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Abstract
In this paper we will make a long-term analysis of the evolution of the Swedish welfare state. We will look for an explanation of that evolution using a systemic approach. That is to say, our approach will consider the interrelations between the growth dynamics, the socio-political framework and the welfare state – understood as a set of institutions embracing the labour market and its regulation, the tax system and the so-called social wage – in order to find the main variables that explain its evolution. We will apply this approach to a study case of the Swedish welfare state given it is considered a paradigmatic case in welfare state studies. We will begin by tracing the origins of the ‘Swedish model’ and its main components, focusing in their evolution till the radicalisation of labour in the 1970s. Next we will look at the changes in the policies that were implemented as a reaction to that radicalisation and how they contributed to the burst of the economic crisis in the beginning of the 1990s. As this crisis gave rise to a new accumulation pattern, its major features will be delineated in the next part. And finally, the outcomes for the working class’ living standards of this process will be assessed through a set of 24 indicators classified along three main goals (related to the origins of the ‘Swedish model’ of welfare state): full employment (and other labour-market conditions linked to it), wage growth (understood in its broadest sense of direct wage, deferred wage and indirect wage) and greater equality (both among wages, personal income and functional income).
1. Explaining the evolution of the welfare state: theoretical considerations

The welfare state has been a research object for several decades now. Therefore both the very same concept of welfare state and the theories that explain the evolution it has followed over the years, vary widely. We will thus start this paper by clarifying the concept of the welfare state that we will use and then we will put our approach in relation with the major theories explaining how welfare states have evolved during the last decades.

We understand the welfare state as an institutional set composed by four major instruments in order to reach three main goals. A first goal of the welfare state, as we can find it in some of the pioneering texts on the welfare state (see for instance Beveridge, 2000; Briggs, 1961; Marshall, 1950), is to guarantee a certain minimum in the conditions of living of the population. A second goal is to reduce social inequalities to a certain extent (Flora & Heidenheimer, 1981; Marshall, 1950). Apart from these two goals—security and equality—Beveridge (2000) made a connection between the welfare state and a third goal, namely, full employment, without which the welfare state lacks one of its main attributes and the whole social policy could be challenged (see also Mishra, 1990). To achieve these goals, the instruments available are: i) cash benefits; ii) social services; iii) labour market policies and regulations; and iv) fiscal policy.

Concerning the theories that explain the evolution of the welfare state, we will focus in the most outstanding of them (see, for example, Carroll, 1999; Cousins, 2005; Green-Pedersen & Haverland, 2002; Ochando, 2009; Starke, 2006). According to the functionalist or industrialist approach, social policies would have emerged from the needs arising from the industrialization process and the modernization of economies. The main variables that explain the origins and expansion of the welfare state would be the economic growth or the ageing of the population, while political variables would be less important (Wilensky, 1975). Following them, neo-functionalist authors explain the erosion of the welfare state using variables like the need to preserve competitiveness in a context of internationalization of production, the slowing down of economic growth, etc. A second theoretical group is the neo-marxism, for whose authors, the welfare state is an outcome of the capital’s need to guarantee the social reproduction, being always functional to its own interests (O'Connor, 1973). These authors underrate the role of socio-political mobilization in the explanation of the evolution of the welfare state—with the exception of Ian Gough (1979).

Other theories, in turn, place socio-political variables in the centre of their explanations, such as the power resources approach (PRA) or the polity-centred approach. The PRA maintains that it is through the welfare state that political actors move the distributive struggle from the labour market to the political arena, being thus working class strength—expressed through its unions or political parties—the main variable that explains the welfare state expansion and regression (Korpi, 1983, 2006). On the other hand, the statist or polity-centred approach considers the state not as a mere
instrument of social classes but as an autonomous actor whose main features help explain the evolution of the welfare states. More recently, the new politics of the welfare state suggests searching for different explanations of the retrenchment of the welfare state than the ones that were used to explain its expansion. The emphasis is put in stakeholders whose prominence has been enhanced during the last decades, like pensioners or public employees (Pierson, 1996, 2008). The argument goes further to maintain that the welfare state is the new statu quo, and that path dependency makes radical changes in welfare states highly unlikely.

All in all, these theories can be represented in a bidirectional system of reference where the evolution of the welfare state is explained using variables belonging to the dynamics of economic growth (EG) or to the socio-political institutional framework (IF). Taking this as a starting point we will try to understand such evolution considering the welfare state as part of a system (Figure 1), so that the relevant explanatory variables come not only from the interaction of the WS with the EG (Relationship 1 in the diagram) and/or with the IF (Relationship 2), but also from the interaction of EG and IF between themselves (Relationship 3). We will apply this framework to the Swedish case, given the paradigmatic nature that its WS achievements have acquired in the specialized literature (Carroll & Palme, 2006 Section 3; Huber & Stephens, 1998 fn. 1 and 3; 2001, p. 114; Steinmo, 2010, pp. 23, 30-35), and we will focus on the period 1950-2006 since this year marked the end of an age for the Swedish Social Democracy, whose evolution is closely linked to that of the welfare state.

In this paper we argue that: i) two phases can be clearly distinguished in the evolution of the welfare state: an expansion phase and a retrenchment phase, existing a transition phase in between; ii) the duration and conditions of the expansive phase are the result of the symbiotic relationships developed in the interaction of WS-EG-IF; and iii) welfare state retrenchment can be explained through the changes operated in the socio-political (IF) and economic (EG) bases on which it was based.

Apart from this one, this article has five sections. The first one presents the abovementioned framework during the expansive phase of the welfare state, finishing with an analysis of the implications of the situation in the 1970s. Next we will study how changes were introduced in the Swedish system and in the next section we will measure the evolution of the welfare state using a series of indicators related to its own goals. In the final section we reproduce the conclusions of our study.
2. Consolidation and expansion of the Swedish welfare state

2.1 The building of the Social Democratic hegemony

After having been born in 1889, the Swedish Social Democratic Party (Socialdemokratiska arbetareparti, SAP) was gaining strength all through the first decades of the twentieth century, both in the number of militants and in the power positions that it reached. During those years, the ideological evolution of the party turned gradually into reformist positions, following a similar path to their European counterparts and abandoning maximalist ideas like the fight against the private property of the means of production (Steinmo, 1993, p. 85; Stephens, 1979). In 1918, the alliance of the SAP with the Liberal Party was the key to the introduction of the universal suffrage. Ten years later, one outstanding leader of the SAP, Per Albin Hansson coined the seminal concept of “People’s home” (folkhemmet) as a political project which went beyond the division between classes in the Swedish society: the Social Democratic project would have as its first goal the political democracy, which had been achieved through the endorsement of the universal suffrage; the second step would be the social democracy, with an encompassing social policy; and the third step would be the economic democracy, which would democratize the control of the economy (Tilton, 1991). In this same line, Ernst Wigforss, Finance Minister in the 1930s, defended the need for social classes to cooperate between them in order to promote economic growth. The party had by then fully adopted the idea that socialism could be achieved “through welfare reforms” (Meidner, 1993, p. 212).

In 1932, the SAP was able to form its own government for the first time, starting a new era of Social Democratic governments that would not finish till 1976—with the exception of three months in 1936. In the 1930s, the party had to look for support in other allies, namely, the Agrarian Party. Thanks to the agreements with them, and despite the concessions that Social Democrats had to do in agrarian issues, several social reforms could be introduced to improve the living conditions of low-income population, to reduce inequalities and to decrease unemployment, one of the main concerns of the government. Among others, the adopted measures were: a program of public works financed through public debt, the introduction of new social benefits and the increase of taxes (income tax, property tax, inheritance tax and some import tariffs).

At the same time, following the trend of mutual understanding between social classes, the government attempted to favour the achievement of peace between employers and unions. The main union, with close ties to the SAP, was the LO (Landorganitasionen i Sverige). During the first decades of the twentieth century, there were plenty of conflicts between the LO and the SAF (Svenska Arbetsgivareföreningen, the employers’ association), being in 1909 the hardest of them. According to Korpi (1983, p. 46), the number of days affected by labour conflicts—both strikes and lock-outs—during those decades in Sweden was the highest of all OECD countries. The contentious
stance of employers became more radical in the 1930s, opposing to a great part of the SAP program and channelling funds towards the Liberal and Moderate parties through the Director’s Club, a lobby created by the biggest engineering firms (Ryner, 2002, p. 72; Swenson, 2002, pp. 134, 245). However, in 1936 the government compelled unions and employers to initiate talks to put an end to labour-market conflicts, and employers chose to accept, changing their previous strategy, given the force position acquired by the labour movement (Swenson, 2002, p. 72 ff.). In 1938, the Saltsjöbaden agreements were signed meaning a peace treaty between labour and employers. After those agreements, the SAF recognized LO’s right to organize and to strike while employers obtained fiscal advantages introduced by the SAP government and full prerogatives on the management of firms. Furthermore, since then, the exporting firms would be wage leaders in collective bargaining.

In 1944, the SAP and the LO drew up the Labour Movement Post-war Program including an economic strategy with the nationalization of some economic sectors and a strong commitment to full employment. However, facing political difficulties—the complete opposition of employers and right-wing parties and a decline in the electoral support—, the party chose to abandon the parts of the program that challenged private property. The new alliance with the Agrarian party confirmed this “retreat from planning” (Pontusson, 1992, p. 53) by the SAP while reinforced the bias in their political action towards reformist policies inside the framework of a market economy.

The Rehn-Meidner model must be taken as a part of this global strategy. It came up as an initiative of two LO economists (Gösta Rehn y Rudolf Meidner) to achieve macroeconomic stability while promoting growth and equality but in such a way that investment would be allocated using market mechanisms. Their proposal consisted in the application of restrictive policies to avoid the situation in which profits were so high that wage drift gave rise to inflation and to promote public savings. Full employment in the context of restrictive policies would be achieved by means of active labour market policies. Fiscal incentives were also created to stimulate investment and thus private sector employment creation. Another element of the model is the wage policy of solidarity by which the only differences allowed between wages would be those related to the working environment and the nature of jobs (Erixon, 2008; Pontusson, 1992).

All these elements gave shape to a long-reaching social agreement (a “historical compromise”, according to Korpi) in which investment remained the responsibility of private firms, which meant that adequate profitability levels should be guaranteed (see Figure 2). Those firms were in addition the only actors allowed to decide on the evolution of their management and labour unrest could not challenge either investment or firms’ prerogatives. Besides, working class representatives in unions and in the government would try to improve the situation of labour by enhancing the welfare state and getting closer to its original goals: full employment, equality and improvement of living
conditions. The main instruments to achieve those goals were the public policies implemented by (Social Democratic) governments and the centralized wage bargaining between unions and employers. In the centre of the whole picture, as a common goal, we have the commitment of both social classes to economic growth being this understood as the tool that allowed for the existence of a positive-sum game, at least in theory.

Figure 2 around here

2.2 The accumulation pattern during the Golden Age
The accumulation pattern had in the social pact reached by unions and employers a major pillar. Consequently, between 1950 and 1975 the economic growth was fostered by the strong increase of private and public demand. Private investment grew by 4.2% annually while public investment increased by 6% per year. Private consumption reached a growth rate averaging 3% annually—the least dynamic component of aggregate demand—and public consumption grew by 4.6% per year. The expansion of foreign demand was also impressive, with annual exports growth rates being around 5% in the average. Driven by domestic and foreign demand, GDP followed a trend of notable and sustained growth, reaching an average annual growth of 3.7%. During those 25 years, monetary tensions were not very intense, excepting punctually during the Korean war and in the last years of the period (all calculations have been made with data from Statistiska centralbyrån, SCB).

The supply factors that contributed to that sound growth were the increase in labour productivity (which averaged 3.9% annually measured in terms of production per working hour) and a strong capitalization, with capital-labour ratio augmenting by a robust 4.8% per year as a result of the expansion and modernization of non-residential capital stock. On the other hand, the creation of employment stagnated when measured in working hours (-0.1 yearly) (calculations made with data from Edvinsson, 2005).

With reference to the distribution of income, not only was the growth of labour productivity—which ascended by a total of 160% during those 25 years—strong enough to allow for the implementation of generous public policies and more public revenues (as we will see below), but also to keep business profits in a high level (particularly for the big businesses) while wages kept growing at a steady pace (3.5% annually in the case of the manufacturing sector, according to data from SCB). General profitability declined in this period, but the intense capitalization suggests the existence of a high enough level of profits to sustain employers’ expectations and, with them, investment, particularly those of the biggest firms. These big businesses benefitted from a more favourable fiscal treatment (Pontusson, 1992, pp. 71-74; Steinmo, 1993, p. 44), the demand from a
public sector in expansion (Erixon, 1997, p. 54) and an environment of peaceful labour relations (like their smaller partners). Apart from that, the pressure exerted by the wage policy of solidarity was bigger for smaller firms since their profit margins were also lower and big businesses took part in intensive processes of concentration (Lindbeck, 1975, p. 221).

Those bigger firms held also dominant positions in the manufacturing sector, the engine of the economic growth along with public services. That was particularly true for the export-oriented corporations. They were big corporations whose productivity increases in addition to their sluggish employment creation rendered compatible the adequate level of profits, better workers’ compensations and greater tax payments.

On the whole, the virtuous relationships between aggregate demand, productive supply, income distribution, market structure and institutional consensus favoured the reproduction of such an accumulation pattern during two decades and a half, serving as the productive base of a growing welfare state.

2.3 Consolidation and expansion of the welfare state

Even though the electoral victory of the SAP in 1932 accelerated the expansion of the welfare state (Olsson, 1986, pp. 5-6), it is after the Second World War when its favourable evolution can be seen in its greatest splendour. The expansion and improvement of the welfare state since then is evident in each of its four instruments: labour market regulation and policies, cash benefits, social services and fiscal policy.

Regarding the first of them, labour market, four measures can be highlighted. First, active labour market policies were implemented to increase active population, employed population and also the mobility of employees. Therefore, in the end of the 1960s Sweden’s public expenditures on this area equalled 1.2% of the GDP, while Japan, Germany or Canada were below 0.4% (Erixon, 2010; Therborn, 1986). Second, the role of the public sector as an employer was enhanced in such a way that public employees more than tripled between 1950 and 1975 (data from Edvinsson, 2005). Third, centralized bargaining between unions and employers guaranteed the application of the agreements reached by the leadership of their organizations. And fourth, the wage policy of solidarity was designed to reduce wage dispersion and to avoid wage drift in high-productivity sectors in order to curb inflation.

Cash benefits experienced during these 25 years a considerable expansion and improvement, accelerating this trend since the end of the 1960s. Existing benefits were improved through parametric reforms by softening or eliminating qualifying conditions (decrease of retirement age in 1974; reduction of waiting days in sickness benefits and work accident insurance in 1967; elimination of the medical requirements to qualify for an invalidity pension since 1972—since then
labour-market reasons were enough), increasing the benefit duration (in sickness benefit, work
accident insurance, unemployment benefits or maternity allowance) or raising the benefit amount,
which grew well over inflation in all the benefits. Besides, new benefits were created. In 1948 the
government introduced the general child allowances and housing allowances for families; the latter
would be extended to pensioners since 1952. In 1955 a compulsory sickness insurance scheme was
created to replace the previous system of state subsidies to voluntary societies; since 1963, it is a
part of the national insurance system. In 1960 the compulsory supplementary pension (ATP) was
introduced involving old-age pensions, invalidity pensions and survivors’ pensions. Since 1974
those unemployed who do not qualify for the ordinary unemployment insurance can rely on a cash
labour market support. Finally, that same year, a new parental insurance substituting the old
maternity allowance was created along with a parental benefit for temporary child care since 19741.

Additionally, social services followed the same growing path. Elderly care was modernized in
the 1940s. After the mid-1960s the government invested great amounts of money in elderly care and
childcare services, expanding them. For example, there was a fivefold increase in kindergarten
places between 1965 and 1975 (Morel, 2007). On the other hand, there were several major reforms
in healthcare services, being the most important the introduction of the national health insurance,
which covered seldom all the population, and the approval of the Hospitals Law in 1959
(Sjukhuslagen, SFS 1959: 112). This law “eliminated private hospital beds and private fees for
hospital inpatient care [while requiring] hospitals to provide hospital outpatient care, thereby
competing with the private office hours of the hospital doctors and with the private office-based
practitioners” (Immergut, 1992, p. 212). In 1969 healthcare fees were unified at seven crowns at
public medical clinics being much more expensive to seek care at private offices. Dental insurance
was made universal in 1974 when it was included in the national health insurance. Finally,
education services were promoted by the introduction in 1964 of study loans and educational
allowances (as an extension of child allowances for kids between the ages of 16 and 19 in lower and
upper secondary school). Apart from these in 1967 municipal adult education was instituted and in
1975 free admission to universities was established (Olsson, 1987, pp. 25-26).

Fiscal policy during these years had three main missions: on the one hand, it had to provide the
economic resources to finance the above-mentioned instruments; on the other hand, it should
directly contribute to achieve the general welfare goals, concretely, the decrease of inequalities;
finally, its design would help shape the economic specialization, which as we have seen, hinged
upon the biggest firms. According to Olsson (1987 Table 13) total public revenues went from
24.2% to 50.7% of GDP between 1950 and 1975. Concerning the composition of tax revenues
(OECD, 2008), it is remarkable the declining share of corporate taxes owing, at least partly, to the
drop of the effective rate, particularly for the biggest firms (and despite a slight increase in the
statutory rate, see Pontusson, 1992, p. 73). The share of social security contributions in total tax revenues augmented notably as a result of changes introduced in the financing system of income maintenance benefits (reducing the share paid by the insured) whereas personal income tax became more and more progressive, with rates augmenting throughout the period (Roine & Waldenström, 2008).

2.4 Beyond the welfare state

The outcome of this process of consolidation and expansion of the welfare state was a success if measured by the own welfare state goals. Although we shall see it in detail afterwards, suffice it to say now the following: full employment was a reality just after the Second World War insofar as the unemployment rate varied between 1.4 and 2.7 thereafter and till 1975 (Rehn, 1990, p. 47; OECD.Stat and OECD Main Economic Indicators); the improvement of living conditions was achieved both through the growth of direct wages and also of the social benefits, as we have just shown; and inequalities were reduced in all their forms, i.e., wage dispersion (see Hibbs & Locking, 2000, p. 757), Gini coefficients (see data from Spånt quoted at UNU-WIDER 2008) and gender inequality (judging at least from data by SCB from the manufacturing sector).

However, some seeds of discontent were emerging on the labour’s side: i) some sectors (including a part of the Social Democratic leadership, see Myrdal, 1971) considered that the reduction of inequalities was being slower than desirable; and ii) the rank and file of the LO and the SAP began also to demand greater compensations for a situation in which they considered they were bearing the weight of the economic structural change (Martin, 1984). As Martin (1984) says, maybe workers were not worse than they had been before but ideological changes and the greater strength that the labour movement had, gave rise to a wave of protests in the form of wildcat strikes since 1969.

These workers’ demands had effects in the policies that were implemented. As we have seen, in the second part of the 1960s and thereafter there was an acceleration in the welfare state expansion. Nevertheless other kinds of measures were also introduced that went beyond the welfare state and its distributive capacities and that highlighted precisely the exact position of the correlation of forces then in Sweden.

First of all, a series of new laws were passed which attempted to intensify the degree of economic democracy and through which the original employers’ goal of keeping the monopoly of decision-making inside firms, was challenged. These laws were demanded by the LO as a means to redistribute wealth and power (Whyman, 2003 60). After 1972 unions could have two board members in companies with more than 100 employees—taking “a big step [in labour relations] from consultation to co-determination”, as Rudolf Meidner (1978, p. 128) put it—and after 1976
this could happen also in firms with more than 25 employees. Employers’ freedom to hire and fire workers was limited by two laws passed in 1971 and three more in 1974 that provided additional protection against dismissal and required longer periods of notice. Finally, in 1976 the Law on the Joint Regulation of Working Life—known as MBL by its name in Swedish, Medbestämmandelagen—broadened the scope of bargaining to the decisions on hiring and firing, and on the organization of the production process.

Secondly, the LO launched a proposal designed by Rudolf Meidner to create the so-called ‘wage-earners funds’. Not only did these funds represent the final step in the quest for economic democracy but also a step into a new socialist society—even though in the long term. According to this initiative, these funds would be composed of the 20% of firms’ profits in the form of shares. The funds would be under unions’ representatives control, which means that as firms had profits, a bigger part of their ownership would go into these funds controlled by workers, socializing thus the ownership of production in a gradualist way, i.e. in keeping with the reformist way to socialism that had been adopted as a political strategy by the SAP several decades ago. But these funds were also an attempt to provide capital and thus contribute to employment creation so that this initiative could be coordinated with the industrial policy to apply (Martin, 1984; Meidner, 1993).

However, the main importance of these two initiatives, and more particularly the wage-earners funds, lies in their underlying meaning as a sign of the strength the working class had reached in Sweden in the 1970s. Although some influential voices inside the leadership of the SAP explicitly disagreed with the wage-earner funds proposal—like Kjell-Olof Feldt or Assar Lindbeck, while others like Wigforss did not take a stand against them, yet he warned against the insufficient strength the working-class had to be successful in such a proposal (Whyman, 2003)—, the employer federation reacted rather in an adaptive way given that, instead of showing a direct and radical opposition—as would have been most likely the case some decades ago—they initially published some reports trying to tone down the proposal and thus implicitly recognizing some validity to the original made by Meidner (see Meyerson, 1976). On the other hand, apart from the LO (see the survey quoted in Meidner et al., 1978, p. 126), the leadership of the other big union, the TCO, took in general a stand in favour of the proposal. Anyway, as the 1976 elections were close, the SAP decided to postpone any official decision on it.

In conclusion, the historical compromise settled between the 1930s and the end of the Second World War set the socio-political institutional framework around corporatist relations between three main agents—the SAP, the LO and the SAF—, shaping the system on a non-conflict basis. The economic outcomes were a success thanks to the symbiotic links developed between the growth pattern, on the one hand, and the socio-political institutional framework and the welfare state, on the other. There was, however, some sources of potential problems, mainly three: i) the system
provoked the strengthening of the working-class, giving rise to inflationary pressures and even to new demands surpassing the perimeter of the old compromise; ii) the decisions emerging from centralized bargaining were causing problems at a micro level in those—mainly smaller—firms incapable to improve their productivity; and iii) the growth of the services sector could change the balance of power on the workers’ side, since the hegemonic LO could see other unions with different political positions or allies, grow, like TCO or SACO.

3. Reform and retrenchment of the Swedish welfare state

The year 1976 represents a turning point in the political economy of Sweden. To start with, it was then when the international economic crisis hit Sweden: according to data from SCB, during the period 1976-1978 the annual growth rate of the economy was 2% or below, being 1977 the first year with negative growth since the Second World War. Additionally, also in 1976 the right-wing coalition—called ‘bourgeois parties’—was capable to form its own stable government for the first time in forty-four years.

Both events stand for a starting point of a new era in Sweden. However, this era is not a homogenous span of time. The analysis of the Swedish political economy during the long period between 1976 and 2006—which is so far the last year in which the once hegemonic Social Democracy governed Sweden—reveals the existence of two shorter periods of analysis, split by the deep crisis of 1991-1993. So between 1976 and 1990 the dismembering of the old model took place in the form of a transition period until the crisis outbroke. Then, once this crisis was left back after 1994, a new growth pattern took shape.

In the paragraphs to follow we will first sketch the most salient features of the political economy of Sweden during that transition period and the following crisis, and then we will analyse the new growth pattern.

3.1 Transition and economic crisis

The 1970s decade started with a radicalization of the labour movement and ended with a bourgeois coalition forming the second government in a row. With a right-wing government, the employers toughened their position. Curt Nicolin and Olof Ljunggren were appointed to the highest positions in the SAF leadership, being them fervent supporters of free-enterprise and hostile to any form of corporatist agreements (Ryner, 2002, p. 144). This happened also in a context in which Swedish firms intensified their export orientation and reduced their reliance on domestic raw materials, which reinforced capital structural power (Huber & Stephens, 1998, p. 381; 2001, pp. 250-251). Since then, employers launched their attack against the model as it had been working. They did so using two strategies: favouring a discourse change and rejecting the collective bargaining. Focusing in the
advocacy of private firms’ interests, the employers financed generously think tanks and right-wing parties. For instance, their campaign against Social Democrats during the 1982 election cost more “than the aggregated spending of all five political parties on the entire 1982 General Election” (Whyman, 2003, p. 78). One year later, as a part of their strategy to boycott the collective bargaining institutions, the engineering employers’ association abandoned the centralized bargaining system—after convincing the corresponding union to follow lead. In 1991, with a new right-wing coalition in the government, the employers withdrew their representatives from the tripartite bodies. But the employers did not limited their reaction to propagandistic initiatives or to indirect measures: in 1980, a labour conflict with the LO was solved by calling a lock-out which, according to an observer, was the greatest labour conflict ever in a western nation (Korpi, 1983, p. 159) provoking the loss of 4,116,198 workdays and affecting 687,550 employees (data from the Medlingsinstitutet).

In parallel with the strengthening of the employers, the cohesion of the labour movement smarted from the growth of the service sector, and the disagreement between unions concerning the wage differentials (Meidner, 1993, p. 223). In consequence, in 1983 the main union of the engineering industry (IF Metall) accepted the employers’ proposal to abandone centralized bargaining in order for them to obtain greater pay rises. Over and above the distributive consequences of such action, bargaining decentralization meant the end to the wage policy of solidarity, which had favoured the cohesion of the labour movement (Martin, 1984).

At the same time, the right-wing governments during the period 1976-1982 halted the progress of labour participation in corporations’ management decisions (Belfrage & Ryner, 2009). When the SAP returned to the government in 1982 they finally introduced the wage-earner funds but in a different configuration so that, as Whyman (2003, p. 79) says, “distributional and economic democracy issues were given significantly less prominence”. Social Democrats and bourgeois parties went thus for the introduction of incentives to individual savings as opposed to collective forms of capital formation. All these measures represent the moment from which the LO became marginalized from economic policy-making (Belfrage, 2007 213-214; see also Erixon, 2010, p. 692).

Nevertheless, the welfare state as we have previously analyzed, remained chiefly unchanged. The commitment to full employment was maintained by both right-wing and Social Democratic governments and, albeit at a slower pace, cash benefits and social services in general still improved during these years. The only notable exceptions to these trends were: the abovementioned decentralization of bargaining in the labour market and the cuts in personal income marginal tax rates, which were implemented in two occasions and in both, contrary to their previous positions, with the participation of the SAP (Erixon, 1985, p. 38).
In effect, the Social Democratic party started to show relevant changes in its positions during those years. For example, as soon as they held the reins of government in 1982 they devaluated the Swedish crown by 16%, in an attempt, according to the Finance Minister, Feldt, to raise the profits share in national income at wages’ expense (quoted in Hermele, 1993, p. 19). The goal was to restore profitability and turn it into the basis for economic growth as this had slowed down since the international crisis hit Sweden. Another example, which had longer-lasting effects, was their change of position regarding the economic regulation. With the aim of stimulating the growth of the economy, the regulation of the financial sector and other markets was radically reduced. In the financial sector, the degree of liberalization was below the OECD average in 1973 while in the end of the 1980s, it was well above that average².

These measures caused a partial recovery of economic growth rates but it gave way too to the creation of two bubbles: one in the stock-exchange, and one in the real estate sector. Meanwhile, the slowing down of public demand and the stabilization policies applied to curb inflationary pressures in combination with those bubbles ended up in the emergence of fatal errors in the functioning of the economy. The point of no return came with the outbreak of a deep economic crisis in 1991-1993 after speculative bubbles burst (Glyn, 1995, p. 119; Ryner, 2002, pp. 148-154). The effects of these crisis were huge: between 1990 and 1994 employment was reduced by 16.6% while national income and industrial production dropped by 13% and 17% respectively just between 1990 and 1993 (Jonung & Hagberg, 2005 Table 1); according to Reinhart and Rogoff (2009, p. 164) the cost of bailing out the banking sector was between 3.6% and 6.4% of GDP; and public debt grew by 24%, excluding the effect of the GDP fall (Eschenbach & Schuknecht, 2002). But to be sure, the most important consequence of the crisis was that it marked the beginning of a new accumulation pattern (or a “new economic order”, see Jonung, Kiander, & Vartia, 2008) as we shall see in the rest of this section.

### 3.2 The weakening of the Social Democratic movement

After three years of right-wing government, Ingvar Carlsson reached the government in 1994 starting a new period of Social Democratic government that would last till 2006. This time however, the changes that had operated inside the party were a clear sign that their priorities were different. In the last part of their previous term of office, the Social Democrats sacrificed the full employment goal, being since then low inflation the “overall goal” (övergripande) of the economic policy (Lindbeck, 1997, p. 1303; see also Lindvall, 2006, p. 265). On the other hand, if in 1982 the SAP government rejected the cutbacks that the bourgeois government had applied to social benefits and cancelled them, in 1994 they were accepted (Lin & Carroll, 2006a, pp. 72-73). Only in the end-1990s did the government restore some of the regressive changes introduced before when the
economic situation improved, but never to the levels had they once reached. But above all, the changes in economic policy were crucial for the evolution thereafter. Fiscal austerity became the cornerstone of the economic policy when a expenditure ceiling was introduced in 1995, and an intense program of privatization made that in the period 1994-2006 the revenues generated averaged $1.4 billion per year, an amount 18% bigger than the average during the Moderate mandate (data from Privatization Barometer, 2010).

This ideological transformation—placing them far from the traditional Social Democratic ideas and closer to neo-liberalism with its classical policy proposal of liberalization, deregulation and privatization—had also quantitative consequences. During the 1990s, the number of SAP militants declined by almost one third (Mair & van Biezen, 2001 19, Table A2) and the percentage of votes that they obtained declined from 45% in 1994 to 35% in 2006, a level similar to that in the 1920s (data from SCB)3. The LO in turn attempted to confront these changes on the SAP side, which lead to the so-called ‘war of roses’ between them (Olsson, 1986, p. 87; Ryner, 2002, p. 151). However, the ideological changes permeated even the Social Democratic union, accepting measures like pensions reform (Belfrage & Ryner, 2009). As Lin and Carroll (2006b, p. 74) put it, the most liberal ideas had got into the labour organizations thanks to the success of bodies like the Lindbeck Commission.

As a result, there was a gradual shift in the economic-policy paradigm adding since the 1990s some neomonetarist elements: destruction of public employment, tax cuts, self-imposed budget constraints or the setting of inflation as the only monetary policy goal (Erixon, 2008 Appendix 1). That is why Ryner (2002, pp. 189-190) labels this period as “compensatory neoliberalism”, indicating that the “embedded liberalism” was not totally dismantled but, as we will see, the welfare state became weaker and more vulnerable as it had happened in other countries, yet, unlike these, the point of departure was much more favourable to labour organizations.

3.3 Characterization of the new accumulation pattern

The economic policies that were implemented during the crisis broke with the path that had followed since then. They succeed in restoring economic growth (which averaged 3.3% annually) but it was still below the rate it had reached in the period 1950-1975, and above all, labour productivity slowed down since—measured in working hours—its growth rate went from 3.9% per year in that period till 2.7% per year in 1994-2006.

The most salient feature of the new growth model is the dominance of private activity. This contrasts with the prominence held by the public sector vis-à-vis the private sector under the previous model. Private investment, whose rate of increase has averaged 5.3% yearly, and the foreign sector, with exports growing by 7.9%, became the two main growth engines. However,
public investment has turned slower, and its increase rate hardly reaches 2.5% yearly, while the public consumption growth rate was 0.7% (Table 2).

Concerning the supply-side of the economy, there was some job creation (0.7% annually if measured in persons) but it was due to the private sector since the public sector destroyed employment during the whole period. Besides, the economic sectors that increased their share in the economy were some private services (data consultancy and data services, telecommunications) and some manufacturing branches (like electrical and optical equipment), while public services retreated. Therefore, driven by foreign demand, the economic specialization hinged upon the ICT sector, intensifying previous trends and leaving behind some other traditional leading sectors, like the wood industry or the paper and pulp industry. Corporate strategies changed also during this period introducing more flexible forms of labour hiring and reducing stocks and turnovers (Belfrage & Ryner, 2009; Ryner, 2002).

Table 1 around here

Table 2 around here

With reference to the distribution of income, the slowing down of labour productivity did not prevent corporate profits from soundly growing. In contrast, wages increased at a moderate pace and the labour share in the national income distribution went down. The same happened to public revenues after its growth was limited by budget restrictions implemented by both right-wing and Social Democratic governments. Macroeconomic stability and the recovery of corporate profits became the basic goals of the new economic policy (Erixon, 2010, pp. 155-158; Ryner, 2002 688, 702-703), and this had effects on the development of the welfare state.

3.4 Welfare state reforms in Sweden

The four instruments of the welfare state—labour market regulation and policies, cash benefits, social services and fiscal policy—suffered from many changes, being some of them deep modifications since they affected the core of the historical achievements of the Swedish labour movement.

Changes in the labour market have been certainly radical. The decentralization of collective bargaining in 1983 reached even the public sector, where flexible compensation schemes were introduced (Clayton & Pontusson, 1998, pp. 93-94). As a result, the Swedish wage system in the second half of the 1990s was more decentralized than those in Finland, Germany, Ireland, Italy and the Netherlands (Erixon, 2010, p. 702). Another radical change was the public employment
destruction, reducing more than 200,000 jobs since 1990. At the same time, active labour-market policies reduced their expenditures per user in real terms, so that the levels attained in the second half of the 1980s were never reached since then despite unemployment rates making them more necessary than before. Finally, a more flexible labour market regulation was introduced, particularly after the 1997 reform: using the data from Nickell (2006), the level of employment protection legislation surpassed the OECD average in the 1970s, being much more protective until two reforms were applied, one in 1994 by the Moderate Party and one in 1997 by the SAP; as a result, the levels in Sweden were just a little over the OECD average.

Cash benefits have been affected also by the budget adjustment policies. The results are notable in the case of the sickness and unemployment benefits, whose replacement rates have been cut and whose durations have been shortened. The impact of budget policies in the area of housing subsidies has been larger, as coverage has declined (Berggren, 2005; Sjögren Lindquist & Wadensjö, 2006). However, the worst consequences of these policies have been felt by pensioners. The pension reform linked pensions to economic, demographic, and financial (to the extent that it includes a compulsory capitalization component) variables, thus reducing their capacity to guarantee beforehand a decent standard of living to the elderly (Belfrage & Ryner, 2009; Carroll & Palme, 2006, p. 22). Other benefits, namely those linked to family care, experienced smaller changes and when they were cut-back, they were often restored to their initial levels.

Regarding public services, the most salient feature is the withdrawal of the state in many sectors. The so-called “choice revolution” initiated by the Moderate Party in 1991 allowed for the private sector to increase its presence in the provision of social services. In the education sector, a system of vouchers was introduced in order for families to choose the provider they preferred, and in healthcare, public financing was also granted to the choice of a doctor whether if it came from the public or the private sector. When the SAP returned to the government, the latter was cancelled but not the former and indeed the purchaser/provider model remains in work in the 21st century (Blomqvist, 2004). Apart from this qualitative change, childcare and eldercare followed different paths. Childcare improved during all this period reaching quasi-universal coverage (Morel, 2007, pp. 341-342). Elder care coverage was reduced becoming a more selective, albeit of a higher quality, service, and it was partially privatized adopting too a purchaser-provider model (Blomqvist, 2004; Morel, 2007, pp. 183-238).

Finally, fiscal policy experienced severe changes too. As a result of the ceiling on expenditures introduced in 1995, public expenditures were reduced by 14 percentage points of GDP between 1994 and 2006. Public revenues in turn dropped from 59.3% to 55.8% of GDP, i.e., returning to levels reached in the mid-1970s (OECD, 2010). At the same time the tax structure became less progressive: after the tax reform in 1990, the marginal rates for top incomes declined from 70% to
50% (Roine & Waldenström, 2008; Steinmo, 2002); and the share of the income tax—the only tax with a progressive structure, and only partially—in the total tax revenues went down from 38.6% in 1990 to 31.9% (OECD, 2008).

4. Measuring the evolution of the Swedish welfare state through its goals
The assessment of the evolution of the welfare state is better made comparing the evolution of the fulfilment of its goals between the expansive phase and the retrenchment phase. To do this, we have selected several indicators divided in three areas, one for each welfare state goal: full employment, improvement of living conditions and equality (see in Figure 4 below a complete list of these indicators).

Starting with full employment, we find that employment creation was always low when measured in persons but after 1994 it was even lower, whereas employment creation measured in working hours reached positive growth rates for the first time in this second phase. This means that the reduction of working hours per employee halted after 1994 (calculated with data from Edvinsson, 2005, SCB and Konjunkturinstitutet). The employment rate and the activity rate followed a growing trend till the crisis, after which, the former could never reach the levels it had in the 1970s. The female employment rate and the female activity rate experienced a similar trend but the crisis hit less severely, and the levels thereafter were almost like in the 1970s (data from OECD.Stat). Finally, the unemployment rate increased after the crisis and never returned to the levels it had before; furthermore, long-term unemployment was also higher, which along with the other abovementioned signs of deterioration in the labour-market, are a clear sign of the outcome of the new economic policies that were implemented (data from OECD, Main Economic Indicators, and OECD.Stat).

The improvement of living conditions is assessed through the evolution of wages, cash benefits and social services. According to data from AMECO, real compensation per hour grew by 3.3% per year in the period 1961-1975 and by 2.3% per year in the period 1994-2006. As a consequence, the convergence that had taken place with the USA in this area turned into a divergent trend, and other countries like France or the United Kingdom which had had lower compensations per hour, reached the Swedish levels and even surpassed them in the case of the former.

Regarding cash benefits, the data of the four main items—old-age pension, unemployment and sickness benefits, and work accident insurance, which altogether sum up to the 50-60% of annual expenditures on income maintenance—show a continuous increase in coverage till 100% in all of them and a general reduction on the percentage paid by the insured; the replacement rates, however, were affected by the austerity measures and never reached the levels they had before the crisis (Korpi & Palme, 2007). Using a synthetic indicator of cash benefits like any of the ones developed
by Scruggs and Allan (2006), the regress is clear since the end-1980s using both the
decommodification or the generosity indexes. On the other hand, other qualitative reforms which
have been already commented, like the old-age pension reform, are not considered by these data,
and their sign is incontrovertible for it turned a defined-benefit system into a defined-contribution
system and it introduced also a compulsory funded component which made pensions partially
dependent on financial markets (Belfrage & Ryner, 2009, p. 274).

We have assessed the evolution of social services through indicators of staff, resources and fees.
Healthcare personnel (physicians and nurses) and education personnel increased all throughout the
period with just a slight impact of the crisis on them; indeed, for example, the ratios of pupils per
teacher were in 2006 lower than in the 1970s. Nevertheless, hospital beds were substantially
reduced after the Ädel reform in 1992 that fostered home-based care for the elderly, sinking thereby
the ratio of beds per 1,000 population well below the OECD average both for the general care and
the acute care (OECD 2009; World Bank, 2009). As a result, “patients were sent home ‘quicker and
sicker” (quoted in Trydegård & Thorslund, 2010, p. 501). On the other hand, the minimum general
healthcare fees paid by patients grew by 23% in real terms from 1990 till 2005 (Palme et al., 2003).
At the same time, the data on the presence of the private sector in the provision of social services
show a steep increase since the 1990s (Blomqvist, 2004, pp. 142, 148-149; Carroll & Palme, 2006,
p. 25; Palme et al., 2003, p. 50; World Bank, 2009), on whose consequences we will come back
later.

Finally, inequalities, which had followed a fast downward trend till the end-1970s and the
beginning of the 1980s, started growing again, albeit with some exception. The labour share of
national income grew till 1978 and thereafter, owing to the slowing down of wages growth and the
increase in unemployment, decreased (data from Edvinsson, 2005, and AMECO). Personal income
distribution became more unequal due to: i) the increase in capital share of national income—for
capital income is more concentrated than labour income—; ii) the growth of wage dispersion (see
Figure 3 for the details) as a result of the decentralization of wage bargaining, the expansion of
unemployment and the worsening of other labour-market conditions; and iii) the decline in the
redistributive capacity of the government (see Mahler & Jesuit, 2006). Therefore the income share
owning to the richest 10% of the population went from 22% in 1982 to 28% in 2004(Roine &
Waldenström, 2008), while the Gini index of disposable income increased by 56% moving from
0.199 in 1981 to 0.311 in 2006 (SCB 2010). Another kind of inequalities that experienced a raise
was the segmentation of demand of social services: private providers have proliferated particularly
in higher-income areas and the children of richer families tend to avoid schools with a high
percentage of immigrants (Blomqvist, 2004, pp. 142, 147-150; Palme et al., 2003, p. 50). The
consequences of this process remain to be seen but to be sure it damages the universalist essence
which characterizes the Swedish welfare state. Only in the case of gender inequalities do we observe a more positive trend: data from SCB for the manufacturing sector show that the wage gap between genders decreased all throughout the period for employees reaching in 2006 the lowest figures in the series.

Figure 4 around here.

5. Conclusions
The 1970s represent a turning point in the evolution of the Swedish welfare state. The socio-political framework started its most deep changes between those years—with a turn to the left and then to the right—while the dynamics of economic growth suffered its first serious interruption in decades. However, it is after the deep economic crisis of 1991-1993 that we can see a new accumulation pattern with modifications in the growth model and the consolidation of the political changes that began to emerge during the 1980s.

The expansive phase of the welfare state was so long that there had to be symbiotic relationships between the economic growth and the welfare state. The sustained growth of production rendered the consolidation of the welfare state feasible by providing the material resources needed to develop the welfare state pillars—which required a boost in public expenditures. Besides, the strong productivity growth allowed for a sustained increase of wages and other incomes. In turn, the consolidation of the welfare state became functional to the continuation of growth through government demand, and some of the welfare state instruments, like active labour market policies or some social services, stimulated productivity growth and contributed to favourable employers’ expectations. Moreover, social achievements enabled macroeconomic stability inasmuch as they paved the way for an agreed income distribution, preventing (high) inflation trends that would have jeopardized the growth dynamics.

These symbiotic links were not limited to the economic growth since the socio-political institutional framework contributed to justify the role of social and fiscal policies and shaped the welfare state along three main features: universality, legal entity—in the form of social citizenship rights—and the exclusion of the private sector in the provision of social services. At the same time, the welfare state made real the social goals included in the historical compromise, provided a source of legitimacy for the SAP governments and increased unions’ strength.

Nevertheless, the comparison between the 1970s and the evolution thereafter shows the existence of a retrenchment of the welfare state (Figure 4) given that: i) only some aspects of employment (employment creation), cash benefits (like coverage), social services (education) or inequalities (gender) kept on improving at the same pace; ii) a slowing down is notable in the
growth rate of wages, some aspects of cash benefits (financing by the insured) and services (healthcare personnel); and iii) in some cases before the crisis and in others thereafter owing to the economic policies applied, most indicators used in this analysis (15 out of 24) experienced clear regressive trends.

Furthermore, the welfare state goals were all hit by these changes. The greatest setback was felt in the labour market with the emergence of an enduring unemployment, which as other authors have pointed out, is a challenging of the “Swedish model” in and of itself (see Glyn, 1995, p. 119). Yet to a lesser degree, the erosion of social benefits has also been important inasmuch as living conditions have been re-commodified. Moreover, universality in Sweden has traditionally been dependent on the labour market conditions (Clayton & Pontusson, 1998, pp. 76-77; Lindbom, 2001, p. 182) but has been considered a hallmark of its welfare state given the excellent those conditions were; with the worsening thereof, the levels of protection get damaged. Taking all this into account, it is no surprising that inequality has increased that much—given Swedish standards—and that despite the growth of wages, the position of labour in the distributive struggle was much worse in 2006 than in the 1970s.

Welfare state retrenchment in Sweden was partially induced by some factors related to its own functioning: the strengthening of the labour movement lead to some fractions thereof to demand the increase of social expenditures and wages creating budget problems and inflation; the intensification of the wage policy of solidarity despite the context of widening differences in productivity between firms; or the questioning of the historical compromise to transcend it. Other exogenous factors, like the hit of the international economic crisis in the mid-1970s, played also a role in that retrenchment. However, both those endogenous and exogenous factors were not decisive given the major worsening in the welfare state took place afterwards, when the labour movement had lost ground.

Our research shows instead that the determining causes of the erosion of the welfare state lie in the deep changes that occurred in its political and economic basis. In the socio-economic institutional framework, the SAP, after losing the elections in 1976, initiated a revision of its political positions and when returned to power in the 1990s, motivated also by the deep economic crisis, it advocated an economic policy which modified position of the welfare state in the whole system. Besides, the weakening of the union’s inner cohesion and, lastly, the decline in their membership damaged the capacity to influence in that economic policy, particularly after some of their leaders embraced it also. Meanwhile, the right-wing parties could hold the reins of power in three terms of office between 1976 and 2006. Allied with the employers, they intensified first their opposition to the wage-earner funds and to other measures in line with the economic democracy, but then they even challenged the welfare state as it had been built till then. As a consequence of
both processes, an economic policy based in the liberalization, deregulation, privatization and prioritization of inflation over any other economic goals remained regardless of the ideological position of the party in office.

The dynamics of economic growth experienced also severe changes. During the transition period, 1976-1993, economic growth slowed down and the government tried to reverse this trend by means of the liberalization and deregulation of the economy, giving way to the formation of speculative bubbles in the stock exchange and the real state sector. At the same time, the growing tensions in the labour market after the consensus had been broken lead to inflationary pressures which were curbed by adjustment policies. After 1994 the new accumulation pattern offered greater and more stable growth rates but its relationship with the welfare state had changed. The economic role of the government weakened as did the capacity to foster demand through public consumption and investment. The base on which the welfare state had been built was thus damaged. The symbiotic links between the state and the dynamics of economic growth that had existed during the Golden Age tapered off. A slower growth in productivity limited pay rises, as well as the increase in public revenues; inflation control became the main goal of economic policy, allowing unemployment to grow. In that context of subordination of social goals to the dynamics of growth, private accumulation became the only growth engine, and the priority to encourage private profitability became the necessary condition.

References


Myrdal, Alva. (1971). *Towards equality. First report of the working group on equality set up by the swedish social democratic party and the swedish confederation of trade unions*. Lund; Prisma; Sveriges socialdemokratiska arbetareparti.


**Endnotes**

1 The references used to analyze the evolution of the income maintenance benefits are Olsson (1986), Berggren (2005), Sjögren Lindquist and Wadensjö (2006), and Korpi and Palme (2007).

2 Using the financial reform index created by Abiad *et al.* (2008), which takes values between 0 and 1 as liberalization increases, in 1973 it was 0.29 in Sweden and 0.35 in the OECD as an average. Sweden surpassed the OECD average in 1986 and in 1990 it had an index of 0.86 being the OECD average 0.65.

3 The electoral results in 2010 for the SAP were even worse and their percentage of votes dropped till 30%.
Figure 1. Explaining the evolution of the welfare state

Source: Own elaboration.

Figure 2. The historic compromise

Source: Own elaboration.
Figure 3. Distribution of Income from work for all persons, age 20–64.

Source: Developed with data from SCB (2010 Table 32).

Figure 4. Evolution of the Swedish welfare state by indicators

Source: Own elaboration.
Table 1. Evolution of the aggregate demand and its components. Yearly averages in every period.

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<td>1.3</td>
<td>3.3</td>
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<td>Private Consumption</td>
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<td>0.9</td>
<td>2.6</td>
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<td>Public Consumption</td>
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<td>Exports of goods and services</td>
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<td>7.9</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>6.2</td>
<td>2.4</td>
<td>6.6</td>
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Source: Developed with data from National Accounts, SCB.

Table 2. Evolution of the supply side of the economy and its components. Yearly averages in every period.

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<td>Gross Domestic Product</td>
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<td>1.3</td>
<td>3.3</td>
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<tr>
<td>Employment (in persons)</td>
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