

The Nordic countries

## The next supermodel

*Politicians from both right and left could learn from the Nordic countries*



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SMALLISH countries are often in the vanguard when it comes to reforming government. In the 1980s Britain was out in the lead, thanks to Thatcherism and privatisation. Tiny Singapore has long been a role model for many reformers. Now the Nordic countries are likely to assume a similar role.

That is partly because the four main Nordics—Sweden, Denmark, Norway and Finland—are doing rather well. If you had to be reborn anywhere in the world as a person with average talents and income, you would want to be a Viking. The Nordics cluster at the top of league tables of everything from economic competitiveness to social health to happiness. They have avoided both southern Europe's economic sclerosis and America's extreme inequality. Development theorists have taken to calling successful modernisation "getting to Denmark".

Meanwhile a region that was once synonymous with do-it-yourself furniture and Abba has even become a cultural haven, home to “The Killing”, Noma and “Angry Birds”.

As our [special report \(http://www.economist.com/news/special-report/21570840-nordic-countries-are-reinventing-their-model-capitalism-says-adrian\)](http://www.economist.com/news/special-report/21570840-nordic-countries-are-reinventing-their-model-capitalism-says-adrian) this week explains, some of this is down to lucky timing: the Nordics cleverly managed to have their debt crisis in the 1990s. But the second reason why the Nordic model is in vogue is more interesting. To politicians around the world—especially in the debt-ridden West—they offer a blueprint of how to reform the public sector, making the state far more efficient and responsive.

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### From Pippi Longstocking to private schools

The idea of lean Nordic government will come as a shock both to French leftists who dream of socialist Scandinavia and to American conservatives who fear that Barack Obama is bent on “Swedenisation”. They are out of date. In the 1970s and 1980s the Nordics were indeed tax-and-spend

countries. Sweden’s public spending reached 67% of GDP in 1993. Astrid Lindgren, the inventor of Pippi Longstocking, was forced to pay more than 100% of her income in taxes. But tax-and-spend did not work: Sweden fell from being the fourth-richest country in the world in 1970 to the 14th in 1993.

Since then the Nordics have changed course—mainly to the right. Government’s share of GDP in Sweden, which has dropped by around 18 percentage points, is lower than France’s and could soon be lower than Britain’s. Taxes have been cut: the corporate rate is 22%, far lower than America’s. The Nordics have focused on balancing the books. While Mr Obama and Congress dither over entitlement reform, Sweden has reformed its pension system (see [Free exchange \(http://www.economist.com/news/finance-and-economics/21571116-how-notional-savings-accounts-could-put-state-pensions-sustainable\)](http://www.economist.com/news/finance-and-economics/21571116-how-notional-savings-accounts-could-put-state-pensions-sustainable) ). Its budget deficit is 0.3% of GDP; America’s is 7%.

On public services the Nordics have been similarly pragmatic. So long as public

services work, they do not mind who provides them. Denmark and Norway allow private firms to run public hospitals. Sweden has a universal system of school vouchers, with private for-profit schools competing with public schools. Denmark also has vouchers—but ones that you can top up. When it comes to choice, Milton Friedman would be more at home in Stockholm than in Washington, DC.

All Western politicians claim to promote transparency and technology. The Nordics can do so with more justification than most. The performance of all schools and hospitals is measured. Governments are forced to operate in the harsh light of day: Sweden gives everyone access to official records. Politicians are vilified if they get off their bicycles and into official limousines. The home of Skype and Spotify is also a leader in e-government: you can pay your taxes with an SMS message.

This may sound like enhanced Thatcherism, but the Nordics also offer something for the progressive left by proving that it is possible to combine competitive capitalism with a large state: they employ 30% of their workforce in the public sector, compared with an OECD average of 15%. They are stout free-traders who resist the temptation to intervene even to protect iconic companies: Sweden let Saab go bankrupt and Volvo is now owned by China's Geely. But they also focus on the long term—most obviously through Norway's \$600 billion sovereign-wealth fund—and they look for ways to temper capitalism's harsher effects. Denmark, for instance, has a system of "flexicurity" that makes it easier for employers to sack people but provides support and training for the unemployed, and Finland organises venture-capital networks.

### **The sour part of the smorgasbord**

The new Nordic model is not perfect. Public spending as a proportion of GDP in these countries is still higher than this newspaper would like, or indeed than will be sustainable. Their levels of taxation still encourage entrepreneurs to move abroad: London is full of clever young Swedes. Too many people—especially immigrants—live off benefits. The pressures that have forced their governments to cut spending, such as growing global competition, will force more change. The Nordics are bloated compared with Singapore, and they have not focused enough on means-testing benefits.

All the same, ever more countries should look to the Nordics. Western countries will hit the limits of big government, as Sweden did. When Angela Merkel worries

that the European Union has 7% of the world's population but half of its social spending, the Nordics are part of the answer. They also show that EU countries can be genuine economic successes. And as the Asians introduce welfare states they too will look to the Nordics: Norway is a particular focus of the Chinese.

The main lesson to learn from the Nordics is not ideological but practical. The state is popular not because it is big but because it works. A Swede pays tax more willingly than a Californian because he gets decent schools and free health care. The Nordics have pushed far-reaching reforms past unions and business lobbies. The proof is there. You can inject market mechanisms into the welfare state to sharpen its performance. You can put entitlement programmes on sound foundations to avoid beggaring future generations. But you need to be willing to root out corruption and vested interests. And you must be ready to abandon tired orthodoxies of the left and right and forage for good ideas across the political spectrum. The world will be studying the Nordic model for years to come.