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Erling Barth, Karl O. Moene, Fredrik Willumsen

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The Scandinavian model—an interpretation*

Erling Barth† Karl O. Moene‡ Fredrik Willumsen§

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Abstract

The small open economies in Scandinavia have for long periods had high work effort, small wage differentials, high productivity, and a generous welfare state. To understand how this might be an economic and political equilibrium we combine models of collective wage bargaining, creative job destruction, and welfare spending. The two-tier system of wage bargaining provides microeconomic efficiency and wage compression. Combined with a vintage approach to the process of creative destruction we show how wage compression fuels investments, enhances average productivity and increases the mean wage by allocating more of the work force to the most modern activities. Finally, we show how the political support of welfare spending is fueled by both a higher mean wage and a lower wage dispersion.

1 Introduction

The Scandinavian countries have done well. Both Norway and Sweden experienced higher growth than the US from 1930 to 2010.[1] Among European countries Denmark rank three, Sweden four, and Norway seven in terms of the share of occupations that intensively use information and communication technologies, all outperforming the US.[2] Scandinavian

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†Institute for Social Research, Oslo.

‡Department of Economics, University of Oslo.

§Department of Economics, University of Oslo.

[1]While the US GDP per capita was 4.9 times larger in 2010 than in 1930, Norway's was 6.2, and Sweden's was 6.0 times the 1930 level. The Danish GDP became 4.4 times larger over the same period. Data from `http://www.ggdc.net/Maddison`, first update. Index based on 1990(GK)USD. The Norwegian figure for 2010 is adjusted with the ratio of mainland GDP to total GDP as reported by Statistics Norway, in order to remove oil and gas revenues. One should, however, expect convergence towards the leading country and one may argue that Scandinavia has been slow compared to how fast many Asian countries have been catching up in recent decades.

[2]OECD key Information and Communication Technologies (ICT) indicators. In the Boston Consulting Group's e-intensity index ranking, Denmark is number 2, Sweden number 3, and Norway number 8 in 2012.