KAPITEL 2

THE SWEDISH COMPETITIVENESS SCORECARD 2017*

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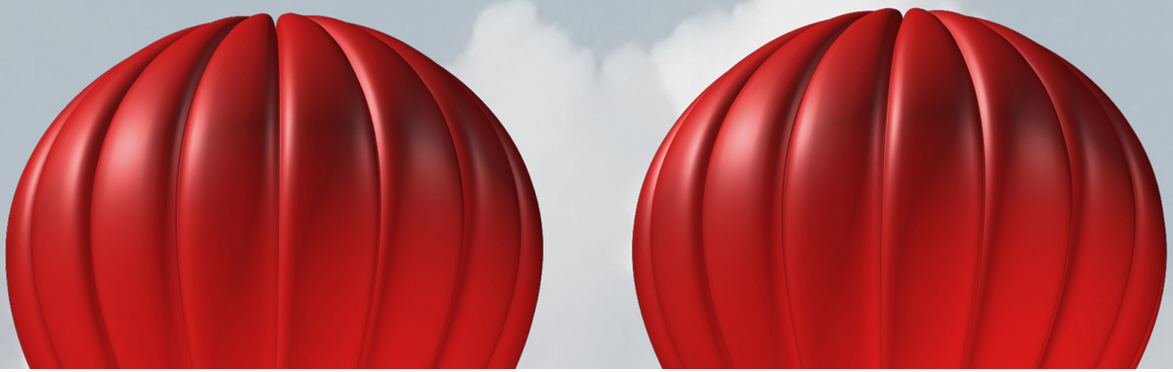
* Tack till Emma Lappi för datainsamling.



1. Introduction

Sweden's economy is going strong, a fact that the government is unsurprisingly happy to emphasize (Regeringskansliet, 2017a). And it is indeed not only the strong current performance that gives reason to be positive: It is easy to find many other international assessments that show the strengths of the Swedish economy and its underlying competitiveness. Only recently Sweden was ranked the 7th most competitive economy in the world (WEF, 2017). But at the same time performance in areas like unemployment remains beyond the country's ambitions, specifically for some groups (Calmfors et al., 2017; IMF, 2017). And there are concerns as to how sustainable the current performance is once the strong cyclical climate in the economy will normalize.

Sweden's strong fundamentals are the result of cumulative decisions made by governments from both sides of the political aisle over time. What policy areas should Sweden focus on to enable economic progress to be sustained also in the future? Is current policy action focused on the right issues, and does it offer an approach that seems appropriate given the issues at hand?

The Swedish Competitiveness Scorecard aims to provide an accessible instrument to inform this discussion. It is deliberately broad in its scope: many factors matter for competitiveness, understood as the quality of those fundamental factors that allow companies to achieve high productivity and thus support a high standard of living. And it is decisively evidence-based: what needs to be done is a matter of the specific circumstances here and now, not just of general principles. The ambition is to put the discussion of specific policy actions into the broader context of whether the country is addressing the right issues. This is clearly not just a matter of economic analysis, but also of political values and priorities. The Scorecard leaves these political assessments to the public debate. But it forces these assessments to be made in view of the existing evidence, not as a simple statement of ideological views.

The Scorecard focuses on the current drivers of competitiveness in Sweden. It does not aim to capture in any detail how global trends like climate change, demographic transitions, urbanization, and digitalization, will affect the dynamics of how the country's competitiveness translates into prosperity, and whether Sweden is well prepared to deal with these trends (for an example of such a trend scouting exercise see Bohme et al., 2016; OECD, 2016d). This could be a topic for future editions of the Scorecard.

The Scorecard can draw on a wide array of existing assessments and data sources. Where it moves beyond existing compilations of data (for example in Regeringskansliet, 2015) it is in the conceptual framework that it applies to structure and analyze the evidence. Without such a framework the data remains a list of indicators, with no way to understand patterns and set priorities. The framework used

is broad and inclusive, capturing the insights of many different streams of the relevant literature (Ketels, 2016).

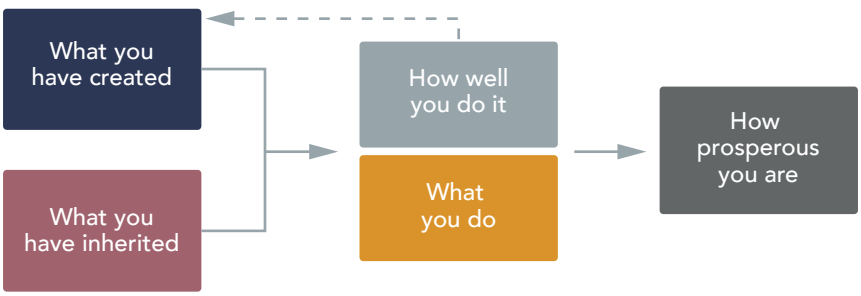
While Sweden continues to do well, the concern emerging from this analysis is that the country is currently not taking the steps necessary to ensure future success. This failure is to a large degree political: complex choices that would require building a political consensus across political blocks are not being made. An example is the reform of the tax deductibility of housing loans, a measure that a range of international bodies have identified as critical (EU, 2017; OECD, 2017a; 2017b; IMF, 2016). Ideological initiatives dominate but often fail to create predictable changes in the policy environment given the lack of a strong political mandate. Sweden's competitiveness is high and under no imminent threat. But the country could do more for its future in a world that is getting less forgiving for missing opportunities.

2. Structure of the Competitiveness Scorecard

WHAT IS COMPETITIVENESS?

Competitiveness is defined as the overall quality of all fundamental factors that allow companies to achieve high productivity and thus support a high standard of living (Porter, 1990). This focus on productivity distinguishes the definition used here from definitions based on costs used by Central Banks (e.g., ECB, 2017) and on the ability to export used in the analysis of specialization profiles (e.g., de Vries, 2016). All of these definitions have their place, but it is critical to recognize that they are addressing different questions (Ketels, 2016). For our purpose, i.e. understanding Sweden's ability to support a high and growing standard of living, the productivity-based definition of competitiveness is the appropriate one.

FIGURE 1: What Drives Prosperity?



The conceptual framework underpinning the scorecard sees the competitiveness fundamentals created in a location interacting with inherited conditions like geographical location, natural resources, and institutional legacies, to shape a specific specialization profile of economic activities and set the level of productivity firms in these sectors can achieve. What you do – the sectors in which the economy is active – feed back to fundamental capabilities through sector-specific investments and learning effects.

Policy – and that is an important underlying view – needs to focus on these 'created fundamentals' to have a sustained impact on prosperity and wellbeing (Ketels, 2017). Data on all other aspects, the legacy as well as the current specialization patterns, are important, however, to assess the performance of an economy and the quality of often hard to observe aspects of underlying competitiveness.

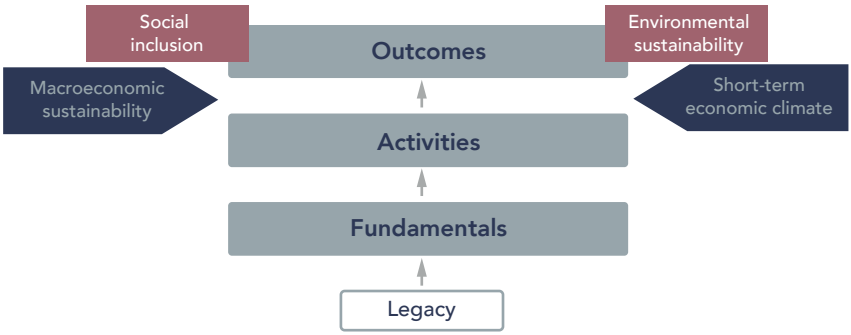
Competitiveness or economy-wide productivity is affected by many factors. Upgrading competitiveness requires to understand how they interact, and what their specific current nature is. Doing so is a matter of empirical analysis; while economic laws are universal, the way they play out is driven by the specific circumstances of a location or country. Only based on such an analysis is it policy to design an effective competitiveness strategy for a country (Rodrik, 2007). Upgrading competitiveness also requires more than one actor to move - competitiveness is influenced by many parts and levels of government as well as a wide range of private and private-public institutions (Fernadez-Arias et al., 2016). Getting them to act in concert requires a common understanding of the competitiveness profile the economy has, and of the priority issues it is facing.

Competitiveness is not a zero-sum game, even though competitiveness rankings easily create that impression. If one country gains a rank, someone else has to lose. This is the logic of firm rivalry. But economics is different: If one of Sweden's neighbors is becoming more productive, that is not bad for Sweden. It challenges less productive Swedish firms but allows Swedes to benefit from the higher productivity abroad through trade. Comparing Sweden's performance against that of key peers is useful to better understand both relative strengths and weaknesses of the Swedish economy. The ultimate benchmark, though, is absolute: how can Sweden improve its performance, with benefits for both its own and others' standard of living.

CORE BUILDING BLOCKS OF THE COMPETITIVENESS SCORECARD

The Competitiveness Scorecard organizes indicators around an impact logic connecting competitiveness fundamentals to economic activity to ultimate outcomes. Some additional controls and boundary conditions are added to ensure that the overall measures do indeed capture the foundations of national economic performance.

FIGURE 2: Core building blocks of the competitiveness scorecard



Outcomes capture the level of prosperity and prosperity generation that an economy generates, and the standard of living its society enjoys. They represent the ultimate test as to whether an economy is competitive.

More specifically we look at the following aspects of performance outcomes:

- Prosperity
- Labor productivity
- Labor mobilization

Economic activity indicators are symptoms that capture how fundamentals translate into current market outcomes. They are the key transmission channels from underlying competitiveness to actual prosperity, and thus provide critical insights into the health of the economy. But they make poor targets for setting policy goods, because the level of economic activity is also affected by other more short-term factors.

More specifically we look at the following four aspects of economic activity that are particularly powerful symptoms:

- Innovation indicating the build-up of foundations for future value creation
- Entrepreneurship indicating process of translating ideas into value
- Investment indicating trust in the sustained attractiveness of the location
- Trade indicating the ability to successfully compete with global peers

Competitiveness fundamentals are the root causes of the level of productivity and prosperity an economy can sustain over time. It is these fundamentals that ultimately need to be changed for a country to be able to raise prosperity. We include categories that have been found in the literature to play a meaningful role in driving prosperity.

More specifically we look at the following aspects of fundamental competitiveness:

- Education and workforce skills
- Access to capital
- Physical infrastructure
- Innovative capacity
- Openness of markets
- Incentives to work and invest
- Administrative infrastructure
- Business sophistication
- Related and supporting industries (clusters)
- Institutional quality

This impact logic is affected by a number of factors that have to be taken into account when drawing conclusions about current performance and future policy choices:

A location's legacy (e.g., geography including neighbors, natural resources, institutional history, size, demographics, and urbanization) affects how competitiveness fundamentals translate into economic activity and ultimately outcomes. Policy can't change

legacy but legacy affects the impact policies have on economic outcomes. Legacies change only very slowly, if at all.

We discuss some of these aspects for Sweden but do not track them in the indicators of the Scoreboard.

The short-term economic climate (domestic business cycle, global demand) affects short-term levels of economic activity and outcomes, even when competitiveness fundamentals are unchanged or move in the opposite direction. They have to be taken into account when interpreting whether performance in activities or outcomes is cyclical (temporary) or structural (sustainable). Policy makers have a range of tools that can affect the short-term economic climate but many of these measures do not change or may even deteriorate competitiveness.

We track the following aspects of the short-term economic climate:

- Business sentiment
- GDP growth of main trading partner

Unsustainable macroeconomic trends, for example in terms of escalating public borrowing or persistent trade imbalances, can in the short run support levels of economic activity and even prosperity outcomes that are not supported by fundamental competitiveness. Macroeconomic stability is, as the recent European sovereign debt crisis has shown, necessary for prosperity to be sustainable.

We track the following aspects of macroeconomic balance:

- Growth of housing prices
- Public sector deficit
- Unit labor cost changes
- Current account balance

GDP-based measures of average prosperity can miss important dimensions of a society's actual well-being (Aiginger, 2015; Stiglitz et al. 2009). The Scorecard thus looks also at measures of **shared prosperity**, capturing the standards of living of less prosperous parts of society and non-GDP driven measures of **social progress** and **environmental sustainability**. Policy can in the short term achieve higher GDP growth at the cost of social progress, undermining future and sometimes also current levels of wellbeing.

We track the following aspects of broader influences on wellbeing:

- Social progress
- Environmental sustainability
- Inequality

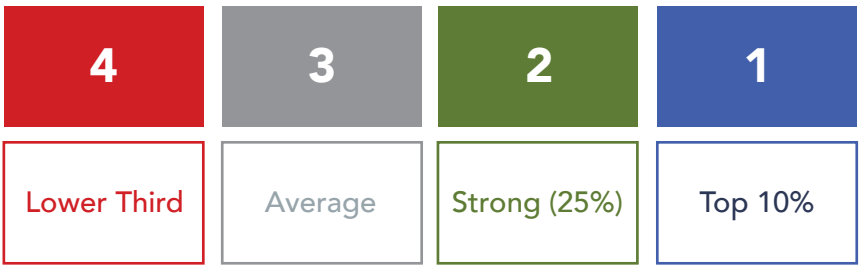
For the choice of specific indicators to capture these different conceptual ideas we proceed pragmatically. Our aim is to be inclusive, i.e. capture those dimensions for which there is significant support in existing research. Indicators have to be valid, i.e. appropriately reflecting the quality of the specific aspect of competitiveness they are

intended to represent, and available, i.e. provided regularly for Sweden and key peer countries with a limited time lag. The specific indicators and the sources from which they are drawn are documented in an appendix. We plan to refine the choice of specific indicators over time.

In terms of data sources we use mainly official statistics provided by the EU, OECD, and World Bank. Where possible we choose indicators that are formally included in policy documents like the Europe 2020 strategy and the EU's Macroeconomic Imbalances Procedure. For economic outcomes, especially productivity, we also use the Conference Board's Total Economy Database; it has comprehensive coverage and captures key relevant aspects of economic activity. For competitiveness fundamentals we use as an additional source the survey data and composite indicators that the World Economic Forum provides through their Global Competitiveness Report. While the validity of survey data is not as strong as for the other sources this is often the most meaningful data currently available on these issues.

We compare Sweden's position against a peer group of relevant economies, always indicating the specific comparison group for which data is available. In most cases this is the group of EU members or of the OECD, in some cases also a broader mix of leading advanced and emerging economies. In the exhibits we use a modified traffic light system to communicate the results: Blue indicates a Swedish position among the very top countries (top 10 percent of countries), green a position among the leading group (top 25 percent), red a position in the bottom third, and grey a position in between. Where the ranking includes all economies globally, we define group 1 as the top 5 countries, group 2 as ranks 6-15, group 3 as ranks 16-30, and group 4 as rank 31 and higher. We report Sweden's specific rank on individual indicators, and the group (1 to 4) that this rank represents given the specific comparison group. The traffic light value for the indicator group is given based on the simple average of constituent indicator values. Rankings are an easy and transparent way to compare data across many indicators. However, it is important to keep in mind that they force the distribution of actual values into a distribution with uniform distances, so that small actual differences can translate into large ranking differences.

FIGURE 3: Modified Traffic-Light System



An individual indicator can send a misleading signal: there might be country-specific structural reasons that affect its validity as a measure of the underlying issue it is designed to capture, or there might be issues with the data collection process itself, especially if the indicator is survey based. This is a particular challenge for indicators of competitiveness fundamentals, a dimension of economic performance that is much less well tracked than indicators of economic activity or ultimate outcomes. We are therefore looking at a range of indicators capturing different aspects of the same underlying issue.

The performance on a particular outcome or economic activity indicator can be driven by different combinations of underlying factors. Undertaking a root cause analysis is critical to identifying the most relevant driver in a given situation (Hausmann et al., 2005). We therefore look particularly at patterns across a range of indicators that are logically linked and point in a similar direction.

Most economic analysis is focused on identifying relative weaknesses. That is appropriate for assessing ultimate performance and intermediate economic activity. For underlying competitiveness fundamentals, however, it can be equally instructive to look at the distinct areas of strength that a country provides. No location can or needs to be best at everything; the critical factor is to provide a coherent mix of competitive advantages that supports a value proposition in line with the country's economic ambitions.

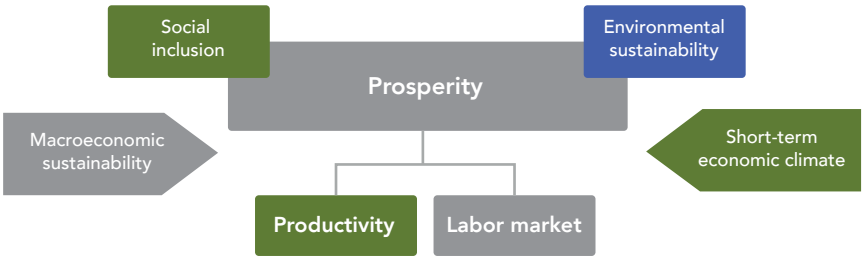
3. Observations on Sweden

THE 2017 SWEDEN COMPETITIVENESS SCORECARD

Outcomes

Sweden's current overall performance supports a high standard of living, comparable to the group Sweden's direct peers. Some of the peer countries that rank higher tend to benefit from natural resources (Norway), a large presence of foreign companies (Ireland), or a large number of non-residents working in the economy (Luxembourg).

FIGURE 4: Outcomes, Ranking overview



Sweden's high average prosperity is matched by strong or even leading performance in social inclusiveness and environmental sustainability. On social inclusion, Sweden continues to do well on indicators like median income and income inequality measured by the Gini coefficient. Over time, inequality has, however, increased, as in many peer countries, and is now closer to the peer group average. There are also issues with the integration of migrants that tend to achieve considerable worse in areas like educational outcomes and labor market performance. Likely as a result of this Sweden has compared to its prosperity and median income rank a relatively sizable share of people in danger of relative poverty. On environmental sustainability, Sweden continues to outperform many of its peers. The country also does well on other aspects of non-GDP related social progress and well-being.

Table 1: Prosperity and Beyond-GDP Performance, Indicator Ranks

	Sweden's Position		Date	Comparison Group		Source
	Rank	Category		Number	Selection	
Prosperity						
GDP per capita	9	3	2017	27	EU	EU
Disposable income	9	3	2017	27	EU	EU
SPI	6	2	2016	37	EU plus	Social Progress Index
EPI	3	1	2016	37	EU plus	Evironmental Performance Index, Yale
Inequality	7	2	2012	37	OECD	OECD
Median income	5	2	2017	37	EU plus	Europe 2020 Indicators
Risk of poverty	11	3	2016	34	EU plus	Europe 2020 Indicators

On the two mathematical components of prosperity generation, labor productivity and labor mobilization, Sweden registers a solid and balanced performance. It is this somewhat unusual ability to combine good performance in both of them that supports the country's high overall prosperity level relative to peers. Higher productivity can be achieved by excluding less skilled people from the labor force; higher labor mobilization often puts people into more marginal, less productive jobs.

On labor productivity, Swedish GDP per hour worked is solid but the country does not rank among the top group of peers. Total factor productivity growth over the last few years has been strong relative to many peers but not remarkable when viewed against historical trends.

On labor mobilization, hours worked per capita are relatively low. Sweden puts many people into the workforce; in fact, the employment rate puts it in the top group of EU countries. But for many of them employment intensity is limited with hours worked per employee only in the bottom quartile of EU countries. Unemployment

rates are also higher than in top performing countries, and there are signs that especially new entrants to the labor market and those with lower skills, often with a foreign background, find it hard to get a full-time job.

Table 2: Labor Productivity and Mobilization, Indicator Ranks

	Sweden's Position		Date	Comparison Group		Source
	Rank	Category		Number	Selection	
Labor productivity						
GDP per hour	10	3	2017	27	EU plus	Conference Board, Total Economy Database
3 year labor productivity growth	6	2	2017	27	EU plus	Conference Board, Total Economy Database
TFP growth, 2017	7	3	2017	24	Leading economies	Conference Board, Total Economy Database
TFP growth, 5 year average	5	2	2017	24	Leading economies	Conference Board, Total Economy Database
Labor mobilization						
Hours per capita	16	3	2017	27	EU plus	Conference Board, Total Economy Database
Hours per employee	19	4	2017	27	EU plus	Conference Board, Total Economy Database
Current unemployment rate	20	3	2017	37	OECD	OECD
3 year average unemployment rate	12	3	2016	28	EU	EU Macroeconomic Imbalance Procedure
Employees per capita	16	3	2017	27	EU plus	Conference Board, Total Economy Database
Employment rate	3	1	2016	33	EU plus	Europe 2020 Indicators
Long term unemployment	1	1	2016	28	EU	EU Macroeconomic Imbalance Procedure
Youth unemployment	16	3	2016	28	EU	EU Macroeconomic Imbalance Procedure

Sweden's current economic performance is fueled by the strong cyclical position of the Swedish economy, driven in good part by the lenient path of monetary policy. Especially consumption and labor market performance are benefiting from these short-term conditions that will eventually abate. While this will require some adjustment, and especially the private debt-fueled rise in housing prices is a concern, it is highly unlikely that Sweden's high prosperity is fundamentally the result of unsustainable macroeconomic trends.

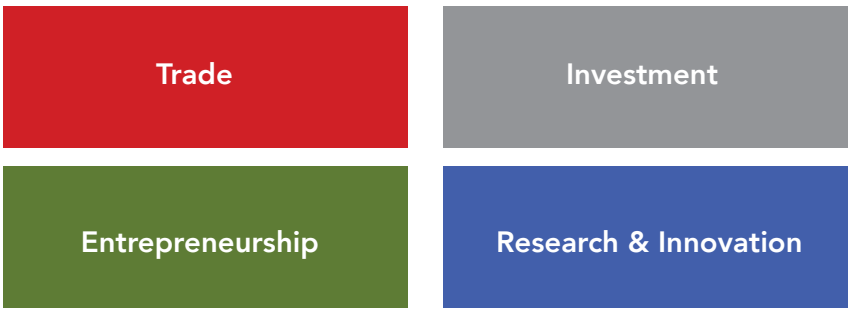
Table 3: Business Cycle and Economic Sustainability, Indicator Ranks

	Sweden's Position		Date	Comparison Group		Source
	Rank	Category		Number	Selection	
Business cycle						
Business confidence index	4	2	2016	27	EU plus	EU
Largest trade partner GDP growth	6	2	2016	37	OECD	OECD
Sustainability						
Wage growth 5 years	8	3	2016	28	OECD	OECD
ULC growth 5 years	9	3	2016	28	OECD	OECD
Public debt	9	3	2016	28	EU	EU Macroeconomic Imbalance Procedure
Change in debt level, 14-16	7	3	2016	28	EU	EU Macroeconomic Imbalance Procedure
Private sector credit	22	4	2016	28	EU	EU Macroeconomic Imbalance Procedure
Housing prices	41	4	2016	35	OECD	OECD
Current account balance 3 years	7	3	2016	28	EU	EU Macroeconomic Imbalance Procedure
ULC growth nom	18	3	2016	28	EU	EU Macroeconomic Imbalance Procedure
House price index	27	4	2016	28	EU	EU Macroeconomic Imbalance Procedure

Economic Activity

Sweden achieves mixed scores on indicators that track how underlying competitiveness is translated into economic activity. However, its traditional advantages on these indicators are gradually eroding, and the pathways from some of them to shared prosperity seem to be getting more complex.

FIGURE 5: Economic Activity, Ranking Overview



Exports and inward foreign direct investment (FDI) are important signs of the current global attractiveness of a location. Swedish companies remain successful on global markets. But Swedish export values have been stagnant, with global trade overall developing much less dynamically since 2011. Sweden's world export market share has been on a downward trend, despite a slightly better performance in 2016. On inward FDI the data points broadly in the same direction, with also here a longer term negative trend but 2016 an unusually strong year. Over time Sweden's engagement with the global economy has happened increasingly through rising inward and outward FDI, and less so through trade.

Investments, both foreign and domestic, are an investor's vote of confidence in the ability of a location to support future profitability. Investments in machinery have been relatively low for some time, especially in view of the low financing costs. But investment has been picking up somewhat recently, and Sweden's performance is not unusual compared to peers with similarly high existing capital stocks. As for many other advanced economies non-tangible assets (patents, brands, trademarks, etc.) are becoming increasingly more important for Sweden, and here the country's position remains solid.

Table 4: Trade and Foreign Direct Investment, Indicator Ranks

	Sweden's Position		Date	Comparison Group		Source
	Rank	Category		Number	Selection	
Trade						
Absolute export growth, 2010-16	38	4	2016	48	EU, ACP	WTO
5 year market share change	26	4	2016	28	EU	EU Macroeconomic Imbalance Procedure
Investment						
Inward FDI Stock rel to GDP	18	3	2016	49	EU, OECD	UNCTAD
FDI inflow change 2014-16 vs 2004-06	35	4	2016	49	EU, OECD	UNCTAD
Domestic Investment rate	8	3	2016	20	OECD	World Bank
Growth in GFCF	6	2	2016	39	OECD	OECD

Innovation is a sign that a location is providing an attractive environment for the creation of new, potentially valuable knowledge. Sweden remains a top performer in this area but at least in some dimensions the gap towards others is slowly eroding. On public R&D spending, Sweden's advantage relative to the EU has over the last three years dropped from 46 percent to 39 percent. On private sector R&D intensity Sweden is 75 percent above the EU average, similar to 2012 but

significantly lower than in prior years. On patenting, too, Sweden remains ahead but at a slowly eroding rate.

Entrepreneurship is similarly an entrepreneur's vote of confidence in the qualities of a location to support a successful business. Sweden has long been perceived as a country dominated by a few large firms, with often limited entrepreneurship. The data shows an increasingly different profile, with rates of especially opportunity-driven entrepreneurship rising and at levels comparable to many peers. Where Sweden continues to underperform is the expectation of entrepreneurs to create a significant amount of jobs. In the short run, entrepreneurial activity in Sweden has in 2016 recovered after a marked drop in 2014, with most of these changes explained by falling and then again rising early-stage entrepreneurship of women.

Table 5: Innovation and Entrepreneurship, Indicator Ranks

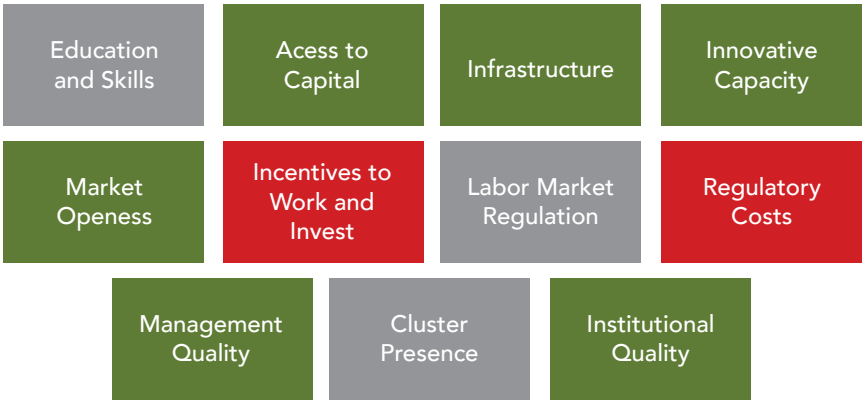
	Sweden's Position		Date	Comparison Group		Source
	Rank	Category		Number	Selection	
Innovation						
Public R&D spending	2	1	2015	36	EU plus	Europe 2020 Indicators
Private R&D spending	2	1	2015	36	EU plus	EU Innovation Scorecard
Overall spending	5	2	2015	37	OECD	OECD
Patenting relative to GDP	2	1	2015	36	EU plus	EU Innovation Scorecard
Entrepreneurship						
Opportunity-based entrepreneurship	4	2	2016	36	EU plus	EU Innovation Scorecard
Employment in fast growing firms	7	2	2016	36	EU plus	EU Innovation Scorecard

Competitiveness Fundamentals

Measuring competitiveness fundamentals is complex because the number of areas that matter is large. Even within specific areas there tend to be many aspects, and efforts to provide an overall impression easily miss some dimensions that do not align with the broader profile. The Scoreboard provides both an overall assessment for each area and a discussion of the underlying data that leads to this view. The detailed rankings and data sources are in the appendix.

Sweden has a tradition of combining strong factor input conditions with open product markets, a mix that has supported its economic performance over time despite weak incentives and a sizable administrative burden on firms. There is no dramatic trend change visible on Sweden's absolute performance; the key question will be whether there are external changes that will affect how underlying competitiveness translates into economic activity and prosperity.

FIGURE 6: Competitiveness Foundations, Ranking Overview



Education and Skills

On human capital, an increasingly critical driver of prosperity, Sweden continues to offer a well trained workforce and a high share of people with tertiary education. There is also evidence to suggest that lifelong learning is well developed compared to peers.

Table 6: Education and Skills, Indicator Ranks

	Sweden's Position		Date	Comparison Group		Source
	Rank	Category		Number	Selection	
Skills						
Tertiary educated in workforce	13	3	2015	37	OECD	OECD
School leavers w low degree	11	3	2016	32	EU plus	EU 2020 indicator
Quality of education system	20	2	2016	138	Global	Global Competitive-ness Report
Higher education and training	18	2	2016	138	Global	Global Competitive-ness Report
Tertiary education in workforce	13	3	2015	37	OECD	OECD
Share of Engineering and Natural Sciences in tertiary education	3	1	2012	37	OECD	OECD
Skill mismatch in workforce	4	2	2012	22	OECD	OECD

Where there are concerns, and have been for some time, is the quality of education in the school system, and the matching of skill supply and demand on the labor market. The most recent PISA assessments have seen the educational attainment of students in

Swedish schools improve, but their performance is still relative weak compared to many peers. There are also concerns about a relatively high group of students not finishing their education, leading to a bifurcation of the skill base. And while the general level of education has been rising in younger cohorts, there are signs that the educational profile of new entrants to the labor market does not match the economy's needs well.

Access to capital

On financial capital, Sweden offers a solid financial system providing a full range of financial instruments to investors. Especially the risk capital system is more developed than in many other European countries. This does not imply that there are no issues or areas in which improvements would be possible – from the high profit margin of Swedish banks to a focus on later stage investments by risk capital firms and a public support system perceived as fragmented and not more active in early stage financing (Svensson, 2017; Tillväxtanalys, 2017). But relative to other countries Sweden's financial system remains a strength, even if there are signs that Stockholm has lost some position relative to other leading financial centers.

Nordea's decision to move its headquarters to Helsinki is unlikely to affect the availability of financial services to the Swedish economy. It does, however, suggest that Sweden needs a more forceful debate on the costs and benefits of remaining outside the regulatory system of the EU Banking Union. With a large financial sector in relation to GDP Sweden has argued that it needs a more robust system for banking regulation.

Table 7: Access to Capital, Indicator Ranks

	Sweden's Position		Date	Comparison Group		Source
	Rank	Category		Number	Selection	
Access to capital/ financial system						
Financial market development	10	2	2017	138	Global	Global Competitiveness Report
VC as % of GDP	9	2	2015		EU plus	EU Innovation Scorecard

Physical infrastructure

Physical infrastructure has recently gained more attention even in advanced economies where it had become seen as table stakes that allowed no differentiation. In transportation, communication, and energy infrastructure Sweden does rank solidly but not exceptionally. In broadband penetration, for example, an area where Sweden had historically been in the leading group, its position has weakened somewhat to rank 11th on fixed and 6th on mobile broadband. Infrastructure investment as a share of GDP is at the OECD average.

For transportation infrastructure Sweden has to deal with the challenges of a large and in parts not very densely populated country that makes investments in assets

like fast-speed trains harder to justify. Meeting environmental targets might also be more complex under these circumstances. Whether the proposed air transport tax achieves a reasonable compromise between these goals will be the focus of more political debate. Similar policy uncertainty has recently been created through the discussion about the future of Bromma airport. Sweden has robust flight connections but its main airport in Stockholm Arlanda lags behind not only leading European hubs but also Copenhagen as its main regional competitor.

Table 8: Physical Infrastructure, Indicator Ranks

	Sweden's Position		Date	Comparison Group		Source
	Rank	Category		Number	Selection	
Physical infrastructure						
ICT use	7	2	2017	138	Global	Global Competitiveness Report
Transport infrastructure	22	3	2017	138	Global	Global Competitiveness Report
Quality electricity supply	15	2	2017	138	Global	Global Competitiveness Report
Broadband fixed	11	3	2016	35	OECD	OECD
Broadband mobile	6	2	2016	35	OECD	OECD
Logistics performance index	3	1	2017	190	Global	World Bank
Transport infrastructure investment	17	3	2014	34	OECD	OECD

Innovative capacity

Innovative capacity depends on the strength of the academic system as well as on the linkages that exist within the system and between academia and industry. Sweden's academic system is robust with a good number of universities well placed internationally. However, while research quality is high it does not put the country among the very top in Europe or globally (share of highly cited publications). Success in attracting EU funding through the Horizon program is solid and above the EU average but again not exceptional when measured against leading peers.

There is also some evidence that the linkages within the innovation system are relative well developed when compared to other countries. This is hard to quantify because many measures are affected by the specific characteristics of the innovation system. Sweden has, for example, traditionally a less well developed industrial research institute infrastructure (although there have been new initiatives to beef them up recently) but universities that are more active in working with industry.

Table 9: Innovative Capacity, Indicator Ranks

	Sweden's Position		Date	Comparison Group		Source
	Rank	Category		Number	Selection	
Innovative capacity						
R&D pers in work-force	5	1	2013	37	OECD plus	OECD
Quality of research papers	7	2	2015	36	EU plus	EU Innovation Scorecard
Innovation pillar	7	2	2017	138	Global	Global Competitiveness Report

Openness of markets

Low entry barriers and equal treatment of firms are essential conditions for the existence of competitive markets. Sweden ranks high on all of these measures. Markets are generally open, in fact there is more private sector activity in areas like health services and education than in many other advanced economies. At the same time government is more often active as an owner than in other countries. But firms are to a large degree treated equally independent of the owner. Start-ups are not subject to any particularly burdensome regulation. The country is open to foreign investment and trade. For competition and trade policy the EU provides the overall context, but country-specific implementation differs across the EU.

Table 10: Market Openness, Indicator Ranks

	Sweden's Position		Date	Comparison Group		Source
	Rank	Category		Number	Selection	
Product market openess						
PMR: Market inter-ference	2	1	2013	47	OECD plus	OECD
Intensity of local competition	25	3	2017	138	Global	Global Competitiveness Report
Foreign competi-tion	15	2	2017	138	Global	Global Competitiveness Report
DB: Trading across borders	18	3	2016	190	Global	World Bank
DB: Starting a business	15	2	2016	190	Global	World Bank
PMR: Burden on start-ups	10	2	2013	47	OECD plus	OECD

Despite this high degree of openness the actual level of rivalry in many markets is not particularly high. To some degree this is a function of moderate market size: the

market potential might just not be high enough for foreign entrants but also disruptive start-ups to focus on Sweden when launching new efforts. It can, however, also be related to a relatively high administrative burden of operating businesses (see below) that makes entry and aggressive competition less attractive.

Administrative burden

Regulations are an important element of a market economy, setting the common rules of the game for companies to compete in. From a competitiveness perspective the key question is whether regulations achieve their desired objective at a reasonable administrative cost to firms. What these objectives are is a political decision, not a question of competitiveness. While these two aspects are theoretically distinct, they are often hard to separate empirically.

While the EU provides an important context for regulation, it should be noted that there are significant variations on these measures across EU member companies. Sweden ranks below leading peers when it comes to the existing measures of administrative burden. Specific analyses by the World Bank for Sweden have identified a range of areas in which administrative efficiency could be enhanced (World Bank, 2014). Companies perceive the burden and complexity of regulation in Sweden as high against this benchmark, and this is likely to have real implications for their operations and investment behavior.

Table 11: Administrative Burden, Indicator Ranks

	Sweden's Position		Date	Comparison Group		Source
	Rank	Category		Number	Selection	
Administrative burden						
Product market regulation PMR	26	3	2013	47	OECD plus	OECD
PMR: Public ownership	37	4	2013	47	OECD plus	OECD
Burden of government regulation	23	3	2017	138	Global	Global Competitiveness Report
PMR: Complex regulation	35	4	2013	47	OECD plus	OECD

Labor market regulations

The measurement of labor market regulations is a highly contentious area of empirical research. The World Bank, for example, publishes data but has stopped calculating an overall index for the flexibility of labor market regulations. Most of the disagreement is on how to evaluate specific rules and outcomes, not so much the direct economic impact that specific types of regulations have.

Sweden has relatively restrictive rules for permanent employees but much less stringent regulations for temporary workers. The Swedish rules provide significant

protection for the individual in permanent employment, while there is more flexibility if a firm with its entire work force is in trouble. Union behavior, too, plays an important role and here Sweden is generally seen as a positive example for a productive relationship among labor market partners. Spending on active labor market policy is high; only Denmark is spending more on this relative to GDP.

Table 12: Labor Market Regulation, Indicator Ranks

	Sweden's Position		Date	Comparison Group		Source
	Rank	Category		Number	Selection	
Labor market regulation						
EPL individual dismissal	26	4	2013	34	OECD	OECD
EPL temporary employment	6	2	2013	34	OECD	OECD
Labor market flexibility	72	4	2017	138	Global	Global Competitiveness Report

A related area is that of migration. Swedish policy has traditionally focused on asylum seekers and refugees, while being much more restrictive in terms of labor migration. This has led to a number of cases in which foreigners with high qualifications and well-paid jobs have been deported. The guiding principle has been to avoid any pressure on the Swedish labor market system and the protection it provides. In the past this has led to concerns about companies from other EU countries, in particular construction companies from the Baltics and Poland, operating in Sweden. More recently it has affected immigrants that have found jobs in Sweden but had aspects of their employment history that did not follow Swedish labor market rules.

Incentives to work and invest

Economic activity is not only affected by the opportunities for economic activity that exist but also by the private returns that are available.

Sweden's high levels of taxation, especially the high marginal rates for labor income, have a significant effect on incentives. Reforms over the last few years have lowered rates especially for entry level jobs and provided selective tax reductions for specific groups (young, migrants) and labor intensive-sectors (RUT/ROT). The recent moves to roll-back at least some of these changes will again reduce incentives, although the most recent budget proposal includes new tax relief for small businesses planning to hire new employees.

Capital is traditionally taxed at rates similar or even lower than in peer countries. But here Sweden's position has weakened as other countries have lowered rates over time. The significant differences between the taxation of capital and labor has furthermore created the need to develop complex mechanisms to avoid shifting labor income

to capital income. These mechanisms have created complexity and are perceived to affect particularly small companies negatively. The proposed limits to private profitability for firms providing primary and secondary school education would significantly erode private firms' willingness to offer these services.

Table 13: Incentives to Work and Invest, Indicator Ranks

	Sweden's Position		Date	Comparison Group		Source
	Rank	Category		Number	Selection	
Incentives to work and invest						
Overall tax burden	28	4	2016	35	OECD	OECD
Marginal tax rate on labor	35	4	2016	35	OECD	OECD
Threshold for top rate in multiple of average wage	26	4	2016	35	OECD	OECD
Incentives to invest	66	4	2017	138	Global	Global Competitiveness Report
Incentives to work	103	4	2017	138	Global	Global Competitiveness Report

Business sophistication

The quality of management and the sophistication of firms as a driver of locational competitiveness has only recently gained attention (Bloom/van Reenen, 2014). Partly this has been the consequence of new firm-level data becoming available that points towards large difference in productivity, even within a sector and location.

Swedish firms are generally seen as having high levels of managerial quality, putting them into the group of top countries on this measure. But with most of the data likely focusing on larger, internationally active firms, a group of companies among which Sweden is well represented, it is unclear whether this data is fully representative. More research is needed to better understand the distribution of managerial performance across firms within Sweden.

Table 14: Management Quality, Indicator Ranks

	Sweden's Position		Date	Comparison Group		Source
	Rank	Category		Number	Selection	
Management quality						
Business sophistication	6	2	2017	138	Global	Global Competitiveness Report
Management quality	4	1	2017	30	OECD plus	World Management Survey

Related and supporting industries (clusters)

The specialization of a location in specific groups of related and supporting industries, and the dynamism that these groups of activities achieve affect the productivity levels that a location realizes.

Sweden does rank solidly on many of these measures. Its specialization pattern is in line with its advanced stage of economic development, and is projected to provide good growth opportunities relative to many of its peers. The presence of clusters, too, is in line with many leading peers, both in terms of strong current clusters and the position in emerging industries that are seen to provide opportunities for future cluster emergence (EU, 2017).

Table 15: Clusters, Indicator Ranks

	Sweden's Position		Date	Comparison Group		Source
	Rank	Category		Number	Selection	
Clusters						
State of cluster development	16	3	2017	138	Global	Global Competitiveness Report
Economic complexity	6	2	2016	124	Global	Kennedy School of Government
Share of emp in strong clusters	15	3	2014	28	EU	EU Cluster Observatory

Institutional quality

Institutional quality, from the presence of strong property rights to the efficiency of the public sector to the absence of corruption, are critical foundations of high productivity. Sweden ranks traditionally very high on relevant indicators, and the data gives at least so far little indication of any fundamental erosion of this position. Discussions about personal safety and the sufficiency of policy presence as well as about the efficiency and effectiveness of some parts of government administration are, however, a sign that this strong position cannot be taken for granted indefinitely (WEF, 2017).

Table 16: Institutional Quality, Indicator Ranks

	Sweden's Position		Date	Comparison Group		Source
	Rank	Category		Number	Selection	
Institutions						
Institutional quality	11	2	2017	138	Global	Global Competitiveness Report
Corruption perception index	4	1	2016	176	Global	Transparency International

IMPLICATIONS

Overall Sweden ranks high on many dimensions of competitiveness. Performance is strong, with unemployment down and growth robust. Current performance is, however, also benefiting from the current macroeconomic conditions. Economic activity is high although Sweden's changing position in the global economy is worth further study. The patterns of underlying competiveness support the current prosperity level. But they are not without weaknesses, and in some areas peer countries have been catching up.

Key issues for policy makers

There are some issues that warrant particular attention, either because there is evidence of a problem across related indictors or because weaknesses affect a particularly central element of Sweden's competitive positioning. All of these issues share a need for longer-term solutions, based on a fundamental consensus that ensures predictable policies over time.

- **Educational quality and skill supply** have been on the political agenda for years, and a range of reforms have been implemented. While Sweden's performance on educational attainment has now stabilized it remains at a level that is worryingly low given the country's clear ambition to compete on knowledge and skills. And it is not simply a matter of resources: spending per student is in line with other OECD countries for primary and secondary education, and relatively high for post-secondary education (OECD, 2016d). It is a question of how the education system is organized, what incentives it provides and is subject to, and whether there is a stable context in which it can develop. The data on labor markets suggests that Sweden is facing a broader challenge on how to ensure a skill advantage in the future. One of the lowest skill premiums in the OECD gives weak signals to students qualification needs. This so-called 'wage surpression' is likely to be driven by the structure of the labor market, but is also consistent with many individuals with higher degrees reaching relatively low levels of productivity in their actual occupations. Free university education encourages viewing academic training as a consumption good rather than as an investment. At the same time there is a sizeable group of students that drops out of education, finding it hard to gain alternative pathways to qualification. Given how central a skill advantage is for Sweden's competitiveness, it is critical to find more effective ways to invest in skills that are needed in the future.

- **Innovative capacity** seems an unlikely candidate to raise as an issue to watch – Sweden ranks high on composite measures of innovative capacity, and there are few terms that Swedish politicians like to emphasize as much as innovation. The data shows, however, that despite many strengths there are growing concerns. The OECD has in its reviews emphasized challenges in terms of strengthening the university research base (OECD, 2016b). It has proven hard to improve research quality while

also increasing the size of the university system. Coordination and governance have been characterized as weak, both in terms of the efforts to enhance business-academia relations and for the university sector. Given how critical innovative capacity is to the Swedish economy these are early warning signs that need to be addressed.

- **Entrepreneurship, incentives, and labor markets** are central elements of the competitiveness impact logic. Sweden has traditionally been seen as weak on entrepreneurship, driven by the low incentives that tax and labor market policies provide. But the more recent data on entrepreneurship provides a more nuanced picture: Entrepreneurship is relatively high, especially for opportunity-based entrepreneurship. And Stockholm prides itself on its stable of unicorns, firms that reach more than a billion Euros in market capitalization. Strong factor input conditions and open markets provide ample opportunities for entrepreneurship, even more so when prosperity levels are high and give people the room to take risks. But looking at the labor market effects of these new firms the picture is more disappointing: low incentives, high administrative costs, and labor market regulations lead to new firms having lower growth ambitions and adding fewer jobs than in peer countries.

- **Sweden's role in the global economy** has always been a critical element in translating the country's underlying competitiveness into a higher standard of living. But as the global economy is changing, its impact on Sweden is slowly becoming different as well. Sweden is increasingly selling knowledge and the top human skills behind it, more through outward FDI than through exports. This continues to create huge value to the Swedish economy but it is likely to benefit a smaller share of the population than before, and there are already signs that the regional impact across Sweden is changing (Arora Jonsson/Deiaco, 2016). Exports have in the past played that role, enabling employees in manufacturing firms to earn higher wages via products sold on world markets. These activities are increasingly emerging abroad, while job creation in Sweden occurs in lower productivity services for the domestic market. This challenge is not unique to Sweden. It requires a rethinking of a range of economic policies from taxation to innovation policy and internationalization support.

While these are key challenges to Sweden's competitiveness that are most visible in the data, clearly there are many other topics for policy makers to be concerned with. They are relevant for competitiveness, but have not yet left a clear imprint in the indicators reported.

Climate change and the need to restructure the economy around a more sustainable model are central for our future. A more competitive Swedish economy will be better able to make this transition even if high competitiveness alone will not be enough. Digitalization, including new production technologies and artificial intelligence, is a more traditional change driver transforming the economy. It is resulting in higher returns for some skills and activities while potentially devaluing others – both

a challenge for an economic system build around limiting differences. Migration of people with lower degrees of education will further increase the need to adjust the system to a different context. If not, there is a danger that an increasing share of the workforce will be unable to adjust to the new context and end up outside of the active labor market. And that is bad news for the Swedish welfare system that is fundamentally reliant on high levels of labor market mobilization.

That fundamental changes in the underlying circumstances can create tensions in the existing system is already visible in another field: Urbanization. The share of urban areas in economic activity and population is growing globally, and Sweden is no exception. But in Sweden's largest metropolitan centers the inflexibility of the housing market and of planning rules have limited the provision of affordable housing. This is holding back growth in these locations, while not enhancing the competitiveness of less urban regions for other types of economic activities.

Competitiveness priorities and current policy action: towards an assessment

Successive Swedish governments have gotten many things right – otherwise Sweden would not register the high level of competitiveness visible today. Today's competitiveness is a sign of what happened in the past, while the consequences of choices made today will to a large degree only become visible over years to come.

Given what the analysis revealed, is current Swedish government policy prioritizing the right issues? And do the actions taken seem appropriate given the challenges that exist? We focus on the four broad areas identified in the previous section:

- **Education quality and skills** are and have been a focus of significant policy action. It will take some time for many of these changes to work themselves through the system. The current government focuses on better access for all and on mobilizing more public resources to the education system; previously the priority was more tilted towards increasing choice and raising quality. The discussion about setting profitability limits for private providers of education is putting a significant part of the educational system under question. A further challenge that has not been embraced is how to create better signals to students so that they can make informed choices about where and what to study. This is a policy area with long-term consequences affecting everyone that needs less ideology and more willingness to find a long-term consensus for creating a predictable and effective structure.

- **Innovative capacity** is a favorite among politicians of most stripes. The current government has taken significant action after the predecessors were criticized as too passive. Many of the recent actions have been focused on more effective structures for policy design and action, from creating an Innovation Council under the leadership of the Prime Minister to launching a program on strategic innovation areas and reorganizing the research institute sector. These steps seem largely sensible but their success depends on their operational design. Initial assessments have been skeptical but more time is needed for a final verdict (OECD, 2016b). There

seems to be a tendency to focus more on growing the size of the academic system than on ensuring quality and competition, dimensions that at least conceptually are not alternatives. And while the business-academia programs go in the right direction there are questions about the way in which they have been implemented.

- **Entrepreneurship, incentives, and labor markets** combine one of the most consensual with one of the most contentious areas of the Swedish policy debate. Everyone claims to be in favor of entrepreneurship but the views vary radically on what type of labor market regulation is most likely to provide a supportive context for new firms to emerge and grow. The previous government had a clear focus on lowering entry barriers to the labor market by reducing the costs of employing younger or less skilled workers. Job creation increased in this group, also supported by the general economic trends. The current government has viewed many of these policies as primarily benefiting employers, while eroding general labor market standards as well as the tax base. It is instead focusing on publicly financed employment opportunities and on raising employability by providing training and other support. Some of the previous tax reforms were rolled back; they were motivated with fiscal arguments but there is high uncertainty about the effectiveness of these tax changes in generating additional government revenue when accounting for labor market and consumption responses (Flood, 2016). A similar dynamic is visible with regards to entrepreneurship: the previous government focused on creating market demand through the RUT/ROT tax rebates and opening up more markets within social and educational services. The current government has launched several initiatives to roll back these programs as well as tightening the taxation rules for firms with few employees (3:12 rule), at least partly driven by the view that they had too many loopholes creating private profits at the expense of the public. Without a sufficient majority in parliament some of the key initiatives had to be stopped. The government instead aimed to encourage entrepreneurship through different support programs, the creation of a start-up ombudsman, and changes in the public provision of risk capital. Sweden seems stuck between two overly ideological perspectives: the previous government had a somewhat naïve believe in opening up markets for what were traditionally public goods without sufficient attention to the factors that made such a choice appropriate (see, for example, Andersson et al., 2014), and in using lower wage costs as the principal tool to clear imbalances on the labor market. The current government focuses instead exclusively on support and closing perceived loopholes, ignoring the powerful incentive effects that taxation has. It also created significant uncertainty by pursuing policy changes without a clear parliamentary mandate.

- **Sweden's changing role in the global economy** has so far left a surprisingly small imprint in the policy debate. There is a strong consensus around globalization and the opportunities it provides to the Swedish economy. While there have been some changes in focus the overall direction of policy has been consistent across

governments. The changing nature of Swedish firms' international activities has led to adjustments in the support programs available: Business Sweden has now overall responsibility for both export support and investment attraction, reflecting how interrelated these two are in firms' internationalization strategies. And the government has emphasized its focus on small- and medium sized firms, reflecting their increasing role in export growth. What has been much less a focus of the policy discourse is the impact on value creation within Sweden. Past studies have focused on the positive effects FDI (inward and outward) and exports have on employees in Sweden within these industries. These benefits might become smaller and more concentrated among groups of high-skill employees than in the past; an empirical question that warrants more attention. And especially new job creation might in the future be much less related to global markets and focused on the domestic services that have been much less the focus of productivity-raising policies.

Apart from actions in these areas the current government has also focused a lot on the need to address the poor state of public finances that it argues its predecessors left it with. While it is true that Sweden has not met that 1 percent surplus target for the central government this was to a large degree the result of a difficult cyclical period, driven by trends originating outside of Sweden. Sweden's fiscal position is and has been stronger than for many of its peers. The rolling-back of previous tax reductions had some effect but the main driver of strengthened public finances has been the resumption of strong growth in the economy. The government is now proposing a budget that foresees higher spending of more than SEK 40bn in 2018, rising to more than SEK 80bn in 2020; about 10 percent of these new expenditures are covered by additional revenue measures (Regeringskansliet, 2017a). About 15 percent of the additional spending is focused on labor market measures, 2.5 percent on upgrading the education system. Given the strong state of public finances it is unlikely that this additional spending is going to undermine the solidity of fiscal policy over time. Whether it is prudent macroeconomic management to become more expansionary while the economy is at the height of the business cycle is more questionable.

More importantly, however, the 2018 budget shows little focus on the key competitiveness issues identified in this report. Where steps are being proposed, particularly with regards to the labor market and the education system, it is difficult to see these changes having a transformative effect. Other areas, challenges in the innovation system and changes in the global economy, remain largely unaddressed. This is also true for some macroeconomic policy issues that would require a broader political consensus, like the phasing out of the tax deductibility of interest rate payments and the widening of the Central Bank policy target beyond the inflation rate.

The political debate in general has become ideologically charged. The discussion about private businesses providing educational and health-related services is a good example: It has had no focus on the value for citizens, patients, and tax payers. While the previous push for offering private services in these areas might have been too naïve in assuming that private providers would always offer better value, there is also

no evidence in the data that the opposite is true (see, for example, Heller Sahlgren, 2017, for educational attainment). What is needed, is a market structure that achieves the best value given the public funds spend, whether this happens through public or private providers. Instead the discussion has become about ideological symbolism and chasing perceived public opinion.

4. Conclusions

Swedish policy makers pride themselves for making evidence-based policy choices. There is more data available now, also on issues related to competitiveness, than ever before. The problem is increasingly to structure that data in a way that enables patterns to be detected, while not cherry-picking indicators to support a predetermined perspective. The ambition of the Competitiveness Scorecard is to do just that, presenting data in a neutral but framework-driven way. That this has to be done in the context of the data actually available creates some practical limitations. But given the data now available it is possible to cover most of the relevant dimensions of competitiveness in a meaningful way, without having to generate new indicators.

Sweden's economic policy over recent decades has benefited from an underlying consensus that Swedish prosperity and the country's welfare system rests on the ability to support high and rising levels of productivity in its economy. While there has been disagreement about how to achieve higher productivity, this underlying consensus has helped to ensure a high level of policy predictability that benefited the Swedish economy.

The current political situation with a minority government could have led to a consensual approach towards economic policy. The reality has been different, with harsh rhetoric from the government criticizing the policies of the prior government and ideologically charged initiatives to roll back past changes in labor market and tax policies. With the government's limited parliamentary support a good deal of these new initiatives had to be withdrawn, creating harmful uncertainty about the future policy context. And difficult (i.e., unpopular) choices that would require creating a cross-party consensus were not being made.

Competitiveness is not the result of single, short-term policies; it is created by the consistent adherence to a clear strategic direction over longer periods of time and by the coherent implementation of many policies across broader set of fields. Sweden's ability to organize its policy making in line with these circumstances has been a key source of the country's economic success. At the moment, however, Sweden is not making the investments that it will need to continue its success into the future:

- In the **education and skill system** there has been a large amount of reforms and policy action over time, and there is large consensus that growing the skill base of the Swedish economy is critical for the country's future. The current focus on giving students equal access to education is laudable, but the overall quality of education, a differentiated offering to meet individual students' needs and career preferences,

and the alignment of skills acquired with future labor market needs are as urgent. With many of the relevant policy actions having long-term (and sometimes slow) effects, it is critical to ensure predictability. This will only be possible, if there is more cross-party dialogue to ensure consensus on key measures.

- In the **innovation system** there were high expectations for a more pro-active set of policy choices following the change in government. By and large, progress has not lived up to these hopes. There are growing concerns that in the research system the policy focus is tilted too much towards growing capacity versus ensuring higher quality and more differentiation. And while there have been some useful steps for better translating research into business activity there seem to be plenty of operational details that are reducing their potential impact.

- Policies related to **labor markets, entrepreneurship, and incentives** are the biggest victims of the overly ideological focus in the current debate. Different views on specific policy instruments are normal, and academic research does not provide simple, one-sided suggestions on how to address specific challenges. What is needed, is a more pragmatic discussion about how to create more dynamism in the interplay of policies that enhance the functioning of markets, provide strong incentives, and equip more people with the ability to succeed under these conditions. A policy stance that concentrates on the later will fail, if it does not also leverage the two others.

- There is surprisingly little discussion about how changes in the **nature of the global economy** are affecting the Swedish economy. There is a strong cross-party consensus that a liberal, rules-based global trading system is critical for Sweden's prosperity. But there is little reflection on how structural changes in the global economy might affect value creation in Sweden. Already now job creation is occurring almost exclusively in traditionally less productive local industries. Value creation related to exports and global markets seems to become more concentrated in a few urban regions and with specific groups of high-skilled employees. Leaning against these trends through less openness would be devastating to Sweden's economy. But can they be better managed to support future Swedish prosperity? This is a question that should gain more attention.

With the strong economic climate in Sweden and many of its key trading partners the economic costs of the difficult current political circumstances are not yet visible. In fact, the growth-induced strengthening of Sweden's fiscal position has allowed the government to propose a range of new spending initiatives in its 2018 budget without having to raise new revenue. And given the robust foundations of competitiveness that successive Swedish governments have created since the crisis of the early 1990s there is no imminent danger of a sharp deterioration of the economy's underlying strengths.

The challenges that exist are more long-term and more localized: Eroding performance in terms of skills and innovative capacity will have growing affects over time, with the costs of inaction becoming fully visible only after years. And inflexibilities in the labor market and changes in the nature of the global economy will hurt some groups much more than others, with the costs to the overall economy and welfare system again only visible over time.

Sweden should not have to wait until these concerns translate into fundamental problems. The strong current economic climate ought to be a window for action, not for engaging in ideological tussle. It is up to leaders from across the political spectrum to change course.