

# *Farewell to the* **SWEDISH MODEL**

*Sweden was the exemplar for the thinking labour movement in the 80s. Now, it seems, the model's come apart at the seams. Andrew Vandenberg and Geoff Dow observe the rise of economic austerity, Swedish style.*

**T**he last 12 months have not been good for Sweden's Social Democratic Party (SAP). In February, the government resigned after failing to obtain support in the riksdag (parliament) for a series of measures ostensibly designed to control inflation but which included a proposal to prohibit industrial action among public sector unions. Support for these measures had been garnered from the trade union leadership—to the surprise and consternation of those who recognised the departure from Swedish policy-making traditions. After a few weeks, the government was reinstated, with a different treasurer and diminished credibility.

When the party commenced its September 1990 congress, its self-proclaimed task was to convince itself that it had the vision and administrative acumen to guide the country and social democracy in the decade ahead. Party officials had prepared not only a platform but a much more substantial *Program for the Nineties*. This 285-page document

purports to be as important as the 1944 Post War Program associated largely with Ernst Wigforss and Alva and Gunnar Myrdal, which legitimated the "industrial efficiency through social security" model that has since characterised the Swedish welfare state. Complete with quotations from Socrates, the program reiterates the labour movement's commitment to equality, full employment and collectivism and includes a detailed discussion of environmental, worklife, public sector and economic policy issues.

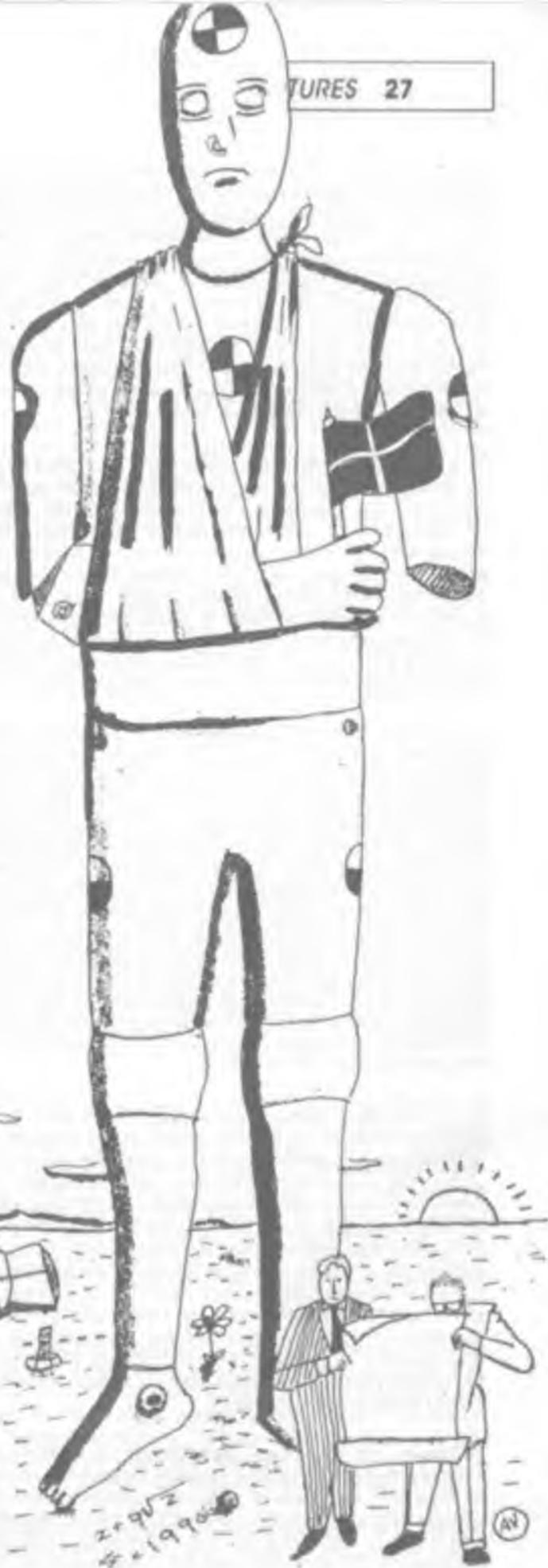
Despite the congress atmosphere, including red banners and a final rendition of *The Internationale* in Stockholm's Folketshus, the party failed to convince an increasingly hostile electorate or its increasingly disillusioned trade-union wing that it understands 'the Swedish model'.

The February crisis had an even more austere sequel in October. The government now seems willing to adopt the orthodox measures urged upon them by employers, the OECD and many of their own economic advisers. These emphatic policy reversals were quite unheralded at the party congress a month earlier. With hindsight it is apparent that they must have been long contemplated by the leadership group.

Paralleling the changes in post-Cold War Europe, Sweden is recharting its political and economic course towards an orthodox conformity with the world economy. The government's policies in recent years mirror the international trend towards liberalisation, deregulation, decentralisation and competition.

Publicly, SAP politicians continue to proclaim a commitment to full employment and equality, but the trade union movement is concerned that full employment and social welfare might be sacrificed in the near future. The party has departed from its former preparedness to guarantee, via institutions, high levels of economic activity, and therefore low levels of inequality. The industrial sector now predicts (or threatens) unemployment of 4% or more as it reorients its operations towards the new Europe. The government has announced a definite intention to seek membership of the EEC. It is presenting this, and the introduction of competition into the social welfare delivery system, as indications of its decisiveness, realism and flexibility. For the unions, the break-up of centralised wage negotiation forums, employer recalcitrance and the loss of influence on government policy represent a new political climate.

Domestic conditions in Sweden have become much less conducive to an exceptional set of standards and expectations than they were even as late as the 1970s. The Social Democrats, who have governed for 52 of the last 58 years, lag seriously in opinion polls. Even worse, the party has lost its inclination to contemplate distinctive programs of socialist reform, preferring to steer the party platform towards conventionality. Conservative voices, particularly the influential and aggressive employers' federation (SAF), have managed to seize the initiative in public debate from the social democrats and the trade unions. Such changes have occurred in the past five years or so after several decades of unusually coherent policy development by the labour movement which successfully combined high material standards with distributive equity.



Social democrats should be aware from history that a commitment to permanent full employment may provoke reaction and opposition, yet the politicians have been content to mouth slogans without discernible concern for their institutional requirements. Disappointment of supporters' expectations by mass parties of the Left is, of course, not a uniquely Swedish phenomenon, but the recent disregard of non-inflationary full employment has still angered many in the party, especially those like Gosta Rehn and Rudolf Meidner who have spent most of their adult lives refining a social democratic policy model which worked without resorting to repression or deflation.

Very little discussion of principles occurred at the party's congress. Instead, debate concentrated on several specific, controversial policy issues. The congress dismissed recommendations by the party executive on visits by nuclear-armed warships; it amended the executive's suggestions to adopt only vague compromise resolutions on childcare and on the dismantling of nuclear power; and it gave the leadership an open mandate to settle the controversies over advertising on broadcast television, over a bridge instead of a tunnel to Denmark and, perhaps most important of all, over membership of the European Community.

It is difficult to explain entirely the motivation and pressures behind this change of direction. Is the pertinent question: why have the Swedish Social Democrats abrogated past commitments? Or is it: why have neo-liberal ideas had such an impact on policy-making since the mid-1970s—first in the Anglo-saxon countries and now in Scandinavia? How do we explain the paradoxical propensity of contemporary government to produce policies that systematically undermine national economic capacity, while threatening in the process their own electoral survival? There is, after all, plenty of evidence that domestic policy priorities can affect domestic outcomes, for good or ill, regardless of what is happening in the international sphere. Sweden is not the only source of this evidence. There seems to be both more narrow political and broader structural forces at work.

In Sweden the immediate reasons for what seem to be recent reversals of an effective model is the unexpected influence of conservative academic, governmental and international economists. Corporate pressure to join the European Community has been especially strident, challenging even the country's long-standing tradition of neutrality. Organisations like Volvo and L M Ericsson now employ more workers outside Sweden than inside and have lost the commitment they once had to a strong or stable Swedish domestic economy. They would be happy to shift production to Belgium or Brazil and rarely miss an opportunity to remind the government that social democratic health, employment and workplace standards exceed those in other locations.

Politically, the employers' new strategy is to eliminate what remains of a distinctive model in Sweden by refusing to engage in any form of policy co-ordination with the unions or the government. The central employer organisation (SAF) is even closing down its research apparatus and disposing of the data once used for wage bargaining. An

altered domestic strategy is therefore being forged in the context of the increased internationalisation of the world economy, and the government's recent machinations reflect this new situation.

The labour movement's own strategy has been faltering for at least 20 years and perhaps, as Winton Higgins has maintained, since the 1950s. There has been little ideological leadership—and certainly none to match Ernst Wigforss' reformist marxism—since the 1970s. In the 1950s and 1960s, the first generation of trade union economists were responsible for policies and institutions like the National Labour Market Board (AMS) for dealing with inflation, unemployment and wage solidarity problems. Since then, too little attention has been paid to the slowly festering tensions between the party and the movement on implementation of distinctive economic policies.

A major failure has been the under-development of industry and investment policy in Sweden which, as a result, is dangerously reliant on about 100 export-oriented engineering firms. Selective interventionism has operated in principle, especially with respect to employment policy, but investment and product development decisions are still made outside of public policy and with little regard to the national interest.

It is always difficult for leftist politicians to ignore the mainstream of policy advice and to pursue experimental policies opposed by the entire professional orthodoxy of economists. To do so involves the construction of an 'alternative accumulation strategy'—which, in turn, means an entirely different pattern of institutional power and conflict. Swedish Social Democrats showed themselves, during the wage-earner funds campaign, to be unequal to such a struggle. During 1990 they lost whatever residual credibility they retained after their earlier routing by the employers.

By tradition, the SAP leaders take a strong interest in social democratic ideology. During a very polarised 1982 election campaign dominated by the wage earner funds issue former leader Olof Palme proclaimed, "Yes, I'm a democratic socialist". But to the same question, the leader and prime minister since 1986, Ingvar Carlsson, subsequently responded, "I'm a social democrat and that's enough for me".

In the party's theoretical journal *Tiden* and again in one of his three major congress speeches, Carlsson has tried to put his own stamp on the party's ideology by arguing that social democracy cannot be regarded, fundamentally, as a matter of public administration and economic regulation. It must be a system of values: freedom, equality, fraternity and solidarity.

An eyebrow or two was raised at the congress when Carlsson attacked "the true believers, the supposedly real socialists". "Early on," he argued, "the social democrats realised that it was not who owned but who controlled the means of production that was decisive." He argued, therefore, that control over production has been constrained by legislation, a strong trade union movement and economic

policy. This view of a gradual expansion of democratic influence over the private owners of capital makes the SAP indistinguishable from the Swedish liberals; it is indicative of the party's apparent renunciation of a distinctive profile. Carlsson's view of social democracy is also at odds with the more explicitly socialist ambitions developed by the SAP-affiliated Confederation of Trade Unions (LO) in the mid-1970s.

The LO's democratic socialism evolved independently of the SAP's ideology during the 1950s and 1960s. A distinct LO position crystallised in 1976 when the union economists presented their wage earner funds proposal. The LO's argument was that ownership of capital could not be ignored by a movement trying to take a responsible approach to macroeconomic conditions. Collective ownership would change the unequal distribution of wealth and income, the anti-social and anti-democratic organisation of production and the chronic instability of economic activity. This stance challenged employers' rights to such an extent that they began a campaign to dismantle the Swedish model.

Whereas Palme tolerated some inconsistencies between the SAP's rhetoric and its actual policies, Carlsson and his confidants have sought greater correspondence between the government's actions and the party's ideology—perhaps to appease the business community internationally. But the Prime Minister's arguments against trade-offs between freedom, equality and efficiency do stake out a strong rhetorical position opposed to liberals—perhaps largely for the sake of quelling disquiet in the ranks.

The party's failure to resolve has arisen at a time when a number of independent issues have forced themselves onto the political agenda. While not uncontroversial, these are not at the core of social democracy. Nonetheless, how they are being handled by the party is affecting the way in which the government itself is able to define and redefine broader ideological matters.

The labour movement is deeply divided, for example, on the issue of nuclear power. By obligation to its members in the energy-intensive forestry and paper mill industries, the LO is wary of the government's sympathy for calls to close all 13 existing nuclear power plants by 2010. In 1985, after Chernobyl, the government declared that the closures should be completed by 2010 and that the oldest plants would cease operation by about 1995. Furthermore, the government also undertook not to allow any increase in the country's dependence on imported oil and gas, any increase in carbon dioxide pollution, or the damming of the last two wild rivers in the country.

A few days before the Gulf war started, the prime minister and the leaders of the liberal and centre parties announced that they had reached a compromise on the vexed issue of when to start closing down the nuclear power plants. They agreed on greater spending for research into alternative energy sources and they agreed that—one way or another—Swedish electricity prices must retain parity with international prices. The details disappeared, of course, in the flood of dramatic war news so it is difficult

to gauge whether the issue has gone into hibernation or whether voters and unionists worried about their jobs will support the government for its decisiveness.

Important divisions remain too in a policy arena which has become a crucial indicator of the social democrats' commitment to the "folkhem"—a powerful and longstanding image of the welfare state as 'the people's home'. Parental leave and childcare are important parts of the Swedish welfare system that have been somewhat mishandled by the SAP recently. In 1985, the government promised childcare places ("dagis") for all by 1991. However, Sweden's birth rate has jumped to the highest in the West and female participation in the labour market continues to increase. Chronic shortages of trained personnel in the major cities as well as local government budget constraints frustrated the high expectations.

The SAP originally promised to solve the problem of childcare by extending the system of public insurance for parental leave from work. After a volte-face, the government eventually decided to lower the school-entry age, transfer seven-year-olds from the dagis to the schools and so create sufficient places for one and two-year-olds.

Notwithstanding this rather clever solution, the debate over childcare seems to indicate a reluctance by social democracy to continue the process of socialising family responsibilities. The issue should have been an easy one for Swedish Social Democrats to resolve: they have, after all, an enviable record on women's wages, women's participation in the workforce and the extension of societal responsibility for care of the elderly and children. The upshot of the prolonged party debate and tensions between central and local governments (which provide most welfare and childcare services) is that electorally significant numbers of working parents have been provided with ready access to high quality day care centres. But there is also a lingering distrust about the social democrats' willingness or ability to honour election promises.

Despite all the policy preoccupations of the moment, the integrity of the social democratic model stands or falls on its claims to have a distinctive and successful approach to industry and the economy. It is now possible to argue that economic rationalism has affected economic policy-making in Sweden in a way that permanently impairs social democratic arrangements. Kjell-Olof Feldt is no longer treasurer, but his endeavour to purge the party of what he saw as its ideological anachronistic sacred cows continues.

What has differentiated the Swedish approach to full employment and equality from lip-service acceptance of similar goals by labour parties in the Anglo-saxon world has been the Swedes' preparedness and ability to translate the ideals into effective policies and institutions. The difficulty of the struggle, over many decades, makes the Social Democrats' current retreats all the more disheartening.

Inequalities of income always happen in times of unemployment and it is at such times that orthodox economic advice can readily stampede governments into contradic-

tory policy positions which only make things worse. Full employment demands what Ernst Wigforss, social democratic activist from 1904 to 1974 and treasurer (1926, 1932-49) referred to as 'open-ended intervention'. In practice, this meant counter-cyclical macro-economic policies in the 1930s, separate institutions to facilitate relocation or retraining of displaced employees in the 1950s, and a commitment by the trade unions to organised restructuring of the economy all through the post-war period.

Swedish economic policy would never have become a 'model' if the highly unionised and centrally organised workforce had not been so influential in economic policy debates. Veteran strategists Rehn and Meidner still figure prominently, though joylessly, in discussions on how to secure full employment without inflation. Their efforts led to the unions' adoption in the late 1950s of a 'wages policy of solidarity'. Uniform increases, calculated by reference to the profitability of firms in the most profitable sector, were to be paid to all workers according to the principle 'equal pay for equal work'. Firms with a low capacity to pay would be forced out of business. Profitable firms, whose workforce exercised considerable 'market restraint' in wage negotiations, were to prosper and so provide a private market impetus to structural change. Employers participated in these arrangements in order to avert government involvement in incomes policy and to reduce the strike rate.

The Rehn-Meidner model was successful in producing an efficient private sector and distributive equality because unions were able to insist that the government adopt supportive social welfare policies and establish institutions in the employment and industrial relations arenas. Essential, too, are the high taxes and the associated non-discretionary incomes which have been able, especially since the 1970s, to 'decommodify' (that is, disentangle from market dependence) many of the services that contribute to Swedes' living standards.

The 'Swedish model' should therefore be characterised as social welfare universalism—that is, generous entitlements to all citizens, not just the needy—and specific, selective, interventions in the economy. Its opposite is the 'Anglo-saxon model': targeted and discriminatory welfare supports with indiscriminate assistance to industry usually unrelated to performance.

Employers since the 1970s they have undermined the central elements of the Swedish model. For example, they have used the profit windfalls they secured as a result of the 1982 devaluation to bid up wages for highly skilled or highly favoured workers. There is now a worrying profit-led, wage-drift inflation of around 10%. SAF has changed its function, since the wage-earner funds campaign, from an industrial relations negotiating body to an anti-socialist propaganda machine.

Public scepticism about the Social Democrats' economic policy performance derives as much from internal labour movement squabbles as from the highly publicised breakdown of the centralised negotiation processes. In response to complaints from employers that Swedish wage and

employment conditions cost too much, and to their threats to reinvest, or even relocate, elsewhere in Europe, LO has recently advocated successive currency devaluation to restore competitiveness for Swedish-based producers. Treasurer Larsson then accused the LO economists of abandoning the fight against inflation. This was ironic, since it was LO that had given the slogan 'hate inflation' considerable prominence in the 1950s. The government position is now to urge, in threatening tones, 'the labour market partners' to accept responsibility for stabilisation but without a supporting wages policy. This situation led, in December 1990, to a stinging public attack by LO's chairperson Stig Malm on the government's approach in general and on the treasurer in particular. Malm was forced to apologise but then received criticism from within the unions for his apparent accession to the government view.

The employers pointedly abstain from any discussion, let alone binding agreement, with LO. So they reap instead the propaganda rewards that accrue from their own non-involvement. LO's authority is weakening as many of its constituent unions and their members are wooed away from centrally decreed restraints by employers' individualised offers. Subsequent demands for catch-up increases from other employees then exacerbate the problems that any solidarity wage policy must address. The unions know that pronouncements they might make along these lines would be ineffective because, given high profits, individual employees can easily bargain for individual wage increases and ignore their own organisations.

The impossibility of expecting unions to bear responsibility for profit-led inflation is precisely the 'old problem' that Gösta Rehn and Rudolf Meidner addressed in the 1950s. It has returned in the 1980s and 1990s partly because the government failed to implement the 'profit squeeze' aspects of the model even in its heyday and partly because the government's acceptance of a distinctive approach to economic stabilisation has always lagged behind the LO's.

It should be remembered that most of these problems due to the departure of Swedish policy from the Swedish model, not because it is following the model. Policy never has followed the model, completely. As Rudolf Meidner recently said: it always was difficult, there always was internal conflict, the party always held back public debate. Before there needs to be a period of electoral opposition perhaps LO is able to reassert itself; but it seems unlikely that Ingvar Carlsson's command of social democratic principle is sufficient to allow him to avert the slide towards liberalism and impending electoral loss. Full employment remains a genuine achievement in Sweden, but there are few left who remember how it was done.

The farce has become tragic because there was once a coherent alternative to economists' cynicism: it was called the Swedish model.

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