

# POLITICS IN THE AGE OF AUSTERITY

To the memory of Peter Mair, friend and model scholar, who passed  
away on 15 August 2011, while this book with his contribution was  
being prepared for publication

# POLITICS IN THE AGE OF AUSTERITY

Edited by Armin Schäfer  
and Wolfgang Streeck

polity

Copyright © Armin Schäfer & Wolfgang Streeck 2013

The right of Armin Schäfer & Wolfgang Streeck to be identified as Author of this Work has been asserted in accordance with the UK Copyright, Designs and Patents Act 1988.

First published in 2013 by Polity Press

Polity Press  
65 Bridge Street  
Cambridge CB2 1UR, UK

Polity Press  
350 Main Street  
Malden, MA 02148, USA

All rights reserved. Except for the quotation of short passages for the purpose of criticism and review, no part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the publisher.

ISBN-13: 978-0-7456-6168-1

ISBN-13: 978-0-7456-6169-8 (pb)

A catalogue record for this book is available from the British Library.

Typeset in 10 on 12 pt Adobe Sabon  
by Servis Filmsetting Ltd, Stockport, Cheshire  
Printed and bound in Great Britain by MPG Books Group Limited, Bodmin,  
Cornwall

The publisher has used its best endeavours to ensure that the URLs for external websites referred to in this book are correct and active at the time of going to press. However, the publisher has no responsibility for the websites and can make no guarantee that a site will remain live or that the content is or will remain appropriate.

Every effort has been made to trace all copyright holders, but if any have been inadvertently overlooked the publisher will be pleased to include any necessary credits in any subsequent reprint or edition.

For further information on Polity, visit our website: [www.politybooks.com](http://www.politybooks.com)

# Contents



<i>Contributors</i>	vi
1 Introduction: Politics in the Age of Austerity <i>Armin Schäfer and Wolfgang Streeck</i>	1
2 Public Finance and the Decline of State Capacity in Democratic Capitalism <i>Wolfgang Streeck and Daniel Mertens</i>	26
3 Tax Competition and Fiscal Democracy <i>Philipp Genschel and Peter Schwarz</i>	59
4 Governing as an Engineering Problem: The Political Economy of Swedish Success <i>Sven Steinmo</i>	84
5 Monetary Union, Fiscal Crisis and the Disabling of Democratic Accountability <i>Fritz W. Scharpf</i>	108
6 Smaghi versus the Parties: Representative Government and Institutional Constraints <i>Peter Mair</i>	143
7 Liberalization, Inequality and Democracy's Discontent <i>Armin Schäfer</i>	169
8 Participatory Inequality in the Austerity State: A Supply-Side Approach <i>Claus Offe</i>	196

vi	Contents	
9	From Markets versus States to Corporations versus Civil Society? <i>Colin Crouch</i>	219
10	The Normalization of the Right in Post-Security Europe <i>Mabel Berezin</i>	239
11	The Crisis in Context: Democratic Capitalism and its Contradictions <i>Wolfgang Streeck</i>	262
	<i>Notes</i>	287
	<i>Index</i>	303

## Contributors



**Mabel Berezin** is Associate Professor and Chair of Sociology at Cornell University, Ithaca, New York.

**Colin Crouch** is Emeritus Professor at the University of Warwick.

**Philipp Genschel** is Professor of Political Science at Jacobs University, Bremen.

**Peter Mair** was Professor of Comparative Politics at the European University Institute, Florence.

**Daniel Mertens** is a Researcher at the Max Planck Institute for the Study of Societies, Cologne.

**Claus Offe** is Emeritus Professor of Political Sociology at the Hertie School of Governance, Berlin, and of the Humboldt University, Berlin.

**Armin Schäfer** is a Researcher at the Max Planck Institute for the Study of Societies, Cologne.

**Fritz W. Scharpf** is Emeritus Director at the Max Planck Institute for the Studies of Societies, Cologne.

**Peter Schwarz** is Visiting Professor of Public Economics at the University of Göttingen and a former Research Associate at Jacobs University, Bremen.

**Sven Steinmo** is Professor of Political and Social Sciences at the European University Institute, Florence.

**Wolfgang Streeck** is Director at the Max Planck Institute for the Study of Societies, Cologne.

## 4

# Governing as an Engineering Problem: The Political Economy of Swedish Success

Sven Steinmo



Sweden is once again attracting the attention of scholars and pundits from around the world because of its apparent ability to pull together high levels of economic growth and remarkably egalitarian outcomes. Indeed, in the context of the most recent economic crisis sweeping the globe, Sweden stands out as one of the most successful countries in Europe in terms of fiscal resilience and economic growth.<sup>1</sup> Swedes are clearly very satisfied with their system, one that many consider among the most ‘democratic’ in the world. Certainly fiscal stress, economic competition and demographic change are constraining the choices available to leaders in all rich democracies, but it appears that the straightjacket has a much looser fit in Sweden. The question is, why?

In this chapter I will argue that it is important to distinguish between Sweden’s decision-making institutions and its egalitarian welfare state. While these two are related, they need to be understood separately – particularly if we want to appreciate the modern Swedish political economy. The first should be understood as a *decision-making model*, while the second is a set of *policy outcomes*. I argue that the ‘Swedish model’ rests on a particular decision-making regime that, first and foremost, has been highly centralized. I will describe how the system works more specifically below, but it is central to realize that the Swedish decision-making model gives enormous policy autonomy to political and administrative elites.

All democratic countries face what I call a ‘democratic dilemma’: the legitimacy of the system is based on two conflicting principles. On the one hand, a democratic system is a system in which the citizens or voters ultimately direct public policy. In a good democracy we believe



the government will be responsive to the desires and demands of the citizens. At the same time, however, all governments' legitimacy is based on their efficacy. Can they get things done? These conflicting principles/demands present rather difficult tensions in all democratic states. The more responsive the political elite is to the short-term preferences of the citizens, the less likely the government will be to make choices that are in the interest of the whole of society and/or in the system's long-term self-interest. It is my contention that, for particular contingent historical reasons, Sweden was able to find a balance between these competing goals of efficiency and efficacy.

In sum, if we step back from the particular choices and specific public policies pursued by Sweden and Swedish elites over the past decades, this country's success must be understood as a product of the fortuitous combination of the fact that (a) the institutional design has offered the elite enormous political and policy autonomy and (b) an elite political culture worked to build a largely egalitarian, efficient and universalist welfare state.

In the first part of this chapter, I will discuss several of Sweden's historic policy initiatives, demonstrating that these institutional innovations are best understood as technical solutions to planning problems. As Hugh Heclo pointed out many years ago, the major initiatives driving Swedish public policy were the product not of mass politics, where citizens rose to demand policies, but rather of elite decision-makers puzzling over policy dilemmas and promoting technical solutions to what they understood as technical problems: governing was seen as an engineering problem. I will then briefly discuss the politics of the mid-1970s and early 1980s, a period in which Swedish politics became more ideological and political. This was the era of the famous 'wage-earner funds' with which the Swedish left hoped finally to realize the ambition of socializing the Swedish economy. I will argue that this period broke the back of the Swedish model. As a result, the country's political economy went into decline.

Finally, I will examine the political economy of Sweden in recent years, which by virtually all accounts has witnessed a renewal. I will discuss some of the policy initiatives that have apparently helped rebuild Sweden's economic success. My central argument, however, is that at the core of the country's rediscovered success is a return to traditional technocratic policy-making. Today a centre-right government has taken on the role of the nation's engineers.

I argue that the unique features of the Swedish political economy are the product of a particularly successful brand of social democracy that was invented by a particularly technocratic and remarkably autonomous governing elite. In rather fundamental ways, Sweden's government has long been quite different from the more populist governments found in

some other parts of Europe. I do not mean to suggest that there have been no politics in Sweden, nor do I believe that it does not have a democratic system. Huge political forces have been at work here, as elsewhere in Europe during the twentieth century. But Sweden's relatively homogeneous culture, small population, peculiar electoral institutions, rapid industrialization and wartime neutrality offered this country's elite an unusual degree of political autonomy which made it possible for them to construct an unusual egalitarian market economy (Steinmo 2010).

## 1 Corporatism not socialism

Many people believe that Sweden developed a successful 'socialist' economy within the capitalist world. This is simply wrong. Sweden has never been socialist but, rather, has been one of the most successful *market-based* economies in the world. The key to its economic success is that its political economy was adapted to the needs and demands of international capitalism. Rather than fight against capitalism and capitalists, the Swedish Social Democrats decided to work with the system.

Swedish neo- (or social) corporatism has been the subject of innumerable analyses over the years. In this system, representatives from the major union federation (LO), the major employer federation (SAF) and the government – which essentially meant elites from the Social Democratic Party (SAP) – met regularly and consistently to negotiate major decisions about future developments in the Swedish political economy.<sup>2</sup> It is sometimes less appreciated that this system was built within the context of an electoral system that was specifically designed to protect those in power at the time. In the early decades of the twentieth century, the ruling conservative elite constructed a complicated set of electoral rules, called the 'Conservative Guarantee.' These electoral rules divided the mandates for the Upper and Lower chambers of the Riksdag (Parliament) in such a way that several electoral cycles would pass before the control of both chambers would change hands following changes in the popular vote. The intention was to create an electoral system in which the vote of the people would be muted so that the Conservative government would be in a better position to protect its interests (Castles 178: 115). Unsurprisingly, the Social Democrats fought against these electoral rules at the time, understanding that they would advantage the then ruling Conservative parties. What they failed to see, however, was that, once they gained power, these same rules would work to their advantage (see Steinmo 2010: 47–9).

This unusual electoral system shaped the political logic of all political

actors and special interests. Whereas in a classical single-member district electoral system, relatively small changes in citizens' vote choices could result in significant changes in government, in the Swedish case governments were more insulated. Since all actors understood this basic fact, interest groups (known as 'social partners') on all sides had powerful incentives to compromise and deal with the government in power – and, from the mid-1930s to the mid-1970s, that government was the Social Democrats.

This system thus enabled quite a small group of leaders from the major economic interests in society to meet regularly under a fairly consistent set of expectations about the political future. This stability was clearly the foundation of what became known as the 'Politics of Compromise' (Rustow 1955). These elites would typically rely heavily on the professional advice of experts. Indeed, there are few countries in the world that have relied as heavily on expert commissions to address complicated or politically difficult policy issues. Even outside the famous *Statens Offentliga Utredningar* (SOU) process, it was commonplace to bring together the various 'social partners' with experts to seek out technical solutions to common problems. Once again, given the remarkable stability of the political system, there were few incentives for any of the partners to defect.

In effect, a *symbiotic relationship* developed between the organizations representing big business and big unions, and these also tolerated a powerful state. Specific policies favouring unions<sup>3</sup> were part of the system, as were policies that encouraged the concentration of capital and effectively discriminated against small business and entrepreneurs (Steinmo 2010).

The irony is that Sweden was largely able to achieve the highly egalitarian and progressive social and economic outcomes it did precisely because its political and economic elite (including the union elite) has been stable and remarkably isolated from the daily public pressures that confront political leaders in most other democratic nations. Ernst Wigforss, Sweden's famous and powerful minister of finance from 1932 to 1949, called this 'planmässig hushållning' (systemic management).<sup>4</sup>

Certainly, many factors contributed to Sweden's economic success in the 1950s and 1960s. But three particular policy choices stand out as significant. First, the Swedes embraced the famous Rehn–Meidner model of the labour market, in which unions and employers set national wage deals that explicitly and intentionally worked to squeeze out companies and sectors that could not afford to pay higher wages.<sup>5</sup> According to this model, Sweden would maintain an open economy, with low tariff barriers and low subsidies to domestic industry, so that inefficient and/or low-profit companies would be driven out of business and their resources

reallocated by the market to more efficient firms. At the same time, trade unions would hold down wages in the most productive/profitable sectors (large firms, manufacturing, mining, etc.) and push up relative wages in the less productive/profitable sectors (textiles, farming, small firms). The idea was to encourage structural modernization and change in the economy by literally increasing profits in some sectors while driving other companies and sectors out of business. At the same time, the government was expected to invest in an active labour market policy to be used to help workers who were displaced to new jobs, industries and even locations.<sup>6</sup> In many ways this story is well known. What is less often appreciated, however, is the fact that this system, invented by two labour-union economists, strongly advantaged the biggest and most successful capitalists at the same time that it forced workers to bear the costs of economic adjustment. Whereas leftist political leaders in most other countries were demanding policies to protect workers from the market, Swedish elites passed policies that specifically exposed them to the market and demanded that they adjust to its demands, while allowing the richest capitalists in the nation to reap the short-term benefits.

Second, the Social Democrats effectively cut a deal with capital in which it was agreed that the government would build welfare-state programmes but would not tax capital or capitalists heavily. I discuss this at length elsewhere, so I will not elaborate here, other than to point out that, because of some very generous tax expenditures, Swedish capital enjoyed one of the lightest tax burdens in the advanced world, while Swedish workers bore the heaviest tax burden in the world (Steinmo 2002). For example, in the late 1950s the Social Democrats introduced consumption taxation even though there was no immediate fiscal pressure on the Treasury for these revenues. Unsurprisingly, the labour unions and the working class in general were opposed to the introduction of a new tax that explicitly would burden them the most. But the government persevered and was able to push through this regressive tax despite opposition from its own constituents (Steinmo 1993).

Finally, the government chose to initiate measures that encouraged women to enter the labour market instead of bringing in foreign workers to help meet the exploding demand for labour (Jordan 2006). It is important to see that labour-union members (as opposed to their elite representatives) did not demand these policies and for the most part opposed such ideas. Nor were these measures the product of the women's movement, which had yet to emerge. Instead, the government understood that there would be a shortage of labour as the economy expanded. Historic commitments to immigrant workers from Finland and Norway meant that, under Swedish law, a guest worker could relatively easily apply for and be granted permanent residence. Thus the idea of import-

ing ‘temporary’ guest workers from Turkey, as the Germans had done, for example, was not a reasonable option. The government knew that Swedish law and tradition would have prevented them from kicking these workers out of the country if and when the economy retracted. Admitting women to the workforce, the Ministry of Finance concluded, would develop a more flexible labour force that would also prove to have fewer social problems for society.<sup>7</sup>

To be sure, these were unusual choices. One would not expect a Social Democratic government in the 1950s (or their labour-union allies) to agree to or to implement policies that explicitly increased taxes on working families and on consumption, especially when, at the same time, national wage deals were holding down wages in the most economically profitable sectors of the economy. It was no less surprising for a party to pass tax laws that effectively discriminated against traditional working-class families (where women traditionally did not work outside the home) in favour of middle-class families. But by the 1950s there was a very strong belief that the government could *and should* actively intervene in society to help make the economy more efficient, competitive and successful.

This system did not redistribute wealth from capital to workers in the normal sense of taking wealth or income from the rich or from enterprise to pay for programmes benefiting the workers or the poor. Instead, it was designed to facilitate economic growth and thereby produce wealth and income from which the working class could benefit through higher (albeit moderated) wage increases. Social investment was generous, and Sweden invested heavily in education, health care, housing and childcare. This was a moderate welfare state by international standards; however, these programmes were financed not by redistributive taxation but by the working and middle classes themselves.

These arrangements clearly worked to help build and modernize an internationally competitive and dynamic economy that produced high and stable profits and a growing standard of living. By 1970, Sweden had become one of the richest countries in the world and had achieved this while also building one of the most egalitarian societies in the West. It had nearly eliminated poverty and had educated one of the most dynamic and flexible workforces found in any capitalist economy, all while achieving high levels of economic growth. At the same time, Swedish capitalists became some of the most successful in the world. The arsenal of devices developed over the years worked to concentrate this small country’s capital and labour resources in the hands of a remarkably small number of people. It was widely reported, for example, that the Wallenberg family holdings alone accounted for more than 30 per cent of private industrial employment in Sweden.

Rather than creating some kind of soft socialism, the Social Democrats in Sweden managed to build a highly competitive form of capitalism. This system was explicitly market-enhancing and eschewed most of the more radical policies of the left that were common in much of the rest of Europe. Instead of nationalizing industries to protect workers, Swedes implemented policies that pushed the weakest industries out of business and then financed programmes designed to make the workers more flexible and better trained for new jobs. The welfare state, in this sense, was intended not to compensate for the market but rather to help make it more efficient and more competitive. The famous active labour market policies in Sweden, then, did not decommodify labour; on the contrary, they in effect made Swedish labour a higher-value commodity.

One should also note that there is no evidence to suggest that there was corruption in these arrangements. Clearly, the Social Democrats, and the labour unions for that matter, had come to believe that cooperating with capitalists and employers would increase national wealth. But this did not imply that they had abandoned their beliefs in a more fair or equal society. Moreover, as Sweden became more economically successful, more and more Swedes moved into the middle class. There is considerable disagreement among academics as to *why* the Social Democrats increasingly came to argue for and develop policies that benefited the whole of society, rather than just the traditional working class (Castles 1978; Korpi 1983; Swenson 1989). For our purposes here, however, their motivations do not matter. Whereas the welfare state in many other European democracies is an explicit redistributive system that takes from one group (or sometimes takes from the whole) to give to another group (such as male breadwinners or pensioners) the welfare policies that Sweden built took from everyone *and* gave back to everyone. This model proved to be the most egalitarian in the world.

The many benefits of this system were plain enough to average Swedes. Their lives improved in significant and obvious ways, and this reinforced people's trust both in the system and in elites. Swedish society was becoming a middle-class society, and this middle class enjoyed what they were getting (even if they hadn't really demanded it). Perhaps unsurprisingly, then, the Social Democrats were rewarded with repeated electoral victories.

## 2 From planning to politics: the end of the Swedish model?

In retrospect, it seems that no sooner had Sweden become recognized as the premier example of the 'middle way' than its system began to

crack. There is insufficient space in this essay to detail the evolution of the changes in the Swedish political economy from the 1970s through the 1980s, but a few general points can be noted so that we may better understand the new context in which policy began to change direction in the 1980s and 1990s.

The beginning of the end can be traced back to the early 1970s. Certainly the watershed event was a massive wildcat strike beginning in the iron mines in the north of Sweden (Kiruna) in 1969. This strike was exceptional because it was from the heart of the working class *against the union organization and their political allies in Stockholm*. Though the strike itself was eventually settled in favour of many of the miners' demands, the more basic accusations implied left serious doubts in the minds of the labour movement and the socialist leadership. What kind of union, and what kind of social democracy, would workers have to strike *against*?

These doubts led to significant self-examination and rethinking both within the party and inside the LO: unions became less quiescent and began to demand higher wages from employers in their national negotiations, more public spending from the Social Democratic government, and more explicitly redistributive (populist) tax measures. At the same time, the Social Democratic Party itself (at least significant portions of the left within the party) came to question its own legitimacy. Several substantial changes grew out of this self-examination: first, in 1974 the government introduced a constitutional change that was intended to make Swedish democracy more direct and more responsive to citizens.<sup>8</sup> Second, the LO began to demand structural changes in the economy, resulting in the implementation of a series of policies (including health and safety policies), but the most significant proposals were the demands for worker co-determination and the now famous 'wage-earner funds'. The wage-earner funds were certainly the most controversial of these proposals; their basic idea was that huge funds would be collected (to be financed through increases in both profits taxes and wage taxes) and would then be used to buy out the capital market. Though never fully implemented, the idea behind this policy was to realize the socialist ideal of workers owning the means of production.

Perhaps unsurprisingly, Swedish capital came to believe that the LO and the Social Democrats could no longer be trusted. At the same time, as Olof Ruin points out, 'at the parliamentary level the most important development in the 1970s, parallel to the new constitution, was the weakening of the executive.' Because of this weakening, he argues, the government was less able 'to take unpopular decisions' and to 'distance itself from special interests' (Ruin 1981).

The most obvious consequence of this new politics was a dramatic

expansion in public spending, on the one hand, and decreased investment and private economic growth, on the other. Between 1960 and 1980, the scope of public spending expanded dramatically. Public expenditure on subsidies and transfers specifically grew from 9.3 per cent of GDP in 1960 to 16.2 per cent of GDP in 1970, and 30.4 per cent of GDP in 1980 (Tanzi and Schuknecht 2000: 31). Wage inflation shot up at the same time, with per hour labour costs growing at a rate of up to 17 per cent per annum in 1974 and 22.2 per cent per annum in 1975 (Lindbeck 1997). Economic growth stagnated and grew negative for several years in the late 1970s and early 1980s. In response to these macro-economic trends, the government was forced repeatedly to devalue the currency.<sup>9</sup> While these devaluations provided short-term relief for Swedish exporters, it was becoming increasingly clear that their gains were quickly being eaten away by higher wage demands. This cycle was both unproductive and unequal, for not all segments of society could recoup these losses on equal terms.

By the early 1980s, many members of the Swedish economic elite – both within the Ministry of Finance and in the economic profession more generally – viewed these developments as a crisis, both an economic/fiscal crisis and a crisis of confidence. Whereas in the past these elites had believed they could manage their economy quite effectively, now they were more and more convinced that such management was no longer possible.<sup>10</sup> Entities that were once thought of as labour market partners were progressively regarded as simply ‘interest groups’. The political system of the earlier era had insulated the fiscal elite and given them enormous policy autonomy, but now the political demands on both the tax side and the spending side were becoming increasingly difficult to shut out.<sup>11</sup>

The key player at the time was the minister of finance, Kjell Olof Feldt, who began publicly to question the long-term viability of the system that was evolving. He and his advisors believed that Sweden faced three huge policy problems: first, a steady stream of reports had demonstrated the economic inefficiencies and redistributive inequities of the extant system (Sverenius 1999).<sup>12</sup> Of course there was some variation in arguments and nuance, but during the 1980s it became virtually conventional wisdom among the economic elite, both inside and outside government, that the structure of the tax system was by now creating far too many problems for the economy. Second, the system was a major contributor to the wage and price inflation that was wreaking havoc on Swedish competitiveness and thereby encouraging Swedish capital to abandon the country (Moses 2000). Third, the very high rates in the income tax system were now hitting even average workers. As a result, the system created incentives for people to cheat and engage in unproductive activities (such as buying



a yacht) simply for tax reasons. These inequities also led others to question the fairness of Swedish society. The most important issue in Feldt's view was *trust* (Ahlquist and Engquist 1984; Feldt 1991; Sjöberg 1999).

By the early 1980s, the average industrial worker was suffering under a marginal income tax of over 50 per cent. Social democracy required a degree of social solidarity, and the obviously increasing abuse of the benefits system was making average Swedes doubt the efficacy of the system. Gunnar Myrdal (1982), one of Sweden's most prominent Social Democratic economists, sounded the alarm when he published an article on tax policy in which he worried that Sweden was becoming *et folk av fifflare* (a land of cheaters).

In sum, by the late 1970s and early 1980s, Sweden was in a process of undergoing substantial changes both in its political decision-making institutions and in the relationship between citizens and their state institutions. The Swedish model appeared to be crumbling.

It is worth pausing in our narrative a moment to consider the state of affairs at the end of the 1980s and in the early 1990s. We can perhaps now look back at this period of Swedish history as one of learning and restructuring. At the time, however, many thought that the 'Swedish experiment' was over (Lindbeck 1997). Those who argued in this direction had plenty of evidence on their side, of course. The Swedish economy was lagging behind its competitors, investment was down, the government was running high levels of debt, Sweden was confronting an ominous population crisis, and citizens appeared to be losing confidence in their government.

### 3 The return of the technocrats: re-establishing the Swedish model

There are several explanations for what happened in the following years to turn Sweden around. Subsequent governments made specific policy choices that clearly turned out to be very apposite: the tax system was radically restructured; the pension system was reformed; significant investments were made in families and children; and a long series of market-enhancing reforms were introduced in a wide array of public arenas, from the post office to primary school education. These reforms have been very important in helping the system become more competitive and dynamic in the context of a globalizing international economy, but to focus on the specific policies or budgetary priorities would still miss a significant part of the story. As important as these choices were, they were built upon a foundation of (a) a political system that offered

policy-makers sufficient autonomy to make long-term decisions even when these might offend some of their most powerful constituents; (b) a relatively egalitarian social/economic structure; and (c) a remarkably efficient and non-corrupt political and administrative system (what is known as ‘quality of government’). These three factors have worked together to reinforce citizens’ trust both in their institutions and among themselves. In the next several pages I will offer a narrative of how this came together.

In the later years of the 1990s, conflict among Social Democratic elites and conflicts between the SAP and the labour unions became ever more open and public. The eventual result was that, even though the Social Democrats were still the largest party in the Riksdag after the 1991 election, they could not form a government. The Moderate Party was asked to step to the plate and form a minority government; the Social Democrats implied that they would not work to undermine the new government and would help support the Moderate Party in important legislation.

This was a particularly inauspicious time to come to government in Sweden. The financial and property markets were obviously overheated, the country’s economic performance continued to decline, domestic productive investment was at a historic low, public and private debt was skyrocketing, and the currency was under extreme pressure from international speculators. Despite these challenges, it is fair to say that this government (with the explicit support of the Social Democratic elite) pursued a set of policies that helped the Swedish economy regain its footing and ultimately helped rebuild citizens’ confidence in government. We cannot detail all the policies pursued in these years, but three major reforms stand out. The first of these is the comprehensive overhaul of the Swedish tax system.<sup>13</sup> The second is the successful management of the largest banking crisis in the nation’s history, in which the government nationalized several banks and effectively took over the industry until it could be rebuilt and restabilized. The third is the adoption of what is widely considered to be the world’s most comprehensive and forward-looking social security reform, which by virtually all accounts is both socially equitable and fiscally sustainable.

The social security reform and the banking crisis will be discussed briefly below, but what is important to note here is that these three cases shared one basic pattern:<sup>14</sup> a massive policy problem was approached as a technical issue, which was eventually (indeed remarkably quickly) solved through close and ongoing relationships between the key actors in the political system and/or the political economy. In each case, a very small group of actors engaged with the problem and produced technical solutions that were then passed on to the government, which then pre-

sented the legislation to the Riksdag. In each case, the conforming laws passed through Parliament with little significant controversy because the package had already been agreed to by the key elites representing the main parties. The meetings on social security reform were held behind closed doors, whereas tax reform (not discussed here) was a somewhat more open process. But, in each case, the key to the story was that a very small group of elite individuals were able to meet for a sustained period of time, negotiate over the technical features of a reform proposal, and finally put together a package that would not be subject to subsequent logrolling or legislative riders.

### 3.1 *Social security reform: elite power behind closed doors*

All advanced countries in the late twentieth century faced a looming demographic and fiscal problem. Sweden's problem was in fact worse than that of almost any other state. To put it bluntly, there were too many old people who felt they deserved very generous lifetime pension benefits and too few young people who earned too little money to fund their parents' and grandparents' benefit packages. The short-term answer to this dilemma in Sweden, as elsewhere, was borrowing. In the long term, however, the demographic picture would have been so out of balance that borrowing was not a sustainable option. By one UN estimate, pensioners would equal 54 per cent of the working-age population of Sweden by 2050 (Roberts 2003).

These demographic trends are *fiscal* issues because of the expectation on the part of most citizens that they have paid into a social security system from which they should be able to collect as they retire. In almost all countries, this is a fiscal illusion. We do not pay into a tangible fund that is just sitting there and waiting for us to collect from it in our old age; instead, social security is a system of intergenerational income transfer. Current workers pay social security taxes that go more or less directly into the benefit cheques of their retired parents and grandparents – even if the recipients are fundamentally richer than that the payees (Chopel et al. 2005).

By the late 1980s, policy-makers around the world were keenly aware of the 'aging society' problem, but in most cases political leaders were deeply constrained by the fact that past commitments (both explicit and implicit) made to retirees prevented them from making cutbacks in benefits, at the same time as rising economic pressures cautioned against increasing social insurance taxes. This was a classic case of 'democracy in straightjackets'.

The Swedes, true to form, approached the problem by appointing a commission.<sup>15</sup> I will not detail the entire reform here, but two factors

stand out.<sup>16</sup> First, the social pension system was divided into two parts: a basic guaranteed pension and an individual retirement account. In keeping with the basic principles of the universal welfare state, the new programme guarantees all citizens a basic and decent standard of living once they reach the age of retirement – whatever their work history.<sup>17</sup> In addition to and on top of the basic pension system, citizens born after 1954 will enrol in a defined-contribution scheme (a ‘premium pension’) that bears a remarkable resemblance to the privatized social security plan promoted by President Bush. In this system, 2.5 per cent of the social insurance tax goes to an individually owned pension account that is then invested by (or for) the income earner. Individuals, upon retirement, will collect from their funds in the form of an annuity, but, clearly, the longer a person pays into the system, the higher the benefits. The second important aspect of this radical reform was to build in what was called a fiscal balancing mechanism: the benefits in the basic pension would be tied directly to current contributions. Thus, as wages increase (or stagnate), so do benefits. In short, retirees benefit from the growth of the Swedish economy but do not have their benefits increased unless the society at large sees a growth in income.

This reform has drawn enormous interest and approval both within Sweden and around the world, because, by most accounts, it has solved the critical fiscal dilemma facing all advanced countries at the same time as it protects the elderly from falling into poverty as they age.<sup>18</sup> Because this new system offers strong incentives for workers to stay in the labour market longer and also directly ties old-age benefits to economic performance, it is expected to be fiscally viable in the long run. Few advanced societies can make this claim.

Bo Könberg, one of the key architects behind the reform, summed up his view of the process this way: ‘In the Swedish literature the 1994 agreement has sometimes been described as the great pension compromise [*pension-skompromissen*] ... no party achieved exactly what it wanted, rather everyone had to give and take’ (Schøyen 2011). It is important to understand that what was agreed upon is fiscally sustainable because it takes benefits away from current and future retirees. In other words, Könberg and his small commission were able to impose costs on very powerful constituents. But, because of Sweden’s long-term deference to power and authority, they were able to achieve a policy solution about which most countries’ elites could only dream. Sweden was able to deal with this very difficult set of political issues by depoliticizing them and treating them as technical matters. By insulating the policy-makers from the demand pressures of public constituencies, the commission was thus able to propose practical solutions. The demographic/fiscal crisis bearing down on Sweden was averted largely because it was taken out of the political arena.

## 4 How to deal with a financial crisis

A second example of the Swedish policy-making system at work in the 1990s can be seen in the way in which the centre-right minority government dealt with the massive banking and financial crisis it confronted in 1992, almost immediately upon entering office. The new government's first response was to bring together experts from across the financial and political spectrum. It may well have been reasonable to expect these political leaders to try to run from the impending crisis or to blame the economy's problems on the past government. They chose instead to intervene decisively in the financial markets, inject liquidity, provide guarantees for doubtful loans, and ultimately steer the recovery process in a transparent way. They were able to achieve these remarkable policy ends with the political support of virtually all opposition parties. In the end, the recovery in the banking system and the larger economy was quick and the costs to the budget were relatively minimal.

How was this done? Bo Lundgren, the minister for economic affairs at the time and in charge of responding to the crisis, gathered his key advisors, as well as the leader of the Social Democratic Party at the time, and, in his words, 'put together a package'. The ministry quickly realized that extant Swedish law gave failing financial institutions six months to consolidate before the government could take them over. They understood that, during a crisis, such a long period before the government could act would give the errant managers and capitalists time to disperse their assets. Decisive government action was essential. The solution was to go to Johan Munck, the then president of the Swedish High Court, and ask him to draft a new law that would give the government the right to seize a bank's assets without the waiting period. With the support of the Social Democrats, Lundgren and his advisors then pushed the new law through Parliament in a shortened period which speeded up the legislative procedure, and *the bill became law in just three weeks*. From that point on, financial institutions understood that the government had both the tools and the intent to take whatever means were necessary to defend the economy, and not just the banks.<sup>19</sup>

The government injected equity capital directly into the banks which they felt had a chance of surviving, whereas banks that had no prospects of recovering and becoming profitable in the medium term were simply allowed to go bankrupt (Englund 1999: 91). When Lundgren was asked whether he felt much pressure from some of the special interests who would be negatively affected by the 'package' he had put together, he claimed quite bluntly that 'no one, nobody in government even approached me like that'. Recalling a personal entreaty made to

him by SEB bank chairman Kurt G. Olszen, who asked for special dispensation for one of their subsidiary banks, Lundgren responded: ‘So I called Olszen to come up, together with the CEO, and I said, “I’m not paying anything. Well, perhaps 1 krona.” Then he started to say that his shareholders would take a great loss. So I told him, “That’s not my problem.”’<sup>20</sup>

Sweden’s experience with its banking crisis has been studied by fiscal authorities around the world. Few, however, have been able to copy the efficient and straightforward way that this government addressed its crisis. To be sure, the eventual floating of the Swedish krona and the subsequent depreciation of currency constituted the main driving force behind the export-oriented recovery.<sup>21</sup> Moreover, Sweden yet again had the advantage of timing and was well placed to take advantage of the world economic expansion of the 1990s. The consequent fiscal expansion acted as an automatic stabilizer for the Swedish economy. The result was that, whereas the government had carried a massive budget deficit in 1992–4, by 1997 the budget had been balanced, and by the early 2000s Sweden had begun to pay down its debt (Jonung 2009: 12). Indeed, these years actually witnessed an *increase* in public spending, despite the fact that the centre-right government was at the helm.

## 5 The Social Democrats return

The Social Democrats who returned to office after the three years of Moderate Party rule were not the same Social Democrats who had held power for so long before. The damaging fights that had brought the party down in the late 1990s were not fully resolved, but the new leadership – especially under finance minister and then prime minister Göran Persson (1996–2006) – could be accurately described as technocratic.

Sweden’s unofficial governing party quickly set about restabilizing the financial picture in the country. In many ways these ‘socialists’ now accepted the liberal logic that had swept across the globe. They did indeed cut back several social welfare policies, but careful analysis of these policies suggests that, rather than slashing programmes wholesale,<sup>22</sup> most of the reductions were in fact designed to remove some of the opportunities for abuse that the stunning generosity of these policies had created earlier on.<sup>23</sup> ‘The upshot is that the policy implications from the case of Sweden are hard to classify on a simple right–left scale’, economist Andreas Bergh notes. ‘The welfare state survives because it coexists with high levels of economic freedom and well-functioning capitalist institutions . . . Sweden also demonstrates that it is possible to increase

economic freedom substantially without dismantling the welfare state' (Bergh 2010: 15).

This government clearly believed that markets could be more effective in delivering services than monopolies (even public monopolies), since they introduced a series of policy reforms designed to create greater competition in the delivery of public-sector services (see Olesen 2010). At the same time, however, several reforms were introduced that were explicitly designed to mitigate the growing inequality in Swedish society, including an increase in the top marginal rate of tax on very high-income earners and a 50 per cent reduction in the VAT rate on food. Public spending on childcare also increased.

By decade's end, Sweden's economic and fiscal situation had improved markedly: unemployment had been reduced, though not to the levels common during the heyday of the Swedish model. The budget was now in surplus. Investment had returned to levels not seen in many years. GDP growth was now at a healthy and sustainable rate. Instead of using the budget surpluses to cut taxes on mobile capital, as the right had demanded and many analysts had predicted would happen, the finance minister increased public spending on child support yet again and continued using the surplus to pay off Sweden's substantial public debt. Indeed, the first budget in the new century (2000) was widely heralded (and decried) as 'a classic Social Democratic budget' (Wettergren 2000).

Interestingly, the government also changed the electoral rules. Once again, a commission reported and the government obliged. In this case, the commission argued that the three-year election cycle in force since the constitutional reform of 1974 had made Swedish politics too vulnerable to electoral swings and the moods of the public. They recommended a four-year electoral term. *Remarkably, almost no one argued against the idea, and this major change in the electoral rules passed in the Riksdag with almost no opposition and very little public discourse.*

## 6 Choosing the best managers

The Social Democratic Party lost its mandate in 2006 and was replaced in government by a coalition led by the resurgent Moderaterna (Conservative) Party. This election (and the one that followed in 2010) should not be misunderstood as a rejection of Swedish social democracy, however. The Moderate Party, under the leadership of the young and progressive Fredrick Reinfeld, instead proved exceptionally successful in convincing the electorate that *they* would be the best defenders of the Swedish social democratic state. The sophisticated electoral campaigns

clearly outshined the Social Democrats and offered voters a vision of a new party that would defend the traditional Swedish welfare state while at the same time modernizing it and making it even more efficient. Calling themselves ‘the workers’ party of today’, the Moderates rejected traditional left/right categorization by declaring, for example, that they intended to lower taxes across the board, ‘but most importantly for people who earn low incomes and who therefore need it most’.<sup>24</sup> A prominent Swedish journalist summarized the conservatives’ electoral strategy in the following way: ‘But the rebranding was, to a great degree, also a cloning. “Every promise the Social Democrats make on social welfare, we will agree to and improve,” Reinfeldt said in one of his campaign speeches’ (Engström 2006).

Only two years after the centre-right government was elected, the world economy went into a tailspin. At first this might have seemed like a repeat of past histories where a conservative government comes to office only to have to deal with another major economic disaster. But, unlike most of its European contemporaries, the Swedish government drew positive lessons from its 1991–2 experience and took a determinately pro-state approach to addressing the crisis. Instead of cutting back on public spending and declaring the need for austerity, it declared that it would expand the government and attempt to inflate the economy. Virtually as soon as it became aware that the crisis would be deep, the government initiated a stimulus plan that included significant increases in public spending on infrastructure, education, active labour market policies, specific supports for the automobile sector, and tax credits for home repairs and construction. Over the next year it introduced large increases in state subsidies to municipal governments, as well as income tax cuts across the board. Once again, the Social Democrats supported virtually all of these policies (with the exception of the income tax cuts) and offered policy prescriptions that actually differed little from those proposed by the Moderate government.

By 2011, these policies were being widely touted as some of the most effective responses to the global economic crisis found anywhere in the world. How was this done? Certainly, there are many possible interpretations and many parts to the puzzle. But the key factors appear to be that Sweden entered the crisis in a strong fiscal position, monitored the crisis very carefully, and learned its lessons from the banking crisis of 1991–2. Additionally, as the German group Bertelsmann observed in its comprehensive analysis of the politics and policies pursued by the Swedish government, there was a high degree of unity between political parties. Moreover, ‘Sweden’s democratic system lacks powerful (domestic) veto players’ (Jochem 2010: 9):



Behind closed doors, cooperation between the government and the Riksbank functioned smoothly. Additionally, the government expanded the power of special authorities, which are tasked with coordinating economic policies between the central government and local/regional governments. In contrast to the early 1990s, the government struck no policy deals with the opposition. With its slim majority in parliament, the current coalition has not been forced to integrate opposition parties into the policy-making process. (Ibid.: 13)

In the meantime, the Social Democratic Party has been in disarray, apparently unable to find a clear message to convince voters that they would be any better at managing or improving social welfare than the conservatives. Clearly, many think that the government has gone too far with its market reforms. But the Moderates have been clever enough to argue that they have been following the same policy patterns established by the last Social Democratic government – but have been even more effective with their reforms.

Even as it espouses pro-welfare-state rhetoric, the conservative coalition government that has now been in power for five years has pursued a set of policies that have drawn significant scepticism from several analysts. For example, unemployment benefits and active labour market policies have been scaled back since 2006<sup>25</sup> in the name of ‘making work pay’ (Lindvall 2011). Perhaps more significantly, the Moderates have made a series of changes to the unemployment insurance system – a system which had long structurally advantaged organized unions (Rothstein 1992).<sup>26</sup> Although Sweden still has the highest union density of any country in the world, these reforms have clearly had some effect: in 2009, union membership in the workforce dropped to 71 per cent, from 77 per cent in 2006.

In the meantime, the Social Democrats have looked weak and confused. With the left tainted by several personal scandals and lacking a strong ideological position to confront the centre-right government,<sup>27</sup> one increasingly gets the impression that a new governing party has risen in Sweden.

## 7 The Svallfors Paradox<sup>28</sup>

Public support for key social welfare programmes in Sweden has *increased* rather than decreased in recent years. Given this fact, it is scarcely surprising that no major political party is demanding cutbacks in the welfare state. Even though median-income families pay substantial

taxes, they also benefit from substantial direct social transfers from the state. A family at the median income level received nearly SEK40,000 in direct benefits (US\$5,000 to \$6,000, depending on exchange rates). These direct cash benefits do not include the value of public education for their children, national defence or other more indirect benefits advantaging citizens. In short, they pay a lot in, but they also can count on getting a lot out of the system.

One key to understanding the resilience of the Swedish welfare state is to appreciate that it is massively popular. As Stefan Kumlin (2002) demonstrates in his fascinating analysis, citizens' attitudes towards public services depend rather fundamentally on the character and delivery of those services. Stefan Svalfors, Sweden's leading expert on public attitudes towards the welfare state, summarizes his most recent findings as follows:

There are two remarkable findings . . . One is the sharply increased willingness between 2002 and 2010 to pay more taxes . . . The second finding is that for all listed policies, the proportion that is willing to pay more taxes is actually *larger* than the proportion that wants to increase overall spending for that policy. (Svalfors 2011: 811)

Svalfors concludes the following from his data:

Hence, no corrosive feedback effects from changing welfare policies may be detected in the Swedish public. It seems rather that the changes in institutional practices and political rhetoric that have taken place in the 1990s and 2000s have further strengthened middle-class support for the welfare state. In an ironic twist of fate, market-emulating reforms of the welfare

*Table 4.1: Attitudes towards public spending in Sweden, 1997–2010 (%)*

	1997	2002	2010
<i>Individual willingness to pay taxes for welfare policies.</i>			
<i>Willingness to pay more taxes for ...</i>			
Medical and health care	67	65	75
Support for the elderly	62	60	73
Support for families with children (child allowances, childcare)	42	39	51
Social assistance	29	25	40
Comprehensive and secondary schooling	62	61	71
Employment policy measures	40	31	54
<i>Number of respondents</i>	1,290	1,075	3,800

*Source:* Svalfors (2011: table 2).

state and the changed political rhetoric of the political right-of-center completed the full ideological integration of the middle class into the welfare state. The electoral base for any resistance against a high-tax, high-spending, collective welfare state now looks completely eroded. While the Social Democratic party suffers, the social democratic welfare state thrives. (Svallfors 2011: 815)

## 8 Conclusion

In a recent communication, one of the editors of this volume, Wolfgang Streeck, asked quite bluntly why there was ‘so little discontent with democracy in Sweden’.<sup>29</sup> After all, he noted, in recent years Sweden has witnessed increased and sustained unemployment (at least in Swedish terms) and rising inequality (again, in Swedish terms), while at the same time there have been cutbacks in unemployment benefits and a rollback in union membership. Could it be, he implied, that the Swedish model is no longer the ‘Swedish model’, and that the majority of Swedes are happy with this?

My answer to this question depends on what one means by the ‘Swedish model’. Many have assumed that Sweden has achieved its remarkable successes by being the most *democratic* country in the world. The fundamental assumption underlying much Swedish scholarship for the past several decades is that, because the outcomes have been progressive, the process must have been democratic. In my view, this assumption needs some qualifications. If what we mean by democracy is a system where the government is highly responsive to the expressed demands of its citizens, then Swedish democracy over the past decades must be brought into question. If, however, what we mean by this term is a political system in which elites may have considerable discretion and autonomy so that they can pursue what they believe to be the best interests of their citizens, and that the citizens can judge after the fact if these elites have actually delivered, then Sweden is indeed highly democratic.

There are many reasons to admire the Swedish system. It has provided remarkably high standards of living for its citizens, it is one of the most egalitarian political economies in the world, and it has proven to be resilient and able to adapt remarkably well to a dynamic and competitive world economy. But there is very little in this analysis that would lead us to conclude that Sweden has had a particularly responsive political democracy. Instead, we have seen a history of decisions that have been made by a talented and progressive elite in favour – and often in advance – of the country’s citizens. Democracy, in Sweden, has effectively meant

that citizens have the ability to judge the past performance of their governing elite. For most of the twentieth century, it was the Social Democrats who governed – and governed well. They were rewarded repeatedly for their judgements and in the process built a social welfare state that is massively popular. It appears today, however, that the Social Democrats have lost the ability to claim that they are the best managers of the system. Indeed, it is difficult to argue against the current government's performance in recent years. Despite the worldwide recession, the Swedish economy has posted positive growth and budget surpluses. Indeed, in 2010 the World Economic Forum declared Sweden the second most competitive economy in the world.<sup>30</sup>

## 9 A postscript: should we all be Swedes now?

Today we see straightjackets everywhere. The budget constraints, austerity programmes, and vast increases in economic distress witnessed across the industrialized world might lead one to conclude that what is needed in Europe are more autonomous governments of the Swedish kind. Tough decisions are necessary, and political autonomy is the key – or so the logic goes. In this view, the central problem in Europe today is that governments have been *too* responsive to their many constituencies and clienteles and that democracy needs straightjackets.

But, before we jump to the conclusion that Europe should now follow a Swedish model (as opposed to the neoliberal American model that was so popular only a few short years ago), it is important to remember that the Swedish system was built in a very particular way over a long span of time. More importantly, it was built within the context of a rather homogeneous polity that had one of the most concentrated economies in the world. Within Swedish society, social deference and trust was substantially easier to construct and maintain. Finally, the Swedish system has operated within, and has worked to reinforce, a remarkably fair and non-corrupt elite political culture. To try to build such a system in the larger, more diverse and more conflictual – to say nothing of corrupt – political economies found in some other parts of Europe strikes this author, at least, as both dangerous and foolhardy.

### References

- Agell, J. (1996) Why Sweden's welfare state needed reform, *The Economic Journal* 106: 1760–1771.  
 Ahlquist, B., and Engquist, L. (1984) *Samtal med feldt*. Stockholm: Tiden.

- Bayram, I. E., DeWit, A., et al. (2012) The bumble bee and the chrysanthemum: comparing Sweden and Japan's response to fiscal crisis, unpublished manuscript. Florence, Italy.
- Bergh, A. (2010) The rise, fall and revival of a capitalist welfare state: what are the policy lessons from Sweden?, unpublished manuscript. Stockholm.
- Bundesregierung (German Federal Government) (2003) *Pensions*, 25 March; available at: <http://eng.bundesregierung.de/frameset/index.jsp> (accessed 23 June 2003).
- Castles, F. (1978) *The Social Democratic Image of Society*. London: Routledge & Kegan Paul.
- Chopel, A., Kuno, N., and Steinmo, S. (2005) Social security, taxation and redistribution in Japan, *Public Budgeting and Finance* 25(4): 20–43.
- Dougherty, C. (2008) Stopping a financial crisis, the Swedish way, *New York Times*, 22 September; available at: [www.nytimes.com/2008/09/23/business/worldbusiness/23krona.html](http://www.nytimes.com/2008/09/23/business/worldbusiness/23krona.html) (accessed 1 March 2012).
- Englund, P. (1999) The Swedish banking crisis: roots and consequences, *Oxford Review of Economic Policy* 155: 80–97.
- Engström, M. (2006) We still love the Swedish model, *Open Democracy*, 19 September; available at: [www.opendemocracy.net/democracy-protest/swedish\\_model\\_3915.jsp](http://www.opendemocracy.net/democracy-protest/swedish_model_3915.jsp) (accessed 1 March 2012).
- Feldt, K.-O. (1991) *Alla dessa dagar* [All those days]. Stockholm: Norstedts.
- Hancock, M. D. (1972) *The Politics of Post-Industrial Change*. Ann Arbor, MI: Dryden Press.
- Jochem, S. (2010) Sweden country report, in *Managing the Crisis: A Comparative Analysis of Economic Governance in 14 Countries*. Berlin: Bertelsmann Stiftung.
- Jonung, L. (2009) *The Swedish Model for Resolving the Banking Crisis of 1991–1993: Seven Reasons it Was Successful*. Brussels: European Commission, Economics and Financial Affairs.
- Jordan, J. (2006) Mothers, wives, and workers: explaining gendered dimensions of the welfare state, *Comparative Political Studies* 39(9): 1109–32.
- Katzenstein, P. (1984) *Small States in World Markets: Industrial Policy in Europe*. Ithaca, NY: Cornell University Press.
- Kjellberg, A. (2010) The decline of Swedish union density since 2011, *Nordic Journal of Working Life Studies* 1(1): 67–93.
- Korpi, W. (1983) *The Democratic Class Struggle*. London: Routledge & Kegan Paul.
- Kumlin, S. (2002) Institutions – experience – preferences: welfare state design affects political trust and ideology, in B. Rothstein and S. Steinmo (eds), *Re-Structuring the Welfare State: Institutional Legacies and Policy Change*. New York: Palgrave.
- Lewin, L. (1970) *Planbushallingsdebatten* [The planning debate]. Stockholm: Almqvist & Wicksell.
- Lindbeck, A. (1997) *The Swedish Experiment*. Stockholm: Studieförbundet Näringsliv och Samhälle.
- Lindvall, J. (2011) *Politics and Policies in Two Economic Crises*, working paper. Lund: Lund University.

- Ministry of Finance (1995) *The Medium Term Survey of the Swedish Economy*. Stockholm: Ministry of Finance.
- Moses, J. (2000) Floating fortunes: Scandinavian full employment in the tumultuous 1970s–1980s, in R. Geyer, C. Ingebritsen and J. Moses (eds), *Globalization, Europeanization and the End of Scandinavian Social Democracy?* London: Macmillan, pp. 62–84.
- Muten, L. (1988) Tax reform – an international perspective, *Vårt ekonomiska läge* [Our economic situation]. Stockholm: Sparfrämjandet.
- Myrdal, G. (1982) Dags för ett bättre skattesystem [Time for a better tax system], in L. Jonung (ed.) *Skatter* [Taxes]. Malmö: Liberförlag.
- OECD (Organization for Economic Cooperation and Development) (2002) *Taxing Wages Special Feature: Taxing Pensioners 2000–2001*. Paris: OECD.
- Olesen, J. (2010) Privatizing health care in Sweden, Britain and Denmark: social and political science. PhD thesis, European University Institute, Florence.
- Palme, J. (2003) The ‘Great’ Swedish Pension Reform, 24 March [online commentary] (accessed at [www.sweden.se](http://www.sweden.se) on 20 June 2003).
- Roberts, A. (2003) Krybbe to grav [Cradle to grave]: is the much-loved welfare state still affordable?, *The Economist*, 12 June; available at: [www.economist.com/node/1825083](http://www.economist.com/node/1825083) (accessed 14 August 2012).
- Rothstein, B. (1986) *Den Social-Demokratiska staten* [The Social Democratic state]. Lund: Lund Arkiv Avhandlingsserie.
- Rothstein, B. (1992) Labour market institutions and working class strength, in S. Steinmo, K. Thelen and F. Longstreth (eds), *Structuring Politics: Historical Institutionalism in Comparative Politics*. New York: Cambridge University Press, pp 33–56.
- Ruin, O. (1981) Sweden in the 1970s: police-making [sic] becomes more difficult, in J. Richardson (ed.) *Policy Styles in Western Europe*. London: Allen & Unwin, pp. 141–67.
- Rustow, D. (1955) *The Politics of Compromise*. Princeton, NJ: Princeton University Press.
- Schøyen, M. A. (2011) The pension dilemma in Italy, Germany and Sweden: a common challenge, different outcomes, PhD dissertation, European University Institute, Florence.
- Sjöberg, T. (1999) Intervjun: Kjell-Olof Feldt [Interview: Kjell-Olof Feldt]. *Playboy Skandinavien* 5: 37–44.
- Steinmo, S. (1993) *Taxation and Democracy: Swedish, British and American Approaches to Financing the Modern State*. New Haven, CT: Yale University Press.
- Steinmo, S. (2002) Globalization and taxation: challenges to the Swedish welfare state, *Comparative Political Studies* 35(7): 839–62.
- Steinmo, S. (2010) *The Evolution of the Modern State: Sweden, Japan and the United States*. New York: Cambridge University Press.
- Svallfors, S. (2011) A bedrock of support? Trends in welfare state attitudes in Sweden, 1981–2010, *Social Policy and Administration* 45(7): 806–25.

- Sverenius, T. (1999) *Vad hände med Sveriges ekonomi efter 1970?* [What happened with the Swedish economy after 1970?], Demokrati Utredningen, vol. 31. Stockholm: Statens Offentliga Utredningar.
- Swenson, P. (1989) *Fair Shares: Unions, Pay, and Politics in Sweden and West Germany*. Ithaca, NY: Cornell University Press.
- Tanzi, V., and Schuknecht, L. (2000) *Public Spending in the 20th Century: A Global Perspective*. Cambridge: Cambridge University Press.
- Thakur, S., Keen, M., Hovath, B., and Cerra, V. (2003) *Sweden's Welfare State: Can the Bumblebee Keep Flying?* New York: International Monetary Fund.
- Von Sydow, B. (1989) *Vägen till enkammarriksdagen: demokratisk författningspolitik i Sverige 1944–1968* [The road to a one-chamber parliament: democratic constitutional politics in Sweden 1944–1968]. Stockholm: Tiden.
- Wettergren, A. (2000) En traditionell socialdemokrat [A traditional social democrat]. *Göteborgs-Posten*, 30 May, p. 2.

## Chapter 4 Governing as an Engineering Problem

- 1 Clearly Sweden has been deeply affected by the economic crisis, and in 2008 it witnessed one of the darkest moments it has seen in nearly twenty years – but just two years later the OECD reported that, in 2010, it had *lowered* its budget debt and posted GDP growth of 5.2 per cent.
- 2 There are a number of good studies showing how this model of social corporatism worked in practice. For a general overview, see Hancock (1972) and Lewin (1970). For some more recent work analysing this system and its political/economic consequences, see Katzenstein (1984) and Rothstein (1986).
- 3 Most important among these was the establishment of the Ghent unemployment insurance system, which effectively gave the unions control over unemployment insurance; see Rothstein (1992). But other pro-union public policies were also set up, and certainly the anti-union incentives common throughout the capitalist world were eliminated.
- 4 See Leif Lewin's (1970) masterful treatise on the evolution of this policy-making system, *Planhushållningsdebatten* (The Planning Debate).
- 5 This model is discussed further on in the chapter; the major point to note here is that those who lose their jobs are retrained and even relocated if necessary so that the individual worker does not bear the costs of economic change.
- 6 The government also invested in a massive building programme in which 100,000 apartments per year were constructed on the outskirts of major cities and industrial centres. One million apartments designed for the mobile workforce were built during this ten-year programme. Today, forty years later, the new working class of Sweden – the immigrants – dominates these apartment complexes.
- 7 Interview with this author, Gunnar Sträng. Sträng recalled that convincing the Social Democrats of these policies was one of the most difficult tasks in his long tenure as minister of finance.
- 8 Several changes were introduced in the new constitution. The most significant, however, was the elimination of the upper house of the Riksdag (von Sydow 1989). This reform transformed Swedish governance, in that now a relatively small change in election outcomes could actually change who held the reins of government. The Social Democrats finally lost power in 1976.
- 9 The 1982 devaluation of the Swedish krona by 16 per cent was particularly traumatic for the government.
- 10 The extent of the Swedish social welfare system's generosity also became legend. See Ministry of Health, *Välfärd vid vägskäl* [Welfare at the Crossroads], vol. 3 (SOU, 2000) for a more complete analysis of the Swedish welfare system and its benefits.
- 11 Among the economic analyses were Agell (1996); Lars Bertmar, 'Företagsbeskattning – behövs den? [Capital taxation: do we need it?]', in *Hur klarar vi 1990?* [How do we make it in 1990?], ed. A. Lindquist and S. Stigmark (Stockholm: Riksbankens Jubileumsfond, 1983); Klas Eklund, 'Vad göra med skatterna? [What should we do with taxes?]', *Affärsvarlden*



- 29(2) (1984): 7–17; Sven-Olof Lodin et al., *Beskattning av inkomst och förmögenhet, del 1 och del 2* [The taxation of income and wealth, parts 1 and 2] (Studentlitteratur, 1978); Muten (1988).
- 12 See Myrdal (1982) and Muten (1988) for influential arguments presented in public debate that contributed to the change of views both inside and outside government.
- 13 Though these tax reforms were passed after the centre-right government had come to office, the decisions surrounding them were made and agreed to by the commission that had been appointed and supported by the Social Democrats.
- 14 I have examined the tax reform in detail elsewhere (Steinmo 2002). That analysis follows a pattern that is very similar to the banking and social security reforms discussed here.
- 15 The commission was chaired by Bo Könberg (Liberal Party/Folkpartiet), who was meant to represent the whole centre-right coalition government (with Carl Bildt as prime minister). The Social Democrats also had two representatives – Ingela Thalén and Anna Hedborg. Each of the other parties had one representative: Margit Gennser (Conservatives), Åke Pettersson (Centre Party), Pontus Wiklund (Christian Democrats) and Barbro Westerholm (Liberal Party). Importantly, no labour-union members or business representatives were appointed to the commission – though of course they were allowed to present arguments and data. Ulla Hoffman (Left Party/Vänsterpartiet) and Leif Bergdahl (Ny Demokrati) were also on the commission, but these latter two did not support the reform package that was eventually passed.
- 16 For a solid introduction to these changes, see Palme (2003) and Thakur et al. (2003).
- 17 This reform also increased the retirement age for most workers.
- 18 See, for example, Bundesregierung (2003), OECD (2002), Palme (2003) and Bayram et al. (2012).
- 19 Soon after the problems in the financial system became apparent, the government swiftly seized control of several of the most troubled institutions, injecting them with capital and providing blanket guarantees to those holding debt. Importantly, however, they did not attempt to bail out the investors or the financial institutions' stockholders. Bo Lundgren, minister for economic and fiscal affairs, put the issue quite simply: 'I'd rather get equity so that there is some upside for the taxpayer . . . For every krona we put into the bank, we wanted the same influence. That ensured that we did not have to go into certain banks at all.' Urban Backstrom, another senior official in the Ministry of Finance at the time, recalled similarly that the thinking in the government was that it would be a political and economic mistake to '[put] taxpayers on the hook without [giving them] anything in return . . . The public will not support a plan if you leave the former shareholders with anything' (Dougherty 2008).
- 20 Interview with the author, 2010.
- 21 The result was that the budget deficit increased to 13 per cent of GDP. At one point, international confidence in the krona had sunk so low that the central

- bank was forced to increase the overnight lending rate to 500 per cent in a vain effort to protect the currency.
- 22 Tax as a percentage of GDP went up to 60 per cent during the crisis (and Moderate Party tenure) and has now been eased back to approximately 54 per cent. But note that tax *revenues* increased in absolute terms as a result of the tax changes imposed by the Social Democrats after they returned to office (Ministry of Finance 1995: 402).
  - 23 For example, employees were no longer eligible for up to seven days of full sick pay without a doctor's note. A number of other reforms introduced similar reductions. Some of these, of course, caused considerable financial hardship in specific public bureaucracies. The health-care sector appears to have been particularly hard hit.
  - 24 Quotations taken from Moderaterna's English-language website, [www.moderat.se/web/In\\_English.aspx](http://www.moderat.se/web/In_English.aspx) (4 December 2011). While tax cuts for workers have been introduced, specific exemptions for paying for household help and other deductions make it very difficult to calculate whether lower- or upper-income earners have benefited the most from the new government's tax-cutting programme.
  - 25 Although these were increased again in 2009, they are no longer anywhere near the internationally high levels they reached in the 1980s.
  - 26 The actual changes in structure, administration and fees for different unemployment schemes are in fact quite complicated. For a detailed analysis of these changes and their consequences, see Kjellberg (2010).
  - 27 Indeed, in a rather embarrassing speech after the electoral defeat in 2010, outgoing party leader Mona Sahlin revealed that she didn't actually believe in many of the party positions that she had been defending during the election campaign.
  - 28 In a recent report on Swedish Radio, a reporter remarked on what he called 'the Svallfors Paradox': that Swedish voters overwhelmingly support high taxes but vote for parties that lower taxes (personal communication from Joakim Palme, 3 December 2011).
  - 29 Wolfgang Streeck, personal communication, 29 October 2011.
  - 30 See also the *Financial Times*, which on 13 October 2011 titled a lead article 'European bailout needs Swedish model'

## Chapter 5 Monetary Union, Fiscal Crisis and the Disabling of Democratic Accountability

- 1 Since citizens cannot be obliged to perform sophisticated causal analyses or to act fairly, sanctions are likely to be suffered by those levels of government that can in fact be punished by voters.
- 2 These concerns relate to both the perceived problem-solving effectiveness and the perceived normative appropriateness, or justice, of policy outcomes.
- 3 In David Marsh's (2011) magisterial history of the run-up to the euro there are numerous accounts of the Bundesbank's resistance to requests begging it to consider the impact of its policies on other member states, even when these requests were presented at the highest political level.