

New Sweden: Crushing or Confirming a Social Democratic Model?

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- Social democratic Sweden worked very well by any comparison. Why did a majority opt for a change of government after 12 years (or 65 over the past 75 years)? Göran Persson and his government looked worn out, too self-content and increasingly distant from the people. Trust in supreme social democratic ability to govern had eroded. New Prime Minister Fredrik Reinfeldt presented a reassuring and fresh alternative. Moving his party decisively to centre ground, Reinfeldt reduced the perceived risk of change. He offered a new, customised version of a trusted model, not a new brand.
- “New Moderates” are clear-minded, realistic and rather well prepared. To break down the social democratic hegemony and irreversibly replace it with a liberal one, they are ready to go slow and be pragmatic. The inherited strong economy makes their chances better than ever. But can their camp muster enough political discipline and patience? More labour conflicts and local government liberalisation fervour can backfire.
- The big battle reflecting the differing ideologies will be about labour market policies and - more widely - the strategies for job creation in a small, globalised economy. Paradoxically, government and opposition leaders could have agreed about reforming labour market administration, while there is room for strong disputes in each camp. Now such agreement is unlikely, due to ideologies and distrust, political tactics and lack of economic urgency. The centre-right likes to manifest change, claiming credit for continued growth and rising employment. Some business interest groups urge for revenge and liberation. Mona Sahlin, the new leader of the social democratic labour movement and their potential allies, has yet to consolidate her position.
- In order to profit from globalisation, Sweden would need to reassert its strategy and - on that basis - its social contract. If we wish to compete at the top, do some need to be left behind? More exposure to global wage competition might result in ‘working poor’. That would break a ‘workfare’ contract assuming that two incomes provide good living for a family. The social shock would rip apart a thin centre-right majority. Instead of a return to social democratic business-as-usual, the racist right could enter.
- Relations with Germany will remain a priority on the basis of solid and deepening economic integration, also making any differences (and too weak cultural exchange) more apparent. Energy and labour markets see examples of conflicting interests and policies.



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Sweden works

For a decade the Swedish economy has shown robust health – high growth, high employment, low inflation and strong public finances. The average growth rate has been higher than both EU and OECD averages. In the period from 1995-2004 average GDP per capita growth was 2.6% compared to 2.2% in the U.S. During 12 years of social democratic government (1994-2006), employment increased by more than 400 000, or nine per cent of the labour force, and by 100 000 in 2006 alone. The employment rate is the

same for both sexes and is currently second highest in the EU at 77.8%. Open unemployment is at 5.3%, which is rather low for Europe but high by historical Swedish standards. Annual productivity growth has risen to three per cent in the nineties. In 2006, disposable income went up by three per cent, still leaving the unit labour cost flat since 2002. Inflation is at 1.9%. 2006 saw a surplus of three per cent of GDP in public finances. The 2000-2006 average was two per cent.

Comparison of international performance indicators:

Indicator	Sweden	Germany	Euro area	The U.S.	OECD	World
GDP growth 1995-2005 ¹	2.9	1.4	2.3	3.2	2.7	3.9
GDP growth 2006	4.3	2.6	2.7	3.3	3.1	5.1
GDP growth 2007 (forecast)	3.6	1.7	2.2	2.6	2.7	4.7
HDI ranking 2004 ²	5	21	4 to 28	8	1 to 92	-
Taxes as % of GDP	50.4	34.7	38.4	25.5	35.9	-

¹ average annual per cent growth of Gross Domestic Product

² UNDP Human Development Index (life expectancy, education level and GDP per capita)

The economy is based on a highly export-oriented private industrial sector, long dominated by large Swedish-owned multinationals. Industrial companies like ABB, Atlas Copco, Alfa Laval, Electrolux, Sandvik, Scania, SKF, Volvo, AstraZeneca and Ericsson have become global in most respects while retaining a Swedish base. This is also the case for retailers with IKEA and H&M as leading brands. These multinationals have made Sweden retain a surplus in foreign investment assets abroad (63% of GDP) in spite of strong recent investment inflows bringing foreign assets to 52% of GDP (the EU average is 32%) and providing a quarter of private sector employment.

Daily items retailers, producers of consumer goods and larger providers in the growing service industries often seek a wider Nordic home base. Large size examples are Investor, Nordea, SEB and OMX in finances, and TeliaSonera, Tele2, Telenor and several others in telecommunications.

In 2006 exports reached 51% of GDP and imports 43%, indicating a strong trade surplus. Germany is by far the biggest supplier (18% of all goods), has just become the first export market (10%) ahead of the United States (9%) and is a prominent source of foreign investments. The EU market buys 60% of Sweden's exports, but the surplus comes from other markets. Other Europeans take 14% of exports, Norway's share being the most important at 9%. Asia buys 8% while commercial ties with other developing regions are modest. Some exceptions are Russia, Brazil, Mexico, the Gulf States and South Africa. This contrasts with Sweden's high rate of official development aid at 1% of GDP.

Key services like education, health, childcare and care for the elderly are almost entirely tax-financed, which nobody dares to challenge politically. Usually provided by local government, some administrations representing the governing Alliance controversially push for wholesale

outsourcing to private contractors, also allowing more individualisation of fees and service.

National general income insurance systems are financed by taxes and public fees, covering parental leave, unemployment, sick leave and pensions. The pensions system was reformed in 1994 and is now solidly sustainable, irrespective of demographic challenges ahead. The high taxes thus cover costs that anybody in a modern economy would and should pay. What could be more effective for costs and results? The US health care system costs 15.2% of GDP, while Swedes pay 9.4%. According to polls, people are more concerned about income security and the quality of service than tax levels.

The fertility rate is among the highest in Europe at 1.77 births per woman. 50 years of immigration, principally through asylum and family reunion since 1970, have begun to transform a society that was previously highly homogenous. Challenges of social and economic marginalisation mainly affect recent immigrant groups. Compared with other European countries, Sweden retains an open door for asylum, bringing large influxes from conflict areas linked with established communities, from Iraq now and from former Yugoslavia in the 1990s.

The labour market is governed by ‘collective’ framework agreements between unions and

employers, still allowing for individualisation of salaries for skilled staff. Equalising conditions for all firms in an industry, this ‘solidary wage policy’ and a broad definition of interest by labour unions have provided for a long history of ongoing structural changes, while keeping strikes a rare occurrence. Unions seek to ‘save people’ rather than ‘save jobs’.

The Swedish Krona (SEK) has been stable against the Euro since EMU entry was rejected in a referendum in 2003 and, contrary to predictions, interest differentials have shrunk. The ‘No’ was largely a people’s protest against distance to the political and economic elite in Stockholm, Brussels and board rooms, their decisions and privileges, as later repeated in the French and Dutch referenda on an EU ‘constitution’. **As Sweden is doing fine without it, Euro entry remains politically dead in spite of potential benefits for a highly integrated economy.** No initiative will be taken before the 2010 elections.

Low interest rates, easy availability of consumer credits, labour shortage in some sectors, increasing housing prices and strong company profits/stock market values have all boosted perceived wealth and consumer spending, particularly in Stockholm and other urban areas. Government plans to abolish wealth and property taxes will further inflate bubble tendencies.

And some socialism helps

According to Pär Nuder, Minister of Finance 2004-2006, the political programme behind this success story was social democratic. It has **six features that make Sweden competitive:**

1. **Strong public finances** meeting a surplus target of two per cent of GNP are the basis for low inflation and real wage growth.
2. **An open economy with a strong orientation towards trade, investments and free capital flows.**
3. **Reliable ‘social bridges’ to cope with change, reducing the risks and adjustment costs of unemployment.** Employees are encouraged to seize new opportunities. This rests on a high general level of education with life-long opportunities for further learning and catching up. In the 1990s, 100 000 unemployed (in a country with nine million inhabitants) without a secondary school degree got the opportunity to finish it with a

grant similar to their unemployment benefit. Contrary to most other countries, everyone with a degree from secondary school can enter university. Choices made at the age of twelve will not exclude you. With the number of universities and colleges across the country expanding, the goal is that 50% of the Swedish population get higher education.

Social benefits are designed as income insurances, giving most working people sufficient coverage. The system provides ‘workfare’ incentives rather than passive welfare. Yet those having lost contact with working life often need reintroduction in order to find a suitable job, retrain or take up further schooling.

4. **A culture of collaboration between ‘social partners’ is underscored by an 80% trade union affiliation ratio, which in turn rests on the all-importance of collective agreements, not legislation, to set the frame for employment**

conditions and labour protection regulations.

Unions administer the unemployment insurance system.

5. **Women work as much as men. Policies are designed to help combine parenthood with working life.** Good quality public childcare centres are open all day at a maximum fee of 1260 SEK (135 €) per child and month or 3% of household income (reduced to 2% for the second and 1% for the third child). Parents can remain at home with their child for a total of 13 months at 80% of a salary, to a maximum of 874 SEK (94 €) per day. No parent can take more than 11 months of parental leave which means that the father usually stays at home for at least two. Tax financed and indeed

costly at 1% of GDP, the parental leave system delivers more gender equality and therefore a high employment ratio.

6. **It is profitable to be green. With early policies for energy efficiency and despite high growth during the last decade, emissions of greenhouse gases are lower than in 1990.** Market growth for green products goes hand in hand with public investments in researching and developing new technologies, green fees and tax incentives. As users of green fuels pay a lower tax rate, benefit from free parking in the inner city of Stockholm and pay no road tolls, the number of bi-fuel cars has exploded.

Still the people chose change

Parliamentary elections results, 17 September 2007:

Party	Votes %	Change on 2002	Seats	Women seats %
'New' Moderates (m)	26.2	+11	97	43.3
Centre Party (c)	7.9	+1.7	29	37.9
Liberals (fp)	7.5	-5.8	28	50.0
Christian Democrats (kd)	6.6	-2.6	24	37.5
Alliance government	48.2	+4.2	178	42.7
Social Democrats (s)	35	-4.9	130	50.0
Left Party (v)	5.8	-2.5	22	63.6
Green Party (mp)	5.2	+0.6	19	52.6
Centre-left opposition	46.1	-6.8	171	52.0
Other parties	5.7	+2.5	-	-
Total	100	-	349	47.3

The four-party Alliance was uncommonly successful in winning a majority, as such governments are very unusual in Sweden and all coalitions have been short-lived. The Moderates got the biggest electoral increase in votes ever for a Swedish party. Their defeat in 2002, having campaigned on drastic tax cuts and 'system change', paved the way for a new leadership profiling the Moderates (a name from an earlier period of

modernisation) as 'the new labour party' in explicit admiration for British New Labour.

Most of these votes were captured from Allied parties, especially the Liberals who, curiously, had moved to the right along with the Centre party. Swedish elections are usually decided by small shifts between the two 'blocks', while more voters move within blocks. This time the Social Democrats lost directly to the Moderates, getting their lowest result since the introduction of universal suffrage in 1921.

A predicted close call brought up voter turnout (82%, +1.9). With a gap between blocks of less than 2.2%, parties remaining below the four per cent threshold gained importance. Xenophobic nationalists the Sweden Democrats doubled their votes to 2.9%. Smaller parties got few votes, but influenced the agenda. The 'Feminist Initiative', for example, put pressure on all parties concerning women's representation and adherence to 'feminism'.

The ultranationalist Sweden Democrats caused wide political headache. Most chose to ignore them, while Liberals and some Centre Party candidates accepted debates to claim concern for the same issues. Neither approach was effective. The difficulties of rationally dealing with racist tendencies are evident.

Especially Liberals have been accused of populism and sending out anti-immigrant signals by proposing language test hurdles for citizenship applicants. The previous government was accused by all others of appealing to xenophobia through tougher asylum and immigration practices. A left-right majority then voted down any control on job seekers from new EU member states.

The nationalist right had its most important success in local elections, which are always held on the same day as those for parliament and regional assemblies. The Sweden Democrats gained representation in half of 290 local government assemblies, holding the balance and forcing the formation of several 'grand coalitions'.

Rising expectations and distrust ...

The 2006 elections saw the Social Democrats losing rather than the Alliance winning. The Reinfeldt party makeover was not yet fully credible. The Alliance had yet to be tested in action. The economy was almost booming, though not everywhere and for everyone. In planning their election campaign, the Social Democrats saw the economy as their winning card, but it was not only "the economy, stupid". Once again, Clinton's winning strategy proved insufficient for the centre-left.

The disappointment of rising expectations swung it. **For enough voters, the risks of testing a fresh alternative were low: The economy was doing well and Moderates pledged allegiance to the basics of the welfare state and employees' rights, promising not to experiment without listening to the people.** Social Democracy's governing skills are traditionally seen as supreme, the party having built and run the public sector for most of the past century, for 65 years at the national level since 1932, and still uninterrupted in some localities in the interior and North. The colours were becoming flaky, even if the centre-right has much to prove after ending its stints in government 1976-1982 and 1991-1994 in an economic and political mess.

The Alliance of the four 'bourgeoisie' parties (yes, that notion is widely used) was launched in 2004 on the basis of a weakened, reoriented Moderate Party and the others refusing to flirt with the Social Democrats. For the government's complicated and limited parliamentary arrangements with the Left and

Green parties were exhausted. Squabbling, 'chicken racing' and unexplained deals are not popular.

Göran Persson has always been criticised for a domineering, Machiavellian leadership style. Not out of line with the patriarchal traditions of the labour movement, it is less to the taste of modern Swedes and his party of today. At the same time Persson is pragmatic and consensus-seeking in the Swedish tradition. Adding his mastery of rhetoric, uncommon and unrivalled in Sweden, and a supreme feeling for popular and political modes, this combination served him well for a long time. It took him almost five years from 1996 onwards to fully prove himself as party leader and Prime Minister, but then Persson became genuinely popular.

His best moment and victory came with the 2002 elections, although they confirmed that social democracy can at best get 40% of the vote, down from an average of 45. With 36.4% in 1998, Persson had just survived in government after negotiating support from the Left Party (12%) and the Greens (4.5%). Elections to the European parliament in 1999 and 2004 and the Euro referendum in 2003 were all defeats.

Persson's magic touch waned, much a consequence of events in September 2003, when the Minister for Foreign Affairs and likely 'crown princess' Anna Lindh was stabbed to death when dress shopping before the final referendum debate on the Euro. The wave of dismay and sympathy did not change the forecast result. The people said 'No', with

only 42% following the almost unanimous advice of political and business leaders. Persson lost much political authority he had gained at home, in Europe and the world, and had to postpone his handover of party leadership due to the lack of a preferred and popular successor.

Sweden's public sector rests on age-old, strict principles of division of labour. Ministers, ministries and parliament should deal only with laws, general regulation and budget priorities. Policies are implemented by over 300 autonomous authorities. Ministers are constitutionally prohibited from influencing day-to-day business in any way. The appointment of each director-general for a six-year mandate is a key tool of governance, carefully used by Persson to defend welfare institutions and sometimes reward political allies, notably from the Centre party for its cooperation with the government from 1995 to 1998. The Alliance now demanded a public process and parliamentary approval. In government they have softened their stance and say that a more 'objective' recruitment process will be prepared.

The Indian Ocean tsunami disaster of December 26, 2004 hit directly at the heart of public sector responsibility and organisation. 543 dead made Sweden the most affected country outside the tsunami zone. A government reaction perceived as slow and insensitive continues to cause political repercussions. A rescue operation to bring victims home from Thailand took days to organise, in contrast with some other European countries and – most importantly – disappointing Swedes' high expectations of state compassion and assistance. Ensuing blame games within government made matters worse.

Scandals and allegations of misconduct persisted. A former minister of housing attempted to profit from apartment privatization against which he had instated a law. Party youth leagues, important for recruitment and political education, inflated their membership figures to boost subsidies. Those to the left were worst. The social democratic opinion polling guru disclosed unsubstantiated dirt about Reinfeldt to journalists.

This series of events had a profound effect in a country expecting rationality and honesty from public administration. Some call it naivety, but corruption-free, no-fuss reliability has been a competitive advantage for Sweden and a precondition for its high tax social contract.

The opposition Alliance managed to stay cleaner until just before Election Day. Then it emerged that the Liberal leadership had snooped on the Social Democrats' intranet, enabling them to counter government campaign initiatives before they were launched. The powerful Liberal secretary-general, the brain behind the move to make the party more populist and dynamic, had to resign and many voters returned from the Liberals to the Moderates, reversing the 2002 election results.

Given the close election result, it is very probable that the scandals decided the elections. More important, though, is their impact on social trust and political culture. The Economist Intelligence Unit democracy index places Sweden as world champion and "near perfect democracy" with a score of 9.88 out of 10. Still Swedes do not retain high regard for politicians. Party membership is falling. The lowest voter turnout for European Parliamentary Elections among EU 15 reflects disregard for the EU and the privileges of its functionaries. Some scepticism is healthy for democracy. However, if it reaches the same magnitude as in most countries, Sweden could do better without this 'modernization'.

Trends are similar elsewhere in society. Business executive pay is booming and referring it to good 'market conditions' is not convincing. Scope for impunity has become apparent after examples of illicit corporate governance. Spectacular fraud by managers in the insurance and finance group Skandia, which lingers on in courts, exposed a crown jewel to successful hostile takeover by British-South African Old Mutual. Among the people, disloyalty to the social contract is reflected by cheating with social benefits and tolerance for certain kinds of tax fraud. According to research, at least the latter is growing.

...and a few policy issues

1. **Concern about unemployment was a key to the election result and remains the 'make it or break it' issue for the Alliance, even if unemployment**

is rather low and total employment very high for an OECD country. However, three years of good growth have actually seen unemployment increase

slightly and only start to come down in 2006. More people entered the labour market and many find it difficult to get a suitable and 'permanent' job.

Social Democracy has been trusted in keeping unemployment low and has generally succeeded (or lost, as in 1991). Now even a former minister admits that his government did not discuss job creation, leaving it to market forces and the economic boom. Comforted by forecasters, Social Democratic policy focused on short-term job programmes. Such measures have their value, but are neither immediately effective nor satisfying enough for individuals.

A late pre-election change of attitude amounted to admitting the mistake of having nothing new to offer. The Alliance seized the opportunity to focus its campaign on labour market reforms to stimulate new businesses and private sector employment. Moderates have refashioned themselves as 'the new labour party' and can now wait and pick the ripening fruits.

2. Good education is necessary for survival in a competitive, fast changing and international labour market. **Swedish parents have been fairly satisfied with the quality of schooling for their children.** Demand for specialisation and individual parental preferences have been channelled into a growing choice of alternative schools, at least in urban areas. Adult and higher education has been expanded and more access routes have opened.

However, there are concerns about results and discipline. Parents and well-motivated students are escaping difficult schools, feeding a vicious circle of deterioration in affected poorer suburbs. Persistent social segregation, especially affecting recently arrived immigrant communities and often clad in ethnic colours, is manifested at school. Social integration can be an overwhelming task for teachers.

The Liberal party has profiled itself against 'naive social democratic schooling', demanding more and earlier testing and marking, theory over practice, emphasis on the 'core subjects' of Swedish, history and religion, affirmed teacher authority and expulsion of troublemakers. Simplistic solutions have been half-heartedly resisted. A defensive social democratic education policy has focused on expanding budgets and increased access to higher and adult education.

Liberal Party leader Lars Leijonborg and his deputy (and rival) Jan Björklund are now Ministers of Higher Education and Schools respectively. Reform towards a more differentiated upper secondary school (classes 10-12) is underway – instead of requiring everybody to prepare for the knowledge economy, vocational training is seen as sufficient for 'the bored'. Adult catch-up education will be reduced. Success with university colleges in regional centres will not be reversed, but resources restricted with the justification of not diluting traditional centres of excellence.

Devoting more attention to the quality of education is uncontroversial, but ideological rifts will open up if elite student promotion will mean that others are left with less choice and opportunity. The Alliance government runs the risk of discontent in light of the rising expectations it has encouraged. Nobody wants to see their own child left behind by globalisation.

3. Economic prospects, job opportunities, education requirements and social integration are inseparable from international developments. However, **Europe and the wider world were largely ignored by media and parties and were never an election issue.** One reason is that the view of Europe and the world is not so much a right-left controversy. Instead the divide runs between the professionally secure, often well-educated, mobile and urban, who enjoy the advantages of globalisation, and a larger group feeling mainly the threats. They see killing competition, a broken social contract and decision-makers no longer accountable. To bridge – not ignore – this divide would make Sweden more dynamic.
4. Persson made some attempts to let the world situation enlighten election debate. **Persson's 1996 leadership acceptance speech launched a vision of "a green people's home".** After chairing the EU's adoption of the concept of ecological, social and economic sustainability in 2001 and contributing it to the United Nations' Earth Summit declaration in 2002, Persson has much stressed the economic opportunities associated with leading the transformation. Jobs and welfare are found in supplying new technologies, systems and expertise. **A government report on ceasing dependence on oil until 2020 received much international attention, but at home it was seen as an election ploy.** A visit and praise by Al Gore rather added to

that petty attitude. Persson's governments also stuck to a 1979 referendum decision to slowly phase out nuclear power as unreliable and non-

renewable. The Alliance is more in line with popular mode by being undecided on the issue, further deferring the development of alternatives.

The winners – will they make it?

The leading 'New Moderates' are young, eager and can therefore be of lasting stuff. Prime Minister Fredrik Reinfeldt (43 this year) appointed an inner circle of associates with Minister of Finance Anders Borg (39) and Minister for Employment Sven Otto Littorin (41). Two other Moderate ministers are at the same age, one is younger and five are in their fifties.

Their age represents no lack of political experience. Seasoned by long battle service for and within their party, they were able to take over and re-launch it as 'New Moderates' when it was in disarray after the 2002 elections. It is now for this team to succeed or not in leading a non-socialist government. Two previous chances failed, apart from some lasting economic liberalisation.

A surprising comeback is that of Minister for Foreign Affairs Carl Bildt. Leader of the old Moderates 1986-1999, Prime Minister 1991-1994, and EU and UN envoy to the Balkans 1995-2001, it took the self-declared 'Moderate Classic', only minutes to go against government policy after his appointment. The 'new labour party' has promised not to touch union influence over dismissals and declares 'love' for industry-wide collective agreements. Bildt, however, wants more flexibility through weaker labour protection. He is supported by Centre party leader and Deputy Prime Minister Maud Olofsson, opening a first rift in Alliance policy and political strategy.

Taking Bildt onboard is a non-typical high risk strategy on Reinfeldt's part and an act of reconciliation with a man who once put youth leader Reinfeldt 'in the freezer' for voicing internal criticism. **If well calculated, Bildt should be an asset in keeping the party together, handling a key portfolio for which Reinfeldt has shown surprisingly little interest, and adding gravitas to his own freshness.**

However, Bildt complicated life for himself by not clearly declaring his business interests. He kept in the dark profitable stock options as a director of Vostok Nafta, an investment arm of the Lundin oil, gas and mineral extraction group, with a principal

stake in Gazprom. His independence from Russian oil and gas interests is questioned. Bildt was also a key advisor and director of Lundin Petroleum, legitimising investments in conflict countries, of which Sudan is the most controversial.

Setting conditions for a gas pipeline from Russia to Germany through the Swedish Baltic Sea Economic Zone is a hard nut to crack. Strong direct and European interests are at play, manifested by Gazprom recruiting former Chancellor Gerhard Schröder to chair the project company. Russian naval strategy has been redrafted for the defence of oil and gas installations. Moderate Minister of Defence Mikael Odenberg has joined opposition and defence authorities in expressing national security concerns.

In spite of the criticism, Bildt can remain strong. The opposition needs to rebuild and the annual foreign policy debate in parliament showed more differences on priorities than on principles. A likely exit strategy is Bildt standing for EU High Representative for the Common Foreign and Security Policy or, if that does not fly, replacing Margot Wallström as European Commissioner after the Swedish Presidency of the European Council in 2009.

Deputy Prime Minister and Minister for Enterprise and Energy Maud Olofsson also acts as a winner. Having taken over a Centre Party struggling with its identity in 2001, she has modified its social conservative roots towards liberal values and rhetoric (except for policies affecting farmers who still constitute the Centre Party's voter base). Maud, as she is called by all, has burnt bridges with social democracy to become the most reliable and compromising Alliance member. The final test was her giving up the age-old party demand for the phasing out of nuclear power.

The Liberal and Christian Democratic parties are at the losing end of the winning Alliance. Liberal leader Leijonborg has long been questioned among his own members. His withdrawal from politics at a party congress in September would come as no surprise. Although pleased to be in government, many are still uneasy with his more populist and less

social liberalism, and blame local government losses on the national leadership. Allied parties regard the Liberals as the least trusted among their number.

Christian Democrat leader Göran Hägglund, Minister for Health and Social Affairs, is struggling to gain the recognition of Alf Svensson, his mentor and the party personified as leader for 31 of 43 years. To

broaden appeal beyond a conservative, Christian evangelist core is necessary for survival. Controversy about his legalising of abortion for paying foreigners defines the party as a reliable member of a liberal Alliance, while core supporters see it as a selling out of the party's soul.

A rocky start to a long walk

The Alliance shows strong determination to push through speedy reform in agreed priority areas – labour market policy, youth education and some taxation. It is surprising that the first five months show many signs of shaky handling, inept communication and haggling. Very weak opinion poll results – with a Social Democracy lacking leadership and priorities almost overtaking the Alliance – add to nervousness.

Reinfeldt reacted weakly to the climate change debate erupting during this last hot winter. Undercutting Centre Party Minister of Environment Andreas Carlgren, Reinfeldt was passive and finally came out saying that Sweden did not need to change much. In complete contrast with Persson, he suggested that China, India and Brazil should take the lead. To compensate, there is now much talk, travel and commission work.

With long spells in opposition, Allied Parties have staff problems. Earlier setbacks and internal renewal have much depleted the pool of experienced people still trusted by the party leaderships. Many State Secretaries and other political staff have a non-political expert background. Limited communication and political management skills can explain much insider talk about ineffective Alliance relations.

One should not read too much into such early problems. Any new set of politicians can afford some learning by doing. With key reforms under way there will be time to attend to other matters. The test instead will consist in whether positive change outweighing the hardships will be made as a credible result of liberal reforms.

Nor should the spectacular resignation of two ministers within days of appointment due to their principled avoidance of taxes and TV license fees do much harm. Reinfeldt got rid of voices from the neo-liberal wing of his party. Muting a revengeful Right, deeply suspicious of even tactical concessions to

welfare- and union-friendly public opinion, can serve the New Moderates and the Alliance well.

More seriously, liberal-dominated media have begun to question little seen Prime Minister Reinfeldt's skills, reflecting his coalition dilemmas. By winning more votes, parliament seats and ministerial power than the other Allies combined, relations are uneven. The solution was to give each party its preferred posts to profile. **Even if much binds the Alliance together, a solid four-party coalition would be unique. If opinion polls dip low approaching elections, temptations to seek party advantage might be irresistible. The Prime Minister cannot do much without breaking the pact.**

The nationalist Right is a destabilising factor. Many are prone to lose from liberalisation. With no real conservative party on offer and the centre-left combining social safety with radical cultural openness, the Sweden Democrats can have it sadly easy. The best hope is their political self-destruction, as happened when the populist Right held parliamentary balance during the Bildt government.

New Moderate logic is for the long term. The party has learnt the hard way that the Swedish people do not fancy the idea of a liberal 'system overhaul'. Instead of giving up on that ambition – the unexciting vision of Sweden falling into line with any other Western country – team Reinfeldt has set out to systematically change Sweden's self-image and success story: "Wealth was built despite, not thanks to, a welfare state and a market-controlling deal between organised labour and private capital. Contradictions between labour and capital will soon be history. Everybody an entrepreneur and an investor is the future."

In order to make its revolution, the liberal Right is ready to go slow, resting on each step until it is approved by a new majority – the self-realising

offspring of the welfare society, secure enough to see its collective solutions as straightjackets. With its own determinism, the Right has learnt from social

democratic reformism in order to reverse it. If they have such a coherent strategy, the first battle outcome is decisive.

Labour market reform: the battle field – or just a first test?

The world's top employment rate does not mean that everybody works. In Sweden, those who would go without an income in other countries often remain within a system of basic income insurance and other benefits. Not all walk Nuder's social bridges, whether for valid reasons or not. Also, an advanced economy demanding ever more specialisation and productivity sees the unemployed rapidly losing 'employability'.

Repeated 'employment measures' (subsidised work, practice, retraining and other courses) might rather reinforce than solve the individual's problems, especially if motivated by qualifying for further benefits and delaying a move to greener fields in another profession or city. The Labour Market Administration has the awkward double role of encouraging personal growth and being distrustful gatekeeper to benefits. It is accused of focusing on moving people out of open unemployment rather than on effective job matching.

Overall the welfare system certainly boosts the workforce, notably by making most women plan for motherhood and a professional career. Meanwhile, the system places a heavy tax burden on those in an ever more demanding and consuming working life. Naturally, there is resentment against those perceived as not doing their bit. Controls, reviews and incentives have been introduced with some success to ensure that early pension and long-term sick leave do not become escape routes. Still, the 'new labour party' gains sympathy when it says that the old one is defending a system squandering a traditional adherence to strong work ethics.

The Social Democratic government has avoided talking about, if not acting on, abuse, risking discrediting a system of its own creation. Some are trapped in idle poverty, which is costly and carves away trust in the system. However, there is little to suggest that Sweden's macroeconomic performance, public finances or competitive strength is threatened. All measures of social cohesion and security are affordable for now.

Modelled on the UK, the U.S. and the Netherlands, government reforms are based on three pillars.

Firstly, taxes are reduced on work incomes but not on pensions or other benefits. An almost flat reduction over all incomes should make work more attractive than benefits in lower income brackets while pleasing everybody. The rich get more from property and wealth taxes being phased out, beginning with a tax level freeze on housing property. Signalling a deliberate attack on trade union strength, tax reductions for membership and unemployment insurance fees are abolished. Employers' fees to their associations remain deductible.

Secondly, unemployment insurance benefits are limited to 300 working days, still covering at most 80% of the last salary for 200 days and then reduced to 70%. The daily maximum is 680 SEK (73 €), taxable at about 30%, down from 730 SEK (78 €) for the first 100 days. Requirements for previous work and job search activity have become more severe. Public employment schemes and retraining, which have also allowed extending benefits, are sharply reduced.

The unemployment insurance premium is also sharply increased as state subsidies are abolished. Each of the trade union administered insurance schemes is to carry the full cost of unemployment in its group. The intention is to make the insurance compulsory. Critics say that the purpose is first to discipline the unions' wage demands, then to carve away at union membership as combined fees go up and the union part can be saved.

Thirdly, targeted reductions are made – some pending EU approval – on employers' social insurance fees (32.5% on top of gross wage) for young people, long-term unemployed, self-employed and certain services. Those purchasing private household services (cleaning etc.) will receive further tax advantages.

Each of these measures is relatively modest or balances out in the personal economy, but taken together they constitute a sharp change. Employment insurance reforms have stirred much

anxiety. All trade union federations, from workers' LO to employees and professionals in TCO and SACO, representing more than 80% of the workforce, have protested strongly, seeing a first move to reducing union strength.

The economic purpose is to strengthen the role of incentives by increased wage differentials. A less explicit (but not denied) intention is to decrease the lowest wages, making the least qualified cheaper and more likely to accept such offers. Instead, unions are talking tough about wage increases. They argue that all members need compensation for new insurance conditions and that the least paid would just be first falling into a downward spiral.

Meanwhile, some tough-talking business representatives complain that the government believes *too much* in the collective agreement model, saying that true liberals would open employment conditions for more market settlement. A proxy battle is being fought between unions and the owner of a small salad bar, refusing a union agreement citing her 'Human Rights'. The young female owner has won much sympathy in facing older male 'union bosses and thugs' and decided to sell rather than sign. Minister Littorin is consistent in letting 'social partners' fight the matter out. Centre and Liberal Parties instead favour anti-union legislation limiting the right to strikes and blockade.

To the dismay of the liberal Right and business associations, 'their' government has also stuck with unions in the EU Court of Justice Case against a Latvian construction contractor over having to pay wages in accordance with Swedish agreements. The company has packed up and liberal media are accusing 'mafia unions' of racism against the poor seeking better paid jobs.

Conflicts over labour market principles are likely to proliferate, even if most employers and employees would prefer peace, order and making profit from the boom. Ideologists see their opportunities and public opinion is yet to be won for one side. A first reaction actually seems to be an upturn in union membership (against a slow downward trend), while more people drop the unemployment insurance coverage.

Sweden has long been a heaven of constructive labour relations. Wage differentials are rather small, but have increased with union-approved individualisation of pay. Strikes were unheard of in the past decade. In spite of increasing profits,

workers' wage demands have been held back. Companies worry more about finding qualified staff than about having to pay too much.

Notably, Alliance reforms go against the much praised Danish model of 'flexicurity', where job protection is low while incomes remain secured in order to encourage job change flexibility. This political choice reflects a strong focus on replacing welfare for the poorer with 'workfare'. The first reform battle is targeting a limited group, ostensibly to help them.

Lower end wages are the real bone of contention. The Alliance trusts their economic experts who say that they are being kept too high to make people with few skills and experience employable. **While admitting that more jobs could be created by lowering wages, social democrats and unions fear a downward wage pressure for large groups, particularly in expanding service industries.** They argued that for a country like Sweden, modernisation and competitive strength is about better qualified and higher value-added jobs, not just more jobs.

The Alliance reforms seek to address a social segregation that is strongly clad in ethnic colours. Many asylum seekers and their families – the majority of immigrants – have no employment chances and are relegated to welfare dependency. Supported by eased tax rules, social insurance opt outs and other deregulation for all small businesses, the hope is that this supposedly enterprising group would seek self-employment in providing cheap, efficient services that better-off people would buy more of thanks to lower taxation.

The political vision behind this project is clear. Business would demonstrate that the route to success and comfort for all is to escape from the welfare state. Right liberalism would gain its sought-after social, multicultural and humane credentials, and start luring away immigrants from their leftist loyalties. The Swedish centre-right is consistently liberal in rejecting xenophobia, even if their local governments in wealthier places keep refugees away.

However, instead of developing modern service industries, relegating unskilled immigrants, youth and elderly to self-employment that is uncompetitive without subsidies and special rules could also create a lumpenproletariat. The price for cheaper services would be entrenched economic disparities and social segregation.

So far the debate has focused on labour migration and its effects. There is actually broad agreement about keeping the labour market open to the EU and, gradually, to the world. However, the devil is in the regulatory details. Trade unions are suspicious that liberalisation will bring the full brunt of wage competition also to the domestic market, with people accepting structural adjustments more easily as jobs move abroad.

With success in staying together on top of globalisation, almost all take for granted that the lack of ‘working poor’ conditions distinguishes Sweden from other countries. That illusion might easily crack

under the multiple pressures of globalisation, if left without protective reforms. Political passivity will serve the purpose of right-wing liberalism. In Sweden, though, the majority is not yet prepared to see the welfare system go and will punish those seen to let it happen.

Cohesion or differentiation – in wages and labour conditions, in education ambitions and opportunities, in taking on the opportunities and risks of modern life – is the underlying question of the current political issues. Experience of right-wing liberal policies will help the Swedish people decide what serves it best.

Unsolved challenges

In its first six months the Alliance government has only acted with resolve on matters they could agree upon. Where agreements are partial at best, the people are left in the dark.

1. Privatization of state-owned companies is of symbolic importance. In order not to expose sales to criticism of earlier government mistakes in asset pricing and creation of private monopolies, six jewels in the crown shall be the first to go. They are part-owned TeliaSonera telecom provider, Nordea bank and OMX stock market services, and wholly owned V&S alcoholic beverage producer and distributor (including Absolut – skål!), SBAB housing credits and Vasakronan office property developer. The combined sales value should exceed 20 billion €

Social Democrats argue against giving up nice annual profits for the state coffers, confirming their own limited ownership policies. Apart from SBAB aggressively lowering housing costs, most state holdings have been free to exploit market failures at the expense of consumers. The energy producer and distributor Vattenfall is the worst case, enjoying a cosy oligopoly with German E.ON and Finnish Fortum, all three much criticized for inefficiency and bad service.

The critical issue is not ownership *per se* but competition policies and regulation in the markets concerned, and how to use sales proceeds. Will public finances be consolidated or taxes reduced for some only?

2. On family policies, there is little coherence. For the 1998 elections Persson surprised all, including

his party, with promising a low maximum fee for guaranteed Kindergarten child care. The opposition was vehemently against this ‘socialisation’. Their voters loved it. Today no local government defers tax subsidies for child care, an essential service for working parents.

Alliance parties are more or less happy to steal social democratic clothes, while Christian democrats insist that local governments must be able to direct subsidies to stay-at-home parents (mothers) – their last ideological issue.

3. A more important and deeply controversial change, also within the Alliance, would be to move towards basic level income insurances only, leaving mid-income groups to purchase private coverage. ‘General welfare’ keeping people in a broad majority of income brackets safe has been a key social democratic strategy. Capping child care fees proved its political effectiveness.

Reforming unemployment insurance is a first attempt to move away from public insurance against lost incomes to just basic insurance against poverty. Some (notably, non-socialist) trade unions have offered their own unemployment coverage for those earning above the publicly insured top limit, making it a key membership argument. More unions are considering the same, as the state offers only a minimum.

The government talks softly about merging all income insurance schemes, but that does not say anything about which income brackets it should cover. That battle is for later.

4. **The short-lived first Minister of Culture signalled a neo-liberal media policy offensive against public service radio and television and subsidies for second, i.e. one liberal right and all social democratic, newspapers.** Media is strongly liberally dominated, even if many journalists are left radicals by vocation. Market reforms are now left for more opportune times.

5. **Placing Sweden at the heart of EU decision-making is the key foreign policy ambition.** Supposedly, it is consistent with the vision of Sweden having no distinctive social model complicating its European integration. What remains unclear is how the government would use a gain in influence, and how to win the heart of a euro-sceptic people.

Sweden will remain a staunch supporter of EU enlargement to Turkey and beyond, a matter on which there is political consensus and popular backing. In the constitutional charter debate the profile is very low in order not to provoke anyone. Another successful Swedish presidency in 2009 could be an opportunity of profiling at home and abroad, but first preparations have been slow and flimsy. Liberal Cecilia Malmström as Minister for EU Affairs is a nice communicator, but again lacks a real mandate in relation to other ministers.

To endear Swedish opinion to European cooperation, the return of Margot Wallström remains the best move even if she politely refused to lead the opposition. Her active presence in the opposition will prevent anti-EU populism in public debate.

The EU will be the tool to leverage – and confine – all foreign and security policy. Military non-alignment, ever less relevant but popular in wide disapproval of NATO adherence to US policies, will not be touched even if Liberals and Moderates would like to. Bildt will take care of the ‘hard’ face of foreign affairs, steering Swedish positions to what he perceives as *Realpolitik*.

The Minister for International Development Cooperation Gunilla Carlsson will be the ‘soft’ face, as New Moderates nurture a caring profile. Administering aid is an unforeseen but useful tool to win female votes. Compassion is an electoral priority after having captured just 23% of women voters against 31% among men. The challenge is sharpened by women leading the opposition.

As for Germany, there are few complications to continued closeness between heads of government in EU affairs and otherwise. Reinfeldt’s invitation to present his party’s success to the CDU leadership is noteworthy. At present, moves by MAN and VW to take over truck maker Scania cause some concern about corporate loyalty and potential job losses, even if invoking ‘*Blitzkrieg*’ fear did not help a pressed CEO to gain any ground.

Swedish trade unions are much opposed to local downward flexibility in German wage-setting, arguing that it is useless to support underperforming companies with lower wage costs. It is better for companies that do not keep industry standards to disappear sooner than later. General Motors playing Rüdeshheim and Trollhättan, Opel and SAAB, against each other was a new experience, not all bad but instructive.

Social democrats: a lost battle – still winning the war?

Loosing to a rival attempting to steal one’s clothes is difficult to take, but should be possible to handle. Being left rudderless with Persson’s six months of resignation has served the Social Democrats well in opinion polls. **Preoccupied with search for a nice leader, the Social Democrats have not yet considered their policies and priorities.**

The demand has been strong for a woman to take the helm for the first time. Not entirely out of newfound feminist conviction, it has been a formula to break with Persson’s closed circle style, not his policies.

Mona Sahlin was already the favourite candidate in 1996, but after the revelation of messy personal finances and minor misuse of her government credit card – the Toblerone affair – she temporarily left politics. Doubts linger about her ability to regain broad appeal; other women were nominated first but said ‘no thanks’. **Nevertheless, her unanimous election as leader in March 2006 reflected genuine support.**

Mona (as she is generally called) came back to government in 1998. She held portfolios for small business promotion, labour, gender equality, social

integration and non-discrimination, energy, housing and sustainable development, her communication skills and popular touch used for emerging challenges. The main criticism is about much talking and too few results. On the other hand, her mandates were often limited to coordination with other ministers.

Persson's crowning legacy is a staunch defence and some further development of the welfare system, first saving it from ruins and then putting it on solid financial footing. He showed Sweden and the world that high tax social safety can underpin an open, dynamic world class economy. On this basis, Persson also confirmed a renewed role for Sweden in European and world politics.

Where will Mona Sahlin take social democracy? Responding to the issue of style she is talking about forming "a modern, angry party against injustices" and "a new leadership, not just a new leader". When accepting nomination Sahlin listed the following policy priorities. Party and people have not objected much, even if some ideas signal revising traditional views.

Stopping climate change and beginning reconstruction for sustainable development is an all-encompassing task. Making the vision of a 'green people's home' come true is demanding for both society and individuals, a combination which Sahlin finds appealing.

The next task is to create jobs and extend the labour market to marginalised groups. Education for all, employability and defending the collective agreement model are no-surprise keys. However, Sahlin wants to challenge her party to better appreciate enterprising individuals.

Sahlin signals a need to adjust the social safety system in order to bridge existing gaps between urban and rural areas, within cities, and between ethnic minorities and 'old' Swedes. Apart from overcoming class injustices, a modern welfare state must also focus on inequalities stemming from gender and ethnicity. For example, she is ready to set parental leave rules that force fathers to do their bit, as women are put at a professional career disadvantage by taking a much larger part of the leave.

It all boils down to retaining the alliance underpinning the social democratic Swedish model, in the past successfully forged between lower and middle income earners. Can she meet the growing aspirations of the comfortable classes in urban growth

centres without losing the loyalty of the less privileged? In ever more diverse and fragmented societies, the task of serving the rational interests of broad majorities, as well as meeting their fears and hopes, is daunting.

The last denominators in the political equation are the Green and Left parties. They are now free to be in double opposition, against the government and a social democracy restrained by its wish to govern again soon. Both parties can count on a sufficient support base, not least among middle class radicals. Leaderships are largely 'Realos' but reined in by fundamentalists who often prefer protest posture and purity to gradual results.

Social democracy can regain some vitality by humble dialogue with these potential allies. Some hard differences will remain, but their alignment with a right liberal Alliance is very unlikely. **Yet the last election has shown the importance of political commitment to reliable alliances. The time of minority governments might be over, while the proliferation of new parties continues.**

This is a major challenge for the new social democratic leader. Her shaping of political alliances will test the endurance of the Alliance government and indeed Sweden's social and democratic model.