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The Transformation of the Swedish Welfare System: Fact or Fiction?

Globalisation, Institutions and Welfare State Change in a Social Democratic Regime

Ali Naghi Hajighasemi

Includes 98 000 words

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Abstract

The economic crisis of the early 1990s in Sweden, along with the dramatic rise in unemployment, followed by retrenchments in certain social policy arrangements, led to an understanding that the Swedish welfare system, known as the 'last bastion of Social Democracy,' is collapsing. It has been assumed that in an era of globalisation, national economic and political systems could not survive, and, in adapting to a new global economic order, were doomed to dismantle their expensive social policy arrangements. This doctoral dissertation examines such assumptions and tries to answer the question of whether the changes in the Swedish welfare system in the past two decades were mainly systemic or mainly programmatic. Further, it examines the factors that are regarded as posing the greatest challenges to the continuity and the future of the comprehensive welfare states?

A careful consideration of development in Sweden indicates that despite the turmoil of the 1990s, the broad design of the post-war Swedish welfare settlement, with its egalitarian and universalist characteristics, continues to exist. Further, while adjustments in social transfer systems have led to a decrease in the level of all transfers, so far, the changes have been modest, which rejects the indications that the Swedish welfare state would have initiated a new trajectory. The legacies of previous policy choices, and the widespread institutional and public support for the existing arrangements, are suggested as the main factors which prevented large scale changes.

Nevertheless, this thesis acknowledges that the circumstances which favoured the expansion of state welfare in the post-war era – secure growth, full employment, moderate welfare needs, consensus in the labour market, and national politico economic autonomy – have been reversed by labour market restructuring, demographic changes, and economic globalisation. Therefore, even if the Swedish welfare settlement has so far been resilient in the face of current challenges, the future of the system is less 'secure' than at any time in its postwar history.

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Glossary

ALMP	Active labour market policies
AMS	Arbetsmarknadsstyrelsen, the labour market board
ATP	Allmänna tilläggspension, the national supplementary pension
DN	Dagens Nyheter, a daily Swedish national newspaper
EMU	European Monetary Union
FDI	Foreign Direct Investments
ILO	International Labour Organisation
IMF	International Monetary Fund
LO	Landsorganisationen, the trade union federation of manual employees
GDP	Gross Domestic Product
GNP	Gross National Product
GP	Guaranteed Pension
ITP	the negotiated occupational pension (for white-collar)
MNC	Multy National Companies
NIC	Newly Industrialising Countries
NIE	Newly Industrialising Economies
OECD	Organisation for Economic Co-operation and Development
R&D	Research and Development
SAF	Sveriges Arbetsgivares Föreningen, the Swedish federation of employers
SAP	Socialdemokratiska arbetarpartiet, the Swedish Social Democratic Party
SEK	Swedish krona
SOU	Statens Offentliga Utredningar, the state's official investigation
STP	Supplemented tjänte pension, the negotiated occupational pension (for blue-collar)
TCO	Tjänstemännens Central Organisation, the trade union federation of non-manual employees
TNC	Trans National Companies
VAT	Value-added tax

Introduction

This thesis is concerned with the Swedish welfare state and how it has dealt with the social, political and economic challenges of the past twenty years. Its major objective is to consider whether the changes which have undoubtedly occurred during this period can be ascribed to the impact of 'globalisation' on Swedish welfare institutions, or whether they can be better understood in terms of a range of 'endogenous' factors, political decision-making among them, but also more 'structural' issues concerning, for example, the impact of demographic change, that may have influenced the course of Swedish social policy. The argument here is that the broad contours of the post-war Swedish welfare settlement continue to exist, in the sense that the system's core elements remain in place. Thus the egalitarian, universalist character of the Swedish system is still visible – replacement rates are generous and public services extensive, for example. Moreover, there has been a real effort to try to maintain high levels of social spending and in pursuit of this goal the system continues to be financed by equally high levels of general taxation. The redistributive elements in welfare policies are long-established, and therefore institutionalised, which has made far-reaching retrenchment efforts difficult.

This general picture, however, needs to be understood in the context of certain apparently radical changes, which have affected the Swedish welfare state particularly over the past ten years. In the area of pensions, for example, a radical and institutional change has occurred. As a result of pension reform, the earnings-related pension system has been changed and employee contributions have been introduced, meaning that pensions will now be funded by equal contributions from employers and

employees. This reform, is typical of other measures which are designed to make transfer programmes self-financing – the implication being that the Swedish system is developing towards 'market conformity in the transfer system' (Stephens 1996:56). As a result, it can be argued that the Swedish welfare state has moved from its universalist and redistributive roots, really because even the Swedish Social Democrats as the architects of the universalist welfare system – realised that the system had to adopt to new economic and demographic conditions.

Although most policy areas have faced a degree of 'deterioration', there has generally been less institutional movement than in the case of pensions. Economic crisis in the early 1990s with an unprecedented increase in unemployment saw demands on the welfare state rise, while all-important tax revenues fell dramatically. Not surprisingly, governments were compelled to cut replacement rates, introduce waiting days, increase qualifying conditions and so on. In fact these highly visible retrenchments made during a period of severe crisis were 'made good' in the later years of the decade – as we shall see, certain benefit rates have increased, though not to the generous levels of the pre-crisis period. Even so, other changes seem to have been more long-lasting, arguably changing the institutional make-up of the system itself. Examples include certain changes in service delivery. A movement toward privatisation, started in the late 1980s and intensified in the beginning of the 1990s, led to the entrance of private competition in delivery of services, but within a framework of public financing. Although the changes have been far too modest and the major part of welfare services are still provided by the public sector, and therefore there is no reason to suggest that the changes are fundamental – or transformational – a precedent has nevertheless been set and more far-reaching changes could threaten the system in future. Apart from privatisation of service delivery, a process of 'creeping' privatisation in the insurance system has also started, which in the longer term may entail a shift of welfare responsibilities to companies. In both cases, by accepting the idea of private competition with the state, it has been giving room to the market in areas, which have traditionally been dominated by the public sector.

Along with privatisation, there has also been a process of decentralisation, which was prompted to transfer the authority of central government to lower levels of government, especially in matters such as the delivery of services. In practice, the

extension of the power of municipalities in the provision of services led to increasing differences between local authorities in delivering services. In the longer term, there is a risk that the gap between rich and poor municipalities increases.

Despite the changes I mentioned here, I argue that none are sufficiently radical to jeopardise the egalitarian, social democratic nature of the welfare regime in Sweden. Actually, the system has emerged, relatively speaking, almost intact, in terms of the fact that the universal welfare systems main objectives, such as equality, reasonable standards, and income balance between those in and those out of the labour market, are still fulfilled. In other words, the structural support to the citizens is almost the same as it was before. My research has also shown that the actual income transfer remained quite solid, although as a result of retrenchments in the 1990s, the level of benefits decreased marginally.

Having said that, I am also going to argue that during the period some significant changes in the infra-structural issues, such as the stability of the power balance in the political system, cooperation in labour market and the influence of labour movement have been observed which caused a successive erosion of the system's structural supports. As a result, the infra-structural issues seem to be more acute now than it used to be. Consequently, I am arguing that the system's institutional support is not as secure as it once was. In other words, those pillars, which underpin the welfare system, such as a peaceful industrial relations, union influence in the labour market, the level of state authority in delivery of services, and the stability of public support for the Social Democratic Party as the major architect of the Swedish welfare system, are now weakened. In past elections, voters have turned their backs on the Social Democratic Party, and by doing so, a question mark has been placed over the welfare state. Consequently, the hegemony of Social Democrats has been questioned by both left and right, and so the probability that the Social Democratic Party could lose power and the country be governed by alternative governments, is greater than in the first decades of the post war period.

In addition to weakening of public support for the Social Democratic Party, even in the labour market the broad consensus between the encompassing trade union and employer organisation (SAF) has been eroded in the past decade. As long as the

consensual social partnership remained, partners in the corporatist Swedish labour market were able to negotiate conflicting demands, and therefore the capacity for broad, nation-wide social pacts existed. Further, whilst trust between trade unions and employer's organisations existed, the aim of full employment and the extension of welfare programmes, was maintained. The failure of the social partners to compromise on sustainable welfare programmes prevented them from entering into further bargained consensus, which previously had guaranteed stability in the Swedish labour market.

Membership of the EU is a further change, which may also undermine the security of the welfare system in the longer term. Although there is no EU social policy or obvious restrictions against the national state's sovereignty concerning welfare expenditures, there are reasons to believe that further integration in the union, per se, would make the Swedish welfare state, to some degree, adapt itself to the rest of the Union. However, membership of the EU ended a period of uncertainty, which the process of globalisation caused for national states. There is no doubt that the process of globalisation has had certain impacts on the welfare system although not as widespread as some might suggest. The impacts are mainly indirect in the way that nation states can no longer simply adopt expensive social policies without risking punishment by the market.

Since the world economy has been internationalised in its basic dynamics, fears were raised that in the new global order, the control of national states on market forces would be successively diminished, and instead, the transnational companies, as the major agents of change, would dictate the conditions for the welfare state. In doing so, the viability of domestic strategies of national economic management would largely be reduced and by that, the era of 'the strong state' as the agency of governance would be over. Membership of the EU once again placed the national state in an international political order, which recognised the nation state's sovereignty in relation to the market. Although the nation state would lose part of its traditional sovereignty, at the same time it would gain sovereignty in a new political order. In other words, the EU as supra national state would prevent the dominance of transnational companies and thereby re-establish the hegemony of the political institutions. The prevailing unpredictability of the late 1980s and early 1990s, caused by globalisation, was partly

reduced by membership of the EU and the welfare state could in the longer term, once again find its place in a larger Union.

Research Methodology

Although this study investigates the changing nature of the Social Democratic welfare regime in the context of globalisation in general, by focusing on the evolution of a particular system, i.e. the Swedish welfare state in the recent decades, it can be called a case study. The case study is one of the most appropriate instruments for examining the evolution of institutions, because, as Flyvberg (1991) stresses, it produces context-dependent knowledge, which gives the researcher the necessary feedback for subtle details.

In a sociological analysis of the development of the Swedish welfare system, the strategy I have chosen matches the historical material with a general model of the universalist welfare approach. Therefore, the general model had to be identified, both in relation to other approaches and in terms of a historical process. This approach permitted the analysis of the existing historical material relating to Sweden as well as the opportunity to match it to other cases of welfare state development. This, in turn, meant that I could study the historical development of the 'Swedish welfare system' in a manner, which allowed comparison between its different phases.

For such sociological interpretation of historical material I have relied on secondary sources, although I am aware that the purpose of some of the authors of these sources differ from the objectives of this study, but as Hyman (1987) stresses, for certain research problems, such as historical aspects, secondary data may be the only available data. Furthermore, even for research into contemporary issues, secondary data gives the researcher the possibility to access a wide range of materials covering different areas and, therefore, it creates greater scope and depth than allowed by the use of primary data. In this study in particular, the use of secondary sources in analysing data collected at different times on similar issues concerning welfare policies, led to a better understanding of the historical context in describing and explaining changes.

Another form of primary sources is archival records, which have been used frequently in this study. These data, mainly in Swedish, are collected from diverse sources, which can be distinguished as four basic kinds (Frankfort-Nachmias & Nachmias 1996:318-20). First, actuarial records, which describe the personal demographic characteristic of the population, served by the record keeping agency, such as birth and death statistics (In Sweden SCB is the agency which provides such statistics). Second are official records concerning public votes, budget decisions, legislators activities and the like. Third are governmental documents such as records of social welfare programmes, government policies, parliamentary records and so on. Fourth are various reports or other information produced or transmitted by the mass media. In addition to these records, reports and information produced by the unions and the political parties have also been used as public records.

In addition to these sources, I have also consulted other people's accounts of the Swedish welfare system. I have also conducted a number of semi-structured (or non-directive) interviews with key personnel in the Swedish Parliament (five), interest organisations (four), local governments (Three), bureaucrats at local or central level (two) and also academics (three). Semi-structured interviews are a flexible form of personal interviewing in which the researcher may employ a schedule to ask a prespecified set of questions, but the questions may be asked in an unspecified order or with little or no direction from the interviewer. Moreover, as Frankfort-Nachmias and Nachmias (1996:235) describe in this form of interview 'the respondents are encouraged to relate their experience, to describe whatever events seem significant to them, to provide their own definitions of their situations, and to reveal their opinions and attitudes as they see fit. The interviewer (researcher) has a great deal of freedom to probe various areas and to raise specific queries during the course of the interview.'

As Silverman (2000:291-292) noted, the popularity of interview methods among qualitative researchers is striking. Apart from the common features of the qualitative research, in which the interviews are a sort of 'conversation with a purpose', and the style of interviews are flexible and fluid, the specific styles employed by researchers usually differ greatly. The characteristics of an interview, then, depend on the research topic, the purpose of the study, the level of engagement by interviewer and interviewee and the experiences during the interview itself. It is therefore crucial to state that the

use of the semi-structured mode of interviews employed in this study can be seen both in relation to the nature of this research topic, which mainly focus on the changes initiated by the political actors, and the variety of the interviewees, who represented a range of groups. Further, I cannot neglect my own background as a journalist who challenges the interviewees in public position by some in-depth questions in areas where the interviewees would otherwise either tend to avoid straightforward answers, or answer questions other than those they are asked. However, the information gathered and the knowledge produced by the semi-structured interviews in this study may be insufficient and does not cover every aspect of the study simply because the number of interviewees was limited (17) and every interview took place during a limited period of time (1-2 hours).

By employing the semi-structured interview method, I also aimed to conduct interviews in such a way that allowed the interviewees not only answer to the 'formal' interview schedule, but also encouraged them to contribute information that was not necessarily anticipated in my pre-devised list of questions. Knowing that almost all of the interviewees in this study have had influential positions spanning a long period of time, and are also accustomed to being interviewed by journalists, it was logical to assume that they, or at least some of them, would prefer to comment on the questions categorically and concisely. A rigidly structured interview method lacks the 'flexibility' of the semi-structured approach and thus risks interviewees failing to 'engage' in the interview. By careful listening to the interviewees and sometimes asking challenging questions I was able to ensure a high level of interviewee engagement.

Another advantage of the semi-structured interview, particularly for this study, is the chance it provides for the interviewer to focus on questions which are specific to the particular role and position of each interviewee. While the interviewees in this study represented different political, social and professional institutions, the semi-structured method made it possible to allow them to develop points in depth and to return to them at will during the course of the interview.

The rationale behind selection of the interviewees

The selection of the interviewees has been largely determined by the nature of this study, which focuses on the changes in the welfare system. Because the changes were adopted by the actors either in the political establishment or in the labour market, it was natural to ask these actors about the process of changes in the past and about those suggested for the future. There are three groups that seemed to have had a crucial impact on determining the content and the direction of the Swedish welfare system: political actors at the central level, who determine the main objectives of the welfare institutions; politicians and bureaucrats at local level, who are involved in implementation of the policies; and interest organisations, such as the two major core elements in the labour market (trade unions and the employers' organisations), who represent the interest of the actors in the private and public sector.

The most significant dimension which needed to be considered in selecting the interviewees was that they should be drawn in a balanced manner from the opposite sides of the political establishment and labour market divide. Therefore, it was crucial to map out the influential political orientations in the two political blocs and subsequently to identify the parties or factions on each side, particularly those who were closely involved in the formation of the welfare system. It was also important to choose the key individuals who have had a central role in determining the content of the policy.

Although the Swedish political parties have historically been divided into two blocs, it is also important to note that each bloc is divided into different political parties. Even factions in each party, such as in the Social Democratic Party, can represent different perspectives. Differences inside each political bloc can be sometimes extensive. For instance, in the Social Democratic Party, the main architect of the Swedish model, there are two approaches: 'the traditionalists' and 'the new thinkers'. While the former holds similar views to the Left Party, the latter can in some strategic aspects be compared to the bourgeois parties. The bourgeois parties in turn, are also divided into neo-liberals and those in the centre. Therefore it was necessary to select interviewees from each of these political orientations rather simply from each political party. The interviewees are also in key positions in their parties, either as the leader of a party (Ingrid Burman, the Left Party) or as a (former) member of the leadership committee

of a party (Stig Malm in the Social Democratic Party who represents the 'traditional' approach). Others are either former members of Parliament (Widar Andersson, as a 'new thinker' in the Social Democratic party), or those who are the members of the Committee on Social Insurance in the parliament (Bo Könberg, the Liberal Party; Birgitta Carlsson, the Centre Party and Sten Tolgfors the Conservative Party). In selecting the interviewees certain background characteristics were also considered, such as the individual's political experience, which would have extended over at least two decades. Most of the interviewees had high positions in the respective parties even during the 1980s.

The selection of political actors at the local level had other objectives, mainly because the political processes at local level are different to those at central level. The main difference is that the local politicians are more concerned about 'pragmatic' local issues rather than with the wide-ranging ideological conflicts that dominate rational political debate. The main objective of these interviews was to reveal the nature of the policy of implementation at the local level. In other words, whether the changing policies outlined by the central government would have faced conflicts by the political actors at the local level. Consequently, the dividing line between left and right seems not to be as significant as it often appears to be at national level. The aim was, therefore, to choose interviewees from different municipalities who could explain the process of implementation of policies adopted at a national level in the local communities. Three local politicians were interviewed. The first represented greater metropolitan Stockholm city (Ebba Bodell, Stockholms Party), the second, an urban municipality in the greater metropolitan (Haninge commun located south east of the Stockholm county), and third, an influential member in Falun city council which represents a middle-range city in mid-Sweden. These interviewees represented different parties.

The third group of interviewees were bureaucrats working at the central and local levels. Three interviewees were each selected from the different levels (governmental, county and municipality). The main aim of these interviews was to look at the process of implementation of the changes in welfare policy from a bureaucrat-angle. The interviewees represented the attitudes of the regular bureaucratic organisation towards the changes in the welfare policy and social policy arrangements. The bureaucrats

could outline a clear picture of the problems that political decisions made at the centre could have at local level.

The fourth group of interviewees were the representatives from the interest organisations that have a great influence on society, especially in the labour market. One of these groups was comprised of representatives from the trade unions. The two former chairmen of the LO were important interviewees for this purpose. The reason for interviewing these two men in particular was because they led the union in two different decades. While Stig Malm was the chairman in the 1980s, Bertil Jönsson took over the LO in the beginning of the 1990s. Further, these two represented different factions in the LO. While the first one represented the traditionalist faction, the other was more in favour of adapting the Swedish labour market to the rest of the EU. Another interviewee was the representative of the Confederation of Swedish Enterprises, which would represent the views of the employers about the changing relations in the labour market and in the welfare system. A third interest group, who has had certain influence in the process of change, was the pensioners' Central Organisation (PRO). This organisation took an active part in long-term negotiations, which took place before the pension reform was made in 1998.

The final group of the interviewees were some academics that have been involved in studying the Swedish welfare system. The interviewees were not only recognised as influential in the field of social policy and labour relations in the academic sphere (Sven Hort), researcher in the Welfare Commission appointed by the Swedish government (Johan Fritzell), and prominent economist of the trade union (Rudolf Meidner) but they also had great insight into the ongoing changes in the political and labour market institutions.

The general nature of the interviews

Since the main objective of the interviews was to outline the nature of changes in the Swedish welfare state in the past and possibilities for the future, an interview guide (in Appendix) has been provided, which specifies different aspects of the research hypothesis. Questions about the past were focused on basic issues, which in prior studies were analysed as essential aspects, and which impacted the creation of the

welfare state. Issues concerning the political support to the system, changes in economic conditions, labour market relations, and changes in different welfare programmes dominated questions about the past.

Another set of questions focused on the future of the welfare state. The interviewees were given freedom to express their scenario about the future development of the Swedish system. In this regard the questions once again were focused on the degree of political support for the generous welfare system, the relation between elements of the labour market, the process of the privatisation in the delivery of public services, and the effects of EU membership on the Swedish welfare state. However, while the interview guide was employed in all interviews, depending on the characteristic of each interviewee the emphasis was larger on those issues, which were central to the interviewee. For instance, representatives from the labour market were particularly questioned about the changes in that area while representatives of the Pensioners' Organisation were questioned more closely about changes in the pension system. By the same token, the local politician was mostly questioned about the privatisation issue or the attitude of the local public administration or service sector to the new policies. The only two groups of interviewees that responded equally to the majority of the questions, were the politicians and academics.

The structure of the study

The first chapter outlines the theoretical approach by presenting the three approaches, which attempt to account for the development of welfare state regimes. While 'the logic of industrialism thesis' attempted to explain the emergence of the welfare state in relation to the process of industrialisation and economic growth, 'the power resources approach' focused on the process of the expansion of welfare systems by linking it to the power struggle among the main political and social groups in capitalist societies. 'The institutionalisation thesis', then, mainly explains the mechanisms, which facilitate the continuity and survival of arrangements in the event of changes in the power balance. The core notion of the chapter is that all the approaches, which explain the processes of emergence and development of welfare states, are essential elements in explaining the origins and implication of welfare state development. However, as the

policy of retrenchment is the major concern of this thesis, the discussion focuses on the problems, which may arise when one would employ these theories in discussion about welfare state retrenchment. While the economic conditions, social composition and political context in which the systems were once founded are facing continuous changes, it would be a mistake to employ the same theories as those which once were successful in explaining welfare state expansion. As Pierson (1996) argues, the retrenchment of welfare states occurs in a particular context that may completely differ from the condition of welfare state expansion. The argument of the chapter is that changes in the political environment, economic conditions and the state of institutions and social groups provide new conditions, which make it difficult for the actors to initiate extensive transformations of welfare institutions. The policy of retrenchment in welfare states with large popular support is generally limited to modest adjustments.

In the second chapter, the research focuses on the nature of globalisation and its impact on welfare regimes in Europe and the United States. This discussion is essential to the thesis, mainly because the welfare states in general, and the Swedish universalist welfare state in particular, are based on the rule of the strong state. The major threat to such authority seems to have been the process of globalisation which has given the internationally based trans-national companies the opportunity to extend their influence and to undermine the national political actor's sovereignty. Apart from the changing power balance, the new global economy is said to have had certain impacts on the mode of industrial organisation and structure of the production and division of labour. Technological development toward 'robotism' is an obvious labour-saving device in industrial manufacturing and service industries. Further, it has been argued that, in the new order, capital outflows from advanced industrial nations to low-paid, newly-industrialising countries threatens the stability of the labour market in advanced economies, and subsequently causes a decline in the level of employment. Since welfare state is at root a national phenomenon, and since welfare policies are based on the level of taxation, particularly on employers and capital, and on the degree of labour regulation, the argument here is that in an increasingly globalised world, large firms are going to act as the major threat against the foundation of nation states. By the same token, the process of integration of EU has been suggested as the external threats against the Western European welfare states. This conclusion was drawn since many member states had adopted retrenchment policies since the 1970s, although the

retrenchments differed in their range, depth and nature. However, in opposition to such understanding, the chapter emphasises that membership of the EU so far has not had any considerable impact on the influence of nation-states in shaping national social policies, and the structure of the Swedish welfare system is still the same as it was before Sweden joined the EU. On the contrary, by leaving social policy in the hands of member states, the EU has recognised the sovereignty of nation states as architects of their own welfare systems according to the desire of public opinion and the specific traditions of each country. It is likely, however, that in the longer term the need for harmonisation of social policies will grow, which means that the role of nation states will successively decrease. In short, even if globalisation matters mainly in weakening the influence of national governments on the economic sphere to some extent, this chapter rejects the overestimation by globalisation enthusiasts of the impact of the new international economic order on welfare state performance, and instead, points to internal factors, such as the crucial elements that determine the continuity of welfare states.

After having discussed the process of welfare state development and the internal and external problems welfare systems face in the new global order Chapter Three examines the historical development of the Swedish welfare state. The SAP's dominant position in the Swedish political system is understood as the decisive factor, which gave the labour movement a prominent role in forming the political process. The national representativeness of the party, its success in winning the support of the middle classes, and its ability to cooperate with the Agrarian party are understood as the key factors that gave the party the political strength to implement its universalistic welfare system. The argument of this chapter is that the formation of the universalistic welfare system in Sweden is first and foremost a result of the Swedish Social Democratic Party's ambition and political goals. The party was determined to establish an egalitarian system by democratic means. To achieve that objective, the party strove to build 'the strong nation state' which came to be the major precondition for the formation of the universalistic welfare system. Such a strong state was a result of cooperation between a strong political movement (the SAP), a well-organised labour movement close to the SAP, and a centralised employer organisation. The first prominent move toward universalism in Sweden began after the Second World War with a universal pension reform. After that, reforms in key areas such as health

insurance and sickness benefits, employment insurance, and family policy reforms were implemented.

The chapter also explores the expansion of welfare reforms in the 1960s and 1970s, when the essential parts of an expansive welfare system were established. In so doing, the thesis seeks to demonstrate the strength of the Social Democrat's ambition to expand the universalistic welfare model in which the endeavour to construct a more egalitarian society seems to have been the central aim. The key purpose of the chapter is to establish the case for an expensive welfare system existing by the time of the economic downturn in the late 1980s. Since the mid-1970s the extensive welfare provision and the comprehensive social insurance were addressed as the major reasons for the instability of a budget with extreme deficits in the period of recessions. Continuity in the expansion of the system, which gave Sweden its reputation as a high welfare spender, was a result of the broad support of the solidaristic welfare policy by both labour and middle classes and both political blocs. Such support, as is argued in this chapter, was a consequence of the Social Democratic Party's effort to form a social policy based on national interest rather than class interest. The expansion of the system in all social policy areas, based on a social contract between the state and the citizens, lead to an increased spending power of all groups in society and therefore the consumption of the whole of society increased dramatically. At the end of the period, the generous welfare system was criticised by a large groups of economists who believed that the stability of the system was questionable.

Before examining the nature of the Swedish welfare system in the 1990s in chapter Four, the thesis concentrates on Swedish economic development, by considering the changing nature of the Swedish economy and the possible connections between economic and welfare changes. The emergence of an unprecedented unemployment rate at the beginning of the 1990s, which placed a huge pressure on public finances, is undoubtedly regarded as the major structural problem that caused the immediate economic crisis, with far-reaching consequences for the public budget. Despite the fact that the financial crisis, caused by a large increase in public expenditure, constituted the immediate crisis of the 1990s, the chapter looks at other structural changes in the economic sphere that were decisive factors in producing the economic crisis. Among these structural changes, the chapter considers the liberalisation of the capital market,

low levels of economic growth, problems with inflation, and changes in social investment and the financing of the welfare system.

One of the arguments in this chapter is that the economic crisis of the early 1990s, along with several major changes in the Swedish economy, is to be seen as the direct consequence of changes initiated by the Swedish government to adapt the country's economy to the process of globalisation. This process started in the mid-1980s as a defensive response to the neo-liberal entry in the international market. The liberalisation of capital markets and the deregulation of credit markets are among typical responses to the new order. These measures, which encouraged loan-financed consumption and speculative investment, were among structural reforms which created a situation in which the economy became overheated, which caused a rapid deterioration of the economy, with a steep rise in unemployment and the rapid re-emergence of a budget deficit. Falls in gross domestic product were the consequence of a rapid liberalisation of the financial sector, which challenged the stability of the Swedish welfare system.

Another major argument in this chapter is that when the economic crisis hit the Swedish economy, the Social Democrats, who were first and foremost committed to the survival of the welfare state, became determined to support any efforts that could restore economic stability. In other words, during the 1990s, the major goal of the Social Democrats was not to retain the high level of standards in the benefit system at any price but to save the foundation of welfare system itself against internal and external threats. In the short term, this could result in a far-reaching retrenchment in welfare expenditure.

Chapter five is then engaged in an analysis of the Swedish welfare state as it currently operates, concentrating, as stressed above, particularly on unemployment benefits, old age pensions, health insurance, and family allowances. Since the economic crisis of the 1990s resulted in a large budget deficit in public expenditures, and since social policy constitutes the major part of the public budget, savings in social spending became the most obvious means for governments to balance the budget. Among different techniques for welfare cuts, governments tended to prefer reductions in cash transfers, which was considered to be the most efficient way to reduce spending. Therefore, in

this chapter the focus will be on changes to cash transfers during the period under review, together with the pattern in which the changes occurred.

The argument here is that, as long as the Social Democrats were in office and the economic conditions were appropriate, the Swedish welfare system was not only intact but was also gradually expanded. Retrenchments of the benefit system in the 1990s started when unemployment rose dramatically and budget deficit increased considerably and, subsequently, the government's financial capacity shrank. The first wave of retrenchments, which occurred in the first half of the 1990s, had a defensive character. It meant that savings were primarily addressed at reducing the budget deficit, although the size of the retrenchments was far less than the large expenditures caused by the unprecedented rise in unemployment. In the second wave of retrenchments, however, the Social Democratic government pursued a policy, which aimed to harmonise the welfare system to the new economic and social order. However, as is argued in this thesis, the reforms accomplished during the 1990s have not changed the structure of the universal welfare system. Even those that might have had some elements of a structural nature were not on a large scale.

Once again, the Social Democrats as the architects of the generous welfare system were those who introduced the most radical reforms. Two thirds of the 1990s savings were initiated in the second half of the period in which the Social Democrats were in office. The argument in this chapter is that the Social Democrats seem to have had the political legitimacy to initiate essential changes in the welfare system in order to save its long-term structural survival. Simply because the party was understood as the traditional defender of the generous welfare system and, therefore, had a strong base among those who are in favour of a generous welfare state.

In the final chapter, the work continues by an analytical discussion about the nature of the debates about the Swedish welfare system. This part constitutes the wider debate relating to political support of the system, the crisis of the corporatist system, and discussions about privatisation of public services. In the chapter, it is argued that the major threat to the universal welfare system comes from the rising uncertainty among some of the social and political actors, who are no longer actively supporting the traditional redistributive welfare system. Further, it seems that the strong political

consensus between the two major political blocs about the foundation of the generous welfare system seems to have become fragile. Likewise, the 'historic compromise' between the labour movement and the employer's organisation is virtually forgotten. Despite the rising opposition to a universal welfare system, some other factors are in favour of the continuity of the generous welfare system. Public support for the generous welfare system has been quite strong throughout the decade of crisis. In the political sphere, despite frequent calls for change from the neo-liberal intelligentsia, and some doubts in the ranks of Social Democratic 'new-thinkers', the political support to the universal welfare policy is still quite strong. Moreover, the strong local and central state institutions, which have been created by the welfare system, are also its defenders. They have effectively resisted any attempts made by the non-socialist government, such as far-reaching privatisations in public services, aimed to transform the system – so far.

Chapter 1

Development and Retrenchment in welfare state regimes

This chapter aims to examine the key theories that attempt to account for the development of welfare state regimes. Ever since the 1970s when the advanced welfare states faced mounting political challenges and retrenchments dominated the debates about the welfare state, there have been many efforts seeking to offer some basic propositions about retrenchment politics. The crucial question seems to have been whether the politics of retrenchment was a consequence of economic changes in the global sphere, or a result of political changes that occurred mainly as a result of rising costs associated with maturing welfare states. Furthermore, debaters asked whether the policy of retrenchment inevitably harmonises all welfare models, or just 'adjusts' the nature of social provision in national systems. Some suggest that welfare regimes, as a number of qualitatively different configurations embedded in historical pathways, make a process of international 'convergence' impracticable.

One of the most popular approaches during the 1990s was the globalisation thesis, which treated the contemporary development of the welfare state as a process driven largely by changes in the global order. In the post-industrial era the increased economic interdependence in the advanced industrial societies put pressure on national diversity and, as a consequence, the national characteristics of welfare states would decline in significance. The globalisation thesis, which is covered more extensively in the next chapter, advocated the prospects for cross-national convergence and thereby neglected, for instance, the different responses by different welfare regimes to the

problems associated with a changing economic order. The globalisation thesis is related to the 'logic of industrialism' theory, which explained the expansion of welfare states as a consequence of economic development caused by rapid industrialisation foremostly in western societies. The argument is that changes in the economic order have a crucial impact on the state of national social policy models.

Another approach that has been used in explaining the development of the welfare states has been the power resources perspective, which understands the distribution of political resources among social classes as the major agent that determines the development of welfare systems. Retrenchments are, first and foremost, a consequence of the weakness of the political hegemony of left parties and organised labour, rather than the process of economic globalisation.

The third approach, on which this thesis is mainly based, is the 'path dependence' approach that focuses on the historical development of the welfare system. The 'state-based', path dependent approach argues that institutions which have been deeply embedded are difficult to change - even if globalisation and changes in power resources are considered to exist and both have an impact on welfare systems. Therefore, this approach suggests that the most significant source of change to the conditions in which welfare states function is not external but internal factors – even if globalisation is considered to exist and provide a context for welfare state change. The argument in this thesis is that endogenous factors such as slowdown in the growth of productivity, the maturation of governmental commitments, population ageing, and restructuring of households and their relationship to work and paid employment have a more significant impact on the functioning of welfare states than movements in the international economy per se.

In this chapter, the consideration is to explore why welfare states developed, and point out how 'national' these regimes proved to be. Then, in the next chapter, the focus will be on globalisation to see whether nation-states have had to change their welfare structures entirely or whether they have – or at least some of them have – managed to retain the key features of these systems as they were developed in the immediate pre-war and then the post-war period. This should allow me to argue that Sweden has had

to make 'adjustments' but has not radically changed the institutional basis of its welfare arrangements.

The logic of industrialism thesis – economic determinism

Until the 1970s, the most well developed theory of welfare state growth was 'the logic of industrialism thesis' which found a correlation between welfare state expansion and the process of economic growth. The theory, which was particularly developed by Wilensky (1975), but also supported by others (Pampel and Williamson, 1989), saw the strong economy as the major source for the foundation of the affluent welfare states. In other words, as economic growth progressed the process of welfare state development with increased services and higher transfers continued. However, even though the theory could explain the reasons for the foundation of welfare states in the rich countries in relation to poor nations, it was less successful in explaining the differences between the different models of welfare emerging within the affluent states (Pierson, 1996).

The economic crisis of the 1970s, with extended cuts in welfare expenditures in most welfare states, was the most prominent event that was claimed to have supported the theory. By relating the poor economic performance to the downward adjustments in social policies, the advocates of the economic determinist argument could lay stress on economic efficiency and market friendly policies as the crucial factors for the survival of the welfare states.

Since the 1980s, advocates of economic determinism focused on a new argument for the relationship of the welfare state to the process of economic development – global economic changes, particularly the globalisation of capital markets, were the driving force of change. Globalisation would create a new condition in which national governments would no longer have powerful economic policy tools to manipulate social policy options. Therefore, as a result, national social policy was assumed to face extensive restrictions because the new restrictions in monetary and fiscal policies would reduce the local actors' freedom to adopt strategies suited to the expansion of the national welfare state. In the new era, it was suggested, a convergence of national

social policy models would be inevitable. The argument referred mainly to heightened economic integration that, first and foremost, would give the firms the possibility to operate where social costs were at their lowest level.

In discussions about the contemporary welfare state, the advocates of economic determinism focus most specifically on the actions of firms in the changing economic conditions and their investment decisions. While in the global market, competition between firms intensified, it was claimed that reducing costs became the central issue, which would decide the outcome of the competition. Therefore it has been claimed that the development of 'social wages' would receive most attention in a firm's calculation for their actions. By aiming to relocate the production to low social wage areas, firms put pressure on the national governments to reduce the level of social provisions to an 'appropriate' level, in an effort to maintain employment levels. This argument, which is presented in the concept of a new 'logic of industrialism', ignores the role of the democratic political institutions and their crucial influence on the structure of the welfare state. The economic benefits and efficiency of the market dictate the conditions in which the political system could act. In the longer term, the policy of the welfare regime cannot be derived from anything but economic trends.

There have been at least three major critical objections to the economic determinist argument. First, the claim that the globalisation of the capital market would have a crucial impact on national government's social policy options has been shown to be overestimated. Almost two decades after the start of the process of globalisation, the consequences of global economic changes on national government performances in social policy areas are still limited (See chapter two). According to Pierson (1996:147):

> While monetary and fiscal policies may face new restrictions, there is little evidence that supply-side policies of transfers and services need be constrained, so long as tax bases remain sufficient to insure relatively low deficits. Some social policies may in fact contribute to economic growth, for example, by encouraging the formation of human capital and certain kinds of labour market flexibility.

The second objection is against the argument that firms invest in countries with low social wages. While such threats cannot be ruled out, the evidence for extended relocation to low social wages area remains limited. Social wage is just one condition for investments, whereas firms take other factors such as infrastructure and worker

productivity into consideration. Instead of focusing on social wages, the consideration is profitability of investments. If overall conditions make investments in countries with high social wages more profitable, capital mobility will not be the deciding factor (Garrett, 1998; Streeck, 1995).

Third, the economic determinist argument pays insufficient attention to the influence of political forces in maintaining the structure of the existing arrangements. While in the past decades, it has been argued that social wages had considerable impact on national states' economic performances, responses to the recommendations, which called for downward adjustments in social policy were quite different. Dependent on the balance of political forces, governments in each industrial society adopted the strategy that had wider public support. In other words, economic conditions were prominent, but were not the only decisive factor which could dictate the restructuring of social policy. Political forces in favour of the existing welfare system and the institutionalised arrangements have included two other central factors which had fundamental impacts on the development of welfare states.

The power resources approach

Welfare states are programmes of social provision initiated and developed by the political establishments, rather than by the market actors. Therefore their expansion and decline should be studied according to the power resource perspective, which largely focuses on differences in the distribution of political resources among classes as the most crucial factor. That is the core notion of the power resources approach. For the most prominent theorist of the power resource perspective (Stephens, 1979; Huber and Stephens, 2001; Korpi, 1983; Esping-Andersen, 1985), social programmes are first and foremost a result of unions and leftist parties struggling to secure the economic stability of wage earners. In the process of the expansion of social programmes, the left parties and unions were the major advocates of these programmes, whereas the employers and to some extend – at least at the beginning of the process of expansion – the bourgeois parties, were on the other side. The stronger the left parties and unions were, the more comprehensive and generous social provisions came to be.

By attributing variations in social provision to differences in the distribution of political resources, the power resource argument connects the expansion and retrenchment of the welfare states predominantly to the strength of unions, and the centrality of left parties. In past decades, support for left parties in different countries has varied over time, and overall, the left parties have not had the same influence as during the postwar period. This is partly because the social bases of these parties, which mainly consisted of the working class, have decreased. There is a broad consensus that in many advanced industrial societies the influence of trade unions has shrunk considerably (Katz, 1993; Locke and Thelen, 1995; Golden et al., 1999). The process would suggest fundamental cutbacks in social programs; something that in reality has not occurred. Does this fact diminish the relevance of the power resource perspective? To answer this question one should say, despite relative decline in the strength of the two traditional power resources in favour of welfare states, new supporters of social provisions have been emerging.

Networks of social groups dedicated to the defence of established social policies, emerged as prominent actors contributing to the growth and sustainability of these programmes (Pierson, 1996; Kriesi, 1999). These interest groups consist of both recipients of the various benefits and those who provide the public services. Although these groups had not necessarily contributed to the creation of the welfare system, they were recipients of various key benefits such as pensions, and health care; in this way the welfare state contributed to the development and well being of these groups, which could be expected to resist cutbacks, which threatened their interests. Most of the new left movements are the new generation of radicals who were established during the late 1960s and had social justice and redistribution of resources as their main goals. As Kriesi (1999) suggests, the new type of social movement politics which have developed in the past two decades become institutionalised and, like the traditional movements such as labour movement, have great capacity to mobilise social groups in the arena of politics:

> As a result of twenty years of mobilization by the new left and the new social movements, a third arena – an arena of movement politics – has come to be established alongside the traditional arenas of party and interest group politics. Movement politics have become an accepted way of doing politics and it provides an additional channel of political articulation linking the citizenry and the state – a channel that form a complement rather than a substitute for the conventional politics in the arenas of party and interest group politics (Kriesi 1999:421).

Apart from the mobilised interest groups who could actively influence the contemporary political struggles, there were others, who were not organised, but had the opportunity to intervene in the process of the distribution of political resources through their votes at the polls. Therefore, non-mobilised recipients of social programmes should also be understood as a potential power resource that can decide welfare state outcomes. Consequently, the initial pattern of the power resources perspective in explaining the expansion of the welfare state, which was only based on class struggle over social provisions, is not completely valid in the era of retrenchment. New bases of organised and non-organised support to the maturing social programmes are as crucial as the left parties and the unions' success in preventing unpopular cutbacks in social provisions. In other words, welfare state expansion contributed to the development of new social groups that would stand beside the traditional advocates of social programmes against various efforts towards retrenchment.

Apart from such groups of people, the new institutions that emerged since the initial stages of the formation of welfare states have established new patterns of governance with routinised arrangement structures, which are not easy to change. The argument here is that while unions, and to some extent even the left parties, have weakened, the role of the institutions and the policy legacies associated with welfare states, have increased considerably. Public policies, which were once adopted and introduced by the political actors, have in a historic process created resources, incentives and structures that are not easy to change.

The path-dependency approach

Although this thesis draws some elements from the two approaches reviewed earlier in this chapter – 'economic deterministic' and 'power resources' – the theoretical framework, which guides the analysis in what, follows here is the institutionalist path dependency approach. To be more specific, the argument here is that, while in the earlier stages of expansion of welfare states, economic growth, the strength of the labour movement and the centrality of left parties determined much of the political and institutional arrangements of welfare states, in the later period, path dependence has become the most crucial factor in maintaining existing arrangements. The long-term

relationship between left governments and social policy development has strong elements of path dependence. In other words, in the Scandinavian countries in particular, the dominance of left parties and unions and their cooperation with the centralised employers organisation, which provided such favourable conditions for the development of an advanced system of social provision, has become literally 'institutionalised' and thus a core feature of 'system maintenance'.

The core of the argument, which stresses path-dependent processes as the major dynamics of welfare state development, is that welfare states are not created in one night and can not be remade at will when the preferences of the political actors change, or the balance power shifts. Instead, welfare regimes are national systems of social provision, adopted and extended over long periods of time, and therefore should be seen as parts of historically generated configurations (Esping-Andersen, 1990; Steinmo, 1993; Pierson, 2000). To be clearer, resources and incentives, which are produced by policies initiated by political actors during a long period of time, generate new structures and opportunities for social and political groups that are then impossible to ignore. Without a proper appreciation of historical pathways it is difficult to understand the development of contemporary welfare states, and also prospects for politics of social policy retrenchment, which dominated the debates in the late decades.

Therefore, the essential starting point here is that by understanding welfare states as historically generated regimes which are products of complex conjunctural causation, the path dependence approach attaches great importance to the coerces of political development. The first feature of political processes, which have generated dramatically different kinds of welfare systems, is that in each of the processes, multiple factors and institutions have been working together over extended periods of time. Apart from power resources, other dimensions such as the rules of electoral competition, the relationship between legislature and executive, and the place of subnational governments in politics were crucial for the development of the political processes. The other variables that have had an effect on the developing process were economic development, the structure of social groups, women's labour force participation, policy legacies, religious traditions, and so forth. As a result, the outcomes of each system shifts with the others simply because the value of variables

which have had direct impact on the outcomes differed from one case to another (Esping-Andersen, 1990; Pierson, 2000).

Second, the courses initiated in a political process are hard to reverse, or to be clearer, path dependent processes are marked by irreversibility (Stephens, Huber and Ray, 1999; North, 1990; Steinmo, 1993; Pierson, 2000). The existing order and institutions are inherited from certain developing processes in the past and, thereby, have distinctive historical roots. To explain the impact of the inherited values and institutions on the contemporary events, one can claim that certain courses of political development may generate self-reinforcing processes which may even affect the preferences of the actors and lead them to take the current values in a particular setting as given. For instance, in the Nordic countries, with their strong labour movements, long-term efforts to pursue a high social wage path seem to have gradually eliminated low-wage sectors, and as a result, low-wage employers have, over time, adapted themselves to the preferences of the new environment. In such a condition, where the new rules are institutionalised, every effort to adopt previously available alternatives would not only be difficult to implement but also unattractive (Pierson, 2000; Huber and Stephens, 2001). On the contrary, in the United States, which never had a strong labour movement, low wage sectors are still an essential part of welfare capitalism. As a result, the preferences of employers in Sweden and the United States differ, as they have adapted and made commitments to different rules and arrangements.

In this regard, it has also to be argued that in societies with strong social democratic labour movements, the ideological hegemony of the generous universalist welfare system dominated public opinion to the extent that bourgeois coalition governments found that the only way to win elections was to adopt social democratic policies. Such ideological hegemony mechanisms functioned as a complement to path dependence, which has resulted in political actors passing policies that had been put on the agenda by dominant political institutions from an earlier period. In other words, ideological hegemony implies that the actors' intentions and desires are not self-generating, but are products of social and political struggles over decades and even centuries (Huber & Stephens, 2001).

Third, path dependence prevents radical changes. There is no doubt that in the process of development, every welfare state faces situations in which certain changes or adaptations of the particular existing arrangements to new conditions becomes inevitable. Factors such as a changing balance in power resources in the political establishment, changing economic conditions, or the emergence of new demands by new social groups, may provide conditions in which actors find it necessary to introduce some changes in the existing arrangements. However, in these cases, the path dependence, which involves previous institutional choices, limits the space for decision makers to adopt far-reaching changes (North, 1990). One of the most important systems, which clearly fit this dilemma for the advocates of changes, is the old-age pension system. In most countries, pension systems are based on a pay-as-you-go system (PAYG) in which current employees' contributions finance the previous generation's pensions. Attempts to make essential changes to the system, such as shifting to privately funded arrangements – especially in countries in which the PAYG system has been in place for a long time – found it impossible to introduce private pension arrangements. The burden on current contributors to both finance the previous generation and save for their own would be so heavy that it could not be maintained (Pierson, 2000).

As is evident from the example, the major factor, which more or less freezes the existing pension system or at least allows limited incremental cutbacks or adjustments, is not primarily power resources issues, but a path dependency which narrows the choices for policy makers and other advocates of change. Even in other areas of the welfare system, such as the labour market, health care provision, child care and elderly care, the structures are so effectively embedded and institutionalised, and different parts of the institutional framework are so interlocked, that partial changes would jeopardise the institutional complementarities (Pierson, 2000; Soskice, 1999).

The fact that in a path dependent process major organisations and institutions of social policy emerged and developed in parallel, or through a sort of mutual adjustment, makes them point in the same direction. Within national systems, every institution and social organisation is under continual pressure to adapt itself to the environment it works within, and consequently to the other institutions, not least because of competitive reasons, simply because it has to share the limited financial resources with

the others. In such a process, with constant adjustments of social institutions both to other institutions and to changing conditions, it is difficult for political actors to bring about dramatic changes in the structure of a welfare system institution without that causing a response in the whole system of governance. In other words, because institutions in a national system develop together over a long period of time, it is likely that the self-reinforcing processes of development gradually push institutional preferences in a common direction with the result that the need for further radical change is mitigated. Consequently, a national system with strong historical continuity is resistant both to initiatives for internal changes as well as to external pressures for convergence across systems. In this regard, as Pierson (2000:812) emphasises,

> Arguments about regimes and path dependence thus constitute part of a forceful counter to accounts that expect forces associated with globalisation to sweep away differences among contemporary welfare states.

Institutionalisation as a long-term and gradual process

So far this chapter has argued that welfare state development, as a part of political development, frequently unfolds in a path dependent fashion. A set of supporting institutional arrangements, which developed in the early post-war period, have locked in welfare state development, and so made every attempt for the transformation to different arrangements extremely difficult. While in the beginning of the period, power resource configurations were the major factors for political choice and the foundation of the welfare system, in the later period, other factors such as public opinion, policy configurations and institutional arrangements have successively dominated, and thereby limited political choices for incoming governments, although these ostensibly may have different political preferences than those who initiated and established the system (Huber and Stephens, 2001).

Arguments about path dependence explain two major questions about the welfare state. First, the origins of differences between different welfare regimes which account for variations in welfare state outcomes across countries, was first and foremost a consequence of differences in the dominant political colouring of the incumbent governments. Apart from power resources which according to Esping-Andersen's (1990) typology, in the *'Three Worlds of Welfare Capitalism'*, were crucial in shaping

the Social Democratic, Christian Democratic and Liberal regimes, the path dependence approach is important as a complementary approach in explaining the shaping of the systems. This means that different social and historical processes in these societies, and the early years of party governance, profoundly affected the politics of social policy (Huber and Stephens, 2001).

Second, the path dependence approach accounts for the institutionalisation of the welfare state as a long-term and gradually-unfolding process (Pierson, 2000; Rothstein, 1998; Huber and Stephens, 2001). The process of institutionalisation of arrangements occurred during a long period of massive welfare state expansion in the decades after the war. This picture of long-term changes in the process of development of the arrangements cautions us not to overestimate limited and short-term changes in welfare arrangements, or draw far-reaching conclusions as soon as a system faces small changes. Clearly speaking, while most of the programmes adopted in the process of expansion were meant to cover the social risks, which were embedded within the process of development in advanced economies, public opinion understood them as an inseparable part of the advanced industrial system. The adoption and rapid expansion of essential arrangements such as pension systems, unemployment insurance programmes, health care, and disability programmes, were a response to needs arising from the process of industrialisation, which are as urgent now as they were when they first emerged. While these components of welfare systems are the major commitments of the political establishments to citizens and the need for such benefits increases over time, there is no room for Scandinavian governments, with their universalistic and comprehensiveness approach, to pursue active policies of social policy retrenchment. During the past decades, the programmes mentioned above accounted for a large part of the total social protection outlay, and in most of the programmes, the size of these expenditures increased.

In some of the major programmes, especially in the pension system, expenditure reflects lagged policy commitments rather than newly introduced policies. The time delays delays between policy enactment and their implications on public expenditure are very long. In the case of contributory pensions, as Pierson (2000:814) notices, the time delay may be 70 years:

> The time it takes for the bulk of the pensioner population to be composed of those who worked a full career under new rules – before policy choices are fully reflected in ongoing expenditures.

Other kinds of gradual changes are those caused by technological or social changes. In the health care system, technological advancement has over time increased the expenditures without any changes in programme rules coming through, or new generous policies being introduced. The introduction of women into the paid workforce, which has lead to the growing role of women in society, changes in migration patterns, changes in fertility rates, and population ageing, are among other social changes which occur over time and produce build-ups in outlays without new generous policy commitments being introduced.

These slow-moving long-term processes, which are policy effects rather than policy enactment, are sources of increasing costs of social insurance benefits which are crucial in our understanding of the changes in contemporary welfare states. Accordingly, while a large share of the upward trend in public expenditure seems to have been the lagged effects of the earlier policy changes, it would be a mistake to lay stress on power resources as the major factor deciding changes in expenditure at all stages of welfare state development. Having said that, it has to be emphasised that in most affluent democracies (particularly in Scandinavia) welfare programmes have historically been initiated and adopted by the political establishment, and in this regard, the left parties and unions were the strongest advocates of generous policies, but the crucial point is that when an arrangement is started, it has been successively institutionalised. It means that the programmes could survive and reproduce itself with support from other sources, such as the consumers of the services and benefits, interest groups, and the provider of services. However, in the era of economic crisis in which the bourgeois parties advocated policy changes directed towards austerity and cuts in expenditure, the left parties and unions once again took a central role in defending the existing benefits and previously adopted commitments. In some new areas, such as early retirement, however, the political establishment took on completely new policy initiatives to compensate these vulnerable social groups.

The historical development approach, which emphasises the institutionalisation of the welfare state creates the need for us to generate new explanatory accounts for

understanding of the long-term consequences of policy choices, rather than focusing on short-term changes. Institutions, both the political establishment which makes the rules of the game for political struggles, and policy legacies which include comprehensive programmes and arrangements, are structures which provide the basis for processes of social learning that affect prospects for future programme expansion (Pierson, 1996). Apart from long-term commitments that lock-in particular paths of policy development, the institutions also represent different kinds of social interest, which are not easy to get rid of by political manoeuvring.

Protecting Social Programmes: The mass public and core institutions

In the period of welfare state expansion, conservative parties generally avoided rolling back welfare reforms instituted by the left parties (and to some extent Christian Democratic parties). Each new reform was accepted after it had been instituted. The reason for this lack of resistance was the fact that the reforms were popular with the mass public. As advocates of power resources (Korpi, 1983; Huber and Stephens, 2001) suggest, during the period of expansion policy, the labour movement and others defined the agenda with progressive standpoints. The other political parties had no other choice than to follow the flow. In the era of retrenchment it seems that the mass public has once again acted as a major defender of welfare arrangement – at least in Scandinavia. Recipients of social benefits, who are more concentrated and well organised now than before, are generally more dependent on welfare provision and therefore more determined to defend their interests. On the other hand, political parties are extremely careful not to jeopardise their re-election by making unpopular cutbacks. The Conservatives and neo-Liberal parties, who are traditionally opposed to the strong state and were in favour of rollbacks, have shown no inclination to pursue an extended retrenchment politics. Apart from the Conservative Party in the United Kingdom, who during the 1980s attacked some essential parts of the welfare system, the only other case in which neo-liberals have pursued a policy of large-scale retrenchments in the institutionalised arrangements was in New Zealand during the 1980s and early 1990s (Castles, 1996).

However, there is no doubt that, where budgetary pressures have been great, cuts in social policy have followed, though it is striking that in advanced welfare states, governments, regardless of their ideological preferences, have generally avoided pursuing radical retrenchments. Whenever retrenchments were an absolute necessity, most governments – regardless their colour – attempted to bring about an all-party consensus for major reforms. Moreover, to avoid unpleasant protests from the mass public, governments in affluent democracies avoided making drastic changes to the existing structures of the programmes and instead, focused on limited changes to meet the need for budgetary cuts. In this regard, in many advanced welfare states, even though governments initiated reforms in the fields of industrial relations policy, or even privatised some public industries, there were limited efforts to experiment with changes in the welfare programme such as the privatisation of public services (Pierson, 1996). As Garret (1993) suggests, only when a government believes that it enjoys strong public support and thus a strong electoral position would it encourage radical retrenchments.

The analysis leads us to suppose that a fear of punishment by the voters makes political establishments act quite conservatively and be unwilling to pursue a policy of radical change. Political forces prefer to channel the direction of change towards incremental modifications of existing policies. In other words, democratic political institutions chose nondecision rather than major policy changes which are generally unpopular and require broad consensus, which is not easy to achieve. Consequently, the existence of influential democratic political institutions makes decision-making difficult, and therefore, the likelihood of success for a retrenchment strategy minimal. This would preserve the status quo, which in this case favours the endurance of the welfare state (Pierson, 1996).

The discussion so far reflects an understanding of the nature of welfare states and the process and the conditions in which they were created and expanded, which relies not so much on the different characteristics of welfare regimes, or the nature of the particular approach to social rights within them. The main aim, so far, has been to identify the crucial sources of expansion, and main factors, which have supported the stability of the system. As the combination of the three factors – the economic growth caused by industrialisation, the state of power resources and, the nature of path

dependency – were different in different countries, the outcomes were also different types of welfare regimes, which the next section explores.

Categorizing welfare regimes

In discussing the process of expansion and retrenchment of welfare states, it is useful, or even necessary, to explore the variations and profiles of different kinds of welfare regimes. Classification of welfare regimes is important because there are great variations between clusters of welfare regimes in matters such as relations in labour market institutions, the nature of social policy arrangements, and the institutionalised interactions between state, unions and the employers, etc. Apart from that, since every welfare regime (or cluster of regimes) is created in a specific historic and political context, it is likely that the system is shaped according to the dominant political, cultural, and industrial relation, and other factors, and therefore could respond differently to the changing conditions. Classification of welfare regimes, therefore, allows us to identify the crucial features of these regimes and by that, as Esping-Andersen (1999:73) stresses, 'more easily identify some underlying connection logic of movement and maybe even causality.'

Classification of welfare states started from an early stage, since it was recognised that the construction and development of welfare states in advanced industrial societies was following different patterns, with a consequent large variation in rights and interests. One of the earliest attempts to classify the types of developing welfare regimes was made by Titmuss (1974), who divided the system into three categories: the residual welfare model, the industrial achievement- performance model, and the institutional redistributive model. The Titmussian typology suggested that most welfare states embrace elements of all three models. It had also an evolutionary approach which suggested that all welfare states developed from the residual model, went through an industrial achievement-performance model, and moved towards an institutional basis. In practice, the differences between the different clusters of welfare states increased, and by that, the need for new classifications which would explain such differing aspects grew. Esping-Andersen's (1990) typology, which became the most debated among scholars, in different to Titmuss, does not focus only on the level of social

expenditure but also places emphasis on income-maintenance programmes, and furthermore, focuses on state-market nexus. The two key defining dimensions which were crucial in Esping-Andersen's typology were the degree of de-commodification and modes of stratification. By these categories, welfare states in all advanced capitalist societies could be analysed and labelled in different categories. While the decommodifying aspect refers to the systems' compensation for the citizens who are forced to leave the labour market, modes of stratification suggests the impacts of welfare system measures on the gaps between social strata. The initial typology made by Esping-Andersen (1990) suggests three ideal typical regime types which since then has been adapted and analysed by many scholars. The description of the three ideal types, which follows here, is based on Esping-Andersen (1990, 1999) but also on many others (for instance, Pierson, 1998: 174-178; Huber and Stephens, 2001:85-112) who have also analysed it:

- The *liberal welfare regimes,* with their roots in the English nineteenth-century political economy, promote market solutions with the notion of 'less eligibility' and 'self help'. These states are characterised by modest benefits which are often means-tested and offered to those groups who are in absolute need. Replacement rates in transfer programmes are moderate to low. Therefore, one could say that the systems are residual in the sense that social programmes are mainly targeted rather than being social rights. The residual characteristic of the liberal policy also means that the conception of social risk is limited to a few services, because most of the responsibility is given to the individual (personal retirement accounts, life insurance and the like). Public delivery or public founding of services are limited and in the extreme residual cases, like the United States, they consist of just parts of health and education. Instead, the state promotes the private provision of market forms of welfare. Moreover, the liberal welfare states are characterised by passive family policy, therefore, the rate of female employment is quite low. In the labour market, the unions have poor influence, and wage bargaining is decentralised and the systems are known to be less corporatist. Overall, in the liberal models, the state intervention in the economy is very little. By that, the liberal systems represent a low level of decommodification, and these systems do indeed promote an increase in social stratification. The United States and the UK are known as the major candidates of the liberal regimes.

- The *conservative (Christian democratic) welfare regimes* are the dominant model in central Europe, which has mainly been shaped by the monarchical etatism, influenced by Catholic social teaching and partially in response to the demands of labour movements. In the conservative regimes, the central issue is that the entitlements are fragmented and related to occupations of different groups (or social strata). In other words social rights are defined by occupation and existing class, and as a result, different groups enjoy different entitlements. Based on this status segmentation, the emphasis on transfers is considerable, and the replacement rates are moderate to high. Services are publicly funded but privately delivered. The impacts of churches in shaping the conservative systems can be observed in their attitudes to the family, in which benefits are gender differentiated and most supports are designed for the traditional form of the male-dominated family. Even regarding the services, these systems tend to leave most of the delivery of services to the family, the church or other intermediary institutions. The creation of Conservative welfare regimes was in response to the needs of the working class. By social policy, the authoritarian states sought to defuse the threat of working class mobilisation, therefore, they have never established an advanced labour market policy. Even though the unions in central European countries are strong, wage bargaining is sectoral and the role of labour in corporatist bargaining is moderate. Finally, the role of the state in the economy is modest. By these features one can argue that the conservative regimes have a moderate degree of decommodification, and aim to keep the social stratification unchanged. Germany, France and the Netherlands are some of the conservative welfare regimes.

- In the *social democratic welfare regimes*, which operate in the Nordic countries, usurpation of the market has been the central aim. The systems were established in the after-war decades, during a long period of stable Social Democratic governance, and reached their matured forms at the end of the 1960s, and therefore, internationally, these kinds of welfare regimes are latecomers. The central characteristic of Social Democratic regimes is universalism, which means that citizens, regardless of their occupation, are entitled to most of the benefits. Comprehensiveness is the other major feature, and refers to the fact that the social programmes existed in all major programme areas. The third central feature is

egalitarianism, which both refers to the active promotion of life chances to everyone, but also to the redistributive quality of the system, which effectively eliminated poverty. In these systems, promotion of an equality of the highest standard was accomplished by high income replacement rates in transfer programmes, high levels of publicly delivered social services, and large investments on labour force training and mobilisation. Strong unions with high levels of contract coverage could, through centralised wage-bargaining, influence the labour market, and by taking part in the corporatist policy making processes, contribute to the development of the whole welfare system. The Social Democratic model has also been famous for its commitment to full employment. The goal was partly achieved by the expansion of public employment, which also led to the highest level of female labour force participation. Overall, the Social Democratic regimes represent the most explicit efforts to de-commodify welfare and have actively tended to decrease the social stratification. The Nordic countries such as Sweden, Denmark and Norway are the most advanced social democratic regimes.

Studying the typologies of welfare regimes, one can easily trace the impact of the historical legacy on the making of the post-war welfare states. As a consequence of the dominance of the liberalistic legacy with its roots in English political economy, the liberal regimes advocated an unlimited faith in the market economy and, therefore, tended to minimize the state's role in promoting public solutions. The risks should be individualised and by that the citizens' entitlements be reduced to the lowest levels. The historical legacy was present even in the central European countries where fragmentation of social groups and differentiation of class and status were crucial in the making of the post-war conservative welfare regimes. The democratic regimes followed almost the same pattern that the early social reformers in these authoritarian societies initiated. The Nordic social policy model also has its roots, especially in the case of poor relief, in the liberalistic model (Kuhnle, 1981, 1990). However, Esping-Andersen (1999) believes that this figure was gradually transformed, first into social assistance and then, in the post-war period, into the modern entitlement programmes. But even for the Social Democratic regimes, authors like Baldwin (1990) and Esping-Andersen suggest the impact of the historical roots as the most significant factor in shaping the system:

> It is not difficult to trace the historical link between what Social Democratic leaders pursued in the name of socialist solidarity, and what eventually emerged, especially in Sweden. It is, however, possible that this historical 'correlation' is spurious in the sense that a culture of universalistic solidarities has its roots much further back in the Scandinavian Society (Esping-Andersen, 1999:78).

The typology of the 'three worlds of welfare capitalism' has, since its invention, met two kinds of criticism (Pierson, 1998). The first category of criticism constituted those who accepted the classification made by Esping-Andersen but suggested a rather narrower classification, and by that, tried to add new clusters of countries to the 'three worlds of capitalism'. Among the authors who disputed the number and the types of regimes, and the classification of various countries in Esping-Andersen's typology, we can name Castles and Mitchell (1993), and Liebfried (1993). Castles and Mitchell distinguished a fourth cluster, which was constituted by countries like Australia, New Zealand and the UK (which in Esping-Andersen's typology were classified as liberal states). According to Castles and Mitchell, these welfare states have for a long time combined low expenditure with high levels of redistribution. Apart from that, in Australia (and to some extent, in New Zealand) there is great emphasis on egalitarianism and wage-earner rights, which are more social democratic features rather than liberal. However, since taxation regimes in these countries – particularly in the UK – have changed, much of the radicalism in these regimes is also eliminated, (Pierson 1998) but, as some initial elements of the system are still functioning, this kind of regime is also to be accepted as a specific type of welfare regime. Consequently, these countries were classified as *Antipodeans fourth world* – not least by Esping-Andersen (1999:89). Further, the countries in Southern Europe, such as Portugal, Spain, Greece and, in some limited respect even Italy and France, which in Esping-Andersen's initial typology were clustered in the Conservative model, are identified by Liebfried (1993) and Ferrera (1996) as a new distinctive group, called 'Latin Rim' or 'rudimentary welfare states'. Liebfried believes that although these welfare states have had the ambition to be like the other conservative regimes, in practice, different elements of their systems – particularly delivery systems – mostly rely on the systems of social support from the family and the church. These welfare states are therefore suggested as the *Mediterranean fourth world.* Other clusters of countries which are suggested to have been ignored by Esping-Andersen are the East Asian countries with Japan, Korea and Taiwan, and the countries in Latin America.

The second set of criticism is harsher because it questions the basis on which the classification was made, which refers to narrow focus upon labour market indicators. Decommodification, which is one of the major measures for Esping-Andersen's classification, is rejected as inappropriate because it considers welfare entitlements for those who have a place in the labour market. This critique, which foremostly comes from feminist authors, (Lewis, 1992; Orloff, 1993; Pringle, 1998, 2002) implies that the starting point of Esping-Andersen is a traditional social democratic society in which the notion of full employment is one of the preconditions. Lewis (1992) believes that welfare states, for example, vary greatly in correspondence to the state of women in paid employment. Therefore, she constructs a typology in which welfare states correspondence to a 'male-breadwinner model', and the function of social policy in relation to the gendered division of work in labour market (for men) and caring/homemaking (for women) are central. In the classification of Lewis, Britain classifies as a state with strong male-breadwinner features, whereas France occupies a moderate position and Sweden is suggested as a system with the strongest aspects of gender equality.

Pringle (2002) takes one step further in the critiques of Esping-Andersen when he emphasises that Esping-Andersen's class-based analysis addresses the 'welfare needs' of a particular group of the population, i.e. males in the labour market, but virtually ignores the other social groups. Pringle believes that the modern welfare states are predominantly constructed for 'white-males,' simply because during the period of expansion, the traditional household with a male-breadwinner dominated. In the post-modern era, he emphasises, not only gender issues, but also other important social divisions such as ethnicity, age, disability and sexuality have received greater attentions, and therefore, they have to be taken into consideration for the classification of welfare states.

The changing social, structural, and economic conditions have not only questioned the static classification of welfare regimes, but also altered the realities in which welfare states operate. The question arises here is whether these changes have been so crucial that the essential characteristic of welfare states had to transform, or the changes have occurred successively, and by that, the systems succeeded to adapt

themselves to the evolutionary process. The changes are divided in two groups, the internal and the external. The next section focuses on the internal factors.

Domestic politics and welfare state change in contemporary societies

Since the economic crisis of the 1970s, welfare regimes, regardless of their type, have been facing some major challenges. Whereas at the beginning of the period most scholars tended to link the challenges to changes in the global economy, in the latter period some focused their attention towards a series of domestic factors which have influenced the development of the welfare state and challenged its future. The aim of this section is to account for the factors which have given rise to the policies of retrenchment.

There is no doubt that contemporary welfare states and the societies in which they are located have experienced crucial changes. These changes have occurred in areas such as the industrial process, the structure of family, the demographic structure and so forth. As a consequence of the changing process not only the rights, the role and, the responsibilities of people in the society and towards each other have changed but also the pattern of social relationship have fundamentally changed. In the debates about welfare state crisis, there has been an obvious tendency to understand the difficulties caused by the effects of external factors – globalisation – as the main source of pressure on welfare states and pay marginal attentions to impacts of changing pattern of social relationship. Factors, such as the slowdown in the growth of productivity and consequent economic growth, inflation control, the maturation of governmental commitments, population aging, and the restructuring of households and their relationship to the world of paid employment, all understood as domestic issues, have also received some attention, although on a limited scale. For some scholars such as Iversen (2001), Pierson (2000), and Pringle (2002) these profound transitions of post-industrialism have generated the current turmoil around the welfare state and therefore have to be identified as the major threat against the central features of national welfare states rather than the globalisation scenario. Despite the broad consensus among these scholars in focusing on such domestic difficulties for welfare arrangements of national

social policy structures rather than considering the effects of globalisation as the main cause of contemporary crisis, different factors are reviewed here as the source of pressure on the welfare state. The following sections addresses these issues – deindustrialisation, maturation of governmental commitments, population ageing, and Transition in household structures – which are considered to be more crucial for the future of welfare states.

Changes in industrial processes and economic growth

Among the scholars there has been a tendency to start the discussion about changes in social relation with identifying changes in the economic area and in the production relations with the implications these changes have had on the class structures. The notion that workplace and the relation to the production are the major sources for the development of social identity and social contact motivated such focus on workplace (Mullard and Spicker, 1998). To be faithful to the tradition, one could argue that in the area of the labour market and production the most significant changes have been the transition from manufacturing to service industries. The enormous growth of teleworking, which by moving work from the workplaces to the homes, have changed the concept of 'workplace', has had a considerable impact on social relations. However, although these changes are sociologically interesting, they are less interesting for the present discussion about the welfare state crisis. Another change which is caused by the changing pattern in industrial relation, and according to Mullard and Spicker (1998) is more essential, is the absence of work. The phenomenon of increasing long-term unemployment, which has been the most obvious development in the past two decades, has to be seen as a crucially important factor. This change in the labour market has created a social group quite literally 'shaped' by long-term exclusion from labour market and the negative impact that joblessness has on financing circumstances and social status. Although, in capitalist welfare states views about the unemployed and methods of dealing long-term unemployment differ, there is no doubt that in most of these societies the costs of coping with this problem has placed public budgets under pressure. Apart from the financial pressure on welfare states, the increasing gap between those in and those outside the labour market can cause a breakdown of social networks and so contributes to growing social difficulties. In those societies where the process of deprivation due to long-term unemployment has occurred without active intervention from the state, the concentration of the most

deprived groups in poor areas has led to a process of residential segregation (Andersson, 1998). In most welfare states this increasing segregation is regarded as the most significant social problem caused by changes in the industrial processes.

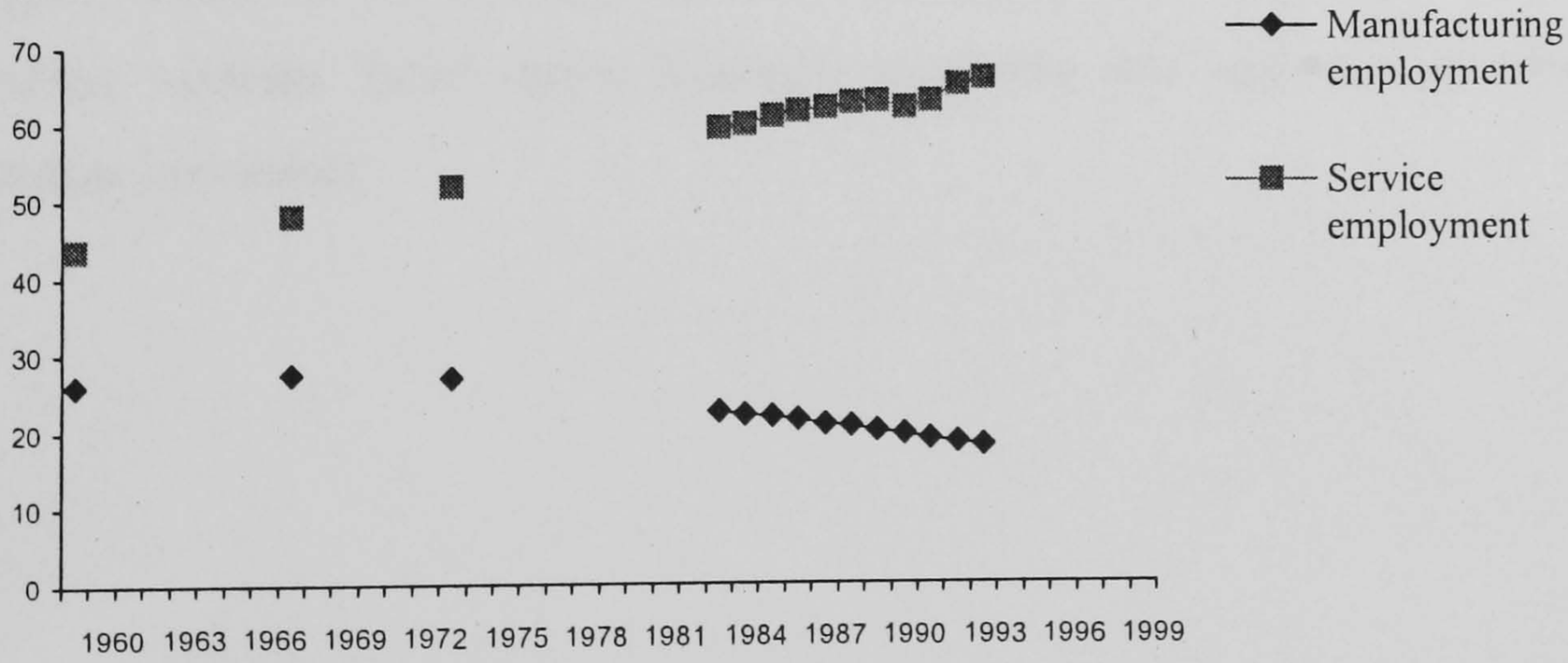
Unemployment as the most significant problem for the established welfare states emerged during the late 1970s when it was recognised that rising inflation was a threat to welfare states. As Notermans (1999) argues, the inflationary pressure which emerged in the 1970s changed the conditions for the institutional structures of the economies, which since the 1930s were made in response to the deflation governing the economies. The emergence of inflation caused national governments to impose some policy constraints to stabilise their economy. Consequently, most governments targeted certain post-war institutional structures such as full employment policies, credit market regulation, discretionary monetary policy, and essential parts of generous welfare states. Although there seems to be a sort of symmetry between Noterman's domestic version of the monetary policy constraint and the globalisation thesis financial mobility argument, the essential point here is that the origin of these two constraints are different. As Schwartz (2001:25) emphasises, Noterman's argument 'at least has the virtues of starting from actors trying to cope with the problems they face, rather than starting from an actorless system imposing constraints, and it also opens up the institutional aspects of the post-war welfare state to scrutiny.'

For Iversen, the shift in employment structures from manufacturing to services is more crucial for welfare state distress. In contrast to Schwartz (2001) who put the emphasis on globalisation as the major reason for the affect on employment in welfare states, Iversen (2001) understands dramatic increases in productivity in the manufacturing sector, and changes in consumption patterns as the decisive factors, which cause disruption of employment. This process, which has led to a rapid de-industrialisation in advanced economies, was crucial to social change, and in turn, increased the intensity of the growth of compensatory social policy, as is revealed in figure 1.1. There had been a steady shift in the employment structure long before the 1980s. Baumol (1967) had stressed much earlier, that labour intensive services such as education, child care and health care, were unable to match productivity increases in manufacturing that were completely independent of changes in the global economy. By arguing that productivity in the manufacturing sector was the major change that caused severe

pressure on welfare states, Iversen not only rejects economic openness as the major reason for the decrease in the employment rate, but also dismisses claims which have pointed to globalisation as the major source of threat to the contemporary welfare state.

Pierson (1998, 2000a) also emphasises the shift from manufacturing to services as the major social change that created intense fiscal problems. He found slower economic growth, mainly caused by the shift in the workforce to activities with limited productivity improvements, as the major factor which has been leading to fiscal strain for mature welfare states. In essence, tying the development of the welfare state to economic growth could not be sustainable forever. The remarkable growth of the economies of industrial societies since the Second World War, which made the expansion of the welfare state possible, could not proceed at the same fast pace at which it had begun. The human and social costs of such high growth would have been devastating and at some point, as Pierson (1998:184) stresses, problems such as 'stress-related illness, the diseases of affluence, unsatisfying labour and the direct economic costs of these social ills make the 'economy of the welfare state' self-defeating.'

Figure 1.1 Manufacturing and service employment 1960-94
(% civilian employment, OECD average)



Source: OECD, Historical Statistics, 1960-94

Maturation of governmental commitments

Another post-industrial shift that has created intense fiscal problems for the welfare state, is a greater reliance upon state-provided welfare. The maturation of governmental commitments has successively generated new social groups with a large

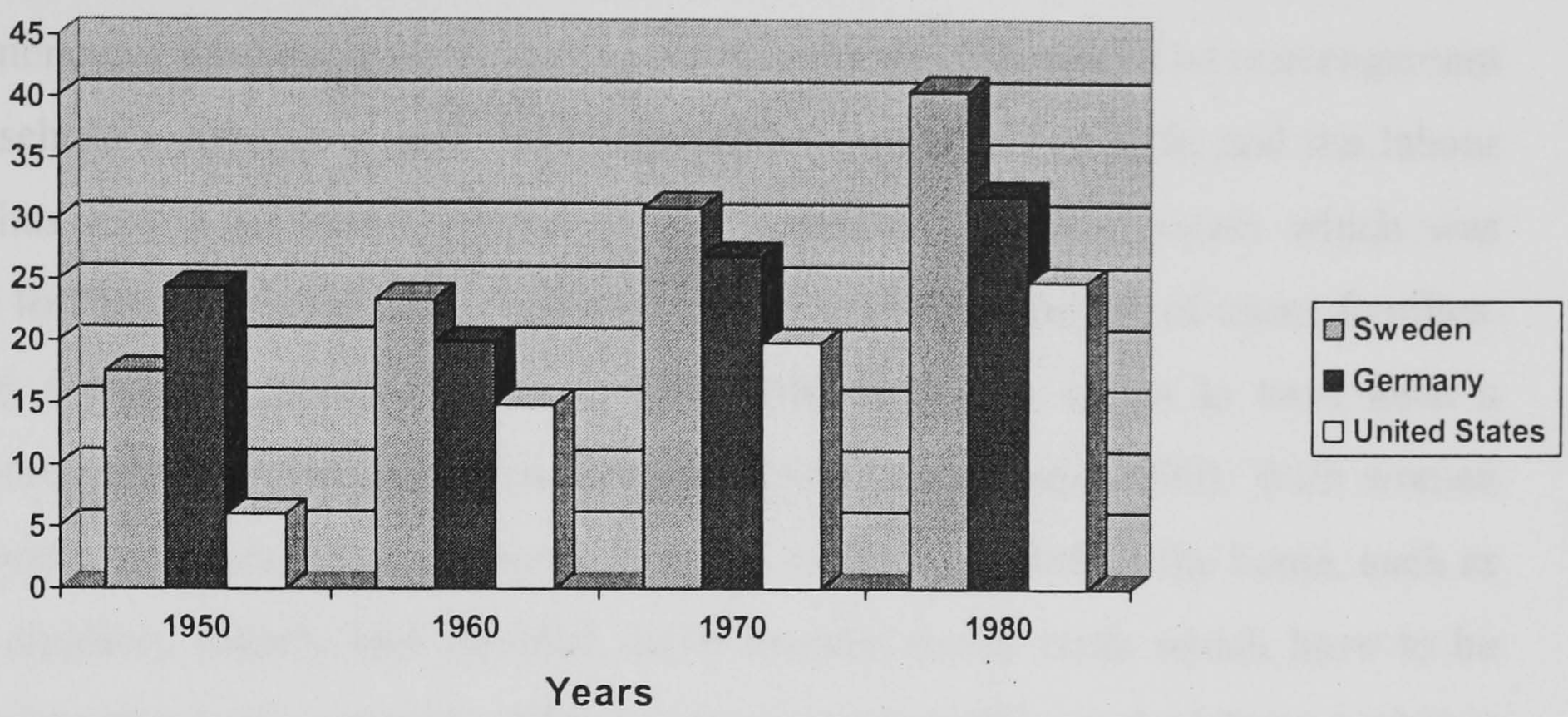
dependency on the welfare state, both for their income and for employment. As is shown in figure 1.2, the number of welfare state clients, including public social welfare employment as well as recipients of pensions, disability, social assistance, and unemployment benefits, has increased consistently. In other words, in many countries more than half of the population receives transfer or work income from the welfare state (Flora, 1989). In countries with universal programmes, especially in health care and education, the reliance on services is even greater.

The budget deficit created by the growing rise in expenditures on benefits and welfare services has always been a potential threat, and a sign of the financial vulnerability of the system. During the period of welfare state development, such increases were partly due to the desire for higher standards, which were mainly represented by central and local government as well as the specialists who acted as a spur to improve standards, and partly, too, to rising public expectations. As Pinch (1997:23) emphasises:

> Once a service is provided by the public sector, demands tends to increase...instead of the 'hidden hand' of the private market, there is a political body to whom representations can be made in the face of limited services.

Therefore, pressure groups such as trade unions, the women's movement and ecological movements have been attempting to defend their interests in the face of growing economic problems. As long as economic growth sustained the desire for higher standards welfare state growth was achievable, but with declining revenues welfare systems faced major financial problems and expenditure cuts in services became inevitable.

Figure 1.2 Welfare state Clienteles as a percentage of the electorate, 1950-80



Source: Pierson (2001b: 412).

Demographic changes – population ageing

Apart from structural problems that were mainly caused by the changes in economy, a further and rather different challenge to welfare regimes has been the cataclysmic long-term effects of population ageing. In all OECD countries, the proportion of people who are living longer and demanding more medical care is growing, and consequently, pension and health spending (much of which goes to the elderly) has been increasing all the time. Between 1960 and 1990, pension and health spending in OECD countries increased from 7.1 to 14.3 per cent of GDP (Schwartz, 2000:26). Such a rapid increase, which was significantly larger than the rise in unemployment expenditures, induced virtually all OECD countries to initiate policy reforms in their old age pensions. Although most of the changes in the pension system aimed to cope with the fiscal deficit in the future rather than the present, the efforts have clearly shown the increasing worries about the fiscal stress on the welfare system.

In this regard, it has to be emphasised that one of the main reasons for some industrial nations' reluctance to keep or build up costly welfare system programmes has been the rapid population ageing and the prospect of unpayable future pension burdens (Pierson, 1998; Esping-Andersen, 1996; Garrett, 1998).

Transition in household structures

Another important change which has been occurring in the affluent societies is the impermanence of the family as the basis institution in the societies. The rearrangement of a household's structures, and the relationship between households and the labour market, has had a profound impact on the traditional welfare system which was designed for the traditional 'male-breadwinner' household structure of intact families. The most prominent transformation in household structures seems to have been a massive increase in women's labour force participation (Pierson 2000). With women in the labour force outside of the home, most of the unpaid work in the home, such as care for children, elderly and disabled, have become social tasks which have to be carried out by the welfare system. While women's participation in the labour market is a citizenry and democratic right, one can conclude that everywhere, but especially in 'conservative' Continental welfare states which have a relatively low tradition of women's labour force participation, the costs of care provision are expected to grow in the future (Daly, 1997; Pierson, 2000). Knowing that public sector caring services are quite expensive, and in the Scandinavian countries with the most advanced care system, the spending for such services in 1995 were over 3 per cent of GDP, one can argue that the 'liberal' and 'conservative' welfare systems are more likely to face challenges in providing publicly-funded care services.

Another change with profound consequences for welfare states is the sharp fall in the fertility rate, which has mainly occurred since women's labour force participation increased. However, the sharpest fall in fertility, as Esping-Andersen (1999) notes, has occurred in countries where the women's labour force participation rates have been lowest. Despite that, low fertility, which in Pierson's (2000:96) words is a consequence of 'cultural change, the availability of birth control, and the expansion of opportunities for women', is going to severely punish welfare states, and mainly those which have generous provision for their elderly populations.

The above discussion indicates that, apart from demographic changes, the other issues debated among scholars, in one way or another, have been related to the economic problems, which are either caused by changes in the international economy or are generated primarily within affluent democracies as a consequence of domestic social or structural changes. While the impact of changes in the global economy on welfare

states is undeniable, the argument in this chapter is that the domestic social and economic transformations occurring in OECD countries are equally important. In the longer-term, I argue that the destinies of welfare states are going to be decided by two domestic factors: first, the ability of the national political establishment to adjust the system to social, economic and political realities, and second, the public support and popular enthusiasm for social provision. In contrast to the predominant understanding among the advocates of the globalisation thesis, who tend to anticipate an inevitable dismantling of the generous social policies, efforts on a national level are focused on restructuring and modernising of social contracts in order to adopt the systems to the new social and economic conditions. In this regard, some advocates of strong welfare states, such as Esping-Andersen (1996), reject the overemphasis on the impact of the international economic order on welfare states. He believes that diagnoses, such as the 'market distortion view'; the consequence of the new global economy on domestic policy choice; and even population ageing, might overemphasise the risks. By speaking about the diversity of welfare state types, he also rejects too many generalisations. Supporters of the existing universalistic welfare system such as Korpi (1994) believe that many difficulties that the welfare state faces are caused by market failure rather than generous social policy programmes. In their view, overload on existing social programmes is a result of badly-functioning labour markets.

Conclusion

The aim of this chapter is to outline the theoretical approaches to the development of welfare systems. The processes of emergence and development of welfare states reveals that the three theoretical approaches, which have been discussed in this study, have all contributed essential elements to understanding the origins and impact of welfare state development. While 'the logic of industrialism thesis' was to explain the emergence of the welfare state in relation to the process of industrialisation and economic growth, 'the power resources approach' focused on the process of the expansion of welfare systems by linking it to the power balance between political actors. The power resources thesis implies that the kinds and direction of welfare state regimes have been decided by a power struggle between the main political groups and social classes in capitalist societies. 'The institutionalisation thesis', then, mainly

explains the mechanisms, which facilitate the continuity and survival of arrangements in the event of changes in the power balance.

By employing each of these theoretical approaches in analysing welfare state development, one benefits from aspects of each for the understanding of different stages of development. This 'pluralist' way of considering a range of theories, which all try to explain an event, which has been developing during a long-term process, shield one from the limits a single specific approach may provide. Problems may arise, particularly when discussions about the retrenchment of the welfare system employ the same rules and arguments, which were used when the expansion of the welfare system was taking place. The economic condition, social composition and political context in which the systems were once founded, have passed through dramatic changes and so new conditions have been provided. Therefore, it would be a mistake to believe that a theory which successfully explains welfare state growth could be relevant in understanding its retrenchment or decline (Pierson, 1996, 2000). Retrenchments of welfare states occur in a particular context which may completely differ from the condition of welfare state expansion. The political environment in which the process of expansion has been shaped and the goals pursued by the actors, may have undergone crucial changes, and therefore, theoretical approaches should not be applied as they were for explaining the era of expansion.

There in no doubt that welfare states are projects associated with capitalist economies. They were established in a process of industrialisation, but cross-national variations in social provisions and welfare arrangements are largely a consequence of differences in the social constellation and the distribution of political resources among classes. The power resources perspective could then best explain the reasons for patterns of welfare expansion. Decades of welfare state rule have seen development of arrangements and social legacies so embedded that neither temporary economic crisis nor governmental change could motivate an extended retrenchment in social programmes. Arrangements and benefits, once offered, are difficult to cut. The politics of retrenchment is different from that operating during the expansion of the welfare state. The large public social programmes which have been provided, and the extended social groups who are recipients of different kinds of benefits, are now a central part of the political landscape which determines the future of the welfare state.

However, it is generally accepted that the matured welfare states have been facing some serious challenges, which make changes or, at least, adaptation of the systems to the new order inevitable. Some of the challenges are suggested to have had domestic origins which refers to the growing differences between the existing social and welfare programmes and real social demands. In the economic field one could point factors such as slow-down in the growth of productivity, economic growth and, high inflation rate. In the social area restructuring of households have caused great commitments especially to matured welfare states, and the demographic trends have implied an increasing pressure on the public budget. The prognoses for the future point ageing as the most treating aspect for the matured welfare states. Despite these changes, there are scholars who tend to play down the impacts of these challenges on welfare states by arguing that the structures of industrial societies have not changed dramatically. The course of internal changes is suggested to have been constantly. These scholars, instead, emphasise external factors – economic globalisation. This view, which explores in the next chapter, suggests that the growing economic interdependence of countries worldwide as the major threat against foundations of welfare states, which are, based on national states' supremacy on domestic politics such as institutional welfare policies.

Chapter 2

Welfare States and 'Globalisation'

We have briefly looked at a number of points made by scholars who believe that lots of state adjustments can be explained by internal factors. However, there is debate here because others assume that external factors of globalisation have had tremendous impacts on the autonomy of welfare states. This chapter, therefore, examines the ongoing debates about the major reasons that explain the crisis of welfare systems in the recent decades. In analysing the crisis, scholars generally distinguish between two different perspectives. The global perspective, which examines welfare state development in the context of the changing world economy and international system, and the evolutionary perspective, which relates the systems to general long term changes in social structure. Most scholars (Flora, 1989; Strange, 1996; Lash & Urry, 1987; Giddens, 1990) from different disciplines point to the process of globalisation as the most significant change in the world, which reduces the role of national governments to control of the social and economic spheres. Others (Hirst and Thompson, 1999; Boyer and Drache, 1996; Pierson, 2001) prefer to describe the ongoing process as a 'certain trend toward internationalisation' and, by that, reject overstatement of the process of globalisation. However, with regards to the changing conditions in international relations, which undoubtedly have had certain impacts on the role of national governments or have largely influenced the social structures, this chapter will mainly focus on this perspective.

As stressed above, in most of the literature about the present crisis of the welfare state, fundamental changes in the welfare system have largely been ascribed to changes in the global system. The core notion of the concept of globalisation is that, at least from an economic viewpoint, trade and finance capital have become 'denationalised', the state's control of the domestic market has progressively diminished. In its place, TNCs, as the major agents of change, have begun to dictate conditions for the new global order. In the new situation, national economies have lost their importance and consequently domestic strategies of national economic management have become less viable. In other words, by the extending globalisation, the era of the domination of the nation state as an agency of governance, which, since the Keynesian breakthrough in the post-war period led to the creation of the 'strong state', is now over. In other words, by entering in to this new order, institutions and activities associated with state economic management such as the welfare state, could suffer as resources were either reduced or reallocated.

As the process of globalisation is asserted to have had the crucial impact on the welfare state, the major emphasis of this chapter will be on the contemporary policies of globalisation. However, despite general consensus about the ongoing changes in many aspects of social life, partly as a result of globalisation, there is substantial disagreement about the conception, dynamic, and consequences of the new global order (Held et al., 1999; Sykes et al., 2001). In this regard, the attempt is to focus, both on aspects of the globalisation thesis that seem to be realistic, but also on those aspects which overstate the case.

The importance of the global perspective in identifying the reasons for the changes is that the Social Democratic welfare states are mainly based on the nation-state's effective control of the economy. For this reason, particular issues relating to globalisation and welfare in OECD countries, such as the 'end of organised capitalism' will be discussed. Another issue is the expansion of TNCs, which are major agents of the new order. This chapter will examine the creation of these companies and their impact on welfare state economies. TNCs matter because they embody key factors in the production process regarding the state of employment within nation states, as well as the financing of production.

It is argued that globalisation has had certain impacts on the mode of industrial organisation and institutional forms of the Fordist state, which are associated with the post-war era (Jessop, 1994; Lash & Urry, 1987). Fordism was a method of mass production based on a strict division of labour, and closely associated with scientific management, which dominated the process of industrial production. However, due to a range of factors, including rapidly changing labour markets and rising international competition, many observers came to believe that Fordism had given way to 'post-Fordism', typified by the application of new production methods concerned with flexibility, the disintegration of large firms, and a closer integration of product development, marketing, and production, which provided a new set of institutions in the labour market. New competition laws were needed, and labour management relations, as well as financial markets, also had to be restructured (Gertler, 1988). Overall, in this chapter I sketch out whether the transition from organised to disorganised capitalism has reduced the nation state's autonomy over how it conducts social policy. First, an overview of the economic crisis of the 1970s, which is understood as the start of the major economic change in the international economic system, that is, globalisation.

Description of the general nature of globalisation

For many scholars (Flora, 1989; Therborn, 1986; Stephens and Huber and Ray, 1999), the oil crisis of the early 1970s is the starting point for the crises of the welfare states. The crisis destabilised the world economy and thereby created structural problems for the labour market and the household in the industrialised societies. The oil crisis has also made many observers believe that there is an obvious connection between a state's dependence on the world market and the extent to which it becomes vulnerable to international crises. Since most liberal welfare states are strongly integrated in the global economy, major changes in the world market would affect the nation-state's economy.

One of the major impacts of the crisis was the reappearance of mass unemployment, which had largely disappeared since the 1950s. Low economic growth and accelerating technological innovation have been named as the two main features of the structural

changes in the world economy, which resulted in mass unemployment. The economic crisis of the 1970s had mainly concerned industrial jobs. As industrial mass production was one of the basic conditions for the creation of the western nations' welfare states, the threats against mass production inevitably caused difficulties for welfare states whose existence was predicted on full employment. In other words, the 'Keynesian consensus', which prevented any trade-off between social security and economic growth, apparently could not resist the pressure from the globalisation of the world economy (Esping-Andersen, 1996a). The decline in industrial employment created a situation in which in Nordic countries like Sweden full employment could only be attained via services. This strategy was not viable because rising public deficits restrained further expansion of public employment. Other countries like UK and USA allowed low wages and by that provided conditions for the private sector to expand.

Increasing public spending was another structural problem for many nation-states' economies, and was a result of low economic growth and mass unemployment attributed to changes in the international economy. The high level of social spending was a result of reduced public revenues and increased public expenditure, which since the mid 1970s became the major problem of most welfare states (Esping-Andersen, 1996b; Flora, 1989). To solve the problem, almost all welfare states cut public expenditure, although benefits were not cut back to the levels reached prior to the first oil crisis. These measures, in turn, caused a dramatic increase in tax levels, which had a political dimension, i.e. public resistance to higher revenues as well as to reduced spending. These problems represented a crisis of the welfare state as a whole because they could only be solved by far-reaching changes in its basic institutions and assumptions about the role of welfare. Otherwise, and if the economic condition would not be changed for the better and the macro-constellation remained stable, the basic institutions would suffer a loss of legitimacy.

An additional problem was also the legitimacy of the welfare state, which, over a long time, had gained broad public approval, but in the 1970s came under criticism. The public and political consensus was based on the notion that state intervention would correct market failure by securing the basic needs of social groups suffering from the economic environment created by free competition. The consensus became fragile when the left began to criticise welfare states because of their lack of efficiency, and

the right attacked the expansion of public sector costs, which was held to undermine economic growth (Offe, 1986; King, 1987). In this respect, neo-liberals argued that by involving high levels of taxation, the welfare state erodes incentives to work, save and invest, which caused 'market distortion' (Esping-Andersen, 1996a). Moreover, by pulling human and capital resources away from industries and into the public sector, it 'crowded out' private sector alternatives (George, 1996:6). In other words, there existed a new and fundamental trade-off between egalitarianism and employment.

The duration of the economic crisis of the 1970s, with its mass unemployment and cuts in social benefits, had, for the first time after the War, questioned the authority of national governments. Apart from the weakening of the authority of nation states, other issues such as rapid technological change in products and processes, which was assumed to strengthen companies and thereby the market's position in relation to the state, have also been debated (Castells, 1996). Another issue was the rapid increase in the power of the TNCs. It was suggested that the international integration of markets would decrease the role of workers in decision-making about production, simply because labour intensive industries would move production to economies with low labour costs. By the same token, the new economic order would also put pressure on the tax regime to be more harmonised internationally. All these changes, which are going to be discussed in the next section, would, according to advocates of globalisation, suggest the 'end of organised capitalism'.

The changing authority of national governments

Changes in governments' authority over national states have been frequently discussed among political scientists and economists. While the majority of scholars of political science and international relations (Dowd, 1993) do not believe that these changes are essential, and therefore would not have a great impact on the government's role to exercise power through political decision, studies of international political economies emphasise the growing authority of the market in the formation of politics. Strange (1996) and Lash & Urry (1987) are among those scholars who believe that since the 1970s the influence of private enterprise in finance, industry, and trade, on the world market has increased dramatically and that domestic governments exercising

legitimate political authority have lost a great deal of their power. The market is now also the domain that has crucial authority in at least two areas that in the past either belonged to the state (the realm of the state itself) or was strongly influenced by the state (the economy). However, in the matters in which the market would be less effective than the state, governments continue to exercise control. Hirst & Thompson (1999) argue that there are still opportunities for the nation state to develop a domestic economic policy and at the same time create national strategies for international control. Especially, they stress that the international economy can be governed, and in this matter, domestic economic policy and international processes are related to each other.

> Hence governing powers cannot simply profilerate and compete. The different levels and functions of governance need to be tied together in a division of control that sustains the division of labour. If this does not happen then the unscrupulous can exploit and the unlucky can fall into the 'gasps' between different agencies and dimensions of governance. The governing powers (international, national and regional) need to be 'sutured' together into a relatively integrated system. If this does not happen then these gaps will lead to the corrosion of governance at every level (Hirst and Thompson, 1999:269-270).

Hirst and Thompson are sceptical about the dominant image among the extreme globalisation theories like Ohame (1990, 1995) who stresses the dominant position of TNCs and the uncontrollability of market forces in the internationalised world economy. They believe that nation states still have the possibility to exercise control over the international economy, and therefore, national political strategies are viable. Apart from the role of nation state in the system of international governance, Hirst and Thompson (1999:277) regard the nation state as an important political organisation that can be the primary source of binding rules – law – within a given territory:

> Nation states as sources of the rule of law are essential prerequisites for regulation through international law, and as overarching public powers they are essential to the survival of pluralistic 'national' societies with diversified forms of administration and community standards.

Looking back over the past two decades, it is not hard to observe that the internationalisation of production as a result of the extension of multinational companies was the most comprehensive change to the world economy, which in turn undermined the concept of nationality, and thereby the influence of governments. The social effects of firms changing their production system, for example, mass unemployment, are a direct result of TNCs' lack of responsibility for the negative consequences of their action on societies (Hall, 1999). Strange (1996:59) stressed the

significance of the protection of workers from their employers. Until the 1970s, this was a major responsibility of the modern state, but in recent years 'management of labour relations has shifted from the offices of government to the boardroom of TNCs.' While some writers, such as Hu (1993), believe that TNCs are in fact national companies which operate in a world market, Strange (1996:57) pointed to examples of several TNCs which have most of their business abroad, and for whom the 'home market' is not the main aim, and therefore cannot keep them in the national border. As an example, Strange mentions Northern Telecom, which is a Canadian- registered company but operating mostly in the US-market; the majority of its employees are in America and a great deal of its production, operation and business takes place in the US. Mercedes Benz is another big TNC company, which has its financial holding company registered in Switzerland, but its headquarters placed in Germany. These companies turn to their national governments only when they need some financial or other kind of support; otherwise they have no strong national loyalty and can move their operations abroad without hesitation if it is advantageous. Held et al. (1999) have almost the same perception about the trend towards internationalisation of production but instead of TNCs, they still talk about multinational corporations (MNCs), as the major agent in such a process. For Held et al. (1999:237) MNCs are 'huge corporate empires' which have their bases in a few countries but through foreign direct investment (FDI) control and manage subsidiaries in a number of countries outside their home bases.

The globalisation of production and investment and the widespread influences of the large firms on national states have also received great attention in Castells trilogy *The Information Age: Economy, Society and Culture*. For Castells (1996, 1997) the process of globalisation with mobility of capital and the ability of firms to move production and investment is the most crucial change in the late 20th century, which not only produced a new society but also has threatened welfare states:

> This is because it becomes increasingly contradictionary for firms to operate in globalised, integrated markets, while experiencing major cost differentials in social benefits, as well as distinct levels of regulation between countries....welfare states are being downsized to the lowest common denominator that keeps spiralling downwards. So doing, a fundamental component of the legitimacy and stability of the nation-state fades away, not only in Europe but throughout the world...Therefore, the nation-state is increasingly powerless in controlling monetary policy, deciding its budget, organising production and trade, collecting its corporate taxes, and fulfilling its commitments to provide social benefits (Castells, 1997:252-254).

Overall, the lack of control on TNCs causes an uncertainty for the national labour market in which the state of employment in the private sector is largely determined by companies that have no accountability to the national governments. Since the rapid technological development of industrial societies, these companies tended to move part of their production to the newly industrialised countries in which the costs of labour were far lower than in the advanced economies.

Technological innovation and financial supremacy

A shift in the state-market balance of power is mainly the result of the accelerating pace of technological change (Castells, 1996; Held et al., 1999; Lipsey, 1999). The rapid technological change in products and processes has not only had its effect on civilian life, through increasing wealth, but also strengthens companies, and thereby the market's position in relation to the state. It is true that technological development has always been important for nation-states, particularly in the military arena, but technological change in civilian life, which is controlled by the private sector, reduced the government's monopoly over technological innovation.

Technological innovations in the production, structure and processes need extensive investment, and here arises the second source for market improvement – the ability to finance capital costs for such investment (Held et al., 1999; Kobrin, 1999). TNCs' ability to cover the costs for production of the evermore capital-intensive process of production explains the changing role in state-market relations. The supply of capital to finance technological innovation has taken place mostly in the market, which in turn has increased the role of the institutions creating and marketing credit in the world economy. Despite that, Scholars like Dunning (1999) emphasise the historic role of the state in creating the appropriate conditions for technological innovations:

> In the early stages of development, government play a critical function in setting up a market system and providing assets of a public-goods character (e.g. social infrastructure) to enable the efficient production of privately financed goods and services. Assuming the absence of major innovations, the role of governments may then be expected to decline – particularly where there is little uncertainty, and few economies of scale or externalities of production or consumption. But, then, as economic growth becomes more dependent on technological and organisational innovations, and these involve increasingly large expenditures on human resources development and supportive physical infrastructure, the systemic functions of government again become important; even though, in some areas, its role as a producer and regulator might decrease (Dunning, 1999:53).

However, TNCs' dominance in investment for technological development has often been in contrast to the national states' interests, because they only take the firm's interests into consideration and, as a result, organise production process for possible advantage – such as cheap labour or access to material (Dunning, 1988). For example, TNCs have moved most of their labour-intensive production process to cheap labour markets and kept the technological advanced part of production, which demands limited labour, in the home market.

As a result of technological and financial changes, and the accelerated integration of national economies into one single global market economy, The advocates of globalisation thesis (Ohame, 1995; Castells, 1996; Strange, 1996, 1999) argue that the authority of the governments of all states, large and small, strong and weak, has been weakened. They also believed that governments who failed to manage the national economy, to maintain employment and sustain economic growth, to avoid imbalances of payments with other states, to control the rate of interest and so on, are victims of the market economy. In particular they relate changes in the international political economy to the structural power of the United States, and particularly to financial deregulation, which began in the 1970s (or earlier in the USA) and then extended to the world market economy (Strange, 1999). A further primary function of the state that has been weakened is the control of the national currency (Edwards, 1995; Shepherd, 1994, ch. 9; Held et al., 1999). After the deregulation of financial markets, most states, especially small and medium sized states, lost control over their monetary systems, and instead, market judgments made a decisive impact on the values of national currencies. The monetary system was not the only field where the market increased its influence. In the following section, changes in two other areas – labour market relation and tax regimes – will be explored.

The changing nature of labour market relations

The conventional wisdom about the effects of globalisation on domestic politics suggests that the international integration of markets has negatively affected the role of workers in decision-making about both production and production processes. Many

firms, particularly labour intensive industries in economies competing solely on the basis of cost of low-skilled workers, tend to move production to economies with low labour costs. According to advocates of the globalisation thesis (Hassel & Schulter, 1998; Strange, 1996; Wood, 1994), such market integration has significantly weakened the position of organised labour movements in relation to TNCs. In the era of the nation state, from the 1930s, one of the state's major responsibilities was to guarantee workers the right to organise themselves and defend their interests in relation to their employer. Unions could actively participate in negotiations with management and investors, and influenced the overall economic strategies at the national level. But since the 1970s, the financial market has successively taken the upper hand, and the main part of decisions about companies has been taken out of governments' and Unions' control. According to these scholars, one of the obvious results of this change is that job security in the manufacturing industry has encountered difficulties. TNCs have excluded governments from the political management of labour relations because much more of the bargaining now takes place within firms. Where national governments threaten to intervene, TNCs can threaten to switch activities to other countries.

The globalisation thesis, therefore, gives the TNCs a more decisive and dominating role, which in the longer term is totally incompatible for national governments. By deciding the strategy of investment and production, TNCs can influence employment on a large scale and this can affect the socio-political situation in national societies. On the other hand, as a result of the state's shrinking authority in society and the economy, certain social groups, who had been protected by its authority, become increasingly exposed to global structural forces of change. Some of the major losers have been labour unions, which in certain countries such as the UK, lost much of their influence in collective bargaining with employers and the right to strike. Trade unions were powerless to stop multinational companies' decisions to move production to countries that had no effective labour laws. Internationalisation of production, as Huber and Stephens (2001:319) admit, has undermined the hegemonic position of blue-collar unions, especially in export-oriented manufacturing. Employers demanded greater flexibility of wages and the firms control over wage formation have increased considerably:

> Where employers made demands for flexibility and decentralisation of bargaining, these demands assumed special weight because of the shift in power relations in favour of capital caused by internationalisation of production. As shifting investments and production from one country to another has become easier and the threat of exit has become more credible, capital has gained leverage vis-à-vis both labour and governments in negotiations over wages, taxes and issues of control.

Tax regimes in the new order

Other major changes developing as a result of TNCs' dominance in the world economy concern conditions for taxation (Steinmo, 1993). As long as firms acted mainly in the home market, it was quite easy for governments to exercise control over companies' operations and to raise revenue from corporations. But the growth of trade and international production decreased governments' abilities to influence companies' business in the world economy (Picciotto, 1992). Before the globalisation of the world economy, nation states had the legal capacity to control those firms, which attempted to avoid paying taxes, but after the 1970s, such control decreased, mainly because nation states' ability to collect taxes outside their territory was severely limited (Picciotto, 1992). Moreover, the possibilities for firms to avoid paying tax by using tax havens grew rapidly, and in the early 1980s, many TNCs avoided tax by doing so (Johns, 1983; Strange, 1996).

According to conventional wisdom on globalisation, this situation has had a negative impact on governments' ability to finance the costs of public services, and above all the welfare system, and as a consequence, they have been forced to raise the tax pressure on individual citizens and small local businesses. Scholars such as Picciotto (1992) believe that international taxation is the only effective way to increase a government's tax-income from international firms. Otherwise governments are forced into debt to overcome fiscal deficits. Strange (1996:65), for example, believed that,

> While TNCs do not take over from the governments of states, they have certainly encroached on their domains of power. They are increasingly exercising a parallel authority alongside governments in matters of economic management affecting the location of industry and investment, the direction of technological innovation, the management of labour relations and the fiscal extraction of surplus value.

Transnational production and unemployment

The dominant view about production processes is that since the start of the process of globalisation they have split more and more into sub processes (Greider, 1997). Labour-intensive processes have been moved into low-wage economies in East Asia, Latin America, and after 1990, even to East and Central Europe. Only advanced and highly automated production processes have remained in Western Europe and North America. This trend towards trans-national production intensifies pressure on companies, especially in advanced welfare state economies, to 'modernise' by reducing their labour costs by substituting capital for workers (Keane and Owens, 1986:20). The modernisation of production has lead to a considerable decline in manufacturing's share of employment, simply because technological innovations increased manufacturing productivity, and progressively fewer and fewer workers were needed to produce a given level of output. As a consequence, developed economies tend to shift to services, new technologies, and the production of machinery and advanced goods. Despite attempts to regenerate the advanced economies which were affected by considerable job losses, by expansion of their service sectors, it has proved difficult to find employment for large numbers of semi-skilled male workers (McKeown, 1999). Long-term male unemployment has been the major problem of the industrial and economic development of advanced economies (Mullard and Spicker, 1998). Redundant workers could either be educated in new skills or, if they have a few years remaining before their pension, leave the labour market earlier. In both cases the change would cause increased costs for the state.

The weakening of the nation state was not only a result of changes in the economic field, i.e. global movement of money and capital, together with development in technology and methods of production which reduced nation states influence on the economy, but also in political matters. Regimes' responses to global changes during the 1970s were different. While some Social Democratic governments chose to continue the Keynesian demand management policies and to maintain full employment, despite the new division of labour, others, often with conservative identity, abandoned the full employment policy. But what Mishra (1990) claims is that, despite Social Democratic governments' resistance to unemployment, changes in the international division of labour and the globalisation of capital compelled these governments to abandon the

full employment strategy within one decade. The point of this account, however, is that this change was partly a result of the shifts in the modifications of the organisation of production, from Fordism to Post-Fordism. According to scholars such as Jessop (1994) and Pierson (1994), the transformation of the Fordist state to a Post-Fordist state was a result of attempts to manage crises and contradictions which arose within the traditional post-war economies based on mass production and mass unionisation.

Fordist capitalism, based on national growth and development of the national single market economy, was highly dependent on certain forms of political and social regulation to control the market economy (Hassel & Schulter, 1998). Jessop (1990:2) described the concept of the Fordist accumulation regime as a combination of mass production and mass consumption. The labour processes, and so the labour markets were both highly regulated and stable. Such stability was provided by collective bargaining between the employers and the Unions, the latter of which organised a large majority of the workforce (Teague & Grahl, 1992). Keynesian economic policy was a key component of Fordism, and the state's financial support for companies provided stable utilisation of production facilities. This led to rising employment and increased production. As a result, a pattern of employment was established in which a large number of people possessed stable and often relatively high-paid work.

However, the Fordist state was dependent on high level growth rates, so when the OECD economies went into a period of low growth at the beginning of the 1970s, the system faced a structural crisis. The process of mass production and mass consumption lead to labour shortages, and rising wages and prices, which altogether caused instability in the labour market regulation. These conditions favoured the establishment of what has been called the post-Fordist accumulation regime. In the labour market, the post-Fordist regime stressed flexibility and the decreasing of regulations, which meant that the use of the workforce, as well as the organisation of production, would be more flexible (Gertler, 1988). While in Fordism the dominant labour process was the mass production of complex consumer durables, the post-Fordist labour process can be defined as a flexible production process based on flexible machines or systems and an appropriately flexible workforce. The post-Fordist pattern of labour process has micro electronic-based information and communications technology as its crucial hardware. In the labour market, by introducing non-standard

employment contracts, changing work organisation, and other deregulation in favour of increasing flexibility, the influence of trade unions would decrease considerably. Ferner and Hyman (1992) believe that in the new order, labour market regulation would have a more decentralised, flexible and differentiated character. Post-Fordism may also be conceived as a response to the economic development towards the internationalisation of economic activities. Because of increasing international competition, the international mobility of production, the internationalisation of R&D, and essential increases in international financial operations, national economies have lost their importance for most companies, which focus mainly on the international market (Pearce & Singh, 1992).

Summarising the discussion so far, the advocates of the globalisation thesis refer the changes in the economic situation in industrial society to decreasing economic growth, with increasing mass unemployment and cuts in social benefits as a consequence. Further, the rapid increase in the power of TNCs and, in turn, the weakening of the government's authority and the influence of labour, are other essential changes which have occurred in industrial relations. The basis of the changes is suggested to have been the rapid technological innovation, deregulations in the mobility of capital and production, and changes in the international monetary and trading system, which lead to the adaptation of new tax regimes. These changes in the organisation of capitalism, as Lash and Urry (1987) suggest, lead to disorganisation of the capitalist societies. Lash and Urry (1987) point to several reasons for the emergence of disorganised capitalism: the growth of the world market; deregulation of national markets, thereby causing the weakening of national states; the deconcentration of capital; and a rapid increase in the scale of external activities of large corporations. Capitalist societies displayed several other features, which show changes in the capitalistic system. One of these changes is the expansion of the service class (of managers, professionals, educators, scientists etc.), which has had a strong impact on the development of organised capitalism and then in the 'disorganising' of modern capitalism. The decline in the role and power of the working class and their declining organisation is another sign of disorganised capitalism. The absolute and relative numbers of employees in the manufacturing industry has declined, and the dominance of this class in the organisation of the modern capitalist society has disappeared. On the other hand, the importance of service industries for the structuring of social relations has increased.

For example, the number of smaller plants has increased, the labour process has become more flexible, and feminisation has increased.

Overall, deindustrialisation in advanced economies was apart from changing consumption patterns even an inevitable product of shifting trade patterns and the associated new international division of labour. However, in the case of Swedish industry, which has historically been positive to rationalisation, and, since the workers laid off have seldom had any problems in finding new jobs, changes in international economy and the multinationalisation of Swedish firms has not in itself had negative employment effects.

The Globalisation thesis

We have briefly examined some of the aspects which in the recent debates about changes in the industrial societies have been named as the major factors which have had a tremendous impact on the autonomy of the nation state. However, as in the case of other big ideas, there is substantial disagreement about the concept of globalisation. Held et al. (1999) distinguish between three different schools of thought about the concept of globalisation; the hyperglobalisers, the sceptics, and the transformationalists. Despite the general acknowledgement about the intensification of the process of globalisation in a historical perspective, these three approaches have different understandings of the causal dynamics, as well as the structural consequences of this social economic phenomenon. As Held et al. (1999) observe, among advocators of either of these three schools, we find scholars from different traditions of social enquiry - liberal, conservative and Marxist.

For the hyperglobalisers (Ohame, 1995; Strange, 1996; Wriston, 1992) the major issue is that in the era of the domination of the global economy, to which every society in the world is subject, the national state has lost its traditional role and become an 'unnatural' unit in the process of economic globalisation. In the new era, transactional networks of production, trade, and finance have reduced the national governments real power so considerably that they are no longer the primary economic and political units of world society.

If the world trade, investment, and labour flows are the major features of the process of globalisation, sceptics (Hirst and Thompson, 1999; Boyer and Drache, 1996) reject the claim by presenting statistical evidence, which confirms that the levels of economic interdependence are not historically unprecedented. They stress that national economies are still major units in the world economy, and what we observe is not globalisation, but heightened levels of internationalisation. The sceptics believe that the world economy is undergoing a significant rationalisation in which three major financial and trading blocs are forming. Therefore, instead of global integration, Weiss (1998) stresses the emergence of 'regional' integration in Europe, Asia-Pacific and North America, which is opposite to globalisation in that it accentuates the dynamics of local and regional levels. By the same token, Weiss (1998:184) rejects the notion that a global welfare policy will replace the national policies, and in contrast, believes that the role of the nation state in policy choices will expand.

For transformationalists (Giddens, 1990; Castells, 1996; Mann, 1997) there is no doubt about the fact that globalisation, as a process which is rapidly taking place and is the main driving force behind changes, is occurring in the world. Unlike the sceptics, they believe that transitions in areas of social politics and economics worldwide are historically unprecedented. National affairs are no longer saved from international impacts, and therefore, the societies cannot shape their own way of development free from external systematic intervention. However, the transformationalists make no claim about the future of an ongoing process, as the hyperglobalisers so optimistically do. Transformationalists believe that in contemporary globalisation the sovereignty of national governments still exist, but as a result of comprehensive changes in the international economies, national economies are reorganised considerably, and by that, the power and function of national governments have also been reconstituted. Given this changing process, many transformationalists (Held et al., 1999; Murphy, 1996; Rosenau, 1997) believe that the power and authority of national governments has transformed or been reconstituted, and by such mechanism, national governments have adapted themselves to the process. In the following section, the three dominant tendencies in the globalisation debate will be further analysed.

Analysing the globalisation thesis

In the arguments of the hyperglobalisers, and to some extent even the transformationalists, about the changes in the global order, the major theme is that the governments' authority over national states has changed dramatically, and in turn, the influence of the market on the formation of politics has increased enormously. The argument is based on the claim that the influence of private enterprise in finance, industry, and trade, on the world market has increased so much that the political establishment and the unions cannot compete against the dominance of the market. There is no doubt that the process of globalisation and the changes, which have been discussed earlier in this chapter, have had certain impacts on the development of industrial societies, but I will argue that the evidence provided by the hyperglobalisers does not imply that the changes have led to a total transformation of the national economies to global economies. As Hirst and Thompson (1999:4) emphasise, the changes mainly show differences between 'certain trends toward internationalisation', but do not confirm 'the strong version of globalisation thesis'. I will continue the discussion by focussing on the arguments of Hirst and Thompson who stress that there is no commonly accepted model of the new global economy and its differences from the previous state of international economy. Their arguments against 'the more extreme globalisation' contain five basic notions, which are briefly presented here (1999:2-3):

1) The present highly internationalised economy implies no basic changes in the international economy based on modern industrial technology. Comparing economic activity in different periods, in terms of their openness and integration since the 1850s, one should conclude that the regime that prevailed from 1870 to 1914 was more open than the current international economy. For example, the comparison of trade to GDP ratios shows that in most industrialised countries the proportion of merchandise trade to GDP was higher in 1913 than it was in 1973. Even in the matter of current account imbalances and capital flows, measured in relation to GDP, statistics show that they were larger before 1914 than they were in the 1980s (Hirst and Thompson, 1999:26-28).

2) TNCs still constitute a limited part of companies, even if the greater part of large companies are multinational, which are 'home-based' in the major developed OECD countries. Despite the fact that MNCs trade multinationaly, the location of their production and sales are mainly nationally. In contrast to MNCs, the major feature of TNCs is that they have no specific national identification, have an international management, and invest in any market that will give them the best return. By these features, TNCs could no longer be based in one national location and thereby be constrained by the policies of the nation state.

3) In past decades, the flow of capital has mainly occurred among advanced industrial nations and a small number of rapidly growing economies. Between 1983 and 1989 more than 85 per cent of advanced industrial nations' foreign direct investments (FDI) flowed to other advanced countries. Nearly 10 per cent of flows were to Asia (overwhelmingly to China) and Latin and South America which mainly contain the newly industrialising countries. Only 3.7 per cent of capital flows were to Third World countries. However, the geographical concentration of FDI in the biggest three economies (North America, Europe and Japan) has decreased to 66 per cent, but on the other hand, the new industrial nations in Asia and Latin America have increased their share to nearly 31 per cent, and other areas in the Third World and developing Europe have been seriously neglected (Hirst and Thompson, 1999:67).

4) The concentration of trade, investment and financial flows in the advanced, industrial part of the world also shows that the contemporary international economy is far from global. In the early 1990s, about 80 per cent of world trade was conducted between more developed economies, particularly members of OECD. Knowing that a small number of advanced economies, the group of the five (G5) main economies, accounted for approximately 70 per cent of FDI, one should conclude that in actual fact, these few main economies constitute the global economy (Hirst and Thompson, 1999:196).

5) Those few major strong economies (G3) have the real power. They have access to mechanisms to exert their control on the financial market, and they also direct other economic tendencies in the international economy. Thus, these economic powers can already regulate and control the global market. For example, through agreements they

can stabilise exchange rates, co-ordinate fiscal and monetary policies and operate in limiting speculative short-term financial transactions (Hirst and Thompson, 1999:121).

As is evident from the discussion, although globalisation sceptics acknowledge that the process of 'internationalisation' has been intensified, they tend not to draw far-reaching conclusions about the causal dynamics as well as the structural consequence of this social phenomenon. However, and despite the arguments presented above, it seems to me that the concept of globalisation has unquestionably been accepted by a major part of the social science community to the extent that it is widely believed that global economic pressures undermine domestic strategies of national economic management.

Another reason which has been argued by the advocates of the globalisation thesis to have lead to the increase of the influence of the market, is the increasing capacity of firms to move production and capital to the newly industrialised societies. This is suggested to have decreased the influence of the labour movements. In contrast, it can be argued that despite the ever-increasing capacity of firms to move their production, the influence of labour movements, particularly those with broad and centrally organised influence in countries with a powerful Social Democratic Party in government, has not been seriously weakened. Although in the contemporary era of global markets, the structural power of capital has been increased, and in pursuing a higher rate of return on investments, capital tends to seek out high growth regimes, in reality, capital mobility is still relatively limited and mostly confined to OEDC countries. Despite the general trend since the liberalisation of the financial system for capital to invest where it can secure the greatest return, as some scholars (Hay, 2001; Garrett, 1998) emphasise, this does not create sufficient conditions to assume that the capital enjoys mobility at any price. While it is relatively easy for portfolio capital to be moved, when such a capital attracts to a particular locality and invests, it beds down and becomes difficult to be moved, simply because investment acquires a series of sunk costs, such as immaterial assets, which are translated into human and physical capital, some of which might be subsidised by the hosts. Consequently, as Hay (2001:51) stresses, 'once installed, exit options become seriously depleted and incur significant loss (in terms of irredeemable sunk costs). Thus, whilst it may be entirely 'rational' for foreign direct investors to proclaim loudly and exaggerate wildly their

mobility and their much vaunted exit options – especially if they can make these sound credible – it is not surprising that the threat of exit is so rarely acted upon.' In other words, exit options have been used as a threat rather than real economic option.

Further, contrary to assumptions presented by the advocator of the international capital mobility thesis, which mainly stresses the minimization of labour costs as the most significant factor, and which decides the motive for mobility of the capital, in reality this fact has mainly had impact on labour-intensive industries. For high-tech and high-skill industries, which are capital-intensive sectors, the burden on competitiveness caused by the welfare state has not been the most decisive factor. For these industries, labour costs represent a small part of overall production costs and competitiveness is decided by quality and innovation rather than cost. That makes these firms less vulnerable to costs caused by generous welfare states. As long as the firms remain efficient and technologically competitive, they will be willing to pay for social protection of labour (Hay, 2001).

The argument can be made more general. The process of globalisation does not necessarily undermine the economic sovereignty of a national government. Apart from the fact that exit options has given footloose capital an apparent weapon, in reality, as Garrett (1998) stresses, many economists have argued that market friendly governments should have a more active role in initiating policies that produce growth-enhancing collective goods such as public education and training and those applied to physical infrastructure. Apart from the benefits of these collective goods to citizens, they are also attractive to capital simply because they lead to increasing investment returns. Big governments are known to represent comprehensive income transfer programmes such as benefits for the unemployed, the sick, or the old. These expenditures, which have an obvious redistributive characteristic and are traditionally associated with strong states of a Social Democratic nature, are, according to Garrett (1998:5) 'compatible with strong economies performance in the global economy, provided labour market institutions are sufficiently encompassing.'

It has also been claimed that the TNCs can, by deciding the strategy of investment and production, influence employment on a large scale, and consequently affect the socio-political situation in national societies. This process is suggested to decrease the

influence of the unions. There are a number of reasons to be sceptical about this argument. One, as Vissner (1991) shows that between 1970 and 1990 the strength of organised labour has not changed considerably. During the period, the average size of union density, which is the number of union members relative to the size of the labour force, has decreased marginally in 14 of OECD countries, from 43 to 41.8. In Nordic countries, trade union membership was considerably stronger and more than half of the labour force was unionised. In Sweden, like two of the other Nordic countries, Denmark and Finland, union membership increased from 66 per cent in 1970 to 83 per cent in 1990 (Garrett, 1998:64). Union membership declined by just one per cent to 81.9 in the year 2000 (LO, 2000a). Another fact, which supports the argument that during the period the strength of organised labour has not decreased significantly, is that the central confederation of labour has not suffered major internal conflicts caused by growing divergence and conflicts of interests between groups of unionised labour. A reason for that might have been the fact that the share of members coming from the public sector has steadily increased. In countries with the highest total trade union membership, such as Sweden, 38 per cent of union members were in the public sector (Garrett, 1998). A third argument in support of the organised labour strength is union concentration. In this regard, data collected by Golden and Wallerstein (1995) shows that the authority of the largest confederations has not decreased in most of the industrial societies. A measure of union concentration is the percentage of all unionised workers who are members of the largest confederation. Between 1970 and 1990, the average portion of members in largest confederation has decreased less than two per cent, which is quite marginal. Another measure is the average number of unions in the major confederation. The lesser the number of unions, the lesser the obstacles to collective action by the labour movement. Once again, data shows that the average number of affiliated unions in the largest labour confederation decreased from 50 to 38 between 1970 and 1990. Therefore, the data presented in Golden and Wallerstein (1995) rejects the generalised notion that the 'encompassment' of the unions which decide the concentration of authority in central labour organisations is in decline. Where powerful left-wing parties have been allied to encompassing labour market institutions, such as in north European social democratic corporatism, the economic policy has been more consistent and the domestic effects of globalisation less widespread (Garrett, 1998).

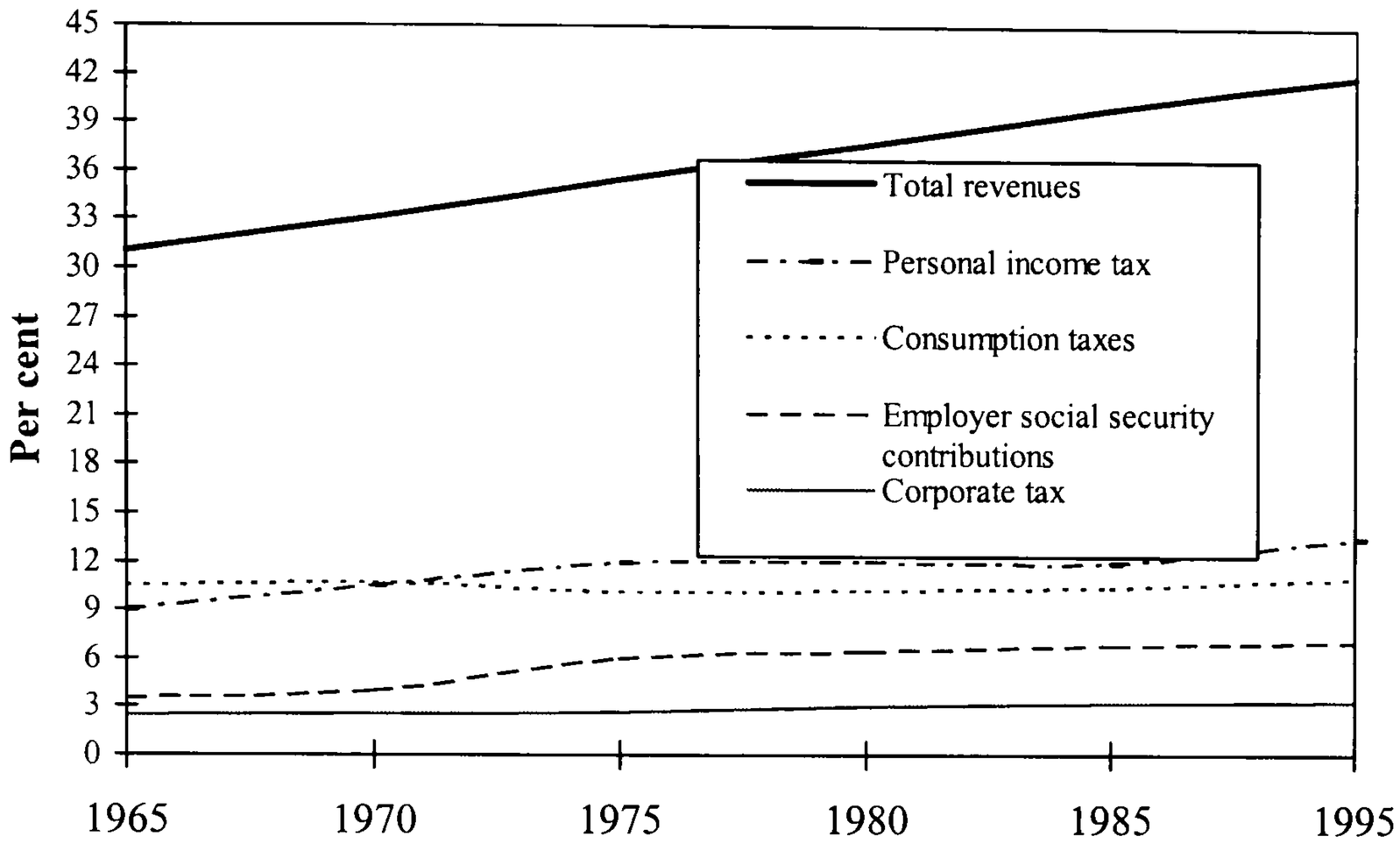
Soskice's (1999:102) study of changes in production regimes, which means 'the organisation of production through markets and market-related institutions', suggests that, although the systems of industrial relations have experienced significant changes in past decades, they still remain important:

> In those advanced economies in which business has been strongly organised that industrial relations systems have remained important; and we need to look to the capacity, power, and interests of business in those economies to explain the phenomenon. By contrast, where business has not been well organised – and, we will argue, has not had the capacity to build or maintain institutional structures needed to incorporate effective employee representative bodies – governments have seen or come to realise the need for a reduction, sometimes dramatic, in the influence of unions (Soskice, 1999:103).

Another area which seems to have been overstated by the hyperglobalisers concerns taxation and specifically TNC's desire to avoid paying taxes to national governments. There is no doubt that as a consequence of globalisation corporate taxation has converged at ever-lower levels. Throughout the 1980s corporate taxation decreased in most industrial nations, but the significance of this trend should not be overstated because the average rate of decrease was just two per cent (Garrett, 1998:95). After the UK, Sweden was the country that had the highest reduction in corporate taxation. Despite that, during the 1980s, growth in public expenditure in many countries such as Sweden, continued. Looking at figure 2.1, one can understand the reason why lower revenues from corporate taxation in relation to total government revenues from taxation had no decisive impact on the government's spending. The revenues from corporate taxation constitute a small part of total government revenues. The major source of government revenue has been personal income taxation followed by consumption taxation. In the past decades these taxes together amounted to two third of total government revenues from taxation. The third source of taxation is employer contributions to social security funds. Although these contributions amount to one sixth of total government revenues, because the contributions are employee's social security benefits, they have to be paid regardless of the firms' location. By this picture, revenues from taxes on corporate profits represent less than 10 per cent of total government revenues from taxation. In other words, although corporate taxation is one of the four major types of taxation, it is the smallest one (Garrett, 1998). Apart from those, revenues from TNCs still represent a limited part of the government's revenues from the corporate. Therefore, one can conclude that changes in the level of

government total revenues through corporate taxation will not have a considerable impact on the financing of public expenditure.

2.1 Sources of government revenue in OECD countries



Source: OECD, Revenue statistics (various). 14 country averages, in Garrett 1998:86

Taxation apart, hyperglobalisers also tend to exaggerate when they discuss the new division of labour and production in industrial versus developing economies. Moving parts of labour-intensive processes to low-wage economies does not necessarily imply a negative impact on the advanced economy and its employment rate, or on the living standards of the labour force as a whole (Schwartz, 2000; Pierson, 2001a). The underlying messages of the arguments presented by Wood (1994) and Cline (1996), which implicitly relate the problem of unemployment in OECD countries to southern competition, are misleading because they neglect the potential in OECD economies in providing jobs in industries with advanced technology. Further, the rapid increase in employment rate in service sector has been a great substitute for manufacturing jobs. It has to be emphasised that in these economies the problem of unemployment almost only encompasses manufacturing jobs. The capacity of the service sector to create new jobs has increased all the time. As Department of Trade and Industry in UK and France reported (2000) the Service Sector in these countries have shown steady Growth of output and employment in public sector. According to OECD (2000), by the end of the 1990s, service sector share of employment approached three-quarters of all jobs in several countries and accounted for virtually all recent gains in employment.

Apart from the fact that the major part of FDI still flows between rich countries, the southern economies imports from OECD are growing rapidly. That shows that growth in newly industrialising economies (NIE) directly affects the technologically advanced productions in OECD countries. In other words, although in the short-term, the rate of unemployment in OECD countries grew markedly but as a consequence of the modernisation of production, the industrial output in these economies has grown considerably, which in turn has led to the strengthening of the industry. Furthermore, while unemployment increased among low-skilled industrial workers, demand for skilled labour in high technological branches has been increasing. In other words, even though technological development toward 'robotism' was an obvious labour-saving device in industrial manufacturing and service industries, there is no consensus about the effect of technological development in increasing unemployment.

While Keane and Owen (1986) believe that technological innovation produces dramatic increases in both unemployment and productivity, propelling a form of 'jobless growth' which shakes the full employment welfare state to its foundations, others (Therborn, 1986; Pierson, 2001b) reject any strong connection between contemporary unemployment and technological development. As an example, Therborn (1986:58) puts forward the extraordinary robotisation of Swedish industry, which began in late 1970 and which should have had some negative effects upon manufacturing employment, but did not. He stresses that the relationship between high technology and employment is fundamentally ambiguous, and therefore, he rejects the notion that unemployment is the inevitable consequence of technical change. The fact that during the last three years of the 1990s, the rate of unemployment in Sweden decreased by half (from 8 to 4 per cent) demonstrates that other factors such as growth in economy and governments active labour policy, mainly in supporting the private sector or re-training the unemployed, play a decisive role in the increase of employment. In other words, technological innovations may lead to an increase in unemployment but only if other factors such as the economic growth and the national state's constructive labour policy fail to come off.

Finally, although most scholars agree that financial and productive capital are more mobile now, which has some negative impact on national autonomy, there is no

consensus about the impact of increasing capital mobility on the welfare state. Some of them, such as Schwartz (2001), Pierson (2001a) and Garrett (1998) reject the conclusion that increased mobility would have caused weakness in the welfare state. Garrett (1998) seems to represent most critical views against the notion that financial integration would be a serious challenge to national autonomy simply because there is no significant fiscal and capital tax policy convergence among OECD countries. He believes in the effectiveness of social democratic supply-side policies, which by centralised collective bargaining and low relative unit labour costs, still attract capital. For Schwartz (2001:23) the impact of globalisation is not just policy convergence among OECD countries, but also the political effects and interest conflicts which are caused by the new circumstances at a national level. One of those is the conflict created inside the labour movement over relative wage levels that has threatened centralised bargaining. As a result of the greater competitive pressures in the international market, the countries with highly centralised bargaining, such as Sweden, suffered large capital outflow during the 1980s (OECD, 1995). Despite that, even Schwartz dismisses the external constraints, such as the financial mobility argument, as the crucial argument for the welfare state cutbacks. Not even rising unemployment caused by the capital outflows is understood as the major reason for rising fiscal stress. By stressing that health and pension expenditures run at five times the cost of unemployment insurance and early retirement schemes, Schwartz's (2001:24) verdict is that 'health and old age pensions are the major cause for rising government spending, and thus presumably for fiscal stress.' In other words, the major costs to the welfare states come from internal factors such as health and old-age pensions and not from external factors in the form of increasing unemployment caused by global economic changes.

Globalisation and welfare regimes

Summarizing the discussion so far, it can be argued that the globalisation thesis is correct to point out the potential problems with which national governments have to deal. High capital mobility and a flexible labour market are direct consequences of the development of the process of globalisation, which have caused increased competition from the newly industrialising countries to the advanced economies. This competition

meant that the advanced industrial relation and most of the generous arrangements in these countries have faced some pressures caused by external factors. The development towards economic globalisation has also meant that the traditional modes of solving the conflicts at a national level by measures based on consensus and agreements between the major national actors are more difficult than before. Apart from that, where the national government takes on an active industrial policy to support their own companies by subsidies or other supportive measures, the international demand for equal competitive conditions prevent such involvement. In such a process, it is also recognised that the pressures from private enterprises on the welfare institutions, and traditional industrial relations based on corporatist foundations have increased by the argument that these institutions endanger the international competitiveness of the companies (Shlaes, 1994; Rieger and Liebfried, 1998). On the other hand, the increasing need for a flexible labour market caused by high capital mobility has had the obvious consequence that the number of people who suffered from the structural changes in the global economy increased. In such a process, while the demand on social policies increases due to increasing social insecurity, the nation-states fiscal capacity to satisfy these ever-greater needs is declining (Rieger and Liebfried, 1998).

However, it was suggested in Chapter One that elements of these problems might be equally attributed to endogenous domestic factors. It may be that global economic pressures do mean that nation-states have to be more cautious about spending. The most recent social policy developments in advanced economies illustrate that national social policies cannot entirely avoid the effects of changes in international economic development, although these tend to be indirect. The crucial challenges come from endogenous factors even though the problems become more clearly and urgently visible when exogenous factors intensify pressure on the welfare system. In general, the structural problems of the developed welfare states are mainly related to the combination of declining fertility rates and the burden of an increasing proportion of aged people. These are the two factors, which have caused the major problem of financing the system of social transfer payments. Consequently, the argument which this thesis stresses is that although the need for welfare state reforms in the developed economies is clear, evidence regarding the ongoing crisis of the advanced welfare states show that this need is not a direct result of globalisation.

As mentioned in Chapter One, equally important in the debate about the changes in welfare states is the institutionalist thesis, which suggests that there are 'welfare state limits to globalisation'. In this regard, it has to be emphasised that neither exogenous nor endogenous factors are themselves sufficient reasons for changes in social policies. In addition, social policy institutions and social groups who are affected by the structure of welfare provision, are the third factor that can inhibit the national government's policies, resisting changes that threaten their interests. Apart from the institutional resistance to the reforms, there is a privileged strata benefiting from the existing public sector or welfare arrangements that are powerful defenders of the existing system. These groups consist of pensioners, public sector employees, and long-term benefit-recipients in particular. The users of entitlements are highly dependent to the existing order, and could establish a defensive coalition for the continuation of the status quo. According to Rieger and Liebfried, (1998:378) societies with deeper social policy structures are much more resistant to changes in social policies:

> The deeper social policy structures are embedded in interest groups, and the more political parties have internalised the welfare state ambitions of the claimant and provider classes, the higher are the hurdles for efficient welfare state reform...The rise of manifest and latent claimant and provider classes has decisively shrunk the social base for an open economy and at the same time sharpened political parties' attention to these new interests at the cost of the free market system. The numerical growth of 'classes' – via broader access to a prolonged education and the institutionalisation of the 'pension age', but also through welfare and unemployment insurance transfers, which can to a great extent replace market income, and finally through fiscal welfare's vastly complex structures of benefits and systems of 'equalizing burdens' has shifted the lines of social conflict, highly socialized the structures of mediating interests, and thus altered the functional laws of the political market in favour of the welfare state clientele.

During the era of globalisation, the role of the political establishment in retaining social policy institutions and benefits has increased largely. Accordingly, welfare state issues dominated the political debate, and by that, the pressure by social groups in favour of the existing arrangements on the actors in the political arena increased considerably. While the wider groups of beneficiaries or public sector employees resisted institutional changes in social policy institutions, the politicians have tended to point to international competitive pressure or to the policies adopted by the supranational economic and political authorities for legitimating changes in structures of social policy arrangements. In this regard, EU integration, the convergence

programme, and EU social policy were issues to which many initiatives to change have been referred. Therefore in the next section, the issues related to EU social policy and the impact of that on changes adopted in national states social policies will be discussed.

The EU and its impact on the national social policies

Since welfare states are predominantly national projects emerging over time according to specific national conditions, there is reason to believe that integration of nation states in a supranational unit might have consequences for the national social policies, and this area needs to be taken into account. The major focus of this section, therefore, will be an assessment of whether EU membership has had an immediate impact on the design of social policy in the member states. Has the EU directly intervened in each nation state's policy-making in issues concerning the welfare system? What is the plan of the EU for the future of the diverse existing welfare systems? Is there any plan for harmonisation of social policies to a common EU social policy?

In broad terms, although in the recent decades widespread economic globalisation has increased the level of integration in Western social systems to an extent, the national character of social policies remains highly visible (Falkner, 1998; Hine and Kassim, 1998; Rhodes, 1998). National governments tend to operate within the existing institutions and programmes and it seems that governments in industrial societies avoid initiatives which are likely to lad to a radical restructuring of the national welfare state. Systems of social provision are products of a long period of institutionalisation and are therefore strongly embedded in the national environment they have been generated by. For the EU or any other supranational body, it would be an expensive task to challenge patterns and path dependent processes at national levels by dictating new rules. However, one might argue that the necessity for at least a degree of integration for social policies within the EU is going to put pressure on the national states. Even so, by the end of the 1990s, integration in social policy still lagged far behind the integrative demands of the single market, but, as social policy has always been understood as a necessity for the advanced industrial states, there is reason to

believe that moves towards closer union will inevitably result in measures designed to harmonise social policy in the longer term.

EU intervention in coordinating national states' economy

Economic integration in the EU has so far had some obvious effects on national states economies, and although these effects have until now been experienced only indirectly, it is becoming clearer that EU intervention into national states' economies will in the future take an inevitability more open and direct character (Kolb, 1999). One of the negative effects has been the increasing competition between member states to reduce labour costs in order to attract capital investments to their regions. A consequence of such a policy will be national states' efforts towards the harmonisation of their taxation regimes. Even though, there has traditionally been a divergence between EU member countries' systems of taxation and social contributions, and the taxation system plays a very important role in economic competitiveness, in the process of harmonisation, a convergence in the way member states raise their revenues will be inevitable.

Apart from such indirect intervention, the EU has, by the Maastricht criteria for monetary union, forced member states to introduce policies designed to control public expenditure (Falkner, 1998). These policies – balanced budgets, low inflation and low debts – are aimed, first and foremost, at changes in the social field. By containing social spending, the EU intended to coordinate the national state economic policies in order to make Europe more competitive in relation to other major economic blocs in the world. Although some of the member states with higher economic growth have had the space to resist the rising trend in social expenditure, most of them initiated far-reaching changes in their social policy agendas. Despite that, it has to be emphasised that the European Commission's efforts to legislate directly from above have been cautious. In the absence of political union, far-reaching regulations in different areas, including economic policies, would be firmly resisted. Therefore, to date, intervention has been modest and predominantly applied to the Single European Market. The integration of national economies has also been limited to the convergence plan, which

mainly focused on certain restrictive measures such as the low inflation, low debts, and balanced budgets mentioned above.

In the field of social policy, certain moves have been taken which have predominantly been towards non-state welfare, provided commercially by employers or by the family. In this system, welfare outcomes will depend on employment-based contributions from the world of paid work, with the result that social inequalities between those in the labour market and those outside paid employment will grow more markedly. Although convergence within the EU is likely to result in some kind of EU regulations on social protection in the future, current trends developing in the EU suggest that the outcome of such agreements would be less generous entitlements. In other words, a kind of 'divergence within convergence' is developing. This trend ensures that welfare objectives take second place to economic competitiveness in the process of EU integration.

The State of social policy in the process of integration

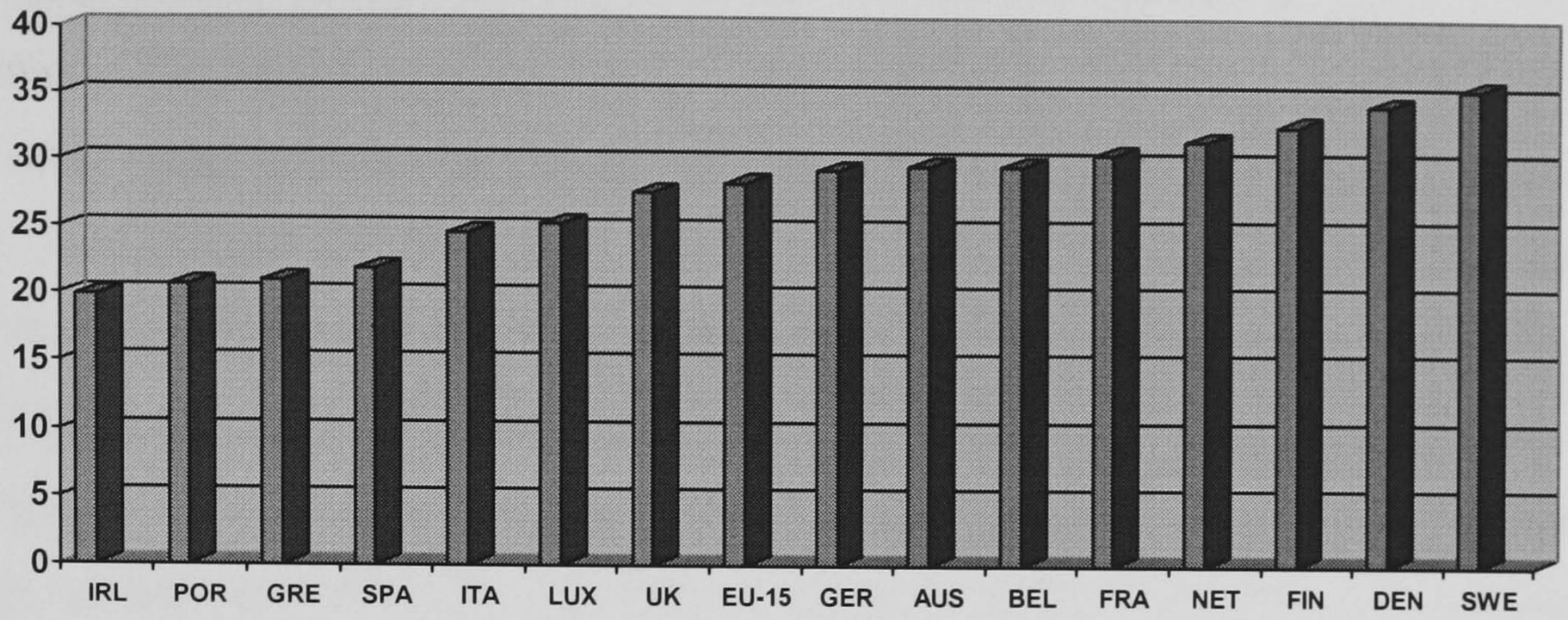
So far it has been suggested that EU integration until now has primarily meant indirect intervention in coordinating member states' economies. Regarding social policy, it has to be argued that four decades after the foundation of the European Community, and despite a high level of market integration, the process of European integration in the realm of social policy seems to have been less successful. In contrast to national social rights, European social rights have developed slowly, and therefore have not had the same meaning for citizens (Kolb, 1999; Jacobsson et al., 2001; Tallberg, 2001). Apart from some social legislation mainly concerned with the free movement of workers – a necessary condition for the implementation of the single market – social issues have remained largely ignored.

The slow progress of social integration of the European Union is above all a consequence of the difficulties in the transformation of sovereign, competing, and highly developed nation-states into parts of a union. Beyond the competition between the nations, there has also existed a struggle between three major power sources in each nation that is between organised business, organised labour and political

hegemony. Such competition inhibited the process of social integration at the European level. As Liebfried and Pierson (1995b: 433) stress, 'there is no disagreement that an analysis of the EU must begin with an appreciation of the EU's limited capacity for positive policymaking and an acknowledgement that member states and organised business will often resist centralised social policy.' The Member States have strongly resisted interference in what they perceive to be an important sphere of national sovereignty. One major reason is that social policy is the area in which political actors feel able to create circumstances for domestic political success at a national level.

Another reason is that member-states do not all have the same set of social interests or policy preferences (Esping-Andersen, 1990). Even among the 15 EU members, as is shown in figure 2:2, the rate of expenditure on social security differs enormously. A proposal that is favoured by some is likely to raise objections from others. In the European Union, there has been a split between the core and the periphery on social policies. Whereas the poorest member-states advocated increased expenditure for the structural and cohesion funds, other countries, like the UK, opposed this expansion of the EU's role (Liebfried and Pierson, 1995b). The autonomy of sovereign nation-states and the enormous influence of the member states wielded within the EU explain the lack of the Union's active intervention in the area social policy. Even in those areas where EU decisions dominate, the member states were accorded wide decision-making authority, and they have also been given power over implementation (Sbragia, 1992). Compared to traditional federal systems, member states within the EU, from the very beginning, have had a predominant position.

Figure 2.2 Social Protection Expenditure and Receipts, as percentage of GDP (1980-1995)



Source: Esspros (1998)

However, with every new treaty, elements of national sovereignty have been eliminated, and the EU has been granted far-reaching authority to intervene in matters concerning the development of the single market. As Scharpf (1994, 1998) points out, this permitted the EU to intervene in many aspects of public policy that relates directly to its core objectives. The EU's real problem, however, has not been so much the lack of a legal right of intervention, but the problem of decision-making in the institutions of the Union (Liebfried and Pierson, 1995a). Until the mid-1980s, the unanimity rules had protected individual member states, which were able to block decisions that threatened their interests. This arrangement obviously prevented the EU from exercising too much power. Although, the qualified majority voting (sixty-two votes from the total ninety-two) has made the decision making process more efficient and effective, it has to be emphasised that most social policy issues still require unanimity (Liebfried and Pierson, 1995a).

However, looking at the process of EU development, one can conclude that policies adopted for one set of purposes are likely to have consequences in other directions. In other words, majority voting, which was initiated to accelerate the process of market integration, could also be applied to social policy making. On top of that, as Hine (1998) stresses, while the process of the creation of the single European market accelerated, other factors such as the globalisation of capital markets, competitive pressures from newly industrialising economies, and the increased restructuring of business could increase both job insecurity and income differentials. To avoid the

negative impacts of market-driven process of integration, the EU was expected to take policy initiatives to compensate the labour force from potential threats. The reason for such intervention is the decreasing ability of national states to finance social protection. The logical consequence of market building has been that nation-states have come under pressure to reduce social provision with the consequence that they would lose control of the social agenda at a national level. Measures for social protection therefore may have to be taken by the Community. In other words, although the Monetary Union, and the increasing pressures for budgetary convergence accompanying it, have eroded the control of member-states of parts of the social agenda, at the same time, by intensifying the market-driven process and increasing social exclusion, the need for social policy measures for compensating the excluded labour force has increased considerably (Hine, 1998).

To cope with the problems, the social dimension has achieved greater importance and the concept of citizenship in the European Union has also entered into EU debates. Despite that, employment status continued to be the real focus of 'social policy', and the concept of social citizenship rights within the European Union was by no means fully established. As Kennett (1994) stresses, even when the concept of 'social exclusion' was debated, the Agreements paid no attention to non-worker categories, who in national social policies constitute social groups such as the old, certain women, unemployed, casual workers, new entrants to the labour market, and immigrants. Therefore, there was still a big gap between the generosity and comprehensiveness of the national social policies with universalist content, such as those in Nordic member states' (Sweden, Denmark and Finland) social policy on the one hand, and the rest of the EU on the other. Therefore, the process of integration in the EU would in longer term have a considerable impact on Nordic welfare policy, which was the most generously funded.

Obstacles to a European-wide social policy

Despite the fact that the need for EU decision-making in social policy has increased considerably, there are obstacles which prevent decision-making. One of the main obstacles is that decisions on social policy have to be made by consensus. Because

member states have developed different social policy systems, for the Union to achieve a common social policy through political consensus is a complex business. However, in certain respects – such as labour market issues and the working environment, in which a qualified majority can be used to make decisions – the EU has been successful in developing rules. The evolution of the EU has also marked the extension of the role of labour market parties – trade unions and employers' associations – in the achievement of greater social cohesion within member states. In the process of policymaking, many labour market issues have been delegated to the social partners, and as a result, trade unions and employers' associations now actively participate in social dialogue. The institutionalisation of consultation, co-determination and workplace agreements are the products of such cooperation. However, as Benner (1997:71) stresses, the corporatist decision-making process might have the consequence that the employers use their 'veto' to prevent the evolution of European social policy by refusing far-reaching proposal and initiatives. In other words, as long as labour market parties are prepared and willing to agree about social policy issues, the corporatist system will be successful, but the other side of the coin might be that, in the corporatist system, the parties could find themselves unable to reach constructive agreements. Apart from the power balance aspect, the EU-initiated cooperation between social partners helps to reduce unemployment at the supranational level. As unemployment has become the major reason for increasing social spending, the lowering of spending through such cooperation would have a crucial impact on state resources and would provide advantageous financial conditions for the further development of other social policy areas such as health care and education.

EU social policy in the future

In broad terms, there are two main scenarios for the development of EU integration and its impact on national social policies. A pessimistic scenario, would suggest that as the process of unconditional cost-reducing competition starts, member states would have no hesitation in reducing taxes, driving down working conditions, and deregulating to the point where firms are able to compete with competitors in other countries. As a result, member states would cease redistribution policies, and in so doing, would have to reduce benefits levels to a minimum. In reality, however,

competition has so far not led to a dramatic increase in deregulation, tax cuts or the reduction of benefits, although it seems as though these policies have been altered to a degree which is acceptable for the citizens of each society. In other words, positive integration has not been a decisive factor in the determination of the mobility of labour or capital. Capital will not necessarily move to regions with lowest tax rates. Companies appear to take other factors into consideration, such as good infrastructure, the functioning of the judicial system, the rate of financial crime and access to efficient and highly educated labour. Even labours will not just focus on low taxes when deciding about whether to work in a particular country. Preferences such as social insurance system, high-quality public services in childcare, health care, and the education system are also decisive factors. According to Majone (1993:160), despite high levels of costs for investments, Germany attracts foreign investors mainly because of its good infrastructure and qualified labour force.

The optimistic scenario, which this thesis stresses, is based on the conclusion that EU regulation, so far, does not represent an encompassing structure of economic growth, employment and social policy. National regulation is therefore still dominant, and at least in the short-term, will not be substituted by EU regulation, although in the era of international policy construction, national regulation has become more vulnerable. During the 1990s, EU regulation has been oriented towards standardizing some aspects of national regulation. This process, understood as a starting point for a more comprehensive supranational systemic interaction, has been successful in growth policy, whereas social policy and the labour market were organized by national regulation. Until now, the process of harmonisation in the EU has been based on voluntary efforts by national states, but it is obvious that convergence criteria suggested by the EU has had a crucial impact on the measures taken by national states. However, the lack of EU social policy makes us believe that the integration of social policy within the EU in the near future will be unlikely. As long as social policy remains a matter for nation states, the national characteristic of the welfare state's institutions will exist. Even if the EU moves towards a common social policy, the shape of that policy will be determined by the democratic political assemblies, which would listen to public opinion and the influential social groups who are in favour of certain arrangements.

Overall, by EU membership, the Swedish welfare state has found its final course mainly because it puts an end to the uncertainties which arose in the past three decades. While the process of globalisation threatened the foundation of the nation state, the development of the EU as a supranational union provided shelter for European nation-states threatened by global economic pressures. Although EU membership in the longer term may mean the further weakening of the role of the nation state, in short term, it will create a condition for social movements, political actors and other advocators of the 'universalistic' welfare model to influence the formation of the supranational EU social policy.

Conclusion

The process of globalisation in the world economy has meant an increase of trade and openness of national economies to capital and to the impact of technological changes. Although the major part of trade is still located within the top five industrial economies and, likewise, the majority of foreign direct investments still takes place within the limits of the advanced industrial economies, the clear trend has been that nation states in advanced countries have increasingly formed trade blocs. The extension of free trade in the global economy has had certain impacts on production and the division of labour because the new order of intensifying trade demanded a degree of specialisation of production in different areas simply because, in the globalised economy, free competition makes it difficult for firms in the wrong kind of enterprises to survive. Every country has to find its comparative advantage and focus on those areas of production that give the best possible outcome. While some industrial nations like the USA have a particular advantage in computer technology, others like Japan are better in electronics, or like the UK, are better in finance. The obvious trend is that in many advanced economies, firms in agriculture, heavy engineering, and textiles will find it difficult to survive the competition with the developing economies.

As it has been developing, the process of globalisation encourages a major reduction in manufacturing employment, particularly in Europe and other industrial economies. In many industrial countries, the labour loss in manufacturing caused the greatest implications for social policy. On the one hand deindustrialisation has led to the

disappearance of some industrial communities, which caused considerable costs to infrastructure and reductions in tax income, but on the other hand, the cost of funding the labour loss through higher unemployment and social security payments escalated public expenditure considerably. The widespread understanding is that the loss of jobs in manufacturing is the natural outcome of technological development, simply because, despite declines in employment, manufacturing output has been increasingly steadily. In the era of globalisation, therefore, governments will not attempt to protect employment in manufacturing by protective measures such as tariffs or subsidies.

This policy is exactly what the IMF proposed in its prospectus for the world economy to EU members. According to IMF (1997), European countries have to remove labour market regulations and reduce the costs of social security benefits. By these measures, these countries would be able to create flexibility within their labour market and make business more competitive. In the past two decades, most European countries have followed this recommendation and also reformed their welfare systems. Consequently, one can conclude that the trend of globalisation has been fundamentally opposed to the welfare state.

Since the welfare state is at root a national phenomenon, and since the nation state has been the foundation of the development of welfare in industrial societies, the ongoing process towards the reduced of sovereignty of nation states to sub-national regions and to industrial organisations has been suggested by the advocates of globalisation thesis as the most serious threats against the development of the welfare system. The thesis so far, however, has offered a sceptical evaluation of the globalisation thesis. The central argument is that the main aspects of the challenge to the welfare state did indeed come from budgetary stress caused by a series of post-industrial changes in the advanced welfare state economies, rather than purely from troubles associated with global economic changes. Problems such as slower economic growth, rising service sector employment, massive expansion of governmental commitments, the fiscal demands caused by population ageing, and the restructuring of households, are important factors, which regardless of changes in the global economy, would constitute a powerful source of pressure on the welfare state. In other words, each of these transitions which have been taking place in advanced industrial economies and, all have domestic origins, would have generated intense pressure on matured welfare

states, even if economic openness remained constant. Globalisation has accentuated, and to some degree even modified, the pressures on welfare states, but by no means could it explain the tendencies towards deficit spending and demands for programme cutbacks and other policy reforms which dominated in the era of multiple transition to post-industrialism in the past quarter-century.

Apart from globalisation and post-industrial transition of affluent societies as two major agents of change, the European welfare state has been facing a third major agent, that is, integration in a supranational union. Although the EU has been trying to integrate the social policies of its member state, and to do so, has attempted to develop a kind of minimal social policy, in reality, it has been quite difficult to achieve a consensus about a common social policy. The general consensus seems to have been that the Union focus on economic integration and leave the social policy in the hands of the nation states.

In the next chapter, some of the characteristics of the Swedish welfare system as it emerged after the Second World War will be explained. By discussing the ideological background, the creation of the instruments, and the implementation process, it will be easier to understand the ideas behind the formation of the institutional framework of the Swedish welfare system. Such an insight will help us to understand both the problem of reorientation which arose within the system, and that which was caused by external factors, such as integration in the global economic system or the European Union.

Chapter 3

Social Democ ·acy and the Development of the Swedish Welfare State

The purpose of th is chapter is to explore the history of early social democracy and its acceptance of un ersalistic social reforms and the content of the major elements of Swedish welfar policy. The chapter also explores the expansion of the Swedish welfare system i the Post War period, mainly between the 1960s and mid-1980s, when the essenti l parts of the welfare system were established. As modern welfare states are under ood as parts of complex, historically-generated configurations, the historical appro ch makes it easier to understand the means and circumstances by which the institu ional framework of the Swedish welfare state has been shaped. It also provides an ins ght into the fundamental prerequisites by which the system once was emerged and d veloped. Some of the most crucial prerequisites were the hegemonic position of the Swedish Social Democratic Party, the symbiotic relationship between the party and a centralised labour movement organised by the Swedish Confederation of Trade Unio s, (Landorganisationen, or LO) and the strong performance of Swedish industry (Olss n, 1994).

These three p werful institutions, which formed what we can call 'the strong nation state', have d minated modern Swedish society since the 1930s. The creation of the Swedish wel re state, and its development according to a path dependent long-term and gradual p ocess, suggests that the three theoretical approaches in analysing welfare states – eco omic determinism, power resources, and path dependent perspective –

explain different stages of the Swedish welfare state development. While the post-war rapid economic growth provided the economic and industrial condition for the establishment of the modern welfare state, an influential labour movement, including a centralised labour union and a strong Social Democratic Party, provided the most appropriate conditions for hegemonic power in favour of an egalitarian welfare system. The chapter also argues that several decades of uninterrupted rule by the egalitarian labour movement lead to the institutionalisation of the essential parts of a welfare system which was firmly rooted in the social and political establishment. However, as discussed in the previous chapters, this strong state, along with other nation states, has been facing external pressures associated with global economic changes and membership in the single European market. Moreover, at home, profound social transitions associated with post-industrialism put the welfare state under intense budgetary pressure. The Swedish economy has experienced serious difficulties such as low levels of economic growth, problems with inflation, the emergence of unemployment, changes in social investment and the financing of the welfare system. Beyond these problems, there have also been challenges to the dominant political position of the Social Democratic Party and to the position of the labour unions in the labour market.

The key purpose of the chapter is to establish the case for an extensive welfare system existing by the time of the economic downturn in the late 1980s. The point to make here is that the generous nature of social provision with its universal coverage designed to meet the needs of each citizen became too costly in a period of economic, social and political change.

Before examining these issues, we need to explore the foundation of the Swedish welfare state and the major elements in the Swedish society. This will give us a better understanding of the nature of the foundation of the Swedish welfare system – union influence in the labour market; the historical compromise between unions, the employers' organisation and the Social Democratic Party; and the stability of public support for the Social Democratic Party, as the major architect of the Swedish welfare system. This chapter argues that the key position of the Social Democrats, as the national party, has been the major factor in deciding the content and direction of the Swedish welfare state.

The dominance of Social Democrats in the Swedish politics

The Swedish political system is known for its peaceful institutional development (Olofsson, 1979; Olsson, 1993). The country has not experienced an external war since the 1830s, and during the process of industrialisation there were no major antagonistic conflicts between the labour movement and capital. However, influenced by the development of the international labour movement, especially in Germany, a radical approach initially gained a presence within organised labour. The labour movement's ideological development was consequently characterised from the outset of the twentieth century by an apparent split between two different streams, radical and reformist (Olofsson, 1979; Esping-Andersen, 1992; Bergström, 1992). While the radical stream advocated fundamental changes and held on to the prospect of a non-capitalist social order, reformists believed in social reforms, which aimed specifically to at improving the situation of the working classes. Changes in working conditions and working class living standards, which lead to the deradicalisation of the main part of the labour movement, are practical evidence of this reformist ideology. The reformist approach inside the labour movement could be understood as a political strategy, which, with particularly reforms would achieve a transition from capitalism to socialism (Olofsson, 1979).

Social Democracy and national interests

Therborn (1992:3) emphasises the SAP's dominant position in the Swedish political system as the decisive factor which allowed the Party to effectively create the political process in its own image. Such dominance was based on two elements. Firstly, the SAP came to be perceived as a national party with policies considered as being associated with the national interest. Secondly, the SAP occupied a key position both in relation to various interest coalitions in the party system, and among interest groups in the labour market. The Party won a majority of votes for the first time at the end of the 1930's. In three elections the party obtained an absolute majority - 50.4, 53.8, and 50.3 per cent respectively. Because these election victories coincided with the beginning of the Second World War, right wing parties found it difficult not to support

the SAP's basic national and social policy. Whereas neutrality in foreign policy was the most important part of the national interest in 1940, a social welfare policy became the core social component of this national interest in the domestic arena. Therefore, when the Population Commission of 1935 and the Population Enquiry of 1941 presented a plan with a broad social policy ambition, all the bourgeois parties supported the idea (Hatje, 1974; Therborn, 1992). This connection between social policy and national interest, essentially created by the Social Democrats, became part of Swedish national identity and, in turn, both favoured the SAP's social engagement and gave it a unique hold on political power.

The SAP's key position as a 'national' Party was also a consequence of Sweden's class oriented politics. The biggest social group, manual workers, have been Social Democracy's main social base. In almost every election since 1930 the Party was able to mobilise the working class and in some elections (1948, 1956-68) the SAP received more than 70 per cent of workers' votes – the highest degree of class mobilisation for any left party in a democratic election (Therborn, 1992:6).

Class politics is a phenomenon that began with the modern labour movement at the end of 19th century. At that time, the working class and the vast majority of the population was effectively excluded from politics. The labour movement was the first movement to establish political parties in many countries. In nations like Sweden there was therefore no doubt about working class loyalty toward the Social Democratic Party. In this matter even the trade unions, which also mobilised the working class and were therefore a potential competitor to the SAP, in fact grew in parallel as a partner with the Party, never competing for the loyalty of the working class. It is also well known that, until 1906, the trade union movement in Sweden was a political instrument controlled by the Social Democrats (Esping-Andersen, 1985:5). This high level of co-operation between the SAP and the trade union movement gave the Swedish labour movement a very influential position in the labour market. (Åmark, 1986; Kjellberg, 1983).

Social Democracy and popular movements

While the SAP dominated the political arena and dictated the political agenda and the rules of the political system, the LO continued its efforts to organise the labour movement and so possessed great influence in the labour market. By the 1930s, the Swedish labour movement was internationally the most organised, and enthusiasm for the unionisation of labour continued to prevail in the following decades (Kjellberg, 1983:36; Åmark, 1992:67). This enthusiasm was not limited to the labour movement itself, but also enjoyed remarkable support among Swedish white-collar workers. Since its formation, the TCO (the Swedish Confederation of Professional Employees) has gathered a huge part of the Swedish middle class in support of the SAP's national and social policy. By this support, the SAP was forced to take the interest and social perspectives of the majority of people (especially the labour and middle classes) into consideration (see Baldwin, 1990). At the same time it has never ended up in a trade-off between support from the working class and support from the middle class (Therborn, 1992:11). The notion that the middle class support to the SAP's programme has been an essential reason for the success of the labour movement is rejected by Åmark (1992) who, on the contrary, believes that the Swedish middle class has been comparatively weak and fragmented. Instead, Åmark emphasises a strong and well-organised business and industrial community, which has always been willing to negotiate with the labour movement. This notion, however, does not reject the argument presented here that co-operation between representatives of the working class (LO) and a strong part of the middle-class, which were organised in the TCO on the one hand, and the SAP on the other, strengthened the position of the Social Democratic Party in the Swedish power system. Without such co-operation between these two elements (the unions and the Party) the social democratic labour movement would not have enjoyed the strong position it gained in negotiations with the well-organised business and industrial community. Åmark tends to miss the point that the willingness of the employer's federation (SAF) to negotiate with the labour movement was a consequence of the remarkable consensus between the Party and the Unions, which allowed them to possess a dominant presence in the Swedish social and political system.

An effect of this co-operation was that the deindustrialisation of Sweden in recent decades, which between 1965 and 1985 caused a decline in industrial employment of 18.9 per cent, did not affect the SAP's dominant influence in Swedish politics (Therborn, 1992:12). Had the SAP remained a pure labour party, of course, the strong class character of Swedish politics would have undermined the Party's position as the biggest party in national politics. As Esping-Andersen (1985:31) has asserted, for social democracy, the nature of class formation and the pattern of class coalitions have been crucial elements in the development of particular forms of collective action.

The LO and the TCO, as two strong popular movements in Swedish society, were part of a tradition which has its roots in the nineteenth century when the evangelical and the temperance movements emerged in Sweden. Both supplied the labour movement with many cadres who brought with them the culture of popular movement into the trade unions – in particular the experience of organising, educating and transforming people and changing their lives and living conditions (Therborn, 1992:13). The tradition of the popular movement was reproduced during the 1930's even among farmers. Consequently, by the end of Second World War, all the key popular movements that have dominated Swedish politics had emerged in Swedish society. By the same token, the modern party system had also developed in the context of democratic parliamentary politics. The elements of class politics in the first social democratic government changed their character. As a party for the national interest, the SAP left class politics to organisations with pure class interests. In this way, class politics effectively became associated with LO politics, with the unions gaining much greater influence within social democracy. This apparent separation of the LO and the SAP does not mean that the former opposed the Party. On the contrary, the new division between the two allowed the LO to adopt a more active role in the political arena. In its new role, the LO actively began to participate in labour market conflicts, thus dramatically increasing its status among workers.[1] As the central organisation of the working class, the LO showed its political importance when in 1938 it reached the main agreement with the SAF in the Saltsjöbaden. This agreement between the three matured institutions; the SAP, the LO and the SAF was a 'peace treaty' that regulated

[1] While in 1945, 69 per cent of working class belonged to the trade unions, this number increased to 76 per cent in 1950 and grew further to 89 per cent in 1975 (Kjellberg, 1983:278).

the relations between labour and management with regard to collective bargaining and industrial action.

Peace in the labour market: the 'historic compromise'

The SAF, which was also formed at the turn of the twentieth century, was, like the LO, a heavily centralised organisation. This feature of both organisations enabled them to reach collective agreements. These agreements, in turn, prevented competition between labour unions and companies about the price of labour, both in occupations in a particular geographical area and in different workplaces. The other main advantage of collective agreements was that the 'contract' gave employers a stable environment of industrial peace and thus the possibility of accurately gauging the long-term costs of labour (Åmark, 1992:69). By this agreement the labour movement abandoned its ambitions about public ownership and in return achieved some improvement in hiring-and-firing rules in the labour market. Direct negotiations between the SAF and the LO also enabled the state to intervene in labour conflicts. As has been mentioned before, the Saltsjöbaden accords of 1938 are the most notable agreement between the SAF and the LO, and as Korpi (1983) had stressed, this, combined with the Social Democratic Party's realignment, has been described as the Swedish labour movement's 'historic compromise'. The compromise provided the basis for industrial peace in the Swedish labour market for several decades. At that important meeting, both sides agreed that they would never again use conflict measures (strikes) in the labour market as a political weapon. Employment security was another important agreement at Saltsjöbaden (De Geer 1986:369-72; Söderpalm, 1980:28-36).

Despite the fact that this agreement strengthened the LO's position, and thus should have been welcomed by the SAP, Social Democratic leaders realised that this process would decrease the SAP's influence over union activities. Knowing that there had been some potential conflicts between the SAP and the LO about political and economic principles and goals, such an increase in the LO's role in the labour market could have a negative impact on the Party's political authority. As Åmark (1992:70-73) has suggested, conflicts mainly arose between the SAP's long-term goals and the short-term objectives of the LO. While the Party focused on general interests, and for

example at the beginning of century wanted to struggle for political goals, like the right to vote, the LO continually stressed the need to improve working conditions. Until 1940, strikes and industrial peace were two main sources of dispute between the Party and the LO, but after 1940 a new issue, wage policy, created conflicts between them. While the SAP in its guise as a 'national' party needed to minimise economic losses for the national economy, the LO expected the SAP to support its requests as part of the labour movement (Åmark, 1992:71). Because the Party stressed the importance of stable economic development, substantial wage increases were acceptable only if they did not compromise economic growth. However, as time went on, both the Party and the LO gradually moved away from the focus on industrial disputes and increasingly accepted responsibility for Sweden's general economic development.

Overall, the strong labour movement could in cooperation with the SAP and the employer's federation establish a sustainable industrial relation, based on peace and consensus in the labour market. While the unions were supposed to avoid conflicts in the labour market, the employers were to meet the labour movements demands. According to 'the agreements', the employers were to contribute to the creation and development of a generous welfare system. As we will explore later in this thesis, in such a welfare regime, the welfare state programme came to receive the largest attention from all the three major actors.

The emerging welfare state programme: the main objectives of reform

Summarising the discussion so far, one can argue that while until the end of World War I, Swedish Social Democracy's struggle was mainly focused on political aims, since the entrance into the parliaments and then the overtaking of the government in the 1930s, the Swedish labour movement has gradually modified its means and goals. The unique profile of the political development in Sweden was that even before the foundation of the modern parliamentary democracy, when the labour movement was still outside the political establishment, the conflict between social democracy and the conservative governments was less widespread than elsewhere in Europe. For

example, in the case of social policy, while in other parts of Europe, mainly in Germany, Austria and even in Denmark, every reform initiative on the part of bourgeois governments was rejected by working class parties as a measure designed to lure workers into the embrace of the class enemy, the Swedish socialists avoided this 'negative socialism', believing that even limited reforms could have positive outcomes in the future (Esping-Andersen, 1992:40). Therefore, unlike other socialist parties, which pursued a strategy of building only a workers' welfare state, the Swedish socialists and labour movement strove for democratic changes in society and, therefore, established a welfare system based on universal principle which would include all social classes.

Some features in Swedish society facilitated this strategy. Compared to other European countries, Sweden was, until 1930, a more or less rural society, and the rurally-based workers, who were mired in poverty, lived in the social misery that accompanied early industrialisation. Therefore, for Swedish socialists it was not difficult to convince people about their principles of universalism and solidarity, which were the corner-stone in their plan for social policy (Esping-Andersen, 1992: 40-41). A universal people pension's, which was suggested in 1913, was the first reform, and was mainly proposed by the governing Liberal Party and supported by the Social Democrats. This reform not only provided for most rural workers but also favoured the agrarian classes who, for a time, had advocated a universal people's pension. For the Social Democratic Party, the support of the agrarian classes was crucial at this early stage because the party wanted to be known as a 'peoples' party'.

The notion of the Social Democrats as the 'people's party' was promoted as early as 1895 by the party chairman, Hjalmar Branting. Branting saw Social Democracy as capable of unifying all the 'little people', including workers, peasants and the middle class (Esping-Andersen, 1992:42). This notion was further developed into the famous notion of the 'folkhem' (people's home) by Branding's successor, Per Albin Hansson. According to this model, the whole of Swedish society should be like a home, or family, in which national solidarity would prevail and all members and different classes would gain from the state's universalistic social policy (Isaksson, 1985). By establishing this model as a precondition for power, Social Democracy could successfully maintain the welfare state programme. The notion of a 'people's home'

allowed the formation of cross-class alliances, thus allowing the agrarian party, which had been the main source of opposition to the Social Democrats, to become a main ally for the next few decades. The Social Democratic Party's capacity to build a red-green coalition was, according to Esping-Andersen, (1992:43) one of the main reasons why Scandinavian Social Democracy came to power in the twentieth century. The other reason was 'its ability to drop nationalisation and, instead, negotiate an accord with business based on Keynesian policies.'

The centrepiece of the Social Democratic Party's 'people home' package was an anti-cyclical full employment programme, as well as a programme for social reforms. In both cases, Social Democracy could demonstrate its commitment to an efficient economy. By emphasising a production-oriented social and employment policy rather than cash support, the Social Democrats also demonstrated that there could be a 'positive-sum solution to the enduring equality-efficiency trade-off' (Esping-Andersen, 1992:45). The cornerstone of the social democratic welfare state programme in 1928 was 'better accident insurance; unified, universal health insurance; a universal people's pension; the abolition of poor relief; and unemployment insurance' (Esping-Andersen, 1992:45). The first phase of these reforms, which was implemented during the 1930s and the 1940s, evolved around the creation of full employment. Subsequent reforms included family allowances and rent subsidies. At that stage, the system only intended to provide of the basic needs for citizens.

The universalistic welfare model certainly did not emerge according to a grand theory or a fully designed plan. Instead, it developed over several decades as the Social Democrats gradually came to meet the needs and interests of all social classes. In other words, although egalitarianism, as the core notion of Social Democracy, was always crucial to the Party, universalism, as a type of welfare state, was developed as the Party adopted a policy aimed at gaining the support of the whole nation. In the next section of this chapter, we will see how the SAP's ambition to establish an egalitarian society gradually shifted. While at the beginning of the 1920s the economic programme of the Party stressed economic nationalisation as the major goal, in the 1940s, creating a redistributive welfare system became the major objective.

Three phases in the formation of the Swedish welfare state

Until the 1920s, the Social Democratic Party had no clear economic programme. As an opposition party, it had mainly contained basic general social and political principles, and some expressions of desire about economic reform. According to Bergström (1992:132), the SAP's first programme (and economic policy) was presented when a Social Democratic government was formed. In that programme, which was debated at the 1926 party conference, the question of the nationalisation of the Swedish economy was still the most hotly debated issue. As the programme stated:

> The main cause of those faults which disfigure present-day civilisation is the private capitalistic mode of production which places rights of ownership in the hands of a minority, dooms the majority to propertylessness and dependence, and makes the opposition between worker and capitalists the determining characteristic of today's society (SAP party programme 1920: 2d par).

This programme, which can be described as 'Marxian', proclaimed that private ownership was the source of all injustice. Therefore, by abolishing private ownership, the conditions for the exploitation of the working class in all social domains would disappear, and as a result, all societal problems would also be solved.

Shortly after coming to power, however, the first Social Democratic government realised that the goal of nationalisation was not easy to achieve. Committees established to inquire about the viability of plans for 'nationalisation', 'industrial democracy', and 'trust control' failed to present any policy proposals. As Bergström (1992) has noted, some motions like those concerning industrial democracy, were buried in inquiries and remained in abeyance for many years. Although the nationalisation issue remained a live issue in party debates throughout the 1920s, no concrete and practical plan for the implementation of public ownership was presented.

In parallel with the ongoing debates about nationalisation, Social Democratic governments also conducted an economic policy, which developed the seventeen main points of the party manifesto. The programme, which was obviously developed within a capitalist framework, raised many economic demands – for example direct programme taxation to secure 'social capital-formation', the eight-hour working day, unemployment insurance, and so on. However, the party still had no independent

economic policy on unemployment. This lack of policy for combating unemployment persisted throughout the 1920s.

In the Second stage of the revision of the Social Democratic programme and government policy, which began in the early 1930s, combating unemployment was the key issue. Two main reasons explain the SAP's new policy; first, after the serious setbacks in the general election of 1928, in which the SAP had put the emphasis on the 'socialisation question', the Party distanced itself in the 1932 Party Congress, and chose a more pragmatic and reformist direction. It was argued that socialisation during the great depression would probably mean going from bad to worse. Second, and since the party aimed to be a governmental party being responsible for the state, it introduced the Wigforssian 'new economic policy', which had many similarities to Keynesian policy. It promised to improve the situation for the unemployed, who were a large and significant group in society. The persistent emphasis on keeping unemployment down gained strong support from labour unions. That would give the SAP the needed support for its reformist programme, which combined full employment and economic growth with social and egalitarian reforms (Olsson, 1994). According to the new policy, while unemployment seemed to be permanent and not merely a phenomenon of the business cycle, the State should play a much more prominent role in stabilising employment at a high level (Landgren, 1960:60-62). The key proposal was that passive measures against unemployment, which were limited to emergency relief, should be abolished. The State should instead provide relief works for market wages and employment conditions (Bergström, 1992:138).

Through this policy change a new era in Social Democratic Economic Policy began in which the state was regarded as an active agent, capable of intervening in the labour market, and in the case of unemployment, presenting long-term policies designed to stimulate domestic demands in order to counter economic recession. The core idea was that during recession periods, the State should be allowed to expand its investments, mainly in public relief works, but also to reform unemployment insurance and to take various other social and political measures to reduce the plight of the unemployed. Such investments should be financed with loans, and they would not necessarily be expected to make profits. The other condition would be that wage and employment conditions for public relief work would be the same as elsewhere in the labour market.

This measure would prevent employees in the public and private sector from becoming segregated. This policy also had a direct impact on the organisation of the budget. As Bergström (1992:143) has described:

> The organisation of the budget was based upon the economist Gunnar Myrdal's idea that the budget should be balanced over a business cycle, not necessarily over an arbitrary period such as a calendar year. Myrdal's norm meant that state wealth should be maintained unaltered in the long term, which is the only rational interpretation of the demand for an annual balance. This budget policy has been considered the first conscious implementation of Keynesian economic policy in the world.

In the Third stage, the Social Democratic Party in its revised 1944 programme and subsequent others, emphasised the importance of a planned economy. This was motivated by an acknowledgement of the state's need to expand its influence in the labour market in order to control unemployment and stabilise the economy. A planned economy, with strong elements of state ownership and state control over economic life would ensure that 'the labour force and material resources are continually utilised for effective production' (The Labour Movement's post-war programme, 1944:4.) An increase of state control over economic life would also create appropriate conditions for the Social Democratic movement to achieve its aims on equal living standards and reduction of class differences through a fair distribution of resources.

The SAP's modern welfare policy had its origin in the 1944 party programme, in which not only security against unemployment, which had been the central issue in the 1932 programme, but also solidarity in social, economic, educational, and tax policies had a place. Security against illness and old age, through public insurance, protection for workers, and equality of educational opportunity, were among other demands. It was recognised that implementation of these demands depended on economic growth, which would lead to increased real wages, but by including them as elements of practical politics Social Democracy would have changed its economic policy to a more growth-oriented direction. By the 1950's, Social Democratic leaders like Tage Erlander, realised that problems of welfare were going to gain the upper hand, and problems concerning ownership rights and rights of determination would obtain a new character (Erlander, 1956:258 in SAP, 1956).

Against this background, and with regard to the fact that a dominant Social Democratic Party in cooperation with a centralised system of organised labour was the two

institutions that created the Swedish welfare system, social policy has developed along strongly universalist and redistributive lines. In the next section, I focus on the three main components of universalism.

The first includes services which are publicly produced but are available for all citizens. Such services are health care, basic education, and care of children and the elderly. Furthermore, that part of housing which is publicly regulated and subsidised is also included in this part of universal welfare policy. These services, which constitute the major part of service expenditure, are citizenship or residence rights, and from the start were meant to be provided free or with a small co-payment. The second element is the universal and flat-rate benefits that are also related to citizenship rights. Basic pensions and child allowances are among the most prominent benefits in this category. The third component consists of benefits paid to the working population whose participation in the labour market is temporarily or frequently interrupted; the supplementary (earnings related) pension scheme, sick pay and parental insurance are examples of such benefits, which all reflect earning capacity and, in the universalist model, provide a high level of income security. Labour market policies and unemployment insurance are further important components of the universalist welfare system. However, because major aspects of these policies have developed with strong trade union influence, for instance the unemployment insurance funds that have always been managed by the unions themselves, these arrangements will be discussed separately from those components of social policy initiated and driven by government and public sector. As measures to control the high rate of unemployment were the most important task of the first Social Democratic government in the 1930s, the next section of this chapter examines this issue before turning to core elements of social policy in the public sector.

The three major components of universalist social policy

Before the real start of the universalist reforms, a serious debate was conducted on within the SAP, in which opponents of such reforms argued that universal welfare benefits would help most those who needed them least and therefore would waste resources. 'Distributing benefits without regard to need increased costs and

contradicted the Party's goal of aiding the poorest' (SAP, party styrelsen, 1944: 435-37). According to Baldwin (1990:140), even the leaders of the Party admitted that universalist reforms would promote the interests of civil servants and others who were already well provisioned rather than the worse off. The mean-tested alternative would, instead, not only target the poor, and therefore more effectively improve their standard of living, but also save the government a huge amount of money (Baldwin, 1990:141).

However, it is important to note that the Social Democratic emphasis on universalism was not only based on ideological beliefs, but was also announced for tactical reasons. The increasing size and importance of white-collar salaried workers and the gradual decline of the blue-collar 'working class' forced Social Democrats to take other classes' interests into consideration. The bourgeois parties' growing interest in the Universalist model, also a function of their recognition that it would benefit their supporters, also made Social Democrats determined to focus on the model.

Pension reforms - the start of universalism

The first prominent move toward universalism in Sweden began after the Second World War by a universal pension reform (Esping-Andersen, 1985). Benefits in this Social Democratic reform were flat-rate, and all Swedish citizens, regardless of their contributions, were eligible. The 'folk pension' or literally 'the people's pension', which in English is called 'the basic pension', and mentioned above, was introduced in its primitive form in 1913, and has subsequently been modified on different occasions, but the Social Democratic universal pension reform of 1948 was, as Esping-Andersen (1985:157) described, 'a victory over both the old relief form of assistance and the insurance system favoured by the bourgeois parties.' According to this reform, all citizens over 63 would be eligible to a certain amount that would be adjusted monthly in relation to a cost-of-living index.

By this reform, Social Democratic welfare policy made a strong impact on Swedish society, and because a large majority of the population were targeted by the reforms, the universalist social policy could trump opposition from the bourgeois parties, who were still in favour of targeted benefits. An example of such opposition arose when the Social Democrats tried to improve the pension system, mainly because the system had failed to provide adequate levels of income replacement (Esping-Andersen, 1985:160).

In the beginning of the 1950s, it became clear that the basic pension and other social benefits were not enough to compensate for general income growth, and therefore the standard of living among pensioners who were most dependent on the basic pension was felling. Moreover, the basic pension, as the only source of income, seemed to be inadequate for those in the higher income strata, and therefore, many of them would find private insurance as a supplement to the basic pension. In an attempt to prevent such a development, the Social Democrats proposed in the mid-1950s a universal, supplementary retirement pension system, the so-called *Allmänna tilläggspensionen* (ATP), which was earnings-related and insisted on compulsory membership for all employees. The aim of the ATP-system was to provide a level of security for pensioners which would not differ greatly from the standard of living they achieved during their period of active labour and to ensure that a person would receive a total pension amounting to approximately two-third of her/his best fifteen years' earnings. Whereas the basic pension was financed through income taxes, the supplementary pensions would be financed by employer contribution.

It was through that the plan would be acceptable for both employer organisations and the bourgeois parties, but the other part of the plan, which gave the state the power of control over pension funds and their investments, aroused protests. The major objection to the ATP-system was that it was believed to result in an excessive concentration of economic power in the government. The accumulation of considerably larger funds would transform the pension funds to the largest source of investment in the country (Eltz, 1964:28-9).

As the first major universalist reform, the pension reform also demonstrated difficulties with the egalitarian, flat-rate reforms to come. One of these difficulties, which caused a political dispute with the agrarian party, was the measure taken by the Social Democrats to compensate pensioners in urban areas. For societies like Sweden, with wide geographical differences, the living costs for inhabitants in urban areas are greater than in the countryside. Flat-rate benefits would, therefore, decrease the standard of living for urban pensioners. To match that problem, the Social Democratic government decided to grant, on the top of the basic pension, some public assistance through means-tested supplements to urban residents. Such measures were an acknowledgement that the equality of uniform and flat-rate benefits has its

deficiencies, and expenses should somehow grade benefits such as pension. It also induced the Social Democrats to begin to advocate cost-related benefits. Differentiation of benefits, in turn, caused protests among rural inhabitants who believed that 'the increased costs in the countryside undermined any justification for a differentiation of benefits that gave them less than urban dwellers' (Baldwin, 1990:144).

Health insurance reform

The universalist aspect of pension reform, which was meant to promote the interests of the worst-off, has also favoured the well-off. In the case of the health insurance reform, which was introduced as the second major universalist reform plan, the condition was totally different. From the nineteenth century, extensive private activity had led to the formation of sickness benefit society, and by the 1950s, over two-thirds of the population was covered by some voluntary plan (Rosenthal, 1967). However, the major deficiency with the sickness insurance system was that it only covered the most prosperous parts of the population in urban areas. The voluntary scheme did not cover those in greatest need because the major parts of the working class and rural inhabitants were excluded. A Universalist national program, could, by making health insurance compulsory for all, distribute the state's subsidies more equitably (Baldwin, 1990).

At this point, most of the advocates of universalist benefits were agreed about the problem. However, as in the case of pensions, the main concern was the way in which the cash benefits would replace income lost during illness. Because of geographical variations, the flat-rate benefits would give inadequate protection of income or standard of living during periods of illness, and therefore, would not be valid. As in the case of pensions, the solution was found in the earnings-related alternative, which was supported by the majority of people, as well as main interest groups like the LO. Despite that, the Social Democratic Party leaders, especially Gustav Möller, the social minister, supported the uniform rates by delivering the argument that in the earnings-related model, the state's subsidies would mainly help the wealthier rather than the worse-off. Möller believed that the state should provide a minimum but equal protection for all citizens and then allow them to arrange further protections (Antman, 1996). Knowing that the rural population, who represented the poorest social class in

Swedish society, would be best served by the flat-rate model, one could conclude that the Social Democratic leaders decided to be in favour of the flat-rate model mainly for tactical reasons. Because, by advocating a uniform rate, they could keep the support of the Agrarian party for the Social Democratic reform policy.

Despite the difference of opinions about the reform, which extended even inside the Social Democratic Party, the health insurance bill was passed by Parliament, but some financial problems and administrative complexities prevented its implementation. In 1953, the view was changed and a new proposal, which concerned wage-earner's interest, was presented in Parliament. At this time the rural groups had also changed their view and softened their resistance to the earnings-related benefit. The agrarian groups probably realised that opinion inside the Social Democrat Party, which until the 1940s had taken the concerns of the countryside into consideration and to their advantage, had by the 1950s strongly changed in favour of the urban working class and the growing middle class who advocated earnings-related benefits. In an evaluation of this change in opinion, Baldwin (1990:146) comes to a clear verdict:

> This break with flat rates merely emphasised what had always been the case. The apparent egalitarianism of uniform benefits masked a distributive advantage for the countryside. In a nation with wide cost variations, formal equality meant real inequity. Rural inhabitants had won their case in 1913 and again in post-war pension and health reform. Not until the 1950s were they sufficiently weakened that urban workers' interests finally left their mark in measures that resembled Bismarckian social insurance more than they did the supposedly socialist model of the Scandinavian welfare state.

Soon after the start of the implementation of the Swedish National Health insurance system in 1955, it was shown that the Swedish system held a significant differences from other systems, for example, from the British National Health Service. While the British programme was above all based on a medical scheme, the Swedish model was primarily shaped as a social insurance system designed to compensate citizens whom, owing to disease, disablement, or unemployment for medical reasons, lost their income. The programme is, therefore, compulsory and covers all Swedish citizens, being financed by contributions from the insurance, the employer and the government.

Social Democratic family policy

The third prominent post-war social reform in Sweden was new family policy measures that were taken in 1948 and resulted in the introduction of universal child allowances.

To achieve this goal, the National Federation of Social Democratic Women had driven an extensive campaign over several decades to convince the male-dominated Social Democratic Party and the unions of its family policy. Apart from the campaigns, some significant changes in family structures made the introduction of more active family policy measures inevitable.

A significant change in family patterns, which started from the turn of the century and became increasingly obvious during the 1930s, was the extension of birth control among the Swedish women (Hirdman, 1994). While around the turn of the century, families had an average of four children, the number had dropped to two children or less by the 1930s. The conservative groups opposed the use of birth control, and as a consequence, passed a law in 1910 that forbade information on, and sales of contraceptives. On the other hand, the Social Democrats started to understand the lack of benefits for mothers as the crucial reason for the growth of abortions. Knowing that as early as the turn of the century, about one-third of all families in Stockholm area consisted of single mothers and their children, who were burdened with the sole responsibility for their families, it would be more understandable why the rate of abortion had increased enormously and caused a crisis in population rate (Ohlander, 1992:217).

During the 1920s, maternity policy was still absent from debates in the Social Democratic parliamentary group. In 1926, social insurance was defined to include sickness, accident, and unemployment benefits. Great attention was of course paid to the latter. Later, in 1928, the social minister, Gustav Möller, added the basic pension to the list. The question of maternity insurance appeared in the parliamentary group's minutes for the first time in 1930. Thus, Ohlander (1992:222) argues that:

> Perhaps the weight given by the party to unemployment issues during the 1920s and the 1930s could be contrasted with that given to maternal benefit issues, question involving women and children. It may be a way of analysing to what extent Social Democratic politics were primarily politics for men - Social Democratic women did not have the numbers to assert themselves in the party, nor were they able to be successful in those issues they considered important.

Until the 1930s, when Alva and Gunnar Myrdal in their book *Kris i befolkningsfrågan* (1934: Nation and Family, 1941), focused on the family issue, the Social Democratic women's demand for different rights, such as general maternal insurance or child

support allowances did not receive a proper response. For example, after demanding regulations on mandatory leave after the birth of a child for a period of three decades, the law which provided maternity insurance and gave mothers economic support during the mandatory leave was not passed until 1931 (Ohlander, 1992:214).

Thereby the Social Democrats found 'social reasons' as grounds for abortion, and to decrease the number of abortions, they proposed maternal aid and other legal support for the protection of new mothers, with the aim of attaining higher birth rates. The decision to build residential blocks for families in difficult economic circumstances, and the passing of a law that forbid employers from dismissing women employees on grounds of pregnancy were among other measures which were taken by the government (Ohlander, 1980).

Social democratic family policy was thereby formed on the Myrdalian population policy, which saw the individual as a means rather than an end, and accordingly, society would be understood as the primary concern, and individual as the secondary. From such a point of view, which was initially seen by the majority of Social Democratic women as a negative attitude toward women's freedom to choose their own lives and interests, one should conclude that the procreation of children would simply be 'a task' or a 'woman's duty' to society. On the other hand, the logical consequence of such a policy would be that society should also take responsibility for the financial support of women and bring significant improvements to their life and social positions. Consequently, it has also been decided that benefits like maternal aid, maternity insurance, and later, child allowance, would be paid to the mothers instead of, for example, tax deductions from the father's income. Such measure would, as several authors (Ohlander, 1992; Hernes, 1987) have pointed out, increase, women's influence over the economy of the family, even though to a limited extent.

During the 1950s, Social Democratic women put the emphasis on increased social commitments to single-parent families. Ulla Lindström, a Social Democratic minister, compared the situation of single-mothers to that of the proletariat, who during the 1950s still belonged to the lowest strata in society (Lindström, 1969) The main aim was to show that the welfare of children is not only a responsibility for mothers, but also that there is a basic social conflict between production and reproduction.

Therefore, society should take the responsibility and resolve problems which arise in relation to parenthood and the care and upbringing of children. In other words, by taking on the burden of care and upbringing of the children, society would ensure its continued existence.

The expansion of family policy reforms occurred during the 1950s. Different kinds of benefits to the families have been raised; for example, family housing allowances to low income families were introduced, and in the other main area of family policy, i.e. school and pre-school, school health provision, free school meals, and other reforms have been accomplished. These reforms had two strong Social Democratic features: firstly, child allowances were extended to all children, without any means-testing. By that, benefits would not be labelled as a charity but as a right for every citizen which society was obligate to provide. And secondly, allowances, as was mentioned before, were paid directly to the families (mothers) and not as a tax reduction. The later model would not benefit those worst off, because they would not have an appreciated income to deduct from (Kälvemark, 1980).

The universalist model after the three main reforms

Through the pension, health insurance, and family reforms, Social Democrats in Sweden demonstrated their inclination to implement an institutional social system. Stephens (1996:34) described the development of the institutional model as follows:

> The institutional model combines citizenship benefits equal for all citizens with income security for the working population in cases of temporary (illness, unemployment) or permanent (retirement, work injury) interruption of work. The major transfer programmes (pensions, sick pay, work injury, unemployment compensation, maternity/parental leave) are designed to provide income security.

Means-tested flat-rate social benefits were rejected and instead, earnings-related benefits were adopted as the dominant Social Democratic social policy. Although, from a traditional Social Democratic point of view, earnings-related benefits were understood as less favourable for the industrial proletariat as well as for other parts of the working class. Even the rural inhabitants would not gain by this model. Salaried employees were the only class to gain, at least in the short-term, from earnings-related

benefits. But gradually the Social Democratic movement realised that flat rate benefits guaranteed public support for the welfare system.

The SAP had several reasons for introducing earnings-related reforms as well as other generous benefits that mainly favoured the middle class. First, if we evaluate the SAP's whole attitude toward the reform process, the Party has on different occasions accepted that salaried employees should receive benefits, sometimes clearly at the expense of manual workers, in hopes of securing broad cross-class support for reforms (Kruse and Ståhlberg, 1977). For the SAP, the major goal was that of 'locating all citizens within a common framework of provision' (Baldwin, 1990:222). In other words, by inventing a policy which advocated an active public control through state intervention and legislation for the purpose of correcting imbalance, the SAP could socialise matters which had earlier been left free. Such a policy would be in contrast to the liberal concept, which had been tolerable toward inequalities and instead, advocated limiting statutory interventions to a minimum. As Kruse and Ståhlberg (1977) pointed out, Swedish social policy, by its institutional character, has created a proper condition for the Social Democratic centralised planning. Such a policy could in a broader aspect secure the welfare of those worse-off.

Second, and in order to achieve the first goal, Social Democrats realised from the very beginning that, only supported by the working class, they could never gain a majority of votes in Parliament. Forging cross-class alliances seemed the only way for the Party to remain in power. Until the 1950s, farmers were the only coalition partners for the SAP but, as time went on, demographic developments meant that the Agrarian Party became weaker and weaker, with salaried employees taking its place as the fastest rising social class.

Consequently, the Social Democrats realised that in the long run, continuing welfare reform hinged on white-collar support. They recognised that salaried employees had enjoyed occupational provision and health insurance before a Social Democratic reform took effect, and that less attractive entitlements at a flat-rate level were unlikely to make any impression on them. They therefore demanded more benefits than they were already eligible to receive, such as statutory superannuation, on the condition that benefit rates should be determined in relation to earnings at retirement. The SAP also

found it necessary to calculate pensions based on the fifteen best years of earning, and to reduce required contributions from forty years, as had been planned in the party's earlier drafts for entitlement to full pension, to only thirty. All these benefits favoured white-collar groups and had to be paid for by reductions in blue-collar benefits and were accepted by the SAP, as well as the LO, as the necessary cost for securing the white-collar support for institutional reforms.

Even if the pension reform, the health insurance reform and the generous family policy constitute the three major components of the universalist social policy, it has to be considered that they were underpinned by Sweden's labour market policy which will be explored in the next section.

Labour-market policies and unemployment insurance

Modern Swedish labour policy has its origins in the famous agreement concluded in 1938 between the LO and the SAF, in Saltsjöbaden – the so-called 'historic compromise'. The agreement was a cornerstone of Swedish industrial relations the policy of full employment being the main outcome of the new consensus. So far as the Social Democratic Party and trade unions are concerned, the long-term economic growth associated with full employment has always played an important role in their social and economic thinking. The struggle over the share of wages and profits in the value derived from production has consequently always come second to the key aims of maintaining full employment. LO leaders, from the very beginning, realised that measures for improving efficiency in business and industry lay in workers' interests and for this reason, recognised that wage increases should not exceeded the levels permitted by economic growth (Åmark, 1992).

'Full employment' has also been Swedish Social Democracy's main political goal. In this characteristic, Sweden, and to some extent Norway, have differed from all other welfare states. The policy of full employment has had a positive impact on the stability of the welfare system on at least three distinct dimensions. First, the use of human resources would be maximised and consequently both total production and tax income would increase. Second, by keeping people in work, potential demands on the welfare

system would be reduced. And third, by keeping the unemployment level low, the cost of welfare relief payments would also be avoided (Marklund, 1988:88-89). In short, low levels of unemployment and high level of labour force participation would mean that more people supported the welfare state with taxes, while fewer drew on its benefits. Moreover, of course, participation in paid work was viewed as a component of individual welfare in its own right (Hagen, 1992).

Since the Second World War, the focus on full employment increased further and the Swedish labour market has made full employment its highest priority (Meidner, 1999:12). When the War was over, the risk of post-war depression, similar to that of the 1920s, was thought to be high, Therefore, in Sweden, a special working group chaired by the economist Wigforss drew up a post-war programme for the labour movement in which full employment was given the highest priority. This policy was to be maintained through a demand-led 'Keynesian' budget policy in which the budget would directly and concretely favour workers in their struggles to improve their living standards (Åmark, 1992; Elvander, 1980). During the war, a vast majority of people, including the majority of women, had participated in the labour market and, therefore, it was appropriate to use the labour market as a means for the achievement of this goal. The increased domestic demand produced by wartime, not only in Sweden but also throughout Western Europe, created circumstances that made full employment a realistic objective. Reconstruction of the infrastructure and key industries, for example, demanded massive investment and all available labour was needed. The important question, of course, was whether the policy of full employment could be maintained during peacetime when the labour market was more stable.

Since the 1940s some major strategies have contributed to the development and maintenance of Swedish employment policy. These policies which came to be crucial for the success of the industrial relation in Sweden were based on the 'historic compromise'. One of the key elements of the compromise was the 'solidaristic wages policy', which aimed to narrow the wage differentials between different groups of manual workers and also between manual and non-manual workers (Gould, 1988:21). After the agreement of the 1938 these two major partners in the labour-market could, through centralised negotiation, agree about both wage levels and other industrial relations issues. The famous Rehn-Meidner model of 'equal pay for equal work' was

designed to benefit workers and small farmers in rural regions, and women, but it had other central features, which had a more strategic impact on the Swedish labour market. By maintaining an agreed wage level for different jobs, it forced labour-intensive, low productive enterprises, which were reluctant to make necessary structural adjustments to rationalise their operatives or go out of business. On the other hand, a high wage policy favoured innovative and productive companies because, as efficient and profitable firms they could be sure that trade unions would not put them under constant pressure to pay wages higher than those of their international competitors (Meidner, 2000). It has to be mentioned that according to the principle of 'solidarity in wage policies' the wage differential between companies ought to be successively reduced. That could be achieved 'by giving priority to wage increases for groups of companies having the lowest income level' (Heckcher, 1984:96). For this reason the wage and salary negotiations had to take place across the board and not for individual enterprises. Consequently, the level of wage increase would not be related to the profitability of the companies. This policy appeared to have favoured profitable firms because they were not compelled to increase their wage-level in relation to their profits. Such a policy would encourage the firms to invest further in the country, which would in turn lead to job growth (Ginsburg, 1993; Stephens, 1996). The government also encouraged highly productive firms to invest by providing low interest loans from public savings as pension funds.[2]

However, one consequence of the solidaristic wage policy was the large number of redundancies caused by the rationalisation of inefficient firms. To tackle this problem, the state Labour Market Board (AMS) was established in the 1940s. The AMS's main task was, through various state labour market schemes, to move displaced labour to high productivity sectors. According to the law, all vacancies and lay-offs on a national basis have to be notified to the AMS. The AMS made it easier for redundant workers to migrate to boom areas, mainly through the provision of relocation grants. Among other measures that the AMS introduced, was the retraining of redundant workers in training centres and schools, job creation measures, including relief-work projects, temporary employment subsidies, recruitment subsidies, and special measures for the occupationally impaired (Ginsburg, 1993). Apart from different kinds of paid

[2] When ATP system was established at the end of the 1950s, the pensions were saved in funds controlled by the state. These pension funds have after a few years after foundation been transformed to a prominent source of investment in the country.

employment, other kinds of labour market schemes were introduced for the support of unemployed people. Early retirees, discouraged workers, and reluctantly part-time employees, were three groups who were covered by the generous labour market schemes (OECD, 1989a: 62).

As one can conclude from the discussion in this section, the aim of the labour movement was to establish a style of industrial relation in the Swedish labour market that would ensure the growth and development of Swedish industry rather than purely demand limited benefits such as unemployment insurance. Through such a dynamic labour market the economic conditions of firms and the continuity of high employment rate could be secured, while Sweden remained internationally competitive. In this way, too, the development of universal and generous social policy arrangements could be ensured.

The 'Golden age' of the Swedish welfare state

During the two decades after World War II, the formation of the Swedish welfare state was still in its 'primary' phase. Throughout the period, Social Democratic governments succeeded in introducing reforms in all major areas of social policy: pensions, unemployment and sickness benefit, health and insurance policy, family policy and so on. However, expansion proved to be a protracted process. By 1960, social expenditure in Sweden was around 16 per cent of GDP, indicating that Sweden was only just above the average for the OECD countries (OECD, 1985). The expansion of the Swedish system certainly accelerated during the 1960s and reached its zenith in the mid 1980s. During the recession of the 1970s, when virtually all other capitalist welfare states reduced their costs, the Swedish government expanded the welfare state dramatically (Ginsburg, 1993). It was this public spending figure of just over 60 per cent of GDP in 1981 that gave Sweden its reputation as a high welfare spender (Brunsdon & May, 1995).

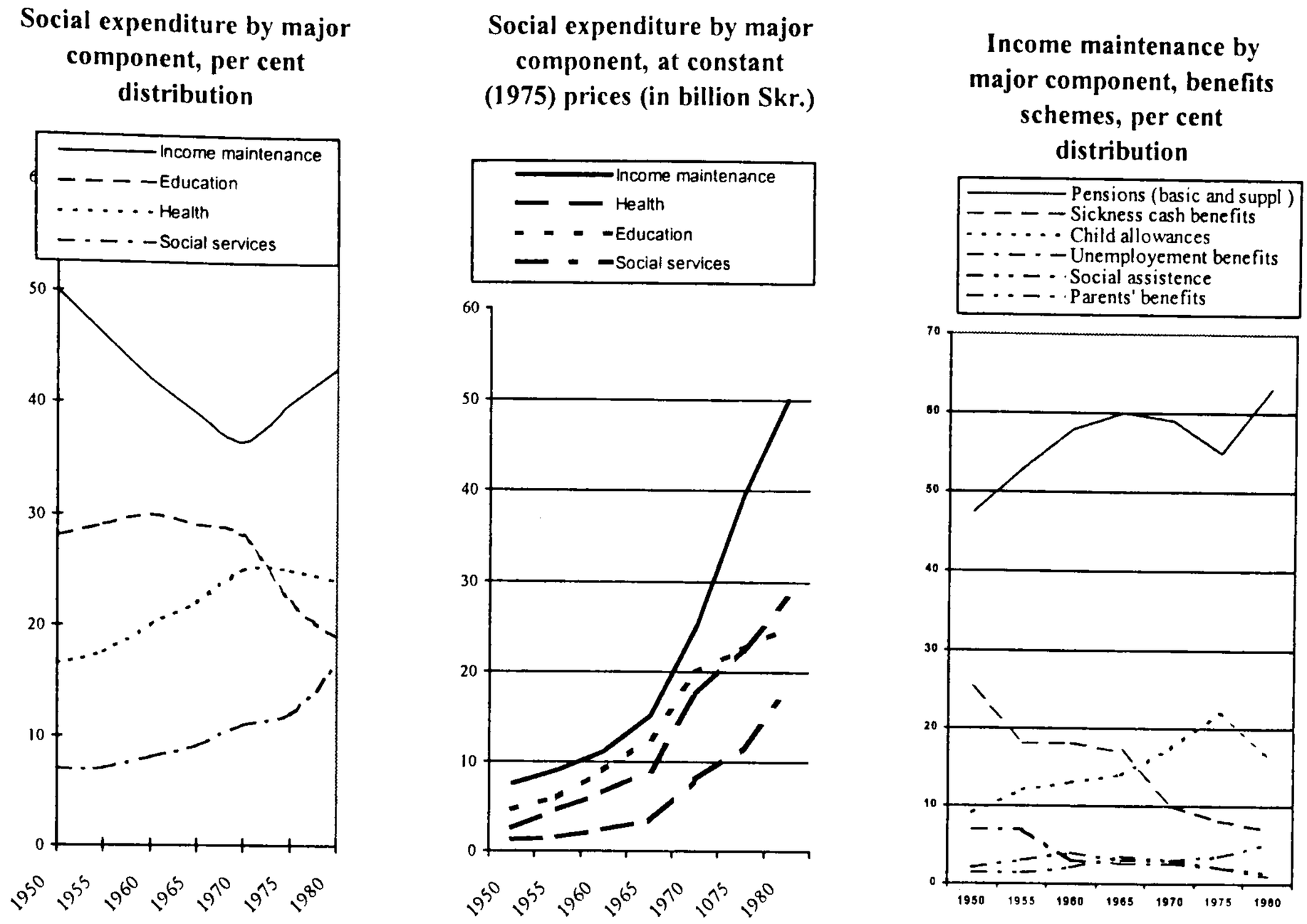
The broad support for the solidaristic welfare policy by both labour and middle classes, and even the bourgeois parties, explains the continuity in expansion of the system even during the recession period after the crisis of the 1970s. Arguably, the Social

Democrats' efforts to form a social policy based on national interest rather than class interest seems to have been the most decisive factor in maintaining broad support for the system – support that persisted uninterrupted through the period of economic crisis, to the extent that even the bourgeois parties did not make any noticeable efforts to alter the system after they came to power in 1976. However, a rising budget deficit in the second half of the 1970s (from 4.0 to 13.2 per cent of GDP between 1973 and 1982) began to change the political climate, leading to increasing pessimism about the viability of the welfare state in 'certain quarters' (OECD, 1985). The arguments that the welfare state inherently caused economic imbalance and stagnation became increasingly influential in public discourse, and the pressure on the Social Democrats as architects of a highly expensive system consequently grew. But because of the political costs involved with retrenchments no party openly advocated any serious changes in existing social provision.

Following the establishment of the Swedish welfare state, income maintenance measures formed the main part of welfare expenditure, (i.e. between a third and a half of all welfare expenditures). Income maintenance encompasses pension programmes, sickness insurance, unemployment insurance, occupational injury insurance, housing allowances and various family and child supplements, and public assistance (poor relief). Because this range of provision is so extensive, the temptation has been for scholars (Olsson, 1990; Stephens, 1996; Brunsdon &May, 1995; Gould, 2001) studying the nature of change in the Swedish welfare system to focus on changes in income maintenance to the neglect of other sectors of the system. In its broadest sense the welfare state includes many other public welfare services such as education, day care, care of the elderly, public transit subsidies, housing subsidies, and active labour market expenditure; transfer payments in fact constitute less than half total social expenditure (Stephens, 1996:35).

In the forthcoming sections, the development of four major components of the benefit system is examined. The development of the pension system will be explored in the next section and this will be followed by an analysis of the other major areas of unemployment insurance, sickness insurance and family policy.

Figure 3.1 Social expenditure and income maintenance by major components, between 1950 and 1980.



Source: Olsson 1990:126-7

The continuity of 'peace' in the Swedish labour market

During the three decades after the War, stable global economic development maintained high demand, which sustained full employment - although the risks of excess demand and inflation consequently loomed large (Åmark, 1992). After the oil crisis of 1973, however, the 'golden age' of post-war capitalism ended and growing economic problems put pressure on governments to reduce public expenditure. While most countries in Europe chose to allow unemployment to rise in an effort to reduce inflation and keep prices under control, the Swedes remained committed to the pursuit of full employment through an active labour market policy. As Ginsburg (1992:43) has pointed out, during the 1970s and 1980s 'Swedish governments built up large public sector deficits to finance the full employment commitment by direct subsidies to industry, expansion of employment in the welfare state and the active labour-market policies, all of which absorbed a great deal of unemployment.' By the mid-1970s, the Swedish public sector already employed a quarter of the workforce, and throughout the 1980s, employment in the public sector grew to account for a third of the labour force

(SCB, 1990). As a result, between the late 1940s and 1991, unemployment in Sweden was exceptionally low. Apart from the years 1982-4 when 'open' unemployment reached 3.5 per cent, Sweden enjoyed an unemployment rate of under or around 2 per cent. As a result of full employment, competition for jobs diminished, and these tight labour market conditions instead meant that companies were forced to compete for scarce labour.

Table 3.1 Standardised unemployment rates

Average for	1964-67	1968-73	1974-79	1980-87	1989
FRG*	0.6	1.0	3.2	6.0	5.5
Sweden	1.6	2.2	1.9	2.7	1.4
UK	2.5	3.3	5.0	10.5	6.4
US	4.2	4.6	6.7	7.6	5.2
OECD average	2.7	3.2	4.9	7.5	6.1

Sources: OECD 1989b: table 2.20; OECD 1990:22.
*FRG: Federal Republic of Germany

Until the 1990s, Sweden placed most emphasis on employment programmes, while in many other countries the level of unemployment insurance benefits characterised the state's and the welfare systems' ambition simply to 'compensate' for unemployment. In Sweden, unemployment insurance benefit societies, which were heavily state subsidised, were controlled by trade unions. That could be seen as an effort by the Social Democratic Party to strengthen the position of the trade unions in the labour market. On the other hand, the state kept control of active manpower policy, the purpose of which was to facilitate industrial restructuring. The active manpower policy delivered through the AMS was fully supported by the unions which allowed industry to restructure according to prevailing economic pressures without resistance from organised labour (Olsson, 1990:132).

Pensions

The statutory old-age pension scheme was the longest running element of social expenditure in Sweden. Since the universal pension reforms at the end of the 1950s, many employees in Sweden received pensions from three different sources: first a

basic pension and, in addition, an earnings-related supplementary pension (ATP) together with an occupational pension.

The national basic pension (folkpension), as the primary element of the Swedish pension system, was based on the principle of security and was paid to almost every pensioner who had been resident in the country for at least ten years. Everyone, irrespective of previous income was eligible to the amount. The national basic pension, which was based on the so-called 'base amount', introduced in 1948 and modified in subsequent years, saw the original means-tested element abolished and a universal flat-rate pension established. Until 1993, the basic pension to a pensioner who was not married was based upon 100 per cent of the base amount and for a pensioner who was married to another pensioner, the national basic pension was 80 per cent.[3] The reason for the basic pension being related to the base amount was to protect it from the effects of inflation – the base amount increasing with the rate of inflation (Ståhlberg, 1995).

The national basic pension was designed to protect those with a low ATP (or none at all). A further measure for compensating pensioners in this position was the basic pension supplement. If the amount of ATP was less than 55.5 per cent of the base amount, pensioners received the basic pension supplement to the point at which the ATP and this supplementary taken together would make up 55.5 of the base amount. The third benefit to pensioners with low or no ATP contributions was income-tested municipal housing allowances, available on a nation-wide basis and introduced in the mid-1950s.[4] Taking all these three benefits together, the amount of replacement was approximately two base amounts, which gave pensioner a sufficient income and a reasonable standard of leaving (Greve, 1978:2).

The national supplementary pension (ATP) was the second main strand of the pension system, and was based on the 'pay-as-you-go' and 'defined benefit' principles. The ATP was based on work performance and for a full ATP, thirty years of gainful employment was required. The amount available depended on the income from the

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[3]'Base amount' is a national sum that in principle follows the consumer price index, increasing with the rate of inflation (Ståhlberg, 1995). In 1993, the base amount was SEK 34,400. This amount was approximately 20 per cent of an average manual worker's wage before taxes.

[4] It was easy to claim an income-related housing benefit. During the first half of the 1970s more than 50 per cent of pensioners received this kind of benefit.

'best' fifteen years. The target level was set at 60% of past earnings. Past contributions and outgoing pensions were linked to a consumer price index, forming the so-called 'base amount'. Pensionable income for at least three years' employment was the minimum demand for qualifying for ATP. An individual's annual income was required to be at least a sum larger than one base amount, and the maximum amount for qualifying was the equivalent of 7.5 base amounts (Ståhlberg, 1995; Olsson, 1990:129). By being tied to the base amount, the ATP, like the national basic pension, was protected from the effects of inflation.

The third source of pension was the occupational pensions, which, like the supplementary pension, was a compensation for loss of income and therefore based on work performance. The occupational pension, supplemented the national basic pension and ATP. For blue-collar workers in the private sector, STP was the negotiated pension, which was 10 per cent of the average income in the three best years between the age of 55 and 59. For white-collar workers in the private sector, the negotiated pension, called ITP, was based on the salary at retirement. One of the differences between the STP and ITP was that the latter provided compensation for annual incomes over the equivalent of 7.5 base amounts, but less than 30 base amounts. On the salary of up to 7.5 base amount ITP paid a pension of 10 per cent because it was also covered by ATP. ITP covered mostly wages between 7.5 and 20 base amount. It paid a pension of 65 per cent. For wages between 20 and 30 base amount it paid 32.5 per cent (Ståhlberg, 1995).

Beyond these three forms of pension, which until 1999 made up the structure of the pension system, there were three other types, which were not paid according to age, but for other reasons, such as early retirement.

The early retirement pension had the same structure as the old-age pension, which means that it included the national basic pension, the basic pension supplement (ATP), the negotiated occupational pension and the local authority housing allowances for those pensioners with low or no ATP. The main difference was that compensation from the latter source was higher for the early retirement pension than for old-age pension.

The Partial pension was designed for the working population between the age of 60 and 64 who wanted to reduce their presence in the labour market by limiting their working hours.

The Survivor's pension provided financial support for both widows and widowers, and also for children under the age of 18. Until 1990 a survivor's pension, paid to both men and women, was equivalent to about 30 per cent of their wife's and husband's earlier income (Ståhlberg, 1995).

Table 3.2: Pension payments from the national pension system and ATP (1992)

Pension Benefit	Pension Payouts in SEK millions
Old-age pension	119,540
Early-retirement pension	32,575
Survivor's pension	11,592
Partial pension	2,233
Total	165,940

Source: Socialförsäkringsstatistik. Fakta (1993) in Ståhlberg (1995)

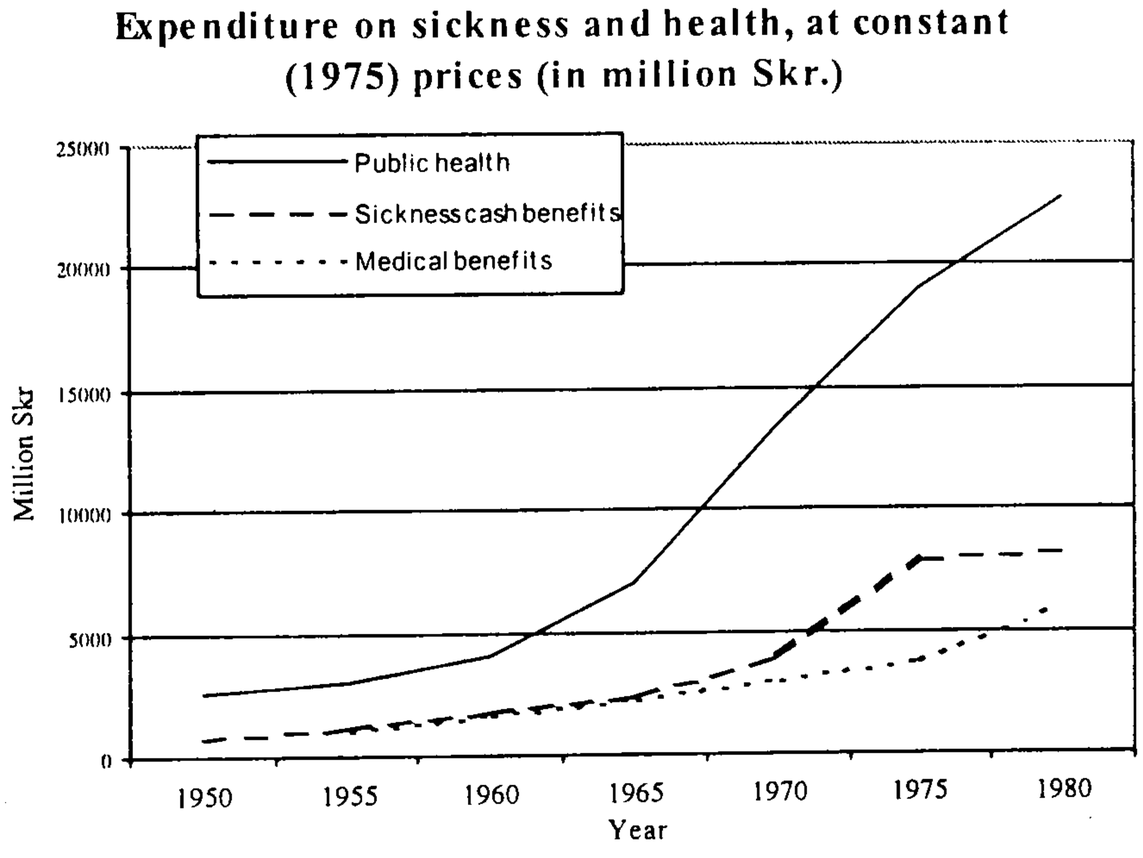
Sickness benefits and the expansion of the health system

Since 1955, when the compulsory insurance scheme with earnings-related cash benefits replaced the voluntary sickness insurance, which was administered by local friendly societies, the level of all kinds of medical benefits has risen dramatically. One major reason for these changes was the Swedish Parliament's decision to integrate the administration of pensions and sickness insurance, thus relating sickness cash benefits, like pensions, to net earnings. As a result, the sickness cash benefits have been augmented on at least three occasions. The initial system from 1963, which was introduced after the reform, paid benefits in proportion to only 60 per cent of net income. In the late 1960s the level increased to 80 per cent of net income, and also the initial three days waiting period was reduced to a single day. In the mid-1970s, the system was changed to 90 percent of gross earnings, and moreover, general health insurance was extended to cover dental treatment (Olsson, 1990). Along with these improvements to benefit levels, other rules have also been liberalised, for example, the introduction of self-certification for the first week of sickness absence. During the

1980s the generosity of the system continued - the one-day waiting period being abolished in 1987.

Bearing in mind that the objective of sickness insurance is to protect against loss of income, the reforms of the 1980s largely achieved this goal, because in the matter of cash benefits, the most widely used aspect of welfare, almost all wage-earners were entitled to at least 90 per cent of normal earnings. Above that, some employees, like private sector white-collar groups, received more because they had collective bargaining agreements for sick pay, which covered up to 100 per cent of income loss through illness. Most scholars (Hetzer, 1991; Höög, 1991; Korpi, 1989; Olsson, 1990) of Swedish welfare policy understandably suggest that, during the second half of the 1980s, protection against loss of income during illness was very generous.

Figure 3.2 Expenditure on sickness and health between 1950 and 1980.



Source: Olsson (1990:131).

Family policy

Two decades after women's active entrance into the labour market, many researchers (Liljeström et al., 1976; Axelsson, 1992) examined the effects of women's paid employment, and pointed out some problems which were caused by this change in the role of women in the family. According to Liljeström et al. (1976), whereas women's paid employment had strengthened their position in society, they still carried the greater burden of unpaid domestic and caring work because of the continuation of the

sexual division of labour. Even in the labour market there were considerable differences between men and women's incomes and job opportunities. Therefore, the new family reforms from the 1960s were linked directly with the demands and opportunities for women's paid employment. The reforms were intended to provide women, and also children, with various kinds of protection and support (Ruggie, 1984; Lavin, 1985). The measures concerned two types of protection. First, certain services aimed to provide care or supervision of children, and second, a number of schemes were devised to give financial support to families.

The care and supervision of children

Swedish family policy, in which parents insurance also plays an important role, is based on equality demands and has therefore been shaped to provide comprehensive cover for the population. Knowing that during a long period of time, the work participation for women in Sweden has been the highest in the world (84 per cent in 1992), it is possible to see why the system has provided such generous benefits. Generosity starts at birth. After the birth, either the mother or the father has the right to stay at home with paid leave until the child is 15 months old (Petterson, 1995). Consequently, with either of the parents at home (normally mothers), there is little need for day-care for children below this age, and statistics from 1992 show that only 2.3 per cent of children aged 3-10 month had a day-care place.[5]

The municipalities – the Swedish local authorities – have responsibility for providing a range of childcare services. There are three major facilities: day-care centres for pre-schoolers; family day-care schemes; and after-school centres. Day-care centres are provided for children aged from six months up to school age. These centres take care of those whose parents are working or studying away from home. The family day-care schemes consist of a network of private homes, which also take care of children whose parents are working. These schemes are supervised by the municipalities and the people who take care of children in their own home (called childminders) are employed by the municipality (Lavin, 1985).

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[5] The percentage has grown to 22.5 for children between 11-17 month (Statistics Sweden 1993 in Petterson, 1995).

The municipalities were also responsible for providing after-school centres for children up to 12 years of age. According to different sections in the Social Services Acts, municipalities have also to provide other services for children – for example, child-care assistants – who have to look after children who are unable to come to the day nursery or the childminder; the provision of assistance to those children who can come to day-nurseries, but due to physical, mental, social, linguistic, or other reasons, need special services; the provision of home language training for children who have a mother tongue other than Swedish; the provision of services in open nurseries (pre-schools) – places where parents who look after their own child can visit in the course of the day to let their children mix with others engaged in a range of nursery activities; the provision of domestic help offers to housewives who are ill or otherwise in need of assistance. (Lavin, 1985).

A comparison between eight Western European countries in 1993 showed that the total public support to children, in form of transfers, tax subsidies to the families, and costs for publicly financed services, was highest in Sweden. The full cost of support for a child 'from the cradle to the A-level' was in both Sweden and Norway 1.3 million Crowns, almost twice as much as the Netherlands (0.7 million) or Britain (0.8) (Holgersson, 2000:82)

Table 3.3 The development of public day care

Year	day nurseries	family day care	part-time pre-school	children age 0-6 services	% of children enrolled in the
1950	9 700		18 700	879 000	3.2
1955	10 000		27 800	781 000	4.8
1960	10 300	3 700	34 800	734 000	6.6
1965	11 700	13 800	47 000	752 000	9.6
1970	33 800	36 600	72 000	823 000	17.3
1975	66 000	49 800	112 000	774 000	29.4
1980	135 200	90 200	104 700	714 000	46.2

Sources: Olsson (1990:173).

Financial support for families

Financial support for families with children was of two main kinds. First, financial support which might be regarded as a typical part of society's measures to support families with children. Parental allowances, child pensions, and child supplements

were among these kinds of benefits which belonging within the social insurance framework. The second type of benefits involved different kinds of cash compensation, which existed alongside the Social Insurance schemes and entailed benefits like child allowance, maintenance advances, housing allowances and separation allowance (Lavin, 1985; Westerhäll, 1985).

Among measures for supporting families, parent's allowances were the main financial contribution within the Social Insurance framework. These allowances compensated for the loss of income when parents have to stay at home in order to care for their children. This compensation constitutes two types of allowance: an allowance directly connected to the birth of the child, and an allowance for parents who have to stay at home to take care of a sick child. The latter benefit was the same as the earnings-related sickness insurance, which in 1986 was 90 per cent of income. The only criterion for eligibility was that the parent applying for it should have been registered at the Local Social Insurance Office for at least 180 consecutive days immediately before the birth of the child. The number of days for which benefits were claimable for either of the parents who stayed at home increased several times during the 1970s and the1980s (see Olsson, 1993:170). However, the fact that the size of the allowance was related to the income of whichever parent stayed at home disfavoured families with bad employment records or in which mothers were students. In these cases, the mother was the one who was expected to take care of the child (Westerhäll, 1985).

During the 1970s, due to the rapid increase of the number of single parents, another kind of uniform benefit, called the maintenance advance, was introduced. This benefit was paid to children in so-called 'incomplete' families. In 1985, the amount, on an annual basis, was SEK 8,938 for each child. Other benefits, designed to enable financially weak households to reach a better standard of living, came in the term of housing allowance. These allowances were of different kinds, but at least two of them were important for families with children – the national housing allowances, and the combined national-municipal housing allowance. The size of the allowance, irrespective of its varieties, was normally decided in proportion to the family's income and assets, and also by the number of children and the level of the rent. In 1985, if the

basic combined income of both spouses was less than SEK 45,000, the family national housing allowance amounted to SEK 3,180 per annum for each child.[6]

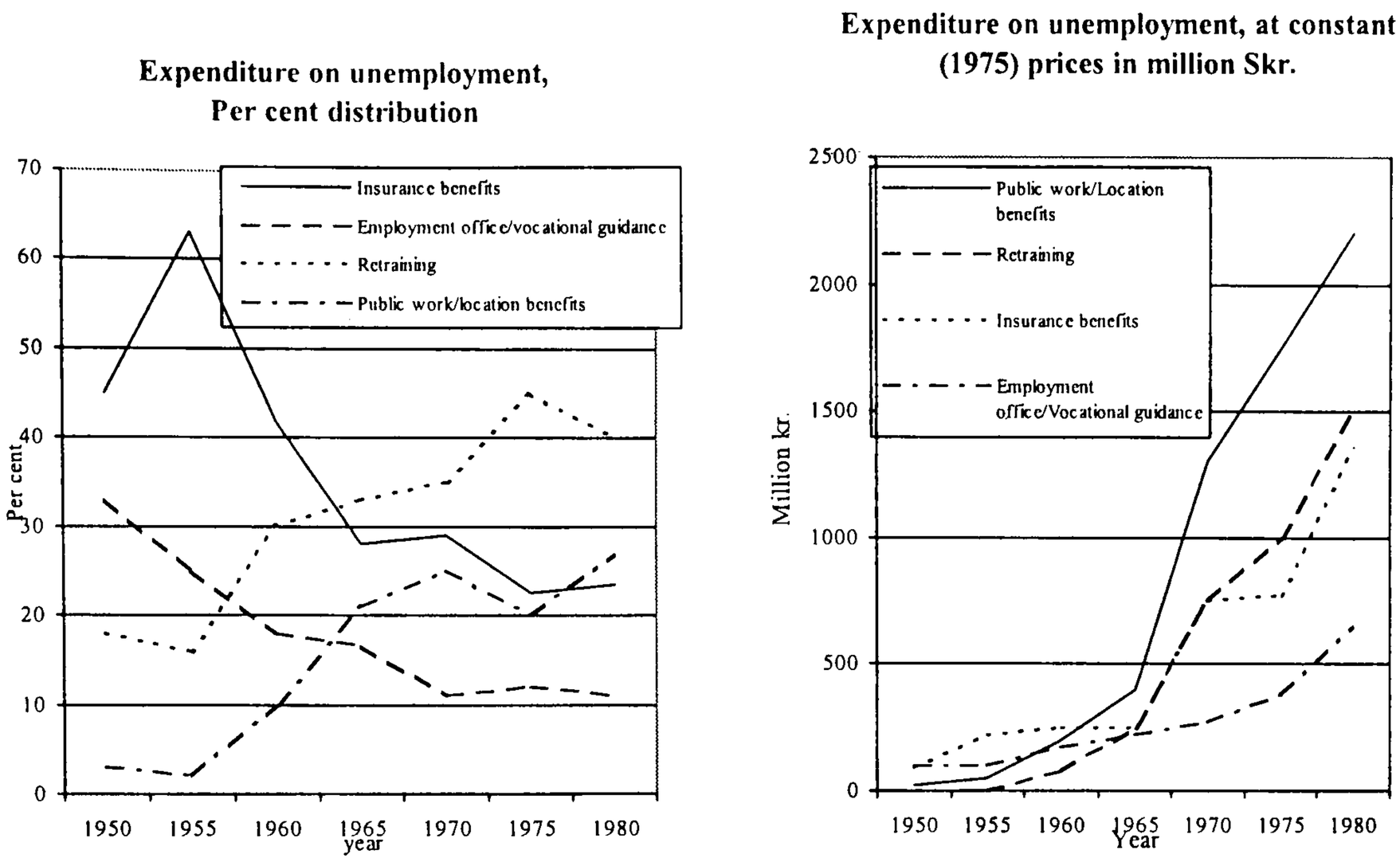
Overall, in Swedish family policy, allowances were designed to even out the financial imbalances arising between families, mainly those with children and those without, as well as those imbalances arising over a lifetime. In 1982, the supportive measures for families with children constituted approximately 5 per cent of the gross domestic product. As shown in Table 4.5, the day-care services accounted for the largest share of the expenses, and the general child allowances constituted the most expensive kind of financial support.

Unemployment insurance

As a result of the very low unemployment levels after the 1950s, unemployment insurance was not an important expenditure item in Sweden, the main part of the unemployment budget being spent on manpower policy. Consequently, as Olsson (1990) points out, compared to other forms of social insurance in the country, and also on an international perspective, the Swedish unemployment insurance system had never been fully developed – indeed it clearly remained underdeveloped until the 1990s. Nevertheless, since the 1950s, unemployment benefits have been generous, with almost 25 per cent of expenditure on unemployment being made up of cash benefits since the mid-1960s. As shown in figure 3:3, after the 1960s, the AMS's activities grew quickly with expenditure on 'mobility allowances, training services, educational allowances for retraining, employment creation schemes, regional development grants, and occupational rehabilitation schemes' constituting the major part of expenditure on unemployment.

[6] For incomes between 45,000 and 67,000, the allowance would be reduced by 15 percent, and for incomes above that limit, the allowance would be reduced by 22 percent. The combined national-municipal allowance follows the same rules as those governing the assessment of the national housing allowance.

Figure 3.3 Expenditure on unemployment, between 1950 and 1980.



Source: Olsson (1990:134).

Compulsory unemployment insurance was for the first time decided by parliament in 1934 but the system was managed through trade union benefit societies. Consequently, a huge number of workers have been covered by the voluntary trade union system. While in 1950 only one third of workers were covered by the system, three decades later, the percentage increased to more than 80 per cent that shows the trade unions' enthusiasm for supporting the system (Ginsburg, 1993). However, the system was voluntary and financed by government, trade union, and employer contributions.[7] Despite the management of trade unions, Olsson Hort (1995), believes that the common eligibility criteria applied by the unemployment funds were tighter and more restrictive than the rules for other insurance provision, like sickness insurance. Twelve months membership of an unemployment insurance fund, and at least seventy-five working days spread over four months during the year prior to unemployment, were the primary conditions for an unemployed person to be eligible for these benefits.

The reimbursement level was low at the beginning of the period. Until 1974, it fluctuated at around 50-60 per cent of lost income. Thereafter, the goal was set at 90

[7] In practical terms, sixty regional insurance funds, which were supervised by a semi-independent agency called the National Social Insurance Board, managed the payment of benefits.

per cent of previous earnings, and consequently a great many wage-earners have been entitled to maximum daily allowances (This generous level was maintained until mid-1993). An improvement occurred in 1988, which lead to the abolition of the five-day waiting period. Accordingly, the benefit was available from the first day of unemployment and was payable for up to 300 days (450 for those over 54 years of age).

One of the differences between unemployment insurance and other insurance provision was that the former had not been fully integrated into the national social security system because it was still formally a voluntary insurance organised by unions. For a long period of time, insurance covered only a limited number of the unemployed. For example, in 1963 only 21 per cent of the unemployed were covered by this form of insurance; however, by 1978, more than half were covered, and this figure rose to more than two thirds of those unemployed by mid-1980 (Björklund & Holmlund, 1983:90ff). Since 1974, insurance schemes have also been introduced for those workers who are not members of an unemployment insurance benefit society, or are society members, but not entitled to benefits. This programme, administered by the National Market Board, generally offered less generous rates (Björklund & Holmlund 1983).

Swedish social spending in the mid-1980s

The expansion of different schemes designed to support families, the sick, the unemployed, as well as, the more generous pension system caused a rapid increase in social spending. During this period, social spending in Sweden more than doubled. While in 1960 'real social expenditure'[8] accounted for 15.9 per cent of GDP, which was just 2 per cent above the OECD average in that year, in 1981, the rate was increased to 33.5 per cent, which was the highest level of public expenditure on social welfare amongst the capitalist states (OECD, 1985). At the beginning of the period, spending increases were quite modest, and, as indicated, the growth of welfare spending as a proportion of GDP growth in Sweden was a few per cent above the OECD average. This limited growth in welfare spending at the beginning of the period

[8] 'Real social expenditure' is a figure adjusted for price inflation in each welfare sector.

is explained by the prevailing fiscal conservatism, which prevented Social Democratic governments from increasing taxes considerably more than other nations. The take off came after the 1970s recession, when most capitalist welfare states decreased welfare spending to cope with the fiscal crisis caused by the recession, while the Swedish government protected and expanded the welfare state through a 'progressive interpretation of Keynes' (Ginsburg, 1992:34). In other words, instead of cuts in expenditures, the Swedes initiated larger investments in different parts of welfare system and introduced further reforms. This progressive policy aimed to increase demand and thus stimulate the supply side.

Table 3.4 The growth of social expenditure as a percentage of GDP

	Real social expenditure As % real GDP		Real income elasticity	
	1960	1981	1960-75	1975-81
FRG	20.4	29.2	1.8	0.6
Sweden	15.9	33.5	2.0	4.0
UK	14.8	23.1	1.9	2.5
US	11.3	20.2	2.3	0.9
OECD average (19 countries)	13.7	24.3	1.7	2.1

Source: OECD (1985: table 4).

As a result, in the second half of the 1970s, welfare spending increased four times as fast as the economy as a whole and twice as fast as the OECD average. Knowing that the Swedish welfare state was largely financed from taxes, it was argued by many authors (Myrdal, 1982; Hadenius, 1986; Edlund, 1999) that the burden of public-spending expansion was placed on taxpayers. Income and wealth taxes increased steeply and progressively and as the Swedish Institute (1988) reported, in the late 1980s, skilled workers with average wages paid 40 per cent of their income in taxes, which was highest rate in the world. By the same token, the employers had to pay payroll taxes for social contributions, which in the early 1980s were raised to 43 per cent (Swedish Institute, 1988).

The reliance of welfare spending on tax income makes it more vulnerable. In the 1980s, when the process of globalisation of the world economy began to accelerate (Steinmo, 1994), and the competition between countries to attract mobile capital increased (Whalley, 1990), the national states with generous welfare systems came under pressure to redesign their tax system in a more regressive direction. Thus, the

Swedish system was forced to abandon its progressive income tax and relatively high rates of corporate taxation. The inevitable consequence of such a process on the Swedish economy was tax reform, and accordingly, cuts in public spending in order to increase Swedish corporate competitiveness in the international market.

Conclusion

For many scholars (Korpi, 1983; Stephens, 1979; Esping-Andersen, 1992), the Swedish welfare state regarded as the zenith of Social Democracy's goals in building a society based on principals of universalism and egalitarianism. By having more than five decades of virtually uninterrupted rule, the movement had succeeded in institutionalising a model of advanced social policy in which benefits and services were guaranteed on an optimal level. The system not only aimed to satisfy the basic needs of the working class, but also had a unique and expensive costs structure, and aimed to achieve a high level of basic standards of social security. In many ways, the development of the Swedish welfare system as *the* model of 'social democracy' helped to establish the content, values and principles of social democracy itself. Although the Swedish welfare state has not been shaped according to a grand Social Democratic design, because its evolution was a long-term gradual process, the movement has, from the beginning, emphasised that it aimed to achieve its goals by an active social policy. In pursuing this goal, the movement has, since the 1930s, followed a relatively coherent welfare policy.

The social insurance system, formed the major part of Swedish welfare expenditure, and increased from 7 per cent of GDP in 1965, to over 18 per cent of GDP in 1985. The fundamental feature of the system during the 'golden age' period was its redistributive nature. In comparison with other models that had developed along voluntary or market lines, the universal Scandinavian model stressed redistribution between social and risk groups, and was also compulsory for everyone. This politically-determined insurance system was based on a contract between the state and its citizens, and gave the entire population the right to be covered by the collective insurance system. As a result of this contract, the system guaranteed the welfare of individuals throughout their life cycle. In other words, the insurance system was

designed to generate economic security in a variety of life situations. The public insurance system was financed largely through proportional contributions and taxes, and according to the redistributive aim, the remuneration rules were formed to cover everyone on equal terms. This meant that contribution charges were levied on the earned income of people actively in work. According to the principle, remuneration should be paid in direct relation to the income being lost.

The dominant trend in the expansion of the Swedish welfare system was that social insurance was progressively extended to cover more and more situations for increasing numbers of people. Transfers in the form of child-allowances, old-age pensions, and similar benefits financed by taxes or corresponding levies, became a more prominent element of the social and economic system. As the transfers guaranteed that all social groups would have a reasonably high standard of living, their spending power increased, and in doing so, consumption dramatically increased in society as a whole. By the same token, households' savings decreased. In theory, it was less important to save when every citizen was eligible to at least a public pension, and could count on economic support in the case of sickness and unemployment.

However, this 'golden age' did not last. The economic and political conditions on which the generous Swedish welfare system was based, began to experience decisive changes during the 1980s, and as a result, the stability of the system came into question. Low economic growth was the first major difficulty, and the change in economic fortunes had a considerable impact on public finances, which clearly depended on reasonable economic growth for continued expansion. In following years, other changes, both global and national such as currency instability, the increasing internationalisation of trade, capital and finances, the enormous expansion of the public sector, and structural changes in social and demographic conditions, caused structural changes in the economy which would affect the infrastructure of the Swedish welfare state. As the architects of the system, with its large public sector, high levels of taxation and strong union movement, the Social Democrats were in a position to tackle the problems and restore economic stability, as well as to recreate proper conditions for economic growth. Therefore, in the next chapter, the focus will be on core structural changes which have occurred in the economic, social and demographic conditions of Swedish society over the past 15 years.

Chapter 4

Structural changes in economic, political and demographic conditions

This chapter explores the changes which affected the infrastructure of the Swedish welfare state and arguably undermined the social and economic assumptions on which much of Swedish social policy was based. In general terms, change can be analysed in three key areas; economic, politic and demographic. As the economic changes taking place in the past decade have been far-reaching, and had significant impacts on established social policy, this chapter is primarily intended as an exploration of the broader development of economic policy. While the emergence of unemployment, which placed a huge pressure on the public finances, has been regarded as the major structural problem, it is also the case that other structural changes in the economic sphere, such as liberalisation of the capital market, low levels of economic growth, problems with inflation, and changes in social investment and the financing of the welfare system, have also had a major impact on the nature and organisation of Swedish social policy.

In discussions about the factors which caused changes in the economic conditions, as discussed in chapter 2, two sets of challenges are distinguished; the 'exogenous' and 'endogenous'. Exogenous factors concern the impact of economic globalisation and particularly the consequence of 'economic openness' on nation states' ability to manage their own economies, while endogenous factors imply problems which are caused as a result of growing differences between existing social programmes and

evolving needs and risks occurring within particular societies (Esping-Andersen, 1996a). The coincidence of the process of global integration with growing problems for welfare states made many believe that the major challenges to the welfare state were provoked by exogenous forces.

This study certainly agrees that these exogenous problems are significant but it places most emphasis on endogenous difficulties, partly because pressures arising from globalisation are always experienced 'locally' and also because of the institutional constraints imposed by existing programmes in the face of changing social needs. The existing welfare programmes were designed for industrial societies with the industrial working class as the dominant social group. While a new social order characterized by post industrialism with comprehensive changes in occupations, social classes and the life cycle, has caused large structural changes in advanced societies, the welfare states have been slow in adapting to these challenges. A great decrease in the numbers of the industrial working class in favour of growing employment in the service sector, changes in family structure with the rise of the two earner, single-person, and single parent households, a great increase in female employment, population ageing, and a decreasing fertility level, are all supposed to be causing a more strategic and fundamental kinds of difficulties for the existing welfare state.

Despite the argument of this thesis, which considers the endogenous problems as the most crucial to the crisis of the welfare states, the first part of this chapter will examine the economic crisis of the 1990s, which involves both the problems that are mainly related to the economic policies initiated by the national governments, and those caused by global integration. Issues such as inflation, productivity growth in manufacturing and private services, macro economic performances trends in GDP, and changes in investment and employment are among factors which cannot simply be related to the process of globalisation, but can also appear as endogenous changes. The chapter also discusses how the Social Democrats, as the most traditional advocates of generous welfare entitlements, have adopted a 'flexible' approach to the relatively extensive retrenchments intended to readjust the public sector and social services to the new economic realities. The changes in the Social Democratic Party were partly a result of the changing political climate in Sweden, which during the 1980s was affected by widespread neo-liberal winds. The second part of the chapter explores

changes in political stability in Sweden which provided a historic opportunity for the system. The main focus is on the consensual political culture which prevented extensive changes.

The third part of the chapter is devoted to an exploration of the demographic changes in Sweden, and their impact on both economy and welfare expenditure. A growing concern has been expressed about demographic changes. Falling patterns of fertility, aging of the population, and gains and losses through migration are factors which, in recent decades, have led to a growing concern about the future viability of the existing welfare commitments in Sweden, as in many other western-industrialised nations. The chief issues for the current Swedish debate on demographic changes are the falling fertility rate and the increase in the numbers of very elderly people. Despite the anxieties raised by demographic changes, they appear to have had minor immediate impacts on the emergence of the economic crisis of the 1990s, it nevertheless seem to have undermined the conditions for economic growth. As to the future, social and demographic challenges can be expected to have a crucial impact on both economic development and welfare expenditure.

Swedish economic development: an overview

The economic crisis of the early 1990s was the second major crisis for the Swedish welfare system. The first one occurred in the 1970s after the oil crisis, but at that time, as has been discussed in chapter four, although key economic indicators suggested that the performance of the Swedish economy was exceptionally dismal (Erixon, 1984), the Social Democrats kept to traditional Keynesian policies and did not renege on their commitment to full employment and a large public sector providing social services. In the second economic crisis, the Social Democrats abandoned Keynesian policy at an early stage and announced a willingness to contemplate structural changes in the economy. Although, at the most critical period of the economic crisis, the Party was out of office and the bourgeois coalition in government, the Social Democrats supported most of the attempts initiated to decrease government expenditure considerably. The argument in this chapter is that when the economic crisis began to affect the foundations of the Swedish economy, the Social Democrats, as the most

traditional defenders of the universalist and generous welfare state, declared their intention and willingness to support efforts which could restore economic stability. In other words, during the 1990s the Social Democrats' major goal was, first and foremost, to ensure the survival of the nation state as a whole, and not the retention of high levels of welfare provision at any price. In the short term this strategy led to far-reaching retrenchments in welfare expenditure, but in the longer term, it was felt that the measures taken by the Social Democrats had the character of readjustments in social policy arrangements in order to maintain the system rather than to change its entire 'raison d'étre'. The underlying assumption seems to have been that only a strong nation state with sustainable economic growth could guarantee a generous welfare system.

In the early 1990s several major changes in the Swedish economy, such as falls in gross domestic product and the dramatic rise in unemployment, caused an unprecedented economic crisis in the Swedish economy and challenged the stability of the Swedish welfare system. For the first time since the 1930s, when the process of modern welfare state formation in Sweden began, a large-scale economic crisis developed in the country. The crisis created severe structural problems, and led to the questioning of existing economic policies and the egalitarian motives, which underpinned them. A key aspect which dominated the debates was the public budget and the relation between the welfare state and economic growth. At the beginning of the 1990s, when the drop in GDP was clearly sharp and deep, economic recovery was closely linked to cutbacks in public expenditure (Agell, 1996; Freeman et al., 1995). In other words, changes in macro-economic conditions were understood to be one of the main factors which modified preconditions for social policy.

Although the economic crisis was limited to the period between 1991 and 1993, and started with a banking crisis, this chapter begins with a discussion of changes in financial policy, which were initiated by the deregulation of capital market in the mid-1980s (Svensson, 1996:35). An examination of the state of economic growth in this period, together with a consideration of the impacts of negative growth on the economy is followed by a discussion which focuses on changes in investment and employment. Implications for the financing of the welfare policy through a progressive tax system will then be considered. Briefly, key factors which caused the economic

crisis in Sweden included: the crisis of the banking system, the rapid re-emergence of a budget deficit, and a steep rise in unemployment. The rise in unemployment was foremostly due to an adaptive economic strategy taken by the Swedish government in mid-1980s. By liberalising the capital market, the Social Democratic government aimed to adapt the open Swedish economy to the new global economic order. Another motive for liberalisation of capital market was the Swedish political establishment's orientation towards the EU, where currency regulations were prohibited after 1990 (Wihlborg, 1993:274). This initiative provided a condition in which the long-term existing balance in the Swedish market, provided by the peaceful industrial relations structure, was disrupted. In the new area of the speculative economy, with weakening cooperation between the labour market partners, wages and prices rose unprecedently so that, by the end of 1980s, Swedish companies' competitiveness had declined considerably (Benner, 1997). As a result, the demand for Swedish products and services decreased. To cope with the higher costs caused by high wage rates redundancies were thought to be the only effective measure. The high level of deficit caused by the rise in expenditure, due to growing private sector unemployment, also forced the government to cut spending in public sector by further redundancies. Savings in both private and public sector changed the employment figures dramatically. These issues and other aspects of the argument will be discussed latter in this chapter but first it will be focused on the financial aspect.

Liberalisation of the capital market: the beginning of the crisis

Despite the problems with which the Swedish welfare system was confronted in the second half of the 1970s and early 1980s, many analysts (Jonung, 1999; Stephens, 1996) believe that the major crisis actually began in the mid-1980s, when the Social Democratic government implemented some structural reforms that created a situation in which the economy became overheated. Among these reforms was the liberalisation of capital markets and the deregulation of credit markets before the tax incentives, which encouraged loan-financed consumption and speculative investment, were removed (Kautto, 2000:17; OECD, 1994:99). Since the mid-1980s and through the 1990s, several large Swedish owned companies moved their home-bases abroad and more than 40 Swedish companies have been purchased by foreign investors

(Braunerhlelm et al., 2001). Through the 1990s, the number of employees in the Swedish owned groups abroad increased considerably. Central and East Europe were the places which had the sharpest increase. Between 1990 and 1997 the number of employees increased from 700 to 46 800 (ITPS, 2001). In 1997, the number of employees abroad in Swedish owned companies amounted to 627 000 which was 48 per cent of the total number of employees. In 1987, the corresponding figure was 39 per cent (ITPS, 2001). The figures show clearly that, as a result of deregulations in of the credit market Swedish firms moved grater part of their production, particularly in manufacturing sector, to low-wage countries.

Tax reform was implemented later, when it was long overdue, the consequence being an increase in the saving ratio among households and a subsequent rapid deterioration in the budget surplus, which was itself mainly the result of the boom in the overheated economy, rather than a product of continued growth. While in 1990 the budget balance had a surplus of 4.2 per cent of GDP, three years later, in 1993, it had changed to a deficit of 12.3 per cent (OECD, 1995). At the time, when the Swedish economy moved into recession, the Swedish Crowns also encountered downward speculative pressure. The Swedish monetary authority's key measure – the raising of interest rate to an historic 500 per cent in an effort to stem speculation – failed and it found that it had to abandon the 'strong currency' policy founded on a fixed exchange rate, and allow the Crowns to float (OECD, 1994:99). The banking crisis, however, had a decisive impact on public finances because the fiscal impact of supporting the banking sector amounted to 3½ per cent of GDP in 1993 (OECD, 1995). Reasserting control over public finances became the main priority of economic policy in the early-to-mid 1990s.

In 1994, despite the withdrawal of support from the banking system, which was badly affected by the crisis of 1992, the high level of deficit continued, however, after the implementation of corrective measures in mid-1995, savings rose to 7 per cent of GDP, and growth in exports allowed for a measure of fiscal consolidation and thus confidence in the economy to be re-established. The savings plan was a part of the first Swedish convergence programme, which was presented to the European Union in June 1995 and in which the elimination of the deficit by 1998 was described as the key strategic aim of fiscal policy (OECD, 1997:53-55). This plan to bring the budget

deficit down effectively succeeded. In other words, membership in the EU and the necessity of performing according to the convergence programme has encouraged the Swedish government to adopt certain clear economic objectives which have had the additional benefit of eliminating uncertainties in decision making.

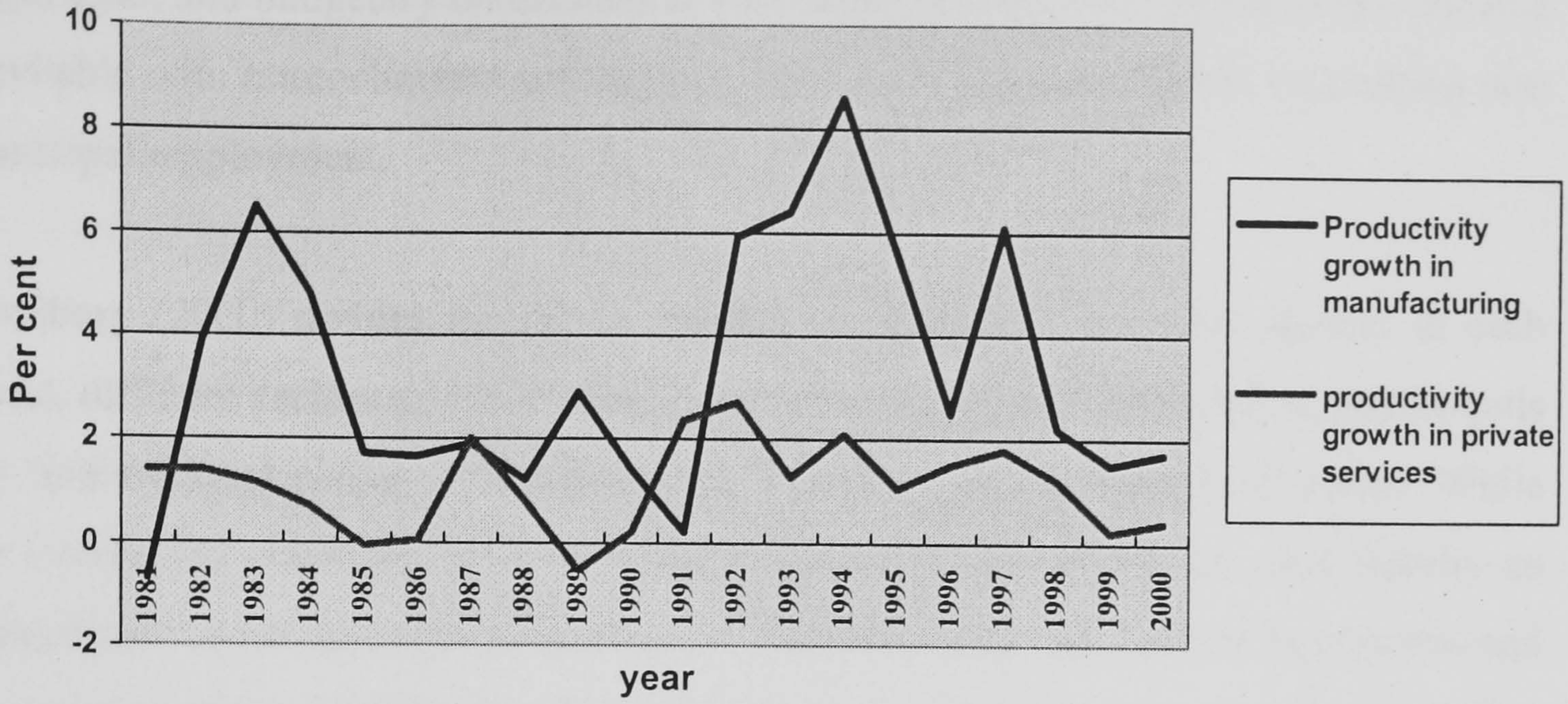
The emergence of unemployment in the early 1990s

The overheated economy caused by capital market liberalisation with rapid increases in wages and prices made the Swedish economy particularly vulnerable. As a result of an unsustainable inflation rise, the economic growth of the Swedish economy lagged behind other industrial countries, particularly those in the Far East, which were offering cheap goods to the market which made Swedish wages unsustainable. The malady caused by a sudden liberalisation of the capital market led to the emergence of a new liberal hegemony in Sweden in which, at the end of the 1980s, market forces demanded privatisation and greater competition (Gould, 2001). The market and bourgeois parties were determined to change the situation in the Swedish labour market, which by the end of the 1980s, was experiencing an extremely low level of unemployment because the expansive economic policy of the second half of the decade had created strong employment growth and – ironically – labour shortages. In 1989, more than 60 per cent of Swedish firms in the manufacturing industry had a shortage of skilled workers (Konjunktur Barometer, 1990). In the same year, Sweden recorded one of the lowest rates of unemployment in the world (1.4 per cent), the tight labour market and the momentum in economic growth seeing wages increasing strongly – and this in contrast to other OECD countries, for whom high unemployment rates kept wages depressed. As a consequence of the Social Democratic government's poor management in handling the economy and widening the gap between the labour market partners in the second half of the 1980s, it became more difficult to keep the balance between economic growth, inflation, and public spending. With rapid increase in public spending, then, many economists such as Södersten (1992), Eklund (1993), Lindbeck (1997) and Gould (2001:56), who for a while had criticised the public sector for being inefficient and having serious structural weaknesses, advocated structural changes.

In 1991, the new right-wing coalition government conceived its major task to be the depression of wages and price inflation, and thus the cooling down of the overheated economy. One major measure in this direction was to accelerate structural economic changes which were linked to the growing transnationalisation of key business sectors, changing patterns of corporate investment, and the heightened export dependency of Swedish producers (Pontusson, 1992). For the first time since World War II, a Swedish government ignored the commitment to full employment and let the Swedish labour market embrace greater efficiency in the utilisation of labour and capital. In an environment of high wage and price inflation, companies tended to intensify the process of substitution of capital for labour. This trend, which meant a parallel increase in Swedish market shares abroad and foreign producers' penetration of the Swedish domestic market, had a strong impact on the traditional make-up of Sweden's labour-market. Most significantly, the influence of both national government and trade unions on companies' labour policies decreased. One result of this was that Swedish productivity levels in terms of output per man-hour, which were weak in the two decades up to 1990, improved (OECD, 1999:33).

Because of the structural changes in the early 1990s, an upward trend in productivity was registered, which was even higher than the post-devaluation period (1981-84) productivity surge (Figure 4.1). In the period of overheating (1985-90), the average rate of productivity growth decreased in both manufacturing (1.7 per cent) and the service sector (0.5 per cent). The period of depreciation and restructuring (1991-1997) led to an increase in the average rate of productivity growth in manufacturing to 5 per cent, with even the service sector, despite the weak domestic market, showing a 1.8 per cent increase.

Figure 4.1 Productivity growth in manufacturing and private services



1. OECD estimates for 1999.

Source: SCB 1999, OECD 1999.

The consequence of these changes was an extreme rise in open unemployment, reaching a post-war peak of 8 per cent in 1993. Moreover, a further 6 per cent of the labour force was enrolled on various labour market programmes (Olsson-Hort, 1995:6). Between 1992 and 1995 more than 300,000 jobs, one tenth of all job opportunities in Sweden, disappeared. The job losses had not only occurred in the private sector, but because of retrenchment in the public sector, a large number of people have also lost their jobs.

Redundancies in public sector: exacerbating unemployment

Summarizing the discussion so far, it can be argued that, while the Social Democratic government's response to economic globalisation by liberalising the financial market resulted in a failure in the sense that an uncontrolled speculative economy replaced a highly organised labour market, with consequent high unemployment in the private sector, the bourgeois coalition adopted a policy which openly advocated comprehensive redundancies in public sector. The former trade union chairman, Stig Malm (interview), believed that the bourgeois coalition was handed 'golden opportunity' to implement its old desire to downsize the public sector. Here, as a result of the considerable rise in unemployment in the private sector, the government faced

huge budgetary constraints on public sector finance. As low inflation became the major goal, and budgetary consolidation was initiated, cuts in the public sector became inevitable with retrenchments starting in central state employment and proceeding into municipal employment.

Lundborg (2000) divides this labour market development into three phases. In each phase, different sectors of the economy were targeted. In the first phase, which he calls the 'international phase' (1990-93), unemployment grew in the export sector. While the overheated economy in Sweden led to increases in wage-levels, and thereby an expenditure crisis, demand in international markets decreased. The strong Crowns had also worsened the conditions of Swedish firms competing in the international market. In the second phase, starting in 1992, the economic crisis was caused by the high interest rate. High inflation, combined with a fixed currency exchange rate policy, led to high interest rates, which in turn caused a fall in consumption. The consequence of falling demand was unemployment in the domestic private sector, mainly in trade, transport, construction and manufacturing industries. In the third phase (1993-97), which predominantly occurred during a period of Social Democratic rule, the public sector was targeted. During this period, the employment rate in the public sector decreased by 20 per cent. These redundancies in the public sector have to be seen as a product of the economic crisis of the early 1990s, and the resulting large-scale fiscal deficit.

Table 4.1 Employment trends in Sweden, 1990 and 1998, employed persons

	1990	1998	1990-98	Change %
Private sector employment	2 816 000	2 652 000	- 164 000	- 5,8
Public sector employment	1 652 000	1 308 000	- 344 000	- 20,8
Of which State employment	394 000	220 000	- 174 000	- 44,2
Of which municipal employment	1 258 000	1 089 000	- 169 000	- 13,4
Total employment	4 468 000	3 960 000	- 508 000	- 11,4

Source: Labour Statistics (1997); Kautto (2000, p. 28).

By 1993, however, the unemployment rate began to level off although during the second wave (1993-97) the level of unemployment was constant and the employment crisis remained a major challenge despite the recovery in the export sector. During the 1990s, the rate of employment decreased from 83.1 per cent in 1990 to 74.2 in 2000 (Kommunaktuellt, 2001) with high levels of unemployment continuing, and peaking at

8 per cent in 1998. Since that time a new wave has started in which the unemployment rate has decreased quite rapidly.

The turning-point in employment

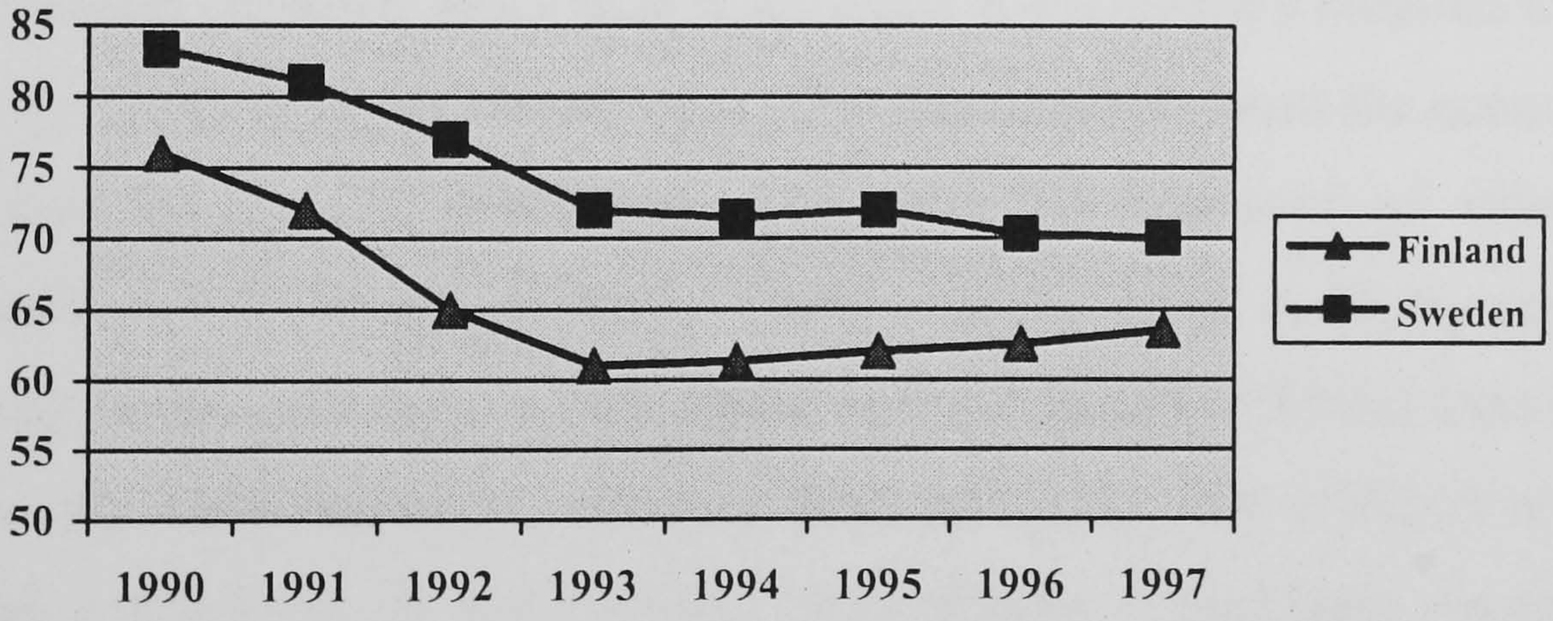
Towards the end of 1993 business fixed investment, which had declined for three consecutive years, started to rise. Elements of the service sector such as distribution, and financial and business services raised the most, and, until the end of the 1990s, had an expansion rate of 40 per cent. Manufacturing investment also showed a rise, though not of the same magnitude. Conversely, housing investment stagnated during the 1990s and only started to improve during the last years of the period, when prices started to rise (OECD, 1999:25). The increase in business fixed investment has to be seen in relation to the expansion of the domestic market, which in turn has increased the rate of employment, mainly in the private sector. Public investment, however, traditionally the major source for increasing employment at local level, declined considerably during the 1990s. The downsizing of the local government sector continued in the second half of the 1990s, with public investment falling by more than 20 per cent between 1995-97. However, from 1998 transfers from central government to local government to maintain the provision of services and employment have increased, with almost half of the increase in local revenues over the second half of the 1996-2000 period coming from these transfers. This policy has strengthened local government budgets considerably with the result that demand on both consumption and investment has increased (OECD, 1999:27-28; Lindberg, 2001).

The improvement of labour-market outcomes in 1998 has to be regarded as a result of increased demand, both in private and public investment as well as a result of increased consumption. After the start of the Swedish economic crisis in the early 1990s up to 1997, the broad labour market aggregates remained basically unchanged. Since mid-1997, the stronger trend in labour demand has lead to a considerable decrease in unemployment. In 1998, the unemployment rate fell from 8.0 to 6.5 percent, and in 1999 to 5.5 per cent. In 2000, the Social Democratic government almost achieved its goal of reducing the unemployment to 4 per cent. Besides continued economic growth, in the 1998 bargaining around wage growth shifted down

and was projected to lead to aggregate wage increases of around 3½ per cent a year up to 2000. The limited wage increase during the 1990s, including the last years of the period with growing incomes for the companies, played a significant role for the improvement of labour-market outcomes (OECD, 1999:28). While the structure industrial relations was certainly weakened, the SAF no longer being involved in central negotiations with the LO, as Meidner (interview) has pointed, the unions have concerned to restore economic stability and placed this priority above wage growth.

Despite these achievements, the drop in the Swedish employment level, which mainly occurred between 1991 and 1993, had not been fully recovered by the end of the 1990s. On the contrary, the process of the downward trend has continued, though at a slower rate. By 1998, the employment rate in Sweden was lower than it had been in 1993.

Figure 4.2 Employment rates in Finland and Sweden 1990-97, percent.

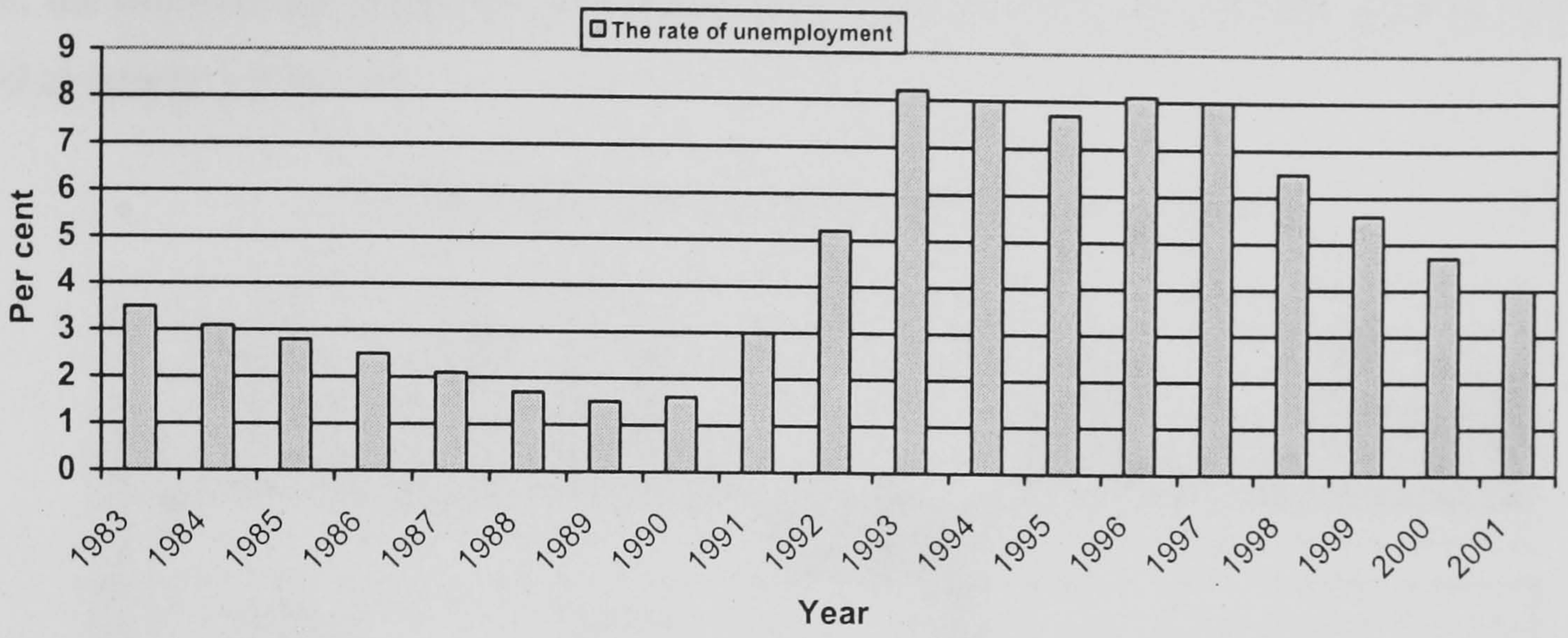


Source: Kautto (2000, p. 22).

As a way of concluding, one can say that although the unemployment crisis in Sweden started in the export sector and continued in the domestic private sector, its major effects were left in the public sector. The high level of redundancy in the public sector, which was started by the right-wing government but accelerated during the Social Democratic governments, showed that the traditional advocates of 'the strong state' found it difficult to defend the idea of large-scale welfare state employment as a measure to provide welfare services and increase employment overall. The redundancies attracted widespread criticism, mainly from union leaders (Malm, interview; Jönsson, interview) and scholars (Korpi, 1992), who described them as inappropriate because salaries were replaced by unemployment benefits, which were

also financed by the state. Since 1998, though, because of improvements in public finances, the employment rate in the public sector has steadily increased.

Figure 4.3 Unemployment rate, 1983-2001, percent.



Source: OECD 1999:22.

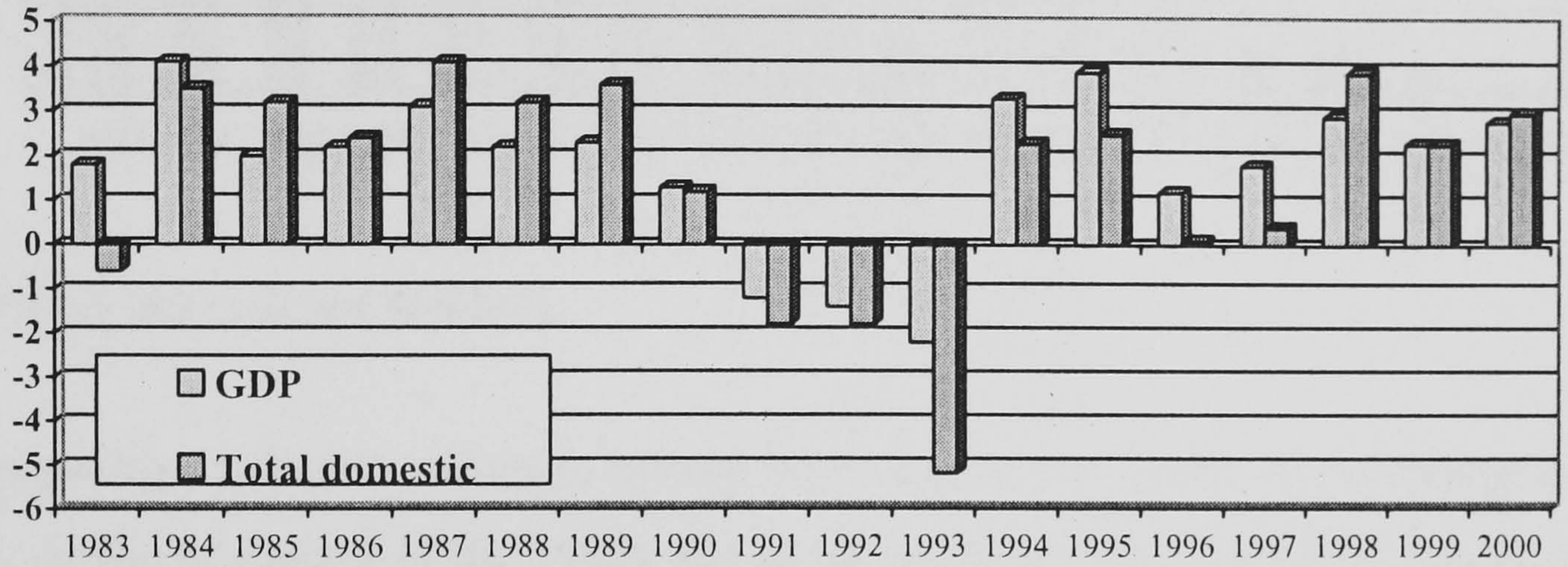
It is too soon to say whether job growth in Sweden will once again be a product of the expansion of public services or if the trend is a temporary measure to ensure a balance in the provision of public services. One can conclude from the economic policy of the Social Democratic government that, after the take-over of 1994, the Party was determined to recover economic stability at any price. A 20 per cent decrease of the employment rate in the public sector during a period of Social Democratic rule shows that the Party still sees itself as a 'national' party with effective management of the state's affairs as its first priority. Accordingly, if economic necessities dictate, the Social Democrats can be expected to adopt severe retrenchment measures in the public sector.

Rapid economic recovery

The great underlying strength of the Swedish economy meant that, despite a large budget deficit and extremely high expenditure caused by the high unemployment rate, relatively minor cuts in welfare spending were sufficient to prevent any financial collapse (Esping- Andersen, 2001). According to the OECD (1999:21), by the end of the 1990s, most Swedish economic indicators pointed to a performance above the historical average. The objective of bringing the projected deficit for 1998 to below 1

per cent of GDP was not only achieved, but the budget also showed a surplus of above 2 per cent. Economic growth, which had been either low or negative in the recession of 1991-93, as shown in figure 4:4, had increased, and with the exception of a rebound in 1996, the momentum in growth has been maintained. In 1998 the Swedish growth rate stood at nearly 3 per cent.

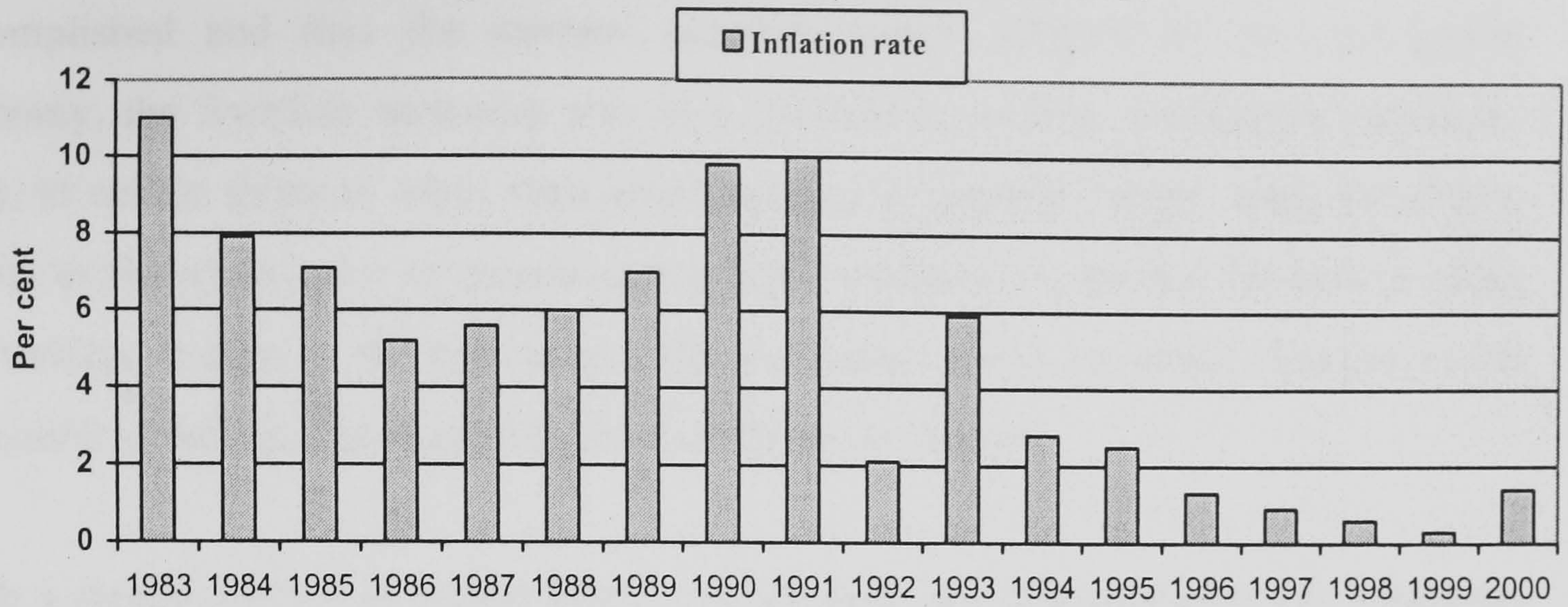
4.4 Output and income growth between 1983 and 2000



Source: OECD 1999: P.22

Another indicator of improvement in the economy was the inflation rate. Whereas during the 1980s inflation was high, the annual average between 1983-91 being around 8 per cent, the rate decreased during the mid-to-late 1990s to a figure of around 3 per cent. The goal set by the Bank of Sweden of a 2 per cent inflation rate (plus or minus 1 per cent) has been allieved and maintained. During 1997 the rate was down to 0.9 per cent and fell even lower during 1998. In 1999 it hit on 0.3 per cent. This has lead to low market interest rates, on both long- and short-term loans. The Swedish Crown's rapid appreciation from late 1995, in combination with the low interest rates, slowed consumer price inflation substantially (OECD, 1999:28).

Figure 4.5 Price inflation, between 1983-2000



Source: OECD 1999: p.22 and SCB 2001.

Another positive indicator relates to households' disposable income and consumption growth. At the beginning of the 1990s, the economic crisis had a negative impact on household purchasing power. Household disposable incomes, which were affected by the curtailment of transfer programmes, decreased during the 1990s. Even between 1995 and 1997, disposable incomes were reduced on average by 1 per cent a year. However, in the last years of the 1990s, by expanding employment and high real-wage growth, income growth turned positive and, as a result, private consumption increased to 2 -to-3 per cent per year. In addition, Sweden's substantial financial savings and the rise in the share of financial assets in total wealth from below 20 per cent in 1991 to above 40 per cent in 1997 has caused a considerable rise in households net wealth, and this has strengthened consumption growth. In contrast with the 1980s, increase in consumption was not related to the banks' borrowing strategy or an accelerating wage increase, but to a real growth in the economy, therefore it did not exacerbate the balance of payments situation. Throughout the 1990s, the LO was particularly careful in negotiations to set a wage-level sufficiently high to provide wage increases and equality, but not so high as to endanger full employment (Meidner, interview).

Impact on macroeconomic performance: towards market-friendly policies

Having jeopardised the economic stability of the 1980s by poor management, the political elite, especially the Social Democrats were determined to re-establish order in

the Swedish economy. Since the liberalisation of financial markets had been accomplished and thus the national economy partly adapted to the new global economy, the Swedish economy was in a position to initiate two further measures. First, to enable firms to adapt their strategies and production to the demands of new global economy in order to ensure international competitiveness and second, to adapt the welfare system to the new order. The discussion about structural changes in the economic system in this chapter focuses on these two issues.

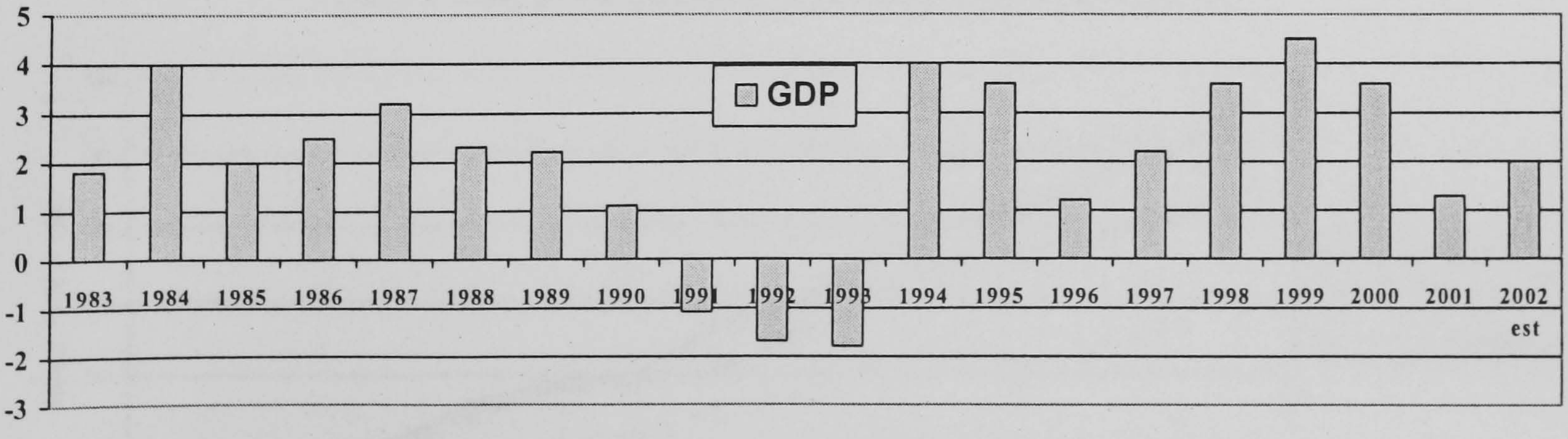
With a steady decline in public sector employment and changing attitudes regarding job growth, which almost entirely came to focus on generating new jobs in the private sector, the 1990s came to represent market-driven strategies in the Swedish labour market. While the main sources of growth in the Swedish economy were exports and the associated build-up in manufacturing capacity, the consequence of this strategy was to support the export industry by including measures which favoured the export sector. A favourable exchange rate position, combined with the development of aggressive policies on the part of the employers association, which aimed at containing wages, were behind the export growth. Exports increased from 28 per cent of GDP in 1990 to 46 per cent in 1998. On the other hand, imports also increased from 27 to 38 per cent relative to GDP (OECD, 1999:28-29). In addition to these changes, it should be mentioned that during the 1990s, certain changes in Swedish trade patterns have been particularly marked. First, an increase in Swedish market shares abroad, as well as foreign producers' penetration of the Swedish market, has occurred. Second, Swedish companies have expanded their exports to new markets. While the increase of exports to traditional markets in the European Union, the European Free Trade Area, and the United States, was 80 per cent from 1991 to 1998, exports to other OECD countries and countries outside the OECD increased by 110 and 140 per cent respectively (OECD, 1999:29).

The process implies that Sweden has increasingly deserted protectionist measures and has become fully integrated into the global economy. For the Swedish economy, which has always been strongly export-oriented, financial openness seems to have been an inevitable development even though it might restrict the state's capacity to manage its own political economy in the longer term. In this regard, it has to be emphasised that the critique against the Social Democratic government's policy regarding financial

liberalisation of mid-1980s should not be understood as a critique against the policy but the way it was implemented. By a gradual liberalisation the state and the companies as well as trade unions could have managed the process more effectively and prevented some of negative impacts it caused to the Swedish economy and labour market.

In 1998, however, export growth slowed because of the economic crisis in Southeast-Asia and Russia, but domestic demand, which had stagnated since the early 1990s, sustained the upturn. Two factors explain these demand shifts: the appreciation of exchange rates and the decline of real interest rates which started to occur in 1996. Since then, the credibility of fiscal policy has improved, and as a result, the real exchange rate has again depreciated, and the real interest rate has continued to fall (OECD, 1999:23). Export growth, combined with expansionary monetary and fiscal policy, caused an accelerating trend in GDP after 1994 which peaked at 2.9 per cent in 1998. Despite this positive change, the development of the supply potential in the Swedish economy has been exceeded by many other industrial nations. Since 1970, GDP in the fifteen European countries which now constitute the EU has grown by 90 per cent, and for OECD countries in general, by 110 per cent; whereas in the same period, GDP increase in Sweden was 60 per cent. By the same token, Swedish GDP per capita, measured in purchasing power parities, which was 25 per cent above the EU average, has fallen to the average (OECD, 1999:34-35).

Figure 4.6 Macroeconomic performance, growth in GDP 1980-2000



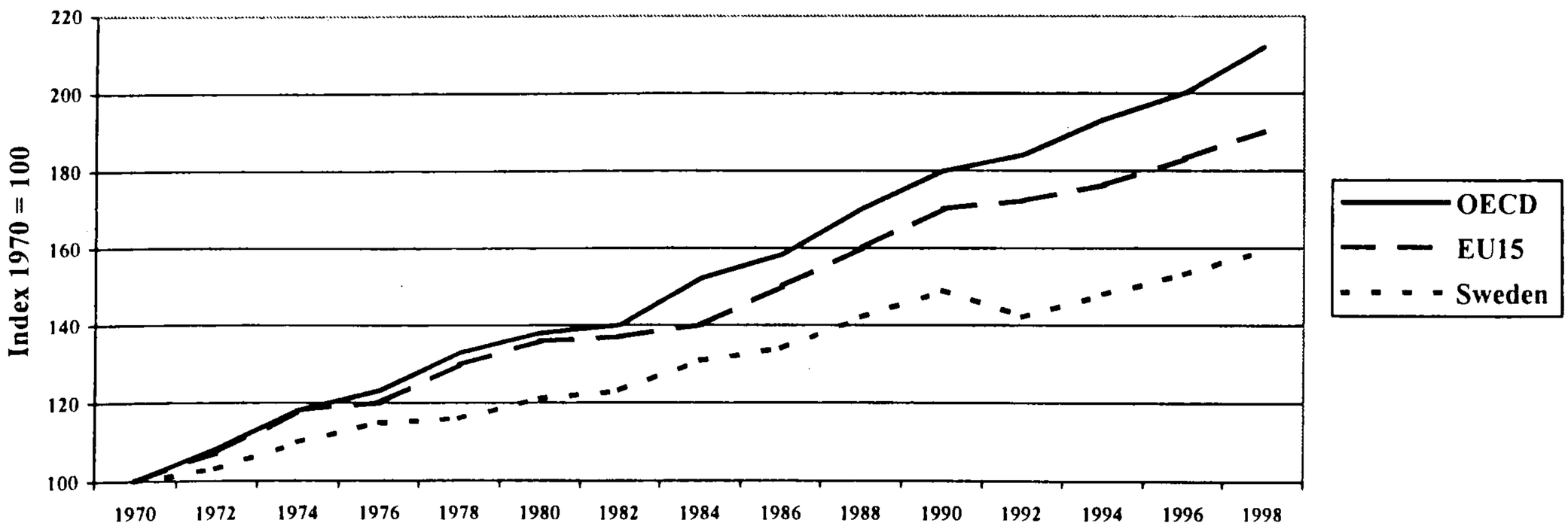
Source: OECD (1999, p. 22).

The main reason for the relative decline in the Swedish economic performance seems to be the fact that other industrial nations, which during the inter-war and immediate

post-war periods were not as successful as Sweden, have caught up with Sweden over the past three decades. Concerning the decline of GDP per capita, three factors have affected this rate: the growth of the rate of the working-age population relative to the total; the relative decrease in the employment rate, and the weaker labour productivity growth in the two decades up to 1990. However, on the latter indicator, the trend reversed during the 1990s, as productivity levels in the Swedish labour market increasing throughout the decade (OECD, 1999:33).

Despite this recent increase in Swedish labour market productivity, there is still doubt about its durability and permanence. Knowing that the main source of labour productivity growth in Sweden was either a higher input per employee, one-off rationalisation efforts during the 1990s, or a post-devaluation surge, doubt about the efficiency gains in the utilisation of labour and capital remain. The tendency of Swedish multinational enterprises to relocate outside Sweden can partly be explained by fears about efficiency problems in the Swedish labour market. During the 1980s employment in Swedish outlets of the Swedish multinational enterprises fell by more than 100,000, whereas in their foreign affiliates it increased by close to 200,000 (OECD, 1999:40). By the same token, the share of Swedish multinational production abroad increased from 35 per cent in 1978 to 55 per cent in 1994 whereas production in Sweden decreased by almost the same percentage. In the first half of the 1990s, however, the better climate for enterprises in Sweden has arrested the strong trend towards weakness in Swedish production, while increases in production and employment-taking place abroad have slowed down.

Figure 4.7 GDP growth and GDP per capita. GDP volume index 1970 = 100



Source: OECD (1999, p. 35).

A further major change has been the increase in domestic production for export. Between 1990 and 1994, domestic production for export increased by almost 20 per cent, which in 1994, constituted almost one third of the total production of Swedish multinational enterprises. Domestic production for the domestic market persistently decreased, from 40 per cent in 1970 to only 10 per cent of total production in 1994. The fastest decrease happened between 1990 and 1994 when production for the domestic market decreased almost by 50 per cent (OECD, 199:40).

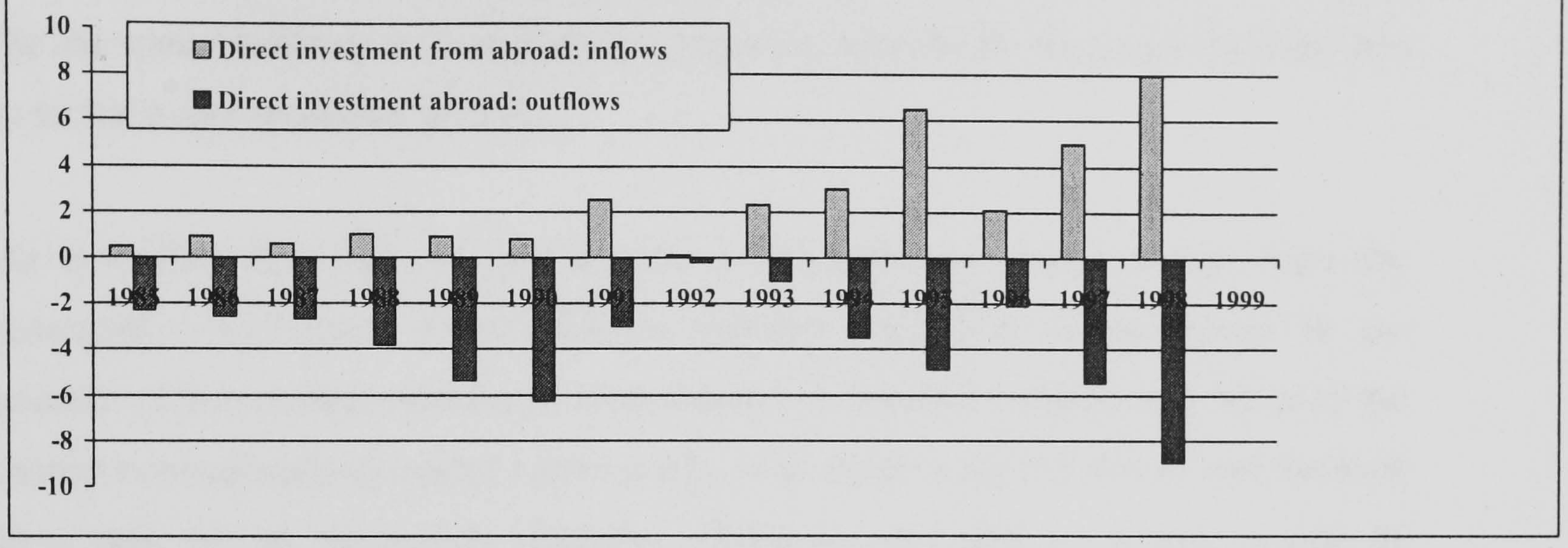
Figure 4.8 The distribution of Swedish multinational enterprises' sales in Sweden and abroad

Source: OECD (1999, p. 40).

Changes in foreign direct investment flows are another major factor which has had a significant impact on the Swedish economy. In the 1980s, mainly after the deregulation of the financial market in 1985, the net outward flow of direct investment was far higher than the stock of inward investment. Since 1991, however, the pattern has changed in two ways. First, throughout the 1990s there has been a balance in direct investment flow, and second, flows in both directions have multiplied. This suggests that the immediate threat against Sweden as a location for business and industry has decreased, but on the other hand, the establishment of a new industrial order in terms of production and industries can be perceived. While heavy industries like steel, pulp, and paper are concentrated in Sweden, the Swedish multinational enterprises abroad have concentrated on knowledge-based industries. It has to be said that the R&D intensity of Swedish units is still high, but what has happened is that the share of R&D undertaken in foreign affiliates has increased from below 15 per cent in the mid-1980s to 25 per cent in the mid-1990s. Foreign enterprises meanwhile, have increased their

R&D investment more than Swedish-owned enterprises (Modén, 1998; NUTEK, 1999).

Figure 4.9 Foreign direct investment flows, per cent of GDP, 1985-1998



Source: OECD (1999, p. 41).

On the whole, OECD economists believe that 'the larger international enterprises operate in a relatively favourable environment, but the economy still faces a major problem with respect to the service sector, and the development of small and medium-sized industries from domestic resources.' They also mention some other problems in the Swedish economy such as 'restrictive labour-market regulations, a complex and discriminatory tax code and high barriers to entry in areas where the public sector is still the dominant purchaser'(1999:43).

Consequently, it can be argued that the impact of globalisation lessened during the mid-to-late 1990s. While initially the different aspects of globalisation had certain impacts on welfare states these pressures eased during the 1990s and, as a consequence, it became possible to make adjustments to welfare policies which helped to retain major elements of the Swedish welfare system.

The orientation of economic policy in the 1990s heralded an end to the Social Democrats' traditional strategy, which used devaluations and an implicit income policy to improve the terms of competitiveness of Swedish industry. That policy failed to take Sweden out of its fiscal, profitability, and industrial crises without compromising the two major principles of full employment and a universal welfare state. According to Ryner (1994:277), 'the devaluation was to facilitate a reduction of

the public and the external deficit, without leading to an increase in unemployment and cutbacks in social programmes.' After 1991, though, the bourgeois coalition government started a process of changes in which the full-employment commitment was abandoned and welfare entitlements were cut back. Even the Social Democrats realised that, while the main sources of growth in Swedish economy are exports and the associated build-up in manufacturing capacity, support for the export industry has to be the major economic priority.

As is evident from this section, the aim of the economic policy was to leave the structural revitalization of the Swedish industry entirely to market forces. In the process of the internationalisation of production in Swedish industry, the realm of the market consequently increased considerably, with firms being allowed to lead the shift to a new set of production priorities. Moreover, the shift to a new regime of accumulation and globalisation of finance has become stronger, and as a result, the Social Democratic government had limited possibilities to exercise extended controls on market forces, especially on globalising corporations. An era of deregulation, cutbacks in social expenditure and services, and decentralisation of wage determination has developed, in which the Social Democrats, in a defensive position, were forced to retreat from some elements of their traditional policy. In other words, globalisation did matter, but mainly as a 'legacy' of the mid-1980s and early 1990s. As argued here, the core elements of the welfare system continued even though the pressure on the government to reduce the costs of the public sector increased considerably. The next section will focus on this issue.

Financing the Welfare system

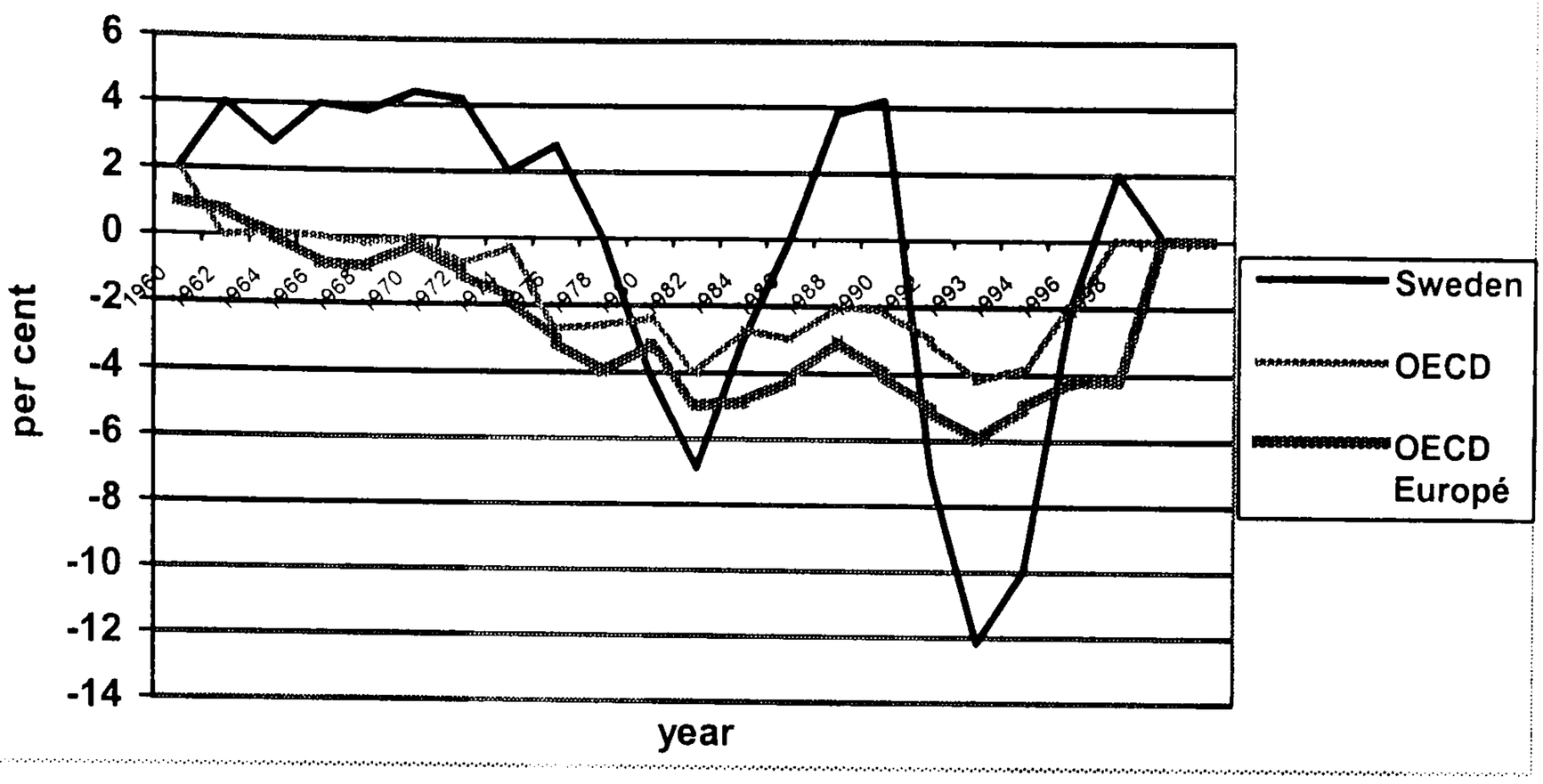
The comprehensiveness and generosity of the Swedish universal welfare model has required a high tax level to finance government transfers and public consumption. The government's involvement in providing a variety of services and in the provision of different kind of social insurances has strengthened the state and the public sector's position enormously. Government involvement in the economy is not only extensive but is also based on a great range of economic activities within the government sphere, which is uncommon in most other countries (OECD, 1997:66). To finance different

kinds of services in the areas of child, family and elderly care, social assistance, education, housing, health care, and the provision of social insurance via transfers to the retired, and compensation for short-term income loss, the budget and fiscal policy have had a more prominent role than elsewhere. In addition, knowing that in the universal welfare model social insurances and services have a strong redistributive purpose, the importance of a progressive income tax structure as the main source for providing for the expenditure of the system is clear.

However, the severe economic imbalance of the 1990s put this model of universal welfare under intense pressure, mainly because the generous and heavily redistributive system had a negative impact on the economy's growth rate, as well as incentive effects on the labour market and saving and investment behaviour. In the coming pages, government outlays for public expenditure and the exceeding liabilities of the sector will be discussed. For this reason, the focus will mainly be on the structure of public finances and social expenditure, and the economic impact of the tax and transfer system.

When the Swedish social insurance system was in place, by the beginning of the 1960s, the share of public expenditures relative to GDP was almost 30 per cent. The rate was a few per cent above the OECD average but it has increased rapidly and steadily since that time, reaching nearly 65 per cent in 1982 - almost 25 percentage points above the OECD average and 15 per cent above the average of OECD countries in Europe (OECD, 1999:100). As a result of the economic cycle in the mid-1980s, social expenditure experienced a downturn, but in the late 1980s, as a consequence of a fast growing economy which led to strong inflows of tax revenues, public expenditure rose strongly again. Despite the economic crisis in the early 1990s and weakened tax revenues, the upturn in social spending has continued at above 70 per cent of GDP. This time, the increase was not because of the generosity of the system but as a consequence of the steep rise in unemployment. As a result of growing unemployment, tax revenue decreased, and consequently, the gap between revenues and social expenditure increased. It was this decrease that led to the enormous budget deficit of more than 12 per cent of GDP in 1993 (OECD, 1997:53).

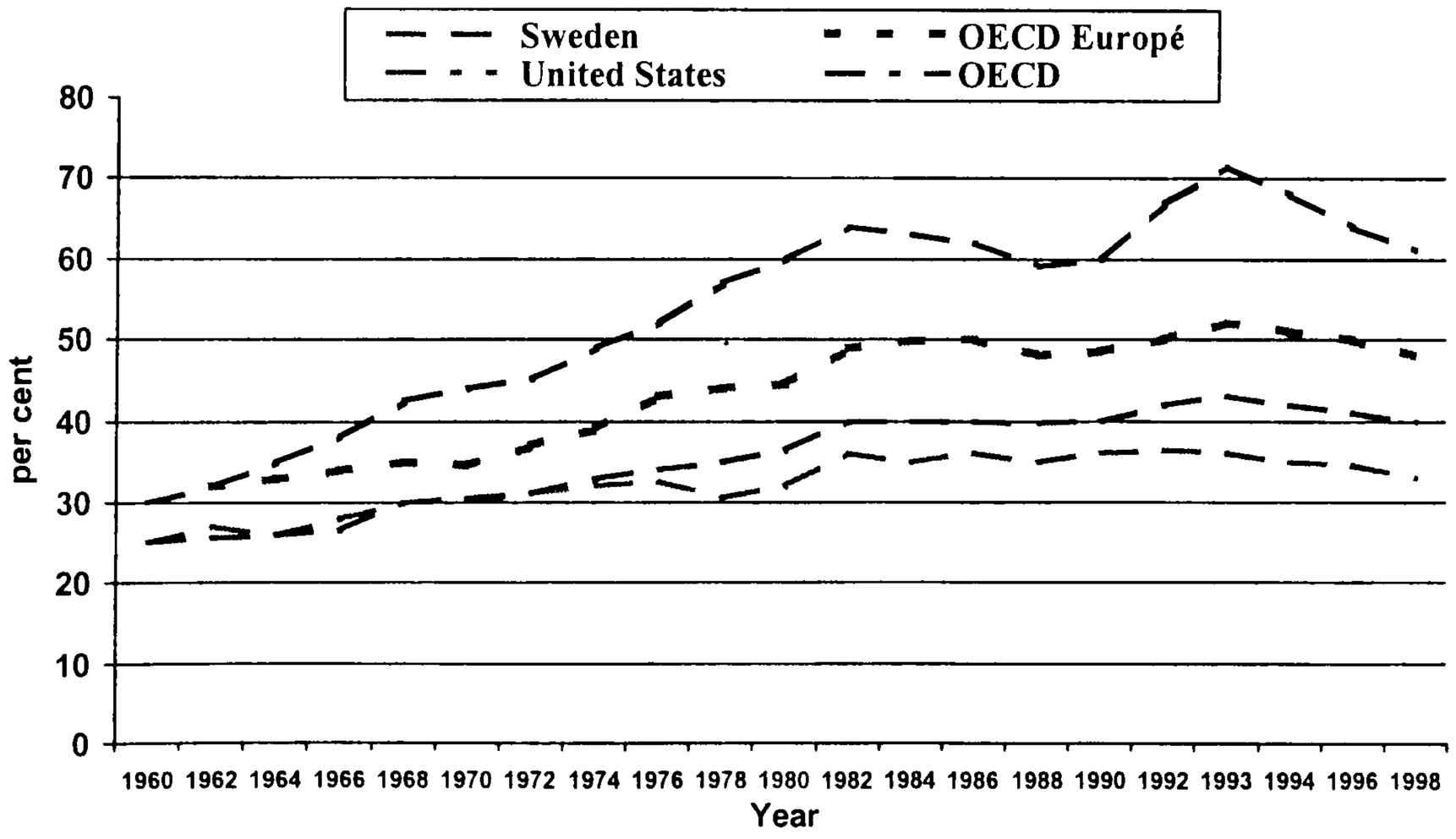
Figure 4.10 General government balance



Source: OECD (1999, p. 101).

To get public finances under control, the government had to tighten the transfer schemes. Since 1993 public spending had decreased steadily and by 1998, the rate was down to 60 per cent of GDP. By the same token, since 1994, the tax level has been increased by around 6 per cent since it was originally cut by the right-wing government in the early 1990s.

Figure 4.11 Public expenditure



Source: OECD (1999, p. 101).

It is worth noting that major savings were achieved by the Social Democratic government, which took office in 1994. While the bourgeois government made some limited savings during 1992 and 1993, the Social Democrats implemented a comprehensive consolidation programme which included both tax increases and expenditure cuts. Savings made by the Social Democratic governments amounted to 85 per cent of the total savings during the 1990s. According to Prime Minister Person (2000), two thirds of the savings were introduced during the first year of the Social Democratic government's return to power. Arguably, as Garrett (1993, 1998) suggests, when governments are in a strong position and believe that unpopular decisions will not cause major electoral consequences, they might pursue unpopular politics. After the victory in the election of 1994, the Swedish Social Democrats possessed the mandate, both from a majority of the voters and the dominating social movements such as the unions, that if necessary they should adopt some unpopular decisions in favour of the state's economic well-being. The Social Democrats, then, initiated some retrenchments, which were meant to retain the welfare state rather than destroy it. On the contrary, during the period 1991-94, when there was a call for a system shift and the economic crisis provided the appropriate conditions for such a shift, the bourgeois coalition government was divided on many issues, and were therefore unable to achieve essential reforms in the system (Gould, 2001).

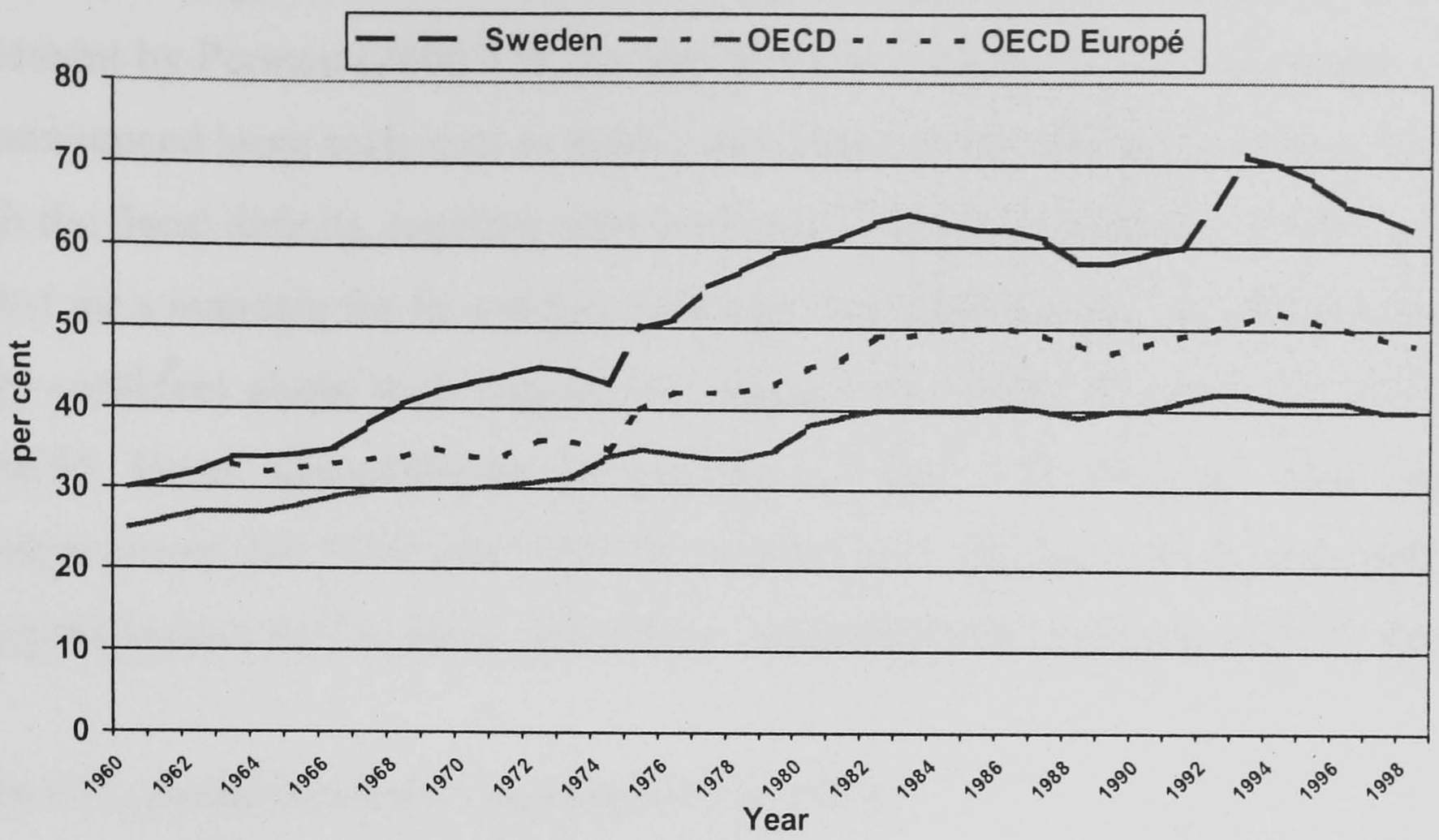
Table 4.2 Timing and impact of savings decisions in Sweden 1994-98

Saving decisions	Billion SEK saved
Saving decisions prior to 1994	19.0
Savings decided in November 1994	42.5
Budget measures 1995	39.7
Spring measures 1995	13.0
Spring measures 1996	26.0
Negative effect from decreases in incomes	-14.7
Total	**125.5**

Source: Swedish Ministry of Finance 1999, in Kautto (2000:43)

Consequently, the fiscal balance was improved from –10.3 per cent in 1994 to +2.4 per cent in 1998 (Ministry of Finance, 1999). The strengthening of the budget was the result of revenues increasing faster than expenditures (Kautto, 2000:42). During the period, revenue increased by 59.5 billion SEK, whereas expenditures decreased by 66.1 billions (Tema Nord, 1997).

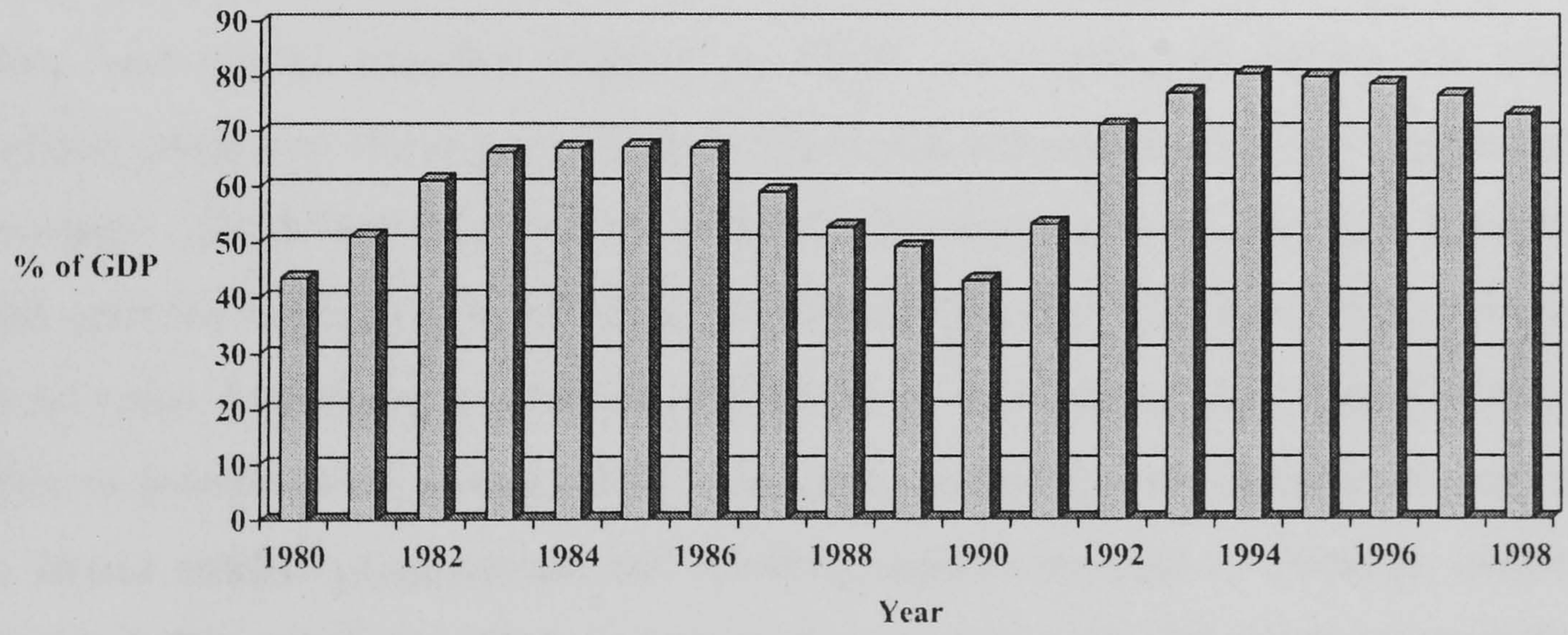
Figure 4.12 Total taxes, Including social security contributions



Source: OECD (1999, p. 101).

Between 1990 and 1994, gross debts increased rapidly from 44 percent of GDP to 80 per cent. As shown in figure 14, the deficit moved from a surplus of 5.4 per cent in 1989 to a deficit of 12.3 per cent in 1993. Comparing Sweden with elsewhere, it is clear that the Swedish economy was suffering long imbalances, and public finances were more vulnerable than in other OECD countries.

Figure 4.13 Gross debt of the public sector in Sweden 1980-98, per cent of GDP



Source: OECD Olis database (Summer 1999 update).

The main priority of economic policy for the Social Democratic Party was, therefore, to reassert control over public finances. Although, the large deficit in the general government's budget balance appeared during the right-wing government of 1991-94,

it was the Social Democrats who, despite their traditional association with generous public spending, advocated the severest tightening of transfer schemes. The famous statement by Persson (2000:57), the then shadow minister in financial issues, in which he announced large scale cuts in public spending and far-reaching tax increases to cope with the fiscal deficits, together with the Party's election manifesto of 1994 in which it called for a mandate for far-reaching savings, indicated that the Social Democrats were fully confident about their capacity to manage the public finances. To this end, the 1994/95 fiscal consolidation programme of Skr 126 billions, with temporary reinforcements for 1997 and 1998 by another few billions, which were designed to bring the budget deficit down, were more successful than expected (OECD, 1997:55).

Table 4.3 Central government's net lending, per cent of GDP

	Budget	Outcomes	difference
1993	-12.0	-12.3	-0.3
1994	-11.1	-10.3	0.8
1995	-10.2	-7.9	2.3
1996	-4.6	-4.0	0.6
1997	-2.6	-1.3	1.3
1998	0	2.3	2.3

Despite sharp retrenchments in the benefit system and large-scale redundancies in public services, in an international context, Sweden has the highest rate of government spending and social transfers relative to GDP. As mentioned before, in 1993 expenditure peaked at 70 per cent of GDP, which was around five per cent higher than in Denmark, which had the second highest percentage points. The gap between Sweden and the average level of other European countries has been 10 percentage points or more. According to OECD (1997:66-7) records, almost all types of income transfers in Sweden were above OECD averages; unemployment benefits as well as active labour market programmes, and housing support services to families, elderly and disabled. The only area which was below the average was early retirement benefit.

In the Swedish system, the overall transfer level to the working-age population is high and it increased from 8 per cent in 1965 to around 20 per cent in 1997. However three other countries have shown higher percentage points; the Netherlands, Finland and Denmark. The share of the population having transfers as their main source of income

also grew rapidly, being the highest among OECD countries in the 1990s. Whereas in 1965 around 15 per cent of household incomes consisted of transfers, in the middle of the recession, in 1993, that share rose to 38 per cent, falling back to 35 per cent in 1997. These changes show that the percentage of non-active population, relative to the active part of the population, has increased and by that, the heavy social contribution burdens put pressure on the economy (Table 5.4). Social services have also increased from 9 per cent of GDP in 1960 to 20 per cent in the early 1980s, although the percentage fell to 15 per cent in the late 1990s (OECD, 1997:66).

Table 4.4 Pensioners, benefit recipients and employment (1000 persons)

	1970	1980	1990	1997
I. Old-age pensioners	947	1 362	1 533	1 592
II. Working-age benefit recipients	606	835	1 009	1 286
Of which:				
a) Disability pensioners	188	281	354	423
b) Unemployed	59	84	69	342
c) ALMPs participants	69	121	140	269
d) Sickness benefit recipients	262	274	289	129
e) Family benefit recipients	28	75	157	123
III. Employed	3 529	3 736	3 968	3 567
Of which:				
a) Public sector	766	1 183	1 298	1 139
b) Private sector	2 763	2 553	2 670	2 428
Total (I + II + III)	5 082	5 933	6 510	6 445
Indicators:				
Non-active to active population [(I + II)/III]	0.44	0.59	0.64	0.81
Non-activity in the working-age population [II/III]	0.17	0.22	0.25	0.36
Total pressure on private-sector resources [(I + II + IIIa)IIIb]	0.84	1.32	1.44	1.65

Source: Swedish Employers Confederation, in OECD (1999, p. 109)

In short, from the public finance perspective, the economic crisis of the 1990s showed the vulnerability of the Nordic welfare model (Tema Nord, 1997:595). As unemployment increased, the number of people who were in need of financial assistance from the public purse grew enormously. While spending increased, revenues declined because there were fewer people in employment contributing to the public purse. Moreover, the declining activity in the industrial and trade sector led to falling

tax incomes to the state. The only way to solve the budgetary problem was to increase borrowing. Harsh cutback measures were then inevitable, not only to reduce the level of borrowing, but also to save the welfare state from future cyclical attacks resulting mainly from increasing cost pressures caused by the ageing population (Kautto, 2000:31).

In comparison to other countries, Sweden was not just exceptional in terms of its budget deficit, but because Swedish governments succeeded in balancing the budget. Balanced budgets were achieved from 1993 and were an effect of the consolidation programme. Success has been ascribed to the economic upswing, which created conditions for recovery, but, as many economists (IMF, 1999; Tema Nord, 1997) have stressed, policy adjustments played a decisive role in such 'unqualified success'. This may also show the strength of both the economy, which has a strong potential for growth, and the ability of the governments, who in circumstances of crisis have the possibility to reduce replacement levels of certain benefits to balance the budget. The Swedish tax policy was another significant tool available for governments to stabilize fiscal deficit. In this sense, personal income tax, as we discuss in the next section, has been the most important ingredient in the Swedish tax policy, which has been subject to change due to the financial state of the public sector.

The tax system in transition

Modern tax policy has been one of the most powerful tools available for governments to combat market-generated inequalities and to redistribute wealth. In this regard, the major emphasis has been placed on personal income tax and payroll taxes, which, since the turn of the previous century, gradually expanded, and during the expansion of the welfare state these two taxes have been familiar aspects of modern tax policy (Peters, 1991).

In the mid-1950s, the overall Swedish tax level was almost the same as the OECD average, but during the 1960s the increasing costs of welfare expenditure led to changes in the tax system and the introduction of new taxes. First, general taxes, in particular payroll taxes, became the major sources for the financing of the social insurance system. Second, in the late 1960s, general sales taxes were introduced, which rose quickly and were then converted to value added tax (VAT). In parallel with

these taxes, in the mid-1950s, employers' social security contributions were also introduced and raised steadily, the highest rate of 35 per cent being reached in 1980. As noted, income taxes and general consumption taxes constitute the major sources for financing the social insurance system. With the increasing cost, the degree of progression in the taxation system also increased, and so marginal tax rates for the wage earner, even those on average incomes, have increased dramatically. Marginal tax rates increased from 35 per cent in the 1950s to around 70 per cent three decades later.

However, to reduce the pressure on high-rate taxpayers, certain measures have been taken such as mortgage interest relief (the deduction of interest payments to borrowing for acquire owner-occupied houses).[9] By such tax credits, which were intended to stimulate capital investment, real marginal tax rates were lower than the high nominal tax rates, because a considerable part of the interest payment (40 per cent) was paid back to the consumer. This policy also favoured firms, because by investing their profits during periods of low activity, the effective rate of corporate taxation decreased, with the result that instead of paying statuary tax rates of 50 per cent, the effective rate ended up in the range of 20 to 30 per cent (OECD, 1999:109). However, the tax system was regarded as excessively complicated, especially by small and medium-sized enterprises, which were disfavoured in comparison to larger companies and had to pay higher effective rates of tax. The tax-reform of 1991, which embraced the principle of base-broadening and rate-cutting, also aimed to separate the taxation of capital income from labour income, but at the same time applied a uniform rate of taxation to capital income. This restructuring of the tax system in 1991, which led to lower tax rates, caused a revenue loss of around 6 per cent of GDP (OECD, 1999). According to OECD economists (1999:110), tax reform had two main aims:

> The main aim of the reform was to reduce distortions and welfare losses stemming from high tax rates and narrow tax bases and at the same time to alleviate the tax system of its redistributive role by increasing child allowances and housing benefits.

One major part of the reform was the harmonisation of the marginal tax rate on capital, which was brought down to 30 per cent, and the second one was the taxation of personal income, which would have the lowest rate at 30 per cent and the highest rate

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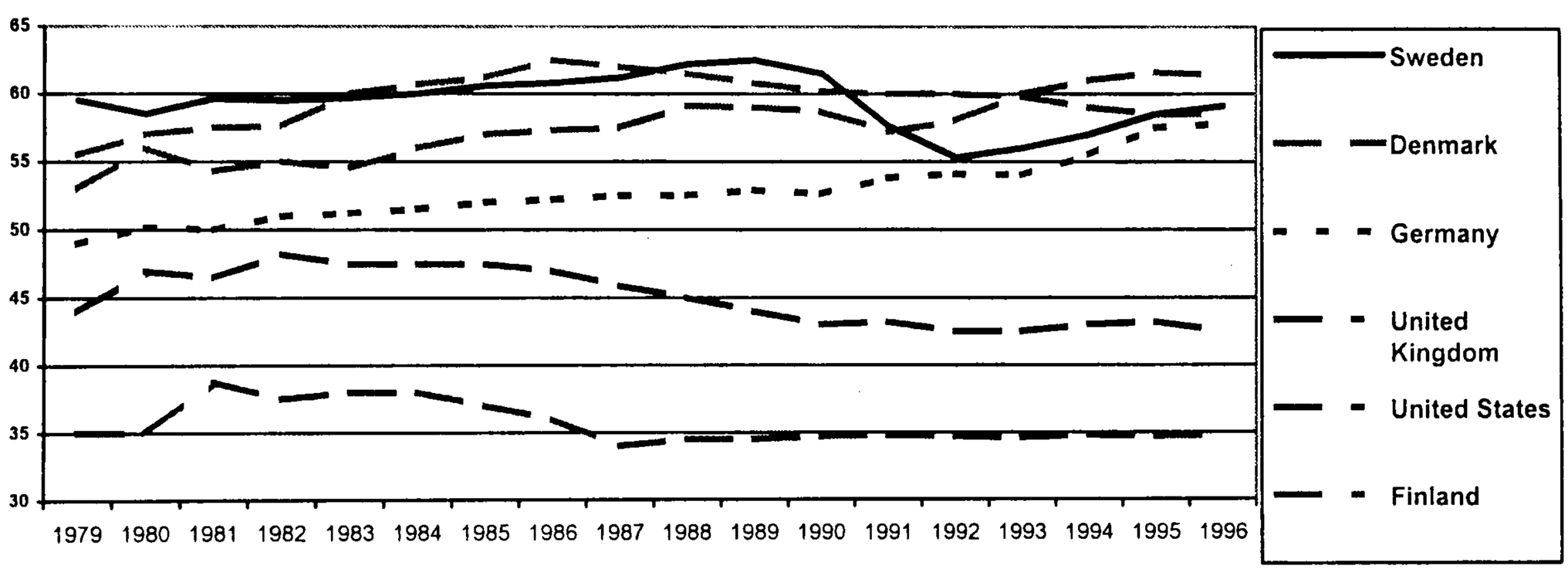
[9] The generous tax deduction for interest payments for buying a house or other property amounted to 40 per cent. With the tax reform of 1990, the percentage was decreased to 30.

at about 50 per cent. The two main methods of financing the reform were the reduction of the tax deductibility of interest payments (from 40 to 30 per cent) and an extension of the base for VAT. However, this reform was never implemented fully because the large budget deficit in the early 1990s prevented this occurring. In fact, personal income tax has increased considerably, with the result that the highest marginal income tax rate on labour income has ended up at around 57 per cent (instead of 50 per cent). Moreover, the percentage of wage-earners facing the highest marginal tax rates increased from 30 per cent in the early 1990s, to 40 per cent in 1998. A further measure was the introduction of employees' social security contributions, which by 1998 had reached 7 per cent. By these changes and others, such as the partial abandonment of indexation clauses, households lost 3 percent of their income (OECD, 1999:111). In consequence, the taxes paid out of wage income, which had fallen from 63 per cent in 1991 to around 55 per cent in 1994, rose again, to a figure on a par with Germany and Denmark, though a few per cent lower than Finland, by 1996 (Figure 4.14).

Figure 4.14 Effective tax rates, Per cent



Source: OECD (1999, p. 110).

Consequently, the main point concerning the tax policy, as the major tool for financing the Swedish welfare system, is that Swedish governments, especially the Social Democrats, maintained high taxes in order to retain the universalist and generous welfare system. As Gould (2001:52) has noted, in practice governments had real problems cutting public spending. On the contrary, they had no hesitation in adopting additional taxes to bring the budget into balance as a means of ensuring the financing of welfare arrangements. As Gould (2001:81) suggests, the Swedish Social Democrats'

'public thinking' made them restore benefits and services rather than prioritising taxations cuts:

> When the government went into the 1998-election campaign, it could have prioritised taxation cuts but explicitly set out the case for reviving health care, education and care for the elderly. This was in line with public thinking. For many, the people's home remained just that. It can even be said that it was being run more efficiently and was more cost-effective. But this did little to help the long-term unemployed, those on social assistance or recent influxes of refugees. This also was in line with public thinking. Some people were becoming excluded from the people's home.

Changes in income distribution objectives (redistribution policy)

Despite the continuity of high tax pressure, the level of income distribution decreased during the 1990s (SOU, 2001:79; Halleröd, 1999). The main reason for this trend was that a large proportion of the budget had to cover expenditures caused by high unemployment. At the same time, while the lower social groups were wrestling with difficulties caused by uncertainties in labour market, the wealthier were able to take advantage of the more favourable climate for capital income. Knowing that since the foundation of the modern Swedish welfare state, income distribution objectives has been the major aim of the system such deterioration should be as a challenge to the redistribution policy. Before the disruption of the 1990s the redistribution policy was achieved in two ways: first, short term measures were adopted to alleviate poverty, and were expressed in social insurance and social assistance policies; second, measures were taken to equalise economic opportunity in the long-term. These included the extension of education, increases in benefit levels to families with children, and special attention to old-age pensioners' welfare. Sweden has been recognised internationally as the country with the strongest elements of redistribution (Halleröd, 1999; Smeeding and Gottschalk, 1998; Björklund, 1998; OECD, 1999). The redistribution of incomes in Sweden has mainly been achieved through tax and transfers, and it has been calculated that the tax and transfer policy in Sweden has reduced the poverty rate by some 80 per cent in contrast to North America for instance, where the rate has been reduced by only 30 per cent. Despite the shock increase in unemployment in the early 1990s, transfers ensured that seven out of every eight people were kept out of poverty (OECD, 1988).

The redistributive role of transfers, in particular housing and family transfers, was increased by the 1991 tax reform. Less progression in income tax was intended to reduce vertical equity, which led to a reduction in the tax system's redistributive function. However, as a consequence of the severe labour-market imbalances, tax reform was not fully implemented, and since 1991, the tax level has been increased considerably, and by that, the redistributive effect of the tax system was reinforced (OECD, 1999:114). Overall, the redistributive features of the transfer and tax system in Sweden have protected the system of income distribution from the negative impact of cyclical influences, especially from the unemployment shocks in the early 1990s.

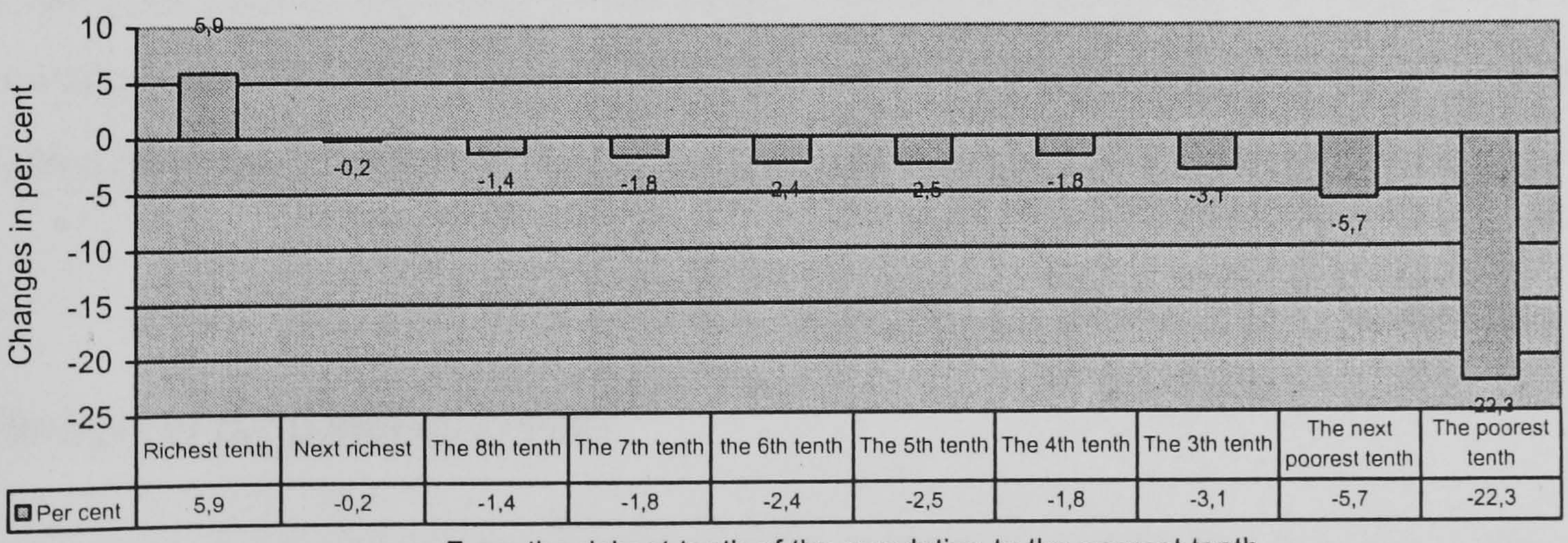
In 1997, taxes and social security contributions in Sweden remained at 54.1 per cent. That could be compared to the rate in the other member states within the EU, which had a rate below 47.5 per cent (Euro state, 1999). One of the factors which explain this difference is the trend in the Swedish welfare system towards an increasing rate of benefit-dependence in the working-age population. While in the mid-1960s, around 16 per cent of the population were relying on transfers, this percentage increased to 35 in the early 1990s. Population ageing reflects one half of the increase because pensions have increased most, but the percentage of the working-age population receiving other benefits has also increased. Statistics from 1996 show that 19 per cent of the working-age population received unemployment benefits, 11 per cent sickness benefits, 7 per cent disability pension, 17 per cent family transfers – mostly parental leave, 11 per cent housing benefits, and 7 per cent of the population received social assistance at some period during the year (OECD, 1999:117).

One possible interpretation of the increasing rate of benefit dependence is manifested in the bourgeois parties' criticisms of the system, which argued that the existing tax system prevented wage-earners from earning a living solely by virtue of their income. Others (Halleröd, 1999) hold up the universalistic and redistributive features of the Social Democratic model as an example of how benefits function to erode income differences. A third set of responses put the emphasis on the highly de-commodifying features of the Swedish welfare model, in which welfare entitlements are meant to promote an equality based on high living standards, rather than an equality based on minimum needs (Korpi, 1983; Esping-Andersen, 1990; Korpi and Palme, 1998). Because in the past two decades, as a consequence of financial reforms and increasing

speculations in the market economy which led to price inflation, Sweden, as many other industrialised nations, has experienced a trend towards increased income inequality, the state had to compensate for the worse off groups in society through different kinds of benefits.

Regarding increased income inequalities in Sweden in the 1990s, while the disposable family income for the richest portion of the population (a tenth of the population) increased by 10 per cent, the poorer tenth of the population reduced their disposable family income by 13 per cent. Taking into account the large number of youths who were unable to find a job and therefore had to stay with their family, reductions in disposable family income for the poorer group could increase to 34 per cent (LOb, 2000). Three major factors seem to have determined the widening of income differences. First, the rising unemployment rate, second, opposition to centralised bargaining, which encouraged wage flexibility and raised wage dispersion by 10 per cent between 1992 and 1999 (LOb, 2000), and, third, the deregulation of financial markets, which led to an increase in the gap between income from wages and income from capital, with the richest part of the population gaining hugely from growing capital investment. While between 1975 and 1998 the average annual rise in wages was 4.2 per cent, the average rise in the stock market was 24 per cent per year (Ahnland, 2001).

Figure 4.15 Changes in disposable income for different groups of people, between 1991 and 1998



Source: SCB, in Aftonbladet (8 January 2001).

This discussion can be summarised by noting that many observers (Nelander, 2001; Ahnland, 2001; Elmbrant, 2001) were concerned about the pattern of economic

development in the 1990s because of the widening gap between rich and poor, which they regarded as a major threat to the existing Swedish 'people's home' (folkhemmet). Along with financial, structural, and demographic problems of the matured welfare systems internationalisation and deregulation of financial markets were also considered to be significant changes that facilitated market speculation and thus favoured those with access to capital. On the other hand, the national government was successively deprived of essential supply-side policies to secure full employment, price stability and redistributive aims. Thus, in such circumstances, one can conclude that 'market failure' meant a sharp rise in the demand for transfers. Despite comprehensive savings in public expenditure, the traditional welfare state with its broad universal coverage and high income replacement rates continued to provide the bulk of transfers and services, although the rate of transfers were 10-15 below the highest rates of the 1980s.

Summarizing the discussion about structural changes in economic conditions one could argue that the economic crises, caused at least partly by globalisation, have been brought under control as governments adjusted economic policies (especially wages and union policies) in the light of the crisis of the late 1980s and early 1990s. It has also been argued that unemployment was at the end of the 1990s under control, and that Sweden's open economy is now able to exist in the international economic order. It seems that the Swedes solved their difficulties without resort to neo-liberal measures – so they retained their system and have 'endogenous control' of it. Nevertheless, there is one core endogenous issue that remains important for social and economic policy in Sweden, and that is the 'demographic crisis' anticipated as the baby boom generation comes up to retirement.

Changes in the political stability

Before the appropriation by the bourgeois coalition in 1976, the Swedish political system, with almost four decades by uninterrupted governance by the Social Democratic Party, was known as one of the most stable systems. Although the coalition of the three bourgeois parties did not accomplish any major changes in the welfare programmes, during six years in office (1976-82), it could with regard to

changing processes in other welfare states, start an important debate about the vulnerability of the expensive welfare provisions in Sweden. The changing power balance in Sweden in the late 1970s, which occurred both in the political sympathy to the two major political blocs, but also in relations between the labour market parts, had for the most the most part weakened the position of the traditional advocates of the universal welfare arrangements. For a long period of time these advocates dominated the political arena, had strong public support and could expand the universal welfare arrangements. However, in the late 1970s they faced their first real challenges. The changing power balance had serious impact on the future direction of the political establishment.

During the 1980s, the political debate in Sweden had changed its characteristic: it came to represent growing uncertainties about the ground pillars of the universalistic welfare system. The impact of the debate was so widespread that it made the Social Democrats, or at least an influential fraction in the top position of the Party apparatus, to advocate certain essential modifications in the economic and welfare policies. The party was then divided into two factions: the 'modernisers' who suggested far-reaching changes in welfare arrangements in order to adopt the universal welfare system to the new economic and social order, and the 'traditionalists' who rejected major changes and advocated limited programmic measures in order to make the existing system adapt to the new circumstances. As early as 1980, the modernisers in the Social Democratic party suggested a far-reaching reform plan according to which the welfare system would be adopted to the changing economic and political environment (Antman, 1993). The growing calls for changes in the welfare arrangements were obvious signs of a trend which represented a successive end of the famous historical consensus among the political parties and institutions in the labour market about the universal welfare state. It became clear that the system was no longer secure, but rather had become more fragile. Not only did conservative politicians reject the durability of the commitments to the generous welfare programmes but also in the intellectual debates a wave of disillusion regarding the persistence of the system in the changing world emerged (Gould, 2001). Although the broad popular support to the system had not been changed, the growing concern was whether the expensive universalist system could survive the major challenges it was facing.

For modernisers inside the Social Democratic movement the major reason for starting the changing process was changes in the domain values among the new generation who to a greater extent than before, were criticizing some authoritarian aspects of the comprehensive welfare state. According to Widar Andersson, one of the most active debaters among the modernisers, the relation between the state and the citizens had become mostly a top-down situation with great authority for the state and public sector intervening in every detail of the citizens' social life:

> By expansion of the welfare state the relation between the state and the citizens became increasingly unequal. The relation was based on a more patriarchal and hierarchical order. The system had arranged everything to the citizens. A major part of life for all citizens from the day they were born to the day they died was planed and performed by the state and the public sector. The sector, which was financed by the taxes, had established a great security system and every kinds of social service imaginable. Everything was planned for you from the first day you went to day nursery, through your schooling, your employment, and care system, elderly care. Everything was planned and organised by the state. The new generation could no longer accept such a paternalistic state and demanded changes and a new order. They wanted, for instance, to decide the school for their children, and the care for their ageing parents. The generation, which grew up during the 1960- and 1970s, launched the idea of self-administration instead of public administration. This was the first step towards a direction where demands for privatisation grew. For the Social Democrats it was difficult to accept such a change but as a governing party which for a long period of time had been in office, there was no other option than to adapt itself to the new needs, new desires and demands of the new generations. Social Democrats had always adapted their policies to new circumstances; so they had to do in this time, and what we suggested was exactly such adaptation and nothing else (Widar Andersson, interview).

The neo-liberal winds

Affected by the neo-liberal experimentations in other affluent democracies, particularly Britain and the United States, the advocates of the neo-liberal strategy argued for further essential changes to different aspects of the Swedish welfare system than what the Social Democratic modernisers suggested. The main critiques were directed towards the inefficiency, wastefulness and the self-aggrandisement of state bureaucracy. It has been claimed that political intervention distorted market mechanisms, a notion which was rejected by the Social Democrats that saw the welfare system as a form of investment in a competitive economy. According to neo-liberals, distortions were caused by generous transfer payments and the mounting tax burden, both of which acted as disincentives to productivity and industrial innovation. These two factors would also explain the sluggish growth of the Swedish economy in the late

1980s and early 1990s (Brunsdon & May, 1995). The generous benefits encouraged absenteeism averaging 25-30 days per year (Linton, 1991).

As a country with the highest tax burden of GDP in the world (55% GDP) Swedish employers faced payroll charges amounting to 43% of wage costs. The burden was also heavy on employees who faced marginal income tax rates of over 50%. Such high tax rates had a negative impact on the efficiency of the companies, who would lose in a competitive international economy (Hanson 1984 in Brunsdon 1995). Another burden to the enterprises was the extensive regulations, which according to the bourgeois politicians caused considerable disadvantage for the Swedish enterprises. The changes in the tax system and the abolition of the major parts of the regulation system became inevitable:

> Deregulation of the financial market and the tax reform were two important steps in the right direction, which was liberalising the economic system. It has to be emphasised that some of the regulations in Sweden were very old; they were invented in the 1940s. Regulations in the housing sector, for instance, were introduced in 1942, as a response to increasing uncertainty caused by the War. The regulations meant to prevent the increasing of prices. Therefore, these regulations were abolished at the end of the 1970s. The financial sector also had to deal with many regulations, which were now no longer relevant. The Swedish economy had the same problem regarding the tax system. With a high marginal tax, at about 85% as late as 1982 (in north regions at about 89%) the tax system had negative impacts on incentives to work. Due to the two tax reforms, implemented in the early 1980s and early 1990s, the marginal taxes decreased to about 50%. It was a widespread consensus about tax reforms, even if many economists and politicians, myself included, retrospectively criticise the order in which the reforms were invented. The tax reforms had to come first and the regulation of the finance market next. That could prevent the huge barrowing, which occurred in the late 1980s. The old tax system had a generous system of deduction (abetment) for interest costs, which is why the level of borrowing from the bank system for the purpose of purchasing buildings increased dramatically. The high rate of speculations caused by the bad timing in initiating reforms was the major reason for the economic crisis of the 1990s but, any way, the crisis was inevitable, it had to come but probably not in so large scale as it did (Bo Könberg, interview).

While the liberal politician tended to explain the changes in the economic system as a necessity in order to liberalise the influence of the state on the financial sector, the spokesman of the enterprises put the emphasis on the changing relations in the international order. Globalisation, according to an expert in the Confederation of Swedish Enterprises explains both the tax reforms and the deregulations of the 1980s. The Swedish government had no other option than to deregulate the financial market in order to make the Swedish enterprises more competitive:

> There was no other alternative for Sweden other than to open its border to the foreign capital and to follow for the outflow of the Swedish capital. If Sweden had decided to stand outside of the new global order, it would be the big loser because the country is in

> great need of international trade. Knowing that the Swedish market is very small and that the Swedish enterprises had historically been dependent on international trade one could draw the conclusion that without international trade the economic system in the country would have collapsed and the wealth needed for welfare failed to come. If in the globalised order the conditions for Swedish enterprise in the country deteriorate, then the companies will leave the country for a more enterprise-friendly environment. High tax levels, for instance, was one of the most important factors which made companies move the production from Sweden. Such a threat launched by the actors in the market – to leave Sweden – put the pressure on the Swedish governments to adopt a more enterprise friendly politic (Anders Morin, interview).

The need for liberalisation of the rules and regulations for the labour market was emphasised by the modernisers inside the Social Democratic Party, even though they rejected the notion that Sweden, until the 1980s, had a sort of closed economy with low level of mobility for the companies:

> In relation to the big economies in Europe, Sweden has always had a more open economy with great openness for deregulations, and for harmonisation of its economy with the rest of the world. While economies with greater home market, such as the French, German and Spanish, tend to counteract efforts subjected to harmonise the national economy to the others, in order to provide appropriate conditions for national firms to keep the national market in their control, the Swedish firms, in contrast, were mostly interested in operating in other markets. The Swedish enterprises were not interested in its home market, which was so little. Therefore, the Swedish firms have never been prevented by the state to be integrated in the international economy. The state has always been concerned to provide the best possible conditions for the large Swedish companies in order to compete with other international counterparts, which was viable by harmonising the Swedish regulation system in order to facilitate matters for the enterprises. I will emphasise that the deregulation of the financial market in Sweden was institutionalised according to an old Social Democratic view, which was adopted by Hjalmar Branting, who had rejected establishment of national border for the companies. The crisis of the early 1990s was not first and foremost a consequence of deregulations efforts or the political measures taken by the governments, but rather was caused purely by financial measures taken by the actors in the financial market (Widar Andersson, interview).

The 'traditionalists', who had strong support in the union movement, rejected the notion that the crisis was simply a consequence of financial measures. Some of them, such as Stig Malm, the then-chairman of the LO, blamed the modernisers in the government who had deregulated the financial market, which was widely believed to have led to massive speculation and consequently to unstable interest rates and currency levels.

> During the 1990s, the Conservatives were in power in many of the advanced economies such as USA, Germany, Britain and Japan, and the neo-liberal values dominated the international politic. While at the beginning of the period, the Swedish government was determined to stand against the pressures and to keep its own profile, which maintained a full employment policy, by the later part of the period the advocates of the harmonisation achieved grater influence and could perform some essential adoption to the ongoing processes in the conservative running economies. The deregulation of the financial market was one of the most important measures in that direction and led to the establishment of a casino economy in Sweden, with the bank crisis in 1992 as its most devastating consequence (Stig Malm, interview).

Deregulation allowed foreign investment by Swedish companies to increase considerably, which was not in the economic interest of the country and consequently disliked by the 'traditionalists'. In many cases, the investments made during the property boom in the 1980s were unsuccessful, and the banks that had experienced major credit losses expected the government to save them from a total collapse. The result was that the public sector had to pay for unsuccessful investments by the capitalist owners (Åmark, 1993). In 1991 and 1992 alone, the bail-out operation amounted to 75 billion crowns or 5% of GDP (OECD, 1994:129), all of which had to be financed by the public.

Downsizing of the big public sector and reducing public expenditures were the two other central themes which were stressed by the bourgeois. These measures would make it easier for the government to reduce tax pressure, which in turn would give the small and medium size enterprises opportunity to act more vigorously. Regarding welfare provisions, the advocate of radical changes mainly referred to the growing differences between the existing social and welfare programmes and real social demands as some of the major challenges to the system. The universal welfare system was designed to achieve ideals of universalism and equality in a society with a relatively homogeneous industrial working class. In a post-industrial society, the growing professionalisation and differentiation in the labour market have caused crucial changes in occupational structure. The job security for a majority of the labour force in manufacturing and the public sector has been replaced by more flexible adjustments in the labour market, which in turn has increased career uncertainty. Moreover, the structural changes in the 'model family', with a steady rise of divorced, single-people, and single-parent households have increased the pressure on welfare arrangements. As the needs among different social groups have intensified the welfare programmes and services have also expanded. To avoid the risk of poverty among certain social groups, the universal welfare system had to compensate the major part of income decline of these groups. Such a development made some of the political parties such as the Centre Party, which in the past had supported the generous welfare model, to be in favour of a basic security system:

> We have many social arrangements, which have emerged in different stages of the development of the welfare system. The problem is that the social arrangements are so widespread that the welfare system is not able to exercise its control on the whole system.

People can move from one benefit system to the other simply because they calculate that they will be better benefited by the other arrangements. The system did not emerged so that it could be misused for such purposes. I am not saying that we misuse the system but I am saying that we have become more careless. It was not meant that we would use the benefits system as liberally as many people do nowadays. The security system was built to support those who were in real need because of unemployment, occupational injury or sickness whereas now the system is partially used arbitrary. We need to reform the whole system in order to prevent such misuse and to make it sustainable for a long period of time. As the exiting system stands, we cannot afford to finance the growing costs of the generous arrangements. Therefore we suggest a return to a basic security system which would reduce the cost to far less than it is in the existing system (Birgitta Carlsson, interview).

As the political climate became more affected by the neo-liberal values, and the bourgeois parties' calls for changes increased, the political pressure on the Social Democrats also intensified. The public opinion polls since the election of 1988 had indicated a strong support for the Conservative party to approximately 30 percent, and far stronger decline for the Social Democrats to almost the same level, which increased the tensions inside the Social Democratic movement. The crisis in the Swedish economy at the end of the 1980s suffered from a high level of inflation and rise in wages and prices, causing the dividing line between the two major factions inside the social democrats to grow further. The 'modernisers', who had a strong position in the leadership of the party and also controlled the department of finance, admitted that the economic problem was, at least in part, caused by the expensive public sector (Feldt 1996). Before the election in 1991 they had recognised the need for cuts but did not achieve any while they were in office. Kjell Olaf Feldt (1996), the finance minister throughout most of the 1980s, believed that the level of transfers was too high, which both created a budget deficit and also impacted negatively on incentives to work.

The opportunity for system shift

After a long period of promotion of neo-liberal ideas, the advocates of a system shift to the Conservative and the liberals in front won the election of 1991. Even if the Conservatives could not achieve the levels which they did in opinion polls the four parties in the bourgeois front collectively achieved 10 per cent more than the Social Democrats, who managed to recover part of its decline but at the election landed around 38 per cent. A weak Left party that reached just above 4 per cent of the votes and an Environment party that failed to gain the support of 4 per cent of the electorate,

which was needed to enter the parliament, the Social Democrats did not have enough support in the parliament to form a government. The road was then clear for the bourgeois parties to build the coalition government, but since the coalition failed to achieve a majority they were reliant on the support of the anti-immigration party, New Democracy. While the Liberal Party rejected any form of cooperation with the New Democracy it became clear that the Bourgeois government had to be a minority government. This meant that the coalition could fail if all opposition parties voted against its policies.

Despite the lack of clear-cut support for the Bourgeois government, which put it in an unfortunate position, the neo-liberal strategy was declared and the new government addressed its intention to change in some significant areas. Although the major challenge to the Swedish public economy came more than one year after the take-over by the new government when the budget deficit, as a result of steeply rise of unemployment, increased dramatically and the national debt stood at 80 per cent of GDP, the bourgeois addressed the expensive welfare arrangement as the major reason for economic unbalance. They stressed the rising costs of public expenditure and within that the generous level of social insurance benefits, such as sickness, work injury, early retirement and unemployment benefits as the main factor, which caused the economic problem. The burden of the public sector on the private sector was, according to the Conservative MP Sten Tolgefors, too heavy because the number of people who either were employed in the public sector or were dependent upon welfare benefits had risen enormously, from 2.5 million in 1972 to 4.7 million in 1992. As a result, in twenty years, the ratio of people dependent upon welfare benefits in proportion to those employed in the private sector rose from 0.9 to 2.3. Despite that, the changes in the welfare system were not as widespread as one would expect. The Conservatives placed the blame on the parties in the middle, particularly on the Liberal Party:

> The reason that we could not achieve greater changes in the area of social policy was partly that the department of social affairs was governed (controlled) by another party in the coalition and not the Conservatives. Apart from that it is also important to know that in that period of time the need for changes in social arrangements had not been sufficiently debated. Therefore, the support for changes in the public debate was not as widespread. What I can say is that at the end of the 1990s when we (the Conservatives) ran the Stockholm city council, we were able to make some radical changes in the welfare system. It has shown that our party took these issues seriously.
> *- But during the coalition government, the Prime Minister Carl Bildt was the leader of the Conservatives?*

> Yes, but the social department was run by others. The parties in the coalition had different views about the welfare system and social policy arrangements and that made it difficult for the coalition to reach an agreement about a reform strategy for the welfare system (Sten Tolgfors, interview).

Among the parties in the middle the Liberal Party was the one which addressed the lack of willingness to change the then-existing welfare arrangements. Even though the Party advocated large-scale liberalisations in economic aspects and supported a document (Ny start för Sverige, 1991 in Gould, 1995) published by the conservative party before the election in 1991, in which a 'system shift' was recommended, in government, it acted as a defender of the universal welfare system and opposed major cutbacks in expenditure. Moreover, while the Party emphasised the need for pluralist provision and greater individual choice, in office, it nevertheless rejected the idea that individuals could best provide for themselves (Nordh and Westerberg, 1993). The Party was determined to keep most aspects of the welfare arrangements. By insisting on having control of the social department the party leader, Bengt Westerberg, secured almost whole welfare arrangements and even introduced some new reforms. His deputy in the department, which also led a committee for reforms in the pension system, rejects the critique that the coalition did not accomplish any considerable change of the system:

> The changes we accomplished in occupational injury insurance were crucial. The prognoses suggested that if the old system had continued, by the year 2000 the accumulated deficit in the occupational injury fund would reach to 100 billion Skr. The reforms we made in the system prevented such development. In other areas, such as sickness insurance, we adopted one waiting day before the benefit could be claimed. In the dental service insurance we made some deterioration as well. The other major change we made was the reform to the pension system, which has to be recognised as one of the greatest changes to have ever occurred in the Swedish welfare system. Despite these changes I have to admit that there were great differences between the coalition parties in many welfare issues, for instance in the pension system and that was the reason why we could not achieve more changes. From the Centre Party, which advocated only a basic pension to the Liberal Party, which suggested pension system based on income-compensating principal (Bo Könberg, interview).

The liberal Party's refusal to dismantle the existing Swedish welfare state should not be seen merely as the party leaders' commitment to the welfare state's traditional values, but also to be understood from at least two other perspectives, which seemed to have an impact on the party's position. First, despite the economic difficulties and the growing attacks of many neo-liberal economists and the Conservative politicians on the existing welfare system, support for high public expenditure and the idea of collective state provision did not fundamentally change among the Swedes between

1986 and 1992 (Svallfors, 1994). The generosity of universal benefits was supported by a majority of people and it was therefore difficult for governing parties to make potentially unpopular decisions. Second, the public sector employed one third of the labour force. Those employed within the public sector would for obvious reasons punish those parties, which threatened the size of the public sector, because any reductions might affect their jobs.

Birgitta Carlsson, the representative for the third largest Party in the coalition, the Centre party, admits that there were disagreements between the coalition parties about many things. At the same time she stresses other factors which explain the poor performance in transforming the welfare system:

> It is true that we have done just minor changes in the welfare system. It is also true that the parties in the coalition had different views about many issues but that was not the major reason for the poor performances, because we could discuss and make agreements about different issues. In my view, the bad economic situation was the main problem, which prevented us from initiating an active reform policy. We had to handle with two major economic problems: the banking crisis and the rapid increase in unemployment, with budget deficit as its consequence. Apart from those three years in office was a short time for the coalition to invent a widespread transformation of the welfare system (Birgitta Carlsson, interview).

However, the critiques of the Swedish welfare system have caused some cuts to services and benefits, which began during the centre-right government (1991-94). More than two hundred thousand jobs in the public sector have been phased out and the level of welfare benefits decreased by 10%. In the same period, a degree of choice and pluralism has also been introduced. While reductions in the level of benefits could reduce the actual budget deficit, the widespread redundancies in the public sector had no obvious effects on the budget deficit simply because the wages paid to these employees were replaced by unemployment benefits. That made the then chairman of the LO, Stig Malm, believe that the large scale retrenchments in the public sector and welfare benefits during the centre-right government had ideological reasons rather than pure economic ones. The changes, according to Malm, were started in the final years of the Social Democrats' term in office, as a consequence of the retreat of the political establishment in Sweden against the neo-liberal values:

> It was not the Bourgeois coalition but the Social Democrats which prior to the 1991 election, by changing course in employment policy, had put the emphasis on lowering the inflation rate. Traditionally, the Social Democratic movement had been a great supporter of full employment strategy and to achieve other aims, such as lowering of the inflation rate, was not its main objective. In converging to the liberal economies the last the Social Democratic finance minister, Allan Larsson, abandoned the full employment policy. The

Bourgeois government, then, completed the project by giving the highest priority to the savings through cuts in welfare expenditures. The savings in the public sector resulted in hundreds of thousandths redundancies. The measure did not solve the financial problem for the state because the government had to pay unemployment benefits to the redundant instead of paying wages. The difference was that you expelled a large number of work forces from well-needed services in elderly-care, childcare and other public services, and forced them into a passive form of living. This policy could only be explained by ideological reasons, and that is the liberals' effort to make the size of the public sector smaller in order to further cut taxes. That was a liberal policy adopted from Thatcher-administration, which the Swedish Social Democrats and right-wing coalition copied (Stig Malm, interview).

The idea that the extensive redundancies in the public sector had their origins in the ideological changes which intended to downsize the public sector in order to reduce tax pressure is something that others have also pointed out. Long before the crisis of the 1990s the Social Democratic economists in the department of finance planned for a comprehensive tax reform, which was meant to be an essential part of the adaptation of the Swedish tax system to the neo-liberal order in the international market. Although the tax reform was a defensive measure initiated by the Social Democratic government in the late 1980s the centre-right government could, without any hesitation, implement it. Downsizing the public sector through redundancies had been the subject of much debate among modernisers. Widar Andersson supports the large-scale retrenchments in the public sector, but has added further arguments which differ from the Bourgeois. Instead of stressing the need for reducing the costs, the modernisers in the Social Democratic Party put the emphasis on reallocations of resources and efficiency of the labour force in the public sector:

> The Swedish Social Democrats have always supported the efficiency measures taken by the Swedish firms and institutions in the public sector. The key notion has always been that the allocation of the resources, such as the labour force, has to be done in the most effective way (Widar Andersson, interview).

The consensual political culture

Within the general picture outlined in the previous sections, it would be fair to expect that the majority of the political elite in Sweden would support the new political measures designed to tackle the problems arising with the mature welfare state. The problems are caused either by high public expenditure and demographic changes, or are a consequence of the challenges, which were appearing as new decisive factors identifying the changing conditions for the future of the welfare system. In reality,

however, the impression in the early 1990s was that, despite the decreasing level of welfare benefits, the social democratic political culture of the welfare state never really changed. As Heclo and Madsen (1986) noted, the social democratic welfare state project had become 'the nation's project' and, therefore, far-reaching changes in the arrangements would face widespread protests over social classes. Accordingly, when the process of making savings in welfare expenditure was started in the early 1990s, not only the unions opposed the cutbacks in the size of public sector services and benefits, but also a majority of the political elite opposed far-reaching changes. Beyond the Social Democrats, which nearly accepted that expenditure cuts were necessary to cope with the budget deficit, other parties in the Bourgeois-coalition, especially the Liberal Party, also rejected efforts to dismantle the Swedish welfare state.

In other words, despite retrenchments in the welfare system, political support for the universal welfare policy has remained strong. As Uddhammar (1993) emphasises, there has always been a consensus and broad agreement in Sweden between the Social Democrats and the bourgeois parties about the content of the welfare state. Therefore, the four-party bourgeois government, which governed the country between 1991 and 1994, supported the principles of universal policy. The coalition has in its proclamation clearly declared its support for the system:

> Welfare policy in Sweden is in a large part universal...The alternative to the welfare state is a selective system aimed at supporting only those suffering the worst condition. Such a system has many drawbacks. It requires more testing and control. Someone has to decide who has the right to assistance and who does not. This leads easily to bureaucracy and to investigations that violate integrity. A selective system also creates marginal effects. Benefits fall as income rises. Many people risk falling into the poverty trap. The fundamental ideology of the welfare state, based on universalism, shall serve as guidance in the future as well (Records from the Swedish Parliament, Regeringens proposition 1991/92, no. 100, appendix 6, p. 5 in Rothstein, 1998: 21-22, translation).

One of the main reasons for the existence of the consensual political culture is the kind of the political system, based on representative democracy, in which no party could solely receive the support of a majority of voters in the parliament. The need for co-operation with one or more parties to establish a majority made the reigning parties in government more cooperative. According to this view, the government simply were compelled to cooperate in order to gain majority for their programmes. If the Swedish political system were like Britain's, in which one of the two major parties could gain a majority, then the need for consensual decision-making would not appear crucial.

Another explanation is that the Social Democratic Party has dominated the Swedish political system in modern times, especially in the period after World War II. While the party itself was formed as an alliance of conflicting social and class interests, such as both white-collar and blue-collar unions, as well as the radical and moderate ideological streams, it brought the consensual culture within the Social Democratic Party into the whole political establishment. In developing the modern welfare state the Party has become a 'national representative' by seeking nation wide solutions with the involvement of a wide range of social and political interests. Knowing that in the political map, the Social Democrats have been located somewhere on the centre-left one could argue that it was easy for the Party to cooperate with both sides either with the Left Party or with the mid-parties (the Liberal Party or Centre Party). There are others who believe that consensual culture was first and foremost something, which developed in the relations between the parts in the labour market and that then affected the political system:

> The Social Democratic Party has hugely impacted the Swedish political system. When the consensual culture in Sweden is debated the impacts of the Social Democrats on the political system and the relations of this leading party to others must be stressed. Otherwise, when you compare other parties you will realise that there is not so much in common between the Conservatives and the Left Party, or between the liberals and the Left Party. I think the image of the consensual culture in Sweden particularly depicts to the relations in the labour market, which for a long period of time has been based on consensus and, different sorts of agreements, which were held for a long time. It refers also to the fact that the labour market parts never wanted to use the conflict as a political weapon, instead they could almost always reach agreements through central negotiations, thereby preventing strikes and other kinds of conflicts. In the political aspect, however, I will emphasise that the Swedish political system, with exception of the period 1995-98, has always had relatively strong bloc politics in which the differences between the two major blocs were very clear (Ingrid Burman, Interview).

Having two political blocs with clear ideological differences does not mean that the political culture in the system is based on conflict. What matters is how the political actors act in the process of policy formulation, followed by decision making. In this regard, as I argued above, the consensual culture has dominated in Sweden. The consensual relation in the labour market, to which Burman refers, is nothing else but the effects of the political consensus in the labour market. For instance, during the reign of the Bourgeois coalition, although the Conservative Party had been critical to the existing welfare system, they never tried to dismantle the system. They were also aware that any attempt to challenge the basic principle of the universal welfare state could jeopardise the co-operation in the bourgeois bloc. Consequently, the cutbacks agreed by them in office were less comprehensive in comparison to what the Social

Democrats subsequently initiated. On the contrary, as Rothstein (1998:22) emphasises, the changes caused by the Social Democratic government's policies, both between 1982 and 1991 and also after returning to power in 1994, were more far-reaching because of the reduced compensation they introduced in various social programmes. These cutbacks, such as reductions in unemployment and sickness benefits, a higher retirement age, lower subsidies to municipal service and a reduced number of vacation days, actually threatened the principle of universal welfare provision.

While the consensus within the political establishment has more or less remained the same, as both the Bourgeois coalition and the Social Democrats were in agreement about some measures to control the rising budget expenditure, in the labour market, the historical compromise between labour unions (LO) and employer organisation SAF came under considerable pressure. Moreover, the relation between LO and the Social democratic party, which historically had been close, gradually weakened. The challenges to the corporate system as a crucial political base to the welfare system was not a result of the Bourgeois government's consideration in weakening the influence of the unions, but it was an initiative taken by the SAF, the employers' federation, which did not follow the same approach as the Bourgeois parties. As the former chairman of LO stated, the SAF was determined to disengage the trade unions from all national corporatist bodies and thereby terminated its long-term cooperation with the LO.

> Since the early 1990s the SAF terminated their co-operation with the LO. They have withdrawn representatives from the boards of all state agencies. They will no longer have negotiations with us at the central level. We have no doubt that the SAF has changed its policy towards the LO and intends to ignore us in the labour market. The old consensus between the two parts is gone. It seems to me that the SAF is taking advantage of the superior position they believe they have got as a consequence of the ongoing process of globalisation. While the companies are moving from Sweden without any restrictions the SAF sees no reason why it should continue to negotiate with us. It seems to me that the SAF intends to take revenge of the LO for its radical demands in the past, such as the support to the wage-earner funds, the right to the co-determination and so on (Bertil Jönsson, Interview).

It was also the SAF which recommended changing the labour laws in order to make it easier for the employers to fire undesirable employees and to provide temporary employment. Moreover, it was due to the SAF's pressure that the Bourgeois government abolished the trade unions ban on co-determination and certain changes in strike rights were made. The most important changes which the Bourgeois government accomplished were the abolishment of the wage-earner funds. Knowing that the establishment of these funds in the beginning of the 1980s caused the first ever

political manifestation by the capitalists in Swedish history it is easy to understand why the right-wing government had no doubts in abolishing the wage-earner funds.

The Social Democrats' return to office – adaptation to EU

The extent of voter support for the Social Democrats in the 1994 election gave the Party a mandate to re-establish order both in the economic system and in those welfare arrangements which had experienced some modifications. The Social Democrats were known as those who had the ability to restore the order to the state. This was after the governance of the Bourgeois coalition, which advocated a system shift.

During the first year after the return the cooperation between the Social Democrats and the Left Party worked quite well. The two parties cooperated in increasing tax levels in order to cope with the budget deficit caused by the high unemployment levels. Soon after, the Social Democrats realised higher taxes could not keep control of the financial imbalances, and therefore decided to change direction and cooperate with the bourgeois bloc to make savings in the public sector (the Centre Party was the Party in the bourgeois bloc which the Social democrats asked for support). Apart from making cuts in some of the welfare arrangements in order to reduce the public deficit, the Social Democrats saw cooperation with the Centre as a way to adopt a more market-friendly policy and create a more stable base for government for the three coming years. The conflicts between the Social Democrats and the Bourgeois bloc were reduced to a lower level even though the Bourgeois party were critical towards the Centre Party for its exclusive cooperation with the Social Democrats.

Cooperation with the Centre Party shortly after an election in which the Social Democrats had promised restoration to the welfare arrangements in those areas, the Bourgeois made cuts that caused serious disappointment among the traditionalists inside the Social Democratic Party, who were witnessing a new course in the Party. A new generation of the modernisers took over the Party and focused on EU membership as the vital priority. In this regard, they put the emphasis on maintaining an order in the public finance for the purposes of attaining convergence criteria decided by the EU. A new era began for Sweden. It was up to the Party to provide those conditions required

for both Swedish industry and enterprises in the more integrated and international market. It was also crucial that the political leadership provided the new tools and measures which the Swedish labour force needed in order to adapt to the changes which technological innovation and new divisions in the production process brought about:

> We have to be open to changes. The Social Democrats have no definite policy which would continue regardless of the situation we are living in. On the contrary, for a governing party the crucial thing is to follow the changing process both nationally and internationally and try to adopt the measures needed to promote technological development and competitiveness. Entering into the EU has been the most important event to occur in Sweden and which has reduced the control of the nation state in the process of decision-making. The national government can no longer protect the national market as it did before but it is up to the actors in the national market to improve their ability and competitiveness by investing in those areas they are best in (Widar Andersson, interview).

Even if the savings and other measures taken by the Social Democrats had great effects on the Swedish economy with a surplus in budget at the end of the period these measures were interpreted as a move in a neo-liberal direction. The election result of 1998 was a great disappointment to those who expected a rapid return to the pre-reform political condition. The Left Party doubled its votes, which was unprecedented in Swedish political history. The election result was a sign of growing popular discontent with the Social Democrats policies. It was during this period that widespread demonstrations against the deteriorations in welfare arrangements and the changes in the labour market took place. In response to this discontent that the Social Democrats paid greater attention to welfare reforms. During this period (1998-2002) the Social Democrats returned to the Left Party and the Greens and the cooperation among these three parties worked quite well through the entire period. The protest rallies by the workers and the new social movements seemed to convince the Social Democrats that the dominance of the neo-liberal values was decreasing and the support for welfare arrangements and redistributive measures had once again increased in society. The verdict launched by the Left Party's influential MP about the Social Democratic Party's policy confirms these changing standpoints:

> I think the Social Democratic leaders of today who are around the prime minister Göran Persson are on the left side of the modernisers who were led by Kjell Olaf Feldt, the former finance minister in the Social democratic governments in the 1980s, but they are undoubtedly on the right side of Olof Palme who led the Party before 1986 (Ingrid Burman, interview).

Conclusion

The aim of this chapter was to identify the structural changes which have been threatening the infrastructure of the Swedish welfare state, and arguably undermining the social and economic assumptions on which Swedish social policy was based. Two major threats have been traced; first is those either caused by post-industrial changes in advanced welfare state economies or troubles associated with global economic changes, and second are the changes in demographic trends.

The process of globalisation of the world economy, as the crucial factor affecting the economy of nation states, has meant an end to governments' freedom to conduct an independent fiscal and monetary policy. In the tougher conditions dictated by the actors in the global market, finance and capital movements are, to larger extent than before, decided by a national state's success in acquiring the most appropriate conditions for international trade and investments. The more the nation state raises spending in order to maintain employment, or pursues redistributive ambitions, the more it will be vulnerable, simply because in the new economic order, appropriate conditions for competition have become more significant (Iversen, 2001).

The economic crisis of the early 1990s with its several attendant major changes in the Swedish economy is to be seen as the direct consequence of changes, which were initiated by the Swedish government to adapt the country's economy to the process of globalisation. Although the major changes occurred in the early 1990s, the process started mid-1980 as a defensive response to the neo-liberal entry into the international market. The Social Democratic government's response to the new order was the liberalisation of capital markets and the deregulation of credit markets. These measures, which encouraged loan-financed consumption and speculative investment, were among structural reforms, which created a situation in which the economy became overheated. A rapid deterioration of the economy, with the equally rapid re-emergence of a budget deficit, along with a steep rise in unemployment and falls in gross domestic product were the consequence of what is called the 'casino economy' in Sweden, which in turn challenged the stability of the Swedish welfare system. The crisis created severe structural problems, and led to the questioning of existing economic policies and the egalitarian motives, which underpinned them.

Parallel to these changes caused by exogenous factors, another structural change resulted from endogenous factors such as socio-economic transformation and new production processes. In the emerging regime of accumulation, new production and consumption norms challenged the stability of the Swedish economy and affected the demand for labour. New production technologies, and the increased automation of the widening division of labour between a greater or lesser skilled labour force has resulted in the decrease of 'Fordist' manufacturing jobs and manual service jobs in all advanced economies, including Sweden. Although some of these job losses have been compensated by an increase in skilled jobs in manufacturing, and more particularly in services, there is no doubt that the advanced economies have been unable to replace the high employment levels of the Fordist labour market. The results of such structural change have been decreasing employment security, low wages and fewer benefits.

The Social Democratic movement, which had started the process of reform in the financial market, realised that the economic crisis of the country would be exacerbated by the far-reaching changes in the welfare system planned by the right-wing coalition. Therefore, after the Social Democrat's return to office in 1994, the movement was determined to take the lead in solving the economic problems, particularly the colossal budget deficit. To achieve this goal, the party had no hesitation in increasing personal taxes, reducing the level of some entitlements, and ameliorating conditions for company investment. The strategy was successful. After a few years, the economic crisis was resolved. The level of unemployment steadily decreased and the budget deficit was consequently eliminated, with macroeconomic performance also showing an accelerating trend in GDP. In this regard, the crucial point is that the changes made since 1994 aimed to retain the Social Democratic version of the welfare state. In other words, at root, the measures were about keeping the universalist welfare state rather than transforming it in a neo-liberal direction. In the process of change the obvious trend was that the market advocated institutional reforms, which would push the Swedish welfare system towards neo-liberal welfare strategies, while Swedish institutions themselves were opposed to system changes and thus determined to keep the existing order by endorsing only minimal changes. A further important issue is that the process of recovery was accomplished without running foul of the convergence criteria for EMU. On the contrary, apart from the fact that the share of public

expenditure relative to GDP is still high in Sweden, in other respects, such as the balance of the budget, Sweden has not only managed the criteria which allows a deficit of three per cent of the GDP in the past few years, but has had a surplus since 1999.

In response to demographic changes, the major measure taken during this period was the creation of a new pension system – of which more in the next chapter. While the increase in the numbers of very elderly people will continue, and that will inevitably put the pressure on the service sector, pension reform was an effort to ensure the viability of the system for future generations. Although, some might argue that particular nature of the pension reforms constitute an important departure from Sweden's universalistic, egalitarian principles, as will be discussed in the next chapter, they have to be seen as a cautious measure designed to prevent a total collapse of the system in future years when the percentage of elderly in relation to the active labour force will accelerate dramatically. Another positive trend has been decreasing migration, which in recent decades caused high budget expenditures. Despite that, as the falling patterns of fertility, which in recent decades have led to a growing concern about the future viability of the existing welfare commitments in Sweden, continues, the relatively high level of migration throughout the 1990s is no longer seen as a negative factor for the future of the Swedish economy.

Overall, it can be concluded that the intrinsic potential of the Swedish economy, and the determination of the Social Democrats to recover the economic imbalances at any price, made it possible to overcome the deepest economic crisis since the foundation of the modern welfare state in the country. On the other hand, once again it has been shown that while the uncertainty caused by the process of globalisation made the Social Democratic governments insecure about the development of the international economy, harmonisation with the EU has occurred according to a well-defined timetable. During the 1990s, the Swedish governments have shown an ability to correspond to those requirements that have been set by a supranational body.

Chapter 5

Transformation in the Swedish welfare system

Having presented a general overview of the economic crisis of the 1990s together with an account of demographic changes in Sweden in the previous chapter, the focus here will be on changes in social policy. Since social policy constitutes the major part of the public budget, governments look to make savings here in order to balance the budget. There are, however, different ways of cutting welfare. Some techniques, such as indexation, are difficult for the public to detect, and therefore preferred by governments for political reasons, but when the need for cuts becomes urgent, then reductions in cash benefits are considered to be the most efficient way to reduce spending. As the major part of reductions occurred through cuts in cash benefits, and as it is easier to study the changes to cash benefits over time, the major focus of this study will be on changes in cash transfers during the period under review, together with the pattern in which these changes occurred.

The argument in this chapter is that, as long as the Social Democrats were in office and economic conditions were appropriate, the Swedish welfare system not only remained intact but gradually expanded. Retrenchments of the benefit system in the 1990s started when unemployment rose dramatically and the budget deficit increased considerably as a result. The first wave of retrenchment, which occurred in the first half of the 1990s, had a 'defensive' character. This means that savings foremostly addressed the need to reduce the budget deficit, although the size of the spending cuts was less than the rise in expenditures caused by the unprecedented rise in unemployment. Between 1993 and 1997 the budget deficit rose by 12 per cent of GDP,

whereas retrenchments were actually quite limited. The bourgeois coalition government was not sufficiently dedicated to bring about far-reaching savings, partly because of internal conflicts, which made compromises about retrenchment difficult, but partly, too, because of public opinion, which did not favour far-reaching cuts in benefits. The argument here is that only powerful elites with public support can achieve retrenchments providing they are regarded as defenders of existing institutions (Pierson, 1996).

In Sweden, the majority of incremental reforms were introduced in the second half of the 1990s after the Social Democrats had returned to office. As the architects of the welfare system, they seemed to have had the political legitimacy to initiate some essential changes in the welfare system in order to ensure its long-term survival. The public, particularly the traditional supporters of the welfare system in the trade unions, public service institutions, and other social organisations, viewed the reforms initiated by the Social Democrats without undue suspicion simply because the party was understood as the traditional defender of the welfare system. In other words, the Social Democrats were confident enough to take the measures needed to guarantee the future of the universal welfare system. Against this background, the reforms initiated by the Social Democrats since 1994 had a more adaptive character, with the view to adjust, or if needed, to change the system to fit the new circumstances. The reforms accomplished during the 1990s have not changed the structure of the universal welfare system and indeed even those changes, which might have had a more 'structural' character, were not on a large scale.

One of the more far-reaching changes occurred in the pension system in which pensions were adjusted to take account of demographic changes and predicted economic growth, although even here the essential parts of the system remained intact, and the only changes made were to the level of generosity of some benefits. Significantly, however, private alternatives in social care services were accepted, and by that, the exceptional nature of Nordic welfare states in their provision of social services in which all services, for example for the elderly and children, were provided publicly, disappeared.

Techniques of welfare reduction

Reducing welfare spending is not an easy task for governments (Pierson, 1996, 2001). Welfare cuts are always unpopular, and regardless of the areas in which governments chose to make cuts, they risk losing the support of groups who would be negatively affected by retrenchment. Moreover, if the need for saving is large, the number of recipients affected is also large. Reducing benefit levels by a limited amount is therefore preferable, even though this would affect the entire population and therefore be generally unpopular. Targeted saving, which directs the resources from the existing programme to groups in greater need, is another technique for welfare reduction which normally favours families and the young unemployed.

Social policy analysts use different methods to measure changes in welfare spending. Some studies mainly focus on changes in welfare expenditure (OECD, 1999), while others (see Daly, 1997) examine changes in cash benefits over time or examine other approaches to welfare reduction (see Marklund 1988; Tarschyrs 1985). For example, Tarschys (1985:32-54) and Marklund (1988:44-51) point out five major methods of welfare cuts, which according to them have been used in the Nordic countries. At a more general level, these five methods, in Marklund's words, (p.44) are: 'modification of indexation rules, introduction of income-tests, increased service fees, benefit freeze and reduced compensation levels.'

Modifying the indexation of major programmes means that the social security index, which previously varied with the cost of the living index, no longer followed this pattern, but changed at a slower pace. Most households, but particularly full-time welfare recipients such as old-age and invalidity pensioners, and some groups of long term sick, lost a certain amount of their income. On the other hand, slower indexation is perceived as the fairest approach to welfare cuts because it distributes the cuts across social groups and across most benefits. Moreover, it has reasonable saving effects and also neutral effects on basic welfare principles (Marklund, 1988:46).

Income-tests, or means tests, are a technique, which allocates public benefits only to those in need. In other words, the better off are deemed not to need benefits and therefore, by introducing selective policies, the welfare system will, for the same

amount of public spending, contribute a more equal distribution of income. The income-test technique has traditionally been understood as a shift from universal towards selective welfare (Titmuss, 1963). While conservative parties have always tended to support income-tested welfare policies, labour movements have argued in favour of universal public benefits, such as public pensions, invalidity pensions and child allowances, because universalism not only ensures a fair redistribution (Marklund, 1988) and also greater 'reach'.

Increased service fees and decreased subsidies are other techniques, which have been used to moderate public spending. These techniques have particularly been used in the health system, in which individual fees for medical services have increased, and subsidies, in particular for pharmaceuticals and aids and appliances to the handicapped, have decreased. In the Nordic welfare model, increased fees for these services have not been seen as a source of income, but as a means of avoiding their unnecessary use (Marklund, 1988). The amount of money received as fees for the services actually comprises little, of total expenditure for the provision of services.

The fourth technique involves freezing benefit levels, which means that governments and other central bodies avoid the increase of welfare spending through delaying decisions about rises in areas in which the level of benefits are adjusted annually. Housing and family policies are among the major areas here. For example, by not linking the child benefits to a social security index, governments in Nordic countries have effectively limited increases to below the rate of inflation (Marklund, 1988).

Reduced compensation level is the fifth technique for governments to save welfare expenditure. This method is the most direct and obvious way of saving because the level of earnings replacement decreases or payment is delayed for a certain amount of time. This method has mainly affected the health insurance system but has also been used in other systems such as unemployment benefits systems and pre-pension systems. However, this method does not normally affect the majority of the citizenry because, in the case of sick leave, for example, the average number of days is low. On the other hand, many groups in the labour market are protected by different kinds of negotiated insurance. The system has also adopted measures to protect those people who are frequently or chronically sick.

Daly (1997), who has examined reforms in European welfare states for the 10 years from 1985 to 1995, focused on changes in cash transfers. The study emphasised both the procedures and principles governing the alternation of benefits during the period, and the pattern in which changes occurred. In other words, two sets of questions were investigated: first, what had happened to welfare state cash benefits over the period of the study concerned; second, how would the development of the welfare system and the pattern of its transition be evaluated. By studying those changes in cash benefits, which show significant trends over time, we would be able to analyse the implications of such developments, because governments normally do not admit changes in trends. Real shifts in historical events can only be observed by studying small changes, however, some of them are difficult to detect empirically (Myles, 1990).

But why did Daly focus on changes in the cash benefits system? Would such changes be a relevant measure for identifying welfare state trends? According to Daly, one of the main features of the cash benefits system is its power to reveal the nature and quality of social rights.

> As the most tangible expression of social rights, cash transfers are wonderfully revealing of the terms on which individuals can make claims on public resources and the types of solidarity, which are fostered by systems of public support. They offer a rich field of interpretation. There is probably no better way to uncover how the state stacks individuals and groups vis-à-vis each other on the resources hierarchy. Cash transfers, furthermore, lead to the heart of welfare states' objectives, variation in benefit height, type and general organisation allowing us to judge the relative priority attributed to poverty alleviation, income security and income redistribution (Daly, 1997).

This aim can best be achieved by studying the institutional architecture of cash benefit systems. By enquiring about whether and how programmatic features of cash benefits such as rules of entitlement, the scope, level and duration of benefits have been altered through legislation over a period of time, we would be able to map out the level of the generosity of the system. Furthermore, the accessibility of benefits for people, the generosity of conditions within/out the public support system, and the period of time they are allowed to rely on the benefits, are significant facts that have to be undertaken. Most researchers (Stephens, 1996; Daly, 1997; Korpi and Esping-Andersen, 1984; Palme, 1990) who have studied the development of welfare states in European countries over the past two decades have focused on one or more of programmatic areas such as old-age pensions, unemployment benefits, family policies

and benefits to children, provisions for caring for the handicapped and elderly, sickness benefits, and means-tested social assistance benefits. The broader referents of change, as Daly (1997) emphasises, have been the boundaries between the state and the market on the one hand, and the family on the other.

Changes in cash benefits might be a relevant measure for identifying trends in welfare states in a more general comparison. But for the Nordic model of welfare, which has been characterised as the most progressive and mature expression of welfare statism (Einhorn and Logue, 1989), other aspects, mainly the quality of benefits and services, are more significant. As Esping-Andersen and Korpi (1987) stress, and as discussed in chapter three, the Nordic Welfare States have achieved the objectives of solidarity and equality through comprehensive and universal policies of a high quality.

Sweden's changing welfare state

Among the core areas of welfare, provision for the elderly and unemployment measures make up more than half of the expenditure on public social budgets. Therefore, it seems natural that these areas became major targets for budget cuts. The crucial question, then, is whether the governments announce the cuts in the system or try to accomplish the changes without announcing. In contrast to cuts by 'stealth' (e.g. indexation) the Nordic systems tend to reduce the level of benefits and services openly. In other words, from a Nordic perspective, transitions in the main areas of social policy such as the pensions system, unemployment benefits, health system and sickness benefits and family policy can show the trend of welfare system towards either extension or restrictions of provision. This section focuses on policy changes in these key areas.

The discussion so far indicates that the policy of retrenchment differs completely from the policy of expansion. While cuts in entitlements and welfare services affects negatively the life situation of groups of population, most governments are concerned to use different techniques of welfare reductions so that the measures are not easily detected by the groups of recipients who could lose from the reforms. The methods of welfare cuts are the first indicators, which reveal the real intentions of governments.

The more a welfare state applies methods of retrenchment, which are difficult for the public to detect, the more likely it is that the cuts will have long-term character. Conversely, governments in generous welfare systems tend to employ either temporary reductions to manage a certain economic misfortune or substitute one kind of policy for another, for efficiency reasons, but do the change more openly. Even if an entitlement has to be cut, politicians in generous welfare states frequently make the changes without attempting to hide the lack of reform. In the Swedish model savings were produced without too much reference to short-terms political considerations.

The other aspect of the policy of retrenchment relates to the overall trend underlying the policy change. To what extent are the key features of universality, high service quality and generosity vulnerable to fundamental transformation? Before starting the discussion about transformation in different social policy areas, it has to be emphasised that the analyses will not just focus on changes in cash benefits but also on the quality of benefits and services. After all the arrangements employed in different areas of social policy are in some cases (such as employment issues) so widespread that they receive greater resources than unemployment's cash benefits. In other words, the Swedish system tends to invest much larger in different ALMP measures than in unemployment's cash benefits.

Changes in unemployment benefits

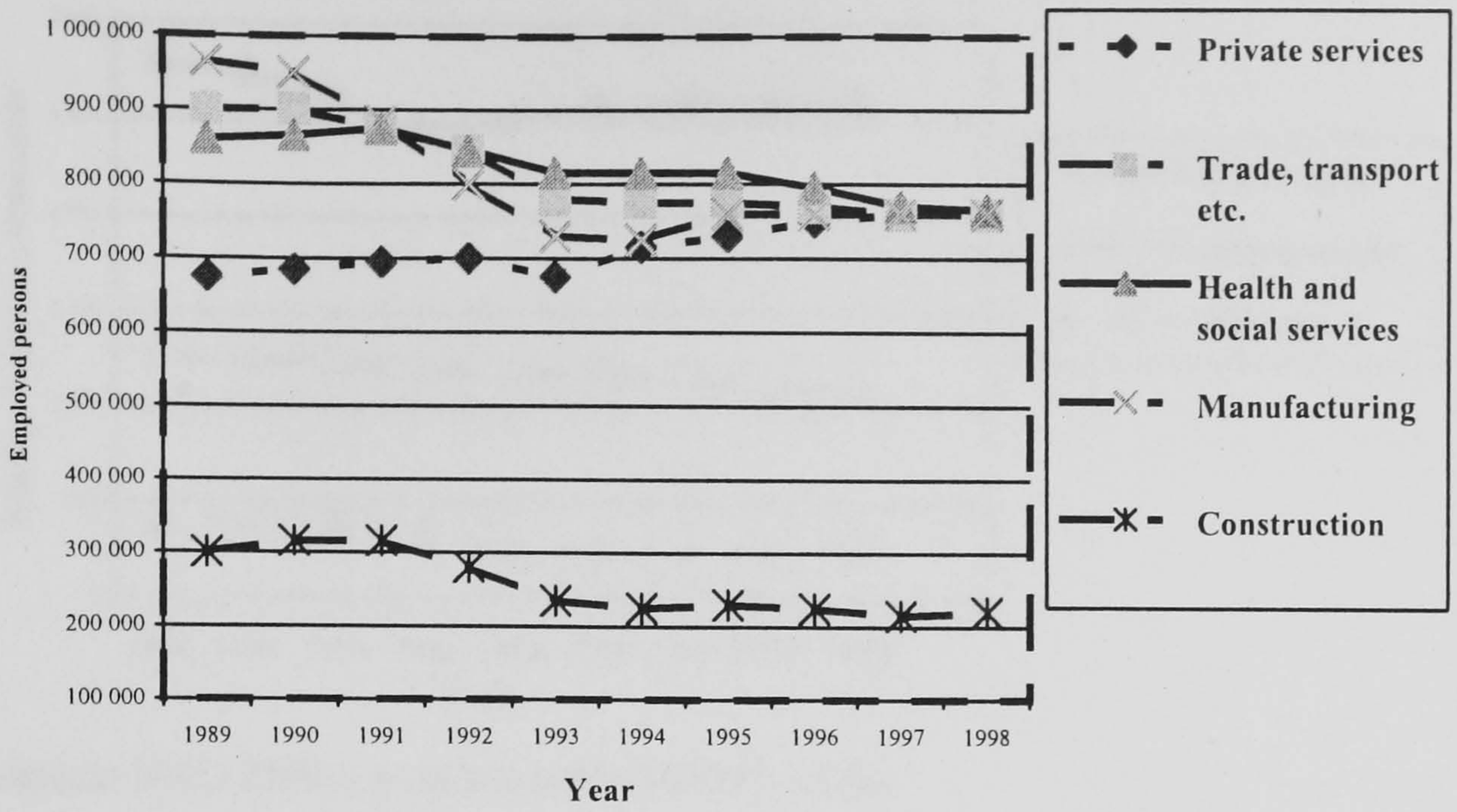
Unemployment benefits in Sweden take into two major parts; one concerns investment in activation measures through subsidisation of employment and vocational training of the unemployed and, the second, concerns cash benefits. To cope with increasing unemployment or to maintain full employment, the Swedish welfare system has used traditional active labour market policies (ALMP), which played such a central role in the 1960s and 1970s (Regnér, 2000). In periods of economic up-swing, the ALMP has been used to better serve the demand for labour, while during the period of down-swing in the 1990s, these policies were used to fight unemployment (Kautto, 2000). An obvious difference in ALMP measures during the 1990s was the increase in the number of measures taken to cope with the differing circumstances. While before the 1990s there were three policy measures – vocational training, subsidised employment,

and employment support – by 1998, 15 new measures were added to those three traditional measures (Kautto, 2000; Regnér, 2000).

Such variations in the kinds of measures created by the Labour Market Board (AMS) shows that in periods of crisis, extensive investment was put into the active labour market policy. A comparison of the number of people participating in all the various ALMP measures with the number of people in the total labour force shows that between 1990 and 1994, the ratio almost followed the same trend as unemployment. There is a consensus among commentators (Kautto, 2000; SOU, 2000:3, p. 191) that the whole of the 1990s was a period of crisis in the Swedish labour market. A combination of international recession accompanied by problems with currency exchange rates, declining investment and a downturn in domestic consumption, caused a dramatic rise in unemployment. An unprecedented increase from 2 per cent in 1990 to 8 per cent in 1993 resulted in the biggest public deficit since the 1930s, which many scholars (SOU, 2000:3) have regarded as the major reason for Sweden's financial crisis. The decreased level of the share of employment from 84.8 per cent between 1986 and 1991 to 74.5 per cent between 1995 and 1997, not only massively increased the cost of unemployment benefits, but also the declining employment rate led to falling tax receipts (Åberg and Nordenmark, 2000).

The budget deficit caused by the employment crisis amounted to 210 billion kronur in 1993 – a figure as large as expenditures for the social insurance system, defence, police and justice system taken together (SOU, 2000:3:40). Compared internationally, Swedish unemployment in the 1990s increased more dramatically than in other western-European countries (Lundborg, 2000). Moreover, it had a devastating impact on almost every section of the Swedish economy (Figure 5.1). The heaviest drops in employment were between 1990 and 1993, in manufacturing, trade and construction. Manufacturing industry, which was the biggest sector, lost the most jobs. Almost one fifth of the jobs in this sector vanished between 1991 and 1997.

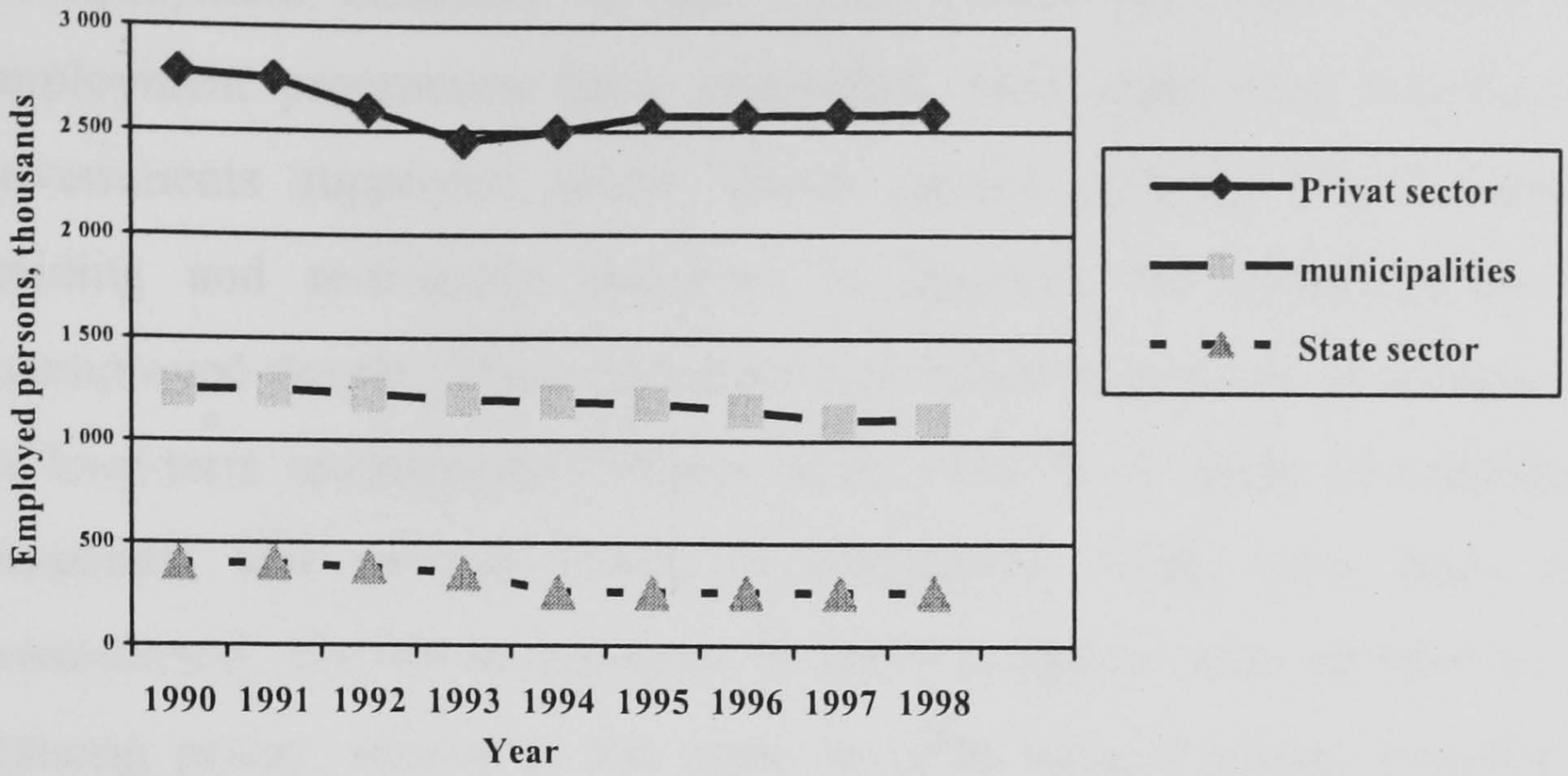
Figure 5.1 Employed persons by industry in Sweden 1990/98.



Source: SOU (2000:3, p. 44).

While job losses in different parts of the private sector could be explained by the international downswing in demand, or the fixed exchange rate policy, decreasing employment in the public sector could mainly be explained by the budget consolidation programme. Moreover, the development of total employment in the private sector shows that job losses in that sector occurred between 1991 and 1993, with employment increasing during the latter years of the period under review (SOU, 2000:3). In contrast to the private sector, public sector employment decreased every year between 1991 and 1997. Between 1990 and 1998, the number of employees in the public sector decreased by 343,000. Indeed, the majority of the decline in total employment occurred among state employees. The number of state employees decreased from 394,000 in 1990 to 220,000 in 1998. Employment in municipalities fell from 1 258,000 in 1990 to 1,089,000 in 1998 (Lundborg, 2000; SOU, 2000:3).

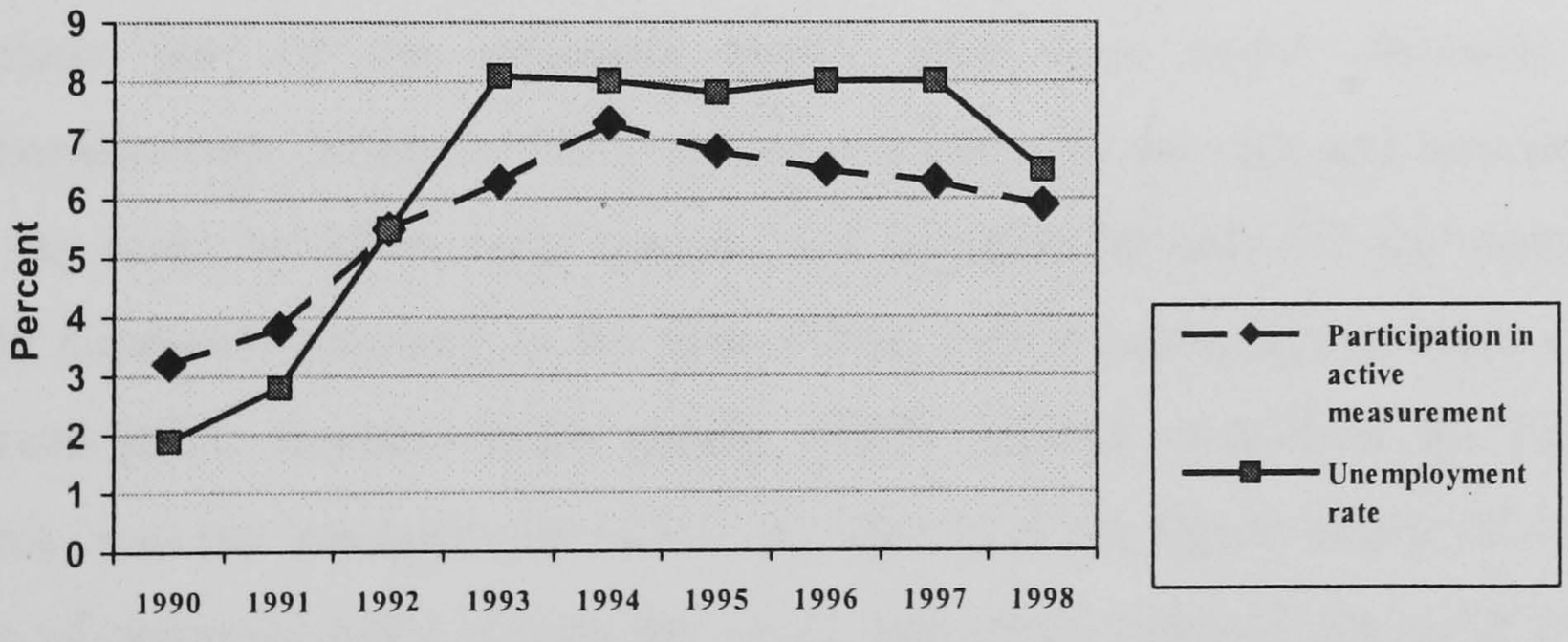
Figure 5.2 Employed persons in privat and public sectors 1990/98.



Sources: SOU (2000:3, p. 45); Kautto (2000:83, p.26).

While in 1990, the ratio of open unemployment was 2 per cent, the ratio of other unemployed people who were participants in ALMPs measures was 3.1 (Figure 5.2). In 1994, when the rate of unemployment increased to 8 per cent, the ratio of participants in ALMP reached 7.2 per cent. Since 1994, though, the volume of ALMP has decreased each year. In other words, stabilisation in the unemployment figures was met with less effort in active labour market measures (Kautto, 2000:83, p. 80).

Figure 5.3 Unemployment rate and the ratio of participants in ALMP measures per 100 in labour force (15-64), 1990-98



Source: Lundborg (2000:37, p.16) and Kautto (2000:83, p.80).

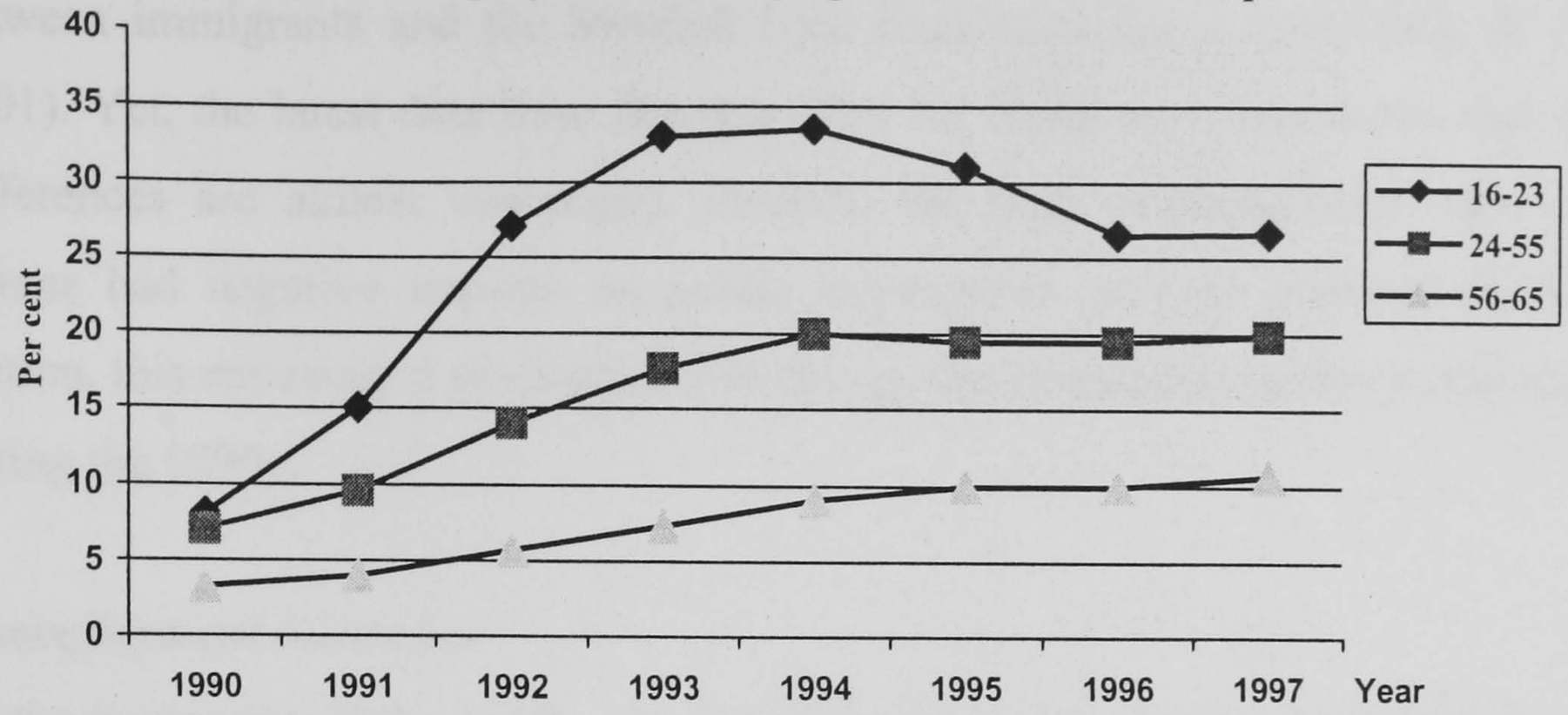
Despite that, in 1998, investment in activation measures was more than in 1990. The aggregate expenditure for active labour market measures rose from 9 to 21 billions during the decade (Regnér, 2000:37, p. 97). This suggests that, despite the years of crisis and changes in the welfare policies, Sweden still retains its labour market policy, with subsidised employment and vocational training of the unemployed as the major

measures. Furthermore, despite changes in the labour market and decreases in unemployment insurance in the 1990s, efforts for work creation and an active employment programme have intensified. Both right-wing and Social Democratic governments supported active labour market policies, which included escalated training and re-training measures to improve the competencies and skills of unemployed people. These measures were taken to prevent an increase in the number of long-term unemployed (Olsson Hort, 1995:7). A range of reskilling, educational measures, and various forms of community work, have been offered to the unemployed, and those involved in these measures were entitled to labour market training grants, almost at the same level as unemployment benefits (Olsson Hort, 1995:7). This policy was based on studies, which had demonstrated the positive effects of active labour market policies in reducing open unemployment. One of these studies has suggested that Sweden's unemployment was reduced by 2.4 per cent due to active labour market policies in 1985 (Jackman, et al., 1990, in OECD, 1994:109).

The Societal consequences of unemployment

Unprecedented unemployment has not just had economic consequences for the public budget, but it has also been problematic for Swedish society in general (Korpi & Stenberg 2001). Assessing its development during the 1990s, unemployment had a particularly negative impact on three social groups (SOU, 2001:53). First, during the deepest part of the economic crisis, men were more adversely affected by unemployment. While in 1990, unemployment rates for men and women were similar (2 per cent), by 1993, rates rose to 11.2 for men but only 7.7 for women. However, with economic recovery in the later 1990s, men's unemployment rate dropped to the female level. Another social group, which suffered greatly in the 1990s economic crisis, was the younger generation. As shown in the figure below (5.4), in 1994, the rate of unemployment among the 16-23 age-group reached almost 35 per cent – four times higher than the rate in 1990. The severe situation in the labour market, which ended new recruitment in many companies and in the public sector, reduced the chances for young people to enter the labour market. As a result, the disposable income for this group decreased during the recession. Even after labour market stabilisation, the younger households were still behind, and the gap in equivalent disposable income, together with resulting inequalities, has continued (SOU, 2000:40).

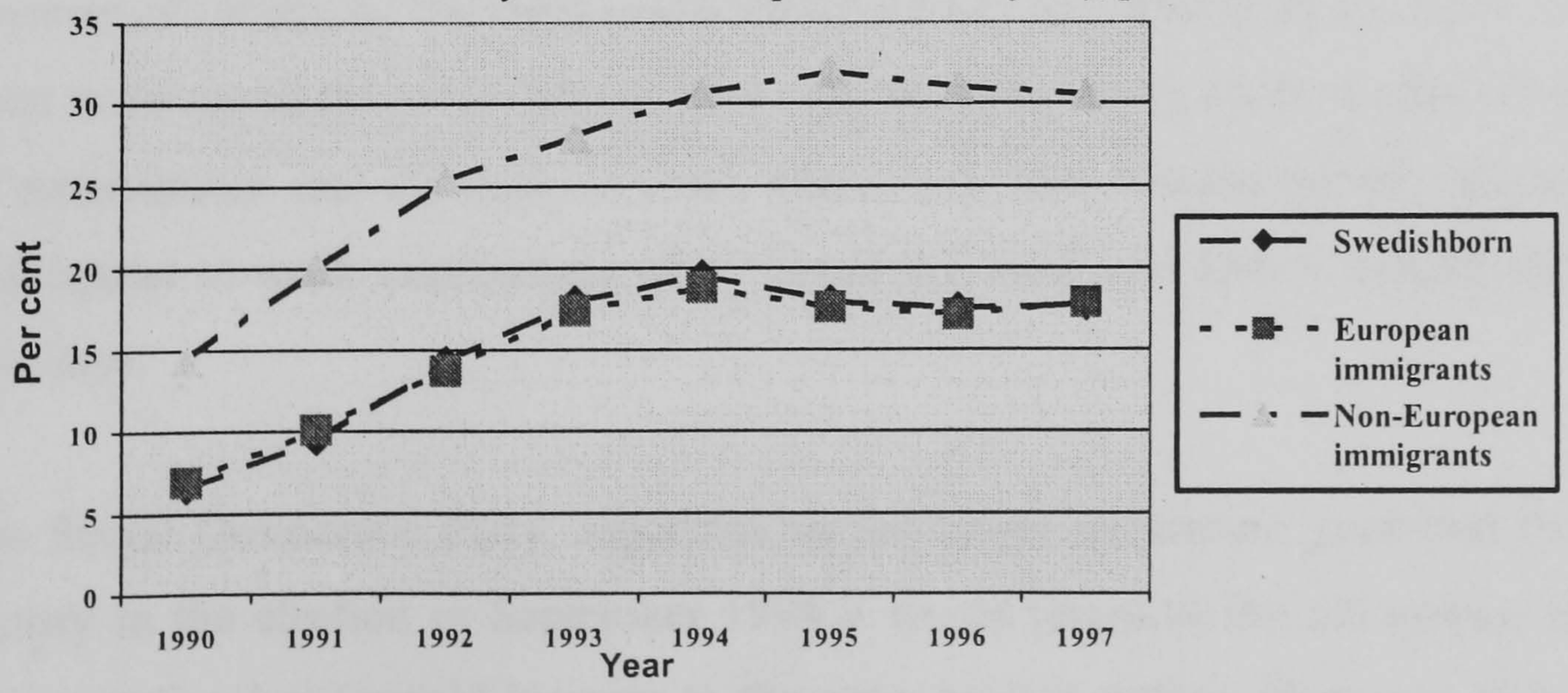
Figure 5.4 Unemployment rates by age in Sweden, 1990-97, per cent



Source: SOU (2000:3, p.194).

The third group to be affected by the high unemployment rate was immigrants. During the worst of the recession (1990-93), the unemployment rate increased sharply among non-European immigrants, reaching its highest in 1995. The employment rate in this group decreased from 72 to 54 between 1990 and 1997 (SvD, 3/12/2000). One third of the non-European labour force was out of the labour market (either for the whole year or a short period of the year), while among European immigrants, the rate was slightly below 20 per cent. The situation continued to be very poor throughout the decade, but at the end of the period the unemployment rate started to drop considerably, reaching approximately 20 per cent of all immigrants in 2000 (Figure 5.5).

Figure 5.5 Unemployment rates among Swedishborn, European immigrants and non-European immigrants 1990-97 (Unemployed for either a whole year or a short period of the year), per cent.



Source: SOU (2000:3, p.196).

However, as a consequence of a long period of unemployment, the income gap between immigrants and the Swedish born population has grown (Edin & Åslund, 2001). Yet, the latest data from the year after the economic crisis shows that income differences are almost unchanged. Overall, the high unemployment rate in these groups had negative impacts on public expenditure, and as explored in the next section, this encouraged governments to change the benefit levels on several occasions during the 1990s.

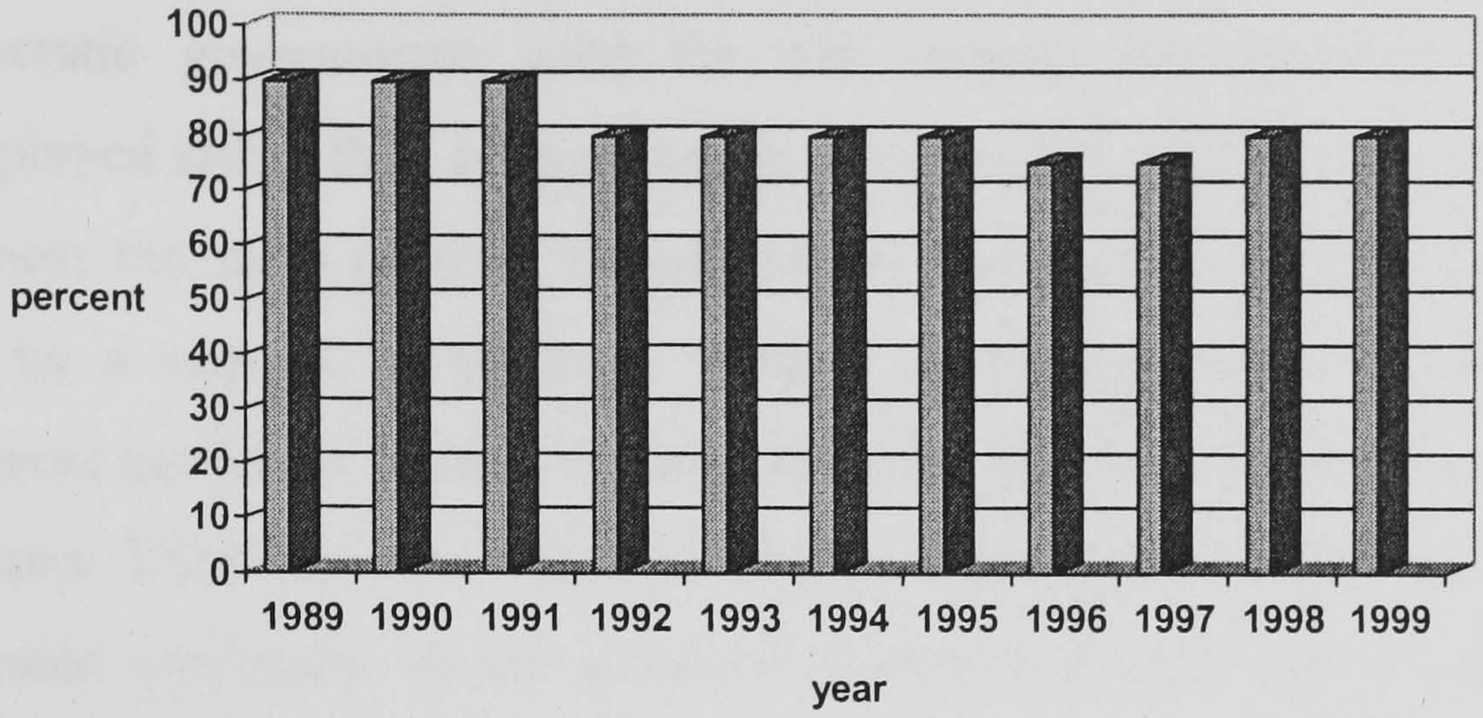
Unemployment insurance

At the beginning of the 1990s, the dramatic rise in unemployment led to an equally dramatic increase in public expenditure. Consequently, the government decided to reduce the level of unemployment benefit, which formed the major component of the state budget. As late as 1989, when unemployment was still at its lowest level and the state budget was still in surplus, the Social Democratic government extended welfare measures for the unemployed. For example, the loss of income by the unemployed has been reduced to the minimum level; i.e. the level of benefit has been increased to 90 per cent of wages. Furthermore, in the same year, the minimum level of compensation was increased by 25 per cent (Governments budget bill, 1988/89). However, in an effort to control the cost of the scheme, a five-day waiting period was re-introduced in 1993 and the compensation level reduced from 90 per cent to 80 per cent of previous earnings. On the other hand, the formal duration of the compensation period remained unchanged at 300 days, and 450 days for workers older than 55. Benefits could also be extended through participation in ALMPs (Regnér, 2000:90-1). Membership of government-financed, but trade union-administered, unemployment insurance funds is open to all members of the labour force, and benefits can be claimed after 12 months of membership and 80 days of work within any five months period, subject to a willingness-to-work requirement of 17 hours per week and also a waiting period of five days.

The Social Democratic Party, supported by the labour movement, promised that with victory in the election in September 1994 it would return to the old system and the compensation level would increase to the same level as before. However, in practice, the compensation level was reduced to 75 per cent (Figure 5.6). The government's main argument was that continuing financial problems, (i.e. in 1994 unemployment

had cost 130 billion Crowns, which was one fifth of the state budget. See Governments budget bill, 1995/96) made change impossible.

Figure 5.6 Income replacement rate in case of unemployment



Source: Budgetproposition (1989/90-2000).

Despite the reduction in unemployment benefit, a 1996 proposal for a time limit to unemployment insurance benefits was rejected, and therefore, no change in this matter was made (SOU, 1996:51). Participation in active labour market policy schemes would be enough for the renewal of eligibility for benefits. This generous policy can be modified by a strict set of job availability criteria. Stressing job placement, and regulating the unemployed to jobs shows that, in contrast to many other countries, these measures reduce long spells in unemployment (Danish Ministry of Finance, 1998 in OECD, 1999:148). However, pressures on the unemployed to accept job offers from employment offices have not increased during the period. On this issue, the number of those receiving insurance who have received reduced benefits because of a refusal to accept offered jobs has not increased markedly (OECD, 1999:77). Despite the fact that there is a formal upper limit to the duration of the benefit, and as noted, the funds have the authority to discontinue benefits for those who reject job offers, the option of requalifying for unemployment benefits through participation in ALMPs has saved many unemployed from disqualification. As Studies (Harkman et al., 1997) have shown, the reduction in replacement rate in unemployment insurance from 90 to 80 per cent in 1993 had a rather stronger impact on both the behaviour of the unemployed to

intensify their search for work, and also on the reservation wage the unemployed use to assess job offers.[10]

As it has been illustrated, in fighting the rapid increase in unemployment, Social Democratic governments used the old weapon of activating and training the unemployed rather than simply paying cash benefits. While these measures expanded at almost the same pace as unemployment rose, cash benefits were reduced in two steps by a sum of 15 per cent. Despite suggestions from the employers and the bourgeois parties to further cut cash benefits, the Social Democrats avoided further decreases. These measures received support from the representatives in the unions who advocated continuity of the generous system but there were critics in the labour movement who blamed the Party for changes in its traditional policy. The former chairman of the LO was one of the critics, who at the turn of the 1990s, criticised the Social Democratic government for overestimating the threats caused by exogenous factors like globalisation, thereby rejecting the traditional labour policy:

> Until 1989-90 the domain in the Swedish labour policy was full employment. The main political goal was to create as many jobs as possible and through that both increase the production, which would lead to wealth, and by a very low rate of unemployment reduce the costs for the welfare state. We were supposed to tackle problems by increasing the rate of employment, and we did so throughout the 1980s. For instance, in 1982 when the bourgeois government faced an economic problem caused by an unemployment rate at nearly 4 percent, with a budget deficit around 90 billion Crowns as consequence, the LO and the Party, which at that time were in opposition made an agreement to overcome the budget deficit through a full employment policy. Therefore, after the take over, the Party succeeded in overcoming the economic problems. During the 1980s, however, the policy of full employment faced considerable attacks when the neo-liberal governments, for instance in UK, adopted new goals which suggested low inflation, balance in budget, and reductions in the influence of unions in the labour market rather than full employment. Prime Minister Thatcher suggested savings in the government's expenditure instead of full employment. In my view, in Sweden it was not the bourgeois government which, after the take over of 1991, took over from the neo-liberals in UK in order to change the course, but the Social Democratic government which, in 1990 replaced its full employment policy with the policy of low inflation and, resulting from that, let the unemployment rise in the beginning of the 1990s (Stig Malm, interview).

There is no doubt that at the turn of the 1990s the Social Democrats were in the middle of an ideological crisis due to the fact that essential elements of the traditional welfare system were targeted for reform. The traditional active labour policy was one of the areas received most attention by the advocates of change. Some of the modernisers in the Party were openly criticizing low efficiency levels in the public sector and thereby advocating 'downsizing' the public sector. They regarded redundancies in the public

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[10] According to this report the reservation wage tends to be reduced by 4 Crowns for every 10 Crowns cut in the replacement rate.

sector as necessary because the production of services in the sector had to be as efficient as in the private sector:

> If you compare Sweden with bigger countries in Europe, such as Spain and France, you will realise that in these countries, which have a larger unemployment rate than Sweden, both the private and public sector are very inefficient. You can see that in these countries the average number of workers in a restaurant, pharmacy or in a hospital is much higher than the real need. It seems that the working process in these countries have not been rationalised on the same level as we have done in Sweden. Therefore, there are a huge number of low-paid workers in both the private but much more in the public sector. They could argue that these people at least have a job. This is a honourable perspective but the consequence of such strategy will be that in these countries the public sector will forever be judged as an inefficient sector. On the contrary, we have always stressed that the public sector has to be rationalised as the technical innovation occurs and new methods for giving care and services are found. The allocation of resources in the public sector, particularly regarding the labour force, has to follow the same pattern as it does in the private market. Keeping low-paid and unskilled workforce in the public sector, such as in a hospital, for the sake of keeping the unemployment rate at lower level, is neither possible (because of higher technical and knowledge demands) nor a healthy and rational politic (Widar Andersson, Interview).

Despite the ideological changes, the Social Democrats did not initiate the process of redundancies in the Swedish labour market. The process was begun by private sector firms during the Bourgeois Coalition's period in government. When the Social Democrats initiated large-scale redundancies in the public sector, the economic crisis was already widespread and the Party could blame the Bourgeois government for the enormous budget deficits it had left behind. That forced the Social Democrats into large-scale savings. However, as the leader of the Left Party states, the large-scale redundancies in the public sector and subsequent deterioration in unemployment insurance, were the major factors that caused anger and resentment among the traditional supporters of the Social Democratic Party. Persistence among supporters forced the Party to reconsider its position and made the Social Democratic leaders avoid further retrenchments, and look instead towards re-establishing traditional labour policy:

> Retrenchments in the public sector with huge number of redundancies in public services, deteriorations in unemployment insurance and, changes in labour legislations were the factors, which caused disappointment among the supporters of the Social Democratic party. Many of them turned to the Left Party. By the same token many activists in the trade Unions found the Left Party as the most genuine advocates of the interests of the wage earners. At the same period the protests against the Social democratic government increased. The Party was blamed for pursuing right-wing policies with redundancies in public sector and retrenchments in welfare benefits and services as result. At that period I was representing the Left Party in negotiations with the Social democrats and I could see that the protests had great impacts on the leaders of the party and as a result the Social democratic leaders changed the direction and adopted a more traditional policy which meant re-expansion of the public sector with employment of many new staff in the public services as a result (Ingrid Burman, Interview).

By announcing a goal of reducing the unemployment rate to 4 per cent by year 2000, the Social democrats tried to convince the labour movement that the traditional full employment policy had been readopted.

As stated so far, it is possible to conclude that the rate of employment was the only area, which was mainly affected by global pressures. In the other three areas of pensions, health and sickness insurance and family policy, changes were not due to crucial transformations resulting directly from globalisation but as a consequence of the high budget deficit caused by unemployment. Therefore one can conclude that the globalisation had an indirect effect on most of the changes in different welfare programmes. In the case of pensions, an area where change has definitely occurred, of course, pessimistic prognoses about long-term crisis were the main reason for reform. Changes in the demographic trends are regarded as the major reason, which made changes in the pension system inevitable.

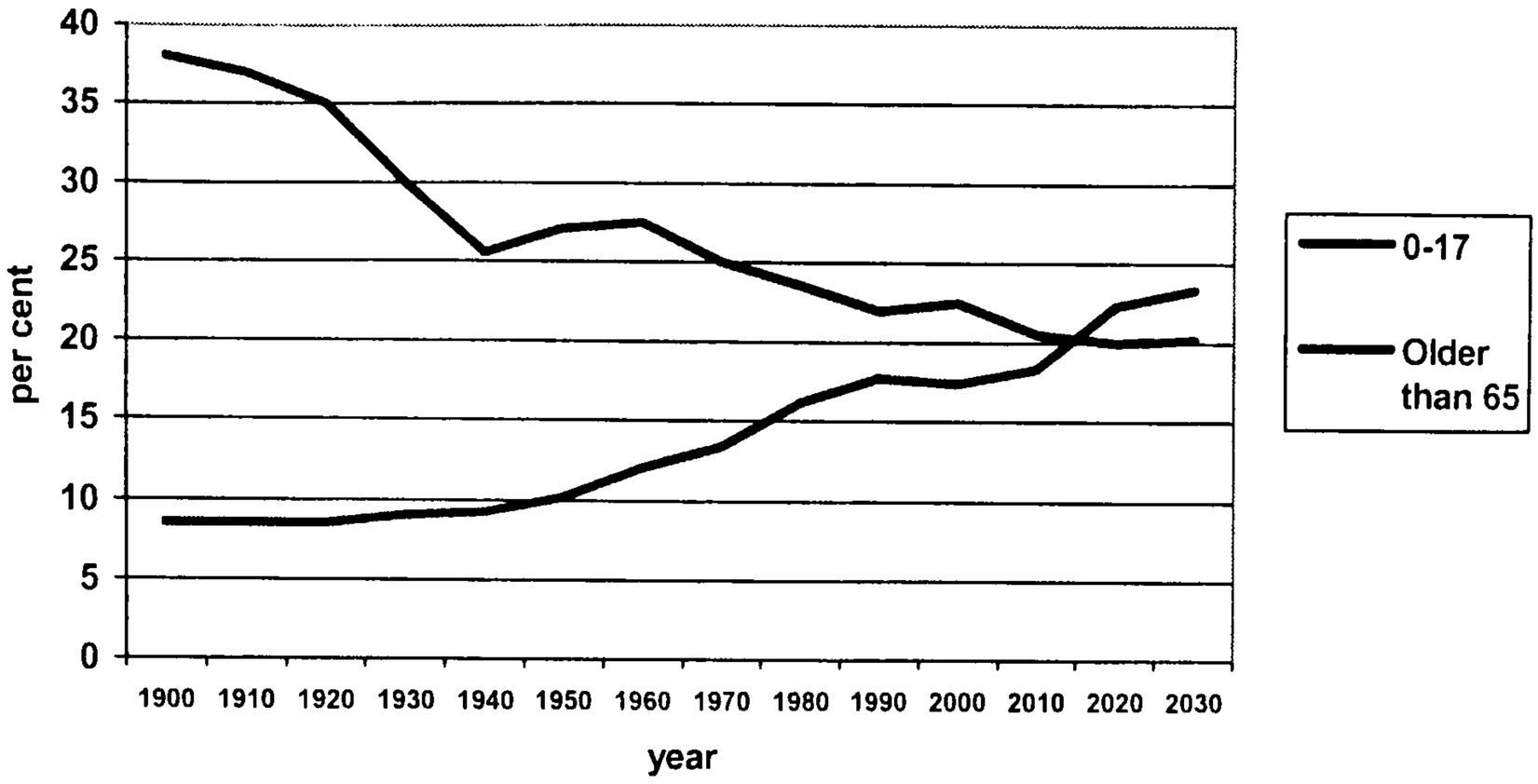
Demographic trends and social circumstances

We have looked at the economic changes and some of the adjustments in the Swedish economy in the 1990s, but an equally important part of economic policy, particularly when related to welfare, is the nature of demographic change. Sweden, like other industrial nations, is at the vanguard of the ageing process. During the past decades the numbers and proportion of elderly people have increased dramatically. While at the beginning of the 1970s nearly 14 per cent of the population were over 65 by 1991 the percentage grew to 18 per cent. It is expected that by 2030 nearly a quarter of the population in Sweden will be over 65 (SCB, 1994, 1998). Such demographic trends and future predictions have been understood as a major threat to the future of the welfare state. The crucial point debated by commentators (Wells and Freer, 1988) has been that the ageing population represents a burden on society because the elderly are economically unproductive and increasingly frail, and therefore demand extensive social and health care. By 2000, the percentage of 'old old' elderly – those over 80 – who were in great need of services was 5 per cent. The figure is estimated to grow to 8 per cent by 2030.

Although Sweden has been among the countries with the highest percentage of elderly, and some academics (Malmberg and Lindh, 1995) even argue that the demographic figure has been a significant reason for the low economic growth in recent decades, others (Nygren and Person, 2002) disagree. They believe that although the percentage of the elderly will rise in Sweden, by the same token the percentage of those in the labour market will also rise. In this regard, the situation will be better in Sweden than in some other OECD countries such as the UK and France. Authors such as Bonoli (2000), also reject the ageing thesis, which according to him has been overstated.

However, in the Swedish debate the advocates of the population-ageing thesis address the problem as a result of two factors. The number and proportion of elderly has increased partly because Swedes are living longer, but parallel to that, women have been producing fewer babies. The changing pattern of fertility with the declining birth rate, (i.e. the number of live births in one year per 1000 females of child-bearing age), can probably be seen as the most important factor explaining the population ageing. In past years the decrease in fertility has been especially high among younger women. Since 1990 the rate of fertility has decreased steadily among women below the age of 30. In 1998, more than 70 per cent of all Swedish-born women aged 25 or lower had no children. Two decades ago the rate was 45 percent. Women's choice to delay pregnancy has been explained in two ways. First, it is now more common for women now to be educated to a tertiary level, and second, the majority of women in Sweden prefer to establish themselves in the labour market first, and only then have their first child (SOU, 2000:3, p. 48).

Figure 5.7 The share of elderly and children in the population, 1900-2030



Source: SCB (1997) Befolkningsstatistiken, SCB (1998) Befolkningsprognosen 1997-2050. Internet WWW.scb.se

Whilst a decrease in fertility is the main factor responsible for the increasing percentage of older people in the population, the decline in mortality rates, which Sweden has also experienced in the past century, has also contributed to current population ageing. Although in the mid-19th century, the declines in infant mortality rate mostly reduced instances of infant death, and that lowered the average age of the population, in the past decades, the life expectancy at birth has increased dramatically (by four years since the 1970s). Combining the earliest declines in mortality that reduced infant deaths in the middle of the century with the great increase in life expectancy at the end of the century has contributed to the changing balance in the proportion of the population who are elderly. As is shown in figure 5.7, while the share of elderly in the population has increased steadily between 1920 and 1990, the share of children (0-17) has decreased, with an interruption in the first decade after the Second World War.

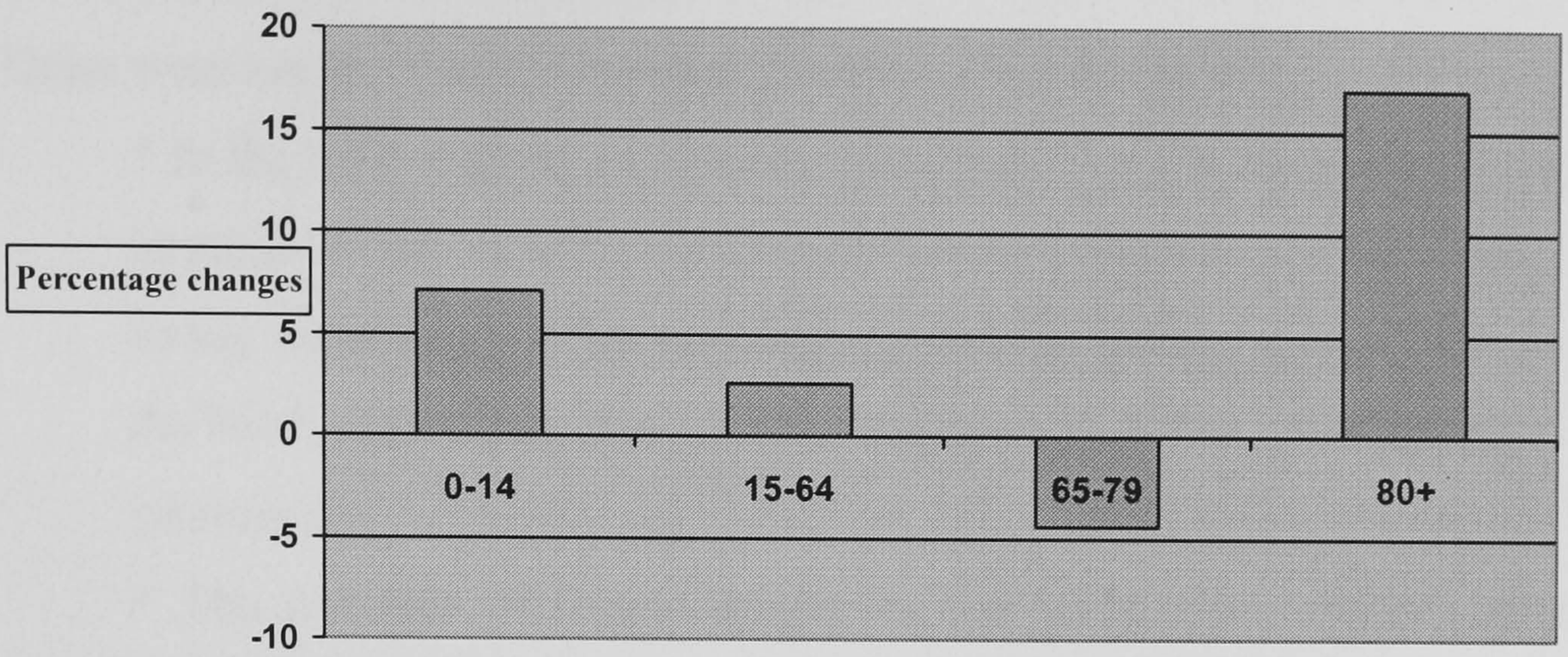
Migration is the third major factor, which has influenced Sweden's demographic profile. During the 1990s, a considerable number of refugees arrived in Sweden. As a consequence, the share of the population who were immigrants increased from 7.5 in 1980 to 11.1 per cent in 2000. The composition of immigrants has changed hugely: while in 1960 more than 300,000 of immigrants came from Nordic countries and

merely 3,000 came from non-European countries, in 1997, the number of Nordic immigrants decreased to 287,000 while the number of non-European immigrants increased more than 100 times to 322,000 people. As a result, the country's ethnic homogeneity has been replaced by multicultural diversity, and this has obviously changed the conditions concerning social policy and education policy (SOU, 2000:3, p.54). As shown in the figure, present demographic trends suggest that ethnic minority groups have a young age profile. As family sizes among immigrants is larger, the implication is that child care will be more costly, but in the longer term, the younger age profile of the immigrants will undoubtedly mean a greater supply of young labour moving into the ageing Swedish labour market.

Overall, the dramatic demographic changes experienced in Sweden during the past decades radically altered the structure of the population. The interaction of fertility, mortality and immigration factors, as it has been shown, has changed the age structure in Sweden. While the long- term decline in the fertility rate seems to explain the ageing of the population, growing immigration has to be seen as a factor that has decreased the speed of the ageing process, at least to some extent. The future age structure of the population will, therefore, be related to these two key issues of fertility and migration. Whereas changes in the rate of fertility will not have an immediate impact on the age structure of the population, it will be possible to predict the age structure on a long-term scale. But in the case of immigration, there is widespread uncertainty, because the future of immigration will be determined by factors such as immigration policy and tendencies in the Swedish labour market.

In sum, during the 1990s both the number and proportion of children and elderly people increased in Sweden. While the rate of fertility will determine development amongst younger age groups, predictions of the number of elderly will be an easy task. For example, it is known that the post Second World War baby boomers will begin retiring in the first two decades of the twenty-first century.

Figure 5:8 Changes in age groups in Sweden, 1990-98



Source: SCB, Befolkningsstatistik 2000

Transformation of the old age Pension system

Since the pension reform of 1958 and the development of the ATP system, some major changes in the Swedish economy, in addition to demographic trends towards an older population, have caused serious financial problems for the system (SOU, 1994:21; Palmer, 2001). The high inflation and reduced economic growth, which characterised the 1970s and 1980s, together with high unemployment in the 1990s, have prevented a rapid income progression in Sweden. Knowing that in the pay-as-you-go system (PAYG), pensions are financed by the succeeding generation, such economic problems will have consequences for the financing of pensions.

The ageing population seems to have been the major threat for the financial stability of the System (Fehr, 2000). When ATP was introduced, the number of old-age and early retirement pensioners was quite low, and therefore, the working population was able to finance the costs of the pension system. As noted in chapter five, demographic changes have dramatically changed the ratio between the number of people in the working population and the number of old-age and early-retired pensioners. In 1990, the ratio was 2.38, but it is predicted that in 2025 the ratio will have reduced to 1.78, which

means that each member of the working population has to finance more than half of one pension (Ståhlberg, 1995:8).

Furthermore, after three decades of the ATP, other weaknesses had been identified. These were summarised by Ståhlberg (1995:8-9) as follows:[11]

> * In the ATP system, pensioners' standards of living did not follow the changes in those of the working population. When, as a result of economic growth, the living standards of the working population increased, pensioners' standards declined, and when that of the working population declined the pensioners increased.
> * The principle of compensation for loss of income, which was an essential element when the system was constructed, had been eroded.
> * The connection between the amounts a person paid into the system and what s/he got back in the form of pension was weak. This might have a negative impact on people's incentive to work.
> * The pattern of income redistribution had become, as a result of the pension regulations, more unsystematic, which contradicts the purpose of the traditional income distribution policy.
> * In the PAYG system the incentive to save has decreased, because with the existing generous public pension system there is no need for contributions to private pension funds. It seems that in a funded system, as a result of more savings, the contribution to investment and economic growth would also increase.

Furthermore, the rate of the pension in the ATP system was determined by an individuals' previous income. It was related to the 'base amount' (about 20 per cent of the average industrial wage) and therefore, protected against inflation. In other words, changes in real wages in the labour market or in the productivity of the economy did not affect the rate of pensions. The rate of growth in productivity, however, had a decisive impact on the pension levy, paid by the working population. As long as there was reasonable economic growth and real wages rose, then the total wage sum, out of

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[11] Sundén (2000) has almost similar views regarding the weaknesses of the old pension system in Sweden.

which the pension was to be paid, increased, and as a result, the pension levy remained low. However, low real wage growth meant that the working population had to pay larger amounts in contributions. As shown in the table below, predictions about the future demonstrated that if the average annual growth rate was 1 per cent, pension levies for the national basic pension and ATP would amount to nearly 33 per cent in 2015, and if there were no growth at all, the levy would have to be 48 per cent of total wages.

Table 5.1 Pension levies for the national basic pension and ATP, with different GDP growth rate

Year	Annual real GDP growth rate		
	0%	1%	2%
1995	26.5	24.7	23.3
2015	43.7	32.7	25.1
2025	48.1	33.1	23.3

Source: SOU (1990:76, P. 30).

Apart from this inherent weakness in the ATP system, it had, as OECD economists (OECD, 1994:84) stress, 'a large apparent effect on income distribution, mostly because it replaced private saving by public provision of income.' The living standard of pensioners was above the level of welfare benefits, even for those who did not receive benefits from the supplementary ATP pension. Furthermore, the generosity of the national 'basic pension', which is paid to all who have been resident in the country for a certain time, has ensured that the risk of poverty is virtually non-existent for pensioners, compared to systems in which public pensions are related to previous income. According to Barr (1992), as a result of this policy, the average risk of poverty was 5.3 per cent in Sweden, whereas in eight other OECD countries the average percentage was 9.7. However, financial problems in the pension system, mainly caused by the PAYG arrangement, have made reform inevitable. A central budgetary issue was the large tax wedge associated with the 40-year old system of government provision (OECD, 1999:64).

The Political agreement for pension reform

At the turn of the 1980s the political elite and representatives of major social groups, such as the unions and pensioners' organisations, were almost agreed that the archaic pension system in Sweden could not survive the accelerating pressures from the demographic changes and the structural problems in the economic system (Gould, 2001; Lundborg, 2001; Lindbom, 2001). The need for a reconstruction of the system was deemed as inevitable. In the early stages, however, the political discussion about the possible scenarios for changes differed radically between the two political blocs. While the bourgeois parties suggested systemic changes in order to harmonise the pension system to the neo-liberal model, which stressed funded pensions, the Social Democrats defended the essence of the PAYG system mainly because it would retain the redistributive elements of the system (Lundborg, 2001). In the initial debates the Social Democrats maintained a defensive policy, which intended to keep the existing system and focused its efforts on trying to find new financing sources for the famous ATP-system. The strategy was intended to intimidate the voters in order to avoid large-scale changes in the system, which was deeply embedded. According to Social democrats transferring from funds such as wage earners to the pension funds could save the existing system. The conservative Moderate Party and the Liberal Party, on the other side, were highly critical of the Social Democratic option, which still saw socialisation as its major aim and suffered from a growth policy. Instead they advocated a policy, which stressed individual savings in private arrangements (Lindbom, 2001). The third bourgeois party, the Centre Party, differed from the other two by suggesting a basic insurance model, which would assume the loss of income principle but suggested basic pension, although with a higher ground level. The essential point here is that apart from these differences in the outset of the 1990s, all parties in the parliament came to a consensus that something had to be done with the pension system.

The takeover of the bourgeois coalition in 1991 meant that the advocates of the private arrangements had the opportunity to establish a system shift that would give greater space to the funded element (Gould, 2001). Instead of doing so, the bourgeois government decided to set up an all-party parliamentary working-committee in which not only representatives from all parties in the parliament participated but also the

contracts were established with the two major interest groups, unions and the Pensioners' Organisation (PRO). Despite the deep conflicts inside the working group, in 1994 it succeeded to present the first draft of what was intended to be the new pension system. By then the bourgeois parties for the first time since the creation of the modern welfare state in Sweden became in charge of developing the reform process. Until that time, almost all initiatives to reform in the social policy system in general and also in the pension system in particular had been taken by the Social Democrats (Lundborg, 2001).

A new era was also started in Sweden, especially for the Social Democrats who had become the champions of expansion of the welfare system. Now in opposition, they were compelled to observe the moves taken by the bourgeois coalition in order to transform those parts of the system, which were understood as being expensive. What worried the social democrats was how the Bourgeois government was going to change the system. In the case of the pension system, the central question was whether the ambition to reform was drastic or just partial. Were the Bourgeois coalition determined to carry out the process of liberalisation of the pension system to full effect or, at the moment of decision-making, would they avoid far-reaching changes in the system by keeping the essential parts of the old-system unchanged? Apart from this, the Social Democrats could enjoy the situation because they were not compelled to have the initiatives in a process of retrenchment. The situation was also new for the bourgeois who never had been in a steering position and who were now compelled to shift the course. Even if they stressed 'the new start for Sweden' as 'the only way' out of the structural crisis, they were far from eager to accomplish major reforms, even less to shape a new welfare system. As Pierson (1996) noted, since the policy of retrenchment is not a glorious option, why do the governing parties in affluent democracies avoid risking their popularity by dismantling the generous welfare programmes?

Consensual mode of decision-making

The initiative to establish an all-party working group was partly due to need that sharing the responsibility of the retrenchments offered to both political blocs. Apart from this, the Swedish political establishment had, over a long period of time, developed a consensual mode of decision-making which had resulted in a welfare

system, and which was supported by virtually all political actors. In this regard (spirit) the policy of retrenchment should not endanger programmes, which would cause the protest of large groups in society, such as in the middle class, or age groups, such as the pensioners. In the case of pension reform, it should not threaten the interests of those who already were of pensionable age or would reach the pension age in the near future (Lars Bergendahl, interview). Drastic changes in the benefit system, for instance in the pension system, would make the powerful interest organisations such as PRO (Pensionärernas riks organisation – Pensioners Central Organisation) furious. With the support of hundreds of thousands of pensioners who were dependent on public pensions, the organisation was in a position to stop every attempt, which would jeopardize the existing universal pension programme.

Apart from the consensual tradition in the Swedish political system, there were other factors, which were crucial to the bourgeois government's ambition for an all-party agreement. First, the structure of welfare arrangements was the major obstacle, because it would prevent far-reaching changes to the existing arrangements. The pension system was a typical arrangement in which previous institutional choices limited the space for decision makers to adopt such far-reaching changes (Lindbom, 2001). As old-age pension was based on a PAYG system in which current employees' contribution financed the previous generation's pensions, the political establishment would have limited options for making essential changes to the system. Therefore, every one-sided attempt by the bourgeois parties to shift from public-funded to privately-funded arrangements were bound to face institutional problems. In this regard, the role of the public sector organisations involved in the pension issue, such as the National Social Insurance Board (RFV, Riksförsäkringsverket), Department of Finance and Department of Social affair came to be crucial (Pierre, 1995; Marier, 2001).

Second, the government consists of four parties which were experiencing internal conflicts in the pension issue. The Coalition could easily split if the pressure on a party on such a major issue as the pension system become too great (Lindbom, 2001). By having the Social Democrats in a working-group, the pressure on governing parties could be reduced and be divided between both political blocs. Further, it could give the parties stronger reason to act unanimously against the Social Democrats. In other

words, by including all political parties in the process of decision-making in unpopular issues such as reforms in the pension system it would become difficult for the pensioners to trace the origin and cause of the change in the system. Moreover, the coalition did not have a majority in the parliament, which made it dependent on the support from other parties.

Third, the unprecedented economic crisis, which seriously threatened the national economy and the stability of the society, provided a condition for national unity (Lundborg, 2001). In an almost catastrophic condition it was easier to establish national unity against those threats which endangered the elementary basis of the society. As early as 1984, when there was no sign of economic crisis, a previous committee for pension reform had stated that if the rate of unemployment increase and the growth rate remained at a low level the pension system would face serious crisis (SOU, 1994:20). Against this background the Social Democrats could not ignore the fact that both growth rate and employment rate had reached critical level.

Fourth, the Bourgeois Coalition were aware that the pension issue was so delicate that drastic changes in it could cause enormous protests among those who would lose out due to a transformation of the system. Apart from the organised interest groups there were recipients of the key benefits such as pensions, which could be expected to resist unpopular cutbacks in the pension system. That would give the Social Democrats reason to mobilise the social movements against the Bourgeois Coalition (Lundborg, 2001; Lindbom, 2001). By its strong support in the unions and pensioner's organisation the Party was in a position which could create a common cause and turn the defeat in election into a victory.

The active involvement from the Social Democrats in the parliamentary working group not only prevented the bourgeois from quick changes of the system but also prevented them from enervating the redistributed elements of the initial system (Leif Carlsson, interview). However, in the preliminary proposal, which was published in February 1994, the two political blocs seemed to be in agreement about some crucial aspects, which in some element deteriorated for the employees. One of those was the shift from employer to employee contributions. The agreement met widespread protest from the trade union federations, which were not only dissatisfied by the contribution issue but

also were worried about the decreasing replacement rate from 67 per cent in the old system to not quite 50 per cent of the income in the new system. On the other hand, the employers' organisation demanded far greater changes to the existing system in order to move the contribution from employers to employees. Despite the great unhappiness, mostly on the LO and the Social Democrats' side, the agreement about the new pension scheme survived the election of 1994. After that, as a result of the Social Democratic Party's great victory in the election and the broad dissatisfaction in the movement, the Party asked for a renegotiation about some aspects of the agreement with the bourgeois parties. The move taken by the Social democrats caused widespread protests among the bourgeois who feared a total collapse (crack down) of pension deal (DN, 98/4/12). Three more years were needed before the five parties could reach a final agreement about the new pension system. However, the essential point with the agreement was that while both sides were convinced of the need to make changes in the system, pressures from the interest groups on their own sides prevented a rapid agreement. However, the political parties in both side, most of all in the labour movement, could in longer run overcome the resistance by the 'radical' factions and reach an agreement in a consensual spirit, which would ensure a durable old age pension system. While at the beginning the Bourgeois parties emphasised private pensions or a greater funded element in the system, in the final agreement, which was approved by the parliament in the summer of 1998, they compromised a system which was largely based on public arrangement but introduced some minor elements of private funding (Lundborg, 2001).

In 1994 a broad cross-party agreement on major pension reform emerged. Reforms were to be implemented in phases over a period of 20 to 25 years. One of the major elements in the reform package was the lengthening of the period to be spent in employment, either by rising the official age of retirement or extending the duration of contributions necessary for the level of pension. Overall this trend was popular in the 1990s in most European countries (Daly, 1997). In Sweden the official retirement age has, from 1993, gradually been raised from 65 to 66 years. By this change the retirement age in Sweden is now higher than the standardised retirement age in central and South European countries, where it is 65, but is still lower than in some of the neighbouring Nordic countries such as Norway, Denmark and Iceland, which have an

official retirement age of 67. However, old-age pensions may be claimed from the age of 61 and, importantly, there is no obligatory retirement age in Sweden (OECD, 1999).

The second strategy was a reduction in the average generosity of pensions, which has been affected by pushing retirement further back in the life cycle. In other words, the contribution period required for full pension has been raised. According to the new model from 1995, in which pensions are more directly linked to contributions, the basis for pension entitlement is now lifetime income rather than the best 15 years as previously. According to the OECD (1999:65) the 'best year' rule favoured the highly educated because they earned relatively highly amounts over a few years. By the same token, Ståhlberg (1995:12) stresses that in the previous system there was no systematic redistribution from higher income earners to lower income earners, but intermediate white-collar workers and senior white-collar workers, whose ATP were calculated on the basis of the 15 best years rather than their life-cycle incomes, received much larger ATP. Correspondence between pension and lifetime earnings, which is the core of the scheme, will therefore adjust pensions in real terms if income growth falls or even exceeds a certain standard. However, special provisions for time off work due to child-minding, military service and undertaking education at tertiary level will be made.

Historically, the average contribution period required for a full pension had over the past decades, steadily been increased in OECD countries, from 13 years in 1960 to 26 years in 1985 (Palme, 1990:53). This trend accelerated during the 1990s, and the requirements have become more demanding (Daly, 1997). For Sweden, which before the reform of 1995 had one of the most generous requirement conditions, the new pension reforms caused a remarkable deterioration. Two major groups of losers in the new system were women who might have worked part time during a certain period of time, and immigrants who have been working in the country for short periods of time.

The third main feature of the new pension reform was to reduce the value of the pension. In 1993 the 'basic amount' for calculating the pension was reduced by 2 per cent. However, at the same time the means-tested supplementary part of the basic pension was increased, which has to be regarded as a partial compensation. Furthermore, pensions will, in the new system, be indexed to wages rather than prices. As a result, pensions and wages will follow one another when the economy fluctuates

(Ståhlberg, 1995:18). By this change, indexation of pensions has irreversibly been related to the public budget deficit. Consequently, in 1995 and 1996, the basic amount was not indexed fully, but only to 60 per cent of price increases. Despite improved public budget deficits in 1997 this 60 per cent indexation continued (Kvist, 1999).

The fourth significant change in pension benefits is that, for labour-market reasons, early retirement no longer qualified a person for a disability pension.[12] Early retirement schemes and other special arrangements within unemployment insurance for early retirement (well ahead of the formal retirement age) were initially regarded as efficient measures against unemployment, particularly in regions with high unemployment. However, such arrangements have been reduced dramatically in Sweden and elsewhere over the past few years (Palme & Svensson, 1997). A combination of increased pressure by the Bourgeois parties (until 1994) and the need for cuts in social expenditure (after 1994 Social Democrats had come to office) led to a sharpening of eligibility rules for disability pensions. As a result, the number of new cases of recipients of disability pension decreased markedly (from 50,500 in 1990 to 39,500 in 1999) (SOU 2000:3, p. 80). On the contrary, by imposing low tax for older workers, Sweden has encouraged older male workers to participate longer in the labour market (Blondal and Scarpetta, 1998). Because in the 1990s unemployment in Sweden was high, sustaining participation rates for older male workers at such high levels had almost certainly a negative impact on the rate of unemployment.

In the new system, the pension contribution will be 18.5 per cent of the employee's wage but it will be paid into two systems. The main part of contributions (16.5 per cent) will still go to the old PAYG system, but 2 per cent will be paid into a private funded system. As a result of all these changes, Sweden has moved from a position where, in 1990, pensions were very generous, to a position where that generosity has declined (Lars Bergendahl, interview). The most important means of reducing pension expenditure has been ending indexation. The basic pension was reduced by 2 per cent in 1993. In 1999, though, the basic pension were increased and was based on 99 per cent of basic amount, and in 2000, on 100 per cent – the same as before the crisis.

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[12] Since 1972, people over 60 who, because of adverse conditions, were out of work, were entitled to an early retirement pension. During the1980s, the number of people who for reasons purely concerning the labour market applied for early retirement was around 10 per cent (SOU 2000:3).

Uncertainty about the future of the pension system, which started in the 1980s, has caused an expansion of private pension schemes. Despite the fact that the private schemes still constitute a limited part of the pension system, a failure of the new pension system could see these schemes gaining popularity.

The outcome of the new pension system

After nearly two decades of work in three different working-committees, the new pension system invented in the beginning of the 2000 and the first groups of pensioners who received parts of their pension through the new system received their pensions in 2003.[13] The dividing line between the two major political blocs was clear. While the Bourgeois parties intended to increase the funding elements of the system, the Social Democrats strived to keep the major parts of the old ATP system intact. The outcome contented essential elements of the former in the way that even the new system became largely public; however, in the new system the definite percentage replacement rate was abolished and instead income-related pension was connected to the economic growth. Further, a limited amount of individual funding was incorporated into the system, which even then is connected to the rate of interest for the funds. In other words, the rate of pensions will not be decided just on incomes but also on the amount everybody pays to the pension system. Other that, in the new system the economic growth will have a decisive impact on the level of pensions. Only if the average growth rate stands at 2 per cent the income replacement rate provided by the new pension system is the same as the ATP system (Lars Bergendahl, interview).

Everybody involved in forming the new pension system is agreed that the level of pensions in the new system would never be surely predicted for long. Everything depends on the economic development and also on the contributions to the system. However, those who understand the pension reform as an inevitable task tend to have a

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[13] The Social Democratic government in 1983 set up the first working-committee with Sture Korpi as chairman. The Committee, which intended to keep the old system but suggested some changes in the old system, could not present its final report before the election in 1991. After the defeat of the Social Democrats the Bourgeois coalition appointed a new working-group with Bo Könberg as its chairman. The major part of the new system was designed before the election of 1994 but some adjustment was made after 1994. According to Lars Bergendahl (Interview) there are still some minor details of the pension reform, which require further negotiation.

more optimistic view about the outcome of the new system. The architect of the reform is one of them:

> Despite the fact that the pension system has experienced some essential changes I believe that the generosity and the redistributive capacity of the system is still there. We have to wait and see what the outcome will be in the future but what I could say now is that if the growth rate stands at about 1-2 per cent and if the life expectancy does not rises further, the level of income-related pension will be the same as in the ATP system. However, one could expect that the life expectancy is going to rise, therefore, we should hope for better economic growth. After all, knowing that the former pension system was no longer viable and a change in the system was inevitable, I believe that the combination of the contribution to the PAYG system and to the funded system will not differ greatly from the old system (Bo Könberg, interview).

Experts in PRO also have an optimistic judgment about the new pension system but their main concern so far has not been the outcome of the system for the future generations. As one of the two main interest groups which participated in the process of formation of the new system, the main objective of the PRO first of all was to safeguard the interests of the present pensioners and those who in the near future would reach pensionable age.

> The initial position of the PRO was that those changes, which necessarily had to be done in order to cope with the demographic changes, should be done within the scope of the existing pension system, for example, by changing the indexation of the pensions. As time went on we realized that the five parties, which negotiated the new pension system, were in agreement about the principle of a new pension system. While these parties had the support of the vast majority of the Swedish people we decided to leave the critical approach and, instead, try to impact the outcome of the new system in order to make the changes appropriate to the interests of our members. Our first priority was, of course, to defend the interests of the present pensioners. Even if PRO realized that the main aspects of the changes would have impacts on the pension of the next generation of the pensioners, we were aware that some of the measures, such as changes in the indexation, were going to impact present pensioners as well. In other words, pensions would not any longer depend on the consumer price index but would increase at the same speed as wages would increase, but the basic pension would still follow the consumer price index (Leif Carlsson, interview).

Many critics of the new system admit that the ATP system would have faced a serious crisis in the future. They agreed the system had to be changed, but some of the critics rejected the entrance of the funded schemes into the system, which according to them made everybody a shareholder. Even though one could avoid choosing a fund so that the money would be invested in the premium savings fund of the National Pension Insurance Fund, it seems that the critiques against the funding arrangements are mainly based on ideological grounds:

> Our pension system, which had a solidaristic characteristic before, has been destroyed. The old system was much better than the new system, which is definitely an adaptation to the market. I admit that we had to do something with the old pension system but there was no need to make the changes so fast and to such a large extent. We had absolutely no need to come to a solution, which has made me and many others like speculators in

> share market. The new system makes me insecure because my pension has become dependent upon the development in share market and that is not the objective of the welfare system. I became a shareholder involuntarily and that is because the Social Democrats actively took part in transforming the old pension system, which was based on generosity and solidarity (Ingrid Burman, interview).

Focusing on the changes made in the Swedish pension system, one might argue that the changes, at least in two respects, have been substantial. The most significant changes, which decreased the level of generosity of the previous system, concern the new 'guaranteed pension' (GP), which replaced the former national 'basic pension'. While the 'basic pension' was based on the principle of security and was paid to everyone, irrespective of previous income, the GP reintroduced the means-tested element, which was abolished when the universal flat-rate pension was established. Knowing that the traditional Social Democratic welfare model was based on universalism, such a retreat to means-testing refers to a crucial shift of principle. Regarding the earnings-related second tier, although the shift from the PAYG system based on the best fifteen years of income, to the total lifetime contribution was an apparent decline both in generosity and from the universal values, the outcome would not challenge the redistributive capacity of the pension system. Conversely, the new system is going to have negative impacts for the intermediate white-collar workers and senior white-collar workers, whose ATP calculated on the basis of the best fifteen years were larger than the new system's life-cycle incomes. That makes the experts believe that while the new pension system guarantees the income of those who receive the 'guaranteed pension' the uncertainty will remain for those with income-related pension:

> If we compare the income of those who received basic pension (folk pension) in the previous system with those who receive guaranteed pension I would say that there would be no differences between these two groups. So, the new systems will not disfavour those groups of pensioners. Other social benefits, such as housing benefits, will also remain unchanged. It has been emphasized that the income for these groups will be at same level as before.
>
> *If the economic growth stands at poor levels and if the demographic changes lead to further increase of the percentage rate of the elderly what groups of the pensioners are going to lose as a result of the system?*
>
> The high-income earners, of course. Let me explain in this way. If the economic conditions improves and the growth rate increases at higher level then those who earn more will receive far higher income pensions but if the growth rate stands at a low level, then again this group will loose. For those who receive guaranteed pension there will be no changes because their pensions are guaranteed (Lars Bergendahl, interview).

Other losers in the new system are women who have had part time work, and immigrants who have been working in the country for short periods of time. Another

important change is the introduction of a fully-funded element, which is 18.5 per cent of the gross income which is contributed by both employers and employees. Although just 2.5 per cent of this contribution goes into private funds, the newly-funded element would represent a principle shift in the Swedish welfare system, which up to this point had been fully controlled by the public sector. Knowing that the Conservatives, supported by the Liberals suggested that 10 per cent of the contributions should go into private funds, one could illustrate that when the support for these parties is increased, they will try to increase the private funded element of the pension system (SvD, 98/6/22). Many could believe that 2.5 per cent to the private funds compare to 16 per cent to the old PAYG system is not so much, but if we consider that 2.5 per cent each year will be about 20 billion we can calculate that after 40 years the accumulated premium in private funds will be around 850 billions. According to Kristersson (Motion 1996/97:Sf38), this will be 50 per cent more than the sum saves in general pension funds.

The Private funds have also been criticised because of its high administration costs. While the old ATP system had a very low administration cost, according to Feldt et. al. (DN, 18/5/2003) the administration costs of the private funds will be about 22 per cent of the saved amount. This is because the large number of funds which the contributions could be placed in.

By the pension reform of the late 1990s, there is no doubt that the level of generosity of the system has markedly decreased. In practice, both the basic pension, which was flate-rate, the right of citizenship, and related earnings were negatively affected. While the transformation from 'basic pension' to means-tested 'guaranteed pension' was a deterioration of the universalist foundation of the system, the changes to the earnings related element caused considerable loss for those with shorter work histories. Another important part of the welfare state arrangement regarding the elderly is social care, which has also been subjected to change.

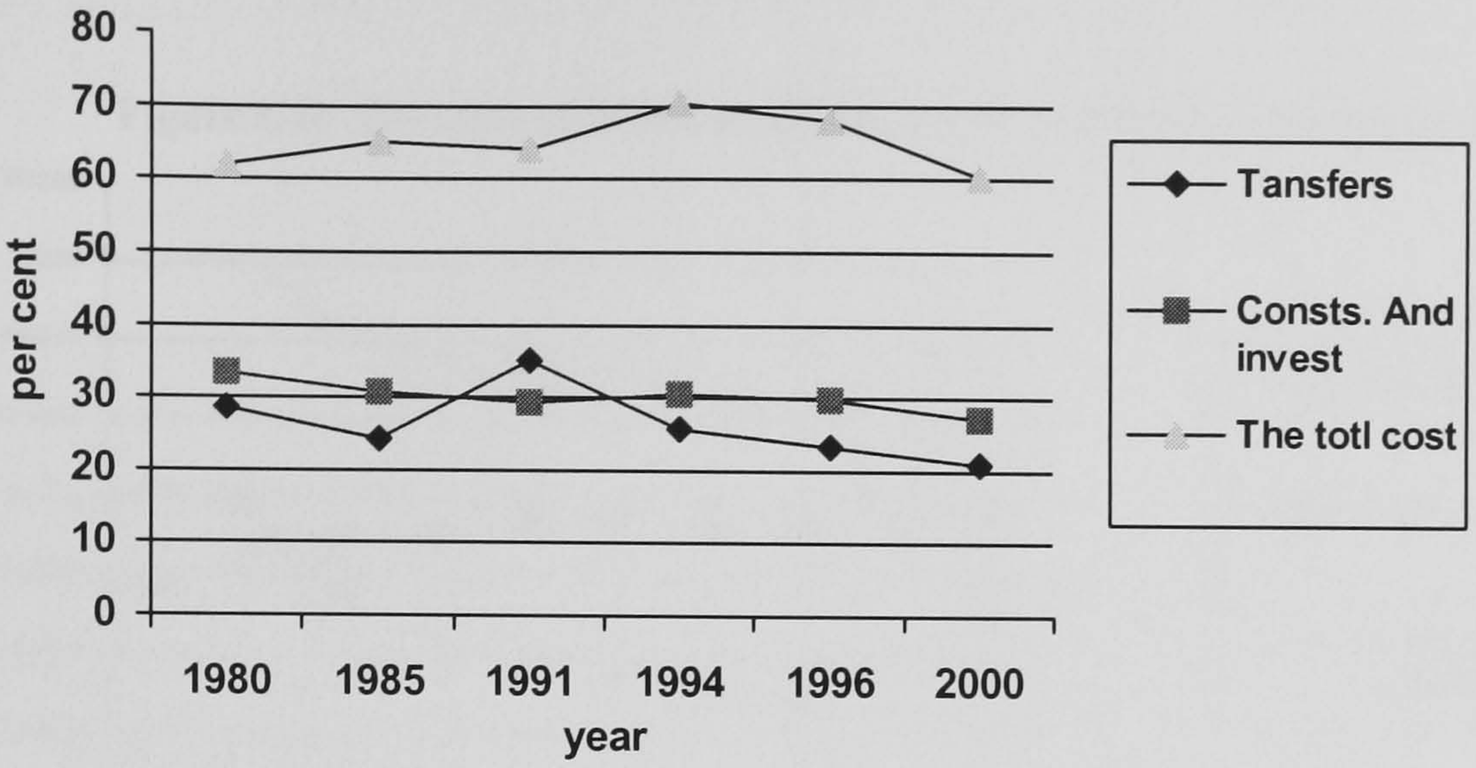
Sickness Benefits

Sickness insurance has always been one of the key targets of neo-liberals and industrial critics who believe that the generosity of the system decreases the incentive

to work (Olsson Hort, 1995:5). The deterioration of Sweden's economic position during the early 1990s provided critics with a rational for demanding changes in the social security system. Sickness insurance was the first benefit system to be targeted for changes.

As late as 1987 a generous system of sickness benefit had been in operation (SOU, 2000:72-42). The Social Democratic government abolished the qualifying day and introduced a benefit based on 90 per cent, and in some cases 100 per cent, of previous income or even more. After this reform, the cost of sickness benefit rose dramatically from 23 billion Crowns in 1987 to 35 billions in 1990 and the average figure of absence from work increased from 20 days per year in 1987 to 24.4 in 1989 (Budgetpropositionen, 1990/91). This situation could not be sustained, and in an attempt to reduce the cost of health insurance and absence from work, the Social Democratic government reduced the compensation levels for the three first days of sickness from 90 to 75 per cent in 1990. From the fourth day of illness until the end of the second week, the 90 per cent level was applied (Sjöberg & Bäckman, 2001). After a year, the costs of health insurance were reduced by 10 per cent. On coming to power, the right-wing government pursued budget savings and reintroduced the qualifying day. As a result, the costs of the health insurance system decreased by one third between 1991 and 1993 (SOU, 2000:72). Even after the change of government in 1994, the Social Democrats continued the same policy. Another reform in sickness benefits was to give the task of administration of the first fourteen days of sickness benefits to the employers, which has to be regarded as a tightening of eligibility. Employers' involvement would increase their interest in ensuring that employees remain healthy, and also lead to closer monitoring of absence from work (OECD, 1994:95). For the remaining period, as long as certain medical criteria were satisfied, sickness benefits are paid by social insurance without any upper limit. Long-term benefit was fixed at 80 per cent of the level of previous earnings. However, for most employees this is topped up by 10 per cent for a period of up to 90 days by subventions from the employer. After that, the level decreases to 80 per cent until the end of the first year when it is further reduced to 70 per cent (Olsson Hort, 1995:5).

Figure 5.9 The costs for social insurance system



Source: The government budget bill (Budgetpropositionen), 1988-2000.

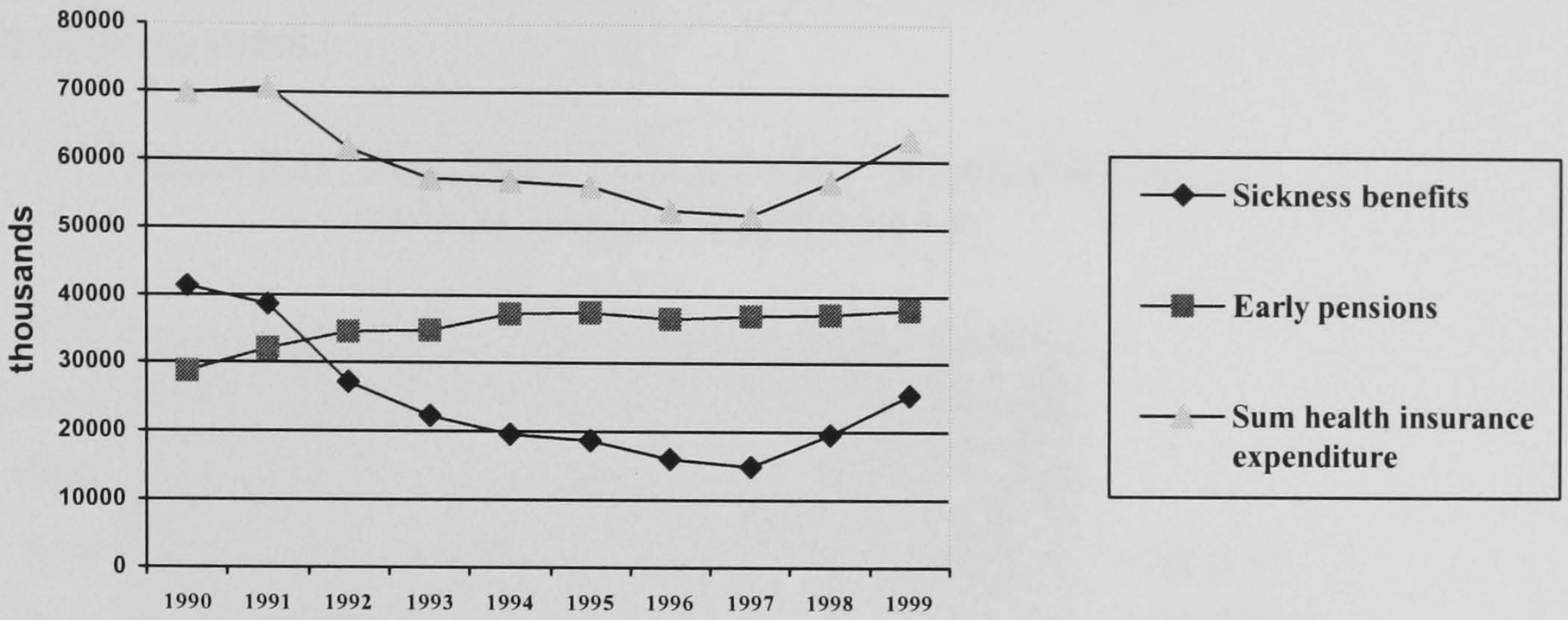
The growth of social insurance expenditure, which was strikingly high between 1987-1991, seems have been the main reason for cuts in sickness benefit. As shown in figure 5:9, between 1990 and 1993 the costs of social insurance declined by 25 per cent. In other words, there is a strong relation between generous compensation levels and utilisation of insurance resources. As a result of this reduction in compensation levels, the average figure for absenteeism has again declined significantly, from 25.7 days/year in 1989, to 18.5 in 1994.

Table 5.2 Number of days of sick leave per insured and major reforms

Year effect	Days sick leave	Major reforms	Estimated
1955	12.0	Mandatory sick leave insurance with 3 unpaid day	
1957	13.5		
1959	12.5		
1961	12.5		
1963	12.5	Compensation level raised	+2
1965	15.0		
1967	15.5	Unpaid days reduced to 1	+4.5
1969	19.0		
1971	18.9		
1973	18.1	Raised compensation level	+2
1975	22.4		
1977	22.2		
1979	21.0		
1985	18.0		
1987	20.0	*No unpaid days, raised compensation	+1.5
1989	25.7		
1991	21.0	*Reduced compensation	- 0.6
1993	18.3	* One unpaid day	
1995	18.5		

Source: OECD, (1994, p. 96).

Figure 5.10 The costs of health insurance system, 1990-98, in million krona



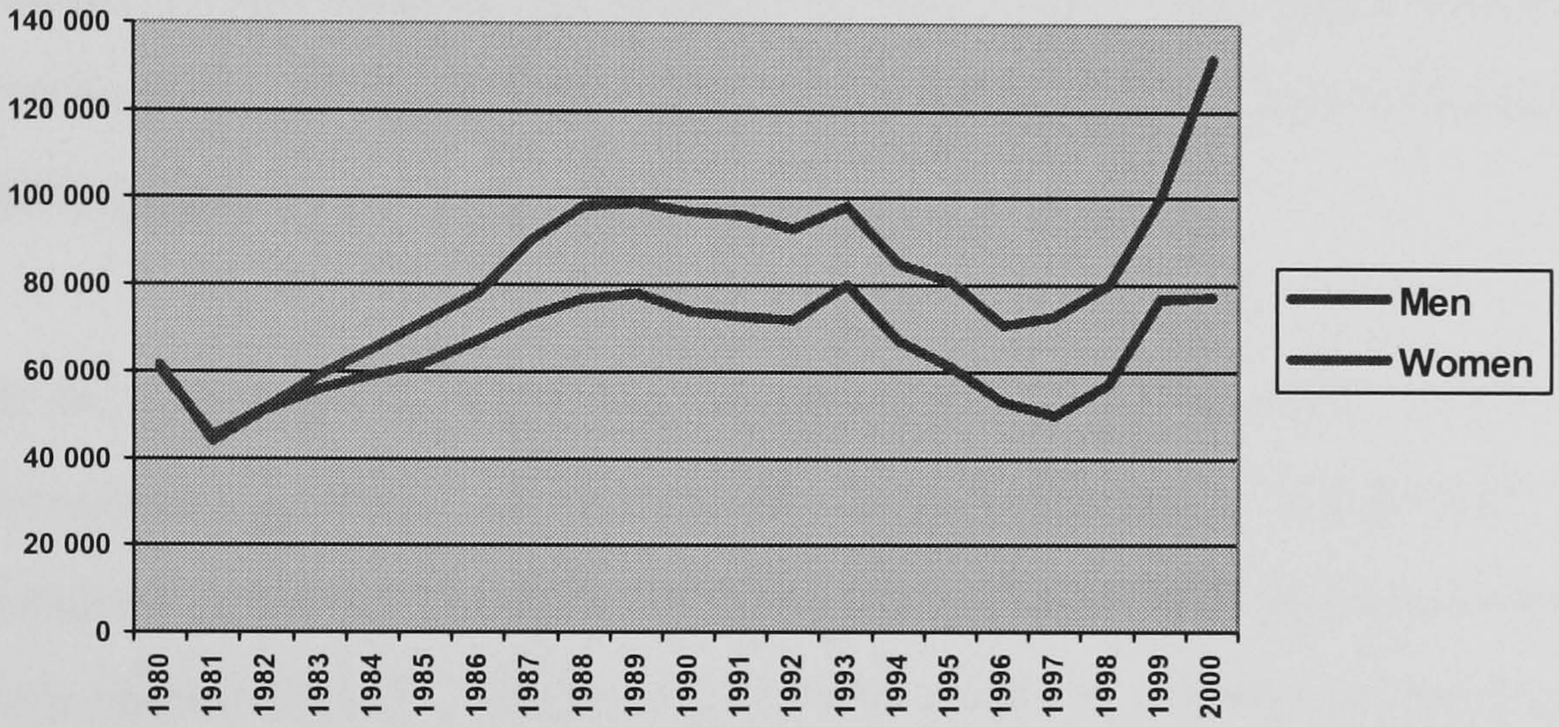
Source: RFV (2000).

As in the case of unemployment insurance, the replacement rate and number of waiting days applying to sickness benefits has had an obvious impact on the effective labour supply via absence from work. In Sweden, this kind of absence (including children's sickness) has historically been around 15 per cent of the labour force. According to research (Gustavsson and Klevmarken, 1993), for every 10 percentage points change in the replacement rate in the public-run scheme, the overall absentee rate has also changed by 1½ percentage, while the imposition of a waiting day has decreased the absentee rate by 0.3 percentage points. Another study (Edgerton, 1997) estimates that the percentage points on the sickness rate would increase by 1.1 if a second waiting day were also imposed.

As a result of decreasing compensation levels and a tougher insurance policy, which led to a decrease in the absentee rate, the public's health seems to have suffered considerably. Many people who were suffering from illness chose to not stay at home because of considerable reductions in their income. They then seem to have increasingly suffered from illness later in the decade and, therefore, the absentee rate increased sharply in 1999. As is shown in figure 5.11, the average figure of

absenteeism, for those who were sick for more than 30 days, increased by almost two times between 1997 and 2000. Moreover, the number of those taking early retirement increased by 30 per cent during the first half of 2000. According to analysts (SOU, 2000:72, p.75), the tightening of eligibility rules has created a situation in which many people who experience long-term illness are waiting to be classified as early retirees in the coming years.

Figure 5:11 The number of persons who have been sick for a 30 days period, 1980-2000 (April)



Source: RFV (2000); SOU (2000:72, p.64).

Overall, at the beginning of the period, as a consequence of the economic crisis, the generosity of sickness benefits has sharply diminished. The rate of sickness benefits has decreased to 80 per cent of income and a waiting day has been reintroduced. The changes caused a remarkable reduction of health insurance costs in the middle of the period, but as economic conditions have improved, the severity of eligibility criteria for health insurance has been reduced and the number of persons sick for periods of more than 30 days has increased. Moreover, the number of early retirees has increased considerably.

Sickness benefit, the first target for retrenchment

During the 1990s, the sickness benefit was subjected to change at least eight times (Sjöberg & Bäckman, 2001; SOU, 2001:57). As soon as there was a need for cuts in social expenditure the governments addressed either parts of the sickness insurance scheme for savings. Among the areas that have been affected in various ways, were the compensation levels, rules governing the income on which benefit entitlement was

based or, qualification requirements. Among other changes were the reintroduction of an initial unpaid waiting day and a change in introducing the two-week employer period. The main reason why the sickness benefit was subjected to changes has been the high amount of absenteeism due to sickness. While the generous benefits system compensated more than 90 per cent of the employees' income when they were sick, one could understand why the absenteeism rate due to sickness increased so rapidly. That made the critics suggest that the generous benefits encouraged widespread abuse of the system. As is shown in the balance sheet (Ds, 2002:32), as a consequence of changes in the system, the number of sick leave cases fell sharply by around 20 per cent between 1990 and 1995. Hence, the costs of the sickness insurance also decreased enormously.

On the other hand, when the economic crisis of the early 1990s recovered and the widespread anxiety (concern) for unemployment disappeared the absentee rate increased dramatically again without any considerable improvement has been made in the sickness benefits. Between 1995 and 1999 the number of sick leave cases increased by almost 60 per cent (Ds 2002:32). These two trends mean that while in the severe economic situation the deterioration in sickness benefits compels the sick people not to stay at home but go to work; consequently, the amount of absenteeism due to sickness decreases, while in a more secure economic condition the deteriorated benefit levels can not prevent the sick people from staying at home. In other words, it is not the level of sickness benefits that has crucial impacts on the level of leave due to sickness but the increasing threat of becoming unemployed in severe economic conditions.

The high amount of absenteeism due to sickness has increased the concern about the trend and at the beginning of the 2000s the problem received great attention (Sjöberg & Bäckman, 2001). Among the interviewees representing political parties there have been three major approaches. First, those who rejected further cuts in the sickness insurance and instead stressed the importance of a more effective rehabilitation programme in order to restore the sick to return to the labour market. Second, those who advocated a real reduction in the benefits and, instead, suggested a minimal protection (basic insurance system) and, third, those who wanted to keep the existing benefit system based on compensation of the income loss but suggested further reductions in replacement rates.

The Social Democrats and its supporting party in the Parliament (the Left Party) advocated the first approach. These parties like the unions seem to believe that the increasing rate of poor health had to do with the severe conditions caused by the economic crisis of the early 1990s and, therefore, should not be handled by deterioration in benefits. They were not interested in further cuts in entitlements. On the contrary, these parties advocated further reforms. One of the most debated issues was the increase of the level of the social insurance ceiling i.e. the maximum amount of income on which a sickness benefit may be assessed (Ds, 2002:32). For a long period of time, the ceiling has remained stable at 7.5 times the base amount, which is only adjusted with consumer prices. The Ceiling has favoured the members of LO because among this group only 1.7 per cent of the women and 8 per cent of men had an income above the ceiling. Among the members of the TCO the corresponding figure was 6.8 and 40 per cent whereas among the members of SACO 27.5 per cent of women and 61.5 of the men earned above the ceiling (Palme, 2000:75). Therefore, while during the 1990s the real wages increased more than consumer prices, the number of employees with an income higher than the ceiling increased rapidly. The interesting point is that the Left Party has also demanded an increase of the ceiling, which would increase the compensation level for those with high incomes:

> In order to increase the support to the general welfare system and to make those with higher income be more solidaristic to the universal welfare system, the social insurance ceiling should be increased. During the past years, the Left Party has been working hard to increase the social insurance ceiling because our Party believe that a universal welfare system has to benefit both those with low and those with middle wages. The freezing of the ceiling level at 7.5 times the price base amount has led to the dissatisfaction of many employees who earn more than the ceiling and, therefore, the sickness benefit they receive is far below their income (Ingrid Burman, Interview).

The concern of the Left Party and the Social Democrats in increasing the level of the ceiling has to do with the increasing volume of private insurances. As a consequence of being paid less compensation in the event of illness, more and more wage earners with higher incomes in the private sector made agreement-linked insurances in order to compensate their loss of income. Between 1990 and 1999 the number of individual health insurance policies in four major companies in the private insurance sector rose from 170.000 to 395.000 (Ds, 2002:32).

Second, the Centre Party and the Green Party, which only advocated a basic insurance system, suggest no increase in ceiling or in the level of benefits. These Parties ask for efficiency in the treatment of sick people and a more efficient rehabilitation program. The Centre Party suggests that the regulations should be reformed in order to reduce the costs for the insurance and to encourage these absentees from the job to return to work as quickly as possible:

> The existing insurance system encourages absenteeism. You are either fully sick and should stay at home or are fully recovered and then are allowed to return to your job. There is not anything in between. I do not believe that those absent from work because of illness should be excused in 100 per cent in every case, but instead that sick leave should be granted due to nature of sickness. In many cases the period of such absence could be 75 per cent and/or 50, and maybe just 25 per cent. Administrative personnel who broke her leg could go back to work after one week or two if the leg is in plaster. Why should the system force her to stay away from the job? (Birgitta Carlsson, interview)

The experts of the Confederation of Swedish Enterprises point to the high level of costs for sickness insurance as the single largest cost for the enterprises in Sweden. In this respect, it has also been argued that by involving high levels of taxation, the welfare state erodes incentives to work, save and invest, and all these have caused market distortion. The Confederation suggests not only a reduction of the benefit levels but also a tightening up of definitions around sickness. The attitude of the physicians and medical officers to the sickness insurance has to be changed:

> The attitude of the physicians to sickness is too liberal. Many doctors grant sick leave not because of a medical reason but because the patient demands it. In many cases such permission to be absent from work has negative impacts on the health of the one who asks for it. By staying at home for a long period of time it will be more difficult to return to the labour market. The lack of professional behaviour from the medical officers has had negative impacts for the companies, for the country and for the patient. The other problem concerns the lack of efficiency in the Social Insurance Offices, which are not capable of examining those cases, which need quick evaluation in order to instruct and plan rehabilitation programmes. Unfortunately, most of their time is spent in the administration of the payment of the benefits (Anders Morin, interview).

The third approach has been launched by the Conservatives and to some extent even by the liberals who suggest a second waiting day before which the benefit could be claimed. According to this perspective, the existing system is too generous and the level of excess insurance too little. Such generosity reduces the incentive to work. The loss of income has to be greater for the individual, otherwise, the level of absenteeism will remain high:

> There has been too little discussion about the high level of absenteeism because of sickness. There is a need for a new regulation system in which the level of excess insurances has to be increased. It has to be expensive for individuals to get sick. The

> generous system encourages people to stay at home because of illness. The benefit level should be far lower than 80 per cent, which it is at now (Sten Tolgforss, interview).

Despite the resistance from the Social Democrats to avoid changes in the basic principles of the sickness insurance system it seems that the mounting financial challenges will force them to make some minor change to the system. The cost of sickness insurance, especially for those cases of at least 30 days' duration has increased consistently since the end of the 1990s (Socialstyrelsen, 2002). Apart from reducing the level of sickness benefits, which can always be an option for governments in the era of spending cuts, another measure could be the role of the employers in the task of administration of sickness benefit increases from fourteen days, which has been the case until the start of the 2003, to four weeks. Such a requirement could increase the pressure on the companies to tighten the eligibility.

Family Policy

During the 'Golden age' of the welfare state different aspects of the Swedish family policy had been developed to a degree that internationally the Swedish welfare state, like the other Nordic countries, was recognised as one, which offered the most generous entitlements to the families (Axelsson, 1992). By different kinds of supportive measures, the Social Democrats pursued two major goals: first, they provided equal opportunities for children from all social classes to make a career, independent of their parents' income and, second, they enabled women to enter the labour market. Different aspects of family policy programmes would provide enough benefits and services to families to ensure that young couples would not hesitate to combine a career with having children. The economic crisis of the 1990s, which challenged all the entitlements had some effects on different programmes of family policy but, as explored in this section, in contrast to the other three social policy areas already discussed, family policy programmes were largely saved from the retrenchments of the 1990s. The broad support for family policy arrangements was crucial because, in the era of retrenchment when most other social policy areas were targeted, these programmes could support those families, where breadwinners were subjected to redundancies or other mishaps caused by the market. As family benefits are generally of two different types – either in relation to birth and maternity, or for the

care of young children – this section will cover both aspects, which contain key elements such as parental leave, housing subsidies and child allowances.

Parental benefit

In the 1990s, extending policy arrangements to facilitate parental leave has been one of the major identifiable policy trends in many European countries (Daly, 1997). In this regard Sweden was once again in the lead position. By increasing the duration of leave through parental insurance in 1990, to 15 months, Sweden has developed its policies on parental leave more generously than in other OECD countries. Since 1995, at least one month of parental leave has to be taken by the parent who is not taking primary responsibility for childcare. This policy is regarded as a measure to encourage fathers to stay at home with their young children. So parental leave in Sweden and the other Scandinavian countries such as Denmark and Norway has not only been treated as paid leave, its duration has also been increased (Björnberg and Byork Eydal, 1995). Conversely, in the 1990s, as wage replacement levels became less generous in comparison with previous decades parental leave benefits have also been negatively affected. In the 1980s, for example, the value of transfers was increased with replacement rates for absence due to the care of a sick child going up to 100 per cent. In the 1990s, however, this trend was reversed. Not only were waiting days in sickness and unemployment benefits reintroduced and labour-market criteria ceased to qualify on their own for disability benefits, but also in 1996 replacement rates in all social insurance schemes were reduced to 75 per cent (Increasing to 80 per cent again in 1998). Replacement rates for parental insurance were the latest benefits to be cut. Both the two main political blocks were determined to avoid cuts in family policy, but it was realised that differences in the level of benefits would encourage abuse of the system. For instance, parents, who themselves were ill preferred to claim parental leave to care for a sick child, leaving them in receipt of their full wage, rather than sickness benefit. Therefore, in 1994 the rate was reduced from 90 to 80 per cent and then in 1996 to 75 per cent - again increasing to 80 per cent in an attempt to harmonise the level with other benefits. By this change in 1996, the replacement rates in all social insurance schemes were reduced to a uniform level, i.e. 75 per cent (Budget propositionen, 1994/95:17). Despite this deterioration in replacement rates in all three Scandinavian countries (to 80 per cent in Norway and Sweden and to 60 per cent in Denmark), they still have the highest rates among OECD countries.

Housing subsidies

Another important element of family policy is housing subsidies, not least because they aim to provide high quality housing to low-income families. In 1988, Sweden was ranked second, after the Netherlands, in subsidising housing (Table 6.3). Housing subsidies had at that time increased housing consumption of all income groups but particularly of low-income families. As a result, the number of households who were living in overcrowded conditions decreased, and by 1987 was estimated at only 2 per cent, which was far below the level in most other countries (Boverket, 1993).[14] Even in this field the system kept its universalist features. By interest subsidies, the system has also favoured high-income families who normally own more expensive houses and therefore gain more concerning interest subsidies. During the 1990s, housing support to families with low incomes remained quite intact but for high-income families interest subsidies were reduced from 40 to 30 per cent. However, a series of changes were introduced in housing subsidies, which led to a tightening up of both the levels of benefit and the area covered. Further, it was also decided that the housing subsidies should not any longer be paid to people over 28 years of age without children (Ds, 2002:32).

Table 5.3 Housing subsidies and standard.

Country	Sum of subsidies minus housing tax	Rent subsidy1	Construction subsidy2	Square meters per person	Housing consumption per capita adjusted by PPP, 1990
United Kingdom	-2.44	1.14	0.36	26.8	2.238
Belgium	0.23	0.01	0.23	n.a.	1 984
Netherlands	1.56	0.40	1.91	n.a.	2 017
Denmark	-0.16	0.59	0.43	49.0	3 648
Finland	n.a.	0.33	0.48	30.0	2 566
France	-0.19	0.32	0.45	31.5	2 450
Norway	n.a.	0.14	0.28	43.0	2 370
Sweden	**1.49**	**0.73**	**1.28**	**47.0**	**3 338**
GDR	-0.03	0.17	0.18	34.9	2 725

1.Subsidy paid to households, usually means-tested and restricted to rental housing
2. Subsidy paid to housing owner as a lump sum after construction or an extended interest subsidy
Source: Boverket (1993) in OECD (1994, p. 84).

[14]The criterium for overcrowding is more than two persons per bedroom (Boverket, 1993).

As stressed in the balance sheet of Welfare Commission (SOU 2000:40, p. 40), during the economic crisis of the 1990s housing subsidies had been given the character of a family policy measure in order to reduce the financial pressure on the groups. While in 1991, the number of households drawing housing subsidies was 328, 000 at the middle of period (1995) when the rate of unemployment was at highest level the figure was 556,000 (Ds, 2002:32, p. 130).

Child allowance

The general child allowances, as the other key element in family benefits, have increased marginally during the 1990s. The amount of child benefit, which during the severe years of the early 1990s increases only slowly, was raised towards the end of the 1990s (nominally from 7,680 per each child in 1997 to 9,000 Crowns in 1999) as a result of the economic upswing.

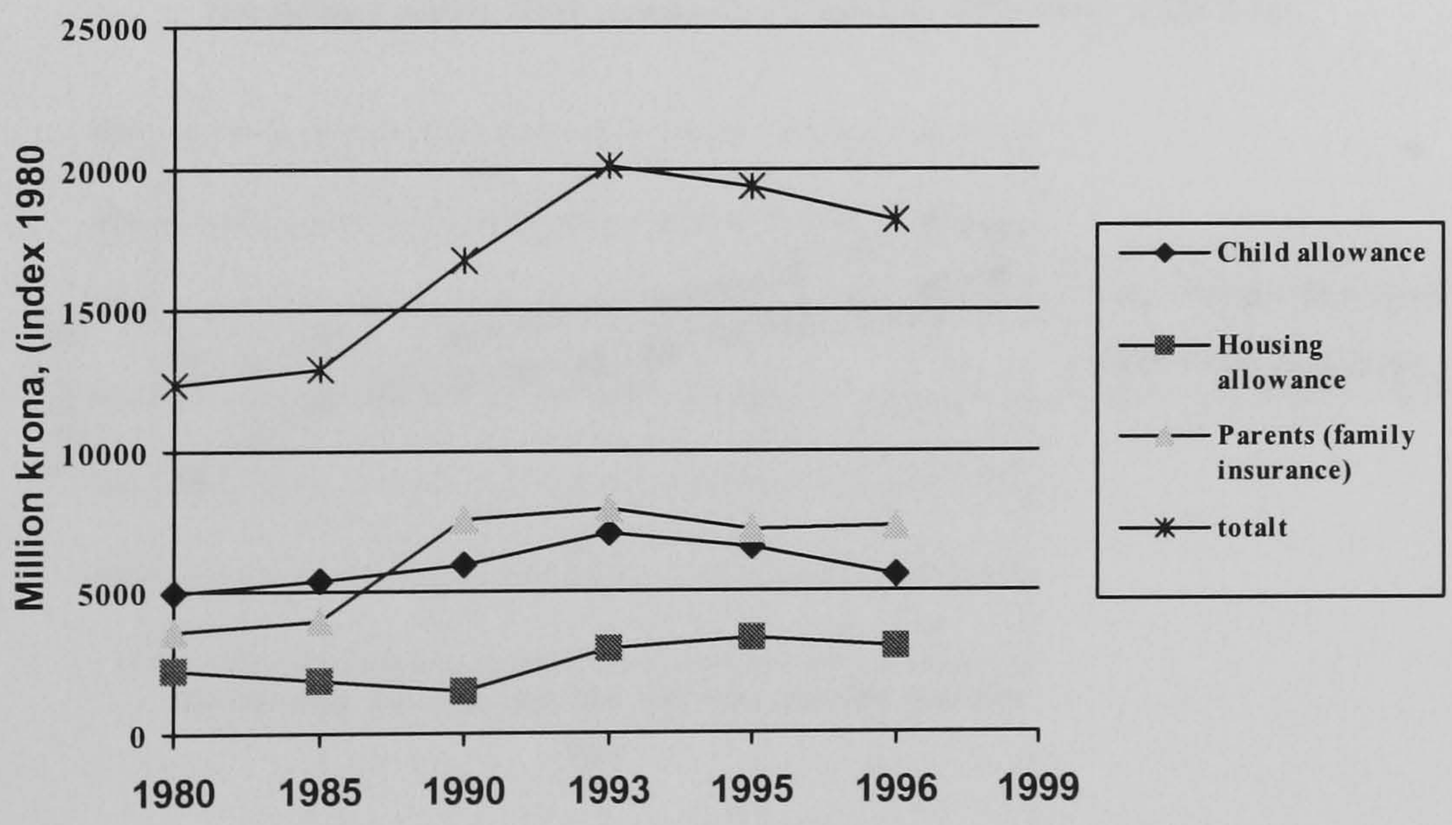
For families with children, the generous norms in social assistance have been of great importance, because during the 1990s, a significant part of households were unable to obtain a reasonable living standard for reasons of low income. In another words, their after-tax earnings from work were below the social assistance norm, and therefore different kinds of allowances were needed. It was the major reason why in the tax reform of 1991 an increase in child allowance was addressed as the instrument, which would compensate the redistributive effects, which were partly abolished by the tax reform (Palme, 2000:78). In 1991, among married or cohabiting couples with three or more children, more than half earned below the norm; among couples with two children, the percentage was 30, while 90 per cent of single parents with two children, and 70 per cent with one child earned below the norm (OECD, 1999:123).

Child and housing allowances in particular were decisive allowances, which ensured that household incomes would reach the social assistance norm (SOU, 2001:57). In the severe years of the1990s, nearly one third of the households in the lower social strata increased their incomes to above the norm because of these allowances. The rest had to be covered by the social assistance benefits administered by local authorities. Because of the generosity of the system, some measures have been imposed to prevent its misuse. For instance, families who applied for the allowances had to realise their accumulating savings before accessing the social allowances. The average duration of

social assistance in 1993 was 4.5 months, and 7.5 per cent of the population received cash assistance at least once during the year (OECD, 1997:96-97). The design, content, and levels of support were, until 1997, decided by the municipalities, which gave discretion to local authorities to adapt levels to local circumstances. A survey made in 1994 shows that when there is a need for budget savings in the municipalities, politicians on the local level tend to reduce the rate of social assistance, and thereby ignore the norms decided by the parliament (Bergmark, 1995). As a result, around 75 per cent of municipalities ignored the centrally-provided norms and adopted lower levels. In 1997, by imposing a nation wide norm on most components of the support system, the central government has restricted the room for local discretion and thereby prevented income loss for households (OECD, 1999:105).

In sum, despite that the structures of different social programmes have remained unchanged through the 1990s, as a result of a limited savings in all programmes the total financial support to families has decreased (Gähler, 2001). The only programmes, which have shown an increase in total costs was expenditures related to parental, leave which during the 1990s rose from 15.7 to 19 billion Crowns (figure 5.12).

Figure 5.12 The costs of family support

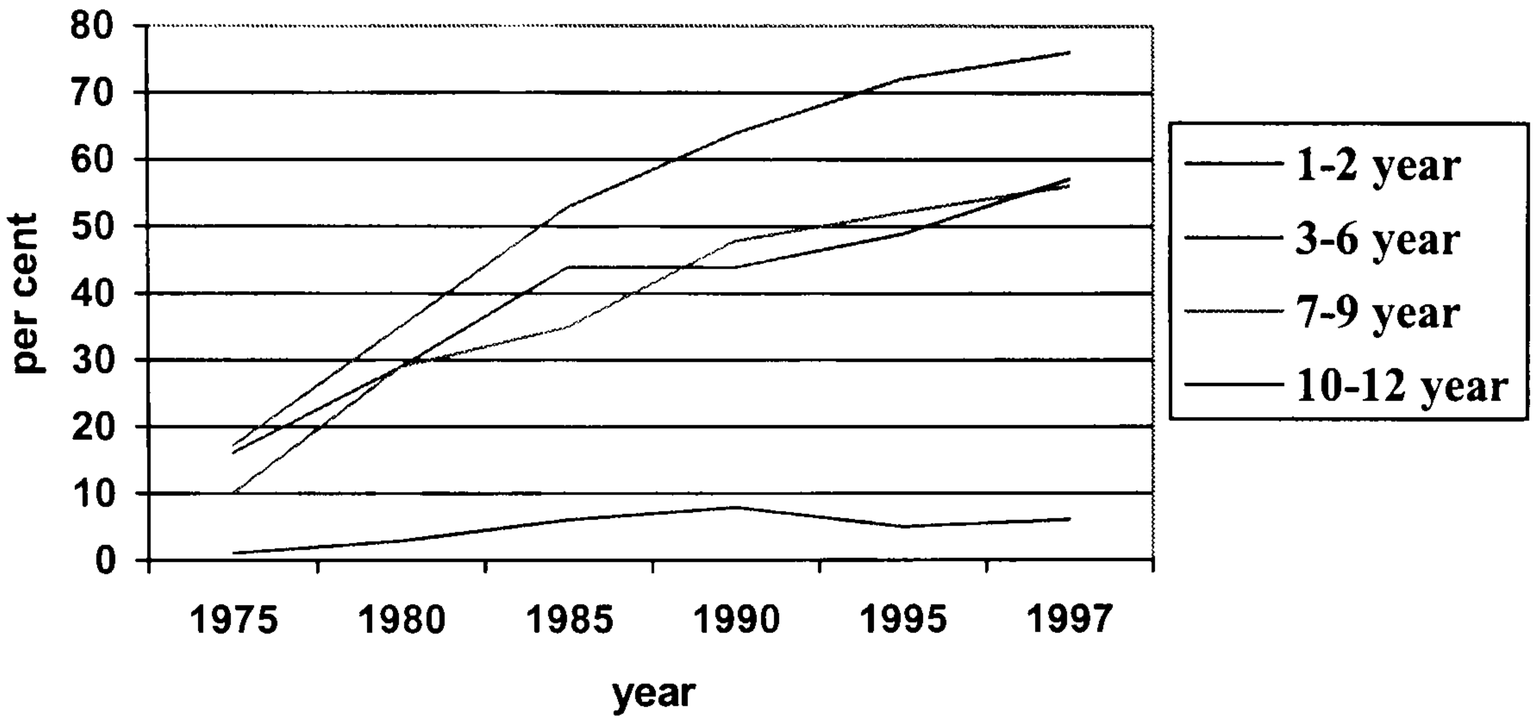


Source: The government's budget bill (Budgetpropositionen) (1988-1999).

Childcare services, which together with elderly care services, forms the core of social care services, have shown considerable improvements during the 1990s. Between 1990 and 1997, the rate of children aged 1-2 years that had access to child care services increased from 44 to 57 per cent. For children aged 3 to 6, the rate increased from 64

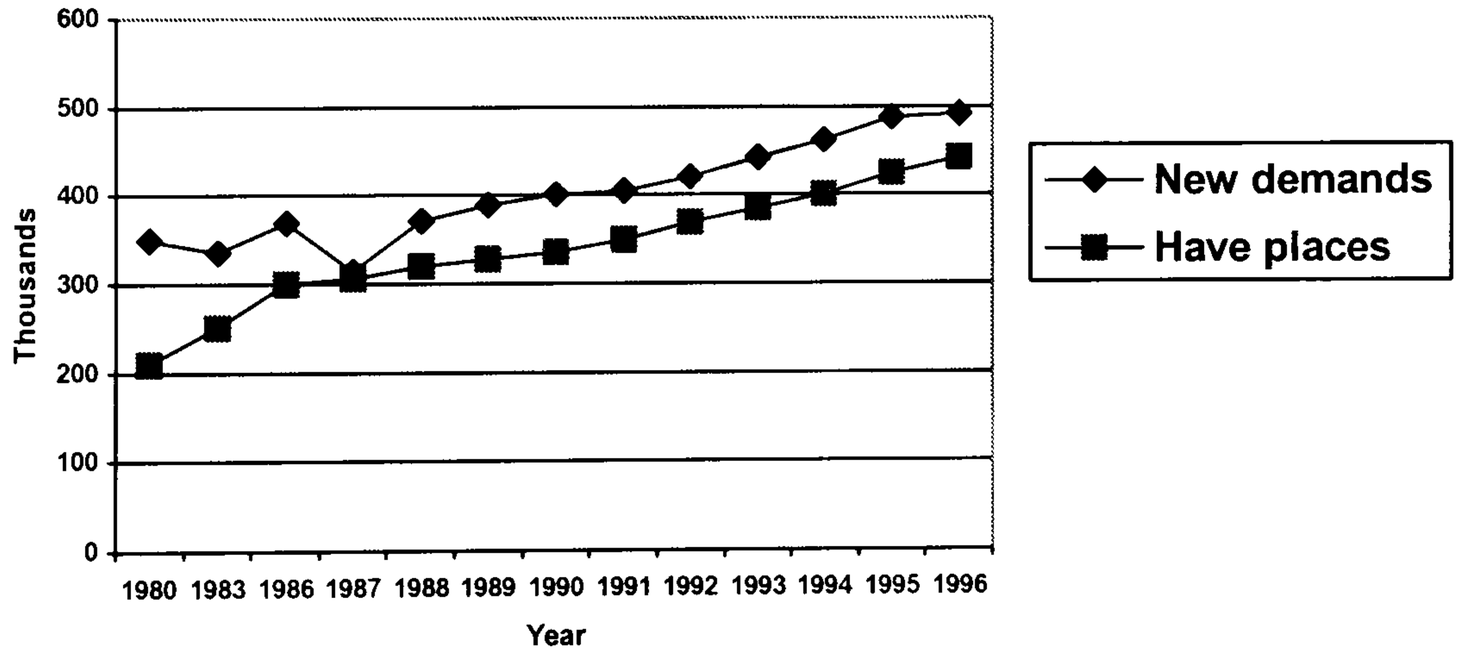
to 76 per cent. Despite that, the municipalities were not successful in providing school law for all children aged one to twelve years, as had decided places.

Figure 5.13 The rate of children in nursery, after-school recreation centres, and registered childminding homes, 1975-1997



Source: Socialstyrelsen (1997); SCB, Barnomsorgen (1996).

Figure 5.14 The number of children between the age of 3 months and 6 years in municipality child care services in January, and new demands for further places (New demands), in spring 1980, 1983, 1986-1996.



Source: SCB (1996); Barnomsorgundersökningen (1996).

Overall, the family policy area has experienced lesser changes than other policy areas. For instance, child allowances never actually decreased during the 1990s. Parental insurances were another benefit that was saved from retrenchment up to 1996. It seems that during the period, the main objective of family policy was to save different kinds

of allowances and benefits, which were addressed to the families, from retrenchment. In consequence, benefits would ensure that the economic differences between families with children and other families would remain constant, and if possibly even decrease. Moreover, family policy enabled both parents to an increasing extent to combine a working career with parenting. Despite this policy of preventing the deterioration of the situation for families, the economic situation of families with children underwent great changes during the 1990s (Gähler, 2001). However, after 1997 the process of deterioration stopped and the living standards of families started to increase. In recent years, both increased employment and reduced taxes have compensated families with children for some of the deteriorations in their standard of living. Changes have also been made in the rules relating to family allowances, in favour of the worse off (Hoem, 2000; SOU, 2000:37).

Among the political parties there is a widespread consensus about keeping the family policy saved from seasonal changes. There is a perception, which will not understand the family policy as an insurance system:

> Staying at home because of the birth of a baby and then taking parental leave in order to raise a newborn baby is not really like other absenteeism from work. Taking care of kids is an issue for society and not just for the mother who gives birth to a baby. Therefore the benefit to the mother and her family should not be understood as being the same as other insurances. I mean that family insurance is not really insurance but a kind of support from society to the family and, therefore, should not be threaded as a benefit related to somebody's state in the labour market, which could be a subject for change. The family benefits have to be saved from retrenchment (Bo Könberg, interview).

Similar concerns were raised by the spokeswoman of the Centre Party on social issues when she asked for an increase of the level of ceiling i.e. the maximum amount of income on which parental benefit may be assessed:

> In order to reward motherhood, the level of ceiling has to be increased from 7.5 to 11 times that of the base amount. This is because, during the past decades the age at which women first become mothers has been raised. That shows that more women prefer to give birth to their first child after having made a career in the labour market. By a gradual increase in the level of the ceiling, these groups will find that motherhood will not lead to a considerable reduction in their income. Apart from that we should also raise the basic parental benefit for the younger mothers who mostly are students and have no previous income on which the parental leave counts. The basic parental benefit, which is 60 skr/day, should be increased to 200 (Birgitta Carlsson, interview).

The stress on keeping benefits for families with children, made by the spokesman of the two Bourgeois parties, shows that the support for generous benefits to families is very intact. As with the case of the pension system, the signs of a consensus in family

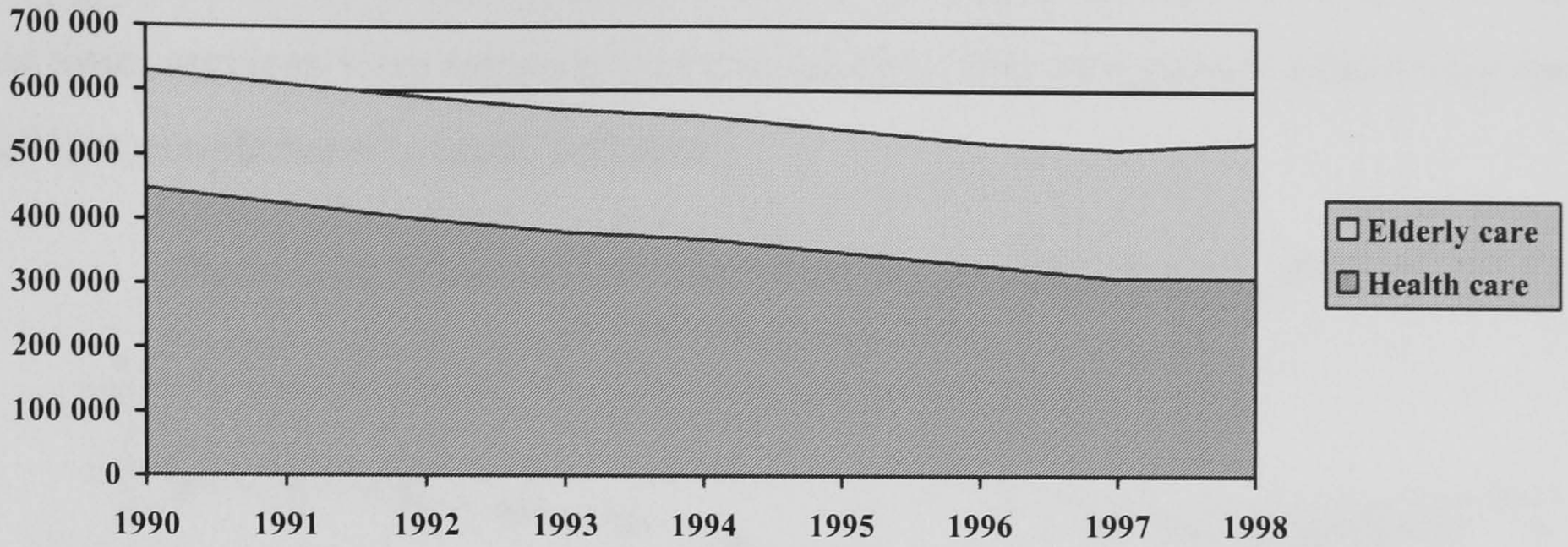
policy are promising. By the existing low fertility rate in Sweden there are strong reasons to believe that some of the benefits will be extended (Esping-Andersen, 2001).

Further changes in Swedish system; transitions in social care

Although, the level of Swedish pensions has been generous when compared internationally, the Nordic welfare states are exceptional for their unique scope of publicly provided services, as some commentators (Castles, 1998; Birch Sorenson, 1998) stress. According to NOSOSCO (1999), in 1997, the share of social and health services of all social expenditures was 41 per cent in Sweden, which means that services took up a significant portion of GDP. In comparison to other welfare states, services in the Nordic model have been of high quality, run by professional staff, and have catered to the needs of those resident in the country. However, care services for the elderly, who together with childcare services form the core of social care services (Sipilä, 1997), have increased since 1993, following considerable reductions between 1991 and 1993 (SOU, 2000:3). Since 1993, as demonstrated in figure 6:7, expenditures related to old age increased continuously in Sweden, with the exception of 1995, accounting for close to 13 per cent of GDP and 36 per cent of all social expenditure by 1997. According to the Ministry of Health and Social Affairs, the share of services to the elderly was 22 per cent of all old-age related expenditures (Kautto, 2000:83, p. 60).

The higher levels of expenditures for older people in Sweden particularly explain the higher wage levels of care workers and staff ratios. It has to be stressed that a great deal of the expenditure on elderly care services are personnel costs (SOU 2000:38). These costs have decreased since the number of personnel in elderly care, care for the handicapped and the health care sector were reduced by 94, 000 people between 1990 and 1998 (Szebehely, 2000, p. 198). By these reductions, Sweden's favourable position in providing elderly care services diminished in relation to other welfare states – although in 1998, the trend of personnel in elderly care showed an increase, a feature explained by the growth in state subsidies to the municipalities in 1997 (SOU, 2000:3, p. 169).

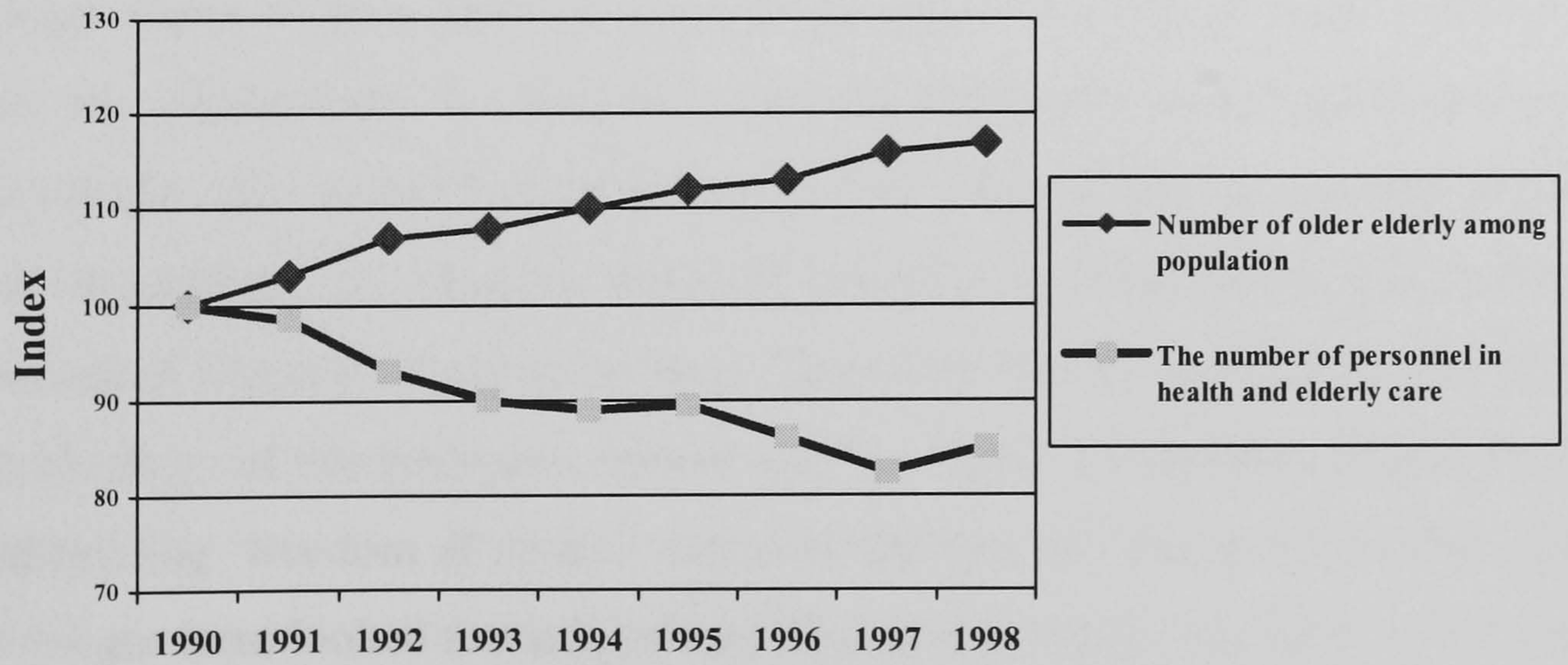
Figure 5.15 The number of employees in health system and elderly care, 1990-98



Source: AKU (SCB) in SOU (2000:3, p.169).

The fact is that the number of older elderly who need more services increased by 17 per cent between 1990 and 1998, while, as figure 5.15 shows, the number of personnel in the health and elderly care sector has decreased by 15 per cent in the same period. This means that the care services were reduced to the groups who were in greater need. Further, the services to elderly changed the character, from support to the elderly who needs support in their everyday life to those who are in greater needs to medical services (SOU, 2000:38, P. 214).

Figure 5.16 The number of personnel in health care and elderly care, and older elderly among population respectively, 1990-98. Index 1990=100



Source: SOU (2000:3, p.170).

Another clear trend in Sweden was a move from institutional care towards more home-based care – although home help services have been reduced markedly. As Szebehely (2000) shows, the number of recipients of home help decreased by 36,000 between 1990 and 1997. As shown in figure 5.16, in 1989, almost 50 per cent of the 'old old'

received help. In 1997, the percentage decreased to 43 per cent. Among the 'younger' elderly (65-79), the share decreased from 10 to 7 per cent (SOU, 2000:3, p. 171). By this time, services were targeted more accurately, this new pattern effectively meaning that less people receive more services.

Figure 5.16 Home help services for elderly persons in Sweden 1990-97, per cent of age group

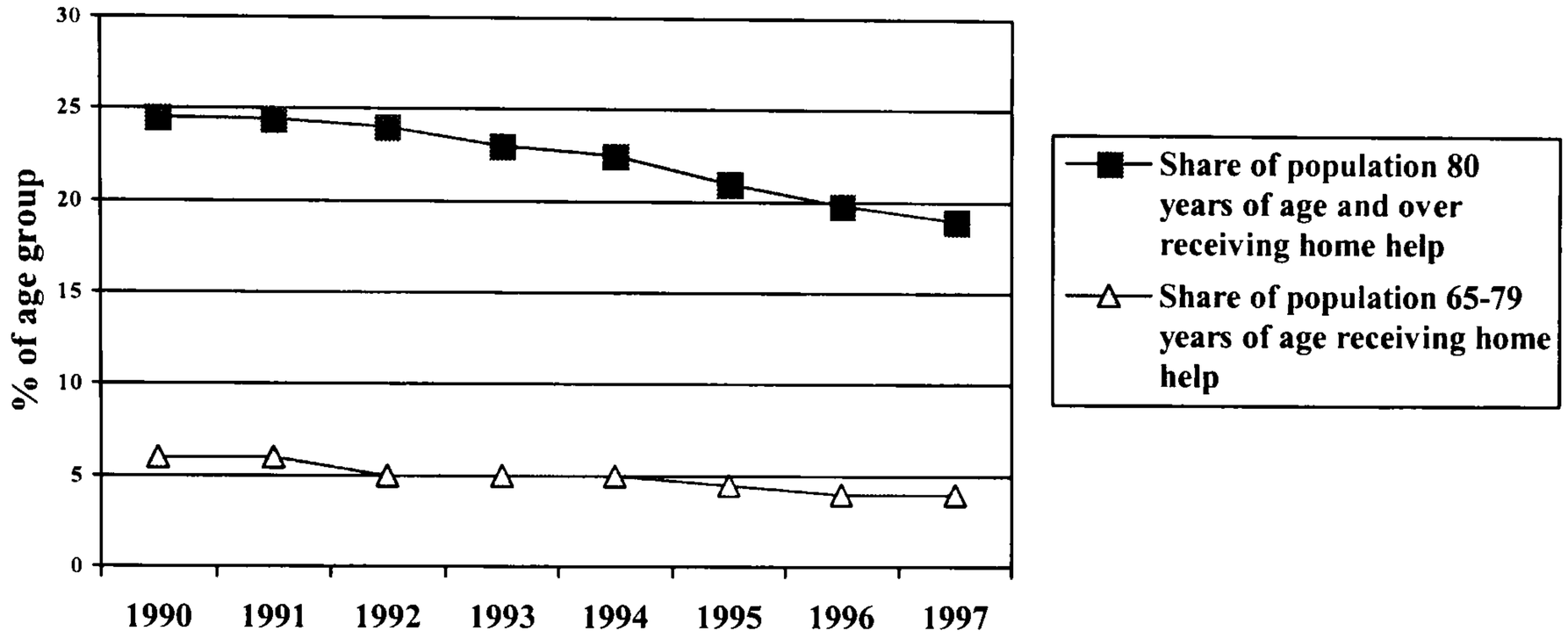


Figure: SOU (2000:3, p.171), figure 2.2:21. In Kautto (2000:83, P.69).

Regarding the direction of the welfare system, as Kautto (2000, p. 70) has noted, during the 1990s, the ideal type of Nordic model experienced two reverse trends. At the beginning of the decade (1990-93), there was a shift from public services to transfers, with pensions and other benefits being increased. One major reason for the change seems to have been the need for saving on the part of local authorities, which after the 'Ädelreform' in 1992, took over the responsibility for social care services for the elderly. The second half of the period saw expenditure on services increase faster than expenditure on transfers and cash benefits. In other words, the welfare system once again focused on public services. These two trends clearly show the difference in the ideology of the bourgeois parties and the Social Democrats. While the former by emphasising 'freedom of choice' aimed at reducing the size of the public sector and in the longer term looked towards private care arrangements, the latter were concerned to keep the public service as a strong institution. According to those on the labour movement, the worse-off would lose from the privatisation of care services (Malm, interview; Meidner, interview).

In sum, the development of elderly care has now moved away from the traditional model in which home help and other similar services set the Nordic model apart from

the rest of Europe. By heavy increases in user fees, the access of people in the lowest income strata to services decreased, surely an indication that services in Sweden have lost their original character as the epitome of the caring state. As Kautto (2000) and Szebehely (1998) stress, through these changes the degree of universalism in the pension and elderly care has decreased to some extent. To reach a verdict about the development of the whole welfare state the next chapter focuses on sickness benefits, which in the past decades was subject for changes.

Retaining the universalist system

Apart from those areas of the Swedish welfare system which this study has explored, other studies, such as 'the balance sheet for Swedish welfare during the 1990s' (SOU, 2001:79), which comprehensively examined the development of the Swedish welfare system also came to the conclusion that despite some changes in different arrangements the essential parts of the system are still intact. However, the study stressed that the living conditions in Sweden have experienced some crucial changes, and accordingly, the share of people who suffer from different kinds of misfortune resulting from the changes in the economic conditions, has increased (SOU, 2000:41). Rapid increases in the unemployment rate are considered to be the major root of the problems (SOU, 2001:53). Beyond that, the deterioration of conditions for the labour force meant growing mental stresses caused by the decrease in labour market security. More people were wrestling with economic problems and lower income levels, which increased their long-term dependency on social allowances (SOU, 2000:40).

The balance sheet has also pointed to some improvements, some of which occurred during the 1990s. The most important one is the rapid increase in wage levels, which rose faster than in earlier decades (Le Grand, et al., 2001). Among other improvements were increasing literacy rates and decreasing mortality – especially infant mortality. In other significant areas, such as the population's disposable income, as Fritzell (2001) stressed, after a decrease in the mid-1990s, by the end of decade the figure rose to the same level as it was in 1990. Differences in class and gender were another issue, which has not changed particularly during the period. However, by widening wage differences between the public and private sector, one could argue that the economic

situation for women, who are over represented in the public sector, worsened. Overall, according to the balance sheet, as the number of redundancies in the public sector increased, so the number of employees in the public services had to be increased.

Three groups are pointed out as the major victims of the economic crisis of the 1990s. Single mothers, who on a larger scale than before were dependent on different kinds of social contributions, non-Nordic ethnic minorities, and young people, all had great difficulties entering into the labour market (SOU, 2001:54). Apart from these three groups, the balance sheet put the emphasis on children and families as other victims of the 1990s who needed some additional support from the welfare system to avoid the poverty trap. Despite the fact that during the 1990s long-term poverty has increased, in Sweden, Kangas (2001) and Esping-Andersen (2001) believe that the measures taken by the strong welfare system in supporting these vulnerable groups saved them from declining further into poverty.

Furthermore, the balance sheet emphasises on the resilience characteristic of different benefits, which decreased when the economic conditions deteriorated and went up when the crisis was overcome – although not to the same level at which they had previously stood (Ds, 2002:32). In other aspects, the sheet also stresses some changes in the institution of welfare, which diverged from the historical pattern. At the beginning of the period, a process of decentralisation in the provision of welfare services started, but it did not last. In the second half of the period, once again, the state's role was increased by certain initiatives, which aimed at adjusting the increasing differences among the municipalities (Hans Lindberg, interview). The second significant divergence in welfare institutions was a tendency towards privatisation in the delivery of services within a framework of public financing (SOU, 2001:52). Although, during the period, private initiatives increased in most of service areas, the changes have been modest, and by the end of the 1990s, the majority of the services were still provided by the public sector.

Overall, the balance sheet stressed some structural changes, which have occurred in Swedish society, which are likely to have a crucial impact on the future of the welfare system. One of these is the demographic changes, which constitute both falling patterns of fertility and aging of the population, and also gains through migration,

which has markedly changed the composition of the population in Sweden. The other is labour market change, which have seen moves towards new forms of production, mainly in high-tech areas, which are in the process of replacing more traditional industries (Näringsliv, 12/9/01). This move is clearly in the direction of deindustrialisation and consequently companies have called for greater deregulation in the economy to facilitate the mobility of both capital and also some parts of production. Apart from the two major structural changes, which are a resource of both endogenous and exogenous factors, the verdict of the senior members of the Committee, which provided 'the balance sheet for Swedish welfare during the 1990s', is that despite the crisis of the 1990s, the Swedish welfare system remains intact, but there are some tendencies in other directions.

> The political decisions, which are going to be made in the near future, are going to be crucial for the future of the system. The processes and development in this country, and not international development, decided the content and direction of the welfare system and its institutions (Johan Fritzell, interview).

A comparison made in the late 1990s (table 5.4) showed that Sweden still had one of the most generous social insurance systems in the OECD (OECD, 1999:123-4). The judgement about the high standard of the system was based on some of its main features:

- Despite the decrease in different benefits replacement rates (mainly unemployment and sickness insurance), they are still high. On top of that, this the duration of eligibility in all the above-mentioned benefits that makes the Swedish system so distinct – most other countries have upper limits. However, one should say, while 80 per cent income replacement might still seem high, these benefits are taxable (Olsson-Hort et al., 1993).
- As a result of the extensive use of income-supplement programmes, the coverage of the main social protection programmes among the working-age population is higher than in most other OECD countries (Table 5.4).
- Rigid employment protection and industrial relations legislation make the Swedish labour market workforce-friendly. The system also has a double safety net, because it secures both incomes and jobs. However, the generosity of the social system, especially in the matter of job security, may have a negative impact on the flexibility of internationally-high enterprise.

- The social assistance norms are still high, and since 1998, the local discretion to differ from the norm limited.

According to OECD (1999:126), while reforms to the insurance system undertaken during the 1990s have put it on a more sustainable footing, the eligibility criteria for different benefits are still very generous, which gives some disincentive effects to the system. While the social insurance system in Sweden is institutional and therefore all citizens, regardless of their contribution, are eligible for some of the major benefits (health, education), in the case of rising social expenditure, the only solution for central government is to increase tax levels. Even in the case of unemployment insurance premiums, which are paid by the workers, it is based on a given level of unemployment. Any changes from a certain level have to be financed by the government. Therefore, OECD economists (OECD, 1997:101) believe that a stronger link between social insurance expenditure and employee and employers contribution has to be established.

The Bourgeois parties, particularly the Conservatives, have the same approach. By arguing that in the past decade social insurance measures have been subjected to different political interventions due to the economic crisis, the Bourgeois parties (particularly the Conservatives) suggest that different insurance systems should be independent from each other and, above all, independent from seasonal political decisions:

> One of the essential changes that in the past decade have been occurring in the Swedish political system is that the numbers of changes in the system, which have been made through a democratic process, have decreased considerably. Most decisions have been made through agreements in order to cope with economic and financial crisis. Such a process not only prevented an active involvement by the representatives of a majority of the Swedish people in the process of decision making but also the decisions made in the situation of crisis were often compromises rather than carefully prepared plans. In other words, the changes in different parts of the welfare system have been a consequence of the financial problems, crisis or other kinds of problems. The political establishment was forced to follow other objectives than those decided and planned according to a well-planned strategy. Such a process decreases the predictability of political decisions (Sten Tolgforss, interview).

This approach suggests that if the bourgeois would have decided to extend the process of adaptation of different social arrangements to the new order, as they did in the case of pension system, establishment of independent insurance system from each other will undoubtedly decrease the redistributive element of the Swedish welfare system.

Table 5.4 International Comparison of social insurance schemes, Percentage change in annual disposable income for the average production worker from moving from employment to social insurance, 1996.

Benefit	Sweden*	Denmark	Germany	UK	Canada
Sickness, one week**	-0.8	0	0	-0.4	-1.5
Twelve months unemployment					
- Insured	-29	-35	-42	-79	-44
- Non-insured	-71	-57	-48	-79	-91
Work injury					
- Total incapacity	0	+26	+15	-57	-10
- One-third incapacity	0	-5	+12	-17	+1
Family allowance					
- One child	+4	+4	+5	+3	+2
- Two children	+7	+9	+10	+6	+3
- Three children	+11	+13	+17	+8	+6
Maternity leave					
- Maximum duration	-9	-6	0	-4	-7
- Common duration	-2	-3	0	-3	-4
Old-age pension***					
- Full work record	-36	-44	-25	-47	-45
- No work record****	-61	-50	-100	-84	-58

Source: OECD (1999: 12).

*Based on a general replacement rate of 75 per cent in social insurance in 1997, the increase to 80 per cent in unemployment insurance in the fourth quarter is taken into account.
** Including occupational pensions
*** Maximum (and not average) benefit in public schemes but without additions from occupational schemes.
****Relative to disposable income of an APW .

Conclusion

Having examined the development of the major social policy arrangements during the 1990s, the question that arises here is whether the alterations to the system suggest that the Swedish welfare regime has indeed changed to a less institutionalised version of the post-war welfare system, or whether it is simply 'stuck' in its traditional post-war mould?

We know from this and other studies (SOU, 2001; OECD, 1998; Kautto, et al., 1999; Gould, 2001) that the level of cash benefits has decreased and there have been cuts in most of the welfare services. We also know that there have been some serious attempts towards decentralisation and privatisation of welfare services. However, comparing the actual changes that occurred during the period with the amount of pressure, generated by economic problems, one could conclude that the system has remained largely intact. According to Esping-Andersen (2001), if the Swedish crisis had occurred in central

European countries, the outcome would have been huge. The Swedish system is constituted by strong institutions, which can resist pressure caused by both economic crisis and other changes that threaten its foundations. Despite a weakening base of political support for the system, through the weak support to the Social Democratic Party in the elections in 1991 and 1998 elections, and the weakening of organised labour, welfare institutions have survived relatively intact.

Analysis of the changes in Swedish welfare arrangements in the 1990s implies that they had a programmatic rather than a systemic character – meaning that the *level* of benefits were subject to changes, rather than the nature of the benefits themselves. The only exception is the pension system, which experienced more far-reaching changes. Even in the case of services, qualitative changes, such as the movement toward privatisation in the delivery of services, were quite limited and the framework of public financing has never been questioned. Moreover, the distributive characteristic of the welfare system and its legitimacy are still strong (Holmberg and Weibull, 1997). The consequences of changes in terms of path dependency or a breakthrough are clear. While everything has been changed in some ways, nothing has changed in others. In other words, goals and means are separated. The goals of the welfare system, as an institution, remain intact, while the means to achieve those goals have changed in some respects. Further, the impact of globalisation has been less marked than might have been imagined. Strong political commitment and strong civil society, with social movements as their major agents, prevented radical changes in both replacement rates and provision of services.

Chapter 6

The nature of debates about the Swedish welfare system

The chapter reviews the main issues, which have been crucial to the development of the Swedish welfare regime and are considered to be essential for the future of the system. As the welfare state is mainly a democratic project, historically supported by democratic political and social movements (such as trade unions), its future is also mainly dependent on the strength and support of the existing power resources, such as the public, the political establishment, and the labour movement. The concern of this chapter, therefore, is to map out the existing attitudes of key social and political groups to the function and development of the universalistic welfare state.

In this respect, the political support of the system, both among Social Democrats and the unions, as the traditional advocates of generous benefits, and the bourgeois front, as well as the employers' federation (SAF) will be examined. By the same token, the condition of the corporatist system within the Swedish political establishment, which was crucial to the emergence and development of the 'Swedish model' will be examined. What happened to the 'historic compromise' between the trade unions and employers organisations? Is there still consensus between them about the nature of Swedish labour policy, particularly with regards to wage policy and measures against unemployment? Apart from the political and corporatist establishments, how has public opinion about the welfare system developed? Has discontent with the system increased, or is public support still widespread?

Contemporary debates about the Swedish welfare system are clearly related to the key challenges, which have threatened its universal character (Rothstein, 1998; Esping-Andersen, 1996). In this regard, as discussed in the previous chapters, internal factors such as demographic challenges, and external factors, mainly caused by the process of economic globalisation, have received most attention. While the debate was initially based on these and other real problems that welfare states have been facing in the past decades, the focus of this chapter will be on institutional or 'structural' threats to the continuity of the system. These challenges come mainly from rising uncertainty among certain social and political actors who, in the era of welfare state expansion supported the process, but in an era of crisis now harbour doubts about the system's capacity to survive, and therefore advocate structural changes in the system. Apart from cuts in welfare spending in general, and different kinds of benefits in particular, the advocates of structural change suggest far-reaching changes in the delivery of public services, which involve far-reaching privatisations. Bearing in mind that in the Social Democratic welfare system, public delivery of services was a cornerstone, the privatisation issue would have a crucial impact on the system's future. However, the chapter argues that despite some privatisation initiatives, changes in this area have been modest and the major part of service provision continues to be in the hands of the public sector.

As will be argued here, the strong political consensus between the Social Democrats and the non-socialist parties about the foundation of the generous welfare system has become fragile. Likewise, the historic compromise between the labour movement and the employers' organisation has been virtually forgotten. Furthermore, among scholars, most Swedish economists have seriously questioned the inexorably rising welfare expenditure, without paying attention to the importance of the system's legitimacy. In discussing the future of the welfare state, the economists tend to emphasis increasingly upon economic rather than social factors. On the contrary, the argument in this chapter is that, taken as whole, the real threats against the universal welfare model seem to come from changing attitudes towards the redistributive welfare system, rather than real problems caused by economic problems or demographic changes.

However, as will be argued, despite rising criticisms of welfare universalism by leading economists, which led to growing uncertainty among political and academic

elites, other factors have favoured continuity. Public support for the generous welfare system remained quite strong throughout the decade of crisis. In the political sphere, despite frequent calls for changes from the neo-liberal intelligentsia, and some doubts voiced by the Social Democratic 'modernisers', the leftish bloc retained the necessary strength in the political arena to continue its universal welfare policy. Moreover, the strong institutions, which have been created by the welfare system, also came to its aid. The system has effectively resisted any attempts to change it made by the non-socialist government, such as the far-reaching privatisation of public services.

This chapter focuses on four crucial issues which are likely to influence the future of the Swedish welfare regime: first, the political support specifically for the Social Democratic Party as the architects of the universalist welfare model; second, the future of Swedish corporatism, and the strength of the labour movement and the unions; third, the legitimacy of the welfare state and public support for state welfare; and fourth, the impact of the entrance of private competition into service delivery on the role of the public sector. During the expansion of the welfare system, and subsequently during the 'Golden age', political stability, the stability of the labour market, and the stability of central and local institutions in administering social policy and delivering of services, were crucial. The argument, therefore, is that as far as the essential characteristics of these institutions are (despite some changes) still the same as before, the basis for the continuity of the system prevails and so, the system will survive.

The state of political support for the welfare state

The stable political situation maintained by the long-standing political domination of the Social Democrats is probably the major characteristic of the Swedish welfare system. Apart from the presence of a strong labour party in power, the consistency of Swedish politics had to do with the consensus, which was established among political parties about the crucial elements of social policy. As a result, all political parties have shown loyalty to the introduction of progressive income taxation, which made it possible to introduce social legislation. One of the reasons behind such political consensus was the Swedish election system, which in contrast to the British system, for example, did not allow for one-party governmental dominance (Grönnegård

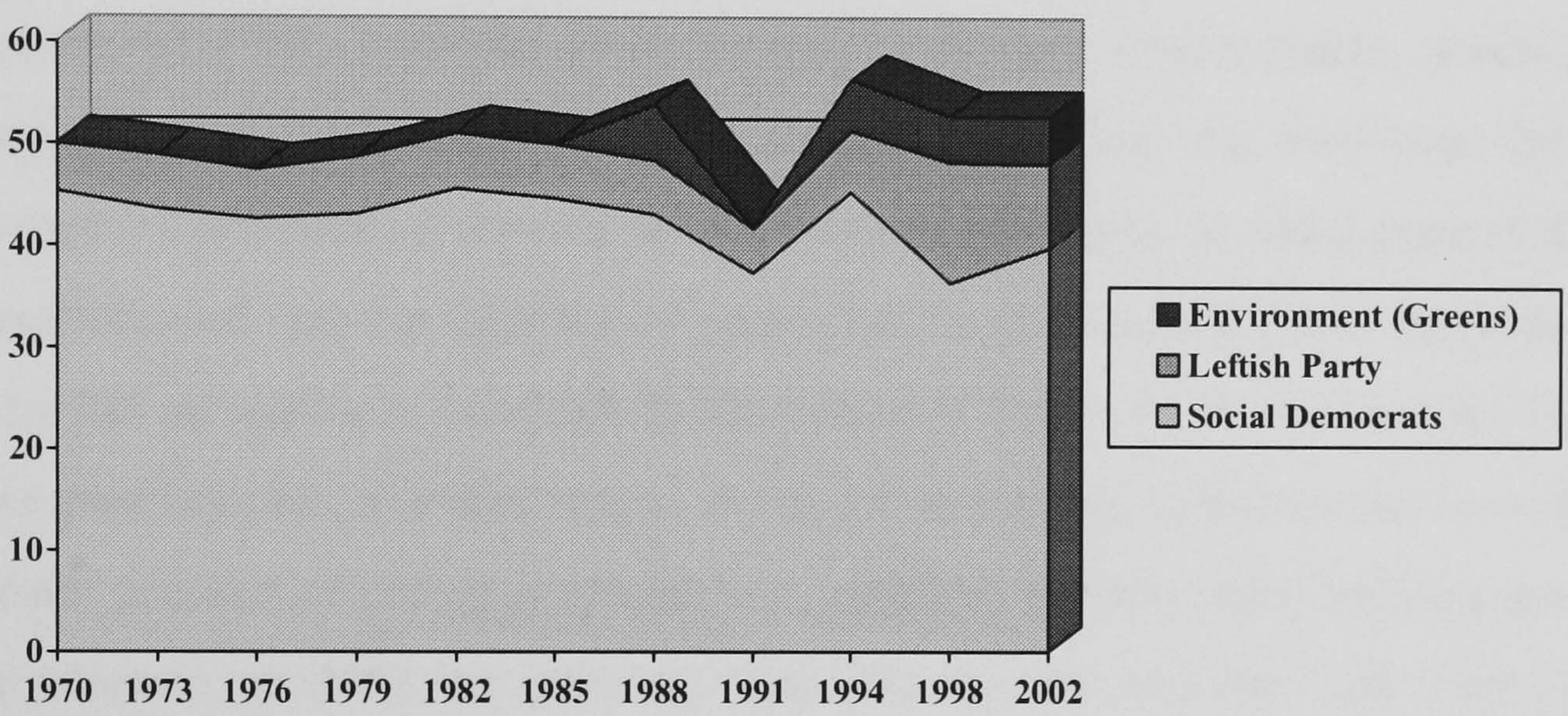
Christensen, 1997). Since almost all Social Democratic governments were in minorities, and needed compromise to get support from some 'middle' parties (either the agrarians or the Liberal Party), they were compelled to compromise about each policy to win a parliamentary majority. As Grönnegård Christensen (1997:373) emphasises 'lack of majority... induced the Social Democrats to show moderation'. Accordingly, a kind of consensus, both regarding tax policy, in terms of raising money for the government, and tax-financed social protection through a redistributive social policy, has been developed. However, the need for compromise has not stopped the Social Democrats from expanding the redistributive welfare system but it provided a base on which they could reach sustainable agreements with the middle parties about a range of economic and labour market issues. As a result of such sustainable compromises, the Swedish welfare state was marked by considerable stability.

Politically, no major institutional innovation has occurred in Sweden over the past two decades. The constitutional reform of 1975, which changed the two-chamber system to a single chamber, was the most recent reform. This change removed a 'veto-point', making it easier for incumbent governments, who were no longer compelled to seek majorities in two chambers. Concerning political support for the reforms, however, the long-standing power balance, which was perhaps the Swedish political system's chief characteristic, has been eroded. The political domination of the Social Democrats, always regarded as an important corner stone of the Swedish model, has been considerably weakened (Stein, 1991). Since the 1930s, the support for the SAP had varied within an extremely narrow band, and it had not mustered less than 40 to 50 percent of the vote. During the 1990s, however, the figure changed. A few months before the general election of 1991 the SAP's standing in the polls decreased to less than 30 percent, which was the worst recorded result since opinion polls began. In the 1991 election, the Party was defeated, securing just 37.7 percent of the votes, its worst score since 1928 (Aylott, 1999).

After the poor performance of the right-wing government between 1991 and 1994, however, support for the Social Democrats increased, and receiving 45.1 per cent of the votes, they returned to power. The Party, which since the 1930s gained its dominant position by giving the impression that it had pulled the country out of depression and built up the welfare state, was less successful at gaining public support

for its anti-depression policy in the 1990s. Despite considerable achievements in eliminating the large fiscal deficit, the Social Democrats experienced further marked decline in popularity. In the 1998 election, the Party received just 36.4 per cent of the votes, and in so doing achieved a new worst record. In contrast to the 1991 election, in which the nonsocialist parties were the beneficiaries of the Social Democrats' misfortune, in 1998, the Left Party and the Greens were very successful.

Figure, 6.1 The support for the Leftish bloc, in the past three decades



Sources: http://www.riksdagen.se/arbetar/siffror/val70_98.htm

According to Holmberg (2000), the Social Democrats' cutbacks in welfare benefits were the main reason that people switched their support to the Left Party and the Green Party (Miljöpartiet). Accordingly, the rise of the Left Party's support to 12 per cent has increased anxieties among Social Democrats who are clearly facing a second front from the left. The success of the Left Party and the Greens in the 1995 European elections, in which they received 12.9 and 17.2 per cent of the votes respectively, was alarming for the SAP who lost many of its traditional supporters to these two parties (Aylott, 1999). However, the Social Democrats remained in power, mainly because the Left Party and the Greens decided to support a Social Democratic government rather than providing the right-wing alliance with the opportunity of building a new coalition government.

In light of the above, the power balance between the socialist and non-socialist parties has remained virtually unchanged. The entrance of the Green Ecology Party into the

Riksdag in 1988 increased the number of parties with leftwing tendencies from two to three. On the other hand, a new party has been included to the broadly defined centre-rightist bloc – the Christian Democratic Party. Moreover, yet another party, New Democracy, with a populist strain, entered Swedish politics in the early 1990s. The Party had a significant impact on the Swedish debate by campaigning on a strong free-market, anti-tax platform, and calling for larger tax cuts than any of the other nonsocialist parties. New Democracy was more committed to cuts in welfare expenditure and immigration controls than the other four parties in the non-socialist bloc. However, the Party, which received 6.7 per cent of the votes in the general election of 1991, suffered from internal splits, and consequently, quickly vanished from the political arena. This early demise meant that, the SAP kept the necessary strength to continue its welfare state ambitions. However, as voter support for the SAP has decreased and the number of parties in the leftwing bloc has increased, the Left party has no reason to continue its tacit support for the SAP, which it has loyally done over past decades. For this reason, since 1998, the Social Democrats have had to take greater account of policy proposals suggested by the two other leftwing parties. After the election of 2002 the pressure from the Greens and the Left Party for greater influence on the governments policy has increased. Although the support to the Social Democrats increased by almost 3.5 per cent to 40, the party still needs the support of both Greens and the Left Party.

Table 7.1 The results of elections (1970-2002).

	1970	1973	1976	1979	1982	1985	1988	1991	1994	1998	2002
Bourgeois parties											
Conservative	11,5	14,3	15,6	20,3	23,6	21,3	18,3	21,9	22,4	22,9	15,3
Liberal	16,2	9,4	11,1	10,6	5,9	14,2	12,2	9,1	7,2	4,7	13,3
Centre	19,9	25,1	24,1	18,1	15,5	12,4	11,3	8,5	7,9	5,1	6,1
Christian Democrat	1,8*	1,8*	1,4*	1,4*	1,9*	-	2,9*	7,1	4,1	11,8	9,1
Total	**47,6**	**48,8**	**50,8**	**48,8**	**45**	**47,9**	**41,8**	**46,4**	**41,6**	**44,5**	**43,8**
New Democracy	-	-	-	-	-	-	-	6,7	1,2*	-	-
Socialist parties											
Social Democrat	45,3	43,6	42,7	43,2	45,6	44,7	43,2	37,7	45,3	36,4	39,8
Left (formerCommunist)	4,8	5,3	4,8	5,6	5,6	5,4	5,8	4,5	6,2	12,0	8,3
Environment (Greens)					1,7*	1,5*	5,5	3,4*	5,0	4,5	4,6
Total	**50,1**	**48,9**	**47,5**	**48,8**	**51,2**	**50,1**	**54,5**	**45,6**	**56,5**	**53,9**	**52,7**

* To be represented in the Riksdag, a party must receive at least four per cent of all votes.

Source: *SCB,* Allmänna valen, del 1 *för respektive år.*

On the other hand, the political offensive of the non-socialist parties for changes in the existing pattern of the welfare state has shown the vulnerability of the traditional welfare system. The move towards deregulation, decentralisation, privatisation, a market economy approach to social matters, and a mixed economy of welfare, has formed a pattern, which suggests that the political consensus for the Swedish model is facing a serious challenge. Despite the fact that the Liberal Party opposed the scale of public expenditure reduction proposed by the Conservatives (called Moderata Samlings Partiet, or Moderaterna), one cannot deny that the arrival of neo-liberal values in the highest echelons of the political establishment is likely to have significant effects on the future of the universal welfare state. Major elements in the Conservative party's policies implied the necessity of a 'system shift', a fact that could not be ignored by the Social Democrats. Since the Conservatives' programme called for 'A New Start for Sweden', stressed freedom of choice for citizens, and therefore carried a certain ideological impact, pressure increased on the Social Democrats' traditional statism.

Having said that, it is crucial to note that these challenges to the welfare system's traditional political support were not as serious as they were regarded during the 1990s. There are three reasons for this claim. First, although the Social Democratic Party is not as dominant as before, the Left bloc together has been stronger in the past three elections (1994, 1998 and 2002) than before. Second, the co-operation between the three parties in the leftish bloc (Social Democrats, Left Party and the Green Party) has been working quite successfully. Apart from some minor disagreements between the three, the Social Democratic government has encountered no major political crisis since the election of 1998. Third, the neo-liberal offensive, which was mainly driven by the employers' organisation and the bourgeois parties during the 1990s, has declined considerably. In political debate, the calls for reductions in benefits or the privatisation of services have largely vanished. These parties seem to realise that crucial changes to the welfare system would mean a significant cost for them and therefore avoid challenging the public's will.

The political base for the future of Social Democratic model

The strong resistance of the political establishment and social institutions against international pressure caused by the process of globalisation gives the impression that

the future of the system, to a large extent, is going to be decided by political actors. If the economic crisis is to have a crucial impact on the future of welfare arrangements nothing more than the unprecedented high unemployment of the 1990s could provide reasons for such altering in the course of the welfare politic. There is no doubt that the changes made by the centre-right government were far poorer than one would expect (Gould, 2001; Esping-Andersen, 2001; Huber and Stephens, 2001). The argument that the diversity among the four bourgeois parties, which formed the government, was one of the major obstacles for implementation of a clear-cut neo-liberal policy might be true, but that itself is a part of reality. It means that the advocates of systemic changes of the Swedish universal model constitute just a fraction of the right-wing coalition, the conservative Party. The parties in the middle, which necessarily must be included in a Bourgeois government, would have greater influence on the outcome of the policy than would the neo-liberals. Therefore, in mapping out the future direction of the Swedish welfare system one should focus on the political parties' perception about the future development of the political system. How do they understand the existing welfare regime based on universal principles, the socio-economic conditions for its future, and the political support for its survival? In this regard, the position of the two major political blocs and the scenarios about new potential or possible constellations in forming new coalitions as well as their relations to the existing welfare system is to be discussed.

There are not many scholars who would reject the notion that the Swedish welfare model is created by the Social Democratic movement. Different parts of the system have been constructed by a crucial involvement of the Party as the architect of the system. (DN, 25/7/2002). While the social institutions and welfare arrangements have been established for a long period of time and have been included as an inseparable part of society, one can not deny the fact that the Social Democrats are still understood as the major defenders of the system. Despite the decline in the political support to the Party, there are scholars who emphasise that the dominance of the Social Democrats is still very crucial for the continuity of the system:

> I think the political power of the Social Democratic party will be one of the major facts, which will determine the future of the Swedish welfare system. The Party has been the major architect of the system and could, during its long period in office, develop a strong apparatus for its administration. For its survival the system needs continuous political support. Although other political parties in Sweden support the welfare programmes in principle, the support of the Social Democratic Party has been crucial. The relatively poor

> support for the Party in the 1991 and 1998 elections, which was a bit more than 35 per cent, has shown that something is happening in the public opinion, the long-term support to the Party is changing. It is not as secure as before (Sven Hort, interview).

One of the most striking features of the Swedish social democracy is that the Party has been successful in keeping the unity among different sections and groups within the Social Democratic movement. On the one hand there has been a strong labour union with advanced redistributive demands and on the other hand, a large middle class with various interests. The Social Democratic Party, which for this reason should be regarded as a 'political front' consisting of groups with conflicting demands, could survive the past two decades of political changes with relatively limited internal conflicts. However, the two major factions responded differently to the process of change. While the traditionalists have had a more defensive approach to calls for change, the modernisers seemed to have had the role of 'new-thinkers' who have intended to design both the ideological shift in the perception of the 'strong welfare state' and also to design the adaptation of the welfare state to the new social and political order.

The modernisers who, since 1986, have been leading the Party, and thereby, the state apparatus have shown a great readiness in adapting the welfare system to the new order. One of the central areas in which the ideological adaptation has been occurred was the positive response to the perception of 'freedom of choice', which had been launched by the neo-liberals and received large attention among the people. Whereas the traditionalists rejected the whole idea as a bourgeois attack against the universal welfare state's ground pillars, the modernisers justified the idea:

> For the new generation, which had grown up in a welfare state and had no primitive needs such as those, which were crucial for the first generation, the possibility of having greater influence in determining their own future became crucial. For the Social Democratic Party, which has been a governing party for ages, it was crucial to understand the new waves and the changes in the people's minds and try to adapt itself to the new demands rather than resist it. That is a rule for every governing party who wants to keep the power. In contrast to the 'traditionalist', our reasoning was that without positive response to the new values and demands, the party would lose its support. Further, a generous welfare state could only survive if the people were to pay for it and they would only do that if they were satisfied with what they received. Satisfaction comes to those who have the freedom to choose. The traditionalists could not accept this because according to them 'freedom of choice' were bourgeois words. We did not think like them and, therefore, entered the notion 'freedom of choice' into the Social Democratic policies (Widar Andersson, interview).

The openness of the modernisers in changing what they called the traditional views in favour new ideas based on the demands of the new generations and also the openness

to the views which earlier were recognised as bourgeois had to do with the new political condition in Sweden. Since their defeat in two successive elections in the 1970s (1976 and 1979) it was thought that the era of relatively secure governance for the Social Democrats was over and that the Party would have to cooperate with other parties in order to gain a majority in the parliament. Even though the Left Party was still the first option for the Social Democrats, the modernisers realised that the Party could not merely rely on the Left Party but could, to a larger extent than before, cooperate with the other parties, particularly those in the centre. The new pattern of closer collaboration between the political parties, regardless of their traditional ideological conflict, dominated the political climate in the 1990s. The will to reach a consensus has not only been demonstrated in the pension issue, but also with the Social Democrats' successful achievement of a consensus with the Bourgeois party on other issues such as defence, energy, finance agreement, and EU membership. That made, for instance, the leading politician in the Centre Party, Anders Carlgren, to advocate long-term political co-operation with the Social Democrats (DN, 4/4/1995) .The systematic cooperation with the Centre Party from 1995-98, when the Social Democrats could have chosen to cooperate with the Left Party, shows clearly that the Social Democrats felt more comfortable with some distance between themselves and parties to their left. The Social Democrats seem to want have the freedom to choose cooperation with either parties on the left or the right:

> There is a need for consensus between the bourgeois parties and the Social Democrats if the aim is to carry out a sustainable policy in important issues. The era in which we could count on the support of the Left Party is over. By the way, I am not worried at all about the decreasing support to the Party. Contrary, I am very glad for that. The nightmare for a party is that by having a majority in the parliament, if you then fail to achieve what you have promised you cannot blame the failure on the lack of a parliamentary majority. The present situation is the most favourable for the Social Democrats because they have at least four parties for cooperation and can choose cooperation between either of the blocs (Widar Andersson, interview).

The adaptation of a new strategy by the Social Democratic Party in having an open attitude towards both the left and the middle makes it difficult for the Left Party and the Green Party to count on long-term cooperation with the Social Democrats. The traditional alignment of political parties in two different blocs could be seen as history. By the new, more floating approach, it will be up to the Social Democrats to ask for cooperation from the either side. The increasing support to the Left Party at the end of the 1990s, which was a result of the Social Democrats flirtation with neo-liberalism in order to manage the financial crisis, made it clear to the Social Democrats that the

threat from the left was far more dangerous than it was before. A strong Left Party could be an attractive haven for the desertion of the traditional supporters of the Social Democracy who were unsatisfied with the policy of retrenchment. The changes in the political profile of the Left Party towards a more pragmatic approach, with a more adaptive characteristic to the political environment, would make the Party more threatful to the Social Democrats because it could easier gain the votes from social democracy (DN, 7/10/2001).

On the other hand, the Left Party has no other option but to cooperate with the Social Democrats and to try to affect opinion in the trade unions and the leftish fraction inside the Social Democracy in favour of its own policies in order to pressurise modernisers into choosing the leftish rather than the centre bloc. For the Left Party, which cannot consider any cooperation with the Bourgeois parties, there is no other option. Apart from the Social Democrats, the only other Party with common goals with the Left Party is the Green Party, which is nearly in the same isolated position. Another function of the Left Party is to respond to the increasing protests against the far-reaching retrenchments made by the Social Democrats and to try to represent their demands:

> The flirtation of Social Democratic party with neo-liberalism made many sympathisers for the party, particularly members of the LO, angry, because they couldn't recognise their Social democracy which made many deteriorations in the welfare system. Therefore, in the 1998 election they found the Left Party to be the one defending the generous welfare arrangements and voted for us. After the election the Social Democrats realised the threat and turned to the left. That shows that the importance of the Left Party in preventing the Social Democrats from a further move to the right. As long as we were little we were neglected by the Social Democrats and they took our support for granted. Now they realise that there is an alternative on the left side and, therefore, pay more attention to sustain the welfare system (Ingrid Burman, interview).

From a Social Democratic welfare model to a social liberal model

The new political condition with a more flexible Social Democratic party is something that the two centre parties in greatly appreciate. It seems that they have realised that they would have larger possibilities in achieving their political goals through cooperation with the Social Democrats. Among the reasons for such a perception could be the strong position of the leftish bloc in the Swedish politic, the differences between the four Bourgeois parties particularly regarding welfare arrangements, and the

domination of the Social Democratic Party in the political system of Sweden. Moreover, with a more flexible Social Democracy, which tends to move to the centre, it would be a mistake for the parties in the centre to continue to emphasis traditional bloc policy which dominated Swedish politic for many decades. However, the readiness for such cooperation is greater for the Centre Party than the Liberal Party (Carlgren, DN, 4/4/1995). Apart from the historical aspect regarding the cooperation between the Social Democrats and the Centre in the past in many issues, the differences between them is far less than those between the centre and the Conservatives. The latest cooperation between these two parties, which took place in the period between 1995 and 98, was the most important one, not least because it offered the political stability which was needed to restore order to on economic system in crisis:

> The cooperation with the Social Democrats was very useful for the Centre Party. We succeeded to pursue some aspects of our policy and achieve some of our major goals. The Social Democrats responded positively to our demands in allocating extra to the rural area and more resources for investment in development of the infrastructure. Apart from that, the cooperation provided a strong political base, which made it possible to pursue a strong economic policy in order to reduce the budget deficit. That, in turn, led to low interest rates, which have been crucial to the success of enterprises and larger investments (Birgitta Carlsson, interview).

While the Centre Party avoids challenging the Social Democratic universal welfare model by suggesting its own profile, which is a basic insurance system, the Liberal Party has no hesitation in advocating major changes to the existing Social Democratic system. Even though the Party, like Social Democrats, support the universal welfare system, they have no marked redistributive objectives. In other words, instead of a Social Democratic model, which is based on universalism, comprehensiveness and egalitarism, the Social Liberal welfare model ignores egalitarism as a crucial aspect because in its liberal ideology, it has no redistributive objectives. In other words, the main reason for such difference is ideological but, according to Bo Könberg, who could be seen as the architect of the social liberal version of welfare system in the present Swedish parliament, the generosity of the Social Democratic welfare model makes the welfare system too expensive and therefore vulnerable. However, the reforms in the pension system suggest that the system is moving towards a social liberal model and the liberal advocates of change hope that with the help of modernisers inside the Social Democratic Party, there could be new reforms in other parts of the social security system, such as sickness insurance and unemployment

insurance which would transform the Social Democratic welfare system in Sweden towards a more social liberal structure:

> The generosity of the system could be pointed out as the reason for the financial problems and, then, the public might turn the system back. I believe we could avoid such a scenario by modifying the system and by making different parts of the social arrangements independent from each other. According to this perception, the only aim of the pension system should be levelling the income of those who live long and those who do not. The only aim of the sickness insurance system should be to level out between those who become sick more often and those are seldom absent due to sickness. We could have the same objective for the unemployment insurance, that it level out the income of those who have a job and those who are out of the labour market. In all these systems the aim has to be compensation for income loss not as it is now – a redistribution of incomes. By doing so, the systems will be independent of each other and they could be managed relatively easy (Bo Könberg, interview).

The social liberal welfare model, as Könberg suggests, indicates a separation of different arrangements in order to make each of them into a pure insurance system with the same mechanism, which governs the private insurances. In other words, the contributions to each insurance system will be paid either directly by wage earners or through the government as the collector of income taxes (Motion till Riksdagen 1998/99:Sf 278). By delegating the responsibility of management for each social security system to an independent insurance system the state will virtually lose control of the inputs and the outputs of these systems. According to this model the influence of the state in using the tax system and other contributions to social security systems as instruments for redistibutive purposes is totally eliminated. The public insurance system will then have exclusively an administrative function with minimal political objectives. Such a model is the result of a traditional liberal standpoint, which contrasts with the Social Democratic approach but could be tempting for the Conservatives, who suggest far less redistributive elements than the existing system. The position of the Centre Party is unique. Although the Party has expressed its wish to join a Bourgeois coalition and since the 1970s it has actively been involved in all Bourgeois governments the Party has no problem in supporting or being part of a government which is formed by the Social Democratic Party run a Social Democratic welfare system:

> We are a Party at the centre of the political map and intend to pursue a centre policy but as we are at present, we are not strong enough to achieve that goal alone. We need to cooperate with other parties. The question is, why we should limit ourselves to cooperate with either right-wing or left-wing blocs? Our aim should be cooperation with whichever bloc which best would promote the interest of the country and the interest of those who voted for us...There are lots of aspects of Social Democratic politics that we are not happy with but if the Social Democrats move a bit to the centre we would never reject a cooperation with them and I think the Centre Party is not alone in this policy. I am sure that the Liberal Party has the same approach about cooperation with the Social

> Democrats...If a coalition composed of the Social Democrats, The Liberals and the Centre Party with a centre profile would be established I am sure that the universal welfare politic would survive for a long period of time in Sweden and above all that, could aggressively stop every attempt from the EU for harmonisation of the Swedish social policy to the rest of the Europe (Birgitta Carlsson, interview).

As has been presented so far, there are two major approaches in competition over the future. On the one hand the traditional Social Democratic approach with large support from the labour union and the Left Party, which suggests a full restoration of the generous and redistributive welfare system; on the other hand, the social liberal model which intends to eliminate the redistributive elements of the system in favour of stability for insurance systems. In this competition the response of the modernisers inside the Social Democracy to these two challenges will determine the outcome and the future of the Swedish model. So far, the modernisers still intend to keep elements of the redistributive feature of the system but there are other factors which will also have decisive impacts on the political process. One of these is the relation between the employers and the unions in the labour market, which will be discussed in the next section.

The Corporatist system in crisis

Summarising the development in the political institutions in Sweden, one can argue that the political stability in Sweden still remains intact and the political support to the existing welfare arrangements is still very extensive. The second feature of the Swedish system has been the stability of the labour market, resulting from the so-called 'historic compromise' reached in 1938 among the corporatist institutions. While the Social Democratic Party cushioned the continuity of welfare policies through its moderation in the political arena, the labour unions safeguarded the stability of the labour market by reaching an agreement with the employer's central organisation. The agreement not only covered a range of economic and labour market issues, but also produced a climate of mutual understanding on which other strategic issues concerning the introduction of progressive taxation, as well as the building up of the modern Swedish welfare state could be provided and supported by the major interest groups representing both labour and capital (Michelletti, 1991).

In the labour market, the changes seem to have been more extensive. The major change occurred when the rate of unemployment experienced an unprecedented in rise the early 1990s. For many analysts, the commitment to full employment and a relatively high tax level were two main preconditions of universal welfare states (Rothstein, 1998; Brunsdon and May, 1995; Stephens, 1996). The very low unemployment rate and high labour force participation not only reduced the costs for unemployment compensation, but also increased the state revenue, and as a result, the government was able to pay generous benefits and subsidise services to all citizens. On the other hand, by advocating high tax levels, the state could develop measures to achieve the political-industrial structure, which would secure an active labour market policy, rather than income replacement for those displaced in the labour market. The rise in unemployment in a labour market which, since the War, has not faced such high unemployment, is an obvious sign that demonstrates that industrial relations in Sweden face a crucial crisis, and by that, the era of 'historic compromise' apparently having come to an end.

The other condition, which made the corporatist system in Sweden viable, was the strength of these three parts. Each of these bodies had strong support in both society and the labour market. The Social Democratic Party won more than 40 per cent of the votes in all elections between 1932 and 1976. In some elections, public support was around 50 per cent. In the labour market, the employers' federation, SAF, included some of the world's best-known multinational companies - VOLVO, SAAB, Electrolux and Ericsson. On the other hand, the LO, the federation of manual trade unions, organised more than 90 per cent of all blue-collar workers. By the same token, 80 per cent of the white-collar workforce was also unionised (Gould, 1996). The strength of these three parts provided exceptional conditions for successful centralised negotiations. Representatives of the labour market organisations could not only deal with the level of wages and the conditions in the labour market, but also play a major role in decisions concerning the government's social and economic policies.

These conditions have gradually changed since the early 1980s. The major change was related to the power balance between the three main parties, which has altered. First, as stated in the previous chapter, support for the Social Democrats has decreased to around 36-38 per cent. Second, as a result of a decreasing share of blue-collar workers

in manufacturing, the number of members in the LO has also decreased considerably. Third, the internationalisation of the economy has seen Swedish companies moving abroad and Swedish employers losing domestic market share to inward investors. Consequently, during the 1990s, all the three parts of the Swedish corporatist system have weakened gradually, and consequently the era of their indisputable dominance in the Swedish labour market is over. Although these changes have indeed been real, it is too early to draw conclusions from this matter. In the political sphere there is still strong public support for the universal welfare state and in the labour market the trade unions still retain strong support from blue-collar workers. Even though manufacturing employment has decreased, as the former trade union chairman states, the number of workers in the service sector has steadily increased and constitutes a new base of trade union support:

> If you look at the statistics you will find that the number of members in the LO has all the time increased. What has happened is that new groups of members replaced the traditional groups such as those in manufacturing, industrial workers, minors, metalworkers, and woodmen. While the per cent of the traditional workers has steadily decreased the percentage of the new groups who are those in the public care services and in the private services increased quite faster. As a result, the total number of members has not only decreased but also increased but it is rue that the divisions of the squads are different now. However, the interesting point is that among the new members a large number are employees in the public sector, mostly females. The Municipal Workers' Union with more than 500 000 members is the biggest section of the LO. Others are members of the Hotel & Restaurant Workers Union, Building Maintenance workers' Union, Commercial Employees' Union, Transport Union and more than ten other unions. Therefore, these groups have more support to the generous welfare system, which they are in greater degree than the traditional members are benefited. The new group of members are also more than the traditional members concern about the employment and retrenchment in public sector because the changes would affect them directly (Stig Malm, interview).

Even if we assume that parts in the Swedish corporate system are now weaker than in the early 1980s, one might argue, that when compared internationally, the Swedish labour movement is still the strongest and continues to influence the political process. The strength of labour unions is partly because of the high percentage of membership, but partly because of the union's crucial impact on industrial relations. The close partnership with the Social Democratic Party is another factor, which also gives the unions influence in the political processes.

For others (Pontusson, 1992; Pestoff, 1991; Stephens, 1996), the weakening of the various elements of the national labour market, followed by structural changes in the advanced industrial economies, seem to be crucial mainly because it had impact on the attitude of the employer's organisation towards negotiations on a national level. These

authors put the emphasis on the internationalisation of the Swedish economy, which increased the volume of trade as well as financial transactions, and also the multinationalisation of enterprises, successively undermined the old distributive strategy. As a result, Swedish industry, which since the 1970s had become increasingly multinational and export oriented, also became less interested in a compromise with domestic labour. Several commentators (Pontusson, 1992; Stephens, 1996) have pointed out the changing character of Swedish business, which was caused by the increasing strength of capital and the change in its interests.

During the 1990s, Swedish business and the bourgeois parties intensified their criticism of the Swedish public sector and welfare state expenditure, advocating privatisation, deregulation and tax cuts as methods for containing state spending. According to Bertil Jönsson, the former chairman of the union (1993-2000), the SAF terminated central bargaining in the early 1990s and in doing so, weakened the position of the trade unions.

> Since the 1990s the SAF has refused to join in negotiations with the LO. It seems to me that since they believe in the era when the capital freely moves across borders and there is no control by the national state to prevent the large Swedish enterprises from moving their production abroad, there is no need for them to negotiate with us. They have adopted an offensive position in relation to us. In the era of globalisation with the dominance of the neo-liberal ideology the SAF understand the situation as being very plausible. It seems that they believe that it is the time for harvest, which means that they could take everything they missed during the past decades, when both of us were obliged to compromise. Now, even if we want to continue the talks, they deny those to us and instead prefer to make agreements with the LO-sections in every workplace. By doing so, they aim to split the union and in doing so, decrease the strength of the powerful labour movement (Bertil Jönsson, interview).

In a further move, the SAF withdrew representatives from the boards of all state agencies in 1991. This enabled employers not only to attempt to avoid the compression of wages between low and high paid work requested by the LO, but also to completely ignore the solidaristic wage policy and the introduction of wage 'dispersion' (Stephens, 1996). The SAF explained its new standpoint by arguing that the solidaristic wages policy had led to a wage drift which threatened business competitiveness (Rehn and Viklund, 1990). The experts in the Confederation of Swedish Enterprises do not hesitate to point out their intention to weaken the strong corporatist relation in the Swedish polity. As an economic reason they suggest that an end to the central bargaining would favour the expansive sectors, which in turn would provide a good future for the Swedish economy:

> The central bargaining could lead to wages, which would favour the branches with a low level of productivity or lower demands on their products in the market. It would be a mistake to have the same level of wages for these two sorts of branches through central bargaining. What it has to come down to is that the procedure of bargaining should take place in the companies where there is a better understanding about the space for wage-increase. If the central bargaining continues there is always the risk that for some branches the level of the wages which is bargained in the central level would be higher than the companies' profits, and in others, which have a high profitability, the wage increase would be lower than it should be (Anders Morin, interview).

A number of other trends in the international economy aggravated the situation: the collapse of fixed but flexible exchange rates, the increase of oil prices, and increased international interest rates as a result of many governments' attempts to fight recession with deficit spending. Moreover, the deregulation of financial markets reduced the government's ability to control economic development at a national level:

> Internationalisation led to a successive deregulation of Swedish financial markets during the 1980s. This deprived the government of essential elements of its supply side policy that in the past had been used to secure full employment, price stability, growth, and redistributive aims. Active labour market policy became increasingly the sole remaining policy tool Stephens (1996:49).

However, the end of centralised wage-bargaining made wage restraint more difficult, which has been to the disadvantage of employers. Several commentators (Stephens, 1996; Martin, 1991) have indicated that the real reason for ending wage-bargaining was that employers wanted to weaken the LO, both politically and economically. The unions' attempts to extend economic democracy during the 1970s and 1980s, partly through the Meidner's plans, seemed to be a key reason for the SAF's measures against them (Brunsdon and May, 1995). Meidner believes that the changes made in the Swedish welfare regime have been large enough to mean that the basic pillars of the 'peoples' home' are not what they were in the past. Therefore, the initial system and the Swedish model has experienced a kind of 'system shift':

> The attacks to the basic parts of welfare system seem to have led to a system shift in Sweden. In the economic sphere we could point to the privatisation of state monopolies, the abandonment of the policy of full employment, the upsurge of non-productive speculative investment, resulting in destabilization of the economy and substantial loss of jobs in manufacturing. Wage earner solidarity, especially the system of nationwide collective bargaining through which the unions had pursued their solidaristic wage strategy, are no longer sustained, which is another sign of a system shift. All these changes were intensified after the deregulations in the financial market. Deregulations of currency flows and regulations pertaining to investments abroad have resulted not only in substantial capital outflow abroad and transferral of Swedish companies abroad in the name of multinationalism, with sharp decrease of job opportunities and employment in Sweden, but also in a virtual deindustrialisation of the country which has led to income differences between those in and those out of the labour markets (Rudolf Meidner, interview).

The enterprise flexibility in Sweden, which was seen to depend on wage flexibility, has not led to the expected degree of decentralisation in wage bargaining. According to OECD (1999:148), by 1998 only a small number (15-20) of companies had opted for a decentralised wage settlement. As a result of these changes in Sweden's corporatist structure, which according to Pontusson (1992) was mainly the result of a 'counter offensive' by the employers and SAF against welfare capitalism, some initiatives against the universalist welfare system have been noted. One of these is the expansion of occupational and private provisions. As Kangas and Palme (1993) have pointed out, at the upper end of the labour market, company and private pension schemes grew considerably. Occupational and private provision, however, could not threaten the universal welfare system in the short term, but it could lower the demand for state provision, and therefore reduce the public's willingness to fund it. Moreover, occupational provision would mean a shift to 'enterprise welfare', which could have the effect of binding individuals to their companies rather than to universalist provision. The changes suggested by the advocates of the employers' organisation not only refer to replacing state provisions by the private sector but also suggests a new design for welfare arrangements, with new priorities from the present system which stress a high level of benefits to another system in which replacement rates in benefits should be lower and, instead, the welfare system should mainly focus on services to groups who are in need:

> The aging problem is crucial to the present welfare system in Sweden. Apart from pensions, the costs of elderly care and the health system are to be higher in the future. By raising levels in the different benefits, the system will face further crisis in the future. Therefore we should change the course and adopt new priorities. Instead of high benefit levels in the social security system we should invest in the service sector. The major areas would be childcare, school, and elderly care and health system. We have to give up the high benefit levels and just have minimum protections. The present system with 80 per cent compensation in all insurance system will soon or later collapse (Anders Morin, interview).

Overall, during the 1990s, although the employers were determined to ignore the solidaristic wage policy by arguing that it would threaten business competitiveness, the labour movement did not change its attitude towards cooperation in the labour market. While the end of centralised wage bargaining would make wage restraint more difficult, and that would have been to the disadvantage of employers, the trade unions avoided conflict in the labour market by not demanding higher wage growth than that to which the employers would agree (Bertil Jönsson, interview). In this way, the

unions followed the traditional pattern in favouring the national interest in the period of economic crisis.

By this strategy, the LO could survive the increasing pressure from the employers, and gain political support from the Social Democratic governments. Apart from the consensus strategy advocated by the LO, the fact that the union could, throughout the decade, keep itself united, made the employers' move to fragment the union unsuccessful (LO Avtal, 2001). Although the SAF initiated wage flexibility and advocated decentralised wage bargaining, there were few companies who decided to undertake a decentralised wage settlement. The employers' organisation seem to have realised that the historic cooperation with the unions in wage bargaining was a crucial factor for existing stability in the relationship with labour and were concerned to keep it intact. Therefore, despite the ideological reasons for advocating of a decentralised wage bargain there has been an acceptance that wage settlements takes place at central level. For this reason employers and unions in the industrial sector agreed to set up a private mediation institute, which works as a voluntary substitute for incomes policy (Elvander, 2002). Such cooperation on voluntary basis would prevent the intervention of the state in labour market relations.

Swedish corporatism and the impact of interest groups on the welfare system

So far, it has been suggested that the corporate structure of the Swedish political system, with its great impact on interest groups' active involvement in the formation of the social welfare policy, has suffered structural problems. It has also been suggested that, while all the three elements have gradually been weakened, the only part of the structure which independently wanted to break with the corporatist tradition was the SAF, which was determined to take advantage of the process of globalisation. The labour unions, which historically had been the strong competitor of the SAF on a national level, had weakened and, as a consequence, the employers were tempted to take advantage of such changing power balance. In other words, the corporatist institutions of Harpsund Democracy which, according to scholars (Hoefer, 1996; Mishra, 1984), was the decisive factor that cushioned peace in the labour market and gave stability to the Swedish model, is no longer as secure as before. Since the start of turbulence in the Swedish economy and changes in the relations between the three

major pillars of the system, the broad consensus about the consistency of the corporate structure of the system has been eroded. Based on the changes mentioned above, many observers (Bergström, 1993; Michelletti, 1991; Peterson, 1994) have recently questioned the consistency of the corporate structure of the system, and claimed that a process of decorporatizing of the Swedish model has started. On the other hand, some others such as Hoefer (1996) reject the notion that the Swedish system is decorporatizing to the extent that has been recently asserted.

The major argument concerning the decorporatization of the system is that the balance between organised interests and the state, which characterised the Swedish model of corporatism, is considered to be a thing of the past (Michelletti, 1991). This conclusion is based on Michelletti's definition of corporatism, which is '...an integral relationship for decision-making and implementation between the state and encompassing interest organisations. Encompassing interest organisations represent the greater part of the collectively which they can organise as members' (1991:148). Michelletti adds some other characteristics to the Swedish experience of corporatism, i.e. 'the incorporation of antagonistic, encompassing interests in state policy making.'

One of the major changes which, according to Schmitter (1989), seems to have caused the weakness of the corporatist arrangements, is the process of globalisation and Europeanisation, which has led to the decreasing importance of the national state. As Sweden joined the EU, many decisions, which had been taken by the national state, became the responsibility of the European community. Consequently, as the space for national policy determination has decreased, the interest groups, as the minor entities on the national level, have also found the space for influencing the process of decision-making increasingly limited.

Secondly, and as a result of increasing globalisation, the existing integration among the three major actors in the corporatist system has decreased considerably. As the Swedish companies in the deregulated financial market have, to a larger extent, moved their capital abroad, the power relation between the Swedish Employers' Confederation (SAF), on the one hand, and the trade union federation (LO) and the government, on the other hand, has decreased considerably. In other words, there is now less need for the Confederation of Swedish Enterprises (former SAF) to join negotiations with its

corporatist counterparts to reach agreements concerning regulations in the labour market, wages etc.[15] As Bertil Jönsson, the former chairman of the LO, stresses, changes in labour legislation, mainly the collective agreements, were the main conditions for the SAF to enter into negotiations with the LO. Jönsson referred to the obvious unwillingness of the SAF to join in any bilateral negotiations with the LO:

> Since the beginning of the 1980s, the Union have had a weaker position in relation to the SAF. Capital has got a stronger position in relation to Labour. This circumstance made the SAF reluctant to cooperate with the LO. The SAF seems to believe that 'the season of harvests' has begun for them in which they have the best opportunity to carry on a policy based on their ideological ground. During the 1990s, the frosty relation between the SAF and the LO has encouraged the SAF to dictate its conditions to the labour movement (Bertil Jönsson, interview).

Accordingly, it seems that corporatist co-operation, which has been an integral part of a rational strategy to protect prior policies in the labour market, has lost its importance for the employers.

Thirdly, the move towards privatisation of social services accelerated during the 1990s. As has always been known, the Swedish Social Democrats have traditionally emphasised the notion that social services for common human needs should be provided on a no-profit-based administration (Hoefer, 1988). Having said this, some private services were, to a limited degree, permitted in medical and child-care services. By the same token, the size of government became a target for change, and, the bourgeois parties and the employers' organisation called for decentralisation in parts of the public sector. As Rothstein (1988) emphasises, as far back the 1980s, the SAF had no active policy for decreasing the size of government programmes, which had

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[15]The changing attitude of the Swedish employers towards the labour movement has its roots in the 1970s political conflicts between these two interest groups (Aylott 1999; Gould 1993). After the establishment of welfare-statism, the labour movement saw itself in such a strong position that it demanded greater industrial and economic democracy. Politically, the LO demanded trade unions' rights to codetermination in company management. Since the LO and SAF failed to reach an agreement on an extension of industrial democracy, the LO used its influence on the Party and put pressure on the government to pass a law – the Codetermination Act of 1976. This law gave trade unions the right to take part in company decision-making. In the same way, the LO put forward the proposal for the creation of wage-earner funds. According to the original design, all enterprises of a certain size would pay 20 percent of their profits to these funds, controlled by trade unions, which would gradually increase their stakes in the firms. These measures, particularly the second one, has been understood by employers and non-socialist parties as a move from capitalism towards democratic socialism (Gould, 1993). The idea of wage-earner funds, not only deteriorated relations between SAF and the LO, but also united the forces of the centre-right in Swedish politics. Consequently, as Aylott (1999:199) emphasises, 'Swedish employers considered that the labour movement had breached the terms of the country's class compromise. Centralised, peak-level wage-bargaining, so crucial to keeping wages in check, began to lose its discipline.'

consistently been raising the budget for social welfare services. Such a policy has to be understood as a part of the corporatist arrangement in Swedish politics, which resulted in a widespread consensus between the SAF and the Social Democratic governments. However, during the 1980s the policy of decentralisation initiated by the Social Democratic governments, suggested an obvious change in the ideology of welfare statism. The removal of regulations in social services, health care, and planning, on the one hand, and the provision of greater autonomy for the municipalities to control the finance and organisation of services on the other, were among the crucial changes made in that direction (Elander and Montin, 1990; Gould, 1993:172). As Sven Hort stresses, such a move has weakened the position of the 'strong state' on which the Social Democratic welfare model was based:

> If we look at the Swedish system from a historic perspective, we will find that the system was mainly based on the dominance of the 'strong state', which in practice meant that the central government had greater power in exercising its influence. The essential parts of welfare programmes were adopted by the central government. The regional and local governments could not avoid the policies, which were mostly addressed in order to reduce the gaps between regions. However, the system has faced two challenges, which above all questions the authority of the 'strong state'. On one hand, the increase in the local government's power has reduced the influence of the strong state but on the other hand there is the process of privatisation, which in the area of delivery of services has acted as a competitor to state. The role of state is not as strong as it once was, but it is still strong enough. Even though the system is still almost intact there are some threats against its essential parts. The authority of the central government, which could be more efficient in its redistributive aspect and delivery of services, receives competition from private enterprises (Sven Hort, interview).

In contrast to what has been stated so far, Sven Hort, like some other commentators, such as Hoefer (1996) and Rothstein (1998), rejects the conclusion that corporatism is dying in Sweden. Hoefer criticises those authors who generalise 'a few minor changes to the whole corporatist system' and without any behavioural and empirical testing of corporatist theories, claim that corporatism in Sweden has ended. According to Hoefer:

> If Sweden is becoming fewer corporatists, one should expect to see changes in certain behaviours exhibited by government and interest groups. These changes are not happening to the degree one would expect if the literature on the corporatist system in Sweden were completely correct (1996:69).

Hoefer examines the level of corporatism in Sweden by analysing the information collected from a survey about the Swedish interest groups' participation in the process of policy-making, mainly in social welfare issues, in 1986 and 1994. The study confirmed that the use of compromise and consensus in policy making is not declining, likewise, the role of encompassing organisations is not diminishing. Group-government relations are still strong, and the conflict and competition between interest

groups is not increasing. Further, the group leaders' influence in the process of law-making is almost the same as it was before.

Hoefer's finding in this empirical study is that there are few, if any, grounds supporting the suggestion that a process of the demise of corporatism in Sweden is occurring. His study presents interesting findings, although it may be too optimistic to assume that this process is not happening in Sweden. As pointed out by the former chairman of LO, Bertil Jönsson (interview), 'the worsening of the relationship between the LO and SAF is a fact which has had widespread effects on relations in labour market.' One of the consequences of such a trend, to support Jönsson's argument, is that fragmented bargaining, which was suggested and to some extent initiated by the employers have had some impact on wage rates in general, and on public sector wages in particular. Apart from that, despite the initiatives by the trade unions to cooperate with the employers, capital mobility from Sweden has increased considerably (Lindvall, 2002).

Overall, in contrast to the political elite, which has adhered to the 'consensus' by keeping to the major course of welfare strategy, there has been an obvious split in the labour market. The corporatist system is undoubtedly experiencing its deepest crisis since the 1930s and 'decorporatisation' is likely to have an impact on the nature of the welfare regime. The essential impact, though, is that the climate of mutual understanding, which was crucial for the introduction of the progressive tax policy, as well as the building up of the modern Swedish welfare state, could vanish. The commitment to full employment, which was also crucial for the expansion of a successful universalist welfare state, could also suffer from the lack of consensus between key actors in the labour market. Despite that, it has to be emphasised that although the crisis of the corporatist system has weakened the underpinnings of the regime, it has not (yet) destroyed it.

Public attitudes towards the Welfare System

The discussion so far suggests that although the problems caused by endogenous and exogenous factors tended to erode the support of the employers for the welfare state, the support of the other actors such as trade union and the political parties, especially

those in the left-wing bloc to the welfare system, are still intact. This leads us to conclude that democratic institutions, which are highly anxious about the public opinion, cannot deviate from the dominating standpoints among the public concerning welfare state. Democratic wisdom seems to suggest that short-term changes, for instance caused by economic crisis, may legitimise periodic retrenchments but suggestions for profound institutional changes are likely to be rejected by those who benefit from the system. In other words, the long-term trends in public opinion, which occur over decades and are in favour of welfare state, are more decisive (Svallfors, 2001). The more that social groups are dependent on the benefits and services provided by the system, the more widespread the reaction to the changes will be (Pierson, 1996).

The general election of 2002 has clearly shown that the Conservative Party, which held a definite anti-tax policy during the election campaign, and its party leader advocated large scale reductions in tax levels, faced the greatest defeat in its history (from 22.9 to 15.3 per cent). The evaluation of such defeat by Bo Könberg is striking. Könberg is one of the senior members of the Liberal Party, which gained most of those votes of people who turned the Conservative's anti-tax campaign back:

> The conservatives have always stressed tax reductions but the reason that they faced the greatest defeat in this election by losing almost 8 per cent was their unproportional stress on tax cuts, when the Swedish people did not place the tax issue of the top of their lists of priorities. A crucial reason for this was that during the past years the wage-earners have realised that the amount they receive after taxes and other contributions has actually been more than before. Apart from that the wages had been increased whereas tax rates had been decreased. Therefore, there was no need for tax cuts. On the other hand, the Conservatives could not explain to the people how they planned to make a tax cut by 130 billion skr/year without implementing major cutbacks in replacement levels, and without deteriorating the quality of social services (Bo Könberg, interview).

It suggests that the liberals are fully aware that crucial changes in benefit system are not acceptable by the public opinion. Even the Conservatives have realised the fact and therefore, short after the election of 2002 replaced most of the leaders who were blamed for the disasters election result. Replacement of the tax-cut-friendly party leader, Bo Lundgren with Fredrik Reinfeldt (which formally will take place in autumn 2003), who is a more traditional conservative with greater concern to social issues, illustrate the greater concern of the Conservatives to public opinion (Aftonbladet, 11/5/2003).

However, even if the tax issue was not the central matter for the public, by making it out to be a central issue the Conservatives caused reactions in the public opinion.

According to one of the leaders of the Left Party, Ingrid Burman, the outcome of the election not only rejected the Conservative's claim that Swedes are against high tax levels but also showed that a majority of the Swedish people actually support the policy of restoration of the welfare system:

> The election in 2002 had two central messages: first, the return of the Social Democratic sympathisers to the Party, since the Party had been changing its policy towards a restoration of the welfare system; second, that the election showed that a majority of the Swedish people rejected the policy about major tax cuts which had been advocated by the Conservatives. Instead, the people chose the policy of restoration of welfare system, which had faced considerable retrenchments during the 1990s. The Swedish people also indicated that they prefer larger investments in the public sector and public care, such as in school and elderly care, than receiving more money through tax cuts. Therefore, in the history books, the election of 2002 is going to be named as the tax election (Ingrid Burman, interview).

However, public opinion is not united in supporting the welfare state. Different social groups hold different views about social policy arrangements. Although the labour movement was the major driving force of the welfare system and initially defended the interest of the people who suffered most from the risks connected to the market economy, it soon realised that the continuity of the system needed a broader support. The advocates of welfare in Nordic countries were therefore keen to develop a system based on far-reaching consensus among the key political forces (Goul Andersen et al., 1999). Apart from social classes, the Nordic welfare states, by initiating women-friendly policies, which increasingly integrated the women in the labour market and thereby provided full citizenship for Scandinavian women, also widened social support for welfare to the maximum (Karvonen and Selle, 1995). Therefore, the Swedish welfare state has, since its formation, aimed to provide a broadly accepted and legitimate framework for the extension of social justice. For the Social Democratic Party and labour unions, as the architects of the system, only the institutionalisation of the welfare system could secure a desirable degree of 'social justice'. Therefore, from the very beginning, these bodies pursued the institutionalisation of welfare reforms. The real aims of the institutional parameters were security, decommodification, labour training and mobilisation, and redistribution of resources (Stephens, 1996).

Citizen welfare has been provided by certain key features of the system, such as high replacement rates for most transfers, liberal qualifying conditions for benefits, the broad scope of citizenship rights, comprehensiveness, and service intensity. Because of the emphasis on 'decommodification', the basis for entitlements to income or publicly

provided goods in the Swedish welfare system has been citizenship status rather than market participation or market position. Because these measures have been viewed as the central means of achieving the essential goal of the welfare system – distributive justice – they also constitute the system's source of legitimacy. Considering that such a goal has been achieved by the state's active intervention in the distribution of social and economic welfare, state interference has also been legitimised as the guarantor of continuity in welfare provision. Therefore, for a defender of a more conventional perception of the welfare state such as Rothstein (1998), the question of legitimacy mainly deals with the welfare regime's normative character, and its historical success in constructing a more egalitarian and just society. Economists like Lindbeck (1994) and Rojas (1999), on the contrary, focus on the economic consequences of the welfare system, and their major concerns are the system's negative impact on efficiency and growth. In this view, the concern lies with what extent public policies with tax-financed social transfers and public services create disincentives to efficiency and growth.

Legitimacy of high-taxing and high-spending state

Based on long-term development of welfare state legitimacy, the argument is that the support of the public opinion to the system has been crucial to the continuity of the system. As long as support for the institutions of the system remains strong, the political actors avoid too much efforts of retrenchment, which would clash with the will of the public. However, one of the major issues in the recent debates about the crisis of the Swedish welfare state has been the erosion of public support for the system. The discussion about the long-run decline of the welfare state is not new. Ever since the late 1970s, critics of the system have argued that ambitious welfare policies and increased state expenditure will inevitably evoke resistance to the high-taxing, high-spending state, and thereby undermine support for a public welfare state (Wilensky, 1976; Hibbs and Madsen, 1981). Later in the 1990s, with increasing debates about 'post-modernism', others (Gundelach and Riis, 1992) stressed the growth of middle-class life styles, alongside increasing individualism as the factors which tended to erode the support for the welfare state. Such resistance would cause a crisis of public legitimacy for the welfare system, and change political priorities

among the public. As some critics (Musgrave, 1990; Ingelhart, 1990) point out, the changing attitudes have clearly been recognised in the wave of tax reforms, which have swept over many western welfare states in the 1980s. This view was rejected by advocates of the institutional approach (Goul Andersen, 1993; Svallfors, 1996) who pointed that the changing attitudes have occurred in residual welfare states and not in the universal welfare states in which almost everybody is potentially benefited by the arrangements. In these systems, in Nordic countries, not only support to the welfare systems eroded but also scepticism to the tax system, which is the highest in OECD, are far less than in countries which have far lower tax levels.

As stated, one common reason for the decreasing support for state-based welfare is the negative effects of high social spending on the economy. Welfare states based on an egalitarian ideology, and financed by taxes collected by the state, it is claimed, lead to decreased economic competitiveness and distortion in market relations with negative work incentives, hidden employment, and weakened entrepreneurship (Edlund, 2000; Atkinson and Mogensen, 1993). A second reason concerns the expansion of the welfare state and the conviction that the system has reached its rational limits. It has been argued that the welfare state has succeeded in solving the problems it was originally created to deal with, and therefore there is no immediate need for further expansion. Critics also focused on the financial aspects of the system, and on high taxation in particular. For prosperous social groups with less obvious needs for welfare services, ambitious welfare policies have been experienced as a heavy burden. Such dissatisfaction with such a costly system, it has been argued, explains a trend of increasing discontent with taxation in Sweden. Several economists (Lindbeck et al., 1994; Rojas, 1999) have described the growing tax burden, mainly incurred by a huge public sector labour market rather than the cash transfers of the welfare state, as the Achilles heel of the system. In many Western welfare states, direct visible taxes, along with high-spending public services, have become the main targets of criticism for the growing anti-tax movement. But has tax discontent really increased in Sweden? Is there any evidence to confirm the claim that public discontent with taxation has risen and that support for the welfare state in Sweden has eroded?

There is no empirical data based on popular attitudes towards taxation, which would prove the claim that discontent with taxation in Sweden has risen. Those who point to

a trend of increasing discontent with taxation mostly base their claims on unfounded suggestions, rather than on an empirical examination of public attitudes. On the contrary, nationally representative surveys conducted in Sweden between 1981 and 1997 show that, as Edlund (2000:58) stated, 'a long-term trend of increased dissatisfaction with taxation cannot be detected.' On the contrary, as Stenberg and Svallfors (1992) concluded during the 1980s, a majority of Swedes believe that, balanced against the public benefits provided by the government, taxes were not too high. Between 1981 and 1991, the percentage of people who believed that the general level of taxes in Sweden was too high decreased from 84 to 71 percent. By the same token, the percentage of people who believed that marginal taxes were far too high decreased from 82 to 59 per cent. Accordingly, one can conclude that discontent with taxation decreased considerably during this period. A survey of the late 1990s (Hjerm and Svallfors, 1998), however, shows that tax discontent gradually increased thereafter, particularly between 1996 and 1997. The Survey also revealed that increased discontent during the 1990s was related to changes in tax and welfare policy. Increasing tax levels in the second half of the 1990s, combined with cutbacks in welfare programmes, aggravated the perception that, while public sector expenditures increased, public benefits provided by the government decreased (Edlund, 2000).

Among the interviewees representing the three political parties in the Bourgeois bloc, none tended to question the legitimacy of the welfare state by pointing to a trend of increasing discontent about taxation as a major concern. As Birgitta Carlsson stresses, the concern is to increase the efficiency of the existing welfare system:

> Since the creation of the welfare system or to be precise since the existing arrangements demonstrated weaknesses our major concern was to find repair the insufficiencies here and there. We have also repaired the arrangements as they initially founded. We have never tried to question an arrangement in order to replace it with a new one, which would be more efficient, adapted to the new era and new needs. Our major critique of the system is that different arrangements are totally independent from each other and that makes it easier for abuse of the system. By establishing a common system it will be easier to grasp the whole system and by preventing abuse we could save a lot. In other words, all existing arrangements have to remain in a new modern system but they have to be organised in a new and more efficient way (Birgitta Carlsson, interview).

If the changes suggested by Carlsson are carried out, it will undoubtedly lead to great savings in welfare costs which will in turn make tax cuts possible, but the point here is that the reforms are addressed to implementation of the services and not their existents. Even the liberals avoid relating the calls for changes in the existing welfare

arrangements to the legitimacy issue and the high costs of the generous welfare system, but they rather represent ideological objections against the state monopoly on the implementation of public services:

> I think a majority of the Swedish people will for a foreseeable future support the universal welfare system. The only problem, which could really threaten the system, is bad performance in the Swedish economy. A long-term economic crisis could not only cause financial problems for the social arrangements but also could increase doubts in the public opinion about the legitimacy of the system (Bo Könberg, interview).

The Conservatives are the only party which clearly points to high taxes as a burden for individuals, and target the high-spending welfare state as a key feature of political disappointment. In the political debate the party represents the core opposition to the high-taxing and high-spending state:

> We have always criticised the existing welfare system where high taxes are to finance the high benefits. We have always advocated lower tax levels and suggest lower benefit levels. With lower tax levels can people manage their individual economy without the intervention of the state? Only those who are in great need should receive helps from the state. If our policy implements the people who need most will receive greater support something the existing universal model cannot offer (Sten Tolgefors, interview).

The Social Democrats, who through the tax reform of 1989 won the support of professionals, managers, and other high-income earners, after returning to power in 1994, increased the marginal tax rate for high-income earners, believing this measure to be the most efficient way of balancing the budget. An additional 5 percent extra tax on income, which was added on the top of the marginal income tax rate, was implemented. In addition, some changes in social spending were implemented to bring down budget costs. Cutbacks in replacement levels, stricter qualifying conditions, and reduced social services were among such measures (Palme and Wennemo, 1998). It appears that the impact of these two measures caused dissatisfaction among both high-income earners and strata with fewer resources. Whereas both groups were similar in their demands for lowered taxes, they differed in their concern over the distribution of taxes and tax progression. Not surprisingly, the working classes were better disposed towards a progressive distribution of taxes. Knowing that both the working class and the middle class have benefited from welfare policies such as universalist social services, income-related policies and the commitment to full employment, their support for the progressive tax system is understandable.

However, some scholars (Pakulski and Waters, 1996) reject the notion that class divisions continue to have a decisive impact on the creation of identities and interests, particularly in view of the emerging process of post-industrialisation and globalisation. Accordingly, attitudes to taxation manifested themselves in patterns of consumption and value-commitments, and therefore, identities and interests are no longer structurally determined. Others (Svallfors, 1999) take a different view, and argue that attitudes towards tax increases and cutbacks in the welfare programme continue to be determined by class. Compared with the lower social strata, higher income earners such as high-level salaried employees and the self-employed, disapprove of progressive taxation more strongly. Nevertheless, the eroding support for the welfare state seems to have mainly been a result of increased dissatisfaction with the level of benefits and the quality of the services received for the taxes paid (Edlund, 2000). The stress on the inefficient allocation and organisation of social services by right-wing parties seemed to have had a particular impact on the growing discontent about tax levels. Despite the fact that Sweden has the highest tax rates in the world, the provision of services in the country has been heavily criticised. Another major criticism launched by the right was concerned with the negative impact of taxation on employment. In a situation of continuing high unemployment, the argument that reduced taxes would provide new jobs could gain a degree of support among citizens.

Despite the emphasis on an increasing public discontentment with high taxation, and growing critical views about the social services provided by the welfare system, and the reduced level of benefits, several scholars (Svallfors, 1999; Edlund, 2000) reject the suggestion that public support for the welfare state has declined. On the contrary, they emphasise the strong support for welfare state in terms of service delivery, financing and social spending during the 1990s, which not only decreased, but in some instances has slightly increased. Among high-income earners, however, support for the system has certainly decreased. Suggestions also stress that if further cutbacks in the welfare state transform the system towards a less ambitious and less universalistic welfare model, the public support for the system will decrease among larger groups of the citizens.

To retain the strong support to the welfare state, the architects of the system need to convince middle class voters to continue their support. The leader of the two main left

parties (the Social Democrat, Göran Person and the leftish Gudrun Schyman) declared that by keeping the universal characteristics of the Swedish system, they intended to encourage the middle class to continue to support the generous welfare arrangements (DN, 30/4/2001). Even the liberal leader, Lars Lejonborg defended the universal welfare politic and generous replacement rates. The only major difference with the Social Democrats was the Liberals' greater concern to introduce the private insurance system as a complement to the existing state welfare arrangements (DN, 1/5/2001).

Summarising the discussion about the public support for the welfare state, recent studies have not found any 'declining long term trend in support for the welfare system' (in Nordic countries) (Goul Andersen, 1999:255). Although the willingness of the growing well-to-do middle-class to finance social spending might have lessened, this loss of support has also been observed in countries with residual welfare states in which only the poorer groups are the beneficiaries. While the Nordic systems provide benefits to everyone, protests at high tax rates are far lower in these countries than in the 'liberal' regimes. In Sweden, criticism of the welfare system seems mainly have been a result of increased dissatisfaction with the level of benefits and quality of the services received for the taxes paid. As a result, in the early 1990s, the right-wing government started a process of privatisation in delivery of services, which was principally crucial to the future of the universal welfare model.

The privatisation of public services

Another challenge to the welfare system was the questioning of Titmuss' institutional model in terms of service provision. In the course of the 1980s, the delivery of public services came under heavy criticism. Consumers of public sector services were one major source of critique that expressed dissatisfaction with the delivery of services for two reasons. As clients and patients, they had no choice over the type of neither services delivered, nor a choice over where to obtain them. The bureaucratic features of the system were also an object of criticism. Politicians were the second group concerned about the cost of the services, which had increased enormously (Stephens, 1996). Consequently, in the beginning of the 1990s, municipalities and county councils have contracted out a part of the provision of public services to private companies.

Education and care were two main areas, which were affected by the new policy. For the bourgeois coalition, who designed the privatisation of public service production, the change had a partly ideological basis. It was implementation of Carl Bildt's 'freedom of choice revolution'. But partly it was seen as a solution to the strained economic circumstances (Rothstein, 1998).

However, provision of public welfare by providers other than the public sector was by no means a new phenomenon in Sweden. The informal care of children and other dependants, unions' administration of unemployment insurance and also their recreational and educational services, and voluntary organisations supported by public money for help to women, children, refuges and other social groups, have been among such initiatives (Brunsdon and May, 1995; Meyer, 1994; Andersson, 1996). Housing is another example which, according to Brunsdon and May (1995:14), 'more than any other provider sector suggested that a "mixed economy" prevailed, albeit heavily regulated and subsidised by the state.' Consequently, private production of services would not necessarily mean any direct threat against the universal welfare state, although in Nordic welfare states, social services have historically been provided by the state rather than by subcontracted private firms (Stephens, 1996). However, strong opposition to the privatisation of public services exists in the labour movement. On the other hand, the bourgeois parties have responded to increasing dissatisfaction in society by arguing that private alternatives could compete with the public sector in terms of cost effectiveness. As social and political pressures on the labour movement have increased, the Social Democratic Party has been forced to accept the idea of private competition, on the condition that the state regulates and finances the services. The conservatives, who had suggested a complete privatisation, retreated from their neo-liberal standpoint and accepted the principle of state regulation. However, they stressed the necessity of increasing fees for services and in this respect there remained an important difference with the Social Democrats, who believed that such a policy would create a tiered system of services (Stephens, 1996).

When the process of effectiveness of minor parts of service delivery in some areas of Stockholm started at the end of the 1980s, the union and employees were those who most resisted this initiative, but as the chairman of the committee which initiated the

process of reform in Stockholm pointed out, there was a consensus among the political parties:

> There was a consensus between the political parties in Stockholm city council that the delivery of services, as it was at that time, was too expensive and therefore efficiency measures were necessary. The initial goal of the reform was not to replace the public delivery of services by private delivery but to use privatisation of limited elements of services to pressure the public sector into being more efficient. The Social Democrats who rejected the idea for a long period of time supported the initiative. Even the Left Party could not deny the need to change. However, after the victory of the bourgeois coalition in 1998 in the municipality elections in Stockholm, the object of privatisation was changed. The Conservative-led coalition was determined to successively replace the public delivery by the private entrepreneurs. In some areas of Stockholm privatisation of services increased to 50 per cent of all services, but in other parts due to large dissatisfaction with the policy, public delivery of services remained fairly intact (Ebba Bodell, interview).

The expansion of privatisation, as developed by the right-wing parties in Stockholm, is criticised by Bodell (2002), who suggests that the Conservative Party has gone too far in eroding the quality of services:

> In the beginning of the reform process the only objective was to promote an alternative form of production due to market premises in order to increase the level of efficiency. It was assumed that the private service delivery would have a positive impact on the public delivery of services. As the process of privatisation began actualising, the Conservatives became more eager to increase the dimension of privatisation by extending the number of private alternatives. We realised that the initial objectives were virtually forgotten and the Conservatives were pursuing an ideological objective, which was to achieve a systemic change by privatising a major part of elderly care. Later, when it had been revealed that the eagerness of private companies to earn larger profits led to poor quality of services and mismanagement in some of the elderly care homes, such as in Polhemsgården in Solna, then, our party (Stockholms Partiet) decided to leave the committee (Ebba Bodell, interview).

The freedom of local authorities, both in municipalities and counties, to choose between state provision of welfare services or to turn to private companies was undoubtedly a dramatic change. That was the major reason behind the increasing diversity between the municipalities. Depending on factors such as the political majority in every local government, the response of public employees in the workplaces, and the response of the elderly who were the consumers of the services, each municipality could determine its own method for providing services. In some districts in the centre of Stockholm because of their recourse to greater political support to the privatisations, the private sector expanded quickly and the private companies could create an alternative elderly care to the ordinary public provision. However, in most other municipalities, such as Haninge in the south east of Stockholm, neither the political majority nor the consumers of the services were enthusiastic about the entrance of private companies:

The attitudes of the public sector employees towards privatisation were different dependent on which activity in the public sector was subjected to privatisation and also dependent to the methods according to which the privatisations were implemented. Some of the high-educated employees with strong positions in the labour market welcomed the privatisation because it would mean higher incomes and better work conditions to them. In this category you could find nurses, midwives and some of teachers. For low-educated groups, privatisations would mean deterioration of both incomes and conditions of work. Therefore one could say that in general terms low-paid employees were mostly against privatisations. If you compare the level of wages for these groups in public sector to their counterparts in private sector you will realise that the public employees have both higher incomes and a more secure terms of employment (Hans Lindberg, interview).

Among the public sector workers, there was an extensive protest over the transition to the private sector. As a consequence of such protest, which mainly occurred during the early years of the Bourgeois government, many attempts at privatisation were unsuccessful and the state provision of services remained unchanged. The extension of privately provided services had great impacts on the working conditions of publicly managed services. The great burden of work stifled the joy among part of the labour force, which in the long term caused sickness among the nurses in the public sector:

> During the 1980s working as a nurses in the hospital was very encouraging. The staff felt great satisfaction simply because the only thing we would think about was the quality of the services we produced. Our workplace was full of creativity and everything was continuously developing. The discussions were about the new technological equipment and the new methods of treatment. There was no discussion about shortcomings, financial problems or retrenchment. During the 1990s, though, everything associated with creativity and development seems to have been forgotten. Everywhere you could hear talks about savings, efficiency measures and how to cut the services. The employees felt heavy pressures on their shoulders by being a nurse. Many nurses have given up and left the public sector (Ulla Söderlind, interview).

Since the start of privatisation, however, the focus seems to have been partly on the compatibility of private production and the universal welfare state, and partly on the distinction between public production of services and public financing of the services (Rothstein, 1998). Among the political parties, the Social Democrats, as the original architects of the universal welfare system, have always stressed the importance of public service production. In the Social Democratic state, democratic political institutions would control the quality and shape of service provision, mainly through the control of public employment. However, since the 1980s, this policy has partly been changed. The Social Democrats moved towards an emphasis upon community care and, for example, many institutional homes for the elderly were closed. Since then, municipalities have been responsible for providing residential services for the elderly and also for finding alternative ways of organising childcare, and to this end they have been allowed to charge higher fees. The Social Affairs Minister in the

Bourgeois government took this a step further and encouraged the municipalities to introduce more choice and competition in service provision (Gould, 1996:82). The transition from institutional homes for elderly care to community care has meant a rise in fees for the services, which caused complaints among the poorest (Midfelt, 1993a, in Gould, 1993). Reduced compensation for work injury benefits was another change, which was initiated by the Bourgeois government (Midfelt, 1993b in Gould, 1993). Bo Könberg who initiated the reduction in work injury benefits points to the reform as one of the most successful of those accomplished by the Bourgeois government:

> The reform in work injury benefits meant a huge financial gain for the public economy. A forecast of probable development of the costs for the work injury benefits predicted that with no changes in the system the accumulated deficit for the work injury fund in 2000 would have reach 100 billion crowns but as a result of the reform initiated by us the deficit turned dramatically to zero (Bo Könberg, interview).

The Social Democratic modernisers shared the same view as the Bourgeois government that most of the welfare programmes are too expensive and something has to be done. In other words, some of them went against their original doctrine and openly criticised public service production as costly, unproductive and of a lower quality than privately provided services:

> I think municipalities and counties have difficulties in handling the role of employers in an appropriate way. To put it bluntly, they have poor performance as employers. Their main problem is how to combine the role of being a politician, as the representative of the citizens, with being on employer for a huge number of people who have voted for them. I am a member of the executive board in Falun City council and I could tell you that as an elected politician I, like other politicians, realised that after the election we suddenly became the employer for more than 5 000 employees which were working in different sections such as schools, child care services, elderly care services and so forth. Only the schools administration where I am the chairman has an annual budget of 1.1 billion, with several hundreds of employees. You see, that is a big company. According to my experiences the public administration in city councils and municipalities is very amateur. The treatment of the citizens, which are the consumers, is inappropriate with less concern to their specific needs and wishes. Likewise, the public sector has no plans for development of the personnel who work in different institutions. Since part of the services have privatised, many municipalities and counties have pulled their socks up and have tried to run their activities in better ways (Widar Andersson, interview).

One decade after privatisation was beginning for some of the public services in the municipalities and the counties, the major argument presented by the advocates was the improvement of the quality of services. Privatisation was suggested as an alternative form of service delivery. Although there has never been any question of individual financing of the services, the advocates of the traditional Social Democratic model pointed to the privatisation of service delivery as a first step towards a total privatisation, which would include the individual financing of services. Even most of

the modernisers, such as Mona Sahlin (DN, 4/27/2001) criticised the far-reaching privatisation attempts taken by the Conservatives in Stockholm's City Council, which were considered to be a policy that might be implemented in the whole country if the Conservatives led a government again. The modernisers clearly rejected such a development:

> There is no support in the Social Democratic ideology, which would support the idea that the politician should run the delivery of services, which is financed by public sector. The Social Democratic governments in Sweden started the public delivery of services in the 1960s when the major expansion of the welfare state took place. It has been assumed that the public financing of services automatically needed public delivery as well. The pioneers had no idea that the big state, which would manage everything, would face such significant problems, complications, and bureaucratisation. They also did not know that the services produced by the public sector would be more expensive. They even could not imagine that the services produced by public sector would be provided, as they would suit the bureaucrats and not the consumers. The public delivery of services as it was executed in Sweden between the 1960s and 1980s, and was known as the only Social Democratic method for delivery of public services should be understand as a bracket and nothing more. The role of the politician will be more important in the future. Instead of acting as poor employers they will examine how the private actors perform their jobs. The role of the politician is not to act as a manager of a company but the one who makes the policy and evaluates the performance of the actors (Widar Andersson, interview).

It has become clear in speaking with Bourgeois politicians that they have virtually the same arguments in favour of privatisation of the delivery of services as the modernisers in Social Democracy. Most of them emphasise that by 'privatisation' they mean the *delivery* and not the financing of services, which in the Social Democratic welfare model has been understood as public services. Such consensus is based on two major reasons. First, there is large support for the public financing of services because public financing is so deeply embedded in the Swedish society that every major attempt to dismantle it would cause enormous protest. Second, there is a large consensus between the Bourgeois Party and the modernisers inside the Social Democratic Party about the need for an extension of private delivery of services. Any attempt to extend the privatisation of services to the financing aspect would divide the unity and stop the process of privatisation, which in some areas, such as private schools, has been successful. However, by listening to Bo Könberg, who in the past quarter of a century has had some real fights in order to achieve some concrete changes in different parts of the system, one gets the impression that the process of privatisation of services will not stop at just delivery of services:

> In the past 25 years in the parliament, I have observed that for a long period of time the Social Democrats severely rejected every suggestion regarding privatisation, not only concerning financing of the services but also on the delivery issue. When we started to discuss these issues in early 1980s all the Social Democrats were against the whole idea. They could even not accept that the task of cleaning in the hospitals could be delivered to

> private companies. Throughout the 1990s, the Social Democrats were unanimously against the start of some private schools. They even made a law, which forbade the school making profits. At about same time there was another battle about the start of a few private care centres. In the beginning of the 1990s, the conflict was focused on the reform of family doctors. At the end of the 1990s and early 2000 the Social Democrats have been rejecting our suggestion about the start of an emergency hospital. In all these areas we were those who suggested for changes and in all the cases the suggestions met large conflicts from the Social Democrats, but we have compelled them to retreat centimetre by centimetre (Bo Könberg, interview).

The opposition of traditional advocates of social democracy to privatisation efforts is not due to the efficiency aspects of the public services but to more strategic concerns. One of these, according to the senior economist of the labour movement (DN, 7/10/2002), was the bourgeois' parties aim to sale public properties to the private sector and thus to provide opportunities for tax cuts. They believe that the privatisation of public properties would temporarily increase the income of the public sector by 100 billions. Even though in shorter-term such income could benefit the budget balance and make tax cuts possible but in longer term, the replacement of taxes by sale of public properties would cause financial problem to the welfare arrangements.

The bourgeois parties' eagerness for privatisation was particularly demonstrated when the coalition government made it possible for profit-making child care agencies to be set up. As a result, the costs for childcare were raised and children who could not pay the fees were excluded from day care (Johansson, 1993 in Gould, 1993). However, this and some other reforms carried out by the bourgeois government in child care, and the deterioration in financing of schools, was reversed shortly after the Social Democrats returned to power, but the care of the handicapped, which has been improved considerably during the bourgeois period of governance, remained unchanged. Another major change, which intensified during the 1990s, was the process of decentralisation and deregulation of the education system. The privatisation and marketisation of education, which had been introduced by the Bourgeois government, continued by the Social Democrats and by 2003 the number of students in independent primary schools had reached around six per cent (Skolverket, 2003). In metropolitan areas such as Stockholm and Göteborg, the generous rules for establishing independent, tax-paid schools led to a dramatic increase of independent high schools and the percentage of the students in such schools reached to 14 per cent (Skolverket 2003). Studies made by Skolverket stress that the increase of independent school has lead to more ethnic and socio-economic segregation (DN, 15/4/2003). Students with

Swedish backgrounds avoid schools where the rate of students from ethnic minorities is high. However, despite the changes in the system, neither the Social Democrats nor the centre parties have fundamentally questioned the high welfare standards and the public financing of services. Moreover, privatisation of services has not led to satisfaction among clients. After having experienced privately provided services, a large majority of Swedes believed that, with the exception of child care, state or local authority delivery was the best approach (Svallfors, 1992). The popularity of most welfare programmes seems to have been sustained through the 1990s with greatest support to the public health care followed by childcare and elderly care (Goul Andersen et al, 1999).

In sum, the public's verdicts on the privatisation in some social services have played a decisive role in the future of the redistributive welfare system in Sweden. A positive attitude to these reforms could be a guideline for the political elite for further privatisation. It is also crucial to emphasise that the aim of the reforms, at least for the Social Democrats and some parties in the bourgeois front, was not to transform public delivery of services to private enterprises but by the partial privatisation it aimed to make the public services more efficient. In practice, though, even such partial privatisation caused protest between both the provider and consumer of the services. Despite the fact that the privatisation efforts were quite modest the wide protests against these initiatives proves that institutionalisation of the welfare benefits and services in the Swedish society runs deep.

The impact of institutional legacies on the reform process

Most scholars dealing with the Swedish welfare state and the processes through which the system has been created, stress the importance of the historical dimension of modern politics and administration. In this respect, some commentators (Steinmo, 1993; Lindbom, 1995; Rothstein, 1998) in their recent works in particular, pointed to the importance of the institutional legacy as a key factor in the welfare reform process. One of the main arguments presented by these authors is that welfare institutions were created in an open political process, as a result of comprehensive political bargaining (Grönnegård Christensen, 1997).

As institutions are based on a broad consensus and not purely on a Social Democratic ideology, a major strategic policy such as a comprehensive welfare state also had to enjoy broad social support. Accordingly, the Swedish welfare state has been shaped over a long-term historical process in which common macro-institutional features have induced the political parties, regardless of ideological make-up, to formulate policies, which fit with the character and culture of Swedish welfare (Gould, 2001). In this sense, political forces, administrative actors, and institutions that formed the welfare state, followed generally accepted rules, and therefore, may be said to have historical legitimacy. Consequently, as a national project, the concept of the 'welfare state' has been understood as a national model with a long-term historical legitimacy, and has therefore been supported by the vast majority of the political establishment. Broad political consensus and a process of continuity and evolution of the welfare state have given the system such legitimacy that any suggestion for comprehensive changes arouses protests both in society itself, and among political actors in the establishment. However, as the necessity for institutional change increases, political actors may initiate and implement institutional reforms, which are undertaken as a result of the implementation of new strategies. But the more radical and thorough such reforms are, the more it will be necessary for the political parties to reach broad consensus about them.

Such phenomena explain not only the legitimacy of the present shape of each political system, but also, as Steinmo (1993) emphasises, why welfare states created in the mid-twentieth century diverge from each other in such radical ways. In the political debates, there seems to be a tendency to overvalue the role of ideologies and values, as well as preconceived interests, as the crucial factors that explain the process, and which have driven state actors to develop certain public policies. On the other hand, the role of institutions, which are products of historically created systems of incentives, and therefore explain the nature of the policies and preferences on which a particular welfare regimes is based, might be underestimated. Understanding the preferences, which have historically decided the direction of the policies, helps us to understand the changes made to welfare states, and the nature of possible changes in the future. In other words, as an analytical instrument, such an approach captures the dynamic traits

of policy making. Consequently, it might also explain the structure of different parts of the welfare policies, and the ways the policies have been implemented.

In a comparative study of the financing of the modern states in Sweden, Britain, and the United States, Steinmo (1993) stresses the role of institutions as historically created systems of incentives that prompt certain actions and discouraged others. Accordingly, political institutions such as electoral systems, parliamentary organisation and rules, committees, bureaucracy, and corporatist structure, have determined the development of public policies in each country.

Finally, as Pierson (1996, 2000), Esping- Andersen (1990), Soskice (1999), Huber and Stephens (2001) suggest, in different ways, even this study emphasises that welfare states as democratic projects emerged and developed through a historical process, supported by key political and social movements which dominated in each society. The dominant political approach in each society shaped welfare arrangements according to its ideological preferences and the interests of powerful social groups. As to the future, the duration and survival of the arrangements not only depends on the strength and support of existing 'power resources' such as the public, the political establishment and labour movement, but also on the instance of institutional factors which were created and are frequently sustained by political actors and those working in the state and local organisations. In other words, institutional factors create 'structural' pressures that make change difficult, or 'path dependent'.

Conclusion

In this chapter, it has been argued that the strong support for the universal welfare system in Sweden has prevented large-scale changes. Calls for change have their origin in debates, which started in the mid-1970s, due to growing economic crisis in the industrial world. The economic crisis of the 1990s, caused by the endogenous and exogenous pressures, was the second major shock, which endanger the continuity of the universalist welfare state in Sweden. While virtually all industrial nations responded to some degree to the crisis by comprehensive retrenchments in their welfare entitlements and public services, Sweden kept its redistributive welfare

policies almost intact. Support for the universal welfare system from the three sources of power – political elite, the interest organisations, and public opinion – remains widespread. Therefore, despite the high budget deficit of the early 1990s, even the non-socialist coalition government avoided major changes of the existing programmes and apart from some minor reductions in the level of benefits continued with almost the same generous social policy.

However, the continuity of the universalist welfare system depends on the support of these three sources of power in the future. Although the crisis of the early 1990s represented the most serious challenge ever to the generous welfare system, and particularly gave rise to discussion in favour of large-scale retrenchment, the political support to the system is still intact. The advocates of the system, above all the Social Democratic Party, have been determined to defend welfare institutions by making only minor changes in benefit levels and services. While the Party experienced its largest decline in popularity since the 1930s, it was determined to re-establish its public support by adhering to its traditional policy in favour of the universalist welfare system. Although the Party initiated the largest possible retrenchments in public expenditure these have not changed the basic structure of the system. By this policy the Social Democrats hoped to win back public support and to protect the welfare system from further decline. By restoring economic order and securing public services and benefits at the same time, the second half of the 1990s represented the success of the Social Democrats social and economic policy. Since the Social Democrats gave the impression that they pulled the country out of economic crisis and also managed to keep the essential parts of the welfare system, the reputation of the Party both representative of the Swedish nation and the architect of the welfare state were re-established. Although the support for the Social Democrats remains fragile and despite the fact that the party still has problems regaining the popularity it enjoyed until the 1980s, one cannot deny that the Social Democrats managed the crisis of the 1990s successfully.

For the longevity of the corporatist system, the outcome of the crisis of the 1990s is less certain. Since the LO was excluded by the SAF from labour market negotiations at the beginning of the decade, industrial relations in Sweden have been facing crisis. By undermining the historic comprise which had secured stability in labour market and

favoured the process of building and expanding the welfare system, the employers' organisation has ignored the importance of industrial stability. Although, the unions in their weakened position almost unilaterally try to take responsibility for maintaining industrial peace, particularly by keeping wages down, stability in the labour market is not as secure as it used to be. The collapse of the centralised collective bargaining and tripartite negotiations over wages and working conditions between state, business and unions has seriously threatened stability in Swedish industrial relations.

Finally, despite retrenchments in the welfare system, support for the universal welfare policy has remained strong. Public opinion has also consistently supported the existing universal welfare system, and despite the increasing neo-liberal debates in the past two decades, which predicted inevitable resistance to the high-taxing, high-spending state, popular support for the universal system has remained unchanged. Another trend advocated by the neo-liberals, and which could have weakened the foundation of the universal welfare system, was privatisation of the delivery of public services. In the initial stages of providing services, the delivery of services by profit-making agencies was not successful in satisfying the consumers, who were not satisfied by the public sector services either. After having experienced the delivery of services by these agencies, one can conclude that the consumers will still prefer public service production.

Conclusion

The aim of this study has been to identify the changing nature of the Swedish Social Democratic welfare regime in the latest decades (the last 15 years) of the 20th Century. The question is highly relevant because the Swedish welfare state faced central problems in this period. The challenges to the system made at least some analysts believe that, in the new economic circumstances, structural changes to the traditional Social Democratic regime would be inevitable. What were these challenges, and how did they affect the continuity of the system? In response to these questions two kinds of problems came into focus. The first could be the endogenous problems, which mainly were related to the matured welfare system with the limits caused by its highly redistributive and egalitarian features, and the second was the exogenous problems that essentially were caused by the economic globalisation. Apart from theses two problems a third type of issue concerned political support for the system, which it has suggested, has experienced significant changes. As these issues dominated during the 1990s, one could conclude that the welfare systems in general, and the universalistic model such as the Swedish model in particular, has experienced its deepest crisis since its creation, and therefore it would be highly likely that the system has been extensively transformed. The central question, then, is whether Sweden will be able to continue with its universal welfare regime or whether it is likely that this will gradually be eroded? The 'answer' discussed in this thesis is that, despite the pressures caused by the problems mentioned above which have weakened the overall stability of the system, the original pillars of the universalistic welfare system are still strong enough to keep it intact.

This thesis suggests that the discussion about the welfare state crisis has mainly been based on one-sided account in which the policy of retrenchment was understood in the

same pattern as the policy of expansion. On this account, economic conditions and the power resources approaches have received the greatest attention whereas the role of institutions in continuity of the welfare arrangements has been neglected by most scholars. This thesis not only puts the emphasis on the importance of institutional structures and the legacies of previous policy choices but also suggests that there is a profound difference between the policy of retrenchment and the policy of expansion. As Pierson (1996) has argued, while the expansion of welfare arrangements was a popular process based on large public support, the policy of retrenchment, on the contrary, has been an unpopular option with large political costs involved and, therefore, much more problematic to initiate and pursue. Despite that, the severe financial crisis, caused by endogenous and exogenous factors, compelled the state to take some measures to reduce welfare spending. Before focusing on the internal and external problems to the welfare state, or discussing about the likely trends for the Swedish system, in this concluding chapter I intend firstly to find a synthesis between the three theories which explain the three factors which having provoked growing calls for retrenchment. The factors are economic changes mainly as a consequence of globalisation, political shifts as a consequence of weakening labour movement, and rising costs associated with maturing welfare state arrangements.

Synthesising Welfare State Theories

The challenge which many scholars have considered to be essential threat to the existing welfare regimes is economic globalisation. Through increasing dominance of the actors in the market, economic globalisation is thought to have had a significant impact on welfare states and has made them experience substantial changes in their arrangements with a drift towards a more neo-liberal system. Although this notion had, at least during the 1990s, a widespread influence among authors, an opposite standpoint has developed which rejects globalisation as *the* major agent of change towards the welfare system. This alternative perspective foremostly downgraded the impact of globalisation on welfare states change on individual countries by emphasising the continuity that policies on national level have to have with the past. Economic globalisation might initiate the agenda in the national market economy but it would not, by itself, completely change national welfare regimes. A third perspective

argued that even if globalisation is considered to exist and have an impact on welfare states, national institutional structures would prevent the direct impacts of globalisation on welfare systems. According to this view, institutions which have become deeply embedded are difficult to change. Policy changes are path dependent because the institutional framework and the national welfare ideology of each welfare state resist against initiatives that aim to bring about crucial changes.

This thesis has adopted this most recent perspective as its main argument in investigating and discussing the role of globalisation in bringing about changes in national economies in general and the recent development in the Swedish welfare regime in particular. The option of this perception was based on the nature of the development of the Swedish welfare system, which since creation has followed a general universalistic welfare pattern and expanded enormously. The tremendous expansion of social programmes in most welfare states in general and in the universalistic system in particular changed in a few decades the nation-state's role and size and, through that, the role of the welfare states. By these changes the content and the structure of the advanced welfare state became increasingly 'embedded' as expectations of the population for continuity of benefits and services increased. Consequently, any analysis of the possible changes or retrenchments of the systems, needed to understand the relation between the politics of retrenchment and the politics of welfare state expansion. The conditions and factors that influenced the process of expansion have changed and new parameters such as new social and political groups with new preferences, new welfare structures and institutions and so fort have dominated the advanced societies. In exploring this issue, the first chapter briefly examined the key theories that attempt to account for the development of welfare regimes. Among theories explaining welfare states expansion three perspectives dominate. 'The logic of industrialism thesis' explains the emergence of welfare state as a modernist project in relation to the process of industrialisation and economic growth. 'The power resources perspective' discusses the process of expansion of welfare systems as a consequence of a political struggle between the main political and social classes in capitalist societies, and, finally 'the institutionalisation approach', stresses the mechanisms that facilitate the continuity and survival of arrangements in events of changes in the power balance.

Of these perspectives, the institutionalist approach offers, the most plausible answer to the question of welfare state 'staying power' by stressing the path-dependent quality of much social policy development. In this approach welfare states are understood as the products of multiple factors which have been working together over an extended period of time (Pierson, 2001). The historical continuity generates preferences and self-reinforcing processes or path dependence that are hard to reverse. Even though the economic conditions changes and the political support for a certain course of political development shifts, the policy preferences and commitments which once initiated and adapted long ago in a society are not easy to change. The path dependent approach is therefore a theory that can apparently explain the difficulties for internal actors whose actions are limited to the sphere of the adapted commitments, and external forces such as globalisation, which also promote welfare state retrenchment practices. As long as democratic institutions in national political systems continue to have legislative power, political actors are compelled to follow the will of the voters in keeping social arrangements at levels that are publicly acceptable. Apart from political parties – particularly those on the left – which traditionally represented the interest of the mass public against the interest of the market, the new social movements, and a range of interest groups which either constitute those who work in the public sector or beneficiaries of different entitlements prevent – or at least resist – every effort to make radical changes to the system.

Against this background, one could conclude that contemporary changes or adjustments in welfare states are a result of a combination of these three factors. None of them could alone decide the policy of retrenchment. Likewise, none alone could decide the continuity of the systems. However, despite the necessity of an existing balance between the factors mentioned above, there are some internal and external limits to welfare states which provide essential problems for welfare systems and force them to make certain 'adjustments', and in some cases crucial changes. The central question raised here was, whether exogenous factors, mainly the process of globalisation in world economy, or endogenous factors in the form of budgetary pressure caused by mature social policy arrangements could be the major agent of changes in the Swedish welfare system.

In discussions about changes in the Swedish welfare system, developments in the international economy and their impact on national economies was the dominating issue. Globalisation was considered as the most crucial challenge to the national economies. In this regard, with respect to the openness of the Swedish economy and its dependence on trade, globalisation has been constituted primarily as a process affecting the internationalisation of Swedish firms within the global market. The consequence of such a process was assumed to have been that the era of nation states' control on firms and industrial relation had ended with the result that the freedom of governments to conduct fiscal and monetary policy, which Keynesianism was based on, was eroded. In the new order, governments could no longer maintain full employment policy, which in the case of the Swedish system was one of the basic pillars of welfare. Likewise, it was even more difficult to pursue a redistributive policy with high social spending without paying attention to the actors in the international market. Companies could move production to low wage economies, where social costs were much lesser than in the advanced economies. This happened in the 1990s with high unemployment rates and declining tax revenues as the consequence.

Although, the increasing unemployment rate with unqualified labour as the major victim was partly a direct consequence of the process of 'deindustrialisation' caused by globalisation, it was not the major reason. Looking back to the 1970s and 1980s we can see that all other industrial nations faced the problem of competitive labour costs with mass unemployment in low-skilled, labour intensive mass production as a result. The point here is that when in most cases the industrial nations took the exit strategy with the consequence that subsidized workers left the labour market, Sweden and other Nordic countries chose retraining strategy together with a public employment strategy which resulted in a very low unemployment rate (1,2 per cent in Sweden in 1989). In other words, even though globalisation became a problem for all economies, welfare states responded differently to the outcomes of it especially in the matter of unqualified labour. At the beginning of the 1990s, when the right-wing coalition took over and the pressure of the neo-liberal ideology was enormous, the full employment policy was abandoned even in Sweden. To be clearer, changes in the policy of welfare states, for instance in employment strategy, was not purely an economic option but a political one. As long as there was a broad consensus among domestic institutions in the political sphere or in the labour market about a national strategy in employment or

a level of spending for the whole welfare system and its arrangements, economic problems *per se* could not play the crucial role. If the openness of the economy would decide the direction and the content of a welfare state, then the Swedish economy which is known as one of the most open economies in the world could not have developed its redistributive character throughout the post-war era. Further, if the influence of the international economic order, as the advocates of globalisation thesis suggest, was so crucial then it could have compelled the Swedish welfare system to adapt to the residual welfare states much earlier. It seems that the crisis of the 1990s in Sweden has largely to do with the erosion of consensual partnership than with the impact of globalisation. Even though globalisation was present in debates about the futures of welfare and in reality caused acute problems for unskilled labour, it was applied more as an argument by the advocates of retrenchment than actually constituting a crucial threat for welfare states. The problem of rising unemployment among the unskilled proved to be manageable, as it was before the crisis. Therefore, in the second half of the 1990s, after the re-election of the Social Democrats, they applied the combination of retraining schemes and increasing public employment as the major measures for coping with increasing joblessness.

Arguably, the crisis that the Swedish welfare state has faced was mainly linked to the disruption of the broad consensus that existed for a long period of time between the trade unions, employers' organisation, and the political parties. Because of such consensus a relation of trust had existed between the partners, which helped them to overcome conflict through negotiation. As a result of such consensual social partnership, full employment and generous welfare arrangements became compatible. During the 1990s, as a consequence of intensification of the process of globalisation, criticism against welfare regimes increased, and as a result, the relation between the various parts of the labour market parts changed. The inability of actors to mediate conflicting demands depended mainly on the changing balance of power resources. First, the labour movement lost part of its strength due to deindustrialisation of labour intensive and uncompetitive firms, which encouraged larger firms to move part of their production abroad. On the other hand, influenced by the globalisation issue, the employers advocated a more aggresive position towards the national labour unions and demanded an adaptation of the firms' social costs to the international level. Second, in

the political arena the support for the Social Democratic Party decreased, whereas the bourgeois coalition supported by a neo-liberal ideology, won the election of 1991.

Beside the changing power balance between the labour market partners and in the political arena, which resulted in the erosion of consensual social partnership, criticism against the high expenditure level of matured welfare states increased considerably. It was certainly accepted that the universal Swedish system was facing serious challenges, which made adjustments in the system inevitable. Some of the challenges suggested, had domestic origins which referred to the growing differences between the existing social and welfare programmes and real social demands. Demographic developments in terms of the growing needs of older people, which had to be met by the welfare states, were such an example of changing preconditions, and this in turn put pressure on existing welfare state arrangements. Population ageing has been known as the most central demographic change, but development in other aspects such as increasing numbers of single parents and single households, all have resulted in increasing social difficulties to which 'welfare' is considered a solution. Apart from these specific demographic changes, development in the labour market area with postponed entrance into labour market and early exit from it are the factors which altogether have increased the burden of support. Such an increase in economic dependency ratios have disfavoured the universalist welfare system, which initially was shaped for societies with much lower levels of social need.

One of the most expensive programmes which caused deep concerns for the sustainability of income protection system was the rising cost of the pension system. Demographic trends towards an older population have been anticipated to cause serious financial problems for the pension system. When the system was introduced, the number of old-age and early retirement pensioners was quite low, and therefore, the working population was able to finance the costs of the pension system. The dramatic change in the ratio between the number of people in the working population and the number of old-age and early-retired pensioners resulted in a restructuring of the pension system. The pension reform of the late 1990s, which undoubtedly decreased the system's generosity and should be considered as a deterioration of its universalist character, was a direct response to these changing social needs. Even if at the present time, with existing resources, the system can sustain current levels of

income protection, the concern about anticipated changes in future decades has influenced decisions to modify existing pension schemes to safeguard future spending. While at this stage growing needs relating to demographic changes have made the restructuring of the pension system inevitable, the concerns about the growing needs can be caused by other demographic and social pressure appears to be crucial and that makes the welfare state to initiate further restructuring in areas which potentially could face difficulties.

Although growing burdens of dependency and changing macroeconomic conditions suggest that the key outputs of the welfare state would see some crucial modifications this study has demonstrated that cuts made in different benefits and services have not been as dramatic enough to amount to 'transformation'. Apart from the pension system, where changes were essential, cuts in other areas were relatively limited. These changes, mainly in benefit systems, were initiated to reduce the immediate financial problems caused by changing macroeconomic preconditions. The dimensions (size or proportion) of the crisis of the early 1990s were so widespread that the cuts included almost all cash benefits. Therefore one could argue that the changes were programmatic rather than systemic. Lowering compensation levels by 10-15 per cent was the most significant measure which was first introduced in unemployment benefit insurance but was soon extended to the other cash benefits. Other techniques of welfare reductions such as tightening the conditions of entitlement, shortening periods of payment, modifying the indexation of major programmes and so forth have also been used. As the savings were intended to cope with the immediate financial crisis, governments, especially after the 1994 election, initiated the cuts without major hesitation or political consideration. The Social Democratic government, particularly, announced cuts in areas where it could be sure of making more dramatic savings. Looking back to the changes in welfare state arrangements, it can be observed that while advocates of retrenchment demanded far-reaching retrenchments – and in view of the fact that there was obvious potential for more fundamental changes in the system – the actual changes to the system was modest. At the end of the 1990s, different aspect of the Swedish benefit system were still more generous than other countries and the system could offer universal coverage to the citizens.

Even in the case of social, health and other services the Swedish model has kept its essential principles. In providing services, huge area of welfare state activities continue to respect the initial features of comprehensiveness, universalism and generosity. By emphasising universalistic egalitarianism the system still treats the citizens equally regardless of their position in society and labour market, and all households have access to almost all necessary services which originally were established by the system and were thought to address the fundamental needs of households. Furthermore, the services are still tax financed, provided mainly by the public sector and are of high quality. However, it is true that the introduction of market models in public services which seriously started in the 1990s, demonstrates that the Social Democrats have overcome their resistance to privatisation and accepted the idea of private competition with the state in the supply of services. Although the delivery of services is still subject to state regulation and financing, and the process is still in its initial stages and constitutes a small part of service delivery, there is no doubt that there has been a trend towards private service delivery, and that, in the longer term this move could threaten the public provision of services. Knowing that private alternatives have also been introduced in the pension system, one could argue that the Swedish system is experiencing a trend towards privatisation. This is really to suggest that, while changes have so far been far too modest, it is possible that significant changes could occur in this area in the future.

Overall, the conclusion is that although the internal and external pressures on the mature welfare system have increased, the base of the trade unions has weakened, and also the political changes in favour of far-reaching retrenchment provided proper conditions for fundamental changes in the system, the structure of benefits and provisions remain fairly intact. As, during the severe economic conditions of the mid-1990s, the system succeeded in keeping its fundamental principles almost unchanged, there is reason to believe that the system's resistance to fundamental changes remains high. On the other hand, where the adjustments of benefit and provision were inevitable, the Swedish welfare system has been open to gradual adaptation.

The resistance of the system to far-reaching changes suggested mainly by the actors in the market depended first and foremost on the high level of legitimacy of welfare state which over the period has enjoyed broad popular support. Even though the economic

crisis of the 1990s affected popular attitudes, the modest cuts in certain areas in order to overcome the crisis did not cause dramatic protests and popular support in favour of the existing schemes remained intact throughout the period. A range of social groups who are recipients of benefits and the large group of public sector employees were the two key groups who supported the welfare state most strongly. The stable support of these groups, who taken together constitute a clear majority of the population, indicated that the system has, over an extended period, created social forces which will defend it against attempts at radical change.

The strong relation between the trends in support for the welfare state and the modest changes in the welfare arrangements, especially during the period of severe economic crisis, indicate that welfare states are still mainly political projects and their future is decided foremostly by the legitimacy they enjoy among the public. Therefore, political changes are to be seen as the most essential precondition for continuity versus decline of the welfare systems. In this regard, the continuous support of the Social Democratic Party and continued participation in government seems to be the major guarantee of the survival of the universalistic welfare model. As the trade unions, as one of the three major parts in the corporatistic model of Sweden are as strong as before, it is crucial that popular support for the welfare system has strong advocate in the political establishment. One has also to stress that the advocates of the universalist welfare system should not only defend existing schemes but should also continue to develop and adapt the system to changing conditions. Here, economic problems, regardless of their domestic or external origins, are potential threats, for which political solutions are needed. Although the changes of the 1990s were comparatively modest this study has shown that the system can be vulnerable. The strong resistance of the Swedish welfare system to the pressures caused by economic crisis cannot necessarily be counted on in the future. Even here some might argue that, the impact of change on the system has been underestimated. When the economic crisis of the 1990s began, the generosity of different kinds of cash benefits and services were exceptionally high, with the result that the marginal cuts made could not endanger the level of generosity of the system. But, it has to be emphasised that the potential of the benefits and services to resist further retrenchments without greater damage being done is not as strong as before. Another crisis, similar to that of the early 1990s, might seriously undermine the foundations of the universalist system.

As a way of discussing the future of the Swedish system, one can point to factors such as the vast popular majority in favour of the welfare state, the continuous strength of the pro-welfare state blocs, and the fast recovery of the Swedish economy as the three crucial elements, which secure existing programmes. There is still broad support for most aspects of the welfare policies, although some criticism of bureaucracy and suspicions of abuse can be find. The Social Democratic Party is still the most popular party, and even though its dominance is not as secure as it was up to the 1980s, the decrease in its popularity has been compensated by the increase in support for other parties who also are in favour of the generous welfare system. In the macroeconomic aspect, since the mid-1990s most curves point to an improvement of the economic situation. The rate of unemployment has decreased steadily to around 4 per cent in 2002, through the period the growth rate was just above the EU-average and the inflation rate has been low. Concerning the full-employment target, although at the beginning of the period it lost its primacy in favour of goals of price stability and a balanced budget, the approach which obliges the unemployed to enter education or training has been intensified. In other words, the anticipated fear that global competition was expected to create a great army of less-educated unemployed did not occur, or to be more correct, in reality the situation could be handled by the government's activation and education policy.

Overall, and as a way of concluding this thesis, it can be argued that the new tendency in Swedish welfare policies is mainly attributable to the normative and political basis of the system rather than to economic necessities created by 'globalisation'. As this study suggests the Social Democrats' original welfare goals continue to exist, both as legitimating requirements and as constraints on political actors. To this extant the specific characteristics of the system have been preserved. Although the Swedish system has experienced minor changes in different programmes, the normative legacy of the system, based on universalism, comprehensiveness and generosity remains intact.

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Appendix

Widar Andersson, a former Social Democratic member of parliament who, despite being only 48, has been known as one of the most active and controversial debaters in favour of the process of modernisation in the Social Democratic Party. As Chairman of the National Assembly of Independent Schools (Friskolornas Riksförbund) Andersson has been involved in the privatisation of one of the two major sectors in the public sector. Further, as a member of the executive board for Falun City council he has had insight into the way local governments are running. As a strategist in the Social Democratic movement, a goal in this interview was to throw light on the essence of the modernisers' argument about the necessity of changes in the welfare system. Apart from that, as a politician in support of privatisation who acts as manager in organisations which put plans and decisions into effect the informant, Andersson was questioned about the executive aspect of privatisation efforts.

Lars Bergendahl is an expert in the Pensioners' Central Organisation (PRO). Because of his insight into the pension reform of 1998, he could answer questions about the different aspects of pension reform. He could also compare the new system with the old one and in particular clarify whether or not the new system has increased the gap between different groups of pensioners.

Ebba Bodell, a senior member of Stockholms Partiet, a local party that for a long period of time has had representatives in the municipal council of Stockholm. The party is officially neutral in competition between the two political blocs but in the past two decades has cooperated with the bourgeois parties. With its limited support the party has held the balance of power between the blocs and thereby could have some influence in the council of Stockholm. As the chairperson of a committee for privatisation of old-care services Bodell posses great knowledge about the process of privatisations and the debates, which were occurring during her term as chairperson. At the time of the interview she was working as the chairperson of social district 3 in Stockholm's county council.

Ingrid Burman is one of the two senior members of the Left Party who at the time of the interview temporarily led the Party. Apart from that, Burman is a member of parliament and also the chairperson for the Committee on Health and Welfare. Since entering parliament in 1989 Burman has been following the development of the welfare policies. Therefore, the major part of the questions to her dealt with the political debates about the expansion and retrenchment of the welfare system and how the Left Party has understood the process of changes.

Birgitta Carlsson has been a member of parliament since 1991, and represents the Centre Party (former Agrarian Party). As a member of the two Committees (social insurance and industry and trade) she has had great insight in the two areas, which have had crucial impacts on the development of the welfare system in the decade of the crisis. The Centre Party has had a unique position in the Swedish politic. In the past decade it has cooperated with the governments from the two major blocs. After a long period of cooperaton with the Social Democrats the Party became a member of the Bourgeois Coalition both from 1976-82 and 1991-94. During the second half of the 1990s, the Center was in close cooperation with the Social Democratic government.

Leif Carlsson was one of the high-ranking employees in the department of social affairs. As a member of the Social Democratic Party Carlsson also had insight into the political debates in the department and could be questioned about the development of ideas and events during the 1980s. During the 1990s Carlsson became the chairman of the Pensioners' Organisation in Stockholm County and through that has followed the political debate, especially about pension reform. The questions for him, then, were about the political discussion about the pension reform.

Johan Fritzell is a senior member of the Swedish Institute for Social Research, Stockholm University. As a senior member of the Welfare Commission (Kommittén Välfärdsbokslut) he was actively involved in the committee, which was set up to produce a comprehensive assessment of welfare developments. The result of the research was then published in a balance sheet for the 1990s. The interview with Fritzell concerned the research which the welfare committee was working with and the major focus that it had.

Sven Olsson-Hort is professor of Sociology at the University College of Södertörn in Sweden. He is the author of *Social policy and Welfare State in Sweden* (Lund: Arkiv, 1990), and many other essays, which have examined the changes in the Swedish Welfare system. The interview with Sven Hort focused on the political conditions for the future of the universalist welfare model. In this regard, the informant was also questioned about the changes in power balances (both between the political parties and in the labour market) and the impacts of decentralisation, through increasing power of the municipalities, of the 'strong state'.

Bertil Jönsson is the former chairman of the LO (1992-2000), who represented the union in the decades when the Swedish economy and welfare state faced the most serious challenges since the creation of the Swedish welfare system. The questions in the interview with Jönsson

were partly about the changes which have occurred in the Swedish welfare system but most importantly how the relations between the LO and the employers' organisation had been developed during the 1990s when he was in charge of the LO.

Bo Könberg was a member of the Bourgeois government 1991-94 and since then he has been a member of parliament, representing the Liberal Party. By being a member in several parliamentary committees such as the Committee on Social Insurance, Committee on Finance, advisory Committee on EU Affairs, Könberg is able to offer good insight about the political debate. Before the membership in the parliament Könberg was a County Council Commissioner and through that he acquired insight into the county councils (Landsting). As the chairman of the committee which provided the pension reform, Könberg is known as the architect of the reform. The interview with Könberg was partly about the pension reform but also about the changes which have occurred in other insurance systems. By being in the Coalitions government and then a representative of the Liberal Party on social issues, Könberg was involved in the political debates and could be asked about the policy of retrenchment both during the coalitions government and the Social Democratic period.

Hans Lindberg is a senior advisor in planning issues in Haninge kommun. By working in different development projects in local administration he has received great insight into the problems which the local administration had to handle in implementing the central governments policies at a local level. He also has insight into problems which have risen between the political and administrative levels in municipalities.

Tommy Lundin, is the chairman of liberal party in the municipality of Haninge located south east of Stockholm county, and which has a population of 70 000. As a high-ranking member of local government in the municipality with responsibility for social issues, Lundin has had great insight into the problems which the municipalities in the metropolitan regions dealt with. The interview with Lundin was mainly concentrated on how the central government and the municipalities in the metropolitan area have focused on developing measures to provide the foundations for sustainable growth in these regions. In this regard, the support of the central government in order to contribute to the creation of new employment opportunities and other efforts aimed at increasing the level of social inclusion were questioned.

Stig Malm, the former chairman of the LO during the 1980s, who also was a member of the executive committee of the Social Democratic Party almost at the same period, is one of the most famous debaters in favour of the so-called traditional social democratic values. Malm was the one who was most opposed to the efforts which were made to reduce the level of

benefits and the extent of the public services. In the interview with Malm the questions focused on the conflicts inside the Social Democratic movement. The aim was to get a clear picture of the arguments, that have been launched by the traditionalist advocates of the Social Democracy. Apart from that, Malm was questioned about the changing relations in the labour market and the changes in different social arrangements and the impacts of them on the labour force.

Rudolf Meidner is professor of economics and one of the most well-known trade union economists who, since the 1950s, has been developing the 'Swedish model'. The Swedish labour market policy, with a centrally coordinated 'solidarity' wage policy was to a considerable degree initiated by Rudolf Meidner in cooperation with another economist, Gösta Rehn. Since then, they have been evaluating different aspects of Swedish labour market policy and exerted a profound influence on Sweden's development. In the interview the questions were mainly about the changes which had been occurring in the Swedish labour market and whether the changes caused by globalisation led to a system shift and dismantling of the initial welfare state of the first generations of the Social Democrats, that Meidner once established.

Anders Morin is the expert on social insurance and welfare system in the Confederation of Swedish Enterprises, which was established in 2001 by an amalgamation of the former Employer's Organisation (SAF), and the Confederation of the Swedish Industries (Industriförbundet). There was a dual focus in the interview with Morin: first, how have the Swedish enterprises understoodd the changes in the Swedish welfare state and second, how has the state of corporatism in the Swedish labour market changed? Apart from that Morin has been asked about the impacts of the economic and financial changes and the membership in EU on the Swedish welfare state.

Ulla Söderlind is a middle-range manager in the Landsting, who has been working with development issues in Haninge kommun in the past few years. Since she began her career as a nurse in the health care system at the end of the 1970s she has had great experience in the development of the public sector in general and the health care services in particular. She has also experienced the process of changes which have occurred at the local level, and, by that, has knowledge about the problems that have emerged in relation to the implementation of the new policies. The attitudes of the employees and the clients to the changing process are among other issues which Söderlind meets in her job in the local level.

Sten Tolgfors is a member of parliament, representing the Conservative Party since 1994. His parliamentary mission is membership of Committee on Social Insurance. Tolgfors was

questioned about the Conservative Party's standpoints on the welfare issue and the changes which have occurred in the system.

Questioner (interview guide)

1. Do you believe that the Swedish welfare system has experienced structural changes during the 1990s? Have the changes been systemic in the way that the essential parts of the system changed, or have they just had programmic characteristics, which would indicate that the system is still as it was before, but that the level of benefits and services been adapted to the economic conditions?
2. What was the major cause to the changes in the Swedish welfare system? Were they internal reasons which caused the problems, or were there external factors which were behind the problems or crises of the system?
3. How would you describe the state of the Swedish welfare system at the beginning of the 1990s? How would you (or your political party) handle the situation?
4. How would you evaluate the way the two political blocs dealt with the economic crisis of the 1990s? Do you think the increase rate of unemployment, as the biggest problem of the period, was due to changes in the production in industry or changes in the full employment policy?
5. How would you define the changes in different insurance systems?
6. Would you describe the reforms made by the Bourgeois coalition as a major change in the system? Why did the Coalition government not accomplish crucial changes it addressed previously?

For the future:

1. How would the political parties support the generous welfare system? What would be sufficient support for the system?
2. The relation between labour market parts has not been as consensual during the 1990s as it was previously. What is your forecast about the relation for the future?
3. The process of the privatisation in the delivery of public services started in the 1990s. How would the process continue in the future? Would the private sector replace the public delivery of services?
4. What have been the effects of EU membership on the Swedish welfare state? Is there any risk that the EU might design a common EU social policy for all member states, or is it likely that the countries would adapt their social policy completely to EU policies to a greater extent?

Questions to the employees in the public sector:

1) Do you see any major changes in the public care system when you compare the situation now with what it was during the 1980s? How would you describe the essential changes, which have been occurring in the public sector in general, and the health care system in particular?
2) How do you see to the working conditions in the health care system? How do the employees feel about the situation? Do you see any considerable changes in the structure of the workforce and individuals' attitudes towards the working conditions?
3) Do you see any radical changes in public opinion towards public services?
4) How would you describe the process of privatisation of the health and other public services? How has the employees responded to the process? Do you think the process is going to intensify in the future? How would the public react? Are the public's attitudes towards the privatisation issue changing?
5) What is your picture of the future? In which way is the public sector and public services going to change?