

Sweden's economy on display in Davos

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Sweden's strong economy is in focus at this year's World Economic Forum in Davos, giving the centre-right Alliance government a chance to spread a new image of Sweden, writes Prime Minister Fredrik Reinfeldt and three of his ministers.

- **Clinton praise as Sweden woos Davos** (28 Jan 11)
- **Sweden 'strong like Pippi Longstocking': OECD** (20 Jan 11)
- **Is Sweden's economic future paved with gold?** (19 Jan 11)

Sweden is currently much talked of throughout the world. At international meetings, we are greeted increasingly often with positive comments and sometimes pats on the back. The reason is that our economy and social model stand out compared with those of other countries that are burdened by the crisis. Strong public finances, high growth figures and unemployment levels that are gradually on the decline make Sweden, in many ways, unique in international comparisons.

The way we are building society is also stirring curiosity. In Sweden, we do not have the deep divisions that cause social tension in other countries. Instead, there is a great deal of confidence between people here, which creates both a sense of security and the opportunity to develop. We have a well-developed welfare system that levels the playing field of life opportunities. We require equal accountability of both employers and employees, and at the same time, we are home to many successful and innovative export-oriented companies. Our public institutions are relatively efficient, we have minimal corruption and, unlike large parts of the rest of the world, we have growing confidence in politics and political representatives.

Sweden also has the major advantage of being a gender-equal society. Good childcare provision and pre-schools have enabled women and men to participate in the labour market on more equal terms. This creates not only greater personal freedom, but also a higher level of growth and development.

Over the next few days, representatives of politics, the business sector and community life will meet in the Swiss winter resort of Davos for talks and discussions. There are a number of topical issues and challenges on the agenda. One key item on the agenda is the Nordic model, where Sweden is one of the countries in focus. This is, of course, pleasing and gives us cause to feel proud.

In this flurry of encouragement, where our economy has been likened in strength to Pippi Longstocking, it is important to remember that our strong position builds on long-term reform efforts that have sometimes been very hard. Sweden has drawn important conclusions from previous crises that have affected us. In recent decades, governments of all colours have taken necessary measures to make Sweden stronger and better able to withstand both the challenges of globalisation and the fluctuations of crises, without abandoning the core of the Swedish social model.

In the wake of the crisis in the 1990s, a number of key foundation stones were laid to ensure that Sweden was on stable ground. An independent central bank, clear rules for fiscal policy and the pension reform were perhaps the most important elements. The importance of EU membership for the development of both legislation and regulatory frameworks, and ways of thinking, must not be underestimated. Add to this the numerous deregulations and privatisations that have opened up new opportunities for the Swedish economy. All of this has been important for

Sweden's development, but it is not enough to explain the strong position that Sweden has here and now.

During the crisis in the 1990s, total production (GDP) fell substantially three years in a row and employment dropped by 11 percent. At the same time, the budget deficit was around 10 percent of GDP for several years and the national debt rose from 45 percent to almost 80 percent of GDP. The crisis brought cuts, tax rises and social exclusion in its wake.

Such was not the case this time. We avoided locking up large sums in subsidies to industry and bank support. Instead, Sweden has shown its ability to take responsibility for its public finances and at the same time pursue an active labour market policy and make major additional contributions to core welfare activities. Today, the national debt is lower than in 2006, and we have 100,000 more people in work now than before the financial crisis.

Crisis-struck countries are now looking to Sweden, to learn from our example. However, it is not only the cornerstones of the economy that are arousing interest. There is also curiosity about the reform policy to get more people in work that has clearly contributed to the crisis having less of an impact than many expected. The image of a country with a world title in tax burdens on low and middle income earners, a rigid labour market and social insurance systems that pushed people into sick leave and early retirement is now changing.

In a short period, the Swedish tax burden, particularly on low and middle income earners, has decreased markedly. In total, the implemented stages of the in-work tax credit and our declared reform ambitions equate to around 2 percent of GDP in 2011. Sweden is therefore making excellent progress in its ambition to shape income taxes in a way that counters marginal effects and poverty traps and enduringly raises the employment level.

Labour market policy has also been reorganised to focus on activity and adjustment. Alongside clearer requirements and rules for transfers and benefit payments, this has discernibly lowered the thresholds into the labour market. In addition, reforms to the sickness insurance system, with improved support and more paths back into work, mean that in a short space of time Sweden has lifted itself off the bottom of the Western world's sick leave league.

In a time when other countries have acted for more closed borders and increased protectionism, Sweden is a clear exception. We have a solid reputation in efforts to increase free trade and bring down border barriers. Moreover, Sweden has proved that even a small and trade-dependent economy can assert itself relatively well in the face of growing global competition. We are among the top countries in world rankings for factors such as competitiveness, technology and innovation climate. Sweden's investment in research, at nearly 4 percent of GDP, is exceeded only by Israel in the OECD statistics.

The image of Sweden that is now emerging in the rest of the world corresponds to all of this. It is, to some extent, a new image of Sweden that challenges what other countries have come to see in Sweden and where it is heading. We are convinced that our country has valuable experiences to share with regard to the efforts that have got us where we are today. At the same time, we must dare to be frank: the strong position we occupy today has not developed of its own accord, nor will it endure without continued social reforms.

In our own recent history and immediate vicinity, we have seen clear examples of how rapidly success can turn into decline. We must not, therefore, allow praise to deceive us into thinking that we are the finished article. We cannot afford to rest on our laurels. Sweden is facing a number of key challenges.

We must ensure that we once again attain a surplus in our public finances, so that we are well equipped for the next crisis. We must also nurture the recovery and move Sweden even closer to full employment. Despite strong employment growth, unemployment levels are still far too high. The work-first principle and a properly functioning labour market will continue to be absolutely crucial in reducing exclusion.

Continued reforms will contribute to enduringly high employment, promote high productivity growth and strengthen Sweden's competitiveness. In concrete terms, it is a matter of continuing efforts to create good conditions for education, research, entrepreneurship, innovation and running businesses. The importance of accountability and reforms cannot be overstated. In a world where the financial crisis continues to make itself felt, this will be Sweden's most important message.

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