How Businesses Can Cooperate to Propel Equitable Economic Growth

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Pessimistic analysts have long maintained that countries cannot achieve optimal economic growth and social equity at the same time. But is this true? Along with Duane Swank, I have compared democratic capitalist nations to see whether it is possible to have it all – efficiency along with equality, economic growth plus social security. It is possible, and the key lies in institutions and policies that induce business managers to support growth strategies grounded in egalitarian social investments. Rather than engage in endless strife, employers must be able to work together and cooperate with worker organizations and other social groups.

The Nordic Formula

Policies and economic trends in the Nordic countries – Sweden, Norway, Denmark, and Finland – defy the conventional claim that economic efficiency and social equality are inherently at odds. In these countries, public spending strengthens education and health care, and includes generous unemployment benefits, workforce training programs and other measures to enhance worker skills. Social equality is fostered not so much by redistributing resources to the poor as by expanding wellbeing and capacities for most workers and families.

Inclusive public policies in Nordic countries are routinely enacted with support from diverse classes and parties. Strong organizations bargain for business and labor interests, and forge compromises with input from all parties. Divergent interests and conflicts are very real, but they get worked out in national bargains. As Tolstoy once put it, "What counts in making a happy marriage is not so much how compatible you are, but how you deal with incompatibility."

Institutional rules make compromise possible. Nordic employers and workers belong to nationally focused industry groups and unions that include all relevant enterprises and workers. These economy-wide, big tent organizations have legal rights and responsibilities to negotiate policy pacts that then get carried through by government. Few issues are left to purely legislative channels. In fact, Nordic parliaments often simply rubber-stamp the deals made by the major nationwide organizations. Some policies are collective wage bargains hammered out by peak associations and then extended to the entire economy. Others are developed by tripartite committees set up under the auspices of government ministries. Major associations are invited to name representatives and committee decisions, once hammered out, become binding.

In these ways, Nordic peak associations gain enormous influence, while individual firms and narrow interest groups have little ability to block or scuttle broad compromises. As a representative of a major Nordic employers' association once told me, "business and labor are like Siamese twins" in their interests in retaining control over public policy formation. What is more, because major Nordic policies are worked out by organized economic stakeholders rather than by legislators, regulations are transparent, broadly applicable, sensible and enduring. Very little leverage is available to politicians who may want to fund a "bridge to nowhere" to help win an election. The heavy lifting is done by major economic groups whose members have to live with the resulting decisions; and those groups own the results and enforce compliance.

Undisciplined Business Interests in Britain and America

In marked contrast, British and U.S. employers have very weak business groups, which leaves them with little capacity to realize shared goals and focus on long-term benefits for the economy and business overall. U.S. and British business leaders distrust government – but also they cannot trust each other. Each firm or industry segment gets into the political game by making campaign contributions, hiring lobbyists, or paying dues to trade associations. Political candidates and the U.S. Congress must respond to many self-interested demands from each narrow interest sector. But the results are far from optimal for anyone, including business. Many U.S. and British managers wonder whether they get their money's worth. Policy disputes are politicized and legislators have their fingers in every detail, resulting in short-term policies that are hard to implement and more tailored to political contingencies than to economic efficiency.

In sharp contrast, Nordic institutions induce employers as well as workers to bargain and carry through policies that work best for all over the long run – rather than follow the typical Anglo-American pattern of prioritizing the immediate-term interests of particular firms. An example from our study of 107 randomly-selected large companies in Denmark and Britain helps draw this contrast. Sixty-four percent of the Danish firms participated in welfare-to-work programs to end long-term unemployment and train workers with low skills, because their employer association helped them see that the programs would provide a new labor source and cut social assistance costs. In contrast, many fewer British firms participated in a comparable program, and the few that did hoped to get cheap labor or to appease British Prime Minister Tony Blair. Not surprisingly, according to cross-national quantitative analyses, the strength of employer organization is significantly associated with higher and more equality-promoting public welfare spending, greater income equality, and more regular patterns of employment.

New Strains and Challenges

The recent global financial crisis placed greater strains on all nations, including the Scandinavian countries. Union solidarity has weakened even in northern Europe, as employment shifts away from industry make it harder to reconcile the needs of high- and low-skill workers. High school dropouts are found in rising numbers across all of Europe and their problems are hard to address with traditional vocational training programs. Despite new challenges, however, the Nordic countries are using their politics of consensus to search for new solutions – such as job-sharing arrangements, investments in green technologies, and efforts to boost productivity through reformed educational and training programs. Despite recent sluggish growth, the Scandinavian countries still exhibit high levels of economic production per person, limited inequality, low unemployment, favorable business climates, and small budget deficits. Of course, it remains to be seen if the Nordic institutions for coordination can continue to surmount challenges – but we know that, in the past, these societies have moved from one set of workable social bargains to another. Their experiences and institutions hold lessons for other nations.

Read more in Cathie Jo Martin and Duane Swank, *The Political Construction of Business Interests* (Cambridge University Press, 2012).