are living proof there is an alternative to Predatory Capitalism.

Nordic capitalist societies are not only more fair and egalitarian in their distribution of income, wealth and power, and therefore better approximations to the Good Society; they are, we claim, better able to avoid the self-destructive tendencies inherent in the kind of capitalism practiced and promoted by the US precisely because they are structured to be fair and have strong preventive mechanisms against the formation of political and economic oligarchies. Democracy must have the capacity to prevent those with control over material, financial and media resources from also controlling the political institutions of the state; otherwise democracy becomes electoral formalism and fails to serve in the interests of its people. In the Nordic countries, a decent life for all is the cardinal structural value, rather than letting a few get very rich, and institutions are structured accordingly. A collaborative framework of institutions, rules, and cultural mores reinforce each other in this collectively shared purpose. The question is whether in a globalized capitalist economy this system can survive. Until now the Nordics have been succeeding economically and other-

2) “*Arbeidsliv*” is literally translated as “work-life” but this is poor English and does not quite capture its connotations, which include not just the work itself, but also the transversal and hierarchical relationships involved, the workplace environment, and the rights and obligations of employers and employees.

wise. We claim this system needs to be defended and protected; that it has, inherently, the capacity to survive and endure; and that it can serve as a model for others. What are its essential, and exportable, elements?

The success of the Nordic Model is predicated on the following social constructs:

1. The work-life constitutions, given legal form in “The General Agreement” (“Hovedavtale”), promulgated into law in Denmark in 1899, in Norway in 1935 and in Sweden in 1937. These constitutional systems came in place as a response to severe labor market and class conflicts that paralyzed their economies in the early 1900s. Conflicts of labor and capital have since then been mediated in an ordered way through a collective bargaining system supported by the State, and enacted through State institutions like the Arbitrator (Meklingsman), The Labor Court (Arbeidsretten) and The Work Environment Law (Arbeidsmiljøloven). Labor has the right to strike, but within certain rules and under certain conditions. Capital has the right to seek to maximize profit, but within boundaries and regulations that ensure decent wages, employment, work-life democracy, and environmental obligations. It works. A century of mostly successful Nordic experience proves it is not a pie in the sky experiment. Labor agrees to improve productivity, to close out-moded factories and lay off workers in exchange for retraining, job placement, fair compensation and work-life democracy. They talk and talk, give and take, and agree. Strikes are the last resort and rare. (Compare this to France, where strikes are frequent and often used as the first step in negotiations.) Industrial renewal takes place, companies compete well internationally despite paying collectively negotiated wages, and employment rates are high. This is human resource management on a national scale within legally established rules and in an economy where business decisions in private companies or in public-private companies are generally taken with little direct government interference. This keeps inequality largely in check, maintains relatively stable differences among different wage groups, assures low unemployment, and allows for satisfactory corporate profits. Aside from a means of earning a living, work is seen as a source of identity, self-respect and achievement. Despite strong state-provided social benefits, people overwhelmingly prefer to work and do not “live off the state.”

2. The tax system. Taxation of businesses and individuals is less than commonly believed abroad, and has important productivity enhancing attributes.

a. Business profits and capital gains are taxed at a flat 28-30% in the Nordic countries. In the US the tax rate is 35%. Firms whose profit dynamics due to globalization become nonviable unless subsidized (i.e., taxed at less than 28%) are not subsidized but rather allowed to emigrate. The Nordic countries generally want only businesses that can

pay good wages in the country itself, can price their products competitively on international markets, require no subsidies, and will pay 28% tax on satisfactory profits. This promotes a dynamic and technologically up to date business sector. A company is expected to pay decent salaries, provide a proper return on capital by generating satisfactory profits, and pay their 28% tax. The only exception is agriculture (particularly in Norway), which is subsidized to keep the countryside populated and the “kulturlandskap” in good form.

- b. Natural Resource Tax. The Nordics impose a “harvesting tax” on natural resources. Resources like rivers, oil, forests, fisheries, minerals are considered property of the nation; thus private entities exploiting these resources pay the 28% tax on normal profits up to a certain level and over that level pay a resource harvesting tax. (This is the diametrical opposite of the oil depletion allowance or subsidy that oil companies in the US get for exploiting its oil!)
- c. Individual taxes are on paper comparable to many other countries. The difference is that people pay their taxes. There are few loopholes and no culture of cheating. In Norway, for instance, the maximum marginal tax rate on salaries is 41%; 28% (net deductibles) goes to local government and up to 13% on above average income to the State. Social security is paid by employees 7.8% and by employers up to max 14.1%. Thus, the max marginal tax to employees is 49%. But under NOK 400,000 of salary (€50,000), only the local government tax is applied, or 28% (net deductibles) plus social security at 7.8%, totaling between 7.8% and 35.8% depending on the income to deductibles ratio. Importantly, stock options are penalized and not widely in use, the intent being to channel compensation through fixed salary and salary cash bonuses. The result is that the tax system is broadly based, everybody pays, and no segment of the population overpays thus thinking that they have a bigger right to a bigger say in running the country. This form of economic democracy strengthens political democracy, as the state is funded by the broad and employed middle class which is used to exercising its claims upon government for the provision of educational, health, and pension benefits in return. All income groups receive state-supplied health, educational, disability and pension benefits equally.
- d. The moderate capital gains tax reflects the fact that capital is more moveable than individuals. Also taxation of the poor is more limited and flexible than for instance in the US and the UK, where those on welfare are generally taxed 100% through public support cutbacks when marginal employment increases. In the Nordic countries public support and marginal or unstable

employment overlap – causing a lower marginal tax rate effect. Hence the Nordics have relatively lower taxes at the two ends of the income scale, to deal with global competition as well as overall human resource management challenges. They have very broad tax bases to permit for overall moderate income taxes also to the middle class. The broad tax base includes substantial taxation of consumption, environmental pollution, traffic, alcohol, cigarettes etc. Through these taxes, imported goods are also included as a substantial part of the tax base.

3. Government's Role is Unquestioned. In the Nordic countries, the government is expected to regulate markets, to assure protection of the common good and of national interests, and to exercise national control of strategic sectors and companies, while leaving the management of public sector-owned or co-owned firms to professional management insulated from politics. A variety of strategies are applied from state ownership and co-ownership to regulatory structures to ensure that government co-ownership is complemented by a local industrial aristocracy (Wallenbergs, etc.) who protect their own and the national interest through the controlling mechanism of non-listed voting shares. Individual autonomy is strong in the Nordics and has not been compromised or suppressed by a strong state,³ although novel and intrusive “big brother” forms of internet and electronic surveillance may come to hamper autonomy through encroachments on privacy.

4. Housing, Lending, and Patrimony. The source of patrimony for most is home ownership rather than ownership of shares. This is structured to cohere with and support the existing alignment of interests around the collective bargaining process: employees and workers rely on their salaries rather than stock market placements for their current and retirement income and thus react purely as wage earners in protecting the interests of work vs. capital.

5. Locally-owned banking and insurance. Banking, corporate finance and stock trading are largely in the hands of local or trans-Scandinavian companies rather than British, US, German, Japanese or Spanish financial institutions. Local capital is thus a long term partner with local business. This kind of capital sovereignty is seen as essential for the survival of the Nordic Human Resource State. When banks overextended themselves by lending to businesses and individuals in the 1980s, a sudden rise in interest rates resulted in a severe recession and huge loan losses. Instead of bailing out the banks, the Norwegian State nationalized them, fired the boards and management, recapitalized them, and managed them back to health, then floating them again on the stock exchange while keeping negative control of certain strategic banks. The Swedish and

the Finnish states followed slightly different, but still effective strategies.

6. The overall incentive features of the collaborative structure. The fundamental collaboration between labor, employers and the state represents a structure with strong incentives to optimize the capacities of and the use of human resources in the economy as a national whole. The willingness to compensate those left outside the labor market is directly related to the willingness and ability to pursue an effective policy aimed at minimizing the number of people on welfare and improve the productive capabilities of the marginal labor force. Hence, free education, support for child care, care for the elderly, preventive health care systems, preventive crime policies etc. are there to support these capabilities – not just to help people survive. In particular, this has resulted in very high female employment rates compared to other countries.

The Future: Are the Nordics Vulnerable?

What could undermine the Nordic way? What could pervert it into a more predatory form of capitalism? Two sources of vulnerability concern us: first, if the labor unions were to be substantially undermined through loss of membership and loss of influence at the collective bargaining tables. Or if the right wing parties are able to gain sufficient power by playing to chauvinistic fears of foreigners and to popular dissatisfaction (not altogether unjustified) with bureaucratic incompetence, so as to dismantle or weaken the collective bargaining process based on solidarity. Private sector financed political advertising or right wing media could promote such changes. Second, if the increasing wealth of households and their increasing exposure to stock markets tips the balance of interests more in the direction of share owning rather than well paid employment. In other words, if greed encroaches upon solidarity and undermines traditional Nordic communitarian values.

In short, just as the Nordic way is the rational and deliberate result of resolving a deep class conflict in the early 20th century, the conflict between labor and capital, in the 21st century it faces the challenge to maintain this balance in the face of ideological and financial forces that would have a much larger share of value creation allocated to profits rather than to wages and taxes. This would lead to a dominant share of the gains going to the owners and the intermediaries of capital, as is the case in the US, the UK and elsewhere. Such a move would undermine the work-life constitutions of the Nordic countries that represent the economic corner-stone of their success. Our view is that the Nordic Model is resilient and strong enough to survive that challenge. Thus, it can present itself as a model for adoption and adaptation in developing countries. It shows that predatory capitalism is not the only option. The Nordics prove that capitalism focused on welfare through job creation works.

3) Lars Tragårdh, “Social Trust and Radical Individualism”

3. The Nordic Model and Ecology: High Rhetoric and Mediocre Practice

Atle Midttun and Lennart Olsson

The Nordics are generally seen as front-runners in ecological modernization⁴: They have been active promoters of conventions and capacity-building internationally around environmental and climate issues; they have been among the pioneers of environmental policy-making; and they have been early movers in setting up new environmental policy administrations.

However, Nordic ecological practice is lagging behind. While ecological modernization has been pursued fairly forcefully when it comes to the work of environment and local pollution, the Nordics have been far less successful in diminishing their ecological footprint on the globe. Topping global welfare indexes, they also rank as significant consumers of the world's scarce resources.

Pioneers of Environmental Policy-Making

The Nordic countries have been fairly active in *convening international environmental initiatives*, usually in close collaboration with the United Nations or other multilateral organizations. Just to mention a few of the most important ones:

The Swedish hosted 1972 UN Conference on the Human Environment, in Stockholm, was an early attempt to set environmental issues on the international agenda, and was later followed up by massive international engagement.

The 1972 Oslo Convention on dumping waste at sea, which later merged with the 1974 Paris convention on land-based sources of marine pollution was another early Nordic initiative to promote international environmental policy. The Oslo and Paris conventions

later merged into the OSPAR Commission, which established the legislative instrument regulating international cooperation.

The 1985 Helsinki Protocol on the reduction of sulphur emissions represented a Nordic initiated first step to deal with long range, transboundary air pollution. It was followed up by another Nordic initiative, the 1994 Oslo Protocol on Further Reduction of Sulphur Emissions. Both conventions were successful in achieving their goals.

In classical Nordic participatory style, the 1998 Aarhus Convention on Access to Environmental Information and Public Participation in Environmental Decision-Making, introduced a direct democratic element into environmental policy.

The 1990s also saw Norwegian led, policy-oriented international conferences on bio-diversity in Trondheim both in 1993 and 1999. Both conferences were held in close cooperation with UN agencies.

Another major Nordic initiative was the 2001 Stockholm Convention on Persistent Organic Pollutants, a global treaty to protect human health and the environment from chemicals that remain intact in the environment for long periods.

Through these and numerous other initiatives, the Nordics have signaled willingness to champion environmental sustainability on the international agenda.

Nordic policy makers have also championed early *environmental policies*.

4) Michael Skou Andersen & Duncan Liefferinck (eds) (1997) *European Environmental Policy: the Pioneers*. Manchester University Press, Manchester, New York,

Joas, M. and A-S. Hermanson, Finland, in Christiansen, P.M. (ed.) 1996, *Governing the Environment - Politics, Policy and Organization in the Nordic Countries*, Nordic Council of Ministers - Research Nord 1996:5, Copenhagen

The Norwegian Prime Minister Gro Harlem Brundtland's chairing of the report on sustainable development, *Our Common Future* in 1987, set the stage for including environmental policy with core welfare state values. The publication of *Our Common Future* and the work of the World Commission on Environment and Development laid the groundwork for merging the development and environmental agendas and linking them to fair distribution and political democracy.

In 1996 the Swedish Prime minister Göran Persson announced Sweden's ambition to accomplish the greening of the welfare state. Sustainability was incorporated into the longstanding "People's Home" concept of consensus politics aimed at reducing economic disparities, redistributing wealth and carrying out welfare reforms. This initiative integrated environmental policy into the core of "the Nordic Model."

Six years later, In 2002 Denmark adopted a national sustainable development strategy to be presented to Parliament every four years and followed up through sectoral plans and a set of indicators. Denmark's high-profile sustainability policy has recently culminated with its 2009 hosting of conference of parties of the United Nations Framework Convention on Climate Change (UNFCCC).

The Finnish government also promotes sustainable development as part of its diplomacy, including in its relations with the East, with Nordic countries, and as part of the European Union. Together with the other Nordic countries it is taking initiatives to integrate environmental concerns with trade policy so that both fields have equal status in international law.

The Nordic countries have also followed up their strong environmental policy engagement by *establishing the following early environmental administrations:*

In 1971, the Danish Ministry of Pollution Abatement marked the beginning of the Nordic foundation of ministries with an environmental focus. The ministry was later changed to the Ministry of Environment in 1973, after the passing of a series of environmentally related laws. A strong environmental focus in Danish energy policy later led to a merger between the Ministry of Energy and the Ministry of Environment in 1994, reflecting the pioneering role of Denmark in wind energy under its dynamic minister Svend Auken. In 2005, the energy sector was detached again and the ministry reverted to the old name.

Norway was also quick to establish a Ministry of Environment in 1972, and has, through one of its

most profiled ministers, Gro Harlem Brundtland, who later became Prime Minister, established a profile as and international spokesman for environmental policy. The Ministry followed the Committee for Resources (Ressursutvalget) that was appointed in 1968 because of concern with the use of natural resources and pollution.

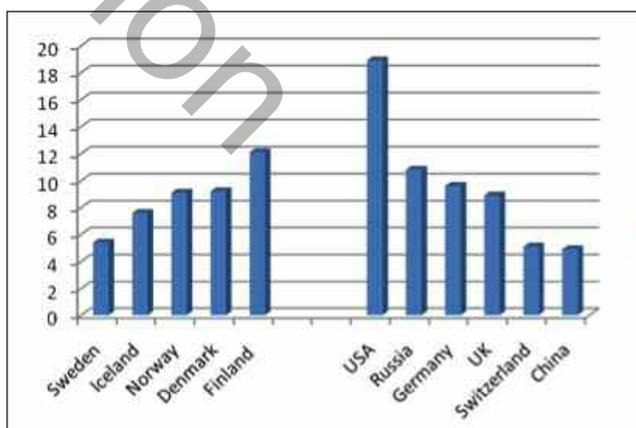
Swedish environmental policy gained momentum in the aftermath of the nuclear referendum. The strong relation between energy and environmental policy led to the creation in 1987 of a joint ministry: the Ministry of Environment and Energy. The Ministry has since gone through several transformations only to revert to a pure Ministry of Environment a couple of years later.

The Finnish Ministry of Environment was established in 1983 in spite of strong opposition from the Ministry of Trade, the Ministry of Industry and the Ministry of Agriculture and Forestry. In 1995, the Environmental Administration was established to take care of important cross cutting issues between these three ministries.

Nordic Environmental Practice

Even a crude analysis of environmental performance, however, indicates that there is some distance between the professed principles and actual practice. Taking CO₂ emissions and the climate challenge as a point of departure, a simple compilation of CO₂ emissions per capita shows extensive variation among the Nordic countries. With 5.4 tons per year Sweden ranks among the better European countries, while Finland, with 12.1 tons per year ranks among the worst.

Fig 1: Carbon dioxide emissions [tons] per capita (2007)

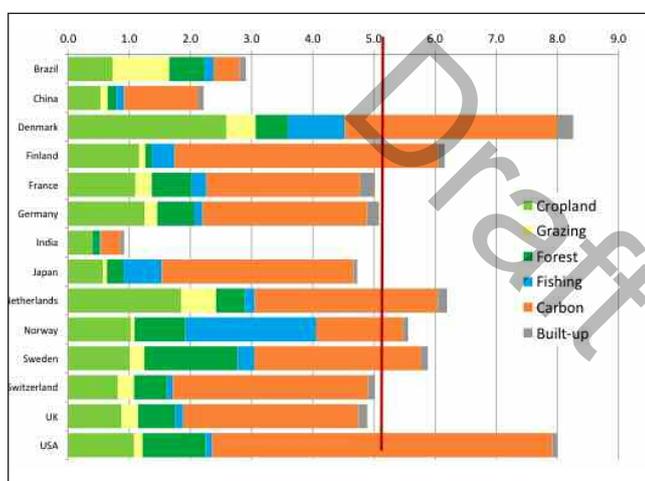


Calculated by the US Department of Energy's Carbon Dioxide Information Analysis Center (CDIAC), mostly based on data collected from country agencies by the United Nations Statistics Division

The concern over our impacts on global ecosystems resulted in the development of measures such as

Ecological Footprint (EF) and Biocapacity. The EF merges, into one number, the global consumption of goods with the capacity of the planet to regenerate the goods consumed as well as absorbing the waste from the consumption ⁵. When looking closer at the Nordic countries (figure 2) it is obvious that they have among the largest ecological footprints in the world and clearly larger than the average footprint of the EU. Particularly Denmark stands out with a percapita footprint even larger than the USA. The figure also indicates the sources of the ecological footprint, where fossil energy is a major source for all industrial countries, but also agriculture (particularly for Denmark) and fishing (particularly for Norway) have sizable footprints.

Figure 2. Ecological footprints of the Nordic countries with some other countries for comparison. The red line at 5.1 indicates the average footprint for the EU.

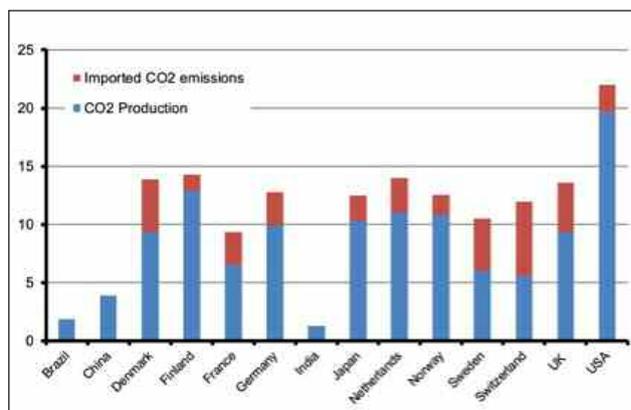


Source of data: Ecological Footprints Network.

A more detailed accounting of environmental pressures can be gained from a coupled multiregional input-output (MRIO) economic model. Such a consumption based accounting is able to show the

export and import of greenhouse gas emissions. Here we are using data from the study by Davis & Caldeira⁶ in order to illustrate the full picture of CO₂ emissions from the Nordic countries.

According to the official UN reporting on emissions of greenhouse gases, Sweden stands out as an affluent country with a significantly lower carbon footprint than other comparable countries, for example the other Nordic countries or the Netherlands. But when also considering the trade related emissions, the picture changes. Sweden has a very large carbon fo-



otprint through import of goods and services from other countries.

Figure 3 Greenhouse gas emissions including imports/exports

The biggest challenge for the Nordic countries in the decades to come will be to wean themselves off fossil fuel. Norway, as a leading producer of oil and gas, will not be the only Nordic country to have great difficulties in meeting the global demand of mitigation of climate change.

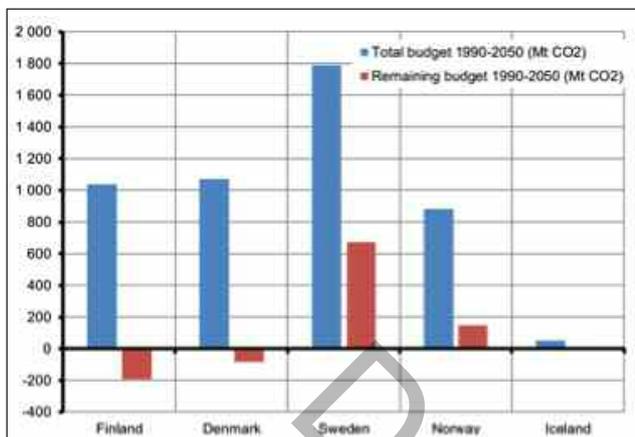
The German Advisory Council on Global Change (WBGU) has developed one of the most detailed blueprints for a global climate change mitigation re-

5) The EF is not without criticism. One critique is the inconsistency of the different components of the EF, where the use of land and oceans cannot by definition exceed the real area but the carbon footprint can. There is of course a risk that the real impact on the world's croplands and forests is underestimated. Another critique is that the EF does not give any room for savings of natural capital that can be used for future increase of such resources (Stiglitz, Sen et al. 2010).

6) We are grateful to Steven Davis and Ken Caldeira for making the data from their PNAS paper Davis, S. and K. Caldeira (2010). "Consumption-based accounting of CO₂ emissions." *Proceedings of the National Academy of Sciences* 107(12): 5687-5692. available to us.

gime, the so called budget approach (WBGU 2009) ⁷. When using this approach to analyze the situation for the Nordic countries it is clear that reducing CO₂ emissions is a tall order (Figure 4). Denmark and Finland have already emitted more CO₂ than is compatible with the guard rail and budget approach.

Figure 4. Emission scenarios for the Nordic countries according to the Budget Approach (WBGU 2009)



The diagram shows the total allowable emission for each country from 1990 to 2050 in order to stay within a particular guard rail of global temperature increase (2°C) and sea level rise (1 m). Source: WBGU ⁸. Based on this calculation it is evident that the Nordic countries will have an extraordinary challenge to decarbonize their societies and that there is a need for new innovative mechanisms for redistribution of the carbon debt. For example: Finland and Denmark have already by far exceeded their allowable emissions; Norway and Iceland have both reached their allowable total emission while Sweden has about 10 years to reach zero emission.

Discussion

There are several possible explanations for the Nordic ecological dualism, with performance lagging far be-

hind their high profile rhetoric and institutionalization: Being the institutional and rhetorical avant garde in ecological issues corresponds nicely with Nordic values and plays up to strong green civic movements in the Nordic countries. Yet, at the same time, strong domestic implementation of the same policies seemingly goes against core vested interests in the Nordic economy. With their resource-intensive economies, the Nordic countries would have a hard time putting their lofty environmental ideals into operative practice. The extreme case is probably Norway, which is the world's sixth largest oil exporter, but still aspires to play a key role in environmental protection. Finland and Sweden also have large energy-intensive paper and pulp industries, as well as heavy industrial complexes. The Danish agro-industrial complex, and Denmark's recent engagement in oil and gas production, also leave serious ecological footprints.

This ambiguous relationship – between Nordic ecological visions and the reality of climate emissions today – goes back to core elements of the Nordic model. This model was based on the common interest among labour, industry and the state in productivity and wealth creation. Seriously upsetting basic industrial strategies environmental agendas that are too radical would disturb the basic social contract and the Nordic propensity to seek common solutions in consensual negotiations. The core trade unions, industrial associations and state institutions have, after all, spent most of the 20th century mobilizing around a traditional, growth-oriented, technocratic projects.

It is more in line with Nordic pragmatism to seek cost-efficient solutions to ecological problems abroad, where the return on investment for CO₂ abatement is far higher than at home. With the high costs of Nordic economies, most solutions would be cheaper abroad. In this way the Nordics – with Norway in the front – may continue to enjoy first class welfare systems and relatively luxurious consumerist lifestyles.

7) The budget rail approach is based on scientific principles for determining the magnitude of emission reductions required, the so called guard rail approach, and ethical principles for determining the distribution of the emission cuts globally. According to the guard rail approach of determining the magnitude of emission reductions, the global mean annual temperature should be stabilised at a level not more than two degrees above the preindustrial level. In order to determine how to share this "pie" of carbon between the world's peoples and countries we need to follow some principles of ethics.

Three principles are often invoked for this kind of discussion on burden sharing:

1. The polluter pays principle
2. The Rio-principles agreed by all countries in 1992
3. The precautionary principle

8) We are grateful to Professor Ottmar Edenhofer and n.n at the Potsdam Institute for Climate Impacts Research (PIK) for sharing their data with us.

4 Civilising Global Capitalism

Atle Midttun

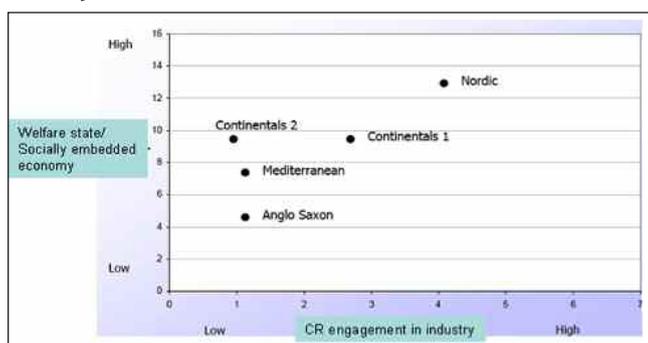
Over the last couple of decades, corporate social responsibility (CSR) has risen steadily on the international agenda. Large West European and North American multinational companies are now finding it necessary to develop CSR programs and initiatives to comply with the societal expectations voiced by sophisticated interest groups, often under pressure of media coverage.

Some have argued that the predominantly business driven CSR agenda is antithetical to the politically driven welfare state tradition. The Nordic response, however, shows otherwise. While solid domestic welfare state arrangements are certainly not substituted by CSR, Nordic companies as well as Nordic state governments have pragmatically appropriated CSR in areas where traditional welfare state policies lack resources or outreach.

The objective of this section is to explore CSR as a new tool in the Nordic toolbox for “civilizing global capitalism.” As small, open economies, the Nordic countries need international trade. However, they want the international markets to be environmentally and socially “civilized,” and as close to the Nordic model as possible. Nordic companies, as well as the Nordic states aspire to stand out as CSR leaders, and challenge other players in the international marketplace to follow suit. Their domestic welfare state background sets them at a level that enables them to play the CSR game at the top of the premier league.

Nordic companies have engaged disproportionately in global CSR initiatives, compared to the size of their economies, benefitting from their advanced welfare state background (y axis in Figure 1). Firms in Nordic industry score above Anglo Saxon, Mediterranean and Continental European firms

Figure 1 Level of State Welfare and CSR Engagement in Industry⁹



CSR in the Nordic context is a joint project, promoted by industry and the state alike. Although Nordic welfare states may favor legislative or negotiated strategies for improving social and environmental conditions at home, CSR stands out as a viable option when traditional governance cannot be internationally mobilized. In parallel, Nordic governments have engaged in CSR with advanced policy agendas alongside well performing national companies.

The global welfare capitalism approach is most clearly pronounced in Swedish and Norwegian CSR policies: CSR in Swedish public policy is centered around Globalt Ansvar (Swedish Partnership for Global Responsibility), an initiative created by the Swedish prime minister Göran Persson in 2002, and placed under the control of the Ministry of Foreign Affairs. Globalt Ansvar was established to “strengthen Swedish companies’ work on human rights, labour standards, environmental protection, and anti-corruption, based on the principles of the UN Global Compact and the OECD guidelines.” Under successive liberal governments CSR has actively been promoted in trade delegations, and the Trade Division of the Ministry of Foreign Affairs (MFA) explicitly views CSR as an *instrument in trade policy* CSR has been particularly prominent in Swedish trade relations with China, and in June 2007 the two countries signed a ‘Memorandum of Understanding on Corporate Social Responsibility,’ which is the first of its kind in the world.

The Norwegian CSR approach was also international in scope from an early stage, and focused on human rights. The 1999 Government White paper emphasizes that the legal responsibility for human rights lies with States, but because of their significance, the Norwegian government expects companies to take on duties beyond national laws. The MFA’s strong CSR engagement has, in fact, been part of a conscious co-branding of Norway and Norwegian industry in which the government is concerned with the corporate social responsibility of Norwegian firms as part of the image of Norway abroad¹⁰. The Norwegian white paper on CSR early in 2009 follows on in the global welfare tradition. It was initiated by the MFA and clearly maintains the focus on CSR abroad. It indicates that the Norwegian government will support international institution building for social and environmental responsibility. Norway will, for instance, support general international arrangements like Global Compact, Global Reporting Initiative, ILO and OECD guidelines. As a petroleum state, Norway has also

9) From: Midttun, Atle, Kristian Gautesen og Maria Gjølberg (2006): “The Political Economy of CSR” *The Corporate Governance* vol 6 no 4, pp369-385

10) *Aftenposten* (2007) “UDs ti bud om samfunnsansvar Konferanse for anstendighet”. State secretary Liv Monica Bargem Stubholt (Sp) quoted in *Aftenposten Morning* 27.03.2007 by Skjævesland, Odd Inge

engaged forcefully in the Extractive Industries' Transparency Initiative (EITI), a voluntary agreement aiming to increase transparency in transactions between governments and companies within the extractive industries¹¹.

In addition, both the Swedish and Norwegian initiatives have also included ethical guidelines for the investment of the large petroleum pension fund, derived from the government's extensive net cash flow from petroleum activities (Norwegian Ministry of Finance 2008). Similar guidelines have also been applied in the management of Swedish pension funds. Both countries have developed an active CSR policy for state owned firms.

Danish and Finnish CSR policies originated with a stronger domestic agendas. Hard pressed by unemployment challenges in the 1990s the Danish CSR agenda, under the leadership of the Ministry of Social Affairs, focused on inclusive work life and a New Partnerships for Social Cohesion. The new millennium saw a gradual transition from social policy to economic policy priorities and a transfer of CSR to the Ministry of Economics and Business. This includes a focus on the value creation potentials of CSR, but also climate responsibility of the private sector.

Competitiveness and valued creation was also at the core of the Finnish CSR policy in the late 1990s under large-scale dismissals, factory relocations to and increasing sourcing from developing countries. Generally speaking, corporate responsibility seems to have initially met with quite a lot of skepticism from government representatives, but an increasing number of CSR policies and practices have been adopted in response to CSR's growing importance in the eyes of Finnish companies¹². In 2001, The Finnish Ministry of Trade and Industry set up MONIKA, the Committee on International Investment and Multinational Enterprises in Finland. MONIKA is a meeting forum without permanent staff that was established when the OECD required the countries adhering to the OECD guidelines for multinational enterprises to establish national contact points for promoting the guidelines. In the past years, the focus of this committee has shifted increasingly from the promotion of the OECD guidelines to the promotion of CSR in general¹³.

Yet both Finland and Denmark have also focused on "civilizing" markets abroad. The Confederation of Finnish Industries focused on international issues such as wages and child labour, especially in the context of developing countries, and hereby strengthened the

international dimension in the Finnish CSR approach. Similarly the Danish "Action Plan for CSR (2008)" emphasizes the responsibilities of the corporate sector to focus on strategic CSR and engages internationally to market Denmark through responsible growth as part of a civilizing business mission.

In his well known thesis on small states and welfare, Katzenstein¹⁴ has described the welfare state as a "defensive" buffering mechanism where social policies soften the impacts of international business cycles and structural change. CSR policy allows for more "offensive" buffering as it imposes social and environmental decency on the global playing field.

Globalization with social and environmental dimensions factored in, resonates well with the Nordic political electorate, and it is clearly the type of global market where Nordic firms are most competitive. Very often, when big multinational Nordic companies get caught for social and environmental misdemeanors, even if it does not violate laws abroad, they get flogged by the domestic media. The Nordic engagement for responsible global capitalism is therefore not only idealistically driven, but can also be seen as pragmatic, self-interested engagement to shape the global arena to Nordic advantage. CSR stands out as a new tool or an alternative vehicle for this policy program, when attempts to build up Nordic style market regulation internationally by hard law and traditional governance have blatantly failed.

The Nordics, headed by Sweden and Norway, are obviously on an international mission to promote a Nordic style social and environmental update to the cruder Anglo-Saxon market model. However, one premise for the success of this venture is that there is sufficient relevant civic engagement and media pressure to drive the CSR dynamics. As long as companies with a home base in mature Western democracies were the dominant global players, there would seem to be hope. However, with a new multipolar global economy where multinationals with a home base in China, Russia and other advanced developing countries play increasingly dominant roles, the promise of success looks bleaker. Even in the dominant American market, a tea-bagger-Fox-News-driven public arena is hardly conducive to enforcing advanced social and environmental standards. Following a decade of apparent success, the Nordics and others spearheading the CSR community seem to be fighting an uphill battle, at least until democracy, civic freedom, and economic development prevail among the new global winners.

11) EITI (2009): EITI homepage:<http://eitransparency.org/eiti>

12) Loikkanen, T., K. Hyytinen & S. Koivusalo (2007), "Yhteiskuntavastuu ja kilpailukyky suomalaisyrityksissä – Nykytila ja kehitysnäkymät" (Corporate Social Responsibility and Competitiveness in Finnish Corporations – Current State and Development), Espoo: VTT.

13) Finnish Ministry of Employment and the Economy (2009) "Committee on Social and Corporate Responsibility" <http://www.tem.fi/?l=en&s=890>

14) Katzenstein, P. (1985). *Small States in World Markets. Industrial Policy in Europe*. New York, Cornell University Press.
Katzenstein, P. (2003). "Small States and Small States Revisited." *New Political Economy* 8(1): 9-30.

5. Nordic Humanism vs. Volksgeist

Nina Witoszek

There is a growing number Nordic researchers who are questioning the epic reputation of their homelands. In a series of studies of Norwegian foreign policy, Terje Tvedt coined the phrase “*regime of goodness*,” which has as much codified as questioned Norwegian moral and political ambitions which, in his view are as unjustified as they are megalomaniac.¹⁵

The *regime of goodness* is a delightfully ironic trope: the concept of “regime” gives a technocratic, controlling tone to “goodness” – and thus both constructs and deconstructs Norway’s achievements with a clever turn of phrase. According to Tvedt, the actual *regime of goodness* is a virtual state within a state which comprises over 200 voluntary organizations, over 3,000 international aid workers, and a wide range of research institutions and universities – all on a payroll of the state – which both study and legitimize Norwegian aid politics in developing countries. The regime of goodness has substantial financial resources, exerts a gentle pressure on the media, and, last but not least, it is founded on a largely unexamined discourse. This charismatic story tells of a small forest kingdom which sells goodness, along with weapons of war, to the less fortunate – or less “virtuous” – parts of the world.

Flagging its ethical credentials and asserting its noble, well-oiled “outsiderhood” in Europe, Norway poses a formidable challenge to all suspicious hermeneutists. Admittedly, Tvedt’s reappraisal of national goodness is based not only on well documented accounts of derailed or aborted development projects abroad; it points to a disquieting immunity to outside criticism displayed again and again by the architects of

Norwegian aid and peace politics. But his revelations of the “dirty deed behind a glorious story” tend to overshadow the glamor of the Norwegian – and Nordic – moral and economic experiment at home and abroad. I shall argue that the overall success of the North (today best represented by Norway) as a “great good place on earth” is not just a function of historical luck, geopolitics, economic policy, or the structure of institutions. It has deep cultural roots – and it may, for this very reason, be difficult to export. For, to say that Norway owes all its achievement to the oil economy would be as simplistic as it would be grossly unfair to the intelligence, good governance and resourcefulness of the people who have been the inventors of modern Norway and managers of its national resources. As David Landes puts it, “getting lucky isn’t about culture, but staying lucky often is. When a society, or the controlling parts of a society, is sitting on wealth-making resources, a country can be pretty rich as long as the resources remain. But when the resources are used up and any investments from them exhausted, that country often reverts.”¹⁶

In short, while cultural values are not all that matters, they sustain a community’s long lasting visions and value systems. They do so by defining the ethos of the community, deciding whether it is inward or outward looking, and how generous it is to its poorest members and outside guests. But first of all, culture imposes moral constraints on the management of a community’s wealth.

My second, corresponding contention is that a unique, self-limiting, sustainable modernity emerged in the North in the nineteenth century. Though it was

15) See Terje Tvedt, “Det nasjonale godhetsregimet: om utviklingshjelp, fredspolitik og det norske samfunn,” in Ivar Frones, Lise Kjølrsrød (ed) *Det norske samfunn*. (Oslo: Gyldendal, 2005). Among other Tvedt’s anatomies of the Norwegian regime of goodness see *Den norske samaritan : ritualer, selvbilder og utviklingshjelp*. (Oslo: Gyldendal, 2004); *Utviklingshjelp, utenrikspolitik og makt : den norske modellen*, (Oslo: Gyldendal 2009).

16) Francis Fukuyama, “Wealth and Culture. A Conversation with David Landes,” in *The American Interest*, September/October 2008, online version: <http://www.the-american-interest.com/article.cfm?piece=464>.

partially a function of the Northern countries' relatively egalitarian social structure, homogenous populations, and institutional practices, I believe that it was first of all the effect of *Bildung*: the work of cultural educators and protagonists who succeeded in finding a middle way between the demands a self-assertive, despotic Volk – increasingly aggressive in Napoleonic Europe and later – and the aspirations of the autonomous individual. Norbert Elias, and then his disciple, Pierre Bourdieu – the anatomists of civilizing and decivilizing processes – have emphasized the role of habitus, or socialized learning, in the way society deals with inside and outside challenges. By contrast with most European countries, the modern Nordic *Bildung* has been based mostly on consensus, dialogue, solidarity and restraint, rather than on glorification of violence or vendettas. If we inspect the most prominent national educators in the North – those whose visions and ideas empowered, if not “blackmailed” generations of Norwegians, Danes and Swedes – then we see that all three countries share a pantheon of humanist heroes who, unlike in the rest of Europe, have remained unopposed by the Nietzschean *Übermensch*, decadent dandies, fundamentalist fanatics, and passive quietists. The normative centre in Denmark has been shaped significantly by Grundtvig and his tolerant Christianity; in Sweden the ethical centre was shaped by progressive liberal thinkers and writers such as Erik Gustav Geijer, Frederika Bremmer and Selma Lagerlöf (and later Dag Hammarskjöld and Olof Palme), who all attempted to transcend the dark powers of ethnos and embrace the *polis*. In Norway there were two moral giants who kept the decivilizing process in check: Bjørnstjerne Bjørnson and Fridtjof Nansen. Both imagined Norway as a green “holy ghost” of Europe, radiating human rights, natural beauty and peace to the outside world. Three generations of Norwegians read them with red ears and foggy eyes. A procession of national heroes, from ski-clad warriors of the Norwegian Resistance during World War II to humanist adventurers and national mentors and adventurers such as Thor Heyerdahl and Arne Næss, tried to emulate them and thus re-vitalize their ethics. “Bjørnsonism” and “Nansenism” – synonymous with moral traits such as reason, rights, nature, liberty, equality, tolerance, science, and progress – penetrated into the Norwegian mentality, creating what Alexis de Tocqueville meant by moeurs: “habits of the mind and the habits of the heart that make up the moral and intellectual state of the people.”¹⁷

I conclude the following: 1) By combining – consciously or unconsciously – the innovative thrust of the “Age of Electricity” with the code of restraint intrinsic in the Christian Enlightenment, the “Nordic educators” created a unique, Nordic, *non-hubristic modernity*. 2) As the icons of the nation, they succeeded in inscribing “goodness” into the national self-image. 3) As humanitarians, Bjørnson and Nansen launched precursory ideas of a European Union based on a vision of a re-moralized politics: Bjørnson’s *Forbund til Bevarelse af Verdensfreden* (The Association for the Protection of Peace) based in Berlin, was to be part of the strategy to pacify Germany’s demonic ambitions by bringing it closer to the Nordic region and injecting it with a “peace hormone.” Nansen was not just a *spiritus movens* of the League of Nations who saved hundreds of thousands from hunger and genocide; he was a co-creator of the Pan-European Movement¹⁸ – a precursory of the European Union whose aim was the promotion of politics based on human rights.

What is much underestimated – and understudied – about these Scandinavian founding fathers is that, although they advanced the national cause, they made attempts to open the North to the world and, ultimately to make the world itself more hospitable to strangers. I would call them “cosmo-patriots” who fought against the idolatry of state, nation, and blind allegiance to a party.

My third contention is that the legacy of Northern “cosmopatriotism” is today challenged by the people who, belatedly, embraced a *Volksgeist* at the beginning of the twenty first century. If the post-Bjørnsonian and post-Nansenian Norway – as well as post-Grundtvigian Denmark and post-Geijerian Sweden – want to embody beauty and justice, they aspire to flaunt, often in aggressively, their aggrieved, victimized, post-imperial ethnos. The real challenge the Nordics face in the 21st century is not just to preserve the dominant humanist legacy on which it is largely based – but to effectively defend it against the rabid worshipers of *Volksgeist* and tribal glory. It would be deeply ironic if the only “humanists” left in the North would turn out to be the populist politicians propagating “Festung Norge” or “Festung Danmark” – and not the humanists who continue the work of the Nordic founding fathers.

17) Alexis de Tocqueville, *Democracy in America* (1835); trans. and ed. Harvey C. Mansfield and Delba Winthrop (Chicago: Chicago University Press, 2000), p. 295.

18) Nansen’s role as a leader of the “Pan-European Movement” has been illuminated by Carl Erik Vogt, in a Ph.D. dissertation “*Nestekjærlighet og realpolitikk. Fridtjof Nansens humanitære og internasjonale prosjekt 1920–1930*” (“Charity and Realpolitikk. Fridtjof Nansen’s humanitarian project 1920-1930”), (Oslo University 2010).

6. Social Trust and Radical Individualism

Lars Trägårdh

Traditionally, observers of Nordic society 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 decommmodified 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, to use the crude binary of that period.

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. The central axis around which the Nordic social contract is formed is the alliance between state and individual, what I call “statist individualism.” The Nordic countries (though perhaps especially Sweden) are characterized by both individualism and a positive view of the state as an ally, especially of weaker and more vulnerable citizens. 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 charity organizations.

According to what I 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 in-extricably linked to each other. Whatever political and cultural drawbacks there might be to this commitment to personal autonomy, a strong state and social equality – 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.

What Nordic capitalism shows is that individualism need not lead to social fragmentation, distrust and short-term maximization of material interests. Promoting individual autonomy through policy can, on the contrary, lead to greater social cohesion if it is done in egalitarian ways. Less dependence and weaker patriarchal structures mean 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.

Nordic capitalism also demonstrates the advantage of having a positive view of the state, confidence in common institution, and a high degree of social trust. Perhaps most crucial is the degree and extent of inclusion of citizens and civil society in the governance process. The more this occurs, the more trust and confidence building will result, and the more likely it is that key values and social facts remain in harmony.

A strong state that promotes individual autonomy does not constitute a threat to civil society but rather reinforces its vital role in democratic governance. Citizens who join together not primarily to protect themselves from arbitrary abuse from vested state or business interests but rather to increase their possibilities of self-realization and personal independence are more likely to make positive contributions to society as a whole. One example is labor market relations in the Nordic countries, where the unions generally have not had a narrow trade unionist view of their role in society but rather have taken a

macroeconomic responsibility.

Is the Nordic model sustainable?

Still, questions should 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 immigrants 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 challenge derives from the impact of neoliberalism on the Nordic social contract. Alarmists point to trends of 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.

Nonetheless, it is quite possible to consider 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 and confidence in institutions and rule of law, and individual autonomy consistent with the logic of the market society.

Is the Nordic model transferable?

However, it is not an easy task to identify and transfer such experience in a form that becomes useful and

accessible. Vague references to “values” and “culture,” are not helpful; what is needed is a down-to-earth analysis of concrete institutions and policies. This essay will end with a discussion of a cluster of institutions policies that do tend to instrumentalize a set of experiences and values 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 material interests. In this perspective, promoting policies like gender-equal educational systems, individual taxation, universal day care and antipatriarchal family laws seems to be a generally good idea, even if obviously in conflict with longstanding traditional norms in some cultures.
2. Nordic capitalism also demonstrates the systemic advantage of social trust and confidence in the common institutions of the state. Here I will stress the development of deliberative processes of governance. 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 interaction between the state and 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.

7. Current Challenges to Nordic Labor Policy: The Danish “Flexicurity Model”

Uffe Østergård

Geographically speaking, Denmark is by far the smallest among the Nordic countries with 44,000 square kilometers and 5.5 million inhabitants. In 2008 it was the 11th richest country in the world measured in purchasing power parity. In the World Economic Forum’s 2008 competitiveness index Denmark is ranked among the top three countries (but is now slipping down the ladder as a result of the financial crisis which hit harder in Denmark than in the other Nordic countries because of the housing bubble created by the politics of the centerright government since 2001). The main factors behind this high economic performance in a small country without many natural resources apart from fertile agrarian lands are a strong tradition for entrepreneurship and high quality products in small and medium businesses combined with a flexible and highly skilled labor force. The organization of the labor market is often called the flexicurity-model and has attracted much favorable attention from the European Commission and other member countries in the European Union.¹⁹

It can be debated whether the flexicurity-model for the labor market represents a conscious model or is the unplanned outcome of otherwise intended actions over the last hundred years. The system contains an unwritten social agreement or understanding where the trade unions have accepted short notice for laying off workers in return for an insurance system where the lowest paid workers from the first day of unemployment in up to two years (previously four years) are entitled to benefits equal to 90 % of their former wage. This has enabled employers to fire but also to hire at very short notice. The system dates back

to the regulation of the labor market in 1899. But the present details are primarily a result of developments during centerright governments 1982-93 under the conservative Prime Minister Poul Schlüter and center-left governments 1993-2001 under the social democratic Prime Minister Poul Nyrup Rasmussen. As a result an unwritten social agreement has emerged where the trade unions have accepted short notice for laying off workers. This has enabled employers to fire but also to hire at very short notice. As a result employment in the private sector rose faster than in almost any other European country between 1994 to 2008 (and now seems to be recovering fast after the financial crisis of 2008). Furthermore the rate of unemployment among young, unskilled workers is not only low compared to southern and central Europe, but also compared with Sweden and Norway.

There is a maximum limit to the benefits with the effect that skilled metal workers (and other well paid employees such as academics) receive around 60 % of their previous wages. Benefits in cases of illness and maternity leave are at the same level and may last up to one year. Entitlement to unemployment benefits requires 12 months of membership in an unemployment insurance fund (run by the trade unions).

A precondition for the generous benefits is the so-called active labor market policy. As the main inventor of the policy of flexicurity, former minister of finance and foreign affairs, Mogens Lykkesøft, writes in the pamphlet²⁰ that his intention in the early 1990s when unemployment reached 12% was “to make all

19) “Denmark: A Big Small State – The Peasant Roots of Danish Modernity”, in John L. Campbell, John A. Hall, and Ove K. Pedersen (eds.), *National Identity and the Varieties of Capitalism. The Danish Experience*, Montreal: McGill-Queen’s University Press 2006, 51-98

20) Mogens Lykkesøft, *The Danish Model – a European success story*, Cph.: Economic Council of the Labour Movement 2010

unemployed people a good offer they could not turn down” (p.13). This offer contained an offer to upgrade the qualifications of all unemployed through education and training. “Something for something” as the motto of the labor movement traditionally runs in Denmark.

The whole system is mainly financed through the income taxes and value added taxes (all in all 49.5% of the GDP as compared to 40.8% in Germany and 45.% in France; the VAT is 25% with almost no exemptions). The employees pay a small part through membership fees whereas the employers do not contribute to the financing of the unemployment insurance system. Furthermore the corporate tax of 25% is relatively low.

The preconditions for this system – which traditionally is called universal although in reality it is only universal for the national citizens – are a relatively closed labor market and a competitive economy. In reality the universal system should be called national as the nation state and its labor market function together as one big insurance fund. Membership of the national insurance scheme is restricted to citizens and permanent residents. The beginnings of this system date back to 1891 when old age pensions for men and women were introduced regardless of how long they had worked. That is one of the main reasons for the restrictive immigration policy which is currently supported by more than 80% of the political spectrum and will probably be upheld even after a change of government in 2011 to a left-left coalition of the Social Democrats and the People Socialists with support from the Social Liberals (Radikale Venstre). This policy is often presented as racist or anti-foreigner in the international media. It is true that part of the rhetoric of Danish People’s Party (Dansk Folkeparti) may sound that way. But the rhetoric rather reflects a populist tradition of outspoken free speech in the public realm than real racism implying hatred of all foreigners. Most sociologists interpret the restrictive policy and the attitudes of the majority of the inhabitants as rational protection of the economic

system in general and the labor system in particular. If you work you eat. But this quid pro quo was for a time undermined by generous social benefits doled out according to need rather than previous contributions as formulated in the wellintended social law of 1975 which marked the peak of the postwar welfare state. Thus the restrictions on immigration in particular of unskilled immigrants from the Middle East through marriages. New laws of December 2010 have introduced a whole series of restrictions on marriages according to age, education, linguistic and other skills. These laws are heavily debated but the very idea of establishing criteria for immigration has now been accepted by most of the political parties apart from the most liberal and left wing.

The Danish system thus struggles with squaring the equation of either closed coffers and open borders or closed borders and open coffers. A successful solution has not yet been found. But Denmark continues to face these challenges for a small open economy in a globalizing world. The unsolved problem is how to remain economically and culturally open and at the same time discriminate socially between citizens and non-citizens. Membership of the EU does not make this compromise easier as Denmark has accepted the common European labor market for all. The debate over the labor market and access to the benefits from the welfare state is the rational background for a political discourse which from the outside is often interpreted as nationalist and even racist. This is unfair as the dilemmas are real. But it goes a long way in explaining the differences in political discourse, in particular between Denmark and Sweden. Whether the success of the party Sverigedemokraterna in the recent elections in Sweden will close the gap between the political rhetorics in the Nordic countries is too early to tell.

8 The Nordic Model Abroad

Sylvia Karlsson-Vinkhuyzen, Atle Midttun and Asle Toje

Introduction

Nordic engagement abroad has been characterized from the beginning by a blend of realism and idealism. Their status as small advanced welfare states permeates the external relations of the Nordic countries across foreign policy, trade policy and development policy. They are well established multilateralists, supportive of the UN and international institution building, and fundamentally defensive in their military policies. In development aid and social and ecological issues, however, they are more willing to take an offensive lead, in line with political expectations at home.

Replicating Nordic domestic priorities on the global arena, however, is has been controversial. The Nordics' quest for social and environmental upgrading of the global economy has led to disagreements with both the developing and the developed world. Nordic unwillingness to translate common Nordic values and interests into stronger integrated Nordic institutional initiatives, precludes any influence through forceful realpolitik.

Since their accession to the EU, common EU positioning has limited the scope for joint Nordic standpoints, especially in trade policy. Norway now stands out more clearly with an international profile, while the rest remain subsumed under a common EU platform.

The Nordics in the UN: Effective Informality With a Tarnished Image

In line with their smallness, the Nordic countries have by and large been strong multilateralists and particularly strong supporters of the United Nations since its formation. Finland as a latecomer (only admitted to the UN in 1956), and a neutral country with a complicated relationship to its eastern neighbor, was to start as a more passive and reluctant actor. Nonetheless, analysis of voting behavior in the

General Assembly of the UN in the 50s and 60s showed a strong unity in views and mutual solidarity, a Nordic country who disagreed rarely voted against its neighbors but rather abstained. The Nordics quickly established a pattern of close collaboration in the UN system, through frequent, even daily interactions when called upon, at various levels. They sought common views to promote and thereby strengthen their 'voice' as small countries, yet did not seek to negotiate or persuade each other to change views when opinions differed, as they certainly did. This collaboration included agreed rotations in who runs for membership in the organizations such as the Security Council, common statements and lobbying on issues, and engaging in a joint project on UN reform over a number of years.

When Sweden and Finland joined the EU in 1995, the intensity of the internal EU negotiations took over and left much less time and political space for the Nordics to collaborate. Yet the networks have continued and the a strong sense of solidarity remains among diplomats from the neighboring Nordic countries. In some arenas like the Security Council they can still make joint statements (as two other EU members are permanent members and thereby act in their own capacity). Information exchange continues and the EU members can urge Norway, for example, to push for issues where the EU stance is not in line with Nordic views. There seems to be little fear that the Lisbon treaty that seeks greater coherence in the external agenda of the EU would threaten the remaining degree of collaboration. Rather, the recent expansion of the EU, with frequent block formation and reduced influence for small countries, makes some diplomats see room for returning to strengthen the Nordic alliance again, possibly with the addition of the Baltic states which have been drawn into this collaboration in some ways.

The contribution of the Nordics to the UN has been one of staunch moral support complemented through conceptual approaches and ideas, as well as hands on contributions in the form of human resources and finances. In issues of peace and conflict, a range of Nordic nationals have played key roles in framing and building the UN approach to peacekeeping (for example, Hammarskjöld building up this part of the UN and many Nordic soldiers working as UN peacekeepers). The Nordic countries have also been involved in mediation of concrete conflicts (Ahtisaari, Palme, Eliasson, Bildt), and subsequently promoted of the idea of conflict prevention and the importance of civilian elements in peace building missions. Human rights have always been strong on the Nordic agenda, with only minor differences on how they look at collective rights such as those of indigenous peoples. They especially push for equality, women's rights and reproductive rights, which reflects their domestic agenda.

In later years the focus on UN reform and ensuring effectiveness and accountability of the organization has increased particularly from the Swedish and Danish side, bringing ideas of good governance (lack of corruption, efficiency in the public sector) from home to the international field. The Nordics probably have more credibility on these issues than countries who are less committed to the idea of the UN itself. The Nordics continue to be some of the largest financial supporters to the UN funds and programs such as UNICEF, UNIFEM (now UN-Women) and UNDP with the concomitant influence.

In the field of environment the Nordics were 'early movers' for putting this broad issue on the UN agenda and institutionalizing it there. Examples of this include the Swedish proposal of the UN Conference on the Human Environment in Stockholm in 1972, the Brundtland commission and its seminal influence on the discourse of sustainable development, and the role of the Swedish scientist Bert Bolin in setting up the Intergovernmental Panel on Climate Change. A strong public opinion on these issues in several of the Nordic countries made such initiatives a win-win situation for governments.

But the Nordics are known for more than just domestic action in international, where they maintain a solid reputation as green stewards, and inherent conflict of interests with industrial sectors such as oil in Norway and forests in Finland are sometimes at odds with this image. The extreme failure of the Danish presidency of the Copenhagen Climate Summit, despite all their efforts to reduce the environmental impact of the summit itself, together with three of the Nordic states becoming blurred with the EU, may have severely damaged trust towards the Nordics from the South where they have otherwise been considered at least

'less bad' than the other rich countries.

The Moral Vikings ²¹: Nordic Trade Strategies in the Global Economy

The Nordics can be described as free trading moralists that seek to successfully compete in world markets, but also aspire to imbue them with ecological and social regulations. In this way Nordic trade policy reflects the Nordic model at home, and features:

7. Strong free trade advocacy combined with support for multilateral fair play regulation
8. Support for high work and environmental standards to accompany free trade
9. Engagement to enhance the capabilities of developing countries to benefit from economic exchange

This triple focus is displayed in the Nordic countries' trade policies where they figure as ardent supporters of open markets for both goods and services, and where they also engage actively to open up public procurement to global competition. Yet they do so while supporting environmental standards. The Nordics tend to see environmental conventions with equal importance to free trade rules, possibly with some reluctance from Denmark that flags more concern that such standards are not used as hidden trade barriers. The Nordics also mix their free trade engagement with social concern. They do so, in part by backing the International Labour Organization and its demands for decent work conditions across the world.

The Nordics back up their moral entrepreneurship with economic support, as illustrated by their strong funding for developing countries' capacity building as in the Doha Development Agenda Trust Fund and the WTO Trade Facilitation Trust Fund. These funds provide technical assistance to help low-income countries to set their needs and priorities in the WTO trade facilitation negotiations.

The efforts of Nordic countries to export their domestic priorities on a global level have led to controversy. Some of the tensions are:

- A clash between free trade and high environmental and work standards, as seen in both the WTO's and the EU's systematic opposition to include such standards with functional means of enforcement in their trade arrangements.
- Conflict between high environmental and work standards and developing countries' perceived interests in competitive low cost production for the world market.
- Potential tensions between free trade and development, in so far as many successful developing countries, such as the Asian Tigers, have chosen semiclosed economy strategies to further growth.

21) The term "Moral Vikings" was coined by Maria Gjolberg in her forthcoming Phd dissertation at the University of Oslo 2011.

There are some other notable inconsistencies in the Nordic free trade approach including Norwegian agricultural subsidies with dumping strategies for production surplus and Swedish weapon exports.

Apart from conflicting interests, the Nordics also face the challenge of exercising moral power without being ready to pursue it in strong economic realpolitik. The advanced social and worker standards may be nice words, but the realities are much cruder, as illustrated in strong reservations by the WTO against the new ISO 2600 standard for corporate social responsibility in its call for social and environmental demands on public procurement.

The potential for advancing Nordic values in the emerging multipolar world order is unclear. On the one hand, the shifting economic power relations, giving a stronger voice to the rapidly growing “catchup” economies, may strengthen the Nordic position relative to the previously dominant neoliberal Washington consensus. On the other hand, the Nordic demand for advanced environmental and social concerns challenges the growth agenda of catchup economies at their present stage of economic development.

Faced with these difficult tradeoffs, the Nordics clearly prioritize free trade over ethics in a crunch. Yet crude free trade and pure commercialism might backfire with a softer values oriented domestic public opinion at home.

Given the challenges from both neoliberal and developing countries, what are chances for Nordics to have an impact on global trade? In spite of the above mentioned conflicts there are positive signs. For one, advanced catchup economies, such as Brazil, are willing to join forces with the Nordics and front some level of social and environmental upgrading of the economy. Brazil and South Africa have recently joined the Nordics in international advocacy for decent work standards in the international economy. The onset of the financial crisis has weakened the neoliberal “predatory” capitalism as a role model, and motivated advanced economies to look for softer and more responsible alternatives. This might create a window of opportunity for stronger Nordic influence in global trade. The battle to civilize capitalism has conquered some of the more peripheral outposts, as in new OECD guidelines for multinational enterprise and a new International Standard Organisation, ISO standard for CSR. However, the core of global free trade capitalism, the World Trade Organization, is still a hardnosed free trade forum, where any environmental or social softening will have to await the new mandates following the completion of the present never ending DOHA negotiation rounds.

Foreign and Development Policy: From Cold War Followers to “The Regime of Goodness.”

The Nordic blend of foreign policies has been subject to a great deal of scrutiny, mainly under the banner of

“small state” studies, where the Nordic countries have enjoyed a privileged position. In the small state literature some recurrent traits of relevance to the Nordic states as foreign policy actors can be discerned.

1. *The strategic behavior of the Nordic states is characterized by dependence.* A Nordic state recognizes that it cannot obtain security by relying solely on its own capabilities. They cannot affect the international system alone but with some concerted effort can have an impact on the way the system works. A Nordic state plays a dispensable and non-decisive part in a great power’s array of political and military resources. Nordic states therefore tend towards a policy of either strict neutrality or alliance. In an alliance Nordic states tend to follow the alliance leader closely, lend it what support they can, and avoid antagonizing it. The Nordic states that chose neutrality – i.e., Sweden and Finland – maintained close ties to the United States and the Soviet Union respectively, avoiding policies that could upset one of the hegemons.
2. *Nordic states display variable geometry.* In terms of military capabilities there is no ability to project power on a global scale. They are forced by their limited resources, their location and their political systems to prioritize strictly. To this end they establish a hierarchy of risks and attempt to internationalize those considered to be most serious. Nordic state policies are aimed at altering the external environment by reducing an unfavorable discrepancy in strength, broadening the field of maneuver and choice, and increasing the total resources on which they can count in times of stress. Nordic states are therefore status quo oriented. They work within the established order rather than attempting to change the order itself.
3. *Nordic states see themselves as primary beneficiaries of international institutions and are, of necessity, lovers of international law.* A Nordic state will often seek to minimize the costs of conducting foreign policy and increase the weight behind its policies by engaging in concerted efforts with other actors. This is also the case internally where foreign policy enjoys, in all but a few cases, cross-party support. Traditionally, each country has been too small to have more than one foreign policy position. Generally, this leads to a high degree of participation in and support for international organizations, which leads to a tendency to take moral and normative policy positions. Formal rules are actively encouraged to curb the great powers and strengthen their own position. Nordic states tend to pursue multilateral solutions to international problems, to embrace compromise positions in international disputes, and to rely on notions of “good international citizenship” in their diplomacy.
4. *Nordic states are defensive by nature.* They see more dangers than opportunities in free range

international politics, which leads them both to shun system-upholding tasks and to display a penchant for token participation in such endeavors. Because of the risks of disproportionate loss when challenging greater powers they can have only defensive ambitions. They have a narrower range of interests and less freedom of activity. One might see Nordic states as regional powers in the sense that their interest driven policies focus narrowly on their own and immediately adjacent areas, while great powers exert their influence on a global scale. Subsequently, Nordic state strategic behavior is characterized by a general reluctance to coerce and a tendency to promote multilateral, non-military solutions to security challenges.

With a shared base in these four rules of thumb the Nordic countries have mirrored each other in terms of focus, agenda and discourse with regards to means and ends in foreign policy in general.

The Soviet collapse and America's determination to police the international system have opened the room for a new era of Nordic foreign policies. Global commitment moved from the periphery to the core of Nordic foreign policy. There are several possible reasons why the Nordic states used the "window of opportunity" that the absence of threats made to global engagement. Missionary idealism is not a new phenomenon in the region. Directing Protestant missionary zeal and socialist internationalism outward has maintained political peace at home for a long time. The Nordic states see themselves as an embodiment of universal values. In all Nordic countries this has been driven by a social democratic discourse where the world is seen as analogous to the welfare state and that redistribution is not only a moral imperative, but also a harbinger of a better world.

The Nordic countries see themselves as particularly suited to solve problems on a global scale by virtue of internationalist spirit and willingness to pay. And there are large amounts put into circulation. In 2009 alone the Nordic foreign aid budgets of \$12.7 billion, more

than the total GDP of many UN members. The Nordic states have also pioneered a model where the government, civil society organizations and research institutions are mobilized for composite foreign policy instruments, in particular to the effect that the shared effort remains directed by the state. This has led to a "dualtrack diplomacy" where one track concerns traditional governmental actors and the second comes from the NGO sector. In this relationship the NGOs have played a key role. What distinguishes the Nordic model from similar aid oriented subsystems in other countries is that the development sector is disproportionately larger in the Nordic states, in the sense that the number of organizations involved is larger. Norway, a country of some 4.7 million people has some 120 aid NGOs, 107 of which receive government funding. The Nordic governments give more, relatively, through the civil society than is the case in other states – and they expect less in return from the recipient state.

In spite of strong common values, Nordic foreign policy cooperation has not realized its potential. Plans for a Nordic defense union fell apart in 1949 when Norway, Denmark and Sweden failed to agree. The authorities in Oslo and Copenhagen were generally skeptical of any proposal that could cast doubt on the affiliation of the alliance to America. In 2009 the trend of deep informal coordination and prickliness towards formal cooperation was the fate of Norway's attempt to breathe new life into the old idea of a Nordic defense union – the Nordic states were all positive in theory, but not in practice. Today, the legacy of formal Nordic cooperation and integration with passport-free travel and technical coordination stands out more like a harbinger of European integration.

9. Iceland, the Nordic Model Gone Astray?

Throstur Olaf Sigurjonsson

Iceland is a prime example of a country that took a series of bad decisions that led to the total collapse of its economy in 2008. No other developed country collapsed to the extent of Iceland during the Financial Crisis of 2008. Historically, Iceland belonged culturally, politically and economically to the Nordic countries, favoring the Nordic model, yet out of the Nordic countries, only Iceland experienced a systemic collapse of its economy. Therefore, the question arises: Which particular decisions led to such catastrophic results and why was the experience so much worse than in any of the other Nordic countries?

The Nordic countries all, with the exception of Denmark, began their deregulation processes at roughly the same point in time, around the beginning of the 1980s. A boom period was immediate in Scandinavia, from 1986 to 1990. In Iceland, however, such growth started during the latter part of the 1990s. But the explosive growth, which led to the bust, began in earnest²² after 2003 when the banks' privatization was completed. In Iceland the liberalization program was led by a right wing government that came into power and ruled for 18 years consecutively (until it was forced to leave office shortly after the collapse in autumn 2008). The business sector gained strength during this liberalization program as the supervisory authority and public administration was weakened. The lack of business tradition in Iceland and the lack of consideration towards the explicit and implicit rules that facilitate interactions in a society became evident during the booming years.

Questionable business practices – that, arguably, could have been considered corrupt – enabled weak business ethics to thrive. An interaction of these factors played an important role in the breakdown of the Icelandic economy²³.

Iceland's financial markets had long been plagued by both political interference and regulations, which created economic difficulties. Inflation went up to nearly 100%, resulting in high negative real interest rates that led to reduced savings. Subsequently, important legislative reforms were implemented and the financial sector was opened up to the free flow of capital. Interest rates were liberalized and for the first time determined by markets. Innovation was both encouraged and rewarded. Taxes were lowered to the lowest of the Nordic countries.

The privatization of Icelandic banking was somewhat different from the process of privatization in other countries. While most had privatized with at least some foreign ownership, the Icelandic government initially decided to encourage foreign ownership, then backed away from that decision. Instead, two investment groups gained a controlling interest in the banks. These groups of investors had absolutely no prior experience in commercial banking.

Foreign analysts questioned the sustainability of both the Icelandic financial system and the economy as early as 2005. In addition, the analysts raised concerns about the Icelandic banks' risk management, culture,

22) Sigurjonsson, T. O., and Mixa, M. (2011) *Learning from the worst behaved. Iceland's financial crisis and Nordic comparison*. *Thunderbird International Business Review*. Vol. 52(2).

23) Vaiman, V., Sigurjonsson, T. O., and Davidsson, P. A. (2011) *Weak business culture as an antecedent of economic crisis: The case of Iceland*. *Journal of Business Ethics*. Vol. 98(2).

dependence on wholesale financing, and lack of transparency in their ownership and holding structures ²⁴. Schwarzkopf and Sigurjonsson (2011) ²⁵ analyzed how a network of “defenders” of the financial stability of the Icelandic economy and banks was created almost immediately after this criticism. The network, constructed or activated to defend the notion of financial stability among the banks, made it difficult for the public to ascertain whether the banks were actually stable. Thus, critics to stability had a hard time finding an open forum.

Still the Icelandic people did not complain. Unemployment was low and disposable income seemed to be among the highest in the Nordic countries. Although Icelanders had to work longer hours than others, they paid less tax.

Iceland distanced itself from the Nordic Model during its boom years. Taxes were lowered and welfare support such as unemployment benefits, child allowances and sick pay were not at the same level as in the other Nordic countries. Certainly, there are exceptions, as with paid parental leave and payments that provide parents with higher benefits than in most Nordic countries. The boom period delivered higher income to many but equality in income and assets shrank. Iceland did in general never go as far as its neighboring countries in distribution of the nation's wealth through the tax and welfare system. Particularly, the elderly and the disabled were neglected during the boom period. Indeed, the elderly became so frustrated with their situation that they were close to forming a new political party, although that

was never realized ²⁶.

The new “Icelandic Model” veered closer to the Anglo-Saxon one than the Nordic. Evidence of this is that Iceland adopted a much stronger reduction in benefits “connected” to beneficiaries' income. The Anglo-Saxon countries, US, UK, Canada, Australia and New Zealand, established stronger capitalism. The vision was to foster growth and employment by increasing flexibility within the labor market, and lowering welfare benefits in order to increase autonomy of people and enterprises (while restricting state interference). However, the new Icelandic model kept many in a poverty trap, which is expensive for a society in the long run ²⁷.

Historically, Iceland had wanted to relate itself with the other Nordic countries. That agenda changed during the boom period. A remark from the Icelandic Chamber of Commerce demonstrates this: “The Icelandic Chamber of Commerce recommends that Iceland stops comparing it to the other Nordic countries, since we are more advanced than they in most areas” ²⁸. The Nordic countries were blamed for having an overgrown welfare system that produced problems in practice ²⁹. They ignored that, historically, the Nordic countries had been ranked among the most competitive nations in the world. The Icelandic Chamber of Commerce was searching for role models in the more capitalistic countries where the corporate and free enterprise culture was prevailing, and where the workforce submits ³⁰. It illustrates the neoliberalism which was put high on the country's agenda during the boom period, with welfare placed second.

24) Jannari, K. (2009). *Report on Banking Regulation and Supervision in Iceland: past, present and future*. Available at: http://eng.forsaetisraduneyti.is/media/frettir/KaarloJannari_2009.pdf.

25) Schwarzkopf, D., & Sigurjonsson, T.O. (2011). *The structure of community networks defending the concept of "financial stability"*. Working paper, Bentley University and Reykjavik University.

26) Stephensen, Ó. (2006). *Norræna módelið yfirgefið?* Available at: <http://www.norden.org/is/analys-norden/thema/velferd/norraena-velferdarmodelid-yfirgefid>.

27) Ólafsdóttir, A.G. (2005). *Erfiður samanburður við hin Norðurlöndin*. Morgunblaðið. 13.september 2005. Available at: http://www.mbl.is/mm/gagnasafn/grein.html?grein_id=1017678.

28) Icelandic Chamber of Commerce (2006). *Viðskiptaþing - Ísland 2015*. Available at: <http://www.vi.is/files/1612898009%C3%8Dsland%202015%20Vi%C3%B0skipta%C3%BEing%202006.pdf>.

29) (*ibid.*)

30) Icelandic Confederation of Labor (2006). *Lífskjör á Norðurlöndunum*. Available at: <http://www.asi.is/Portaldatal/1/Resources/upplýsingarit/lifskjor.pdf>.

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