

Lagging Behind: Sweden's Poor Relative Economic Performance

Has Swedish economic growth been slow relative to other industrialised countries in recent decades? According to Magnus Henrekson, writing in the latest issue of the *Economic Journal*, the answer is an unqualified yes. The most convincing piece of evidence is the fact that by 1993, Sweden had fallen to 17th among the OECD countries in terms of GDP per capita with an average income 12% below the OECD average. When Sweden entered the European Union in 1995, this resulted in a decrease in the average EU income since Swedish GDP per capita is also below the EU average.

Henrekson notes that Sweden came out of the Second World War as a very rich country, relatively speaking. A high rate of growth was sustained throughout the 1950s and 1960s and by the end of the 1960s, Sweden was the richest country in Europe with the exception of Switzerland. The rate of economic growth in Sweden was comparable to the average for other industrialised countries until the 1960s.

But after 1970, Sweden's economic performance has been far below the average of other OECD countries. The accumulated effect of the slow economic growth has been substantial. In terms of purchasing power parity (PPP) adjusted GDP per capita, Sweden now ranks in the lower half among the OECD countries.

Henrekson takes issue with Walter Korpi's argument that Sweden's growth performance has been comparable to that of other industrialised countries after 1970 as well as before. He claims that it is the result of a number of specific and unwarranted strategic choices regarding data selection and interpretations of the findings: choosing propitious time periods; appealing to the catching-up effect in order to avoid comparisons with broad averages; focusing on absolute not relative growth in some cases and comparing levels by means of arbitrary exchange rate conversions instead of PPP rates; using nominal quantities in order to obscure real developments; interpreting weak long-run performance as the result of isolated policy errors while disregarding errors in other countries; and making unwarranted inferences about overall performance from the performance of sub-sectors of the economy.

Given that Sweden's key institutions and economic policy have deviated from many other OECD countries in recent decades, it is not surprising that many economists have argued that the slow economic growth may at least partly be explained by this deviation. Korpi dismisses the relevance of their arguments based on the assertion that Sweden has not, in fact, lagged behind. But, Henrekson contends, since there is no convincing basis for Korpi's assertion, the reasons for Sweden's poor growth performance deserve close attention.

It is worth asking why a debate about economic performance in a country like Sweden can stir so much controversy. For a long time, it appeared to a great many observers that Sweden managed to combine a strong economic performance in terms of both growth and employment with the most extensive welfare state in the world. According to Henrekson, this view was incorrect: Sweden's relative growth performance has been weak for about a quarter of a century. In the last five years, the Swedish employment record has also been dismal, making Sweden an average European country in terms of both income and unemployment.

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Note for Editors: 'Sweden's Relative Economic Performance: Lagging Behind or Staying on Top?' by Magnus Henrekson is published in the November 1996 issue of the Economic Journal. Henrekson is Associate Professor of Economics at the Industrial Institute for Economic and Social Research, Sweden.

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