

# The evolution of the Swedish market model

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## Abstract

Sweden historically pioneered many aspects of a modern market economy, hosting the first known share company, the first European credit notes, and the first central bank. Anders Chydenius's booklet *Den nationella vinsten* (*The National Gain*) was printed in 1765, 11 years before Adam Smith's *The Wealth of Nations*. Sweden was early in extending to women the rights to pursue professions and own businesses. Today, Sweden and its Nordic neighbours evince an unusual combination of high taxes and some of the freest economies in the world. Another characteristic feature is long-standing trust, which facilitates investment and cooperation. It also allows for decentralised decision-making, a characteristic feature of Nordic business management. Sweden's unusual high-trust culture significantly affects economic activity.

## KEYWORDS

capitalism, decentralised management, finance, market model, Sweden, trade, trust

## JEL CLASSIFICATION

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## 1 | INTRODUCTION

There is considerable international interest in the Swedish model, and a common perspective is that it is a 'more socialist' alternative to the Anglo-Saxon form of capitalist market economy (Sanandaji, 2015, 2016b). However, as we show in this article, Sweden has throughout its history

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been open to the world and strongly reliant on international exports and enterprises. Important aspects of the Western capitalist market economy have in fact emerged in Sweden. In previous literature on the economic history of Sweden, the starting point tends to be the Viking era or the Middle Ages (Heckscher & Heckscher, 1954; Magnusson, 2000). The present article is unique in taking a longer historical view of Sweden, which is particularly relevant for understanding how the world's first public company was established and developed a couple of centuries after the end of the Viking era. In 1288, the first share of a private company was granted in the copper mine at Falun. From this point onwards, we find further examples of how Sweden has been an important pioneer of the Western capitalist market model.

Our article first focuses on four examples of Sweden's early adaptation of economic concepts that have since spread internationally. The analysis ends with current examples of distinguishing features of the political economy of Sweden and its Nordic neighbours, and discusses the unusual cultural traits of the country that impact business management. It is important to understand that Sweden, and the Nordics in general, have had an unusual high-trust culture. This culture can in part explain why these countries have higher taxes and large public sectors. It also allows for a unique decentralised management style, with non-bureaucratic organisations. While this remains a subject for future studies, we wish to present the hypothesis that this decentralised way of doing business could spread internationally – which would be another example of Sweden influencing the development of international economics.

The first example of Sweden's early adaptation of modern economic concepts is that it hosted the world's first public company (Ek & Renberg, 2001; Enders & Haggstrom, 2018; Gittleston, 2012). In the second example, while Sweden was later in developing banking than other parts of Europe, the first Swedish bank revolutionised European finance by printing the first credit notes in Europe, and then evolved into the world's first central bank (Edvinsson et al., 2018; Palgrave, 1873; Weston, 2012). The third example embraces the intellectual understanding of the capitalist free market system, in which Adam Smith's *The Wealth of Nations* is an important historical cornerstone; yet the concise booklet *Den nationella vinsten* (*The National Gain*), written by the Finnish–Swedish author Anders Chydenius, and making a very similar case to Smith's for free-enterprise economic policies, was published in Stockholm 11 years before Smith's influential work appeared in London (Chydenius, 1765; Smith, 1776). In the fourth example, Sweden during the eighteenth and nineteenth centuries was a pioneer in extending the rights to work and run businesses to women, an important development of the Western capitalist market model (Johnson, 2011; Sanandaji, 2016a). To our knowledge, this article is the first publication to argue that Sweden, based on these examples, should be viewed as having internationally pioneered some key aspects of modern economics.

The article concludes by pointing to two distinguishing current features of economic policy, culture and business in Sweden. The first is that Sweden and its Nordic neighbours are unusual in combining a high tax share with being ranked amongst the most economically free nations in the world, according to the *2022 Index of Economic Freedom* (Miller et al., 2022). As shown in this article, elsewhere in the world countries that rank highly in the economic freedom index generally tend to have low tax levels. One key reason is that the Swedish model has a sharper focus on fiscal health. It is also relevant that, within publicly funded sectors of Sweden such as education, health, and elderly care, much of the actual service delivery is carried out by private for-profit firms.

The second current distinguishing feature concerns culture and how it affects the world of business. Sweden is a clear outlier in the Inglehart–Welzel World Cultural Map,<sup>1</sup> as no other country has the same unique combination of self-expression values and secular values. The other Nordic countries have similar values to Sweden, although not as extreme. Specifically, the Nordic

countries have had unusually high levels of trust, considerably higher than that found in any of the largest five European economies. This unusually high level of trust exists not only in Sweden and the Nordics but also amongst descendants of Nordic immigrants, such as those in the US. For example, Bergh and Bjørnskov (2014) find that no other group in the US has as high levels of trust as those originating from Nordic countries, an observation which suggests that this trusting culture has deep historical roots. This unique culture is relevant for modern business since the literature supports the claim that trust facilitates investments (Zak & Knack, 2001). The culture of high trust additionally plays an important role in enabling the Swedish mode of management, which is characterised by decentralised decision-making (Håkanson & Zander, 1988). High levels of trust may be conducive to investments (Zak & Knack, 2001) and allow for flexible organisations with limited bureaucracy (Isaksson, 2008). We believe that the Swedish model continues to influence developments in other parts of the world and that the high levels of trust associated with the decentralised way of doing business could spread to other parts of Europe, and the world. We hope that readers will come to appreciate that the Swedish model, rather than being an alternative to the Western capitalist system, has played an integral part in its evolution.

The rest of the article elaborates on these phenomena, starting with a discussion of early trade in Sweden and the origins of the world's first private company with shares (section 2). This is followed by an explanation of how the first European credit notes and the first central bank developed in Stockholm (section 3). Thereafter, we note Anders Chydenius's influential booklet *Den nationella vinsten* (section 4) and discuss the development of women's rights to work and engage in business in Sweden (section 5). Next, we discuss Sweden's recent economic development, distinguishing two time periods. The first period, 1870–1970, is the 100 years with limited government and record growth (section 6), followed by a second period, 1970–2020, in which, after shifting to a higher tax burden, Sweden gradually has fallen behind in the OECD wealth league (section 7). After that, we elucidate how Sweden is an outlier with regard to the world cultural map (section 8), followed by a brief conclusion (section 9).

## 2 | THE FIRST PRIVATE COMPANY WITH SHARES

Sweden is located in a peripheral part of Europe, which since the Bronze Age has been part of international trade networks. This background is important for understanding how the first private company with shares evolved in Sweden. The Bronze Age started around 1750 BCE in Sweden, while the earliest bronze objects date from 2000 BCE. Isotope analysis shows that the earliest copper goods found from this era in Sweden had been imported, and originated from places such as contemporary Austria, the Iberian Peninsula, and Sardinia (Ling et al., 2014). At about the same time, amber started appearing in Mycenaean graves, and many bedrock carvings of large ships started appearing in Sweden. Mörner and Lind (2013) argue that the historical evidence shows that trade ships from the eastern Mediterranean arrived in Sweden carrying bronze objects, which were traded for the amber occurring in south-eastern Sweden. Because of its geographical position on the northern periphery of Europe, Sweden was a latecomer to the Bronze Age. In comparison, the Bronze Age began c.3300 BCE in the Near East, by 3,200 BCE in the Aegean, and by 2,100 BCE in the British Isles (Mörner & Lind, 2012). Around 800–700 BCE the Ale Stones were built: these are megalithic monuments forming a calendar recording the annual motions of the sun (Mörner & Lind, 2012). These monuments were thus similar to Stonehenge in the UK. Allen (1997, p. 118) has argued that it is important to consider the economic development of the communities that built Stonehenge, as a considerable labour force was

needed “to build, rebuild, modify and remodel the monument of Stonehenge”. Similarly, the presence of the Ale Stones shows that already, c.1,500 years before the start of the Viking era, noteworthy economic and technological development had occurred in Sweden.

Mining and forestry products are important exports from Sweden today, and these industries have a long history. An archeological discovery established that iron production technology in its early form was introduced in Sweden around 1,000 BCE (Stenvik, 2003). In the year 98 CE the Roman historian Tacitus visited northern Europe, and in his work *Germania* makes the first known written references to the Suiones, that is, the Swedes. Tacitus described the Swedes as a group of civilised communities, a maritime people with wealth from trade, and governed by a system of monarchy (Malone, 1952). During the Viking era, c.793–1,066 CE, people from the Nordic countries undertook large-scale voyages to other parts of Europe and even North America. The Nordic seafarers famously engaged in raids, colonisation and conquest, as well as trade. Recent archaeology (Lawler, 2016) has found that already in the Vendel period, from about 550 to 790 CE, the peoples of Scandinavia had developed impressive seafaring skills, and exported goods such as iron and furs. Ship burials have been found on the edge of the Baltic Sea in Estonia, 250 kilometers from the Swedish coast.

One example of advanced economic activity in Sweden is the Falun copper mine, in central Sweden. Ek and Renberg (2001) have studied atmospheric emissions of sulphur dioxide and metals to study the production from this large copper mine, which is estimated to have supplied two-thirds of the world's copper production in the seventeenth century. The authors estimate that the mine has produced copper for around one thousand years. Eriksson and Qvarfort (1996) studied earlier mining activities at the same site, by means of pollen and charcoal analysis, and found that early mining at the site had occurred already during c.400–800 CE.

This mine is also unique as it is the origin of the first public company in existence. The first known share in the Falun mine was awarded in 1288, and the mine subsequently became part of Stora AB, which since 1998 has been part of the Finnish firm Stora Enso. Enders and Haggstrom (2018) cite Stora Enso as the world's oldest public company. Similarly, the BBC published a story in 2012 that includes a picture of a share granted in the copper mine, explaining that “In 1288, Stora Enso issued the first share ever granted in a company, giving a bishop an eighth of a copper mountain” (Gittleson, 2012).

There are numerous family businesses that have a long history: for example, Kongō Gumi, a family construction business, was founded in 578 in Japan, while Nishiyama Onsen Keiunkan, a family-run hotel, was founded in the same country in 705. Monnaie de Paris, a government-owned mint in France, was founded in 864, while the Royal Mint, a similar government-owned mint in the UK, was founded in 886.<sup>2</sup> However, while there are several examples of family businesses and government-owned operations that are older than the copper mine in Falun, none of them is a private company with shares. Companies with shares are a cornerstone of the modern capitalist market economy, and it is relevant in an account of the evolution of the Swedish market model to point out that the oldest known company with shares in the world has roots in the country. It is not well known that the first company with shares evolved in Sweden. This key fact adds to our understanding of the Swedish model, and also of the evolution of the Western capitalist market model.

### 3 | THE FIRST EUROPEAN CREDIT NOTES AND THE FIRST CENTRAL BANK

Throughout its history, Sweden can be described as a peripheral, yet still important and innovative, part of Europe. One example of this is the evolution of the banking system. The first market

economic models in the world had evolved already some 4,000 years ago in urban centres such as Babylonia and Assyria. Already then there was a division between entrepreneurs who engaged in manufacturing or trade and financial investors (Sanandaji, 2018). Later, modern capitalism and banking evolved in the Renaissance cities of Italy in the fourteenth and fifteenth centuries, as a continuation of the Middle Eastern market model. It was in Italy during the Renaissance that the first banks formed. Gradually, banks spread around Europe, and Sweden was a latecomer in the establishment of the first bank in the country. It was in 1657 that the Dutch entrepreneur Johan Palmstruch founded Stockholm Banco, the first Swedish bank, in Stockholm, Sweden's capital city. However, this bank would revolutionise finance by printing the first credit notes in Europe, the precursors of the modern finance system (Weston, 2012). In 1664, the bank ceased operating but four years later it was re-formed as Riksbankens Ständers Bank, later renamed Sveriges Riksbank. This institution, which celebrated its 350th birthday in 2018, is the world's first central bank (Edvinsson et al., 2018).

Even though Sweden was a latecomer in establishing its first bank, the Swedish finance sector soon influenced the development of European finance. In the late nineteenth century, Palgrave (1873) published a study of the development of Europe's early banking system. The author noted that while banks in Venice, Genoa, Amsterdam, and Hamburg were founded earlier than the first bank in Stockholm, the banking that developed in Stockholm was uniquely advanced. Sveriges Riksbank became a precursor to the banking system that emerged in Europe during the eighteenth and nineteenth centuries. It is moreover hypothesised that the early development of a modern banking system was an important factor in the strong development of prosperity that took place in Sweden in the nineteenth century (Palgrave, 1873).

Olsson and Jörnmark (2007) noted that at the end of the nineteenth century Sweden had substantial natural resources but limited economic growth. The development that followed required extensive capital investment in industry. Thanks to Sweden's advanced finance sector and integration into the global capital market, foreign funding could also be channeled to the growing business community. The authors explained that, during the nineteenth and early twentieth centuries, Sweden evolved from having relatively underdeveloped industries, with family-owned companies that primarily extracted raw materials, to joint-stock companies that used modern technology for more advanced production. During the nineteenth century, numerous institutional changes occurred in Sweden, such as the expansion of the education system, the evolution of new credit- and capital-market institutions, the strengthening of private property rights, and increased business freedom. These institutional changes paved the way for growing prosperity through international exports, particularly following the 1870s when an advanced free market system had been introduced in Sweden, allowing for rapid industrialisation (Myhrman, 1994). Central banks and credit notes are today integral parts of the Western capitalist market economy, and the fact that these institutions have their roots in Sweden is not widely known. This is again an example of how the Swedish market model has influenced the development of global economics.

#### 4 | ANDERS CHYDENIUS ANTICIPATED ADAM SMITH

The origins of the Western capitalist market model are often associated with developments in the United Kingdom, which is understandable since Britain and its former colonies such as the United States, Canada, and Australia have played a key role in the evolution of modern economies. One example of the major influence that the Anglo-Saxon tradition has had on the evolution of the modern capitalist market economy is the intellectual support for this system. By far the most



well-known and influential book on this subject is Adam Smith's *The Wealth of Nations*, which was first published in 1776 (Smith, 1776). Less well-known is the Finnish–Swedish intellectual Anders Chydenius's concise booklet, *Den nationella vinsten (The National Gain)*, published and presented to the Swedish parliament as early as 1765, 11 years before Smith's book (Chydenius, 1765). Adam Smith's great book goes into much greater detail, yet the core ideas in the two works are very similar. It is believed that the two authors were largely unaware of each other's contribution., but they both produced arguments explaining the benefits of capitalism, advocating free market exchange and free competition for national prosperity. The main difference is that Chydenius, who expanded on his ideas in previous works, wrote *Den nationella vinsten* as a pocketbook, much shorter than *The Wealth of Nations*, but containing very similar ideas on the self-organising nature of market economies, the benefits of limited government, and the ideals of free-market economic policy.

**BOX 1 Summary of *Den nationella vinsten* by Anders Chydenius (1765). (Available in English translation as *The National Gain* from DigiCat, 2022.)**

*Den nationella vinsten* is a concise booklet of 36 pages, including the front and back covers. The author explains that it is short by design, so that many can read it and carry it in their pockets. It begins with a description of the concept of national gain, of how each nation makes up an economic unit. Chydenius concludes that countries that seek to expand their economies should not try to host as many different economic activities as possible, but rather focus on specialisation and trade. This allows for “the least amount of people producing goods of the highest value” (p. 3; our translation). Chydenius then explains the concept of market mechanisms, concluding that “each person on their own seeks the place and the business in which he can contribute most to the national gain, if regulations do not hinder him from this” (p. 5). Based on this, he criticises government intervention in the economy, arguing that everyone should make their own economic decisions, as this will lead to the highest production per capita (p. 8). Continuing this theme, Chydenius argues that Sweden should unilaterally stop subsidising exports (p. 10). Further, he explains that politicians lack the knowledge of which businesses have the greatest opportunity for progress. When government decisions favour a particular business, people are drawn to it who would otherwise engage in more productive activities elsewhere in the economy. Chydenius explains that various kinds of policies that grant special privileges to some businesses, or hinder others, limit economic progress (p. 15). He also criticises public subsidies and high taxes on labour since they both reduce the individual incentives to work (p. 20). He points out that parts of Sweden that had more free-market economic policies were also more successful economically at the time (p. 22). Chydenius emphasises that in a free market more businesses will compete where there are big profits to be made. Monopolies evolve as a consequence of governments protecting certain ventures (p. 26). The booklet argues for free trade (p. 29) and openness to foreign labour (p. 30). It gives a concise and easy-to-read defence of free market policies, the core argument being that a free economy without government involvement will, through the profit-seeking motivations of each individual and each business, create the greatest total national prosperity.

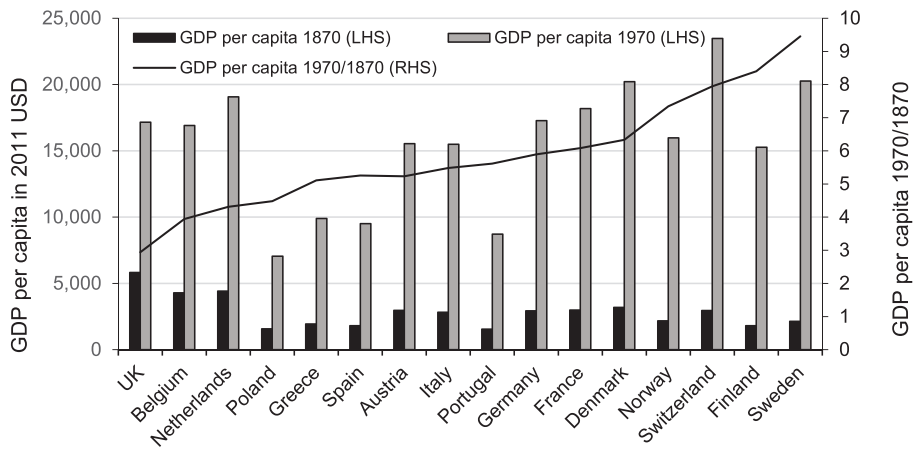
Alongside Chydenius, the Swedish economist Johan Westerman in 1788 published the study *Om de svenske nänngames undervigt gelltemot de utländske dymedelst entrögare arbetsdnft* (*On the Inferiority of Swedish Manufacturers Compared to Foreign Ones Due to a Slower Work Organization*). This work emphasised and clarified the important role of the entrepreneur in adapting to and promoting technological changes (Eliasson, 2007). Anders Chydenius was thus not alone in promoting an intellectual understanding of free market economic policies in Sweden at that time. It should also be mentioned that in 1766 the Swedish parliament approved the world's first ordinance establishing freedom of the press, an ordinance mainly written by Chydenius (Carlsson, 2015). Freedom of the press is an important part of modern democratic and capitalist societies, and another example of how Sweden may have influenced the evolution of the Western system of governance and, ultimately, the international development of democratic capitalism.

## 5 | A PIONEER IN EXTENDING TO WOMEN THE RIGHTS TO WORK AND TO OWN BUSINESSES

The modern capitalist market economy is based on the rights of adult citizens, women as well as men, to pursue professional status, to own businesses, and to inherit property. Historically, however, women were largely excluded from professional work and enterprise until the nineteenth century. In this regard, Sweden and its Nordic neighbours have been pioneers. Already medieval laws in Norway, for example, followed family relations through both male and female lines and allowed women to opt for divorce (Moen, 2010). These rights might not seem impressive today, but they were rather unusual in a historical context. In many contemporary European and Asian societies, women had few rights to property, divorce, and inclusion in the public sphere. Later, during the eighteenth century, numerous reforms in Sweden opened up professions and businesses to women (Sanandaji, 2016a). During the freedom era, from 1718 female members of city guilds in Sweden who paid taxes were allowed to vote and to stand as candidates in local elections. The 1734 civil code of Sweden prohibited men from selling their wives' properties without their consent, and both spouses were given the right of divorce upon adultery. From 1741 innkeepers no longer required guild membership; this effectively opened up the occupation for women. Swedish married women were given legal majority and juridical responsibility within the affairs of their businesses in 1798. In comparison, the US state of Maine was groundbreaking in allowing women to own and manage property in 1821, but only while their spouses were incapacitated. Massachusetts and Tennessee introduced the same legislation in 1835, with other states gradually following suit. From 1829 Sweden, midwives were allowed to use surgical instruments. This rule, unique in Europe at the time, effectively gave women surgical status (Sanandaji, 2016a; see also Johnson, 2011). That Sweden was so early in extending to women the rights to enter professions and run businesses is again an example of how developments in Sweden pioneered key aspects of modern economic activity.

## 6 | FROM 1870 TO 1970 SWEDEN HAD THE STRONGEST PER CAPITA GDP GROWTH IN EUROPE

Until the end of the nineteenth century, Sweden was a relatively poor society. A large part of Sweden's population emigrated to the US in the hope of a better life. Statistics Sweden (2013) estimates that approximately 20 per cent of men and 15 per cent of women born in the second



**FIGURE 1** GDP per capita growth, 16 European countries, 1970–1970.

The black line shows GDP per capita in 1970 divided by the 1870 level.

Sources: Historical GDP per capita from Maddison Project Database; authors' calculations.

half of the nineteenth century left the country, mainly to settle in the US. As noted in section 3, the nineteenth century saw institutional changes such as the expansion of the education system, the evolution of credit and capital markets, and the strengthening of property rights and business freedom. These changes paved the way for growing prosperity through international exports, particularly after 1870, when Sweden evolved into an advanced free market economy (Myrman, 1994). As well, historical statistics exist from the 1870s for the development of many European countries, through the Maddison Project database.

Figure 1 shows the evolution of real GDP per capita in different European countries between 1870 and 1970, as well as its relative rise during this period. Sweden experienced the fastest growth, with living standards nearly ten times greater at the end of this period than at the beginning. No other developed European country for which data are available had such rapid growth, though outside Europe Japan had a similar pace of economic development. Sweden's performance was followed by Finland, Switzerland, Norway, and Denmark. Sweden and the other Nordic countries led development in this period partially because industrialisation and integration in the global world economy reached the Nordics during this period, whereas the UK, France, and Germany had attained industrialisation earlier. Figure 1 shows that Sweden and Denmark had overtaken the UK, Germany, and France in growth of GDP per capita by the end of the period. The Netherlands had similar GDP per capita to Sweden's in 1970, while Switzerland had a higher level (both countries were earlier adaptors of industrialisation and were already ahead in 1870). According to the renowned Swedish economist Assar Lindbeck (1998, p. 1), the period 1870–1970 was characterised by “decentralisation and limited government” and during these years Sweden had possibly one of the least regulated economies in Europe.

## 7 | SINCE THE 1970S SWEDEN HAS FALLEN BEHIND IN THE OECD PROSPERITY LEAGUE

Following a hundred-year period of rapid economic growth, with a free market and a low-tax economic policy, Sweden was to experience a considerable shift in economic policy in the 1970s



(Sanandaji, 2015, 2016b). Myrdal (1981) explains that the idea of wage-earner funds, which evolved during the 1970s in the Swedish trade union movement, aimed to replace capitalism and private ownership. Note, however, that this economic concept, developed in part by economist Rudolf Meidner, was not a model of state socialism, but rather aimed to transfer ownership of capital to wage-earner funds controlled by the labour unions. It has, moreover, been argued that Sweden “approached the brink of socialism” during the 1970s (Kesselman, 1982, p. 398). However, while Sweden became famous for this unusual economic policy, it was a parenthesis in the long-term economic development of the country rather than a defining feature. According to Henrekson and Jakobsson (2001), Sweden experienced an economic boom after the end of World War II that promoted large enterprises and decreased the relevance of individual entrepreneurs as a result of tax and industrial regulation. In addition, the public grew increasingly hostile towards capitalism, and proposals for a gradual transfer of firm ownership from private hands arose in the 1970s. During this decade, Sweden's economic development was in line with Joseph Schumpeter's prediction of how capitalism would be replaced with socialist control of the economy (Schumpeter, 1942). It was during the 1980s, however, that policies and attitudes in Sweden shifted towards free-market policies, resulting in the abolition of wage-earner funds in the early 1990s (Henrekson & Jakobsson, 2001). In other words, following market reforms, the Swedish economic model converged towards an Anglo-Saxon model (Henrekson & Jakobsson, 2003). Since then, Sweden has moved towards high levels of economic freedom combined with a welfare state and relatively high tax rates. Between 1970 and 2000, Sweden and the UK were the two countries that most increased their degree of globalisation and economic freedom (Braunerhjelm & Henrekson, 2013).

As seen in Table 1, in the *2022 Index of Economic Freedom* Sweden is ranked as the 11th freest economy in the world, considerably ahead of even the UK and the US in 24th and 25th places, respectively. Since Sweden is a high-tax country, it is ranked as having a lower level of economic freedom than the UK and the US in terms of tax burden and government spending. However, Sweden is ranked as having slightly stronger property rights than both the other countries, significantly better judicial efficiency, significantly stronger fiscal health, and also better government integrity. In terms of business freedom (labour freedom and trade freedom), Sweden scored higher than the UK but lower than the US. It is not only Sweden that ranks highly on this index; so do its smaller Nordic neighbours. In comparison, Finland is ranked as the ninth freest economy in the world, Denmark as the tenth, Iceland as the 13th, and Finland as the 14th. Sweden and the other Nordic countries can be accurately described as combining high tax levels with overall high levels of economic freedom in other areas.

Since the 1990s the publicly funded services of Sweden, such as education, health care, and elderly care, have gradually been opened up to voucher systems through which private for-profit companies can provide welfare services. Over time, the share of publicly funded services provided by private firms has expanded. In 2006 7.2 per cent of the total costs of municipalities in Sweden were from purchases from private companies, such as education and elderly care services; this share rose to 13 per cent in 2021. In regions which provide health care, 7.9 per cent of total costs were from the purchase of services from private companies in 2006, rising to 12.9 per cent in 2021 (Ekonomifakta, 2023).

Figure 2 compares the economic freedom summary scores of the 30 highest-ranking countries in the *2022 Index of Economic Freedom* with their tax burdens. The general trend is that countries with high levels of economic freedom have low tax levels as a share of GDP, which is understandable since high taxes and correspondingly high levels of government spending are two of the parameters in the index that reduce economic freedom scores. The four Nordic

TABLE 1 Economic freedom scores of Sweden, UK and US in 2022.

	Sweden	UK	US
Overall international ranking in economic liberty	11	24	25
Overall economic freedom score	77.9	72.7	72.1
Property rights	97.3	96.2	95.7
Judicial efficiency	97.1	85.9	77.9
Government integrity	95.7	87.1	75.7
Business freedom	84.6	79.1	87.5
Labor freedom	65.4	62.1	75.8
Monetary freedom	83.6	83.0	82.3
Tax burden	44.9	65.4	75.9
Government spending	26.4	46.3	54.5
Fiscal health	95.8	22.6	0
Trade freedom	79.2	84.2	75.2
Investment freedom	85.0	85.0	85.0
Financial freedom	80.0	80.0	80.0

Source: Miller et al. (2022).

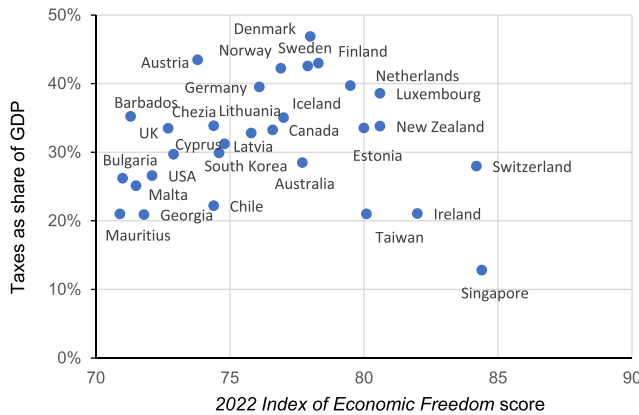


FIGURE 2 Relation between the 30 highest 2022 *Index of Economic Freedom* scores and tax rates as per cent of GDP.

Sources: Miller et al. (2022); tax shares as for 2021 or more recently from OECD and CEIC Data (n.d.).

countries of Denmark, Sweden, Finland, and Norway are unusual in combining a high level of economic freedom with a high tax burden. The Netherlands also has a relatively high tax level as a share of GDP combined with high levels of economic freedom, although not quite as high a tax level as the four Nordic countries. Germany has a similarly high tax level to that of the Netherlands, but lower than those of the four Nordic countries, and also a lower level of economic freedom. Austria has a similar level of taxation to those of the four Nordic countries, but not as high an economic freedom score. Iceland, the smallest Nordic nation, is, however, not an outlier since its tax level is not as high as those of the four larger Nordic nations.

Denmark, Sweden, Finland, and Norway are clearly distinct in combining high levels of taxation with high levels of economic freedom. Germany, the Netherlands, and Austria are culturally

TABLE 2 Sweden in the OECD top-ten prosperity league (GDP/capita), 1970–2020.

	1970	1980	1990	2000	2010	2020
1	Switzerland	Switzerland	Luxembourg	Luxembourg	Luxembourg	Luxembourg
2	Luxembourg	Luxembourg	Switzerland	Norway	Norway	Ireland
3	USA	Iceland	USA	Switzerland	Switzerland	Switzerland
4	<b>Sweden (4)</b>	Canada	Iceland	Netherlands	Netherlands	USA
5	Australia	<b>Sweden (5)</b>	Canada	Ireland	Ireland	Norway
6	Canada	Netherlands	<b>Sweden (6)</b>	Iceland	Denmark	Denmark
7	Netherlands	Austria	Austria	Austria	Australia	Netherlands
8	Denmark	Australia	Germany	Canada	Austria	Austria
9	Germany	Germany	Japan	<b>Sweden (9)</b>	<b>Sweden (9)</b>	Australia
10	New Zealand	Belgium	Netherlands	Denmark	Canada	<b>Sweden (10)</b>

Sources: OECD; authors' calculations.

and geographically close to the Nordics, and are the closest to them in combining high taxes with high levels of economic freedom, yet not to the same extent. This unusual economic policy has been emphasised in the literature as a specific 'Swedish Model' which "combine[s] ambitious welfare programs and a high tax burden with good opportunities for economic growth" (Henrekson & Roine, 2007, p. 64).

While Sweden has continued to be, on the whole, a free market economy even after the transition of economic policies starting around 1970, the country has since been characterised by a shift from a low-tax to a high-tax model. Table 2 shows the OECD prosperity league, a comparison of the GDP per capita for several advanced economies in the world. In 1970 Sweden had the fourth highest level, following Switzerland, Luxembourg, and the US. During the following decades the country has gradually fallen behind, and in 2020 was ranked as having the tenth highest level. Norway has climbed the prosperity league because of its massive revenues of oil and natural gas, and was ranked in fifth position in 2020. Denmark, despite a high tax burden, managed to be ranked sixth in the same year.

## 8 | SWEDEN IS AN OUTLIER WITH HIGH LEVELS OF TRUST

The last example of what makes Sweden unique, in the modern world, is its unusual culture as measured mainly by the World Values Survey (WVS, 2022). Since the 1980s, a representative sample of the population has been surveyed as part of a multinational project to examine the values of people around the world. Countries are ranked on two dimensions based on several survey questions. The first dimension is traditional versus secular-rational values. Traditional values emphasise the importance of religion, parent–child ties, deference to authority, and traditional family values. Secular-rational values have the opposite preferences to traditional values, that is, societies evincing them place less emphasis on religion, traditional family values, and authority.

The second dimension is survival versus self-expression values. Survival values place emphasis on economic and physical security and are linked with a relatively ethnocentric outlook and low levels of trust and tolerance. Self-expression values give high priority to environmental protection, growing tolerance of foreigners, gays, lesbians, and gender equality, and rising demands for participation in decision-making in economic and political life. Sweden is a clear

outlier in this cultural map by virtue of having a strong focus on self-expression values and secular values. The other Nordic countries have similar values to Sweden's, although not as extreme.

In the 2017–2020 wave of the World Values Survey, one of the most illuminating survey questions was the extent to which people can be trusted (WVS, 2022). The share of respondents in the other Nordic countries who agreed with the proposition that 'Most people can be trusted' was 62 per cent in Iceland, 63 per cent in Sweden, 68 per cent in Finland, 72 per cent in Norway, and 74 per cent in Denmark. This level of trust is much higher than the average level of the remaining European countries as well as significantly higher than the levels of trust in the largest economies of Europe. For example, 26 per cent of the French, 27 per cent of the Italians, 41 per cent of the Spanish, 45 per cent of the Germans, and 45 per cent of the British respondents agreed with the same proposition. This comparison clearly showcases that the Nordic countries are outliers when it comes to trust. Bergh and Bjørnskov (2014) have studied the historical origins of trust in Sweden and other Nordic countries, and their findings suggest that the Nordic societies already had high levels of trust centuries ago. Specifically, these authors found that US citizens' levels of trust are linked to the levels of trust in the countries from which their ancestors migrated, and that no group in the US has as high levels of trust as those originating from Nordic countries.

Trust impacts economic activity in numerous ways. To begin with, high levels of trust can be relevant in building well-functioning government institutions (Listhaug & Ringdal, 2008). In the World Economic Forum's *Global Competitiveness Report* of 2020, countries are ranked on the dimension 'Ensure public institutions embed strong governance principles and a long-term vision and build trust by serving their citizens'. On this metric, Finland ranks first, followed by Switzerland, New Zealand, Denmark, Netherlands, and Sweden (Schwab & Zahidi, 2020). Additionally, trust can facilitate cooperation and investments in the private sector. Zak and Knack (2001) show in a general equilibrium growth model that high levels of trust are conducive to investment. This is because trust can be seen as an absence of the need to verify other people's actions. Societies that are characterised by high levels of trust require fewer formalities and additionally have a better ability to avoid conflicts and legal processes. According to a study by the Swedish innovation agency Vinnova, the Swedish way of management is characterised by an "emphasis on decentralized decision-making in a non-confrontational atmosphere", as well as an "emphasis on trust, teams, action, empowerment", and "alignment produces non-bureaucratic and flexible organizations" (Isaksson, 2008, pp. 13, 3).

This high level of trust allows for more decentralised management practices since trust is a key component in decentralised decision-making. An analysis published by the Nordic Council of Ministers concluded that "High levels of social trust distinguish the Nordic region. This does not mean that other countries lack social trust, but few come close to the same levels as those found in the Nordic countries" (Andreasson, 2017, p. 13). The culture of high trust additionally is an important mechanism in enabling the Swedish way of management, which is characterised by decentralised decision-making (Håkanson & Zander, 1988; see also Ström & Esmailzadeh, 2023). The unusually high levels of trust, which enable decentralised decision-making and promote investment, can be seen as a key part of the Swedish model. Trust impacts economic policy (for example, high taxes and generous welfare are easier to implement in economies with high levels of trust than in low-trusting economies) as well as the culture of doing business.

## 9 | CONCLUSION

Considerable international attention has recently been given to understanding the Swedish economic model, which is often invoked in other countries as a role model, something to be

emulated. But while the evolution of the Anglo-Saxon capitalist market model is well known, that of Sweden and the other smaller Nordic countries is not as well understood internationally. This article has given examples of what makes the Swedish model unique, historically as well as today, by pointing out its unique features. It is not widely known that Sweden is the site of the oldest existing public company in the world, the place in which the first credit notes in Europe were printed, and where the world's oldest central bank evolved. Neither is it internationally recognised that the book *Den nationella vinsten* was printed in Sweden with a similar message to that of *The Wealth of Nations* but pre-dating it by 11 years, which is relevant since the intellectual understanding of free market policies is an integral part of the Western capitalist market model.

We also point out how Sweden during the eighteenth and nineteenth centuries was a pioneer in extending to women the rights to work and enterprise, something that has since become a cornerstone of the modern economic model. The article ends by explaining two ways in which Sweden and the other Nordic countries currently differ from the rest of the world. First, this part of the world is relatively unique in combining high tax rates with high rates of economic freedom, as measured by the *2022 Index of Economic Freedom*. Second, Sweden in particular but also the other Nordic nations are clearly outliers in the Inglehart–Welzel World Cultural Map 2022, and one of the key features of these countries is the high levels of trust.

As shown here, the levels of trust in the Nordic countries are considerably higher than the international average, and also much higher than the levels in the large European economies of France, Italy, Spain, Germany, and the UK. This high trust level is relevant, since it allows for decentralised management (a cornerstone of the Nordic business model), produces less bureaucratic and more flexible organisations, and promotes investment. Since the decentralised management model of Nordic firms has clear advantages, it is possible that it will spread internationally with time. If so, it may become another example of Sweden and the Nordics pioneering key economic developments.

There are today many myths surrounding the Swedish model, with some commentators believing it is a socialist alternative to Western capitalism. This article has aimed to add to the understanding of what the Swedish model is actually about by taking a historical view and pointing out how Sweden, throughout its long history, has been a trading nation, and how important aspects of modern economics have evolved there.

## NOTES

- <sup>1</sup> The Inglehart–Welzel cultural map of the world is a scatter diagram, based on the World Values Survey and European Values Survey, depicting each country covered in relation to linked cultural values that vary between societies. There are two dimensions: traditional versus secular-rational values on the vertical axis and survival versus self-expression values on the horizontal. An upward movement reflects a shift from traditional to secular-rational values ones while moving rightward indicates a shift from survival to self-expression values. See <https://www.worldvaluessurvey.org/WVSContents.jsp?CMSID=Findings> (accessed 3 March 2023).
- <sup>2</sup> Wikipedia, List of oldest companies. <https://www.google.com/search?client=firefox-b-d&q=Wikipedia%2C+list+of+oldest+businesses+in+the+world> (accessed 3 March 2023).

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