Forthcoming in *Challenge*

Swedish Economic Growth and Scholarly Objectivity

An objective sociologist vs. subjective economists, or the other way around?

by

Magnus Henrekson*

November 15, 2000

Abstract: Walter Korpi argues in a previous issue of *Challenge* (March/April 2000) that Swedish economists' claim that Sweden's growth performance has been inferior to that of other industrialized countries is at odds with the facts. Since Sweden has not grown slowly relative to other countries, there is no basis for the claim that ”the Swedish model”, characterized by a large public sector and comprehensive redistributive policies, could be growth impeding. Moreover, Korpi maintains that the discussion reveals a lack of objectivity among Swedish academic economists. In this article Magnus Henrekson argues that Korpi is wrong regarding Sweden's relative growth performance. Available data indicate that Sweden was lagging behind during the 1970s and 80s, and this tendency is further strengthened when the time period is extended. Then it is clear that the lagging behind began in the mid 1960s and continued through the mid 1990s. As a corollary, examining the factors behind Sweden's slow growth must be considered an important research issue. Finally, Henrekson maintains that the available evidence, if anything, demonstrates that Walter Korpi is the one who has been lacking in scholarly objectivity.

JEL Classification: O1, O47 and O50.

Keywords: Catching up, Economic growth, Swedish economic performance, Scholarly objectivity, Swedish Model.

Department of Economics
Stockholm School of Economics
Box 6501
SE-113 83 Stockholm
SWEDEN
Phone: +46-8-736 92 02
Fax: +46-8-31 32 07
e-mail: Magnus.Henrekson@hhs.se
Homepage: www.hhs.se/personal/henrekson

---

* The author is Associate Professor of Economics at the Stockholm School of Economics. His research fields include economic growth and small business economics. The author gratefully acknowledges skilful research assistance from Per Thulin, useful comments and suggestions from Niclas Berggren, Lars Jonung, Bo Sandelin and Joakim Stymne, and financial support from the Jan Wallander and Tom Hedelius Research Foundation.

In a 1990 article published in *Ekonomisk Debatt* (the journal of the Swedish Economists' Association) Walter Korpi, professor of sociology, began his crusade against the claim by leading Swedish economists that Swedish growth performance has been secularly weak relative to a broad average of comparable countries. The dramatic decline in the Swedish economy in 1991–93 did not discourage Korpi in this mission; a large number of articles with largely the same content on this issue has continued to appear even after an exchange in the *Economic Journal* in 1996. For example, in 1997–99 Korpi published extensive articles along the same lines in Swedish in the leading political science journal and the journals of the Swedish Sociologists' Association and the Economic Society of Finland. The most recent example is the article in the March/April 2000 issue of *Challenge*, where the same arguments are repeated in English. In all the above-mentioned cases I published critical scrutinies of Korpi's assertions. In Korpi's contribution to *Challenge* there is no indication that this in-depth discussion and challenges of his assertions have ever taken place. In order to rectify the misleading impression that comes out of Korpi's papers, I find it important that readers of *Challenge* will get a chance to become acquainted with the counter-arguments.

Walter Korpi's message can briefly be summarized as follows. Commanded by Assar Lindbeck, Swedish academic economists at an early stage maintained that the Swedish economy suffered from a growth problem, a result of the Swedish model characterized by a large public sector and a number of institutional arrangements that evened out the distribution of income both before and after tax. According to Korpi this assertion lacked an empirical basis, since Swedish economic growth was comparable to that of other rich countries until a macroeconomic crisis hit in the early 1990s. Nevertheless, leading politicians such as the Social-Democratic Prime Minister Ingvar Carlsson (1986–91, 1994–96) and the Conservative Prime Minister Carl Bildt (1991–94) were led astray by the economists' erroneous message. Earlier successful policies were abandoned and Sweden embarked on a new policy track involving a major tax reform and comprehensive deregulation of product and capital markets. This resulted in an economic crisis, and it is not until this "home-made" crisis becomes visible in the macro data that one can identify Sweden as a laggard in terms of economic growth.

According to Korpi there are in principle two reasons why economists have communicated this faulty message: (i) they are infatuated by their own theory and therefore they cannot accept that a country like Sweden could perform well; (ii) for career reasons younger economists are forced to claim that Sweden is lagging behind, even if this is at odds with the facts. Korpi also tries to add additional credibility to his theses by referring to well known discourses on values and scholarly objectivity in the social sciences (e.g., Myrdal, 1970 and Hirschmann, 1991).

In short, Korpi's allegations are, to say the least, serious and they deserve a reply, which I and other economists have produced on numerous occasions, although mostly in Swedish. In this article the main arguments in this discussion against the validity of Korpi's arguments will be presented to an English-speaking audience.

Section 1 contains an examination of Sweden's growth performance relative to other rich countries during the postwar period. It is shown that a decline in relative performance is apparent from 1970. Despite this fact Walter Korpi has tried to show that Swedish growth performance was comparable to that of other rich countries at least until the early 1990s. Section 2 is devoted to a discussion of how Korpi goes about to give this impression. In this section I also examine the empirical support for Korpi's thesis provided by Steve Dowrick (1996). The upshot of this examination is that the Swedish relative decline began somewhat earlier than previously thought. In Section 3 it is shown that the old Swedish model has been thoroughly reformed since the mid 1980s and throughout the 1990s. If it turns out in hindsight that Sweden has embarked on a steeper growth path after these reforms, this suggests that there may have been some merits to the economists' proposals for reform. In section 4 I explore the factual basis for Korpi's allegation that Swedish economists lacked in scholarly objectivity when studying Sweden's growth performance. The final section contains a brief summary and the main conclusions.

1. Swedish growth performance relative to other comparable countries

In order to evaluate the relative performance of a specific country Walter Korpi correctly argues in several articles that one has to compare a number of "natural experiments". Thus, it is appropriate to examine the development in all rich countries including a comparison with one or several broad country aggregates. As a starting point, we note that from 1970 to 1998 GDP growth in Sweden was on average one percentage point below the OECD average (1.7 compared to 2.7 percent p.a.) and growth in GDP per capita was 0.6 percentage points below the OECD average.[1] But comparing income levels across countries is more difficult than comparing growth rates. The best, albeit not perfect, comparability is probably achieved when OECD's purchasing power parity (PPP) adjusted GDP per capita measures are used. *Table 1* clearly shows how GDP per capita in Sweden developed very unfavorably relative to other OECD countries in the period 1970–98. In 1970 Sweden had the fourth highest per capita income level in the OECD. By 1990, the Swedish income level ranked a tied ninth position in the OECD, despite that 1990 was an extreme boom year in Sweden with an unemployment

[1] *OECD National Accounts Main Aggregates 1960–1997 Vol. 1*, 1999 and *OECD Main Economic Indicators,* February 2000.

rate of 1.5 percent. By 1998 the Swedish income level had fallen to a tied 18th position among the OECD countries.

The comparability with other rich OECD countries increases if we exclude the two developing countries Mexico and Turkey (plus the most recent members Poland, South Korea, Hungary and the Czech Republic).[2] In such a comparison Swedish PPP-adjusted per capita income had fallen to a level six percent below the OECD average already in 1990, when the economy went through the last stage of an unsustainable boom. In 1998 Swedish per capita income was 15 percent below the average for the 23 richest OECD countries.[3]

Table 1 to be inserted here

In order to obtain a more complete picture of Sweden's relative growth, we should look at the entire time path of Sweden's relative income development since 1970, and not just – as in Table 1 – at three selected years.[4] This is done in *Figure 1*, which demonstrates that there was a clear downward trend in Swedish relative income long before the crisis in the early 1990s: as early as 1977 Swedish relative income fell below the average for the 23 rich OECD countries. The interested reader is also referred to Persson (1998), who conducts a detailed comparison of Sweden's growth path with the growth paths of all other OECD countries individually.

Figure 1 Purchasing Power Parity Adjusted GDP per Capita in Sweden as a Percentage of the OECD Average, 1970–98 (current PPPs).

enclosed

Note: OECD is defined as OECD excluding Mexico, Turkey, Poland, South Korea, Hungary and the Czech Republic.
Source: OECD, *National Accounts Main Aggregates 1960–1997 Volume 1,* 1999 and OECD, *Main Economic Indicators,* January 1999.

In summary, the data presented here distinctly show that Swedish economic growth has been below the OECD average since 1970. The accumulated effect of the slower growth rate is

---

[2] These new member countries were never part of the discussion.
[3] The OECD is currently revising the National Accounts switching from SNA 68 to SNA 93. This conversion has not yet been completed for all countries and backward comparisons of PPP per capita are not available as far back as 1970. According to the revised comparisons Sweden had the 15th highest GDP per capita in 1999. Swedish relative income was up one percentage point from 1998 (OECD, *Main Economic Indicators*, March 2000).
[4] Table 1 also shows that Sweden had the highest GDP per capita of all current European Union members in 1970. When Sweden joined the EU in 1995 average EU per capita income *decreased*, since Swedish GDP per

large. From 1970 to 1998 15 countries ("natural experiments" using Korpi's terminology) surpassed or caught up with Sweden in terms of GDP per capita, while Sweden did not overtake a single one.[5] Given these indisputable facts, how has it been possible for Walter Korpi in this journal and in a large number of other publications to take the opposite position? In the next section I will explain how Korpi has proceeded, and how he thereby has been able to create the platform from which he draws his conclusions about the functioning of the welfare state and the lack of scholarly objectivity among Swedish academic economists.

2. How can Korpi maintain that Sweden is a "non-laggard"?

In Henrekson (1996) I try to document as thoroughly as possible that Korpi has used a large number of strategies to be able to convey the impression that Sweden has not been lagging behind comparable countries. In what follows I will briefly outline these strategies. The reader interested in details is referred to my article in the *Economic Journal.*

1. Korpi often chooses to start the comparison when Sweden is in a recession relative to other countries (1973) and to stop when Sweden is in the middle of an unsustainable boom (1989 or 1990). For instance, it is not obvious that the period 1992–98 is less typical for Sweden than the years 1989–90. In fact, a close inspection of Figure 1 shows that the years 1970 and 1998 are "normal" years in the sense that they are on the trend line, while the years that Korpi often chooses as his end points – 1973 and 1989 or 1990 – are located far below and above the trend line, respectively.

2. By referring to the catching-up effect Korpi either claims that Sweden should not be compared to countries like Japan, which started out as a poorer country than Sweden, or that it is natural to expect that Swedish growth rates are comparatively low since Sweden is/was among the richest countries. But as already pointed out, Swedish GDP per capita fell below the average of the 23 OECD countries already in 1977. Hence, the catching-up effect, if it is valid, should have had the opposite effect during the 1980s and 90s, i.e., Sweden should, *ceteris paribus,* have grown faster than the OECD average.

3. At odds with established methodology and the existing debate within the economics profession, Korpi has in some cases compared absolute instead of relative growth rates.

---

capita at the time was only 97.5 percent of the EU average (Eurostat, *Basic Statistics of the EU,* 33rd ed., 1996, p. 42).

[5] This is true using OECD data from 1999. According to the most recent, but preliminary, figures, eleven countries have caught up with or surpassed Sweden, while Sweden still has not surpassed a single one. See the note to Table 1 for details.

4. In several cases GDP levels (not PPP adjusted) per capita are compared using current exchange rates for years when the Swedish krona was exceptionally highly valued (1985 and 1990), while a comparison using, say, 1994 exchange rates would have reversed the result. This sharply illustrates the point that PPP-adjusted figures are the only reasonable ones when comparing income levels across countries.

5. Sometimes Korpi displays time series that are not inflation adjusted. But a constant nominal difference means a diminishing real difference during periods of inflation, which Korpi does not point out. This fact is easily overlooked by the untrained observer.

6. An implicit point of departure for those who have shown concern for Sweden's weak economic performance is that it may be a symptom of underlying structural weaknesses in the Swedish economic system (e.g., Lindbeck *et al.,* 1994). Korpi (1996), on the other hand, claims that the lag in Sweden's GDP should largely be ascribed to specific macro policy mistakes, for example, too much fiscal restraint in 1970–71 and too much monetary restraint (disinflation) in 1990–91. Had these policy mistakes been avoided, the average long-run growth rate would have been much higher, and, consequently, the argument goes, it is quite legitimate to exclude the time periods when these policy mistakes led to slow or negative growth! This position is untenable. First, other countries have of course also made policy mistakes, and in order to be consistent these mistakes should also be excluded. Second, it is perfectly possible that, due to the stabilization policy pursued, the underlying weaknesses manifest themselves in recurrent crises rather than in a stable negative growth differential relative to other countries (see also Lindbeck, 1997, pp. 1284–5). In particular, if there is some leeway in the stabilization policy to postpone necessary structural changes, recurrent crises appear to be the more likely manifestation of underlying structural weaknesses. The macroeconomic crisis in the early 1990s as well as the cost crises in 1976–77 and 1981–82 may be interpreted in this fashion.

7. Korpi tries to downgrade the value of cross-country growth comparisons by emphasizing that the originally published figures for a specific country are often subject to revisions. Rather than being an argument against cross-country comparisons, this is an argument that underlines the importance of using long time series which show how differences in average growth rates accumulate over time in the form of large differences in income levels.[6] Moreover, Korpi in fact bases his own discussion on such comparisons.

[6] This critique is hardly applicable to a comparison ending in the early 1990s, since data that old are unlikely to be subject to significant further revisions.

8. Korpi has often made inferences about the whole economy from the performance of small parts of the economy, notably the (secularly shrinking) manufacturing sector.

In the special *Controversy Forum* on Sweden published in the *Economic Journal* in November 1996 Walter Korpi obtains some apparent support from the Australian economist Steve Dowrick (1996, p. 1777) who argues that: ”On balance, it seems reasonable to conclude that at least up until 1990 there is nothing in the Swedish growth performance which suggests substantial underperformance … It suggests that there is a stiff challenge for the proponents of the ‘lagging-behind’ thesis. It is incumbent on them to explain why Swedish GDP performance was consistently reasonable over forty years and only shows a marked decline after 1990.” Dowrick mostly bases this conclusion on a chart showing the evolution of relative GDP per capita in 24 OECD countries during the period 1950–92. The data source is *Penn World Tables* (*PWT*) version 5.6 and all figures are in 1985 PPP-adjusted dollars. All 24 countries are included in the chart, which makes it extremely difficult to interpret correctly. And since the scale on the vertical axis is not logarithmic, a parallel development for the initially (1950) very rich Sweden and poorer countries in fact implies that the latter grow more rapidly.

The main deficiency in Dowrick’s exposition is that he abstains from constructing a time series for an OECD average, which can be compared to Sweden. This is of course a pity, since the discussion in Sweden has been dealing precisely with the question whether Sweden has been lagging behind a broad average of other rich countries. Fortunately, it is feasible to use *PWT* to construct an OECD average and compare the evolution of Swedish GDP per capita relative to that measure. This is exactly what we did in Figure 1 above on the basis of OECD statistics. *PWT* version 5.6 covers the period 1950–92. *Figure 2* displays PPP-adjusted GDP per capita in Sweden relative to the average of the 23 rich OECD countries for the period 1950–98. The period 1950–92 is covered by data *PWT* and 1970–98 by data from the OECD. Thus the two series overlap in 1970–92 and they have been calibrated to achieve concurrence in 1970. The two series follow a virtually identical time path between 1970 and 1992. When the data are presented in this fashion, Sweden’s weak growth performance relative to the OECD average is evident also from the data used by Dowrick. In other words, not even Dowrick’s own data support his conclusion.

Figure 2 Purchasing Power Parity Adjusted GDP per Capita in Sweden as a Percentage of the OECD Average according to *Penn World Tables* (1950–92) and the OECD Statistics, (1970–98).

enclosed

Note: OECD is defined as OECD excluding Mexico, Turkey, Poland, South Korea, Hungary and the Czech Republic. The OECD-statistics concern current PPPs while *Penn World Tables* (*PWT*) concerns fixed PPPs in 1985 dollars (variable: *RGDPCH*). The *PWT* comparison has been achieved by a population-weighting of the income levels in the respective countries, and then the resulting series has been scaled so that the 1970 level is identical to the level of the OECD series in 1970. In *PWT* there are missing data for *RGDPCH* in 1992 for Greece and 1991 and 1992 for Portugal. These observations have been estimated on the basis of the growth rates according to the OECD statistics.
Source: OECD, *National Accounts Main Aggregates 1960–1997 Volume 1,* 1999, OECD, *Main Economic Indicators*, January 1999 and *Penn World Tables* version 5.6.

The *PWT-series* in Figure 2 shows that Swedish PPP-adjusted GDP per capita evolved on par with the OECD average until 1965. The relative decline does not start until the latter half of the 1960s. This is consistent with Henrekson (1996, Table 3) where it is shown that the choice of 1970 as the initial year makes no difference for the conclusion that Sweden has been lagging behind.

3. The current upturn and the Swedish economic system

Today (June 2000) there is a visible upturn in economic activity in Sweden also relative to other rich countries. The GDP growth rate was 3.0 and 3.8 percent p.a. in 1998 and 1999, respectively. The growth rate is expected to reach 4.4 percent in 2000 and to remain well in excess of 3 percent in 2001. According to current projections the GDP growth rate in Sweden is expected to be higher than for the OECD average for four consecutive years, 1998–2001. Aggregate employment grew at an average annual rate of 1.8 percent during 1998–99, and employment growth is expected to continue at comparable rates in 2000–2001. Open unemployment is also expected to fall rapidly and reach a level of 4.0 percent by the end of 2001. [7] New entrepreneurial firms, in particular in the IT sector, form at a rapid rate, and Sweden is widely publicized as being on the forefront in Europe regarding the transition to “the new economy”.

Should this favorable development be seen as the revenge (and return) of the old Swedish Model? I do not think so. First, the development is still of recent vintage, and hence it is too

[7] All data in this paragraph were taken from National Institute of Economic Research, *Konjunkturläget*, June 2000.

early to tell to what extent we are dealing with a cyclical effect and catching up of lost ground following the deep crisis in 1991–93. Second, and much more importantly, a number of policy measures were taken during the late 1980s and in the 1990s, which taken together have replaced the traditional Swedish model by something very different:

- In the second half of the 1980s a gradual deregulation of the capital and foreign exchange markets took place. In combination with a new stringent central government budget process and an independent central bank there has been a dramatic increase in financial stability and a precipitous drop in inflation and interest rates.[8]
- The corporate tax rate was cut in half in 1991 and is now 28 percent, which strongly favors equity relative to debt financing. The introduction of a uniform 30 percent flat capital income tax rate and the abolition of wealth taxation on unlisted stock have greatly favored *individual* equity investments relative to the 1980s.
- The highest marginal tax rate has been lowered from close to 90 percent around 1980 to roughly 55 percent, which has increased the after-tax rate of return on human capital investment and increased the scope for commercial development in the household-related service sector.
- The wage bargaining system is now less centralized than before, and in particular wages in the upper decile have increased rapidly in the latter half of the 1990s (Davis and Henrekson, 2000).
- Certain deregulatory measures on the labor market have already been taken,[9] which in practice gives more room for flexibility than before, and more measures can be expected in the near future. A law passed in 1993 paved the way for an expansion of temporary work businesses and staffing services. These firms expand at a rapid rate and already employ close to one percent of the workforce in the private sector.
- The deregulation of several previously regulated markets, – e.g., telecommunications (1993), electricity (1996), domestic airlines (1992), the financial sector (1993), postal services (1993) – has opened new arenas for entrepreneurial expansion.
- Since 1991 a number of measures have been taken that facilitate the transfer of publicly financed services to private production. There has been a marked increase in the share of public consumption that is privately produced (Ministry of Finance, 1999). Likewise a large number of previously state-owned firms – including Telia, the former telecommunications monopoly – have been or are in the process of being privatized.
- The replacement rates have been lowered and the eligibility rules have been tightened in several key transfer systems such as the sickness, parental leave, preretirement and unemployment insurance systems.
- Since their return to power in 1994 the Social Democrats have pursued an economic policy aimed at lowering public expenditure as a share of GDP; the expenditure share is expected to be 54 percent in 2001, down from 67.3 percent in 1994. Public consumption

[8] In May 2000 Swedish long-term interest rates fell below the German rates for the first time since the collapse of the Bretton Woods system.

[9] In 1997 a new type of employment contract was allowed, so-called prearranged temporary employment (*överenskommen visstidsanställning*), which gives every firm an *unconditional* right to employ up to five persons for a maximum of one year. Another 1997 change made it possible to sign *local* collective agreements that replace the regulations in the law. This makes it possible, through local agreements, to annul tenure-based orders of priority in case of dismissal and to annul the right to reemployment for dismissed workers, and to extend the duration of temporary employment beyond 12 months.

has been reduced from approximately 30 to 27 percent of GDP and the public sector employment share is down by several percentage points.[10]

The above list, although not exhaustive, clearly shows that the Swedish model as it was known has been thoroughly reformed. It is hardly surprising that Sweden went through a rough period of transition when agents adjusted to the new rules of the game.

When Korpi discusses what Swedish economists have concluded regarding the structural reasons for Sweden's slow growth, he conveys the impression that their overarching recipe has been a reduction of the public sector *per se* – see, e.g., Korpi (2000, pp. 62–63 and footnote 31). But this is not the case. Overall, economists have emphasized the accumulated disincentive effects of regulations in the capital, product and labor markets and how these have interacted with the disincentive effects emanating from high marginal effects caused by the tax and transfer systems. Lindbeck (1997) is very clear on this point. Another example is Agell (1996) who stresses a number of microeconomic factors that over time worked to the detriment of a well-functioning economic system: "[T]he kind of evidence that belongs to the bread and butter of a public finance economist seems to suggest that some parts of the welfare state had expanded to the point where they risked to impose significant deadweight losses" (p. 1761).[11]

Other important features of the Swedish model claimed by economists to have been growth-impeding relate to the treatment of the corporate sector. This aspect is unrelated to the welfare state as interpreted by Korpi. As shown by Davis and Henrekson (1997) the policy environment of the corporate sector systematically disfavored small, young, labor and human-capital intensive and family-owned firms. In fact, the main architects behind the Swedish model in the 1950s deemed that small firms would be of negligible importance in the long run (Henrekson and Jakobsson, 2000). The implementation of the so-called Rehn-Meidner model led to a squeeze of profit levels in the corporate sector when a policy of fixed exchange rates interacted with centralized bargaining involving strong unions. This policy of low profits was advocated for distributional reasons. But with low profits the reallocation of resources was largely to be achieved by a combination of active labor market policy and localization

[10] National Institute of Economic Research, *Konjunkturläget,* March 2000.

[11] Agell's stance may seem surprising given that Korpi (2000, footnote 7) writes that Agell, Lindh and Ohlsson (1997) has contested the view that Sweden has been lagging behind. This is not at all the case. In the Swedish precursor to their 1997 article (published in *Ekonomisk Debatt* in 1994), they explicitly state (p. 382, my translation): "It is an undeniable fact that Swedish economic growth has been slow by international comparison." Their message is instead that Sweden's or any other country's slow relative growth cannot be explained by a large government expenditure share *per se*.

subsidies to firms. This corporate policy slowed down the renewal of the Swedish industrial sector (Lindbeck, 1997). Its effect was gradually exacerbated when technological change once again paved the way for individual entrepreneurs and increased the role of new firms in capitalist economies, often referred to as the decline of Fordism (e.g., Loveman and Sengenberger, 1991).[12]

4. Who suffers from an objectivity problem?

In his article in *Challenge* and in numerous other publications Walter Korpi also argues that Swedish economists suffer from a lack of scholarly objectivity. Unfortunately, Korpi never defines this concept. As far as I can judge, he implicitly ascribes at least three different meanings to the term: (i) adherence to Gunnar Myrdal's (1970) urge that social scientists should be obligated to disclose their own values before they present their analyses; (ii) unbiasedness, in the sense that the scholar should make a balanced presentation of the evidence; and (iii) adherence to proper scientific methodology. No doubt, clarifying all the subtleties involved in a thorough definition of scholarly objectivity would be far beyond the scope of this paper. Suffice it here to say that as used by Korpi the term very much boils down to a discussion of *intellectual honesty* in a broad sense, encompassing various aspects, among them the three spelled out in this paragraph.

Korpi's intellectual platform for his charge against Swedish economists is entirely built on his interpretation of the Swedish growth record. But in sections 1 and 2 I have tried to document that Sweden has in fact grown slowly relative to a broad aggregate of rich countries since 1970 (a year located on the trend line). This holds even if the analysis is not extended to the period after 1990. (There is, however, no good reason to stop in 1990.) I have also shown that Korpi has used at least eight different strategies in order to try to convey a different impression, and that all of these are highly problematic. Likewise I argued that the data previously used by Dowrick (1996), when properly presented, also indicate that Sweden has been a laggard (from the mid 1960s), despite the fact that Dowrick used these data to draw the opposite conclusion. All in all, this should be sufficient to rebut Korpi's assertion regarding the growth record.

Lars Bergström, professor of philosophy at the University of Stockholm, has made a formal analysis of Korpi's argumentation on this issue (Bergström, 1998). Without having the competence to determine which side is right in the growth debate, Bergström concludes that a strict analysis of the argumentation gives no credence to the view that the economists

[12] The interested reader is also referred to the many articles in Freeman, Topel and Swedenborg (1997). A reading of this volume clearly shows that economists' concern regarding the performance of the Swedish economic system goes far beyond the narrow conception of the welfare state emphasized by Korpi.

participating in the growth debate have been less objective than Korpi. Neither does Bergström find any reason to believe that the economists are not convinced of the truth of their assertions. This removes the basis for the accusation that economists deliberately misrepresent the facts in order to personally benefit from claiming the laggard hypothesis and that this could potentially be explained by the malfunctioning of the Swedish Model. Bergström is an outsider with no personal stake in the issue of contention and with advanced training in analyzing questions of this kind on formal grounds.

Thus, based on Korpi's own analyses it is very difficult to find any evidence that Swedish economists have lacked in scholarly objectivity on this issue. On the other hand, based on the unusually unequivocal empirical evidence there is some ground for maintaining that Korpi has lacked in scholarly objectivity. This impression is reinforced by the critical examination by Fölster (1998) of Korpi's own research in an adjacent field, namely the effect of the welfare state on the distribution of income. After his critical review of this research Fölster draws the following conclusion (p. 289): "the presentation is lacking in scientific objectivity, not only as regards the interpretation of the results but also in the handling of the empirical material." Despite that two and a half years have elapsed since Korpi was confronted with Fölster's analyses he has failed to reply to the critique.

Forsell, Medelberg and Ståhlberg (2000) provide another recent example of a critical evaluation of a central theme in Korpi's own research. Specifically, they question Korpi and Palme's (1998) proposition – inferred from empirical comparisons of 18 OECD countries – that the distribution of disposable incomes among the elderly is likely to be more equalized in countries where the public pension system has a high replacement rate also for people with high incomes. This result hinges on the fact that the distributional effect of the payments to the pension system are overlooked.

Furthermore, Korpi, against scientific practice, refuses to make his data available for other researchers so that they can verify the robustness and the reproducibility of his results. This is true even for data used in articles published in high-ranking refereed journals a very long time ago (e.g., Korpi, 1985), and when the costs for collecting the data have largely been covered by government-funded research foundations such as the Bank of Sweden Tercentenary Foundation. If Korpi is concerned that his own scholarly objectivity is not called into question, this state of affairs is hardly acceptable.[13]

[13] During a telephone conversation with Walter Korpi on 24 March 1999 he informed me that the data base for 18 OECD countries on which he has based much of his research in the area discussed here will be made available to the scientific community in a few years when his own research group has completed all their studies planned. But since 15 years have elapsed since Korpi (1985) was published, the argument that his research group needs to protect themselves against free-riders appears tenuous.

5. Concluding discussion

I have shown in this article that compared to a broad average of the 23 rich OECD countries, the rate of economic growth in Sweden has been slow since the mid to late 1960s. Swedish GDP per capita fell below the average of the 23 countries as early as in 1977 and in 1998 it was 15 percent below this average. Despite this forceful evidence Walter Korpi has maintained in numerous articles that those who claim that Sweden has been lagging behind has based their conclusion on ”what with an understatement can be called careless analyses”.

In this article I have explained how, against all odds, he reaches his conclusion. 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 rather than 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 subsectors of the economy. Moreover, it turned out that the evidence presented by Dowrick (1996) claimed to support Korpi’s thesis did not survive a close scrutiny. In fact, Dowrick’s data shows that Sweden started to lag behind other rich countries somewhat earlier than previously thought (in 1965 rather than 1970). And since Dowrick’s analysis constituted an important basis for Korpi’s accusations leveled against Swedish economists, this fact calls Korpi’s credibility into question even further.

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 suggested that the slow economic growth may at least partly be explained by this deviation. Korpi dismisses the relevance of their arguments based on his assertion that Sweden has not, in fact, lagged behind. But since there is no convincing basis for Korpi’s assertion, the reasons for Sweden’s poor growth performance certainly merit close attention.

The recent upturn in the Swedish economy both in absolute terms and relative to the OECD average provides no support for Korpi’s thesis either. As shown in section 3 the highly centralized and tightly regulated system in the 1970s and early 1980s has been thoroughly reformed and many of the previous structural problems have been remedied or mitigated. Thus, if it turns out in hindsight that Sweden has lately embarked on a steeper growth path from the late 1990s this suggests that there may have been some substance in the economists’ proposals.

Walter Korpi does not content himself with discussing relative growth rates and the potential explanations for any growth disparity that may be uncovered. Instead he proceeds further by using his own erroneous factual assertions as a basis for accusing Swedish academic economists of deficient scholarly objectivity and deliberate opportunism. Regarding the latter he claims that for a young Swedish economist aspiring on an academic career in Sweden she or he had better not dig too deep into the data, lest he or she may find facts that contradict the view of leading economists.

During my career at the University of Gothenburg, the Trade Union Institute of Economic Research (FIEF), the Research Institute of Industrial Economics (IUI) and the Stockholm School of Economics I have never felt any pressure of this kind. Korpi conjures up an image of an academic world I do not recognize and that does not exist. His claim that there is a misguided view of the welfare state that has “become hallmarked by the professional community and receive unquestioned currency among policymakers and in the media” is downright ludicrous. Anyone who cares to study the debate among Swedish economists on key issues such as remedies to the unemployment problem of the 1990s, the proper size of the public sector, and the reasons for Sweden’s slow growth will find that there are wide variations in the advocated opinions and suggested prescriptions. And more generally, anyone familiar with the history of economics in Sweden finds Korpi’s arguments dubious. The Swedish economics profession has had a strong and independent position, not being subject to political pressure – a tradition going back to Wicksell, Cassel and Heckscher (Jonung, 1992).

Korpi’s critique has two parts. The first is an argument about the method of economic research and the second is an argument about the sociology of academic economists. Korpi’s factual critique of studies that could undermine his bias in favor of the Swedish welfare state is clearly disingenuous. But he does at least present data that he bends in a manner that at first sight appear to support his case. The first argument is thus spelled out in sufficient detail to make possible a refutation.

The second part of his argument raises even more problems, as it boils down to an unsupported claim and thus becomes difficult to discuss in a meaningful fashion. Korpi outlines a kind of sociology of Swedish academia, in which a “problematic intellectual climate” has been generated where the individual scholar “may easily tend to relax normal professional standards concerning scientific evidence”. It is quite astounding that such a proposition is made entirely without corroborating evidence in a paper, which purportedly deals with issues of the scholar’s use of proper scientific method. Given that Korpi is a professor of sociology, it could be expected that he would be both willing and able to carry out rigorous hypothesis testing when making such a bold claim about the opportunism of the academic community (of economists). His case would be supported if he could show that research agendas, financing and tenure decisions appeared to favor the "problematic intellectual climate" he refers to, while giving short shift to more objective scholarly criteria (notably, peer reviewed publications in international journals and successful teaching records). Approached this way, his proposition could be testable. My own guess (of course – like Korpi – without having carried out systematic research on the issue) is that one would find no bias in favor of low-quality work that could be characterized as welfare-state critical. The most charitable thing that can be said about Korpi's contribution to the issue is that his claim about academic opportunism could inspire a fruitful future research agenda.

The problem of scholarly objectivity discussed by Myrdal (1970) is of course equally important to keep in mind in all disciplines of the social sciences today as it was when his book was published. Walter Korpi's own analysis of Sweden's growth performance is an unusually clear-cut example showing that Gunnar Myrdal's concern is still highly relevant.

References

Agell, Jonas (1996), "Why Sweden's Welfare State Needed Reform." *Economic Journal*, Vol. 106, No. 459, 1760–1771.

Agell, Jonas, Lindh, Thomas and Ohlsson, Henry (1997), "Growth and the Public Sector: A Critical Review Essay." *European Journal of Political Economy*, Vol. 13, No. 1, 33–52.

Bergström, Lars (1998), "Walter Korpi om objektivitet". In Grenholm, Carl-Henric and Helgesson, Gert, eds., *Objektivitetsproblemet i ekonomisk vetenskap*. Department of Theology, Uppsala University.

Davis, Steven J. and Henrekson, Magnus (1997), "Industrial Policy, Employer Size and Economic Performance in Sweden". In Freeman, R.B., Topel, R. and B. Swedenborg, eds., *The Welfare State in Transition*. Chicago: University of Chicago Press.

Davis, Steven J. and Henrekson, Magnus (2000), "Wage-Setting Institutions as Industrial Policy." NBER Working Paper No. 7502.

Dowrick, Steve (1996), "Swedish Economic Performance and Swedish Economic Debate: A View from Outside." *Economic Journal*, Vol. 106, No. 459, 1772–1779.

Freeman, Richard B., Topel, Robert and Swedenborg, Birgitta, eds. (1997), *The Welfare State in Transition*. Chicago: University of Chicago Press.

Fölster, Stefan (1998), "Inkomstfördelning i välfärdsstaten." *Ekonomisk Debatt*, Vol. 26, No. 4, 283–294.

Forsell, Åsa, Medelberg, Magnus and Ståhlberg, Ann-Charlotte (2000), "Olika transfereringssystem men lika inkomster." *Ekonomisk Debatt*, Vol. 28, No. 2, 143–158.

Henrekson, Magnus (1996), "Sweden's Relative Economic Performance: Lagging Behind or Staying on Top?" *Economic Journal*, Vol. 106, No. 459, 1747–1759.

Henrekson, Magnus and Jakobsson, Ulf (2000), "Where Schumpeter was nearly Right – the Swedish Model and *Capitalism, Socialism and Democracy*." SSE/EFI Working Paper No. 370.

Hirschmann, Albert O. (1991), *The Rhetoric of Reaction: Perversity, Futility, Jeopardy*. Cambridge, MA: Belknap Press.

Jonung, Lars (1992), "Economics the Swedish Way 1889–1989." In Engwall, Lars, ed., *Economics in Sweden. An Evaluation of Swedish Research in Economics*. London: Routledge.

Korpi, Walter (1985), “Economic Growth and the Welfare System: Leaky Bucket or Irrigation System?” *European Sociological Review*, Vol. 1, No. 2, 97–118.

Korpi, Walter (1990), ”Halkar Sverige efter? Vår ekonomiska tillväxt och produktivitet i jämförande belysning.” *Ekonomisk Debatt*, Vol. 18, No. 5, 455–470.

Korpi, Walter (1996), ”Eurosclerosis and the Sclerosis of Objectivity: On the Role of Values Among Policy Experts.” *Economic Journal*, Vol. 106, No. 459, 1727–1746.

Korpi, Walter (2000), ”Welfare States, Economic Growth, and Scholarly Objectivity.” *Challenge*, Vol. 43, No. 2, 49–66.

Korpi, Walter and Palme, Joakim (1998), “The Paradox of Redistribution and Strategies of Equality: Welfare State Institutions, Inequality and Poverty in the Western Countries.” *American Sociological Review*, Vol. 63, No. 3, 661–687.

Lindbeck, Assar (1997), ”The Swedish Experiment.” *Journal of Economic Literature*, Vol. 35, No. 3, 1273–1319.

Lindbeck, Assar *et al*. (1994). *Turning Sweden Around*. Cambridge MA: MIT Press.

Loveman, Gary and Sengenberger, Werner (1991), ”The Reemergence of Small-Scale Production: An International Comparison.” *Small Business Economics* **31**(1), 1–37.

Ministry of Finance (1999), *National Report on Economic Reform: Product and Capital Market – Sweden*. Stockholm.

Myrdal, Gunnar (1970), *Objectivity in Social Research*. London: Duckworth.

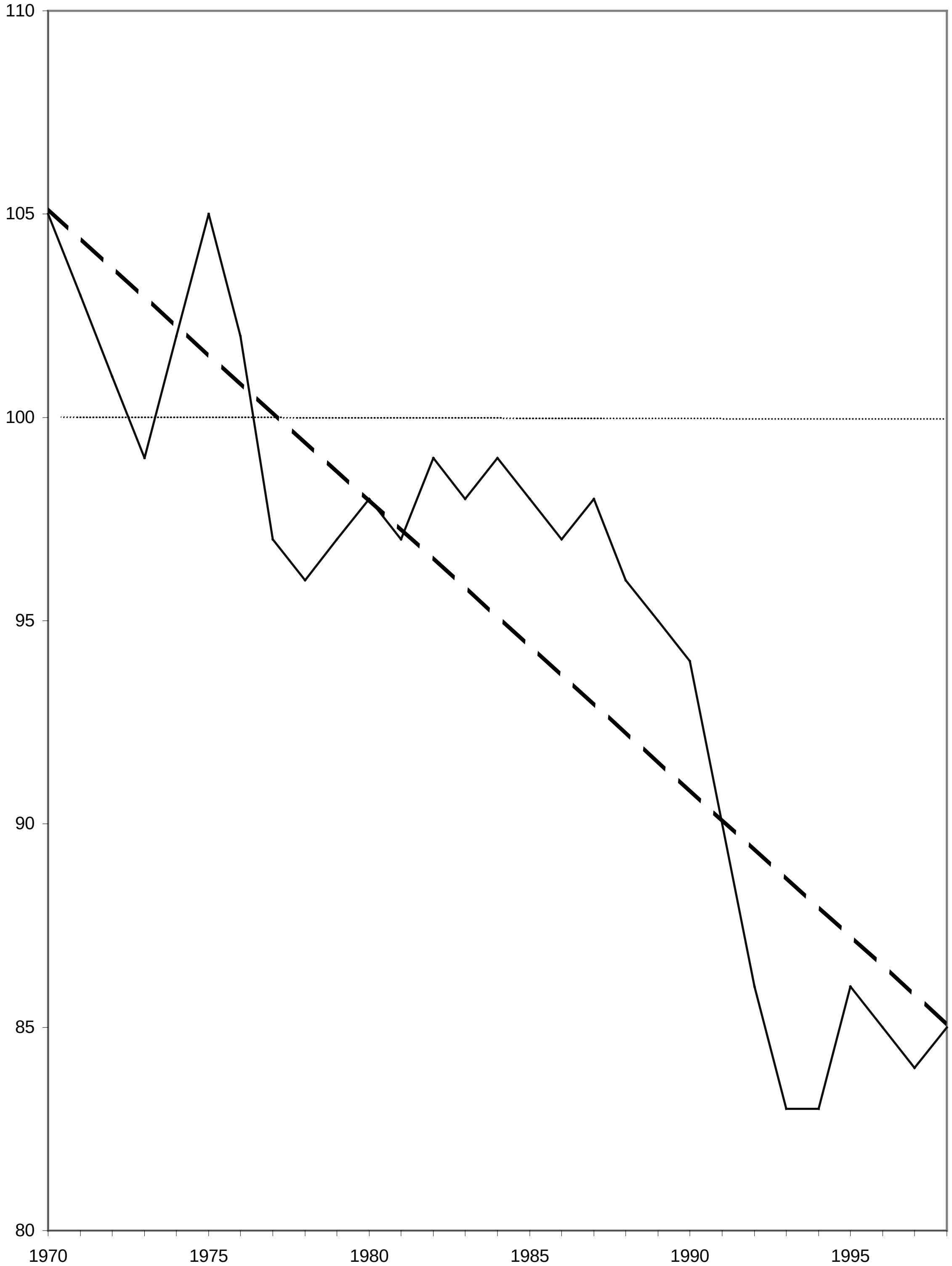
Persson, Mats (1998), ”Debatt, vetenskap och ekonomisk tillväxt”. In Grenholm, Carl-Henric and Helgesson, Gert, eds., *Objektivitetsproblemet i ekonomisk vetenskap*. Department of Theology, Uppsala University.

Table 1 Purchasing Power Parity Adjusted GDP per Capita in the 23 Richest OECD Countries, 1970, 1990 and 1998 (OECD average = 100).

1970			1990			1998		
Rank		**Index**	**Rank**		**Index**	**Rank**		**Index**
1	Switzerland	154	1	Luxembourg	141	1	Luxembourg	156
2	US	147	2	US	137	2	US	138
3	Luxembourg	119	3	Switzerland	131	3	Norway	124
4	***Sweden***	***113 (105*)***	4	Canada	114	4	Switzerland	120
5	Canada	111	5	Japan	110	5	Denmark	119
6	Denmark	109	6	Norway	108	5	Iceland	119
7	France	105	7	France	107	7	Canada	111
8	Australia	103	7	Iceland	107	8	Belgium	109
9	Netherlands	102	9	Denmark	105	8	Japan	109
10	New Zealand	100	***9***	***Sweden***	***105 (94*)***	10	Austria	108
11	UK	96	11	Belgium	103	11	Netherlands	104
12	Belgium	95	11	Austria	103	12	Australia	103
13	Germany	93	13	Finland	100	12	Germany	103
14	Italiy	89	13	Italy	100	14	Ireland	102
14	Austria	89	15	Australia	99	15	France	100
16	Norway	88	15	Germany	99	16	Finland	98
17	Japan	86	17	Netherlands	98	16	Italy	98
18	Finland	85	17	UK.	98	***18***	***Sweden***	***96 (85*)***
19	Iceland	83	19	New Zealand	82	18	UK	96
20	Spain	66	20	Spain	73	20	New Zealand	80
21	Ireland	55	21	Ireland	70	21	Spain	76
22	Greece	53	22	Portugal	59	22	Portugal	69
23	Portugal	46	23	Greece	57	23	Greece	65
24	Mexico	40	24	Mexico	36	24	Mexico	36
25	Turkey	28	25	Turkey	29	25	Turkey	30

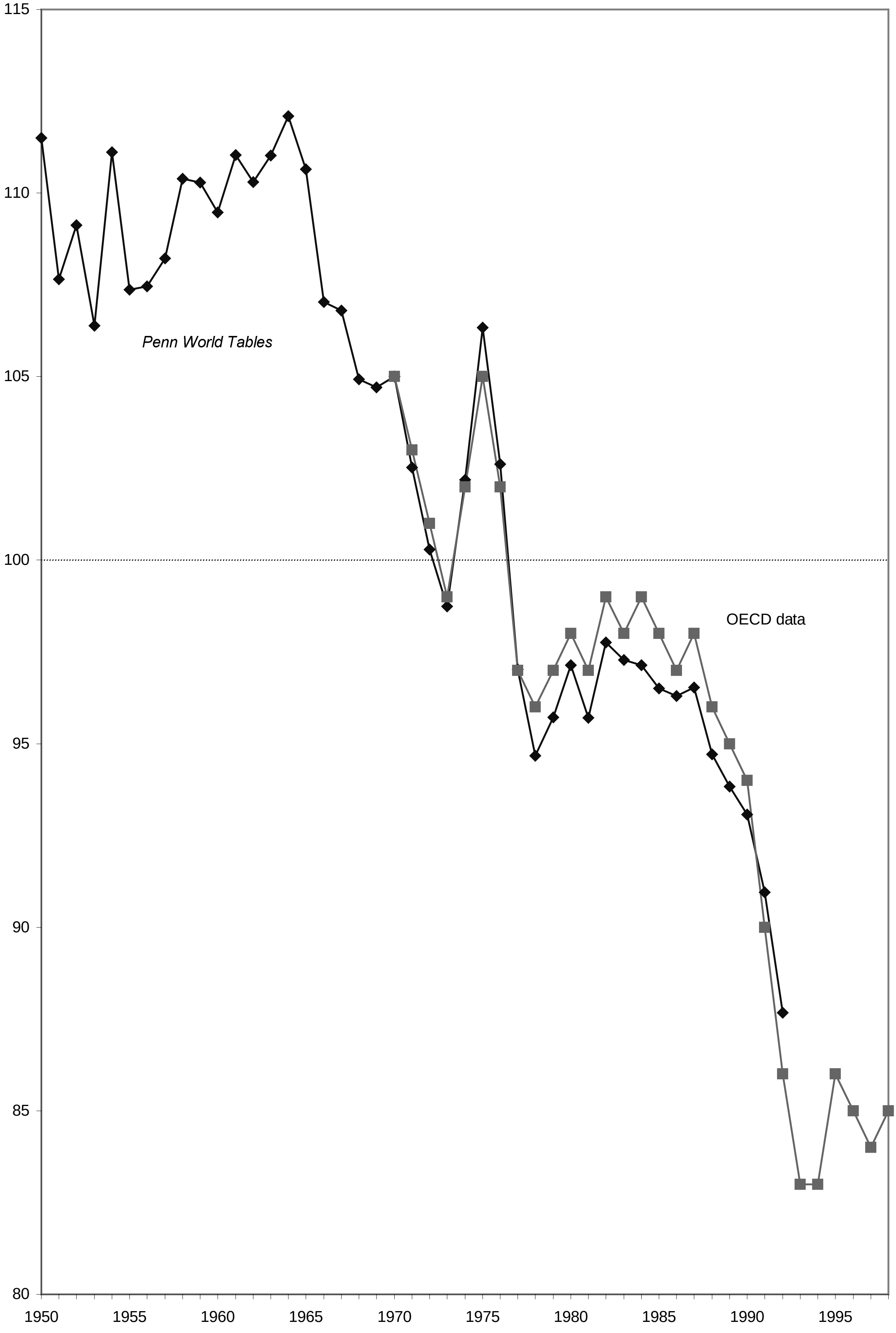
* excluding Mexico and Turkey.
Note: When calculating GDP per capita for 1998 a projection of the population in the respective countries was used. The projection is the result of a linear trend of population growth based on the previous ten years.
Source: OECD, *National Accounts Main Aggregates 1960–1997 Volume 1,* 1999 and OECD, *Main Economic Indicators*, January 1999.

Figure 1



.

Figure 2


115
110
105
100
95
90
85
80
1950
1955
1960
1965
1970
1975
1980
1985
1990
1995
Penn World Tables
OECD data