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Leaders and Followers: Perspectives on the Nordic Model and the Economics of Innovation

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**Abstract:** What kinds of social and economic systems are most conducive to innovation? We formulate a simple model in which countries can close the gap with the technological leader, but where the cost of doing so may be so high that the country choose to remain laggards. Observed disparities in productivity may be the result of a recognition that the cost of closing the gap exceeds benefit and there may therefore exist an international equilibrium in which there are leaders and followers. Even if it is granted that the United States is the leader and Scandinavia are followers, there are theoretical grounds for arguing that the Nordic model may in fact be better for innovation, suggesting that if the US adopted some of the Nordic institutions, innovations would be higher, and societal welfare would be improved even more.

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