Some twenty years ago the late Mancur Olson questioned whether the kind of «middle-way», corporatist and welfare states – of which Sweden was one of the most famous examples – would be able to survive in the long run. At this time, his doubts seemed to be verified by historical conjectures. Hence, during the 1980s, Sweden’s attempt to preserve its model by means of the so-called «bridging policy» led to high inflation and propelled overheated property, estate and financial markets stimulated by a negative real rate of interest. This in turn eventuated in a depression-like economic crisis after 1991 with high unemployment and social and political consequences, which were felt during most of the 1990s. Since around 1996 the trend seems to have gone very much in the opposite direction. In comparison with other European countries, unemployment in Sweden has been quite low, economic growth high, inflation low, the budget has been in balance and the balance of payments has been positive. So far the Swedish economy and polity seem to have adapted well to the challenges and forces of recent globalisation. There is no evidence of industrial outsourcing, and re-localisation implying a net outflow of jobs that has not been matched by job increases elsewhere. At the same time, no radical changes seem to have occurred with regard to the fundamentals of what has been called the «Swedish model». Hence Sweden is still looked upon as a country with a generous and publically financed welfare regime that is

1 M. Olsson, How Bright are the Nordic Lights? Some Questions about Sweden (Lund, 1990).
3 For a discussion that emphasises the similiarities (but also some important differences) with the other Nordic countries, see L. Magnusson, H. Jörgensen and J.-E. Dölvik, The Nordic Approach to Growth and Welfare. European Lessons to be Learned? (Brussels, 2009).
built upon the principle of universalism and security of income during periods of sickness and unemployment.\footnote{G. Esping-Andersen, \textit{The Three Worlds of Welfare Capitalism} (Princeton, 1990); and idem, \textit{Politics against Markets. The Social Democratic Road to Power} (Princeton, 1985).}

The aim of this article is, first, to provide an overview of the crisis of the 1970s and 1980s. Secondly, I will discuss how this crisis was overcome and how Sweden caught up with the other economically sound European countries after 1996. To a large extent, what has happened in Sweden since the 1970s must be seen against the backdrop of the general economic crisis of the 1970s and 1980s, characterised by low growth and monetary turbulence («stagflation»), and a structural and permanent decrease in traditional industrial employment. Yet Sweden, in a number of ways – as we shall see – is a much different country now than it was in the 1970s. Hence, the twenty-year period from the 1970s onward not only carried with it economic and social change but also political, cultural and demographic changes of great importance.

According to contemporary social theory, there seems to be two main ways of explaining why Sweden was able to recover without having to introduce the shock therapy that many – including Mancur Olson – believed was necessary some decades ago. According to the first view, it is stated that globalisation and regionalisation (the development of an integrated market in Europe) imply a strong tendency towards conformity. The reason why a small and open country like Sweden has been able to succeed is that it has adopted strategies of flexible response of a kind depicted by Peter Katzenstein. According to him, small, open and export-orientated countries are characterised by an awareness that economic change is inescapable. Small countries see no alternative to a regime of free trade. Most of all, they fear retaliation from bigger countries. Their ability to adapt to changes is grounded on a form of governance that includes «democratic corporatism», «social partnership» and a «culture of compromise».\footnote{P. J. Katzenstein, \textit{Small States in World Markets. Industrial Policy in Europe} (Ithaca-London, 1985), 32–33, 88.} In a flexible society change occurs in a step-wise and incremental fashion rather than in the form of a radical break with past models and cherished fundamentals.

A second way to explain the relative success of Sweden without any dramatic change of its welfare and labour market regimes is to start from the assumption that the forces towards convergence have not been as strong as many were ready to believe one or two decades ago. Instead, strong path dependence has protected the different socioeconomic models and forms of governance that developed in Europe after World War II. Consequently, there are no deterministic forces that inevitably lead processes such as globalisation and regionalisation to specific outcomes. Against this background, a small (or for that matter also a large) country can
achieve high rates of growth, less unemployment, etc., without having to converge with some European norm. The role of such path dependencies is very much emphasised in the «varieties of capitalism» approach introduced by Peter Hall and David Soskice a decade ago. According to them, convergence is not necessary in creating a common market model that eliminates the differences between the two existing models of political economy in Europe after World War II: the liberal market economy model (LME) and the coordinated market economy (CME). The main reason for that is that the corporate, polity and social (welfare) sectors are embedded within a specific political economy of institutions that provide incentives for actors, define their relative roles and reinforce their capacities. Hence, many countries have been able to utilise their comparative advantages and develop strategies of market specialisation that are highly competitive. Thus globalisation so far seems to have led to increased specialisation rather than to convergence. Recently, Hall and others have argued that external shocks can be successfully accommodated both in the LME and the CME type of model, which makes convergence unlikely, even in the long run.

So the question is: What has Sweden actually learned from the past and from its reaction to the 1990s crisis? To what extent did its politicians and social partners react in a flexible way to a changing environment by introducing new policies or incremental reforms?

1. The Swedish Model

The «Swedish model» is most commonly recognised as a particular socioeconomic formation with roots that extend far back into history. While the aim here is not to examine this history, it must be said that there is no agreement concerning what this «model» is or has been. It is a historical construction that is often caricatured in a teleological fashion in order to represent political standpoints held both by Swedish and foreign interpreters. At worst, the proposition that the «Swedish model» is rooted in a specific «collectivist» and perhaps even «antipluralistic» Swedish mentality turns into a stereotype that we should avoid. Instead of using such an essentialist definition, I would rather stress the ambiguity of the Swedish...
development path. Without a doubt, the «Swedish model» is open for different interpretations. I use the concept here in a more restricted fashion and begin my study at the end of the nineteenth century, when the problems of rapid industrialisation led to the introduction of social and political institutions that aimed to embed the new industrial order within a regime of social protection and welfare.

Hence, according to my interpretation, this model was based upon an organised collaboration between employers, trade unions and the state. In a wide sense, it can be used to characterise the «historical compromise» between these parties, which had been developing since the end of the nineteenth century, but experienced its breakthrough in the 1930s with the rise of Social Democracy and its application of the so-called «cow-trading policy» (named after the compromise in Parliament between the Social Democrats and the Peasant Party in 1933). This most certainly laid the ground work for the long period of Social Democratic governance in Sweden (1932–1976, 1982–1991 and 1994–2006) as well as the establishment of a particular Swedish welfare state.¹¹

Alternatively, the «Swedish model» can be used to define the particular relations that evolved in the labour market after the middle of the 1930s. Trade unions, for example, were successful – especially during the middle-war years – in reaching agreements with employers and their organisations, not only on questions of pay and general work conditions but also with regard to highly sensitive issues such as work control and the rationalisation of production. The general agreements of the 1930s and 1940s between the Swedish Confederations of Trade Unions (LO), which controlled a majority of Swedish workers during this period, and the mighty Swedish Employers Association (SAF) have been seen as especially important in this sense. This building up of an organisational structure through voluntary and binding collective agreements has of course not always been a smooth process. The peculiarity of the Swedish model has been that such disagreements have been solved within a general commitment to industrial peace and stability, growth and rationalisation among the three members of the constellation. In contrast to many other European countries, the state has perhaps been the weakest partner within the three-partite structure.¹²

This does not mean that the state has been completely absent. On the contrary, the bulk of the negotiations between LO and SAF (at least until the 1980s) were

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¹¹ For this and the following paragraph, see the references in note 9, but also H. Milner and E. Wadensjö, eds., Gösta Rehn, the Swedish Model and Labour Market Policies (Aldershot, 2001) and B. Rothstein, Den socialdemokratiska staten. Reform och förvaltning inom svensk arbetsmarknad och skolpolitik, (Lund, 1986).
carried out independently by the social partners in a «responsible» manner, i.e., they were adjusted to the macroeconomic policies pursued by the government in order to achieve stability and growth. Moreover the state played an important role in the building up of a welfare system closely linked to the industrial relations model. For example, when coming to power in 1932, the Social Democratic Party (SAP) had already launched a redistribution and welfare program under the heading «people’s home». «In the good home, equality, consideration, cooperation and helpfulness prevail», asserted the prime minister Per Albin Hansson in 1928. Why he used this metaphor has often been discussed, but its intent seems clear: to encourage a social policy offensive and the building of a society that eliminated social need. During the 1930s, his social affairs minister, Gustav Möller, stood behind many of the reforms, which in the long run implied the establishment of a welfare state. Möller’s idea was that social reforms – unemployment insurance, prenatal care clinics, state employment offices, housing for large families, etc. – should have a general appearance. This «universalist line» would also prove the base for the Swedish welfare model up until the 1970s, when distribution of welfare in relation to income became more prevalent. This design was by no means unchallenged. In the 1930s, for example, Gunnar and Alva Myrdal argued for a more selective social benefit policy, whereby those on society’s lowest rungs would receive the most benefits. On the other hand, most of the new reforms were introduced with support from at least one or two of the so-called «bourgeois» parties in the parliament. Hence the Swedish welfare state was not only a construct of the Social Democrats, but was a compromise to which the social partners and other parties contributed.

2. The Golden Years
When the Second World War came to an end, Sweden remained intact as an industrial power. It could begin to export its iron ore, steel, wood and mechanical engineering products almost immediately to a world economy with immense and (it seemed at the time) endless needs. What happened between 1945 and the 1960s has been described as the golden years of Swedish industrial expansion. The high growth rate during this period (approximately 4 per cent per year) was built upon an export miracle that gave rise to higher incomes, which in turn propelled domestic demand. In the 1960s, as much as 45 per cent of the total labour force worked in industry. In the 1960s and 1970s, officially administered welfare reaped its greatest benefits. Following the Second World War, a rapidly increasing share of society’s income was invested in public sector consumption. Between 1950 and 1980, this share more than tripled from 11 to 34 per cent. In 1946, all of the political parties supported a new, generally-designed national pension law. The following year

(1947), general tax deductions for children were introduced. The first vacation law was inaugurated in 1938, instituting a one-week long annual vacation. In 1945, this was increased to two weeks, and starting in 1951, the vacation law was expanded to three weeks. Later, it was expanded to four and then five weeks. In 1955, compulsory health care insurance was established, and an expanded workman’s compensation insurance was similarly introduced. In 1957, a social assistance law was adopted to replace the old poor relief legislation. In succession, a complex system of housing subsidies was built up. Then, in the early 1970s there were reforms concerning part-time pensions, expanded health insurance and an extension of the time parents could be home with their young children after birth (all 1974). At the same time, these reforms signalled the end of the expansion of the Swedish welfare state. In the beginning of the 1970s, Sweden was hit by the world economic crisis of the same decade. The country found itself in a totally different situation and had to try to adapt.

3. Crisis Years and «Bridging» Policies

It is clear that Sweden was hit hard by the economic crisis that shook the world economy in the early years of the 1970s. Against this background, the Social Democratic government up to 1976, the «bourgeois» coalition between 1976 and 1982 and once again the Social Democrats when they returned to power in 1982 carried out an economic policy that has been called the «bridging policy». Both its content and the fact that it was carried out in political consensus vividly demonstrate that macroeconomic policy in Sweden since the Second World War has to a great extent been designed to prioritise a high level of employment. In contrast to what occurred in many other countries, the different Swedish governments during this time did not accept unemployment as a means of establishing new equilibrium following monetary instability and lower growth (stagflation), oil shocks and industrial and structural change. Instead, they used the devaluation of the Swedish currency (krona) from the mid-1970s until 1982 as a means of avoiding high unemployment and to keep employment rates elevated, especially in the industrial sector. To some extent this policy was successful, but of course it had a price. Through the bridging policy, Sweden could ward off the worst effects of the industrial restructuring crisis, which in Western Europe and the US had a devastating effect on the «old» basic industries. It is also clear that it helped to maintain


15 For this, see Lindbäck, The Swedish Experiment; Jonung, Med backspegeln som kompass; and Magnusson, Economic History, 257–258.
employment levels. On the other hand, the downward adjustment of the exchange rates led, first, to inflationary pressure as importing became much more expensive; secondly, it led to a rapid decline of the per capita economy for most Swedes; and thirdly, it had clear effects on income distribution, to the extent that the share of profits in the national income grew considerably, while the share of wages slumped. Moreover, as many have argued, drastic devaluation of the currency led to lowered productivity and less structural change in the economy, simply for the reason that there was too little pressure to restructure in industry in a situation where Swedish exports became considerably cheaper.

The «crisis policy», introduced by the Social Democratic government when it came back to power in 1982, with finance minister Kjell-Olof Feldt at its helm, only served to reinforce this process. Launched as the «third way policy» – between Mitterand’s Keynesian «socialism» and neo-liberalism à la Thatcher – Feldt kicked it off with a huge devaluation of the Swedish krona (16 per cent). While it stimulated the Swedish export industry and kept unemployment down, it without a doubt caused a number of problems. In order for it to work, it was necessary that the trade unions played along and did not ask for compensation for the relative income fall caused by this policy, or because of the escalating profits in the export sector. While this «solidarity» seemed to work for a while (given the close connection between the centralised trade unions and the Social Democratic government, and the argument that this was done in order to avoid unemployment on a scale that was common in many European countries) it could not expect to hold in the long run. Hence, after 1985, a spiral of high inflation and negotiated wages was set in motion. This implied increasing tensions within the traditionally centralistic and collectivist-minded trade union movement, as well as centralised wage bargaining.\(^{16}\) From the point of view of individual employees, the pay-off of this wage and price spiral was meagre. Afterwards, Stig Malm, chairman of the Swedish Confederation of Trade Unions (LO) at the time, stated despondently that real pay levels in practise had remained unchanged since the early 1970s.\(^{17}\) Towards the end of the 1980s, then, Sweden was in the unenviable position of having stagnating growth, rampant inflation, a highly overvalued property and finance market characterised by overgenerous loans from the banking sector (something encouraged by a high marginal tax rate, which led to negative real interest rates), and an extreme shortage of labour in many areas of the economy. Against this background, it was not surprising that the bottom fell out of the economy at the beginning of the 1990s, with a subsequent financial crisis, unemployment and an enormous budget deficit.


The bridging policy was without a doubt the main cause of the troubles that mounted at the end of the 1980s and eventually led to the crash in 1990 and 1991. Many have argued, however, that other factors were at work as well. Thus, the «third way» policy of the 1980s included a number of reforms that were designed to meet the challenges presented by the expanding international economy. According to finance minister Feldt, it was necessary to lift parts of the old regulatory framework, which since 1945 had served to maintain macroeconomic stability and control over the national economy. According to Feldt, such deregulation was necessary and could be viewed as an alignment with the steps most other countries had already taken. As has been noted before, however, the timing of these reforms was not at all optimal since they were introduced while inflation was rising rapidly and the real interest rate was negative. Also, worsening the situation was the fact that the old tax system was still in place, with very high marginal taxes and unrestricted possibilities to deduct rent payments. It became extremely easy to borrow money, and so many ordinary people invested in a new house or a new (and presumably more spacious) apartment. The result was almost inevitable: gigantic bubbles in the financial and housing sectors.\textsuperscript{18}

4. Recession or Depression

Sweden started the 1990s with an overheated economy, which everybody at the time seemed to agree would burst. It was only a question of when. Fully aware of the situation, the Social Democratic government, launched a number of measures in the spring of 1990, that were supposed to cool the economy, including a wage freeze. The negative political reaction to this was overwhelming – not the least, the trade unions were furious – and the finance minister, Feldt, resigned after a number of his propositions were turned down. The steps he took to prevent a crisis, as radical as they were, must be seen however as too little and, above all else, too late. In 1990, there was already a sharp slow down in economic activity and GDP began to drop. Measured in terms of GDP losses, it was by far the most costly crisis Sweden had experienced since the nineteenth century.\textsuperscript{19} At the same time, unemployment started to rise. In 1989, unemployment was at a (still unchallenged) all-time high – 1.5 per cent – and the year thereafter the level of employment was at 84 per cent. But rapidly things turned for the worse. In 1992, the unemployment rate was already reaching 7 per cent, and in the following years, it peaked at around 10 per cent. As a result, the Swedish economy experienced a dramatic shift from


inflation to deflation, the likes of which Sweden had not seen since 1921. In 1990 and 1991, the inflation rate was 10.5 and 9.3 per cent but fell drastically to 2.3 per cent in 1992.\textsuperscript{20} Without a doubt the Social Democratic government also became a victim of the crisis. In 1992 it resigned, and in the subsequent election, a new coalition of parties from the centre and right were able to form a new government with Carl Bildt as the prime minister. Aside from the fact that the worst economic crisis since 1921 had hit Sweden with full force, the Bildt government also had another acute problem on its hands: since 1991, Sweden had pegged its \textit{krona} to the European \textit{ecu} within the ERM cooperation (Exchange Rate Mechanism). At first, the new government stubbornly protected the relative value of the \textit{krona} but after financial speculators had helped to skyrocket the Swedish central bank’s rate of interest up to 500 per cent in September 1991, Sweden had to let its currency float freely and like Britain (for the same reason) abandon ERM. The result in practise was another huge devaluation: in only a few months time, the relative value of the \textit{krona} shrank approximately 25 per cent. Against this background, it has been asked whether Sweden experienced not only a recession in the early 1990s but in fact a real depression.

From the point of view of Sweden’s historical commitment to the goal of full employment, the dramatic rise of unemployment was probably the most severe blow of all. When the Social Democrats regained power in 1982 with Olof Palme as prime minister, this was largely triggered by what at that time was regarded as an extremely high level of unemployment – 3.8 per cent in 1983. During the following years when the «third way» strategy was in effect, unemployment sank slowly to 3.2 per cent in 1985 and 2.0 in 1988 (and then to 1.5 in 1989 and 1.6 in 1990). After 1992, however, unemployment rose to 10.4 per cent and then levelled out around that point. Recovery was also very slow. In 1997, unemployment was still as high as 8.6 per cent, and in 1999, 6.7 per cent. This was still historically very high, and something that Sweden had not experienced since the 1930’s. Slowly, however, starting in 1997, things began to improve, but in the middle of the first decade of the new millennium, the unemployment rate was stuck around 5 per cent. Correspondingly, the employment level (around 75 per cent) was at that time nowhere near where it had been in 1990.\textsuperscript{21}

During the period from 1992 to 1996, Sweden lost more than half a million jobs. The worst hit sector was industry, which immediately felt the impact of the bank and financial crisis, and the subsequent loss of private demand for its products. After some years, however, the public sector was also hit. As in any country that relies on taxation as its main source of income both for public sector employ-

\textsuperscript{20} For these figures, see Magnusson, \textit{Håller den svenska modellen?}, ch 1.
\textsuperscript{21} Magnusson, \textit{Håller den svenska modellen?}, ch 1.
ment and to finance its relief systems (unemployment, health and education), a drastic fall in employment results in significant budget problems. Hence, rising unemployment hit the public sector hard. As a consequence the public sector’s share of GDP and employment in Sweden began to sink for the first time since the 1950s. The obligation, however, to pay out unemployment relief for an ever increasing number of people – and to finance an even more expensive active labour market policy – led to deep budget deficits. In only a few year’s time, Sweden’s once small budget deficit ballooned. In 1993, it amounted to more than 250 billion krona, or 4.4 per cent of the GDP for that year. Besides increasing unemployment, the cuts in the welfare sector – which became a necessity around the middle of the 1990s – were another blow to Swedes’ self-identification and their belief in the «old Swedish model».

As already noted, things began to improve after 1996 – but at a slow rate. What is clear in retrospect, however, is that a number of the jobs lost were never regained. This was especially true in the industrial sector. The crisis, therefore, most likely accelerated structural change that was already underway. Many Western countries have experienced a radical decline of employment in the industrial sector during the last decades. In Sweden, in 1981, the relative share of industrial employment was 31.3 per cent, and in 1991 it was 28.3 per cent. As a consequence of the crisis, this long-term tendency was hastened: in 1995, 25.9 per cent were employed in the industrial sector, and in 2001 the percentage was 23.8. At the same time, the share of services and other «white-collar» employment rose considerably, a tendency that continued during the first decade of the twentieth century. While it is difficult to draw proper borderlines between categories like «industry» and «services» – many jobs that are now classified as «services» are still very much a part of the manufacturing of goods – we should be careful about drawing definite conclusions from such figures. It is clear that something has happened, however, that is of historical importance. Although Sweden might still be dependent upon its industries, the economy is much more varied than before. That most people receive their income from sources other than traditional industry suggests that many of the institutions established after 1945 related to an old industrial order – including industrial relations and the relations between the social partners – had to adapt and change.\textsuperscript{22} This is a point that we will return to later.
5. The Swedish Model Re-negotiated

As argued, the «Swedish model» has never been a static entity with a well-defined content. It has always been in flux and its meanings contested. It is therefore misguided to regard it as one consistent «model» from, let’s say, the 1950s up to the crisis in the 1970s or, even less so, from the 1950s up to now. It is more helpful to emphasise how it is in a state of constant transformation. Today’s model, for example, differs in vital respects from the model of twenty or thirty years ago.

First of all, it is clear that the Swedish model, when regarded as a set of relationships between the social partners on the labour market, has changed considerably since the early 1970s. As a (unforeseen) consequence of the «third way» strategy launched in 1982, centralised wage bargaining on the national level between the central organisations has been abandoned in favour of branch-level negotiations and agreements. Even before that, the relationship between SAF and the LO, in particular, had begun to sour. When the state introduced new labour law regulations during the 1970s, such as the co-termination law (MBL) and the law of protection of employment (LAS), this was looked upon by SAF as an unjust interference in the old rules of the game, according to which the state in principle should keep its hands away from the labour market. Through its actions, according the employers, LO had upset the Swedish model, according to employers. Even more profoundly, the suggestion from LO to introduce a wage-earners’ fund, which, according to its critics, would eventually lead to a «socialisation» (where the owners would be the trade unions) of the bulk of Swedish private enterprises, created the most hostile climate in the labour market than had been seen since the 1920s.

Against this backdrop, much of what had been viewed as a cornerstone of the Swedish model was called into question in the late 1980s. When SAF officially withdrew from all central negotiations with LO in 1992, and at the same time stepped out of all public and state boards, which they now scorned as «corporatist» arrangements, this seemed to signal the death of the Swedish model. Indeed, since then all negotiations and agreements made by the partners have been carried out on the branch level. This has not hindered, however, more informal discussions between the central organisations or even attempts to formulate new rules for a renovated Swedish model. Most observers also agree that although there is minimal cooperation on the central level, the old model is still alive and well on the branch level. Hence, on this level the importance of having independent social

partners who negotiate freely with the state left out is still in tact. Moreover the old climate of compromise still seems to live on here.\textsuperscript{24}

Secondly, as we have seen, the Swedish model can also be defined in terms of its obligatory and universalistic welfare system, with a strong emphasis on income insurance. In contrast to the Anglo-Saxon liberal model (according to Gösta Esping-Andersen), benefits during sickness or unemployment are distributed as a proportion of the last received wage income. Most certainly exceptions to this general rule have always existed.

Many also argue that over time the Swedish welfare system has become less universal and increasingly serves as a safety net for the least privileged. For example, social security (distributed by the municipalities) has always been of a particularistic kind, providing for people without other forms of income. While the degree of welfare was perhaps highest during the 1980s there was some cutting of unemployment and sick-relief benefits as a consequence of the economic crisis in the 1990s. On the whole, however, the Swedish system is still one of the most generous in Western Europe, both in terms of coverage (the principle of universalism) and the level of income replacement.\textsuperscript{25}

Thirdly, however, if we consider full employment the most important cornerstone of the Swedish model, much has of course changed since the 1970s and 1980s. In practise, no government since the early 1990s has been able to keep up a macroeconomic policy that can fulfil this goal. As a matter of fact, price stability was established as the main goal of the Riksbank by the Bildt government fifteen years ago, at the same time that the bank was released from the interference of government or parliament. While some criticised this measure, it is telling that when the Social Democrats came back to power in 1996, they did nothing to change this new «macroeconomic regime».\textsuperscript{26} In fact, an independent central bank with one main goal – to tame inflation – is not challenged by any of the major parties today. On the other hand, the decision to stay out of the EMU and let the krona float freely has certainly been influenced by the employment argument. In formal terms, there is nobody today who would argue for a «third way» strategy as people did during the 1980s.

A new macroeconomic regime based on stable prices, however, signals that some important changes have taken place with regard to the Swedish model. There are also other elements of this new and reformed model that should be mentioned. As most of these changes have taken place without much political opposition and with consensus between the social partners, it is fair to say that this model has to


\textsuperscript{25} For a recent comparative overview, see N. Adnett and S. Hardy, \textit{The European Social Model – Modernisation or Evolution?} (Cheltenham, 2005).

\textsuperscript{26} Cf. Lindbäck, \textit{The Swedish Experiment}. 
some extent been renegotiated during the last fifteen years, and that the crisis in
the 1990s played a pivotal role here.

With respect to the labour market, perhaps the most important change was the
establishment (in 1997) of something called the «industrial agreement». Negoti-
ated by the major industrial trade unions and their counterparts among the employ-
ers, an agreement was put into place that basically said that wage developments in
Sweden should not exceed the «European norm», and that industrial wage
increases should serve as the norm for the rest of the labour market. To some
extent, this agreement was a step back to what had been working practise in Swe-
den up to the 1970s, when central parties bargained for wages concerning the
labour market as a whole. According to most observers, on account of this move
nominal wage increases in Sweden have been low, and inflation rates have been
lower still. Thus, in contrast to the 1980s, the real wage has increased slowly but
steadily in Sweden over the last decade.\textsuperscript{27}

I have already argued that in spite of some cuts in the welfare sector, the old sys-
tem is still very much intact, with its basis on universalism and tax financing. On
the other hand, it is fair to say that within this sector, and the public sector at large,
new instruments of cost containment and organisational reforms have been imple-
mented. For example, contracting out services, the privatisation of responsibilities,
user fees and other policies related to effectiveness and efficiency have been intro-
duced. An important driving force here has been the more restricted budget, a
consequence of the crisis of the 1990s and the rise of unemployment.\textsuperscript{28} Also,
(semi-) privatisation of some of the old state monopolies in telecommunications,
transport, energy and so on – in accordance with the EU’s Cardiff strategy and the
Lisbon program – has been carried out or is in the planning stage. It is important to
note that this has been decided without any significant political opposition, even
though it seems clear that differences remain between the left and right parties
regarding how far such privatisation schemes should be carried out.

Within the welfare sector, the pension system has undergone perhaps the most
radical changes.\textsuperscript{29} To some extent, a less solidaristic pension scheme has been

\textsuperscript{27} N. Elvander, «The Labour Market Regimes in the
137; idem, Industriavtalets tillämpning: en beskriv-
ning och analys (Sandviken, 2000).

\textsuperscript{28} T. Svensson, Marknadsanpassningens politik. Den
svenske modellens förändring 1980–2000 (Uppsala,
2001); B. Rothstein and S. Steinmo, eds., Restruc-
turing the Welfare State – Political Institutions and
Policy Change (Cambridge, 2001); J.-E. Lane, ed.,
Public Sector Reform: Rationale, Trends and
Problems (London, 1997). For more general discus-
sion on European changes see F. Scharpf and V.
Schmidt, eds., Welfare and Work in the Open Econ-
Magnusson, eds., Reshaping Welfare States and
Activation Regimes in Europe (Brussels, 2007); P.
Pierson, ed., The New Politics of the Welfare State
(Oxford, 2001); and idem, Dismantling the Wel-
fare State. Reagan, Thatcher and the Politics of

\textsuperscript{29} For this, see U. Lundberg, Juvelen i kronan. Soci-
aldemokraterna och den allmänna pensionen
introduced, modifying the universalistic principle of the old pay-as-you-go system. Up to the end of the 1990s, Swedish pensions were a combination of universalism (folkpension) and quite generous earnings-related supplementary pensions (ATP). Hence, in 1998–99, an agreement was made by the major political parties (including the Social Democrats) to introduce a less generous and also more individualistic scheme. The main aim of the new system was to meet the challenge of an ageing population in the future, but also to link more closely individual instalments to the pension payments of tomorrow.

What we can see, then, is that at least some elements in what used to be recognised as the Swedish model have been renegotiated (although in the case of pensions, the social partners were not asked for their opinions) during the last decade or so – very much as a consequence of the economic crisis of the 1990s. Certainly, there have been different political ways with regard such reforms and changes. It is clear, however, that most of the changes have been carried out without too much political controversy. There seems to have been a clear consensus around introducing a new macroeconomic regime with price stability as the primer instead of employment, where wage increases do not exceed the European norm, welfare cannot be based on a less-strict budgetary discipline, individualised pensions are more individualised, etc. Moreover, almost without exception, such reforms have been introduced by governments and supported by political parties, which, in words at least, suggest that they are faithful to the Swedish model.

The main trigger for the changes in the model that have been outlined here, and the extent to which it has been renegotiated during the last fifteen years is without a doubt the crisis of the 1990s. Among the responsible politicians a consensus developed during the 1990s that the kind of «bridging policy» that had been a key element earlier was impossible to maintain and indeed had been one of the main causes of the macroeconomic disturbances and problems that haunted much of the 1970s and 1980s. Sweden was much too small a country to have an economic policy that, in several ways, was very different from the policies in the rest of Europe. Instead, some kind of «norm policy» that favoured price stability and budgetary discipline had to be followed. This approach of «learning by doing» was without a doubt shared by both the «bourgeois» coalition government under Carl Bildt, as well as the Social Democratic government with Göran Persson as prime minister (from 1996). It is revealing that the decision to create an independent Swedish Central Bank (Riksbanken) in 1999 in accordance with the EU’s ERM and Stability Pact requirements was carried out by the Social Democratic government, but with overwhelming support in parliament. It is clear, however, that other actors also learned from the 1990 crisis, especially the social partners. On the one hand, the trade unions learned that inflation caused by devaluation of the currency and a
financial policy that was too loose implied that, although nominal wage increases seemed quite high, the real wage stagnated or even fell. Also, both the trade unions and employers learned that a climate of collaboration and less conflict was more beneficial than one of turbulence. The «industrial agreement» signalled a departure from this turbulence, which was endemic during the 1980s. That the social partners did not seriously question the creation (in 2000) of a new state institute for monitoring wage development in Sweden is highly indicative of the changing climate, especially since the institute was in a position to pressure labour market parties to establish collective agreements (Medlingsinstitutet). Had the institute been proposed earlier, it would have in all likelihood been viewed by the social partners as too interventional and as an instrument of an unwelcomed form of state income policy. To be sure, there was a lot of discussion at the time about the institute’s level of influence, but its existence was never called into question.

6. Sweden is Changing

Everybody seems to be committed to the Swedish model. But there are important differences with respect to how this model is interpreted. During the 1990s there was still a block of political parties that together with SAF – which, in 2001, was renamed Swedish Industry in order to signal its break with the former corporatist model – argued for radical changes, both with regard to the labour market and the welfare system. In order to create a more flexible labour market, they opted for deregulation, as well as labour law reforms, especially with regard to LAS (the law for the protection of employees). As for welfare, they argued for cuts and said that the individual should take more responsibility. On the whole, they considered the public sector oversized and thought that taxes should be lowered. During the last decade, however, this coalition has slowly withered away. Today even the Moderates, now the largest party in Sweden and the leader of the party coalition that won the election in 1996 after ten years of a social democratic government, seem less prone to introducing radical changes when it comes to labour market regulations (including labour law), or cuts in the welfare budget. With the group calling itself the «new Moderates» (or even the new «Labour party») it is legitimate to ask to what extent this has only been for show (in order to win elections) or whether it reflects a real change in perspective. But, on the whole, the Moderates seem ready to defend the core of the system while allowing for some gradual change. Much of this incremental change is perhaps naturally regarded by the left parties as a means of undermining the model in the long run. The main point here, however, is that it seems impossible to win a general election in Sweden with a platform that includes abandoning the Swedish model for another.

At the same time, Sweden is a very different country than it was some decades ago. What is most apparent is its increased openness to the world. In a sense, Sweden has always been an open country, committed to free trade and international
cooperation (along the lines of what one would expect from a small country, according to Katzenstein). Indeed, in the 1970s Olof Palme spoke out in favour of the Third World having a say in world politics. Since 1995, Sweden has been a member of the European Union. Given its history as a promoter of international cooperation, one might have thought that Sweden would take an active role in the development of the EU. Thus far, however, Sweden has largely been a «reluctant European». One reason for this is surely the commitment to its own peculiar model. To hand over more power and jurisdiction to European institutions seems imprudent in this context.  

From the 1960s up to the 1980s, the argument that Sweden should stay away from both NATO and the Warsaw Pact served as an official argument for not joining the EEC, and later on the EU. It can be asked, however, to what extent this was driven by other motives that had to do with the control of economic policy, the development of a third way or the prioritisation of a policy of full employment. It is clear that the launching of the Werner Plan in the early 1970s – with its far-reaching goals concerning economic policy coordination and the establishment of a common currency – was the main reason why the negotiations to join EEC (which started in the late 1960s) broke down. This can also help to explain why Sweden then quickly joined the club in 1995, after a round of negotiations that ran rather smoothly. Certainly, the referendum to join was a close call – even though all the leading political parties were in favour of a «yes» vote. Nevertheless, the main reason why it worked this time is twofold. Perhaps most important was that, with the passing of the Cold War, the neutrality argument became much weaker than before. Secondly, the 1990s crisis rendered the argument for a third way policy much less convincing than before. At the same time, it was clear that Sweden had been one of the most sceptical countries in Europe. So far, it has been open to increasing the number of EU members rather than deepening the process of integration. This reluctance was clearly illustrated through the unequivocal «no» in the 2005 referendum, concerning whether to join the EMU. At the same time, however, it is clear that a majority of Swedes today would like Sweden to remain a part of the Union, and I would venture to guess that, in the future, Sweden will be more willing to take part in the construction of a more integrated Europe.

When it comes to immigration, however, Sweden has not shown much restraint. On the contrary, it has opened up its doors. Emigration to this large but rather thinly populated country has always benefited its growth and development. It is a commonly held view that labour immigrants from Finland, the former Yugoslav Republic, etc., played no small part in putting the «gold» in the 1950s and


32 Magnusson, *Den egna vägen.*
Labour emigration, however, came to a halt as a consequence of the 1970s economic crisis and the subsequent rise of unemployment. Since the 1980s, though, Sweden has been a big receiver of immigrants of another type, mainly refugees and victims of the wars in the Balkans and elsewhere. More than ten per cent of Sweden’s current residents were born in another country. To a great extent, this has provided Sweden with a new face. The integration of the «new Swedes» has not always been a smooth process, and unemployment is much higher among this group than among the «old» Swedes. In order to avoid an outsider and insider problematic, both the labour market and the welfare system will have to introduce more flexibility in the future. This, together with the gradual downsizing of the industrial sector and the subsequent rise in the service sector, will present a challenge not in the least to the trade unions.

Another obvious «revolution» that has taken place concerns gender relations. It is without a doubt the rapid increase of female employees in the workforce during the late 1960s and 1970s that explains the rapid rise of the Swedish public sector during the same period, as well as the increase of welfare services. At the same time that industry was growing, females could be utilised in the public sector. Demand rose and growth increased in the economy, while welfare became more widespread than before. Today, there is only a miniscule difference in labour market participation between men and women. Inequalities between the sexes, however, still exist elsewhere. On the whole, for instance, men earn more than women, and they often occupy better positions. Women, meanwhile, still tend to take responsibility for childcare.

Overall, though, Sweden is changing and there are a number of challenges ahead that will put pressure on the Swedish model (however we want to define it). Besides the challenges posed by globalisation, climate change and other environmental problems – which Sweden shares with the rest of the world – it is clear that demographic change will have a direct impact on this model in the near future, as well as on Swedish society as a whole. By 2015, Sweden’s ageing population will begin to put pressure on the existing welfare schemes, as well as on the labour market: there will be fewer people to support a growing share of elderly. It has been calculated that the number of non-workers that each employed must support is increasing – from around 2.3 today to 2.6 in the year 2030. In light of this projected increase, many people argue that public welfare must become less generous,
and that the retirement age must be raised. Most would also agree that, in order to finance future welfare, the political choice must be between higher taxes or more individual instalments. Some still act as if such a choice could be avoided. But this is unrealistic and the outcome of this choice will determine to a large extent the kind of Swedish model that will be around in two or three decades.

7. Conclusions

During the decade that has passed since the launching of the Lisbon process in 2000, Sweden has done fairly well in a number of respects. It has kept a handle on its budget and can today (at least before the latest finance crunch and the present economic downturn) be characterised as a country with stable finances and macro-economic stability. Furthermore it has been able to keep up employment rates, its rates being among the highest in the EU. Its rate of inflation has been low and all of this has been achieved without any great shifts in policy or cuts in welfare. In other words, the Swedish model seems to be alive and kicking!

One question I asked initially was to what extent its preservation has been real. Does Sweden represent a case of successful adaption to changing circumstances and market conditions in a way that has altered the basics of the model quite fundamentally but where most of this change can still be accommodated and conceptualised as continuation rather than change? To a large degree this depends on the definitions we use. In one way, it seems clear that social scientists in the past have often been too prone to believing that conformity and convergence are necessary outcomes of globalisation and regionalisation. Without a doubt, Sweden’s experience indicates that there is an important path dependency with regard to the different socioeconomic models that were built up in Europe after the Second World War. Hence, the commitment to a specific Swedish model is not merely lip service; it is possible to say that, so far, it has survived both external shocks and the influence from globalisation. But this is not the whole story, of course. At the same time, Sweden has changed considerably, not in the least as a consequence of the two crises, one in the 1970s and the other in the 1990s. The commitment to full employment is not the highest priority anymore (at least in the short term). The central social partners have stepped down in favour of their branch organisations. There are also gradual changes affecting the welfare sector, making it less universal than before. Yet many of the old foundations are still standing. And it is still the case that the Swedish model serves as a form of self-identification for Swedes in their relation to the rest of the world. But for how long?
Do the Nordic Lights Shine Bright Again? – Sweden’s Response to the 1970s and 1980s Crisis

Twenty years ago, social scientists questioned whether the kind of «Third Way» Sweden exemplified as a corporatist and welfare state would be able to survive. Without doubt, there were reasons for such pessimism. During the 1980s, Sweden attempted to preserve its model through its so-called «bridging policy» which had unintended consequences: High inflation plus overheated real estate and financial markets stimulated by a negative real rate of interest. After 1991, these triggered an economic depression with high unemployment, which had important social and political repercussions for most of the 1990s. However, the trend seems to have been reversed since around 1996: In comparison to other European countries, unemployment in Sweden is quite low, while economic growth has been high, inflation low, the budget in balance, and the balance of payments positive. This article discusses the reasons behind this recovery and explains why the Swedish economy and politics seem to be quite well prepared at the moment for the coming challenges in the form of economic crisis and globalisation. Sweden is still looked upon as a country with a publicly financed generous welfare regime that is built upon the principle of universalism and the security of income during periods of sickness and unemployment. It is a country where the social partners still have a voice and regulate the labour market cooperatively to a large extent.

Erstrahlt das Nordlicht erneut?
Schwedens Antwort auf die Krise der 1970er und 1980er Jahre

Est-ce que les lumières nordiques brillent de nouveau de tout leur éclat? –
Vingt ans auparavant, les chercheurs en sciences sociales se demandaient si le
genre de «troisième voie» que la Suède exemplifiait en tant qu'Etat-providence et
Etat corporatiste serait capable de survivre. Sans doute, il y avait des raisons pour
un tel pessimisme. Pendant les années 1980, la Suède a tenté de préserver son mo-
dèle avec l’ainsi nommée «bridging policy» (politique des passerelles) qui entraîna
des conséquences inattendues: inflation élevée, des marchés de l’immobilier et de
la finance surchauffés stimulés par un taux réel d’intérêt négatif. Après 1991, ceci
déclencha une dépression économique avec un chômage élevé qui eut d’importantes
répercussions sociales et politiques sur une grande partie des années 1990. Quoi
qu’il en soit, depuis les alentours de 1995 la tendance semble avoir été inversée:
en comparaison avec les autres pays européens, le chômage en Suède a été assez
bas, la croissance économique élevée, l’inflation basse, le budget équilibré, et la
balance des paiements positive. Cet article discute les raisons derrière cette
récupération et explique pourquoi l’économie et le régime suédois semblent avoir
été plutôt bien préparé au moment de l’arrivée des défis sous forme de crise écono-
mique et de globalisation. La Suède est toujours regardée comme un pays avec un
généreux régime social publiquement financé fondé sur le principe de l’universa-
isme et de la sécurité du revenu durant les périodes de maladie et de chômage.
C’est un pays où les partenaires sociaux ont encore une voix importante et régulent
le marché du travail d’une façon coopérative au sens large.

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