



HOME > NEWS & TRENDS

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, click the "Reprints" link at the top of any article.

The Swedish Model: Where Business Savvy Meets the Safety Net

BY SAVITA IYER-AHRESTANI, ADVISORONE

April 1, 2013 • Reprints

Like 0

Tweet

3



A sustained period of tax cutbacks, strict budget discipline and selective privatization in certain areas that began in the 1990s allowed Sweden to avoid the major pitfalls that other European nations have had to contend with in recent years.

Yet, Sweden has preserved the essence of the unique economic and social model that has allowed this small northern European nation of 9.5 million people to repeatedly score high on all manner of global indexes, not least the OECD's Better Life Index, which measures overall well-being in numerous categories.

Today, as Europe is struggling to get back from several years of downturn, Sweden is in a relatively strong position, with manageable unemployment and a GDP growth rate that's forecast to rise this year. Public sector expenditure has fallen from 67% of GDP in the early 1990s to around 49% today, so it's no surprise that the spotlight is on Sweden as a potential model for other countries to follow and a good

example of how economic dynamism can exist within the boundaries of a strong welfare state.

That welfare state has delivered to the Swedish people, in exchange for the high taxes that they pay, what it was mandated to deliver. However, thanks to political and economic astuteness, the model has never reached a point beyond which it would become too bloated to control and from which there would be little recourse to backtrack, according to Krister Thelin, a former deputy minister of justice in Sweden.

At any rate, not yet.

That's partly because Sweden has always had a healthy outlook on business—which Thelin, who also served as judge on the International Criminal Tribunal for the former Yugoslavia in The Hague, said dates back to the 19th century and owes to the fact that Sweden was never a feudal nation.

"A lot happened back then that enabled the mindset for entrepreneurship, and that has continued through the years," Thelin said. "Sweden, unlike Denmark, which doesn't have any natural resources, has been able to rely on forests and mines, so we have had grand-scale industries that fitted very well with the 'bigger is better' concept of the Social Democrats [who held power in Sweden from the 1920s to 2006], who didn't nationalize companies but nationalized concepts instead."

What's been missing in Sweden is the encouragement of small-scale entrepreneurship, an issue that has become even more important today and that if not addressed properly, would thwart further economic progress in Sweden and raise some serious doubts as to the future of the Swedish model.

"There's never been a real incentive in the past to encourage small businesses in Sweden, and this has been an impediment to economic growth," Thelin said.

Encouraging economic development is even more important now because Sweden's demographics have changed very rapidly over the past 10 or 15 years, "and you're finding in the immigrant communities a great deal of entrepreneurship that, because of the laws, can only be active in the black sector," he said.

"Whitening" the small business sector and encouraging entrepreneurship at that level would help further much-needed economic development, but it also needs to go hand-in-hand with a loosening of the labor laws, in particular laws that would let companies hire and fire with greater ease. Otherwise, Sweden's resources, not least its health care system, will become even more stretched than they already are to the point where retaining the welfare system as it is would mean having to make some serious changes and major cutbacks, according to Thelin.

Because as much as Sweden has done more than its fair share in taking in immigrants from countries like Somalia, Iraq, Afghanistan and Syria, to name but a few,

and the nation prides itself on being a champion of human rights, the laws are such that it takes immigrants quite some time to be able to enter the labor markets and contribute to the economy, Thelin said.

"Here, you have trade unions setting standards and bars for outsiders, and that makes it very difficult for them to enter the work force," he said. "So you reach a point where you can either close the borders and retain the welfare system as it is, or you let things go on and you have to cut down seriously on subsidies, because what is happening now is that new immigrants coming into Sweden cost much more than old Swedish retirees, and that is simply untenable in the long run."

In the run-up to Sweden's 2014 election, therefore, immigration and the ensuing, fiery debate on who, actually, is Swedish and who isn't, is probably the most important issue and one upon which all else hinges, not least the future of the Swedish model.

© 2013 AdvisorOne, A Summit Business Media Product