The Nordic Countries in the 19th and 20th Centuries – Economic Growth in a Comparative Perspective

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Introduction

In economic history, economic growth is usually defined as a long-term increase in GDP per capita. There are also other definitions, however related, and one that is relevant for this paper is this: “Economic growth is the outcome of a process in which countries strive to catch up with the leaders.”[3] This definition has something very important to say about the growth process as such. Economic growth in a country is frequently studied without explicit references to other countries. Implicitly it is however usually recognised that modern economic growth – to use Simon Kuznets’ apposite terminology[4] – is basically an international process. Thus, there are connections between all countries involved. No country has ever experienced modern economic growth in isolation. This international process has a number of important ingredients such as technology transfers, international trade, institutional learning between countries, and personal as well as institutional networks. Furthermore, when these international connections and flows are distorted in one way or the other the growth process is negatively influenced, however to a varying degree in different countries depending on their different characteristics.

This genuinely international framework for economic growth makes it quite natural that comparative studies are conducted. Growth paths and their causes are then compared and analysed and among other things it has been found that countries sometimes converge, sometimes diverge. These processes of convergence and catching-up are of course of great interest in an economic historical perspective. They are basically dynamic concepts.

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2 Preliminary version. Comments are invited. Please don’t quote

3 Tsionas (2000), p.1475.

4 Kuznets (1966). By modern economic growth he meant the growth process that started in the mid 19th century.

In the present paper, the Nordic countries will be dealt with in a comparative way. These countries are sometimes also called the Scandinavian countries, a designation which is not adequate, especially from a geographical point of view, but still used. The countries involved are Denmark, Finland, Iceland, Norway and Sweden, and they will also be compared with other countries, in the first hand the USA. The paper is organised as follows. First, some characteristics of the countries are described where country size takes a prominent place, second, a quantitative overview of the countries' growth is given, and third, some institutional features are discussed with special reference to Finland and Sweden.

Some characteristics of the Nordic countries

The Scandinavian countries have certain characteristics in common at the same time as they are different in many respects. Finland and Sweden formed one state up to 1809 but then they followed different paths. Finland was a grand duchy with great autonomy in the Russian Empire up to 1917 when it became a sovereign state. Sweden was in union with Norway from 1814 to 1905 when it got the shape that we know of today. Finland and Sweden are in many respects pretty similar, both being industrial countries, big as to surface and sparsely populated at the same time as they are dissimilar in other important respects, not least as to the geopolitical situation and income levels up to the late 20th century. For many centuries Denmark and Norway formed one state but Norway was lost to Sweden in 1814. Norway, at the edge of the Atlantic, has been formed by the fishing and shipping industries and in the last decades by the offshore oil industry. Denmark, in contrast to Finland, Norway and Sweden, is a small country regarding territory[5] and has been formed by its exceptionally good agricultural conditions and its closeness to the developed countries at the continent. Iceland is a special case with its small number of inhabitants and its position at an island in the north Atlantic. Its economy has always been totally dominated by fishing. It is included here since it is counted as one of the Nordic countries. Often, however, Iceland is treated as a special case and included among the so-called microstates.

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[5] Here, Denmark proper is treated and not "Denmark overseas" i.e. where Greenland and other islands are included.

One important characteristic is the size of the countries. Around the year 2000 Denmark had 5.3 mill, Finland 5.1, Iceland 0.28, Norway 4.5 and Sweden 8.8 mill inhabitants. Thus, they are all small as to population and this is a characteristic, which makes the Scandinavian countries belong to a special group, small Western European highly developed states. Today, they are highly industrialised and sometimes said to be service societies.

One special property of small countries is that their foreign trade is big relative to total output, much bigger than that of large countries; they have higher trade ratios (exports or exports+imports expressed as a percentage of GDP). This has given rise to what may be called the economic small-state theory, which in short can be described in the following way.[6] In small countries exports are more likely to be concentrated to a few commodities than in larger nations (and this is especially true for less developed countries, or countries in early phases of development where these commodities are often raw materials). On the other hand, imports are more diversified due to the fact that all kinds of commodities consumed can not be produced in an economic way within the countries. Imports and, particularly, exports are also likely to be concentrated with respect to country of destination or origin. A large proportion of total exports is destined to one large country, and a large proportion of imports is coming from it. All this means that a small country is heavily dependent on the surrounding world for its economic performance at the same time as the country, due to its limited size has to take this world as given; it has no or very small possibilities to influence the international economic situation.

At the core of this is the issue of economies of scale or, rather, that small countries are said to suffer diseconomies of scale. According to standard economic theory, production requires a certain size to be efficient. This has to do with the extent of the market, and when the market is seen as synonymous with the domestic market, it is alleged that a small country has too tiny a market for its production to be efficient. Consequently, the growth possibilities are more problematic than for a large country, which has a big home market that facilitates economic growth. To overcome these shortcomings, the small country has to seek larger markets via exports.

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[6] See e.g. Kuznets (1960) and Krantz (2003).

If the institutional setting is identical at the home market and the foreign market, i.e. if rule of law, attitudes, habits et cetera, are sufficiently similar and the currency regime is the same internationally, and if there are no customs duties and other protectionist measures taken, then it would be meaningless in an economic sense to talk about different countries and about problems of small countries since there would in practice be no separate home and foreign markets. It is, however, almost never so in an international setting, for instance not in the EU even if there are ambitions and certain tendencies in this direction.

From this theory it is clear that in an analysis of the economic growth of the Nordic countries foreign trade has to play a great role. On the one hand they are small countries and small countries have as mentioned a significantly higher foreign trade ratio than large ones. This is true for the Nordic countries as can be seen in table 1.

Table 1. Export as a percentage of GDP (the export share) in some countries 1970 and 2001. Current prices.

	Export share 1970	Export share 2001
Denmark	28	44
Finland	25	43
Norway	36	47
Sweden	23	46
France	15	29
UK	22	28
USA	6	11

Source: Calculated from http://cs4-hq.oecd.org/oecd/selected_view.asp?tableId=567&viewname=ANAPart1Table1c1987 (25 June 2003)

On the other hand, foreign trade is not the only factor that matters. Rather it is one of a number of factors that are important for growth. In the beginning of the era of modern economic growth in the 19th century it was for instance of utmost importance that the Nordic countries' trade could grow in relation to GDP and thus have link effects to the rest of the economy. However, at the same time, had there not been a certain degree of development and an adaptation ability in the rest of the economy, regarding institutional setting, entrepreneurship, education, technological knowledge et cetera, enclave economies could have been the outcome and no modern economic growth had occurred.

Thus growth of foreign trade was substantial and its contribution to the growth process was great at the same time as domestic economic factors certainly mattered.

It is, though, of interest here to note that when foreign trade grew in relation to GDP from the 1970s onwards it was not accompanied by increasing growth of GDP per capita. Instead this was slower than in the preceding decades when the foreign trade ratio had been lower. Thus it can be concluded that the institutional and economic setting had a different impact than in the late 19th century. Hence, possibilities of as free foreign trade as possible are important but this is not the only thing that matters.

The Nordic countries can be considered as belonging to a group of states with success stories of economic growth in the 19th and 20th centuries. Their long-run economic development has been rapid since the start of the era of modern economic growth; we could also say since the beginning of industrialisation. There has in this long-term perspective been a convergence towards the richest countries in the world and, actually, today they belong to this group of countries. However, even if the Nordic countries have a reputation for rapid growth and high welfare today, their growth history is complex and certainly not identical as will be seen in the next section.

Quantitative evidence

Economic growth and convergence is often analysed with the help of GDP per capita. It has, however, been discussed whether GDP per capita or real wages should be preferred in studies on these issues. Williamson[7] is in favour of the latter, and he gives four arguments for this. First, data on real wages are said to be of a higher quality than GDP data for the pre-WWI period. This could be true for some countries but there are differences. Since the GDP data are qualitatively good for the Scandinavian countries the argument is less valid for this group of countries. Second, it is said that people earn wages, not GDP per capita which is a statistical artefact. This argument has significance if the explicit aim of the investigation is to analyse welfare. Here, however it is a question of the overall economic performance and then a comprehensive measure like GDP is preferable. Third, open economy forces operate directly on the factor prices and only indirectly on GDP per capita. This is a relevant observation but it does not

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[7] See e.g. Williamson (1998).

disqualify the latter measure since factor prices are important for this as well. It only says that it is logical to deepen the analysis with factor prices. The fourth argument has political implications: "Changes that would increase GDP per capita but would also cause losses to some politically powerful group are often successfully resisted, and examining the behaviour of factor prices is a good way to start the search for the sources of such political resistance."[8] This is true but the real wages are rather a complement to GDP per capita. Thus it is not necessarily a question of using either GDP per capita or real wages since both measures have advantages. In the present case the first one is chosen simply because, as mentioned, there are good data for the Nordic countries.

Generally, the growth has been high in the Nordic countries in the 19th and 20th centuries as is demonstrated in table 2.

Table 2. Growth rates between five-year averages 1872-2000. GDP per capita, constant prices.

	Denmark	**Finland**	**Iceland**	**Norway**	**Sweden**	**USA**
1872-1890	1,1	0,8	1,0	0,9	1,0	1,8
1890-1910	2,0	1,8	2,0	1,3	2,3	1,8
1910-1930	1,6	1,6	1,7	2,2	2,2	1,0
1930-1950	1,2	2,5	3,8	2,4	2,7	2,3
1950-1970	3,5	4,0	2,9	3,2	3,2	2,0
1970-1990	2,1	2,8	3,1	3,1	1,6	1,7
1970-2000	2,1	2,5	2,6	3,0	1,6	2,9
1872-1970	1,9	2,2	2,3	2,0	2,3	1,8
1872-2000	1,9	2,2	2,4	2,2	2,2	1,8

Source: Hansen (1974), Hjerppe (1989), Jonsson (1999) Krantz (2001), NOS XII, Maddison (2001) and complements from the statistical offices of the respective countries.

Except for the first sub-period the USA, the economically leading country in the world,[9] has experienced a slower growth than the Nordic countries. Thus, already from this table it is clear that there has been a convergence towards the American economic level and this process seems to have been going on for most of the 20th century. However, there are differences during the period as is more clearly seen in figure 1 where the

8 Williamson (1998), p.7.

9 Maddison, (2001).

income levels[10] are compared for certain years during the period under study. The levels in 1998/2002 form the point of departure. The original figures were calculated by *Eurostat* and are comparable income data regarding currency, which is reached by using PPS (Purchasing Power Standards). Here the five-year averages have been linked to the series for GDP per capita for the countries under review. Thereby the ratios between the income levels of the countries for all years of the period could be computed. Needless to say, with this method of measurement there are margins of error but most probably not wide enough to disturb the result. With this data the time perspective is much longer than in many other studies on convergence.

[Figure 1]

Up to 1910 there were only marginal changes in the relations between the countries. Then they successively approached the USA, however with slightly differing paths. In general the catching-up was slower up to 1950 than later. Between 1930 and 1950 it seems that Denmark, and Finland were slower to grow than the other countries and this has to do with the different experiences in the wartime. Then, in the second half of the century the catching-up was very clear for all but for Sweden after 1970.

Changes also occurred in the ranking of the five Nordic countries and, thus, convergence and divergence are also found within this group of countries. These changes are summarised in figure 2, which shows the coefficient of variation for these countries. This is a common way to illustrate processes of this kind.

[**Figure 2**]

Figure 2 shows that there was no long-term change from 1870 up to roughly 1910. The First World War meant a short but very marked process of divergence, which changed to the opposite in the early 1920s. However, this was not only a movement back to the previous situation since the downward tendency went on at least until the 1960s or early 1970s. The Second World War, in this perspective, meant a deep but short disturbance in the long-term process of change. The period from the late 1960s or the early 1970s was marked by greater fluctuations than before and the question is if the 1990s meant

10 The terms “income level” and “economic level” are used here synonymous with “GDP per capita level”.

the commencement of a growing divergence. Anyhow, a very clear and long-run tendency of convergence between these countries is not visible in the same way as it is against the USA.

Thus, the quantitative data show that there was a convergence in the period from 1870 up to 2000 and this is summarised in table 3. There is a tendency towards higher growth figures for countries with lower rank in the beginning of the period. However, the growth and convergence process was not smooth over the whole period. Instead a periodisation can be discerned and this will be considered in the next section.

Table 3. Relation between the income levels of the countries 1870 and their growth 1872-2000.

Relation 1870	Growth 1872-2000
USA 100	1,8
Denmark 72	1,9
Norway 60	2,2
Sweden 47	2,2
Finland 44	2,2
Iceland 40	2,4

Source: See table 1 and figure 2.

Economy and institutions: rigidity or flexibility

The quantitative evidence points at a periodisation of the growth performance of the Scandinavian countries, both when they are compared with each other and with the USA. The period division is not crystal-clear since there are individual characteristics for the various countries but still it is discernible. A period boundary seems to exist in the 1910s when a convergence process against the USA starts and the relative positions within the Nordic country group are repeatedly changed at the same time as the countries are coming closer to each other. The approach to the USA becomes more clear after the 1950s while the movement towards increasing equality among the Scandinavian countries, goes on up to the 1960s. After that, this movement is discontinued.

Here, due to space limitations emphasis will be put on a comparison between two countries, Finland and Sweden, which are of interest since the difference between them regarding income levels was great up to 1950, but around the year 2000 they were equal.[11]

Sweden had an internationally seen prominent growth period from the 1890s to the late 1940s, which was the most successful period in the Swedish growth history. The country saw an industrial break-through in the decades around the turn of the century 1900, which resulted in a favourable industrial structure. Furthermore Sweden was a non-belligerent in the two world wars, which was positive for the growth. Finland had as good a performance as Sweden in the 1920s and 1930s, i.e. the decades that saw the definitive industrial breakthrough in Finland. Before that, with exception of certain short periods especially the late 1910s with the civil war, Finnish growth was on an international average. From the late 1940s there were great differences between the growth in the two countries, which is clear when seen in an international perspective as in figure 3. In the 1950s and 60s, and more so from the 1970s onwards, Sweden experienced a lower than average growth. Finland, on the other hand, followed the international average in the 1950s and 60s and then came a conspicuous growth period. The differences between the countries are clear from figure 3. The early 1990s saw a great depression, which was more severe in Finland than in Sweden but after some years the economy recovered. Thus, the problem to be discussed here is why the Finnish performance did differ that much from the Swedish in the second half of the 20th century.

[**Figure 3**]

Catching-up in a technological sense could be an explanation. However, if by catching-up is meant that Finland experienced and exploited technological backwardness in relation to Sweden in order to reach a high growth rate, it is doubtful whether such backwardness did exist. The same international technology was available to both countries and the main difference was that the Finnish manufacturing industry in the 1950s simply constituted a smaller share of total output than the Swedish one and that this share grew in the decades to come.[12] Since Sweden during part of the time period

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[11] Another reason for concentrating on the Finnish-Swedish case is that it has been studied more than the other countries, see e.g. Andersson/Krantz (2003) and Lindmark/Vikström (2003).
[12] Lindmark/Vikström (2003).

after 1950 had the highest level of GDP per capita of the Nordic countries and Finland had the lowest, it could be maintained that the Nordic countries had access to the same technology, and thus, that no technological backwardness existed among them. Instead, these countries shared a technological backwardness in relation to the economically leading country, the US, and furthermore, this backwardness was shared with all other countries. Thus, explanations for the differences in growth rates between the Nordic countries have to be sought in other directions.

An obvious option is to explore the countries' economic structures and institutional regimes. These could be more or less appropriate for rapid economic growth and, moreover, this could change over time. This aspect was pertinent in the second half of the 20th century when the governmental sector grew in importance in all countries, but at different rates, which is shown in table 4, where Sweden stands out as special with a large share government final expenditure. Denmark is not far below in this table but if instead government total expenditure had been used, that is expenditure including transfers, the difference had been wider.[13] Furthermore, the so-called democratic corporatism culminated in the 1960s and 70s. In this setting the structure of industry was also essential especially the size distribution of firms.

Table 4. Government final expenditure in a number of countries expressed as percentage of GDP(expenditure approach) 1970-2000. Current prices.

Year	Denmark	Finland	Iceland	Norway	Sweden	Average of 23 industrialised countries
1970	21	15	13	16	23	16
1975	25	18	17	19	26	19
1980	27	19	17	19	31	20
1985	26	20	18	18	29	20
1990	26	22	20	21	29	20
95	26	23	22	22	27	20
2000	25	21	24	19	27	19

Source: http://cs4-hq.oecd.org/oecd/selected_view.asp?tableId=567&viewname=ANAPart1Table1c1970, and http://cs4-hq.oecd.org/oecd/selected_view.asp?tableId=567&viewname=ANAPart1Table1c1987

13 In 1996, the share of general government expenditure of GDP was 64 per cent in Sweden and 49 per cent in Norway. The average for 14 highly industrialised countries was 45 per cent. See Tanzi/schoknecht (2000), tab. I:1. Unfortunately the other Nordic countries were not included in this table.

In Sweden, there was a conspicuous consensus between capitalist interests represented by the industrial employers' association, the government and the blue-collar trade union (LO) in the first decades after WWII. This consensus was coloured by the fact that the Swedish size distribution of firms was more skewed than in most other countries.[14] There was a clear dominance of big firms, which also set its mark on the industrial associations. Furthermore, these companies were old and well established. As shown in table 5, many of them emanated from the industrial break-through in the decades around the turn of the century 1900 and very few were founded in the last fifty years of the period.

Table 5. Founding year for Sweden's 50 largest companies

Before 1870	6
1871-1890	10
1891-1913	15
1914-1945	11
1946-1969	8
1970-2000	0

Source: NUTEK-ALMI (2001).

Political decisions in a number of important cases were agreed upon between the organisations mentioned. Probably this consensus contributed to the political measures getting a special shape. Profit taxation was for instance designed in a way to lock in the profits in the companies, which meant high reinvestment. Furthermore, there were the so-called investment funds by which the companies could save the profits in tax-free accounts in the central bank and use them in troughs. These arrangements were favourable to the existing companies and contributed to creating a stiff structure, not suitable for new ventures.

In the 1960s, the industry went through an intensive rationalisation, which in the short run meant great increases in productivity and output. One-sidedness of investments towards old lines of production was, however, typical and in the long run it led to over-capacity and profitability problems. What can be expected in such a situation is restructuring or closedown of production units; there should be "creative destruction",

14 The share of the largest firms (more than 500 employees) of all firms in 1988/91 was in average for 11 industrialised European countries 2.2 %. Sweden had the largest share of all, 3.8, Finland had 3.1, Norway, 2.1 and Denmark had 1.6 %. See Henrekson/Johansson (1999), p. 145.

but this did not happen. Instead, in the second half of the 1970s and the early 1980s, vast government subsidies were introduced to firms and industries that were close to discontinuance or, in other words, on the negative side of the development. The shipbuilding industry provides a good example. Subsidies made it possible to build ships though it was totally unprofitable due to the high costs – that the large Swedish shipyards were highly advanced technologically seen could not change this. When the production in the shipbuilding industry could not be upheld any longer, great subsidies were paid out to establish other industries as compensation to the cities and municipalities that had lost their shipyards. Thereby, another element in the Swedish political life is demonstrated, the strong connection between central and local government and the great impact of the latter on the former. The compensation industries, however, did not belong to the technologically most advanced segment of industry and they were mostly not competitive and profitable. Thus, renewal of industrial production in Sweden was hampered which had adverse effects on economic growth. It should be added here that it was not only the shipbuilding industry that was heavily subsidised. Firms in other industries as well enjoyed great financial assistance. It should be added that this kind of policy that hampered economic renewal was pursued irrespective of the colour of the government.

However, there were conspicuous exceptions from the consensus in the economic policy in Sweden. A first sign of this was a greatly debated issue in the 1950s, viz. the question of general supplementary pensions for all employees. After a lively debate the pensions were made compulsory. Furthermore, they were publicly administered which was also the case with the vast capital funds that were built up. It is very likely that these funds and their administration had an impact on capital formation in the country and that the flexibility of capital provision in general was negatively affected.[15]

As time went by the exceptions tended to become more and more of a rule especially from the 1970s onwards. They also made industry more and more hostile to the Social Democrats and their governments and such a situation, needless to say, was not growth-promoting. Several of the political measures not agreed upon by industry concerned the labour market. Laws making it difficult to change the composition of the labour force

[15] Vikström (2002), pp. 146 ff.

and/or to reduce it are an example; the law on security of employment (LAS) could be mentioned. Another example is trade union representation in the corporate boards of directors and codetermination in all questions at all places of work (MBL). In practise, however, this did not mean real codetermination but obligatory information only. It took a long time and a lot of resources for firms to adjust to these measures.

LAS and MBL as well as other measures of a similar kind raised great suspicion between on the one hand the industrial employers and on the other hand LO (the blue-collar trade union) and the Social Democrats. The so-called wage earners' funds were even more controversial. In the first half of the 1970s, a proposal came from LO that a fraction of the firms' profits should be paid to central funds, which thereby should be owners of an increasing number of shares of the firms. After a certain time span these funds should be majority owners of the companies. Furthermore, the funds should be managed by the trade unions. It goes without saying that the industry owners did not like this proposal and the debate was intensive and disruptive. In the early 1980s, a social democratic government carried through a diluted variant of wage earners' funds but when the bourgeois parties came into office after some years the funds were abolished. Of great importance was that this question brought distrust for a long time between the former constituent parties of the democratic corporatism. Furthermore, it is probable that the propensity to invest as well as to launch new entrepreneurial ventures was negatively affected and this was not advantageous to economic growth.

Two more policy areas will be mentioned. One has to do with unemployment policy. Sweden started early to conduct an economic policy directed towards "full employment". A lot of measures were taken in order to keep unemployment low and this was more and more pronounced from the 1950s. Support to people for moving geographically is one example and another one is retraining of workers. This active employment policy as well as other welfare measures led to high taxes and probably to inflationary tendencies. Thereby they could have had a negative impact on economic growth. The other policy area was the so-called solidaristic wage policy. Originally this meant equal pay for equal work but later on, the meaning changed to equal pay. This policy was launched early in the post-war period and together with a highly progressive tax system it had the effect of successively making the income differences smaller. The solidaristic wage policy became more and more pronounced up to the 1990s and probably the economy and its growth were influenced in a negative way, among other things through the preference structure.

It seems that all these policy measures and a number of others made the Swedish governance system less adaptable to the ongoing internationalisation and globalisation and to economic growth. In the 1950s and 60s, corporatism was as mentioned characteristic where industry was one of the cooperating parties. Then, however, measures were taken which were more and more out of line with the industrial interests. The governmental policy was designed in such a way as in practice to create rigidities. Thereby structural change and economic adaptation was hampered with slow economic growth as a result.

When the Swedish governance and institutional regime is compared to that of Finland, important differences are found. It is sometimes talked about “the Nordic welfare state” but Finland has often been regarded as an exception in many ways and this description has been based on Finland being a latecomer in welfare state development.[16] The Swedish economic policy in the 1950s and 60s may be described as “economic engineering” and conceived as Keynesian. Thereby, as was hinted at above, is meant that it was considered possible to politically steer the economy. This opinion was generally held, or at least not opposed, among the parties involved in the corporatist alliance i.e. the labour movements, the industrial organisation, and the government.

In Finland where a form of democratic corporatism was also prevailing, scepticism existed towards Keynesian policy; in other words, “the idea of state economy being the means for national economic steering has been weaker in Finland than, especially, in Sweden”.[17] This scepticism goes back to the Great Depression of the 1930s, which “did not result in an active adoption of new contra-cycle economic political views as it did in Sweden, Denmark and Norway”.[18]

The Swedish system has been described as state interventionism in the economy. In Finland, on the other hand, the system has been described as the economy’s intervention

[16] Kettunen (2001), p.225.
[17] Kettunen (2001), p.226.

in the government. The interest groups were stronger than in Sweden and could influence politics more.[19] This is particularly true for the industrial organisation and the big companies. The Social Democratic party and the labour union, on the other hand, were relatively weaker than their Swedish counterparts due to historical reasons. In other words the balance between the parties in the corporative alliance differed between the two countries. That these differences contributed to making the political measures differ from the Swedish ones seems clear.

Unemployment was for instance treated in quite another way in Finland than in Sweden. Furthermore, there were no counterparts to the "solidaristic wage policy" and to the investment funds. [20] It could be added here that the supplementary pension systems differed between the countries. The Swedish one was, as mentioned above, publicly governed with huge funds built up. In Finland the administration became a function of the private insurance companies. The private employers gave support to this system since the proportion of the contributions that is not paid out as pensions is loaned back to business, at favourable terms. It is likely that this system favoured flexibility in the capital market to a much higher extent than the Swedish one.

Thus, the Finnish system was more flexible than the Swedish one and the policy measures did not contribute to a stiff economic structure in the same way. All this provided a more adaptable economic setting and, thus, the forces behind economic growth were allowed to play a more active role.

Conclusion

In conclusion, it seems that political and institutional factors played an important role to hamper economic growth in Sweden in the second half of the 20th century in contrast to the first half when the country had had the most rapid progress of the industrialised countries. It was also in contrast to Finland where the political and institutional factors had another shape and, rather, stimulated growth. The contrast between the two

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[18] Kettunen (2001), p. 229f.
[19] Pekkarinen/Vartiainen(2001), p.260f.
[20] Lindmark/Vikström (2003), p.35.

countries was especially clear from roughly 1970 when Finland's economy grew very fast while Sweden lagged behind.[21]

If there is a lesson to be learned from this comparison between Finland and Sweden it is that political measures and institutions are of great importance for the functioning of the economy. If they are constructed in a way that makes the economy flexible and adaptable to changes they can promote growth and counteract stiffness of the economic structure. Hence, they can exert a great impact on processes of convergence and divergence in the international economy.

[21] It could be added that Norway, in this period, was a special case since the offshore oil deposits were utilised, which made the economy grow very fast. Denmark became a member of the European Union and took special political measures to adapt to this situation and Iceland, too, was a special case with its fishing economy and its strategic position, which made the USA actively interested in it. Thus, we find that these countries, often considered as very similar, in reality differed a lot.

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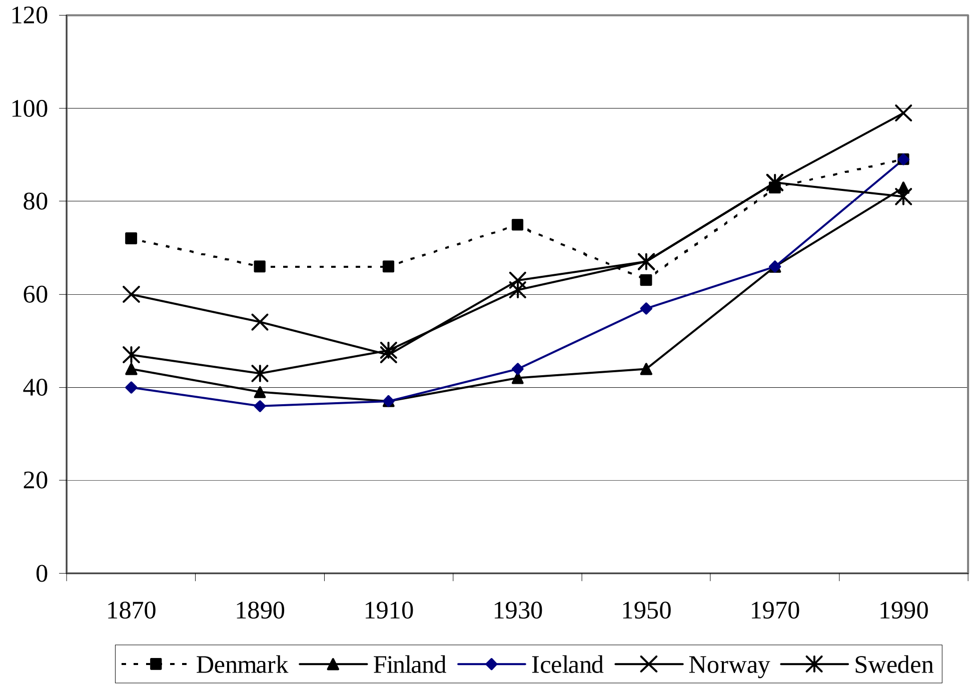
Figure 1. Income levels of the Nordic countries in relation to that of the USA selected years 1870-2000. Constant prices.

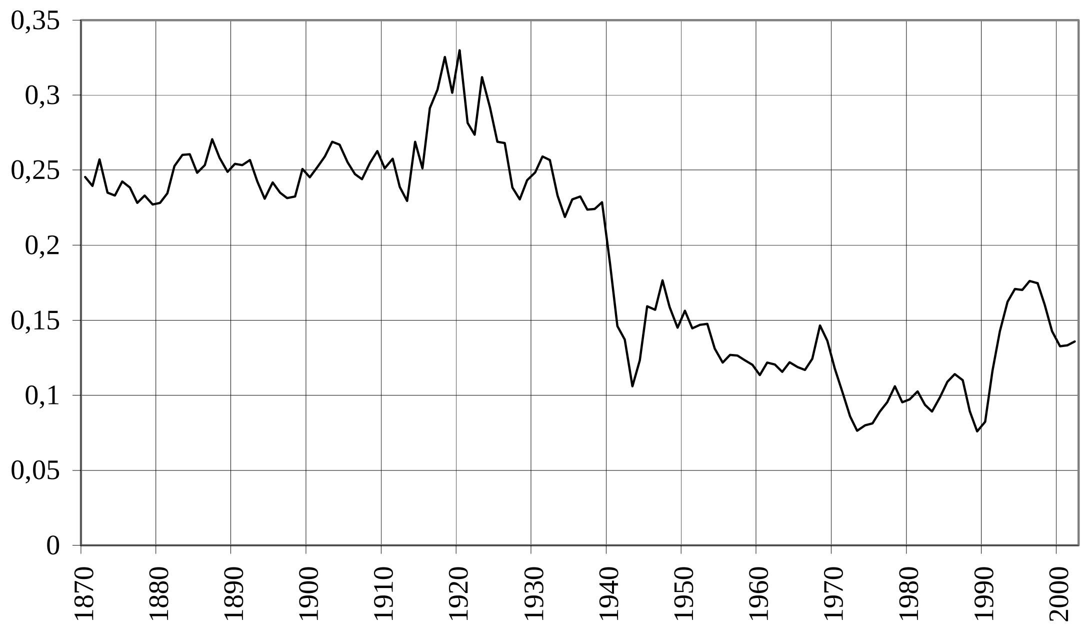
Figure 1



Source: Se table 1 and "GDP per capita in Purchasing Power Standards (PPS), (EU-15=100)", http://europa.eu.int/comm/eurostat/Public/datashop/print-product/EN?catalogue=Eurostat&product=1-eb011-EN&mode=download (8 August 2003)

Figure 2. Dispersion of income per capita between the Nordic countries (coefficient of variation) 1870-2000. Constant prices.

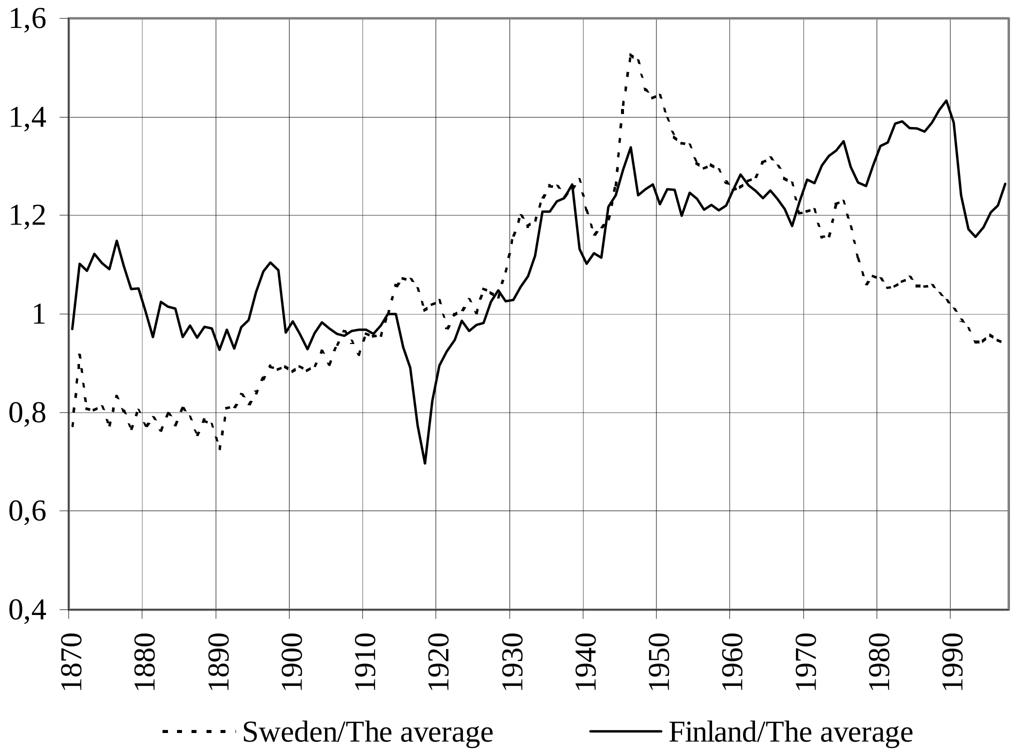
Figure 2. Vk



Source: See figure 1.

Figure 3. Finland's and Sweden's GDP per capita in relation the average of sixteen industrial countries 1870-1998. Index 1913=1.

Figure 3.



Source: Maddison (2001), Hjerppe (1989), Krantz (2001).