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Uneven Development and Grounded Comparative Institutional Advantage: Lessons from Sweden and Mondragon

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Abstract In this paper we use the theory of grounded comparative institutional advantage to analyze the possibilities for progressive development in the face of the uneven development patterns endemic to neoliberal capitalist development. We demonstrate that efforts to promote institutional structures to spur regional development, such as Swedish efforts to create high wage jobs via education, training, and technology diffusion, and the Mondragon Cooperative's efforts to create and preserve manufacturing jobs via education, technology development and cooperative organization, can be a countervailing power to the forces of capitalist uneven development, if the state becomes a major allocator of investment funds. To succeed in creating stable, progressively-oriented industries in a region within a capitalist economy, there must be cushions for firms against downturns and sectoral shifts, mechanisms for the creation of cutting edge technologies, and a commitment to reallocate investment to key industries. Otherwise the forces of uneven development, spatially and sectorally, will tend to prevail. While the models developed by Sweden and Mondragon hold promise, this approach requires a major political commitment to the region, and a willingness to embrace some of the vagaries of international capitalism.

Keywords Trade · Comparative institutional advantage · Uneven development · Sweden · Mondragon

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Introduction

This paper constitutes part of an ongoing examination of the power of institutional practices to advantage a regional/national economy and provide for the wellbeing of its population in the face of global capitalism.[1] Our broader analysis draws on the Theory of Grounded Comparative Institutional Advantage to analyze how domestic and international institutions affect the location of production and the effects of institutions at different spatial scales on laborers and class/group interests.[2]

In this paper, derived from our broader analysis, we focus upon two cases of state and "state-equivalent" practices to examine whether institutional practices are sufficient to counter structural processes endemic to capitalism, especially uneven development. Two examples of regional policies encouraging alternative forms of economic organization that have been somewhat successful are seen in Sweden and the Mondragon Cooperative Corporation (MCC 2008). Sweden's social democracy weathered repeated crises and reveals possibilities and limitations for state policies. Mondragon, employing over 83,000 workers in 2006, constitutes a very different context in which its administration may be seen as a "state-equivalent" as it acts to ensure the well being of its workers, about 44% of whom are clustered in Spain's Basque region (MCC 2008), but MCC relies on a much narrower array of policy options than a state. Nevertheless, MCC's relative success is reflected in its relatively robust performance in the Basque region, even as MCC now relies on some outsourcing to maintain competitiveness. Below, the paper describes uneven development that tends to occur under neoliberalism, the policy framework and associated institutions promoting liberalization, deregulation, and privatization. Then, we present some successful policy elements Sweden and Mondragon used to stabilize industries and preserve a more humane economic system in the face of neoliberal pressures. Subsequently, the paper discusses the compromises that both locations made in response to global pressures. The paper concludes by assessing the prospects for progressive economic systems given the current climate.

Uneven Development and Neoliberalism

A principle problem for any region is the contradiction between globalization and efforts to capture growth locally. The more globalization, the more vulnerable local economies are to distant events and decisions that promote uneven development. States are caught in this contradiction as they seek to attract and retain economic activity, but doing so often requires neoliberal policies that allow locally generated profits to be moved freely away, often by transnational corporations (TNCs). Thus, states operate in bounded territory, seeking to regulate and retain capital, employment, and promote domestic growth while "a TNC's 'territory' is more fluid and flexible" and "parts of different national spaces become incorporated into

[1] See Schneider (2007), Schneider and Susman (2008) and Susman and Schneider (2008).

[2] The Theory of Grounded Comparative Institutional Advantage posits that regional economic advantages may derive from institutional practices operating in the context of a dynamic broader political economy.

transnational production networks (and vice versa)" (Dicken 2007, 245). These networks emerge as part of a strategy to offset competition and to facilitate rapid investment shifts by sector and place in response to downturns or crises (Harvey 1990).

Disinvesting from local production, while shifting investments elsewhere is not a set of independent acts, but part of a larger process of altering spatial arrangements of production. Smith (1990, 153) argues, "uneven development becomes an increasing necessity in order to stave off crises, geographical differentiation becomes less and less a by-product, more an inner-necessity for capital." This is manifest in more frequent shifts in investment between sectors and places in the face of crises and competition. Shifting investment is also "stretching out over space of the relations of economic ownership and of possession (the functions of control over investment, of administration and coordination, and of the hierarchy of supervisory control over labor)" (Massey 2004, 112). Thus, the state faces the dilemma of regulating the interests of often dominant political and economic classes within their boundaries, classes not territorially constrained. Staving off frequent crises and rapid shifts in patterns of unevenness poses particular dilemmas for states. TNCs and international investors support freeing capital from regulatory constraints, even as states face pressures to sustain employment and the wellbeing of their populations. Succumbing to pressure, many states pursued neoliberal policies to 'free' private capital flows and markets while decreasing public spending on social safety nets. Instead of territorializing benefits, neoliberal policies encourage uneven development. Yet, despite evidence of the bankruptcy of the neoliberal program, a sea change in ideology and power has allowed retrenchment of the social contract (Harvey 2005, Klein 2007).

Neoliberal efforts to promote unregulated capital mobility as if it would benefit everybody ignores "uneven development as a structural outcome of capitalist production that alters local conditions rapidly" (Schneider and Susman 2008). Despite considerable pressure from the United States and the International Monetary Fund, some countries resisted this ideology. Two examples of efforts to maintain the social safety net and employment, and to shield the overall economy from downturns and retain capital, suggest possible alternative strategies. One example is Sweden, where the state played a central role. The second is Mondragon, where the cooperative's governing board assumes many of the roles of the state.

Successes of Sweden and Mondragon Models

Despite rhetoric about the inevitable demise of the welfare state, Sweden and Mondragon show that progressive[3] regional economies are possible in a globalized world. Several common factors proved crucial to their success: (1) a set of policies by the state or "state-equivalent" to secure or attract capital and to establish a comparative institutional advantage in key sectors; (2) a technology and education

[3] "Progressive" refers here to a strong universal social welfare program favoring egalitarian income distribution.

policy ensuring innovations and use of cutting edge production technology; and (3) a willingness to be pragmatic when there appears to be no alternative in the face of global pressures, especially to gain or retain access to markets and international investment. In both cases, the people demonstrate a degree of solidarity and sense of community, perhaps strengthening their resolve to work together.

Since the mid-1990s the economic performance of both Sweden and Mondragon has been strong. While much of industrial Europe experienced slow growth, Sweden's employment and growth rates since 1993, during rapid globalization and the telecommunications and microcomputer revolution, exceeded those of the US as well as the OECD average (see Table 1). Meanwhile, Mondragon's employment and industrial growth were exceptionally strong, with employment increasing by 181% between 1995 and 2005 and industrial output increasing by 283% between 1996 and 2006 (see Fig. 1). Below, we outline some of the institutional factors that contributed to these successes.

Securing and Augmenting the Capital Stock

During the global era, most developed regions of the world experienced declining industrial production under the forces of capitalist uneven development. Sweden

Table 1 GDP per capita, gini coefficients, social expenditures, corporate tax rates, selected OECD countries

	GDP per capita, current prices & PPPs, % change		Gini coefficient			Social expenditure, % of GDP			Corporate tax rates, %
Selected OECD countries[a]	1980–1993 (%)	1993–2006 (%)	Mid-1980s	Mid-1990s	2000	1980	1990	2003	2007
Austria	108.1	63.4	23.6	23.8	25.2	22.6	23.7	26.1	25.0
Denmark	104.6	71.7	22.8	21.3	22.5	25.2	25.5	27.6	25.0
Finland	86.0	93.5	20.7	22.8	26.1	18.4	24.5	22.5	26.0
France	96.7	66.8	27.6	27.8	27.3	20.8	25.3	28.7	34.4
Germany	111.8	53.5	–	28.3	27.7	23.0	22.5	27.3	38.9
Greece	66.4	99.4	33.6	33.6	34.5	11.5	18.6	21.3	25.0
Ireland	140.5	171.8	33.1	32.4	30.4	16.8	15.5	15.9	12.5
Italy	109.1	49.5	30.6	34.8	34.7	18.0	19.9	24.2	33.0
Netherlands	97.7	85.1	23.4	25.5	25.1	24.1	24.4	20.7	25.5
Norway	118.2	149.0	23.4	25.6	26.1	16.9	22.6	25.1	28.0
Spain	114.8	100.3	36.7	33.9	32.9	15.5	20.0	20.3	32.5
Sweden	85.7	77.1	19.9	21.1	24.3	28.6	30.5	31.3	28.0
Switzerland	84.1	47.7	–	–	26.7	13.9	13.5	20.5	21.3
United Kingdom	109.6	88.5	28.6	31.2	32.6	16.6	17.2	20.6	30.0
United States	108.7	72.6	33.8	36.1	35.7	13.3	13.4	16.2	39.3
OECD average	107.9	69.5	29.3	30.9	31.0	15.9	17.9	20.7	26.8

OECD (2006, 2008), www.stats.oecd.org; Gini coefficients from OECD Factbook 2006

[a] These countries were selected based on availability of key data and similarity of experience as industrialized European countries. The United States is included as a benchmark due to its relative success in transitioning from old industrial sectors to the new information economy

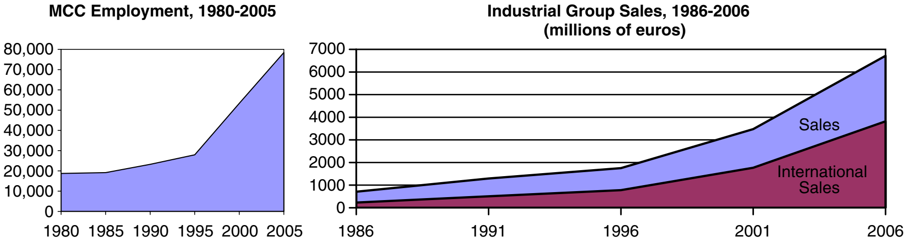


Fig. 1 MCC employment and sales. Source: Mondragon Corporation Cooperative (MCC 2008), www.mondragon.mcc

and MCC largely countered this trend by securing and augmenting a steady source of investment capital. Sweden made itself an attractive location for local and especially international investment in high wage industries, partly by keeping its corporate tax rates in line with the OECD average, well below U.S. rates (see Table 1). Meanwhile, its high consumption taxes contribute to the operation of a highly educated, skillful, wealthy and stable society with universal welfare benefits.

In addition to low corporate taxes, the Swedish government provides significant support for the private sector through provision of infrastructure and worker training. Sweden used "public incentives for the adoption of Information and Communications Technology (ICT), such as government subsidies to allow employees to lease computers from their employers for home use" (Thakur et al. 2003, 30). This made Sweden one of the world's most wired countries. In various surveys, Sweden ranked as the most sophisticated ICT country in the world (Booz Allen Hamilton 2004) one of the most internet intensive economies (Economist Intelligence Unit 2006) one of the best test markets for new technologies (World Economic Forum 2006), and the most creative country in the world due to its flexible, tolerant, educated populace and its technology focus (Florida and Tinagli 2004).

Thus, Sweden focused on creating a comparative institutional advantage in high wage, high skill sectors by allocating a significant portion of state resources to this endeavor. This allows Sweden to escape some of the vagaries of uneven development by attracting international capital despite high wages and a comprehensive welfare state. As *Foreign Direct Investment* (2005) magazine put it,

> Few countries can match Sweden's potential to benefit from the intensifying, technology-driven global competition. It already has one of the most internationally integrated economies in the world and its competitiveness is reflected in large flows of trade and foreign investment. Globalisation requires the ability to change, and necessary restructuring of the economy is facilitated by a qualified, adaptable workforce, while established welfare institutions and good employer-union relations provide the foundation for social cohesion when such change takes place. Swedish society is innovative and distinguished by the widespread and often ingenious use of information technology. The country has long emphasised the virtues of education and its institutions meet high international standards.

Due to these factors, the Swedish system proved particularly successful at attracting foreign direct investment (see Fig. 2).

Alternatively, the “state-equivalent” Mondragon administration emphasizes pooling and generating local capital instead of focusing on attracting capital. Cooperative members formed their own bank, Caja Laboral Popular, to channel local savings directly into local economic development efforts and new cooperatives. As a condition of joining the cooperative, MCC employees are required to invest in Caja, later redeeming their funds at retirement or upon leaving the cooperative. In 2007, the joining fee was approximately €13,000, or $17,771 (MCC 2008). This investment is kept as the worker’s private fund and is used by MCC as a source of capital. In 1997, a typical redemption was $100,000 for a worker after 25years, a 1,000% return on the worker’s initial investment (MacLeod 1997, 31). This steady source of capital, coupled with the continuing reinvestment of profits (€209 million pre-tax in 2007) from MCC ventures, generated an ever-increasing flow of capital for investment (see Fig. 3). Profits from MCC cooperatives are divided between a social fund for betterment of the community (10%), a collective reserve fund (20%), and member capital accounts (70%). Thus, MCC avoided the problem of footloose global capital through its members’ contributions as well as profits.

Promoting Education and Business–Education Partnerships

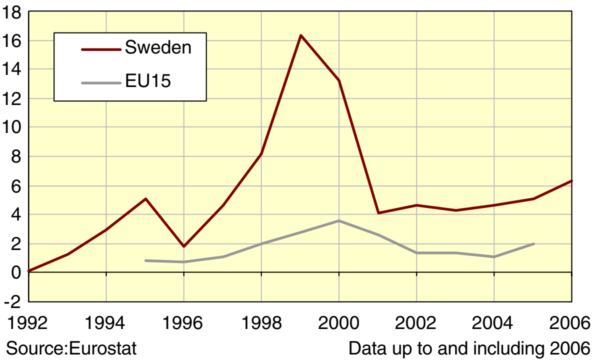
The Swedish “triple helix strategy” establishes direct partnerships in research centers combining staff from universities, governments, and industry. Their goal is to develop industrial clusters generating a regional competitive advantage (van Vught et al. 2006). The result has been increases in labor productivity and a significant increase in patents in places containing new research centers (Andersson 2005). The emphasis on research and development, targeted education, highly skilled workers, and strategic clustering of industries (especially biotechnology and high technology industries) helps secure capital in a dynamic economy.[4] Sweden spends the second largest public share of GDP on education in the world, doubled the number of higher education openings in the 1990s and spends a greater proportion of GDP on research and development than *any other country* (OECD 2004, 137). These characteristics help explain why Sweden has topped the UNCTAD Innovation Capability Index since 1995 and why numerous industries relocated to Sweden to undertake their R&D operations in the last decade.[5] Essentially, Sweden developed a grounded comparative institutional advantage in key technology-intensive industries by providing an attractive environment for them in terms of education, training and infrastructure.

Similarly, in Mondragon, the university research center, management and training institute, and university evolved out of the relationship between MCC’s founders and an original technical school which provided managerial skills and training in cutting edge technologies for cooperative workers. Subsequently, MCC combined expertise

[4] Biotechnology firms work with public health organizations to stage clinical trials and with university research staff to develop technologies, resulting in one of the largest biotech sectors in Europe (Mondal and Espana 2006).

[5] Sweden also ranks second in the world, behind only the U.S., in patent applications per capita.

Fig. 2 Swedish and EU15 foreign direct investment, as a % of GDP, 1992–2006. *EU15* refers to the 15 original members of the EU prior to the EU expansion. As cited in *Statistics Sweden*, retrieved 6-28-2008 from http://www.scb.se/templates/tableOrChart____136144.asp



from the technical school and Caja in the IKERLAN research center to foster advanced technological development in the cooperatives. This was followed by establishing the Otalora center for management studies and cooperative training. By 2005, MCC had eleven research and development centers with a budget of over €38 million. This emphasis on education, training and innovation kept MCC manufacturing cooperatives at the cutting edge of their industries and insured an impressive level of stability and growth. Unlike Sweden, which moved out of manufacturing into ICT and biotechnology, MCC concentrated on maintaining a comparative institutional advantage in manufacturing, in such areas as appliances, machine tools and robots, via technological innovation and worker productivity. MCC's advantage is suggested by growing sales and a growing international share of sales jumping from 25% to 57% between the 1990s and 2006 (MCC 2008).[6]

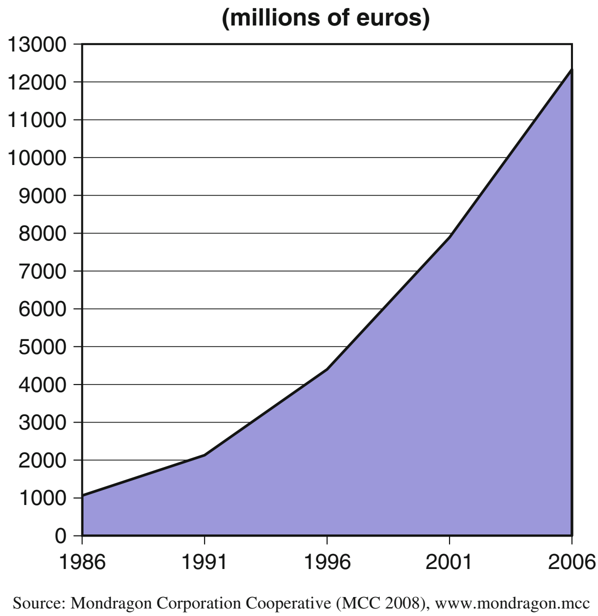
Active Labor Market Policies and Labor Productivity

Both Sweden and MCC developed methods for getting the most out of their labor forces. Sweden uses active labor market policies to improve work force skills, thereby making laborers more employable in growing industries. Once an industry declares it needs workers with a specific knowledge base or skill set, local educational institutions customize a program designed to lead directly from training to industrial employment (Lindell 2006, 233). The extensive support of the Swedish welfare state insures that workers undergoing training have income, housing, health care, dental care, and other basic amenities. Similarly, MCC training centers aid in the allocation and mobility of labor throughout the Mondragon cooperatives. When a particular cooperative experiences an ongoing decline in sales, some workers are sent to a training center and then redeployed to a more profitable cooperative, all the while earning wages and receiving benefits.

In both cases, Sweden and MCC ensure that workers have the most up-to-date skills for a growing industry. This helps anchor firms located in a particular region.

[6] MCC's competitive advantage shows in many sectors. It is the third largest automotive components producer in Europe; it provides engineering consulting and software development; and it also is well-known for its consumer cooperatives, including the largest supermarket chain in Spain.

Fig. 3 MCC financial group: Resources administered by Caja laboral popular. Source: Mondragon corporation cooperative (MCC 2008), www.mondragon.mcc



Active labor market policies also significantly reduce the problem of structural unemployment by facilitating the movement of labor from declining to growing industries. And, the security and safety net provided under both systems tend to reduce both workers' resistance to new jobs and technologies and firms' resistance to promising but potentially risky ventures.[7] These policies give both Sweden and Mondragon a pragmatic, nimble character in dealing with globalization, avoiding protection of dying industries while pushing into new growth areas.

Swedish firms and MCC cooperatives also benefit from a cooperative workplace. Sweden's workplaces are more cooperative than most developed countries, lowering the need for administrative monitors while raising productivity (Gordon 1996). This factor is even more significant in Mondragon, where the cooperative structure and the corresponding interdependence of managers and workers results in a high degree of trust, reducing the need for managers to monitor employees and improving productivity (Bradley and Gelb 1983, 54–55).

Compromises Made by Sweden & Mondragon

Despite many successes, the progressive models developed by Sweden and MCC eroded in the face of neoliberal global pressures. Significantly, both Swedish firms and MCC cooperatives have outsourced operations to locations with cheap labor,

[7] As IMF economist Balazs Horvath (IMF 2003) observed, "Sweden's very strong social safety net has encouraged risk taking" on the part of workers and businessmen. The same can be said of Mondragon, because of the expectation of reemployment and the preservation of wages.

and this trend seems bound to continue.[8] Domestically, however, since World War II Sweden maintained its position as one of the two or three most egalitarian countries in the world, as measured by the Gini coefficient and Sweden continues to spend the largest percentage of GDP on social welfare programs in the world (see Table 1). However, in relative terms Sweden gradually reduced the generosity of its welfare state in recent decades, privatized some state firms and services, and eliminated centralized wage bargaining with a corresponding increase in income inequality (Table 1). Some breakdown in longstanding cultural practices and possibly social solidarity are linked to globalization and demands for just in time production as more Swedes delay vacations (Ekman 2007). Nevertheless, inequality (measured by the Gini coefficient) in Sweden declined by more than 5.4% from 2000 to 2005, partly due to successful regional development efforts to create jobs in poorer locations. Sweden may have ended its slide towards a more unequal society.

MCC allowed the limits to pay inequality between upper and lower-level employees to increase from 3:1 to 6:1, although this is still dwarfed by the ratio of inequality in typical capitalist firms—in 2005 the ratio of CEO to worker pay in the U.S. was 262:1 (Mishel 2006). To stay competitive, MCC also altered working conditions to resemble those of profit driven companies (Kasmir 1996). While some might argue that these changes represent pragmatic solutions to the difficult environment presented by globalization, it is also possible that we are seeing the gradual dissolution of these distinctive economic models.

Conclusion

Drawing on insights from a grounded comparative institutional advantage perspective, one in which local and global political economic dynamics, an historical perspective, and institutional goals are identified, it is evident that a strong state or state equivalent has been central to the success of Sweden and Mondragon in ensuring the wellbeing of their populations. While global capitalism increasingly faced crises, rapid capital shifts, and uneven development, all supported by an ideology of neoliberalism, Sweden and Mondragon were politically committed to buck the tide of neoliberal policies and cuts in state expenditures. A careful historical view shows the importance of commitment of Sweden's post-War government and the Mondragon administration to progressive economic development. Sweden's state has a broader policy array at its disposal including taxation, tariffs, infrastructure, education and an ability to affect finance. It can also integrate business climate, technology, and educational policies effectively and use these policies to create comparative institutional advantages in high-wage, high-skill occupations and to attract foreign direct investment into those sectors. Mondragon's administration, relying on narrower policies of augmenting capital, emphasizing education and technology, and ensuring employment, also demonstrates an ability to withstand downturns and sectoral shifts emanating from a global economy. These policies allowed MCC to maintain its comparative institutional advantage in many

[8] Almost 19% of MCC's employment in 2006 was outside of Spain (MCC 2008). Swedish TNC foreign employment was about double TNC domestic employment in 2005 (Jakobbson 2007).

manufacturing enterprises and to move into new sectors. Issues of social relations, including inequality, are addressed in Sweden through redistribution and in Mondragon through wage controls, while in both Sweden and Mondragon employee retraining and reassignment is central. Both attempt to ensure decent wages and to foment, though education, not only technical abilities, but a sense of identity contributing to broader political cooperation. Institutional policies addressing equity issues play out in each, revealing some success despite the vagaries of global capitalism.

These examples suggest that even during rapid shifts in capital location and sector, state institutions may shield people and contribute to healthier lives and regional economies. But, this requires a strong political commitment and state or state-equivalent access to investment funds in challenging times. The compromises that Sweden and Mondragon made under the onslaught of global neoliberalism indicate the difficulties for those committed to ensuring the wellbeing of all in a region.

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Paul Susman is Associate Professor of Geography at Bucknell University. He and co-author Geoff Schneider have been working on a critique of comparative institutional advantage trade theory and constructing an alternative in the form of a grounded economic geographic theory of trade and regional development. These have been appearing in a series of papers. In addition he has worked on socialist Cuban development, Nicaraguan cooperatives, as well as critical geographic/radical political economic pedagogy. He is the recipient of the Bucknell University President's Award for Teaching.