



ECONOMIC COMMENTARY

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YOUR WEEKLY
ECONOMIC UPDATE
11 September 2024

*For every one to attain
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THE TALE OF TWO ECONOMIES: LESSONS FROM THE NORTH

In a small corner of Europe, Scandinavia has built economies that many around the world envy. Meanwhile, South Africa (SA) faces a different set of economic challenges. While the two regions differ in size, population, and history, lessons can be learnt from the successes of the Scandinavian model. The story of how these Northern nations created wealth and then successfully redistributed it can inspire us to chart a similar course in SA.

It was not always smooth sailing for countries like Sweden, Denmark, and Norway. At the beginning of the 20th century, they were predominantly agrarian, with economies heavily reliant on farming and small-scale industries. SA's history differs with its rich gold deposits, diamonds, and other minerals, yet both regions share the common thread of needing to build a more diversified and sustainable economy.

Scandinavia realised early on that, before you can redistribute wealth, you must first create it. This focus on economic growth is a principle that is often overshadowed by calls for redistribution in countries grappling with inequality. In the 1930s, faced with the Great Depression, Sweden embarked on an ambitious economic plan with key investments in infrastructure, education, and innovation. They realised that, to create jobs, attract investments, and lift people out of poverty, a solid foundation had to be laid, an environment that is business-friendly and, therefore, conducive to economic growth.

For SA, the lesson is clear: Job creation through a business-friendly environment that considers effective infrastructure development and investment in human capital must be a priority. While social grants and redistributive policies are essential, they cannot function in isolation; they are necessary but insufficient for sustainable economic growth. The Scandinavian approach teaches us that redistribution without wealth creation is unsustainable. An economy must first grow and only then can there be anything meaningful to redistribute. For the most part, government enables growth, they do not create growth; that is the job of the private sector.

As Scandinavia began to accumulate wealth, it sought to create an inclusive economy. This is perhaps the most significant difference between the North and the South today. In Scandinavia, the wealth created was not hoarded by a few, nor was it siphoned off into offshore accounts. Instead, these countries adopted progressive tax systems, allowing the state to fund free education, healthcare, and social security systems that benefitted the entire population.

Now, SA is no stranger to high taxation. But here is where the story takes a twist. In Scandinavia, taxpayers have a high level of trust in their government. They can see the tangible benefits of paying higher taxes: World-class healthcare, education, and transport systems. Unfortunately, in SA, corruption and inefficiency have eroded the public's trust in the system. To take a page from Scandinavia's book, we must restore faith in government institutions, ensuring that tax money is spent transparently and efficiently. Only then can the public be persuaded that taxes are a tool for societal good, not a burden.

Scandinavia's final lesson is long-term investment in human capital. Recognising that the global economy is increasingly based on knowledge and innovation, countries like Finland and Sweden have consistently invested in education, from early childhood through to advanced tertiary studies. SA, with its youthful population, has untapped potential. But without significant investment in education and skills development, that potential will remain unrealised.

It is clear that SA can learn valuable lessons from Scandinavia. First, create wealth by creating an environment that is conducive to economic growth, then focus on equitable redistribution. But wealth creation is just one part of the story. Ensuring trust in public institutions and investing heavily in human capital are the other key ingredients to success. If SA can adopt a similar long-term approach as Scandinavia, it too can unlock the wealth needed to build a more equitable future.

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