

Sweden: Why is its innovation outlook so bright?*

* Extract from Lopez-Claros, Augusto and Mata, Yasmina, “The Innovation Capacity Index: Factors, Policies, and Institutions Driving Country Innovation,” *The Innovation for Development Report 2009–2010*, pp. 38–39.

An impressive performance

Sweden is the top ranked country in the 2009 edition of the Innovation Capacity Index because it does exceptionally well in all the areas captured by the Index. Figure 3 shows Sweden’s relative performance with respect to other high-income countries in 10 of the indicators used in the estimation of the Index. As can be seen, Sweden is an exceptionally good performer, very often placing in the top ranks in those areas identified as being particularly important to assessing innovation capacity. Indeed, Sweden has a rank of number one among 131 countries in transparency and judicial independence, corruption perceptions, gender equity, e-government readiness, personal computer penetration rates, receipts of royalties and license fees, as well as the “doing business” indicators for the time and number of procedures required to register property. It has a rank of 2 in scientific and technical journal articles per capita, environmental sustainability, and research and development expenditure in relation to GDP, where it is second only to Israel. There are 12 other indicators in which Sweden has a top 8 rank, including the quality of its public administration, the effectiveness of its government, rule of law, the more egalitarian distribution of national income, Internet penetration rates, as well as other indicators of good governance. Table 9 shows Sweden’s pillar ranks in the ICI.

Sweden’s rank is richly deserved. It is a country that has had an extremely virtuous fiscal policy for the past decade, running budget surpluses with the aim of saving resources to deal with the long-term effects of population aging, but also generating, in the short-term, substantial resources to invest heavily in knowledge and training, to earn a top position in terms of labor productivity growth among high income countries. On a per capita basis, Sweden has the largest university system in the world. According to the OECD, “Swedish research is, in relation to the size of its population, leading in the world in terms of scientific output, measured by the number of publications in internationally acknowledged scientific journals.”¹ Sweden is also a leader in terms of patent registration.

Openness and transparency

Sweden has an impressive record of openness and transparency in government. It has put in place

comprehensive safety nets which provide security to vulnerable groups in the population. It has thus been able, during periods of economic stress—such as in the context of the 2008–09 world financial crisis—to shelter its population from the effects of the global economic slowdown. Since it also has levels of public debt that are well below those prevailing among competitor countries, Sweden has greater flexibility when it is time to provide fiscal stimulus.

Women in Sweden have access to a wider spectrum of educational, political, and work opportunities and enjoy a higher standard of living than women in other parts of the world. They also have achieved the highest echelons of political power and have an important presence in the business world. Sweden is also an egalitarian society with a more even income distribution than most countries in the OECD, and, thus, a strong sense of solidarity and stable labor relations. The country has also achieved an enviable record in terms of caring for the environment; it ranks second in the world in the Environmental Sustainability Index.

Sweden’s public sector is highly qualified and enjoys unusually high degrees of credibility with the business community and civil society. Although the country has high tax rates, there is no evidence that this has discouraged entrepreneurship and innovation. More likely than not, this reflects the fact that the relatively high levels of revenue collection are then reinvested in the economy at large in education, infrastructure development and modernization, public health, and other components of the safety net, as well as training and other productivity-enhancing initiatives, all of which are directly beneficial to the private sector. Having an honest public administration—as demonstrated by Sweden’s privileged and consistently high rankings in Transparency International’s *Corruption Perceptions Index*—suggest that what matters is not whether tax rates are high or not, but rather whether the government uses the taxes collected in ways that will be productive and that will boost its credibility with economic agents.

A leader in ICT

The government has also played an important catalytic role in encouraging the use of the entire spectrum of information and communication technology.

gies, as made clear by the very high penetration rates of mobile phones, computers, broadband, and the Internet. Not only does the government spend generously in research and development (particularly through institutions of higher education), but the Swedish business sector has also been a driving force in R&D spending, particularly in the telecommunications and pharmaceutical sectors. Sweden has benefited from an economy that, according to the OECD, is dominated by public-private partnerships between manufacturing groups that allocate considerable resources to R&D on the one hand, and public agencies and companies, on the other. This has led, in turn, to the emergence of a manufacturing sector that spans “all of the high-technology and medium high-technology industries” (OECD, 2005, p. 190).

A virtuous cycle of development

Sweden is likely to retain a privileged position in future editions of the Innovation Capacity Index. A combination of solid institutions, good policies and a public administration strongly committed to the idea of building upon past achievements has pushed the country into what one might call a *virtuous cycle of development*. Successive governments have implemented policies whose primary motivation has been the public good. This in turn has transformed the business community and civil society into active, well informed participants in the shaping of public policies. Just as citizens and corporations pay their taxes because the benefits of doing so are tangible and transparent, governments

have been empowered to focus their energies and talents in devising innovative ways to improve the quality of governance. Sweden and its Nordic neighbors provide a useful template for other countries to examine, and, where feasible, to emulate. There is much in their approach to development—combining key elements of modern capitalism without some of its excesses, with a strong commitment to social policies that are fundamentally egalitarian in nature—that is worthy of close examination and study.

¹ OECD and European Communities, 2005, p. 189.

Figure 3. Sweden: Significant indicators above income group average

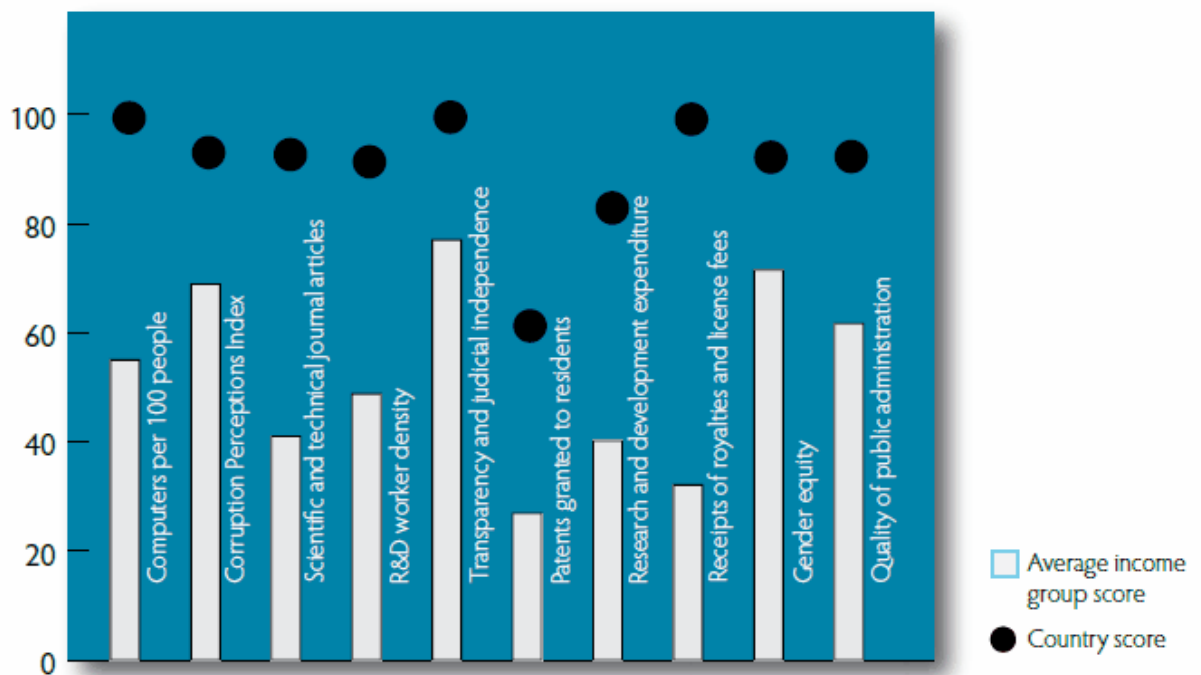


Table 9. Sweden: ICI pillar rankings

	Rank	Score
Overall position	1	82.2
1. Institutional environment	6	81.6
2. Human capital, training, and social inclusion	4	83.4
3. Regulatory and legal framework	11	80.8
4. Research and development	2	75.6
5. Usage of information and communication technologies	2	89.6