



**People's Home and
Rehn-Meidner**

Emergence of the Swedish Model

- 1870-1970 Sweden had the fastest growth in the world together with Japan
- Natural resource base mattered but more so technologically advanced manufacturing
- Environment for innovations
- Infrastructure and institutions, laws and regulations, skills
- Scandinavia had the most egalitarian wage structure of any advanced industrial society by 1970s, when economic problems started.

Main Strands of the Swedish Model

- “The social democratic model tried to combine the socialist virtues of equality and security with the capitalist virtues of economic efficiency and technological dynamism.”
Moene and Wallerstein (2004)

The “People's Home”

- Integrated democracy (every one will be included)
- Class-Struggle no longer emphasized (we all belong to the same home)
- Rule by consensus
- But believed that socialism and a planned economy would eventually come about through consensus

Per Albert Hansson on the FH

“The basis of the home is the spirit of community and a feeling of togetherness. The good home does not know any privileged or people held back, no favorite darlings and no stepchildren. There, nobody looks down on anybody else; there nobody tries to get some advantage at the cost of others; the strong does not oppress the weak. In the good home, equality, consideration, cooperation and helpfulness prevails.”

Saltsjöbaden

- Basic agreements between unions and employers in 1938 establishing the rules for collective bargaining.
- The bargaining at the industrial level was replaced by negotiations by the national associations of employers and unions.
- After central agreements local discussions held within the agreed framework.

Result of Saltsjöbaden

- The virtual elimination of industrial conflicts,
- allowed the export industry to determine aggregate wage growth rates,
- led to gradual wage compression.
- Flexible labor market in return for full-employment
- In the 1950s employers supported this model and openly advocated it for other countries

The Dynamics of a Strong, Centralized Union

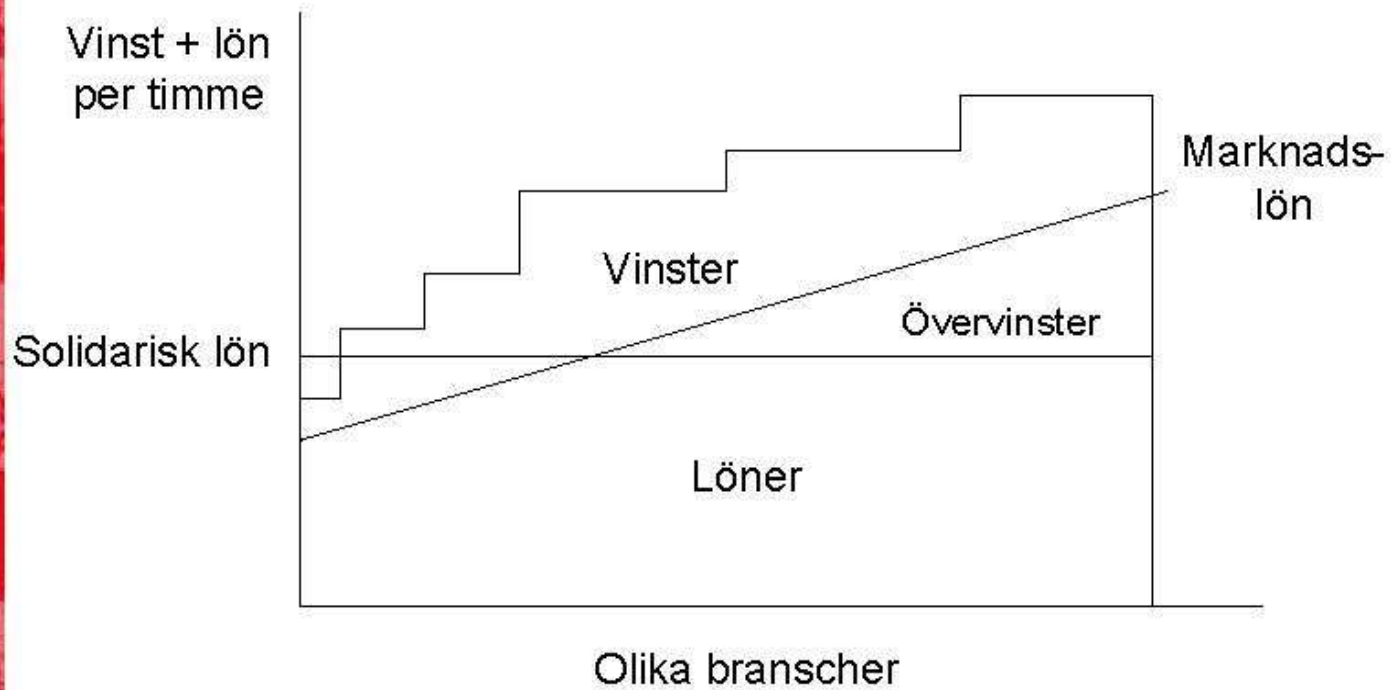
- When decentralized like in the UK or USA then each union tries to get the highest possible salaries for its own workers and to protect jobs
- When centralized as in Sweden, the unions can take a social responsibility.
- At the central level they know that if they allow wages to rise too much, it will result in inflation and in employment. So they solve the free-rider problem.
- If decentralized, then no local union has an incentive to dampen its wage demands, because it cannot be sure that the other unions will do the same, so it can lose out.
- Problem: the large size also leads to professionalization among the leaders and passivity among the members, who do not feel they have as much influence.

Rehn-Meidner Model

- Solidarity wage policy (equal pay for equal work)
- Guaranteed by central wage negotiations
- Firms with low levels of productivity were squeezed out. Firms with high levels expand more quickly.
- Active labor market policy
- Strict budget measures to keep down inflation
- Indirect taxes (like VAT) to prevent the economy from overheating
- Thus rather than fight the market, the goal was to SPEED UP the process of rationalization.
- Rather than protect inefficient industries as many Labour governments did throughout Europe, the goal was to force inefficient enterprises to go out of business even FASTER than under a free market, while allowing the efficient industries to expand faster.



Rhen Meidner modellen



Active Labor Market Policy

- Emphasis on job retraining rather than unemployment benefits
- Allowances to move to a new town where there is a job
- All jobs must be reported to the state-run employment agency
- Sometimes support to employers who hire unemployed people

Problems in the 1970s

- Large wage increases and wage drift threatening the solidarity wage policy
- Let inflation increase and devalued rather than follow the Rehn-Meidner model
- Center-right government devalued twice
- Pressure for more workplace democracy and the wage earners' fund debate

Changes in the 1980s-1990s

- Devaluation 1982
- Credit market liberalised
- 1990 financial crisis
- 1992 floating of the currency
- 1990-91 tax reforms

Resulting Economic Crisis

- Second highest budget deficit in Europe after Greece
- Unemployment increased from 1.1% to over 8%
- Interest rates reached 500%
- 4 of the 5 largest banks went bankrupt

Solution

- Social Democrats increased some taxes (5% extra for the wealthiest, etc.)
- Cutbacks in the public sector – especially in services
- Gave more responsibility to local governments
- Increased access to daycare so mothers could return to work sooner
- Strict budget controls
- Privatization or partial privatization (telephone, postal services, etc.)
- Joining the EU
- Stricter monetary policies

■ RESULTS

- Trade surplus
- Budget surplus normally over 2%
- Growth above the OECD average
- But compared to the 1970s and even compared to 1990 Sweden's ranking in per capita income is much lower.
- The system has been liberalised
- Adjustments in the welfare systems
- But still generous welfare state
- Continued reforms of the welfare state likely but not its abandonment

The Problem of Social Exclusion

- The “People’s Home” was based on the image of Swedes being one people
- Today, around 20% of the population is first or second generation immigrants
- Politically correct politicians – no debate about immigrants being bad for society
- BUT huge discrimination on the labor market!
- Politicians like to blame immigrants and suggest the government should provide more money for language training, education
- They are afraid to blame employers for being racist
- Yet immigrants on the average are better educated than Swedes and most learn Swedish very quickly (it is a MUCH easier language than Czech!!!)