

## DISCUSSION FORUM

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### Looking for creative experiments as a research strategy

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Peer Hull Kristensen and Kari Lilja have put together a marvelous collection of case studies showing how welfare policies in Nordic countries are co-evolving with increasingly open-ended, networked and continuously self-recomposing relations in the social economy. Interestingly, as the plural in the title subtly suggests, the findings of the case studies show that, from an institutional perspective, there is not a unitary ‘Nordic capitalism’, much less a ‘Nordic model’ of the emergent welfare state. Rather, each of the Nordic countries studied charts a distinct (non-teleological) path in its on-going efforts to provide solutions to the social, educational, industrial policy and labor market problems generated by extensive, protean globalization. For Kristensen and Lilja and their collaborators, what binds the cases together is that they all seem to be constructing—experimentally,

in fits and starts, and with different institutional means—a genuinely new form of welfare system, which the editors call an ‘enabling welfare state’. This new welfare system strengthens and supports citizen abilities to participate in the permanent organizational and technological change associated with globalization. Rather than shelter or insulate citizens through the provision of standardized programs, the new arrangements provide individualized and customized services to foster learning, flexibility and adaptability.

*Nordic Capitalisms* is a fascinating book, both because of the cogency of its central argument about the co-evolution of the enabling welfare state and open-network learning systems in the economy, and because of its somewhat paradoxical methodological and theoretical perspective. I know about open-network learning systems in the economy, but I am not an expert in comparative welfare state reform discussions, so I will leave discussion of the details of Kristensen and Lilja and their collaborators’ findings and proposals to the other people in the roundtable who are more qualified. My contribution will take a step back and more abstractly focus on the volume’s theoretical and methodological orientation. In what follows I would like to do two things: first, I will highlight the distinctive method of analysis and form of explanation deployed by Kristensen and Lilja and their collaborators, and then, second, I will raise a question about institutions.

### **1. Research strategy: discovery of experimentation versus explanation of adjustment**

Kristensen and Lilja and their collaborators pursue a distinctive strategy of inquiry in their book. They depart from much of the current discussion of ‘institutional change’ in the academic literatures on historical institutionalism, Varieties of Capitalism and National Business Systems in that they do not begin with the question: how are the current institutions of the welfare state within given national political economies changing? Instead, they take a novel tack, asking: what are the specific social and market governance problems generated by the transformations in the economy and society that follow in the train of globalization? Within this, in particular, they ask: who are the actors both driving and affected by change and what are they doing to address jointly confronted problems? What appear to be the most creative experiments?

This may seem like a subtle or even trivial shift of emphasis: does not the latter framing also involve tracing out institutional change? Yet, notice what the latter framing of the problem allows the *Nordic Capitalisms* authors to ignore: none of the case studies, and most definitively neither of Kristensen’s highly synthetic introductory and concluding essays, focus on problems of path-dependency or

on how pre-existing institutional arrangements in each Nordic society shape the way in which welfare state change is taking place. Indeed, Kristensen urges readers to see that the cases cannot be accounted for by looking for the way in which background institutional constraints shape adjustment dynamics. In the volume's preface, he articulates the alternative research interest in this way:

... the legacy of institutions was traceable, but the way actors made use of institutions could be highly creative and *impossible to predict from the trajectory of the past path*. Only by looking into arenas where experimental use of institutions were (sic) going on would it be possible to reveal how institutions combined with actor strategies to create novel patterns of economic prosperity (p. xi—emphasis mine).

Another consequence of the alternative perspective pursued by the authors is that there is virtually no handwringing about whether or not social democracy as it has been known in the Scandinavian region will survive the onslaught of neo-liberalism. This is not because the authors think that there have been no inroads made in Scandinavia by 'liberalization' or that marketizing and atomizing pressures have not entered into Nordic life. On the contrary, Kristensen (addressing Streeck's perspective on liberalization and its consequences) says:

What Streeck calls 'Liberalization' has certainly also taken place in the Nordic countries. However, instead of just expecting liberalization to take place as a form of disorganization, our contention is that a constructive organizing process did also take place by which old and new institutions took on new roles, were recombined to constitute new complementarities, and changed the 'rules of the game'... In what follows, a narrative of the dismantling of the Nordic welfare states could have been told, but we have chosen to search for how they were reconstructed towards an enabling welfare state (p. 44).

As a result, there is no tracing the organizational and institutional designs of the new experiments back to the old arrangements that previously existed in each of the country cases, trying to decide if each change does or does not involve a betrayal of the social democratic project. The volume is utterly non-nostalgic. All the chapters begin with the recognition that the old arrangements for social welfare provision in each of the Nordic countries do not work and are being abandoned, at least in spirit. For the authors, this is true because those institutions were designed to solve problems that no longer exist in the contemporary world. The new 'enabling' arrangements that they see emerging are comprehensible only when they are acknowledged to be addressing problems that the old institutions were not designed to solve.

Kristensen and Lilja and their collaborators are interested in creativity and experimentation. The cases all point to the emergence of common dynamics in the economy—disintegrated, recombinatory networked production that redraws the boundaries between firms and households, and places great pressure on firms and skilled labor market players to be innovative, flexible and capable of learning. But the interest on the part of the researchers is not to discover one best (Nordic) way to accommodate these challenges. Nor is it to identify specific institutional pre-conditions that give rise to the successful experiments. Rather, the cases display an array of alternative experiments, stemming from a surprising array of institutional starting points, all of which seek in new ways to implement enabling policy arrangements. Some are top–down, as in Finland and to a certain extent Sweden, while others are bottom–up, as in Denmark. The analytical aim in focusing on experiments is to expand our understanding of the range of possible solutions to our contemporary challenges. The volume does not claim that the experiments that have been uncovered are exhaustive of all possible experiments. Nor is the suggestion that the experiments that have emerged are definitive permanent solutions to the problems they are designed to address. Rather, Kristensen and Lilja and their collaborators emphasize that, like the emergent forms of governance in the globalizing networked economy, the emphasis in the new forms of enabling welfare arrangements is on process, learning and the capacity to change and recompose the arrangements that constitute a solution. The volume abandons the project of comparative explanation in the interest of comparative conceptual exploration of possibility.

What to make of the focus on Nordic countries? The volume does not code the circumstances inducing experimentation in the Nordic countries as special or distinct from those inducing experimentation in other advanced political economies. Rather, it simply claims that the Nordic countries, in an array of ways, have hit upon interesting and seemingly successful solutions to broadly common problems. The message is that it is possible to learn from the experiments in Scandinavia. There is no claim that there are not interesting examples of experimentation in other places (on the contrary, Kristensen's footnotes are full of references to analogous enabling experiments in the USA and non-Scandinavian Europe). The view is simply that it is valuable to examine seemingly successful experiments in some detail, in order to see how they work and to identify what their characteristic problems and limits are. In this sense, the volume is intended to speak to the actors whose efforts it describes. Significantly, however, since the problems those actors are struggling with are quite general, it also speaks to non-Nordic outsiders who are struggling with analogous sorts of challenges.

All of this explication is important, because the volume addresses and makes use of the literatures on Varieties of Capitalism and National Business Systems

that pursue quite different explanatory projects. Imposing the structural institutionalist frame on Kristensen and Lilja and their collaborators will result in a misunderstanding of what they are doing in the volume. Theirs is not so much a project of explanation through the specification of particular structural/institutional constraining and enabling rules as it is an exploration of experiments in the construction of a distinct alternative model of a welfare state. The authors are more interested in developing the theoretical range of possibilities for that model than they are in constructing a parsimonious list of determining causal variables accounting for the emergence of specific variants of the enabling model. Indeed, given their emphasis on creativity, surprising recombination and mutual determination, one senses that they reject that sort of project. Kristensen and Lilja and their collaborators deploy the conceptual material that is the focus of the more explanation-oriented schools (VoC and NBS), but that material is used as fodder for the recompositional moves of creative actors, rather than as a more rigid constraining and enabling background condition for action.

## 2. Institutions?

The distinctiveness of Kristensen and Lilja and their collaborators' approach, however, raises an interesting question about the role and significance of institutions in the analysis. They play an ambivalent role: on the one hand, Kristensen emphasizes repeatedly in his introductory and concluding chapters that institutions do not shape or determine the moves of creative actors in the social processes he is observing. Rather, he claims, the actors dissect, recombine, reposition, reconceive and abandon institutional rules in an effort to resolve the problems that confront them. He says that actors make use of institutions in highly creative ways and, therefore, it is 'impossible to predict from the trajectory of the past path' (p. xi). Plainly, Kristensen and Lilja and their collaborators want to get away from the kind of straightforward structural institutionalism that inhabits much of contemporary comparative political economy, in which there is a conceptual divide between fully formed agents and clear enabling and constraining background rules that shape the way in which the agents strategize.

On the other hand, *Nordic Capitalisms* spends a great deal of its time describing the new institutional rules that are characteristic of enabling welfare states. The narrative is not about getting beyond institutions, but rather about getting to new ones. But, if this is the case, what kind of institutions are these if they are not institutions that exist behind fully formed actors enabling and constraining them in ways that shape their strategies? Kristensen and Lilja and their collaborators never really answer this question. This is a pity because it generates unnecessary conceptual confusion regarding what they are doing and the aims of their project. As they themselves note many times throughout the volume,

the point is not to identify definitively the specific institutional requirements for the emergence of successful enabling welfare state policies. Rather it is to outline the array of arrangements that serviceably facilitate such political practice. If that is the case, my sense is that they should come up with an alternative to ‘institutions’ to describe what these arrangements are. Or they should provide a clear explication of the different ways in which they are using the term. This may seem semantic—and indeed, I guess it is—but sometimes the way in which one expresses things matters for how they are understood. In any case, at the very least this ‘problem’ in the analysis in the *Nordic Capitalisms* volume should animate all of us who are of like mind to pay greater theoretical and conceptual attention to the character of the arrangements that we are trying to describe and create.

## Prospects for mutual learning and policy transfer

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My comments on this important work reflect my position as a user of international social science to feed deliberation on public policy and institutional development. From this perspective, this research adds real value in six related ways.

First, it disproves, or certainly qualifies, the view that other countries could not learn from the Nordic welfare states because the Nordic economies are less open and less globalized. The research highlights the increased globalization of the Nordic economies in the past two decades and explores the business, community and individual responses to the associated pressures. Admittedly, the form which globalization has taken in the Nordic economies differs from that in other small and peripheral countries. Sweden has long been the home of prominent multinationals, and in the other Nordic economies, globalization frequently takes the form of acquisition of indigenous enterprises by foreign corporations. In contrast, in small and peripheral countries with a weaker business base and history, internationalization mostly takes the form of inward branch plant investment, as I discuss further below.

Second, this work transcends conventional debates on the Nordic welfare states, which often boil down to a normative contest between social democracy

and neo-liberalism. This research takes a hard-headed yet sophisticated view: welfare can be supportive of economic performance in a globalized market, but welfare transfers can, in certain contexts, damage economic performance and lock people into passive roles. Also, this account of the Nordic political economies encompasses elements of privatization, neo-liberal initiatives, new public management, expenditure cuts and moves toward greater citizen choice. The analysis looks beyond aggregates—such as total tax revenue, social expenditure and ‘welfare effort’—and highlights the role of welfare services and innovation. In sketching the agenda for a ‘developmental welfare state’ in Ireland we focused on three generic elements of a welfare system—income transfers, services and innovation (NESC, 2005). Our emphasis on the role of public services is affirmed by Kristensen’s comment: ‘Wherever a case study was being conducted, striking experimentalist vigour of both private and public organizations took place, which is surprising as the general debate in the Nordic countries does not reveal this extent of innovativeness, in particular on the part of the public sector’ (2011a, p. 251). Economic success depends on effective social policy; but, equally, social policy must bear some responsibility in ensuring economic success. That responsibility includes, but goes beyond, the need for income transfers to be framed in a way which incentivizes hiring and work.

Third, the analysis transcends the politically popular emphasis on social capital and associations as a possible third way between the market and the state. These case studies have a lot to say about associations and local coalitions in finding effective business and local regeneration strategies, but show how their role is closely tied to both market forces and the state. Summarizing much of the evidence, Kristensen observes that ‘a new overarching pattern of interaction among the state, social partners, and municipalities’ has emerged. Among the interesting trends is the implementation of the welfare state at local levels, with the result that ‘corporatism has increasingly moved from state to localities or regions, has broadened its scope, and included an increasing number of associations (environment, housing, culture) that try to influence the local specification of how services should be designed and developed’ (2011b, p. 40). In this context, he notes, ‘experimental ways of organising may diffuse between the private and the public sector’ (p. 39). In a 2009 Irish study, we identified the increasing ‘cross-fertilization’ between business, public governance and NGOs as one of the striking features of the emerging economic and social landscape (NESDO, 2009).

Fourth, and most strikingly, this work makes a major contribution by exploring the links between the Nordic welfare states and competitive performance and innovation. It does this by unpacking both the welfare state and the ‘national innovation system’ or ‘national business system’. This is achieved by exploring the internal organization of work and the links between firms in a ‘networked innovation system’. It highlights the striking fact that ‘the learning mode of

organization and the room for applying one's own ideas at work seem to systematically co-vary with universal welfare states, placing the Nordic countries in a very distinct situation compared to other EU countries' (Kristensen, 2011b, p. 24). The other contributors to this panel are well-placed to elaborate on and assess this important organizational proposition.

The fifth contribution of this work will be of interest not only to social scientists, but also to policy-makers. It challenges the overly rigid distinction between 'coordinated market economies' and 'liberal market economies'. As Zeitlin has noted, that distinction can lead 'to profound scepticism about the prospects for mutual learning and policy transfer across welfare and production regimes' (2003, p. 11). Such scepticism is particularly dispiriting for countries seeking to overcome legacies of weak economic development and limited social protection, such as Ireland. Such countries have no alternative to adopting an eclectic policy mix and have every incentive to learn from business and public sector innovations elsewhere. It is encouraging for a policy-oriented reader from Ireland to read accounts of Finland, Denmark, Norway and Sweden that draw attention to the hybrid nature of these political economies. It is, in large measure, the surprisingly hybrid nature of the Nordic countries and the well-known hybrid nature of those playing catch-up that makes it possible to learn from the experience of societies that are at the frontier of economic and social development.

At the same time, we do need to think carefully about how and what we can learn from the case studies reported in this volume, for, as Kristensen and Lilja note in their preface, they do not know whether their cases are typical. Their answer to this methodological question is interesting: 'What we do know is how they relate to how we have previously modelled the respective national business systems' (2011, p. xiii). I believe that the scientific strength and significance of these findings lies in the fact that much institutional social science, such as the varieties of capitalism approach, implicitly contains a range of impossibility hypotheses. The cases reported in this book can be seen as the discovery of a few black swans that surely refute those hypotheses. As the authors note, it is a further task to ascertain whether the novel practices they describe 'add up to a new emerging pattern' (p. xiii).

A final interesting feature of this work is the commentary on public governance in the Nordic countries: 'According to international measures the Nordic countries score high on good governance, but this is not because they have found ways of governing experimentalist economies and enabling welfare states' (Kristensen, 2011a, p. 252). The author argues that the Nordic countries lack systems to recognize and appreciate what is going on in terms of decentralized learning and innovation (p. 253). Only by creating such systems will it be possible for localities, firms and employee groups to learn from each other, to search for better and more competitive ways of combining processes within

private firms and surrounding public institutions, to benchmark them against each other, and to choose temporary templates for more general problems in the continuous struggle for constantly redefining roles in the larger global system. These must be formulated by local actors, since only they can see what problems to overcome, assess what goals are achievable, and the possible means to work toward these goals. 'But they somehow need a state body to discuss this with, to reach mutual agreements with, and with whom to exchange information on known alternatives, so that local learning becomes public, systematic, and generalised' (p. 253). For those struggling with severe policy challenges in less successful countries, it is hard to decide whether this observation of a governance deficit in the Nordics is a disappointment, a comfort, an invitation or, indeed, a provocation.

Besides these observations on the significance of this work, the best way I can further compliment, complement, explore and test it is to briefly identify ways in which its approach might be applied to another highly globalized country: Ireland. Drawing on a number of Irish sources, I comment briefly on subsidiaries, institutions of risk sharing, crisis and governance.

Ireland's high level of globalization mostly reflects inward foreign direct investment rather than acquisition of promising Irish companies by foreign corporations. Nevertheless, recent company case studies report evidence of the kind of recombination strategies described in the Nordic research (O'Connell and O'Regan, 2011). A key strategy of Irish subsidiaries of transnational corporations (TNCs) is the extension of their mandates through local innovation (Egeraat, 2010). The Irish management works with a range of local actors and resources to protect the position of the Irish plant in the face of corporate restructuring and cost reduction. In the recombination strategies of subsidiaries in Ireland, state agencies would seem to play a larger role, and trade unions a lesser role, than in the Nordics (Egeraat and Breatnach, 2012). This reflects the strong role of activist industrial policy in Ireland's development, a response to the historical weakness of entrepreneurship, industrial finance and innovation. The case of IBM's Smart Cities Project shows that state entities (such as Dublin City Council), beyond the obvious industrial policy agencies, can become a resource in these recombination strategies. It should be noted that one of our case studies, on Merck Sharp and Dohme, shows corporate alliance with unions playing a major role in devising and implementing a strategy to reposition the Irish plant within the global corporation.

The analysis of the 'institutions of risk sharing' in the Nordic societies confirms the historical challenge that confronts a relatively successful catch-up country like Ireland. In the Nordic countries, the welfare and labor market institutions, linked to a successful business system, have produced a surprisingly resilient society. In Ireland, we face the challenge of adding to a fairly successful

‘networked developmental state’ (O Riain, 2004) a more effective ‘developmental welfare state’ (NESC, 2005). It was, in part, the absence of such a system that fuelled the hunt for inclusion through hyper-growth and employment expansion. Nevertheless, in building a developmental welfare state in Ireland, one available resource is the kind of vibrant cross-fertilization documented in the Nordic studies.

In Ireland’s deep fiscal crisis, an important argument has been the need to combine retrenchment with reform of the public system, especially reforms that will enhance the capability to provide bundles of tailored services (NESC, 2009). The Nordic studies provide strong evidence that this is possible. Despite the high level of public revenues, it is reported that ‘as most of these services have been run under continuously reduced budgets, institutions have been forced to innovate and collaborate across boundaries in order to deliver individualized services in novel and cost-reduced ways’ (Kristensen, 2011*b*, p. 40).

Not surprisingly, the crisis is forcing major changes in the governance of countries, like Ireland, that have severe fiscal and banking problems. After 20 years of social partnership, policy processes have become much more concentrated in government and, to a degree, parliament. Indeed, in some quarters, social partnership is seen—along with banks, builders and weak financial supervision—as one of the causes of Ireland’s problems. It is not yet clear what processes of stakeholder engagement will be reconstructed in the years ahead. The Nordic research suggests that in thinking about that, an important factor should be the need for decentralized and devolved provision of many welfare and other services. If such services require stakeholder engagement—and, in Ireland, they are often supplied by non-state organizations—then this raises the hopeful prospect that the high-level representative bargaining of the old social partnership model might ultimately be replaced by more direct multi-level problem solving.

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## Social investment and the knowledge economy

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In *Nordic Capitalisms and Globalization*, Kristensen and Lilja and their collaborators present micro level studies of how firms in the four Nordic countries have adapted to the new demands of operating in the highly globalized economy. From these studies, the reader gets a bird's eye view of how these four countries transformed themselves from exporters of processed primary products (agricultural goods for Denmark, wood and wood products for the other three countries) and Fordist manufactured products, especially in the case of Sweden, to producers of high-tech goods and services, particularly in information and communications technology (ICT). As of the mid-1990s, the prospects for these countries

looked dismal: because they had mismanaged the decontrol of cross-border capital flow and domestic credit markets, Finland, Norway and Sweden had experienced real estate bubbles and bursts in the late 1980s and early 1990s, which led to large-scale banking collapses in Finland and Sweden. Those two countries were experiencing their worst economic crisis since the Great Depression. In the case of Finland, the collapse of Soviet trade aggravated the situation and economic conditions were actually worse than in the Depression with unemployment peaking at 17% in 1994. Both countries were running budget deficits in the 8–10% range. Moreover, the long-term economic prospects were not good, as these countries were losing their Golden Age Fordist manufacturing industries to lower cost producers (the movement of shipbuilding to the East Asian NICs being a case in point) without any new economic activities to replace them.

A decade later the situation was very different: all four countries were running budget surpluses. As *Nordic Capitalisms* documents, all four countries had made new adaptations to their economic models to take advantage of the shift to the knowledge economy, with the breakthrough to ICT in Finland and Sweden being the most dramatic, resulting in annual per capita growth rates of over 3% in those two countries in the period 2000–2007, well above the average of 2.3% of all advanced economies. Moreover, as the authors point out, this shift was quite unexpected from the point of view of the Varieties of Capitalism (VoC) perspective on comparative political economy (Kristensen and Lilja, 2011, p. xii). According to Hall and Soskice (2001), coordinated market economies (CMEs), like the Nordic economies, are supposed to be adept at ‘incremental innovation’, incremental improvement of current product lines, not ‘radical innovation’, dramatic breakthroughs in new product development. One reason for this is that the financial systems of CMEs are characterized by strong bank–industry links, which provide firms with patient capital but lock capital into existing firms. The role for stock markets and venture capital in financing investment is limited in these countries.

Kristensen argues that the shift into the high-technology, knowledge economy was accompanied by a shift toward high-performance work organizations which are characterized by ‘(a) leveling of hierarchical distinctions; (b) an interpenetration of units designed to enhance the integration and maximize the coordination of previously autonomous functions; (c) a dramatic increase in the amount of behavior that is not rule-bound; (d) hiring and promoting people who are creative and have a feel for the job; (e) shifting assignments in and out of flexible work teams; and (f) more widespread access to information within and across organizations’ (2011, p. 19). Without citing actual figures, the authors indicate at several points that the prevalence of this type of work organization can be indexed by the European Working Conditions Survey’s measure of ‘discretionary learning employment’. The first column of Table 1 displays data on discretionary

learning employment that are taken from the Fourth European Working Conditions Survey (Parent-Thirion *et al.*, 2007).<sup>1</sup> The Survey distinguishes discretionary learning employment from traditional, taylorist and lean production employment. Discretionary learning jobs are jobs that involve high levels of problem-solving and learning on the job and high levels of freedom for the worker to organize his work activity. The figures in the column are the percent of all employees in discretionary learning employment.

*Nordic Capitalisms* makes claims—mostly explicit, sometimes implicit—that the Nordic countries are distinctive in their work organization, their education and training policies, and their social policies, and that these are causally related to each other and to the countries' recent success in the knowledge economy. A lacuna in the book is the lack of comparative evidence supporting this argument. In most of the rest of this review essay, I present evidence supporting their claim, drawing on recent work I have done with Moira Nelson (Nelson and Stephens, 2011, 2012). The data on discretionary learning provide some support for the book's claims about Nordic work organization.

Columns 2–4 of Table 1 contain the average scores of International Adult Literacy Survey (IALS) scores at the 5th decile, the mean and the 95th decile (OECD and Statistics Canada, 2000). The IALS administered a standardized test measuring skills in prose, quantitative reasoning and document understanding to a random sample of the populations of the participating countries. The IALS clearly has greater face validity as the most accurate measure of human capital stock of the adult population than other available measures, such as average educational attainment. One can see that the Nordic countries are distinctive in terms of their human capital stock, and this distinctiveness is primarily at the middle and even more so at the bottom of the distribution. The correlation between the literacy skills and discretionary learning employment is also somewhat greater at the mean and 5th percentile (both 0.72) than at the top of the skill distribution (0.63).

Columns 5–7 contain data on spending on public education, active labor market policy and daycare, all expressed as percentages of GDP. If one reconceptualizes daycare as early childhood education, which is certainly what daycare is in the Nordic countries, then all three of these variables measure some aspect of public spending on human capital development. Column 8 is a summation of these three variables. The huge lead that the Nordic countries have over all of the other European countries in the table is readily apparent. Not surprisingly,

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<sup>1</sup>Only European Union countries are included in the study, so the table only includes these countries. However, the statements below about the interrelationship of the IALS scores, human capital investment and employment in knowledge intensive services holds for all long standing OECD democracies (Nelson and Stephens, 2011).

**Table 1** Discretionary learning employment, IALS scores and human capital investment

	Discretionary learning employment	Score on OECD literacy test			Public education spending	ALMP spending	Daycare spending	Human capital spending
		5th percentile	Mean	95th percentile				
Nordic CMEs								
Denmark	55	213	289	353	7.7	1.0	1.7	10.4
Finland	45	195	288	363	6.8	1.0	1.0	8.8
Norway		207	294	363	7.4	0.8	0.6	8.8
Sweden	68	216	304	386	7.2	2.1	1.8	11.1
Mean	56	208	294	366	7.3	1.3	1.3	9.8
Continental CMEs								
Austria	47				5.4	0.3	0.4	6.1
Belgium	43	163	277	359	5.2	1.2	0.1	6.5
Germany	44	208	285	359	4.6	1.0	0.3	5.8
Netherlands	52	202	286	355	5.1	1.1	0.4	6.6
Mean	47	191	283	358	5.1	1.1	0.3	6.4
Mixed, other								
France	48				6.6	0.9	0.4	7.8
Italy	37	114	237	325	4.9	0.3	0.1	5.3
Portugal	25	96	229	334	5.4	0.4	0.0	5.8
Mean	36	105.0	232.7	329.1	5.6	0.5	0.2	6.3
LMEs								
Ireland	39	151	263	353	5.0	1.1	0.1	6.2
UK	32	145	267	360	5.2	0.6	0.0	5.8
Mean	35	148	265	356	5.1	0.9	0.0	6.0

Notes: ALMP = active labor market policy.

Source: Brady, D., Huber, E. and Stephens, J. D. (forthcoming) *Comparative Welfare States Dataset*, online data base, Duke University/University of North Carolina, Durham/Chapel Hill, NC, USA.

spending on human capital is strongly related to average IALS scores at the 5th percentile ( $r = 0.71$ ) and the mean (0.73) and to discretionary learning employment (0.80). Taken together, the data in Table 1 provide strong support for the arguments in *Nordic Capitalisms* about the causal links between Nordic education, training and social policies, on the one hand, and work organization and success in the knowledge economy, on the other.

The data for discretionary learning employment and IALS scores are only available for one point in time, so I have limited my analysis to simple correlations. Readers might ask if these relationships would hold up in more rigorous multivariate analyses. Moira Nelson and I have carried out such an analysis using employment in Knowledge Intensive Services (KIS) as a dependent variable, with KIS measured according to the Eurostat classification of industries by industrial codes at the two digit level (Nelson and Stephens, 2011). We show that daycare spending, active labor market policy spending and public education spending all have very large effects on KIS employment independent of 10 other independent variables.

There is little doubt that the superior human capital base was a necessary condition for the Nordic breakthrough into high-technology manufacturing and services. This, of course, was not part of a pre-conceived plan: spending on human capital in the Nordic countries was already high in 1990 before the use of the Internet, cell phones and laptops became widespread. It was also not a sufficient condition: a large supply of highly skilled employees only creates the possibility of investment in high-technology economic activities. It is necessary to transcend the old CME system of finance—strong bank–industry links which lock capital into existing economic activities—to a new system which makes capital available for new innovations. The individual case studies in *Nordic Capitalisms* show how this happened in the case of the firms studied, but one does not get the big picture of how this is happening at a macro level.

Table 2 shows that there clearly has been dramatic macro level change in research and development expenditure in Sweden, Finland and Denmark. (The Norwegian case studies in *Nordic Capitalisms* indicate that the investment flows generated by the oil economy explain why this did not happen in Norway.) The table also makes clear that change was not government-driven: none of the countries shows a significant increase in government R&D (Research & Development). Private R&D in Sweden, Finland and Denmark increased from an average of 0.9% of GDP in the early period to 2.4% of GDP after the turn of the century, an impressive increase by any standard. Who is doing this? One does not get a clear picture of this from the book. Recent work on the high-tech breakthrough in these three countries by Darius Ornston is helpful here (Ornston, 2009, 2013). *Nordic Capitalisms* argues at a number of points that Nordic corporatism has been restructured, in part at a more micro firm level, to facilitate the

**Table 2** Research and development expenditure

	R&D expenditure		Government R&D	
	% GDP		% GDP	
	1973–1985	2000–2007	1973–1985	2000–2007
Nordic CMEs				
Denmark	1.1	2.5	0.6	0.7
Finland	1.4	3.4	0.5	0.9
Norway	1.3	1.6	0.7	0.7
Sweden	2.4	3.7	1.0	0.9
Mean	1.6	2.8	0.7	0.8
Continental CMEs				
Austria	1.1	2.3	0.6	0.8
Belgium	1.5	1.9	0.5	0.4
Germany	2.3	2.5	0.9	0.8
Netherlands	1.9	1.8	0.9	0.7
Switzerland		0.2		0.1
Mean	1.7	1.7	0.7	0.6
Mixed, other				
France	2.0	2.1	1.1	0.8
Italy	0.9	1.1	0.5	0.5
Portugal	0.3	0.8	0.2	0.5
Spain	0.1	0.2		0.0
Mean	0.8	1.1	0.6	0.5
Liberal welfarestates—LMEs				
Australia	1.0	1.7	0.7	0.7
Canada	1.3	2.0	0.7	0.6
Ireland	0.7	1.2	0.4	0.3
New Zealand	0.9	1.2	0.7	0.5
UK	2.2	1.7	1.1	0.5
USA	2.6	2.6	1.2	0.8
Mean	1.5	1.7	0.8	0.6

Source: Brady, D., Huber, E. and Stephens, J. D. (forthcoming) *Comparative Welfare States Dataset*, online data base, Duke University/University of North Carolina, Durham/Chapel Hill, NC, USA.

transition to high-technology radical innovation. Ornston characterizes this transformation as a turn from ‘conservative corporatism’ to ‘creative corporatism’: ‘conservative’ because it preserved old business activities by facilitating incremental technological upgrading; ‘creative’ because it enables entry into new high-technology economic activities.

The move to creative corporatism built on existing tripartite corporatist cooperation. In the case of the transformation of the financial system to one that expanded the role of early stage risk capital markets and venture capital, the sequencing and mechanisms were rather different across the three countries. To

briefly summarize some of the main trends as outlined by Ornston (2009, 2013), liberalization of domestic and international capital markets opened up financial activity outside the traditional bank–industry complexes, among others through expansion of stock markets; governments made venture capital and R&D funding available to business directly or indirectly through new agencies designed to carry out these functions (such as TEKES in Finland and Industrifonden and the Sixth AP Fund in Sweden); universities cooperated with business in new product innovation and union-controlled pension funds were redirected toward early stage risk capital and venture capital.

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# Making sense of Nordic capitalisms' experimentalist search for new growth and development regimes: response to critics

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For the sake of honesty, we readily admit that we have looked forward to the commentators' reactions to our book with both curiosity and fear. We know that we took a bold decision back in 2005 when we decided to search for an explanation to the rapidly improving economic performances of the Nordic countries. Our starting point was to detect micro-transformations inside and between firms, on regional labor markets and on the uses of public services, as well as to examine how institutions changed their internal ways of working and their relations to civil society. By focusing on such micro-transformations, we were confident that it would be possible to become much more in tune with how capitalisms in these countries mutated. But we also realized that our findings might be provocative, as our search for a more comprehensive, systemic understanding might cross the boundaries of economics, sociology and political science, not to mention such comparative systemic views as those expressed in national business systems, varieties of capitalism, national innovation systems and in different industrial relations and welfare regimes. Our preparation for taking such a bold step stemmed from working within the network of National Business Systems researchers, where we had both cultivated the practices of discovering societal effects of institutions on firms to make comprehensive models of business systems and the ability to search for similarities and differences. This tradition had, by the late 1990s, been criticized for being static and neglecting the extensive globalization that was taking place. Some of the researchers within the project (Kristensen and Zeitlin, 2005; Jääskeläinen and Lovio, 2003, 2004) had, with some success, tried to come to terms with this by studying how national firms had been fighting to protect, extend and advance their mandates after being acquired by foreign multinationals. Such subsidiaries had turned out to be *hosts of interactive influences*<sup>2</sup> from both global and national processes. What we discovered was that by coping with global influences, actors in subsidiaries were mobilizing resources from their institutional context, and by doing so,

<sup>2</sup>To use Weber's notion (see Kalberg, 1994).

they were transforming the identity of themselves as actors, their professional identities, the nature of their agency, the role of the firm and the institutions in their context. In planning our research for the *Nordic Capitalisms* book, we wanted to explore whether the phenomena detected in the previous single-case studies were part of a larger pattern. To do so we widened the sample of firms included in the Nordic countries and asked whether the locally discovered transformations added up to systemic transformations of business systems at national levels and whether this was pointing to the direction of a general change in these societies, e.g. as to the nature of their welfare states?

In addition to the numerous case studies, we started to make sense of the case-specific findings by relating them to general discussions on transforming capitalisms and to secondary sources that were primarily quantitative studies. By doing so, we were able to perceive a new pattern in the making, based on new elements and their combinations in business systems and welfare states. For instance, we claim that the co-existence or co-evolution of certain mutations may become self-reinforcing, such as the linkage of learning forms of organization and that of social services. In many cases such self-reinforcing mechanisms will be dependent on reflective and deliberate actions at systemic or political levels, and evidence of more profound causations are thus both a question of more thorough scientific enquiries and the acceleration of reflective and deliberate political action in the Nordic countries.

In the book, we claim that there seems to be a co-existence of high levels of education and learning forms of work organization. In his commentary, Stephens puts his finger on this and points out that we do not really prove our case for the causality because 'a lacuna in the book is the comparative evidence supporting this argument'. We had touched upon data here and there that supported this argument, but we had not found systematic comparative data that could prove our case. That is why Stephens' commentary is, indeed, very helpful. Not only does he identify the lacunae, but fills them up with a set of great data, which clearly shows that the 'human capital' situation in the Nordic countries is distinct and is in great contrast, especially, with liberal market economies.

However, where Stephens primarily argues that this explains why a shift from primary products to high-tech goods and services was possible, we would argue that the statistics reflect how a diversity of social groups have, in the past, been fighting to mould a large set of institutions. The on-going transformations not only make it possible to claim the right to given social spaces for a large set of social groups, but enable these institutions in transition to serve themselves as *hosts of interactive influences* for redefining the professional identities of these groups. In Finland, the educational institutions have served to make a major jump from one set of industries to another. In the case of Denmark educational institutions have been part of a stepwise co-evolution of new forms of work-

organization and new professional identities, which again have made it possible to engage in much more advanced business models at an international level. Such shifts are often reflected in Danish subsidiaries that take on more advanced mandates and roles within multinationals.

We had expected that data would show that Nordic citizens with rather low education would be in a better position than counterparts in most other countries, but simultaneously we thought that liberal market economies would have reinforced dualisms by centring investments on the highly educated, for instance by increasing investments in R&D. Stephens shows that whereas government R&D as percentage of GDP has been stagnating or increasing in the Nordic countries, it has dropped significantly in liberal market economies (apart from Australia). This tendency in the public sector has been followed by a dramatic upsurge in private R&D spending in the Nordic countries, while it has stagnated in liberal market economies. Thus, we take this as further evidence for our expectation and belief that it is indeed possible that the Nordic countries are developing vanguard forms of business firms and institutions that not only cope with globalization, but are also inclusive of social groups that in other countries seem less fortunate. If this is the case, other countries should seriously consider what can be learned by the experiments that are taking form in the Nordic countries.

O'Donnell, in his commentary, tests the expectation that there are possibilities for cross-country learning and discusses why and how the experimental laboratories of the Nordic countries may have repercussions on how people in Ireland think about their future. He rightly captures our rejection of the lack of potential for learning across the CME/LME divide and argues that there are indeed many things that can be learned from Nordic experiments. We would argue a step further in this direction, as we think that what the Nordic countries have engaged in is a capability to make temporary, changing and dynamic complementarities. Such a capability challenges the theoretical assumption that is related to systemic complementarities in the conceptualization of the two models in the varieties of capitalism literature. This means that the kind of institutional features which fit or do not fit across subsystems become more fluid. In creating dynamic, temporary or situational complementarities, actors can benefit from learning from the experience of others, almost as in the simultaneous engineering of products (Helper *et al.*, 2000). In our book, we raise a major doubt about the vigor of the Nordic countries, as they have not yet developed a governance system that is able to 'recognize and appreciate what is going on in terms of decentralized learning and innovation' within their own countries. This means that they are unable to code and to learn from best practices within their own countries. Without such governance systems, it is impossible to advance the practices of 'simultaneous institutional engineering'. We think that other countries might speed up their learning capacity if they solved this governance problem

first, and then the Nordic experiments could be a valuable source of inspiration in searching for better practices.

Gary Herrigel positions our book and contribution in the larger landscape of the debate on divergent capitalisms in a much more precise way than we would probably have been able to do ourselves—a way that breaks with the normal institutional change literature. And he is right in claiming that it ‘raises an interesting question about the role and significance of institutions’ in our analysis. He continues:

The narrative (we write about the Nordic countries—PHK/KL) is not about getting beyond institutions, but rather getting to new ones. But if this is the case, what kind of institutions are these if they are not institutions that exist behind fully formed actors enabling and constraining them in ways that shape their strategy?

We do think that institutions play an important role in enabling and constraining actors’ strategies, but we also claim that they fully form neither actors nor strategies. In the institutional change literature (Streeck and Thelen, 2005) actors may also have opportunistic strategies toward institutions, thereby effecting exhaustion and liberalization (Streeck, 2009). For us, actors’ strategies may be more creative toward institutions. Especially if contingencies are bringing a multiplicity of actors at the edge of what the institutions allow, it will trigger both opportunistic institutional change and make a multiplicity of actors ready to renegotiate the nature of an institution. This negotiating process may enable the negotiating parties to redefine their interests, their nature as actors and their future aspirations. Institutions in this way are not only arrangements to establish certain forms of predictable social interactions, but a point for collective reflection about how their interactions should be re-regulated. Instead of just structuring interactions in the wider community, institutions become ‘hosts of interactive influences’ that may receive feedback from strategic interactions by actors and simultaneously constitute a social space for correcting this very social interaction. In *Nordic Capitalisms* we argue that in Nordic countries these kinds of institutions emerged because of the highly decentralized form of welfare states and the simultaneous presence of corporatist bodies governing institutions, frequently within a legal tradition based on framework laws. Whereas corporatism, historically, was created to institutionalize (and civilize) class conflicts and search for compromises between known interest-groups under shifting economic conditions, a growing number of corporatist bodies have widened representation and diffused to the level of localities. Instead of simply balancing known interests through distributive bargaining, they have gradually changed to become *fora* for integrative bargaining, a process by which the actors may redefine interests and aspirations and discover new

complementary aspirations that can serve to redirect or renew old institutions. Stephens also touches on this by referring to Ornston's suggestion that corporatism in the Nordic countries has transformed from being conservative to become 'creative'. In this way, institutions may become experimentalist—and it is our view that by 2005 in the Nordic countries a growing number of institutions have become much more experimentalist since 1995. Such evolution was caused unintentionally by the reform processes under the banner of neo-liberalism but circumscribed by decentralized corporatist traditions. This again has created an abundance of institutional innovations, but as they were unaided by the type of governance mechanisms that we mentioned above, it is an utterly unstable configuration that may lead to a highly work-intensive society of low productivity, where people are constantly re-inventing the wheel. Thus, these new forms of institutions are only partly developed, and we find it difficult to really overcome the conceptual confusion concerning their nature at this stage of socio-economic development.

We think a successful outcome of the current situation would entail the creation of institutions, the organizational existence of which would engage in constant recombination with other organizational entities of other institutions, creating in shifting polyarchies temporary and situational institutions (Dorf and Sabel, 1998). These polyarchies will not only help to shape actors and strategies, but also the search for alternative future strategies among the actors that the polyarchies circumscribe. Together with the constant search for new roles for firms, we think that such forms of institutions would bind the public and private sector together in a mutual dynamic, creating a new supply-oriented growth and development regime based on mutual learning.

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