Limiting Uncertainty: State Capacity and the Institutional Foundations of Nordic Welfare States

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Authors:

Jari Eloranta (University of Helsinki, jari.eloranta@helsinki.fi)

Jeremy Land (University of Helsinki, Jeremy.land@helsinki.fi)

Lars Christian Bruno (BI Norwegian School of Business, lars.c.bruno@bi.no)

Henric Häqqqvist (Uppsala University, henric.haggqvist@ekhist.uu.se)

Long Abstract:

The roots of Nordic welfare states have been a topic of intense scrutiny for the last 50 years. This literature is, by and large, qualitative by nature (see Petersen 2011; Kettunen 2001; Fritzell 2005). Some of the more quantitative contributions have focused on the determinants of spending patterns behind the slow emergence of such states (cf. Flora 1985; Lindert 2004; Lindert 1994). The burgeoning state capacity literature has indicated, mostly based on revenue per capita patterns in the long run, that the ability of northwestern European polities to consolidate state power and redistribution contributed to their economic growth (e.g., Dincecco 2016; for a rebuttal, see e.g., Geloso & Salter 2020). Some of this literature also has recently indicated the need to look at a variety of institutional and societal proxies to understand the true impact and development of state capacity (O'Reilly & Murphy 2022; Hanson & Sigman 2021; Savoia & Sen 2015).

Here we wish to analyze the question of the impact of state capacity formation in a different way. **First**, we want to analyze various indicators of Nordic state capacity starting from the beginning of the 19th century to today, by investigating said capacity in terms of flow versus stock (see also Enriquez & Centeno 2015). In simple analyses of flows, the Nordic societies appear as states with high capacity fairly late in history – we argue that this is a mirage, that their institutional foundations act as capital, enabling them to retain more from the flows, thus developing a larger and more enduring stock of state capacity, first arising from the local communities and social integration (on local institutional building, see Wallis 2022, North et al. 2009, Acemoglu et al. 2015; on the importance of voice, see Lindert 2003). Here in this paper, we will model Nordic state capacity, using various time series techniques, to assess persistence effects over centuries, from the era of warfare to welfare states. We argue that the stock of institutions represented inclusive institutions that accumulated and persisted over time, leading to societies ready to transition towards inclusive societies. (see also Acemoglu & Robinson 2023)

Second, we want to unpack the question both from the revenue and expenditure side, as well as other measures of state and fiscal capacity, to link it to various institutional indicators. (for an example, see e.g. Henriques & Palma 2023) Our approach is to assert that Nordic state capacity

was intricately linked to these key institutional phenomena: 1) smaller gap between formal and informal institutions (measured by lower levels of corruption and crime), implying higher levels of trust in the society (see e.g. the classic conceptualization in North 1990); 2) greater social capital and networks at various levels of society (measured by social capital, democratic institutions and organizations) (see e.g. Jensen & Ramey 2020 on how investments in state capacity also lead to greater levels of social capital); 3) greater incorporation of non-state organizations into decision-making and welfare creation (such as churches, NGOs, networks) (see e.g. Markkola & Naumann 2014; Nevers & Paster 2019; Fishback 2010, 2022; Lindert 1998). All of these factors created a foundation of trust, which, despite various internal and external crises, provided a foundation for the Nordic states to enter the so-called narrow corridor. (Acemoglu & Robinson 2019)

We will engage in broad comparisons of the Nordic societies with other states, both quantitatively and qualitatively, as well as compare the Nordics among themselves in a variety of ways (on recent comparative historical studies, see e.g., Koivunen et al. 2021; Lloyd & Hannikainen 2022). Accordingly, we will develop a model to analyze state capacity as a *stock* and engage in analysis of the long-run time series qualities of the institutional and fiscal indicators (Paul 2009; Turunen 2009; Yun-Casalilla 20112; on war, see e.g., Queralt 2019). The results of this paper will yield implications for the extant literature on state capacity as well as the foundational paths of the Nordic welfare states. In sum, we argue that the Nordic states had already accumulated substantial state capacity via the underlying institutional factors, as a stock, by 1800, and that this stock was increasing fast. We argue that in the last two centuries Nordic institutions developed greater and more effective ways to limit the uncertainties of life – i.e., limited hunger, poverty, or risk to life – and encouraged better well-bring than other, similar societies in the western world. Nordic societies witnessed the development of social and state institutions (both formal and informal) that were naturally more egalitarian and therefore more responsive to the needs of its citizens (Bendixsen et al. 2018; Fochesato & Bowles 2015; Kettunen 2019). These institutions formed the roots of the relatively rapid growth of more benevolent state capacity in the mid-late 20th century, capacity that grafted itself onto pre-existing institutions such as the church and local social capital forming structures. Thus, we are fundamentally interested in explaining the transition toward extensive welfare states, high levels of trust, and high living standards in these societies.

Short Abstract:

This paper analyzes the various indicators of Nordic state capacity starting from the beginning of the 19th century to today in terms of flow versus stock. We argue that the institutional foundations of Nordic states enabled them to retain more from the flows, thus developing a larger, more enduring stock of state capacity by 1800. In the next two hundred years, those features strengthened through crises' responses and market integration. Using various measures, we assert that Nordic state capacity was intricately linked to three key institutional phenomena: 1) smaller gap between formal and informal institutions; 2) greater social capital and networks; 3) greater incorporation of non-state organizations into decision-making and welfare creation. Thus, in the last two centuries Nordic institutions developed greater and more effective ways to limit the

uncertainties of life – i.e., hunger, poverty, expropriation of property, or risk to life – than other, similar societies in the western world.