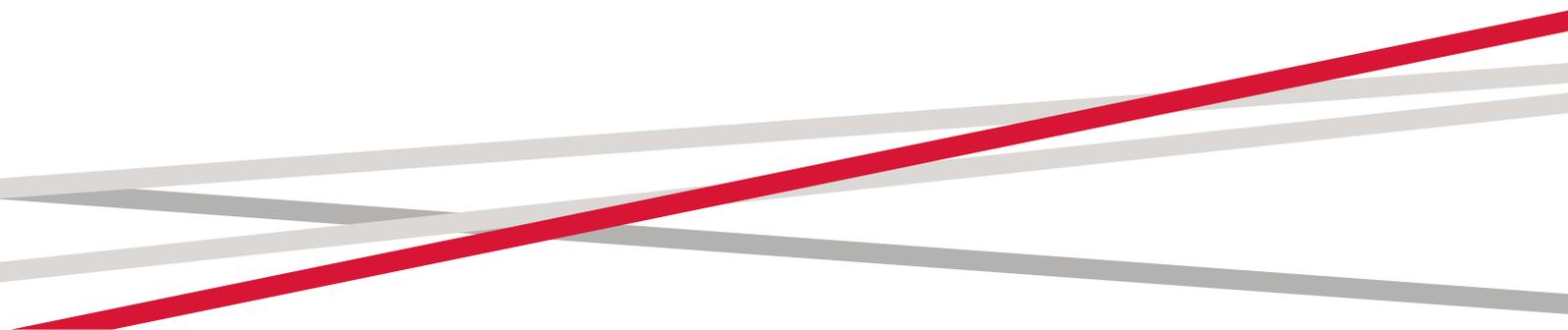


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Governance in the Times of Corona: Preliminary Policy Lessons from Scandinavia

This policy brief summarizes the key points discussed in the webinar entitled “How did we end up here? Governance lessons from the Covid-19 pandemic” which was organized by CEPR, LSE IGA, SPP and SITE on June 18, 2020. The main insights concern the relationship between science and expert authorities on the one hand and elected and democratically accountable political institutions on the other hand. The Covid-19 pandemic has illustrated the need to strike a balance between being prepared and having a plan, and at the same time being able to take in new information and learn as new challenges unfold. This requires drawing on expertise from multiple fields as well as keeping an open mind to reevaluate chosen strategies when necessary.



Introduction

Economists have long reflected upon the potential benefits from separating the short-run decision making and implementation of policies from the overarching long-run goals. Central bank independence is probably the most prominent example, but the general idea of elected politicians transferring decisions to technocrats is widespread and, in different forms and to a different extent, part of the governance structure of all countries.

In the context of the corona crisis, governance issues have also been discussed, and the pros and cons of different systems are under debate: China, with its authoritarian system, has found it easier to control its population's movements than many hard-hit European countries. In the US, the duality between the federal government and strong states has caused a lot of tensions. In Brazil, strong mayors and state governments have partly succeeded in counterbalancing the federal policy by imposing lockdown measures at the local level. The Covid-19 crisis is special: as a global health crisis, it certainly requires more coordination and expert knowledge than most other types of crises. Hence, in all countries, epidemiologists have received particular attention, but even internationally the Swedish state epidemiologist Anders Tegnell stands out with regards to this.

In the webinar entitled "How did we end up here? Governance lessons from the Covid-19 pandemic" which was organized by CEPR, LSE IGA, SPP and SITE on June 18, economists Karolina Ekholm and Bengt Holmström discussed governance issues within the Covid-19 crisis with a special focus on the Nordic countries. Ekholm is professor at Stockholm University, former deputy governor of

the Swedish Central Bank and served as a state secretary at the Swedish Ministry of Finance until 2019. Holmström, professor at the MIT and Nobel prize laureate, has been part of the Finnish commission on corona. Finland's approach to the Covid-19 crisis has been widely approved of: the country imposed an early lock-down which seems to have successfully contained the spread of the virus. Sweden, by contrast, has made headlines all over the world due to its relatively loose policy approach, and more recently, due to the high death toll the country has recorded so far. How have governance issues contributed to these very different outcomes and what can we learn from this for the larger picture?

A Transdisciplinary Approach for a Multidimensional Crisis

Holmström contributed with an instructive account of his experience advising the Finnish government. The initial forecast turned out to be overly pessimistic, according to him, partly because epidemiologists underestimated a driving force behind people's behavior: fear. If people had not been so afraid of the virus, compliance with the restrictions may have been much lower. This is not to blame epidemiologists: economists have struggled for decades to understand people's behavior better and to integrate it in their models, which is everything but an easy exercise. But what policymakers can certainly learn from the first wave of Covid-19 is that the societal appreciation of the urgency of the pandemic can make a crucial difference and will determine whether policies fail or succeed. This may be of vital importance if a second wave of the virus is to follow. Moreover, scientists need to remember to update their



models. What has worked for the swine flu may not work for Covid-19. As noted by one of the webinar participants: what is needed now is a *forward-looking* approach to science.

The Pitfalls of Technocratic Rule

Economists tend to focus on the benefits of technocratic rule in opposition to government corruption. This may be true in certain contexts, but technocratic rule is not a panacea. A priori, health experts are better informed than politicians during a health crisis. The Swedish as well as the Finnish and the UK governments were following their health agencies' advice in the beginning of the Covid-19 outbreak. Yet, the governments in Helsinki and London departed from this policy quite early. According to Ekholm, the Finnish government soon overruled expert advice because they expected that voters would punish politicians who did not prioritize saving lives. A reason which is often invoked to explain why the Swedish government has not followed the Finnish example is that the Swedish constitution does not allow ministerial rule. Yet, this is unlikely to be decisive in the comparison to Finland, which also has a tradition of autonomous government agencies. Ekholm thinks that the evaluation of the health agencies in Scandinavia made at the outset of the crisis did not differ much from each other – with the exception of the Swedish health agency being more pessimistic with regards to the possibility of suppressing the spread of the virus by going into lock-down. The Swedish health agency also still enjoys high approval and confidence both from politicians and the general public. However, why it took so long for the health agency to push for more testing capacity remains a mystery to the webinar speakers.

Holmström mentioned another reason for exercising caution: just as economists, epidemiologists tend to fall for their standard models and may not question them enough. Scientists are trained to reason along their disciplines' main paradigms and models and this can limit their intellectual flexibility and ability to analyze new phenomena. In this sense having a lot of experience can sometimes lead to being overly confident in solutions which have been "proven before", as for instance, the idea of "herd immunity".

The Use of Scientific Evidence

Science is supposed to be objective and transparent, but from an epistemological point of view, things are ambiguous. Holmström named the example of face masks, which have become the symbol of the Covid-19 pandemic elsewhere, but which are still rare on the streets of Stockholm and Helsinki. The Swedish and Finnish health authorities have hesitated to endorse the use of face masks, mainly because there is little evidence of their efficiency. Yet, other countries have endorsed them, following the very argument that there is little evidence of their harmfulness. Which question you are asking – whether masks help fight the spread of the virus or whether they may cause any collateral damage - determines which conclusion you come to. While a priori this may appear mostly as a philosophical question, the stakes are high in a health crisis and the dimensions of the current pandemic may very well justify adherence to the principle of precaution, according to Holmström.



Efficiency vs. Resilience

Economists' workhorse model by contrast tends to be that of optimization: minimizing costs and maximizing efficiency or welfare. Particularly in the context of healthcare, this approach has been subject to criticism, though. Ekholm confirmed that the health sector in Sweden has been slimmed down, partly following extensive privatizations. In Sweden, another issue has been the lack of coordination between the national, the regional (largely responsible of healthcare) and the local level (responsible of nursing homes). Ekholm believes that there are many lessons to be learned from the numerous failures in vertical and horizontal cooperation between different Swedish governance institutions. Conferring more responsibilities to the European level in the domain of health could be efficient but both speakers agree that, despite generally high approval of the European Union, the Swedish and the Finnish public are unlikely to agree to such measures.

Conclusions

All conclusions we draw at this point must necessarily be preliminary. First, the Covid-19 crisis has challenged local, regional, national and supranational governance more than any previous crisis. The reasons for this are manifold: Covid-19 has grown from a health emergency to becoming

an economic, social, political and potentially financial crisis. Second, the merits and pitfalls of technocratic rule must be evaluated. No single expert authority can – or should – claim the sole power of interpretation when facing a multidimensional crisis such as the current one. Considering this, it seems advisable that scientists with different expertise be included in a transparent decision-making process that then is clearly and openly communicated to the public. Crucially, all decisions and rules must be updated constantly, as new evidence arises; there is no room for dogmatism. Finally, there is no doubt that society has to become more resilient in the future. Whether this is to be achieved via supranational integration, investments in research and healthcare, more efficient crisis management mechanisms, or a combination of all these, is to be evaluated.

List of Speakers

Karolina Ekholm, Professor, Stockholm University and Fellow, CEPR

Bengt Holmström, Paul A. Samuelson Professor of Economics, MIT

Chair and Moderator:

Erik Berglöf, Director, Institute of Global Affairs, LSE School of Public Policy and Fellow, CEPR





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