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Relevance of the Nordic Model for African Development

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Abstract

Can African countries learn from the development experiences of other regions? Or are the continent's development challenges unique? This paper looks at the development experience of the Nordic countries, especially Sweden, from the nineteenth century and discusses the extent to which the observed patterns of development could have relevance for Africa. The paper argues that poverty is not immutable. Nordic countries were for centuries a poor agrarian outpost at the European periphery and yet via the development of institutions, establishment of a culture of political inclusion and social compassion have managed to raise the welfare of their population to among the highest in the world. The paper also argues that the ability to develop internal capacities for administration as well as institutional flexibility have been crucial for Nordic prosperity.

Keywords: Nordic Model, African lessons, development, social compassion

JEL classification: P51, O55, O57

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1. Introduction

In many ways, the Nordic countries[1] epitomise the technological advances and high living standards achieved by countries of the 'north', while Sub-Saharan Africa depicts the extremes of poverty and social disharmony of the 'south'. And yet the Nordic region was a poor agrarian outpost at the European periphery just over a century ago. Poverty was extensive while compared to the rest of Europe the industrial revolution had arrived late. In spite of these poor start conditions, Nordic countries are today fully-fledged welfare states that have virtually eliminated poverty and created technological niches that have placed them, in spite of their small populations, at the frontier of economic and human resource development. The countries have evolved institutions that have led to peaceful coexistence, political pluralism and social compassion.

Today, similar to the position of the Nordic countries about one hundred years ago, African economies are still well below the global technological frontier. In terms of growth strategy this means that they will have to rely more on catching-up growth than frontier growth. In other words, they will have to borrow and apply technologies from abroad rather than to develop new technologies of their own. For the catch-up process to work, however, the countries need to have an effective institutional structure in place. When institutions are supportive of innovative activity and productivity improvements, the resulting growth can be sustained for a long time. However, if the institutional structure is not benevolent, it will soon stop the growth effects from innovations and investment activities.

The paper is structured as follows: Section 2 summarizes the main strands of the Nordic Model, including a discussion of the institutions, both economic and political, that have sustained it. Section 3 asks what lessons African countries can derive from the Nordic experience with respect to the creation of an environment for private enterprise and the definition of an appropriate role for the government and the judiciary. Section 4 concludes the paper.

2. Outline of the Nordic Model

The development of the Nordic countries in the last century and a half demonstrates that economic backwardness and poverty need not be immutable. Around 1870 they were all relatively backward compared to countries in the rest of Western Europe. Since then, however, their position has improved dramatically. The main features of the Nordic Model, with emphasis on its Swedish exponent, are outlined in Table 1.[2]

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[1] They include Sweden, Norway, Denmark, Finland and Iceland. The pattern of development and the social and institutional structure of the Nordics are very similar, but most of the examples of this paper will be taken from the case of Sweden. Hence references to the Nordic Model in the text will in many ways also be to the Swedish Model.

[2] The three Scandinavian countries, Sweden (Södersten, 1991; Schön, 2000a, b; Eklund, 2000), Denmark (Paldam, 1991) and Norway (Hveem, 1991), had a rather similar pattern of development and their growth acceleration started at the same time, that is the mid to late nineteenth century. Finland was slower to take

Table 1
Main strands of the Nordic/Swedish Model

Feature	Main characteristic/target	Comment
Activist stabilization policy	Strong budget stance to provide scope for government to intervene in markets to ensure 'full employment'	Introduced in 1930s by Social Democrats to combat mass unemployment in Sweden
Control of the credit market	Maintain low interest rates	Real interest rates were negative for part of the time
Liberal attitude towards business	The model did not favour large-scale nationalisation and governments were generally supportive of private enterprise	Under a left-leaning government Sweden was able to encourage the growth of some of the world's largest multinationals
Rehn-Meidner model	Compensatory measures to try and combine low levels of unemployment with low inflation	Selective measures used to create jobs in regions with unemployment and high profit taxes used to lock profits inside firms
Role of union/employer relations	Harmonious and peaceful employer-labour relations became a major characteristic of the Nordic labour markets	This was partly ensured by the 'solidarity-based' wage policy, which discouraged wage drift in profitable branches. However, a state directed incomes policy was opposed by the parties
Market interventions	The goal in the labour market was to improve mobility, while in financial and capital markets it was to 'direct' investment	The Nordic countries were late in opening their financial markets, while interventions on the labour market remain
Liberal trade policy	As small countries, they espoused free trade	Firms have not been able to exploit domestic monopoly positions, thanks to foreign competition
Welfare State and social climate	Extensive provision of tax financed social services. High and progressive taxation ensured the transfer of resources from the better off to the poorer segments of the population	The good employment climate and safetynets enabled a considerable amount of social engineering

Source: Author

An activist stabilization policy has been an essential feature of the Nordic Model since World War II. Full employment was a central aim of the Nordic strategy, and during the

off but has since then gone through a very similar growth process and has by now caught up with the rest (Haavisto and Kokko, 1991). Iceland is a special case being sustained by fisheries.

first decade of the post war-era unemployment was kept below 3 percent. In the case of Sweden under the Social Democrats it was felt that a strong budget stance was necessary to ensure that the government had some scope for action and intervention when there was a risk of increasing unemployment. One significant dimension of the Swedish strategy was the creation of an investment fund system, whereby firms could deposit untaxed profits on an interest free account in the central bank on which they could draw with government permission when the business cycle was going down. Similar concerns lay behind controls of the credit market. A major aim was to keep interest rates low, making it possible for firms to invest and expand. This was achieved by combining credit market controls with a closed capital account and fixed exchange rate. Real interest rates were negative part of the time.

The Nordic Model is also distinguished by its liberal approach to business, in spite of the left of centre governments. The Nordic governments did not encourage large-scale nationalisation, although companies in Sweden faced high taxation on the portion of profits that was distributed to shareholders. However, as noted above, as long as profits were reinvested in the business, they were only lightly taxed.

In the 1950s, the fiscal stance supported by the government as well as the wish to maintain low inflation called for a policy fine-tuning. In Sweden the solution was the Rehn-Meidner Model (Meidner and Rehn, 1951). It recognized that in a market economy there would be some regions or sectors that did well, while others would lag behind. Effective resource use would then require the transfer of resources from the poor sectors to the booming sectors. At the same time, selective measures were needed to create jobs in the regions of unemployment. It was also felt that if profits were highly taxed, there would be less pressure for inflationary wage settlements in the economy as a whole. The policy was also meant to be growth supporting, since it knocked out the low productivity firms, while the most productive could make large profits and thus invest and expand.

The Rehn-Meidner model clearly impacted on labour-employer relations as well. However, harmonious labour market relations date back to the 1930s. The degree of unionisation was very high then and an increasing centralization of wage negotiations made it possible to achieve peaceful and comprehensive wage settlements. In the 1950s, the Rehn-Meidner model introduced a solidarity-based wage policy, which discouraged wage drift. However, wages have essentially been set in free negotiations between employers and unions. Since the 1980s, wage settlements have become more decentralized, though an informal co-ordination of settlements in various areas of the labour market persists.

The above policy stances implied extensive market interventions. In the case of the labour market the strategy was improve mobility by the creation of labour exchanges and payment of mobility subsidies. In financial and capital markets controls were extensive. Banks were forced to buy government bonds or to finance housing investment. These amounted to a guided investment policy. As small economies, with extensive trade-based activities, the Nordic countries have pursued free trade and resisted protectionism. However, with regard to domestic competition, Sweden has not had any extensive legislation. It has used free trade as a substitute. Firms have been unable to exploit domestic monopoly positions, since foreign goods inflows have provided a check on price increases (Hjalmarsson, 1991).

Finally, all the above aspects tie in with the overall goal of creating a welfare state, together with a social climate that supports change. The welfare state had two basic components. First, extensive provision of tax financed public services and second, a comprehensive system of social insurance. To support the system, there were high and progressive income taxes, wealth taxes and large payroll taxes plus, from the 1960s onwards, extensive indirect taxes. With the growth of the middle class relative to the working class in past decades the system has gradually been adjusted to preserve the support of the middle class. There is fear that when that support dissipates, the existing comprehensive welfare system will begin to crumble.

The implementation of many of the policy features enunciated above, demanded a social climate that was supportive of change. During the glory days of the model in Sweden the system was controlled by Social Democrats in close collaboration with the trade unions. It is notable that when the model ran into trouble in the late 1970s, the Social Democratic hegemony was broken as well. Since then the liberal-conservative opposition has been in power several times in Sweden and other Nordic countries. Still, consensus across political blocks on welfare issues has been extensive, and one may note that the basic ingredients of the welfare state have remained in place even when right of centre parties are in power.

3. Relevance to the African experience

3.1. The importance of economic flexibility and market integration

Among the lessons of the Nordic experience has been the importance of structural and policy flexibility for economic development. While the industrialization drive in the region began in about 1870, already between 1840 and 1870 the Swedish government had undertaken major reforms of the economic system including removal of domestic restrictions on trade, opening up the economy for international trade, reforms of company law as well as banking legislation.

During the first half of the nineteenth century, Swedish per capita incomes grew at half a percent per year, while the population grew by about one percent per year. The growth during this period was based mainly on agriculture. New land was planted and land ownership was consolidated. The limits of ownership became better defined and farmers moved out of villages to live on their consolidated farms. It was like the Ujamaa reform in Tanzania in reverse. The process of growth led to a market expansion, which supported some growth of handicraft and small-scale industry. Still, the most important event during this period, in a longer-term perspective, was probably the emergence of new growth supporting institutions. The government invested heavily in the creation of a transport infrastructure in the form of a national rail network, largely financed by loans from the European capital market. There were furthermore institutional changes that made the markets more flexible, such as free trade, free capital movements and increased mobility of people. Trade increased and technology and immigrant entrepreneurs came in from Western Europe.

The export activities, based as they were, on raw materials and agricultural commodities, meant that broad segments of the population could benefit from the expansion (trickledown). Since the production technology was simple, a lot of unskilled labour was employed initially. Resources that had previously been virtually worthless, such as marginal land and forest in the north of the country, became valuable. There was to some extent a vent-for-surplus export expansion at work here.

At the beginning of the industrialization process, Sweden was rich in natural resources and labour, but poor in capital (much like Africa today). The market integration led to large inflows of capital to Sweden. The capital importers were largely the state, counties, banks and other financial institutions, which then on lent to investors in industry and agriculture or invested in infrastructure and urban development.

With recourse to international capital and investment, wages increased, as did consumption. During the period 1850-1910 Sweden had a virtually permanent deficit in the current account. At the start of World War I it was probably the most indebted country in the world in per capita terms. Swedish external debt at the time is estimated to have been 75 percent of GDP. If these loans had not been forthcoming, investments would have been lower and growth and structural change slower. The integration of the world also meant that more than a million Swedes (in a total population of 5 million) emigrated to America during the half century preceding World War I. Thus with capital moving in and labour out, factor prices changed dramatically in Sweden. Between 1870 and 1910 wages increased more rapidly than elsewhere. It was only the other Nordic countries that came close to this. Real wages increased faster than GDP (2.8 percent vs. 1.7 percent), which meant that sectors that depended on traditional comparative advantages of cheap labour and abundant natural resources came under pressure relative to those sectors that used more advanced technique and capital. O'Rourke and Williamson (1999) show that much of the Swedish catch-up in terms of wages was due labour emigration rather than trade and the standard Stolper-Samuleson effect.[3] The African countries of today are obviously not able to attract very much foreign capital, and labour emigration is also severely restricted. Factor movements have so far not been as effective as in the case of Sweden in helping equalize factor prices.

The firms that grew during this period were largely created at the turn of the century and then consolidated in the 1920s and the 1930s, although also a few new ones emerged such as TetraPak, IKEA and H&M. It was mainly capital-intensive industries that grew during this period, while labour intensive sectors such s textile and clothing and food industry and agriculture shrank. This structural change did not arouse too much opposition, since those laid off tended get new jobs relatively quickly, not least in the expanding public sector.

The pressure for structural change was increased in Sweden by this process. The transformation meant that industrial workers became a more important group at the expense of those depending on agriculture. Some of the basic ingredients of the Swedish Model emerged from the experience of structural changes occurring along side or causing rapid increases in real incomes. Labour movement and industrial owners shared a positive view of Swedish international dependence and appreciated the need to rationalize industry to make it more competitive and accepted structural change. Access to international

[3] We may note, however, that Denmark saw rapid income convergence with much less of emigration than Sweden.

markets for goods and capital is also crucial for the development of African countries. Much needs to be done on the side of the governments to ensure that resources begin to flow.

3.2. Defining a credible role for the state

Nordic countries have probably had a higher degree of government intervention than other developed regions of the world, excepting perhaps Japan. However, governments were carefully to ensure that this did not overly distort markets or lower incentives and thereby productivity. In the 1930s a long period of political hegemony for the Social Democratic Party was established. This party advocated a more active policy stance vis-à-vis the mass unemployment of the early 1930s. Keynesian stabilization policies, as advocated by leading Swedish economists (the Stockholm School with Lindahl, Myrdal, Ohlin and others), were introduced in Sweden already around 1930. It was also felt that the government should improve the social security of the population in the new and more turbulent economic situation. The majority of the population was now dependent on wage income. The idea that income needed to be redistributed from the better of to the poorer segments of the population was firmly established. The Social Democratic Party launched a new social contract labelled *folkhemmet* ('the people's home'). Nobody was to be left out of this new 'home'.

Sweden managed to get through the Great Depression of the 1930s better than many other countries. To some extent this was due to an expansionary Keynesian policy, but probably more so to the fact that Sweden left the goal standard in 1931 and had a large devaluation of the currency. This ensured a good competitive position for Swedish exporters throughout the decade.

The 1950s and 1960s were decades of record growth in Sweden and elsewhere. The war-torn economies needed rebuilding and new industries grew. The role of the state increased as it invested in infrastructure and public services like health and education. There were also some modest elements of nationalisation of industries, but essentially Sweden has been a private capitalist economy. The debate on such issues as the nationalisation of the banks was very heated in the late 1940s, but the opposition won the debate and since then it has been subdued (except for the period after 1968, when it briefly resurfaced). Internationally the global financial system was formed at Bretton Wood and gradually the economies started to integrate again. International free trade areas emerged like the EEC and EFTA. So there was increasing internationalisation, at the same time as in Sweden government interventions increased. Sweden grew fast, but the countries that had suffered during the wars started to catch up.

The Swedish Model meant the development of the welfare state and a more interventionist stance with regard to labour and capital markets. The aim was to achieve high and rapid growth at the same time as the benefits were reasonably evenly spread. The welfare state took over some of the obligations that previously had rested with the family, and this eventually paved the way for the broad entry of women into the labour market. Many of those actually entered the public sector producing the services in education, health, child care and care for the elderly. The role of the public sector as a provider of services increased rapidly. At the same time the public sector developed an extensive transfer activities in the form of child allowances, pensions, unemployment benefits, sick benefits etc. The transfers were as large in terms of money as the actual government activities. The level of taxation obviously was increased dramatically. It must be noted that all the Nordic countries have extremely efficient systems for tax collection. African economies are at the other end of the global spectrum in terms of collection efficiency.

For the interventions in production activities the aim was to make it possible to exploit comparative advantages and thus grow fast and to create resources for the welfare state. Sectors that were competitive were to grow, while those who were not were allowed to shrink. A strong pressure for structural change was created by the so-called solidaristic wage policy, which meant that wages should be equalized across sectors. Those that could not bear the cost would then be squeezed out, while those that were profitable actually were favoured by labour not demanding the maximum the firms could pay. At the same time capital markets were controlled and investments were favoured. Firm dividends were heavily taxed, but as long as funds were reinvested they were taxed lightly. This meant that existing profitable firms could grow fast, but capital mobility across activities was hampered. This later on would turn out to be a problem, when there was a need to shift profits from mature firms to newly emerging sectors. Labour intensive industries declined, as did agriculture. In the old controlled setting large firms had developed internal capital markets as a substitute for an external one, but when really extensive structural changes were required the system could no longer efficiently reallocate capital.

The 1960s was a period of record growth, but at the same time a structure emerged that was vulnerable. Investments were concentrated in heavy industry, which reinvested its profits in its own activities in the form of real capital. This was supported by the existing policy incentives. The Swedish Model also meant that investment in house building and the public sector were favoured. These trends meant that Sweden was locked into a structure that lacked flexibility.

It seemed for a while that the Swedish economy could carry an ever-increasing level of taxation, but eventually it ran into incentives and distortions hampering efficiency. This happened in a situation where the state apparatus was honest and fairly efficient, which suggests that in the case of Africa this stage of decreasing returns to intervention will come earlier. Given the weakness of the African state one must thus be very cautious when drawing conclusion from the Nordic experience about state interventions. The high levels of corruption and inefficiency sets definite limits as to what should be tried in Africa. The appropriate approach there would be to seek to find robust and simple solutions that do not require discretionary and detailed interventions.

3.3 Governance issues and the rule of law

What lessons are there for African countries in the area of governance? One feature of the development in the Nordic countries that is of interest for African countries is how these countries managed to create institutions that contributed to the creation of an increasingly egalitarian and wealthy society. This is obviously a huge topic that would deserve extensive historical analysis. Still, what can be said against the background of the mini-history sketched above?

Between 1890 and 1910 the modern institutions of the Swedish industrial society emerged such as the Social Democratic Party, The Federation of Employers and the Central Trade Union Organization. However, it was not until the period between the 1930s and the

1950s that economic policies were reformed and the system that came to be known as the Swedish Model developed. The period 1950 to the early 1970s may be regarded as the golden age of the Swedish Model, when growth was very rapid and the country finally moved to the top layer of nations in economic terms. In 1970 Sweden was ranked as number four in the world in terms of purchasing power per capita.

We may note that although Nordic countries were involved in extensive international wars until the days of Napoleon, since then (1815) Sweden has been at peace. Norway and Denmark were occupied by Germany during World War II, but have otherwise been at peace. Finland has had a more violent history with wars against the Russians. Still, overall these countries have been among the more peaceful in Europe during the last century and a half. The relatively peaceful environment has been positive for economic development. Africa, on the other hand, has recently seen an increase in violent conflicts, with detrimental effects on economic development. There are, however, no easily transferable lessons from the Nordic countries as to how international conflicts should be avoided. It seems, however, that African poverty has increased the likelihood of cross-border conflicts.

Democratic institutions emerged gradually in the Nordic countries over a very long time, until the countries became fully democratic around 1920 when women got the vote. There have of course been political conflicts, but these have generally been solved in a consensus and pragmatic fashion. This way of solving conflicts of interest is the end result of a very long historical process, where it is hard to point out exactly which factors that have been the most important. One factor that may have made it a bit easier than in the African context is that the countries, at least until World War II, were ethnically and linguistically very homogenous.[4] Africa with its ethnic diversity has little to learn from the Nordics about how to treat minorities.

One aspect of the Nordic society is the extensive network of civil society organizations. They have been there for a very long time in the rural areas, but during the industrialization phase there were very active political parties, trade unions, temperance organization, independent churches, sports clubs etc. The Nordic countries might be a good example of a culture, where trust has been built through extensive and peaceful interchange between individuals and groups in a range of organizations.

There is also a tradition that agreements are negotiated between the relevant parties, and before the government introduces new laws there are generally committees with the relevant parties invited that produce report and this is then sent out to all interested parties for comments. These are then taken into account by the government before it presents its bill to parliament. There seems to be an increase in the number of and influence of civil society organizations in Africa in recent years, and involving them more in the decision making process would be something that African countries could learn from the Nordics. The mode of political operation is also clearly reflected in the style of leadership. In the Nordic countries a typical African leader, trying to be all-powerful, would not be well regarded. The Nordic Model is much more one of consensus building, with some similarities to the Japanese approach to decision making. The leader is expected to be a consensus-builder.

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[4] There was and still is a Swedish-speaking minority in Finland.

The Nordic countries have a decentralized administrative structures, where local councils take a lot of the decisions with regard to how to organize schools, health services etc. This has meant that local citizens are very much involved in political decision making, and that there is a relatively small distance between voters and at least the local politicians. This probably has contributed to confidence building. Assuming that the local politicians are more able to gauge the desires and needs of the local community than central policymakers, it may also have made decision making more efficient.

The local authorities have extensive powers of taxation and thus a good source of income. This ensures them a measure of independence from the central powers. African leaders have been less willing to let so much power be delegated to authorities outside their control. If African governments could achieve a higher degree of legitimacy, they would be less unwilling to share power. That would then also increase participation and maybe the efficiency of policy making. Still, in countries with large regional differences in income levels, there will always be a large need for a system of transfers from the better off to those worse off, although decisions on spending could be taken locally.

One ingredient of the Nordic Model has been the close links between the government, labour and industry. Some have referred to the system as a system of corporatism, where the lines of demarcation are blurred and it is unclear who is ultimately responsible. These close links have helped in several ways, but in the case of Africa such links have often been harmful. Bigsten and Moene (1996) argue that straddling, that is individuals in government having a foot in business as well, may have negative effects on the efficiency of the economic system being one of several channels of corruption. On the other hand, it is useful if policymakers appreciate the needs of business. Still, there needs to be checks and balances. Corruption and rent seeking are among the major constraints on African economic development.

3.4 The fundamentals of the welfare state—social insurance, social inclusion and conflict management

What ingredients of the welfare state can be replicated in Africa? We may first note that in the case of Sweden the churches had for a long time had a responsibility for teaching the population to read and write, but from the 1840s primary education has been compulsory. This has meant that essentially the whole population has been literate, and this has been a major advantage. It seems to me that this is an area where African economies should follow the Nordic example. The ambition to provide extensive education has surely been there, but economic stagnation in African economies has hindered the realisation of the ambition. Uganda is now on its way to establish a system of universal primary education, and it should be high on the priority list for other countries as well. Whether education should actually be compulsory is debatable, but it seems that this may not be appropriate at least initially. In the longer term I would not mind such a law.

During the period of structural adjustment the attempts to revive education have meant that fees have been introduced, also referred to as ‘cost-sharing’. This is unfortunate, although fee-charging education is preferable to no education at all. Still, at least primary education should be treated as a basic right and thus be made available to all. It is also the most effective way to feasibly bring about a measure of egalitarianism in Africa. It would seem appropriate to phase out some other programmes to realise this aim. It is better to do a few things well than to spread efforts in too many directions. Governments in Africa should stick to the basics.

There has been a debate in the Nordic region as to whether the welfare state has hindered structural changes or whether it has facilitated them. The latter argument has been based on the notion that if you have basic security you are willing to accept change, since you know it will not leave you destitute. Rather the system ensures that you manage reasonably well, while you transfer to a new firm or a new sector where you again will be earning approximately the same salary. Whether this effect outweighs the negative incentive effects is not at all obvious. However, African countries cannot afford a solid safetynet anyway. Still, some faith in the government and some confidence in the future would reasonably make it easier for labour to accept structural changes, and since those would normally increase growth it would also help increase real earnings among the population. However, political confidence building has to be made on the basis of the local political process, and this may of course be quite different between African countries and the Nordics.

3.5 A conducive environment for private enterprise development—property rights and regulatory institutions

By 1910 some Swedish manufacturing firms had become world leading. Firms like AGA, ASEA, LM Ericsson, Separator and SKF were all based on unique Swedish innovations. However, also heavy industries such as pulp and paper were important, and they could introduce new technologies with access to cheap electrical power. Sweden at this time was thus not just applying foreign technology, but was actually helping shift the technological frontier.

The Nordic governments have generally been supportive of private enterprise. We have noted that property rights were clearly defined at an early stage, which helped pave the way for the private enterprise economy. The state has not been a major factor in primary or secondary production, although it has had a large role recent decades in the provision of services such as health services and education as well as a range of other social services. The experiences of African parastatals do suggest that African governments should follow the Nordics and not involve themselves in directly productive activities.

We also noted that goods markets were liberalised early on, although there has been continued interventions in housing and food markets. In the 1970s some African countries tried to use price controls to manage inflation. This has with the exceptions just mentioned only been used in emergencies in the Nordic countries, and the experiences of the attempts do not suggest that this is an efficient tool of either supporting growth or creating justice. Instead the systems generated inefficiencies and a lack of competitive pressure that means that the price levels in those areas is much higher in, for example, Sweden than what it is in Europe generally.

The judiciary has been independent and it has during the whole period of industrialization been able to deal effectively and largely impartially with legal conflicts between enterprises. Contractual enforcement is absolutely essential for a market economy to function. Effective bankruptcy legislation is also a very important ingredient in a system that needs structural change, and where firms will invariably die and (sometimes) be resurrected.

The Swedish government early on took the responsibility for the creation of an effective transport infrastructure. It borrowed heavily abroad to finance this, not unlike many LDCs of late, but the growth response was good and events favoured Sweden, which made it possible to repay the debt. African countries have been less fortunate in this respect. With the introduction of the HIPC deals the debt burden of many countries will be reduced, but it may also mean that they will find it harder to go to the international capital market to get more investment resources. In the Nordic countries the infrastructure was largely built and run by the government. There has been some movement in the privatization direction recently, though.

It has been the intention in African states as well to provide an effective infrastructure, but given the weakening of the government finances this has been less feasible and more private initiatives have been forthcoming. Still, on my list of priorities for the government the provision of infrastructure is a top priority along with education. A major concern in the infrastructure area is that few African governments have been able to develop effective systems of maintenance, which means that a lot of investments go to waste. What they can learn from the Nordics here is not quite clear, but basically it will depend on the ability to create an honest and working government system with the appropriate incentives for the people engaged in it. Public sector activities in Africa have been run into the ground, and the restoration of viable government institutions is top priority. One thing that is of major importance in the Nordic case is that government institutions are essentially non-corrupt and relatively efficient. The general public does not accept that government bureaucrats enrich themselves on tax money, and even small steps over the line can lead to dismissal and trials. In Africa the voters seem to be more forgiving, particularly if the culprit shares the loot with his constituents.

The Nordics have been among the countries most open to foreign trade, and the institutions supporting the system was there early on. They started out as raw material and agricultural exporters while learning the trade, but once this had been done they could use the institutions and the knowledge to export other more sophisticated goods such as industrial goods. The same pattern was there in Africa, when countries started to export copper, cocoa, or coffee, but African countries have had great problems in moving beyond this pattern of specialization into industrial production. In Sweden the trading houses that initially were selling the raw materials were able to use their knowledge and their trade channels to sell also industrial goods. It seems fair to say that openness has been a crucial ingredient in the Nordic development model. The introvert pattern of development that emerged in Africa in the 1960s and 1970s was certainly not appropriate for the tiny economies of Africa. It precluded the exploitation of scale advantages and it created domestic monopolies that needed to be controlled. This then opened the way for harmful and ineffective (often cost-plus) price control arrangements. Free trade is an effective way of controlling domestic market power without forcing producers to produce on an unnecessarily small scale.

We may also note that to the present day Sweden and Finland rely on the export of raw materials and products based on forestry and mineral resources, while Denmark is a major agricultural exporter. It is thus not the case that these sectors have been abandoned, although they are less important in relative terms than they were in the nineteenth century.

The Nordic countries rapidly reached the global technological frontier when they started to industrialize, even if they also relied extensively on the copying and borrowing of foreign technologies. Few African countries today are in the situation that they can move to the international technological frontier on any significant scale. It is also the case that the gap between subsistence agriculture and the global technology frontier is much larger today than a century ago, which means that it has become harder to join the innovation club. This means that in terms of technology policy, there are certain limits as to what Africa can effectively do. For the time being it seems reasonable to concentrate on learning how to adapt and use existing technologies rather than to try to move to the frontier. Even this requires a good technological education, which today is largely absent in Africa. Interest in technology has always been high in the Nordic countries and the post secondary education always provided good technical education. This should be the priority in Africa as well. The problem here again is of course that this type of education, if it is to be good, is much more costly than humanities or the social sciences.

One example of how adaptive use of existing structures may facilitate growth is the role of energy production in Sweden. The country has an abundance of rivers that were exploited for energy production. At the same time the process industry was building generators and other forms of equipment. These two sides were thus mutually supporting and helped create demand for the technology and the knowledge of how to provide it. These industries also were very successful in the export markets. Sweden thus became very efficient in producing power generating equipment at the same time as it got cheap energy for the rest of the economy. This is one example of several where there was a complementarily between the state as a buyer and private firms as suppliers of equipment. With the state as a stable long-term buyer and a partner that was willing to discuss and develop the relevant knowledge the private firms could grow into major multinational firms (e.g. ABB). Other examples of this type are the links between Swedish Telecom and Ericsson or the Swedish health system and the pharmaceutical industry (present day Astra-Zeneka and Pharmacia Corporation). It should be noted, though, that there has for a very long time been a regulation about public tenders that has forced even firms with a long established relation to tender in competition with domestic and foreign buyers. That the honesty and transparency of such mechanism is vital is clear to anyone who has seen the extensive misuse of that process in countries such as Kenya.

It is not quite clear how the emergence of the so-called new economy is going to change the scenario for Africa, but potentially it could shorten the route to the frontier. Information is much more easily available and the disadvantages of a peripheral location may be reduced. The latter is not self-evident, though, since even IT firms in the north tend to cluster.

The Nordic labour movement has generally been positive to structural change and a liberal trading regime. This is a reflection of their experience of the positive effects on their living standard of that type of policy. However, the economic changes associated with for example the recent phase of structural adjustment in Africa have often not been translated into increasing real wages, which has meant that the labour movement as well as the general public have been lukewarm in their support of the new policies. This is a significant problem and it can only be dealt with through the success of the policy. Preaching will probably not do the trick. So the real issue is whether a reform policy can be kept in place for a long enough time for it to start delivering increasing real wages.

This has happened in the case of for example Uganda, but there are cases were it has not happened. This may then lead to policy reversals that will further undermine the confidence of investors and there will in the end be a vicious circle driving real incomes further down. The policy or its implementation may of course be wrong, but it is not clear that more sensible policies are what for example African trade union bosses generally advocate.

African economies are dualistic or at least far from homogenous. This means that factor rewards such as wages may vary a lot between sectors or activities, and this has an efficiency cost. Swedish trade unions did try to avoid this by actively squeezing wage differentials that were unrelated to the type of job that the worker was doing. This increased the rate of structural change and real income growth. Whether this will be a feasible strategy in Africa is debatable, and there is actually now a debate in Sweden as well as to whether this is the right strategy for today. Maybe some regions should accept lower wages to reduce their unemployment problems? Still, It does not seem like a top priority for African economies to drive bad firms out of business, when the alternative for labour is either unemployment or the informal sector.

The stringent levels of firm taxation that were pursued in Nordic countries do not seem appropriate for Africa either. Retained earnings finance most investments in African manufacturing, and as long as there are little in terms of alternative sources of finance it is a high-risk strategy to tax firms heavily. It is very important to remember that the state ownership was always limited in the Nordic countries. This needs to be contrasted with the role of parastatal firms in many African economies, which has been very detrimental to efficiency and growth. The basis for the Nordic welfare state was a functioning private sector, and this is a lesson that African economies would be well advised to heed.

4. Concluding remarks

The first and most obvious limitation on the application of the Nordic Model in Africa is the large differences in income levels. At present the Nordics have per capita incomes in the range US$25,000-30,000, while African countries often have per capita incomes below 500 dollars. Even if we correct for differences in purchasing power, there remains a huge gap. It is thus important to remember that the welfare state in the Nordic countries provided a very limited safetynet when the Nordics had an economic standard comparable to that of African economies today. There are thus choices to be made with regard to where to start. The African tax base in not such that it can enable governments to have everything at once, although Nyerere's Tanzania did attempt to do something of the sort. With limited resources it seems sensible to me to put top priority on the provision of public services like education and health services on a broad scale plus the basic infrastructures necessary for a functioning economy, rather than to provide, for example, generous social insurance to the formal sector employees. Transfer systems cannot be comprehensive in African economies of today, while universal primary education can benefit vast segments of the population. It seems reasonable to pursue egalitarianism via the provision of public goods or public provision of private goods such as education and health services rather than to try to achieve equality through an elaborate transfer system of the Nordic type. That should come much later. Still, there may be some cases where there will be a need for some form of safetynet, such as care for orphans, but often this is taken up by the extended family system, and if it does it is better to leave it there for now.

We also noted that during the period of industrial break through, the Nordics were not too dissimilar from the leading economies of the world, albeit a bit poorer. This meant that they domestically catered for a similar pattern of demand as that dominating the world market. The situation in the case of Africa is here at least partially different. There the middle class and the elite do have a consumption pattern that is relatively similar to that of the North, but the bulk of the population does not. This means that in the case of Africa it is even more harmful to focus on trying to produce only for the domestic population, since this may mean that the firms are locked into a pattern of production that is out of sync with what the world market demands. It will, therefore, not be a route to creating a competitive edge for the supply of for example cheap industrial consumer goods for the global market.

We noted that Sweden was able to change its capital-labour ratio quite a lot by labour emigration and capital immigration. In the current situation it seems hard to expect the North to open up significantly to African labour emigration. There is an abundance of internationally mobile capital available, though, but to attract this to Africa the environment has to be seen to be economically and politically stable. At present this is not the case. Thus though factor mobility would be helpful, to bring it about demands that African states put there houses in order that is acceptable to domestic and foreign profit-maximizing investors. In the meantime, they have to rely on what they can get in the form of foreign aid, although this type of capital is not a perfect substitute for private capital. Direct investment resources often come with technology attached and that can then spillover and affect the productivity of other firms.

The political institutions determining how a country is run are very important. The Nordic set of institutions in a formal sense is not that dissimilar to what exist in Africa after the recent political reforms. What are different, however, are how the political process works and the scope for and acceptance of effective debate and opposition. Here most countries in Africa have a long way to go before they reach the Nordic level of political tolerance.

Generally one may conclude that there are lessons to be learnt for Africa from the many aspects of the Nordic Model, as there indeed are lessons to be learnt from other regions. What makes the Nordics stand out though is the extent of social peace and the comprehensiveness of the welfare state that they have achieved. However, the foundations of peace are often country-specific and must evolve out of the local social setting. It is thus not obvious what Africa can learn from the Nordics about how to replicate this important ingredient of their development in the past century. What is more certain is that while a welfare state may be a long-term aim for Africa, in the short to medium term African countries need to focus on the core ingredients of development in order to ensure maximum impact on their societies.

One important issue is also what drives institutional and policy change. Recent changes in the Swedish structures were undertaken after the country had run into a severe economic crisis. Until that happens people tend to take a wait-and-see attitude expecting things to get back to normal again. The same attitude existed in Africa in the 1970s, but in the 1980s there was finally a realisation that structures needed to change. The structural adjustment packages have grappled with this, but there are some institutional changes that are needed that do not follow immediately out of those programmes. That concerns issues like honest and transparent government and politics, and those dimensions are not easily changed from above or from the outside. Still, sensible reforms of policies and organizations may help pave the way for change also in those areas.

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