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Smooth Sailing Towards More Peaceful Societies? Long-run Nordic Development Paths

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Introduction

In this chapter, we aim to compare the Nordic societies in a broad manner in the last 200 years in their process of “sailing” (with the implication of rough waters along the way) from social fragmentation to welfare societies. Our main goal is to examine the co-evolution of economic, political, and fiscal factors among the Nordic societies in the long-run by making use of recent longitudinal datasets. Even if an in-depth analysis of the interplay of these factors would require further theoretical discussion, extensive quantitative modeling, and qualitative contextualizing analysis, we can map out some key patterns that characterized the shift toward more peaceful and well-functioning societies. We specifically focus on the process towards economic and political convergence that took place, with some exceptions, in the latter part of the 20th century. The chapter shows that the paths towards welfare states were not entirely similar among Nordic countries, and that some of the pivotal forces and periods were connected to crises, namely these were a not processes that were smooth or inevitable. Moreover, we also examine how these processes of convergence translated into the realm of fiscal and social policies, and to what extent they were related to decreasing levels of social fragmentation. We conclude our paper with some general findings and discussion of current day problems from a comparative historical perspective.

The relationship between the factors leading to economic or social convergence remains a disputed matter in the literature. The foundations of welfare societies today – which Nordic societies typically are classified as - are typically linked to democratic institutions: it is hardly possible to build a welfare society - nor a comprehensive welfare state - without a democratic society and government.¹ However, the linkages between democratic institutions and economic development are far more difficult to pinpoint.² There are several examples in the world today of fast growing countries without democratic governance structures - moreover, history offers us plenty of evidence of such cases. Similarly, the relationship between the welfare state and economic growth is hard to ascertain. While some authors have warned us about the negative consequences of social assistance (for instance, due to lowering work incentives and poverty traps), others have found no negative effects of welfare policies on economic growth.³ According to Peter Lindert (2004), Nordic welfare states have seemingly emerged as “free lunches”, i.e. not having harmful economic impacts due to their broad investments in education and societal harmony and their tendency to fund these endeavors via indirect taxes, especially so-called sin taxes, such as taxes on alcohol and tobacco consumption, or from the use of cars.

The Nordic region is indeed an interesting case of study. It has been characterized by relatively fast economic growth especially during the 20th century, and convergence to the West despite late industrialization, an early extension of the voting franchise, and far-reaching welfare policies, while exhibiting at the same time social and political unrest well into the early decades of the century. Nowadays the region represents one of the most illustrative examples of welfare state: Finland, Denmark, Sweden and Norway appear (in this order) among the top-10 social spenders across the OECD in 2018.⁴ According to the most recent World Happiness Report (2020), the Nordic countries seem to have the highest happiness

levels on the planet, indicating broad satisfaction in their respective societies.⁵ The extent to which Nordic countries can be considered part of a coherent unitary bloc, however, remains dubious.⁶

By using a variety of indicators from recent data collection efforts, we can distinguish certain general long-term patterns, namely that most of the convergence towards social peace – here broadly defined as societies with less violent crimes and political unrest as well as extensive civil freedoms – in the Nordic region occurred during the era of fast economic growth and catch-up with the leading Western economies, development of welfare states, and mature and functional democratic institutions. Some of the key social transformations were indeed connected to industrialization and global conflicts and their aftermath, and those processes helped bring about the emergence of similar political cultures and welfare institutions among the Nordic countries. The path and timing of the transition into these welfare states, however, differed significantly across the region. We argue that the *Nordic societies evolved through phases from socially fragmented societies towards welfare states through social integration*. Denmark and Sweden appear to be the regional pioneers in developing democratic and welfare institutions, whereas Norway's and Finland's catch-up took place during the post-World War II period. Consequently, the two former attained better levels earlier in most of our indicators of social fragmentation. There is today, though, increasing evidence of rising social fragmentation through polarization in which certain groups in the society feel left out of the benefits of the high standards of living and globalization, which in turn is a challenge for democracy and might lead to social unrest in the future.

In the following sections, we will first explore some of the theoretical dimensions of the linkages between democracy, economic growth, and welfare policies. Then we will switch gears to analyze the evolution of these factors in the Nordic region since the early 19th century. This will be followed by examination of the various institutional patterns and indicators of social fragmentation. We will specifically look at the extent to which the path towards more peaceful and egalitarian societies took place during periods of democratization, economic growth, and fiscal expansion. We will then conclude with some overall findings and discussion of future challenges.

Democracy, Economic Growth, and Welfare States

The amount of research discussing democracy, economic growth, and welfare, is vast for each of these topics, and studies that concentrate on their potential causal relationships are on the rise.⁷ In particular, institutional economics is by now a well-established field of study, and it has added new dimensions to the debates about the role of informal and formal institutions in economic development, transaction costs, and other considerations about the various structures in the society. These institutions or “rules of the game”, namely the formal and informal structures that govern the interaction of individuals and organizations in a given society, are embedded in the political and economic processes and often require - among other factors - enforcement in some form by the state.⁸ Thus, analysis of the institutional continuities and discontinuities over a long time period, based a variety of meaningful indicators, would seem imperative in analyzing the linkages.

In this brief review of the debates on these topics we only concentrate on studies that might be useful from an economic history perspective - or are done by related scholars among social sciences interested in long-run historical dynamics. The key question within the interrelationship between democratic institutions, economic growth, and fiscal developments, is of a chicken-and-egg type: does democracy need economic growth, or growth democracy? Or are they intrinsically interrelated? And how does the development of state capacity and eventual welfare states fit into this discussion? Adam Przeworski, for example, has shown

quite convincingly that democracy does need stable economic structure, including growth, in order to emerge and succeed – and vice versa: the economies of democratic states tend to grow faster than the undemocratic ones.⁹ There are though plenty of contemporary studies indicating that economic development alone has not led to democracy in various countries, including China.¹⁰ Democracies, on the other hand, are more likely to emerge in countries that are economically developed, but there are notable exemptions too (for instance, in the case of oil abundant economies or other types of resource curses).¹¹ In fact, political and economic factors are fundamentally interlinked, thereby forming endogenous processes that are complicated to pin down and often temporally disjointed. Most of the previous studies, moreover, have not looked at the long-run development patterns and rather focused on the post-World War II period. This period was in many ways exceptional in the history of human societies due to its high economic growth rates and the declining trend in economic inequality within countries (at least until the 1980s).¹²

The role that government spending (and state intervention more in general) plays in democratization and economic performance also remains open to question. For example, Bergh and Karlsson (2010) find a negative correlation between government size and growth in a post-1970 OECD sample, while Romero-Ávila and Strauch (2008) argue that government consumption (but not investment) has negatively affected economic growth in the EU-15 from 1960 to 2001. By contrast, Lindert (2004) has argued that social spending leads to economic growth through more productive use of resources. Both Acemoglu and his co-authors as well as Lindert also take into account the various types of welfare states in these processes, since elites will try to promote social peace and prevailing power structure via redistribution strategies, with the expansion of political voice changing the equilibria in the society.¹³

Another strand of the literature has identified the opposite causal relationship, i.e., political and economic factors determine the level of government spending. For instance, Carles Boix (2001) has argued that the growth of the public sector is a joint result of the process of economic development and the political institutions in place. In his view, economic modernization leads to the growth of the public sector, especially when: 1) the state intervenes to provide certain collective goods; while 2) industrialization and aging population increase the demand for social transfers. He also maintains that democracy (with full electoral participation) increases public spending levels. Democratization has been also found to be an important driver of social spending in particular, since the potential beneficiaries of the welfare state gain the possibility of shaping the political agenda in their favor.¹⁴ Some authors, however, disagree. Cutler and Johnson (2004), for instance, suggest that autocratic regimes might also implement welfare policies in order to gain political legitimacy. Others do not find any significant relationship between political regimes and public social expenditure.¹⁵

More recently, economic historians have turned to the analysis of state formation and state capacity in the long-run, with important insights about what the state has meant for the development of societies, mostly in the West. As shown by scholars like Mark Dincecco, David Stasavage, and Philip Hoffman, European states developed superior state capacity in the form of revenue collection, financial systems, and military capacity over centuries, which gave them the opportunity to dominate the globe.¹⁶ State capacity contributed in turn to economic growth and modernization. For example, Dincecco (2015) and Dincecco and Katz (2016) suggest that effective states have promoted growth by building up administrative infrastructure (necessary for the protection of property rights and market regulation) and by providing public services. In a similar vein, O'Brien (2011) argues that the capacity to provide external and internal security to investors and innovators contributed to long-run economic growth. The lack of state capacity, by contrast, has been associated with economic decline.¹⁷ Dincecco (2015) also finds in state capacity the roots of the twentieth-century welfare states, although the transition toward inclusive welfare policies out of this “capacity” is still an underexplored question.

The debate around democracy and economic growth has been deeply interlinked with that of social fragmentation and conflict. A productive strand of the literature has analyzed the effects of democracy and growth on international and internal conflicts. While there is no clear consensus on the extent to which democracies are more conflict averse than autocracies, a growing body of evidence suggest that democratic states are less likely to fight against each other.¹⁸ There is more debate on the extent to which the opportunity costs of international trade and economic growth hinders international conflict.¹⁹ Internal conflict and social fragmentation, on the other hand, have been analyzed in an interdisciplinary fashion for a long time. The study of civil wars by such scholars as Theda Skocpol and Barrington Moore, in which the broad foundations of unrest and societal order come into play, has long roots in the 20th century scholarship. They argued that centralized semi-bureaucratic systems of authority combined with state-dependent gentry, weak national bourgeoisie, century-old legacy of rural collectivism, and militant labor movement, provided suitable foundations for 20th century societal unrest and revolutions.²⁰ More recently, this argument has been refocused by a war-centered theory that maintains that it was the destructive experience of the wars against advanced industrial nations that destroyed the economies of less developed nations, which eventually experienced revolutions and coups, often leading them on an authoritarian path.²¹

However abundant the study of revolutions is among historians and social scientists, they are not typically linked to the creation of state capacity and/or more modern state institutions, such as welfare states. Most of the recent literature on social fragmentation is focused on modern ethnic strife, civil wars in the developing world, the role played by non-state actors, as well as the lingering impacts of colonialism as a broad explanatory force in the persistence of poverty.²² Most of the literature, quite naturally, has also been focused on societal breakdowns and origins of violence. As a result, the past of societal unrest in the Nordic countries (and civil war in 1918 in Finland), has been of interest to international scholars.²³ However, the convergence toward more peaceful societies has received less attention and focused study, outside the creation of the welfare states. Moreover, these studies have not been as interested in long-run transitions toward functioning societies and have rather focused on disruptions in various types of societies. The potentially endogenous processes leading toward social peace have not, thus, been studied enough.

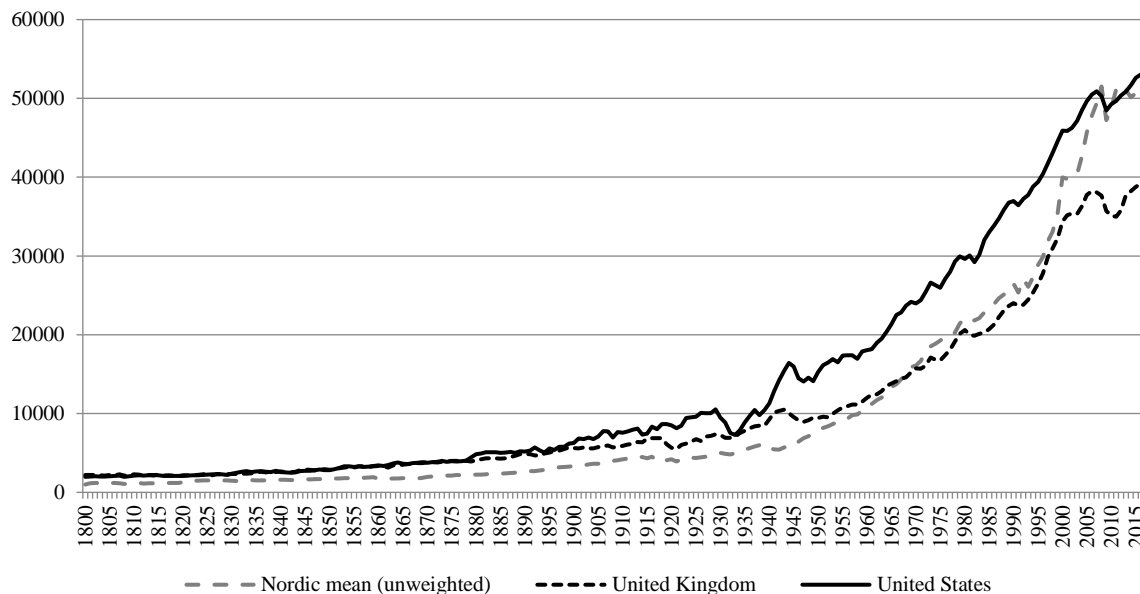
Nordic Economies and Democracies

Following Eloranta et al. (2014), we begin by examining the economic and democratic patterns of four Nordic nations, namely Denmark, Finland, Norway and Sweden.²⁴ These countries have been often viewed as models for democracy and welfare state. Arguments of “good institutions” in Nordic countries,²⁵ “to become Denmark” as a model for the rest of the world,²⁶ or using Swedish development also as an example for business development,²⁷ are few examples of this phenomenon. Still though, Nordic scholars have argued that there is no single Nordic model, but rather each country has developed its own peculiar model to build welfare state (and democracy).²⁸ For this reason, in this section we focus our attention on the periods of convergence and divergence among the Nordic states, while in the next one we will examine the extent to which these periods were associated with the emergence and consolidation of welfare state policies.

As mentioned above, economic and political factors have been found to be important drivers of welfare state policies, and therefore constitute the starting point to our study. We specifically begin in the era when democratic institutions became embedded in these countries – namely, the 19th and early 20th century – which is also when they began to experience faster economic growth. Restricted forms of democracy were established in Nordic countries already during the early modern period, but they were heavily discriminatory on the basis of wealth, social class, and gender, and therefore fall outside the limits of any

contemporary definition of democracy. Most of these early institutions were power-sharing arrangements that provided the first inclinations in their slow transition towards democracies.²⁹

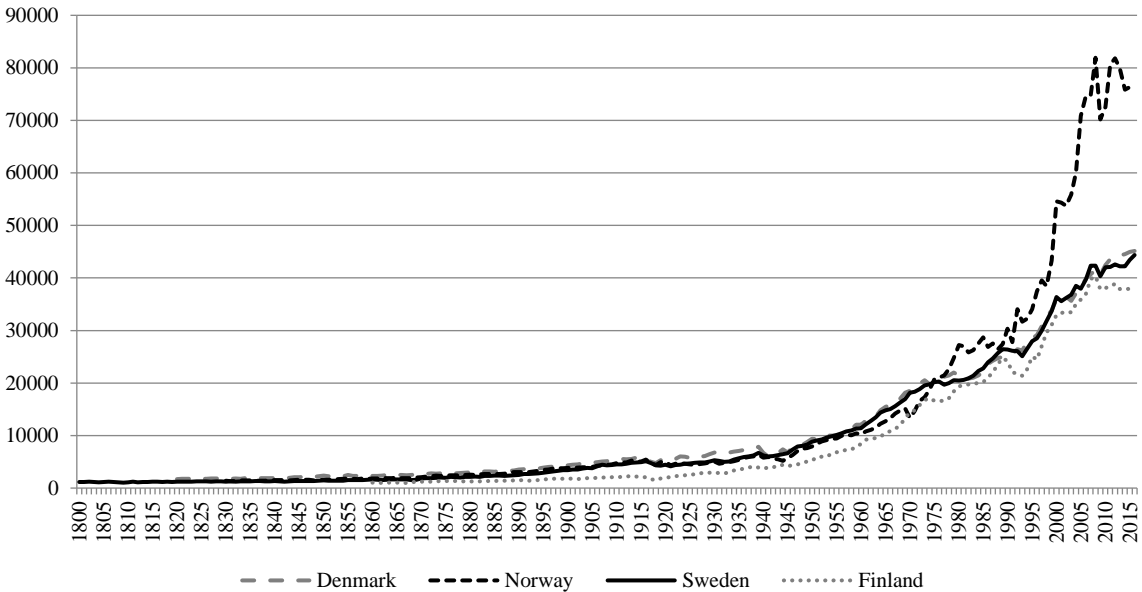
Figure 1. Nordic Economic Growth versus the Economic Leaders, 1800 – 2016 (Real GDP per Capita in 2011US\$, Multiple Benchmarks)



Source: Bolt et al. (2018).

As seen in Figure 1, the Nordic economies (in average) lagged behind the UK and the US in the early-19th century, and this gap increased as the latter industrialized quicker. The Nordic catch-up did not begin until the post-World War II period, eventually surpassing the UK in the late-1960s and attaining similar levels than the US in the early-2000s.³⁰ The Nordic countries, however, did not evolve in unison during this period. Even if they were close to each other in the early 19th century, Denmark soon became the leader of the group during the second Industrial Revolution (see Figure 2). Norway eventually surpassed it in the 1970s as a result of its abundance of natural resources, leading to a path of exceptional economic growth that set the country apart from the rest of the region.³¹ Finland followed a similar pattern compared to its neighbors throughout the period, although at systematically lower levels.

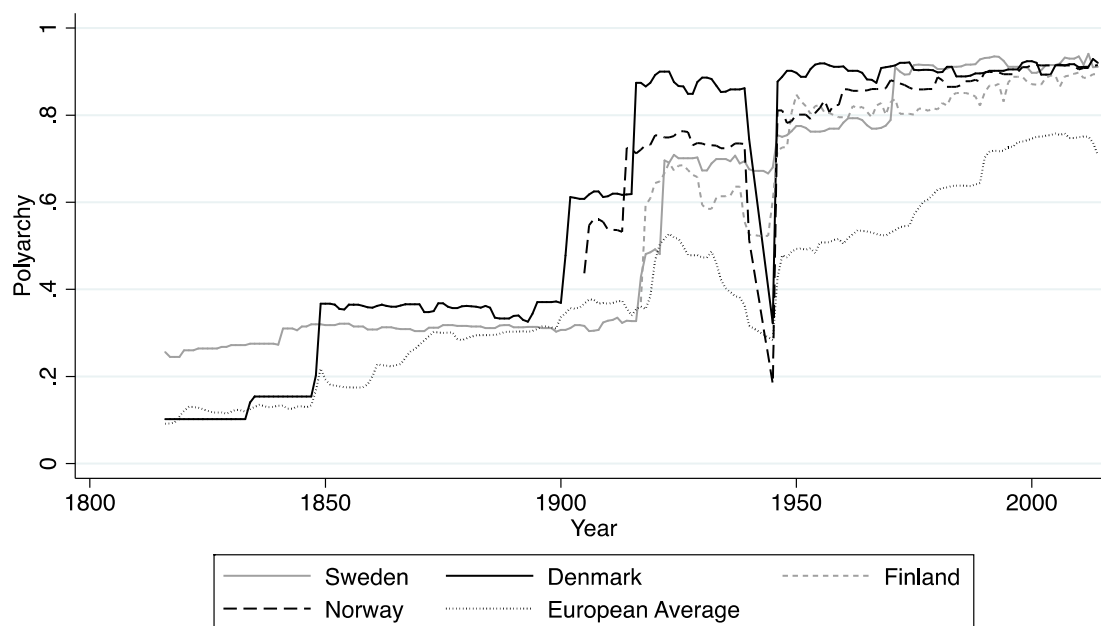
Figure 2. Nordic Economic Growth, 1800 – 2016 (Real GDP per Capita in 2011US\$, Multiple Benchmarks)



Source: Bolt et al. (2018)

Despite of this relatively delayed economic catch-up (at least when compared with the two leaders), the Nordic countries attained high levels of democracy comparatively early. Figure 3 displays a composite index based on Dahl (1998)'s maximalist conception of democracy, in which electoral and non-electoral factors are taken into account.³² As can be clearly seen, the Nordic countries remained above the European average throughout most of the period, particularly after the World War I. Denmark and Norway led the group for most of the time, catching up with some of the forerunners (such as the UK) already in the early 20th century. Sweden and Finland attained similar levels by the end of World War I, although Finland's harsher policies toward the Communist Party and the brief rise of right-wing authoritarianism in the 1930s – though it never reached political leadership – as well as its participation in the World War II left the country behind until the 1950s. In general terms, however, we can say that Nordic countries preceded the so-called democratization wave that followed World War I (and to certain extent already before), and reached high higher levels than most of their European counterparts by the early 20th century. They were pioneers in extending the franchise to new segments of the population; after 1900, the near full suffrage was achieved in all of the Nordic countries in short order, Finland being the forerunner in this development.³³ The highest degree of convergence was achieved in the late 20th century, when Sweden and Norway (and to a lesser extent Finland) met the Danish standards.

Figure 3. Nordic Polyarchy, 1800-2016



Source: Coppedge et al. (2018).

The polyarchy index in Figure 3 reflects the extent to which the electoral political process was fair and open to anyone. However, it does not say much about the degree of political participation by society. Table 1 presents the evolution of an index of civil society participation, which looks at the involvement of people in civil society organizations and in the nomination of legislative candidates. Vibrant civil societies and social connectedness have been long considered essential component of stable and functional democracies, and even to lower the risk of democratic defection and breakdown.³⁴ According to this indicator, the Nordic region did not only stand out in terms of formal electoral democracy, but also in the level of civil society participation. The four countries remained well above the European average since the 1880s, with similar levels among them.³⁵

Table 1. Civil Society Participation and Union Density in the Nordic Countries, 1850-2014

Years	Civil society participation index					Union density				
	DK	SE	NO	FI	Europe	DK	SE	NO	FI	Europe
1880-99	81,4	73,3	..	..	50,5	..	1,9	..	..	4,1
1900-19	86,4	82,0	82,6	81,4	55,4	18,7	11,1	10,8	12,8	11,1
1920-39	92,1	87,3	85,7	81,6	55,8	33,5	35,5	19,8	7,3	24,8
1940-59	92,6	94,8	92,5	88,0	52,7	51,7	64,0	45,3	30,2	42,4
1960-79	97,2	95,7	97,4	95,7	57,5	63,2	71,0	56,6	50,4	49,6
1980-99	97,7	94,8	97,5	97,3	70,9	77,0	82,7	57,3	74,0	45,2
2000-14	97,8	92,4	97,8	97,8	78,6	71,8	76,9	54,7	73,0	32,8

Source: Civil society participation index from Coppedge et al. (2018); union density from Rasmussen and Pontusson (2017).

Notes: Civil society participation is a composite index of four variables, namely CSO consultation, CSO participatory environment, CSO women participation, and candidate selection. It takes values from 0 to 1 (low to high), although

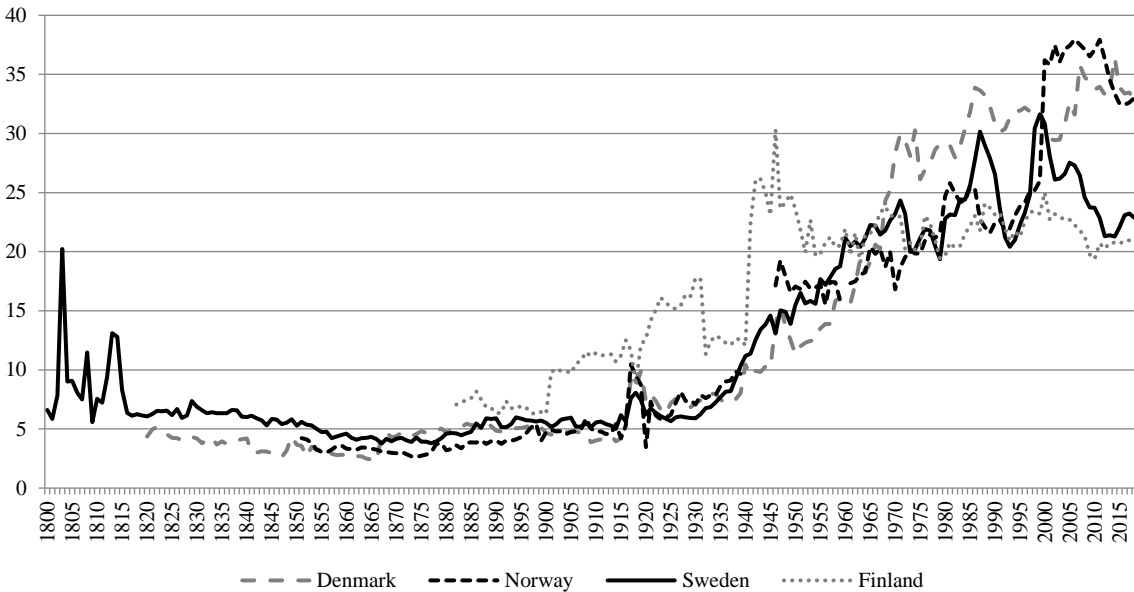
here we present the index multiplied by 100 for the sake of clarity. Union density measures the share of wage and salary earners that were unionized.

The early extension of franchise and political participation were coupled with the rise of Social Democratic Parties (and other left-wing parties) as relevant political actors, which contributed decisively to advance a welfare state agenda (particularly in Sweden and Norway, where Social Democrats obtained ample majorities, or formed effective coalitions). The importance of labour movements in the political and economic arena can be also observed in Table 1, which shows the level of union density across the region. Denmark and Sweden experienced a steady increase until the 2000s, and attained higher levels than the European average for most of the period. In Finland, the union density first declined after the Civil War (1918), but caught up the other countries after the World War II. Norway's, in turn, unions stagnated in lower levels (but still above the European average) since the 1960s and 1970s. Trade unions (and the labour movement in general) have been long considered important agents in the rise of welfare states in Western countries, since they channelled the interests of wage and salary earners through the political process. This, at turn, put pressure on the governments and legislatures to improve social protection and assistance. Norway stands as a notable exception to this Nordic pattern due to its very high levels of economic growth and its lower levels of union density.

Fiscal Systems and Welfare Institutions

Did these processes of economic and political convergence translate into the realm of fiscal and welfare policies as well? First, if we look at the central government revenue patterns, which is a standard measure for state capacity, the short answer is no. Tax revenues as a share of GDP increased consistently in Denmark, Norway, and Sweden since the 1930s and up to the 1980s, but the former taxed its citizens at significantly higher levels than the latter two since the mid-1960s (see Figure 4). Finnish tax revenues, on the other hand, stagnated after reaching their historical peak during World War II. Despite the relatively low levels of economic growth and democracy, the level of taxation was well above the rest until the 1960s. The 2000s witnessed a significant divergence across the region too, with tax revenues soaring in Norway and Denmark while decreasing in Sweden and Finland. Whereas the Danish leading position seems consistent with historically higher levels of democracy, the process of democratic convergence that culminated in the 1990s did not bring about an analogous harmonization of fiscal policies.

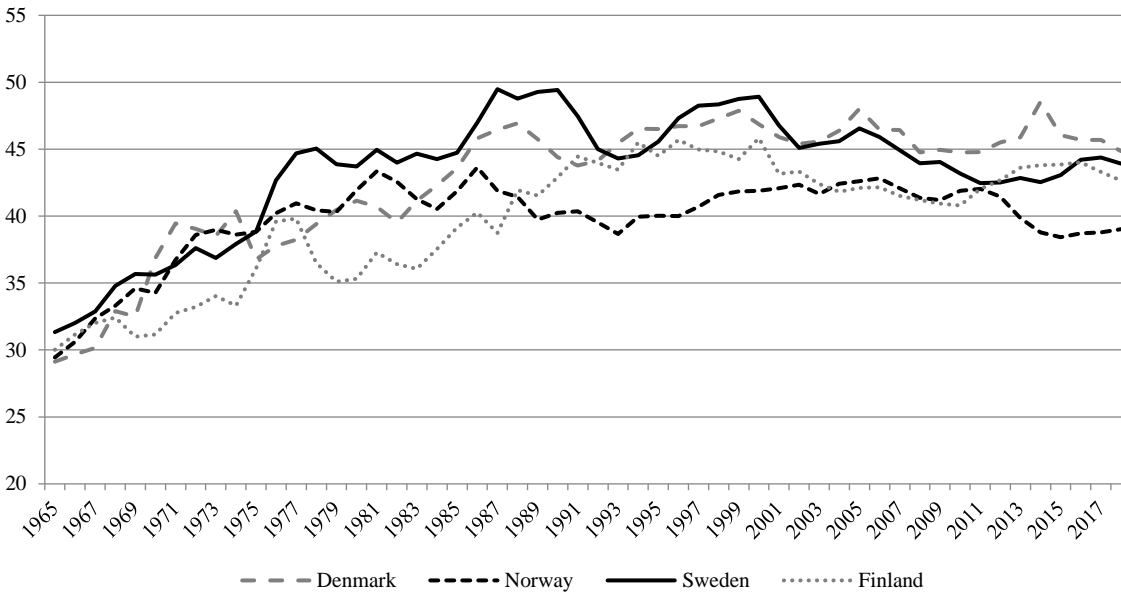
Figure 4. Nordic Central Government Tax Revenue (as a Percentage of GDP), 1800 – 2018



Source: Andersson and Brambor (2019) for the period 1800-2011. The dataset has been extended to 2018 with data from the OECD (<https://stats.oecd.org/Index.aspx?DataSetCode=REV>, retrieved on 13/12/2019).

Fiscal divergence, however, was mostly felt at the central government level. If we look at the data available for general government (i.e., including local and regional taxes), the four Nordic countries experienced a very similar evolution since 1965 (see Figure 5). A sustained growth during the 1960s and 1970s came to a halt by the 1980s, with Sweden and Norway decreasing their tax burden during the following three decades. Finland was still under-taxing compared to its neighbors throughout most of the period, but it converged upwards after the Great Recession (2008). Norway, on the other hand, remained below the rest since the early 1990s, but this trend coincided with its exceptional GDP growth (and thus the amount of revenue collected did nothing but grow consistently throughout most of the period).

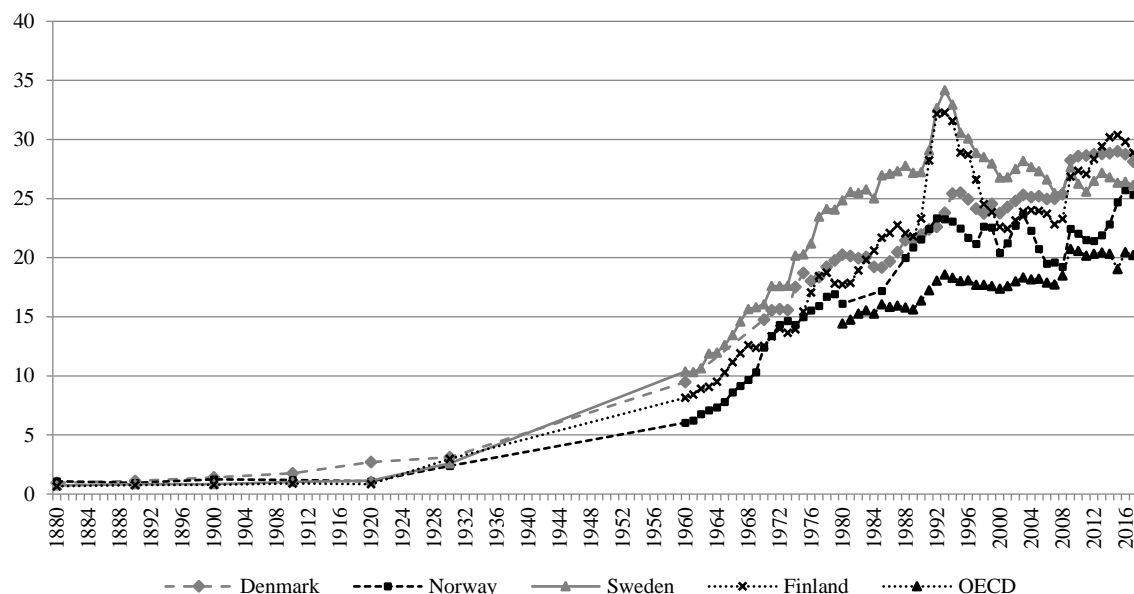
Figure 5. Nordic General Government Tax Revenue (as a Share of GDP), 1965 – 2018



Source: OECD (<https://stats.oecd.org/Index.aspx?DataSetCode=REV>, retrieved on 13/12/2019).

How were these tax revenues employed? The two main choices were, of course, guns and butter, so to speak, or warfare and welfare. In general, the choice over public goods (and both of these were imperfect public goods) was to a large extent dependent on the political system in place. Figure 6 shows the percentage of social spending at the general level as a share of GDP. Before the 20th century, most of the central government budgets in Western states were allocated for military purposes, and only in the 20th century we do see significant welfare state creation, especially after World War II.³⁶ The Nordic states expanded the British model of welfare to include new political and social initiatives, which led to the most inclusive welfare states in the world by the end of the 20th century. Although they took some tentative steps in this direction in the 19th century, it was not until the interwar years that the institutional foundations of the welfare states were built in these countries. The 1940s and the 1950s in the Nordic countries were a time of extending the measures already created in the 1930s, especially in Sweden, which developed the most extensive early institutions such as maternity benefits, social insurance, and unemployment benefits. Social spending as a percentage of GDP was still very low in the 1920s in Finland, which was a latecomer with a relative share at around one percent, while the leading Nordic country, Denmark, spent three times as much in relative terms. Thus, Finland followed the other Nordic countries at a lag in terms of its welfare state building. After the golden era of the growth of the welfare state in the 1960s, Finland became one of the high-spending states in terms of social transfers. Only Sweden had a higher share before the recession hit the Nordic countries hard in the early 1990s.³⁷

Figure 6. Nordic Social Spending (as a Share of GDP), 1880-2016



Source: from 1880 to 1979, *Our World in Data* (<https://ourworldindata.org/grapher/social-spending-oecd-longrun?time=1880..2016>, retrieved on 13/12/2019), based on Lindert (2004) and OECD statistics. From 1980 to 2018, from OECD (https://stats.oecd.org/Index.aspx?datasetcode=SOCX_AGG#, retrieved on 13/12/2019).

Overall, Nordic countries opted for increases in social spending and limited military expenditure, i.e. investing in the domestic stability and equality. Finland’s development since the 1920s is a good case of illustrating the rapid investment in social peace, especially given that it experienced a divisive civil war in 1918.³⁸ The country that democratized first, Denmark, also led the group in terms of social spending during the early 20th century. Sweden took firmly the lead during the period when its democracy became more entrenched in the 1960s and 1970s. Despite the retrenchment (or the slower growth, in the case of Denmark) in the last three decades, the Nordic countries remain well above the OECD average (which, in 2018, was lower by around 5 to 8 GDP percentage points). Table 2 additionally shows the position of each country within the OECD group based on their levels of social spending as a share of GDP. Sweden, Denmark, and Finland, stood firmly in the top-10 since 1980, but their relative position changed significantly throughout the period: Sweden moved from being the first social spender to the seventh in two decades, whereas Denmark and Finland climb up to the second and third positions in the 2010s. As mentioned above, Norway remained well below the rest due to its higher GDP. While we can hardly talk about a single Nordic pattern, the region stood ahead of most other rich countries for more than four decades.

Table 2. Nordic Social Spending, 1980 – 2018 (Position Based on Social Spending/GDP within OECD)

Country	1980	1990	2000	2010	2018
Sweden	1	1	2	7	7
Denmark	6	7	5	2	4
Finland	9	5	8	5	3
Norway	12	8	10	17	9

Source: OECD (https://stats.oecd.org/Index.aspx?datasetcode=SOCX_AGG, retrieved on 13/12/2019).

Were there also similarities in the composition of social spending? As can be seen in Table 3, most of it went to pensions and to health services in all four countries. The former gained weight in Sweden and

Finland, while it lost some of its prominence in Denmark. Health services, on the other hand, only gained traction in Norway (together with family-related social assistance). These two budgetary items, however, were also of distinct importance in other OECD countries. What set the Nordic countries apart during this period is the relatively large expenditure in family and incapacity related services and transfers, which were consistently above the OECD average.

Table 3. Composition of Nordic Social Spending (Most Important Categories from 1980 to 2015, %)

Decade	Old age	Family	Health	Incapacity
<i>Denmark</i>				
1980	38.6	13.7	23.8	17.1
1990	36.5	14.7	18.8	16.1
2000	33.0	14.2	22.8	17.4
2010	34.2	12.6	22.8	16.4
<i>Finland</i>				
1980	30.5	11.7	24.1	18.1
1990	29.0	13.1	18.2	16.8
2000	34.1	12.0	19.7	15.5
2010	38.4	11.0	19.2	13.2
<i>Norway</i>				
1980	34.9	11.5	19.9	20.6
1990	31.2	14.7	18.4	21.1
2000	30.3	13.9	24.2	21.4
2010	33.6	14.0	25.5	17.5
<i>Sweden</i>				
1980	29.6	13.8	26.0	17.5
1990	30.8	12.4	19.6	15.8
2000	32.8	11.7	22.7	18.7
2010	34.7	13.4	23.8	15.8
<i>OECD</i>				
1980	32,4	9,2	26,1	14,1
1990	33,4	9,5	26,1	12,5
2000	32,8	10,8	28,4	11,8
2010	34,7	10,8	27,9	10,6

Source: OECD (https://stats.oecd.org/Index.aspx?datasetcode=SOCX_AGG, retrieved on 13/12/2019).

Table 4 summarizes the aforementioned patterns of convergence and divergence in the Nordic region by looking at the coefficients of variation of GDP per capita, democracy, public revenue, and social spending, in different time periods. As mentioned above, democracy converged in the long-term in our four countries (especially in the latter half of the 20th century), whereas public revenues at the general level remained very similar among them since our first data point (1965). GDP per capita also converged through most of the period, but diverged considerably from the mid-1990s onwards as a result of the Norwegian natural resources boost. At the end of the period, however, all of them attained high GDP levels and high standards of living. Despite of this economic and political convergence, social spending diverged during the post-WWII period, mainly as a result of the 1970s' Swedish surge. Convergence took place only in the last period, at the same time when the economic differences were at their highest. These patterns suggest that the growth of social spending came along with a process of economic growth and democratization, but economic and political convergence was not matched with convergence in welfare expenditures. Specific conditions to each country determined the short and mid-term spending decisions within an upward long-

term trend. Public revenues at the central level, on the other hand, converged to a certain extent until the late-20th century, with the notable exception of the inter-war period (when the two World Wars set their military spending levels apart). Differences, however, bounced back in the 2000s.

Table 4. Coefficient of Variation (Average for the Period): Nordic GDP Per Capita, Government Spending, and Debt

Variable	1860-1914	1920-1939	1946-1970	1971-1999	2000-2016
<i>GDP Per Capita</i>	0,33	0,30	0,18	0,12	0,33
<i>Democracy</i>	0,21	0,15	0,07	0,04	0,02
<i>Public Revenues (Central)</i>	0,28	0,40	0,17	0,17	0,24
<i>Public Revenues (General)</i>	..	..	0,04	0,07	0,05
<i>Social Spending</i>	0,19	0,13	0,23	0,22	0,16

Sources: see previous figures.

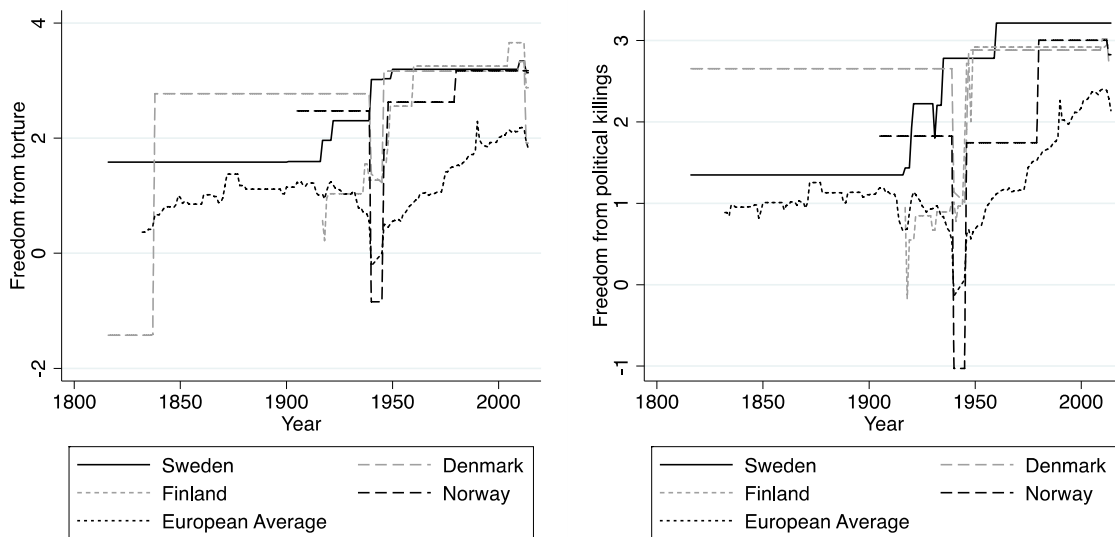
Welfare Policies and Social Fragmentation

Welfare states have been associated with a variety of social and economic outcomes, from lower levels of poverty to better protection of social rights, although the literature is not free of controversy and opposing views. In this final section we specifically look at the historical evolution of welfare states vis-à-vis a set of indicators of social fragmentation, namely internal violence, labour disputes, inequality, literacy rates, and women’s political rights. Even if these indicators do not exhaust all the possible factors that belong to the realm of social fragmentation, they provide a persuasive picture of the historical evolution of social cohesion. With this brief revision we intend to highlight some general patterns toward social peace among the Nordic countries in the long run and how they relate to the welfare state.

The presence of internal violence or the lack thereof constitutes a key indicator of the degree of cohesion in contemporary societies. In this regard, it is noteworthy that the Nordic region has been free from internal wars since well before the development of welfare policies. No major domestic military conflicts erupted during the last two centuries with the exception of the Finish Civil War, a harsh internal strife initiated after the collapse of the Russian Empire at the end of World War I. The country emerged as an independent republic in the aftermath of the war, but the consequences of the conflict lasted for decades. For example, one of the factors that led to the war were the stark social and economic divisions among the the landowners and crofters, which were addressed with several statutes immediately after the war³⁹. The overall absence of internal wars within the Nordic states mirrored the lack of external military conflicts. The Nordic countries had become much less prone to participate in international military conflicts since the early 19th century. Up until the the early 19th century, wars were almost a constant occurrence, which was similar to other European states at the time.⁴⁰ These constant flows of conflict – together with crop failures and famines – also hindered the possibilities of economic growth in other parts of Europe, as Stephen Broadberry et al. have argued.⁴¹ After the Napoleonic conflicts were over, war became a rare state of affairs, with some minor exceptions. Of course, the world wars did involve the Nordic countries to varying degrees, with only Sweden remaining outside of fighting entirely in World War II, but afterwards the Nordic countries have only participated in a few military operations as minor parties.⁴²

Other aspects of internal violence that fell short of civil war did change significantly in the Nordic region throughout this period, such as the degree of freedom from political killings and torture. These two variables are coded by the V-Dem Institute based on country expert surveys, and measure the extent to which torture and political killings were practiced by state authorities or their agents. Even if the data needs to be taken with a grain of salt (these phenomena are obviously difficult to put together in a quantitative long-term fashion), Figure 7 suggests that most Nordic countries remained consistently above the European averages for most of the period. Denmark stood ahead of the rest during the 19th and early 20th centuries, when Sweden attained similar levels. Finland and Norway lagged behind until the 1950s and 1980s respectively (with Norway suffering a serious fallback during World War II as a result of the Nazi invasion). As with the other political indicators discussed in the previous section, the 20th century was a period of steady (albeit interrupted) progress, and virtually full convergence in the region was reached in the 1990s and 2000s.

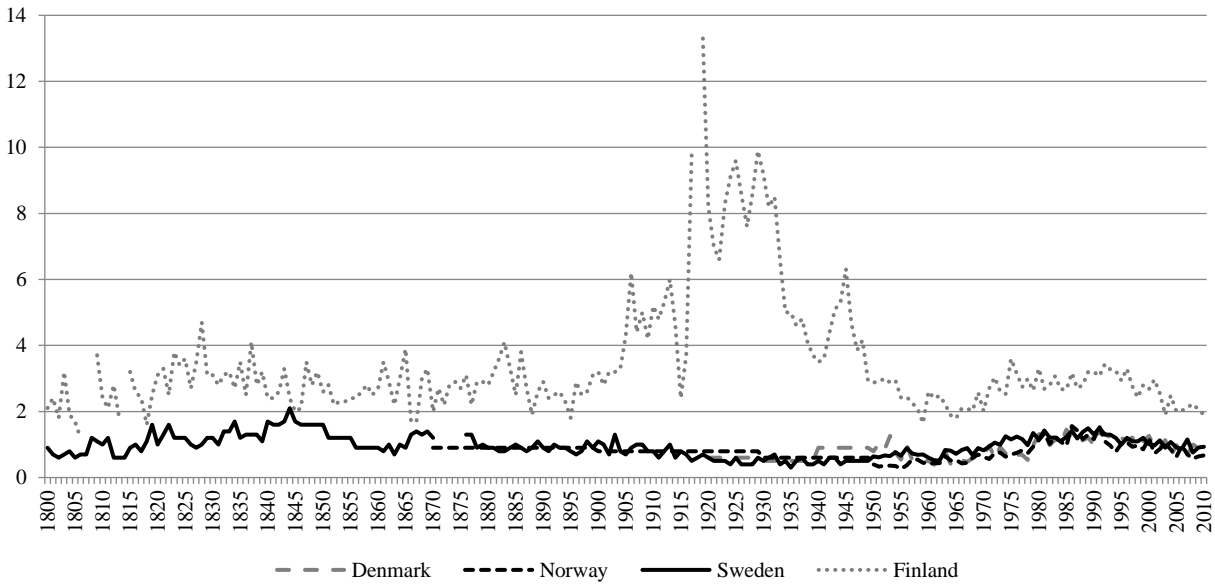
Figure 7. Freedom from Torture (left) and Political Killings (right) in the Nordic Societies, 1800-2015



Sources: Pemstein et al. (2019). The two variables range from 0 (low freedom) to 4 (high freedom).

To have a broader picture of internal violence, Figure 7 presents the evolution of interpersonal violence proxied by the number of homicides per 100.000 inhabitants – though interpersonal violence is as a whole more complex and multifaceted phenomenon including both threat and actual use of physical force or power⁴³. Once again, Finland stands out above the rest. The causes of interpersonal violence are, of course, complicated, but we can conjecture that Finnish homicide rates increased substantially in the early 20th century due to societal unrest and the civil war. The rates stayed high during the interwar period and declined substantially by the 1960s. Since then, the homicide rates in Finland have remained fairly stable, though clearly above the Nordic levels overall.⁴⁴ The patterns of interpersonal violence among the other three Nordic countries, by contrast, were remarkably similar, with a slight declining trend throughout the late-19th century and the first half of the 20th century. This decline went along with the implementation of some of the first welfare policies and the development of more inclusive political institutions. Interpersonal violence, however, increased again in the 1970s up until the mid-1990s, at a time when social spending in the region rose to its peak.

Figure 7. Number of Homicides per 100.000 Inhabitants, 1800-2010



Sources: Fink-Jensen (2015). The dataset uses as a geographical reference the current existing countries.

All in all, the rise of the welfare state seems to be only partially related to changing patterns in violence. On the one hand, internal and external wars were largely absent from the region even before the emergence of contemporary social policies. The World Wars shaped the political agenda in the Western hemisphere, even for those who did not engage in direct combat, but the growth of welfare states did not change a long-term pattern of neutrality in the international arena. On the other hand, we do observe a declining trend in interpersonal violence at the time when social spending took off, but the opposite was true during the consolidation of welfare policies in the 1970s. Very high levels of internal violence in the first half of the 20th century did not prevent the Finnish governments from laying the foundations of a welfare state agenda either. The clearest link between the welfare state and social peace can be found in the case of state violence against its own citizens; in this case, the surge in social policies went along with decreasing levels of repression against dissidents.

Another way to examine internal turmoil is to look at labour unrest, which can be also considered an outcome of social fragmentation (albeit this time directly related to class and the labour market). Table 4 shows the number of workers involved in labor disputes as a percentage of the population (we could not calculate it as a share of the aggregate numbers of workers because such figures are not available). Along the same lines than before, we see fairly low shares of labour disputes until the 1970s, when Finland became an exception to the Nordic pattern due to its high numbers. These disputes were not, though, very violent encounters like those in the earlier periods – rather most of them were short ones to immediately higher the wages, usually at factory level.⁴⁵ Sweden attained similar levels than Finland in the 1980s, whereas Denmark featured a fair number of such disputes in the 1990s and early 2000s. Especially harsh were the Danish large conflicts connected to collective agreements in 1998 that were, in turn, related to various labor market reforms⁴⁶. Despite the rise of welfare state policies in the 1970s and the 1980s, labour unrest rocketed in Finland and Sweden, and to a lesser extent in Denmark. Labour disputes could actually be seen as an outcome of welfare states, with labour having more freedom to protest over wages or conditions at the workplace. In any case, the data have to be taken with due caution given the large scope of labor unrest measured here.

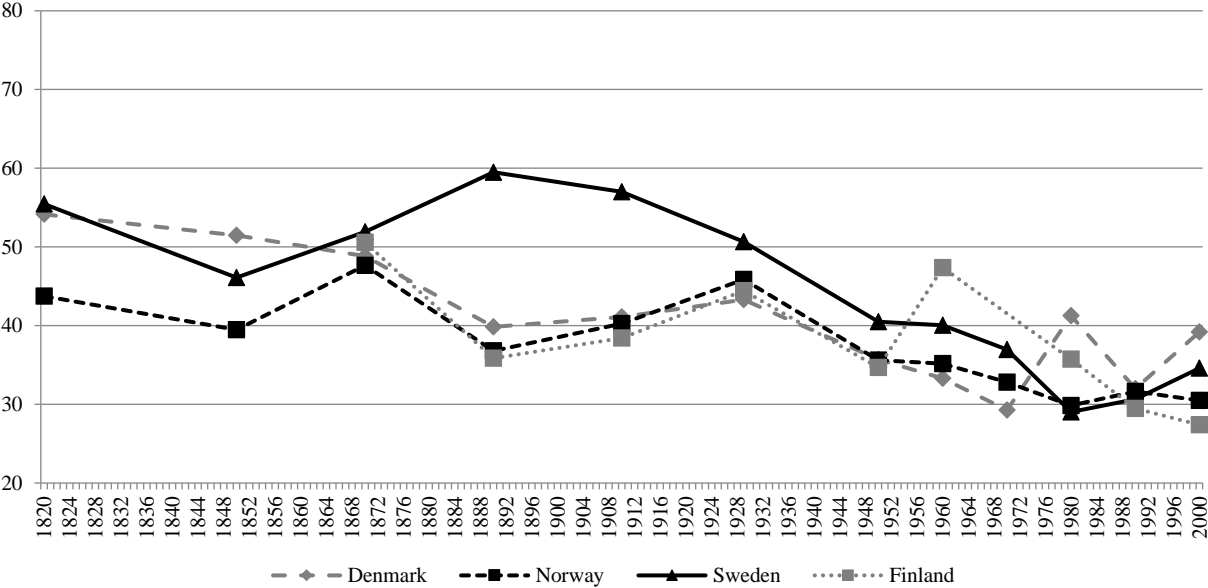
Table 4. Number of Workers Involved with Labor Disputes Relative of Total Population, 1930 – 2010

Country	1930	1940	1950	1960	1970	1980	1990	2000	2010
Denmark	0.14	0.01	0.07	0.43	1.13	1.21	0.73	1.42	1.67
Finland	0.05	0.17	2.94	0.44	4.38	8.52	4.91	1.63	0.30
Norway	0.17	0.53	0.13	0.02	0.08	0.46	1.43	2.09	0.27
Sweden	0.37	0.04	0.03	0.02	0.33	8.98	0.85	0.00	0.14

Source: <https://clio-infra.eu/Indicators/NumberofWorkersInvolvedinLabourDisputes.html>.

Despite the mixed evidence that the analysis of internal unrest and welfare state renders, other indicators of social fragmentation and well-being should show clearer signs of being affected by the social policies that were implemented in the region. Income inequality is an obvious candidate and an important source of social strife. As shown in Figure 8, Nordic gini indices decreased significantly during the 20th century, and their evolution has been associated with progressive social and fiscal policies. For instance, top marginal tax rates have been found to affect negatively the concentration of income and wealth in the hands of top earners.⁴⁷ Even if Nordic countries were not the ones that taxed the rich more heavily, top rates increased significantly during the first half of the 20th century (specially during the inter-war period).⁴⁸ Similarly, fiscal studies have considered social spending in social democratic welfare states to be the main source of income redistribution (rather than taxation).⁴⁹

Figure 8. Nordic Income Inequality (Gini Index), 1820 – 2000



Source: Moatsos et al. (2015).

Another sign of the Nordic welfare states and societies becoming more egalitarian is the increasing recognition of women in the workforce and in prominent positions. As we can observe in Table 5, for example, women have become a much more prominent political presence in the Nordic societies. In terms of gender inequality, the Nordic countries were circa three times more equal than the more developed parts of the world by the end of the 20th century. Moreover, they were very similar to each other, and they improved further and converged toward similar levels of gender equality by today.⁵⁰

Table 5. Number of Women (as a Percentage) in the Nordic Parliaments, 1995 – 2010

Country	1995	2000	2005	2010	2015	2018
Denmark	33.0	37.4	36.9	38.0	37.4	37.4
Finland	33.5	36.5	37.5	40.0	41.5	42.0
Norway	36.4	36.4	37.9	39.6	39.6	41.4
Sweden	40.4	42.7	45.3	45.0	43.6	46.1
Very high human development	14.0	16.5	18.9	21.4	24.6	27.2
Low human development	10.1	9.7	15.4	17.7	21.2	21.5
Developing Countries	9.6	12.1	14.7	17.7	21.3	22.5
OECD	14.9	17.6	20.2	23.0	27.6	30.1
World	11.5	13.9	16.3	19.1	22.7	24.2

Source: Human Development Reports (HDR) (2019). Available from: <http://hdr.undp.org/en/content/gender-inequality-index-gii> (retrieved December 20, 2019)

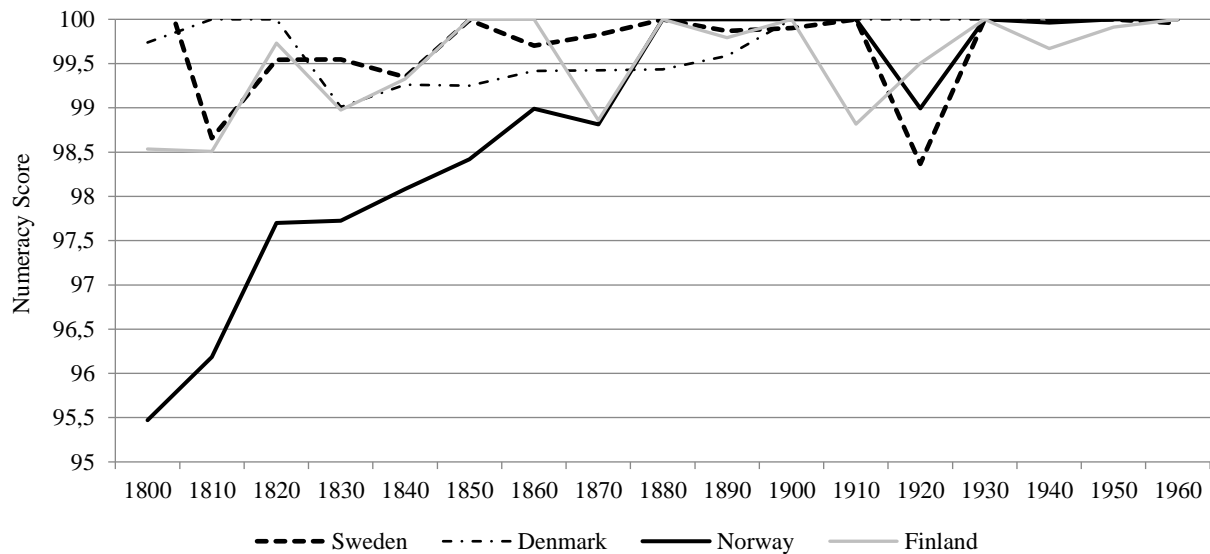
Part of the reduction of inequality and societal unrest has come via the creation of more inclusive societies, especially via more egalitarian and robust societal institutions (including justice system and democracy on the aggregate) that have emerged via the creation of social and human capital.⁵¹ The Nordic countries have, indeed, been at the forefront of creating very extensive and effective schooling systems. We can observe those efforts in Table 5, with steady increases in the average length of education. Finland was far behind the other Nordic countries still in the 19th century, but it began to catch up in the post-World War II period, especially after the school reforms of the 1960s and 1970s. By the 21st century, the Nordic countries look very similar. These systems have produced excellent results in international testing, for example in the PISA tests.⁵² Another common measure to gauge the human capital formation, besides literacy, is to estimate numeracy skills, which have enabled economic historians to estimate human capital in the long run.⁵³ As seen in Figure 9, Nordic numeracy skills varied quite a bit in the 19th century, but converged after 1870, with Norway behind the rest. This highlights the fact that the Finnish education system produced more human capital in the pre-World War II period than those of the other Nordic countries, given the lower average years of schooling. After 1950s and 1960s, the Nordic countries, more or less, had the highest numeracy scores possible (=100).

Table 5. Primary School Enrollment among the Nordic Countries, 1820-2010

Year	Denmark	Finland	Norway	Sweden	UK	USA
1820	84.9	..	48.5	80.7	..	41.4
1850	92.0	4.0	64.8	89.4	..	80.1
1880	100.0	16.0	78.3	100.0	77.2	100.0
1910	100.0	64.9	98.2	100.0	100.0	100.0
1940	100.0	100.0	100.0	100.0	92.4	100.0
1970	96.0	100.0	89.0	92.7	98.0	95.9
1990	96.0	99.0	99.0	99.0	97.0	98.0
2000	100.0	100.0	100.0	100.0	100.0	100.0
2010	100.0	99.0	99.0	100.0	..	99.0

Source: Lee & Lee (2016).

Figure 9. Nordic Numeracy Scores, 1800-1960



Source: <https://clio-infra.eu/Indicators/NumeracyTotal.html>.

Other indicators of well-being improved in a similar fashion during this period. For instance, life expectancy at birth (which depends on many of the underlying inputs into societies, for example nutrition, medical care, technological development, schooling, and so on) exhibited a steady growth trend among the Nordic societies, especially from the 1860s onwards. Finland lagged behind the other three for a long time, until it converged to the Nordic pattern in late 20th century. The only dips in the process were caused by major crises, like the World Wars. Overall, the investments in the society via the increases in democracy provided clear benefits for the Nordic societies as a whole, although in some cases the path towards social cohesion had been already initiated in previous decades and varied among them.⁵⁴ In any case, it is quite clear that some of the most important changes, including the convergence between the Nordic countries and the most advanced economies on the globe, occurred in the post-World War II period. While economic convergence may have already started, in fits and starts, already in the 19th century, the various forms of institutional development were not uniform among the Nordic countries. The main thrust, however, of the institutional convergence towards less fragmentation also occurred quite fast after World War II.

Conclusions and Further Challenges

Democracies can be unstable in many ways, depending on how mature they are, the external and internal threats, the impact of economic and political crises, and so on. Typically they, however, are more responsive to the needs of the majority of the population, given that policy-makers will attempt to maintain their hold on positions of power. An essential part of an inclusive democracy is that citizens are free to express themselves in elections and in the public arena, as well as to engage in other forms of social participation (including freedom of assembly and the right to protest). Today these elements might seem self evident in all Nordic countries. However, they have certainly experienced the rocky road, i.e. not “smooth sailing”, from fragmented societies to more inclusive and stable democracies in the 19th and 20th centuries. This chapter aims at contributing to understand the complex structural influences that have brought these changes about. To do so we have examined the linkages between democratic institutions, economic and fiscal developments, and social policies. In particular, we have focused on the long-term co-evolution of

these factors and the processes of convergence among the Nordic countries towards less fragmented societies.

What did we find through our descriptive long-run analysis? First, economic development among the Nordic countries began later than in some of the early-industrializers, but they caught up fast in the latter half of the 20th century. They also converged toward one another to a great extent, with high living standards, although Norway has set itself apart as the leader of the region in recent decades. Second, democratization in these countries occurred slightly earlier than in most European nations, i.e. before World War I. After that, it progressed in steps and it converged among the Nordic countries by the end of the 20th century. The country that democratized first, Denmark, also took the first steps in increasing social spending during the early 20th century. Sweden, on its part, took firmly the lead in the late 1960s and 1970s, while Norway and Finland did catch up thereafter. These countries also had bumps along the road: for example, the Second World War was harmful for Norway's democratization due to the societal divisions. In some sense, also the Finnish Civil War both delayed a more conscious policy toward welfare provision as well as hasten certain social policy dimension, for example more egalitarian landownership. Even if all countries increased their social spending effort in the post-WWII period, the convergence process toward a "Nordic model" progressed unevenly via the various dimensions of welfare, based on our analysis of a large variety of indicators.

Social fragmentation levels also converged and fragmentation decreased to a large extent among the four countries during the 20th century, although with some relevant differences. To begin with, all of them made the move from a warfare state to a welfare state latest in the 20th century, and they remained largely free from internal and external wars during the period (with the notable exceptions of the Finnish Civil War and, of course, the two World Wars). Other indicators of internal violence, such as freedom from political killings and torture, improved along the way; interpersonal violence at its extreme (homicides), on the other hand, decreased at a time when social spending took off, but it bounced back (albeit temporarily) during the consolidation of welfare policies in the 1970s. Labor disputes also varied considerably across countries. Finland and Sweden, in particular, had a much higher share of such conflicts in the 1970s and 1980s; these strikes, though, can also be seen as an essential part in the maturing of a democracy and a welfare state. Despite the mixed evidence of a co-evolution between internal unrest and welfare state, other indicators of social fragmentation and well-being showed clearer signs of being affected by the social policies that were implemented in the region. In this chapter we have focused on income inequality, women political participation, and schooling, but we also point to others (such as life expectancy) that should render similar results.

All in all, we conclude that the post-war convergence in welfare and social cohesion was undeniable, strong, and fast, albeit it differed significantly across policy domains. Clearly, all the various forces acted in conjunction with one another, along with welfare state creation, and helped create more peaceful Nordic societies, with remarkably similar institutional setups. There were relatively small differences between the Nordic countries at the end of the 20th century, although differences were quite pronounced only a hundred years ago (with Finland occasionally lagging behind the others in the 19th and early 20th century). On the other hand, we can already observe remarkable connections between economic and social factors that need to be explored further. This is still, however, very much an initial stab at analyzing these complicated forces, and a quantitative in-depth analysis of the long-run linkages between some of the main variables is still pending. Moreover, there are clear signs of polarization among the Nordic populations, despite the high living standards and development toward more social cohesion. The populations of these countries are not immune to the same forces that propelling populist parties in the society, namely migration, conflicts, globalization, and the future of the welfare state. The challenges for the Nordic societies, despite high levels

of happiness, are linked to their ability to solve the perceived societal challenges in the political arenas, which is likely given their historical trends. Regardless, social fragmentation is not a problem of the past, even if its impact has been lessened by the creation of some of the most egalitarian societies on the globe.

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ENDNOTES:

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- ¹ See esp. Esping-Andersen (1990). Social spending, however, might increase even in the context of authoritarian regimes (see, for instance, Cutler and Johnson, 2004; Segura-Ubiergo, 2007). – Overview on the literature on Nordic Model see especially Koivunen & al. (2021, forthcoming).
- ² See though, Przeworski & Limongi (1993).
- ³ See, for instance, the debate: Bergh (2006), Lindert (2006a, 2006b). Bergh & Karlsson (2010) expand on the harmful tax impacts, to counter Lindert (2004).
- ⁴ OECD (2019).
- ⁵ World Happiness Report (2020). Available from: <https://worldhappiness.report/ed/2020>. (Cited December 6, 202+). The top spots are occupied by Finland (1st) and Denmark (2nd), whilst Iceland is ranked as 4th, Norway 5th, and Sweden as number 7 on the global list.
- ⁶ See, for instance, Christiansen and Markkola (2009); Koivunen & al. (2021).
- ⁷ These debates are indeed rooted to classic discussions in economics and social sciences since the writings of Adam Smith and especially by Schumpeter (1942).
- ⁸ On definition of institutions, see North (1990). On corporatist interests and interest group influence, see e.g. Olson (1986). For a broader discussion, see Acemoglu & Robinson (2012, 2019) and e.g. Rodrik et al. (2004). For history of the field, see e.g. Coase (1984) and Hodgson (1998). For e.g. the Finnish scholarly debates on this, see esp. Ojala (2017).
- ⁹ See esp. Przeworski (1986, 1991, 2004). For a discussion on the role of economic growth to democratization, see especially Karvonen (1997), 28–46, or the classical account by Lipset (1959).
- ¹⁰ E.g. Gat et al. (2009); Inglehart & Welzel (2009). For a discussion on the impact of democracy on economic growth, see also Przeworski and Limong (1993).
- ¹¹ Teorell (2012). See also Acemoglu & Robinson (2000, 2005), Acemoglu et al. (2005).
- ¹² According to Lindert (2003), the long-run analyses with multiple country cases can give us a richer understanding of these dynamics.
- ¹³ See esp. the discussion in Lindert (2003), Acemoglu & Robinson (2000). For a broader discussion, see Kettunen (2001, 2006), Kettunen & Petersen (2011), Robson (1976), and Esping-Andersen (1990).
- ¹⁴ Lindert (2004), Espuelas (2012).
- ¹⁵ See, for instance, Mulligan et al. (2010).
- ¹⁶ The literature studying these topics has grown significantly in recent years. See, for instance, Dincecco & Katz (2016); Dincecco (2015); Besley & Persson (2009); Stasavage (2011); Hoffman (2017).
- ¹⁷ See, for instance, Grafe (2012). Economists have also studied the impact of state capacity on the economy (e.g., Besley and Persson, 2011, 2013).
- ¹⁸ See for a good summary of the literature, Hegre (2014). A compelling argument in favor of this proposition can be found in Doyle (1986).
- ¹⁹ A good review of the debate can be found in Levy and Thompson (2010).
- ²⁰ See e.g. Moore (1966), Skocpol & Theda (1979), Osinsky & Eloranta (2014).
- ²¹ Mann (2012); Osinsky (2010).
- ²² See the Christopher Lloyd’s discussion on this earlier in the book. On the development of a social fragmentation index, see e.g. Okedji (2005). These types of efforts typically focus on combining elements of political, social, and ethnic fractions into a single measure.
- ²³ See e.g. Casanova (2000), Kissane (2004), Archer & Joenniemi (2017).
- ²⁴ Iceland is excluded in the analysis, since the data is less abundant, especially for some of the indicators we are using here.
- ²⁵ Mokyr (2006).
- ²⁶ Fukuyama (2014).
- ²⁷ Porter (1990).
- ²⁸ See, for example, e.g. Fellman et al. (2008), Kettunen (2001), and Meinander, Karonen & Östberg (2018); Koivunen & al. (2021).
- ²⁹ See especially Karonen, Roitto & Ojala (2018).
- ³⁰ On the Finnish convergence patterns, see e.g. Kokkinen et al. (2007).
- ³¹ See e.g. Ville & Wicken (2012), Mjøset & Cappelen (2011).
- ³² Teorell et al. (2016). The index takes into account the level of suffrage, of freedom of association and expression, the extent to which elections are free and fair, and the way in which officials are elected.
- ³³ For the long-run roles of women in the Nordic politics, see esp. Haavio-Mannila & Skard (2013).
- ³⁴ See, for instance, Putnam (1995). Concerning democratic breakdown, see e.g. Bernhard et al (2019).

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- ³⁵ Similar results are found when looking at political participation defined as the share of population that cast a ballot in elections.
- ³⁶ See e.g. Eloranta et al. (2014).
- ³⁷ Eloranta & Kauppila (2006).
- ³⁸ Hannikainen & Eloranta (2019). See also Kettunen (2001).
- ³⁹ A number of studies have shown, though, that the division between crofters and landowners was not the major cause for the conflict; rather it has been perhaps overemphasised in more popular writings. See especially Alapuro (1994).
- ⁴⁰ Tilly (1990), Wiberg (2000).
- ⁴¹ Broadberry et al. (2015).
- ⁴² See also Ferguson (2001).
- ⁴³ Husso et al. (2017), p. 1.
- ⁴⁴ On discussion see especially: Lehti & Kivivuori (2005, 2012); Savolainen et al. (2008); Kivivuori & Lehti (2006); Ylikangas et al. (2001).
- ⁴⁵ Bergholm (2017), 189-190; Bergholm (2012), 209-233, 264-274, 308-317, 448-465.
- ⁴⁶ Jørgensen (2004), p. 263; Lind & Knudsen (2018), 588, 590.
- ⁴⁷ See, for instance, Roine et al. (2009).
- ⁴⁸ Long-term series on top marginal income tax rates for our four countries can be found in the SSDS Social Science Data Collection.
- ⁴⁹ See, for instance, Steinmo (1993), Lindert (2004), Pasad and Deng (2009).
- ⁵⁰ On overall trends, see esp. Dorius & Firebaugh (2010). On critique of the the gender inequality index, see e.g. Permanyer (2013).
- ⁵¹ These types of processes have been suggested e.g. by Acemoglu et al. (2005). Education also can increase political participation and civic engagement in a given polity, see esp. Glaeser et al. (2007).
- ⁵² Kjærnsli & Lie (2004). Some perspective on e.g. the Finnish results can be found in McIntosh (2019).
- ⁵³ A review of the cliometric analyses of human capital can be found in Goldin (2016). See also Becker (2018).
- ⁵⁴ On e.g. Finland, see especially recent analyses, such as Eloranta & Ojala (2018), Haapala & Lloyd (2018), Laine et al. (2019), Koponen & Saaritsa (2019).