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Northern Realignment? Explaining Nordic Consent to NextGenerationEU

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Abstract

This article explains the consent of the European Union's (EU) Nordic member states to NextGenerationEU (NGEU). Broad domestic consensus against EU-level fiscal federal measures, based on what the growth model literature calls labour-inclusive export-based growth models, was overcome through two channels. Despite principled opposition in public, Nordic governments responded almost instantly to the changes in German preferences in the 'Moravcsik channel' of intergovernmental bargaining. This was complemented by dynamics in the 'Amsterdam School channel' that co-ordinated transnational support by export-oriented business for an EU-level recovery plan and set the stage for consensus formation with trade unions. Despite non-trivial complications in the short run, the party systems followed these leads in executive and corporatist politics.

Keywords: fiscal federalism; NextGenerationEU; Nordic countries; Single Market/Economic and Monetary Union; social democracy

Introduction

The European Council passed NextGenerationEU (NGEU) on 21 July 2020. Subject to National Recovery and Resilience Plan conditionalities, NGEU supports member state responses to the COVID-19 economic shock with a total budget of €750 billion (€390 billion available as grants and €360 billion as loans). It thereby doubled the size of the European Union's (EU) budget in the new Multiannual Financial Framework. Proposed by the Commission on 27 May, NGEU was made possible by a Franco-German agreement on 18 May, which broke previous German taboos against fiscal transfers, EU-level deficit spending and mutualised bonds.

Though exceptional and time-limited, the NGEU is considered path-breaking and compares favourably with Eurozone crisis management in EU scholarship. Post-functionalists consider NGEU symptomatic of COVID-19 turning trade-offs between functional scale and communal–territorial scope upside-down and favouring ex ante fiscal risk- and burden-sharing (Genschel and Jachtenfuchs, 2021). For historical institutionalists, existential crisis tendencies engendered learning (Ladi and 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 (Dimitrakopoulos and Lalis, 2022; Jones et al., 2016, p. 1012)? Or is it something more as NGEU leverages capital investments in the EU's digital transition, 'Green Deal' (Eckert, 2021; Fifi, 2023; Rhodes, 2021), and possibly prefigures permanent autonomous fiscal capacities (Buti and

Fabbrini, 2023)? Whether or not best understood as learning, some scholars paradoxically find the cause of the NGEU agreement in the weakness of the EU's centre, compelling member states to support centralisation (Alexander-Shaw et al., 2023). For others, Franco-German 'embedded bilateralism' was decisive (Krotz and Schramm, 2022), which for critical theorists entailed a Gramscian 'passive revolution', or 'progressive restoration', led by Germany's export-oriented 'fractions' of capital (Ryner, 2023; Schneider, 2023).

Questions remain though about the 21 July Council NGEU agreement. Amongst these, what explains the consent by the 'Frugal Four' (The Netherlands, Austria, Denmark and Sweden) to it? After all, as late as 23 May, they had responded to the 18 May Franco-German initiative with a non-paper reiterating their opposition to EU-level deficit funding, debt mutualisation and fiscal transfers (Frugal Four, 2020). Smeets and Bekius (2023) contribute to our understanding by demonstrating how the Netherlands lost agenda-setting power in 'hub and spoke bargaining' prior to the Franco-German agreement. But apart from assuming, rather than explaining, what until that point had been enduring Dutch and Frugal Four preferences, this leaves the consent of the Nordic social democracies of EU member states unexplained.

This article addresses this gap by explaining that Nordic consent was secured through two common and distinct but complementary channels of influence spanning intergovernmental bargaining and transnational business and societal relations. Demonstrating this requires, as a first step, specifying what until then had seemed an 'immovable object' but which proved to be movable after all. It entails explaining why the social democratic Nordics had previously resisted moves towards fiscal transfers, debt mutualisation and EU-level deficit financing. This is far from self-evident, as these are in line with countercyclical policies that are completely uncontroversial domestically in Nordic welfare policy regimes. We argue that this apparent contradiction between domestic and EU-level policy can be explained by bringing recent developments in comparative political economy to EU scholarship, which suggests that it is due to particularities of the export-oriented yet comparatively labour-inclusive Nordic *growth models*. These have contributed to the 'challenge of diversity' (Scharpf, 2002), constraining the prospects for EU-level 'positive' decisions and balancing 'negative' market integration.

We then explain why the object moved and why the Nordic states nevertheless consented to NGEU. We demonstrate in the second section that they responded to pressures exerted through the 'Moravcsik channel' of intergovernmental bargaining. Despite principled opposition in public, Nordic governments considered Germany's concord with France to have shifted the terrain of contestability in the Council, rendering NGEU inevitable. Keen to retain reputations as 'reasonable negotiation partners', the priority was then to influence its content, to ensure a significant loan component and European Semester conditionalities.

But, as Moravcsik (1998, pp. 24–50) himself stresses, intergovernmental bargaining is not ontologically primitive but arises from preferences derived from preponderant social forces. And, as a recent article in this journal by Schneider (2023) has shown, the German change that lay behind the 18 May Franco-German initiative resulted from reassessments of business preferences as mediated by the Ministry of Finance (MoF). The intergovernmental pressure experienced by the Nordics, then, was a derivative of changing German class relations. But Schneider also demonstrates that influence was exerted through a coordinated pan-European business position that included changing German and Nordic export-industry preferences (BusinessEurope, 2020). In the third section, we account for how this channel ensured broader support for NGEU in the Nordics through corporatist consensus formation with trade unions. In recognition of the work of van Apeldoorn (2002), Holman (1992) and others, we call this the 'Amsterdam School channel'.

Insofar as NGEU can be seen as a Euro-Keynesian development, our research suggests – not to put too fine a point on it – that it was business, not the left, that led to this movement. This accords with recent theorisations by the leading proponents of growth model theory that the formal political system follows parameters set by business-led 'social blocs' or coalitions in the forging and adjustment of 'growth models' (Baccaro and Pontusson, 2019). But the final section suggests that a corollary to that theory is in order within compressed timescales such as in this case. Whilst it seems that, in time, the political system will follow the terms agreed by the social bloc, in the short run, it has a potentially non-trivial autonomy, which generates paradoxes and complications: the Swedish Left Party retained the most anti-Euro-Keynesian position by rejecting NGEU wholesale, whilst the most pro-business pro-EU parties of the centre-right – then in opposition – were amongst 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. Here, the Confederation of Finnish Industries (EK) was compelled to directly intervene to ensure that Finland ratified NGEU.

The evidence upon which our argument is based was generated through elite interviews of key politicians, civil servants, and representatives of business confederations and trade unions. We thereby obtained otherwise inaccessible information from decision-makers who had been involved in the process or who possessed in-depth knowledge of similar processes of decision-making in the past. The interviews were hand coded for systematic patterns of priorities, policy positions, and contacts and discussions with domestic and European partners. They were triangulated through the analysis of key documents (from governments, parliaments, business associations and trade unions) that, at different stages in the process, formed the basis for the stance taken in negotiations and in parliamentary deliberations. We also used media sources where the positions of key decision-makers on NGEU were expressed. This allowed for the untangling of the specific timing of decisions and statements in a complex timeline, where the recollection of interviewees was insufficiently clear, which made a temporal reconstruction of events possible, allowing us to clearly identify the specific mechanisms of influence between actors and institutions.

I. Specifying the (Movable) Object: EU-Level Diversity and Export-Oriented, Labour-Inclusive Growth Models

The reticence of the Nordic member states to support a common EU-level fiscal capacity is at first glance puzzling as state capacity to make public investments and pursue full employment policy with 'decommodified' social wages is central to their social democratic welfare policy regimes (Esping-Andersen, 1990). The puzzle is most parsimoniously grasped through Scharpf's (2002) concept of a joint-decision trap and the challenges that welfare state diversity poses for EU governance. The essential point is that a project of European integration that is primarily based on negative integration (through mutual recognition and an asymmetrical relation between federal monetary policy based on a simple price stability norm and interstate fiscal, wage and social policy) structurally inhibits actors, whatever their nominal ideological dispositions, to act in concert in social democratic ways. Such integration favours non-decisions, given the high threshold for diverse welfare states reaching common decisions, and hence limits the prospects of political intervention in markets. In the fiscal policy field, the role of the Nordics in this 'challenge of diversity' is most aptly captured by bringing comparative political economy to the analysis of EU politics and, more specifically, the growth model perspective.

Though with a longer lineage also including regulation theory (Amable et al., 2012; Bieling et al., 2016; Mjøset, 1987), the growth model perspective has recently gained prominence in political economy as part of a post-Keynesian turn (Baccaro et al., 2022; Baccaro and Pontusson, 2016), which could claim success in coherently explaining the global financial and Eurozone crises (e.g., Stockhammer, 2008, pp. 197–198). Post-Keynesianism, just as regulation theory, is sensitised to crisis tendencies because, rather than a priori seeing capitalism as spontaneously tending towards equilibrium, it conceives of it as possessing destabilising properties that must be contained through stabilising institutional arrangements (Baccaro and Pontusson, 2016, p. 184). The crucial stabilising factor concerns the source of effective demand, driving growth in the economy. Hence, growth models are distinguished by the balance of growth contributions between net exports, investment, domestic consumption and net government expenditure.

The 'Fordist' institutions of post-World War II welfare capitalism could, in this context, be seen as containing these destabilising properties and harnessing the dynamism of industrial capitalism. By indexing social wage increases to productivity growth, mass production and mass consumption were integrated ex ante, generating stable and high growth (Marglin and Schor, 1992). By the 1980s, with global competition, the return of unemployment, flexibilisation of labour markets and welfare state retrenchment, this integration between mass consumption and mass production, underwritten by productivity growth, broke down (Boyer, 1991).

The variety of contemporary growth models should be seen as strategies for handling the demise of wage-led Fordist growth and discovering new 'post-Fordist' pathways of effective demand (Baccaro and Pontusson, 2016, p. 180; Becker and Jäger, 2012). A 'privatised Keynesian' (Crouch, 2009) growth model, characteristic of the United States and United Kingdom, is based on household consumption facilitated through the extension of debt, made possible by the softer current account deficit constraints faced by these states because of their nodal position in global capital markets (p. 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, p. 256). It is no wonder that calls for Eurozone fiscal federalism are the strongest in these states.

By contrast, in the German, Austrian, Dutch and Nordic models, aggregate demand is driven by exports, and therefore, stimulation of consumption or government expenditure can become counter-productive through increases in the real exchange rate (Baccaro and Pontusson, 2016, p. 186). These states have had less need for EU-level fiscal expansion, which may also threaten the norms that have anchored their corporatist institutional arrangements. In Finland, the Economic and Monetary Union (EMU) membership was seen as possessing the virtues of anchoring budgetary discipline, exchange-rate stability and price stability, which contain nominal wages and facilitate macro-wage flexibility (Valtioneuvoston kanslia, 1997, pp. 11–12; Valtiovarainvaliokunta, 1998, pp. 2, 5). Despite not being a member of the Euro, Denmark has since 1982 maintained an unaltered currency peg to the Euro and, earlier, the Exchange Rate Mechanism (ERM). This has meant that Denmark has adhered strictly to the Stability and Growth Pact (SGP) criteria and has, through the 2012 budget law, adopted fiscal rules even stricter than the Fiscal Compact (Danish Economic Council, 2019; MoF, 2012). Though not adopting the Euro and retaining exchange-rate flexibility, the Swedish consensus adopted the SGP as anchor and unconditionally supported the Fiscal Compact, and the so-called 'Europe norm' – defined as the Eurozone inflation rate plus Sweden's long-term rate of productivity growth – came to determine the 'corridor' of possible wage increases in corporatist wage bargaining (Bengtsson and Ryner, 2017; Regeringens proposition, 2012).

Remaining comparatively labour-inclusive, Nordic preferences rest on a comparatively broad socio-political consensus (Stahl, 2022). Though retrenched compared with 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 (Bengtsson and Ryner, 2017; Thelen, 2014). Contrary to Germany, the growth model includes competitive advantage in high value-added services. Furthermore, financialisation has enabled debt-financed domestic consumption as a significant driver of aggregate demand (Baccaro and Hadziabdic, 2024; Baccaro and Pontusson, 2016; Erixon and Pontusson, 2022; Wood, 2019).

But if these labour-inclusive export-oriented growth models have generated a broad-based reticence towards fiscal federal measures, why did the Nordics consent to passing NGEU? This question concerns the determination of policy, which the growth model perspective theorises as residing in the parameters set by the hegemonic 'social bloc' underpinning a growth model (Baccaro and Pontusson, 2019). Following a tradition traceable to Gramsci's (1971, pp. 397–411) analysis of 'relations of force' (also, e.g., Amable et al., 2012; Häusler and Hirsch, 1989; Ryner, 2002), they suggest that the terms of party competition – the formal basis of representation in liberal democracy – reflect these parameters. Social bloc formation is 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 sense and rationality. Political parties aspiring to lead the state apparatus compete within the terms set by this hegemony.

In abstract terms, our findings accord with this conception, but they also suggest that it must be further concretised. In the case of Nordic consent to the NGEU, we find that the process of change operates through two complementary channels. The first intergovernmental 'Moravcsik channel' transmits the changing preferences of the social bloc of the hegemonic state through the Council. In the other, 'Amsterdam School channel', the dominant export sector of that state is involved in the co-ordination of interests by dominant business groupings of other states, including the Nordic ones. These then facilitate broader consensus formations with trade unions in their respective social formation. Our research also suggests, as accounted for in the final section, that, though the party system in time follows the accord of the dominant social bloc, within compressed timescales such as those in which NGEU was formed, autonomous dynamics in the political system can generate non-trivial complications. The remainder of this article outlines these dynamics in the Nordic member states.

II. Intergovernmental Bargaining and Nordic Consent to NGEU: The Moravcsik Channel

As indicated by the 23 May Frugal Four non-paper, Denmark's and Sweden's initial public position rejected NGEU outright, whilst Finland's somewhat less hard-line public position converged with the Frugal Four during the negotiations. Emphasising that measures must 'as far as possible' build on 'existing instruments', the Swedish government was

> 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 incentives. Loans for the purpose of grants would signify stepping away from the principle that the EU-budget should be balanced. (Author's translation, Regeringskansliet, 2020)

Denmark's Prime Minister Mette Frederiksen called demands for EU budget expansion, assessed at costing Denmark an additional 700 million euros/year, '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.' (author's translation, Hjøllund and Gjertsen, 2019). Accordingly, Foreign Minister Jeppe Kofod presented Denmark's position on NGEU to the Parliamentary EU Committee as being

> 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. (Author's translation, Europaudvalget, 2020)

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

Yet, despite opposition in public, outright rejection was seen as unrealistic because Germany's changed position was seen as having changed what was possible to contest. Instead, all three governments aimed at negotiating a settlement. To former Swedish Deputy Minister of Finance, Karolina Ekholm, who had been deeply involved in negotiations during the Eurozone crisis:

> Sweden has only agreed to it [NGEU] with a noose around its head … But it does not want to be a country that acts in a completely destructive manner. Sweden tries, despite all, to be a reasonable negotiating partner. 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, as well as Sweden, led by the Netherlands. (Author's translation, Ekholm)

Similarly, though its initial position was not to accept NGEU unless the grant part was included and the time for repayment was reduced (Valtioneuvosto, 2020), Finland also indicated that it was 'open for further negotiations'. A 'one-off' recovery instrument was considered necessary as Finnish exports and employment were dependent on a European recovery. New Minister of Finance Matti Vanhanen made a point in stating that 40% of Finnish exports went to six EU countries and that 'countries cannot hustle on their own' (Kaleva, 2020), whilst the Director of the Bank of Finland and former Vice President of the European Commission, Olli Rehn, forcefully supported NGEU (Kaleva, 2020). The Chair of the Grand Committee of the Finnish Parliament, Satu Hassi of the Greens (interview), confirmed that there was support for the package at the MoF. As in Sweden, according to social democratic Member of Parliament (MP) and former Finnish Foreign Minister Erkki Tuomioja, the change of Germany's position was crucial:

> 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. (Author's translation, Tuomioja)

This assessment was confirmed by Satu Keskinen, Head of the EU Department at the Finnish Prime Minister's Office: 'In a way [the German position] was a surprise' and 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 of 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. (Author's translation, Keskinen)

Whilst Keskinen sees continuities in the overall Finnish position, Marketta Henriksson, Director of the Secretariat of EU Affairs at the MoF, responsible for drafting the memoranda that formed the basis for the Finnish position (Valtiovarainministeriö, 2020), considered there to have been a substantial shift in thinking.

> [T]his 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. (Author's translation, Henriksson)

The centrality of Germany's surprising shift as a 'game changer' (interview, Fuglsang) 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 important country' (author's translation, Valentin). Furthermore, with Brexit, Denmark had lost a close ally on budgetary matters (interviews, Fuglsang and Moesgard).

Negotiating a more favourable settlement – a reduction of the grants-based component and insisting on European Semester conditionalities – rather than insisting on an outright rejection became the strategic objective not only of Finland but also of all three states. According to Pyry Niemi, the Social Democratic Chair of Sweden's Parliamentary EU Committee, which needs to approve the mandate of the Swedish government:

> 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 … [T]he mandate hinged on getting a result with as little loans, or I mean loans that won't be paid back, as possible. (Author's translation, Niemi)

At the time of negotiations, the discussions were tough, however, recalls Jessica Roswall, Vice Chair of the EU Committee and representative of the centre-right Moderates: '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.

Whereas the Swedish business association, Svenskt Näringsliv, in contrast to the government, was positive to NGEU in public from the outset (see below), there was concord between Swedish business and the state. Svenskt Näringsliv fully supported the government strategy as an instrument for ensuring that NGEU would include European semester-type conditionalities. If anything, it would have liked the government to push this further, mentioning the question of blocking proposals for an EU minimum wage (interview, Edholm).

In Denmark, the government had solid support for its official opposition in principle against debt mutualisation and Eurobonds (Europaudvalg 15/5). But against the backdrop of pressure from Germany as well as from business and unions as outlined in the section below, focus changed also in Denmark towards limiting the size of NGEU, pushing for it being loans based, and oriented towards Danish priorities such as digitalisation and green transition (interviews, Lykketoft, Fuglsang, Mosegaard and Beck).

III. Social Forces and Nordic Consent to NGEU: The Amsterdam School Channel

German policy change, then, as transmitted through the terms of intergovernmental bargaining in the Council, was central to Nordic consent to NGEU as it recontextualised the situation for all three states. But it would be superficial to end the analysis there. First, it does not explain German change itself, which, as per the growth model perspective, was due to changes in the German social bloc and the preferences of its dominant export sector. This has been convincingly demonstrated in this journal by Schneider (2023). He demonstrates that the exceptional drop in gross domestic product (GDP) caused by lockdowns was a decisive catalyst for German change, which, however, had deeper underlying causes that changed how the MoF mediated economic interests. The reconsideration of China as a rival in strategic sectors, and not only as an export outlet, compelled key German companies to upgrade the importance of the Single Market for final effective demand. Especially, the danger that Italy would exit the Euro needed to be addressed. BDI had articulated this position as early as 2018 (BDI, 2018), and it finally prevailed in German policy-making after the catalyst provided by the COVID-19 crisis.

However, European co-ordination and formulation of business interests also took place outside (inter-)state channels through BusinessEurope. It published a call for an EU-wide recovery plan, conditional on structural reforms, 18 days before the Franco-German agreement (BusinessEurope, 2020). Interestingly, the German employers' association, BDA, reserved itself at this point against the Keynesian aspects of this call. It also had to represent smaller business more resistant to fiscal federalism. But the BDI also supported these aspects as confirmed in a separate joint statement with their Italian and French counterparts (BDI, Confindustria and MEDEF, 2020). Notably, the BusinessEurope statement played a central role for the German MoF and Chancellery forging the agreement with France and marginalising the small business position (Schneider, 2023, p. 14).

Following BusinessEurope's position, the Nordic business confederations immediately started to promote it in their respective member states and formed consensus with their counterpart trade unions. They stressed market opportunities, calling for funds to prioritise digitalisation and structural reforms enabled by strict conditionalities. EK (2020) communicated this position in Finland 4 days after the Commission announced the NGEU proposal. 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.

> [I]t'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 where is the limit? (Author's translation, Häkämies)

Anders Edholm, Head of Swedish Näringslivet in Brussels and former Secretary General of the Moderate Party, confirmed agreement with BusinessEurope from the outset and the importance to link NGEU to the European Semester. Together with EK, Näringslivet had advocated a 'scoreboard' to monitor how the money was used. Edholm underlined the importance of fiscal stimulus to the export sector as a reason to support the NGEU and the need to show markets that the EU can act together (interview, Edholm). That Swedish business saw NGEU as imperative, despite domestic public criticism, was confirmed when the small business organisation Företagarna linked it to the EU being vital for Swedish exports, 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 the overall size of NGEU or (debt) financing costs, but rather the potential positive effects on investments and market opportunities for 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. (Author's translation, Beck)

Whilst 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 did publicly.

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 was smaller than the worry of a prolonged stop of the economy' (Marttinen, 2020). Anni Marttinen, responsible for drafting SAK's position, pointed to the experience of the Eurozone crisis and a generational shift amongst 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 than preventing people from even dying or getting unemployed. (Author's translation, Marttinen)

A joint union (SAK and AKAVA)–business (EK) position paper was presented to the Finnish coalition government before the Grand Committee of the Parliament deliberated on Finland's negotiation stance, pointing 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, SAK, AKAVA and STTK, 2020).

Danish unions were more split. The metal workers' union Dansk Metal, whilst not the largest of the Danish unions by way of membership, is by far the most centrally placed in the Danish power elite (Larsen and Ellersgaard, 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 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' (author's translation, 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 official government line. Nevertheless, its EU Director, Johan Moesgaard, describes how Dansk Metal 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. This indicates that the 'Amsterdam School channel' worked not only on a business level but also through independent co-ordination on the side of organised labour.

> 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. (Author's translation, 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 of NGEU towards recovery, green transition and digitalisation ('every fifth job in Sweden is dependent on Europe'). Simultaneously though, she endorsed the negotiating stance the government had taken, criticising countries that had not saved or raised the requisite taxes (Europaportalen, 2020b). The Swedish LO supported NGEU but less enthusiastically than EK and Dansk Metal or indeed the business community.

IV. The Party System: Relatively Autonomous in Compressed Timescales

The Nordic social partners and, more covertly, state executives were, then, ready to consent to NGEU. As the growth model perspective suggests, the party system would eventually follow, securing its ratification in the Nordic member states. As the Swedish Moderate Vice Chair of the Parliamentary EU Committee put it: they 'learned to like' NGEU (interview, Roswall). But our analysis suggests that this postulate of the growth model perspective must be qualified. The deliberation in the party systems was slower to follow. Given the compressed timescales involved, these relatively autonomous dynamics in the party system generated paradoxes and non-trivial complications.

A striking phenomenon was that the liberal-conservative parties, the most pro-business and pro-EU parties, did not support NGEU even when the outcome reflected business interests. In Sweden, though the Moderate Roswall admits that things would have been different had they been in office, it is notable that splits within the party compelled them to abstain in the vote on NGEU in Parliament. Another paradox is that the votes against the Keynesianism of the NGEU did not only include those of the far-right Sweden Democrats but also the Left Party. Whilst the latter certainly were for economic stimulus at the national level (and loans by the European Investment Bank), their 'no' was in line with the joint-decision trap to a tee. 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. (Author's translation, Sjöstedt)

Difficulties also emerged in the conservative–liberal and centre-right camps in Finland. And in this case, it jeopardised the ratification of the NGEU. This is because divisions in Kokoomus made NGEU a constitutional issue requiring a two-thirds majority in Parliament to pass. More generally, the passage of NGEU in the Grand Committee was not easy due to divisions in all the big parties (interview, Hassi). These difficulties prompted direct intervention by the business association EK to underline the importance of NGEU being ratified (EK, 2021).

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). NGEU 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 it to 'get a specified compromise' (author's translation, Pekkarinen, 2020). Vesa Vihriälä, a professor often cited by policy-makers, 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 (author's translation, 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. The fact that the other large opposition party, the True Finns, was 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.

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 (author's translation, 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 the social partners to support NGEU, the party political pressure went the other way. Only smaller parties - centrist Radikale Venstre and leftist Socialistisk Folkeparti - supported a more expansive deal in Parliament. In contrast, the government faced opposition not only from traditional Eurosceptics such as the Danish People's Party, but also – and similarly as in the case of Finland and Sweden – from traditional EU stalwarts in centre-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 the Frederiksen government. The main motivation of the 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 to bail out southern Europeans. Against this backdrop, the political project and strategy of the social democrats under Mette Frederiksen have been to move left on economic issues and right on cultural issues such as immigration and international affairs. As such, the Frederiksen government, since its start in 2019, had a reputation for a more lukewarm approach to the EU than previous Danish governments. Before the COVID-19 crisis, Mette Frederiksen earned a reputation as 'the most EU sceptic prime minister in Danish History' (Nielsen, 2020). This move towards a moderate Euroscepticism must be seen as part of the more general project of Danish social democrats to regain some of the, mostly working class, voters lost to the Danish People's Party in the first decades of the 21st century. The election in 2015 was a crucial turning point when the government of Helle Thorning-Schmidt was defeated after one term in office and the far-right Eurosceptic Danish People's Party obtained a historic 21% of the vote. With a strong showing for the Eurosceptic Red–Green Alliance as well, the Danish parliament had a historically 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 regard 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 the Thorning-Schmidt government of 2011–2015, which represented a third-way, neoliberal version of social democracy. Asked to answer how she would pay for the generous COVID-19 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' (author's translation, Voldsgaard, 2021). The idea of the Frederiksen government as representing a break with the neoliberal policies that had dominated earlier social democratic governments was self-consciously described by social democrats as a 'paradigm shift' (author's translation, 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 depoliticised arena for securing national economic interest, a situation different from 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 was conceptualised as solely lying in the reduction of economic transfers to Brussels.

Conclusion

The stance of the Nordic social democratic member states towards fiscal federalism in the EU has provided strong evidence in support of the 'challenge of diversity thesis' and the idea that such federalism is unlikely because of the joint-decision trap. The specific character of Nordic growth models has compelled them to act in distinctly non-social democratic ways in the EU fiscal policy field. The case of their consent to NGEU, as investigated in this article, tests this thesis to its limits. It demonstrates that their policy stance is extremely sensitive to the position taken by the German hegemon and the business community. In short, when these actors push for fiscal federalism, the case of the NGEU suggests that the Nordics follow. We have demonstrated this by exploring the transmission of what seems to have been two complementary intergovernmental and transnational class channels, even though we have also observed a certain inertia in the formal party system generating complications. These findings have been mobilised in this article in order to concretise and modify some of the propositions advanced by the politics of growth models literature.

The long-term implications of the NGEU case are unclear, and further investigations are needed to probe whether what has been analysed here represents a genuine northern realignment. After all, Kalecki (1943) already suggested that deep recessions will compel capitalist interests and states to support expansionary policies to protect markets, only to revert to contractionary policies to maintain market discipline once these deep recessions and depressions have been averted. There are reasons to suppose that this compulsion will be particularly strong in export-led growth models. And it is possible to read the conditionalities in Nordic consent to NGEU as compatible with Kalecki's thesis as opposed to the more secular shifts implied by post-functionalists and the historical institutionalist stress on learning. The COVID-19 lockdown did indeed generate an exceptional downturn. Finland was adamant that its support was predicated on this exceptionalism. Welfare nationalism in Sweden and, especially, Denmark points in a similar direction. At the same time, many of the factors behind support for NGEU – the geopolitics of the 'Chinese challenge', the need for a green and digital transition, and the fear of Italexit – are more enduring and may point towards a more enduring EU-level fiscal capacity. In this context, our findings suggest that the Nordics may be more movable than what has been supposed.

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Interviews

Beck, Bertil Egger, Chief Consultant, European Affairs, Federation of Danish Industry (DI)
Edholm, Anders, Communications Director at SCA, Former Party Secretary for the Moderate Party (Sweden), Former Head of Näringslivet (Sweden) at their representation in Brussels
Ekholm, Karolina, Professor, Former Secretary of State of the Swedish Ministry of Finance
Fuglsang, Niels, PhD, MEP of the Social Democratic Party (Denmark)
Häkämies, Kari, Director of the Confederation of Finnish Business EK, Former Government Minister for Kokoomus (Finland)
Hassi, Satu, Chairperson of the Grand Committee of the Finnish Parliament, MP of the Green Party (Finland)
Henriksson, Marketta, Director of the EU Secretariat of the Finnish Ministry of Finance
Keskinen, Satu, Head of Unit, Government Secretariat for EU Affairs (Finland)
Lykketoft, Mogens, Former Danish Finance Minister, Foreign Minister, Former President of the Social Democrats (2004–2005) (Denmark)
Marttinen, Anni, Head Economist at SOSTE Finnish Federation for Social Affairs and Health, Economist at SAK until December 2021
Moesgaard, Johan, EU Director, Danish Metal Workers' Union
Niemi, Pyry, Chair of the EU Committee of the Swedish Parliament, MP of the Social Democratic Party (Sweden)
Purje, Henri, Secretary of the Ministerial Group of the Left Alliance in Finland, Special Adviser to Minister of Education Li Andersson
Roswall, Jessica, Vice Chair of the EU Committee of the Swedish Parliament, MP of the Moderates (Sweden)
Sjöstedt, Jonas, Former Party Leader of the Left Party (Sweden)
Sørensen, Allan, Chief Economist, Federation of Danish Industry (DI)
Tuomioja, Erkki, Former Finnish Minister of Foreign Affairs, MP of the Social Democratic Party (Finland)
Valentin, Kim, Member of the European Committee of the Danish Parliament. European Spokesperson and MP of Venstre (Denmark)
Vartiainen, Juhana, Mayor of Helsinki, and former MP of Kokoomus (Finland)