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Economic Growth and Economic Policy in Sweden in the 20th Century: A Comparative Perspective

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Two "stylised facts" about Swedish economic growth are nowadays part of economists' conventional wisdom. One is that Sweden's economy grew at an impressive rate compared to other countries between 1870 and 1970. Only Japan had a better performance.[1] The other stylised fact is that after 1970 Sweden lost its leading place in the growth-rate league and fell back to a position among the OECD countries with the lowest income per capita. While the first "fact" has practically not been questioned the second one has been more so. Especially the reasons given for the slow-down, viz. rigid economic policy and a huge public sector[2] have been under debate.

These two "stylised facts" will be investigated in this paper. Thus one question is whether and to what extent Sweden's economic growth differed from that of other countries since the 1970s, and whether, and if so in what way, the Swedish economic policy contributed to this performance. Then it is of interest also to get a long-term perspective on the Swedish comparative growth performance, which enables us to judge whether it is sufficient only to consider the time after 1970 in this context or if it forms part of a longer course of events. Thereby the other question is relevant, namely whether Swedish growth 1870-1970 really was unique or whether some other periodisation would be better. In other words, how was the Swedish growth performance in a long-term international perspective?

Another question is whether Sweden's status as a small country was in any way of importance in this scenario. To what extent can a small state pursue its own economic policy without negative effects on its economic growth? By "own" in this case is meant that a policy is pursued without considering the international economic situation at all or with only slight regard to it. In other words, how much "international space" is there for an "own" policy, or what is the small state's room for manoeuvre? Does this change over time? To analyse these problems, "the economic small-state theory" should be considered or, expressed more

1 For instance Södersten, 1997, and Lindbeck, 1998.

2 The debate has mostly been conducted in Swedish but an overview is found in *The Economic Journal,* November 1996 with articles by Agell, Dowrick, Henrekson, and Korpi. It should be no surprise that there are political undertones in this debate.

modestly, the description of the special characteristics of small countries, which has evolved in the literature.[3] Of particular importance is how the relevance of this theory has changed over time.

All factors behind economic growth, for instance capital formation, labour force changes, education and technical change, can not, for obvious reasons, be discussed here, but something will be said about the last one, technology. In the last 200 years different technological bases or paradigms have dominated. In the early 19th century, steam power was the most significant technological base. The steam engine gained a growing importance in industry and made the expansion of railways possible. Towards the end of the century, electricity and the combustion engine grew in importance and in most of the 20th century, they formed the dominating technological base. Then, in the very last part of that century ICT has grown in importance and perhaps it is forming a new technological base. The utilisation of technology could, however, differ between different countries, and how it was utilised depended on the institutional and political environment. Institutions and policies could be favourable to certain uses of technology and to economic growth, but they could also hamper growth and, as already mentioned, for a small country the effects of various measures could be greatly dependent on the international environment. Thus, growth possibilities could be different in different periods.

I

Long historical series for GDP and other important macroeconomic variables are nowadays available for a large number of countries. They have been constructed by individual researchers and groups of scholars but seldom by official authorities. Various scholars have then collected these series, the best known today being perhaps Angus Maddison,[4] who has published his collections and studied the international economic growth and change. He maintains that a number of phases are clearly discernible in the long-run development, and they are delimited by external shocks: W.W.I and W.W.II and the oil crises of the 1970s. In Table 1 growth figures for these phases are displayed.

According to Table 1 the annual rate of growth for the sixteen countries 1870-1973 is 1.9 per cent. Japan had the highest rate and this can be regarded as pretty certain. It is also highly probable that Australia and the early industrialisers, the UK and Belgium, had very low

[3] Kuznets 1959, pp.89-100, Kuznets 1960, Saul 1982, and Wright 1939.
[4] See for instance Maddison, 1963, 1989 and 1995.

growth rates. With regard to the uncertainty or shakiness of the rates given in table 1 it is not quite sure that Sweden had the highest growth rate except for Japan. Rather, a group of countries seems to have had fairly similar rates. For 1970-1992, the average growth for all countries was 1.8 per cent. Sweden and Switzerland were far below this figure while Norway and Japan were much higher than the average. The fact that the margins of error in the national accounts are more narrow in recent periods than earlier makes it probable that Sweden and Switzerland were slow growers comparatively seen during the last decades.

Table 1. Annual percentage growth in GDP per capita 1870-1992 in industrialised countries. Constant prices.

	1870-1913	1913-1950	1950-1973	1973-1992	1870-1973
Australia	0.9	0.7	2.4	1.4	1.2
Austria	1.5	0.2	4.9	2.2	1.8
Belgium	1.0	0.7	3.5	1.9	1.4
Canada	2.2	1.4	2.9	1.5	2.1
Denmark	1.6	1.6	3.1	1.6	1.9
Finland	1.4	1.9	4.3	1.6	2.2
France	1.5	1.1	4.0	1.7	1.9
Germany	1.6	0.3	5.0	2.1	1.9
Italy	1.3	0.8	5.0	2.4	1.9
Japan	1.4	0.9	8.0	3.0	2.7
Netherlands	0.9	1.1	3.4	1.4	1.5
Norway	1.3	2.1	3.2	2.9	2.0
Sweden	2.0	2.3	3.0	1.1	2.3
Switzerland	1.2	2.1	3.1	0.8	2.0
UK	1.0	0.8	2.5	1.4	1.3
USA	1.8	1.6	2.4	1.4	1.9
Arithmetic average	1.4	1.2	3.8	1.8	1.9

Note: 1. The GDP series are constructed with different methods for different countries and the sources are of different quality, which means that there are margins of error. 2. In Maddison, 1995, p.62, incorrect growth rates for Switzerland are given. The figures in this table are therefore taken from Maddison 1991, p.49. 3. The data for Sweden provided by Maddison is wholly incorrect. Here figures based on Krantz, 2001, are used instead. 4. Maddison gives growth rates calculated between the figures for the first and last year in the period only. That this method could lead to uncertain results is well known.
Source: Maddison, 1991 and 1995, and Krantz, 2001

Since there are weaknesses in the data in Table 1, the "stylised facts" or, rather, the hypotheses can not be accepted or rejected on this basis, and complementary calculations are greatly needed. It would then be preferable to take into consideration data for all years in question and not only for some benchmark years when making the comparisons. There are various ways to do this, for instance by comparing the countries' GDP per capita expressed in the same currency meaning that levels for each year are compared. Then there is need for Purchasing Power Parities (PPP), to convert national currencies, but for historical series, such

data are largely missing. Furthermore, official exchange rates are not suitable as converters because they do not accurately show relations between the internal purchasing power of the countries. Besides, the not uncommon method of using PPPs for one year, for example 1995, and varying them backward with implicit deflator ratios leads to very uncertain results. Therefore, the idea of making comparisons of levels was abandoned in favour of comparing yearly changes in original GDP per capita. Index series for GDP per capita form the basis for the comparison. When these series for different countries or averages for groups of countries are related to each other, the results are new index series showing the changes in the ratios between the original data. If such a ratio series is showing a rise/decline, the country or group of countries constituting the nominator has a higher/lower rate of growth than the one constituting the denominator. In the following, such comparisons are made, which as mentioned means comparisons of growth and not comparisons of income levels.

When one country, in this case Sweden, is to be compared with a group of countries, it could be a matter of dispute what countries should be included in the comparison group. For modern times, it is common to use the OECD countries, but these are rather disparate. They have for instance very different income levels, and very small countries are included such as Luxembourg and Iceland together with very large countries such as the USA. Therefore, a smaller and more homogenous group should be used and the highly industrialised countries today, that is those included in Table 1, is a more appropriate comparison group which could also be divided into sub-groups.

One sub-group is a number of countries that are similar to Sweden with regard to income level at some point of time. Walter Korpi, the leading proponent for the view that the Swedish growth has not been lagging from the 1970s onwards if appropriate comparisons are made used such a group when he argued his case. This group consists of countries that were roughly on the same income level as Sweden around 1970 and includes Denmark, France, Germany, the Netherlands, Switzerland and Britain.[5] Since their income per capita was roughly the same, the catch-up factor should not influence the comparison in the last decades of the century. If a larger group was chosen, for instance the OECD countries, countries with low income in the beginning of the comparison period could raise the average rate of growth due to the catch-up factor, which means that high-income countries, for instance Sweden, would seem to lag behind.

[5] See e.g. Korpi, 1992.

A third group of countries will also be used as a comparison group namely the small European countries – smallness in this case being defined by population size. These countries are Austria, Belgium, Denmark, Finland, The Netherlands, Norway, and Switzerland. However, in a long-term perspective it is problematic to opt for and apply a criterion based on size. Austria for instance was not a small country before W.W.I. Sweden and Norway were united in a union before 1905 and Finland was part of the Russian empire up to 1917, however an autonomous part. Belgium and the Netherlands were colonial powers for a long time. And today, one could question whether the Netherlands with 16 mill. inhabitants is a small country. However, in a certain sense, these countries have been economic units during all or most of the period under review.

Furthermore, the effects on the country's economic growth of what is – mostly by Swedes – called "the Swedish Model" are to be discussed. By this is meant the societal arrangements and policies that evolved in Sweden from the 1930s. In this comparison the small-state group is appropriate since all these countries have their "models" as well. It could even be questioned whether there ever was a particular "Swedish model". Probably it would be better to talk about a "Scandinavian" model or a "Nordic" or even a "small-state model" and then there could of course be individual varieties.[6] A main element in such a model is democratic corporatism, which is essential also in Katzenstein's analysis of European small countries.[7] In summary, the features characterising Sweden fit well into the framework of a "small-state model".

Figures 1-3 about here!

Figures 1-3 show Sweden's GDP per capita in relation to the averages for the three comparison groups. The ratio series have 1913 as reference year (1913=1), and as mentioned it is only a question of growth comparisons, not comparisons of income levels. The three curves have a similar profile, which is further illustrated in Table 2.

As to economic growth, Sweden did not stand out during the first twenty years of the period; the pace coincided with the average for the industrialised (or industrialising) countries. Then, however, from around 1890 up to around 1950 Sweden grew considerably

[6] The concept of "the Swedish model" has gained a prominent place in Swedish political rhetoric and maybe this is why it is devoid of a distinct meaning. Furthermore, it has chauvinist overtones and, therefore, it should be handled with great care in scholarly texts. There is a vast literature on "the Swedish model". See for instance Pettersson 2001, and the literature referred to there.

faster than the comparison groups.[8] In the middle of the 20th century, there was a conspicuous break and a downward tendency set in, which differed only slightly between the three curves. In relation to the six richest countries there was a distinct decrease to around 1960 and then a smaller one up to the crisis of the 1990s. This tendency was more marked in the other two curves. Thus, there were slightly more of similarities between the six and Sweden than between the other groups and Sweden. However, even compared to the six-country group, Sweden had a lower growth.

Table 2. Change in per cent between five-year averages for the relation between Sweden's GDP per capita and the averages for three country groups 1870-1990. Constant prices.

	Sweden in relation to		
	Sixteen industrial countries	The six richest 1970	Small European Industrial countries
1875-1885	-2,5	-2,3	-2,4
1885-1895	8,4	7,5	5,2
1895-1905	8,5	15,0	12,8
1905-1915	13,7	18,1	18,6
1915-1925	-2,2	-5,3	-6,6
1925-1935	20,5	19,2	15,8
1935-1945	11,9	19,9	21,2
1945-1955	-4,7	-16,5	-7,9
1955-1965	-1,8	1,3	1,8
1965-1975	-9,0	-2,5	-7,1
1975-1985	-10,0	-3,8	-9,3
1985-1995	-10,8	-7,7	-9,2

Note: The years in the first column represent five-year averages.
Source: See Table 1.

Thus, there is not only a slow-down of the economic growth relatively seen but also a relative retardation for Sweden in the second half of the 20th century. However, to be more certain another data set shall also be examined. It is extracted from the Penn World Table[9] and in Table 3 ratio figures from this data set are presented. The data set comprises the period 1950-

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7 Katzenstein, 1985.

8 Comparisons of this kind are mostly based on GDP per capita. Another way of comparing economic performance is to use wage series. This has been made by among others Jeffrey Williamson in a number of publications for instance Williamson 1995. However, the data problems are great in these comparisons, probably even more so than in the case of GDP per capita. Averages of wages are difficult to assess, and if it is said to be wages for a certain category, e.g. unqualified industrial workers, it is a question of what is meant and if the same group is comprised all over the period and in all countries. However, a comparison based on Williamson's wage series shows a profile similar to that of the GDP per capita comparisons above.

9 Penn World Table (Mark 5.6) See further Summers and Heston, 1991. It should be emphasised that the series in the two data sets are totally different as to construction. Therefore it is not at all astonishing that there are clear differences in the percentages in tables 2 and 3. However, the tendencies shown are the same.

1992, i.e. the period of Sweden's relative slow-down and retardation according to the GDP series used above.

Table 3. Change in per cent between five-year averages for the relation between Sweden's GDP per capita and the mean for three country groups 1950-1992. Constant prices.

	Sweden in relation to		
	Sixteen industrial countries	The six richest 1970	Small European industrial countries
1955-1965	0,7	-0,5	-1,0
1965-1975	-8,3	-3,9	-7,0
1975-1985	-5,6	-1,2	-4,2
1985-1990	-3,2	-3,4	-2.3

Note: 1. The periods in this table are not the same as in table 1 because the data exists only for the period 1950-1992. 2. The years in the first column represent five-year averages.
Source: Penn World Table (Mark 5.6)

The relative slow-down for Sweden is clear also in Table 3 and as in the other comparison, the Swedish performance is more similar to the six-country group than to the other groups. It is also clear that the later part of the period, which is from the late 1960s, showed a greater retardation than the first part.

Thus, the "stylized facts" that Swedish growth was internationally unique 1870-1970 and that it became very slow in an international comparison from 1970 should be modified.

II

The data reveals that there were two distinctly different periods concerning Sweden's relative economic growth in the 20th century and that they coincided roughly with the first and the second half of the century. In the first period – actually starting c. 1890 – Sweden stands out as a distinct fast-grower and in the second one, there was a clear relative retardation. How are these periods to be analysed in an international and a small-state perspective? It should be said already here that the following analysis is preliminary and that further research is needed before firm conclusions can be drawn.

In the twenty-odd years around the turn of the century 1900, there was a distinct acceleration of the Swedish growth rate, and if any period in Swedish economic history is to be called the industrial break-through of the country it is this one. There had been "preparations" for this acceleration in the preceding decades such as an intensive railway construction as well as expansion of the iron and steel industries and the forest industries. These branches formed a point of departure for expansion and consolidation of the industrial

base where engineering soon became very important. Thereby, and with the help of an expanding international economy, economic growth could be rapid in the break-through decades. During this period a number of new firms were established and they grew large in a short period of time. There were for instance LM Ericsson (later Ericsson), ASEA (later part of Asea Brown Boveri, ABB) and SKF. This *gründer* activity contributed to a profound transformation of the economy and it also contributed to forming a development pattern during the period up to around the middle of the century. After the transformation in the breakthrough period, the "new" industrial sector rationalised in the 1910s and much more so in the 20s. The next two decades saw a new transformation of a similar kind as that during the break-through. Also in this phase a great part of the transformation emanated from the engineering industry, and there were important connections with the firms founded around the turn of the century 1900. In the 1930s the expansion had to do with production and consumption of consumer durables such as cars, refrigerators and other electrical equipment, for instance vacuum cleaners. Then, however, this internal pattern of transformation – rationalisation – transformation became weaker but remains were still discernible in the 1950s and 60s.

Another factor of great importance for the rapid growth during the first half of the 20th century was that Sweden was non-belligerent in the two world wars. Thereby the productive capacity remained intact during the war periods and exports could expand rapidly immediately afterwards, in particular after W.W.II. Besides, during W.W.I Sweden could pay back a great deal of its international debt due to the wartime inflation which greatly strengthened the financial position of the country.

The period of retardation in the second half of the 20th century meant that a number of countries came closer to Sweden in terms of level of income per capita which to a certain extent can be ascribed to the so called catching-up factor. A special case is that some countries started from a low production level because of the demolition of the production apparatus during W.W. II, the most conspicuous example being Germany. Other fast-growers, for instance Finland had not reached the same income level as Sweden around 1950. But irrespective of which one of the three country groups described above that is chosen for comparison, a Swedish retardation is apparent and this means that the catch-up factor can not be the only explanation. Hence there is reason to believe that internal Swedish factors affected the rate of growth. However, the relative decrease was not noticed during the era of "golden

growth" when, historically seen, economic growth was very rapid. Instead, it was only from the 1970s that the problems slowly commenced to be observed.

It is not astonishing that a relative Swedish slow-down occurred in the second half of the 20th century. A continued relative growth rate of the same magnitude as in the first half of the century would have meant that the country sooner or later had reached the highest income level per head in the world. Such a position would have demanded a lead technologically and institutionally in important parts of the technological spectre, which would certainly have been difficult for a small country.[10] The important thing here is rather that the slow-down was so strong; why did a turn occur from a relative economic growth distinctly above the average of the industrialised countries to one as distinctly below this average? It can be assumed that domestic institutional factors hampered the change and the adaptation necessary for a higher relative growth in the period under review. The mechanisms became apparent from the 1970s, but it also makes sense to suppose they that started to work earlier.

III

In an analysis of the issues presented here the economic small state model, that is the description of the special characteristics of small countries, can be of some help. In general a small state is anxious to keep its economy open and thus to abolish trade barriers. Furthermore there is a specialisation of production to those segments of the country's economy that are most productive or, in other words, that generate rapid economic growth. At the core is the issue of economies of scale or, rather, that small countries are said to suffer diseconomies of scale. They are then regarded as separate economic units, and the standard economic theory states that production requires a certain size to be efficient. It is a question of 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 most of its production to be efficient. Consequently, the growth possibilities would be smaller than for a large country with a big home market, if there were no remedy. To overcome the drawbacks, the small country has to seek larger markets via foreign trade. A large part of what is needed within the country has to be imported while much of what the country is good at producing is exported. The result is that the small country has a larger foreign trade relative to its production than the large one.

[10] Here it is a question of productive technology. Some very small countries have reached very high income levels due to for instance financial transactions of various kinds.

The issues touched upon makes it necessary for the small country to be highly adaptive to different situations created outside its borders. The performance of the country is of course dependent on the success of this adaptation process. If it is not successful, the country is under risk to do less well economically. However, the adaptation processes could be of different shapes during different periods due to varying historical conditions. Thus, this theory and the predictions derived from it are not equally important over the whole modern era, that is roughly the last two hundred years. Furthermore, different groups of characteristics have been at the fore during different parts of this long period.

In an earlier paper,[11] a general chronological framework for this change in small states was traced. The point of departure was the general economic characterisation of small states, where international dependence is mirrored in a relatively large foreign trade, strive for openness, activities in international organisations, and co-operation with other small states. However, the impact of these small state characteristics has differed. The international economic dependence was small up to roughly the first half of the 19th century. Then it grow substantially during the industrialisation period up to W.W.I which meant that the special economic advantages and disadvantages of smallness of states became successively more evident. There was a growing dependence on the surrounding world, and certain flexibility had evolved, which helped coping with this dependence. Judging from the foreign trade ratios, dependence did not change much *in a long-run perspective* from W.W.I up to the 1970s[12] even if the ratios varied considerably in the short run. In the analysis of the performance in this era, Katzenstein's theory[13] is relevant, especially from the late 1940s. This theory states that to overcome the disadvantages of being small and of being heavily exposed to the international market, the small countries developed special institutions and arrangements. Democratic corporatism (neocorporatism) became characteristic and was flourishing up to the 1970s and as mentioned above it was a constituent part of the Swedish/Scandinavian/Nordic/small-state model.

From the late 1940s tendencies towards free trade prevailed but it was only from the 1970s that foreign trade ratios rose, seen in a long-term perspective. At the same time, internationalisation or as it is also called, globalisation with rapid international financial

[11] Krantz 1999.
[12] This implies that the rise of the foreign trade ratios in the 1950s and 60s is interpreted as a recovery from the very low level in the 1940s.
[13] Katzenstein 1985.

flows, expansion of international companies et cetera fundamentally shook the democratic corporate system.

This periodisation can be compared with that obtained from the discussion above on the Swedish growth rate in an international perspective. The turning point of the relative growth curves occurred at the same time as the heydays of democratic corporatism in the Katzensteinian sense commenced, which is around 1950. However, coincidence in time does not mean causality but it is possible that there is a connection.

Here, the hypothesis will be discussed that there was a connection between on the one hand the general societal model namely the full-fledged welfare state and "the Swedish model" based on democratic corporatism and the attempts to maintain this or some of its important elements, and on the other hand the relative growth performance of Sweden in the second half of the 20th century. The assumption is that this model caused a certain – and growing – lack of adaptation and flexibility of the kind needed for the economy to work well in a small country according to the small state theory and that this affected growth negatively. An underlying assumption is that the forms of democratic corporatism could vary between countries and that this could affect their relative growth rates in different ways. This hypothesis implies that institutional factors of the kind described did not exist at all or did not affect the economic changes negatively in the first part of the century when, instead, the positive impact of entrepreneurship and technical change could work more freely.

IV

The first decades after W.W.II saw a rapid economic growth all over the industrialised world, however with varying rates between the countries. These decades can be conceived as concluding an era of dominance or real – not only formal – economic independence of national industrial societies, even small ones. After this a new phase in capitalist development began.

> The postwar era until 1980 was the age of the *nation state*. Despite significant expansion of international trade, economic modernization in that period predominantly implied the conquest of mass markets delineated by national borders. Besides higher living standards, citizens also gained rights – to welfare benefit, education, health care, codetermination in worklife, etc. – that were essentially guaranteed by each nation state. The debate on the impact of globalization concerns the 1990s, not the decades preceding 1980.[14]

Where the boundaries between economic phases exactly should be located is open to debate and it could even be claimed that there are no clear-cut boundaries. Conventionally, the end of

the golden growth and the start of a new economic phase are set at 1973, and the first oil crisis is often seen as a crucial factor in – or at least as symbolising – this change.[15] The important thing here is, though, that there was a period boundary in the 1970s.

However, economic internationalisation had commenced earlier; one could even say that it was a companion of capitalism since this *per se* is an international system. In the period from the 1910s to the 1940s, though, there was a backlash with a return to nationalism – especially in the 1930s – but after W.W.II. and particularly from the 1970s the international characteristics became manifest and clearly dominant. A large and growing part of production emanates from international or transnational firms, international capital flows have skyrocketed. International trade has grown rapidly not only in absolute terms but also in relation to production; the export share grew to values distinctly above those of the period up to the 1910s. The fact that small countries in particular have become globalised is illustrated in table 4 where a so called globalisation index is shown – with all the problems connected with such a construction kept in mind. The globalisation index is said to indicate in descending order which countries are the most globalised.[16]

Table 4. The 25 most globalised countries ranked according to a globalisation index

1 Singapore	9 Norway	17 Hungary
2 Netherlands	10 Canada	18 Spain
3 Sweden	11 Denmark	19 Israel
4 Switzerland	12 United States	20 Malaysia
5 Finland	13 Italy	21 New Zealand
6 Ireland	14 Germany	22 Czech Rpublic
7 Austria	15 Portugal	23 Australia
8 United Kingdom	16 France	24 Greece
		25 Poland

Source: Measuring Globalization, *Foreign Policy*, January/February 2001.

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14 Mjøset 2000, p.1.

15 e.g. Maddison 1991 and 1995.

16 The construction is described as follows: "The A.T. Kearney/Foreign Policy Magazine Globalization Index encompasses nine key indicators of global integration. Globalization in goods and services is measured through the share of international trade (exports of goods and services plus imports of goods and services) in gross domestic product (GDP), as well as the convergence of domestic prices and world prices. Financial globalization is measured through income payments and receipts, the inflows and outflow of foreign direct investment, and the inflow and outflow of portfolio capital, all measured as a share of GDP. The globalization of personal contact is measured with international tourists and travelers as a share of population, minutes of incoming and outgoing international telephone calls per capita, and transfer payments and receipts as a share of GDP. Finally, three elements comprise the Internet connectivity indicator - the number of Internet users, the number of Internet hosts, and the number of secure servers, all measured on a per capita basis."
(http://www.atkearney.com/pdf/eng/Rankings_S.pdf, 5 February 2001)

The total list comprises 50 countries but since the ranking reveals that the most globalised countries are those with the highest GDP per capita, only the first 25 are listed in table 4. As to country size, it is evident that the countries at the top of the list are mostly small. The small and richest European countries that formed a group in the comparison above, Netherlands, Sweden, Switzerland, Finland, Austria, Norway and Denmark are all highly ranked.[17]

Globalisation has had a number of important effects on the state. The "scope for state autonomy is certainly reduced since its control of economic and social processes within its territory has become less exclusive, and its ability to maintain national distinctiveness and cultural homogeneity has been curtailed."[18] It has also meant that the internal balance of power that was characteristic for the democratic corporatism, and which characterised the majority of the small countries, has become clearly weaker. The character of the industrial organisations has changed as the big companies have grown truly international or multinational and they dominate the economic scene of the small countries with an entirely different authority than in previous periods. Then, co-operation with other bodies was in these companies' interest but now things have changed. This is true also for their employees since the old type of "industrial" wage policy was weakened by the growth of new groups, mainly central and local public employees, whose wages and salaries are financed with taxes. In this case, it meant a continuous conflict between what one wants to pay for the services via taxes and what one wants to get back in the form of services from the public authorities. Thus, new or highly altered institutions and organisations were needed in this era and they are slowly developing.[19]

Small nations have become highly dependent on and to a very large extent integrated in the international economy, which means that the economic autonomy has been circumscribed and in practice, there is little room left for own economic manoeuvring. In such a course of events it is very important for these countries to be as adaptive as possible and not rigid.

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17 Belgium was not included in the globalisation measurement.

18 Sideri 1997, p.42.

19 These profound changes have been studied in international research, not least by political scientists and sociologists. One example is a volume very tellingly entitled *Organized Industrial Relations in Europe: What Future?* (Crouch and Traxler 1995). The introductory essay is called *Farewell to labour market associations? Organized versus disorganized decentralization as a map for industrial relations*, (Traxler 1995) and the concluding chapter has the rubric *Reconstructing corporatism? Organized decentralisation and other paradoxes*. (Crouch 1995)

Did Sweden act in an adaptive way in the second half of the 20th century, that is in the period when the relative growth of the country had switched to a downward tendency?[20] The 1950s and 1960s were as mentioned the heydays of democratic corporatism, which was central in the so-called "Swedish model". There was a consensus between capitalist interests represented by the industrial employers' association, the government and the trade unions. However, there were conspicuous exceptions from this consensus in the economic policy in Sweden and as time went by the exceptions more and more tended to become the rule.[21]

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 a negative impact on economic growth.

One greatly debated issue in the 1950s was the question of general supplementary pensions for all employees. Should they be compulsory or voluntary? The social democrats argued for compulsory pensions while the bourgeois parties were in favour of a voluntary alternative. In any of these cases a consequence was that vast capital funds should be built up and according to the social democratic view they should be publicly administered while in the other case they should be privately administered. The outcome of the pension issue was a victory for the social democratic proposal and great publicly administered funds commenced to be built up. That these funds had an impact on capital formation in the country is very likely and it is also probable that the flexibility of capital provision in general in the economy was negatively affected. However more research is needed before definite conclusions can be drawn about this question and how it affected economic growth.

It was not only political measures that affected growth in the 1950s and 60s. Industrial investments were not very progressive. The economic expansion took place in traditional trajectories, which meant that capacity in existing production units was expanded and the

[20] It has to be emphasised that the following comments are made from the viewpoint of reaching high economic growth. The measures discussed below could be positive from other angles, for instance welfare. Besides, they should be studied in an international perspective, which has not been done in a sufficient way to allow firm conclusions. Therefore, as mentioned, it is a question of hypotheses.

[21] Needless to say, it is not possible to provide an extensive analysis of the Swedish political, institutional and economic performance in the second half of the 20th century. Only some examples are given.

industrial structure did not change much. Besides, the level of investment was relatively low.[22]

The problems that commenced in the 1950s grew more serious later. The one-sidedness of investments towards old lines of production became evident in the 60s. Then the industry went through an intensive rationalisation, which in the short run meant great increases in productivity and output. In the long run, however, it led to over-capacity and profitability problems. What can be expected in such a situation is a restructuring or a closedown. There should be "creative destruction" but this did not happen. Industrial interests – certainly not all – in co-operation with trade union interests – even here not all – co-operated with the government irrespective of its political colour, social democratic or bourgeois. The co-operation resulted in vast government subsidies in the second half of the 1970s and the early 1980s. Here the shipbuilding industry provides a good example. The subsidies made it possible to build ships though it was totally unprofitable – that the large Swedish shipyards were highly advanced technically 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. 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.

Other political measures concerned for instance the labour market. Laws making it extremely difficult to change the composition of the labour force and/or to reduce it are an example and the law on safety of employment (LAS) is typical. Another example is 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 codetermination but obligatory information only. However, 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 trade union and the Social Democrats and on the other hand the industrial

[22] Jörberg 1991, p.47f.

employers. The so-called wage earners' funds were even more controversial. In the first half of the 1970s, a proposal came from the trade union, that a fraction of the firms' profits should be paid to central funds which whereby became owners of shares of the firms. Furthermore, the funds should be managed by the trade unions. As a consequence, after a certain time span these funds would be majority owners of the companies. 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 constituting parties of the democratic corporatism. Furthermore, it is probable that the propensity to invest as well as new entrepreneurial ventures were negatively affected and this could not have been advantageous to economic growth.

Another ingredient in the "Swedish model" was the so-called solidaristic wage policy, which originally meant equal pay for equal work. Later on, however, the meaning changed to equal pay. It 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. This policy became more and more pronounced during the second half of the 20th century and it probably influenced the economy and its growth in a negative way, among other things through the preference structure.

The policy also made government expenditure and taxes rise. Around 1960 the numerically visible effects were small and compared to GDP the Swedish expenditures did not differ much from those of other countries as seen in Table 6. Thereafter Sweden definitely took the lead and in 1995 its government expenditure was very high internationally seen.[23]

Table 6. Government expenditure in a number of countries expressed as percentage of GDP 1960-1995

	1960	1980	1990	1995
Australia	21	32	35	37
Austria	36	48	49	53
Belgium	30	59	55	55
Canada	29	39	46	46
France	35	46	50	54
Germany	32	49	45	50
Ireland	28	49	41	42
Italy	30	42	53	52

[23] After the last year in table 6, 1995, the share for government expenditure has gone down in Sweden to 60% in 1999. Probably the tendency was the same in other countries.

Japan	18	32	32	36
Netherlands	34	55	54	51
New Zealand	27	38	41	35
Norway	30	38	54	49
Spain	19	32	42	44
Sweden	31	60	59	66
Switzerland	17	33	34	39
UK	32	43	40	43
USA	27	32	33	33
Arithmetic average	28	43	45	46

Source: Tanzi/Schuknecht 1997, p.397.

Three general comments will be made in connection to this sketch of the Swedish development. Firstly, economic growth, here defined as a long-term increase of GDP or GDP per capita, does not measure welfare although it is an important component. A policy of the kind mentioned above could increase welfare for instance through safety at work and an even income distribution. Low unemployment is of course also important for people's welfare. Thus if an index of welfare could be used in the international comparisons it is possible that Sweden's downward tendency in the time period following W.W.II would not be as clear as in the case of GDP per capita. It would even be possible that relative welfare did not go down at all. Secondly, international comparisons of growth-promoting or growth-hampering policies are not made to such an extent that it is beyond doubts that the Swedish political measures had the negative effects assumed here. However, there are indications. In a recently published study, research on the effects of government size on growth is made. A conclusion is that "government size is a negative and statistically significant determinant of the economic growth rate. Moreover, the magnitude implies that a 1 percentage point increase in government size leads to a 0.23 percentage point decline in the growth rate, which translates to an elasticity of -2.4 at the means."[24] Other investigations indicating the same thing were also referred to in the study. Thus, what is discussed here can be regarded as a set of hypotheses in need of further studies particularly when it comes to historical change. Thirdly, even if the welfare performance is not mirrored in the GDP per capita series in a short period of time, it is possible that in a longer time perspective there will be negative effects if a country has a comparatively low growth. Then it can end up with problems of foreign trade balance, unemployment, deficits in the government budget et cetera.

[24] Hansson 2000, p.111.

In conclusion it seems that all the measures mentioned and many others made the Swedish governance system unadaptable to the ongoing internationalisation and globalisation. The rigidities could have hampered structural change and adaptation with slow economic growth as a result. However, this hypothesis is in urgent need of further exploration. Then it would be desirable to study the problems in an internationally comparative setting. Thereby, an assessment would be possible of whether and to what extent the special Swedish features can explain the economic retardation.

V

Has the situation changed in the last years? The 1990s started with a deep economic crisis that hit Sweden very hard. GDP went down greatly and unemployment rose to levels unknown since the 1930s. Then a recovery came with rapid increases in GDP, particularly in comparison with the preceding decades. It is sometimes maintained that the current economic development is similar to that in the 1950s and 1960s and that Sweden once again has become a fast-grower. The reasons for this are said to be mainly institutional changes; a radical transformation of the economic policy has occurred, which has been summarised as follows:

Monetary policy: Deregulated financial markets, floating exchange rates, inflation goals, an independent central bank.
Financial policy: Reformed government budgetary process, restrictions on government expenditure, goal for budgetary surpluses.
Structural policy: Deregulation, abolishment of state monopolies, a stricter competition law, a radical tax law.
Political decision rules: EU membership, four-year election periods (instead of three).[25]

The other reason should be that Sweden has done very well in "the new economy"[26] which is to a large extent built on mobile telephony, internet, et cetera or – more generally – information and communication technology (ICT or IT). Sweden has an old tradition in this field. One of the liveliest IT-regions in Europe is for instance situated in Stockholm. Furthermore, Sweden has internationally seen a very high density of computers, internet-connections, and mobile telephones.

All this should have influenced the growth figures greatly. In table 7, the percentage changes of GDP in the latest years are shown for the same sixteen countries as used in the comparisons above. Compared to the average for the 1990s Sweden had a rapid growth, but

[25] Tson Söderström et al. 2001. There, a description of and opinions about the development in the last decade are given.

compared to the growth engine for these years, the USA, it has been slow, and this is the case also in relation to Finland.

Table 7. Annual percentage growth of GDP 1989-2000 in industrialised countries. Constant prices.

	1989-1999	1997-1998	1998-1999	1999-2000
Australia	3.4	4.5	3.9	4.2
Austria	2.1[a)]	2.9	2.2	3.6
Belgium	1.9	2.7	1.8	3.8
Canada	2.1	3.1	3.7	4.8
Denmark	2.4	2.7	1.3	2.8
Finland	1.5	5.0	3.7	5.4
France	1.6	3.3	2.4	3.3
Germany	0.6[b)]	2.2	1.3	3.1
Italy	1.3	1.3	1.0	2.8
Japan	1.7	-2.8	1.4	1.9
Netherlands	3.4[a]	3.7	3.0	4.5
Norway	3.0[a]	2.1	0.6	3.1
Sweden	1.6	3.0	3.9	4.0
Switzerland	0.9	2.1	1.4	3.3
UK	1.9	2.2	1.7	3.0
USA	4.1[a]	4.3	4.1	5.2
Arithmetic average	2.1	2.6	2.3	3.7

[a)] 1995-99 [b)] 1991-1999

Source: *OECD in figures 2001*.

However, it is too early to say whether these growth figures are the outcome of temporary factors or if there is a change in the long-run performance.[27] Even if the latter should be true it will take a long time to return to a top position in the income per capita league in OECD. In the early 1970s Sweden had a top rank but in the year 2000 it was number 22 of 30 countries. Even if the country should have a growth figure of 1 percentage point above the average of the rich countries it should take up to 17 years to regain its position from the 1970s.[28]

VI

In conclusion, the "stylized fact" that Sweden's growth was extremely rapid in the period 1870-1970 can not be upheld without strong reservations. The time span when Sweden stood out as a fastgrower is instead c. 1890-1950. Then, technological change and entrepreneurial talent had a positive impact on the development and the institutional setting did not hamper

[26] "The new economy" is in fact the same economy that has existed for a very long time, at least since the industrial revolution. Thus, it is a typical cliché or an expression devoid of analytical meaning.

[27] In other words, the comparison with the 1950s and 60s referred to above is premature.

[28] Tson Söderström et al. 2001, p.43.

the economic growth. The other “stylized fact”, that Sweden had a comparatively slow growth from around 1970 to the 1990s is, however, qualified, but a relative slowdown set in already in the 1950s. Then, possible technological factors could not work positively in the same way as in the earlier period due to a rigid institutional framework. Whether this has changed once again in the 1990s to a long-term positive performance internationally seen is too early to say. It is even possible that the different countries’ economies will be integrated to such an extent that inter-country comparisons will be of less importance. Maybe other types of economic areas or regions than (small) states will be more interesting to compare.

Figure1. GDP per capita, Sweden in relation to the average for sixteen industrialised countries1870-1997. Constant prices. Index 1913=1.
Source: See Table 1.

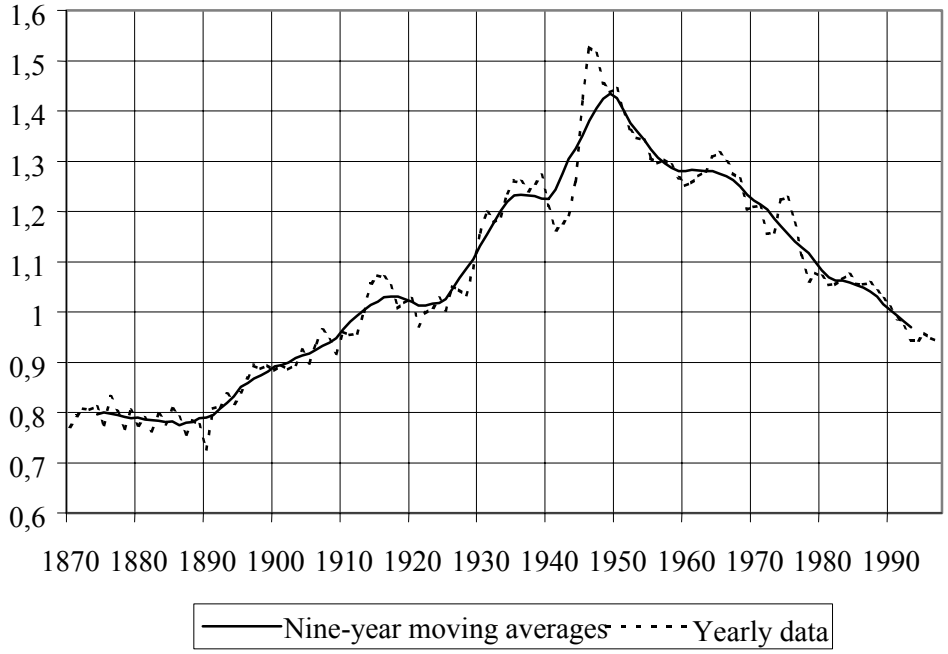


Figure 2. GDP per capita, Sweden in relation to the average for six rich industrial countries 1870-1997. Constant prices. Index 1913=1.
Source: See Table 1.

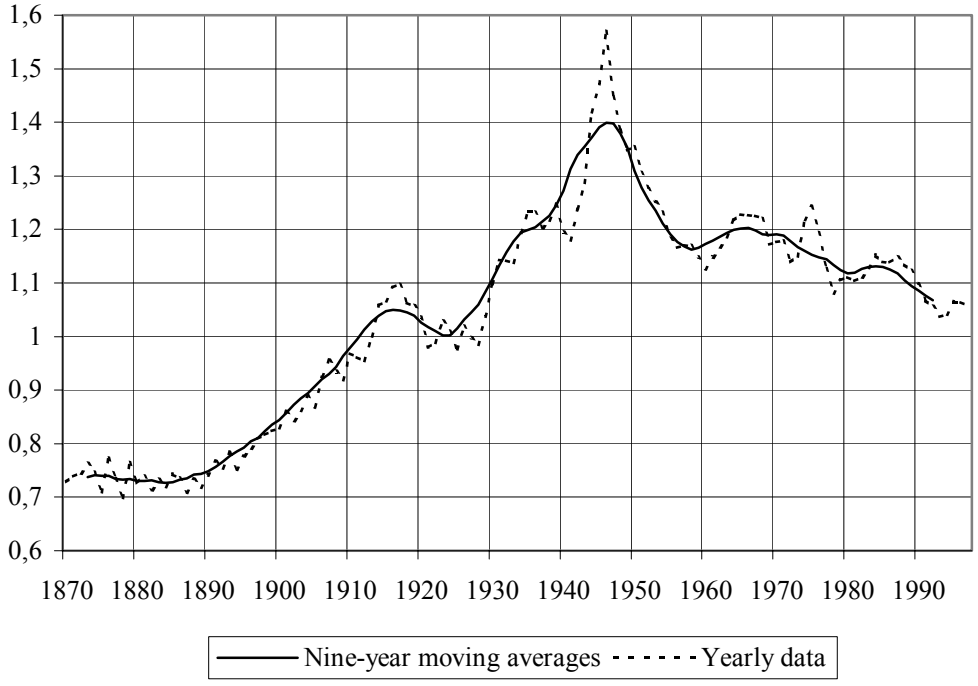
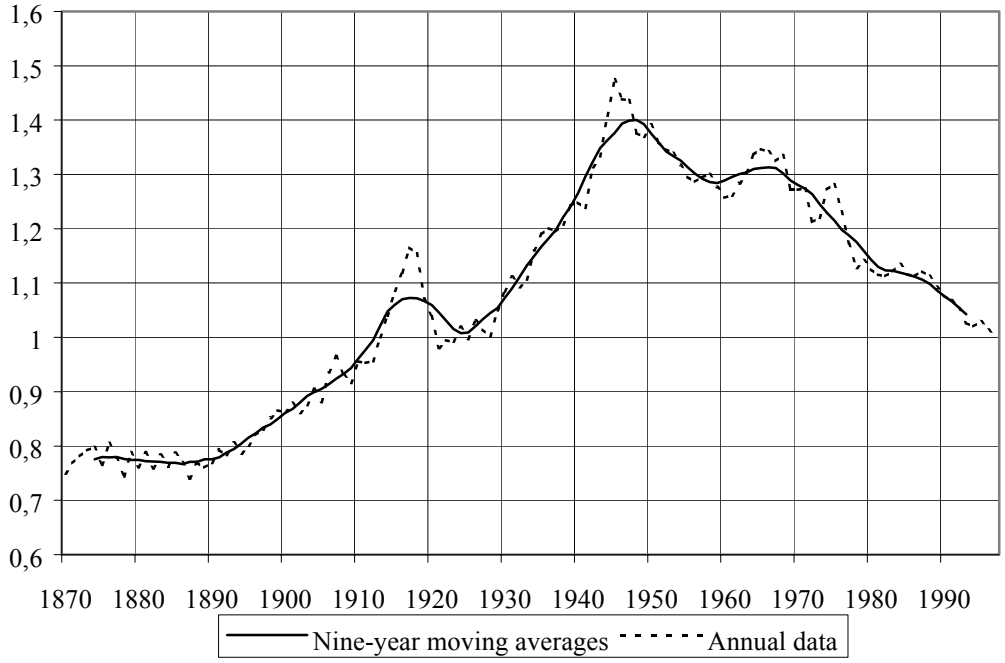


Figure 3. GDP per capita, Sweden in relation to the average for small European countries 1870-1997.Constant prices. Index 1913=1.

Source: See Table 1.



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