INTERNATIONAL POLICY ANALYSIS

The Swedish Model

Conflict or Consensus?

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- The riots in the Stockholm suburb of Husby and a number of other suburban areas in Sweden in the spring of 2013 have sparked a critical public debate in Sweden regarding the increasing rifts between poor and rich in Swedish society but also about the increasing pressure the Swedish Model of the welfare state is facing from several sides.

- *Arbetslinjen*, the new work-incentive policy passed by the conservative government after the 2006 election lead to reduced levels of compensation in the social insurance system while exacerbating the existing rifts and increasing the polarisation between those who have a strong position in the labour market and those who do not.

- After the introduction of free competition and customer choice models between 1991 and 1994, the privatisation process has been strengthened under the non-socialist government since 2006. This has been changing the Swedish welfare model to a market structure exposed to growing criticism regarding the quality of welfare services and the possibility of private profits in this publicly funded sector.

- The relatively high level of unemployment is questioning the previous fiscal conservatism followed after the crisis of the 1990s and could lead to a change regarding the economic policy to a more expansive one suggesting a renaissance for the Keynesian perspective.

- The Swedish Model is still very much associated with social democracy and the labour movement which shaped Swedish society for much of the 20th century. In recent years, the conservative coalition (or *Alliansen*) also started to lay claim to the concept of the Swedish Model causing a conflict about its meaning as well as specific policies and the way in which public welfare institutions should be constructed.

Content

1. The Swedish Model in a state of change

1.1 From an exemplary model to rioting in the suburbs

Riots in the Stockholm suburb of Husby and a number of other suburban areas in Sweden in the spring of 2013 were reported in several international media outlets. One article in the *Deutsche Welle,* for example, stated that riots in »one of Europe's richest capital cities have scuppered Sweden's reputation for social justice.«

These riots have sparked a critical public debate in Sweden. Most people are aware that rifts in Swedish society have increased in recent years (as they have in most other countries). Nevertheless, such riots may be seen as a sort of awakening, particularly in view of developments in Sweden's major cities and the growing marginalisation and poverty in many suburbs and residential areas.

These rifts have been exacerbated by the new work-incentive policy *(arbetslinjen),* which was pushed through by the non-socialist government after the 2006 election and has reduced levels of compensation in the social insurance system. At the same time, many have benefited from the policy in purely economic terms, especially as a result of lower taxation for people who are employed. One might call it an increased polarisation between insiders and outsiders, between those who have a strong position in the labour market and those who do not. People who have jobs have more money in their pockets, for the most part, while people outside of the system face a worsening situation.

Prior to about 1980, income differences had been declining in Sweden. However, according to a recent OECD report, Sweden is the country in which income gaps have widened the most since 1995, even though it initially had a very narrow range of income distribution. But the trend is clearly pointing in one direction. As senior OECD analyst Michael Forster put it, »If this trend continues for another five or ten years, Sweden will no longer be a showcase for equality in the OECD area.«

The Swedish Model is still very much associated with social democracy and the labour movement, which shaped Swedish society for much of the 20th century. In recent years, the non-socialist coalition (or *Alliansen*), headed by the New Moderate Party, has also started to lay claim to the Swedish Model concept. In other words, there is a conflict about the meaning of this concept, about specific policies, and about the way in which the public welfare institutions should be constructed.

1.2 The Swedish Model's background

The historic Saltsjöbaden Agreement of 1938 between the Swedish Trade Union Confederation (LO) and the Swedish Employers' Confederation (SAF) has come to symbolise the compromise between labour and capital – a spirit of co-operation between two well-organised parties and peaceful relations in the labour market. But one of the reasons for the Saltsjöbaden Agreement was that the Social Democrats had been in office since 1932.

The Swedish collective bargaining model gave the trade union organisations a strong position in the labour market, which in turn benefited union members, strengthened and legitimised union organisations, and promoted economic development.

Trade union organisations could thus pursue an active income distribution policy by implementing a ›solidaric wage policy‹ of equal pay for equal work, irrespective of the profitability of the company or employer in question. This favoured a narrower range of wages, gradual structural transformation, and the elimination of inefficient firms. The state and the political system, for their part, developed a welfare policy which, step by step, built up social security systems and simultaneously encouraged greater mobility in the labour market by means of an active labour market policy that made it possible for people to move to the major cities in growth regions where new jobs awaited them.

This economic policy promoted both rationalisation and greater social justice; central government fiscal policy was designed to keep inflation low. Overall, this meant that the Swedish trade union movement accepted profits in the private sector to a greater extent than in many other countries. This model delivered higher standards of living and higher pay. As a result, the Swedish trade union movement accepted technological development and the continuing restructuring of industry. However, it should be parenthetically noted that ›excess‹ profits posed a dilemma for the labour movement, which is one reason why the LO launched its proposals for employee funds in the mid-1970s.

Anna Hedborg's and Rudolf Meidner's book *Folkhemsmodellen* (which literally translates as ›the People's Home Model‹, but could also be translated as ›a national home fit for the people‹ or ›the welfare state model‹), published in 1984, focused mainly on the role of labour market relationships in the Swedish Model. Together with Gösta Rehn, Meidner personally participated in creating the Swedish Model in the form of the Rehn-Meidner model. Both authors also prepared and presented proposals for employee funds in 1975. They linked the Swedish Model to the *folkhemmet* concept, as formulated in Per Albin Hansson's classic speech in Parliament in 1928, in which he proclaimed, »There is equality, consideration, co-operation and helpfulness in the good home. Applied to the greater home of people and citizens, this would mean breaking down all the social and economic barriers that now separate citizens into privileged and neglected [categories], ruling and dependent, rich and poor, propertied and impoverished, plunderers and exploited.« According to Hedborg and Meidner, however, the Swedish Model had several components.

First, it was a golden mean in which a reformist labour movement achieved far-reaching compromises with other groups to realise welfare-policy objectives.

Second, it was a mixed economy. The production sphere has continued to be largely privately owned, but the trade union movement has had considerable ambitions in terms of income distribution, while crucial welfare services have been provided by the public sector. Social welfare policies were based on systems that applied to everyone, i.e. systems with universal entitlements.

Third, the model's economic policy (the Rehn-Meidner model) meant full employment and stable prices, restrictive fiscal policies, a solidaric pay policy and an active labour-market policy.

But Sweden and the rest of the world were facing a comprehensive transformation process in the mid-1980s, which resulted in a ›war of the roses‹ in the labour movement throughout that decade. This was basically a conflict between the LO and the Social Democratic Party, between left and right, between ›renewers‹ and ›traditionalists‹.

When the Social Democrats returned to power in 1982, the Third Way economic policy was launched. This was an attempt to achieve a balance between the Keynesian tradition, which had a solid backing in the labour movement, and the monetarian ideas that had become increasingly fashionable. This policy caused, among other things, the rate of expansion in the public sector to decline. The public sector's proportion of GDP, measured in terms of the number of public sector employees, had increased very rapidly from the late 1960s until the early 1970s.

Around 1990, the Social Democrats lost their grip on economic developments, had historically poor election results and were out of office by 1991. In 1992, the Swedish economy experienced a serious crisis – the greatest economic shock since the 1930s. Sweden went on to see three years of negative growth and unemployment rose to 12 per cent by 1994. The public sector was growing and appeared to be out of control. The acute financial crisis was the result of the deregulation of financial markets and the Swedish credit legislation. This had led to a classic financial bubble, with its roots in the real-estate sector. In 1994, Sweden had the largest deficit in public finances of all the OECD countries. The Social Democratic government that took office in 1994 implemented steep cutbacks in public expenditures.

The economy recovered and unemployment was down to 4 per cent in the early 2000s. Productivity in the Swedish economy improved rapidly and employees benefited from significantly higher incomes as a result of controlled pay increases. But the lessons to be learnt from the crisis of the 1990s are mixed. Unemployment has not dropped to the levels that once prevailed, and Sweden has yet to really recover from the social welfare cutbacks implemented by the Social Democrats, especially those made in the social/national insurance system and in government contributions to local authority expenditures.

1.3 The Swedish Model redefined

When *The Economist* magazine recently praised the models applied by the Nordic countries, the emphasis was primarily on changes in a liberal direction that had shifted the Nordic models away from what had once made them successful. This change in the way the Nordic model is viewed is also reflected in *The Nordic Way,* a report presented at the World Economic Forum in Davos in 2011. In his paper »Nordic Capitalism: Lessons learned«, economist Klas Eklund claimed, for example, that the reason why the Nordic welfare models have managed better than those in other countries was that they had already experienced periods of crisis, economic problems and recessions, and subsequently managed to put their affairs and models back on track. Eklund argued that their success was not based on increased taxation, but rather the reverse. The fact was that the Nordic countries had accepted less generous social insurance systems and implemented extensive ›market reforms‹. We might consider this the current ›higher ideology‹ that describes the predominant situation in Sweden from the crisis of the 1990s until the present day.

The Swedish Model has also been reinterpreted from another viewpoint, namely, on the relationship between the individual and the collective as outlined in Henrik Berggren's and Lars Trägårdh's book, *Are Swedes people? Affinities and independence in modern Sweden*. The authors' fundamental thesis is that the Swedish welfare society has made individuals more independent from their families and civil society than individuals in other welfare models because it organises major aspects of the welfare structure in collective forms, such as student grants and social security systems. In Sweden, this has led to a special form of state individualism.

This individual dimension of the Swedish welfare model has been embraced not only by Social Democrats but also by the Moderate Party on the right – or at least by some of its leading representatives. Traditional Moderates are not terribly likely to use the term ›the Swedish Model‹ since they regard it as a Social Democrat concept. However, in light of all the changes in recent years, and the current public debate, the New Moderates have accepted the Swedish Model and tried to take it over. But the current government has also taken the opportunity to put its signature on the Swedish Model by applying its own version of the work-incentive policy.

1.4 A non-socialist work-incentive policy

The reform agenda launched by the non-socialist government after the 2006 elections was based on the concept of ›outsidership‹ and the need for a more demand-oriented work-incentive policy.

The outsidership rhetoric established by the non-socialist parties has redefined Sweden's social issue in a way that has become familiar in many other countries. The outsider designation has been combined with tougher requirements and a worsening situation.

Unemployment and sickness benefits have been reduced. All tax deductions (i.e. reductions) have been designed for people who are employed. The difference between insiders and outsiders grows when cuts are made to unemployment and sickness benefits, which was the idea in the first place. For many years, economists have prescribed that reserve pay levels should be forced down and the unemployed should take jobs that pay less.

Furthermore, the costs for the individual worker to be part of the unemployment benefit-system have been differentiated, making it so that employees with low incomes and a high rate of unemployment pay more. One of the hobby-horses of Minister of Finance Anders Borg is that unemployment is due to excessive rates of pay. High unemployment benefit costs will force the unions and employees to accept more modest pay increases or even lower pay. This is a pre-Keynesian view of the labour market as a self-regulating system where pay is the primary regulatory factor.

We may impute the term ›outsidership‹ to the social changes that triggered the riots in Sweden in the spring of 2013 because it reflects, to some extent, the spirit of the age. In fact, outsidership is a societal dichotomy that describes, confirms and supports the concept of a two-thirds society and the increased polarisation that is already a reality.

Political forces on the right lay claim to the Swedish Model because it is no longer something to which Social Democrats clearly have the sole rights. Instead, it has become the object of a political and ideological conflict.

2. From welfare planning to a welfare market

The public sector's expansion in Sweden, in terms of GDP share and number of employees, mainly took place from the late 1960s to the mid-1970s. This was a time when the scope of the social welfare system was extended in a number of key areas, such as child care and care of the elderly. It was also a period of increased state intervention and government control of several different sectors in society.

The pendulum in the political debate swung back rather quickly, however, and the criticism of centralisation from both the left and the right gathered force. On the one hand, the right thought that the public sector had become too large and that taxes were too high; on the other, the left's criticism often focused on centralisation and the dilution of citizen participation.

One of the labour movement's first criticisms was that assignments that had previously been taken care of by the popular movements were being transferred to the municipalities. Several participants in the debate considered the fact that the commitment of the popular movements was weakening. The municipal mergers implemented during the post-war period made for a drastic reduction in the number of voluntary local politicians. Subsequently, there were demands for a greater degree of empowerment for tenants and public sector employees to increase participation and democratic support.

And when the Social Democrats returned to power in 1982 after six years in the opposition, they appointed a special Minister of Public Administration to vitalise democracy and carry out reforms in the public sector. The municipalities were, for example, given the opportunity to institute organisational experiments and decentralise decision-making within the municipal framework so as to involve more citizens.

The pendulum had thus swung from centralisation back to decentralisation as government control of municipal activities was reduced and more responsibilities were transferred to the local level.

Social Democrats also discussed the need to renew the public sector, sparked mainly by the desire to intensify the democratic element in the public sector and make it easier for citizens to exert their influence on it.

In parallel with this, the political philosophy of the New Right had, in point of fact, established itself in the non-socialist block. The political right in Sweden embraced the neoliberal ideas and intensified its criticism of the public sector, which it regarded as an economic problem that restricted Sweden's growth. A number of private initiatives acquired considerable symbolic importance at this time, such as the case of Pysslingen, a private provider of child care and medical services that challenged the public monopoly in this area.

During the non-socialist government's incumbency from 1991 to 1994, both free competition and the customer choice models were introduced in the welfare area. When the Social Democrats regained power in 1994, this new-fangled legislation was not repealed. The Social Democrats were fully occupied with a clean-up of the Swedish economy and, when in office, enacted legislation *(stopplagen)* to prevent county councils from selling off hospitals. But the idea of being exposed to competition had an impact that not even its advocates in non-socialist circles could predict or imagine. Changes of this nature, such as Waldorf teaching methods in schools, were initially marketed as paving the way for co-operative enterprises and greater diversity. But, in the event, this was mainly a question of welfare sector operations conducted by private companies and venture capital conglomerates rather than non-profit companies.

Exposure to the competition concept also went hand in glove with the buy-and-sell system and various models that emulated the private sector. Overall, this meant that market models were then introduced to a greater extent in public sector welfare operations. And so, driven by demands for decentralisation and participation, the political pendulum then swung back from its strong central government focus in the 1970s to its current passion for market solutions.

In 2006, the non-socialist parties returned to office after 12 years in the opposition. The new government immediately abolished the Social Democrats' *stopplagen* and enacted new legislation that accelerated the privatisation process. The Swedish Model has fundamentally changed its control orientation from a planned focus to a market structure. Even if the welfare system is still financed jointly via taxes, it is increasingly private in the operational sphere.

However, in recent years, market models have been subjected to increased scrutiny. There has been growing criticism of the quality of care services and schools, with a focus on low levels of personnel intensity, which is, of course, linked to the desire of private contractors to cut costs in order to increase profits. Furthermore, the profit issue has become crucial in the public debate about private contractors' motives in public welfare services.

The question of private alternatives and profits in the welfare sector has in recent years become a major battlefield in the labour movement and among Social Democrats, where the view that private profit should be stopped has gained increasing ground. For some time, the Social Democratic Party's line has been that it is more important to make stringent demands on quality, thus restricting profits, and that the key factor is not who carries out welfare operations, but which welfare services can be offered. This approach was confirmed by the Party Congress in 2009.

The 2012 LO Congress decided to work for the non-profit principle in the welfare sector, and this view was expressed in concrete form in a report entitled *Measures to Restrict Profits in the Welfare Sector*. The main feature of the LO proposal is that alternatives to public operation in the tax-financed sector should be conducted by public sector companies, in accordance with a special provision in the Companies' Act, and that they should be restricted to dividends of 1 per cent above the treasury bill rate. Furthermore, such companies are supposed to promote public welfare. The National Union of General and Municipal Workers insists on greater resources for public sector operations as a crucial factor in managing the quality of public sector activities. It also demands improved personnel quality, which is now so low that it threatens the overall quality of care services.

In the spring of 2013, the Social Democratic Congress adopted guidelines that are considerably more far-reaching. In its programme, the Party proposes stiffer requirements to prevent a private owner from selling out operations to a third party, clearer requirements regarding personnel intensity and costs, more frequent checks, and greater openness. Furthermore, the Party demands that the right to confidential treatment of information should also apply to employees of private companies in the welfare sector, that such companies should pay tax in Sweden, and that ›interest-rate chicanery‹ should be stopped. After considerable discussion, the Congress also agreed that municipalities should be allowed to reject private contractors in procurement processes and insist on non-profit alternatives. The Congress determined that municipalities should have a decisive role in the establishment of independent schools. Although this was a more critical approach than at the 2009 congress, the Party did not reject profits or private alternatives.

Hence, it appears that the public debate on the intersection between state control and private and public sector operations has taken a new turn in recent years.

3. A new policy for industry and commerce?

Sweden's economic successes have been largely based on its industry: not only its national raw material assets, but also to the development of a number of major companies on the basis of technological innovations, often in co-operation with the state. Sweden became industrialised relatively late. The number of employees in industry did not exceed the number of those working in agriculture and forestry until the 1930s. But, after the Second World War, Sweden had a period of high and sustained growth, with a peak during the record years of the early 1960s. The industrial sector also achieved its high point in this decade.

In the 1970s, a number of industries experienced a structural transformation process. Both Social Democratic and non-socialist governments provided massive state support to bridge the decline in demand in an attempt to keep a number of companies afloat. This policy was subject to severe criticism after the fact. What was predicted as a business-cycle downturn was in fact a structural crisis for some basic sectors of Swedish industry. The textile and shipbuilding industries, in particular, proved unable to cope with international competition. On the other hand, Sweden continues to have a strong position in the steel and paper industries today. The conclusion drawn by many economists, and also later by politicians, was that the state should not have intervened or pursued any kind of industrial or commercial policy – that it would have been better to let the market handle this kind of transition on its own.

Moreover, the role of industry is being downplayed in the public economic and political debate. In a panel discussion at the World Economic Forum in Davos in 2013, Swedish Prime Minister Fredrik Reinfeldt said, »Sweden once had employees in industry, but they have now virtually disappeared.«

This is hardly the case. The number of employees in industry has dropped since the 1960s, but that is not the whole picture. Swedish industry has undergone a structural change in which companies have started focusing on their core operations. Industrial production also calls for an increasing range of services and the knowledge-intensive services sector often provides high-technology services linked to industrial requirements. Furthermore, there is the globalisation factor, which often involves production being spread out all over the whole world and the manufacturing of parts in several countries, with other countries supplying components in an efficient manner. This also creates a focus on product development where R&D, design, sales, marketing and customer care are all key factors in staying ahead on the industrial front.

If we take all this into account, the downturn in industry is not as drastic. In a paper prepared for Arena Idé, Daniel Lind has shown that the total number of employees in industry has not changed radically since the 1990s. In 2008, there were 1,050,000 employees in the private sector who depended, directly or indirectly, on the demand for industrial products. This corresponds to 36 per cent of the total number of employees in the private sector.

After the economic crash in 2008, the non-socialist government's response was to not do the same thing as in the 1970s, i.e. save companies by pumping tax dollars into them. This meant that Sweden did not actively pursue any kind of policy to alleviate the crisis which, on this occasion, proved to be temporary. For instance, Sweden did not introduce the same type of employment bridging that was launched in Germany or take any other active measures to help companies in crisis.

At the same time, many people would still like to see a more active policy for industry and commerce, and insist that this should also include the service sector. The division into a service sector and an industry sector is irrelevant since they are linked in practice and mutually dependent on one another. At the autumn conference of the Arena Economic Council in 2012, Charles Edqvist advocated an active policy to encourage future innovations. He recommended the creation of an innovation council under the auspices of the prime minister, a more active public procurement policy to encourage new ideas at the company level, and ecological adaptation. Other participants in the discussion pointed out the importance of research and education policies and focusing on better basic education and higher quality at the university level in order to promote innovations. This involves developing knowledge environments, establishing links with companies that can translate research into new products and new companies and developing mechanisms to disseminate know-how and convert it into benefits for society.

Stefan Löfven, the leader of the Social Democrats, has made job creation issues his main platform. At the Social Democratic Party Congress in 2013, he proclaimed that Sweden's goal should be to have the lowest rate of unemployment in the EU by 2020 – an ambitious target in view of Sweden's current high unemployment figures. He has also emphasised that industrial and commercial policy is, in a broad sense, an important factor in combating unemployment. Löfven was once chairman of the IF Metall engineering union and his experience is solidly based in this type of development question. He has also stressed innovation policy as a special profile issue.

Within the framework of the Social Democratic Party Congress, the Party adopted a new research and innovation policy calling for a 10-year perspective for research policy, the establishment of strategic co-operation programmes, the creation of an innovation council headed by the prime minister and improved access to sources of venture capital.

The Social Democrats have also set up a working group led by Mårten Palme, Olof Palme's son, which is assigned to present an economic policy designed to achieve the employment target.

4. A revised economic policy?

In parallel with this, there is also renewed discussion of economic policy, such as the policies pursued by the Swedish Central Bank, i.e. the Riksbank. In 1999, the Riksbank was given a high degree of independence. While politicians remained responsible for fiscal policy, a politically independent Riksbank was granted control over monetary policy.

It was a change in line with the times. A number of nations that had not already taken this step implemented this power shift in that period. This was done, in particular, in preparation for future membership in the euro zone because having an independent central bank was one of the cornerstones of euro membership. This change was part of the spirit of the age. And, from the Swedish point of view, the turbulent and painful financial crisis of the 1990s also played its part.

For a time all was well and the Swedish economy recovered. But the idea that the economy was independent of ideological and political factors was not borne of experience.

The tensions between those in the Riksbank who advocated high or low interest rates are a long story, but these conflicts only became visible to outsiders in recent years, when members of the conflicting parties tattled in public. Some sections of the Riksbank's directorate have demonstrated, convincingly, that if the bank would have had a lower interest rate, it might have raised employment and kept inflation at bay. For many years, economists believed that the Phillips curve (indicating that there is a choice between employment and inflation) had been consigned to the dustbin of history. But there is a choice when inflation is under control. This has been demonstrated by empirical developments in Sweden in the past decade, which were studied and presented publicly in the Riksbank's internal discussions.

Nonetheless, the majority in the Riksbank's directorate have voted against lower interest rates. The main argument has been repeated warnings of growing debt problems incurred by private households. This view is highly controversial. The Swedish banks have applied a restrictive credit policy since the crises of the 1990s, which does not make it easy to get a loan or a mortgage. The capital adequacy requirement was raised and the mortgage borrowing ceiling reduced. Historically speaking, property bubbles have occurred after extensive new construction, but this is hardly the case in Sweden today. On the contrary, the low level of housing construction is a crucial factor in pushing up house prices in the major urban centres. But the Lehman Brothers' bankruptcy and the housing debacles in the United States and Spain have resulted in a fear that there are black sheep in many quarters. And this has contributed to unnecessarily restrictive and cautious economic policies in many countries, Sweden among them.

Stefan Ingves, head of the Riksbank, formerly worked for the International Monetary Fund (IMF) where he was responsible for financial systems. Before that, he was Director General of the Swedish Bank Support Authority *(Bankakuten)*. In his analyses, he focuses strongly on the high level of household borrowing, but has less support from the Financial Policy Council, an independent body that evaluates economic policy, stating that »the risk of a major and abrupt adjustment of prices is considered to be limited in the present situation« and that housing prices are too high and involve a certain degree of overvaluation. On the other hand, the European Commission's report of May 2013 (the Council's recommendation on Sweden's national reform programme for 2013) refers to macroeconomic imbalances in Sweden, with a special focus on private debt. The Commission recommends credit restrictions.

But this discussion also involves fiscal policy, which Sweden changed within the context of the economic crisis of the 1990s, becoming more conservative during those highly turbulent years. The term for holding a governmental office was extended from three to four years and a fiscal policy framework with a surplus target was established. The Swedish Parliament was unable to vote for measures that increased costs not covered by the government's predetermined budget framework.

There was a renewed discussion after 2008. Several people, particularly economists, now recommended that the framework not be totally abandoned, and instead revised in certain crucial respects. Furthermore, the Swedish economy is now stable, with no major deficits in government finances and a low level of national debt in comparison with other European countries. Many people believe that it must be possible to lower the official target of a 2 per cent surplus over the course of a business cycle. Above all, there is growing support for scope for public investment in the current economic climate.

The LO's economic experts have criticised the Riksbank's stance, but have also been arguing for fiscal incentives with increasing persistence. In the spring of 2013, the LO presented proposals that were more comprehensive than anything that had been proposed in the previous 25 years. This involved unfinanced measures amounting to SEK 70 billion, including additional funds for municipalities, increased benefit levels in the social insurance system, government investments and incentives for housing start-ups. The aim is to increase demand and employment. These proposals would also mean modifying the current budget framework.

Perhaps the fact that the LO was not severely castigated for these proposals is a sign of the times and an indication of an economic and political shift. This would likely not have been the case just a few years ago. On the contrary, there were several signs of agreement among economists. After almost a decade of low utilisation of resources, low inflation, strong government finances, low interest rates and a healthy surplus in the balance of payments, it is believed that no other country has a better position to implement classic incentive policies via increased investment than Sweden.

The Social Democrats currently have a midway position between the fiscal conservatism inherited from the crisis of the 1990s and the new trends in the public economic debate. And even if neither the Social Democrats nor the Moderates are prepared to abandon the finance policy framework in its current circumstances, an increasing number of politicians on both sides are talking about the need for increased investment in, for example, the infrastructure and the housing sector.

5. The future of the social insurance system – basic security or loss of income?

The Swedish social insurance system was developed as a result of successive reforms between 1901 and 1991. This involved everything from maternity grants for mothers who were not covered by sickness benefits to mandatory health insurance; from supplementary pension benefits and work-related disability insurance to parental insurance.

In 1991, in his book *Security on the Run,* Håkan Svärdman declared that »the social security system's golden age is over.« The economic crisis of the 1990s led to a number of cutbacks in the social insurance system. Maintaining medical, education and care services as opposed to transfer systems was one of the cornerstones of the Social Democratic policy during this crisis. A new pension system was introduced, social insurance payments were reduced and a number of other cutbacks in the welfare system were implemented. Some of these cuts were restored when the economy recovered, but not all of them.

On the whole, it may be said that after the economic crisis of the 1990s, the social insurance system tended to focus on offering basic security. Previously, the underlying idea was to compensate for the loss of income in the event of unemployment or sickness up to a certain degree. This was the ›loss of income principle‹ that guided social insurance policy. But this principle is now applied less and less, particularly in the case of unemployment benefits that, for example, have not increased in line with inflation and higher incomes. Sweden has experienced a gradual system change in this respect.

As mentioned above, after 2006, the non-socialist government also paved the way for a new work-incentive policy *(arbetslinjen)*. Reduced unemployment insurance benefits made it more difficult to qualify for compensation and resulted in increased costs of participation, which now depended on the level of unemployment in the industry concerned. According to the government, the aim was that employees would have to pay for irresponsible pay increases.

The cost of unemployment insurance tripled and almost 400,000 employees opted out. Only 43 per cent of people who are currently unemployed have unemployment insurance. Sweden's unemployment insurance system is now one of the least satisfactory in Europe. And, since neither the former Social Democratic governments nor the current non-socialist regime has raised the ceiling, the benefits cover a declining proportion of normal pay. Håkan Svärman noted that »the net benefit after one year of unemployment was 56 per cent for an average monthly salary of SEK 25,000.« This also applies to health insurance, where benefits have dropped and insurance entitlement is being terminated in accordance with stricter new rules. The costs have been shifted from the state to the municipalities, which then have to pay out public assistance benefits instead – benefits that are very low.

As a result, sales of private insurance policies to individuals have increased rapidly over the past 20 years. There are also supplementary top-up policies that unions may offer their members and collective-agreement policies negotiated by the unions themselves. The trouble is that these models are much less fair and effective from an income-distribution standpoint since the spread of risk is not as wide as in major collective insurance arrangements. They are also more expensive for the individual.

All the three central trade union organisations – the LO (manual workers), the TCO (office/professional workers) and the SACO (university graduates and professionals with a college degree) – want to improve the public sector systems, raise ceilings and benefits in the social insurance systems, and establish higher benefits in public collective insurance. These demands are also supported by the opposition parties, namely the Social Democrats, the Greens and the Left Party. Incidentally, during this summer's *Almedalsveckan* – a week-long round of keynote speeches, meetings and lobbying on the island of Gotland on the Baltic Sea – Prime Minister Fredrik Reinfeldt promised to reduce contributions to union-linked unemployment insurance funds. This may be regarded as a concession to the unions' criticism of the reorganisation of labour market policy since the election of 2006.

6. The labour market – polarisation or upskilling?

As already mentioned, the new work-incentive policy introduced by the non-socialist coalition in 2006 put pressure on the unions to accept lower pay and, in the long run, establish a low-pay sector in order to reduce unemployment. This issue also corresponds to a division between right and left in Swedish politics. The right believes that this is the way back to full employment while the left and the union organisations oppose developments of this nature.

This pressure for reduced pay and lower starting rates for those entering the labour market challenges the Swedish Model with its relatively limited range of wages and salaries. Sweden does not have a minimum wage rate, and wage settlements are determined by collective-bargaining agreements. As a result, a high degree of union membership is required to uphold this kind of labour market model. And, on this score, developments on the Swedish labour market in recent years have represented a challenge for the trade union movement.

So far the unions have managed to resist proposals for lower pay with some success and to hold up the minimum wage rates in the collective bargaining process. The LO has also concentrated on increasing wages for the lowest wage groups, with a particular focus on women. As a result, the non-socialist government's strategy has failed and unemployment has not dropped. In fact, quite the reverse has happened.

But the trade union organisations have lost many of their members as a consequence of the political change of course, the weakening of the unemployment insurance fund structure and the dramatic increase in contribution fees. In Sweden, recognised unemployment insurance funds are linked to trade union organisations, but are nonetheless independent of the unions. They do, however, depend on political decisions. In this respect, Sweden is still abiding by the Ghent System. Since 2006, union membership has declined by about 10 per cent – from 80 to 70 per cent. Although this is still a high figure compared with many other European countries, it is obviously a serious blow for the union organisations.

Several unions have, however, bucked the trend and increased their membership. In light of the key role that strong parties play in the labour market in the Swedish Model, this is a strategic question that is crucial for the survival of this model. In terms of the degree of organisational membership, the employers are now stronger than the unions. The unique feature of the Swedish labour market is the union movement's division into three central organisations – the LO, TCO and SACO. This model has proved to be an effective way of maximising union membership. The current trend, however, is that the LO, which has a politically oriented co-operation with the Social Democrats, is losing more ground than the other central organisations, even though it is still the largest. But the SACO and TCO combined have more members than the LO, and have been increasing their membership figures in recent years. Obviously, this is due to fundamental structural changes as a result of the third industrial revolution. Membership levels in some of the areas covered by the LO are low, such as the distribution, hotel, restaurant and other service sectors.

As a result of the European Court of Justice's *Laval* judgment, the Swedish labour market model is also challenged by the EU's freedom of movement principle. The judgment has made it more difficult to uphold collective agreements in Sweden and has reduced the unions' freedom of manoeuvre and conflict options. Basically, this means that freedom of movement for companies is supposed to take precedence over the unions' right to take conflict measures. Many foreign companies stationed in

Sweden pay considerably less than the Swedish collective agreement rates and provide inferior working conditions.

There are also indications that many jobs in the service sector pay less than the rates prescribed in the collective bargaining agreements. In particular, employers exploit labour from other countries and illegal immigrants. This is a major challenge to the Swedish unions because it happens in a concealed form, below the surface. In addition, the Swedish labour market has become increasingly flexible on the employer's terms, there has been a dramatic increase in the number of jobs with no security of tenure, and attention has been drawn, in particular, to the plight of young people in the labour market.

Sociologist Rune Oberg demonstrates in his book, *The 21st Century's Labour Market – continued upskilling or job polarisation?,* that the Swedish labour market has developed in a polarising direction: both low-paying and high-paying jobs have expanded more than jobs in the intermediate segments. Previously, job categories requiring higher skills and qualifications and offering higher pay were expanding more rapidly than other categories, especially low-paying jobs. Prior to 2001, the labour market was characterised by upskilling. But now we can see that a new trend has developed and that the labour market has become more polarised. For many years, it was believed that there would be a growing demand for more highly skilled/qualified jobs in the service sector. However, increased demand for nursing and care services indicates the opposite. In addition, growing income inequality has led to an increased demand for certain types of services, particularly after the introduction of tax deductions for household services.

Historically, social democratic policy has focused strongly on education, helping citizens improve their skills and qualifications in order to meet the requirements of a new age and building bridges for transitions from old to new types of work. This idea was already embodied in the Rehn-Meidner model, in which labour market training and ›learning for life‹ were crucial components. During the period prior to 2006, an extensive ›knowledge boost‹ programme was implemented and senior secondary education was extended to a mandatory four years. This continues to be social democracy's main political response to meeting the needs of our times.

The challenges facing the trade union movement and the Swedish labour market model must be seen in the light of this complex background. There is an ongoing political struggle about the role of low-paying jobs in the Swedish economy and about whether the unions will continue to be a major factor in the labour market, thus safeguarding the future of the Swedish collective bargaining model.

7. The future of the Swedish Model

The Swedish Model is a broad societal phenomenon that includes, above all, the functioning of the labour market, and economic, labour market and welfare policies. As already indicated, it has also changed over time. And, even today, the future contents and focus of the Swedish Model are in dispute.

In the 1970s, the Swedish Model produced excellent results at the social level, but it was also subject to increased criticism from the right, which wanted to see cuts in the public sector. Neoliberal opposition to the public sector also gained ground in Sweden. And nationalistic, right-wing, populist parties have emerged in the other Nordic countries. Initially they focused on opposing high levels of taxation, but they subsequently developed a xenophobic tendency.

Overall, criticism of taxation gained ground. A mild tax revolt against the Social Democratic high-tax society was now a reality. The Nordic countries, including Sweden, were still dominated by strong Social Democratic parties in the 1970s and, through an alliance with the central trade union organisation, they were the focal point in politics. They were the sun around which the other planets revolved. But this gradually changed.

In the 1980s, the Swedish Model was characterised by considerable tensions and, in particular, by conflicts within the labour movement in a Swedish war of the roses. Expansion of the public sector slowed down. In the 1990s, Sweden's serious economic crisis put the model to the test. The Social Democrats instituted severe economies, reduced the public sector's share of GDP and introduced cutbacks in the social insurance system. After 2006, the non-socialist government implemented major changes in the welfare system.

In the early years of the present century, the Swedish Model (and similar variants in the other Nordic countries) recovered and achieved relatively satisfactory performance in terms of productivity, increased real wages and employment. International listings gave the Nordic models a top ranking. There is a high degree of interpersonal confidence in the Nordic countries, and also vis-à-vis politicians and public institutions. This results in an economy that works more smoothly and has a more stable democratic structure.

In other words, the foundations in the Nordic welfare models have survived. And high birth rates give them a less alarming demographic structure than in the other EU-27 countries. Furthermore, the Nordic countries dealt with the economic crisis of 2008 relatively well, recovering more rapidly than many other European countries. And, although the level of trade union membership has declined since 2006, it is still very high by international standards. In many respects, the Swedish labour market model is still in good health. But the EU's interpretation of freedom of movement in the context of union rights is tending to create difficulties for the trade union organisations and restricting their freedom of action. This presents a problem for the Swedish collective bargaining model.

The Swedish Model is currently being exposed to considerable pressures and is subject to a political battle of wills. I have attempted to describe the emergence and development of the Model in the last few decades. I have also touched on the areas of major challenges and conflicts today:

First, the organisation of the welfare sector and the role private contractors should be playing in publicly financed services. Welfare services in Sweden have moved from being a form of planned public activity to an increasingly market-oriented welfare operation. This has resulted in an identity crisis for the labour movement. Social democracy is intrinsically pragmatic but still identifies itself largely with the public sector. There is also tension within the labour movement as regards private alternatives in the welfare field. Most people are critical of the current arrangements, but they disagree on the alternatives and how quickly and comprehensively changes in the current system can be implemented.

This situation provides an important lesson for other welfare models, especially because other countries look to the Swedish Model as an example to be followed, for instance, as seen in the UK among conservative supporters in the debate on the future of the British National Health Service.

In this respect, there is reason to issue a warning to other European countries. The Swedish experience has shown that deregulation did not result in a considerable number of non-profit alternatives, as many people had believed it would, arguing that deregulation would bring about change. Instead, it has enabled private companies, large corporate groups and venture capitalists to emerge in the Swedish welfare system. This was hardly envisaged when these ›reforms‹ were discussed and implemented. Swedish experience shows, however, that the welfare sector is also part of the global economy, with a financial market looking for profitable investments. There is every reason for other countries to study developments in Sweden and keep an eye on the way in which the welfare system develops and is organised in the future. There are several indications of a continuing deregulation of schools, and medical and care services. This is, at any rate, what the labour movement is currently discussing and proposing.

Second, the form that economic policy will take in the future. After the Swedish economic crisis of the 1990s, Sweden revised its economic policy, putting a greater emphasis on fiscal conservatism and a more stringent regulatory framework. This subsequently served Sweden well, as government finances and the Swedish economy are strong by European standards. But, at the same time, the level of unemployment is considerably higher than it should be given the strength of the Swedish economy. Discussion of a more expansive economic policy suggests a renaissance for the Keynesian perspective. In parallel with this, there is an ongoing discussion of the Riksbank's interest-rate policy. So far the labour movement has been somewhat divided on this question, but there are signs that a growing number of people are questioning Sweden's previous conservatism in fiscal matters.

Third, the involvement of the state and politics in industrial and commercial policy. During the economic crisis of the 1970s, the state played a significant part in managing the crisis of Swedish industry. But during the crisis after the 2008 financial debacle, the government was conspicuously passive. There is much to suggest today that industrial policy and the state's task of promoting long-term entrepreneurship in both the industrial and service sectors may become a political issue in the future. After 1989, social democracy adopted a positive approach to globalisation, deciding to focus on building bridges between new and old jobs rather than becoming involved in the way the economy functions. This strategy now appears to be inadequate, and a more active approach at the national and EU level will probably be necessary to safeguard future employment in Europe. The Nordic welfare models also require a high level of employment in order to be sustainable in the long term. This is also a crucial challenge for the whole of Europe.

Fourth, the way the labour market works and, in particular, whether the trade union organisations can uphold their positions, which are strong by European standards. Despite difficult challenges, the unions have maintained a high level of membership and succeeded in countering the development of a low-wage market. But they are facing major underlying threats: membership levels are low in several sectors, the EU Posting Directive has paved the way for lower pay in Sweden, and the European Court of Justice's ruling in the *Laval* case has hindered countermeasures by the unions. It is strategically important that the Swedish Model prevents the emergence of a low-pay, ›working poor‹ sector in the labour market, particularly in view of the need to present alternatives to deregulated labour markets that put employees at a disadvantage. But it is also important for the EU to discuss the primacy of freedom of movement over social concerns and the unions' opportunities to uphold the interests of employees.

Fifth, the issue of the construction of the Swedish social insurance system. Insurance provisions in the universal welfare model used to be extensive and included compensation for loss of income. But since the weakening of the public collective insurance systems in the 1990s, these systems have become a kind of basic safety net. Supplementary policies, either in a collective or individual format, have come to fill the vacuum left by the former collective insurance system. As a result, groups and individuals with sufficient economic resources have been able to take out their own insurance policies, whereas groups with a weaker economic status have not. This has led to a greater gap between the different groups, which could undermine the universal welfare model in the long run and cause it to be replaced it by more individual, unjust and irrational insurance models.

Basically all these factors involve the role of politics in society as well as the balance between the public sector and the market.

The rate of taxation represents another challenge for the Swedish Model. There is a long-standing discussion of the future financing of the welfare state in Sweden. The Swedish rate of taxation is still very high, but has been pushed down so that the public sector's share of GDP in the form of tax revenues and social charges has now fallen to about 49 per cent. Currently no major political party is advocating a higher rate of taxation, although many people consider that it will be necessary in the future. The Swedish welfare model covers a broad spectrum of society, and there are many indications that tax reductions have undermined the overall quality of public care services and the scope of the social insurance systems. In his book, *En Kritisk Betraktelse: Om Socialdemokratins Seger Och Kris (A Critical View – The victory and crisis of social democracy),* Kjell-Olof Feldt, former minister of finance, argues that the Social Democrats must discuss increased public revenues in the form of higher taxes in the future.

In this context, it is important to look for innovative approaches in the public debate and in policy proposals. Raising taxes is not precisely an election-winner, whether in Sweden or most other countries, despite Sweden's considerable support for the public sector and even for higher rates of taxation in the future. But there are, of course, several sources of tax revenue. Social insurance charges are not necessarily regarded as a tax, and Swedes pay special licence fees for public television and radio rather loyally. We must think creatively in this area to ensure long-term financing for our common aims.

The future of the welfare state begs the question of our consumption: how much of it should be handled by individual citizens in their private capacity and how much of it should be paid for jointly in the public sector and in collective forms? The question of the rate of taxation will have to be discussed. The Swedish welfare model covers many areas and relies substantially on financing via taxation. As early as the late 1950s, John Kenneth Galbraith argued that a greater proportion of our consumption should be channelled through the public sector rather than disbursed in the private sphere – otherwise the private sector would become rich and the public sector poor. This risk is just as obvious today.

The future of the Swedish Model will ultimately be determined by the manner in which the public debate is conducted regarding the crucial challenges briefly touched on here, by the economic developments at the national level and in the EU area, by the political situation and, finally, by the balance of power in the labour market.

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