Making Sense of Economic Uncertainty

Knowledge Regimes in the United States and Denmark

John L. Campbell and Ove Kaj Pedersen

2.1 INTRODUCTION

This chapter examines how policy analysts, experts, and others operating in national knowledge regimes in the United States and Denmark made sense of economic uncertainty since the stagnation era of the late 1970s—a period of simultaneously high inflation and low economic growth—and the subsequent advent of globalization. Knowledge regimes are fields of policy research organizations, such as think tanks and government research units, and the formal and informal institutions—that is, the rules and norms—that govern them. Policy research organizations produce data, analyses, theories, and policy recommendations and disseminate this information to policy-makers in the hope of influencing their thinking. Knowledge regimes constitute a source of institutional competitiveness insofar as policy-makers use the information they get from policy research organizations to reform political and economic institutions in ways that improve their country’s economic performance. Indeed, policy-makers have turned increasingly to policy research organizations over the last thirty years or so for all sorts of inspiration to help them find ways to boost their country’s international competitiveness (Pedersen, 2010). As such, knowledge regimes are an important component of any advanced capitalist political economy. And each one tends to have its own unique national character (Campbell & Pedersen, 2014).

Knowledge regimes are particularly important during periods of heightened economic uncertainty when policy-makers need to make sense of unprecedented situations. Immediately after the Second World War knowledge regimes in the advanced capitalist countries were staid and sleepy places because most policy research organizations accepted Keynesianism as the appropriate intellectual framework for making sense of their economies (Rich, 2004; Smith, 1991). But Keynesianism was ill-suited to explaining stagflation as well as a variety of other economic problems, including many associated with growing government budget deficits and heightened international competition that cropped up in the 1980s and 1990s. Uncertainty mounted over the causes of and solutions for these problems. As a result, people in both the United States and Denmark began to change their knowledge regimes in ways that they hoped would help them make better sense of these problems. This involved establishing new policy research organizations and reorienting others. One outgrowth of all this was the rise of supply-side economics as a new intellectual framework for making sense of these economic problems. This played out, however, in different ways in the United States and Denmark with the United States succumbing to the supply-side view—especially in its neoliberal form—more than Denmark.

Supply-side economics should not be equated with neoliberalism. Supply-side economics held that stagnation could be resolved and a nation’s international economic competitiveness bolstered by better providing the inputs the economy needed, such as a more efficient labor force, more investment capital, better technologies, and improved infrastructure. This could be done in a variety of ways, including relying on the state to provide these inputs. Neoliberalism, however, rejected the statist approach and held that the way to provide such inputs was through cutting taxes for potential investors, reducing government regulations, and limiting government welfare expenditures. In other words, neoliberalism was a particularly conservative version of supply-side thinking that advocated less government intervention into the economy. Of course, both approaches differed considerably from Keynesianism, which emphasized manipulating aggregate demand to manage the economy. But all three approaches were intellectual frameworks with which policy research organizations tried to make sense of economic uncertainty.

It is important to note that sensemaking, as explained in Borrás and Seabrooke in this volume, can take different forms. James March (2010) suggested that there are two forms of sensemaking that people may use when they cope with uncertainty. First is low-intellect or replication learning where people make sense of uncertain situations by utilizing already available scripts, cognitive templates, and other ideas that seem to have been useful and appropriate in the past. What he has in mind here is something very similar to what organizational sociologists refer to as “mimetic” and “normative learning” where organizations adapt to environmental uncertainty by either copying what seem to be the practices of successful organizations around them or adopting what seem to be normatively appropriate practices (DiMaggio & Powell, 1983). Second is high-intellect or abstraction-based learning where people make sense of uncertain situations...
by determining what precipitated them in the first place. The important point is that abstraction-based learning involves causal reasoning, such as that based on analytic modeling, whereas replication learning does not. As Borrás and Seabrooke point out in Chapter 1 of this volume, replication and abstraction-based learning can be either retrospective or prospective—people can try to make sense of either the past or what is likely to happen in the future. This is not inconsistent with March’s view. Nor is the notion that sensemaking is often a contested process or that it may involve, in varying degrees, competition, cooperation, and compromise over whose interpretation of the situation is the best or most expedient politically.

What March neglects, however, is how organizational and institutional contexts affect sensemaking. This chapter sheds light on this by focusing on how knowledge regimes facilitate sensemaking. After all, knowledge regimes consist of policy research organizations operating within institutional contexts and trying to make sense of economic uncertainty. They do so retrospectively by interpreting the past in order to predict prospectively the effects that economic policies would likely have. And they can base their retrospective and prospective sensemaking on either scientific empirical analysis of an abstraction-based sort or normative interpretations of a replication sort—that is, political or ideological principles—depending on their type of organization and institutional context.

We will show that how knowledge regimes are organized influences how policy research organizations try to make sense of the world for themselves and then for policy-makers through the analyses and advice these organizations transmit to them. This involves, in varying degrees, retrospective and prospective sensemaking as well as replication and abstraction-based sensemaking. Beginning in the early 1980s the US knowledge regime became more partisan politically, so sensemaking became very competitive and ideologically contentious. Depending on the policy research organization in question, sensemaking involved various combinations of replication- and abstraction-based learning. This resulted in sharply divergent policy analyses and recommendations. This was reflected, for example, in the US Council of Economic Advisors’ reports for the president, which flip-flopped back and forth between neoliberalism and other approaches. Meanwhile, the Danish knowledge regime became less ideologically partisan, so sensemaking became more consensus-oriented and focused on abstraction-based rather than replication-based learning. This resulted in much more stable and consistent policy analyses and proposals, as reflected in the Danish Economic Council’s (DOR’s)

2 The distinction between low and high intellect learning is reminiscent of the distinction made earlier by March and Olsen (1989) between the logics of appropriate and instrumental behavior, respectively.

reports for the government, which were slow to shift toward supply-side economics and were highly averse to neoliberalism.

Let us clarify two things. Firstly, we are concerned with the process rather than the outcome of sensemaking, except insofar as reports from the national councils of economic advisors is concerned. These are among the most important analyses and recommendations the US and Danish governments receive every year. And, as we will explain, they are a reflection of each country’s sensemaking process. Secondly, we do not claim that knowledge regimes are the sole determinants of sensemaking, policy-making, or institutional competitiveness, which are, of course, influenced as well by a myriad of additional factors.

2.2 DATA, RESEARCH DESIGN, AND METHODS

Our analysis is based primarily on interviews and other documents we collected from a variety of policy research organizations in the United States and Denmark. Within each country we selected four types of research organizations for examination that have been identified by others as the most common in advanced capitalist democracies (e.g. Rich, 2004; Denham & Stone, 2004). First are private academic-style scholarly research organizations, sometimes referred to as “universities without students.” These are staffed with scholars, professional researchers, and analysts, often with joint university appointments. They produce expert research monographs and journal articles much like those found in academia. They also tend to be politically non-partisan. Second are advocacy research organizations. These tend to be more partisan politically and ideologically. They are less concerned with conducting scholarly research than with consuming, packaging, and disseminating the research and theories of others in order to influence the political climate, public debate, and public policy. Third are party research organizations. These are closely associated with political parties and provide a source of expert advice and analysis for party leaders. Fourth are state research organizations directly affiliated with specific government departments and ministries. Scholarly and state research organizations are more likely to engage in abstraction-based learning, such as through sophisticated econometric analysis and forecasting, than other types of organizations, whose sensemaking tends to be

3 The analysis of the US and Danish cases reported here is part of a much larger study that also includes France and Germany. Detailed discussion of sampling and data analysis methods can be found in Campbell and Pedersen (2014) and Campbell et al. (2013).

4 Rich (2004: 11) notes that state and scholarly research organizations are often rather similar in terms of the sort of work they do.
Based more on ideological and political interpretation—that is, replication learning. All four types, however, engage in retrospective and prospective sensemaking.

We conducted thirty-four interviews in nineteen organizations in the United States during April 2008 and August 2009, and twenty-two interviews in nineteen organizations in Denmark during May and July 2008. Interviews were supplemented with data from organizational annual reports, websites, and secondary literature. The purpose of this part of the data collection was to determine what the topography of the knowledge regimes looked like, and how and why it changed in response to stagflation and globalization. We also examined reports from the President’s Council of Economic Advisers (CEA) in the United States and the DGT. Here our purpose was to determine whether the structure and practices of each knowledge regime influenced the sort of ideas that top-level policy-makers received and might use to make sense of their national economic situations. These reports were published in 1987, 1997, and 2007. We examined the reports of the national councils for two reasons. Firstly, of all the policy research organizations we visited these were the closest to power insofar as they reported directly to the heads of the executive branch of the government—the president or prime minister. Secondly, they each prepared analytic and advisory reports about the national economy for the political leadership on a regular basis.

Our analysis covers a fairly long time period—roughly from the early 1980s through the early 2000s. This is necessary in order to capture the important changes in sensemaking structures and practices in these countries. After all, change in fields of organizations is typically slow moving and incremental (Campbell, 2004). The same is often true of shifts in sensemaking frameworks (Skogstad, 2011).

2.3 United States: Proliferation and Competition

The American knowledge regime underwent a period of increasing fragmentation and competition thanks to a proliferation of policy research organizations in civil society beginning in the late 1970s. This precipitated a shift in sense-making approaches that was reflected in reports from the CEA.

2.3.1 Changes in the US Knowledge Regime

The American knowledge regime is marked by a fragmented structure of scholarly, advocacy, and state policy research organizations. Many of these in civil society are engaged in a fiercely competitive struggle to influence policy-makers. Among the most prominent is a set of scholarly organizations, such as the Brookings Institution, the American Enterprise Institute, and the Hudson Institute, which are financed privately, often by foundations, corporate grants, and individual contributions from wealthy donors, and staffed to a significant degree with formally trained researchers. Closely related to these organizations is another set of private research shops, like the Urban Institute, the RAND Corporation, and others, some of which are for-profit companies and all of which are funded to a much greater extent by government grants and contracts than the rest. In addition, there is a set of prominent government research agencies, which also have research capacities. Some receive their mandates and funding from Congress—such as the Government Accountability Office (GAO), Congressional Budget Office (CBO), Congressional Research Service (CRS), and the Joint Committee on Taxation—while others are located in the executive branch, such as the CEA, the Office of Management and Budget (OMB), and the Department of Treasury. All of these have research, modeling, and forecasting capacities. The Federal Reserve Board, which is independent of both government branches, is another important state policy research organization. The Fed and Treasury have especially impressive analytic capacities. Treasury, for instance, has hundreds of PhD economists on staff.

Many of these organizations were established long before the 1970s, but proliferation on the private side really began in the late 1970s, as conservatives began to build a number of more aggressive advocacy organizations, led by the pioneering Heritage Foundation. Politics were important in spawning proliferation. The initial rise of conservative organizations in the 1970s and 1980s was in part a response to the perception on the right that the liberals had seized control of government in Washington and that conservatives needed to develop a concerted effort to push back against hegemonic liberal ideas. However, proliferation was also driven by concerns among conservatives that these liberal ideas—Keynesianism being notable among them—were out of date and inadequate for making sense of the stagflation and globalization situations (Ricci, 1993). Wealthy conservative benefactors began to offer money to set up policy research organizations that shared their political and ideological views. As a result, a number of conservative research organizations—both scholarly and advocacy—were founded and expanded in the 1970s and 1980s, such as the Cato Institute in 1977 and the National Center for Policy Analysis in 1983.

Liberals responded in kind. Especially after the 1994 election, when the Republicans seized control of the House of Representatives for the first time in a generation; and then after the 2000 election, when George W. Bush won the White House and the Democrats no longer controlled either the House or Senate, liberal Democrats and others on the left recognized that they needed new places to generate and disseminate policy ideas that would counter those being offered by conservatives to understand the nation’s economic situation.
Thus, liberals established their own scholarly organizations like the Economic Policy Institute and the Center on Budget and Policy Priorities, as well as advocacy organizations such as the Progressive Policy Institute and in 2003 the Center for American Progress (e.g. Rich, 2004; Ricci, 1993).

An increasingly fragmented and competitive knowledge regime resulted, driven by corporations, philanthropic foundations, and wealthy patrons seeking to finance organizations to make sense of the stagflation crisis and other national economic problems. Their largesse was facilitated by a booming economy in the 1990s and early 2000s that enabled them to invest in new policy research organizations—especially for advocacy work. Much of the money invested was politically colored and inspired by competition between conservatives and liberals to gain advantage in a war of ideas that had broken out in policy-making circles in the late 1970s and 1980s. And insofar as advocacy work was viewed as being increasingly important, organizations such as the Cato Institute, the Heritage Foundation, the Center for American Progress, and the Century Foundation—most funded by corporate or family foundations and wealthy individuals—tended increasingly to direct their publications toward the media and general public rather than just policy-makers. They were also more apt to advocate particular courses of policy action.

The point is twofold. Firstly, private money plays a substantial role in the US knowledge regime, which is why private policy research organizations represent a comparatively large portion of this knowledge regime. In turn, there is much competition among organizations. Some of it is for funding, particularly as the number of policy research organizations has increased and the economy has weakened. There is also competition for staff. But perhaps most importantly, proliferation has increased competition among private policy research organizations seeking to be heard by policy-makers and the public. In other words, proliferation has led to cacophonies of voices competing to be heard. Secondly, the proliferation of advocacy organizations meant that replication learning was becoming more prevalent. Whereas the traditional scholarly organizations engaged in abstraction-based learning through data analysis and forecasting, the new advocacy organizations were often more inclined toward less rigorous analytic work.

Things are rather different insofar as state policy research organizations are concerned. Here there was virtually no proliferation since the 1970s and more of a coordinated division of labor. For instance, the CRS provides information and research to Congress to help policy-makers figure out what to do on an issue. The CBO and OMB estimate how much various policies will cost. And the GAO evaluates how well programs work. Furthermore, the White House’s National Economic Council (NEC) and the Domestic Policy Council coordinate policy analysis and advice for the president, and monitor implementation of the president’s policy agenda. The NEC is responsible for most economic policy matters. Most members of the cabinet serve as

regular attendees at its meetings and representatives from other government agencies also attend frequently, such as the director of the OMB and the chair of the CEA. Most economic policy advice for the president comes from the so-called “troika”—CEA, OMB, and Treasury, with Treasury typically being the most influential member.

Paradoxically, among a few policy research organizations in civil society, a modicum of cooperation and coordination emerged in response to the rapidly escalating partisanship and ideological polarization in national politics, which began to spill over into the knowledge regime. Analysis and policy recommendations from private policy research organizations characterized as either liberal or conservative were increasingly dismissed as people began to assume that their work was politically partisan. Hence, a credibility crisis began to engulf some of the most prominent private policy research organizations.

In turn, some of them joined forces to defend their reputations and draw attention to the fact that partisan politics in Washington was making it increasingly difficult for policy-makers to address some of the nation’s most pressing economic problems, such as underfunded entitlement programs like Social Security and Medicare. So, for example, the Urban Institute, Brookings Institution, American Enterprise Institute, and a few others started to convene joint conferences and panels. They also collaborated occasionally on research projects all in an effort to create credibility for their work and to enable themselves to be heard above the growing cacophony of voices that proliferation and competition had spawned.

Related to this was a trend among some of these organizations toward elevating the scientific quality of their research. Some private policy research organizations explained to us that their credibility, and therefore their ability to be heard above the fray, depended increasingly on being known for high-quality analysis. Scientific rigor, sophisticated quantitative analysis, forecasting, and econometric modeling became increasingly important for some organizations. In some cases, however, the reverse seemed to be true—that is, politics and ideology trumped research. A few people accused other organizations of slipping research and tailoring their research conclusions to fit their political agendas. In short, while some organizations depended on their research to defend against attacks of being politically biased, others depended on their research to legitimize their political views.

Overall, then, the American knowledge regime underwent significant changes. It grew more competitive as its private side was populated increasingly by new policy research organizations, many of which were ideologically partisan and

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5 We heard this especially from organizations typically characterized as being liberal or progressive, such as the Economic Policy Institute and the Center on Budget and Policy Priorities. We heard this as well at the Heritage Foundation, which pioneered a variety of advocacy tactics. Since our interviews, however, Heritage hired a new president, Jim DeMint, a Tea Party icon who has taken the organization in a much more ideologically partisan advocacy-oriented direction. As a result, a number of its more analytically inclined staff have left.
advocacy-oriented. Importantly, this affected sensemaking in profound ways, as competing ideas were introduced to understand the new and uncertain economic environment. Keynesianism fell into disrepute and was no longer assumed to be the appropriate paradigm for understanding the national economy. Alternative views emerged, many of which favored a supply-side approach involving less government intervention into the economy. We will return to this issue shortly. Insofar as these views were based on political ideology rather than scientific analysis—a phenomenon that some of our interviewees insisted was the case thanks to these organizations being financed by politically partisan benefactors—some sensemaking turned toward the replication learning form described by March. Put differently, making sense of the economic situation entailed applying politically partisan and ideological principles learned previously to current circumstances. However, a countervailing trend also emerged where, for some private organizations, rigorous scientific analysis became especially important as it had long been for most state policy research organizations. In this regard, some organizations turned toward abstraction-based learning. As a result, increasing competition within the US knowledge regime also entailed competition between these two different approaches to sensemaking.

2.3.2 Competing Recommendations from the CEA

Some of the developments we have described were reflected in the way the American CEA made sense of the nation’s economic situation. The CEA is part of the executive branch. It consists of three economists drawn from universities as well as a staff of about thirty analysts. It produces annual reports for Congress in the name of the president. The president appoints the three council members. Unsurprisingly, then, we found no example of the CEA criticizing the president or his administration. Moreover, the CEA’s reports were more political and sometimes ideological in tone than reports from its Danish counterpart. The CEA reports engaged, for instance, in discussions about the appropriate role of the market and government in economic matters. The mixture of political manifesto and analysis is evident in all three reports, especially in 1987 where the first forty-five pages describe the economy’s performance, but many of the following pages introduce neoliberal supply-side ideas to highlight ideologically the need for politicians to address distortions of market mechanisms and disincentives for growth.

One of the most striking features of these reports is how the CEA’s basic understanding of the economy shifts from one period to another. This certainly parallels shifting control of the White House and how an escalating crisis of partisanship in the knowledge regime influenced the CEA’s reports. In other words, the competitive and ideologically partisan nature of the knowledge regime was reflected in how the CEA made sense of the economy. It also echoes a lack of unanimity among American economists over theoretical assumptions as well as the appropriate way to manage the economy. For instance, the 1987 report from the end of the Reagan era subscribed adamantly to the belief in market efficiency. The report touted a whole array of neoliberal ideas, including privatization, fiscal austerity, regulatory reform, tax cuts, liberalization of agricultural prices, and more, with the obvious intention of “rolling back the state” and reducing its intervention in the economy. This was a supply-side approach the objective of which was, “to enhance . . . the productive activities of individuals and businesses.”6 Similarly, the Reagan CEA argued that markets will be more efficient with less government regulation because regulation distorts competition and restricts consumer choices.7

But the Clinton administration’s CEA took a sharply different approach, where markets and the state were viewed as complementary rather than antithetical to each other. For example, economic regulation was not viewed as being necessarily good or bad, but rather something that should be cost-effective and consistent. So while the emphasis was still on regulatory reform it was more nuanced and stressed the need to “refine the role of government in the U.S. market economy.”8 This combination of enhancing markets through regulatory reform, but assuring “cost-effectiveness across regulations” was framed with the concept of complementarity—that is, the idea that government regulation can facilitate and not hobble market competition.9 This was the Clinton administration’s “Third Way” approach, which navigated between two diametrically opposed world views: one that worried about government failure and another that worried about market failure.10 According to the 1997 report, “Over the last four years, this administration has promoted a third vision, one that synthesizes and transcends these two polar worldviews.”11

In 2007 the CEA reversed itself again. During the George W. Bush administration it did not discuss the complementarities between state and market. Nor, however, did it return entirely to the language of the 1987 report, which only emphasized market efficiency. Instead the CEA accepted the possibility, but certainly not the inevitability, of market failures. According to this report, “Economists generally attempt to justify government intervention into private market outcomes by suggesting potential market failures that may exist in the

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6 Annual Report to the President, 1987, p. 50.
8 Annual Report to the President, 1997.
9 Annual Report to the President, 1997, p. 189. The notion of complementarity is especially pronounced where the CEA discusses “using public policy to bring competition to regulated industries” and “markets and public policy as complements” (pp. 196–7).
absence of any government intervention.” Nevertheless, the 2007 report did not dwell on this or waste time on ideological arguments justifying the idea of “potential market failures.” This was, after all, still an administration bent upon reducing the government’s role in the economy.

This sort of competitive and partisan flip-flopping of CEA ideology was matched by CEA policy recommendations. While all three reports were steeped in supply-side thinking, which focused on providing the appropriate inputs for the economy rather than worrying about managing aggregate demand, they differed significantly in how they advised policy-makers to implement a supply-side program. For example, in keeping with a neoliberal approach the 1987 and 2007 reports emphasized that high taxation was a barrier to economic growth and employment because it undermined incentives for investment of all kinds, including human capital. But the 1997 report, which veered away from strict neoliberalism and stressed the complementarity of government and markets, recommended tax reforms mixed with a variety of state financed supply-side labor market policies to improve education, training, and labor market mobility—in part to help guard against inequality and poverty. Moreover, while the 2007 report stressed that improved labor productivity was crucial for improving the nation’s economic competitiveness, it recommended that the way to do this was not through government labor market programs, such as those called for in 1997, but in large part by holding down the costs of labor. Also, the 2007 report returned to the theme of the 1987 report in putting tax cuts front and center as the key to improving market efficiency, deepening capital investment, cultivating worker skills, attracting foreign investment, encouraging innovation and entrepreneurialism, and facilitating research and development. In the CEA’s words, “The goal of progrowth tax policy is to reduce tax distortions that hamper economic growth. Most economists agree that lower taxes on capital income stimulate greater investment, resulting in greater economic growth, greater international competitiveness, and higher standards of living.”

Despite the fact that there was much flip-flopping in the ideological and philosophical views among the CEA reports, there was also a consistent trend toward more rigorous scientific analysis. As we have explained, the onset of stagflation, globalization and other problems, and increasing political partisanship led some policy research organizations to beef up the scientific rigor of their work. The three CEA reports we analyzed exhibited a tendency for greater emphasis on scientific references, analysis, methods, and the use of databases and models. For example, between 1987 and 2007 we found a dramatic increase in the number of references to scientific journals, academic papers, and reports from other forecasting organizations. We also found an increase in the number of databases the CEA utilized and the introduction of new microeconomic models for measuring the productivity of the American economy. The CEA, for instance, began using a Dynamic Stochastic General Equilibrium model based on rational expectations theory. Finally, the reports relied increasingly on the style of argumentation found in academic journals and papers.

Over all, then, the CEA reports reflected the politically partisan, competitive, and ideologically charged nature of the American knowledge regime of which it was a part. Partisanship and competition in the knowledge regime infected the CEA by virtue of the fact that the composition of the council changed with each administration and, therefore, tended to resemble the ideological color of that administration insofar as its economic assumptions and priorities were concerned. As a result, the CEA reports took on a certain schizophrenic quality. Firstly, there was considerable philosophical and ideological flip-flopping between neoliberal and non-neoliberal supply-side viewpoints. In some cases the CEA viewed government economic intervention with considerable suspicion as a threat to market efficiency and competition. But in other cases it saw the possibilities for such intervention as being complementary to markets and a source of improving competition. Policy recommendations followed this flip-flopping pattern. Tax cuts for the wealthy and potential investors were held in high regard by the two Republican administrations but not Clinton’s Democratic administration. So, although all of the reports embraced the supply-side approach to managing the economy, they did so in rather different ways. Secondly, in contrast to this flip-flopping pattern, there were certain important consistencies across the reports. They demonstrated a propensity for ever more scientifically based argument as demonstrated, for instance, through the use of more sophisticated analytic techniques, databases, and the trappings of academic-style argumentation. The blending of science and ideology was another schizophrenic dimension in these reports.

All of this can be viewed as well from the standpoint of sensemaking insofar as the CEA reports exhibit two sensemaking approaches. On the one hand, philosophical and ideological flip-flopping was based on the invocation of deeply held assumptions inherited from the past to help make sense of the current economic situation—assumptions that varied depending on the political character of the administration for whom the CEA worked. This is an example of March’s replication learning where scripts, templates, or other ideas learned in the past are used to make sense of the present and forecast the future. However, the rise of more sophisticated scientific analysis represented efforts to better understand the causes underlying the nation’s economic situation and thus illustrated the abstraction-based form of sensemaking. The use of both forms of sensemaking—in both retrospective and prospective

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12 Annual Report to the President, 2007, p. 91.
ways—underscores the schizophrenic nature of the competitive knowledge regime in the US. Things were much different in Denmark.

2.4 DENMARK: COOPERATION AND CONSISTENCY

Denmark’s knowledge regime was marked by cooperation rather than competition among policy research organizations. It was also one in which ideology as the bedrock of policy analysis was jettisoned in favor of more analytic and scientific approaches. As such, cooperative abstraction-based learning replaced ideologically competitive replication learning. And the state played an increasingly important role in facilitating all of this.

2.4.1 Changes in the Danish Knowledge Regime

Denmark’s knowledge regime is dominated by policy research organizations from the state and the social partners, by which we mean organized business and labor. The most prominent organizations are those from the state and among those the Ministry of Finance is especially important. It houses databases and economic models used in every corner of the knowledge regime. It publishes the most comprehensive forecasts and overviews of the Danish economy. It prepares the medium-term plans for public expenditures and policy reforms, and it organizes the annual state budget. It is also responsible for ensuring the quality of all public regulation and performing cost-benefit analyses of all new policy reforms and laws. As a result, it is also involved in the negotiation and formulation of the yearly law program (Lovprogram) in which the government presents its plans for new initiatives, laws, and policies. Moreover, the Ministry publishes a great number of analytical papers, including policy analyses on welfare issues, working papers on methodological issues, and suggestions for reforms of the public sector. Finally, it is involved in ad hoc commissions and committees working under tripartite agreements as well as running hundreds of working groups within and between ministries. The Ministry of Finance is without peer in the Danish knowledge regime.

There are also a number of state and semi-public policy research organizations that do apply research on behalf of the government. Several are integrated with universities or established as independent state research organizations and located in different ministries. For instance, the government funds the DREAM group and the DØR. It also funds a number of research programs that are outsourced either to universities or state research organizations like the Danish National Center for Social Research and the Danish Institute of Governmental Research, which publish analytical reports, papers in academic journals, and working papers, and also arrange public conferences and hearings. Another way the government participates in the knowledge regime was introduced in 2005 in the form of knowledge councils, which were inspired by examples from England and introduced by the Prime Minister’s Office to strengthen the government’s role in policy debates as well as facilitate negotiations with political parties, the social partners, and others over important policy matters. First were the Globalization Council, established in 2007, and then the Growth Forum, established in 2009. Both were intended to advise the government on future challenges and include the social partners and others in decisions about which topics to include in future discussions. Both councils had the Premier Minister sitting at the table.

Expert ad hoc commissions are another relatively new way for the government to organize policy research and advising. In the mid-1980s a conservative government decided to dismantle the traditional corporatist tripartite commissions, choosing instead to seek advice from expert commissions (Pedersen, 2011). Tripartite commissions had been organized routinely over the years to do analysis and provide policy advice on a wide range of policy issues. But the turn toward ad hoc commissions of experts meant that the labor, business, and employer associations had to find new ways of influencing policy discussions. Thus, business and labor peak associations, as well as banks and financial institutions, started to build up their own analytical research units in order to complement, if not compete with, the government and its ad hoc commissions in producing economic analysis and forecasts. As a result, today, a more pluralistic system has developed in the sense that the government, semi-public research organizations, interest associations, and financial institutions publish reports, analyses, and blue prints, often providing them to the press for public discussion. However, this is all orchestrated increasingly by the state, principally the Ministry of Finance, so that pluralisation on one side has been matched with centralized coordination on the other. Moreover, as we shall see, this has not led to the sort of partisan competition found in the American knowledge regime.

It is important as well to emphasize the role played by the peak associations in all of this. The Landsorganisationen Danmark (LO), the national labor union confederation, is an important partner in policy negotiations with the government, but is also a lobbying organization. The LO has a research unit whose work it uses during negotiations and lobbies on a variety of policy issues. Another research unit, Arbejderbevægelsens Erhvervsråd (AE), is closely associated with the labor movement, although independent from the LO. Not to be outdone, the Danish employer’s confederation, Dansk
forecasting groups inside or very close to the state—such as the Ministry of Finance and DØR, respectively—and farther from the state—including AE, LO, DA, and the large banks—began to use similar data sets and analytic models, although they often modified them for their own purposes. Today there is much sharing of data and information about analytic technics. For example, the DA and LO research shops routinely do this with each other and DA shares much of the data it collects from its members with other organizations, including Danmarks Statistik, Denmark’s national statistics office. Cooperation is apparent in other ways too. Notably, LO and DA sometimes collaborate in order to define problems for which they believe research is necessary. Sometimes they work together on these research projects and craft joint policy recommendations. And together they sometimes even lobby the government to act on their recommendations.

What occurred, then, in Denmark was the development of a new knowledge regime that set aside traditional ideological arguments in favor of a more analytic approach. This, of course, represented a shift from a replication to an abstraction-based form of sensemaking to understand the nation’s economic problems. This was led in large measure by the state, particularly the Ministry of Finance, which began to establish various public and semi-public policy research organizations whose operations were dominated less by the social partners and more by experts in policy analysis, modeling, and forecasting. This also involved more cooperation among state, scholarly, and advocacy policy research organizations. In much of this the Ministry also began to play a more forceful and active role as gatekeeper to policy analysis and policy deliberations, whereas until the early 1980s organizations participated in public policy-making through formalized channels granting peak organizations a near monopoly of representation in public commissions and administrative councils. So, the Danish knowledge regime is less competitive than the American one. It is also less partisan and more cooperative. And it is more consistent in terms of turning away from replication toward abstraction-based learning as the chief approach to sensemaking. Much of this is reflected in the DØR’s reports from the period.

2.4.2 Consistent Recommendations from the DØR

The DØR is a semi-public policy research organization funded by the government. It has a council with representatives from government, labor, business, and the financial institutions as well as a chairmanship of four independent economists—the so-called “Wise Men”—appointed from universities by the government. By law the council is mandated “to contribute to the coordination of different economic interests” and tries to facilitate consensus among the representatives on the council from the social partners, government, and
others, although it does not always achieve it.\textsuperscript{16} The council meets twice a year to give comments to biannual reports prepared by the Wise Men. Several aspects of the Danish knowledge regime’s transformations are reflected in the reports prepared by the Wise Men for the DøR.

Firstly, because the Wise Men’s mandate is in part to help facilitate consensus among the social partners on the council—who have long been involved in a variety of corporatist negotiations aiming for consensus in labor market and other economic matters—these reports exhibit none of the flip-flopping characteristic of the American CEA reports. They are much more even-keeled. Extreme positions are avoided. And in this regard they do not adopt a rigid philosophical tone assuming either the inevitability of market failure or market efficiency. In fact, the Wise Men have long recognized both possibilities and argued for a middle ground position.\textsuperscript{17} This is an artifact of the cooperative and consensus-oriented nature of sensemaking in Denmark.

Secondly, this sort of consensus-oriented moderation led to consistency across reports. In other words, sensemaking is a less erratic process than it is at the American CEA. For instance, acceptance of supply-side reasoning appeared quite late.\textsuperscript{18} The 2007 report was the only one we reviewed to accept supply-side measures, and only because of specific concerns in this period about an insufficient supply of labor.\textsuperscript{19} In contrast, the 1987 report only discussed supply-side policies in negative terms, deeming them useful only under very particular circumstances, such as these. Furthermore, in 1987 the supply-side approach was said to be less effective than demand-side policies in managing the national economy.\textsuperscript{20} Even when a supply-side approach was accepted in the 2007 report, it was supposed to be mixed with a demand-side approach, which was clearly preferred by the Wise Men. Notably, when the Wise Men recommended in 2007 that growth in government spending be reduced, they also acknowledged the positive economic consequences that the growth in public expenditures had had up until then.\textsuperscript{21}

Thirdly, the Wise Men maintained a clear aversion to neoliberalism even as they warned them to some supply-side possibilities. This we presume stemmed from the inclusive nature of Danish sensemaking. Indeed, organized labor was always represented in the council and even representatives from the business community subscribed to certain basic social democratic principles.\textsuperscript{22}

In particular, from 1987 through 2007 they endorsed the use of public expenditures as demand-side automatic stabilizers.\textsuperscript{23} The extensive use of automatic stabilizers, of course, represented the institutionalization of decades-old compromises among the social partners and government. It was also a throwback to Keynesianism. And we found no example of the neoliberal idea of rolling back the state. Instead, the emphasis was more on controlling public expenditures and on reforming the public sector so as to make it more efficient. The one exception was that the Wise Men raised concerns about fiscal sustainability in their 2007 report. They worried that a social contract existed between the government and the people, which included promises of pensions and health care, and that it was unclear whether the state would be able to meet its obligations under that contract as the population got older and there would not be enough workers in future generations to financially sustain these programs. The idea of fiscal sustainability was couched in rational expectations models and microeconomic analysis in order to lay the groundwork for mid- and long-term structural reforms in these programs and to address the issue of an insufficient supply of labor.

The aversion to neoliberalism is especially clear if we compare specific policy recommendations from the Wise Men and the American CEA. Generally speaking, in 1987 the Wise Men held fiscal policies to be more effective than monetary policies for stimulating the economy, and lower taxes to be less effective than lower wages for improving trade and the balance of payments.\textsuperscript{24} More specifically, by then the CEA was already calling for supply-side tax cuts as the most important means for creating incentives and improving American economic competitiveness.\textsuperscript{25} But in Denmark tax reform was viewed primarily as a means of income redistribution and only secondarily as a vehicle for creating economic incentives.\textsuperscript{26} Furthermore, in Denmark the Wise Men took wage competitiveness to be the most important factor affecting the international competitiveness of the economy, not taxes. This argument was usually followed by an emphasis on the role of the social partners in negotiating wage moderation, and on the need for the government and social partners to coordinate their decision making.\textsuperscript{27} Calls for institutionalized negotiations like this were a far cry from the more neoliberal approach of the CEA. In short, demand-side fiscal policy still ruled the roost in Denmark insofar as stimulating the economy was concerned.\textsuperscript{28} And in this regard it was not tax cuts, but rather public expenditures and public investment that the Wise Men

\textsuperscript{16} Law no. 574 of June 6, 2007.
\textsuperscript{17} Dansk Økonomi. May 1987, chapter IV, pp. 68–9. Chapter IV also discusses different types of market failure.
\textsuperscript{18} Dansk Økonomi, spring 2007.
\textsuperscript{19} Dansk Økonomi, spring 2007, pp. 3, 27, and 93.
\textsuperscript{20} Dansk Økonomi, December 1987, p. 22.
\textsuperscript{21} Dansk Økonomi, spring 2007, pp. 4 and 96.
\textsuperscript{22} In an off-the-record comment to Campbell during an interview a representative from a major business association remarked that at heart everyone in Denmark holds dear some social democratic principles.
\textsuperscript{23} Dansk Økonomi, December 1987, chapter, pp. 16 and 22; Dansk Økonomi, spring 2007, p. 110.
\textsuperscript{24} Dansk Økonomi, spring 2007, pp. 75ff.
\textsuperscript{25} Annual Report to the President, January 1987, pp. 83–96.
\textsuperscript{26} For the use of taxation to establish incentives, see Dansk Økonomi, May 1987, pp. 11–12.
\textsuperscript{27} See for consistency Dansk Økonomi, spring 2007, pp. 95–6.
\textsuperscript{28} Dansk Økonomi, December 1987, pp. 76ff.
\textsuperscript{29} Dansk Økonomi, December 1987, p. 148.
viewed as the more effective way to accomplish the job. This is certainly why the Wise Men provided many pages in their 2007 report discussing how demand-side policies could be used to stabilize the economy.

Fourthly, we found evidence in the Wise Men's reports of the move toward ever more scientific analysis—that is, abstraction-based learning. For example, in the spring 1987 report there were only a few references to academic papers, international databases, or the work of international research organizations. However, in the spring 2007 report the number of references to academic journals increased dramatically, as did references to international databases and research organizations. And as in America the style of argumentation increasingly resembled that found traditionally in academic journals and papers.

In sum, the Wise Men's reports illustrated a very different approach to sensemaking than the CEA's reports in the US. It was a much more cooperative and consensus-oriented approach than in the US—a clear reflection of how things were conducted in the knowledge regime in general. This meant as well a much more stable process in the sense that the Wise Men did not flip-flop around ideological or politically partisan poles. Only gradually and recently did supply-side understandings emerge and then in ways that eschewed neoliberalism and remained mostly subordinate to traditional demand-side Keynesianism to which most members of the council remained committed. This reflected the broader knowledge regime too, insofar as it was associated with inclusive cooperative sensemaking practices. And it was generally and consistently a more science-based approach than in the CEA reports. In this regard, the Wise Men were more inclined toward abstraction-based learning than replication learning. As a result, sensemaking in Denmark was less competitive and therefore less schizophrenic than in the US.

2.5 CONCLUSIONS

The most important insight here is the fact that, insofar as economic policy analysis and advising is concerned, sensemaking varies according to how it is organized in national knowledge regimes. The two knowledge regimes made sense of economic uncertainty in rather different ways with the American knowledge regime becoming more competitive and the Danish knowledge regime becoming more cooperative. In both cases people questioned the conventional ways of making sense of the national economic situation and made some changes. The abstraction-based learning approach gained ground in both countries. But in the US the number of advocacy organizations increased significantly with the result being that the knowledge regime became more competitive and partisan, and replication learning became more prominent—even to the point of jeopardizing the credibility of some policy research organizations that had opted for the abstraction-based approach. In contrast, ideology and the replication learning approach to sensemaking were largely set aside in Denmark. People started to question the conventional political-ideological sensemaking approach and so developed a less politicized way of sensemaking. And in Denmark in many respects the state orchestrated this, but in ways that enhanced the collaborative and cooperative nature of sensemaking.

These broad changes in each knowledge regime were evident as well in each one's national council of economic advisors. In effect, the organization and sensemaking dynamics of each one reflected in microcosm those of their respective knowledge regimes. The American CEA exhibited much partisan flip-flopping and was more inclined to extreme points of view—that is, neoliberalism—than its Danish counterpart. In contrast, the DØR's reports were steadier and more moderate in perspective, with little of the ideological gesticulation of the American CEA reports.

It is important to reiterate that replication and abstraction-based learning involve both retrospective and prospective sensemaking. The American CEA made sense of the past in both ideological/replication and causal/abstraction terms. The analysis of past performance was based on both ideological interpretations and econometric modeling. Similarly, the lessons gleaned from the past were projected into the future through ideological predictions of whether free markets would perform well or not, as well as econometric forecasts. So it is difficult to disentangle retrospective from prospective sensemaking in this case. Retrospective and prospective sensemaking also bled together in Denmark. The DØR based its forecasts on econometric analysis of past performance. Indeed, most policy research organizations are in the business of examining and understanding the past in order to make predictions and policy recommendations for the future. This is what econometric modeling and forecasting is all about. Hence, differences in the two knowledge regimes are best suited for understanding how policy research organizations engage in either replication or abstraction-based sensemaking rather than retrospective or prospective sensemaking.

We have, of course, treated both the US and Danish knowledge regimes in isolation from each other. As we have explained, national knowledge regimes are sometimes linked to each other through various formal and informal arrangements (Campbell & Pedersen, 2014). Professional economists, for instance, travel in international circles and read the international literature. The OECD, the EU, and other international organizations certainly

29 Dansk Økonomi, December 1987, p. 130.
30 Dansk Økonomi, December 1987, chapter II.
31 See the comprehensive reference list in Dansk Økonomi, spring 2007, pp. 305–14.
facilitate linkages among knowledge regimes too. But we found little evidence during our interviews that the effects were so significant as to overwhelm the structures and practices of national knowledge regimes. And even when ideas did diffuse across borders, notably the movement of neoliberal and supply-side ideas from one country—often the US—to another, this process was mediated by institutional arrangements in national knowledge regimes. Indeed, despite the fact that the Wise Men were well aware of neoliberal supply-side economics in the United States, they were not so enamored with it to abandon demand-side traditions or call for the state to cease being a key player in the economy. They were, after all, supposed to facilitate consensus and compromise among the Dør members, some of whom, notably organized labor, were adamantly opposed to neoliberal austerity policies.

One caveat is important. The American CEA reports frequently discussed monetary policy. The Danish Wise Men’s reports did not. This, of course, is because the Danish kroner was pegged to the German deutschmark in 1982 and then the euro in 1999, thus putting monetary policy largely out of reach for Danish policy-makers. This is why a turn toward monetarism was far more evident in the CEA reports than the Dør reports.

Whether changes in knowledge regimes and the sensemaking practices of their principal actors—policy research organizations—mattered for economic performance and institutional competitiveness is an open question. On the one hand, the international competitiveness of both economies recovered in the 1990s and early 2000s. Even today after the 2008 financial crisis sent shock waves through both countries, they are still ranked among the ten most competitive economies in the world (World Economic Forum, 2012). Hence, one might infer that the manner in which people in both countries made sense of their situations eventually contributed to economic policies that were successful. This would be consistent with those who have argued that there is no one best route to success for advanced capitalist countries (Hall & Soskice, 2001). On the other hand, there are no guarantees that policy-makers necessarily listen to whatever ideas they might receive from their knowledge regimes. Policy-making is complicated and involves much more than just sensemaking per se. Further research is required to determine the degree to which the policy decisions that actually affected national economic competitiveness were influenced by what happened in these knowledge regimes or something else. But if knowledge regimes were influential, then how they are organized and operate is certainly implicated in the institutional as well as the international economic competitiveness of nations.

3

Productive Enterprise in Search of a Regime

Moving Sensemaking from Past Phantom Communities to “Ends in Sight”

Peer Hull Kristensen

3.1 INTRODUCTION

Though the Fordist production regime dominated in the post-World War Two recovery—both mentally and organizationally—many countries did not simply import the model (Zeitlin & Herrigel, 2000). Rather divergent institutional legacies and adaptations helped to foster many different ways of combining institutions with business enterprises. Thus, instead, capitalist countries could be seen to gradually develop a diversity of competition models—for example, Fordism, craft production, flexible specialization, diversified quality production, the “opportunistic” model, the “flexible mass production of differentiated goods and services” model, and the “discontinuous innovation” model (Whitley, 2010). Whitley argues that each of these competition models depends on particular sorts of labor power, particular sets of knowledge, and particular types of capital, which are produced by a variety of different institutions, which differs in their composition among capitalist countries. Put differently, with more emphasis on the formative processes behind such competition models, we should imagine that, dependent on the professional identities of different social groups at a given time and space, they will tend to form the nature of firms and institutions so that they enlarge the social space that allows their respective aspirations to thrive. Obviously, such a process neither unfolds without conflicts among the groups involved, nor in a neat and rational way. An emerging competition model is only attractive for a grouping if it allows for fulfilling given aspirations or offers prospects for even more promising life worlds (Kristensen, 1999). A competition model could be said to be subjectively attractive, if this is achieved, whereas it has to be “objectively” sustainable in the competitive selection process.