

The Swedish Model is Doing Well Despite Neo-Liberal Attacks)
 by Steven Saxonberg
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Sweden is a rather small country, with a population of under 9 million. Yet, it has achieved international prominence because of its socioeconomic policies. Acclaimed by some and scorned by others, much has been written about the “Swedish model.” Already in the 1930s, one author glorified Sweden for succeeding in finding a “middle way” between fascism and communism.¹ Once the fascist threat subsided Sweden was still seen by many as an exemplary country, which had found an enticing democratic compromise between untamed free-market capitalism and all of its social ills and the social security of the stagnating communist dictatorships. More than a decade before the sociologist Anthony Giddens launched the phrase “the third way,” the Swedish finance minister Kjell-Olof Feldt claimed that the Swedish social democrats were developing a third way that was an alternative to capitalism and state socialism.

Such a model that combines the efficiency of capitalist markets, while avoiding its social ills and maintaining the social security of communist regimes might seem like the ideal choice for post-communist governments, who fear that privatization and restructuring will lead to mass unemployment and mass poverty. Rather than Dubcek’s “socialism with a human face,” Sweden offered “capitalism with a human face.” At its height in the early 1970s, even Sweden’s staunchest critics admitted that the country had managed its economy “perfectly.”²

So if Sweden managed its economy so well; if it had basically succeeded in eliminating poverty, unemployment and grave economic inequalities; if it had succeeded in building an export-oriented, modern economy; if it had gone farther than almost any other country in creating gender equality, then why haven’t the post-communist governments turned to Sweden as a model? One obvious answer is that the transitional governments face much greater financial constraints than a country with a well-established and well-functioning market economy. However, even in this case it would still be logical to have a debate about what can be learned from Sweden and what aspects of the Swedish model could be adapted, for example, to Polish conditions. The answer, of course, is that a wide-spread perception exists that the Swedish model collapsed in the 1990s, and, therefore, cannot serve as a role model.

This article begins by discussing what the Swedish model actually was. Then it will examine some of the changes in Swedish social policy to determine whether it really collapsed or rather carried out some reforms. Finally, the causes for the changes in Swedish policy will be analyzed. Did the social democrats begin to implement changes because the old model was no longer functioning or was it because of ideological reasons, such as a growing market-liberal hegemony? The answer to this question could cause us to re-evaluate the changes in the Swedish model and to reassess the lessons that can be learned from the Swedish experience.

What was the Swedish Model?

Various authors have accessed the Swedish model from different perspectives and depending on their perspectives, they have emphasized different aspects of Swedish socioeconomic policy. The Swedish experiment first gained international prominence through Marquis W. Child’s book *Sweden: The Middle Way*. This book concentrates on the consumer cooperative movement as an example of a democratic alternative to

capitalism, communism and fascism, although it also mentions cooperation between socialists, capitalists and the monarchy.

Economists and economic historians have emphasized cooperation between capital and labor, the centralized negotiations between employee and employer associations and the Rehn-Meidner plan³ (fn Axelsson, Löfgren and Nilsson). The idea of the Rehn-Meidner plan was that the unions would agree to support rapid restructuring and not oppose lay-offs. Through central negotiations, unions and employer associations would agree to implement a wage policy that guaranteed equal wages for equal work, regardless of the profitability of individual firms. As a result, the most efficient enterprises would pay lower wages than the free-market rate and, therefore, be able to expand more rapidly, while the least efficient enterprises would pay higher wages than the free-market rate and, therefore, go bankrupt more rapidly. Consequently, workers would need to be very flexible and willing to leave the less efficient firms for work in the more efficient firms. This would insure that Swedish industry would develop and adopt new technologies more quickly than under a free-market. This in turn would create new jobs by strengthened the export market, since Swedish companies would implement the new technologies faster than their foreign competitors. In order to accept more flexibility on the labor market, social democratic governments would enact an active labor market policy. Unemployed workers would enter into job-retraining programs so that they could improve their standing on the labor market and find more coveted jobs. During the transition between jobs they would receive generous unemployment benefits to alleviate the economic loss connected to switching jobs. As long as the government guaranteed low unemployment and generous benefits, unions did not need to oppose the restructuring of industry and the ensuing lay-offs. Consequently, Sweden has no tradition of union leaders, such as Arthur Scargill, who try to cling to outdated industries in order to save jobs.

While economists have emphasized the economic aspects of the Rehn-Meidner model, political scientists have concentrated on another side of the cooperation between labor and capital: corporatism or “neo-corporatism.”⁴ From this perspective the unique feature of the Swedish model is the fact that cooperation between capital and labor goes well beyond centralized agreements on wages and working conditions. At least until the mid-1980s representatives from both sides sat on many boards that made decisions about implementing state policy. For example, representatives from unions and the main employer association comprised the board of the National Labor Council, which had responsibility for implementing the active labor policies, including running the employment agencies.⁵ Sometimes cooperative solutions included members of other organizations as well. One example was Swedish television, where previously representatives from the Swedish Church, the journalist union and political parties joined union and employee representatives on the board of directors.

Although issues of corporatism, cooperation between labor and capital, the Rehn-Meider plan and consumer cooperatives are all interesting and show some unique sides of Swedish society, Sweden is nevertheless probably most famous for its social policy, which is the focus of the present paper. Of course, all of the above areas influence social policy, but space does not permit a detailed analysis of each of these themes.

A central claim from the discourse on Swedish social policy is that the social democrats have been able to build up support for its programs by developing universalist policies. Studies of comparative social policy show that means-tested

programs cause the stigmatization of welfare recipients. The middle-class and wealthier citizens blame the recipients for being “lazy” and living “on the dole” as “welfare bums,” rather than trying to get “real jobs.” In contrast, universal welfare states are based on the idea of social citizenship. To put it succinctly: I have the right to healthcare not because I am very wealthy and have a lot of money; rather, I have the right to healthcare because I am sick. Just as I have the right to vote because I am a citizen, I also have the right to healthcare, daycare, good housing, a decent income etc, by the mere fact of being a citizen. Policies based on social citizenship tend to be much more popular than means-tested policies, because citizens believe that they have a *right* to benefits and services. When poor and unemployed persons receive means-tested welfare payments, middle-class voters resent having to pay high taxes to support these stigmatized, “losers.” The successful middle class assumes it will always remain winners and thus, never receive anything in return for paying taxes. When middle-class voters in Sweden have children, however, they feel that they have the “right” to receive parental leave benefits. They are not winners, who are paying taxes to losers; rather they are winners, who once again are winning by getting what they deserve. Thus, universal welfare policies can obtain middle-class support, while means-tested programs obtain their disdain. Consequently, voters in Scandinavian countries have been willing to elect social democratic governments and pay high taxes precisely because they believe they are getting something in return, while voters in market-liberal countries, such as the USA are not as willing to vote for leftist politicians, because they do not think that they will receive any benefits in return for paying higher taxes.⁶

Empirical studies of welfare states show that because universal regimes generate support from the middle-class, the middle-class is more willing to support the poor. Thus, universal welfare states actually redistribute more than liberal ones and they also give much more generous support to the poorest and most needy. Consequently, while only 4.9% of the Swedish population lives below the poverty level, 17.9 of the American and 13.2% of the British population lives in poverty.⁷

These dynamics do not only explain the difference between liberal and social democratic countries, they also explain the dynamics within countries. Surveys show that even among citizens of social democratic Scandinavian countries, universalist policies are more popular than means tested ones. Thus, even among Scandinavian countries universalist programs tend to be rather generous, while means-tested programs tend to be much less adequate in their level of provisions.⁸

In practice, most Swedish welfare payments actually are not completely universal. In theory, universal policies give entitlements independently of income. In fact, Esping-Andersen measures welfare regimes in terms of “decommodification,” i.e. the extent in which employees are not dependent on working for their income. According to his measurements, policies are more universal if they increase the level of decommodification.⁹ Higher levels of decommodification are achieved if programs give lump-sum payments. In practice, the vast majority of Swedish welfare payments are in the form of social insurances, whose benefits are based on the “loss-of-income principle.”¹⁰ Up to a certain limit today, Swedes receive 80% of their previous income if they are unable to work because of unemployment, sickness or parental leave. Nevertheless, since these social insurances are state-run and universal in the sense of having the same rules for all citizens, regardless of profession or place of employment, some have called the Swedish model “semi-universal.”¹¹

What Changed during the 1990s?

During the last decade, the discourse on social policy in Western Europe was dominated by the discussion of “retrenchment.”¹² Thatcher and Reagan set the tone by introducing radical cutbacks in public spending. The ensuing literature focused on welfare benefits, such as social insurance programs. One of the popular conclusions of this debate has been that retrenchment was greatest among the liberal Anglo-Saxon countries precisely because of their reliance on stigmatized means-tested programs that had few supporters. It was much more difficult to cutback universal programs that enjoy the widespread support of the middle-class.

These authors are correct in noting that cutbacks in the Swedish welfare state were quite moderate compared to the USA or UK. The main social insurances declined from 90% of income (up to a certain ceiling) to 75% and then increased again to 80%. Even though this signifies a decrease in benefits, the decline is very small and hardly signifies the death of the Swedish model.

In some cases the changes were more complicated. For example, health insurance also covers 80% of previous income, but in 1992 a free-day was introduced, known as a “karensdag” in Sweden. This means that during the first day that one stays at home one does not receive any benefits. The free-day is clearly a step backward and has lowered living standards. Studies show that it has succeeded in decreasing short-term absenteeism, but long-term illness has increased. People who are sick and previously would have stayed at home and rested now often try to work to minimize their loss of income. As a result, they are more likely to become more seriously ill and to infect their colleagues. Other methods are also common to avoid a loss of income, such as taking out vacation days when one is sick or keeping their children home from daycare or schools and claiming that they are taking care of their sick children (which entitles them to full benefits). In either case the result is worse for the recipients than before the reform. Other parts of the health insurance reform are more ambivalent and difficult to classify in terms of retrenchment. Thus, employers are now required to pay for the first three (?) weeks of illness, although the government now plans to decrease the period to two weeks.¹³ This gives employers incentives to improve working conditions, since they save money if their employees remain healthy. On the other hand, it can also worsen the situation for those who already have health problems, because employers are less likely to employ people, who are often sick. This reform also decreases the main reason for introducing the “karensdag.” If employers pay the health insurance benefits during the first three weeks, then the state does not save any money, since its insurance funds does not pay for the first day anyway. The exception, of course, is for public sector employees, since the state no longer pays for salaries during the first day. Still, the savings are not very high.

Another ambivalent example is the case of the pension reform, which will be discussed in more detail in another article in this journal. The promoters of the reform claim that working-class people will benefit from the changes, because every year one works increases the total pension payments, while the old system only calculated the payments based on the 10 best years of income (as long as one had worked 30 year totally). Some social scientists claim that the result is not clear, but admit that many people are likely to receive higher benefits, since the pension is linked to the stock market and stock market prices are likely to increase greatly over time. However, most Swedes experience the pension reform as a setback. Previously everyone knew what their pension would be and they were guaranteed a relatively high level. Now their pensions are dependent on growth rates, the stock market and inflation and

nobody knows how these indicators will develop in the future. Generally, the feeling is that the purpose of the reform was to save money, which means lower pensions.

While the social insurances generally decreased their benefit levels – albeit only moderately – family policy basically became more generous during the last decade. Daycare prices went down for most families as the government introduced a maximum fee. Previously fees were based on income. They still are, which means that the poorest of the population pays lower fees than the maximum level, but most families face lower fees since the maximum level was introduced. It should also be noted that the local municipal governments are responsible for daycare and they are not forced to introduce the maximum fee, but since it is subsidized by the national government, virtually all municipalities, including those ruled by center-right governments, have introduced the maximum fee. Another improvement in daycare is that parents now have the right to send their children to daycare facilities at least 15 hours per week even if they are unemployed or on parental leave to take care of another child. The reason being that children who once were in daycare suffer if they suddenly must leave their social network completely behind and stay at home.

Other changes in family policy include increasing the number of paid parental leave months from 12 to 13 and the introduction of a father month, which is only reserved for the father. This means that all fathers have an incentive to stay at home at least one month with their children, otherwise they lose the parental leave benefit for that month. When the number of total months was increased to 13, the number of father months also increased to 2.¹⁴

Thus, if one only looks at social insurances and family policy one can claim that some changes have taken place, but the Swedish model is basically intact. One can also conclude that these changes were not so radical and that although they do represent cutbacks in some cases, they also represent improvements in others. These discussions, though, miss one major point: the biggest cutbacks were *not* in the level of social benefits; *they were in the provision of services*. The 1990s witnessed heavy cutbacks in the public sector, especially in the areas of health services, mental health and old-age care, as the number of employees working for the municipal and county governments declined from almost 1.3 million in 1990 to under 1.1 million in 1998.¹⁵

For example, the percentage of elderly with help needs, who received municipal home help decreased from 46% in 1990 to 33% in 1999.¹⁶ In addition, the fees increased in real terms, so that by the “end of the 1990s approximately one in six of everyone aged 75+ who needed assistance refrained from having home help because of the cost....”¹⁷ In fact, the percentage of elderly receiving home help decreased from 15.8% in 1989 to 8.4% in 1997.¹⁸ One survey shows that 41% of the municipal governments have taken away certain kinds of home help services to the elderly, who still live at home.¹⁹ In addition, about half of the municipalities have changed the contents of the help they give. As many as 58% of the municipalities have stopped providing help with cooking, 22% have stopped taking the elderly for walks and 17% have stopped helping them to go shopping.

Children did not fare much better than the elderly. The number of teachers per 100 pupils fell from 9.4 in 1991 to 7.6 in 1999²⁰, which led to complaints about overcrowding among the schools in the larger cities. Even childcare services declined in quality, despite the great emphasis placed on family policy. Although the number of children attending daycare or after-school care increased from 532,000 to 720,000 between 1990 and 1999, the number of children per staff member increased substantially.²¹ In pre-schools, the number of children per full-time employed staff

member increased from 4.2 to 5.4 during the 1990s. In after-school care the increase was even more dramatic, from 8.3 children per staff member to 17.5.²²

The largest cutbacks were probably in the healthcare sector. Although estimates vary, at least 60,000 jobs have disappeared in this sector, with the largest drop being in nurses and orderlies.²³ However, the number of doctors actually increased. Diagram 1 shows the general decline in healthcare employment. Access to healthcare decreased especially in smaller towns as many smaller, local hospitals and healthcare centers closed. The number of beds in institutional medical care declined by 50% during the 1990s.²⁴ As Diagram 2 shows, the decline in available beds was greatest within psychiatry and hospitals.

DIAGRAMS 1 AND 2 ABOUT HERE

Reforms to decentralize and de-institutionalize care of the disabled and mentally ill also led to cutbacks, as local governments could not afford to provide care to all of the needy. “Evaluations of the disability reform and the psychiatry reform show that fewer than anticipated have benefited from the services.”²⁵ In fact, only about half as many as anticipated have had access to these services.

Public opinion surveys also indicate that citizens are rather critical of the cutbacks. One survey of western Sweden taken in 1999 shows that 28% felt that during the last 2-3 years the public services that they personally experienced had worsened, while only 4% thought they had improved (while 67% said they remained the same).²⁶ Meanwhile, 47% believed that public services in Sweden had gotten worse, while only 3% perceived that they had gotten better (with 50% stating that they remained the same). The greater dissatisfaction with public services than with personally experienced public services it probably caused by the fact that not every applicant had personally experienced public services during the last 2-3 years, which meant that they answered that personally experienced public services remained the same. Because of the cutbacks in public services, the newspapers are increasingly filled with reports of protests against the worsening of services, the closing of hospitals, mental institutions and other kinds of service facilities.²⁷

In another report, Lennart Nilsson shows that satisfaction with almost public services decreased during the 1990s.²⁸ The main exceptions are library services and projects to improve the environment. It is important to note, however, that the growing dissatisfaction with public services does *not* indicate that the Swedish model is collapsing. Of the 25 categories included in this report, Swedes were favorable to all of the public and private services except for the “possibility to find work.” During three years (1993, 1996 and 1999) Swedes were also slightly negative toward the quality of care for the elderly and social services.²⁹ Similarly, in a second article Nilsson adds from 1996 to 2000 satisfaction with the healthcare centers decreased from +49 to +37 (on a scale of -100 to +100), while satisfaction with the child healthcare centers decreased from +38 to +26 and satisfaction with elementary schools decreased from +33 to +12 and for secondary schools from +27 to +13.³⁰ Nevertheless, Swedes were clearly satisfied with these services, even if their level of satisfaction had decreased.

The Tax Reform and Economic Crisis

So far it has been argued that the Swedish model of welfare has basically remained in tact. Social benefits are still relatively generous even if their level is slightly lower. Nevertheless, cutbacks in the service sector have been much greater. It

should be added that these cutbacks have caused voters to become increasingly discontent with the system. Consequently, the social democrats have lost a lot of support to the Leftist Party (which used to be a Eurocommunist party before 1989). While the social democrats went down from 45.3% of the votes in the 1994 elections to 36.4% in the 1998 elections, the Leftists went up from 6.2% to 12.0%.³¹ Meanwhile, voter turnout has decreased, as left-leaning social democrats, who are afraid to vote for former communists often choose to stay at home, rather than rewarding a social democratic party that has moved to the right compared to the 1980s. Still, it should be noted that the social democrats have moved to the left of the market-liberal flirt of the early 1990s.

The question remains of why the social democrats initiated these cutbacks. Conventional wisdom states that Sweden was “living beyond its means.” Yet, at least at first appearances, the Swedish economy seems to have been doing quite well and the finances were in balance before the tax reform was carried out in 1990. In the summer of 1990, unemployment was 1.1%, the national budget was in surplus as were the social insurance funds.³² Shortly after the tax reform took place, the construction industry collapsed, four of the country’s five banks went bankrupt, open unemployment sky-rocketed to over 8% and the budget surplus transformed itself into the second largest deficit in Europe after Greece.³³

Logically, one should begin one’s analysis of the economic crisis by analyzing the market-liberal tax reform. However, during the early 1990s neo-liberal hegemony had become so great that even the Swedish discourse treated people as strange if they even suggested that a connect could exist between the tax-cut and the economic crisis. True, even if you see somebody run up behind a man on the street and stab him in the back and then the man drops dead, it does not necessarily mean that the man died of stab wounds. He might have been having health problems before the attack and suffered a heart attack right before he was stabbed. In that case, he would have died of a heart attack at that very moment even if he had not been stabbed. Still, few would consider it strange if the police used the stabbing as their starting hypothesis for investigating the man’s death. For some reason politicians, journalists and intellectuals saw the stabbing of the Swedish economy with such blinding neo-liberal glasses that they did not seriously consider the possibility that a connection could exist between the stabbing and the death.

This article goes against the main stream, throws off its glasses and begins its analysis with the stabbing – or rather cutting – of the tax system. Although this might seem extremely radical, it should be pointed out that even the most market liberal economists in Sweden grudgingly admit that the tax cut was the immediate cause of the economic crisis. They do not criticize the theoretical idea of cutting taxes and public spending, but they admit that the timing and implementation was poor. The timing was poor, first of all in the direct sense that it took place right at the moment in which most of the Western world was entering a recession. This meant that demand declined for Swedish goods, so public sector cutbacks took place during a period when Swedish firms started to lay-off rather than hire new workers.

The timing of the reform was also poor in the more indirect sense that measures were taken in the wrong order.³⁴ Several years earlier in 1985 the social democratic government deregulated the financial and capital markets. As a result, Swedish investors and corporations began taking their money out of the country and investing in stronger currencies. When the government cut taxes, they had even more money to take out of the country. Thus, the government was forced to radically devalue the crown. According to this argument, the steps should have been taken in the opposite

order. The government should have first cut taxes to make investment in Sweden more profitable. Then only afterwards it should have deregulated the capital and finance markets.

In reality, however, the tax reform was more complicated and faulty than this. First, the deregulation of the capital and financial markets in the 1980s led to great speculation on the housing market. As regulations on banking lending practices disappeared it became increasingly easy to borrow money. Newspapers began reporting that even unemployed people were able to borrow large sums of money to buy apartments. Consequently, housing prices skyrocketed. There did not seem to be any limit in sight as to how high prices could climb, since it was always easy to borrow enough money to buy private flats or houses. It was always profitable to borrow money, because interest rates and inflation were high and housing loans were heavily subsidized. Thus, the real rate of interest on mortgages was much lower than inflation or the official interest rates. This meant that the borrower made a profit.³⁵ Ingemar Ståhl and Kurt Wickman report that real interest rates for a small homeowner increased from -1.5% in 1985 to $+7.1\%$ in 1992.³⁶ The tax reform radically altered these calculations. In order to finance the tax cuts, some cuts were made in subsidies, including housing. In addition, the government changed its monetary priorities and made fighting inflation rather than unemployment its top priority. Consequently, the government decided to peg the crown to the ECU. As a result, inflation dropped dramatically at the same time that housing subsidies disappeared.³⁷

Not surprisingly, the tax reform caused the speculation bubble to burst. Almost overnight the housing market collapsed. Housing prices decreased, demand for constructing new buildings disappeared almost completely, and the radically changed financial situation of borrowers caused many to default on their loans. Unemployment within the construction industry also skyrocketed from around 2% in 1990 to nearly 30% in 1993.³⁸

In 1991, the ensuing economic crisis and loss of faith by traditional social democratic voters, who no longer “recognized their own party,” brought a center-right government to power in for the first time since 1982 and for only the third time since 1932. The new government and the increasingly liberal social democratic party both agreed that keeping the crown stable should be the cornerstone of their economic policy. Thus, they instructed the central bank to buy crowns whenever necessary in order to keep up demand for the Swedish crown. However, investors recognized that the collapse of the housing market had radically weakened the Swedish economy, which gave them less reason to invest in the country or keep their crowns. Consequently, a drain began on the Swedish crown and international money speculators began placing their bets that the country would eventually devalue. The government and national bank fought a Don Quixotic battle against the international speculators. Finally, the government gave in, but not before it had spent tens of billions of dollars in vain and let short-term interest rates reach the remarkable level of 500%!

If the original reforms had put the banking system under strain, the efforts to save the crown brought about its near total collapse. Many lower and middle class borrowers had already gone bankrupt once inflation rates declined and subsidies on loans were cut, but the shock increases in interest rates forced even many of the most solvent borrowers into bankruptcy. Within a short period 4 of the country's 5 banks had gone bankrupt. Thus, the market-liberal center-right government was forced to nationalize some of the banks in order to prevent total chaos on the financial markets, although they later sold off the banks to the private sector. Naturally, this caused the

budget deficit to rise even more. Before the bank Nordbanken was sold off, the bank crisis had cost the Swedish state 60 billion crowns (around 30 billion Zloty at current rates), according to former finance minister, Kjell-Olof Feldt.³⁹

Even if it is difficult to calculate exactly how much the Swedish government spent on trying to prop up the crown and then prop up the banks, it is clear that measures have a much greater responsibility for the looming budget deficit than any strains coming from an overburdened welfare state. Some economists estimate that 30 billion crowns alone were thrown away by futilely trying to save the crown (around 15 billion Zloty at today's exchange rate).⁴⁰ This helped bring the former budget surplus to a deficit of 110 billion crowns. As already mentioned, these dynamics also caused the bank sector to collapse, which cost even more money. Rather than the cliché that Swedes were "living beyond their means," it is more accurate to claim that market liberal reformers were spending money beyond their means in order to save a highly unsuccessful market-liberal tax cut and monetarist financial policy.

Although these measures would be enough to cause even the healthiest of economies to bleed, other measures in conjunction with the tax cut amounted to pouring oil on a fire. Another key point for the market-liberal turn was belief that social services should be decentralized and formerly state-run institutions (including schools) should now be run by the local municipal governments. At the same time that the local governments received more responsibility and higher costs, they were forbidden to raise taxes.⁴¹ So although Sweden welfare services even before the reform were to a large extent carried out by local governments, after the reform the local production of services has increased to the point that three-fourths of all public employees are employed by the municipal and county governments.⁴²

The argument was that the "dynamic" effects of the tax-cut would disappear if the municipalities increased taxes by the same margin as the national government cut them. In the end the tax cut would not amount to a cut, but rather a transfer of authorities. Therefore, the social democratic government enacted a complete stop for raising local taxes. This "stop" was so extreme that the Stockholm government collapsed, as the social democratic rulers there were not allowed to introduce car tolls in order to improve the environment. Once the Stockholm social democrats were forbidden to carry out their agreement with the Green Party, an outside negotiator was called in to negotiate a compromise agreement between the social democrats, liberals and conservatives, which called for the building of more highways, rather than the more environmentally friendly measures that the local government had originally worked out with the Greens. Thus, the municipal tax stop even prevented the usage of environmental taxes that forced producers and consumer to pay their social costs and it caused the local social democrats to break off their cooperation with the leftist and green parties and cooperate instead with the center-right.

Besides these political repercussions (as once more social democrats did not "recognize their party"), the tax cut added to the economy's downward spiral. Since the costs of running the formally state-run institutions was higher than the compensation that the municipalities received from the state and since the municipalities were not able to cover these costs by raising taxes, they were forced to cut services. The fact that the national government still paid for the social insurances added to this discrepancy. It meant that if the local government laid off a worker, who received a salary of 100,000 crowns a month, it cut its costs by around 145,000 crowns if the wage levy for the social insurances is added (since the employer at the time paid the entire social insurance fee). However, the national government had to pay unemployment insurance benefits of 90% of the salary, which in this case means

90,000 crowns. Thus, society only saves 55,000 crowns (145,000 – 90,000), but the local employer saves 145,000 crowns. This meant that the local governments had a much greater incentive to lay off workers than the national government would have, since the local governments could pass on the costs to the national governments.

This in turn sets off a spiral: the more people are unemployed, the lower the tax base of the local government. The lower the tax base, the more people have to be laid off, which in turn lowers the tax base again and demands even more layoffs. This downward spiral, of course, was radically enhanced by the fact that unemployment was radically increasing anyway, because of the collapse of the housing, construction and banking sectors. Thus, as an unintended consequence of the tax reform, local governments were forced to lay-off many public sectors employees because of a tax reform made at the national level.

This example shows how organization of the Swedish state favored cutbacks in the service sector over cutbacks in social insurance. Since the local governments have responsibility for most public services, while the state has economic responsibility for the social insurances, the local governments do not take into account the costs for paying unemployment insurance to those, whom they lay off.

The organization of the Swedish state, however, favors cutbacks in local services over cutbacks in social insurances for other reasons as well. One major reason is that elections for local and national government are held at the same time. This means that national issues dominate the elections. Since public support for welfare programs as remained high, no national government wants to be blamed for lowering services. In fact, one study shows that voters are more likely to vote against the government if they believe that public services have decreased than if they perceive that their personal economic situation has declined.⁴³ If the government announces a decrease in welfare benefits, it gets immediately blamed. If a local government, on the other hand, announces it will close down a hospital, then people are less likely to blame the national government.

Meanwhile, the local governments are also less likely to be punished for closing down a hospital in the Swedish electoral system than they would be in a system with separate local and national elections (as in Germany). Quite simply, the vast majority of voters are uninformed about local issues and vote in the local elections as they do in the national elections. National issues crowd out local issues in the media coverage of the elections. Moreover, while the national governments have been dominated by the social democrats since 1932 (having only been out of power from 1976-82 and 1991-94), many of the local municipal and country governments are run by center-right coalitions. Thus, even if some voters do take local cutbacks in service into account when voting, in many cases this would cause them to vote out center-right governments, which means that the social democrats in some ways gain by forcing the local governments to make the difficult financial choices.

Another factor favoring cutbacks in services is that they are less visible than cutbacks in social insurances. When the government announced that all of the social insurances would be cut from 90% to 75% everybody expected at some time in their life to be affected by this cutback and thus cutback was clear and open for everyone. On the other hand, if one local hospital is closed down in the short-run it only affects the local inhabitants. Of course, the accumulation of these local acts has national repercussions, but this is a slower and less visible process than cutbacks in social insurances.

This analysis should not be interpreted as an over glorification of the Swedish model. One could admit that some problems did in fact exist. Inflation was higher

than in neighboring countries, which put constant pressure on the crown.⁴⁴ (However, in this case, the problem might not have been Sweden's policy of full-employment, but rather the abandonment of such policies by its neighbors in favor of monetarism and mass unemployment. According to this argument, full-employment policies would work better at the European level than the national level). One could also argue that in some areas the consumers should have had greater freedom of choice (and in fact reforms later in the 1990s did in fact improve freedom of choice without radically altering the Swedish model).⁴⁵ One could claim that the model had not done enough to eliminate gender inequality (although later reforms did go much further in this direction). One could also claim that Swedish social policy has not successfully fought the social exclusion of immigrants in a segregated labor market. One could even criticize some aspects of health policy such as overly long waiting periods for some types of operations (but what industrialized country today is not facing a healthcare crisis?) Nevertheless, despite these criticisms the evidence indicates that the economic crisis of the early 1990s was not caused by excessive spending on welfare policies, but rather excessive tax-cuts that were not financed, well coordinated or well planned. These measures constitute the knife that stabbed the Swedish welfare state. It might have had some minor health problems, but regardless of what type of social policies it followed, regardless of what level of social spending the previous government might have enjoyed, the stabbing tax cut would have forced even the healthiest of welfare states to topple over.

Is the Swedish Model Dead?

Now the remaining question is: did the Swedish model die after the neo-liberals stabbed it? True, it still bares scars from its past accident. The level of many social services has declined. Yet, it turns out that the model is alive and well. Sweden still has some of the most generous welfare policies in the world. Unemployment rates are lower than in most industrialized countries,⁴⁶ employment rates are higher, inflation is much lower than the European average and hovered between 0-1% from 1996-2000 before going a little above 2% in 2001-2002.⁴⁷ State finances are amount the best in the industrialized world. While liberal America faces horrendous deficits after Bush junior espoused the "voodoo economics" that his father once criticized, conservative France and Germany cannot meet the Maastricht limits on deficits that they once imposed on the rest of Europe, Sweden has enjoyed budget surpluses from 1998-2002, although a slight deficit arose in 2003.⁴⁸ Unemployment has gone down from its record heights reached during the recession of the 1990s and is now below the European average. In 2002 it was 4% and open unemployment is expected to increase to around 4.5% in 2003 and 2004.⁴⁹ This is still well above the Swedish average for the post-war era until the 1990 tax reform, but a rather good figure by European standards. Industry seems to be healthy, as the country remains the world's leader or among the world's leaders in many high-tech industries, such as mobile phones, while Swedish consumers have the highest per capital home PC and internet usage. Furthermore, since 1994 growth in Sweden has been above the EU average every year, except for 2001, when it was very slightly below it.⁵⁰

OECD's *Social Indicators* also show that Sweden is doing quite well compared to its wealthiest liberal and conservative competitors. As Table 1 shows, child poverty rates are radically lower than in liberal Canada, UK and USA and much lower than in conservative Netherlands, France and Germany. Similarly, employment rates and especially female employment rates are much higher than its liberal and conservative competitors. All of the health statistics also place Sweden at the top, except for

suicide rates among youth. However, even here it is worth noting that although stereotypical myth continues that Swedish welfare policies cause people to commit suicide, Swedish suicide rates are much lower than liberal USA and Canada (which have the highest rates) and are lower than in conservative France and Germany. Moreover, they are not much higher than in the UK and the Netherlands.

TABLE 1 ABOUT HERE

Even if the Swedish model is still alive and in many ways it is still exemplary, it does not mean that it is in perfect health. It has still not been able to integrate immigrants into the job market. As the rest of Europe, it faces future demographical problems, although birthrates are among the highest in the continent. The great devaluation which the tax-cut forced upon the country, has lowered Sweden's position in the rankings of GDP per capita.⁵¹ Nevertheless, rankings that take into account other aspects of quality of life than just GDP and purchasing power rank Sweden much higher. The 2003 *Human Development Report* ranks Sweden in third place in living standards after the fellow Scandinavian countries Norway and Iceland, which are also known for having universalistic social democratic welfare regimes (http://hdr.undp.org/reports/global/2003/pdf/hdr03_HDI.pdf p. 237).

So despite the great destruction, which the market-liberal tax-cut caused, Sweden was able to rebound. It took time. Since coming back to power, successive social democratic governments have had to make some cutbacks and adjustments in public employment and welfare benefits in order to get the country's finances back in order. In some cases certain taxes were also increased for periods. For example, employees now must pay a small portion of the social insurance fees, whereas before only the employer did. Moreover, for a few years the marginal tax rate for those with the highest incomes was increased from 50 to 55%. The main moral of the story appears to be that generous welfare states still are economically viable *if* they keep their finances in order. States with large public sectors are particularly vulnerable to large deficits, as pressures to cut spending can force governments to lay-off more public employees than countries with lower taxes and small public sectors (where there are less people to lay off).

Put another way: secular Sweden's welfare state functions better under pragmatic financial policies than under the spell of experiments in voodoo economics.

TABLE 1: SOCIAL INDICATORS, 2001⁵²

	Child Poverty Rates	Employment Rates	Female Employ- ment rates	Potential Years of Lost Life per 100,000 (Males)	Health Adjusted Life Expectancy	Suicide Rates for under 25 years old	Teenage Births per 1000
<i>liberal countries</i>							
Canada	14.2	70.9	66	4818	69.9	7.4	20.2
UK	18.6	71.3	64.7	4766	69.6	3.3	30.8
USA	23.2	73.1	67.1	6678	67.6	5.8	52.1
<i>Social Democratic</i>							
Sweden	2.7	75	73.5	3773	71.8	4.0	6.5
<i>Conservative countries</i>							
Netherlands	9.1	72.1	62.6	4297	69.9	3.1	6.2
France	7.1	62	55.2	5759	71.3	4.4	9.3
Germany	10.6	65.9	58.6	5087	70.2	4.4	13.1

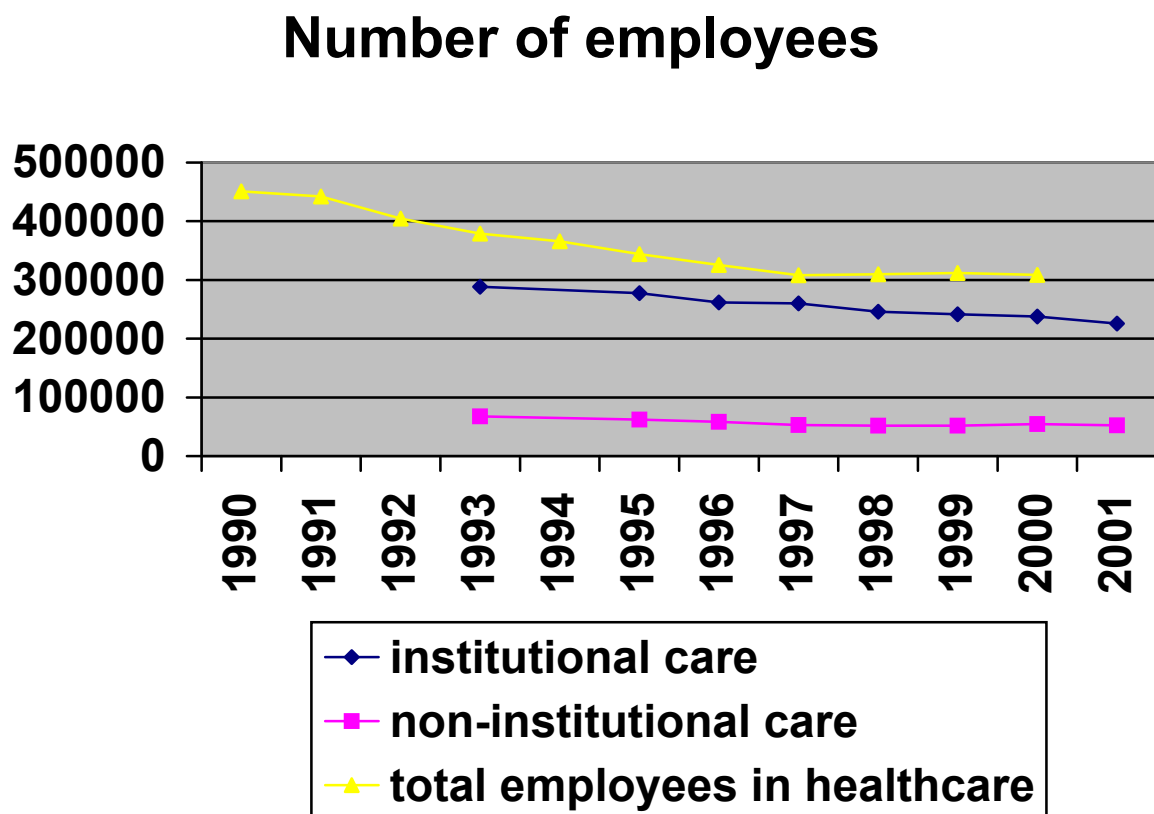
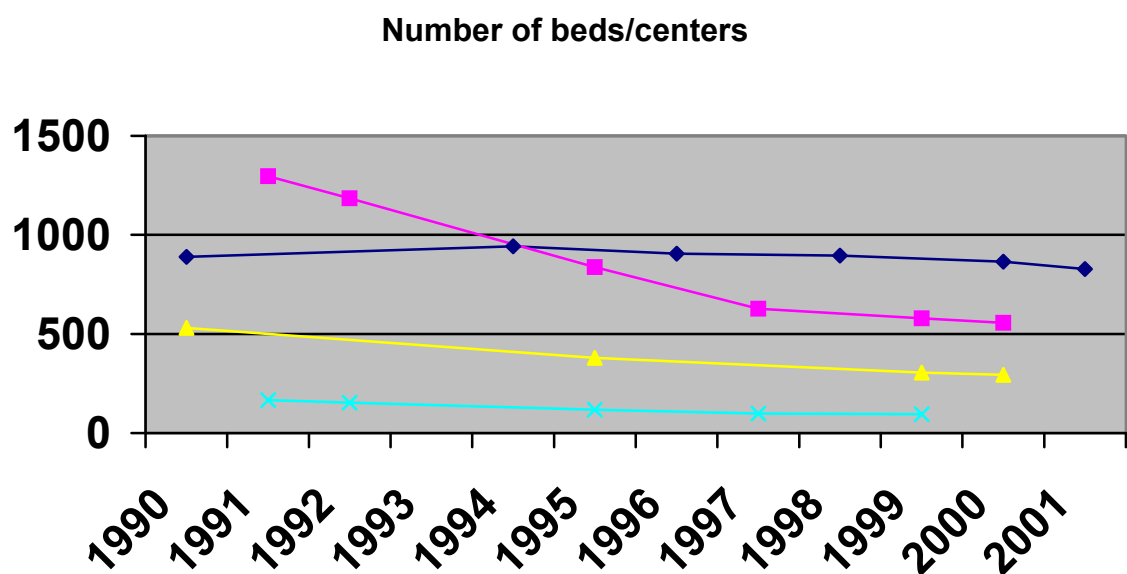
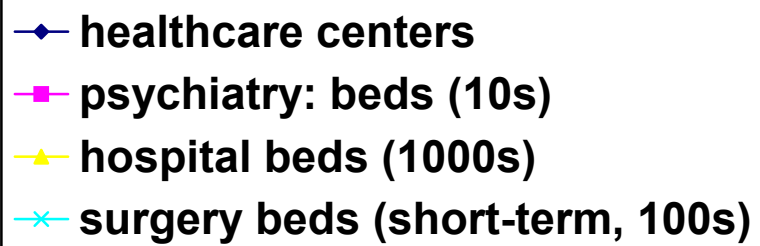
Diagram 1: CHANGES IN EMPLOYMENT IN THE HEALTHCARE SECTOR⁵³

Diagram 2: CHANGES IN THE NUMBER OF HEALTHCARE CENTERS AND BEDS FOR CARING ⁵⁴



Source: hälso- och sjukvårdsstatistisk årsbok 2002



NOTES

¹ This was the main theme of Marquis W. Childs' classic, *Sweden the Middle Way* (New Haven: Yale University, 1947, 2nd ed).

² This was a major theme of Roland Huntford, *The New Totalitarians* (London: Allen Lane, 1971).

³ See, for example, Roger Axelsson, Karl Gustaf Löfgren and Lars-Gunnar Nilsson, *Den svenska arbetsmarknadspolitiken under 1900-talet* (Stockholm: Prisma, 1987, 4th edition), p. 67 ff.

⁴ See, for example, Bo Rothstein, *Den korporativa staten* (Stockholm: Nordstedts Juridik, 1992), Per-Ola Öberg, *Särintresse och allmänintresse: Korporatismens ansikten* (Uppsala: Acta Universitatis Upsaliensis, 1994) and Michele Micheletti, "Swedish Corporatism at a Crossroad: The Impact of New Politics and Social Movements," *West European Politics*, vol 13, pp. 255-276.

⁵ For a discussion of this, see Bo Rothstein, *Den social-demokratiska staten: Reform och förvaltning inom svensk arbetsmarknads- och skolpolitik* (Lund: Arkiv, 1986), especially chapters 5 and 6.

⁶ Quite a lot of literature has been written on this topic. One of the most famous books is Gøsta Esping-Andersen, *The Three Worlds of Welfare Capitalism*, (Cambridge: Polity Press, 1990). For some more recent articles on the topic, see, for example, Walter Korpi and Joakim Palme, "The Paradox of Redistribution and Strategies of Equality: Welfare State Institutions, Inequality, and Poverty in the Western Countries," *American Sociological Review* vol, 653, October, (1998), pp. 661-687.

⁷ Korpi and Plame, "The Paradox of Redistribution..." p, 674.

⁸ See, for example, Finn Diderichsen, "Market Reforms in Health Care and Sustainability of the Welfare State: Lessons from Sweden," *Health Policy*, vol. 32 (1995), p. 147 and Stefan Svallfors, *Välfärdsstatens moraliska ekonomi: välfärdsopinionen i 90-tals Sverige* (Umeå: Boréa, 1996), p. 55-6. For the Norwegian case, see Pettersen, P. A. 2001. "Welfare State Legitimacy: Ranking, Rating, Paying. The Popularity and Support for Norwegian Welfare Programmes in the Mid 1990s," *Scandinavian Political Studies*, vol. 24, no. 1, pp. 27-49.

⁹ Esping-Andersen, *Three Worlds*, especially chapter 2.

¹⁰ Alex Davidson, *Two Models of Welfare: The Origins and Development of the Welfare State in Sweden and New Zealand, 1888-1988* (Uppsala: Acta Universitatis Upsaliensis, 1988), fn 29 : "of the most important cash benefits existing in 1983, 62% were income-related, 31% were equal-for-all, and 7% were income-tested." His source is Åker Elmér, *Svensk socialpolitik* (Lund: Liber Läromedel 1986, 16th ed.), p. 99.

¹¹ Maurizio Ferrera, "The Four >Social Europes': Between Universalism and Selectivity," pp. 79-96 in Martin Rhodes & Yves Mény eds *The Future of European Welfare: A new Social Contract?*. (London: MacMillan, 1998), p. 91.

¹² See, for example, Paul Pierson *Dismantling the Welfare State? Reagan, Thatcher, and the politics of retrenchment*. (Cambridge: Cambridge University Press, 1994) and Bonoli Giuliano, Vic George, Peter Taylor-Gooby, *European Welfare Futures: Towards a Theory of Retrenchment* (Blackwell Publishers, 2000).

¹³ <http://www.regeringen.se/sb/d/2921/a/16861>.

¹⁴ The latest information can be found at: <http://social.regeringen.se/ansvar/familj/index.htm>.

¹⁵ Åke Bergmark and Joakim Palme, "Welfare and the Unemployment Crisis: Sweden in the 1990s," *International Journal of Social Welfare* (2003), vol. 12, pp. 109-110.

¹⁶ Joakim Palme, et al, *Welfare in Sweden: The Balance Sheet for the 1990s* (Stockholm: Ministry of Health and Social Affairs, Ds 2002:32, 2002), p. 75.

¹⁷ *ibid*, p. 78.

¹⁸ Anna-Lena Immo, "Sparande som kan bli dyrt," *Kommunaktuellt*, nr. 36, November 2000, p. 19.

¹⁹ Anna-Lena Immo, "Nedrustad hemtjänst varken städar eller lagar mat," *Kommunaktuellt*, nr. 36, November 2000, p. 18.

²⁰ *ibid*, p. 103.

²¹ *ibid*, p. 99.

²² *ibid*, p. 100.

²³ Palme, *Welfare in Sweden*, p. 109.

²⁴ Palme, *Welfare in Sweden*, p. 110.

²⁵ Palme, *Welfare in Sweden*, p. 113.

²⁶ Stefan Kumlin, *The Personal & the Political: How Personal Welfare State Experiences Affect Political Trust and Ideology* (doctoral dissertation, Department of Political Science, Göteborg University, 2002), p. 159.

²⁷ Some typical examples are the following headlines: "2,444 underskrifter mot nedskärningar" (2,444 petition signatures against cutbacks [in care for the elderly in two small towns]) *Dalademokraten* 17 December 2003; "Psykvården i Mora måste finnas kvar," (Mental healthcare facilities must remain in Mora) *Dalademokraten* 16 June 2003.

²⁸ Lennart Nilsson, "Välfärd i obalans," pp. 261-278 in Sören Holberg and Lennart Weibull eds., *Det nya samhället*, (Göteborg: SOM-rapport nr. 24, 1999), p. 264-5.

²⁹ *ibid.*, p. 264. On a scale ranging from -100 to +100 these two categories received ratings ranging from -2 to -6 for these years. In addition, in 1998 social service received a rating of -1, although attitudes toward elderly care that year were slightly positive at +2.

³⁰ Lennart Nilsson, "Förnyad polarisering i välfärdspolitiken," p. 79-91 in Sören Holberg and Lennart Weibull eds., *Land, Du välsignade?* (Göteborg: SOM-rapport nr. 26, 2000), p. 80.

³¹ Swedish Institute (2001) "The Swedish Political Parties," *Fact Sheets on Sweden*, October 2001.

³² For a discussion of the social insurance funds, see, for example, *The Swedish Example: International Newsletter*, vol 1., no. 1, (1994), p. 3.

³³ For statistics on Sweden, see, for example, Åke Bergmark and Joakim Palme, "Welfare and the Unemployment Crisis: Sweden in the 1990s," *International Journal of Social Welfare* (2003), vol. 12, pp. 109-110.

³⁴ The market liberal economists, Ingemar Ståhl and Kurt Wickman use this line of reasoning in their book *Suedo-sclerosis*, (Stockholm: Timbro, 1993).

³⁵ For example, if the inflation rate were 10%, the interest rate 12%, but the mortgage rate after a 50% subsidy is only 6%, then if one borrowed 1000 crowns and consumed it (on housing) then one year later this sum would have been worth 1100. That is for 1000 crowns in year 1, a person can consume as much as for 1100 crowns in year 2 if inflation is 10%. However, since interest rates on mortgages is subsidized, the borrower would only have to pay back 1060 crowns instead of 1100, which means that the borrower could consumer 40 crowns more goods than if he or she had not borrowed any money at all.

³⁶ Ingemar Ståhl and Kurt Wickman, *Suedo-sclerosis*, (Stockholm: Timbro, 1993), p. 67.

³⁷ If we return to the example above, this means that a person borrowing 1000 crowns had expected this sum to be worth 1100 in one year and expected to only have to pay back 1060 crowns. However, if the subsidies are removed, that person suddenly must pay back 1120 crowns rather than the planned 1100. Meanwhile, if inflation drops from 10% to 1%, it means that 1000 crowns in year 1 is now only worth 1010 crowns in year 2. Yet, the borrower now must pay back 1120 crowns rather than 1060. Instead of making a *profit* of 40 crowns as in the first example, the same borrower now makes a *loss* of 110 crowns (1010 - 1120)! The actual system of subsidies was much more complicated than in these examples, but the logic remains the same.

³⁸ Ingemar Ståhl and Kurt Wickman, *Suedo-sclerosis*, (Stockholm: Timbro, 1993), p. 63.

³⁹ Kjell-Olof Feldt, *Rädda välfärdsstaten!* (Stockholm: Nordstedts, 1994), p. 49.

⁴⁰ Ingemar Ståhl and Kurt Wickman, *Suedo-sclerosis*, (Stockholm: Timbro, 1993), p. 27.

⁴¹ See, for example, Michael I. Harrison and Johan Calltorp, "The Reorientation of market-oriented reforms in Swedish Health-Care," *Health Policy*, (2000), vol. 50, p. 222.

⁴² Lennart Nilsson, "Välfärd i obalans," pp. 261-278 in Sören Holberg and Lennart Weibull eds., *Det nya samhället*, (Göteborg: SOM-rapport nr. 24, 1999), p. 262. Unfortunately, he does not note what percentage of public employment the local governments accounted for before the reforms.

⁴³ Kumlin, *The Personal & the Political*, p. 166.

⁴⁴ Ton Notermans claims this is the reason why the social democrats abandoned their traditional macroeconomic policies, see "The Abdication from National Policy Autonomy: Why the Macroeconomic Policy Regime Has Become So Unfavorable to Labor," *Politics and Society*, vol. 21, no. 2 (1993), pp. 133-167.

⁴⁵ See, for example, Michael I. Harrison and Johan Calltorp, "The Reorientation of Market-Oriented Reforms in Swedish Health-Care," *Health Policy* vol. 50 (2000), p. 236 and Sten Wiktorsson, "Från monopol till öhanterlighet," *Socialpolitik* no. 4-5 (2001) at the address: http://www.socialpolitik.com/gamlanummer/arkiv2001/004-5/s10_fran_monopol_till.html. Wiktorsson claims, however, that although the changes in healthcare improved freedom of choice and efficiency until the middle of the 1990s, he fears that the model might be in the process of changing for the worst, if trends toward privatization were to increase.

⁴⁶ According to OECD statistics, in 2001 unemployment was 5.1% in Sweden, while the OECD average was 6.7% and the EU average was 6.2%. See OECD, *Society at a Glance: OECD Social Indicators* (Paris: OECD, 2002), p. 33.

⁴⁷ Regeringkansliet, *Våra pengar*, from www.finans.regeringen.se, p. 7.

⁴⁸ *ibid.*, p. 17.

⁴⁹ *ibid.*, p. 9.

⁵⁰ Johan Schück, "Ökad välfärd kräver att vi alla jobbar mer," *Dagensnyheter* (2004), 10 april.

⁵¹ In 1990 Sweden was in 6th place in the world for GDP per capita when adjusted for purchasing power. In 2002 it was in 16th place. See Lena Hagman and Leif Munters, "Svensk ekonomi i historiskt och internationellt perspektiv," pp. 17-26 in Svante Öberg ed., *Välfärd och ofärd på 90-talet* (Stockholm: SCB, 2003), p. 23.

⁵² OECD, *Society at a Glance: OECD Social Indicators* (Paris: OECD, 2002), pp. 31, 53, 63, 67, 75 and 81.

⁵³ Socialstyrelsen, *Hälso- och sjukvårdsstatistisk årsbok 2002* <http://www.sos.se/FULLTEXT/46/2002-46-1/2002-46-1.htm>, pp. 130, 140.

⁵⁴ *Ibid.*, pp. 132, 133, 138