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Jonung, Lars

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PO Box 117
221 00 Lund
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Department of Economics
School of Economics and Management

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Lars Jonung

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Sweden's Relative Growth 1850-2020. A Drama in Three Acts

Liberal expansion, social democratic stagnation and neoliberal expansion

Lars Jonung

Department of Economics, Lund University, Lund

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Abstract: Sweden's economic growth in relation to developments in the rest of the world exhibits three distinct phases over the past 170 years. From 1890 to 1950, Sweden experienced faster growth than comparable countries. This period of liberalization was followed by a phase of lagging behind until around the turn of the millennium. This relative stagnation is closely associated with the financial repression implemented by the social democratic governments in the post-World War II period. Strong anti-competitive regulations of the financial system, including the political determination of interest rates and allocation of capital, were likely the main cause of the Swedish lagging behind. After financial deregulation, a third phase begins, marked by a weak relative recovery. In line with current research, the three phases of Sweden's relative growth are explained by the degree of liberalization of the Swedish economy, in other words, by the level of economic freedom.

Key words: Economic growth, liberalization, neoliberalism, financial repression, financial deregulation, economic freedom, social democracy, Sweden.

JEL codes: E44, G18, N14, O47, O52.

Comments invited to lars.jonung@nek.lu.se

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Sweden’s Relative Growth 1850-2020. A Drama in Three Acts

Liberal expansion, social democratic stagnation and neoliberal expansion

Introduction[1]

This article maps and explains Sweden’s relative growth performance during the period 1850–2020. It tracks how Swedish prosperity, as measured by GDP per capita, has developed in relation to the prosperity of comparable countries over the past 170 years.

The calculations reveal three distinct phases: a phase of relatively rapid growth between 1890 and 1950, a phase of relative decline from 1950 to around the year 2000, and a phase of renewed relative growth up to the present.

The institutional changes and economic policies that gave rise to these three phases are analyzed under the following headings: the liberal upswing, the social democratic stagnation, and the neoliberal recovery. A discussion of the policy implications of these results concludes.

Data and Procedure

Economic prosperity is measured by the conventional indicator GDP per capita, adjusted for purchasing power to ensure comparability over time and across countries. Data on GDP are drawn from a well-established source: the historical database originally compiled by the British economist Angus Maddison (1926–2010). Since his death, the database has been

[1] Dag Rydorff has continuously provided me with constructive assistance in compiling and interpreting the empirical material. I have received valuable comments on the Swedish version from Fredrik N G Andersson, Niclas Berggren, Andreas Bergh, Jutta Bolt, Dan Johansson, Jesper Hansson, Magnus Henrekson, Olle Krantz, Ross Levine, Jacob Lundberg, Erik Moberg, Kristian Rydqvist, Claes-Henric Siven, Eskil Wadensjö and Jan Luiten van Zanden. Hans Genberg, Dan Johansson and Leandro Prados de la Escosura have given me guidance concerning the English version.

continuously updated by a research group at the University of Groningen, now extending through 2022.[2]

This article is inspired by an earlier study of Swedish economic growth by Olle Krantz (2000).[3] He examined the period 1870–1997 using Maddison's data, supplemented by his own national account series for Sweden. Whereas Krantz focused on differences in growth rates, I examine differences in GDP levels. Nonetheless, we arrive at the same general pattern. I also adopt his selection of fifteen countries to compare with Sweden (see Table 1). These countries represent the international growth trajectory outside of Sweden, as they exhibit significant similarities with the Swedish economy over the lengthy period under study.

This article updates and expands on Krantz's results. It differs in four key respects from his study:

1. It covers a longer period. Krantz ends his study around 1997 and thus does not capture the relative improvement that begins around the turn of the millennium.
2. It provides a more detailed discussion of the factors influencing the Swedish economy during the three phases explored here.
3. It places strong emphasis on the role of the financial system in the growth process.
4. Finally, it offers explicit policy recommendations aimed at fostering economic growth in the future.

The Long-Term Pattern

The starting point for the calculations is the exceptionally high growth in the world economy since the early 19th century, compared with previous historical epochs. The driving force was the Industrial Revolution, which began in Great Britain, eventually drawing the rest of the world into this process, including Sweden, though with a time lag.

My calculation of Sweden's GDP per capita in relation to the average GDP per capita of the fifteen countries representing the international peer group is summarized in Figure 1. In the figure, this "relative index curve" is presented using both annual data and a nine-year centered

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[2] See Bolt and Van Zanden (2024).

[3] Krantz extends his work in Krantz (2008).

moving average. Since the moving average provides a clearer picture of the long-term pattern, where the effects of business cycles and short-term shocks such as crises and wars are smoothed, I base the subsequent analysis on this curve.

Figure 1 reveals three distinct phases in the relative growth performance of Sweden. The first begins around 1890, when Sweden's GDP per capita stood at approximately 60 percent of the international average. By this measure, Sweden was a poor country. From that point on, Sweden grew faster than its peers. During the 1930s, parity was reached with the fifteen-country reference group.

The relative expansion continued until 1950. Broadly speaking it lasted for sixty years. Then it reversed into a phase of relative decline or lagging performance, lasting nearly fifty years until the late 1990s. During the 1980s, Sweden fell below the international average. A new phase of relative expansion began in the late 1990s and continued at least through 2020. However, during this entire period of expansion, Sweden did not reach the average level of prosperity of the international peer group.[4]

Economic Freedom as Driver of Growth

How can these three periods of relative growth be explained in a way that aligns with modern growth theory? This paper adopts recent research on the role of institutions and economic freedom as a starting point. This framework highlights the institutions and incentives that guide decision-makers like entrepreneurs, firms, organizations, and individuals. The institutional structure serves as the foundation for decisions about investment, saving, and consumption; decisions that ultimately determine economic growth.[5]

This perspective focuses attention on how a number of economic rights, central to the functioning of markets, have evolved over time. These include freedom of starting new enterprises, freedom of contract, well-defined private property rights, and the movement of people and goods within and across national borders. Together, these rights define the degree of economic freedom.

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[4] The same pattern emerges when the benchmark consists of six wealthy industrialized countries or seven small countries. Thus, the pattern in Figure 1 appears as rather stable.

[5] See here Acemoglu et al (2005) on the role of institutions driving economic growth and Berggren (2024) for an anthology on the concept of economic freedom. The latter work is the first comprehensive overview of research on economic freedom.

This essay therefore maps major changes in the legal framework concerning the allocation of resources in the Swedish economy, particularly those involving major shifts in the balance of power between the private sector ("the market") and the public sector (the government).

In recent decades, research on the causes of growth has emphasized the role of the financial system. This body of research, most notably associated with the work of Ross Levine, argues that well-functioning and "free" financial markets are a core prerequisite for rapid growth.[6] Thus, I place special emphasis on the financial system: its deregulation in the 19th century, its re-regulation after World War II, and the subsequent deregulation during the 1980s. My central hypothesis is that this institutional trajectory corresponds to a surprising extent to the three phases of Sweden's relative economic growth.

When examining historical developments, it is important to distinguish between two forms of regulation: market-conforming or competition-enhancing regulations, and market-hostile or competition-inhibiting interventions designed to shield incumbents from competition or redistribute economic rents.

Market-conforming rules open for competition and efficiency, thereby promoting growth. Competition-inhibiting regulations - such as legally based monopolies and price controls - have generally been introduced to benefit specific interest groups. Their purpose has often been distributive: to alter market outcomes in favor of certain constituencies. In the long run, such regulations have constrained economic growth.

The ability to use legislation to establish competition-inhibiting regulations constitutes a means of creating privileges or rents. Swedish economic history is full of examples of rent-seeking, where interest groups have used their political power to suppress competition.[7] The guild system, rent controls, agricultural market regulations, collective labor agreements, and credit market restrictions are among the most important examples.

My reasoning about the three phases of Swedish relative growth can be summarized as follows: the institutional rules that shape decision-making concerning investments and savings in society determine the long-term growth trajectory. Good rules that promote

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[6] See King and Levine (1993) and Levine (1996, 2004). For an application to the Swedish experience, see Hansson and Jonung (2000).

[7] For a brief description of the history of rent-seeking in the Swedish economy see Jonung (1988).

economic freedom contribute to high growth. Bad rules result in low growth. Now a growing number of econometric studies support this interpretation.[8]

Phase 1. The Liberal Upswing 1870–1950

At the beginning of the 19th century, Swedish economic policy was shaped by the institutions and economic thinking of mercantilism. A comprehensive system of competition-restricting regulations - such as licensing requirements and production quotas - governed economic activity. Domestic trade was confined to towns through legal prohibitions. The craft sector was organized through the guild system. Foreign trade was subject to various restrictive regulations, prohibitions, and tariffs. Labor market mobility was limited. Mercantilism emerged when Sweden was characterized by low economic growth and a weak state.[9]

A liberal transformation occurred during the 19th century. Production quotas for various sectors of the economy were abolished. Domestic and foreign trade were liberalized. Tariffs were lowered or removed. The guild system was eliminated through the regulatory reforms of 1846 and 1864, establishing freedom of enterprise. The legal distinction between urban and rural areas was abolished. In agriculture, the main sector of the economy, land consolidation reforms were implemented that secured clear private property rights. The Companies Act of 1848 laid the legal foundation for limited liability corporations. Labor mobility was strengthened by a range of reforms, including the removal of the domestic passport requirement.[10]

The financial system expanded rapidly. The foundation was laid already in the 1820s with the establishment of savings banks. Privately owned, note-issuing banks were introduced in the 1830s. They proved successful in competing with the central bank, the Riksbank, in the market for banknotes.[11]

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[8] See De Haan and Sturm (2024) for a survey of the impact of economic freedom on economic growth. See also Bergh and Bjørnskov (2021), Giuliano and Tabellini (2023), Grier and Grier (2024) for econometric studies showing a positive relationship between economic freedom and growth.
[9] See Magnusson (1999) for an overview of mercantilism. Mercantilism in Sweden is discussed in chapter 9.
[10] See Carlson (1986) for a list of liberalization measures.
[11] See Jonung (2023a) for the history of private bank notes.

A major liberalization measure was the deregulation of interest rates in 1855, which opened for financial competition. Freedom of the establishment for commercial banks, organized as joint-stock companies, was introduced in 1864. A stock exchange was established in Stockholm in 1863. The Swedish capital market became linked to the international one through major capital imports associated with government investments in railway construction. Sweden joined the international gold standard in 1873 and introduced a new currency, the Scandinavian *krona*, replacing the riksdaler.[12]

The liberalization process was partially curtailed when the old Estates Riksdag was replaced by the bicameral Riksdag in 1866. Protectionist forces succeeded in passing grain tariffs in 1888 and industrial tariffs in 1892.

The years leading up to World War I saw a rapid expansion of Swedish enterprises, especially during the period 1870–1914. The Swedish economy became increasingly internationalized. Foreign trade grew. This was something of a golden age, built on free trade, freedom of establishment, free emigration, and open competition.

In parallel with economic liberalism, political liberalism was strengthened through expanding suffrage. A long series of social reforms followed in the wake of economic growth. Heckscher (1957, chapter 6) describes the period 1815–1914 as *The Great Breakthrough.*[13]

World War I shattered the liberal order. The war triggered a wave of regulations that eventually encompassed the entire economy, despite Sweden's formal neutrality. Rent controls and price controls on goods and services were introduced.[14] Passport requirements and visa regulations were imposed.

After the war, the 1920s saw a return to the liberal system. Swedish industry benefited from the post-Versailles expansion of the global economy. Relative growth was strong during the 1920s and early 1930s, indeed, the highest in the entire first liberal phase.

The global depression, which began with the Wall Street crash of October 1929, triggered a wave of tariffs and currency restrictions worldwide. The gold standard gradually collapsed.

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[12] See Ögren (2010) for an overview of financial liberalization in Sweden during the 19th century.
[13] See also Jörberg (1973) and Myhrman (1994).
[14] Carlson (1986) summarizes the regulations introduced during the First World War.

Those countries that clung longest to the gold standard experienced the deepest economic declines.

Sweden's central bank, the Riksbank, was forced to abandon the gold standard in September 1931, just one week after the Bank of England took the same step. The resulting depreciation of the krona, when it became a fiat currency, is the main reason the Swedish economy fared comparatively well during the 1930s.[15]

The long era of social democratic rule began with the 1932 election. After the election, a central competition-inhibiting regulation was introduced through the so-called "cow trade", a political bargain between the Social Democrats and the Agrarian Party.[16] This laid the foundation for the agricultural regulation system that lasted until the late 1980s, built on subsidies, tariff protections, and barriers to entry. Apart from this, the use of competition-restricting regulation remained modest in the 1930s.

Sweden experienced high relative growth during the 1930s. Compared to many other countries, Sweden pursued a relatively liberal economic policy during this decade, in the sense that new tariffs and trade restrictions were largely avoided, with the notable exception of regulations on the agricultural sector.[17]

World War II triggered a new and more permanent wave of competition-restricting regulations in Sweden. However, Sweden remained outside the direct devastation of the war. As a result, the Swedish economy could continue to grow in relative terms.

Phase 2. The Social Democratic Stagnation 1950–2000

At the end of and just after World War II, the political struggle over economic policy was intense, driven by the labor movement's post-war program of 1944. Its twenty-seven points demanded extensive state control, including the nationalization of parts of the private business sector. Central to the program were the concepts of planning and a command economy. The program deeply influenced the Social Democratic party's ideology and its policies for many years.[18]

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[15] Jonung (1979).
[16] See Bohlin et al. (1984) for a critical evaluation of the agricultural regulations.
[17] See Carlson (1986) for a list of market-restricting regulations from the 1930s to the 1980s.
[18] See Bergström (1989).

Two key regulations from the wartime period became permanent: foreign exchange controls and rent controls. These became cornerstones of post-war social democratic economic policy, particularly in relation to the financial system. Rent control, albeit in modified form, still exists today. Foreign exchange controls remained in place until the late 1980s and formed the foundation of the entire financial regulation regime.

Regulation of the financial system, 1945–1989

Before World War II, monetary policy and the financial system rested on a free capital market. Capital flows across borders were not regulated, and the allocation of savings and investments was not subject to political commands.

This changed dramatically after Word War II. The credit market was subject to a comprehensive control system, in which prices and quantities, interest rates and credit flows, were politically directed through various regulatory mechanisms, many of them innovative by historical standards, including liquidity ratios, lending ceilings, and issuance controls. This was a system of financial repression.

The aim was to hold back private capital formation and thus private ownership, replacing it with collective capital formation and collective ownership with the state, the municipalities, and building organizations such as *Allmännyttan*, *Riksbyggen*, and *HSB* occupying favored positions. These organizations were closely affiliated with the Social Democratic party.

The regulation of the domestic capital market was anchored in the foreign exchange controls, which applied to all types of financial inflows and outflows: portfolio investments, current payments, direct investments, and currency speculation. The rules applied to both business, domestic and foreign, and private individuals.

The most important consequence of the foreign exchange controls was that they gave the Riksbank and the government an extensive control over the entire financial system by isolating Sweden from international financial linkages.

Behind the barrier of the foreign exchange controls, a central planning system for the financial sector emerged, with the Riksbank as the Gosplan-style command center; supervising, issuing

directives, and sanctioning institutions that failed to comply.[19] The goal was to control interest rates and the allocation of credit and capital in the Swedish economy, requiring a gradually expanding arsenal of financial regulations.

One of the first instruments was the Interest Regulation Act of 1951, inspired by wartime price controls. This act gave the Riksbank control over deposit and lending rates within the banking system. Financial repression certainly existed in other countries during the postwar period. However, it generally went further in Sweden than elsewhere. There are many indicators of this. One example is that the Riksbank summoned all commercial banks to monthly meetings from the early 1950s until the financial deregulation in the mid-1980s. At these meetings, the Riksbank could directly control the portfolios of the commercial banks and steer their interest rates and investments as the most recent balance sheets of every commercial bank were the starting point for the meetings. No other country had a similar system.[20]

Liquidity quotas were introduced in the early 1950s to steer commercial bank lending away from private business and toward bonds issued by the housing sector and the state. Initially, commercial banks held about 20 percent of their assets in bonds. The mandated liquidity quotas were gradually increased and reached around 70 percent in the early 1980s.[21] At that point, the traditional role of commercial banks as financiers of private business had largely disappeared. Banks were also subject to lending ceilings, which capped annual credit growth to sectors outside the construction sector.

The capital market outside the banking system was also subject to regulation. In 1952, issuance controls were introduced, giving the Riksbank power over the issuance of bonds and other debt instruments. The Riksbank had to approve the loan amounts, maturity, and interest rates. It also decided which companies were allowed to issue bonds. The purpose, again, was to favor financing for the construction sector, municipalities, and the state, while restricting corporate borrowing.

[19] Behind the Riksbank stood the Ministry of Finance. There, Gunnar Sträng reigned, Minister of Finance from 1955 to 1976, with a strong political position, known for his belief in state regulation and control, and his distrust of the market economy. See Åsbrink (2019).
[20] Jonung (2023b) presents a comprehensive account of the monthly meetings, drawing upon minutes recorded by both the Riksbank and the commercial banks.
[21] See Jonung (1982, Figure 12.5).

This regulatory policy was reinforced by the establishment of the ATP pension system in 1960, which strengthened the government's ability to politically steer capital formation, as the ATP system became the dominant player on the bond market.[22]

The broad effects of the financial regulations

The competition-hostile regulation of the financial system had deep and long-lasting effects on the Swedish economy and on the design of economic policies, operating through two channels: *directly* on the financial system, and *indirectly* across nearly all other areas of the economy. These effects emerged gradually over the postwar decades. Basically it is a story that one regulation feeds new regulations.

Figure 2 schematically illustrates the process through which Swedish society moved away from the liberal order of the pre-war era towards a social democratic and corporatist model. The process was cumulative: each regulation generated consequences that justified new regulations. Out of this progression, a Swedish model of governance evolved, until financial deregulation reversed the trend and moved the system back toward a more liberal order.

Financial regulations suppressed the activity on the stock market. The stock market's value as a share of GDP shrank, as shown in Figure 3. Initial public offerings essentially ceased, and the stock exchange's function as a source of capital for firms diminished.[23] The result was a financial ice age on the stock market, lasting from World War II until the deregulation of the 1980s.

The regulations also constrained the expansion of the private banking sector and other private financial institutions. Some companies created in-house lending arms to provide credit directly to their customers; Volvo, for instance, became a major lender to buyers of new Volvo vehicles.

Another effect was that established listed companies and their owners, the so-called "Fifteen Families", were favored over new companies and competitors.[24] Unlike the older firms, entrepreneur-led startups had more limited access to capital markets and retained earnings.

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[22] Because the ATP system was a pay-as-you-go scheme, the opportunity to develop and deepen the Swedish capital market through a funded system was missed. See Lundberg (2025).
[23] See Rydqvist and Guo (2021).
[24] Hermansson (1965).

Instead, they were largely dependent on new share issues, but the incentives to invest in new equity were largely hampered by dividend taxation raised up to close to 90 percent and corporate taxation to about 50 percent. Additionally, inheritance, wealth, and gift taxation were high, sometimes outright confiscatory, which hindered intergenerational transfers of business ownership.[25] Some private individuals sought to avoid inheritance tax by placing ownership in foundations; others sold to foreign firms.[26] The foreign exchange controls also constrained the expansion of Swedish businesses abroad as foreign investments were the subject of Riksbank control.

As a result of this financial freeze, the government in 1967 created the Swedish Investment Bank (*Investeringsbanken*), a state-owned bank under the Ministry of Industry, with the goal of providing credit to private businesses; credit that had been throttled by the system of credit regulations. With the advent of financial liberalization, the rationale for this bank disappeared and the Investment Bank as well.[27]

Financial market regulations also enabled the political control of the housing market. Rent controls, maintained after World War II, created housing shortages, as any price control below market levels inevitably does. Public housing providers (*Allmännyttan*) and housing cooperatives like *HSB* and *Riksbyggen* were favored, while private rental property owners were pushed aside by public lending rules. Public housing, *HSB*, and *Riksbyggen* received favorable loans, often covering 100 percent of the cost without requiring any equity. Private builders, by contrast, were forced to contribute their own capital.[28]

Beyond allowing high taxation of private wealth and business, foreign exchange controls enabled the government to raise the domestic tax burden on labor income. Marginal tax rates for wage earners became steep.[29] The growing tax revenues were used to fund the expansion of the public sector. The number of public employees increased substantially, while the number of private employees remained largely unchanged from the 1950s through the end of the 1990s.[30]

[25] See Du Rietz et al (2015) and Henrekson and Du Rietz (2014).
[26] See Elert et al. (2023) and Henrekson et al. (2020).
[27] *Investeringsbanken* was merged into *PK-banken* in 1989.
[28] See Jörnmark (2005).
[29] See Stenkula et al. (2014).
[30] Bjuggren and Johansson (2009).

In the 1960s, a new wave of competition-inhibiting regulations and state interventions took shape. A more activist industrial policy emerged under the label of "the new industrial policy" (*den nya näringspolitiken*). The pharmacies were nationalized. Economists interpreted these developments as a return to a new mercantilism.

In the 1970s, the first proposals for wage earner funds were introduced. The goal was to replace private ownership of firms with collective ownership through union-controlled funds. A modified version was realized in 1983, aimed at strengthening collective capital formation through a tax on corporate profits.[31]

By the early 1980s, the social democratic control of the capital market had reached a peak. The entire financial system was then subject to a dense web of competition-restricting regulations.

The effects of the social democratic regime on growth

The social democratic policy aimed to replace a decentralized market economy, based on high economic freedom and financial openness to the outside world, with a politically micromanaged and closed economy, combined with an expanding public sector and a rising degree of taxation. Behind the wall created by foreign exchange controls, an interventionist policy emerged, built on competition-restricting regulations and high taxation.

The social democratic institutions and regulatory framework established in the decades after World War II stand in stark contrast to the liberal order that prevailed before the war. The development can be summarized as follows: The social democratic state replaced the liberal state.[32]

The end result was a relative GDP stagnation for half a century. Several economists drew attention to this pattern. A lively debate emerged in the 1990s about the lagging performance

[31] No other country has implemented a system of wage earner funds similar to the Swedish one. This event should be interpreted as a sign that the Swedish Trade Union Confederation (LO), which championed the issue of wage earner funds, was and still is a uniquely powerful political force in Swedish society.

[32] The term "the social democratic state" is drawn from the title of Rothstein (1986), which examines Swedish labor market and education policy in the postwar period. My approach adopts a broader perspective, emphasizing how the regulatory framework extended beyond specific policy areas to encompass the entire Swedish economy as an integral part of the social democratic model.

of the Swedish economy, with contributions by Lindbeck (1997), Henrekson (1996), and Henrekson et al. (1996), arguing that the Swedish economy had fallen behind.[33] Korpi (1990) defended the rival view, asserting that the economists were ideologically biased. However, the pattern evident in Figure 1 clearly shows that the Swedish economy lagged behind the outside world for several decades.

The relative stagnation was to some extent the outcome of a catching-up process by which countries damaged by World War II closed the gap in real income relative to neutral Sweden.[34] This process, however, suggests that countries in the peer group would converge to the GDP level of Sweden, but not surpass the Swedish GDP as was the case in the 1980s. Thus, the relative stagnation was primarily not caused by other countries catching-up with Sweden. It was due to domestic policies influencing Swedish economic growth. To sum up, it seems safe to regard the social democratic system of regulations as perhaps the main explanation for the relative stagnation of the Swedish economy during the period 1950–2000.

This conclusion is supported by the brief comparison between Sweden and Switzerland, both neutral during World War II, presented in Appendix A. While Switzerland consistently maintained a GDP per capita above the average of its peer group, Sweden fell below the average during the second half of the 20th century.

Phase 3. The Neoliberal Recovery 2000–2020

Around the turn of the millennium, Sweden's relative growth began to rise again, as economic policy shifted toward a new path centered on a renaissance of market-oriented reforms. It is proper to refer to this turnaround as the neoliberal phase, as many of the reforms coincided with a broader neoliberal wave in the global economy. See Table 2 for a list of key policy changes.

The neoliberal phase depicted in Figure 1 was primarily driven by the process of financial deregulation during the 1980s. Two major steps were decisive. The first was the domestic financial deregulation, which occurred primarily in November 1985 when the cap on

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[33] The debate on economic stagnation focused on developments during the 1970s and 1980s — a shorter period than the 170 years addressed here.
[34] See Abramovitz (1986) for an analysis of the process of catching up.

commercial bank lending was abolished. This marked the beginning of the most significant shift in Swedish economic policy in modern times.[35]

The second step came in 1989, when the external credit control, that is the foreign exchange controls, was abolished. With this step, the Swedish financial sector became internationally integrated. After fifty years of isolation, capital could once again flow freely across Sweden's borders.[36]

The financial deregulation set off a process that culminated in a major financial crisis in the early 1990s.[37] The crisis was resolved by the introduction of a floating exchange rate for the Swedish *krona* in November 1992. The floating exchange rate, combined with international financial integration, contributed to an entirely new regime for economic policy.

An explicit inflation target was introduced in January 1993. The Riksbank's primary instrument became the policy rate, previously unusable under the regime of low interest rates and financial controls. The Riksbank was made independent from the government, a clear break from the social democratic era. Monetary policy was now aligned with a liberalized, globally integrated capital market.

Deregulation enabled a rapid expansion of the financial sector. All financial markets, including the currency and the stock market, grew dramatically. New financial instruments, trading platforms, and technologies emerged. New stock exchanges were created for startups, featuring players such as venture capital firms. The Swedish financial system became deeply integrated with international markets.[38]

Foreign ownership, previously limited by the foreign exchange controls, gained a dominant position on the Swedish stock exchange. The investment savings account, introduced in 2011, facilitated broader private stock ownership. The deregulation opened up new channels for the financing of business investments.

In short, the financial ice age was transformed into a financial greenhouse. As shown in Figure 3, the stock market's value relative to GDP rose sharply beginning in the 1980s.

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[35] See Jonung (2003).
[36] The financial regulation and deregulation processes are discussed in, among others, Jonung (1993).
[37] Jonung et al. (2009) demonstrate that the process of financial deregulation played a central role in triggering the deep financial crisis that struck Sweden between 1992 and 1994.
[38] By now, in the early 2020s, the Swedish stock market is regarded as a model for the rest of Europe, see OECD (2025).

Financial deregulation created better opportunities for new firms to emerge and challenge incumbent firms.

Economic freedom was also expanded through other reforms. Competition was introduced in sectors such as taxis, telecommunications, and air travel. The state sold off parts of its holdings in a range of former state-owned enterprises. Agricultural regulation, dating back to the 1930s, was liberalized starting in 1989.

The new financial openness exposed Sweden to institutional competition from abroad, forcing adjustments to the tax system to maintain the country's competitiveness. Tax progressivity was significantly reduced by what was dubbed "the tax reform of the century." The inheritance tax and the gift tax were eliminated in 2004, followed by abolition of the wealth tax in 2007. The real estate tax was substantially reduced.

The expansion of the public sector was halted during the neoliberal phase. Public spending as a share of GDP began to decline gradually. Private sector employment as a share of the labor force expanded. Foreign trade grew rapidly. The ratio of exports to GDP rose from 27 percent in 1992 to more than 50 percent just ten years later. The tax burden fell from around 50 percent to approximately 42 percent measured relative to GDP by 2025.[39]

Effects on growth of financial deregulation

Financial deregulation opened the door for a wave of market-oriented reforms. It seems safe to conclude that this shift caused Swedish economic growth, relative to the rest of the world, to increase starting before the turn of the millennium. It is worth noting, however, that Sweden's GDP per capita still has not risen above the average of the international reference group in Figure 1. The increase has not been as rapid as during the first liberalization period.

A likely reason is that the reforms implemented in recent decades have not been as comprehensive as those carried out during the 19th century. Sweden has retained a number of competition-restricting regulations, such as the system of rent controls. The labor market remains governed by collective agreements that prevent individualized contract solutions. Marginal tax rates and the overall tax burden are still high compared to many countries.

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[39] Sweden's economic system during the neoliberal upswing is studied by, among others, by Bergh (2016) and Bergh and Henrekson (2012).

Furthermore, the political trend towards liberal growth-oriented reforms has weakened severely over the past fifteen years.

Lessons for the Future

What does this review of Sweden's relative growth history tell us about the future? It gives a clear recommendation: robust growth is achieved through extensive economic freedom, that is through liberalization, competition, and openness to the outside world.

It is essential to maintain a systems-based approach. The message from history is that all markets, that is for housing, labor, goods, credit and capital, as well as services, public as well as private, should be open to competition, contractual freedom, and private capital formation. Growth is reinforced by the interaction of well-functioning markets.

The best historical example of such a comprehensive shift is the liberalization of the 19th century. It led to the liberal upswing that lasted until 1950. Similarly, the lagging performance of the following fifty years can be explained by the consistent politics of restrictions placed on economic freedom by social democratic policies.

A potential constructive proposal would be to reinstate the 1864 Act on Freedom of Enterprise, which granted contractual freedom in virtually all sectors of the Swedish economy. Tellingly, it was abolished in 1968 by the then Social Democratic government.

A renewed version of the Act should be strengthened by a general law guaranteeing freedom of contract, enterprise, and competition, applicable across all markets. In a single stroke, this would eliminate various legal provisions that allow special interests to block liberalization, especially in the housing and labor markets.[40]

A final reflection concerning the future: war and crisis usually bring about changes in attitudes towards the market economy and economic freedom. The two world wars and the Great Depression of the 1930s undermined the liberal order inside and outside Sweden. Liberalism made a comeback after the oil shocks and stagflation of the 1970s, and again following the collapse of the Soviet Union and socialism in the early 1990s.

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[40] See Jonung (2022) for the arguments in favor of full economic freedom for individual citizens and businesses.

But today, the liberal order is once again under threat, from populism, nationalism, crises, and war. Deglobalization, growing tariffs, trade barriers, interventionist industrial policies and military threats and actions are steering the world away from an open and free economy. This will inevitably affect Sweden. Nevertheless, Swedish policymakers still have the ability to safeguard economic freedom domestically and thereby support economic growth.

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Appendix A. Comparing Sweden and Switzerland

There are compelling reasons to compare the economic development of Sweden and Switzerland. Both countries share several similarities that make such a comparison particularly relevant. Most notably, Sweden and Switzerland remained neutral during both World Wars, avoiding the widespread destruction that affected much of Europe. This neutrality provided a stable foundation for long-term economic growth, free from the disruptions of war.

In terms of population size, the two countries are broadly comparable, which allows for meaningful per capita comparisons of economic performance. Both nations have evolved into peaceful, stable democracies with well-developed welfare systems and high standards of living. Importantly, neither country has experienced a resource-driven boom like Norway's oil windfall, which could distort long-term growth comparisons.

These shared characteristics, neutrality, similar population size, democratic stability, and the absence of major resource shocks, create a proper basis for analyzing differences in economic outcomes. Such a comparison may shed light on the role of institutional frameworks, policy choices, financial regulations and regulatory environments in shaping long-term growth. In particular, Switzerland's more market-oriented approach and lower levels of financial regulation stand in contrast to Sweden's historically more interventionist policies in the post-World War II period, offering insights into the effects of different economic models.

Figure A1 shows the relations curve calculated separately for Switzerland and Sweden. In both cases, the comparison group or peer group consists of sixteen countries. Thus, Sweden is included in Switzerland's comparison group and vice versa. The curve for Switzerland remains above that of Sweden throughout the entire period from 1870 to 2020. Moreover, over the past 10–15 years, the gap in GDP per capita between the two countries has widened. Over the past two decades, Sweden has gradually converged toward the international average, while Switzerland has continued to diverge upward, further distancing itself from the mean.

The pattern for Switzerland is inconsistent with the basic Solow framework, which suggests that a wealthy country like Switzerland should not be able to maintain its relative position over a lengthy period. Instead, the explanation must be sought in institutional factors. Switzerland is a low-tax country that has not employed extensive financial system regulations

like Sweden. Its constitution has limited the power of trade unions and interest groups. The business climate has been more favorable. It is noteworthy that Swedish companies such as IKEA and Tetra Pak, for example, chose to relocate their headquarters from Sweden to Switzerland during the debate over wage-earner funds in Sweden in the 1970s, a debate that, notably, never occurred in Switzerland.

The 1988 merger between Sweden's ASEA and Switzerland's Brown Boveri, two leading electrical engineering firms, resulted in the formation of ABB (Asea Brown Boveri), with its global headquarters established in Zürich, Switzerland. This strategic decision reflected Switzerland's more favorable business climate and lower taxes on key personnel, aligning with ABB's ambition to become a global leader in the power and automation industries. The merger integrated over 850 subsidiaries and 180,000 employees across 140 countries, making ABB one of the largest industrial groups in Europe at the time.

Today, Switzerland's GDP per capita is currently about 30 percent higher than Sweden's. At the same time, Switzerland's welfare systems are at least as well developed as those in Sweden. It is reasonable to interpret the pattern in Figure A1 as evidence that Swedish economic policy during the social democratic phase of relative stagnation has been unsuccessful compared to the policies pursued in Switzerland.

Another illustration of the difference between Sweden and Switzerland is presented in Figure A2, which displays the degree of financial liberalization in Sweden, Switzerland, and the fifteen countries with which Sweden is compared in the relations curve in Figure 1 for the period 1973–2005.

Financial liberalization, or financial freedom, is measured using an index calculated across seven different dimensions of financial system regulation. Figure A2 indicates that Sweden was more heavily regulated than the average of the fifteen countries, and significantly more so than Switzerland, up until the financial deregulation of the 1980s. After that, a rapid shift occurs: financial freedom in Sweden increases swiftly and reaches a top position. For a few years, it even exceeds the level of Switzerland.

The pattern in Figure A2 coincides with the picture of Sweden's relative stagnation. Only after financial deregulation does Sweden begin to catch up with the rest of the world in terms of economic growth.

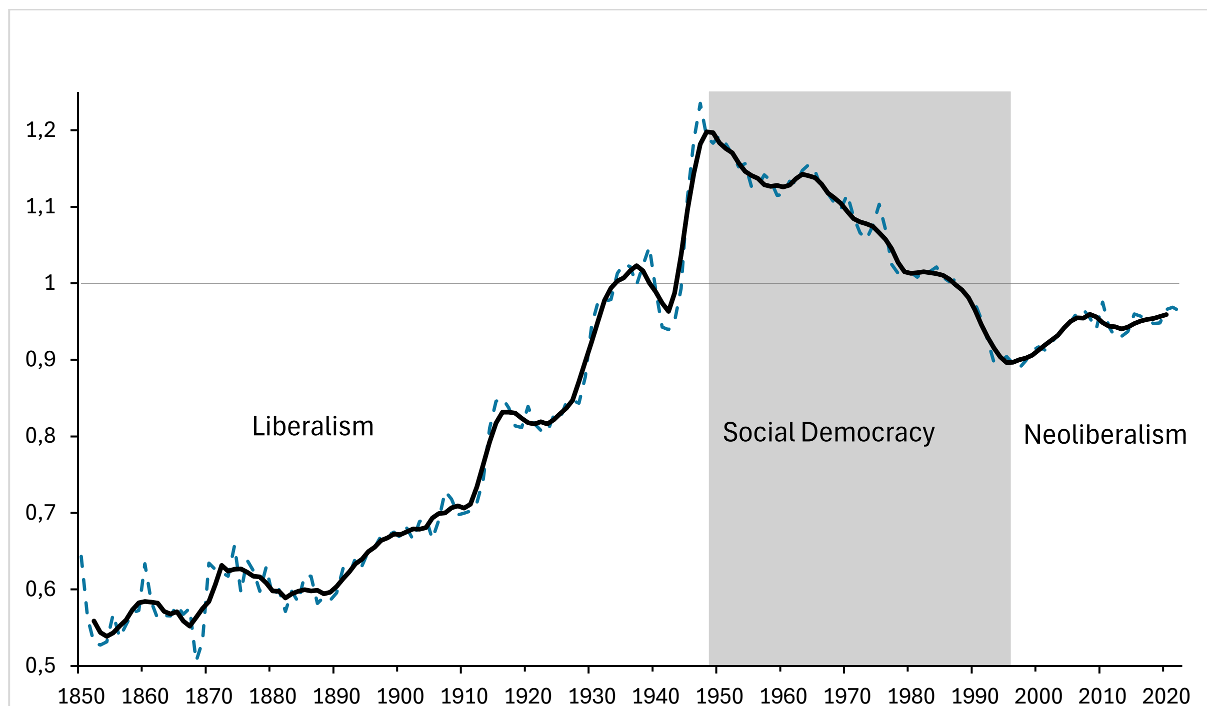

Figure 1. Sweden's GDP per capita relative to the average GDP per capita of fifteen comparable industrialized countries, 1850–2020. Dashed line represents annual data. Solid line is a centered 9-year moving average.

Comment: The relations curve or relations index shows the ratio between Swedish GDP and the average of peer countries. A value below one indicates Swedish GDP was lower than that of the reference group, which is the case for most of the studied period.

Source: Maddison Project Database, GDP per capita in 2011 PPP USD. https://www.rug.nl/ggdc/historicaldevelopment/maddison

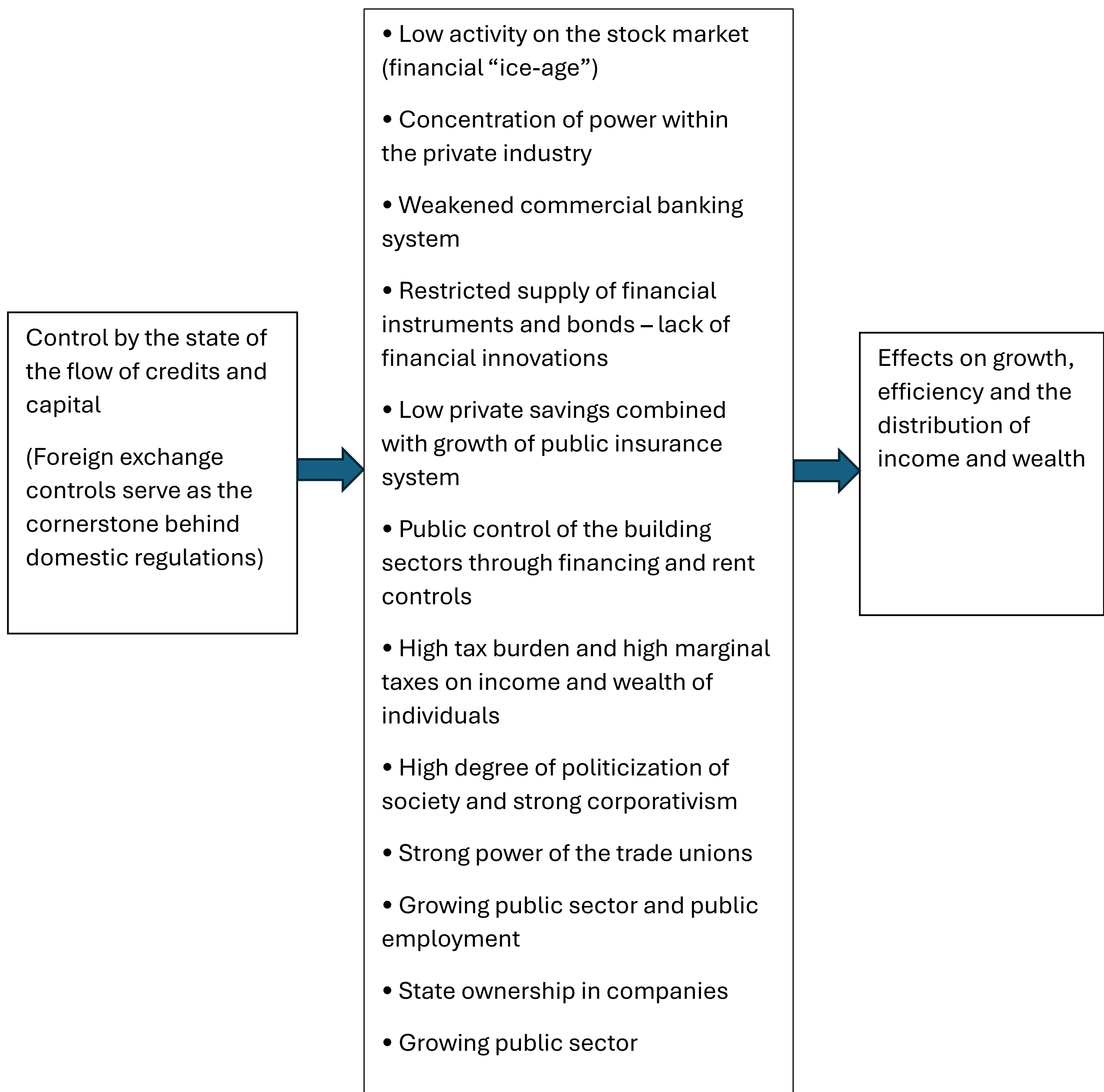

Figure 2. The social democratic model based on financial regulation, 1939-1989.

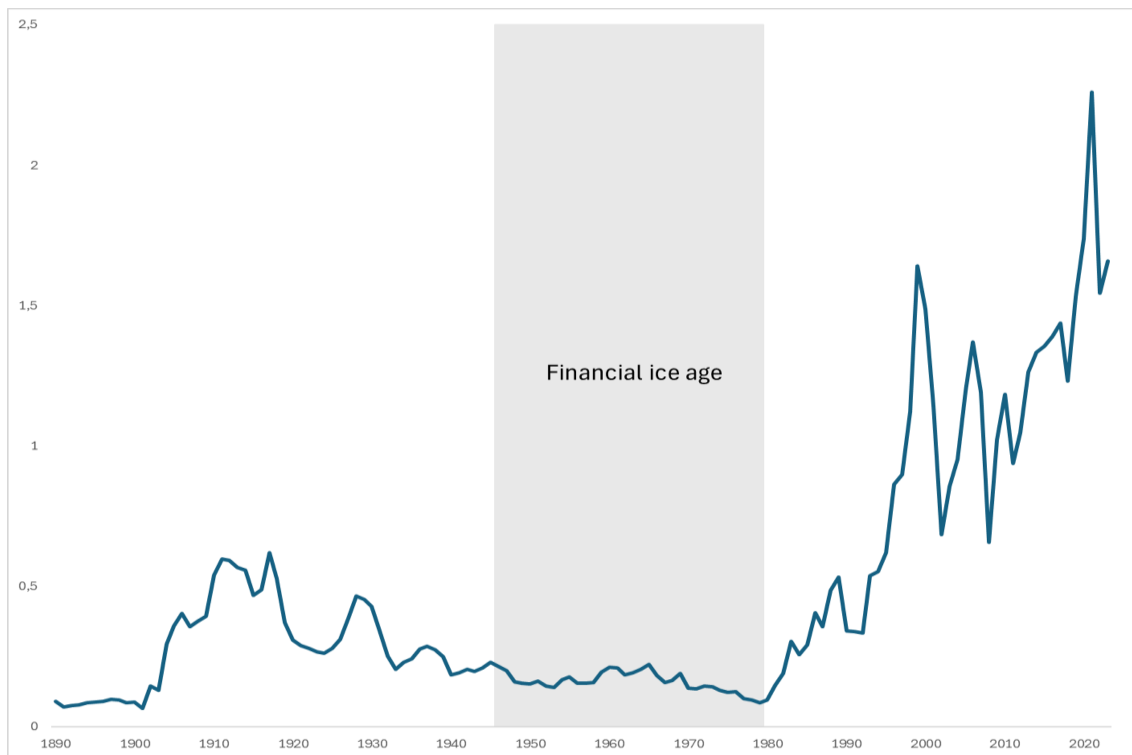

Figure 3. The aggregate market value of listed equities of the Stockholm stock exchange in relation to the GDP of Sweden, 1890–2020.

Source: Author's own calculations.

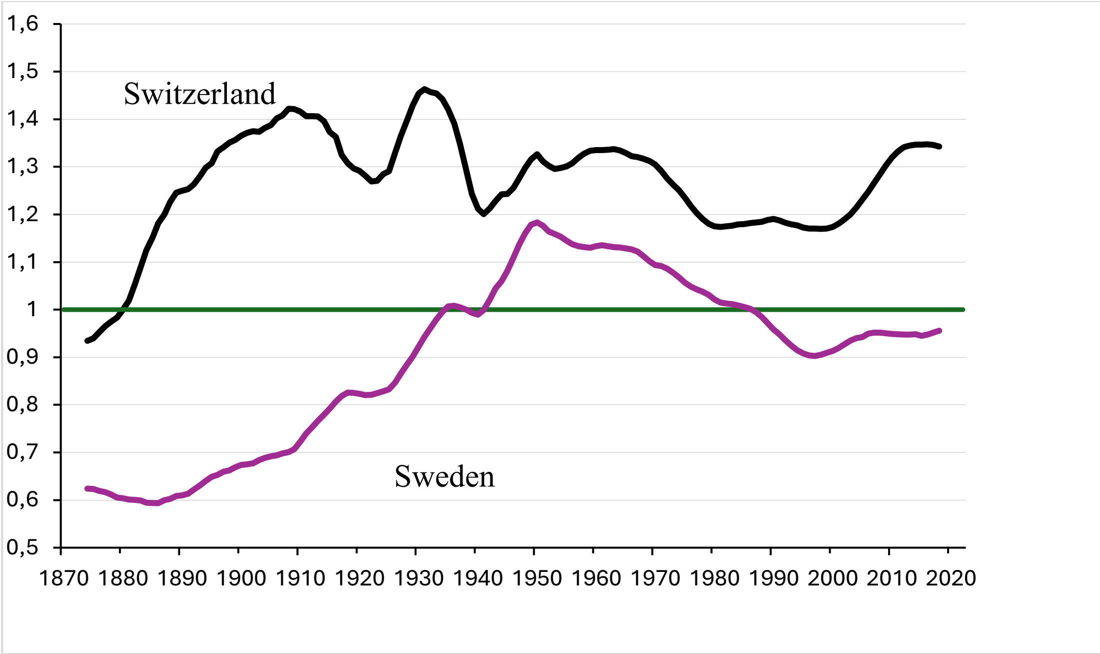

Figure A1. Sweden's and Switzerland's GDP per capita relative to the average GDP per capita of fifteen comparable industrialized countries, 1850–2020. A centered 9-year moving average.

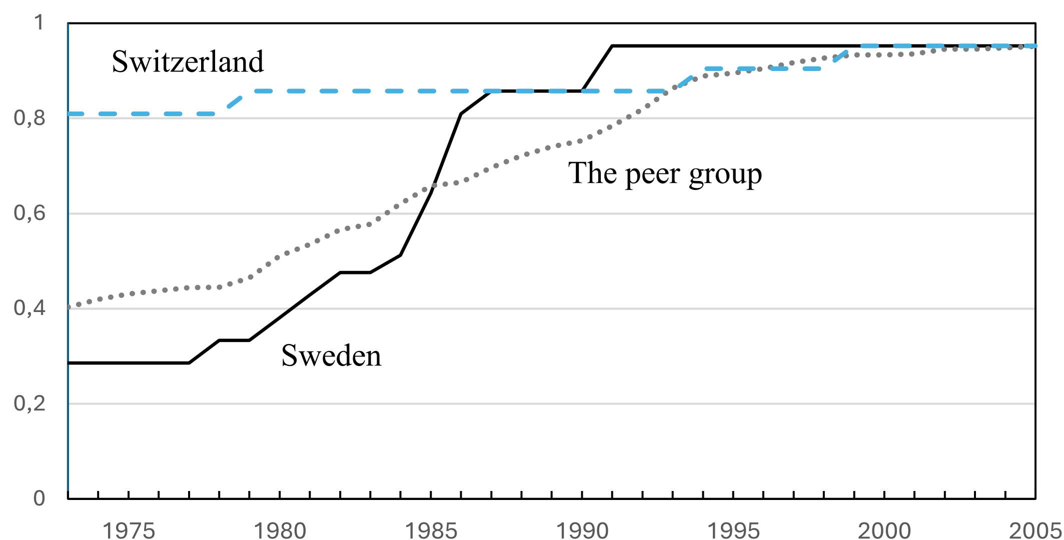

Figure A2. The degree of financial liberalization in Sweden, Switzerland, and fifteen comparable countries (the peer group), 1973–2005.

Comment: The index in the figure measures the degree of financial liberalization, where 0 represents heavily regulated financial markets and 1 represents deregulated financial markets. See Table 1 for a list of the fifteen comparable countries for which the average in the figure is calculated. Sweden is not included in this group.

Source: Abiad et al. (2008).

Table 1. The sixteen countries in the comparison group

Country
Australia
Austria
Belgium
Canada
Denmark
Finland
France
Germany
Italy
Japan
Netherlands
Norway
Sweden
Switzerland
United Kingdom
United States

Source: This selection is taken from Krantz (2000).

Table 2. Reforms underlying the neoliberal upswing, 1985-2009.

Year	Reform
1985	Domestic deregulation of the banking system ("November Revolution")
1989	Abolition of foreign exchange controls
1989–91	Deregulation of agriculture: negotiated prices replaced by market prices
1990	Deregulation of the taxi industry
1991	"Tax reform of the century" (reduced progressivity, 30% capital income tax)
1991	Free choice reforms under the Bildt government: electricity, postal services, domestic flights, and railways opened to competition. Commercial radio and TV permitted. School voucher system introduced.
1992	Abolition of wage earner funds
1992	Floating exchange rate for the krona
1993	Two percent inflation target introduced by the Riksbank
1993	Private employment agencies permitted
1995	Sweden joins the EU
1996	Fiscal policy framework established
1999	Pension reform (reform of the ATP system)
2000	National Audit Office established as an independent agency
2004	Abolition of inheritance and gift taxes
2007	Earned income tax credit introduced, later expanded in several steps
2007	Abolition of the wealth tax
2009	Abolition of the government pharmacy monopoly; entry barriers removed

Source: See i. a. Bergh (2016).