

The Nordic Model and the Challenge from Global Value Chains

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Are the Nordic countries winning or losing the globalization game?

Global dispersion of value chains

With the increasing ease of communication and transportation, the falling costs of processing and transferring information, and the major political and societal changes that have occurred in recent years, the link between economies of scale and the geographic concentration of production has weakened. It has become feasible and profitable to disperse global value chains in time and space at a fine level of aggregation. This trade-in-tasks (Grossman and Rossi-Hansberg, 2008) or second unbundling (Baldwin, 2006; 2009) is among the most important features of modern globalization.

Basic economic theory suggest that deepening specialization brings about aggregate benefits. As agents and institutions involved do not necessarily/fully redistribute these benefits, there are bound to be both winners and losers. Therefore, current high-income countries are justly concerned about the sustainability of their prevailing standards of living.

The Nordic model

The Nordic countries are widely recognized as a group that has been able to combine efficiency and equity to meet the challenges imposed by globalization (Andersen et al., 2007; Sapir, 2006). Nordic countries differ in many respects but also share common features that make up a social and economic system that may be referred to as the "Nordic model".

The principal features of this model include the following: consensus-driven decision making, collective bargaining and strong labor market institutions, extensive transfers to households and publicly provided social services financed through taxes, and high public investment in education and research. The essence of the Nordic model is a combination of collective risk sharing and international openness (Andersen et al., 2007).

Sapir (2006) identifies four types of socioeconomic models in Europe – the Continental model, the Mediterranean model, the Anglo-Saxon model, and the Nordic model (Figure 1.1). He then compares the ability of the models to bring about efficiency and equity in society using various indicators of social justice, income distribution, employment protection, economic growth and stability, and living standards. While there is often a trade-off between equity and efficiency, he argues that the Nordic countries have been able to achieve both.