Sweden: Waking Up From the Dream

The country has transformed itself from a welfare state to a competitive economy

When referring to Sweden, the egalitarian Scandinavian country safely tucked away in northern Europe between siblings Norway and Finland, the celebrated political slogan “Power to the People” may be better transcribed as “Power from the People.” Descendants of the legendary Vikings, the Swedes enjoy an advanced welfare system, a high standard of living, and a low unemployment rate. A rather overlooked country when compared to powerhouse names, Sweden came away from the 2008 financial crisis relatively prosperous, emerging as one of the most robust economies in Europe. The nation did not enter the European Union until 1995. Then in a 2003 referendum, the people voted to not enter the European Monetary Union, hoping to preserve their booming economy, and choosing instead to remain with the Swedish Kronor.

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From a Military Power to a Constitutional Monarchy

Sweden’s known history begins when ice from the last glacial period began to melt in the country’s southern lands in 14,000 BCE. The first hunter-gatherer civilization appeared five thousand years later in Segebro, located on the country’s southern tip. Archeological findings reveal that Sweden’s early people used flint-based tools as means to hunt and fish. It was during the Viking era of the 9th and 10th centuries that trade routes flourished, linking Scandinavia to the rest of Europe and to the Middle East. The Swedish chieftains monitored shipments and trading in Eastern Europe between the Baltic and Black Seas.

In 830 AD, a Frankish monk by the name Ansgar attempted to Christianize Sweden.

KEY TAKEAWAY

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His efforts proved to be futile as the indigenous people expressed little interest in the faith. English missionaries were more successful in their efforts in Sweden’s southern lands. But it was not until the end of the 11th century, following the desecration of a Pagan temple in the centrally located city Uppsala that the indigenous began to accept Christianity. Today Sweden is predominantly Lutheran, with other Protestant groups and Muslims vying for the number two slot among most practiced religions. While the exact date of the country’s unification is debatable, the documentation of a papal decree recognizing Sweden as an independent kingdom proves the country’s various tribes were loosely united by the 12th century.

The Nordic countries have a complicated, intermingled history of strife, marked by the continual swapping of allies and enemies within the group of four countries: Sweden, Norway, Denmark, and Finland. In 1157, Sweden’s King Eric IX conquered Finland to prevent the country’s inhabitants from raiding towns along the Scandinavian coasts. Finland remained under Swedish rule for over 700 years until Russian conquest in 1809, during which time Sweden was forced to relinquish the country. In 1397, Queen Margaret of Denmark formed the “Kalmer Union,” which fused the Nordic lands together under a single monarchy. The high tension among the countries that resulted from the Union culminated in the 15th century when a confrontation between the Swedes and the Danes broke out. However, it wasn’t until the 16th century, under the leadership of Gustav Vasa, that Sweden completely broke from the Kalmer Union, gaining independence and establishing a monarchical kingdom. It was also under Gustav Vasa’s rule that Sweden broke away from the Catholic Church, giving way to the Reformation.

During the 17th century, the rest of Europe witnessed Sweden’s ascent to power after the country came away victorious in various small wars with Denmark, Russia, and Poland. In 1700, the then Swedish-Finnish empire entered The Second Northern War against Russia, Saxony-Poland, and Denmark-Norway. In the early years of the conflict, the Swedes won remarkable victories, considering the country’s population of just over 1 million people. It wasn’t until 1718 when the Swedish king, Karl XII devised a plan to attack Moscow that the tides turned against the Scandinavian country. Sweden’s glory days as a strong powerhouse came to an end as the country fell into Russian hands. The Napoleonic Wars further saw to Sweden’s destruction, as the nation was forced to relinquish Finland to Russia. The last war Sweden participated in was against Norway in 1814. The result united the two countries, until 1905 when Sweden acknowledged Norwegian independence.

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A CULTURAL CAULDRON

The three major ethnic groups residing in Sweden are the indigenous Swedes, Finns and Sami. The country has a high immigration rate of over 10%—one in five people is an immigrant or has a foreign born parent. The predominant language is Swedish, while English is also widely spoken. Stockholm, the country’s capital since 1523, is the cultural hub of the Nordic countries. It is the country’s most heavily populated city and is an eastern seaport that connects the mainland with nearby islands. Sweden
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is particularly known for its impressive industrial and furniture designs, not only producing designers, such as Ulla Forsell, Mårten Medbo, and Frida Fjellan, but also drawing talent from around the world as a notable place to study and create. IKEA is one of Sweden’s most popular companies, known for its furniture and accessory designs.

As urban dwellings increased in the 20th century, rural customs in Sweden began to fade. But in the 1990s, a surge to resurrect some of the older traditions surfaced. As such, national costumes, folk music, and dances are now a prominent aspect of Swedish culture in provinces such as Gotland and Dalarna. Since Sweden’s seasons vary so drastically with a prolonged dark winter, and a quick, short summer, Swedes recognize the importance of food preservation. With this, cuisine consists of traditional foods such as lutefisk (codfish soaked in water), lingonberries, and a crispbread called knäckebröd. Swedish food resembles that of its German neighbor in its heavy, meat and dairy based qualities. Historically, seafood has played an important role in the Swedish diet, as the people have always utilized the availability of being located close to water.

Not only do the Swedes have a long life expectancy, but they also have one of the world’s wealthiest economies. The government entitles families with children from ages of two to six a place in a public child-care facility. The country’s social welfare system allows 480 days of both maternal and paternal paid leave between a child’s birth until his or her 8th birthday, as well as the option to take five months unpaid leave. Of the 480 days available, at least 60 must be granted to the father.

The importance of equality among men and women in Sweden came to a forefront in the early 20th century as a result of the works of Elin Wägner and other Swedish feminists. Their efforts eventually resulted in the Swedish woman’s right to vote in 1919. As the 20th century came to a close, women occupied nearly half of the seats of parliament.

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FAIRY TALE ECONOMIES

The group of Scandinavian countries -- Sweden, Denmark, Finland, Norway and Iceland -- had always charted a way of life somewhat different from the rest of Europe until around the turn of the century. Their idyllic settings and the sharing of a common culture and history made these nations a closely-knit unit. A familiar joke among economists during the second half of the 20th century was that these economies could be measured in terms of gross national happiness, an acknowledgement of the fact that they functioned almost like welfare states.
Sweden is considered an investor-friendly economy, going by the World Bank’s ranking of countries for the ease of doing business. It takes as little as 15 days to set up a business in Sweden, according to a country report prepared by the U.S. Department of State. Sweden also ranks high on other economic indicators such as innovation and productivity and social ones like equality.

However, the fun-loving Nordic people soon realized that the party could not go on forever. Instead of confining themselves to the cozy cocoons of their Nordic environs, they were required to be a part of a larger European identity. Norway and Iceland have resisted joining the European Union, while Finland adopted the euro for its currency and is a member of the EU. Denmark and Sweden are constituents of the EU, though they have not adopted the common currency. Thus, these previously laidback economies became an integral part of the political, social and economic fabric of the European continent. If these Nordic economies stood out in the 80s for their liberal public welfare measures, the adoption of a new economic model in the 2000s made them globally renowned for their competitiveness.

‘THE SWEDISH MODEL’

Sweden’s policy of peace and non-aggression has fostered its economy over the past three centuries. And during the last few decades, Sweden has followed a system of capitalism laced with liberal welfare schemes for its citizens. Public-private partnership is a cardinal feature of the Swedish economic model, a legacy of the Social Democrats who were in power for almost 70 years. Centralized wage negotiations and a subsidized social security network mark out Sweden’s mixed economy, according to a BBC country write-up. Thanks to these measures, gross disposable incomes rose exponentially for the Swedes who number just about 10 million.

But the efficacy of this economic model was challenged by an unemployment problem in the 90s and in the early 2000s, as well as by the financial crisis of 2009. Still, Sweden’s fiscal discipline, together with its skilled labor force, helped the country tide over these crises successfully. Considering the stress that most of the Euro-zone experienced after the 2009 financial meltdown, the decision to stick to the Swedish kronor proved to be a prudent one.

The primary Swedish exports include automobiles, construction equipment, textiles and furniture. The resource base of the economy consists of hydropower, timber and iron ore. The private sector, which is the mainstay of the economy, contributes almost 90% of the industrial output, while the engineering segment accounts for 50% of the country’s exports and total output. Export revenues are substantial, with Germany being the biggest trading partner, followed by Norway and the U.K. The contribution of the farm sector to the country’s GDP and employment is negligible.

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FROM IRON ORE PROCESSING TO INFORMATION TECHNOLOGY

Any discussion about industrial activity in Sweden is likely to be focused on some of its well-known global brands such as Volvo, Scania, Electrolux, Saab and SKF. However, until the second half of the 20th century, Sweden was primarily known for industries that revolved around its rich natural resources base. The transition from traditional sectors such as the processing of iron ore and wood to technology and skill-based industries such as automobile manufacturing and specialized engineering gathered pace during this period. However, the onset of the 90s marked an even more dramatic change in priorities, with the emergence of knowledge- and research-based sectors such as pharmaceuticals, telecommunications and information technology. The Swedish auto sector has made a name for itself in the global automobile manufacturing industry over the course of several decades.

JOLTED BY THE FINANCIAL CRISIS

Until 2008, Sweden had everything going for it as strong exports and domestic demand ensured steady economic growth. Encouraged by the sound financial conditions, the government implemented several reforms intended to improve the lot of citizens and create new jobs. Despite its strong finances
and overall stability, the economy slipped into a recession during the third quarter of 2008. The export-dependent economy of Sweden, the largest in the Scandinavian region, was badly hit by the financial crisis as dismal global economic conditions crippled export demand and consumption. However, after contracting 4.9% in 2009, the economy staged a remarkable recovery in 2010 by expanding 5.5%, thanks to strong public spending and a pick-up in external demand. The increase in commodity exports and the recovery in the banking sector also helped the economy rebound. When the financial crisis struck, Sweden had a budget surplus of $8.2 billion, thanks to a conservative fiscal policy and economic growth achieved over the years. This single factor helped Sweden emerge from the crisis quicker than many of its peers.

FROM WELFARE STATE TO A COMPETITIVE ECONOMY

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Before the emergence of knowledge and research-based sectors such as pharmaceuticals, communications, and information technology, Sweden was known for its automobile brands such as Volvo, Scania, and Saab.

Lessons learnt, Sweden set about to make some far-reaching changes to the way its economy was run. Public spending as a proportion of the country’s GDP was brought down from a whopping 67% in the 90s to less than 50%. Besides reducing public spending, Sweden also cut its marginal tax rate and the corporate-tax rate. Reforms in the country’s pension system resulted in a defined-benefit system getting replaced by a defined-contribution arrangement, The Economist pointed out in an article. More importantly, private firms were roped in to improve efficiency in school education and health care by encouraging competition among themselves as well as with public sector providers. The realization that the government cannot continue to depend on the contribution of big companies to the state coffers prompted Sweden to prune the excesses in welfare schemes. With its revamped economic model, Sweden appears set to retain its rightful place as a truly globalized and competitive economy in the years ahead.

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