1. Introduction

Despite its modest population size, Sweden is an interesting country for social scientists worldwide. Some look at Sweden and see a frightening example of high taxes and a much too generous welfare state. Others point to largely the same things and see a role model. Sweden is or has been known for many different things. Some are myths: for example, Sweden never had the highest suicide rate in the world, but is in fact very close to the OECD average. Others used to be true but are no longer so: Swedish taxes were the highest in the Western world until around 2001, when Denmark overtook us. Recently, one of the most prominent features of Sweden has actually been rapid change: taxes have fallen, globalization has increased, unionization has fallen and inequality has increased.

At the beginning of the 1980s, the Swedish economy was a highly regulated and closed economy. Today, Sweden is one of the most globalized countries in the world. Over the past few decades, Sweden has been subject to one of the most rapid increases of globalization and economic liberalization in the world. When a great deal of change takes place over a relatively short period of time, it is easy to lose perspective. Outside Swedish borders, the perception of Sweden is often rather dated and, to some extent, still characterized by the Sweden of yesteryear. Then again, Swedes also become blind to their environment. For a long time, the debate in Sweden was dominated by economic problems and the fact that Sweden had lost its position as one of the richest countries in the world, ranked according to purchasing power per capita. Undoubtedly, this was an important debate, but when discussing the reasons for lagging behind during a period of roughly twenty-five years, we stand the risk of forgetting to draw lessons from the preceding one hundred years, which were very successful.

Between approximately 1870 and 1970 Sweden went from being one of Europe's poorest countries to being the fourth richest country in the world, after the US, Luxembourg and Switzerland. During roughly the same period Sweden also became one of the countries in the world where incomes are most evenly distributed across the population. This book begins with an attempt to explain this remarkable development.

The problematic period between 1970 and 1995 has been well covered in the literature. Sweden ran into trouble and the currency was devaluated repeatedly. Inequality started to spread and unemployment among young people began to rise. Nevertheless, this all happened at a slow pace, and started from low levels. A proper debate concerning Sweden's problems did not come about until the crisis of the 1990s was a fact. However, at this stage quite a few changes had already been completed. Between 1985 and 1997 in particular, the degree of capitalism, market economy and economic freedom increased in a variety of areas in Sweden. There was talk of system change and neoliberalism, but the welfare state and the high taxes persisted, albeit in a slightly different form: taxes remained high, but they became less progressive. Today, the welfare state is still universal, but allows more competition and freedom of choice.

Today, the picture of Sweden is mixed. Large parts of the economy have developed well for a long time, and public finances are among the best among Western democracies. Unemployment, however, remains a problem – especially among young people and immigrants. The final part of this book discusses the challenges ahead, and Sweden's potential to handle these problems through further reforms. Can the capitalist welfare state survive?