



THE DOWNTURN OF THE SWEDISH MODEL: INEVITABLE?

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Sweden displayed a highly successful blend of economic and social policy between the early-1950s and the early-1970s. Analysis of the 'Swedish model' formed a vibrant field of scholarly literature, much of it celebrating this regime's simultaneous delivery of sustained high levels of industrial productivity on the one hand, and generous welfare state and labour market protections on the other (see, for example, Tomasson, 1970). During the 1970s, however, detrimental economic change in the international arena led Swedish policy-makers to question the merits of their familiar pattern of public policy. Since then, like the vast majority of advanced capitalist nations, Sweden has had to come to terms with levels of economic uncertainty unprecedented in the post-war period. As a consequence, the literature has come to re-conceptualise and question the Swedish model's benefits.

Despite this, even in the early-1990s, some analysts continued to argue that Sweden held significant policy lessons for other regimes (see, for example, Pekkarinen et. al., 1992). In the mid-1990s, however, amid uncharacteristically high unemployment rates and disturbing levels of

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public debt, the vast majority of analysts seem convinced that the model is in serious retreat, if not beyond repair. In the face of pressing policy challenges, particularly those posed by high unemployment, budget deficits, economic globalisation and the emergence of the European Union, it is supposed that Sweden's generous welfare state, and its strong commitment to social protection in industrial relations, are luxuries which cannot be 'afforded'.

In arguing that the Swedish model has fallen from grace, much of the literature carries an assumption that the downturn was unavoidable. The implication is that, even before it occupied a significantly long period in history, it would inevitably tumble. The demands of the modern economy, it is assumed, would render it inadequate. This paper questions the merits of the claim that the model would naturally fail. The primary argument is that, in assessing its downturn, analysts should not merely assume that the model was structurally flawed. Rather, they should consider, more seriously than has hitherto been the case, the important role of specific policy misjudgements and ideological manoeuvres designed to undermine the effectiveness of the characteristically Swedish pattern of public policy and promote the liberalisation of the economy. The most important implication of this position is that, subject to the policies which are pursued by the state, labour and capital from this point onward, the model may yet be restored, albeit in a slightly different form.

The Swedish Model

Social scientists have conceived the Swedish model in a number of ways. Some economists (for example, Lundberg, 1985; Lindbeck, 1975) have viewed it as a model of economic development. Others (such as Pekkarinen et al., 1992) have seen it as a successful economic system, relying upon corporatist political and labour market structures. Another economic perspective examines Sweden within the context of a broader 'Scandinavian model of inflation', characterised by the relation of domestic wage movements to productivity levels within the tradeable goods sector of industry (see, for example, Mitchell, 1989). Industrial relations analysts (like Hammarström, 1993; Kjellberg, 1992; Johnston,

1962; A.S. Olsson, 1991) have traditionally viewed it as an efficient and equitable system of corporatist collective bargaining. Social policy scholars (such as S.E. Olsson, 1985, 1991, 1993; Kangas, 1994; Davidson, 1989) have tended to concentrate on issues of welfare or the welfare state. For some scholars (such as Korpi, 1978; Esping-Andersen, 1985; Higgins, 1985; Higgins and Apple, 1983; Stephens, 1979; Himmelstrand et al., 1981), the most important perspective on the model is labour movement strategy. With varying degrees of detail, authors in this genre have also dealt with the question of Sweden being a society in evolution from capitalism to socialism. Scholars in the area of gender analysis have examined Sweden in terms of how closely it approximates gender-equality, particularly in the spheres of the welfare state and the labour market, and how well it caters for the rearing of families without subordinating women (see, for example, Eduards, 1991; Acker, 1994; Curtin and Higgins, 1995; Higgins, 1996). Some others, mainly political scientists and sociologists, have used the Swedish model as an example of corporatism in practice (for example, Przeworski, 1985; Panitch, 1981; Rothstein, 1988). Finally, consistent with the Ricardian doctrine of comparative advantage (see Ricardo, 1971), which implied that significant economic benefits would flow from free trade based upon industrial specialisation, analysts such as Katzenstein (1985) and Castles (1988) have viewed the Swedish model as a type of public policy regime which is highly responsive to the international vulnerability endemic to small economies (modern economic clarifications of this argument include Cooper, 1972; Lindbeck, 1976; Cameron, 1978; Saunders, 1988).

The conception of the Swedish model taken in this paper is of a regime of acutely inter-connected public policies geared toward 'social protection', a term which is used in the sense of Karl Polanyi (1944). Polanyi argued that the objective of social protection was

the conservation of man and nature as well as productive organization, relying on the varying support of those most immediately affected by the deleterious action of the market - primarily, but not exclusively, the working and the landed classes - and using protective legislation, restrictive associations, and

other instruments of intervention as its methods (Polanyi, 1944: 132).

For Polanyi, the principle of social protection functioned counter to the well-established concept of economic liberalism, which relied primarily upon the methods of laissez-faire and free trade. The relationship between the two principles was necessarily an antagonistic one, the former being pursued primarily by the working classes, and the latter being sought by capital. Yet, for Polanyi, the principles of economic liberalism and social protection were not mutually exclusive, their interaction representing a 'double movement'. He argued that social protection was rendered necessary and inevitable by the social dislocation which would result from the operation of totally unrestrained market forces. If left unchecked indefinitely, capitalists competed in socially degenerative ways, such that the market would cause extreme poverty, crime and environmental degradation.

In terms of policy objectives, social protection seeks to redress poverty and inequality, but also aims for popular inclusion through social citizenship rights. It also represents a movement towards decommodification (see, for example, Esping-Andersen, 1990; Esping-Andersen and Korpi, 1987), or the liberation of workers from the status of commodity which is conferred upon them by the market. As such, social protection represents labour's quest for the redistribution of resources and life opportunities, reflecting rights to minimum standards in the labour market and welfare state spheres, and measures which minimise social and labour market inequalities.

Social protection, however, does not provide a full articulation of the Swedish labour movement's early political and economic vision, for, as authors such as Higgins and Apple (1983) make clear, a significant part of its history is taken up by its reformist (as opposed to revolutionary), and therefore gradualist, challenge to capitalism. This challenge was pursued with some vigour by both the peak trade union body (LO) until the 1970s and the Social Democratic Party (SAP) until the 1950s. Nonetheless, the cleft between social protection and economic liberalism is an instructive one for the analysis in this paper, given that it informs the interpretation of ideological and policy developments since the

1970s, after which time the attempted move toward socialism had (at least apparently) ceased to bear fruit.

What have been the major characteristics of the Swedish model? The welfare state is the most obvious feature. As Esping-Andersen and Korpi (1987) argue, Scandinavian universalism is the product of evolution from a welfare system based upon poor law or social assistance principles. The Swedish universal welfare state had its institutional beginning in the establishment of the universal flat-rate pension in 1913. Since then, a comprehensive range of universal benefits has combined to characterise Sweden as a quintessential form of the universalist, 'Scandinavian' welfare state (see, for example, Esping-Andersen and Korpi, 1987; Kangas, 1994). The most important welfare state arrangements have included: a large government sector, providing extensive public services in health care, housing, education, municipally-based childcare, and home and residential-care for the elderly and disabled; high aggregate levels of taxation, which were necessary to fund the comprehensive programs of the welfare state; and finally, a social security system characterised by generous universal benefits, funded by social insurance schemes which rely on government funding, high contribution levels from employers, and low contribution levels from employees.²

The Swedish system of industrial relations has also been distinctive. The system of centralised collective bargaining has its roots in 'historic compromises' between LO (the Swedish Trade Union Confederation), the peak-level representative of the blue-collar workforce, and SAF (the private sector employers' peak organisation). Though these two

2 Some key statistics on the funding structure of Swedish social security and social assistance would be instructive. Eardley et al. (1994) found that in 1990, 52 per cent of social security expenditures were financed by state authorities (33 per cent from municipal authorities and 19 per cent from the central government). Forty five per cent of social security expenditures were financed by employers' social insurance contributions, and three per cent derived from employees. Total social welfare expenditures in 1990 amounted to 34.8 per cent of GDP. In 1991, social assistance expenditure - or selective welfare expenditures by the state on benefits for those who fall through the social insurance net - was only 0.4 per cent of GDP (Eardley et al., 1994: 539-40).

organisations do not represent the entire labour market, their bargaining has historically been highly influential in determining wage-patterns outside of their respective constituencies. In effect, the coverage of centralised bargaining has been comparatively broad, prompting some analysts to characterise bargaining structure under the Swedish model as 'corporatist' (see, for example, Lash, 1985; Lehmbruch and Schmitter, 1982; Pekkarinen et. al., 1992). The meaning of corporatism is somewhat difficult to pin down, and it is beyond the scope of this paper to explore the intricacies of corporatist theorisation (see Williamson, 1989 for an extensive account of these). It is arguable, however, that implicit within corporatism is a system of political, economic and social interest-intermediation directly and formally involving peak-level representation from at least two of the three major interest groups within society: labour, capital and the state. Though corporatist bargaining involves negotiation over most arms of public policy, industrial relations issues are indispensable to the process. As well as being the primary corporatist interest groups, labour, capital and the state are the key industrial relations actors. In essence, industrial relations is enmeshed within the broader political framework of corporatism. The leadership of each interest group, which is supposed to be highly representative of the interests of its constituency, has the important role of eliciting support from its membership for its claims in the bargaining process. This usually requires a significant level of willingness from the constituency of each interest group to abide by the rules set at the peak-level by its bargaining agent. From the perspective of the trade union movement, this is made easier by a high union density.

The Swedish variant of bargaining has traditionally involved less direct state intervention than corporatist theory may deem necessary. As part of the Swedish model of industrial relations, wages were to be determined primarily by LO-SAF bargaining, though as will be outlined below, it was LO's concern for social protection which dominated the wage-determination process. In return for the concessions made by business in the wages domain, at least before the introduction of a broad program of state legislation in industrial relations in the 1970s, many other work conditions were subject mainly to managerial prerogative. The custom of 'centralised self-regulation' (Kjellberg, 1992) by LO and SAF was part of the Saltsjöbaden Agreement in 1938, which established the principle

of direct bargaining between the two parties, involving little direct state involvement in the establishment of wage-levels and wage relativities. The primary role of the state was to be in aggregate demand management, calling for a weighty reliance upon discretionary public investment expenditure policies, which were linked to activity within the housing industry. Housing was regulated by the state via government budget credit controls (see Lindbeck, 1975).

The corporatist perspective, however, has only limited power in explaining the establishment and evolution of the Swedish pattern of industrial relations. Many corporatist analyses (see, for example, Lehmbruch and Schmitter, 1982; Pekkarinen et. al., 1992) are characterised by an under-emphasis on the class and industrial conflict which historically provided the primary rationale for bargaining centralisation. The establishment of the centralisation principle primarily represented the mutual desire of LO and SAF to institutionalise or manage conflict (see, for example, Dow, 1993: 349-379), for it was not possible to replace it. As argued by labour movement theorists such as Higgins (1985; see also, Higgins and Apple, 1983), corporatism also under-estimates the importance of labour movement strategy in the establishment of the model. Moreover, it does not deal extensively with the political aspect of unionism, which underwrites union movements' 'universalistic aspirations in social development' (Higgins, 1996: 166). By doing so, it detracts attention from the forces within the labour movement which until the 1970s (1950s in the case of SAP) actively sought the reformist transformation of society and economy from capitalism to socialism. However, the corporatist and labour movement perspectives on the Swedish model³ agree that the Swedish industrial relations system nurtured a trade union movement which has been highly centralised, and highly pro-active in its role as public policy-agent. They also agree that the traditionally close ties between the industrial and political arms of the labour movement have done a great deal to facilitate this.

3 Fulcher (1987) provides an influential comparison of the labour movement strategy approach on the one hand, and the corporatist approach on the other.

The strength and significance of LO-SAP ties is reflected by the fact that LO grew directly from within the ranks of SAP, as well as the fact that LO has played a significant role as financial supporter of its political representative. It should also be noted that trade unionism has played a broad-based socially protective role through the historically and comparatively high union density. Traditionally, it has been approximately 85 percent, and to this day shows no signs of decline. SAF has been as united and as centralised as LO. Ingham's (1974) explanation for this lies partially in the highly oligopolistic, export-oriented structure of industry. The more popular interpretation, however, is that the primary motivation behind efficient employer confederacy was to counteract a trade union movement with strong political representation by the hegemonic SAP⁴ on the one hand, and effective peak-level industrial representation by LO on the other (see, for example, Kjellberg, 1992; Fulcher, 1991). Both interpretations are relevant.

LO's acute concern for social protection has been embodied in its agitation for low-paid workers and for the minimisation of labour market inequalities. The principle of 'solidarity', as outlined by the Rehn-Meidner model (named after the two LO economists responsible), was first proposed by Metall (the metalworkers' union) in the 1922 and 1936 LO Congresses (see Higgins and Apple, 1983). It became official LO policy after the second of these meetings, and was enshrined in the 1951 Report, *The Trade Union Movement and Full Employment* (see Rehn, 1952; Meidner, 1952). By 1952, when it was adopted as part of the centralised bargaining framework, it represented the fulfilment of LO's long-standing yearning for the minimisation of differentials between the low-paid and the rest of the labour-force, while upholding the principle of equal pay for equal work and the linking of wages to productivity. This, coupled with the ever-increasing size of the public and white-collar sectors - which resulted in the increase of labour-force participation rates for women to the point where they are almost equal to those of men - contributed to the comparatively favourable framework for gender-equality within the 'Swedish gender model' (see, for example, Eduards, 1991; Curtin and Higgins, 1995). Though the problem in most, if not all,

4 The extent of Social Democratic hegemony is measured by the length of its period in office: 1932-76; 1982-91; and 1994 to the present.

capitalist labour markets of gender-segregation was not avoided, other benefits of the Swedish model as it developed have contributed to what are comparatively emancipatory economic conditions for women and families. These have included average wage rates which are close to 90 percent of men's, unemployment rates which are lower than those of men, and unionisation rates which are higher. This picture is complemented by welfare state services such as generous provisions for paid parental leave (which can be shared between both parents), and generous municipal care arrangements which contribute significantly to the replacement of the domestic caring roles ascribed to women.

The corollary of the narrowing of gender wage differentials, and differentials between industries and occupations, was that the employers' 'capacity to pay' arguments would be paid little regard. If a business was not efficient enough to pay an adequate wage, it was argued, its capital should be utilised by more deserving firms, which could sustain socially and morally acceptable wage levels. The concept of solidarity was largely triumphant after the 1951 LO Congress, where it was proposed; but since the 1970s it has been seriously challenged by a combination of government policy, the strategies of capital, and, in some quarters, labour movement strategy.

The industrial restructuring made necessary by the implementation of solidarity wages acted to displace some workers, particularly those in the peripheral sector. This was a problem to be addressed by means of an extensive program of socially protective active labour market policies. There was, however, also sound economic justification for these policies: they acted to shift labour out of the inefficient sectors of industry into the more efficient sectors, where according to the Rehn-Meidner model it was needed. Active labour market policy thus responded to market signals, thereby contributing to the minimisation of underemployment or the misallocation of resources. Social democratic policy in the 1930s, and LO's Rehn-Meidner model in the early-1950s, advocated the use of industry policy - in the sense of direct and ongoing discretionary measures by public authorities to aid the restructuring and renewal of industry - as a complement to active labour market policy and the solidarity wage policy. However, though the issue of industry policy was again raised in the late-1960s and early-1970s (see Katzenstein, 1985:

64-65), its implementation was essentially defeated by the then Prime Minister's opposition to it and the manufacturing sector's apparent ability to modernise and rationalise without it. What effectively became the Swedish policy response to the economic vulnerability experienced by all small economies has been to keep a minimalist direct state involvement in the performance of industry.

In terms of social protection, then, Swedish policy-agents have used active labour market programs and generous universal welfare state measures to shield the victims of a largely free trade policy from the effects of the free market. This approach contrasts with the traditional Australasian defence against the international market-place through tariff protection, compulsory arbitration and restrictive immigration, which Castles (1988) labels the 'politics of domestic defence' (see also Katzenstein, 1985). The relatively laissez-faire stance of the Swedish state on the question of industry policy (in contradistinction to its activist stance in the areas of demand management, welfare state and active labour market policies) underlies Childs' (1980) description of Swedish politics as that of the 'middle way': a regime which shoulders strong interventionist social democratic policies, while also fostering the entrepreneurial energy needed to operate and maintain economically successful yet socially responsible business (see also Tomasson, 1970; Rehn, 1952; Lundberg, 1985; Katzenstein, 1985; Lundmark, 1983).

The Downturn: Ideological and Policy Developments

In questioning the inevitability of the Swedish model's downturn, it is first necessary to identify the primary ideological and policy developments in the period since the early-1970s, when the process of significant departure from the established model began. The period from early-1970s to the early-1980s was a turbulent chapter in the post-war economic history of most western nations. It ushered in the oil crises, the arrest of the steady post-war trend of prosperity associated with economic growth and historically high productivity, and the breakdown of the Bretton Woods international monetary system. With the restrictive

economic policies of major OECD nations, international economic slowdown, and enhanced competition from Japan and the newly industrialised countries of Asia, Sweden's unilateral export of input and investment goods faltered. Within Swedish borders, the effects of tension between the major sectors of the trade union movement and increasing strain upon the centralised bargaining process (discussed below) were worsened by unsound macroeconomic management. The 'Haga Agreement' between the right and the ruling SAP - representing attempts to formulate an incomes policy tied to tax-rebates - failed. The industrial subsidies and bail-outs of unsuccessful industries by the non-socialist government also failed. The current account deficit and the budget deficit both increased.

The newly-elected SAP announced a package of macroeconomic reforms in 1982 called the 'Third Way' - a policy path between Keynesianism and the neo-liberalism of the Anglo-American model. As such it is not to be confused with Meidner's concept of the 'Third Way', which refers to the Swedish labour movement's customary political path between western capitalism and eastern European communism (see Meidner, 1980). The Third Way package was designed, first, to strengthen the competitiveness and profitability of Swedish industry and increase net exports and investment, and to increase savings while decreasing consumption. In addressing these priorities, the Swedish Krona was devalued 16 percent, and the domestic fiscal and monetary policy-mix took a restrictive stance. The restrictive monetary policy would increase savings and discourage consumption by increasing interest rates. The limited degree of support to uncompetitive industries in existence was scrapped, and the devaluation in the currency would allow the market to drive industrial restructuring (see Ryner, 1994). In 1985, a (monetarist) norms-based - as opposed to (Keynesian) discretionary - monetary policy was adopted, and the capital and currency markets were almost totally deregulated. In the labour market, an implicit incomes policy was used, which relied upon moral suasion of the industrial relations parties. In all, these macroeconomic measures allowed greater profitability, but they also caused greater financial speculation, adding volatility to the business cycle and lessening the ability of government to implement Keynesian stimulation policies, leading to mis-directed investment, and thereby aiding the drift toward the recession of the early-to-mid-1990s. Further.

as will be expanded upon in the next section of the paper, in that they represented a departure from the prescriptions of the Rehn-Meidner Model, they by-passed the 'transformation pressure' which was inherent within it (Erixon, 1995). The architects and proponents of the Third Way ignored the strong possibility that, because it was designed to continually aid restructuring, the Rehn-Meidner model would have facilitated a more structurally sound response to economic reform.

Despite the strong export boom which has seen something of a recovery, particularly from 1993 to 1995 (see OECD, 1995: 102-104), the Swedish economy is still significantly less well-placed internationally than it was in the prosperous post-war decades leading up to the 1970s. The OECD (1995: A24) estimated that in 1989 the unemployment rate was 1.5 percent. In 1994, it was eight percent and has not decreased significantly since then. Indeed, the labour market is more depressed than this would suggest if one accounts for those within the labour-force who are in labour market programs, in which case the figure is greater by three to five percent. Other significant statistics, some of which are used by the mainstream financial press to dramatise the current Swedish economic policy challenge, include the 30 percent devaluation of the Swedish Krona against the Deutschmark in the fiscal year 1992-93. The government budget deficit in 1993-94 was 10 percent of GDP. Finally, at the beginning of 1995 public debt stood at approximately 80 percent of GDP (see Sloan, 1995: 11; *The Economist*, 1993: 58-9; 1995: 48-50).

In advancing what is fundamentally economic-liberal ideology, critics of the Swedish model - within the mainstream press, the public service and the academic community - argue that the primary source of Sweden's current economic woes is its customarily generous level of social protection offered by the universalist welfare state (see, for example, Sloan, 1995; *The Economist*, 1993; 1995; Lindbeck et. al., 1993). As well as the decentralisation of the Swedish industrial relations system (discussed further on), the services sector of the welfare state and the taxation system, these critics focus upon the generosity of the social security system. Calls to reduce benefit-levels have not gone unheeded by Swedish governments, both Social Democratic and Conservative.

The end of the 1970s marks an instructive turning point: from 1950 to 1980, social expenditures showed an upward trend. Throughout the

1980s, as part of a broader program of market-reliance, they stagnated (S. E. Olsson, 1993: 255-6). In 1990, the Social Democratic government reduced the compensation level (or replacement rate) of sickness benefits from 100 percent to 65 percent for the first three days of absence from work, and 80 percent from the 4th day to the 90th day. In addition, a ruling was introduced which disallowed any collective agreement from compensating a worker by providing more than 10 percent of lost income. In 1992, a further change in sickness benefits was instituted, when employers were obliged to compensate the worker for the first two weeks of absence: 75 percent of lost earnings for the first 3 days, and 90 percent for the following 11 days. From the 14th day to the 90th day, the state paid 80 percent, and from the 91st day, 90 percent. A further reduction was introduced in 1993 by the Conservative government, in a deal made with the Social Democratic opposition as part of a 'crisis package' formulated in September 1992. This package was largely triggered by the failure of deregulatory policies in the financial sector, which increased currency speculation on the part of international investors, prompting the Bank of Sweden's currency-defending increase of the interest rate on overnight borrowing at one stage to 500 percent. Effectively the agreement between the two parties saw the introduction of an uncompensated sickness-day, an employee's (tax-deductible) contribution of 0.95 percent of gross earnings, and the reduction of the state benefit, in cases exceeding 90 days, to 80 percent (see Palme, 1994; OECD, 1994: 90-5).

In 1993, the Conservative government also reduced the pension level by two percent. Though it was proposed that the pension age be gradually increased from 65 to 66 years of age, this did not materialise. Another proposal put forward in the early-1990s was to reduce the level of superannuation benefits from 65 to 50 percent of previous earnings, and shifting the basis of pension benefits closer to an actuarial system. This was supported by the OECD (1994) and the Assar Lindbeck Commission, the latter recommending, with unconvincing empirical reasoning, lowering benefit rates and increasing the importance of non-compulsory and private insurance (see Lindbeck et al., 1993). Other changes in social security benefits include the reduction of unemployment compensation from 90 to 80 percent of previous wages, with the introduction of five uncompensated days. In 1995 a further

reduction was made such that unemployment benefits now stand at 75 percent. This is the result of another Social Democratic party deal with a non-socialist party, the Centre Party.

Work injury insurance has been cut back to the same level as sickness benefits. In January 1993, the definition of industrial injury was narrowed, in that there had to be a proven higher likelihood than was the case before that injury had been caused by work, and that injury was permanent. Conditions regarding early retirement pensions were changed in that they could be paid in part, even while the beneficiary was still at work, at 25, 50 or 75 percent. January 1996 saw the reduction of parental insurance from 90 percent to 80 percent, and the reduction of the child benefit from 750 to 640 Krona. Further cuts in the areas of unemployment insurance and sickness benefit insurance are on the agenda. However, it must be borne in mind that all the cuts represent reductions in the level of benefits, such that the social security system is still governed by the principle of universalist provision.

As well as reductions of public social security benefits, the structure of the insurance coverage system has been amended by the growth of corporate and private welfare since the 1980s. In effect, the public/private welfare mix⁵ has been altered by the increased use of arrangements which constitute either top-ups for public schemes on the one hand, or totally private schemes on the other. Though for most workers the public insurance system is the safety-net, 'much of the working population is covered by a combination of private, corporate and public schemes' (Marklund, 1992: 8). A primary reason for the growth of private insurance lies in enhanced tax-incentives for individual or contractual solutions to social risk-amelioration. Any claims that the shift from public to private coverage reflects popular or consumer choice, however, should be made with great caution, as they fly in the face of attitudinal research findings (see, for example, Svallfors, 1995) which confirm that the claims have been severely exaggerated.

5 For an authoritative conceptual, empirical and comparative account of public/private welfare interplay, see Rein and Rainwater (1986). For a fruitful treatment of the public/private mix in sickness and pension insurance in the Scandinavian regimes, see Kangas and Palme (1993).

It is the advancement of SAF's ideology - particularly when viewed in the context of the ever-increasing intimacy of its relationship with the state - which has been partly responsible for public social insurance benefit levels being reduced (see, for example, Kjellberg, 1992). SAF's enthusiastic pursuit of free market ideology is made manifest not only in its quest for reductions in employers' social insurance contributions (see, for example, SAF, 1993), but also in its more encompassing yearning for reducing the size of the public sector (see, for example, Lundgren, 1994). However, nowhere are the market-liberalising strategies of Swedish employers more conspicuous than in the sphere of industrial relations.

Arguably, the process of departure from traditional industrial relations arrangements essentially began with labour unrest in the late-1960s. Dissatisfied with the traditional means of labour market regulation, and in the face of increased employer resistance to their demands for greater control over working conditions, rank-and-file workers initiated a wave of wildcat strikes (see Swenson, 1989: 84-94). The most important of these was the December 1969 dispute in the state-owned Kiruna iron ore mines. This was largely over the issues of work reorganisation and technological change, which the central union negotiators conceded to without a great deal of effective consultation with their rank-and-file.

Given the historically significant wave of industrial action in the late-1960s, and after the downgrading of employment security in the early-1970s, the state responded with a raft of legislative interventions. These represented a clear break with the tradition of state minimalism in the LO-SAF bargaining process. The government introduced statutes designed to provide workers with enhanced standards regarding job security (1974), union workplace representation (1974), industrial democracy (1976), and occupational health and safety (1974 and 1978). In essence, the series of strikes, and the legislative responses to it, called into serious question the traditional foundations of the historic compromise between labour and capital, thus calling into question the basis of the Swedish formula for labour market success. Despite the increase in state regulation of non-wage conditions, however, wage levels were still determined predominantly by direct LO-SAF bargaining. Regardless, it is undeniable that the peaceful post-war industrial climate for which Sweden was famous had been shaken. It is also true that

abandonment of the long-established tradition of 'self-regulation' by labour and capital prompted SAF to resist further encroachment into managerial prerogatives.

Displeased with the joint attempt by LO and TCO (the major peak-level representative of white-collar workers) to redistribute power within the workplace, SAF staved off any attempt to institute effective industrial democracy measures. Such 'interference' by labour in the vital issue of control over the capitalist production process would not be entertained by SAF, which always saw in industrial democracy a fundamental violation of the right of capitalists to perform their function in society. LO, on the other hand, saw it as a means by which its broader aspirations for economic democracy - or simply, democratic participation in control over the economy - could be advanced (Higgins, 1986). The Co-determination Act (MBL) 1976, the primary legislative manifestation of industrial democracy, was to be implemented by means of subsequent centralised LO-SAF negotiations, though it was not approved by SAF until 1982, and even then in a form which only allowed individual workers and work-groups to participate in work reorganisation. It did not facilitate the union movement's capacity to affect significantly the way production was organised. The failure of industrial democracy is credibly interpreted as the result of SAF's resistance, in the face of necessary change in the work process, to adapt to its responsibilities to the ongoing renewal which the Swedish model called for.

Another key instance of SAF's ideologically-driven desire to abandon the Swedish model lies in its push in the 1980s to make decentralised bargaining the organising principle of industrial relations (see, for example, Myrdal, 1991; Lundgren, 1994). For industrialists the primary motivation for the decentralisation of bargaining structures has been their ever-greater export focus, which, given the ongoing intensification of international competition, was not as prominent during the period up to the early-1970s. This is a major theme in modern writings by comparative political economists and policy analysts (to name just a few influential works, Clement and Mahon, 1994; Meidner, 1993, 1994; Lindbeck et al., 1993; Turner, 1991; Ferner and Hyman, 1992; Kjellberg, 1992).

The increasing focus by labour, capital and the state on internationalisation has been given a fillip by the emergence of the European Union (see, for example, LO, 1994). Even before the Swedes voted to join in 1994, it was widely perceived that, regardless of whether Sweden did in fact sign up, the Union's mere existence would have potentially profound effects on the Swedish policy process. Would Sweden, as a small nation-state amid an economically unified Europe, be as internationally competitive as it had traditionally been? Important questions have been raised regarding the 'affordability' of its comparatively large public sector, the magnitude of its state welfare expenditures, and 'market-distorting' social protections such as wage-compression and special consideration for the low-paid. Particularly pressing issues include the fear that the European Social Charter may pressure Sweden to lower its overall level of social protection (see, for example, Kuper, 1994). Another relates to the probable effects on Swedish workers of 'social dumping' (Hall, 1994; Dearden, 1995; Adnett, 1995), which refers mainly to:

multinational companies establishing or relocating their operations in countries with cheaper labour costs and less stringent employment legislation, thus generating downward pressure on the higher labour standards that exist in countries such as Germany [and Sweden]. (Hall, 1994: 282)

Along with the intensification of international economic competition - to which the European Union is a response - most economies have experienced the decline of the manufacturing sector of industry and the concomitant expansion of the white-collar sector of the labour-force. Associated with such industrial restructuring was the emergence and subsequent rise of post-Fordist production and management concepts (see Berggren, 1992; 1993; Sandberg, 1995; Mahon, 1994a, 1994b; Ryner, 1994; Meidner, 1993). All of these factors were at the heart of increased disunity within labour, and contributed to the loss of some of LO's authority over its constituency. The increase in the industrial profile of white-collar workers resulted in the decline of wage-equity concerns, and the increased levels of 'wage-drift' - that is, the granting of wage rises outside of the framework of centralised bargaining, which encourage the state to institute incomes policies in order to maintain

control over the aggregate distribution of wages (see Swenson, 1989). White-collar workers are well known to be less sympathetic to the wage-equity concerns of labour movements than their blue-collar counterparts. A further problem has been the blurring of the distinction between white- and blue-collar work. This is particularly important in the Swedish context because of the different peak bodies which represent the different sectors of the labour-force,⁶ and because of the important role of the 'EFO (or Scandinavian inflation) Model', by which overall wage settlements followed productivity-patterns in the export-competitive sector of industry (see, for example, Swenson, 1989; Olsen, 1994). Yet, divisions within the trade union movement should not be seen, as they are in most of the comparative literature, merely as accommodations to changed international and domestic economic structures. The labour movement could have taken steps to avoid at least some of its disunity and disharmony.

Particularly in the context of strongly corporatist social democratic structures such as those traditional to Sweden, labour is not a passive agent. As argued earlier, to conduct an analysis of the Swedish model with no regard to its historical development is to miss the greatest source of its uniqueness; and to examine its origins without recognising the centrality of labour movement and trade union strategy is to misunderstand the role of strategic and policy mistakes by both LO and SAP in the downturn of the model (Korpi, 1978; Esping-Andersen, 1985; Higgins and Apple, 1983; Higgins, 1985). Given that the labour movement played the most vital role in establishing the model - primarily through the implementation of the Rehn-Meidner model - the role of the labour movement in failing to avert the model's decline should be regarded as just as important as the economic-liberal strategies of Sweden's conservative political interests.

6 LO (Swedish Trade Union Confederation) is the main blue-collar representative body. TCO (Swedish Confederation of Professional Employees) is the predominant white-collar representative. SACO (Swedish Confederation of Professional Associations) is the body representing unions organising workers in possession an academic degree. LO is significantly larger and more influential than the rest.

In the context of labour market restructuring, controversy over LO's battle for economic democracy through wage-earner funds, and growing inflation resulting from the oil-shocks and the destabilisation of profit-rates, SAF called for a wage-freeze, and locked out 750 000 LO members. It is arguable, as indeed Martin (1984: 320-2) and Kjellberg (1992: 104) suggest, that this 'great conflict of 1980' was a conscious attempt by SAF to accelerate the conversion from centralised to decentralised bargaining. SAF hoped that by inciting industrial conflict the Conservative government would be encouraged to intervene, lessening the credibility of centralised bargaining, the institutional backbone of the industrial relations component of the Swedish model.

Decreasing commitment on the part of both LO and SAF to centralised bargaining eventually resulted in the establishment, in 1983, of a decentralised deal in the metalwork industry, including prominent firms such as Volvo, Saab and Asea. This represented a disrespect for the 'spirit of Saltsjöbaden' (Meidner, 1980). It was instigated by the Metalworking Employers Association, the most powerful constituent of SAF, and the most motivated by free market ideology. Because about 50 percent of Sweden's exports are products of the metal industry, and the export sector is the traditional trend-setter with regard to wage-formation, the metal employers' stance has a strong bearing on the fate of centralised bargaining. It was at least partly under coercion that the metalworkers union agreed to a decentralised deal. In 1984, no national-level negotiations took place. Since then, there has been an oscillation between centralised and decentralised agreement-making. However, though many of the centralised agreements which have been struck were merely recommendatory (see Archer, 1992: 159-60), the fate of the centralised bargaining system is not yet carved in stone. In the Autumn 1995 wage round, for instance, LO almost re-instituted centralisation, and SAF was disillusioned at the generosity of its constituents in the context of the recent export boom.

The transformation of the bargaining system has had negative effects on wage relativities. Adherence on the part of the industrial parties to the principle of solidarity in wage-determination has diminished (see, for example, Meidner, 1994). Even before the decline of peak-level bargaining, however, the principle of solidarity posed potential problems

for the policy process. Thanks principally to the efforts of Rudolf Meidner, LO had long recognised that there existed a danger within solidarity of the more financially buoyant firms gaining 'excess profits'. Through the compression of wage differentials, those firms which could not afford to pay the socially adequate wage collapsed. This was not considered unjust. Their share of the capital market, LO argued, should be taken up by firms which were efficient enough to sustain adequate wages. As a result, however, the successful firms became more successful, and were often left with excess capacity to pay wages. Meidner recognised that inflation would be caused by wage-drift in the more dynamic sectors of industry, as long as the firms within it acted on the excess capacity, and provided the unions in the non-dynamic industries recognised that wage relativities had been upset and that they had been left behind. Though it was not due to the structural features of the solidarity wage policy, inflation was a key concern in the early-1970s, when a number of important Swedish exports were subject to price-fluctuations on international markets, causing some destabilisation of profit-rates. Excess profits in some sectors led to wage-drift, which contributed to inflation. The most important potential problem inherent in wage solidarity, however, was the increase of the already structurally inherent industrial concentration.

It was the recognition of these dangers which prompted LO's desire for the extinction of excess profits in the firms affected. Thus, in 1971, LO commissioned Meidner to investigate the option of wage-earner funds (see Meidner, 1978), by which a significant portion of what were considered 'excess profits' would be allotted to funds administered by the trade union movement. The funds had three objectives: first, to complement the solidarity wage policy; second, to counteract the concentration of industry ownership, a structural feature of the Swedish economy from the late-19th century which was accentuated by the solidarity wages policy; and third, to act as a form of economic democracy by increasing wage-earner influence on the economic process (Öhman, 1983: 41). After several years of debate, however, with written submissions from labour, capital and government, only a parody of the wage-earner funds proposed was instituted. In a move designed to quell the political controversy, Olof Palme, the Social Democratic Prime Minister at the time, introduced a profits tax in 1982. LO's aspirations

for economic democracy and significant wealth redistribution had not materialised.

Was the Downturn Inevitable?

The developments discussed above clearly reflect a decline in the capacity of the Swedish model to renew itself successfully. Figure 1 outlines the most common political and economic explanations for the downturn of the model.

Figure 1: The Downturn of the Swedish Model: Inevitable?

Political Explanations		
<i>Loss of legitimacy of the welfare state</i>		<i>Political triumph of the right</i>
Political /bureaucratic elites change their minds		
Ideological agenda of employers and the Conservative Party		
Labour movement policy misjudgements		
Economic Explanations		
<i>Poor Decisions</i>	<i>Inevitable by-product of welfare state expansion</i>	<i>International developments</i>
Deregulation and collapse of banks	The welfare state can be too large	Economic Globalisation
Solidarity wages and economic democracy abandoned	Decline in labour productivity	Decline of Eastern-Bloc Communism
Exchange rate policy	Over-sized public sector and limited competition	European Union
Tax cuts		Rise of economic liberalism

Economic-liberals explain the downturn in terms of what they believe are inherent structural problems which would ultimately lead Sweden to a worsened competitive position on world markets. The Report of the Lindbeck Commission, for instance, argues:

[T]he problems in Sweden are largely due to distorted markets, aging institutions and ossified decision-making mechanisms, which have not been conducive to favourable long-run economic outcomes. Institutions that might have been adequate thirty or forty years ago are less adequate today (Lindbeck et. al., 1993, p. 220).

Its authors also recognise the failings of deregulation in the 1980s. In particular they assert that the currency devaluations 'were not used to advantage' (Lindbeck et. al., 1993: 226). However, their prescription is not for a return to the macroeconomic stability produced by the Rehn-Meidner model or some modified version of it. Rather, they see a successful return to economic prosperity through measures which take Sweden further down the free market path which has already been taken. The Commission supports the de-institutionalisation of the commitment to full employment, the prioritisation of inflation, and the granting of greater levels of central bank independence. Assuming that the welfare state is too large, and that this restrains both labour productivity and incentives to work, it argues that various further cuts in welfare state benefits should be made, and that emphasis upon worker contributions to private and occupational insurance schemes should be further increased. Arguing that '[l]abour taxes - the tax wedge [sic]- remain very distortionary', it supports the 1991 reduction of marginal tax rates, but recommends complementing this with the abolition of taxes on dividends. Further market deregulation, it states, would produce the enhancement in industrial competition made necessary by European integration. The entry of new firms to vital industries should be encouraged, public sector services should be reduced in some instances and exposed to competition in others, and private industry should be more convincingly exposed to international competition. Particular need for deregulation is felt in the housing and building sectors, and the food and beverage industry. Labour market efficiency would be enhanced through further decentralisation of the industrial relations system - to the level of the firm in most cases - and the reversal of many of the protections offered to workers by the legislative program introduced in the 1970s.

Given that the recommendations of the Lindbeck Report represent a strengthening of the existing policy path, the key question which should be asked of successive Swedish governments, both Social Democratic and Conservative, particularly since the 1980s, is how or why they came to shift their position on economic policy from one largely consistent with the Rehn-Meidner model to one more influenced by economic-liberal thought. How or why did they compromise the traditional Swedish methods of ensuring favourable macroeconomic outcomes?

A common response is that there was no alternative, given international pressure on national policy regimes to succumb to global economic pressures (Reich, 1991), and thereby 'converge' in the commitment to free market principles and the associated cut-back of social protection⁷. The convergence thesis, however, under-estimates the power of traditional national institutions to continue to shape policy, and thereby to shape policy outcomes. It certainly lacks sufficient power to analyse the legacy of a strong social democratic heritage such as that of Sweden. In essence, as Meidner (1994) suggests, the question of conforming to international standards rests more upon domestic political choice than on international economic dictates.

Analysts of the Swedish response to economic internationalisation should not merely accept former British Prime Minister Thatcher's argument that 'there is no alternative' to economic liberalism. The Third Way experiment, for instance, was at least partially a response to factors external to Sweden. However, it was not merely the product of an inherent, inevitable drift toward greater faith in the market, as the convergence thesis assumes. Like other economic experiments, it was politically constructed, its architects capitalising upon the international ascendancy of free market ideology. The Third Way program was essentially the product of the SAP government's appointment of committed economic-liberals to the Cabinet. The most noteworthy of these was that of Kjell-Olof Feldt as Minister of Finance. After the selection of other key officials seeking market-liberalisation, such as Bengt Dennis (Feldt's former assistant) as head of the Bank of Sweden,

7 For the question of convergence in social policy regimes, see, for example, Castles and Pierson, 1996).

Olof Palme's staunch long-standing resistance to the introduction of free market principles - enshrined in macroeconomic policy by the group known as the 'Treasury Right' - came under severe strain. After being assured by Feldt that the Third Way was the last step to be taken in the process of financial deregulation, Palme's resolve was weakened by significant political pressure, particularly from the banking fraternity. Palme is reported to have said to Feldt: 'Do as you please. I don't understand anything anyway' (Canova, 1994: 37-38). As history records, the Third Way was not the last deregulatory initiative. It was to pave the way for more.

Financial deregulation represents a policy misjudgement on the part of both SAP and Conservative governments. The non-socialist governments of the 1970s began the process, and it was continued and cemented as part of the economic policy program by SAP in the 1980s. Since then governments of both complexions have failed to significantly reassert the traditionally interventionist principles inherent in the Rehn-Meidner model. They both failed the Swedish people in that the monetarist approach which came to replace the traditional means of macroeconomic stabilisation could have been averted by greater probing of the Rehn-Meidner model's capacities to respond to detrimental economic change. Financial deregulation negatively affects the capacity of government to use selective demand-management policies to reassert stability and sustained growth.

The Rehn-Meidner model's potential to reassert itself in the current era as a successful alternative to economic liberalism has been largely untapped. However, one author who has sought to reinstate the model, arguing that its abandonment was premature, is Erixon (1995). Using a 'modified Rehn-Meidner model', he argues that LO's blueprint of the early-1950s for the sustained, simultaneous achievement of full employment and price stability is 'revindicated'. The modifications which Erixon makes are: first, a more explicit theory of the link between wage-drift, inflation, marginal profitability and general profitability; second, the more effective incorporation within the model of 'transformation pressure'; and third, a deeper analysis of the inflationary potential of solidarity wages. The most pertinent of these is transformation pressure, which refers to factors which force continual

industrial change. In the original Rehn-Meidner model, transformation pressure is brought to bear upon marginal companies, which must rationalise, given the solidarity wage policy and the restrictive stance of macroeconomic policy. The lack of pressure on historically highly profitable firms, brought about mainly by the solidaristic wage policy, threatens to make this sector of industry rigid or complacent, and thus more susceptible to decline when faced with intensified international competition. A modified Rehn-Meidner model would force transformation pressure upon all firms, not just the marginal ones, and may also address the question of 'optimal' transformation pressure.

The abandonment of the Rehn-Meidner model's economic policy framework, however, is not the only factor which casts doubt upon the argument that the Swedish model's downturn was inevitable. The trade union movement, the role of which has historically been central to the model, has also departed in important ways from tradition. In particular, it has downgraded the importance of social equity. Since the 1980s, LO has paid less regard to the interests of the low-paid. It also failed to establish a system which would adequately service the needs of workers once the industrial restructuring process began. It was ill-prepared, for instance, to deal with the dislocation brought about by the blurring of the white/blue-collar divide and the problems of demarcation experienced during 'the Great Conflict of 1980'. It has also failed to accommodate adequately the needs of the high and growing number of women workers, who constitute 46 percent of LO's membership (Higgins, 1996). Given that social democracy incorporates the ideals of social justice and economic and industrial efficiency, LO's failure to adhere to the principle of wage solidarity, and indeed its failure to adapt the concept of solidarity to meet structural shifts in the labour market which revolve around gender, constitutes both a missed opportunity and a failure to upgrade its notion of equality. The importance of this is heightened by the increasingly exemplary political strategies of the Swedish Municipal Workers' Union (Kommunal) which, as Higgins (1996) shows, is currently alone in articulating a workable strategy for welfare state and worklife renewal. Kommunal's importance to labour movement strategy is seen in the fact that it is the largest union in the country, and that 81 percent of its membership are women, a traditionally disadvantaged group within LO's membership.

LO was also incapable of dissuading the metalwork employees from accepting the decentralised deal with their employers (see Lash, 1985). During the relatively less challenging era of Fordist production, the imperative to adjust wages and the organisation of work to the needs of workers at the industry and firm levels was not as urgent (see Meidner, 1993: 219-20; Mahon, 1994c). This is especially true given the healthier state of the economy, the trend toward increasing gains for the low-paid under the policy of wage solidarity, and the relative simplicity of work organisation implied by the specialisation of workers' skills and tasks. In essence, then, while the post-Fordist age has enhanced progressive trends such as the growth of women's labour market participation, it has resulted in a less certain environment regarding the labour market position of lower-paid groups generally. The steady growth of the public sector has produced greater levels of employment for women, but it has also reinforced their crowding into the less prestigious sectors within it. The prescription for Swedish unions, as Mahon (1994b) points out, is that they need to adjust to current demands like local level organisation, while maintaining or strengthening the labour movement's traditional unity. As well, the union movement needs to decide on the most appropriate combination of legalism and voluntarism in labour market regulation. Should LO pursue inroads into managerial prerogatives through the law, or through bargaining directly with SAF? Both LO and SAF opposed the anti-discrimination legislation of the 1970s, for instance, on the basis that it violated the principle of voluntarist bargaining, as initiated in the Saltsjöbaden Agreement. Given Sweden's inclusion in the European Union in 1994, this has become a more important issue. Arguably, either the law or direct bargaining could be compatible with an adapted Swedish model. The choice rests upon how and to what degree the policies of the state and employers reinforce or complement the model, and the degree to which the law can truly provide broadly-based protections which reflect significant inroads into the process of managing work and production. In turn, it also depends upon the question of economic democracy.

The most important of the trade union movement's missed opportunities lies in its failure to adequately address the question of wage-earner funds. Recall that this was a vital complement to the solidarity wage policy in that it addressed the problem of the increasing concentration of

industry ownership resulting from compressed wage-differentials. As Öhman (1983) points out, the labour movement was highly divided on the institutional features which the funds should take. LO and TCO could not agree on the form of the funds, which allowed SAF to more effectively oppose them (as indeed it did - vehemently). Indeed, the LO leadership handled the issue with amazing incompetence. Having purposely formulated the proposal in preliminary form, Meidner expected the leadership to refine it before launching it as a political strategy. However, the leadership unveiled it as it stood, and did not even consult the SAP leadership beforehand, thus taking the latter completely by surprise. The failure of SAP in opposition during the main period of the controversy (1976-82) to provide adequate support to the union movement on the issue is in turn also a contributor to the funds' failure. Moreover, as Pontusson (1992) argues, LO could have profited from attempting to gain popular support and mobilisation for the funds. As mentioned above, the form which the wage-earner funds took when instituted in 1983 was highly diluted, largely ineffectual as means for either promoting economic democracy or arresting the growing industrial concentration. A more politically competent approach by both unions and party may have saved a vitally important component of the model, perhaps shielding the Swedish economy from the inflationary tendencies caused by wage-drift. Arguably, if the wage-earner funds had been effected, the Rehn-Meidner model may have survived the employers' attacks on the Swedish model as a whole in the 1980s. Disunity between SAP and LO, and the mishandling of the wage earner funds proposal, were instrumental to SAF's capacity to divide and conquer the labour movement.

Meanwhile, Swedish employers have pursued an ideologically-inspired agenda involving bargaining decentralisation, reduced state welfare benefits, and privatisation. Though privatisation has not taken significant hold in Sweden, pressures to corporatise have been popularised. For instance, there are demands on the 'Post Office and other state-run organisations to "professionalise" their boards by appointing people with business competence' (Kjellberg, 1992: 100-1). Consistent with free market strategies, an ever-increasing number of Swedish multinational firms, which Meidner (1993: 226) labels 'ungrateful internationalists', are devoting increasing resources to their foreign (less regulated)

subsidiaries, materialising the fears of the labour movement of social dumping. As well, some corporations have become transnationals: firms which are owned by Swedes but are located entirely elsewhere. The solidarity wage policy caused the growth in profitability of the large firms sector. The failure of the wage-earner funds proposal meant that investment could not be directed into economically and socially appropriate areas within the Swedish economy. Thus, given the labour movement's loss of the capacity to channel business investment in a democratic way, big business was able to betray the Swedish model by investing abroad. Investment in economic activities within lower-wage countries only encouraged SAF firms to push for economic liberalism, and thus use the lowering of real labour costs as a competitive strategy.

Finally, SAP's contribution to the Swedish model's downturn, over and beyond its role in macroeconomic mismanagement, is important. As discussed above, the various crisis agreements which it made with the right-of-centre parties (see, for example, Stephens, 1995) represent an obvious betrayal of the low-paid and those dependent upon the social security system. Amongst both these groups, women are particularly prominent, being more likely to be low-paid and to carry the greatest responsibility for domestic labour and care-giving (Higgins, 1996). As a result of its move toward the political centre, SAP's electoral support-base has decreased significantly. It has come to value electoral caution, shifting toward capitulation to a big business sector which has become highly internationalist in outlook. Thus SAP and SAF have been virtually at one in allowing - in the case of the latter, stridently and openly espousing - the significant rolling back of the welfare state and the decentralisation of industrial relations. In short, both have sought to downgrade social protection.

Conclusion

In the early decades of the post-war period, the Swedish model was widely viewed as a policy system worthy of emulation. This reputation was well deserved. By the time the model had reached the beginning of its 'golden years', a highly political union movement had combined with an electorally highly successful social democratic party to establish a

strong principle of social protection which convincingly restrained the operation of market forces. For some it represented the exemplar of the 'middle way' policy regime, situated between eastern European communism and liberal capitalism. Since the 1970s, however, the detrimental changes discussed in this paper have forced a re-evaluation of the Swedish model. In analysing the sources of the model's downturn, much of the literature assumes that the decline was inevitable. This paper questions this assumption and attempts to cast doubt upon the claims of those analysts who would view Sweden's social democratic policy system as an accident waiting to happen. Rather, policy misjudgements, missed opportunities and strategic ideological attacks against the traditional Swedish model were all instrumental to its decline. These fundamentally upset the pattern of economic and political incentives inherent within the model. For instance, the disciplining of capital through the solidarity wage principle, by giving it no option but to pursue a 'high-road' approach (see Sengenberger, 1994) to minimum wages and other labour standards, is a fundamental part of just that. Therefore, to abandon the solidarity concept is to take business into an environment of competition to which it is structurally unaccustomed, regardless of its express desire for such a shift. Further, some key strategic changes which should have been made, but were not, weakened the model's capacity for successful renewal. The two most important failures were the deregulatory macroeconomic policies of both SAP and Conservative governments - which constituted a significant about-face on the Rehn-Meidner principle of restrictive demand-management - and the labour movement's mishandling of the wage-earner funds proposal.

The abandonment of the key aspects of the traditional Swedish model ignores the repeated warnings of comparative social science scholars about attempting to transplant economic policies from another kind of regime. Essentially, the economic-liberal experiments in Sweden since the 1970s are incompatible with the Rehn-Meidner model, which built upon the long-standing structural bases of the Swedish model. The departure from it, as opposed to its adaptation in the context of a new economic and political setting, represents a retrograde movement. Given the ideological dominance of economic liberalism in the much of the contemporary western world, it is important that social scientists do not assume that social democracy need collapse as communism has.

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