

Submitted to the *Economic Journal* in May 2000. Paper was rejected on the grounds that it was against the editorial policy to accept comments on papers previously published in the *Controversies* section.

The Swedish Growth Controversy: Comment on Dowrick

by

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May 31, 2000

JEL Classification: O1, O47 and O50.

Keywords: Catching up, Economic growth, Swedish Economic Performance, Swedish Model.

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In the November 1996 issue of the *Economic Journal* the Controversy section is devoted to a discussion of Swedish relative economic growth and whether the (possibly) weak performance can be attributed to structural problems caused by an overburdened welfare state. Walter Korpi (1996) purports to show that Swedish economic growth was comparable to that of other rich countries until 1990, while I (Henrekson, 1996) claim that the Swedish economy markedly underperformed when looking at a period from around 1970 until the mid 1990s.

Steve Dowrick (1996) was invited as a highly qualified scholar to give an outside assessment of the Swedish growth debate. He concluded (p. 1777): “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.” The purpose of this brief note is to directly confront this “stiff challenge” by examining whether Dowrick’s conclusion follows from his own data.

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* 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.

Dowrick also abstains from constructing a time series for an OECD average, which can be compared to Sweden. This is of course highly questionable, since the discussion has been dealing with the question whether Sweden has been lagging behind a broad average of other 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. *PWT* version 5.6 covers the period 1950–92. In *Figure 1* I present PPP-adjusted GDP per capita for Sweden relative to the average of the 23 rich OECD countries for the period 1970–98 according to the OECD and for the period 1950–92 as calculated from *PWT*.² The two series have been calibrated so that they concur in 1970. The series follow a virtually identical time path between 1970 and 1992. When the data are presented in this fashion Sweden’s weak growth performance even before 1991 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.

² The comparability with other rich 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).

Figure 1 Purchasing Power Parity Adjusted GDP per Capita in Sweden as a Percentage of the OECD Average according to *Penn World Tables* 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 1 shows that Swedish PPP-adjusted GDP per capita evolved on par with the OECD average until 1965, while the relative decline does not set in until the latter half of the 1960s.

In conclusion, Dowrick (1996) asserts that Sweden has not been lagging behind up until 1990, but a closer look at his own data suggests that the opposite conclusion may be more warranted.

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Figure 1

