The Scandinavian Model

The strong performance of the Scandinavian countries alongside their generous social security systems has prompted economists to examine the Scandinavian model of growth as an alternative approach to development. Of the variables that seem to be important in higher growth rates, a low level of taxes, specifically marginal tax rates, has been subject to debate. Economists such as Lucas argue that countries with a low level of taxes can foster more capital accumulation, which then raises the steady state of an economy. However, countries which have higher tax burdens due to more social welfare spending, such as Scandinavian countries, Finland, Norway and Sweden, have also grown to become the richest countries in the world on a per capita basis.

Table 1: Countries ranked in terms of per capita real GDP, 2004

1	Luxembourg	$69,737	11	Japan	$36,596
2	**Norway**	**$54,600**	12	Austria	$36,244
3	Switzerland	$49,300	**13**	**Finland**	**$35,666**
4	Ireland	$45,675	14	United Kingdom	$35,548
5	Denmark	$44,808	15	Belgium	$33,866
6	Iceland	$41,804	16	Germany	$33,390
7	United States	$39,935	17	France	$32,911
8	**Sweden**	**$38,493**	18	Canada	$31,134
9	Qatar	$37,610	19	Australia	$30,682
10	Netherlands	$37,326	20	Italy	$29,014

Source: World Bank.

Table 2: Social Security Contributions of OECD Countries, 2000

	% GDP	% Tax Revenues
Czech Republic	17.3	43.8
France	16.4	36.1
Netherlands	16.1	38.9
Sweden	**15.2**	**28.1**
Austria	14.9	34.2
Germany	14.8	39
Slovak Republic	14.7	41.2
Belgium	14.1	30.9
Spain	12.4	35.1
Switzerland	12	33.6
Finland	**12**	**25.6**
Italy	11.9	28.5
Hungary	11.5	29.3
Greece	11.4	30.1
Luxembourg	10.7	25.6
Poland	10	29.4
Japan	9.9	36.5
Norway	**9**	**22.5**
Portugal	8.8	25.7
United States	6.9	23.3
United Kingdom	6.1	16.4
Turkey	5.6	16.9
Canada	5.1	14.3
Korea	4.4	16.7
Ireland	4.2	13.6
Mexico	3	16.4
Iceland	2.9	7.8
Denmark	2.2	4.6

Source: OECD.

In terms of contributions to social security, the Scandinavian countries are among the highest in the OECD and in terms of growth rates, the Scandinavian countries have kept up with the growth of comparative economies.

Table 3: Real GDP growth rates of OECD Countries, 1992-2005

Ireland	6.81%
Korea	5.35%
Slovak Republic	4.51%
Luxembourg	4.40%
Poland	4.39%
Turkey	4.07%
Hungary	3.80%

Australia	3.64%
New Zealand	3.47%
United States	3.28%
Iceland	3.20%
Canada	3.17%
Norway	**3.09%**
Greece	2.98%
Spain	2.95%
Mexico	2.89%
Czech Republic	2.85%
United Kingdom	2.69%
Finland	**2.56%**
Denmark	**2.26%**
Sweden	**2.26%**
Netherlands	2.18%
Austria	2.14%
Portugal	1.98%
Belgium	1.92%
France	1.90%
Germany	1.37%
Italy	1.30%
Japan	1.22%
Switzerland	1.12%

Source: OECD.

The Scandinavian model therefore suggests that the so-called European model of social securities provision need not conflict with economic growth. However, much doubt has been raised about this model. It is often mentioned that Ireland has grown much better than these economies after it cut taxes from 53% in 1986 to 35% in the 1990s. Ireland has also recorded much stronger job growth. This raises the question as to whether the Scandinavian model is sustainable if it falls behind economies like Ireland which spends much less on social security but achieves faster economic growth. There is also concern that the Scandinavian model depends on relatively homogenous societies which allowed them to develop a more egalitarian society in the 1950s and 1960s which compressed wages and allowed for flexible labour markets. The situation in Norway, moreover, is affected by North Sea oil and how the Norwegian government managed the funds.

In 1995, Norway established the Petroleum Fund, which is worth an estimated £82 billion or £16,500 for person. After covering government expenditure, Norway's revenue from North Sea oil goes into a Petroleum Fund, which is invested in a mix of financial instruments (bonds, equities, money market instruments and derivates) that has performed well in recent years. This is credited with increasing the security of the populace after oil revenues run out. It is also one, but not the only factor that distinguishes the Scandinavian countries. In fact, the UK also has windfalls from North Sea oil.

Therefore, the Scandinavian model may be an example of why equity need not conflict with economic efficiency, but the sustainability of these economies and the general applicability of this approach for growth is not yet established.