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*Document Version*

Final published version

*Published in:*

New Political Economy

*DOI:*

[10.1080/13563467.2023.2172147](https://doi.org/10.1080/13563467.2023.2172147)

*Publication date:*

2023

*License*

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*Citation for published version (APA):*

Fuglsang, N. (2023). The 'Strange Non-death' of Economic Models: How Modelling Contributed to Neoliberal Resilience in Denmark. *New Political Economy*, 28(5), 731-743. <https://doi.org/10.1080/13563467.2023.2172147>

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To cite this article: Niels Fuglsang (2023): The 'strange non-death' of economic models: how modelling contributed to neoliberal resilience in Denmark, New Political Economy, DOI: [10.1080/13563467.2023.2172147](https://doi.org/10.1080/13563467.2023.2172147)

To link to this article: <https://doi.org/10.1080/13563467.2023.2172147>



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Published online: 01 Feb 2023.



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# The ‘strange non-death’ of economic models: how modelling contributed to neoliberal resilience in Denmark

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## ABSTRACT

Scholars have attributed the resilience of the neoliberal policy paradigm to external pressure on governments by giant corporations and to features of the neoliberal idea itself. This article proposes a different explanation based on the political influence of the economic models that governments use for policy planning. I develop a theoretical perspective to capture how economic models, rather than being mere analytical tools, are policy tools with an overt objective function and a covert political function. To illustrate the value of the theory, I use a qualitative case-study approach to analyse how politicians in the aftermath of the 2008 financial crisis used economic models before and during the 2011–2015 Social Democratic Thorning-Schmidt government in Denmark. I show how the Danish Finance Ministry’s model worked as a weapon, a game board and a shield to discredit certain policies while promoting other policies, and in the process contributing to neoliberal resilience.

## ARTICLE HISTORY

Received 30 January 2022

Accepted 18 January 2023

## KEYWORDS

Political economy; economic models; neoliberalism; welfare state; Denmark

## Introduction

Since the financial crisis of 2008, scholars have debated the resilience of neoliberalism in Europe. If the crisis represented a market failure, why did neoliberal policies reducing government intervention in the market in terms of economic redistribution continue to thrive after the crisis (Blyth 2013, Mirowski 2013)? Why did governments not shift from neoliberalism to other policy paradigms? Examples of changes that occurred in the aftermath of earlier crises include the triumph of Keynesianism following the Great Depression in the 1930s and when neoliberalism replaced Keynesianism in the 1980s (Blyth 2002). However, such a shift did not happen in the aftermath of the 2008 financial crisis. Scholars have shown that while different ideas since the financial crisis have competed, neoliberal assumptions continue to thrive in mainstream economics (Helgadóttir and Ban 2021), and the neoliberal policy framework is still in place in most Western countries (Stahl 2019).

Scholars have offered several explanations of why neoliberal ideas remain dominant. Crouch (2011) attributes ‘the strange non-death of neoliberalism’ to multinational corporations’ capacity to lock government policies onto neoliberal tracks by, for example, funding political parties or threatening to relocate capital. Another stream of studies highlights the popular appeal of the neoliberal idea and how its easily communicated punchlines — such as ‘the state should not spend more money than it has’ — often resonate better with the electorate than the counter-intuitive Keynesian

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proposition that governments should spend more money in times of crisis (Schmidt and Thatcher 2013, Blyth 2013, p. 7).

A third stream of studies highlights how neoliberal economists use their positions in state bureaucracies, the EU bureaucracy and the financial sector to promote neoliberal ideas (Blyth 2013, Christensen 2017, Matthijs and Blyth 2018). Mirowski (2013, pp. 205–216) shows how neoliberal economists move around among positions in the financial sector, at universities and in government, and how they use these positions to speak out as ‘independent’ experts, while in reality they serve as a public relations arm for the financial sector. Moreover, scholars have argued that economists and technocrats have institutionalised neoliberalism in bureaucracies via devices such as policy evaluation systems and economic forecasting models (Henriksen 2013, Bredahl and Andersen 2021).

Defining neoliberalism as the idea that free markets and competition outperform other forms of economic organisation in providing wealth and prosperity to the society, this article contributes to the third stream of studies by examining how actors can use economic forecasting models to promote neoliberal policies. I theorise that economic models serve as policy tools with both an overt objective function and a covert political function, and I argue that economic models serve to empower economists and their ideas. On the one hand, policymakers view the economic models as objective ‘black boxes’ because of their reliance on complex mathematical calculations (i.e. econometrics) and economic theories. On the other hand, the economic models have the political function of simplifying the world and promoting certain policy goals and instruments instead of others. Thus, while appearing apolitical, the models do not merely describe the economy but also shape it by guiding policymakers in a certain political direction.

To illustrate how economic models function as policy tools, I analyse the economic policies of the Social Democratic Thorning-Schmidt government (2011–2015) in Denmark, a social-democratic welfare state with high, progressive taxation, aiming to combine social justice with economic competitiveness (Thelen 2014, de la Porte *et al.* 2022). However, over the last two decades, before and after the 2008 financial crisis, Danish politicians adopted a series of tax and labour market reforms with distinct neoliberal elements (Larsen and Andersen 2009, Henriksen 2013, Martin 2013, Pedersen 2018). Both liberal and social-democratic governments have reduced taxes for high-income groups, reduced social welfare benefits, and increased the retirement age. Strikingly, the Thorning-Schmidt government continued these policies despite electoral promises to the contrary.

The Danish case is well suited for investigating the political power of economic models. Denmark, being a social-democratic welfare state and having a social-democratic government in the period after the financial crisis, is a least likely case of neoliberal resilience (Flyvbjerg 2006, p. 231). Therefore, if economic models can contribute to neoliberal resilience under these circumstances, it would be even more likely in other countries where the state has other agendas.

Moreover, several of the previously cited explanations for neoliberal resilience are not plausible in Denmark. First, it is unlikely that giant corporations drove the Thorning-Schmidt reforms via political donations, because the state is the principal funder of most Danish political parties, and the Social Democrats have traditionally received most of their private funding from labour unions, which opposed the Thorning-Schmidt (neoliberal) reforms (Astrup 2015). Second, the Thorning-Schmidt reforms were unpopular among the government’s voter base (Sørensen 2013), and when the government lost its parliamentary majority in the 2015 national elections, the neoliberal reforms were cited as contributing to the loss (Goul Andersen and Shamshiri-Petersen 2017, pp. 188–201). Because the above-cited explanations are inadequate for Denmark, the Danish government case is well suited for testing the explanation highlighting the institutionalisation of neoliberal ideas in the state bureaucracy via its economic models.

The following section theorises that economic models are overtly objective and covertly political. Section 3 presents the case study methodology and empirical sources. Section 4 analyses how economists and politicians used the two functions of economic models during the Danish Thorning-

Schmidt government, and how in this way, the models contributed to neoliberal resilience. The final section summarises principal conclusions.

### **Theoretical perspective: economic models as overtly objective but covertly political**

Hall (1993, p. 273) famously explained how policymakers ‘work within frameworks of ideas and standards that specify not only the goals of policy and the kind of instruments that can be used to attain them but also the very nature of the problems they are meant to be addressing’. Scholars have since advanced this perspective on how policymakers rely on such frameworks of ideas and how neoliberal ideas emphasising the advantages of free markets and competition have been prevalent since the 1980s (e.g. Blyth 2002, Ban 2016, Carstensen and Matthijs 2018, Kentikelenis and Babb 2019).

In relation to the idea literature, scholars have highlighted the role of economists, who because of their expertise and authority are powerful producers and promoters of ideas in public policy (Fourcade 2006, Campbell and Pedersen 2014, Hirschmann and Bermann 2014, Christensen 2017). Moreover, recent studies have shown how neoliberals work to limit democratically elected politicians’ influence on economic policies, instead promoting the influence of neoclassical economists, who have come to be viewed as competent and rational (Maradiga 2020, Stahl 2020, Mandelkern 2021).

I argue that governments’ macroeconomic forecasting models are essential to economists’ political influence, as has also been asserted by other scholars. Mügge (2016) has shown that the variables in the economic models are not neutral, but empower certain perspectives at the expense of others. Moreover, following Callon (1998) and MacKenzie (2008), Henriksen (2013) and Braun (2014) analyse how macroeconomic models ‘perform’ the economy. By performing the economy, these authors mean that models not only describe the economy but also shape it by convincing its agents — including policymakers — to *follow the model’s logic*. Braun (2014, p. 53) argues that models can create consensus around ‘how the economy works’ and ‘how its dynamics can be managed or controlled’, and that the models in this way can influence the policy instruments and targets that governments use. Henriksen (2013) shows how neoclassic models predicting that tax cuts will increase economic growth changed policymakers’ perceptions of the economy and paved the way for Danish tax reductions.

Heimberger and Kapeller (2017), Heimberger *et al.* (2020) and Angeletti (2021) also study how economic models do not merely analyse the economy but end up endorsing certain economic policies. Heimberger *et al.* (2020) argue that economic models can serve as ‘transmission devices’ that allow actors drawing on the models to promote their political convictions while asserting that they are neutral technologies. Angeletti (2021) asserts that economists simplify the economy when building their models as they ‘select’ the phenomena to include and exclude and ‘qualify’ these phenomena by assigning to them certain qualities. Depending on these choices, Angeletti (2021) argues, the model can influence the political debate by determining which policy instruments are relevant for policymakers.

While the work cited here on how macroeconomic models ‘perform’ the economy focuses on the relationship between model logic and government policy, these studies seldom tell us much about *how* the models come into play in political negotiations and campaigns. In this article, I aim to contribute to the performativity literature by showing how politicians use models against each other in concrete negotiations and power struggles.

### **The political function of an economic model**

Taken together, the model studies cited touch upon two principal characteristics of economic models, which I theorise as the ‘covert political function’ and the ‘overt objective function’ that in combination make them powerful.

First, economic models have a political function as they involve choices of ‘highlighting and downplaying’ (Heimberger *et al.* 2020) of variables and relationships that influence policymakers’ understanding of their instruments and goals (Henriksen 2013, Braun 2014) as well as the policy debate (Angeletti 2021). To understand this argument, we can use Morgan’s (2012, p. 21) definition of modelling as a process of ‘idealisation’, where relations of interest are picked out and isolated from frictions in the real world, giving form to a simpler, ideal world. The ideal world of economic models is helpful to policymakers who operate in the real, complex world, in which the future is highly uncertain. In the real world, how policymakers should define their own interests and which strategies they should choose for pursuing these interests, is far from straightforward. Therefore, policymakers work out strategies to make sense of the world (Borrás and Seabrooke 2015). They can do so by using an economic model that approximates the real world through a simpler, ideal world, thereby formulating policy goals with the included variables and relationships, which suggest the usefulness of some policy instruments at the expense of others.

Modelling is thus a process of including and excluding variables, and just as importantly, the relationships between these variables. For example, both Keynesian and neoclassical models may include the variable ‘labour supply’ describing how much labour is supplied in the economy. However, while a Keynesian model may define this variable as exogenous (i.e. the model user inserts the value), neoclassical models may include relationships showing how lower taxation increases the labour supply. Underlying this relationship are assumptions about human nature, such as humans, assumed to be rational, will have a greater incentive to work more when the tax rate is low because doing so is more lucrative. The model may exclude other relationships, such as how social policy expenditures aimed at marginalised groups might increase labour supply by enhancing their capacity to work. Thus, this model would promote tax cuts rather than social policies targeted at lower-income groups as an instrument to increase labour supply.

The example shows that sets of variables and relationships to be included or excluded in an economic model are based on assumptions about human agency. Given that no model contains all possible variables and relationships, diverse assumptions lead to different inclusions and exclusions of variables and relationships, promoting allocation of value to different goals via different instruments. Therefore, economic models are political.

### ***The objective function of an economic model***

Second, the models appear ‘technical’ (Heimberger *et al.* 2020) and can reduce ‘normative contestation by black boxing otherwise controversial and contingent claims’ (Henriksen 2013, p. 483). In other words, the model can make its political content appear apolitical. This is what I call the objective function of the model. To understand this objective function, Latour (1987, pp. 2–3) has introduced the useful concept of a ‘black box’, ‘used by cyberneticians whenever a piece of machinery or a set of commands is too complex. In its place they draw a little box about which they need to know nothing but its input and output’. In the same way, most policymakers experience the calculation process inside an economic model as a black box because of its complexity. The model, which may contain thousands of variables and relationships, builds on complex economic theory and statistical methods. Thus, it is too complex for most political actors to understand; many politicians, journalists and bureaucrats accept that outcomes of model usage are neutral and objective facts rather than political phenomena. When governments use an economic model to make sense of the economy, the ideas embedded in the model thereby attain unremarked influence by supplying policy goals and instruments, all the while being portrayed as objective.

Importantly, the model’s objective function can influence who gets ‘power through ideas’ and who gets ‘power over ideas’. ‘Power through ideas’ refers to ‘the capacity of actors to persuade other actors to accept and adopt their views of what to think and do through the use of ideational elements’ (Carstensen and Schmidt 2016, p. 323). As the model’s calculations become powerful in public debate because they appear to be objective, political parties whose ideas are in line with

the model's logic have a power resource in the model, which they can use to increase power through their ideas. For example, if a political party argues for tax cuts by referring to objective model calculations, such a policy will appear more persuasive than if one argues for tax cuts by referring to one's subjective and ideological beliefs.

'Power over ideas' refers to the ability of actors to impose their perspective in political discourse and to repel the inclusion of alternative ideas (Carstensen and Schmidt 2016, p. 326). As the model can play an important role in policymaking, those who decide on its variables and relationships have power over ideas. Because of the model's complexity, most political and civil society groups lack the technical and theoretical knowledge to participate in these decisions. Rather, the range of actors who decide on the variables and relationships in the economic models comprises a small circle of economists with great technical and theoretical expertise. Moreover, the black-box quality effectively shields the model's political content from critical scrutiny. If the model is challenged, proponents of the model may ridicule those challenges as running counter to science or known facts.

## Methods and data

In the remainder of this article, I undertake a 'structured, focused' case study (George and Bennett 2005, pp. 67–72) of how policymakers used the Danish Finance Ministry's economic model in the context of the 2011–2015 Thorning-Schmidt government, and how that experience contributed to neoliberal resilience. I understand neoliberal policies as those that diminish economic redistribution and enhance market logic by establishing 'incentives' for people to work, in contrast to classic welfare-state policies (e.g. pensions, unemployment benefits and progressive taxation) that offset market logics by redistributing economic resources.

I analyse the model's influence by identifying three inductively derived stages that are temporally sequential and defined by the Thorning-Schmidt coalition's shifting political positions as well as by the model's influence at different stages of the policy process (Bartolini 1993, p. 151). Because the model is an abstraction, it is not a sufficient condition for neoliberal resilience; rather, actors must activate the model. First, well-respected economists must create the model and exercise power over the ideas integrated into the model. Second, well-placed politicians must use the model and exercise power through the ideas contained in the model. Thus, for each stage, I analyse which actors refer to the model, how these actors activate the model's overt objective and covert political functions, and how these actions contribute to neoliberal resilience.

To support my argument, I rely on three primary sources. First, to understand the contents of the Ministry's models, I examine official documents from Statistics Denmark and the Danish Finance Ministry, the two institutions that develop and implement them. Second, to examine how political parties use the authority of the economic models to either promote or discredit policy proposals, I rely on public speeches, press briefings and policy proposals from the government as well as news articles in the Danish media. Third, I use results of in-depth, semi-structured interviews (Leech 2002) with three high-ranking economists in the Finance Ministry (identified as Economists 1–3), and four party spokespersons on economic policy and one former finance minister (identified as Politicians 1–5). The interviews with the model developers contribute to understanding how economic models function, and the interviews with the politicians yield insights into their political influence.

## Analysis: economic models and neoliberal resilience in Denmark

In this section, I present the Finance Ministry's position in Danish economic policymaking and the Ministry's economic model. I proceed by analysing how policymakers used the model's overt objective and covert political functions to promote neoliberalism in three stages, where the model functions as a weapon to attack policies, a game board on which negotiations are grounded, and as a shield to protect policies.

## *The finance ministry and its model as an economic authority*

Studying the history of economic expertise in Denmark, Campbell and Pedersen (2014, pp. 199–205) show how Denmark's economic crisis of high unemployment and debt in the 1970s led to a 'crisis of ideology' in which Danish political parties concluded that their ideologies could not make sense of what happened. Thus, the political parties sought new advice from what they perceived as a more ideologically neutral analysis; choosing thereafter to use econometric models based in the Finance Ministry.

Because of the Finance Ministry's authority and the large degree of consensus in the economic knowledge regime around its reasoning, every political party in the Danish Parliament is today enabled but also constrained by the possibilities laid down in the Ministry's models and calculation principles (Politicians 2, 4 and 5, interviews). The models forecast the effects of reforms and policy proposals on public sector budgets as well as employment and growth (Finansministeriet 2012). Ministry economists develop the models, holding power over the ideas behind the model as they decide what to include and exclude in the models; they also incorporate several economic models and components developed by external organisations (Economists 2 and 3, interviews). The models stay the same, even when the government changes.

During the Thorning-Schmidt government, ADAM (Annual Danish Aggregate Model) was the Finance Ministry's main model. ADAM, developed by Statistics Denmark, is an econometric model whose equations are estimated according to time-series national accounts data expressing a mix of Keynesian and neoclassical ideas. In the short term, labour demand determines the employment rate, whereas in the medium term (seven years) and the long term, labour supply determines the employment rate (Danmarks Statistik 2013).

However, the Finance Ministry mainly uses ADAM to forecast the economy in the short term. For medium- and long-term calculations, the Ministry uses ADAM as an 'accounting framework', wherein many model equations describing the relationships between variables are turned off (Economist 1, interview). In the medium and long term, the Finance Ministry instead uses the 'law models', which are big spreadsheets with samples of the Danish population containing data on income, wealth, pension, age, education and occupation for each individual (Finansministeriet 2003). The Ministry uses this micro data to forecast the effects of reforms on economic distribution, labour supply, and public finances. For example, if the government proposes tax cuts or a change in retirement age, the law models allow policymakers to see how the policy influences diverse groups in the population. The Ministry then uses certain assumptions, based on peer-reviewed micro studies, to forecast how the change in the affected groups' economic situation will influence their willingness to take up work (Finansministeriet 2002). According to these assumptions, when the marginal tax on income decreases, people have more incentive to work, thereby increasing the labour supply. Likewise, the assumption is that when social benefit levels are reduced vis-à-vis average wages, labour supply increases (Finansministeriet 2012, pp. 18–19). The Ministry also assumes that raising the official retirement age increases the labour supply, as people then tend to work more years before they retire.

Microdata forecasts on labour supply have become increasingly important in recent decades, as the Ministry of Finance has changed ADAM by adding to it 'rational expectations' assumptions. These assumptions mean that labour supply forecasts, which the Ministry calculates based on microdata and then inserts into ADAM, gradually turn into employment even in the short run (Finansministeriet 2014, pp. 219–220). The importance of the labour supply has thus increased in forecasting, as greater labour supply in the forecasts leads to increased employment, more economic growth (i.e. more employment leads to more production) and an improved outcome for public sector budgets (i.e. more employed people pay more taxes) (Economist 1, interview).

For ease of reference, I collectively refer to the models and their corresponding calculation setups described in this section as 'the economic model'. In the remainder of the article, I refer to this economic model as that which promotes (a) the policy goal of increasing labour supply

and (b) the following instruments for reaching that goal: reducing taxes, reducing social-welfare benefits and raising the retirement age. Figure 1 illustrates these possible instruments and goals.

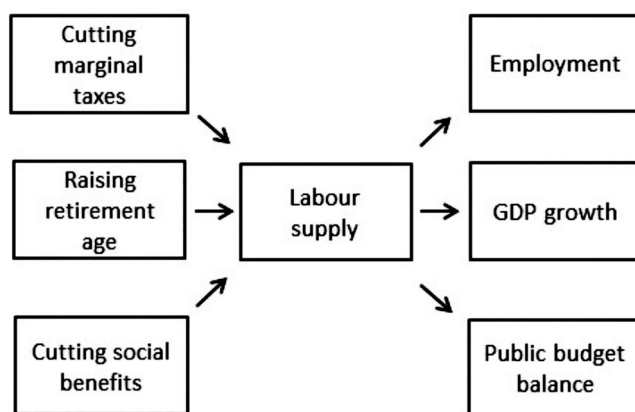
### ***Before the Thorning-Schmidt government: the model as a weapon to attack non-neoliberal ideas***

In the aftermath of the financial crisis, the political discussion in Denmark centred around appropriate policies to tackle the economic crisis, in which Denmark had seen unemployment rising from 2.4 percent in 2008 to 6.1 percent in 2010 (Finansministeriet 2020, p. 33). Moreover, the public balance went from around a surplus of 5 percent of GDP in 2007 to a deficit of between 2 and 3 percent of GDP in the years after 2008 (De Økonomiske Råd 2021). In 2010, Denmark entered the excessive deficit procedure (to correct the deficit) in the EU's Stability and Growth Pact, which does not allow public deficits above 3 percent (de la Porte and Natali 2014, pp. 739–742).

In response to the crisis and the excessive deficit procedure, the liberal-conservative government proposed to increase labour supply by restricting early retirement options and cutting duration of unemployment insurance from a maximum of four to two years (Ritzau 2011a). The government could use the Ministry's economic model to show how this policy would increase the labour supply, and thus ensure that the deficit would be corrected, in line with the limits set by the Stability and Growth Pact (Regeringen 2012a, p. 5).

In contrast, the centre-left opposition parties — the Social Democrats (Socialdemokraterne) and the Socialist People's Party (Socialistisk Folkeparti) — formed a coalition and ran on a common plan they called 'A Fair Solution – Together Out of the Crisis' (Socialdemokratiet & SF 2010). Both the government and the opposition agreed on the labour supply goal, which followed the logic of the Ministry's economic model (see figure 1). However, the coalition rejected the liberal-conservative government's instrument for increasing labour supply by reducing both taxes and social-welfare benefits, instead proposing to raise taxes for top income groups. As an alternative, the Thorning-Schmidt coalition proposed to increase labour supply by reaching an agreement with the labour unions on longer working hours and reducing the duration of university education programmes so that students would enter the job market earlier (Socialdemokratiet & SF 2010).

During the electoral campaign, the liberal-conservative government parties used the Finance Ministry model as a weapon to attack the Thorning-Schmidt coalition's policy instruments. They did so by first asking the Ministry to analyse the Fair Solution plan's effects on Denmark's economy. The civil servants made calculations on their model set-up and concluded that the Fair Solution plan would not increase labour supply as much as the Thorning-Schmidt coalition



**Figure 1.** Central variables and relationships in Danish Finance Ministry's economic model. Author's illustration.

claimed (Finansministeriet 2010, 2011). Whereas the Ministry's economic model contained clear relationships between labour supply, social benefits and marginal tax rates (see figure 1), relationships between labour supply and labour union negotiations were not included. Therefore, the Ministry could not confirm that labour union negotiations would increase labour supply, but could confirm that the tax increase for top income groups would reduce labour supply. Altogether, the Ministry concluded that the Fair Solution plan would result in public-sector budget deficits.

National newspapers ran headlines such as 'Finance Ministry Butchers the Red Plan' and reported that the Fair Solution plan was under-financed by 11 billion Danish crowns toward 2020 according to the Ministry (Ritzau 2010, 2011b). On that basis, government spokespersons attacked the plan by calling it 'a huge bluff'. Moreover, the conservative government party ran a media campaign claiming that the plan would lead to a catastrophic 'Greek' economic situation (Larsen 2010).

In sum, the liberal-conservative government exercised power through ideas by using the model's political function to legitimise its own policy preferences with calculations demonstrating its positive effects, and then by using model calculations as a weapon to delegitimise the Thorning-Schmidt opposition's policy. The model's objective function came into play when the media reported on the model's output as neutral facts without opening the black box and questioning the model's assumptions.

### ***During government: the model as a neoliberal game board for negotiations***

Although the Thorning-Schmidt coalition lost voters during the campaign, it managed to form a government after the 2011 election by bringing in the Social Liberal Party (Det Radikale Venstre), resulting in the final Thorning-Schmidt coalition of the Social Democrats, the Socialist People's Party and the Social Liberal Party. During its formation negotiations, the Thorning-Schmidt coalition developed a programme that entailed scrapping the Fair Solution plan, instead continuing the economic policies of the former liberal-conservative government 'in the broadest sense' (Regeringen 2011a, p. 9). This new approach included implementing the two aforementioned reforms, that is, restricting early retirement options and reducing the duration of unemployment insurance, which the Social Democrats had rejected when they were part of the opposition. It also included expanding the labour supply by an additional 55,000 people via reforms such as cutting income taxes and reducing social benefits (Regeringen 2011a, pp. 9–10). The Social Liberals insisted on this policy change as a precondition for participating in the government. Since the Social Democrats and the Socialist People's Party lacked a sufficient mandate to form a government without the Social Liberal Party, they were forced to compromise (Jensen 2014).

Nonetheless, one can wonder why the Social Liberal Party managed to emerge victorious during the discussion inside the government concerning economic policy. After all, while the Social Democrats depended on the Social Liberal Party to form a government, the same was true the other way around. An explanation lies in the model, which the new government continued to use for policy planning (Regeringen 2011a, p. 8). First, model estimates seem to have convinced the Social Democrat finance minister, Bjarne Corydon, about the necessity to implement labour supply reforms as defined via the model's logic. Corydon had been central in designing the Fair Solution plan (Kristensen 2011), which as described aimed at decreasing inequality by increasing taxes for the highest-income groups. However, once in office, Corydon accepted the Ministry of Finance's negative assessment of the Fair Solution plan. He stated that the government would use the 'conventional calculation principles', as it was 'the only responsible thing to do' (Corydon, cited in Arnfred and Thobo-Carlsen 2012). Moreover, he has continued to defend the Ministry's model since leaving office (Corydon 2021).

Second, while the model did not convince all ministers or MPs from the Social Democrats and the Socialist People's Party (Gjertsen and Boddum 2012), it proved to be a powerful resource for the Social Liberals and Bjarne Corydon in negotiations inside the government and the Parliament. In this context, the model worked as a game board, which gave neoliberal ideas an advantage

compared to non-neoliberal ideas. The Social Liberals could — contrary to their opponents — refer to seemingly objective calculations on the positive effects of their policy and thus use the model to exercise power through their ideas. For example, in 2012, the government proposed a tax reform that would cut income taxes by raising the threshold for eligibility to pay the highest income-tax rates. The government proposed to finance the reform partly by reducing a number of social benefits relative to wage growth. To legitimise the reform, the leader of the Social Liberal Party, Magrethe Vestager, referred to the forecasts (Regeringen 2012b, p. 3) on how the tax reform would create an extra labour supply of 14,600 persons (Schouboe and Bonde 2012).

In contrast, according to the spokesperson on economic policy from the Socialist People's Party — also part of the government — the model put the party's policy proposals on increased public spending in a negative light compared to tax cuts proposed by the Social Liberal Party and the liberal-conservative opposition:

*The model is fundamental in relation to ... political priorities but also the never-ending discussion on what can be afforded. Tax cuts are affordable because they are 50-percent self-financing in the model .... It is a ... problem [for democratic governance], because even I, who work in this field, do not understand the models in depth. I have plenty of colleagues who don't know anything about it. And if you are told that 'this is the way the world works', [and then] if you cut taxes on cars, ... the labour supply increases, and if you don't know anything about it, then you just say, 'yes' (Politician 1, interview).*

The Red-Green Alliance, which formed the left-oriented parliamentary base for the government, had a similar experience. Their policy goal of social justice came into conflict with the labour supply goal because of relationships within the model. For example, in 2015, when the Alliance proposed introducing a temporary unemployment benefit, the model's estimation of the total cost to the public sector budget was more than 40 times higher than the direct cost because of negative work incentives the policy would entail for the entire population (Enhedslisten 2018, p. 21). The result is that few Alliance proposals could be considered 'affordable'. According to the principal political advisor for the Alliance, the economic model — and the game board for the negotiations it represented — was a main obstacle to cooperation with the government (Politician 3, interview).

In sum, while the Social Liberals' capacity to exercise power through their ideas increased, the left-wing parties' capacity to exercise power through their ideas diminished when the model served as the game board for negotiations, which effectively pronounced that the price tags of their policies would be wildly unaffordable. The model's 'objective' function came into play, as the Social Liberals could present exact calculations on the benefits of their policy proposals, while left-wing parties did not possess the analytical resources to open the model's black box and challenge its logic.

### ***During and after government: the model as a shield against critique of neoliberal ideas***

Even though there is a consensus around the overall logic of the Finance Ministry's model in the Danish economic community, scholars from diverse research institutions have questioned the validity of certain assumptions contained in the model. One criticism is that the effect of reduced tax cuts and reduced social benefits on the labour supply is uncertain (Folketinget 2016; Rockwool Fonden 2019, pp. 153–182). Another criticism is that the economic model can yield biased conclusions via built-in assumptions that tax reductions increase labour supply, while public spending on, for example, child care, has no such effects (De Økonomiske Råd 2017, pp. 111–168).

On this basis, centre-left and left-wing politicians questioned whether the Ministry's model reached biased conclusions by not taking into account the effects of public spending on labour supply (e.g. Enhedslisten 2018, Rosenkrantz-Theil and Halsboe 2018). During the Thorning-Schmidt government, Finance Minister Corydon defended the model, insisting that it was 'based on facts' and warned against 'letting political ideology control the economic models' (cited in Kamil 2012). After the Thorning-Schmidt government, the Finance Ministry continued to reject criticism, comparing it to 'fake news' and to 'Donald Trump'-style populist politics challenging science and facts (Bæksgaard 2018, Rasmussen 2018).

**Table 1.** Main distributional reforms adopted during Thorning-Schmidt government (2011–2015).

| Reform policy  | Explained by attendance to policy goals (labour supply) and instruments of the economic model? | Neoliberal? | Directly explained by limited parliamentary options? |
|--|--|-------------|--|
| Reduction of unemployment insurance from four to two years                           | Yes  | Yes         | Yes  |
| Raise retirement age   | Yes  | Yes         | Yes  |
| Raise threshold for highest income tax payments                                      | Yes  | Yes         | No   |
| Reduction of spending on unemployment insurance compared to wage growth through 2023 | Yes  | Yes         | No   |
| Lower corporate taxes from 25 to 22 percent  | Yes  | Yes         | No   |
| Restriction of early retirement for health reasons for young people                  | Yes  | Yes         | No   |
| Restriction of social benefits for young people                                      | Yes  | Yes         | No   |
| Reduction of financial support for university students                               | Yes  | Yes         | No   |
| Increase social benefits for immigrants  | No   | No          | Yes  |
| Energy tariff increase   | No   | No          | No   |
| Increase of general tax reduction for all employed citizens                          | Yes  | No          | No   |

Source: Finansministeriet (2002, 2012)

The liberal-conservative government that succeeded the Thorning-Schmidt government did not change the model. The Social Democratic government, which took office in 2019, is critical of the model and has initiated several working groups in which recognised economists were charged with integrating environmental effects and the effects of public spending on labour supply into the model (Ritzau 2019a, 2019b). However, as of October 2022 the main elements of the model as described in Section 4.1 remained in place, and the president of the Danish Economic Council, which oversees part of the model reform work, has stated that one should not expect ‘revolutions’ (Beim 2020).

Thus, economists, who have traditionally supported the models, continue to hold power over ideas by retaining the prerogative to reform the models. They use the model’s objective facade as a shield to protect its political content, and can thus exclude new ideas from influencing the model via the insertion of new or modified elements. Moreover, most of the Thorning-Schmidt reforms (see Table 1) have stayed in place, and undoing them will, according to the model, reduce labour supply.

Most of the reforms followed the goal promoted by the model of expanding labour supply, thereby increasing employment, increasing economic growth and balancing the public budgets (column 2). Most of the reforms did so via the instruments favoured by the model, that is, cutting taxes, reducing social benefits, or raising the pension age (column 2). In that sense, many of these reforms were neoliberal in that they entailed lower tax rates for higher-income groups, reduced social-welfare benefits or raising the retirement age (column 3). I do not count tax cuts for the bottom- and middle-income groups as neoliberal, even though the model predicted that they would expand labour supply, because these tax cuts do not necessarily reduce the degree of progressive redistribution, contrary to tax cuts for high-income groups.

## Conclusion

This article has argued that economic models are policy tools with both an overt objective function and a covert political function. Because of their complexity, economic models constitute a black box to most policymakers, who tend to view model evaluations of different policies as objective analyses. However, such models also have a political function, because they simplify the world by including certain variables and relationships while excluding others, and thereby endorsing one type of policy at the expense of others.

Using this perspective, I have analysed how Danish politicians exercised power through their ideas via the Finance Ministry’s economic model in the aftermath of the 2008 financial crisis, and

how the model contributed to neoliberal resilience before, during and after the 2011–2015 Thorning-Schmidt government. I have shown how economists in the Ministry exercised power over ideas by constructing a model that promoted the policy goal of increasing labour supply by using policy instruments of reducing tax rates, reducing social benefits and raising the retirement age. These goals and instruments were in line with the political agenda of the certain political parties who used the model (and its two functions) as a weapon to attack non-neoliberal ideas, a game board to inflate the cost of non-neoliberal policies and a shield to protect the neoliberal ideas it incorporates.

While the article started out by classifying Denmark as a least likely case of neoliberal resilience in the post-2008 era, given the country's Social Democratic traditions and government, we should exercise caution in applying findings for Denmark to other Western economies. Besides the two conditions for the model to wield influence mentioned previously (well-respected economists have to create a model and well-positioned politicians have to use the model), the analysis has revealed a third condition. This condition is the broad degree of consensus in the Danish economic and political debate around the Ministry's model and the lack of alternative economic models. Such consensus is not self-evident. Indeed, Campbell and Pedersen (2014) compares knowledge regimes in Denmark, Germany, France and the United States, and find the Danish knowledge regime to be particularly consensus oriented in contrast to the US competition-oriented knowledge regime.

Despite these caveats, the Danish case does share important elements with other West European countries, which shows us the broader relevance of this type of model study. Analysing the Swedish Social Democrats, the British Labour Party and the German Social Democrats, Mudge (2018, pp. 304–364) argues that in the 1980s and 1990s, these left-leaning parties parted with the Keynesian economists on whom they had previously relied, and began listening to more neoliberal-oriented economists. For example, Mudge (2018, pp. 327–330) shows how, in Sweden, Keynesian economists linked to the Social Democrats and the labour unions lost influence, while neoliberal economists in the Finance Ministry and in the financial sector gained a more prominent role in providing policy recommendations. Thus, we need to study the models used in these organisations and sectors to gain insight into the ideas behind policy decisions. This article offers a novel way of studying the institutionalised influence of economic models and encourages more research into the conditions under which such models wield political influence via economic and political actors.

## Acknowledgements

Ove Kaj Pedersen, Caroline de la Porte, John L Campbell, Cathie Jo Martin, Lasse Folke Henriksen, Birthe Larsen, Martin Carstensen

## Disclosure statement

The author is Member of the European Parliament elected for the Danish Social Democrats.

## Funding

This work was supported by the Innovation Fund Denmark; the think tank Cevea; and the Nordforsk-funded project, ReNEW (project number 86036).

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