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Understanding evolution of the Swedish model: change or continuity?

Abstract

In this paper we claim that the Swedish model should be perceived by a dynamic relation between its two pillars, namely economic and welfare policies. It is this relation that explains its creation, evolution, and recent transformation. Also, the Swedish model was not only an economic or social project, but it concerned a society as a whole. This is why it were not the policies themselves that defined what the model was, yet rather their relationship toward the supreme goal of creating classless society of welfare. Political and economic toolbox changed in the 90s, but adherence to egalitarian and welfare values has not entirely vanished. Thus we believe that we should rather speak of a continuation of the Swedish welfare state model in changing external conditions and a change of policy measures than of a radical shift in policy aims and values.

Keywords: welfare state, Sweden, economic policy, transformation.

JEL Classification: E61, N14, P16.

Introduction

From the very beginning of its existence, the Swedish welfare state model (in short: the Swedish model) has evolved. For this reason it is easy to understand that some inconsistencies appear in the literature regarding the precise description of what this “Swedish experiment” (as A. Lindbeck calls it; 1997, pp. 7-8) indeed was. The fact of its evolution is not the only reason for these discrepancies – the very idea underlying the Swedish model was broad in its scope. It was not only political or economic concept, but it concerned the society as a whole. Therefore it influenced all aspects of social life and at the same time was under constant pressure from various social groups. It should be remembered that the goal of the

interwar generation of Swedish socialdemocrats was to create new, classless society with decent living standards for everybody, which required taking control over the economy and steering the transformation of society. But even this political objective of Swedish Social Democratic Party (*Sveriges socialdemokratiska arbetareparti*; SAP) was short of visions of social engineers whose utopian schemes appealed to the imagination of ordinary citizens and elites of the country. The transformation of society expected by P.A. Hansson and E. Wigforss was quite modest compared with one envisioned by the Myrdals (see Hirdman 2000, ch. 4, 6). Hence the Swedish model must not be reduced solely to the economic sphere, but it needs acknowledgement of ideas, politics and social preferences of relevant time.

Therefrom we argue that it was the relation between economic and social sphere that created the essence of the Swedish model and only through this relation one may understand its evolution. It seems also necessary to extend the study period of the Swedish model to modern times, when neoliberal ideas seem to have won the day and heavily influenced its form. With the Swedish model finding itself on its “deathbed” (Steinmo 2002, p. 851) in the early 90s, to many it was quite obvious that it would soon quietly pass away. In truth, it was a time of tough decisions and choosing new path of development. Thus, we assert that one should distinguish the “classic” Swedish model and the “modern” one with a boundary year of 1990 in which the paradigm of full employment was replaced by the target of price stability. This new path did not imply though that previous social principles and values were abandoned or exchanged for some completely new ideas. We should perceive it as a continuation of the model in the new socioeconomic environment, but definitely not as a departure from it.

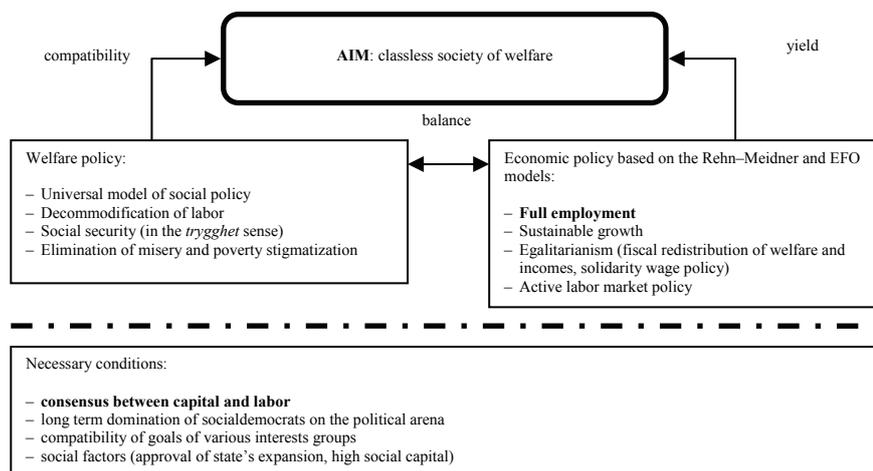
1. Search for a new society. The “classic” Swedish model

The idea of new, classless society as a political concept was first presented in public in 1928 when P.A. Hansson, the SAP leader, delivered a speech in which he used a rhetoric of “people’s home” (*folkhemmet*; more on SAP and political issues of this time see Blyth 2002; Berman 2006). However, even though his party formed a government just four years later, it was not until after the second world war that the socioeconomic ground for his ideas was ready for such a change. The next generation of socialdemocrats with the new leader T. Erlander started the implementation of crucial reforms which later became known as the Swedish model. Yet it has to be remembered that the post-war economic situation of Sweden was exceptional. With war-torn Europe full employment existed as a result of high demand for Swedish products and the economy was on the

verge of overheating. In this conditions it was possible to conduct more egalitarian and pro-social policies with little risk of constraining economic growth. Although a few social reforms were implemented in late 40s and early 50s, the breakthrough came with the concept produced by union economists G. Rehn and R. Meidner, who in 1951 presented a policy model which aimed for both economic and social goals and gained support of the government in 1955 with new minister of finance G. Sträng in office. This concept soon became a framework for policies to come.

As Lundberg (1985) once indicated, finding an accurate description of the Swedish model is a demanding task due to many levels of scientific perception. One may intend to build its definition basing on policy theories, policy aims and measures, model's actual performance, political and institutional framework or ideological premises underlying it. So far many scholars offered their own explanations of what the Swedish model was (see for example Magnusson 2000; Nordfors 2006; Schön 2007), yet hardly any of them tried to capture the process of its change or to show its internal dynamics, thus relegating the model to economic history textbooks. Other researchers pointed to the fundamental features of past policies or to the "core values" of the model (see Korpi 2003, Cox 2004) and argued that today these institutions, as a matter of fact, no longer exist. We believe, on the other hand, that it is possible to revise these studies in order to overcome the snap-shot approach. In our opinion, the Swedish model may be studied in terms of the relation between two main policy channels that constituted it and their reference to the main goal of society's transformation (see Figure 1).

Figure 1. The "classic" Swedish model



Most of all, we need to be aware that the Swedish socio-economic policies of post-war period were clearly aligned with a general target of creating new, classless society of welfare understood as equality of consumption possibilities for all citizens. The existence of this target has an important methodological meaning. The Swedish model must not be reckoned as a coherent, holistic concept of particular socio-economic policy which had been designed as a theoretical model. Many policy solutions were invented and recommended in specific historical conditions so as to find the best way of reaching the supreme goal. The model should be rather considered *ex post*, through the prism of policies that have indeed taken place and for which theoretical constructs such as the Rehn–Meidner model were created. Otherwise we could end up trapped in a great abundance of pure intentions, plans and visions that were never implemented, even though some of them nearly came into existence. In this way, for example, we do not consider wage earners funds (see Öhman 1980; Whyman 2004) as a part of the model. The funds were its logical consequence, but were never entirely implemented and therefore are not part of it.

The Swedish model was erected on two main pillars: welfare policy¹ and economic policy. At the beginning these policies remained in balance towards each other – at least as long as favorable external conditions and continuous pressure on production growth allowed for full employment and rapid economic growth not being threatened by expanding welfare policies. As a matter of fact it was a balance between introduction of egalitarian postulates and maintaining production efficiency. Nevertheless, with time it became obvious that it was the welfare policy that was given priority on the path to the new society. Economic policy seemed only to be a basis of its construction. Material abundance was important – and the market mechanism was the best way to multiply it, there was no doubt about it – but economic policy had to be tailored to the requirements of society's transformation.

The expansion of welfare policy was widely looked forward to by almost all political parties and by the society itself. The unions even spoke of the 'harvest time' after many years of fruitless hope. With the introduction of avant-garde welfare policy, politicians and social activists expected a gradual construction of egalitarian society with broad social rights and decent standard of living for everybody (on fundamental values of the Swedish welfare policy see Zetter-

¹ Welfare policy is to be understood as social policy in a broader sense – not only financial transfers, allowances or public services, but also universal educational policy, common right to health care or elderly care, housing policy, job security and labor market legislation, price regulations, environmental policies, etc. With this distinction in mind, please note, however, that we use this notions interchangeably.

berg & Ljungberg 1997, ch. 4-7). After the second world war many social reforms were implemented (Lundberg & Åmark 2001; Hägg 2005), all of which essentially served four main purposes. First, universal model of social policy (with its jewel in crown – egalitarian and completely state-controlled pension system) aimed at the elimination of "disgraceful privileges" and discrimination in access to and quality of social services. Public monopoly was supposed to treat all beneficiaries on equal foot, with no privileges to higher classes. Moreover, introduction of this system not only excluded private sector from providing this kind of services, but was designed in such a manner so as to gradually gain support of middle-class thanks to addressing to their needs and expectations. It was a clear symptom of society unification in line with socialdemocratic intentions. Second, gradual decommodification of labor, an outcome of solidarity wage policy and income redistribution schemes, resulted in disappearance of the relation between worker's effectiveness and his wage, thus liberating him from the insecurity of market mechanism and allowing the less effective workers to earn wages high enough for suitable standard of living. Since it was not worker's fault that his employer had difficulties competing on the market, why should he be punished with a wage lower than his fellow's from another company? Third, the new regulations of the labor market and social policies were compatible with the characteristic Swedish sense of security – *trygghet*². The Rehn–Meidner model assumed that inefficient enterprises were to be closed down and workers made unemployed, yet the active labor market policy and generous social programs significantly reduced the risk of possible loss of income due to redundancy. It was a security on the labor market, but not a security of employment. Obviously there is no need to mention that social programs concerned also such events as unfortunate accidents, illnesses, old age or infirmity. And lastly fourth, as a result of all the above policies, the policymakers expected eventual elimination of squalor and end of poverty stigma, which would finally disqualify the need for humiliating charity of fellow citizens.

The economic policy, on the other hand, had to be fashioned in a way which would support the advancements of welfare state construction, but not harm economic growth. Hence, market mechanism and private ownership of means of production were considered the most effective way of increasing national income, but market-related distribution of wealth and income in the socie-

² *Trygghet* should be understood in a very broad context. It is simple translation to "security" does not reflect the full meaning of this word. *Trygghet* signifies a very general sense of security, definitely not reduced merely to freedom from physical hazards, but above all concerning social security complemented by protection against failure, freedom of choice (though limited), lack of fear of the future, and even the state of a clean environment and friendly working conditions. One may find a sound analogy between Hansson's *folkhemmet* and the feeling of *trygghet*.

ty was unacceptable for policymakers. It is obvious that one should not identify the Swedish approach to economic issues with central planning, but it would also be wrong to classify it as orthodox Keynesianism, which utilized aggregate demand stimulation in an effort to fight against involuntary unemployment. The post-war Swedish economy was much closer to overheating than to recession and therefore completely different policies were needed (Lindbeck 1968). The Swedish government aimed at pursuing four goals at the same time (price stability, full employment, sustainable growth and egalitarian wage policy) by applying the aforementioned Rehn–Meidner model (see Erixon 2000; Anxo & Niklasson 2006 for more detailed elaboration) complemented with the EFO model (Edgren, Faxén and Odhner 1969). Still, similarly to the Keynes theory, full employment was considered absolutely crucial. It not only offered economic advantages, but also ensured stable income to large part of society and limited demand for social spending.

As we have noted, the economic situation was so favorable in the 50s and 60s that full employment materialized as an effect of market processes and so egalitarian policies could be pursued with little harm to economic growth³. Within the field of domestic economy they were based on solidarity wage policy and highly progressive tax system with high property and inheritance taxes. Thus, instead of socializing means of production, the system aimed at the socialization of consumption side by providing all citizens with similar disposable income. At the same time both SAP and union leaders were aware of the fact that high competitiveness of Swedish industry was absolutely essential for sustaining economic growth and further construction of welfare state. Therefore the fiscal system offered many preferential rules for capital investments in order to stimulate economic development and facilitate job creation. Likewise active labor market policy was not only a tool for combating unemployment, but it supported the industry in terms of matching the workforce to market expectations, whether in the form of qualifications or occupational mobility (Meidner 1969; Rehn 1987). And finally, according to the EFO model, the policy of central wage bargaining gave priority of wage rises to the competing sector⁴ at the expense of the sheltered sector so as not to spur harmful cost inflation. Swedish economic policy relied thus heavily on competitive market mechanism, even though one could argue that it was a kind of ‘Smith abroad, Keynes at home’

³ In 1950s average yearly growth was 3,3% and in 1960s. 4,7%. For period 1950-1970 unemployment did not exceed 2%, wages grew by 3,5% yearly in real terms and productivity by 5,4%. All data by Statistik Centralbyrån.

⁴ According to the EFO model the economy was divided into two sectors: the competing (*konkurrens*) sector and the sheltered (*skyddad*) sector. The former comprised of companies exporting wares or competing with imported goods, while the latter (mostly public sector employees, construction workers, retail trade or academics) was not exposed to this kind of competition.

policy style. Domestic economic policy was not free of state intervention, but there was no need for extensive growth stimulation.

As we can see, the Swedish model in its early form – the “classic” model – was based on the assumption that welfare policy and economic policy could exist and expand parallelly to each other. It was an attempt of bringing together efficiency of market mechanism and social egalitarianism. It was widely believed that both policies could benefit from each other. Full employment and wage growth eliminated poverty and material scarcity, whereas solidarity wage policy allowed for rising the efficacy of production and terminating many unprofitable economic activities (see Lundberg 1972; Hibbs & Locking 2000). A success in reconciliation of allegedly opposing concepts was straightforwardly perceived as a confirmation of choosing the right path for the transformation of Swedish society.

This way of conducting social and economic policy rested, however, on four necessary conditions, without which their success and feasibility would be highly uncertain. The first and most important of them was a consensus between labor market parties: trade unions and employers’ association (*Svenska arbetsgivare föreningen*). This consensus is by some scholars often regarded as the quintessence of the Swedish model (Appelquist 2001; Schön 2007). Thanks to this settlement, reaching back to the Saltsjöbad agreement of 1938, peace was guaranteed on the labor market for several decades with a clear division of interests for each party: unions received the right to stable real wages growth, while the employers were granted exclusive rights of managerial decisions at the workplace (including questions of investments, production, and employment). It also regulated the way of solving conflicts between labor and capital (mostly strikes or lock-outs). Moreover, the agreement was crucial for the coordination of wages across the country and thus formed the basis for solidarity wage policy and the EFO model, whereby Swedish wage costs remained at an acceptable level in terms of competition on world markets. The central trade union organization (*Landsorganisationen*) had therefore to accept the obligation of reasoning in terms of responsibility for the entire labor market, not only for the associated workers or for specific groups of employees. Overall economic situation required balance of wages at the macro level as well as joint interests of all trade unions.

One should also mention three other conditions necessary for the existence of the Swedish model, though they seem to have performed rather secondary role compared to the labor market agreement. First, Swedish socialdemocrats almost completely dominated the political scene between 1932 and 1976, which created encouraging conditions for implementation of the vision of new society. Second, there was quite strong compatibility of interests among various organizations of political and economic life – not only SAP and unions were boldly in

favor of social reforms and solidarity wage policy, but also employers saw advantages in it for themselves. This situation allowed for avoidance of conflicts of fundamental significance. And third, the configuration of various social factors was in line with this ambitious project. Society's acceptance for the expansion of the state and the increase of fiscal stringency, as well as high social capital and trust toward the state and fellow citizens formed the ground for peaceful and successful changes of highly collective nature.

The above description of the "classic" Swedish model ought to be treated in terms of Max Weber's "ideal type": it was closest to reality merely in the 60s. The first central wage negotiations, which covered the entire labor market, took place only in 1955 and social policies expanded gradually (for example, the new pension system began to function in 1960). And although many aspects of these policies achieved more advanced form in later decades, the economic conditions were then completely different, far from assumptions of the Rehn–Meidner and EFO models. These economic models have in fact lost their credibility in mid 70s, when stable economic growth fueled by external factors was just a memory. Thus, albeit some elements of the Swedish model have evolved later on, it was only in the 60s that the most complete balance between welfare and economic policies was accomplished. As once prominent welfare policy theorist and Minister of Finance E. Wigforss stated, it would be very irresponsible for the social policy to overshadow the growth of production (Wigforss 1952). Redistribution makes sense only if the cake is bigger every year. However, since the mid 70s the pendulum of balance was pointing mostly in the egalitarian direction.

2. Two decades of interventionism – abandoning the “classic” model?

Oil crises and rise of global competition in the 70s have undermined growth conditions of Swedish economy as a highly export-dependent country. Yet even though this situation could trigger economic slowdown, it was not expected to engender fatal consequences for the Swedish model. The Rehn–Meidner model anticipated possibility of slower economic growth and therefore had germane features built-in into its structure, that is continuous renewal of Swedish competitive position achieved by constant productivity growth and closure of unprofitable activities, thus freeing labor and capital for more prolific undertakings. This was in fact the all-important state's role in domestic economy: to match unused means of production to gainful tasks and offer incentives for new investments creating jobs and production. But this time was different. Sweden experienced serious difficulties originating not only from outside, but also from internal events.

The alteration in domestic conditions was twofold. First, egalitarian and welfare postulates radicalized. The new Prime Minister O. Palme was known for his commitment to the idea of social equality and industrial democracy. Also, political and economic demands of unions threatened the viability of the economic system. And second, the expanding role of the state in the socioeconomic system began to overshadow the functioning of competitive market mechanism.

Since the beginning of the 70s unions, openly affiliated with SAP, called loudly for introduction of industrial democracy at more advanced level. They demanded better protection of employment, greater income equalization, and reestablishment of interests and power between labor and capital. Essentially, they asked for a renegotiation of the existing institutional order. When employers refused to support these claims, unions turned to the government to pass relevant legislation. The new laws (especially Employment Protection Act of 1974 and Employment Co-Determination in the Workplace Act of 1976) made the Swedish model rapidly lose one of its most important features, that is the structural flexibility understood as an ability to adjust to changing conditions. The Swedish industry found it much more difficult to cut employment costs in order to remain competitive or simply to close down unprofitable plants. Moreover, troubled branches like ironworks, mining or shipyards received financial support from the state in order to keep the employment high or were eventually nationalized, which had virtually no justification in the previous model of industrial policy.

The competitive position of Swedish industry was also worsened by the fact that unions pursued policy of wage equalization in the whole economy and high growth of wages at the same time. The latter was hardly correlated with financial condition of employers just recently affected by global economic downturn. In effect, solidarity wage policy lost its positive influence on the growth of production effectiveness (Hibbs and Locking 2000) and thus rising costs of production were decisive for rapid decline of sales. Rising wages have also contributed to high inflation, which in turn triggered further wage demands and caused many troubles for the economy.

The Swedish economy was accordingly no longer on the verge of overheating, but rather found itself close to a severe recession (see Myhrman 1994, ch. 5-6). In order to sustain full employment, which was still the main economic priority of the government, new measures were needed. This is why Keynesian stimulation and *ad hoc* political decisions came handy for policymakers. Unfortunately, a remedy for high wages growth and rising production costs was sought in exchange rate policy and increased production subsidies, yet not in institutional reforms of the labor market. As a result, the market mechanism became considered a secondary source of creating new jobs. Full employment was maintained, but only thanks

to state financed stimulation of economic growth and, probably more important, owing to the growth of employment in the public sector (Calmfors 1993; Rosen 1996; Bjuggren and Johansson 2009) and legislation that protected workers against “unjustified” dismissal. In addition, the system of fiscal incentives for industrial investments was turning obsolete and discouraged innovations, shifts of production profile or establishment of new companies (Södersten 1989; Agell 1996; Steinmo 2003). The industrial sector was no longer able to create economic growth on its own. Solidarity wage policy was failing at putting constraint on remuneration growth as it used to do beforehand or at assuring the primacy of the competing sector in wage bargaining, but in fact became a tool for flattening wage disproportions in the whole economy. Such stiff conditions for economic activity forced policymakers to follow the “devaluation cycle” (Jakobsson 1997), which proved to be only a temporary and imperfect solution.

The rising role of the state in the economy was, however, in line with the dimension of social policy. Concisely speaking, the new fuel for welfare policy was an idea that equality of chances and consumption possibilities was to be replaced with equality of results and that a loss of income was not supposed to worsen one’s standard of living in any case. This implied a vast and strict control over the economy. Welfare policy started to expand quickly in terms of high fiscal redistribution and further development of social programs. In the 80s the marginal income tax rate was well over 80%, while general government expenditure hit almost 60% of GDP. The scope of social transfers was over 30% of GDP (see Lindert 2005, p. 326), replacement rates were in some cases as high as 100%, rights for leave of absence and range of social insurance became very generous. However, the expansion of welfare policy was, as one could expect, no free lunch. It had in fact several negative consequences (Lindbeck 1984, 1986, 1997, Södersten 2000). First, due to expansion of public services, many jobs were created in education, health care, elderly and child care and overall administration which required public financing and in turn meant higher taxes. From the economic point of view, this kind of resource allocation was also hardly efficient and did not contribute to competitiveness growth. Second, high transfers and equalization of wages created negative incentives for personal development, job participation, and expansion of small enterprises. And third, state’s paternalism often started to be considered rather intrusive than necessary and helpful.

Due to policies of this kind Sweden began to stand out from other highly developed countries in terms of fiscal pressure and state spending (Lindbeck 1997, p. 34-35). It has been clearly shown by Bergh (2009) that it was indeed a transformation from capitalist-liberal into interventionist welfare state. But the results were hardly expected. Growth became negligible, whereas inflation soared to

double digits⁵. At the same time budget deficits added up to rising public debt⁶ and Swedish companies were losing ground on international markets due to uncompetitive prices and declining quality. Economic stagflation was yet hard to beat with closed economy, capital controls, self-defeating expansive fiscal policy, and main economic actors unable to cooperate. Still, this is just reasoning in terms of economic calculus. In reality the Swedish policymakers were not so much pursuing economic goals, as social ones. The priority for government, were it socialdemocrats' or centre-rightists', was to maintain full employment and expand, or at least not to contract, welfare programs. This is the reason why the Swedish model began to show signs of balance disturbance between economic and welfare policies. As long as the former was able to smoothly contribute to the growth of overall welfare, it was useful and desired, but when market principles started to require even temporary sacrificing of benefits or halting remuneration growth, the main actors decided to back out and opted for state intervention in order to keep these policies intact. In the long run, the state became responsible for full employment as market had apparently failed. But this was a road to nowhere considering the fact that the world economy was experiencing a paradigm shift, which was gradually granting power and responsibility to the market mechanism.

It is therefore plainly visible that the shift of balance eventually undermined the foundations of the "classic" Swedish model. The consensus of labor market practically ceased to exist (Ahlén 1989; Marshall 1996; Pontusson and Swenson 1996). With stiffened conditions of cooperation, the employers' association no longer perceived it as beneficial. The moment that unions turned towards the government for relevant changes in the law became the ultimate excuse for employers to withdraw from central wage bargaining, even though the official abandonment of the negotiation system happened only in 1983 (cf. Wallerstein and Golden 1997). The compatibility of interests of both partners vanished. What is more, the state seemed to stand on unions' side violating the assumption of neutrality in labor market matters. This policy was also continued by centre-right parties while in power in 1976-1982. The new government was without doubt powerless in putting more liberal and pro-market approach on political agenda. Ironically, it were the elites of the socialdemocrats that began to question the economic order in the 80s and dared to seek a return to the lost balance between welfare postulates and sound economic policies. But the foundations of

⁵ In 1975-1981 inflation was usually above 10%. For the period 1970-1990 Swedish GDP grew by 50%, whereas OECD average was 87%.

⁶ Starting from 1970 it was only in 1988 that state's budget had slight surplus. Public debt grew from 22% in 1975 to 62% in 1985.

the “classic” model were no longer viable. All that was left was virtually just high public support for welfare policy and slowly deteriorating social capital. At the same time neoliberal ideas began to gain wide recognition (Boréus 1997; Blyth 2002). We may therefore draw a conclusion that it were not only the economic conditions that defeated the “classic” Swedish model, but the disturbance of balance between welfare and economic policies and the disintegration of its very foundations played a significant role as well.

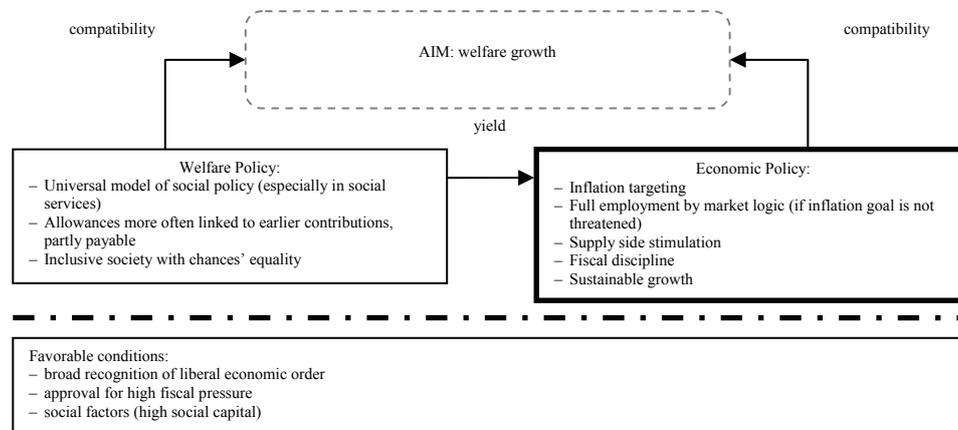
Many researchers acknowledge that the pursuit of welfare objectives indeed violated the backbone of the Swedish model. It was, as A. Lindbeck (1994) aptly calls it, “target overshooting”: costs associated with the functioning of welfare state became with time higher than benefits drawn from it. Vast state intervention and structural petrification of Swedish economy undermined the growth foundations while welfare policy shattered incentives for economic development at both micro and macro level. The system of welfare in this form put excessive and inefficient burden on society. With high redistributive ambitions, undermined effectiveness of economic policy and weak governments the Swedish model had limited functionality (Meyerson 1991, p. 20-32). With this in mind one may feel inclined to claim that although the Swedish model urged to overcome the contradictions of capitalism, it apparently got defeated in the confrontation with market logic – it was not able to accommodate the supply shocks of the 70s. And to make things worse, policymakers had very difficult time deciding if the model that had created Swedish welfare should actually be abandoned (Lindvall 2006).

Nonetheless, we believe that the period of “interventionist” Swedish model belongs, despite all its weaknesses, to the era of “classic” Swedish model. All interventions were merely rescue efforts conducted to restore functionality of the previous system and to keep welfare goals within reach. The real end of the “classic” Swedish model should be dated to the turn of the 80s and 90s when past aims and tools have been largely removed or changed. It was then that the economy was deregulated and liberalized, the tax system reformed, state intervention by and large abandoned, and, above all, the priority to maintain full employment was replaced with the inflation target monitored by an independent central bank (Englund 1990; Jonung 1993; Agell, Englund and Södersten 1996; Josefsson 2006; Bergh and Erlingsson 2009). In economic terms we may speak of transition from the Keynesian to the neoliberal-monetarist paradigm. This tough process of reforms was sealed by the accession to the European Union in 1995 as the political tensions of Cold War could no longer infringe Swedish neutrality. The very decision to join the EU was however taken after most of the reforms were already completed, so it had very limited impact on the policy shifts.

It should also be mentioned that the decline of the “classic” Swedish model did not mean that the paternalistic and social inheritance of the model was rejected. Economic issues were given priority over welfare postulates, but not an absolute supremacy. The reduction of state’s role in the economy was not accompanied by its withdrawal from social sphere and social services. Even today, the tax pressure in Sweden is still among the highest in the world together with the size of public sector viewed as government spending or public employment. The Swedish model was pushed into “liberal-paternalistic” direction which assumes liberal principles in economic activity and at the same time keeps promises of publicly guaranteed social security. In Sweden social services and allowances were naturally given a tint of liberalism, that is partial privatization and individualization of benefits, but still remained the domain of state’s paternalism (see for example Anderson 2001; Lindbom 2001; Blomqvist 2004).

3. Bringing back the balance? The Swedish model transformed

In the early 90s the Swedish model adopted a new form, which has basically remained valid until today. This process was not immediate as it took several years for politicians and public opinion to accommodate to the changes it entailed. After all, the previous policy model was in power for nearly four decades. The renewed Swedish model (see Figure 2) aimed basically at rethinking the balance between its two pillars: welfare and economic policy. Also, one may have an impression that the previous superior goal of welfare maximization has lost its past overpowering significance. Naturally, it may be argued that it is always an universal goal for state’s policies to increase prosperity and welfare of citizens, but this justification relates to almost any civilized country and Sweden remains no exception. Yet the pursuit of welfare has somehow lost its feature of dominating and controlling the political discourse. The most important conceptual change seems to be that not only public welfare contributes today to the well-being of Swedish citizens, but even more does so the economic policy based on vast utilization of market mechanism. Welfare achieved by individual effort is as valuable as welfare provided by the state. Moreover, individual action may bring even higher satisfaction than a standardized public service. The role of the state has also changed. It is no longer the only actor at the macro level, but is forced to consider interests of international capital and requirements of domestic industry competing on tough world markets. So far, however, the state seems to successfully reconcile both sides of the potential conflict. Social policy based on broad redistribution and relatively high fiscal pressure is off-set by high quality of human capital, high-tech investments and prominent business and industry infrastructure.

Figure 2. The “transformed” Swedish model

In contrast to the “classic” Swedish model, the economic policy gained nowadays priority over welfare policy. The state is no longer responsible for full employment, but tries to pursue policies that encourage employment in the private sector by supporting active labor market policy and adjusting availability and quality of labor. The policy of subsidizing employment, currency devaluation, and etatism in the public sector is today definitely abandoned. Full employment is, however, still considered one of priorities, but depends almost completely on economic growth and market’s potential to create new jobs. What is also important, the goal of full employment must not overshadow inflation targeting⁷. It is thus widely recognized that economic policy has by and large adopted a very liberal color: strict monetary policy, fiscal discipline, freedom of movement for goods, capital, people, and services, floating exchange rate and no discrimination in economic activity make Sweden one of the most liberal economies in the world (see Bergh 2009, p. 79-84)⁸.

The pivotal role of economic policy does not mean that welfare policy has been put aside (Blomqvist 2004; Lindbom 2007; Bergh 2008). It still aims at elimination of poverty (or in fact not allowing for poverty and social exclusion to emerge), but this is achieved rather by creating incentives to work than by introduction of new transfers. Fiscal reliefs and limited access to many social services are designed to increase motivation for employment, but also for life-long

⁷ This is clearly visible in numbers. In 1990 unemployment was 2,5%, then soared to 10% in mid-90s and since then did not fall actually below 6% oscillating usually between 7% and 8%. On the other hand, inflation fell from over 10% in 1990 to ca. 2% in mid-90s oscillating between 1% and 3% since then.

⁸ See also The Index of Economic Freedom by the Heritage Foundation or Doing Business ranking by World Bank. Only due to high fiscal pressure and high public spending (a prominent feature of the Swedish model) is Sweden out of the very top positions.

education and vocational retraining. One may also notice that partial payment for selected services has been introduced or that some benefits are now increasingly dependent on employment history. This puts some social groups, like young people or immigrants, in danger of being excluded from social system. The question therefore arises whether this model can still be attributed its past universal nature? As a matter of fact – yes, because its very structure has not changed since the 80s. It were the external conditions that altered (Lindbom 2001). Previously, with very high level of employment in the economy, large percentage of citizens was entitled to social benefits. It was the high unemployment of the 90s that deprived many of them of those benefits, not the change of the system. However, even today every citizen is still entitled to minimal benefits, just enough for satisfying basic needs, and has the universal right to many social services, like education or health care. The “modern” model of social policy has definitely not evolved into residual type dedicated to targeting needs of specific social groups. The feature of universality of social services still plays an important role in maintaining social cohesion and support of middle classes. Also, nobody is *a priori* excluded from participation in the labor market, especially thanks to the active labor market policies offering many opportunities of vocational training and support in finding a job, and thus everybody is given a chance to qualify for benefits. The model of inclusive society does not leave any citizen behind. And even though the generosity of many social programs and the level of replacement rates has decreased, it still remains one of the most generous social systems in international comparison.

The path of individualization and limitation of social benefits was not an ideological matter, rather a pragmatic one (see Klitgaard 2007). It seems that policymakers, regardless of political affiliation, agree that it was the only way to save this model of social policy in the long run. Otherwise it could lead to excessive fiscal burden and eventual failure of the whole economic system. It is therefore easy to understand why Swedish governments put so much pressure on maintaining full employment: the more people work, the more stable and solvent the social system is. High level of employment is also crucial for stability of public finances and for maximization of production level. Welfare policy tries to retain its earlier form as much as it is possible in new conditions for economic policy. And since the Swedish economy is performing very well, there is actually little pressure for further limitation of welfare policy. Economic growth is high, the level of employment remains one of the highest in Europe and public debt falls steadily. Even the recent economic recession did not harm Sweden as much as other countries, especially in terms of GDP decrease and debt accumulation⁹.

⁹ As a matter of fact, Sweden continues to downsize its public debt which in 2013 was only 33% of GDP, whereas for many OECD countries it was close to 100%. Negligible growth in many advanced countries contrasted with rapid recovery in Sweden (6% growth in 2010).

Sweden provides an excellent example that nowadays the concept of welfare policy has gained new, broader meaning. The increase in social welfare does not depend solely on state's policy, but may be a result of individual effort as well. Thus, the state focuses on supporting private initiative and encourages individuals to take over responsibility for their own existence. Meeting the demands of global competition and trust of financial markets also requires confirmation of priority of the economy over social policy. In this sense, market seems to determine the scope of welfare directly and indirectly. This situation has been accurately summarized by Lundberg and Åmark (2001, p. 173) who claimed that "[t]he welfare state is no longer, at least not to the same extent, held to be the result of a power struggle between labor and capital, politics and markets, but as a set of institutional arrangements which promotes outcomes (for example, a well-educated and competitive workforce) that make Sweden a country which attracts international investment and financial capital. The welfare state [...] ensures that as many citizens as possible have a share in the new global economy". It is obvious that welfare in the modern world can only be achieved by taking into account external conditions set by the global economy and in this manner a complete independence of social policy from market logic (e.g. in the form of de-commodification of employment) is no longer possible. Contemporary welfare policy offers chances to participate in the global economy by giving them opportunities for personal development in comfortable environment and thus ensure social security in the form similar to the liberal model. This is the inclusiveness of Swedish social policy, which is gradually limiting unproductive transfers, but aims at helping people take responsibility for themselves and their families. Staying outside the labor market is associated with increasing alternative costs. Yet taking into account the high level of employment and active labor market policies, broad availability of long-life learning, retraining and activation schemes, the exclusion of various social groups does not always remain a matter of coercion or lack of choice.

Does the "transformed" Swedish model still rely on fundamental conditions as the "classic" model used to? Certainly there has been a fairly wide acceptance of liberal economic policy, especially among the political elites of the country which dismissed temptations to return to interventionist policies during the severe crisis of the early 90s. Besides, even among public opinion there is now greater tolerance towards slightly higher disparities of income and the resentment for the previous order is represented merely by marginal groups of society. Swedes, however, still support the extensive welfare state and accept high fiscal pressure needed for financing the universal social policy (Svallfors 1995, 2004). Supporters of neoliberal ideas used to worry that under present conditions of free flow of labor and capital one could expect capital flight and exodus of people,

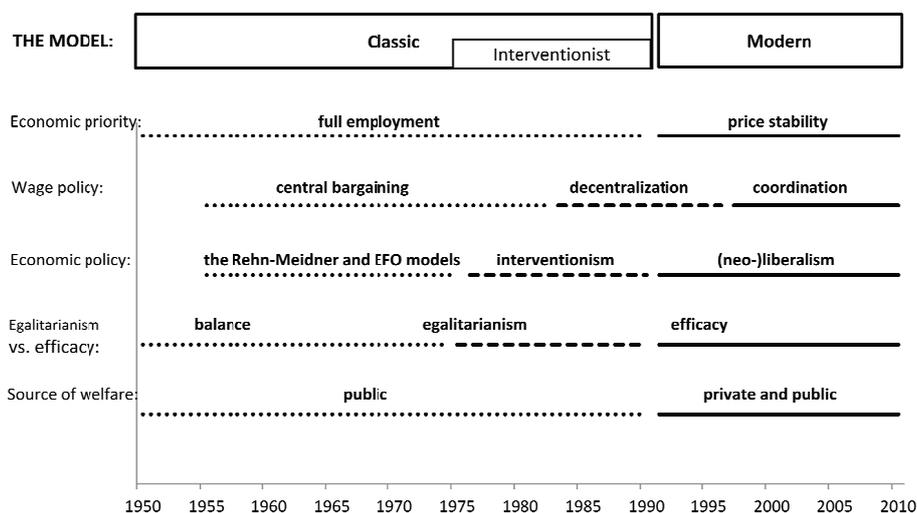
but nothing similar have happened. High level of trust in political actors and fellow citizens makes it surely easier to conduct such deep changes in economic policy and facilitates the functioning of the transformed socioeconomic order. It does not seem, however, that these factors are essential to the shape of the current model. They may be perceived as factors that facilitate its functioning, but not as the necessary conditions – although the role of wide political agreement is never to be underestimated.

And, finally, does the labor market consensus based on mutual recognition of expectations and interests of unions and employers' association still function? Apparently it does, but in a modified form. It has evolved together with the Swedish model (see Karlson and Lindberg 2008, p. 26-46). As we have seen, the system of central bargaining collapsed definitely in the early 80s. But the following order was no better. Uncontrolled decentralization of wage setting started to threaten economic stability of the country due to rising inflation and production costs. This situation forced several unions and employers to seek solution in a return to some kind of agreement so that wage growth would remain at acceptable level (Elvander 2002). Renaissance of collective wage bargaining took place in 1997 at the initiative of unions, which was followed by an establishment of National Mediation Office in 2000. The Office coordinates wage agreements across the country in such a way that the inflation target in the economy remains safe, yet does not have an authority to centralize negotiation or enforce desired results. Thus, the present system is more flexible than its predecessor and takes a form of "organized decentralization" (Thörnqvist 2007) in contrast to the unrestrained decentralization of the 80s. The state again abstains from intervening in the labor market, yet plays an important role in influencing its supply side offering support for retraining, education, occupational mobility, and mediating employment opportunities across the country. However, the structure of the Swedish labor market is beginning to change even further. Since trade unions were forced to adopt reasoning that concerns labor market as a whole and at the same time abandon their pursuit of particular interests of affiliated employees, their significance for many workers begins to fade (Kjellberg 2009; Bengtsson and Berglund 2011). There is very narrow space for political maneuvers and employees are often better-off in individual bargaining with the employer. Moreover, supranational legislation of the EU undermines the neutrality of the state and interferes with the freedom of action and concluding agreements between main actors of the Swedish labor market (Karlson and Lindberg 2008, ch. 6-7). These are the threats that the "transformed" Swedish model needs to face if it wishes to remain distinguishable from neoliberal modes of capitalism and still be a descendant of the "classic" model.

Conclusions

Is it therefore legitimate to speak of a continuity of the Swedish model since many of its components have been replaced by new tools and measures? Figure 3 shows that the beginning of the 90s was in fact a period of deep change in the political toolbox and a time of remodeling the pattern of welfare thinking. However, the pursuit of welfare still remained on the political agenda, though not as exposed as it used to be. Also, many elements of the core of the “classic” Swedish model still remain valid: universal social policy, commitment to equality, active labor market policy, or state’s paternalism. Furthermore, in the late 90s one could witness a renaissance of organized wage bargaining – a quintessence of the Swedish labor market policy. Changes in economic and welfare policy were indeed implemented, but, as it is often argued, in order to keep the system as viable as possible. The “transformed” Swedish model still attempts to reconcile market mechanism with virtues of cooperation and mutual understanding, but in different conditions of policymaking. Therefore, if we had reduced the “classic” Swedish model only to socioeconomic tools and short-termed political aims, we would now find sound reasons to admit its collapse in the early 90s, but as we gave the model a broader meaning, we believe that there is a genuine continuity of underlying ideas and principles that had created it. We argue, however, that one should distinguish “classic” and “transformed” Swedish model, not only for the sake of scientific scrutiny in comparative studies, but more importantly for political arguments or institutional recommendations.

Figure 3. The evolution of the Swedish welfare state model



We may also notice continuity in the balance between welfare and economic policies. Although the liberal economic policy seems to dominate welfare matters, one should observe that neoliberal postulates were never entirely implemented. Public opinion approves high fiscal pressure and high level of government expenditure in exchange for public welfare and dedication to social equality, which finds hardly any justification in mainstream economic thought. This is why policymakers seem to have adopted reasonable and pragmatic attitude towards ideas of this kind: there is no need to liberalize just for the sake of liberalization. The general goal still lies elsewhere – in the social sphere, not in financial or economic one.

Of course, strong and omnipotent state of post-war kind remains no longer (Lindvall and Rothstein 2006), but today there are different means for achieving certain goals. In the globalized and financialized world markets holds dominant position and thus, there is virtually no possibility to conduct successful policies that would oppose their logic. The long-run viability of social policy needs to recognize limitations of this kind. For this reason the praise of social merits, like honesty, civic integrity, and work obligation, is today of foremost importance if social policy is to benefit from the conditions of market imperative and have a possibility to contribute to economic efficiency and overall welfare.

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