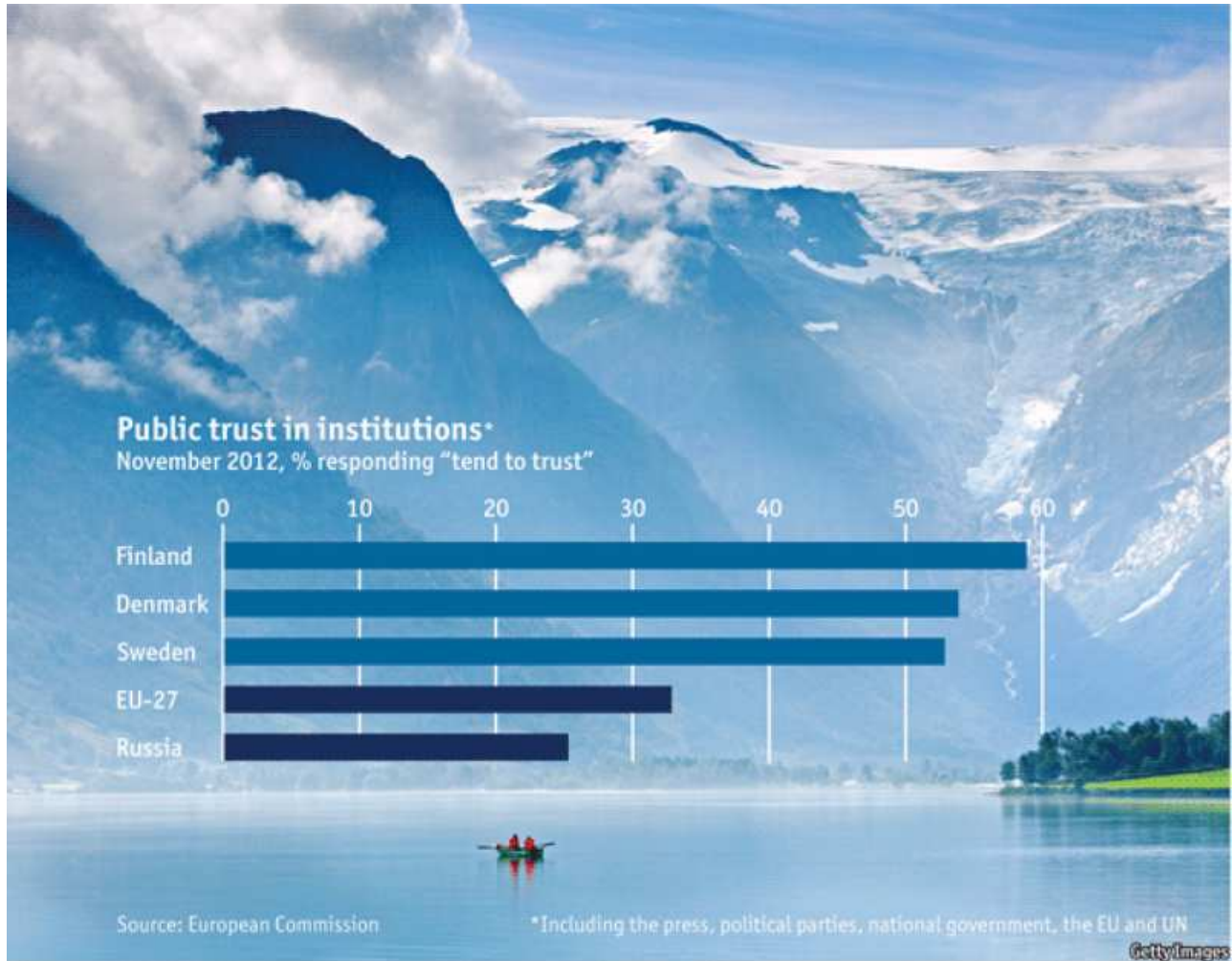


SPECIAL REPORT

Lessons

The secret of their success

The Nordic countries are probably the best-governed in the world



Print edition | Special report

Feb 2nd 2013

CECIL RHODES ONCE remarked that “to be born an Englishman is to win first prize in the lottery of life.” Today the same thing could be said of being born Nordic. The Nordic countries have not only largely escaped the economic problems that are convulsing the Mediterranean world; they have

Top of the class
2012 Index rankings

| Overall rank* | Country | Global competitiveness | Ease of doing business | Global Innovation | Corruption perceptions | Human development† | Prosperity |
|---------------|---------------|------------------------|------------------------|-------------------|------------------------|--------------------|------------|
| 1 | Sweden | 4 | 13 | 2 | 4 | 10 | 3 |
| 2 | Denmark | 12 | 5 | 7 | 1 | 16 | 2 |
| 3 | Finland | 3 | 11 | 4 | 1 | 22 | 7 |
| 4 | Norway | 15 | 6 | 14 | 7 | 1 | 1 |
| 5 | Switzerland | 1 | 28 | 1 | 6 | 11 | 9 |
| 6 | New Zealand | 23 | 3 | 13 | 1 | 5 | 5 |
| 7 | Singapore | 2 | 1 | 3 | 5 | 26 | 19 |
| 8 | United States | 7 | 4 | 10 | 19 | 4 | 12 |
| 9 | Netherlands | 5 | 21 | 5 | 5 | 3 | 8 |
| 10 | Canada | 14 | 17 | 12 | 9 | 6 | 6 |
| 11 | Hong Kong | 9 | 2 | 8 | 14 | 13 | 18 |
| 12 | Australia | 20 | 10 | 23 | 7 | 2 | 4 |
| 13 | Britain | 8 | 7 | 5 | 17 | 28 | 13 |
| 14 | Germany | 6 | 20 | 15 | 13 | 9 | 14 |
| 15 | Ireland | 27 | 15 | 9 | 25 | 7 | 10 |

Source: World Economic Forum; World Bank; NSRF and World Intellectual Property Organisation; Transparency International; UNDP; Legatum

*Based on equal weighting of indices. †2012 ranking

also largely escaped the social ills that plague America. On any measure of the health of a society—from economic indicators like productivity and innovation to social ones like inequality and crime—the Nordic countries are gathered near the top (see table).

Why has this remote, thinly populated region, with its freezing winters and expanses of wilderness, proved so successful? There was a time when most of its population would have unhesitatingly praised their government, which for most of the 20th century meant the social democrats in one of their various national guises. The government had provided the people with cradle-to-grave welfare services, rescuing them from the brutal life of their 19th-century forebears, and stepped in to save the capitalist economies from their periodic crises.

But free-marketers have poked holes in the pro-government explanation and offered a powerful alternative. In the period from 1870 to 1970 the Nordic countries were among the world's fastest-growing countries, thanks to a series of pro-business reforms such as the establishment of banks and the privatisation of forests. But in the 1970s and 1980s the undisciplined growth of government caused the reforms to run into the sands. Free-marketers put the region's impressive recent performance down to its determination to reduce government spending and set entrepreneurs free.

Government's role in improving equality is also being questioned. Andreas Bergh, of Sweden's Research Institute of Industrial Economics, argues that the compression of Swedish incomes took place before the arrival of the welfare state, which was a consequence rather than a cause of the region's prosperity—and almost killed the goose that laid the golden eggs.

This special report has supported some of the free-marketers' arguments. The Nordic countries had got into the habit of spending more on welfare than they could afford and of relying more on a handful of giant companies than was wise. They are right to try to trim their states and make life easier for business. But it would be wrong to ignore the role of government entirely.

The Nordic countries pride themselves on the honesty and transparency of their governments. Nordic governments are subject to rigorous scrutiny: for example, in Sweden everyone has access to all official records. Politicians are vilified if they get

off their bicycles and into official limousines.

Latest stories

Korean Air's "nut rage" sisters step down
GULLIVER

The politics of cultural censorship in Lebanon
PROSPERO

Donald Trump's travel ban heads to the Supreme Court
DEMOCRACY IN AMERICA

[See more](#)

The Nordics have added two other important qualities to transparency: pragmatism and tough-mindedness. On discovering that the old social democratic consensus was no longer working, they let it go with remarkably little fuss and introduced new ideas from across the political spectrum. They also proved utterly determined in pushing through reforms. It

is a grave error to mistake Nordic niceness for softheadedness.

Pragmatism explains why the new consensus has quickly replaced the old one. Few Swedish Social Democratic politicians, for instance, want to dismantle the conservative reforms put in place in recent years. It also explains why Nordic countries can often seem to be amalgams of left- and right-wing policies.

Pragmatism also explains why the Nordics are continuing to upgrade their model. They still have plenty of problems. Their governments remain too big and their private sectors too small. Their taxes are still too high and some of their benefits too generous. The Danish system of flexicurity puts too much emphasis on security and not enough on flexibility. Norway's oil boom is threatening to destroy the work ethic. It is a bad sign that over 6% of the workforce are on sick leave at any one time and around 9% of the working-age population live on disability pensions. But the Nordics are continuing to introduce structural reforms, perhaps a bit too slowly but stolidly and relentlessly. And they are doing all this without sacrificing what makes the Nordic model so valuable: the ability to invest in human capital and protect people from the disruptions that are part of the capitalist system.

Getting to Denmark

Most of the rich world now faces the same problems that the Nordics faced in the early 1990s—out-of-control public spending and overgenerous entitlement programmes. Southern Europe needs a dose of Nordic tough-mindedness if it is to get its finances under control. And America needs a dose of Nordic pragmatism if it is to have any chance of reining in entitlements and reforming the public sector.

The Nordics are hardly blushing violets when it comes to advertising the virtues of their model. Nordic think-tanks produce detailed studies in English about how they reformed their states. Nordic politicians fight their corner in international meetings and Nordic consultants sell their public-sector expertise around the world. Dag Detter played a leading role in restructuring the Swedish state's commercial portfolio in the 1990s, representing more than a quarter of the business sector. He has since advised governments in Asia and across Europe.

Yet it is hard to see the Nordic model of government spreading quickly, mainly because the Nordic talent for government is *sui generis*. Nordic government arose from a combination of difficult geography and benign history. All the Nordic countries have small populations, which means that members of the ruling elites have to get on with each other. Their monarchs lived in relatively modest places and their barons had to strike bargains with independent-minded peasants and seafarers.

They embraced liberalism early. Sweden guaranteed freedom of the press in 1766, and from the 1840s onwards it abolished preference for aristocrats in handing out top government jobs and created a meritocratic and corruption-free civil service. They also embraced Protestantism—a religion that reduces the church to a helpmate and emphasises the direct relationship between the individual and his God. One of the Lutheran church's main priorities was teaching peasants to read.

The combination of geography and history has provided Nordic governments with two powerful resources: trust in strangers and belief in individual rights. A Eurobarometer survey of broad social trust (as opposed to trust in immediate family) showed the Nordics in leading positions (see chart below). Economists say that high levels of trust result in lower transaction costs—there is no need to resort to American-style lawsuits or Italian-style quid-pro-quo deals in order to get things done. But its virtues go beyond that. Trust means that high-quality people join the civil service. Citizens pay their taxes and play by the rules. Government decisions are widely accepted.

The World Values Survey, which has been monitoring values in over 100 countries since 1981, says that the Nordics are the world's biggest believers in individual autonomy. The Nordic combination of big government and individualism may seem odd to some, but according to Lars Tragardh, of Ersta Skondal University

College, Stockholm, the Nordics have no trouble reconciling the two: they regard the state's main job as promoting individual autonomy and social mobility. Any piece of Nordic social legislation—particularly the family laws of recent years—can be justified in terms of individual autonomy. Universal free education allows students of all backgrounds to achieve their potential. Separate taxation of spouses puts wives on an equal footing with their husbands. Universal day care for children makes it possible for both parents to work full-time. Mr Tragardh has a useful phrase to describe this mentality: “statist individualism”.

Nordic people take this attitude to government with them when they go abroad. In the 19th and early 20th centuries some 1.3m people, a quarter of the Swedish population at the time, emigrated, mostly to the United States. America created an entire genre of jokes about “dumb Swedes” and their willingness to obey rules. These dumb Swedes created the best-governed enclaves in America, such as Minnesota. Even today Americans with Nordic roots are 10% more likely than the average American to believe that “most people can be trusted”.

Size isn't everything

Economists frequently express puzzlement about the Nordic countries' recent economic success, given that their governments are so big. According to a professional rule of thumb, an increase in tax revenues as a share of GDP of ten percentage points is usually associated with a drop in annual growth of half to one percentage point. But such numbers need to be adjusted to allow for the benefits of honesty and efficiency. The Italian government, for instance, imposes a heavy burden on society because the politicians who run it are mainly concerned with extracting rent rather than providing public services. Goran Persson, a former Swedish prime minister, once compared Sweden's economy with a bumblebee —“with its overly heavy body and little wings, supposedly it should not be able to fly—but it does.” Today it is fighting fit and flying better than it has done for decades.

Special report: Northern lights

More in this special report:

:

Northern lights

Welfare:

More for less

Immigrants:

The ins and the outs

Business:

Global niche players

Entrepreneurs:

If in doubt, innovate

Creativity:

Cultural revolution

Norway:

The rich cousin

Lessons:

The secret of their success
