

# Foundations, Decline and Future Prospects of the Swedish Welfare Model: From the 1950s to the 1990s and Beyond

Jason Coronel  
DePaul University  
[Jcoronel@aol.com](mailto:Jcoronel@aol.com)  
Spring 2002

## Abstract

From the 1950s until the early 1970s, the Swedish social democratic model managed to successfully deliver on its promises of low unemployment, low inflation, and a relatively egalitarian distribution of wealth. But during the course of the past 25 years, the Swedish model has seemed to be headed along a path of slow disintegration, culminating in the disastrous economic recession of the early 1990s. This paper defines and discusses the peculiarities of the Swedish model and identifies the central elements that explain its early success. I then proceed to consider the causes of its troubled performance over the past three decades, identifying both exogenous and endogenous causal variables. Specifically, regarding exogenous causes, I consider

the impact of both the internationalization of businesses and financial markets and membership in the European Union. Regarding endogenous causes, I consider the impact of both the breakdown of the traditional collective bargaining institutions and the deregulation of capital markets. In this context, I will pay particular attention to the economic recession of the 1990s and the model's viability for the future.

Prepared for presentation at the Tenth Annual Illinois Conference for Students of Political Science, Illinois State University, Normal, Illinois, April 4, 2002.

## **Introduction**

The result of almost uninterrupted social democratic rule<sup>[1]</sup> in Sweden throughout most of this century, the Swedish social democratic welfare model has arguably been one of the most successful realizations of social democratic values through macroeconomic experimentation. After the Second World War, Sweden was a laboratory in which macroeconomic experiments were conducted to realize social democratic ideology. The result of social democracy's experiment is what is now referred to as the 'Swedish welfare model'.

How exactly does one define the Swedish welfare model? It is perhaps best described as the attempt to create equality and economic growth through the combination of solidarity union wage policy and interventionist government policies in both the labor and capital markets (Lindbeck 1997: 1292). From the 1950s until the early 1970s, the Swedish welfare model managed to successfully deliver on its promises of low unemployment, low inflation, and a relatively egalitarian distribution of wealth while working within the confines of a capitalist economic structure. However, during the course of the past 25 years, the Swedish model has seemed to be headed along a path of slow disintegration, culminating in the disastrous economic recession of the early 1990s.

The collapse of the Swedish model is but a part of a much larger trend in the recent decline of social democracy throughout much of Western Europe. As an epitome of social democratic values realized within a national macroeconomic regime, the destruction of the Swedish model represents an excellent case study to gauge the main causes for social democracy's decline and its future viability within a seemingly globalized world driven by neo-liberal ideology.

This paper defines and discusses the peculiarities of the Swedish model, focusing upon, respectively, the central defining elements which account for its early success, the causes of its troubled performance over the past three decades, and its future viability in the twenty-first century. Following this introduction, Section 2 gives an overview of the theoretical and practical foundations of the Swedish model and an historical outline of its early success. I use Ernst

Wigforss' ideology as a representation of social democratic values after World War II. I then use the 'Rhen-Meidner Model' as a practical example of social democratic values translated into economic policies. Lastly, I give a brief historical summary of the Swedish model's performance from the 1950s to the early 1970s. Section 3 identifies both exogenous and endogenous causal variables that are the main sources of the model's decline over the past three decades. Specifically, regarding exogenous causes, I consider the impact of both the internationalization of businesses and financial markets and Sweden's entrance into and membership in the European Union. Regarding endogenous causes, I consider the impact of both the breakdown of the traditional collective bargaining institutions and the deregulation of capital markets. Section 4 discusses the model's current state, specifically after the early '90s recession, and the Swedish model's viability in the future. Section 5 presents my conclusions.

### **Foundations of the Swedish Welfare Model: Theory and Practice**

*Ernst Wigforss: Values of Swedish Social Democracy*

Ernst Wigforss was perhaps the most influential social democratic theorist who emerged from Sweden in the twentieth century. Serving as Sweden's finance minister from 1932 to 1949, Wigforss' ideas would form the basis for Swedish social democratic policies after World War II (Milner 1989). A closer look at Wigforss' ideology is therefore essential if one is to gain a better understanding of the theoretical foundations of the Swedish welfare model and post-WWII social democratic theory. In this section, Wigforss' ideology is examined as a combination of three critical factors: revisionist Marxism, social democratic ideals, and theories to achieve social democratic aims through the use of state mechanisms.

Wigforss was a Marxist revisionist in that unlike classical Marxists, he rejected the theory of eventual capitalist collapse and the inevitable transformation of society to socialism (Tilton 1979). Wigforss criticized Marxism as neither a science nor a valid ethical system (Tilton 1979). To him, the idea of a set future was one that could not be known; socialism was an ideal that had to be implemented.<sup>[2]</sup> Transformation into a classless society was to be achieved therefore not by revolution but by gradual and peaceful means through the democratic process. The rejection of revolutionary means as a method of societal transformation entailed the caveat of working within the capitalist system to achieve social democratic aims. Such has been the method used by social democratic parties in power throughout much of Western Europe. But Wigforss perhaps gave his best contribution to social democratic theory by injecting the ideology with guiding morals and values. By rejecting the notion of an eventual capitalist collapse, Wigforss had to identify core socialist values such as equality, cooperation, and solidarity as factors that elevated socialism at a morally superior level to that of capitalist society.

Values such as “equality, freedom, democracy, security, efficiency, and solidarity” were to Wigforss, ways by which to construct a just society and compensate for the dire inequalities that capitalism tended to produce.<sup>[3]</sup> But among all social democratic values, the notion of equality took center stage (Tilton 1979). The desire for equality,<sup>[4]</sup> as one will see, will serve as the foundation for most of Swedish economic policy-making immediately after the post-war period.

The last critical factor that constituted Wigforss’ ideology comprised his theories of using the state to achieve social democratic aims. The methods articulated by Wigforss that are of particular importance for understanding the foundations of the Swedish model include the social control of investment and the maintenance of a welfare state. In Wigforss’ view, investment was concentrated in too few private hands. Wigforss was a proponent of controlling private investment. Wigforss advocated the use of the state to prevent investment by private industry abroad, a policy that Sweden would in fact implement in the future to stimulate investment into domestic industry. Lastly, Wigforss emphasized the importance of the welfare state. The welfare state in combination with a progressive tax policy and an active labor market would not only ensure a social safety net to prevent Swedish citizens from falling into dire poverty, but it would also promote full employment and a national redistribution of resources (Tilton 1979). It is through these state interventionist methods in society that Wigforss hoped social democracy would achieve its aims.

Ernst Wigforss’ ideology serves as a representation of post-war Swedish social democratic philosophy. The revisionist Marxist concept of peacefully reforming capitalism into socialism, the social democratic value of equality and solidarity, and the theories of using the state to pursue welfare, labor and capital market policies are essential for understanding the main theoretical foundations of the Swedish welfare model. A few years after the end of Wigforss’ tenure as finance minister in 1949, social democratic values would be successfully translated into viable economic policies.

### *The Rhen-Meidner Model: Application of Social Democratic values*

Swedish social democracy by the end of World War II followed the Marxist revisionist path of reforming capitalism into an egalitarian system. But by accepting and choosing to work within the confines of the capitalist system, Swedish social democrats had to face the dilemma of fighting inflation and unemployment, two potentially destructive forces that are arguably inherent characteristics of the capitalist system. By the end of the 1940s, Swedish social democrats had abandoned the defunct methods of nationalizing private industry and the use of wage freezes to combat unemployment and inflation respectively (Silverman 1998). Swedish social democracy was in search of a new economic strategy.

In 1951 two economists, Gösta Rhen and Rudolf Meidner from the Swedish Confederation of Trade Unions (LO) ended that search. In a paper titled *Trade Unions and Full Employment* presented at the LO Congress, Rhen and Meidner laid out what was to be Sweden's post-war strategic management of the capitalist economy (Sassoon 1996). The Rhen-Meidner model, one of the central elements of the Swedish model, formulated the strategy of combating unemployment and inflation.<sup>[5]</sup> The model itself had two main goals: the primary goal was that of achieving full employment, the second was that of equality (Silverman 1998). The Rhen-Meidner model's objectives of achieving full employment, combating inflation and promoting a relatively egalitarian society required the use of policies that are the very definition of the Swedish model itself: restrictive fiscal and monetary demand policies in combination with a wage policy based on worker's centralized bargaining (Miles 1997; Silverman 1998). The Rhen-Meidner model approached unemployment, inflation, and the promotion of equality in the following ways:

- 1 Full employment would be achieved largely through the mechanisms of the welfare state. The Rhen-Meidner model called for the government to introduce an active labor market policy. Not only would the public sector be the largest employer,<sup>[6]</sup> the government would also be involved in employment mobility services (Miles 1997). The Swedish government would establish retraining programs, unemployment compensation, and geographical mobility allowances (Miles 1997; Silverman 1998). But full employment carries with it a dilemma explicitly stated by the Phillips curve, how does one maintain a high degree of employment while at the same time combat inflation?
- 2 The Rhen-Meidner model sought to combat inflation in two ways. The first was to tax the purchasing power of both consumers and private industry with the hopes of dampening down demand (Sassoon 1998). The second was through a national collective bargaining system carried out by the LO<sup>[7]</sup> and private industry. Under this centralized collective bargaining system, the LO would negotiate uniform wage increases throughout the country. The tradeoff to private industry in agreeing to participate in collective bargaining was the guarantee that wage increases were to be below relative increases in productivity and inflation (Moene & Wallerstein 1997). The national wage increase, restricted by inflationary and productivity levels, ensured the prevention of sector wide competition from driving wages beyond levels of productivity and sparking inflationary pressures.
- 3 The social democratic value of equality was achieved throughout the Rhen-Meidner model through the public sector in which citizens were to be provided a social safety net and ensured government service during periods of unemployment. The collective bargaining system also promoted equality in that the wage increases were predicated on the policy that workers performing the same work, regardless of firm

size or profitability, received a similar wage increase (Silverman 1998). The system also subscribed to a policy that rewarded less skilled and lower paid workers with higher wage increases relative to their counterparts (Silverman 1998). Equality in the Rhen-Meidner plan was given the status of economic policy goal.

The Rhen-Meidner model served as the primary guide of Swedish social democracy in reforming capitalism through much of the post-war era. Its significance lies in that the model established the roles of government, labor unions, and private industry in the grand scheme of Swedish political and economic life. Having turned social democratic values and vision into a viable economic strategy, Swedish social democracy had finally realized the 'Swedish model'. From the 1950s until the 1970s, the Swedish model would usher in a golden age for Swedish social democracy.

### *The Golden Age of the Swedish welfare model*

For the first two decades after the 1950s, Swedish social democrats, the LO, and Swedish private industry all worked in unison to carry out the Swedish social democratic vision of a highly dynamic and prosperous economy in combination with a relatively egalitarian society. The Swedish welfare model, a model predicated on social democratic values and viable economic policies (the Rhen-Meidner plan), served as the script for the three aforementioned Swedish actors to turn Sweden into the epitome of social democratic values realized through macroeconomic experimentation. From the 1950s until the 1970s, Sweden flourished both in terms of its economy and the expansion of economic equality.

The Rhen-Meidner plan of an active labor market policy and a collective bargaining system was a success in terms of dealing with unemployment and inflation. During the 1950s and '60s, Sweden was able to hold unemployment under two percent, a number very rarely seen in any capitalist economy (Lewin 1994). Productivity growth was also among the fastest in the world, reaching 4.20 percent compared to 4.46 percent for the whole OECD (Lindbeck 1997: 1283). GNP growth rate in Sweden was also higher than most industrialized Western countries. Real GNP growth rate was 3.3 percent in 1951 to 1954, 3.4 percent from 1956 to 1960, 5.2 percent from 1961 to 1965 and 4.1 percent from 1966 to 1970 (Magnusson 2000: 200). The industrial sector saw a large expansion, creating 200,000 jobs between 1945 and 1965 and employing over a million workers by 1965 (Magnusson 2000: 204). The Swedish standard of living was among the highest in the world. The golden age of the Swedish welfare model not only brought about the achievement of economic prosperity, but also of social democratic values as well.

The slogan of "equal pay for equal work" was effectively realized when comparing the wages of men and women (Lindbeck 1997: 1282). In 1960, the wage gap between men and women was at 25 percent, by 1965, the gap was eliminated (Silverman 1998). Spending in the public

sector also ranged from 30 to 45 percent of GDP during the 1950s and '60s, evidence of Sweden's commitment to its welfare state (Lindbeck 1997). Social democratic dedication to the working class was also reflected in a series of legislative initiatives that included: annual leave, national basic pension for all, comprehensive health insurance, parental leave, etc. (Magnusson 2000: 243; 244). Equality and dedication to workers were all being realized within the context of a healthy and dynamic economy.

The golden age of the Swedish welfare model presented the world with a society able to achieve a growing and efficient economy while maintaining a significantly large welfare state. The Swedish model during this period offered a viable alternative between that of command economies and neo-liberal free-market regimes. It seemed as if Swedish social democracy, by working within the capitalist system and through the democratic process, had finally succeeded in achieving its goal of peacefully reforming a capitalist society into an egalitarian system.

## **Deterioration in the '70s and '80s, Disaster during the 90s: Causes of the Swedish Welfare Model's collapse**

### *Introduction*

The Swedish welfare model worked within a domestic framework wherein collective bargaining and restrictive government monetary and fiscal policies managed to successfully achieve low levels of unemployment and keep inflation in check. Over the next two decades after 1970, the foundational structures largely attributed to the Swedish model's success would deteriorate and ultimately collapse by the 1980s. Collective bargaining and government restrictions on the capital markets would be dead by 1985. In addition, the Swedish welfare model existed within an international framework wherein financial markets and Swedish firms were not subjected to the relatively increased global internationalization of the past two decades. Economic integration with the European Union was not a factor in the model's structural plan. The collapse of both collective bargaining and capital control in addition to pressures from internationalization and the 'convergence criteria' from the EU are ultimately the main reasons for the Swedish model's slow deterioration and eventual destruction.

### *Breakdown of Collective Bargaining*

Once the centerpiece of the Swedish welfare model, the collective bargaining system, began to deteriorate by the mid-1970s. Long-term structural problems surfaced as international competition and Sweden's shift from an industrial to a service oriented economy changed the

dynamics of worker composition and bargaining throughout the country. Social democratic values of worker solidarity and equality were also being challenged by neo-liberal alternatives of decentralization and market competition. These aforementioned phenomena in Swedish social and economic life are reflected in the three main reasons attributed to collective bargaining's decline and eventual disintegration: union deviation from the Swedish social democratic plan, competition from white-collar unions, and internal struggles within the LO itself.

Beginning in the mid 1970s, collective bargaining began to deviate from the role assigned by the Swedish social democratic model. Collective bargaining was to ensure that wage increases were below relative levels of productivity growth. This method would allow firms to remain internationally competitive and consequently be in an economic position to retain or hire more employees. The model results in a beneficial situation for both parties. But despite its high level of centralization, the collective bargaining system lacked any kind of self-regulating mechanism that kept wage growth in line with levels of productivity (Moene and Wallerstein 1993). By the mid 70s, wage increases became higher than what the rates of productivity growth were capable of supporting (Miles 1997). The disproportionately high wage increases became the primary reason for Sweden's high levels of inflation during the late '70s and early '80s (Miles 1997). Not only was there inflationary pressure, but international competitiveness<sup>[8]</sup> was damaged throughout the late '70s and '80s.

The transition of Sweden from an industrial to a service based economy was accompanied by a growth of white-collar unions. At its peak, the primarily blue-collar LO had 80 to 90 percent of the labor force as its members (Moene and Wallerstein 1993: 394). In more recent decades, the number has dwindled to just over 60 percent of the workforce (Moene and Wallerstein 1993: 394). The fast growing white-collar unions, which exist outside the umbrella of LO, have been a constant challenge to the centrality of the LO's wage negotiations (Miles 1997; Moene and Wallerstein 1993). The consequential competition from white-collar unions is one of the primary reasons wages have increased faster than levels of productivity. On an ideological level, the resulting plurality of competing actors has created an environment based not on social democratic values of worker solidarity and wage equality but on the neo-liberal framework of competition and market solutions.

Internal struggles within the LO ultimately dealt the final blow to centralized bargaining's demise. The composition of LO membership has seen a shift in the '70s and '80s from predominantly private sector employees to public sector workers (Moene and Wallerstein 1993). The LO policies of wage restraint and wage equalization became an ever increasingly harder policy to pursue within the context of highly skilled employees whose wages were constrained by relatively low-paid public sector workers (Moene and Wallerstein 1993; Pontusson 1991). In 1983, twenty-seven years of collective bargaining came to an end when the metal working sector signed a separate wage agreement (Moene and Wallerstein 1995). The break served as a catalyst as other sectors followed suit and centralized wage bargaining policy was primarily replaced by bargaining

at the sectoral and firm level (Golden and Wallerstein 1995; Miles 1997).<sup>[9]</sup> The resulting sectoral and firm competition resulted in further wage drift<sup>[10]</sup> and inflationary pressures on Sweden's economy.

One of the defining aspects of the Swedish model is dead. Once a method of combating inflation, the collapse of centralized bargaining created inflationary pressure on Sweden's economy throughout the 1970s and 1980s. The original model was based on the dominance of the LO and not on a framework in which the LO was in competition with other actors such as white-collar unions. Social democratic ideals of worker solidarity and equality seemed to have been replaced by neo-liberal individualism.

### *Capital Deregulation*

Control over the timing, quantity, and sectoral allocation of investment is arguably one of the most fundamental ways social democracies can maintain equality and security (Moene and Wallerstein 1993). John Maynard Keynes argued that control over the flow of money across the national boundaries was a prerequisite for an effective macroeconomic policy-making (Silverman 1998). In line with the theories of Ernst Wigforss, Sweden maintained, from the onset of World War II until the mid 70s, maintained relatively strict financial regulations over capital. The Swedish Central Bank (Riksbank) administered financial regulatory matters that included: lending ceilings, liquidity ratios, investment rations, bond issues, and interest rate control (Bieler 2000: 41). Strict foreign exchange controls prevented firms from shifting investment capital abroad. But over the course of the past two decades, Sweden has begun a process of deregulation in both the domestic and foreign capital markets. This section highlights the deregulation of Sweden's domestic market through the disastrous deregulation of Sweden's banking industry. This section will also discuss how Sweden's deregulation of its foreign capital market resulted in massive capital flight away from Swedish domestic industry. The resulting deregulation in the domestic capital market would by the early 1990s result in disaster and plunge Sweden into one of the worst economic periods of its history.

From the mid '70s forward, Sweden embarked on a deregulation process that phased out most of its financial regulatory rules that had been in place since the decade after World War II. The reason for financial deregulation was due to the government's continuously increasing budget deficits that required financing and the need to attract foreign private investment (Arter 1999; Bieler 2000). In 1985, the deregulation binge resulted in the removal of lending ceilings by banks (Bieler 2000). The resulting credit-led expansion boom caused by deregulation dramatically increased private sector borrowing and caused a speculative spree within the housing sector (Canova 1994; Moene and Wallerstein 1995). Real estate speculation led to inflated values for assets and property and increased domestic consumption. When the speculative boom ended in the

early '90s, the massive decline in the value of property and assets triggered a sharp decline in private domestic consumption (Moene and Wallerstein 1995; Ramaswamy 1994). The resulting decline in aggregate demand in combination with a global economic contraction plunged Sweden into one of its worst economic downturns in history (Moene and Wallerstein 1995; Pontusson 1992). Unemployment from 1990 to 1993 was around 8 percent as Sweden suffered one of its worst economic periods since the Great Depression (Miles 1997). On top of the severe economic recession was a banking crisis in which the government was forced to save the banking industry from insolvency. The resulting demand for greater welfare provisions, in accordance with the government's bailout of the banking sector<sup>[11]</sup> created massive government deficits equaling to about 17 percent of GDP by 1994 (Miles 1997). The end result of domestic capital deregulation during this period was a catastrophe in two ways: capital deregulation was one of the main reasons for the calamitous early '90s recession and investment capital was wasted on unproductive property speculation and consumption (Hubers and Stephens 1998).

Full capital deregulation was completed with the abolishment of all exchange controls in 1989 (Bieler 2000). Swedish firms, fearing that closer integration with the European Community<sup>[12]</sup> would lead to higher trade barriers against outsiders, rushed to protect themselves by buying plants within the EC (Iversen 1996). The resulting capital flight into the EC member countries was the main reason the social democratic government decided to apply for EU membership (Iversen 1996). The outward flow of capital from Sweden between 1980 and 1990 increased by a factor of 20, a factor exacerbated by the elimination of exchange controls (Iversen 1996). With the breakdown of the centralized bargaining system resulting in ever increasing wage increases, it is no surprise that Swedish firms chose to move investment capital abroad.

The removal of both domestic and capital controls signaled a neo-liberal shift in social democratic policy. By removing capital regulatory controls, the government has allowed market forces to dictate its policies instead of government dictating to capital, as Wigforss originally would have hoped. In combination with the breakdown of collective bargaining, deregulation of finance has destroyed one of the Swedish model's central designs: the ability to exert control over labor and the capital markets.

### *Internationalization of Business and Financial Markets*

'Globalization' is arguably a relatively new phenomenon in the global economic landscape. Globalization in this section will be defined as the increased internationalization of firms—the multi-nationalization of corporations—and the integration and internationalization of the world financial markets (Giddens 1998). With its supposed ability to erode at state sovereignty with regards to pursuing nationally independent macroeconomic policies, globalization presents one of the greatest challenges to social democracy in this century (Giddens 1998). This section will highlight

the impact of globalization on the Swedish welfare model. In particular, the internationalization of business will delve into the issue of industry trans-nationalization—the decision by Swedish firms to move investment outside domestic territory. The internationalization of markets will emphasize the Swedish currency crisis in the early '90s as an example of the challenges brought on by the global financial market on the Swedish model.

Although Sweden has always had an export industry exposed to international competition since the 1950s, the trans-nationalization of industry<sup>[13]</sup> increased dramatically over the period 1980 to 1990. It is perhaps of no coincidence that Swedish multi-national corporations invested heavily overseas at a point when collective bargaining was in decline or had already collapsed. In 1989, when foreign exchange controls were abolished, Swedish industries for the first time invested greater amounts of capital abroad than at home (Bieler 2000). In 1965, Swedish multinational corporations employed approximately 33.9 percent of their employees abroad. By 1990, the number had almost doubled to 60 percent of multinationals' workforce (Bieler 2000: 42). The implications for the Swedish model can only be that of further demise to the Swedish social democratic plan. Trans-nationalization contributes to weakening of unions at home, resulting in the further erosion of Swedish social democracy's traditional base of support. Trans-nationalization also acts against the Swedish model's goal of achieving full-employment. The movement of jobs and investment into the international arena outside of Sweden represents jobs lost in the domestic economy.

In 1992, Sweden for the first time faced the wrath of the international financial market. With the Swedish economy in severe recession, international currency speculators moved against the Swedish crown in the summer and fall of 1992 (Canova 1994). Without foreign exchange controls to stop the crown's hemorrhaging, the Riksbank was forced to raise inter-marginal interest rates by five hundred percent to protect the currency (Hinnfors and Pierre 1998). At the end of that year, the Riksbank was forced to surrender its fixed exchange rate regime by letting the currency float in the international currency market (Hinnfors and Pierre 1998). The end result was a twenty percent depreciation of the crown at the time of the float and the obliteration of 95 billion crowns from the national budget due to speculation (Hinnfors and Pierre 1998).

The currency crisis mentioned above highlights the challenges presented by the internationalization of financial markets to the Swedish model. Actions by governments are now under the scrutiny of the global financial market. Economic policy decisions made by the state must take into account the reaction of markets. The currency speculators represent exogenous actors not factored into the original inception of the Swedish model. As Sweden's currency crisis has shown, the financial actors within the global market are potentially destructive and deadly forces in a social democratic regime.

The internationalization of firms and financial markets represents the current global economic order under which the Swedish model is operating. Both are main factors contributing to the Swedish model's recent decline as they represent exogenous changes to the global environment. Both factors exert tremendous domestic social and economic implications on social democratic societies. While the former erodes the power of social democracy's traditional base of support and acts against its full employment aims, the latter erodes the ability of national governments to pursue policies without the scrutiny of global international financiers.

### *Integration with the European Union*

Integration with the European Union presents more of a future challenge for the Swedish model as Sweden tries its hand at economic assimilation with Europe. Although Sweden is a member of the EU, it has decided to postpone joining its monetary union—the Euro.<sup>[14]</sup> The main challenge encountered so far to the integrity of the Swedish model was fulfilling the following 'convergence criteria' for EU membership:

1. Deficits cannot exceed 3% of GDP;
2. The national debt cannot be greater than 60% of GDP;
3. Inflation cannot be higher than 1.5% of the average inflation rates of the three EU members with the lowest level of inflation;
4. Long-term interest rates cannot be more than 2% higher than that achieved by the three nations with the lowest inflation rates;
5. Exchange rates must fall within the exchange rate mechanism.<sup>[15]</sup>

In order to meet the requirements for integration under the Maastricht treaty, Sweden was forced to pursue tight fiscal and monetary policies (Olsen 1999). Convinced by the neo-liberal notion that some of Sweden's economic problems were largely due to its budget deficits, its large national debt (85% of GDP—above EU threshold requirement), and an unsustainable welfare state, Sweden resorted to cutbacks in welfare state spending (Arter 1999; Olson 1999). The restrictive EU convergence requirements are but another exogenous umbrella preventing Sweden from pursuing fully independent macroeconomic policies. If monetary convergence does become a reality in the near future, Sweden will be forced to completely surrender its powers of discretionary monetary policies (Moene and Wallerstein 1993). In the end, full EU membership further erodes Swedish control over domestic economic issues and creates an environment under which the Swedish model was not intended to operate.

## *Conclusion*

The nation that never had an unemployment rate above two percent had eight percent unemployment by 1993. The early '90s were a seemingly polar opposite of what Sweden was thirty years before. The domestic and international framework that existed during the golden age of the Swedish model was gone. Endogenously, the destruction of collective bargaining and the deregulation of the capital markets meant that Sweden no longer had the ability to exert control over full employment, inflation and investment as it once had. Exogenous factors, largely the result of globalization, have placed Sweden in an international framework for which the Swedish model was not originally designed. The model was predicated on the ability by the government to make macroeconomic fiscal and monetary decisions to stabilize the economy. The EU central bank and the global financial market are now the primary determinants of Sweden's fiscal and monetary policies. The trans-nationalization of Swedish industries continues to be a factor against Sweden's full employment policies. Meant as a middle-way between socialism and capitalism, the Swedish model's decline and eventual collapse can be seen as the momentary triumph of neo-liberalism over that of social democracy.

## **The Swedish Welfare Model: Post-'90s Recession and Future Viability**

### *Structure and Performance after the early 90s recession*

Contemporary economic and policy developments can be outlined as follows:

- hi The early '90s recession was followed by relatively strong periods of growth. By 1998, the deficit had been eliminated, interest rates and inflation were brought down, and GDP actually grew by 4% (Madeley 1998);
- hi Attempts (ultimately unsuccessful) were made to create new wage models to replace the defunct collective bargaining system (Djerf 2000; Golden and Wallerstein 1995);
- hi Deregulation continues to be the social democratic policy as industries such as electric utilities, telecommunications, and airlines have been deregulated throughout the 90s;
- hi The issue of monetary union with the Euro is scheduled as a referendum in 2003.

### *Future Viability*

The Swedish welfare model is dead. Almost all of the foundational structures that can be attributed to the model's early success have been effectively destroyed. Although there still exist high-quality public services, a large welfare state, and active labor market policies, the main structural framework of the model – collective wage bargaining and interventionist government policies in the labor and capital markets – have been effectively demolished over the past three decades (Silverman 1998). Globalization, which seems to be the future course of human history, renders the final blow to the Swedish welfare model. As Rudolf Meidner, one of the chief architects of the Rhen-Meidner model, said: “The model was designed for a national economy under conditions that made it possible for the national government to make final decisions about stabilization and distributional policies. We are now part of an international economy...Everything we do is immediately followed by reaction in the financial markets. We no longer determine our own interest and currency rates...Internationalization...is enough to make the Swedish model a little antiquated” (quoted in Silverman 1998).

### **Conclusion**

The Swedish social democratic welfare model has arguably been the greatest realization of social democratic values realized via the coordination of a macroeconomic and political regime. The model proved to be a huge success for the first 20 years of its full implementation and proved effective for ensuring low inflation, a high degree of employment, and a relatively egalitarian distribution of wealth.

This paper identified the main reasons for the model's early success: the combination of solidarity union wage policy and interventionist government policies in both the labor and capital markets. I then proceeded to identify four endogenous and exogenous variables that have eroded the structure and performance of the Swedish model over the past three decades: the collapse of centralized bargaining, deregulation of the capital markets, internationalization of business and financial markets (globalization), and integration with the European Union. Lastly, I argued that the current domestic and international framework renders the Swedish model obsolete.

### **Appendix**

Sweden is a Constitutional Monarchy. The chief of state is the monarch (presently King Carl XVI Gustaf). The head of state is the Prime Minister (currently Goran Persson of the Social Democrats). The Prime Minister is elected by majority vote of the Riksdag. The Prime Minister also appoints cabinet members. The Prime Minister serves for four-year terms. Both the cabinet members and the Prime Minister are subject to a no-confidence vote from the Riksdag.

The legislative branch is referred to as the Riksdag. There are 349 seats filled using proportional representation. In order to win representation in the Riksdag one must either win 4% of the vote within the 28 individual constituencies (310 delegates) or 12% for the remaining 39 delegates that are elected on a national basis. Delegates of the Riksdag serve four-year terms (Hancock 1973; Miles 1994).

### *Swedish Political Parties and '90s Election Report*

The main political parties in Sweden can be effectively divided into socialist and non-socialist factions. The socialist camp includes the Social Democrats, the Left Party, and the Greens. The non-socialist camp includes the Moderates, the Liberals, the Centre Party, the Christian Democrats and New Democracy. The Green Party, the Christian Democrats, and for a short time New Democracy, are the relative newcomers to the Swedish political landscape during the nineties. The Green Party is the environmentally conscious party standing for the preservation of Sweden's 'green areas', shutdown of nuclear power plants, and anti-EU membership (Madeley 1994). The Christian Democrats desire a more moral dimension to politics, improved social services especially to the poor, and a more generous foreign aid policy (Sainsbury 1991). The New Democrats are perhaps the most right-wing out of all of the aforementioned parties. The ND are generally for stricter anti-immigration policies, tax reductions, and law and order. (Sainsbury 1991). But ND only appeared during the '91 election as the party experienced internal struggles and conflict and essentially self-destructed (Madeley 1994). The Social Democrats, aside from their traditional welfare stance, have been generally pro-EU and have taken a more environmentally conscious stance during the 90s (Madeley 1998). The Left Party is perhaps the most left wing party holding a seat in Sweden. Some of their stance includes, anti-EU membership and the now defunct wage earners funds (Sainsbury 1991). The Moderates are perhaps the largest non-socialist party in Sweden whose platform includes tax cuts, reductions on government spending, and subsidies for corporations (Sainsbury 1991). Lastly, the Centre Party and Liberals lie on the left of the moderates and generally stand for tax cuts and increased spending in the public sector (Madeley 1998).

### *'91 Election*

1991 saw a right wing insurgency evident with the rise of New Democracy (which controlled 0 seats in '88 but 25 in '91) and with the ascendancy of a non-socialist coalition composed of the Moderates, Liberals, Centre, and the Christian Democrats with Carl Bildt (of Moderates) as Prime Minister (Sainsbury 1991). Social Democratic electoral support during this election was at its lowest since 1921 (Sainsbury 1991). Already in significant economic recession, the incumbent Social Democrats perhaps took the blame for most of Sweden's economic woes. The economy was certainly the number one issue in the electorate's agenda, as the Green party (with its more non-materialist platform) gained no seats in the Riksdag during the '91 election. The New Bildt government promised to revive the economy through tax relief for businesses, tax cuts, and eliminating restrictions on foreign investments into Sweden (Sainsbury 1991).

### *'94 Election*

The 1994 election occurred within the context of an economy that had 8% unemployment, a deficit equivalent to 13% of GDP, and public debt equivalent to 100% of GDP (Madeley 1994). It is of little wonder that the right wing coalition headed by Carl Bildt were unceremoniously ejected out of power with the Social Democrats once again ascending to head Sweden in coalition with the Centre Party (with Ingvar Carlsson of SD as Prime Minister). The prevailing mood within the electorate was that it was the Social Democrats who could maintain and revitalize the Swedish welfare model and return the country into economic growth (Madeley 1994). New Democracy at this point has self-imploded while the Greens saw an insurgency of environmental consciousness as the party gained seats in the Riksdag (Madeley 1994).

### *'98 Election*

By the 1998 election, the deficit had been eliminated, interest rates and inflation were brought down, and GDP actually grew by 4% (Madeley 1998). The Social Democrats once again (with Goran Persson as Prime Minister) seized power as they merely defended their record of economic improvement and growth. Some of the main significant issues during this election were the Moderates' stance against nuclear decommissioning and the movement of the Christian Democrats and Liberals farther to the left of the Moderates (with their proposals for greater health and education spending) (Madeley 1998).

## **References**

- Arter, David. 1999. *Scandinavian Politics Today*. Manchester: Manchester University Press.
- Bieler, Andreas. 2000. *Globalisation and Enlargement of the European Union*. New York: Routledge.
- Canova, Timothy. 1994. "The Swedish Model Betrayed." *Challenge* 37: 36-40.
- Djerf, Olle. 2000. "Cooperation is the basis for Sweden's new wage model." *Unitas* 72: 12-18.
- Giddens, Anthony. 1998. *The Third Way: The Renewal of Social Democracy*. London: Polity Press.
- Golden, Miriam, and Wallerstein, Michael. 1995. "The Fragmentation of the Bargaining Society: Wage Setting in the Nordic Countries, 1950 To 1992." *Comparative Political Studies* 30: 699-731.
- Hancock, Donald. 1972. *Sweden: Politics for Postindustrial Change*. Hinsdale: Dryden.
- Hinnfors, Jonas, and Jon Pierre. 1998. "Currency Crisis in Sweden: Policy Choices in a Globalized Economy." *West European Politics* 21: 103-119.
- Huber, Evelyne, and Stephens, John. 1998. "Internationalization and the Social Democratic Model." *Comparative Political Studies* 31: 353-397.
- Lewin, Leif. 1994. "The rise and decline of corporatism: The case of Sweden" *Journal of Political Research* 26: 59-79.
- Lindbeck, Assar. 1997. "The Swedish Experiment." *Journal of Economic Literature* 35: 1273-1319.
- Madeley, John. 1994. "The Return of Swedish Social Democracy: Phoenix or Ostrich?" *West European Politics* 18: 422-428.
- Madeley, John. 1998. "The Riksdag Election: Hobson's Choice and Sweden's

Voice” *West European Politics* 22: 187-193.

Magnusson, Lars. 2000. *An Economic History of Sweden*. New York: Routledge.

Marshall, Mike. 1996. “The changing face of Swedish corporatism: The Disintegration of consensus.” *Journal of Economic Issues* 30: 843-858.

Miles, Lee. 1997. *Sweden and European Integration*. Brookfield: Ashgate.

Milner, Henry. 1989. *Sweden: Social Democracy in Practice*. New York: Oxford University Press.

Moene, Karl Ove, and Wallerstein, Michael. 1993. “The Decline of Social Democracy.” *The Economic Development of Denmark and Norway since 1870*. Karl Gunnar Persson, ed. Aldershot: Edward Elgar Publishing Ltd.

Moene, Karl Ove and Wallerstein, Michael. 1995. “How Social Democracy Worked: Labor-Market Institutions.” *Politics & Society* 23: 185-211.

Olsen, Gregg. 1999. “Half empty or half full? The Swedish welfare state in transition.” *The Canadian Review of Sociology and Anthropology* 36: 241-267.

Pontusson, Jonas. 1992. *The Limits of Social Democracy*. Ithaca: Cornell University Press.

Pontusson, Jonas. 1994. “Sweden: After the Golden Age.” *Mapping the West European Left*. Perry Anderson and Patrick Camiller, eds. London: Verso.

Premfors, Rune. 1991. “The Swedish Model and Public Sector Reform.” *West European Politics* 14: 83-95.

Ramaswamy, Ramana. 1994. “The Swedish labor model in crisis.” *Finance and Development* 31: 36 – 39.

Sainsbury, Diane. 1991. “Swedish Social Democracy in Transition: The Party’s

Record in the 1980s and the Challenge of the 1990s.” *West European Politics* 14: 31-57.

Sainsbury, Diane. 1991. “The 1991 Swedish Election: Protest, Fragmentation, And a Shift to the Right.” *West European Politics* 15: 161-166.

Sassoon, Donald. 1996. *One Hundred Year of Socialism: The West European Left in the Twentieth Century*. New York: The New Press.

Silverman, Bertram. 1998. “The Rise and fall of the Swedish model: Interview with Rudolf Meidner.” *Challenge* 41: 69-90.

Pontusson, Jonas. 1991. “Labor, Corporatism, and Industrial Policy: The Swedish Case in Comparative Perspective.” *Comparative Politics* 1:163-179.

Tilton, Timothy. 1979. “A Swedish Road to Socialism: Ernst Wigfross and Ideological Foundations of Swedish Social Democracy.” *American Political Science Review* 73: 505-520.

[1] For more information regarding Sweden’s electoral system and recent party performance, see the Appendix.

[2] “Socialism can never be proven, it is an ideal that has to be implemented” (Tilton 1979: 507)

[3] “...equality, freedom, democracy, security, efficiency, and solidarity in an effort to balance the inherent inequalities of the Capitalist mode of production” (Tilton 1979: 510).

[4] “To strive for equality is to make it possible for everyone to live a valuable human life, to share in freedom, authority, wealth, security, fraternity and opportunities for personal development that a rationally organized and solidaristic society makes possible; the social expression of such equality is the classless society” (Tilton 1979: 510).

[5] “Rhen and Meidner ‘were aware of the existence of a trade-off between unemployment and inflation long before Phillips published his famous article in 1958’” (Miles 1997: 31).

[6] In 1980 alone, more than one third of working Swedes were employed in the public sector (Premfors 1990).

[7] The LO had approximately 85% of the workforce as members in Sweden (Silverman 1998).

[8] The government used currency devaluation as one method intended to help keep Swedish industry competitive (Hubers and Stephens 1998).

[9] “In spite of attempts to restore centralized bargaining in the mid-1980s and again in the early 1990s, by 1993 it was clear that the era of centralized bargaining was over in Sweden” (Golden and Wallerstein 1995).

[10] Locally bargained wage increases (Golden and Wallerstein 1995).

[11] The government had to bail out three banks in an amount equal to 4 percent of one year GDP (Lindbeck 1997: 305).

[12] Eventually EU

[13] Industry trans-nationalization is defined in this context as the growth of multi-national corporations heavily operating and investing abroad.

[14] A referendum will be carried out next year in relation to the conversion to the Euro.

[15] Criteria from Olson 1999.