SWEDEN AND TURKEY: TWO MODELS OF WELFARE STATE IN EUROPE

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Abstract

Our paper analyzes two models of economic development: Sweden and Turkey. The main objective of this analysis is to highlight in which way two countries with different development strategies, economic geography, mentality and culture have managed to maintain growth before and during the global economic crisis, becoming gradually genuine models of welfare state. The analysis undertaken in this paper is, consequently, divided into two parts. The first shows the Swedish model of welfare state, that was an inspirational one in the '70 and '80, and its specific strengths and vulnerabilities. The second part summarizes Turkey's economic development over the past decade, emphasizing comparative advantages that have made it the 16th largest economy of the world and its strategy in terms of managing the international economic crisis. The final part of our comparative approach aims to respond to the following question: may those two economic models be considered proper economic lessons for the other states that are confronted with economic vulnerabilities?

Keywords: *welfare state, model of economic development, comparative advantage, international economic crisis.*

JEL Classification: D7, D78, E, H, E01.

Introduction – the concept of welfare state

As stated in the literature in the field (Pierson, Castle, 2010), the current challenges of the new contemporary economies (globalization, European integration, demographic and political changes) have made necessary the reconsidering of the welfare state paradigm.

Some analysts (Daly and Lewis, 2000) argue that the concept of welfare state involves three fundamental dimensions: a strong economic growth, a powerful social security system and a better life quality for the citizens of the state in cause.

Others (Briggs, 2006) considers that a welfare state is a state in which organized power is deliberately used (through politics and administration) in order to modify the play of market forces on three directions: first, by guaranteeing individuals and families a minimum income, irrespective of the market value of their work and property, secondly, by narrowing the extent of insecurity by enabling individuals and families to meet certain social contingencies (for example sickness, old age benefit and unemployment) which lead, otherwise, to individual and family crises, and thirdly by ensuring that all citizens, without distinction of status or class, are offered the best standards available in relation to a certain agreed range of social services.

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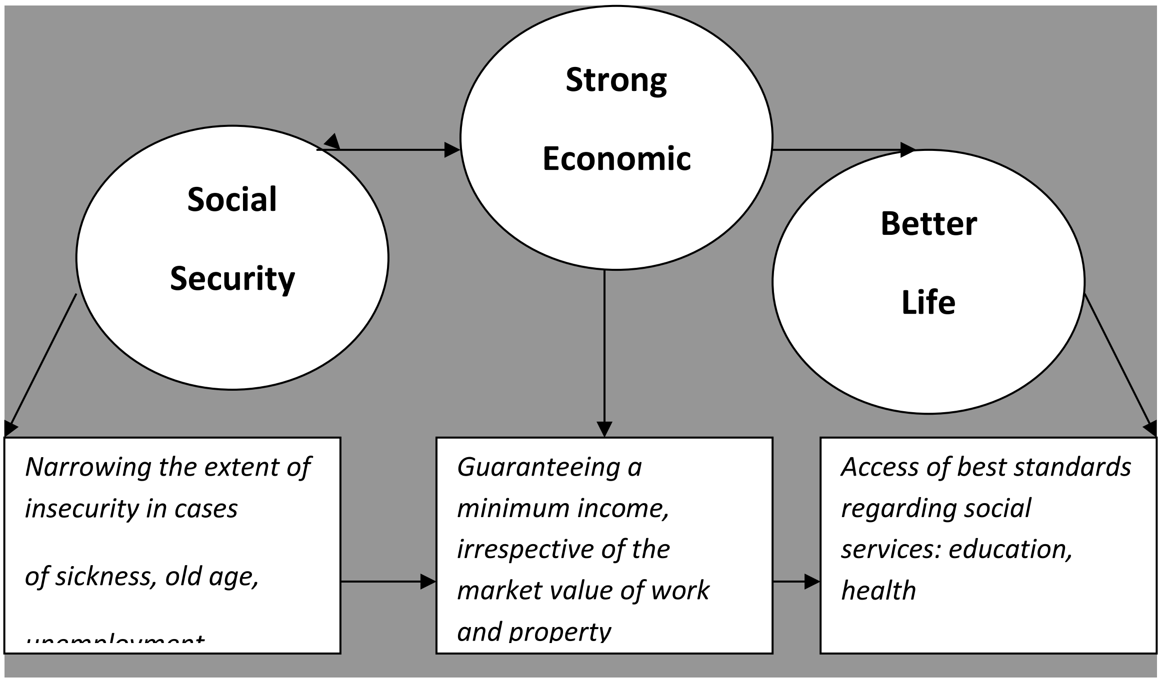
Figure 1: The paradigm of welfare state



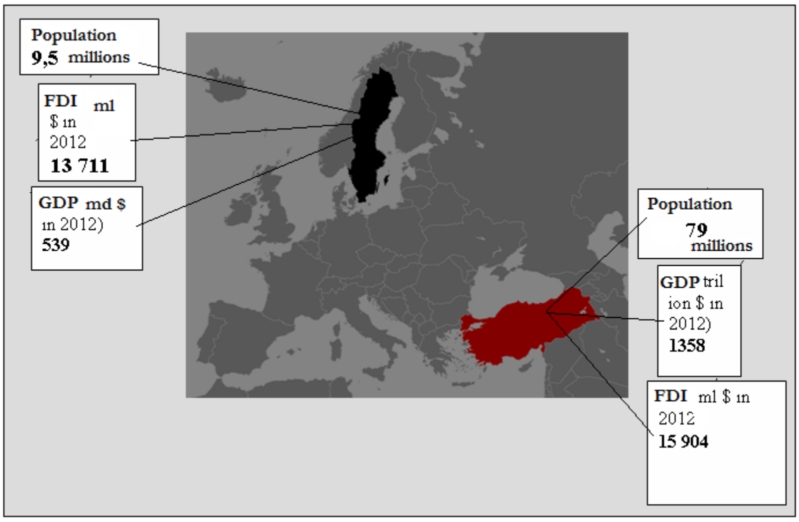
Source: Authors synthesis based on literature in the field.

1. Why choosing Sweden and Turkey for our comparative analysis?

In some theoretical approaches (Baar, 1993) on the concept of welfare state it is argued that the concept itself defies precise definition, but it is our opinion that we cannot talk about genuine welfare in the absence of strong economic growth. As a consequence, both states (Sweden and Turkey) have at least the minimum premises to provide welfare for their citizens, because they both have managed to maintain a good economic development before, and even after the international economic crisis.

Although there are clear distinctions between those states in terms of geo-economics, as some analysts have observed (OECD, 2013), the economic performance proved by those two states in the last years is undeniable.

Figure 2: Sweden and Turkey – brief geo-economic presentation



Source: Authors synthesis based on literature in the field.

Sweden – a small, but prosperous Nordic state

Sweden had maintained the neutrality in the Second World War and this option had permitted to accumulate wealth and to avoid huge losses the other European countries had recorded.

Presently, the middle class represents approximately 79 % from the total population, being one of the highest proportions on the world. In 2012 Sweden was on the 10th position on GDP/inhabitant in comparison to 3rd place at the end of 70's.

Sweden is among the first eight European states with the highest income tax rates in the world and the first among the Scandinavian region that has an average level of 48%. The highest income tax rate of 56.6% is recorded in Sweden, in order to cover the substantial social costs like free education, a large part of healthcare and public transport.

Sweden's welfare expenditures amount to 37.9% of GDP, including education, in accordance to OECD statistics in 2012.

Turkey –Rising of a geo-political power

More than half a century, Turkey was "the only democratic and secular muslim state" and an eastern outpost of the West. Currently, we consider that, economically, Turkey has the potential to become a new development performer (like China) of the Middle East region and has the political potential to emerge as a pan-Islamic Commonwealth. Presently, Turkey is no longer defined as a border state, a country at the periphery of the EU, but rather as a central country, with a pivotal political power that may afford it to disagree with the West when its national interest requires[3].

Currently, Turkey is in the top 20 economies in the world and has a geographical position that enables to control a significant part of the flow of energy resources from Central Asia to Western Europe, both through existing pipelines to transport oil and natural gas and by those projected to be constructed. Turkey has also a favorable global political and strategic situation, most Muslim countries having a more cautious position to the West considering Turkey as a possible pan-Islamic leader.

2. Sweden – economic growth evolution before and after the crisis

The triumph of the Swedish social prosperity model has concerned responsiveness of many leaders of the world mainly under the present international economic circumstances when attention of the world is focused on finding a long term solution to the challenges brought by the crisis. The international financial crisis, which erupted in the autumn of 2007, has affected this country in a slight manner. In 2009, Sweden went into in a short recession caused mainly by the export demand reduction.

Structural reform measures that were right applied in the early of 90's are valuable in present too. The fact that Sweden hasn't passed through a similar recession cycle as the majority of European countries was mainly due to the success of reform that was applied at the early of 90's.

Sweden entered in a period of substantial interferences and radical changes at the end of '80s and the first part of '90s. The worst recession ever known after the Second World War had determined Swedish decision factors and population that their well-known model should be developed and upgraded to the real dimensions.

[3] Turkey opposed to the integration of new states into the Black Sea Economic Cooperation Organization because it could be a precedent for a new analysis on the rights and legal status of the Bosphorus and Dardanelles straits - regulated by the Montreux Convention of 1936.

But the Swedish pragmatic behavior has managed to implement the proper measures. In the early 90's the new Centre-right government lead by Carl Bildt applied severe but proper measures that finally reformed the pension system, banking and taxes framework.

The main measures implemented by Swedish government were:

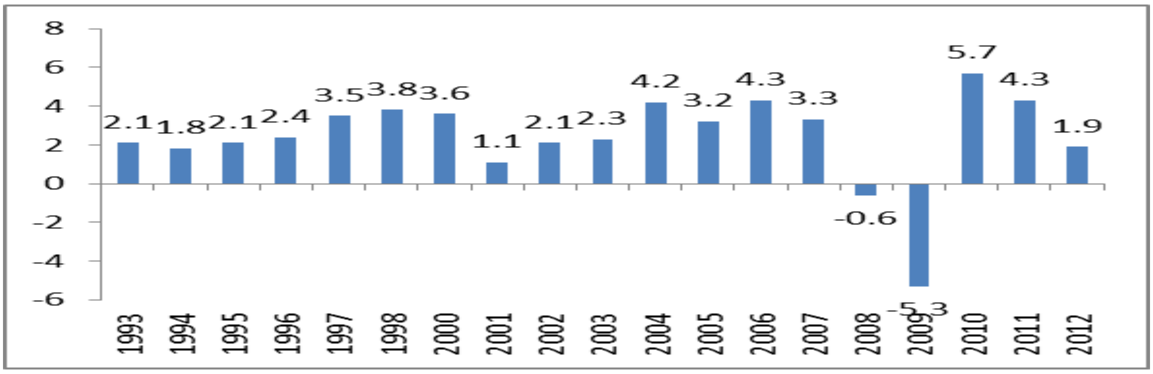
- Creating an independent Central bank;
- Pension reform;
- Wage increasing in line to rising competitiveness;
- Budgetary reform;
- Promoting exports;
- High competitiveness and specialisation in industry.

Now in Sweden there is a new restoring welfare model that successfully combines the markets liberalism with not so quite high taxes and also with social protection.
Sweden model has become in time a special lifestyle model in the whole world.

A more profound analysis of this model highlights the fundamentals that stimulate such a construction in one of the Nordic European states.

One of the most important facts that stimulate the distinction of the Swedish model is the 2.1 per cent average growth rate of GDP in the 1993-2012 periods that exceeded by 0.9 p.p. the European Union (see Graph 3) as a whole in the similar period. This gap between Sweden economic development and the EU as a whole could be the answer to the question if Sweden model is a real pattern for the other countries.

Graph 3: The evolution of GDP in Sweden between 1993-2012, %



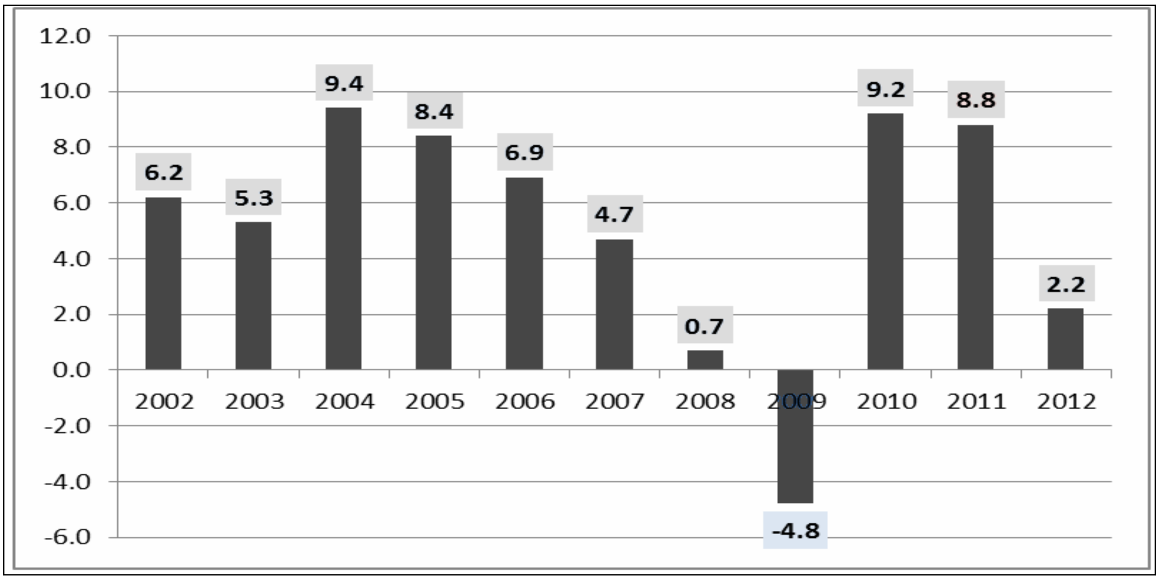
Source: Eurostat and national data, 1994-2013

In the Global Competitiveness Index Sweden constantly usually ranks in the first 10 places in the world. For instance in 2013 it ranks on the 4th position.

3. Turkey - economic growth evolution before and after the crisis

According to the latest national statistics (Turkstat, 2012), from 2002 to 2012, the economy of Turkey has maintained a constant growth rate with an annual average of 5.2%, interrupted only in 2009 (see Graph 4) the year of international economic crisis. In that year, Turkey registered a negative GDP rate (-4.8%).

Graph 4: Turkey's annual growth rates of GDP (2002 – 2012)



Sources: OECD, Economic Outlook, 2013 and Turkstat, 2013

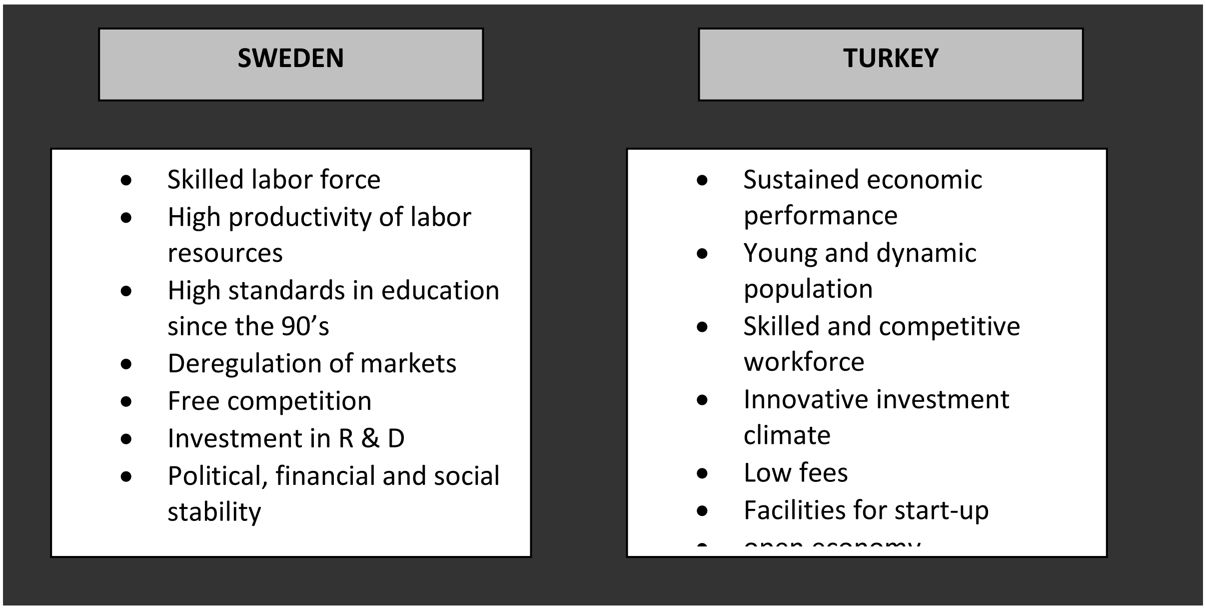
As some analysts have shown (Oktem, 2012), the strong GDP growth, including GDP per capita (according Turkstat, GDP per capita has tripled from 3,492 USD in 2002 to 10,504 USD in 2012) is based on the national strategy (Medium Term Programme) which aims to strengthen macroeconomic and financial stability by decreasing the current account deficit, reducing inflation and improving public fiscal balances. The same analyst has shown (Oktem, 2012) that in the new economic world, in which the West is losing its powerful economic position, Turkey has what it takes to play a significant role on international stage: economic and political pragmatism and a functional economic development strategy that has enabled a fast recovery from the global financial crisis.

4. Sweden and Turkey – main drivers of economic growth

Sweden and Turkey are very different in respect of economic potential and even economic development strategy, but it is obvious that both countries have managed to perform well, registering even a fast recovery after the international economic crisis.

In this part of our analysis we highlight the main comparative economic advantages (see Figure 3) that allowed those countries to perform well even in a period of international economic turmoil.

Figure 3: Sweden and Turkey – drivers of economic growth



Source: Authors synthesis based on literature in the field.

When analyzing economic performance of both countries, we must underline that their economic performance is subject to some vulnerabilities, as we are about to show below.

4.1. Weaknesses of the Swedish welfare state

The Swedish model was built in an approximately 60 years of social democratic dominance, but the inefficiency has gradually been increasing by giving more credit for sustaining the standard of life instead of proper and effectively structural measures. Reaction was a dramatic drop from the third position as the richest country in the world in the latest 70's to the 17th position now.

Among the Swedish welfare state vulnerabilities there is also the ageing population determined mainly by a lower rate of birth that stimulates "open gate" for immigration since late of 70's. Like the rest of Scandinavian countries that have been confronted to ageing population, Sweden policy started to stimulate political asylum seekers especially those who have come from Eastern Europe, Iraq, Iran and Africa. Statistical data shows that in present around 15% of the Sweden population came from abroad. The substantial immigration flow that has been continuous in the last 30 years and implied high integration costs has pressed much on education, language training and social benefits.

An important problem that cannot be solved easily in Sweden is the unemployment rate of 22.9% among youth (between 15-24 year old), that means a higher proportion than the OECD average of 16, 2% (see www.betterlifeindex.org)

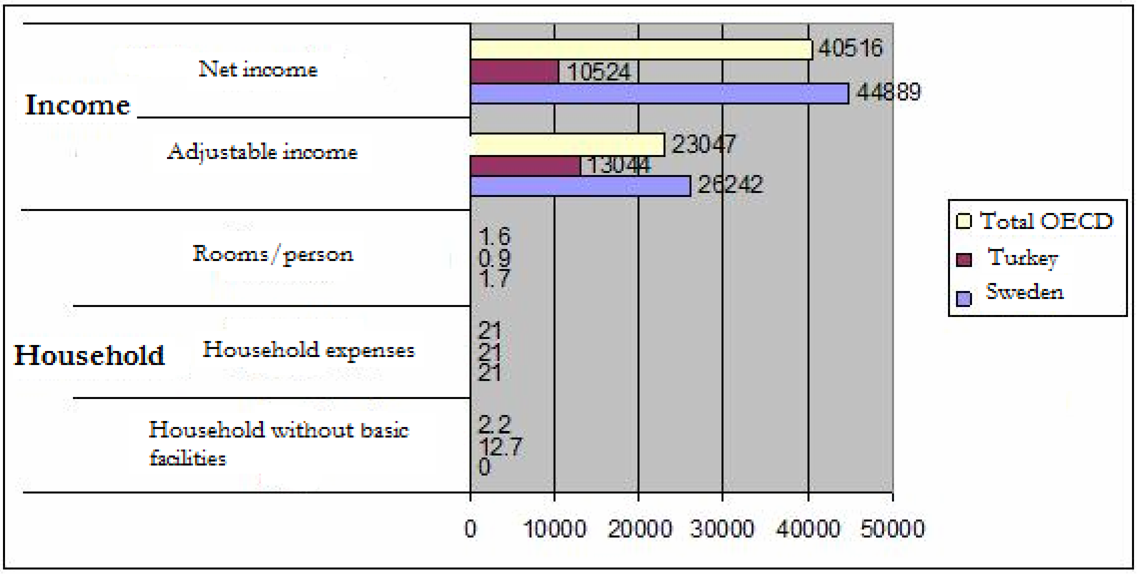
4.2. Weaknesses of the Turkish welfare state

Although the economic performance of Turkey is considered a remarkable one (OECD, 2013), in the field literature some analysts (Memisoglu, 2013) have shown that, the sustainability of its future development is subject to some vulnerabilities: high and volatile inflation, with an average of 75% between 1990–2001, unstable growth performance, with an average of 5.2% in the period 2002-2012, but in the range of ‐ 4.8% to +9.4% and fragilities in the banking sector (poor lending activity, average credit growth of 3.6% between 1999 ‐ 2012).

5. Sweden and Turkey performances according to Better Life Index[4]

Measuring better live performances is essential in order to determine if a state can be considerate a model of welfare, the value of macro-economic indicators being insufficient in order to draw clear conclusions on the matter, as we have shown previously in our analysis. In the context in which many of the global economies and societies have been affected by the global financial crisis, understanding how people's lives can offer a genuine vision of how the crisis has affected the welfare on global level and in the two specific countries that constitute the subject of our analysis. According to Better Life Index, Sweden is scoring well on education, life condition and net income (see Graph 5), while Turkey is performing well in terms of job security, employment and career opportunities.

Graph 5: Sweden & Turkey positions in terms of household income and facilities in 2012

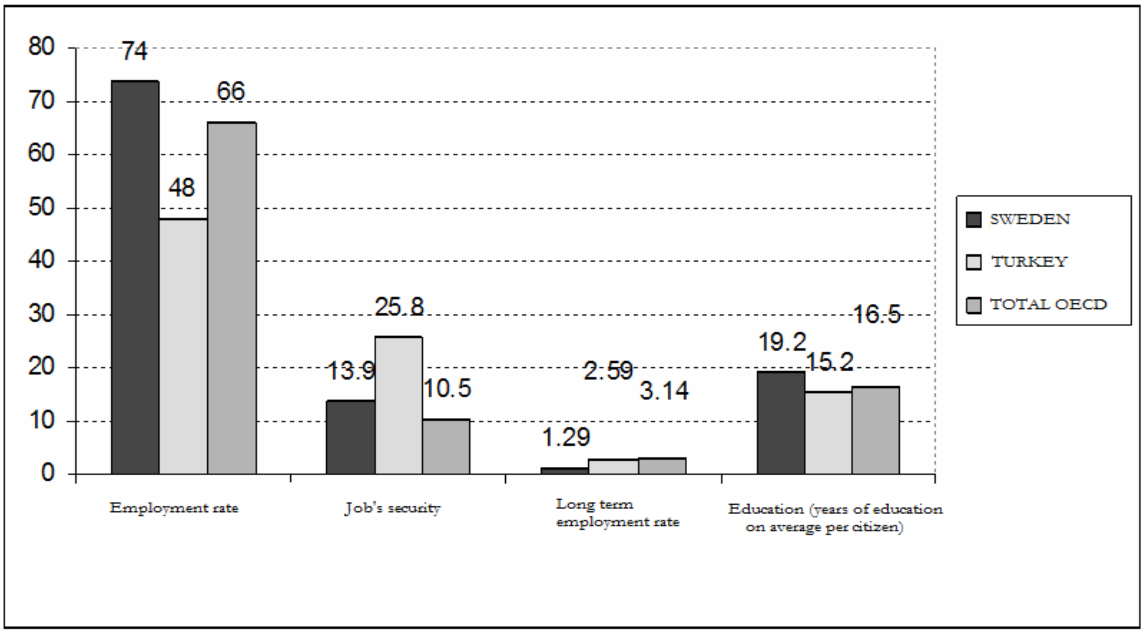


Source: OECD – Better Life Index Statistics, 2013

As we are about to show subsequently (in Graph 6), Sweden is scoring on the OECD countries average in terms of education and employment rate, while Turkey is scoring high on job's security and also on employment rate.

Graph 6: Sweden & Turkey positions in terms of education and employment opportunities in 2012

[4] This index, developed by OECD allows comparing well-being across countries, based on 11 topics the OECD has identified as essential, in the areas of material living conditions and quality of life.



Source: OECD – Better Life Index Statistics, 2013

Conclusions

Sweden and Turkey's economic development, during and immediately after the global economic crisis, has shown that it is possible to register a rapid recovery after a slump in economic growth. The development of the Turkish economy shows that an open, flexible and adaptable economy can attract substantial FDI flows maintaining a sustained development pace on long term. The development of the Swedish economy reveals that the "welfare state" could be based on economic growth only when public resources are used responsibly and in a sustainable manner. After the most significant economic and financial crisis at the beginning of '90s, in Sweden the national welfare model has been restored and nowadays this model successfully combines the market liberalism with not so high income taxes compared with the previous levels and also to more specific and reduced social protection.

Are these two countries (Sweden & Turkey) possible "lessons" for Romania and other EU countries? Our analysis argues in favor of an affirmative answer. Although when we refer to those two models of economic development we must take into consideration the economic particularities of both states and also path dependence theory. However, the conclusion that emerges is this: sustainable growth that can withstand the shock of a major economic crisis is possible and it should be based on some vectors: open economy, productivity increase, free competition, competitiveness through innovation and investment in education and human resources qualification.

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