

The case for doing it the NORDIC WAY

Even on the global stage, there is a lot of talk about the benefits of the 'Nordic' model of society. Is that because of hard facts or because of soft values? Is it because of a belief in the importance of solidarity and inclusion in a society? As a businessman and financier, DANIEL SACHS asks: Does the Nordic model make good economic sense?



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“I would also argue that the adaptation to globalisation has been less painful in Sweden than in many other Western countries, for the reason that the gains from globalisation have been reasonably widely distributed. Because of our tax policies, we don't end up with a small universe of 'winners' and a large group of 'losers'.”

THE Nordic model leads to one great benefit: It promotes adaptability and openness to change. And since the times we are living in are a-changin', this quality has enormous economic value.

Swedish taxes are not much higher these days than in the rest of Europe, but state spending is highly efficient when it comes to the redistribution effects.

Openness to change is a core aspect of the competitiveness of the Nordic economies. In fact, adaptability is even more important in small, open, export-oriented economies such as Sweden.

Let me get one thing out of the way: As a businessman, I believe in incentives. People have to have incentives in order to strive for development, innovation, growth and wealth.

But what the Nordic experience shows is that “individual” incentives can be soundly balanced by solidarity on a “societal” level. Solidarity makes good economic sense. Solidarity – that is, risk-sharing – is a key ingredient in being open to change.

I realise that this insight flies in the face of what many Americans believe. But they no longer “own” the openness-to-change idea. In fact, in one of the more puzzling developments of this era, the ability of US society to absorb change has slowed down tremendously.

In the US debate, the key charge raised against the Nordic model is that the level of taxation – and hence the state share of GDP – is very high. But, befuddling Americans, economic growth in Scandinavia is robust and unemployment is lower than in most other European countries.

Like the Americans, we Scandinavians believe that openness to change is very important, yet we go about it precisely in the opposite manner: Ours is not a strategy to minimise taxation.

Why are we ready to put up with a higher level of taxes? Is it because I like living in a society that puts a strong emphasis on equality of opportunity? Is it because I like living in a society that has strong social cohesion and fairness, an open society where everyone has the right to free health care and schooling?

Is it because I enjoy the fact that, in spite of a certain prosperity, I cannot buy better schooling for my kids or better health care than someone with fewer means at his disposal? Or is it because it benefits my business?

Inequality is not only unfair to those at the bottom of the economy, it is also unsustainable and very risky for those at the top.

The answer is “all of the above” – and this flows from how the relationship between openness and risk-sharing works. The “haves” share their personal gains with the “have-nots” through taxes that finance comprehensive benefits.

In that context, it is important to note that Swedish taxes are really not so much higher these days than in the rest of Europe, but state spending is highly efficient when it comes to the redistribution effects.

In Sweden, the idea is that the economically well-off pay enough taxes so that the economically not-so-well-off can support themselves. The employed pay enough taxes so that the unemployed can support themselves.

Our ambition is not only to provide a safety net if a citizen stumbles because of a job loss, but also to invest in human capital so that the citizen is less likely to fall – to invest in making individuals successful actors in a modern and globalised society.

To realise that very practical vision, the already-educated and established pay enough taxes so that the under-educated can get educated. This risk-sharing mechanism may sound abstract, but the pivotal question is what kind of behaviour it fosters.

Our “individual investment society”, as it is sometimes called, together with a clear sense that if people fail they will be taken care of, leads to a greater willingness to take risk and therefore a greater openness to structural change on a society-wide basis.

The citizens of Nordic countries are among the most pro-globalisation in the world. Why? When comparing with larger European countries, which have had, at least historically, large home markets, the Nordic states are small open economies that have been dependent on trade for many decades. (A country outside the region that fits this general mould is Israel).

Openness to globalisation also means openness to disruptive change. Structural change is rapid, industries decline and new ones emerge and people lose their jobs.

High trust allows for diversity, which also has great economic value in times like these, when we need more migration and a growing labour force.

Nordic countries have stayed



Sweden's wide distribution of economic benefits helps create social cohesion. There is a clear sense that all are in this together. PHOTO: AGENCE FRANCE-PRESSE

open and positive to globalisation because free trade policies have gone hand in hand with collective mechanisms for risk-sharing.

Tax receipts are used to promote flexibility and the winners from structural transformation compensate the losers. That is not the case in the United States, where the case for continued openness is being put under increasingly greater strain.

Not only are the Nordic countries among the most positive to globalisation, but one could also argue that they have handled the globalisation era more successfully than most other Western countries. Competitiveness has been strengthened because necessary structural changes – pension reform, industrial adaptation, deregulation – have been widely supported by the people and carried out at an early stage.

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widely distributed. Because of our tax policies, we don't end up with a small universe of “winners” and a large group of “losers”.

The importance of trust

SWEDEN'S wide distribution of economic benefits also helps create social cohesion. There is a clear sense that we are in this together, that we share the benefits and also the burdens. In turbulent times, this has very clear value.

Let's take the Greek example as a contrast. The Greeks have taken to the streets because they feel that the burdens of the economic crisis are being shared unevenly. Unlike the country's economic and political elites, the population as a whole never reaped the benefits from globalisation or from European integration.

But now, it is the people who are expected to carry a disproportionate share of the burdens of the crisis. This has further eroded Greeks' trust in their government and weakened social cohesion. As a result, the crisis risks exposing

Greece's entire social structure to upheaval, to extremism and potentially to revolution.

A byproduct of Greece's state of affairs is that the country's well-established and well-off can no longer exist in splendid isolation as they did in the past. Inequality is not only unfair to those at the bottom of the economy, it is also unsustainable and very risky for those at the top.

Trust is really the key word here. Surveys show that the Nordic societies are very high on trust – both between individuals and between individuals and institutions and the state.

In a society with lower levels of trust, an individual may be inclined to deal mostly with like-minded people in order to feel safe. High levels of trust – as in Swedish society – means we can feel safe with people regardless of whether they are like us or not.

High trust therefore allows for diversity, which also has great economic value in times like these, when we need more migration and a growing labour force.

The economic benefits

THESE aspects of the Nordic model – the relationship between state and individual, generous social protection, freedom of the individual and high levels of trust – all help foster risk-taking and openness to change.

But the other reason why I, as a businessman, like the Nordic model is that high levels of trust, fairness and transparency also mean that transaction costs are low. Corruption is low.

Agreements can be kept short and relatively uncomplicated, information about the people one is dealing with is in the public domain, and the rich and powerful are closely scrutinised by the media. By contrast, transaction costs are high in the US system.

While it is difficult to judge the benefits of different models of society in different times, it is clear from current political, social and economic developments that inequality is both risky and costly.

So there are important lessons to be learnt from a model of society that has been able – at least historically – to combine a generous welfare system with an open and market-oriented economy.

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