



Olof Palme - shot dead by an unknown assassin

On February 28 1986 Prime Minister Olof Palme is shot dead by an unknown gunman as he walks unguarded in a Stockholm street with his wife Lisbet.

Two weeks later 15 heads of state, 17 prime ministers, 19 foreign secretaries, representatives of various liberation movements and celebrities from the world of arts and literature gather in Stockholm for an intensely moving, essentially secular, funeral service, their presence testimony to Palme's international stature.

His successor, Ingvar Carlsson, the deputy premier, has little hope of matching Palme in terms of charisma but says he will stay true to his policies.

In April 1986 the nuclear disaster at Chernobyl in the Soviet Ukraine deposits heavy fallout along Sweden's east coast.

The Stockholm Peace Conference concludes in September 1986 with the first East-West arms agreement since 1979. The main provisions of the agreement are limitations on the size of military manoeuvres and the notification and inspection of military activity.

In September 1987 Prime Minister Carlsson pays an official visit to the United States, the first since 1961. The visit marks the start of an era of better understanding between the two countries. The bitter differences that existed 20 years ago are now history. The world moves on. **NOW**

# 20 years of business

The ups and downs of the Swedish economy over the past 20 years. By Gunnar Eliasson head of the Industrial Institute for Economic and Social Research (IUI).

DURING THE PAST 20 YEARS, Swedish manufacturing has been like Swedish weather: sunny, cloudy, warm, cold, bright, stormy, changing and unpredictable. Some companies and industries fared well, others not. And like Sweden's weather, all were affected by international developments.

The mid-1960s marked a subtle change in the world competitive situation for Swedish manufacturing firms. Until that time, Sweden was enjoying the generous seller markets of post-war Europe. But now, basic industries were facing competitive pressure from the rapidly expanding European industry. The Common Market had recently been formed. Swedish engineering industry was growing, but it could not fill the lag by basic industries. Growth in manufacturing production slowed down compared with that of other industrial nations. A new, more demanding era was emerging.

In the latter part of the 1960s, manufacturing didn't decline to any great extent. But stock market valuation of companies took a heavy beating. This was believed due to pessimism about the future, and a new tax on capital gains.

But as economic growth recovered around 1970, there was a turn-around. This didn't last long: the first oil crisis of 1973/74 hit hard. It more or less knocked out simple, basic industry capital amounting to some 15 percent of the total Swedish manufacturing capital. Rather than taking a dramatic reduction in production and employ-

ment, to pave the way for a fast recovery, the Swedish Government opted for a soft landing and low unemployment. An uncontrolled cost situation in the mid-70s and a decade of stagnation followed.

Very large subsidies were pumped into failing mines, steel mills, shipyards and wood pulp mills. And these had been the high-wage industries in Swedish manufacturing. The effects of this were felt for the next 10 years, in high costs and stagnation of output. Labour cost increases rose dramatically. With the value of the krona unchanged, private and public consumption continued to grow undeterred. This created huge deficits in external and public accounts. As a consequence, a series of devaluations had to be made to prevent a new round of plant closures and rising unemployment. Strong inflationary tendencies followed.

The outlook was not especially bright. Analysts studied Sweden and generally concluded the nation was in a "crisis." These studies included those by the Boston Consulting Group (1979), two Government long-term surveys, the IUI Long Term assessment (1979), and several others, including a recent Brookings Institution report on the Swedish economy (1986). But what all these studies failed to recognize was that a distinction must be made between manufacturing industry and the rest of the economy.

Actually, Swedish manufacturing industry emerged from the disorderly 1970s in good technological and eco-

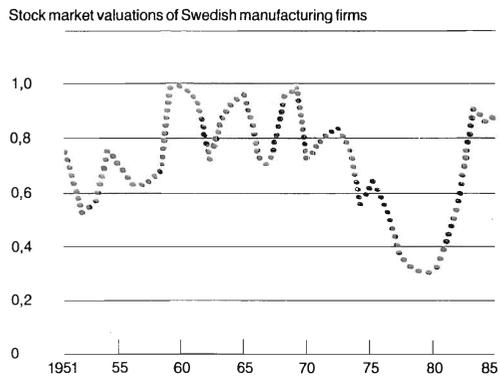
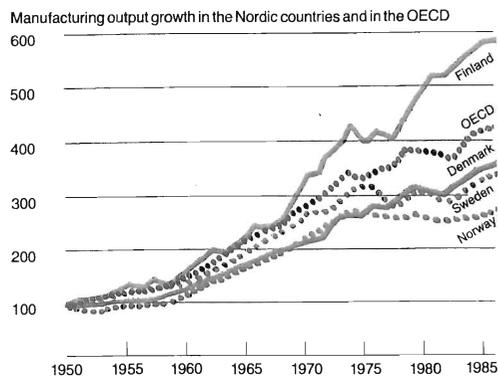
nomical shape. It is comprised of modern firms, in the right markets, well-organised and well-equipped for the new world competitive situation. The key factors behind their success: heavy focus on product development and large investments in international marketing.

Swedish companies had extensive international production and marketing even before the "crisis" years. And this is perhaps the most important reason for the successful transformation of Swedish firms compared with those of other industrial nations.

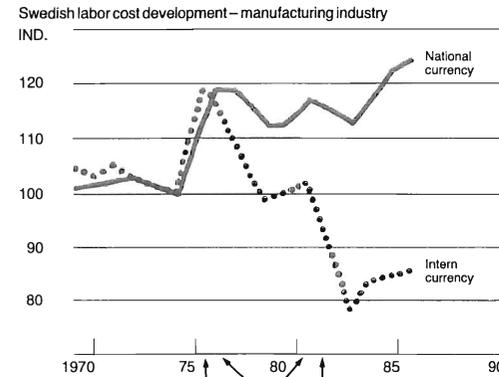
A group of some 40 large international companies combined dominates manufacturing in Sweden. This group operates in a broad range of engineering industries. The majority are successful and lead their market segments. Although many have considerable production abroad, most of their international operations are in marketing and distribution. Most R&D work, almost all of it oriented towards product development, takes place in Sweden.

In the years following the late 1960s, there has been significant reranking among these firms. Most expansive have been firms in sophisticated engineering specializing in competing with product quality. Basic industries and companies facing price competition have fallen back.

The dominance of these large, old manufacturing firms may indicate vulnerability of the industrial structure. Two-thirds of the firms were founded before the turn of the century, a few date back several hundred years, and



Note: The curve exhibits the ratio between the market value of Swedish manufacturing firms and their net worth, the so-called q-value.



Devaluations: 3%, 10%, 16%

one, Stora Kopparberg, will celebrate its 700th anniversary next year! But this vulnerability should not be exaggerated. A few large companies will undoubtedly fail in the next 10 to 20 years, and this could have serious temporary effects. This is the nature of economic life in a market economy.

But Sweden's manufacturing industry has demonstrated its superb ability to weather dramatic transitions. Its basic industrial structure was changed in the 1970s and early 1980s. Although Sweden's welfare society at large has not been as agile.

Politicians are certainly concerned about the downward trend in investments and in the number of jobs in manufacturing. But this signals a shift in the industrial structure – away from capital intensive mining, steel and wood pulp, to human intensive production in engineering and electronics. This is actually a positive sign.

Employment in manufacturing, particularly in blue collar jobs, is on a long-term downward trend. There is a tendency away from simply making goods towards a quality upgrading of goods through product development and marketing. Actually, total employment by Swedish manufacturing companies has not decreased since 1965 if employment in foreign subsidiaries is included with domestic employment. And if you include service jobs related to manufacturing, total employment in Swedish firms has probably increased. If there is a problem, it's that growth of output has not been faster.

The fastest growing sector in Sweden, just as in the United States, is sophisticated service to manufacturing firms. The fast expanding electronics industry in the US (Silicon Valley or Route 128) and in Sweden (the Stockholm suburb of Kista) is surrounded by an even faster expanding private service economy.

If there are any reasons for worry, we should look at the rest of the Swedish economy, and especially the public sector. Throughout the crisis and the years of stagnating

manufacturing output, the Government was unable to curb public and private consumption. Huge deficits in public accounts and foreign trade piled up. Excess domestic demand, combined with generous wage hikes and benefits, produced extreme labour cost growth and a catastrophic slump in industry profits.

A series of devaluations were needed to stall the threatening unemployment crisis. To carry out these policies, the "equity" of the central and local governments was used up, leaving the public sector and the whole nation in debt. As a consequence, the crisis of the 1970s has transferred a significant share of the economy's total resources back into private hands. This unintentional privatisation of the economy is hailed by some as the source of success. It made the reorganisation of the industrial base politically possible, smooth, and without labour strife.

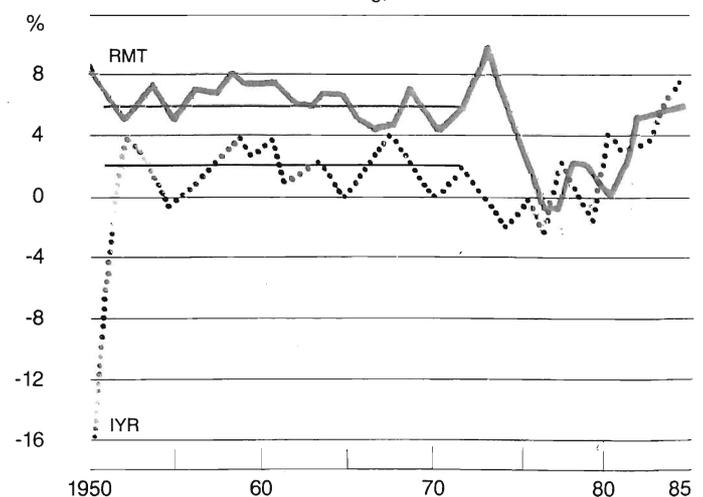
The stock market's evaluation of industrial assets reflect the political signals that we will see no further attempts to move large parts of the nation's wealth into public ownership, and that we will see a very successful transformation of the industrial structure. The only thing that would cloud these expectations would be new attempts to change the political rules of the market game, or that the cost situation again gets out of control.

If this can be avoided, we can conclude that the worries of the mid-1960s came true dramatically in the mid-1970s, but for other reasons. The future will probably show a slower growth rate than that of the 1960s. However, this will also be true for the rest of the industrial world. The main thing is that the Swedish manufacturing growth rate may now catch up with the OECD rate. There are no technical, commercial or entrepreneurial know-how reasons that will prevent Swedish industrial firms from keeping pace. And if wage inflation, in particular in the public sector and in low-skill jobs, can be kept under control, Sweden may even outpace the OECD rate. **now**

The largest Swedish (manufacturing) exporters 1965, 1978, 1981 and 1985

Name of firm Rank by size of exports 1985	Exports (percent of total Swedish goods exported)				Type of activity
	1985	1981	1978	1965	
Volvo	11.5	10.6	9.2	5.0	Automobiles, trucks, etc
Saab-Scania	5.4	4.2	3.8	1.6	Trucks, automobiles, aircraft
Asea	4.1	5.2	3.4	2.6	Heavy electrical, robots
Electrolux	3.0	3.6	2.3	0.8	White goods, etc
Ericsson	3.0	2.5	4.0	2.3	Telecommunications, computers etc
Stora Kopparberg	2.5	1.5	1.5	1.7	Copper mining, steel
SSAB	2.2	1.5	1.5	—	Steel
Sandvik	1.9	2.6	2.6	2.2	Tungsten carbide, tools
SCA	1.8	2.3	2.1	3.0	Paper and pulp
Boliden	1.5	1.8	1.2	1.4	Metal and mining
Nobel Industrier	1.5	1.2	1.3	1.0	Weapons, steel, electronics
Papyrus	1.4	1.1	0.9	0.3	Paper
SKF	1.3	1.6	1.5	2.5	Ball bearings etc
MoDo	1.1	1.3	1.3	2.4	Pulp and paper
Statens Skogsind	1.1	—	—	—	Pulp and paper
Holmens Bruk	1.1	1.2	1.2	1.0	Paper
LKAB	1.1	1.5	1.8	4.6	Iron ore
Alfa Laval	1.0	1.5	1.6	1.1	Dairy systems, centrifugal equip.
Södra Skogsägarna	1.0	1.5	1.5	0.6	Pulp and paper
Swedish Match	0.8	—	—	—	Wood products, matches, chemical products, etc

Rates of return in Swedish manufacturing, 1950–1985



Note: Real rate of return (RMT) on real assets (machinery, buildings and inventories) in the manufacturing industry 1951–85 and real rate of interest (IYR) on long term industrial bonds.