Northern Realignment?

Next Generation EU, Hayekian Inter-state Federalism, and Nordic Social Democracy

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Prepared for Presentation at ISA 2024 Annual Convention, San Francisco
April 3rd - 6th, 2024

Introduction

The European Council passed Next Generation EU (NGEU) on July 21. 2020, supporting member-states responses to the COVID-19 economic shock with a total budget of €750 billion (€390 billion available as grants and €360 billion as loans), doubling the size of EU's budget. Proposed by the Commission on May 27, this deal was made possible by a May 18 Franco-German agreement, which broke previous German taboos against fiscal transfers and mutualized bonds.

Though exceptional and time-limited, the NGEU is compared favourably with Eurozone crisis-management in EU scholarship and rightly considered path-breaking. For post-functionalists NGEU is symptomatic of COVID-19 turning trade-offs between functional scale and communal-territorial scope upside-down in favour of *ex ante* fiscal risk- and burden-sharing (Genschel & Jachtenfuchs, 2021). For historical institutionalists, existential crisis-tendencies engendered learning (Ladi &Tsarouhas, 2020; Schelkle, 2021), with debate revolving around its degree. Is NGEU the usual 'failing-forward' 'piecemeal response forged by minimum winning coalitions in the heat of a crisis,' to the institutional deficiencies of earlier iterations of lowest common denominator agreements (Jones, Kelemen & Meunier, 2016: 1012; Dimatrokopoulos and Lalis, 2022)? Or is it something more as NGEU leverages capital investments in EU's digital transition, 'Green Deal' (Rhodes, 2021; Fifi, 2023; Eckert, 2021), and possibly prefigures permanent autonomous fiscal capacities (Buti & Fabbrini, 2022)? Whatever the degree of learning, some scholars paradoxically find its cause in the weakness of EU's centre, compelling member states to support centralisation (Alexander-Shaw, Ganderson & Schelkle, 2023). Others consider Franco-German 'embedded bilateralism' decisive (Krotz & Schramm, 2022), which for critical theorists entailed a Gramscian 'passive revolution' led by German 'fractions' of capital (Schneider, 2023; Ryner, 2023).

But if NGEU is about learning, why do we see slow learners? How do we, for instance, explain the reticence of the Frugal Four (2020), that responded to the Franco-German initiative with a non-paper on May 23, reiterating opposition to EU-level deficit funding, debt mutualization, and fiscal transfers? And why did the Frugals later drop their opposition in July in exchange for the loans-component being introduced with 'National Recovery and Resilience Plan' conditionalities? Smeets and Bekius (2023) contribute to understanding by demonstrating how the Netherlands lost agenda-setting power in the 'hub and spoke bargaining' prior to the Franco-German agreement. But apart from assuming, rather than explaining, enduring Dutch and Frugal Four preferences, this leaves the Nordic social democracies unexplained. Their position is, puzzling as NGEU supports countercyclical policies that are completely uncontroversial in Nordic welfare policy regimes (Esping-Andersen, 1990). This article explains empirically both Nordic baseline reticence to NGEU in the Social Democratic Nordic governments and why they ultimately dropped their opposition.

We argue, firstly, that Nordic baseline reticence accords with Hayek's vision of European integration, captured most parsimoniously by Scharpf's conception of the 'joint-decision trap' and 'challenge of diversity.' For fiscal policy, this is elucidated by deriving state-preferences from the post-Keynesian growth models perspective. The still relatively labour inclusive growth models, 'balancing' export-orientation and domestic consumption, have generated broad Nordic consensus for fiscal-federal scepticism. The growth models perspective also helps explain why the Nordics nevertheless ended up agreeing to NGEU. Drawing on elite interviews and documentary evidence we demonstrate, , that the joint-decision trap was overcome because Nordic governments followed Germany once the government herehad decided to lead on NGEU. Our research confirms the growth models hypothesis that preferences of dominant business-interests, in this case the export sector, are ultimately dominant in policy-formulation. We identify two channels through which these preferences were asserted. The first we call the 'Amsterdam School channel' to denote transnational class-formation: Business Europe forged a common position that then provided the basis for consensus formation with trade unions in Nordic societies. The second we call the 'Moravcsik channel' to denote intergovernmental power dynamics in the European Council. Nordic governments considered NGEU inevitable once the German Ministry of Finance had orchestrated policy change in response to change in German business preferences. But within compressed timescales such as in this case, verification of the growth-models perspective comes with a caveat: In the short run, political systems have non-trivial autonomy, which generates paradoxes and complications: The Swedish Left Party retained the most 'Hayekian' position by rejecting NGEU wholesale, while the most pro-business pro-EU parties of the centre-right – then in opposition – were among the most sceptical to NGEU across the Nordics. In the most pro-EU Nordic state – Finland – this scepticism even endangered ratification as the Conservative Kokoomus made NGEU a constitutional issue.

Nordic Baseline Reticence

In 1939, Hayek proposed 'inter-state federalism' to keep European welfare-statism at bay. Immediate post-war developments turned out different, but Perry Anderson (2009: 30-31) has aptly called Hayek's vision 'prophetic', asthe Maastricht Agreement on EMU ended up being based on negative financial market integration, federal central bank independence prioritising price stability, and intergovernmental fiscal policy.

> *There seems to be little possible doubt that the scope for the regulation of economic life will be much narrower for the central government of a federation than for national states. And since, as we have seen, the power of the states which comprise the federation will be yet more limited, much of the interference with economic life to which we have become accustomed will be altogether impracticable under a federal organization* (Hayek 1948: 264-65).

For Hayek and ECB's intellectuals (e.g., Issing, 2002) this was a positive vision, whereas critical political economists consider it 'disciplinary neo-liberal' (Gill, 1998) 'asymmetric regulation' (Holman, 2004) that 'depoliticizes' class conflict (Bonefeld, 2012). Varying normative assessments aside, Scharpf's concept of a joint-decision trap (2002) captures its logic most parsimoniously. The essential point is that interstate federalism structurally compels all actors, whatever their ideological dispositions, to behave in neoliberal ways. This is because it favours non-decisions, given the prohibitively high threshold for reaching common decisions, in an organisation of member states with diverse welfare state institutions, traditions, and hence preferences. Though Scharpf has also written on fiscal policy (2011), his more explicitly analytical work has focused on social policy. For that reason, the growth-models perspective is more apt for capturing the joint-decision trap in the field of fiscal policy and for understanding the baseline reticence to NGEU of the Nordic social democracies.

The growth-models perspective has recently gained prominence in comparative and international political economy (Baccaro and Pontusson, 2016; Baccaro, Pontusson and Blyth, 2022). It forms part of a broader post-Keynesian turn, which is due to its success in coherently explaining the global financial crisis that morphed into the Eurozone crisis. Some working within this perspective can even reasonably claims to have predicted the latter (Stockhammer, 2008: pp. 197-98). Post-Keynesianism is sensitised to crisis-tendencies, because rather than *a priori* seeing capitalism as spontaneously tending towards equilibrium, it conceives of it as possessing destabilizing properties that must be contained through institutional arrangements (Baccaro & Pontusson, 2016: 184). Post-Keynesianism identifies three essential destabilizing properties in the interaction of (a) the determinants of effective aggregate demand, (b) functional income distribution between profits, wages, and rents, and (c) what it calls 'fundamental uncertainty.' Post-Keynesianism maintains that capitalism tends towards stagnation and inadequate demand expansion in relation to productive potential (a) because power relations and functional income distribution between capital, rentiers, and labour favours the former two (b) leading to sub-optimal propensities to consume. Fundamental uncertainty (c) is caused by the complexity of the real world, which compels actors to rely on past experience and conventions in making decisions. Most notably, this leads to liquidity preference - a propensity to hoard money, which amplifies tendencies to underconsumption- (a).

The 'Fordist' institutions of post-World War II welfare capitalism could in this context be seen as containing these destabilizing properties and harnessing the dynamism of industrial capitalism. By indexing wage increases to productivity growth, mass production and mass consumption were integrated ex ante, generating stable and high growth (Marglin & Schor, 1992). With global competition, the return of unemployment, flexibilization of labour markets and welfare state retrenchment, this integration between mass consumption and mass production, underwritten by productivity growth, broke down (Boyer, 1991). It was replaced by the extension of debt underwritten by asset values in 'finance-dominated accumulation.' Financial liberalization, and securitization became the favoured way to deal with fundamental uncertainty and increased the capacity to extend asset wealth effects and loans at the retail side in what Colin Crouch (2009) calls 'privatised Keynesianism'. Finance-dominated capitalism could thereby for a time maintain adequate expansion of effective aggregate demand despite a falling wage share and an increase in rentier profits. However, this short-termist system was prone to Minskyian speculative manias and panics and expansion into ever riskier segments of the market. Ultimately, this caused the global financial crisis, and eventually Eurozone crisis, through contagion from the US subprime mortgage crisis. Post-Keynesian economists criticized Eurozone crisis management on this basis. The one sided adjustment by deficit countries and Troika austerity policy was seen as exacerbating effective demand problems by causing further falls of wage shares, while lack of progress on financial controls and excessive reliance on monetary policy resuscitated an inherently unstable financial system. This was seen as a recipe for further asymmetric shocks in a non-optimal currency area (e.g., Stockhammer, 2011). But these economists do not explain why fiscal-federal alternatives were not pursued.

The growth models perspective, by contrast, contributes to this question by developing a typology that helps elucidating the 'challenge to diversity' in fiscal policy as societies have responded to the more stagnant 'post-Fordist' finance-dominated era. Rather than being based on trade theory and comparative advantage, as the Varieties of Capitalism perspective (Hall and Soskice, 2001), the growth models typology is based on the different components of aggregate demand. The purest form of a 'privatised Keynesian' growth model, characteristic of the US and UK, is based on household consumption facilitated through the extension of debt, made possible by the softer current account deficit constraints are of these states because of their nodal position in global capital markets (Baccaro & Pontusson, 2016: 186). The southern Eurozone countries also pursued growth based on debt-financed consumption, but then faced prohibitive and potentially catastrophic external constraints in the crisis, lacking the devaluation-option as well as the intermediary capacity afforded by a global financial centre (Konings, 2008: 256). It is no wonder that calls for Eurozone fiscal federalism is the strongest in these states. By contrast, in the German, Nordic, Austrian, and Dutch models aggregate demand is export-led, and therefore a stimulation of consumption or government expenditure can become counter-productive through increases in the real exchange rate (Baccaro & Pontusson, 2016: 186). These states have had less need for EU-level fiscal expansion, which also may threaten the norms that have anchored the corporatist institutional arrangements.

Remaining comparatively labour inclusive, these Nordic preferences rest on a comparatively broad socio-political consensus (Stahl, 2022). Though retrenched compared to the Fordist golden age, social democratic institutions remain relatively encompassing, integrating a larger segment of labour into the core labour market, including the service sector (Thelen, 2014; Bengtsson and Ryner, 2017). Contrary to Germany, the growth model includes competitive advantage in high value-added services. Furthermore, financialisation has enabled debt-financed domestic consumption (Baccaro & Pontusson, 2016: Wood, 2019), making domestic consumption a significant driver of aggregate demand (Baccaro & Hadziabdic, 2022; Erixon & Pontusson, 2022).

The Forging of Nordic Consent to NGEU

If the labour inclusive export-oriented growth models generated a broad-based reticence of the social democratic Nordics toward fiscal federalism, as we argued, why did they in the end consent to passing of NGEU in the Council? The stress post-Keynesianism puts on instability provides a starting point as this suggests that preferences also may be unstable in a crisis. Yet, this does not include the political process in the analysis. In a separate paper, however, Baccaro and Pontusson (2019) usefully extended their analysis to political constitution of growth models. In this analysis, they suggest that the terms of party-competition - the formal basis of representation in liberal democracy - reflect a hegemonic 'social bloc'. Here they follow a tradition traceable Gramsci's analysis of 'relations of force' (1971: 397-411; also e.g., Häusler & Hirsch, 1989; Ryner, 2002; Amable, Guillaud & Palombarini, 2012). Social bloc-formation is in this context understood as led by dominant groupings of business, which mediate different sectoral positions to generate a coherent class position for the business community as a whole. It then arranges a social accord with core segments of the working class. This includes ideological elements, which equate the interests and compromises of this bloc with the general interest, common sensical, and rational. Political parties aspiring to lead the state apparatus, compete within the terms set by this. Our analysis verifies this conception by specifying two concrete channels of transmission. The first channel, which has been stressed by the Amsterdam School (Holman, 2004; van Apeldoorn, 2002) is one of EU-level transnational class formation. The other channel, stressed by intergovernmentalists (Moravcsik, 1993) operates through the Council of Ministers. But our research also suggests, however, that within compressed timescales such as these, autonomous dynamics in the political system can generate non-trivial complications.

German policy change, orchestrated by in the Ministry of Finance by Scholz' State Secretary and ex-Goldman Sachs employee Jörg Kukies (Ryner, 2023: 635), fundamentally recontextualised the situation in all three Nordic countries (Interviews, Ekholm; Tuomioja; Keskinen; Häkämies; Lykketoft; Valentin). The exceptional drop of GDP caused by lockdowns was a decisive catalyst for German change, which, however, had broader underlying causes that changed how the Ministry mediated economic interests (Schneider, 2023). Reconsideration of China as a rival in strategic sectors, and not only export-outlet, but compelled key German companies also to upgrade the importance of the Single Market to final demand. Especially, the danger that Italy would exit the Euro needed to be addressed. BDI articulated this position as early as 2018 (BDI, 2018) and Business Europe (2020) outlined a recovery plan, conditional on structural reforms, much in line with NGEU 18 days before the Franco-German initiative.

Business and Trade Union Preferences

Following Business Europe's position, the Nordic business organisations immediately started to promote an EU recovery plan and formed consensus with central trade unions. They stressed the attendant market opportunities, calling for funds to prioritise digitalisation and structural reforms enabled by strict conditionalities. The Confederation of Finnish Industries (EK) communicated this position four days after the Commission announced the NGEU proposal (EK, 2020). Its CEO, former Kokoomus Government Minister Jyri Häkämies, stressed the danger of Italy leaving the Euro and linked fiscal income-transfers to the strong commitment of Finnish business to European integration.

> Yes, it's a tricky question, but Italy counts for 15 per cent of the GDP of the EU. So now that Britain has left, and if Italy would leave, the floor starts creaking worryingly under our feet…but to your question, the basic answer is yes, but where is the limit?

Anders Edholm, head of Swedish Näringslivet in Brussels and former Secretary General of the Moderate Party confirmed agreement with Business Europe from the outset and the importance to link NGEU to the European Semester. Together with EK, Näringslivet had advocated "scoreboard" to monitor how the money was used. Edholm underlined the importance of fiscal stimulus to the export sector as a reason to support NGEU, as well as the need to show markets that the EU can act together (Interview, Edholm). That Swedish business saw NGEU as imperative, despite domestic criticism, was confirmed when the small business organization Företagarna linked it to EU being vital for Swedish exports and arguing that "the survival of the EU directly affects Swedish business positively" (Europaportalen, 2020a).

The Federation of Danish Industry (DI) took a similar position, stressing, if anything, more strongly the case for infrastructural investments. The priorities were less on the overall size of NGEU or potential financing-costs, including debt-financing, but rather on the potential positive effects of investments on market opportunities of Danish firms:

> We must have better physical infrastructure, better digital infrastructure, better energy infrastructure. We think these are some very important investments. Our goal in this process is that the largest possible amount should go to these posts (Interview, Beck).

While agreeing in principle to 'a relatively strict economic framework for EU member states budget' (interview, Sørensen), given the need in 2020 for substantial Europe-wide investments to avoid Danish export markets being hit (Klarskov, 2020), DI advocated substantially more fiscal expansion than either the government or Centre-Right opposition.

The Finnish blue-collar trade union confederation (SAK) quickly declared its support for NGEU. Pointing to Finnish exports 'suffer[ing] seriously' if other EU countries were affected by the pandemic, for SAK the 'worry for increasing mutual responsibility is smaller than the worry of a prolonged stop of the economy' (Marttinen 2020). Anni Marttinen, responsible for drafting SAK's position on NGEU, pointed to the experience of the Eurozone Crisis and a generational shift among social democratic economists and politicians.

> Within the SDP there has been a generational change. With [Prime Minister and party leader] Marin and [Vice Chair] Mäkynen, there's not any more the trauma of the depression of the 90's. Also, economists of my generation have seen the effect of the financial crisis. We saw how austerity failed, and we are of the opinion that it simply cannot be that balanced budgets and financial discipline would be more important that preventing people from even dying or getting unemployed.

A joint Union (SAK, AKAVA) - Business (EK) position paper was presented to the Finnish coalition government before the Grand Committee of the Parliament deliberated on its negotiation stance. In their position paper, they pointed to the vital interests of the export sector in calming markets and supporting the functioning of the Single Market as central in ensuring the global competitiveness of Finnish industry (EK, 2020).

Danish trade unions were more split. The metal workers union Dansk Metal, while not the largest of the Danish unions by way of membership, is by far the most centrally placed in the Danish power elite (Ellersgaard & Larsen 2018). Representing key, skilled workers in the export industries, Dansk Metal is the most invested in the European scene. In an uncharacteristic intervention in June 2020, they publicly opposed official government scepticism to NGEU. Supported by the DI, its president Claus Jensen, urged the government to change its position warning that Denmark would end up 'sitting alone on a raft with Austria, Sweden, and the Netherlands. I think one should rather follow the path that Germany and France are taking' (Klarskov, 2020). This was not uncontroversial at the Confederal (LO) level. 3F, representing most of the unskilled workers, dismissed the intervention, lending support to the government line. Nevertheless, Dansk Metal's EU Director, Johan Moesgaard, describes how that union managed to rally support for their line behind the scenes at a Nordic level, leading the Nordic industrial unions to issue a joint statement supporting NGEU.

> We wanted to appeal to the Nordic governments to somehow turn the ship around. We said, we know very well that we have had an austerity line. We know that we in the Nordic countries have probably been a little reluctant, but now it's time to help our European colleagues. Partly out of solidarity, but also to help ourselves (Interview, Moesgaard).

Swedish unions kept a lower profile. But after the Council decision, blue-collar Confederation (LO) President, Susanna Gideonsson, lent LO support for the broad orientation towards recovery, green transition and digitalization in NGEU ('every fifth job in Sweden is dependent on Europe'). Simultaneously though, she endorsed the negotiating stance the government had taken, criticizing countries that had not saved or raised the requisite taxes (Europaportalen, 2020b). Swedish LO supported NGEU, but less enthusiastically than their Finnish counterparts, the Danish metalworkers, or indeed the business community.

Government Positions

In contrast to union and especially business support, as indicated by the May 23 non-paper, the Danish and Swedish governments initially publicly rejected NGEU. Initially less hard-line, the Finnish government's public position converged with the Frugal Four during the negotiations. Sweden's position emphasized that measures must 'as far as possible' build on existing instruments (Regeringskansliet 2020a), while:

> …the government is critical to that the Commission proposes that the recovery instrument will build comprehensively on jointly backed loans, and it is very critical to that the loans will be used as grants to member states. Affordable loans to member states that have a need are deemed a more appropriate support that creates sound incitements. Loans for the purpose of grants would signify stepping away from the principle that the EU-budget should be balanced.

Denmark, which had successfully returned the social democrats to power through a more welfare nationalist platform, took a similar official position. Characterized as the 'most Euro-sceptic Danish Prime Minister in history' (Nielsen, 2020), Mette Frederiksen had in 2019 called EU budget-expansion, assessed at costing Denmark an additional 700 million Euros/year, as ‘completely crazy’. She was in her own words "completely shaken by the idea of sitting and juggling European taxpayers’ money in such a profligate way. The money that we can allocate should go to our welfare society and not to bigger EU budget.’ (Hjøllund and Gjertsen, 2019). In the Parliamentary EU-committee Foreign Minister Jeppe Kofod presented Danish strategy as attempting to limit the scope of the Franco-German proposal in advance of the July summit.

> The government is sceptical of measures that involve mutual debt and transfers between EU countries, in part because it weakens the countries' incentive to pursue sound and sustainable national fiscal policies. (…) the government is of course familiar with the German French paper. That contains good proposals that are in line with Danish ideas (…) At the same time, it is no secret that we do not support mutual indebtedness - and especially not with transfers between countries. (Europaudvalg 2020).

The Finnish government conceded that an instrument was necessary, but opposed NGEU unless the amount of money, especially the grant part, and length of the facility, were not reduced (Valtiovarainministeriö 2020a; Valtioneuvosto 2020; Suuri valiokunta 2020). It also stressed the need to clarify that the crisis was “exceptional” and the measures taken “unique” (ibid.). According to Minister of Finance Katri Kulmuni, a crisis “should not be used for proposals increasing mutual debts’ (Yle, 2020)

Yet, whilst opposition to NGEU was ardent in public, outright rejection was seen as unrealistic, and all three governments aimed at negotiating a settlement. Apart from business and unions German change was experienced as a significant change. To Former Swedish Deputy Minister of Finance, Karolina Ekholm, who had been deeply involved in negotiations during the Eurozone crisis:

> What has obviously happened, in negotiating terms, is that Germany has changed sides. Because of different reasons decision makers have judged that there needs to be an instrument that makes income transfers between countries possible. And I speculate, I believe they concluded there was too much of a risk of disintegration of the Euro area. But when Germany and France, Macron and Merkel, went forward with a loan-based grant part, because of that, it was a foregone conclusion that it would materialize. Then a few Nordic countries had to try to negotiate in order to reduce it. That was the dynamic. Finland was there, also Sweden, led by the Netherlands.

Similarly, to social democratic MP and former minister of foreign affairs of Finland, Erkki Tuomioja, the change in Germany’s position determined the subsequent Finnish position:

> Finland did not play a role on its own. Like before, we have followed Germany’s line, but perhaps it was a surprise that Germany, from having been the most reticent state in Europe, now wants to save the whole European economy (Interview, Tuomioja).

“In a way [the German position] was a surprise” to Satu Keskinen, head of the EU Department at the Finnish Prime Minister’s Office: To outright oppose the proposal did not seem like a realistic option.

> We saw all permanent mechanisms as a no go as before, but this was about solidarity, when the crisis is nobody’s fault, so then we can support it. But that the government

or Finland would have thought this would be a good instrument (pauses) well we sought the frame within which it would make it possible to accept it, and with the caveat that this was a one-time solution we went in for supporting it.

While Keskinen see continuities in the overall Finnish position, to Marketta Henriksson Director of the Secretariat of EU Affairs at the Finance Ministry, responsible for drafting the memoranda that formed the basis for the Finnish position (Valtiovarainministeriö, 2020), there had been a substantial shift in thinking.

> Well, it is quite, well I don't know, perhaps it is so that the Minister of Finance is obliged to, due to his position, have a stricter line regarding budget discipline. But this crisis has substantially changed our line, if one considers that the budget frame is suspended, that for the first time ever the frame is made larger in the midst of a government period, it is really historical. So yes, it can't be denied there has been a change of line.

The centrality of Germany's surprising shift is echoed in Denmark. Former Finance Minister and President of the Social Democrats, Mogens Lykketoft considered it a "necessity to create a common fiscal stimulus and join in, when Merkel finally moved on the issue'. And, according to Kim Valentin from the centre right Venstre party: 'Of course we need to talk to Sweden, Holland and Austria, but Germany is the most central'. Furthermore, with Brexit, Denmark had lost a close ally on budgetary matters (Interviews, Fuglsang, Moesgard).

The strategy of negotiating a more favourable settlement rather than outright rejection is evident upon closer scrutiny. Though the initial position of the Finnish government was not to accept the Commission proposal if the grant part was not reduced and the time span for repaying the loans was not reduced (Valtioneuvosto, 2020), it is important to stress that the stated position was also that Finland was "open for further negotiations". A 'one-off' recovery instrument was considered necessary as Finnish exports and employment were dependent on a European recovery. So, while Finland opposed the proposed plan at this stage, the new Minister of Finance Matti Vanhanen publicly stated that 40 per cent of Finnish exports went to 6 EU countries, and that "countries cannot hustle on their own" (Kaleva, 2020). The Director of the Bank of Finland and former Vice-President of the European Commission, Olli Rehn, , also forcefully supported NGEU (Ibid.). The chair of the Grand Committee, Satu Hassi of the Greens, confirmed that there was support for the package at the Ministry of Finance.

> I have understood that the Ministry of Finance supports stimulus measures, and that Minister of Finance Vanhanen has written about it, and he is supporting that approach in his party.

Also in Sweden, the strategic objective was not to oppose steps towards fiscal federalism outright. Instead, the tactic was to focus on the reduction of the grant-based component. Pyry Niemi, social democratic chair of the Parliament EU Committee that needs to approve the mandate of the Swedish government, explained the negotiating position as follows:

> The mandate for the negotiations for the government was very clear, we push our position as long as it goes, and the government kept us very informed with regular meetings…no I don't think, no it was not in the balance, the government followed the parliaments understanding step by step, they had a strong backing, but the mandate

> hinged on to get a result with as little loans, or I mean loans that won't be paid back, as possible.

The focus was on the long-term budget instead, where Sweden "achieved a great success", for "the first time in a long while", Niemi explained. At the time of negotiations, the discussions were tough however, recalls Jessica Roswall, vice chair of the EU Committee and representative of Moderaterna: "I felt the government were of the same opinion as us, but then I am not sitting in Brussels, and I believe there is a different pressure there". She also admits that if The Moderates had been in government, it would have been difficult to act differently from how the government acted. It should be said that while Swedish business agreed with the NGEU from the outset, they also supported the government position as an instrument for ensuring that the package included conditionalities. The substantial point of criticism was that the government did not use the opportunity to negotiate even more conditionalities in return for support, mentioning the question of blocking proposals for an EU minimum wage (Interview, Edholm).

In Denmark, the government had solid support for its hard line against debt mutualization and Eurobonds (Europaudvalg 15/5), but against the backdrop of pressure from the social partners and change in the German position, focus changed also in Denmark towards containing the size of the fund, pushing for it being loans based, and oriented towards Danish priorities such as digitalization and green transition (Interviews, Lykketoft; Fuglsang; Mosegaard; Beck).

The Party System: Relatively Autonomous in Compressed Timescales

In line with the expectations of the growth models perspective, then, government strategies of not opposing NGEU but advancing the loan component, conditionalities, and orientations towards digitalization and green transition, follow the position of business and its social accord with core trade union interests. This influence was transmitted through two channels: Directly through the organized interests once a common position had been forged through Business Europe and one indirectly through the intergovernmental pressure exerted by Germany. However, as shown below, in compressed timescales such as here, autonomous dynamics in the party system can generate non-trivial complications.

In the Swedish case, a striking phenomenon has been that the liberal-conservative parties, the most pro-business and pro-EU parties, did not support NGEU even when the outcome reflected business interests. Though the Moderate Roswall admits that things would have been different had they been in power , it is notable that splits within the party compelled them to abstain in the vote on the Recovery Plan in Parliament. Another paradox is that the votes against the Recovery Plan came from far-right Sweden Democrats as well as the Left Party. While the latter certainly were for economic stimulus at the national level (and for loans by the European Investment Bank), their 'no' was in line with Hayekian inter-state federalism and the joint-decision trap. In the words of its then party leader and representative on the EU committee, Jonas Sjöstedt:

> Our stand in principle is that this [the Recovery Fund] is a question for the countries in the Euro. So as the fund is more about the Euro than about Covid, it is a question for the euro countries. That is our stand in principle. To that we can add that we see the EU as quite inefficient in relation to nation states for getting the wheels of the economy spinning. The economy is already recovering while the EU is still discussing what to do with the fund.

Difficulties emerged also the conservative-liberal and centre-right camps in Finland, and despite its more pragmatic position at the outset. And in this case, it jeopardized the ratification of the NGEU.. This is because divisions in Kokoomus made NGEU a constitutional issue requiring two-thirds majority in Parliament to pass. More generally, the passage of the Recovery Plan in the Grand Committee was not easy due to divisions in all the big parties (interview, Hassi).

There was broad elite economic expert support in favour of NGEU in the hearings conducted by the Grand Committee and other relevant parliamentary committees (Suuri valiokunta 2020). The instrument was for example seen as preventing a "devastating blow" to the euro area (Korkman, 2020) and it was deemed "a motivated basic position" that Finland should support to "get a specified compromise" (Pekkarinen, 2020). Vesa Vihriälä, a professor often cited by policymakers, was however critical of the fund, citing problems of moral hazard, increasing debt, and the "political problem" of fiscal federalism that, without extensive public debate would, undermine trust in the EU (Vihriälä, 2020). The latter position, which was cited as influential by a leading Kokoomus politician and economist when interviewed, (Vartiainen interview), might have contributed to the unclear position of the traditionally integrationist Kokoomus party. Kokoomus, the second major opposition party, was visibly divided internally, and abstained from voting in the Grand Committee. That the other large opposition party, the True Finns, were opposed, was clear, as they voted against the Government position in all committee hearings. This might be a reason for Kokoomus trying to balance between positions as long as possible, despite slightly more members of the public still supporting participating in the fund rather than not, according to one opinion poll (Source EVA).

The main argument against the fund, which eventually forced a qualified majority vote in Parliament, was based on constitutional arguments. The "constitutional" issue of whether the instrument violated budget sovereignty in a way not agreed upon when entering the EU, now became the question to debate (Leino-Sandberg, 2020). Also, as MP Juhana Vartiainen (Interview), who himself supported the fund from the outset, explained his somewhat ambiguous position "it does not matter if Finland supports it, but it might be useful. But what I strictly oppose is if this is a step toward a larger budget if it's not tied to stricter fiscal discipline". Thus, the situation put high demands on politicians who wished to justify support for the fund as a "necessary evil" for the sake of the general economic interest, and simultaneously advocate strict budget discipline and aversion to solidaristic income transfers.

In marked contrast to the Swedish Left, the Finnish Left Alliance has been a more enthusiastic supporter of fiscal federalism in the EU. Henri Purje, special adviser to the government and the party leader of the Finnish Left Alliance, said in an interview that "the Left Alliance position, if we take a step back, has been that EU level financial and economic policy is a positive, and we should have done it before already." Party leader Li Andersson also hailed the package later in August 2020, saying it was proof of a new, more solidaristic approach to economic policy in the EU (Kansan Uutiset, 2020).

In Denmark, if the government as mentioned above, faced pressure from social partners for supporting an expansive recovery fund, the political pressure went the other way. In parliament only smaller parties, centrist Radikale Venstre and Socialistisk Folkeparti on the left supported a more expansive deal. In contrast the government faced opposition to scale down not only from traditional Eurosceptics as the Danish People's Party, but also – and similarly as in the case of Finland and Sweden - from traditional EU stalwarts in center right Venstre (Bremer, 2020). Breaking with 50 years of parliamentary precedence, Venstre did not support the government negotiation mandate going into the July summit, and the Frederiksen government had to rely on a slim majority to get its mandate through parliament.

More generally, the terms of party competition in Denmark are conditioned by a level of public Euroscepticism that in this period included Frederiksen government. The main motivation of government, as well as the right opposition, was the fear of a potential backlash from Eurosceptic voters thinking that their tax money would be going bail out southern Europeans. Against this backdrop, the political project and strategy of the social democrats under Mette Frederiksen has been to move left on economic issues and right on cultural issues such as immigration and international affairs. As such the Frederiksen government, had since its start in 2019 had a reputation for more lukewarm approach to EU than previous Danish governments. Before the corona crisis Mette Frederiksen earned a reputation as 'the most EU sceptic prime minister in Danish History' (Nielsen 2020). This move towardsa moderate Euroscepticism must be seen as a part of the more general project of Danish social democrats to regain some of the, mostly working class, voters lost to The Danish Peoples Party in the first decades of the 21st century. Especially 2015 was a crucial turning point. Here the government of Helle Thorning Schmidt was defeated after one term, in an election that saw the Eurosceptic Danish Peoples Party with a historic result at 21%. With a strong showing for The Eurosceptic Red-Green Alliance as well, the Danish parliament had a historic high number of Eurosceptic representatives (Hansen and Stubager, 2017). Furthermore, in a referendum in December 2015, the new right-wing government under Lars Løkke Rasmussen, ended up losing an attempt to remove the Danish opt-out for juridical matters. In this context the Frederiksen government turned towards a stance in Europe that was less focused on a positive European vision and more on communicating a direct and effective defence of the Danish welfare state and the interest of Danish taxpayers.

This evaluation of fiscal and budgetary policy contrasts with the stance of the government with regards to public debt and fiscal expenditure at the national level. Here the government was consciously trying to distance itself from the fiscal orthodoxy of earlier governments – notably also the Thorning-Schmidt government of 2011-15, representing a third way, neoliberal version of social democracy. Asked to answer how she would pay for the generous Covid relief packages, Frederiksen described the question as representing "a slightly old-fashioned and perhaps a traditional right-wing (bourgeois) way of looking at it. I believe that in Denmark we can invest ourselves out of the crisis" (Voldsgaard, 2021). The idea of the Frederiksen government as representing a break with the neoliberal policies that had dominated earlier social democratic governments, were self-consciously described by social democrats as a "paradigm shift" (Interview, Fuglsang). This paradigm shift did not result in a shift of priorities on the European scene, however. The attempt to move away from a cosmopolitan and European focus, has also led to a bifurcation of the social democratic stance to fiscal and economic policy. Rather than seeing European fiscal policy as a continuation of domestic economic policy, with the dividing lines going along left-right lines, the European political scene was constructed as a depoliticized arena, of securing national, economic interest. A situation different from the larger European countries as well as the situation in Finland. As such, the expansive and Keynesian line put out on a national level, was not relevant in the EU context, and the protection of Danish working-class interest, were conceptualized as solely lying in the reduction of economic transfers to Brussels.

Conclusion

This article offers several contribution. Firstly, drawing on a growth model perspective it explains the fiscally hawkish dispositions of the Nordic social democracies at a European level. Secondly, employing a combination ofelite interviews and documentary analysis, the article demonstrated that the ostensible principled resistance to NGEU was a primarily a negotiating strategy This strategy was orchestrated to serve the interests of the business community, in collaboration with labor unions, with the intention of promoting a recovery strategy featuring a loan-based component, coupled with structural prerequisites, channelling investment to their preferred areas like green transition and digitalization. In broad terms, then, the this study lend support to the growth models argument that policy follow the interest and stated terms of the key socio-economic players of the power bloc, notably unions and firms in the export sectors.

However, the article also contributes specificity and a caveat to the narrative of determination of policy by economic interests. The specificity pertains to the transnational process whereby socio-economic interests are formulated and asserted. In line with the assertions of the Amsterdam School, we underscore the importance of a common business position at the EU level that subsequently is transmitted into the domestic level Concurrently, however, in line with intergovernmentalism we demonstrate the importance of the balance of power in the Council and the pivotal impact of German policy change, which also can be traced back to socio-economic interests. The caveat regards the autonomy of the party-political system, where considerations of domestic policy and public opinion played significant roles in short-term policy formation in all the Nordic member states. In the short term, party competition has its own relatively autonomous logic, which yielded paradoxes and even potentially jeopardized NGEU ratification, despite the political preferences of powerful social forces.

An important question for future research concerns the likely future stance of Nordic Social Democracy towards an autonomous fiscal capacity at the EU level. It is beyond the scope of this article to address this question, but prima facie there seems to be a difference between how this issue is understood in the only Nordic state in the Eurozone – Finland – and the others. The Finnish left, in particular understands NGEU as signalling a welcome paradigm shift, whereas there is no sign of that in Sweden and perhaps most notably in Denmark. Here, the centre-left has responded to the rise of the far right by embracing an overtly nationalist policy and treating the EU as a depoliticized realm, distinct from domestic politics. It is far from clear that the growth model perspective helps in explaining this apparent variation.

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