WHY DID THE SWEDISH MODEL FAIL?

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'From Marx to Market' is not only the title of a well-known book' or a play on words: the slogan can also be used as a telegraphed history of the Swedish labour movement.

The late 19th century pioneers of the movement were strongly influenced by German marxists and had as a concrete goal the transfer of the means of production into collective ownership. Their modern followers have abandoned – as have most socialists in Western democracies – the issue of ownership as the essence of socialism. The market economy is now generally accepted as the arena for the exchange of privately produced goods and services – albeit with restrictions and modifications in the interest of a fair distribution of wealth.

A Brief History of Swedish Social Democracy'

Of course, such a slogan cannot do justice to the Swedish labour movement's 'long march' through history and its many intermediary way stations. True, the first Swedish social democrats were marxists and their successors one hundred years later have a noticeable weakness for the market. But the marxist elements of the social democratic ideology were eliminated at an early stage and 'nationalization' was forsaken by the first social democratic government in the 1920s. It disappeared from the agenda when the government appointed a commission to investigate the topic of nationalization – an infallible method for burying ideas once and for all.

Instead, the Swedish social democrats started to build up a welfare society within the framework of capitalism, leaving the owners of capital to take care of producing goods but assigning to the state the responsibility for a fair distribution of the production results. Nationalization was replaced by 'functional socialism' which means that socializing some of the functions of ownership is preferred to undertaking wholesale socialization. Class hegemony gave way to the classless society. labelled as 'the people's home', a famous expression coined by the popular Swedish Prime Minister

P.A. Hansson in 1928, according to which all Swedes should feel and be treated as members of a family:

> **In the good home equality, consideration, co-operation and helpfulness prevail. Applied to the great people's and citizen's home this would mean the breaking down of all the social and economic barriers that now divide citizens into the privileged and the unfortunate. into rulers and subjects, into rich and poor, the glutted and the destitute. the plunderers and the plundered[3].**

This speech symbolized, as a Canadian observer puts it, 'the breakthrough of Swedish reformism', in so far as the idea of a people's home implied the conviction that socialism could be achieved through welfare reforms'.

The scene changed for a short period in the 1940s, not as a result of changing ideologies but due to the need to adjust the Swedish economy to war-time conditions. Sweden, formally neutral but surrounded by threatening German armies, had to introduce regulations, rationing, price and investment controls: in short, a planned war economy. The experiences of this period – which eliminated the high pre-war unemployment – influenced the thinking of the authors of the 1944 Post-War Programme which was to be the blue-print for the forthcoming social democratic government[5]. The war economy had demonstrated the possibility of achieving the maximal use of all productive resources (albeit to some extent for unproductive purposes). Why, leading figures of the party asked, should state intervention not be used as a tool of achieving full employment also in peace time, especially as most economists foresaw heavy unemployment in the transitional period after the war.

The Post-War Programme indicated the high water mark of state interventionism in the modern history of Swedish social democracy. It advocated nationalization of basic industries and financial institutions, it recommended central planning of investment and assigned to the government a leading role in restructuring the country's industry. Most importantly, the programme allotted to the state the responsibility for achieving and maintaining full employment. Leading social democrats, among them Gunnar Myrdal, talked about the 'harvest time' of Swedish Socialism. Instead it turned out to be the last time that leading members of the party used the term 'socialism'.

Nor were socialism, state interventionism or planning to be the characteristics of labour's actual post-war policy. Sweden entered the post-war period with full production capacity and could benefit from the immense demand for commodities in a ruined Europe. As an exporter of scarce investment goods and raw materials Sweden benefited from the European restoration process. The Swedish engineering and forestry industries boomed, and unemployment problems did not appear. The opposite and unexpected occurred: a shortage of labour and with it, the threat of inflation.

The Swedish economy's performance in these years, with high growth rates, a well-balanced foreign trade and full employment, deprived the radical proposals of the Post-War Programme of much of their topicality. Why should industries be nationalized if the private owners could run them efficiently and with high profitability? Why should the government intervene in the economy if the market forces could resolve the structural problems and successfully guarantee full employment? Why should the government build up a planning machinery for an economy which was working well without planning? And finally: was it worthwhile to take on an ideological fight with the bourgeois opposition which campaigned vehemently against all kinds of planning?

Most of the socialist ideas of the Programme faded away as the market delivered the achievements which the socialists had aimed at: economic growth, which could be used for major social reforms, rising incomes, high employment. Many socialists came to the conclusion that social democratic ideology had come to and end[6]. A de-radicalized labour movement took the lead in developing Sweden into a welfare society which aroused admiration and envy all over the world.

The Full Employment/Inflation Dilemma

There were, however, shadows in the rosy picture of the 'golden years' of post-war Sweden. It became obvious immediately after the war that shortage of labour – at that time a new experience for politicians and labour – caused wage increases exceeding productivity gains and, consequently, cost – push inflation. The government reacted by introducing various kinds of incomes policy measures, among them a government-inspired wage-freeze in 1949150 which turned out to be a total failure. These experiences indicated that full employment and price stability were conflicting goals, and that the government had to make a political choice instead of forcing the responsibility for price stability upon the unions.

It was only natural that a number of economists employed by the LO, the dominant confederation of blue collar workers, tried to find a solution to this dilemma which had become a serious threat to the union movement. Full employment is an imperative condition of union strength. Yet wage restrictions in periods of high profitability when firms can pay higher wages cause distrust amongst the rank and file towards the union leadership. The trade-off between full employment and price stability was the point of departure for the development of a union proposal for a stabilization model which, in its final shape, became the central part of 'The Swedish Model' as a whole[7].

The proposal can be seen as a form of modified Keynesianism. Total demand, exercised through fiscal and monetary measures, should be high – but not high enough to ensure the full use of all productive resources and all skills in each branch and in each region. Beveridge's definition of full employment as the situation where there are permanently more jobs than those to fill them was, we LO economists argued, at the same time a good definition of inflation.

To avoid inflation. total demand must fall below the level where practically all labour dan be absorbed. 'Islands of unemployment' should be eliminated, not by increasing general demand but by selected and targeted labour market policy measures such as retraining, mobility – promoting allowances, wage subsidies for disabled workers and public work for older and immobile labour. From the very beginning, active labour market policy was a central component of the non-inflationary full employment proposal which was presented and intensively debated at the 1951 LO Convention[x].

We were aware of the risk that powerful unions which are guaranteed full employment are strong enough to jeopardize the stabilization policy through aggressive wage claims. However, we rejected the idea that unions should be disciplined by unemployment. Our preference was for collective self-discipline imposed by the unions' own wage policy. This was conceived within the framework of an ideology based on the notion of solidarity, promoting a wage structure which reflected the kind of work and skill rather than the profitability of the firm.

It was obvious that union rivalry and militancy could be mitigated by a consensus between the affiliated unions on common goals and methods of wage policy. In the mid-50s the Employers Confederation (SAF) invited the LO to participate in central wage negotiations which came to characterize Swedish industrial relations over the following two decades. Many observers in and outside Sweden have considered the centralized Swedish bargaining system as the essential part of the Swedish Model. In my view, the model was originally aimed at solving the full employment/inflation dilemma, with active labour market policy and the wage policy of solidarity as complementing ingredients. The fact that Swedish wage negotiations came to be carried out centrally certainly facilitated the government's stabilization endeavours. Yet such centralization should mainly be seen as a consequence of the 1938 Saltsjobaden agreement between labour and capital. Through this agreement the two parties laid down rules for their mutual relations, but they also demonstrated their autonomy vis-a-vis the government'.

The stabilization dilemma is important because full employment, the goal with the highest priority for labour, must be reconciled with the need of price stability. In the words of Gunnar Myrdal, inflation is a deadly threat to socialism; and Gosta Rehn, one of the architects of the LO model, coined the slogan that socialists must 'hate inflation'. The development of the Swedish economy in the 1970s and 1980s has verified these warnings: the failure of the stabilization policy has been a decisive reason for the shrinking popular support for the social democrats, for the enfeeblement of the unions and for the continuous decay of the Swedish Model as a whole.

Is Equality Counter-Productive?

Full employment is only one pillar of the Swedish Model, the second one being equality. If Swedish socialists are fanatical about full employment, they are also passionate about equality. The two wings of the Swedish labour movement aimed to achieve equality by means of different but complementary methods. The party-in-government was seen as responsible for developing a universal welfare system, based on generous transfer payments and a comprehensive public sector which offered almost free, i.e. tax-financed social services. An equalizing wage policy, aiming at a solidaristic wage structure, was the unions' main objective.

As has already been mentioned, the policy for full employment had its limits in the inherent risk of inflation. That is why full employment had to be achieved by non-inflationary methods. There were analogous restrictions for universal welfare and for the wage policy of solidarity. The welfare system must not run into conflicts with efficiency. Solidaristic wage policy, which eliminates the use of wage differentials as incentives for labour mobility, implies the risk of labour market rigidity. These potential conflicts were not unforeseen by the proponents of the welfare state, nor by the supporters of the wage policy of solidarity. In fact, remedies for solving possible conflicts were incorporated in the model at an early state.

There is, in fact, no clear evidence that the welfare state is necessarily counter-productive in terms of economic efficiency. Comparative studies of countries with different levels of public expenditures for non-military purposes do not confirm the hypothesis that highly developed welfare states show lower growth rates than other countries. Sweden, which had a record level of public expenditures and correspondingly high taxes did not lag behind most other welfare states in Western Europe for the whole 1960 - 1990 period"'. The high rate of absenteeism in Sweden is frequently interpreted as abuse of the generous health insurance system but at a closer look it can partly be explained by the fact that groups prone to absenteeism (women, handicapped persons), who normally are not fully integrated in the labour force in other countries, make up a substantial part of the Swedish labour force. Nor can it be proved that the generous rules for early retirement in Sweden have resulted in an abuse of the system: the share of early retirees in Sweden is, in fact, lower than in most other European countries with corresponding provisions.

The argument that universal welfare can negatively influence productivity and growth can also be questioned from another angle. High public expenditures may look like a heavy burden for the tax-payers, but what is frequently overlooked is the fact that a considerable part of public expenditures are investments in human capital and consequently highly productive. Child and mother care is everybody's right and prevents illness: a one year parental leave (longer than in any other country in Western Europe) gives the mother a period of privacy and respite (and can – though that is rare – also be used by the father); rehabilitation of persons with industrial injuries facilitates reintegration into the labour market. These active measures are substantial and economically useful elements of Swedish welfare policy.

There is, however, an area of the public sector where criticism can be justified. Health care, the care of children and the aged, education on all levels and social welfare are in Sweden carried out by public authorities. In the 1960s and 1970s public service, particularly health care, expanded immensely. Between 1960 – 1980 the number of public employees almost tripled and account now for one third of the Swedish labour force – an international record. The explosive expansion of the public sector has resulted in the formation of large organizations in metropolitan areas, in some cases with thousands of employees in single units. Economies of scale, with analogies from the private sector, were applied in building hospitals, schools and homes for the aged, frequently with bureaucracy and inefficiency as consequences.

In recent years national and local governments have made large efforts to improving efficiency in the public sector, for instance through the introduction of market mimicking arrangements in the delivery of public health and education". The non-socialist parties seek a solution in the privatization of public services – a proposal which the social democrats vigorously rejected.

The wage policy of solidarity"

Whereas welfare has been the responsibility of public authorities, a second way to achieve equality was through the wage policy of solidarity itself. Solidaristic (originally called socialist) wage policy, which constitutes the ideological heart of the Swedish union movement, means two things. First, equal work should be equally paid, regardless of the profitability of the firm, the size or location of the workplace. What matters is the kind and nature of work, and the skills which are needed to perform it. The second aim of the policy is the equalizing of wage differentials, but not their total elimination. Different wages should be paid for different kinds of work. It is obvious that both components of the solidarity wage policy presuppose accurate job descriptions and norms-of job evaluation.

Critics of the wage policy of solidarity have argued than an equalized wage structure impedes labour mobility. A number of studies have shown that wage differentials must be substantial to play the role of incentives in the labour market. Yet, in a full employment economy the use of such differentials as instruments of labour allocation would be irrational and expensive. The risk of inflationary wage spirals would be high. There is a structural effect of the solidaristic wage policy on labour mobility which may be more important than the alleged effects of large wage differentials. The equalizing of the wage structure squeezes out unprofitable firms unable to pay market wages. Redundant labour must be absorbed by more profitable firms or assisted by active labour market policy measures such as training, retraining, rehabilitation, etc. It is easy to recognize the close interconnection between wage policy and labour market policy in the model or, expressed in more blunt language, between union and government policies.

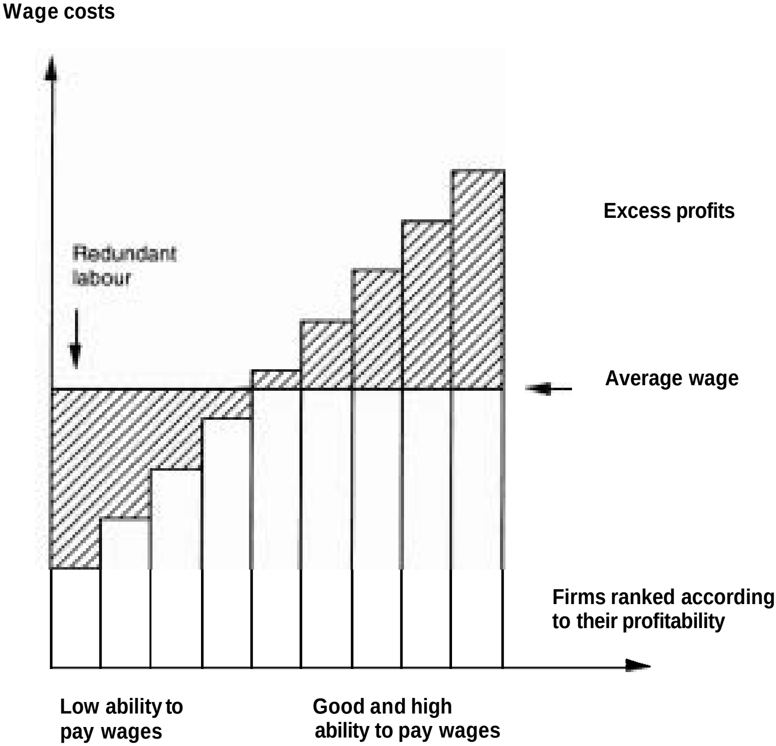
A more serious problem stems from the fact that wage restraint exercised by well-paid groups in profitable firms leaves unused capacity to pay wages in the hands of the capital owners. The union proposal to transfer parts of this kind of 'forfeited' wage increases into collective wage-earner funds was an attempt to solve the dilemma illustrated by the graph below in which the firms are ranked according to their profitability (and ability to pay wages). Firms unable to pay the 'normal' wage (set in the central negotiations) have to rationalize their production or, if they have exhausted that potential, will be squeezed out from the market – in both cases with labour redundancy as a consequence. It is then the responsibility of the labour market policy to find new jobs for the redundant labour.

The right part of the graph illustrates the fact that profitable firms have the potential to pay higher wages than those claimed by the unions. The remedy proposed by the LO in the wage-earner funds was to skim the excess profits and transfer them from the capital owners into the collective ownership of the employees[13]. The capitalists understandably disliked this idea. Nevertheless, it was a logical part of the Swedish model.

The Swedish Model Defined

Let me summarize what has been said about the different goals, restrictions and methods of the social democratic economic and social policy, and show how they form parts of a coherent and consistent model. The values of highest priority are full employment and equality. Both come into conflict with other goals, notably price stability and efficiency. The conflict between full employment and price stability can be solved by a policy which combines restrictive general demand management and selective labour market policy. Equality pursued by a system of universal welfare, by a large public sector and by a wage policy of solidarity has to be

Consequences of wage policy of solidarity for firms with different ability to pay wages.



compatible with the goals of efficiency and economic growth. The table below illustrates the main components of the model.

It is obvious that the model sustains those elements of socialist ideology which point beyond the limits of a capitalist market economy. Experience has taught us that the free market forces guarantee neither full employment nor equality. To give the highest priority to these goals means challenging the principles of the capitalist system which is based on the profitability of privately owned capital.

The formation of a large public sector as the guarantor of the universal welfare implies that a substantial part of the economy is withdrawn from market rules and that social needs are separated from people's purchasing power. The wage policy of solidarity separates wages from profitability and cushions the market. The union proposal for wage-earner funds has rightly been considered as a union attempt to share the fruits of capital accumulation with the capital owners.

Schematic sketch of the Swedish Model

Objectives	**Full employment**	**Equality**
Restrictions	**Price stability**	**Efficiency**
Instruments	**Combination of restrictive general measures and selective labour market policy**	**Universal welfare Large public sector Wage policy of solidarity Wage-earner funds**

The Swedish model, formulated in the version we have presented here, is reformist in the sense that private ownership and free markets are accepted to a large extent, but it is socialist in so far as fundamental values of the labour movement are built into it. The model is based on a firm socialist ideology but recommends at the same time practical methods to attain the goals. The model combines visions and pragmatism of the traditional Swedish brand. It comes close to what Ernst Wigforss, a leading ideologist of the Swedish labour movement, called 'provisional utopias'.

The achievements

Now, what are the achievements of the Swedish Model or, to put it less ambitiously, of the social democratic governments after the war? Full employment was maintained practically for the whole period. At the same time, the labour force participation rate rose to a peak European level, primarily because of the almost total integration of women into the labour market. By drawing on the whole population in the active ages, the input of labour is higher in Sweden than in any other European country – in spite of longer vacations and other leaves of absence.

The universal welfare system developed into a network which meets all social needs – from the cradle to the grave. In the 1980s public expenditures reached a peak of 55 per cent of GDP and had to be financed by Western Europe's highest taxes. The public sector expanded immensely to employ one third of the labour force.

The wage policy of solidarity contributed to the compression of wage differentials''' The gap between male and female wages narrowed considerably, as a result of special clauses in the centrally negotiated contracts which favoured low paid workers. At the beginning of the 80s, Sweden showed the most egalitarian wage structure amongst Western countries. This was achieved through a labour market policy which relieved the unions of the responsibilities for employment problems caused by wage claims for the low-paid in declining firms and branches. Social democratic governments also accommodated the unions in another way: excess profits – which make wage restraint in profitable firms hazardous for the local unions – have been at least partly neutralized by payments into different funds, (among them the union-administered wage-earner funds – albeit in a rather symbolic shape, as we shall see).

No wonder that the Swedish Model was seen as a model for the left in Europe which was put on the defensive by neo-liberalism and by the collapse of the centrally planned economies in Eastern Europe. The Swedish system, build on the co-operation between strong labour and employer organizations and the government, with an economy that had managed to reconcile market principles with socialist values such as full employment, equality and solidarity, was hailed as the prototype of a 'Third-Way' society. The decline and disintegration of the Swedish Model is thus a matter of concern not only for the Swedish labour movement, but for the left as a whole. How can it be explained?

We can rule out the notion that the electoral defeats of the social democratic party in 1976 and again in 1991 are the cause of the Swedish model's decline. In the 1970s the labour movement was still so dominant that the non-socialist coalition government 1976 – 1982 was unable to alter the traditional welfare policy in a substantial way. Full employment was accepted as a central goal and the welfare system remained intact. When the social democratic government was replaced by a new bourgeois coalition in 1991, the model was already in a process of erosion and decay. The political shift can be seen as a formal confirmation of an ongoing process rather than its cause. The weak points of the model as it was put into practice, can be traced back to the early 1970s.

Weak points of the economic policy

The essence of the Swedish Model, as outlined in the report to the 1951 LO Convention, was the notion that full employment and economic stability could be made compatible. We argued that anti-inflationary full employment policy had to be based on two pillars: a restrictive general economic policy which does not guarantee full employment, and selective labour market policy measures which absorb redundant labour.

Swedish governments have frequently neglected the first part of the recommendation and tolerated periods of excess demand in the product and labour markets. The destabilizing effects of this inflation-prone policy were obvious already in the 1970s but became fatal in the 1980s: profits skyrocketed, speculation pushed property values to unsustainable heights, growth came to a stand-still and Swedish competitiveness faltered.

It is inappropriate to blame the unions for reacting aggressively in a tight labour market nor can the market forces be faulted for acting according to market principles in a situation of excess profits and high liquidity. Profitmaximization is the maxim of the free market and the capitalists did only what the textbooks prescribe. To ensure economic stability and to combat inflation is the responsibility of the national government – but the government had neither the courage nor the strength to play this role. Gunnar Myrdal's warnings came true: inflation mercilessly undermined the basis of the Swedish Model.

The first victim of the government's inability to control inflation was full employment. To be sure, unemployment was kept low in the booming 1980s, a remarkable success for Sweden, compared with mass unemployment in most Western European countries. Yet early in 1991 the threat of continuous inflation induced the social democratic government to drop full employment as the primary goal in favour of price stability. This made it easier for the non-socialist government elected later that year to tolerate an unemployment level which, one year after its inauguration, increased to Western European levels.

The conflict between equality and efficiency is not as sharp as the full employment/inflation dilemma. Not even critics of the universal welfare system allege that the large public sector is responsible for the Swedish economy's low rate of productivity growth. The public sector is attacked on ideological grounds by conservative groups who favour privatization. But even in the social democratic party one hears an appeal for greater efficiency which is often euphemistic language for poorer service.

The system of public transfer payments is under attack. Recently the bourgeois government and the social democrats, now the leading opposition party, have concluded an agreement aimed at shifting responsibility for sick pay and work injury insurance system from the public sector to the unions and employers' organizations – a move from universal welfare to a system which was introduced by Bismarck a century ago. If increasing unemployment can be seen as an adjustment to western European conditions, the dismantling of the universal welfare system brings Sweden closer to Bismarckian Germany.

The wage policy of solidarity in a deadlock

Another important component of the model has been in a process of disintegration: the wage policy of solidarity. The policy which for decades had been a successful instrument for the compression of wage differentials has lost much of its earlier impetus. Since the beginning of the 1980s the wage structure has remained almost stable. The low-paid groups, amongst them women, no longer improved their relative position on the wage scale. There are several reasons for this break in a long trend.

The first of these has to do with the LO's own policy failures. When the LO formulated the aims and methods of the solidaristic wage policy in the 1950s two principles were laid down: (a) wage differentials should be narrowed but not eliminated; and (b) remaining wage differentials should reflect differences in the kind of work, not the profitability of the firm. The implementation of the second principle assumed norms, based on some kind of job evaluation. The LO was successful in its campaigns for lifting wages for the low-paid groups. It failed, however, to achieve consensus within the union movement on a practicable and solid normal system which could be used as a guideline for wage setting. Various attempts to find such norms came to naught and the unions focused on the equalization of the wage structure.

The principle of wage equalization fitted in well with the homogeneity of the labour force in the area of Fordist mass production which was dominant in the first decades after the war. As technology and work organization changed, however, firm-specific skills and incentives for 'learning by doing' could no longer be handled satisfactorily by the traditional solidaristic wage policy. The LO was ill-prepared for these developments, which implied the need to adjust the wage structure to post-Fordist work organization. A recent proposal to broaden the concept of 'solidaristic wage policy' into a 'solidarity of work' policy, thus coupling wage and work, can be seen as an attempt to modernize the wage policy of solidarity – or rather to bring it back to the original intentions of the 1951 LO report.

The withdrawal of the employers' confederation (SAF) from the centralized wage negotiations in the early 80s was a second obstacle to the pursuance of the wage policy of solidarity". It is easy to see that this was a heavy blow to the LO's wage policy which presupposes the co-ordination of wage claims posed by affiliated unions. The decentralization of the negotiations to the branch level makes it much more difficult for the LO to keep to its principle of solidarity with the low-paid groups. The question is: why did SAFs withdraw from the central bargaining table?

The main reason the employers give is that central contracts have tended to become too complex and clumsy for the flexibility required in modern work organizations. Management prefers decentralized bargaining, even down to the firm level, which allows for larger wage differentials. (It should also be noted that Swedish multinational companies now have more employees outside Sweden than within the country and are accustomed to methods of wage setting which differ from the Swedish ones). The conflict between the unions' and management's view on the role of wages policy stands out more clearly than ever: the Swedish unions continue to aim at an egalitarian wage structure, while for the employers, wage differentials are instruments for managerial control.

Whilst these reasons are frankly admitted by the Swedish employers, their break with a long tradition of central bargaining may also have deeper ideological causes. The central wage negotiations in Sweden can be seen as a product of the Saltsjobaden peace agreement of 1938 which became the basis for co-operation between the peak organizations SAF and LO. It was the tacit understanding of the agreement that state intervention in labour market matters should be avoided. The union-initiated wave of legal labour reforms in the 1970s, and especially the union proposal to transfer profits into collective wage-earner-funds, were interpreted by the SAF as the abrogation of the Saltsjobaden contract. The peaceful, almost friendly relations between LO and SAF in the first decades after the war, which impressed foreign observers of the Swedish scene, were replaced by militancy on both sides. The climate became too harsh for central bargaining.

Yet, a third factor undermining wage solidarity was the changing composition of the union movement. As long as the LO totally dominated the union movement the wage policy of solidarity was the leading ideology. With the increasing strength of white collar unions, other actors – politically neutral, with a higher degree of autonomy from their central confederation (TCO) and with different wage policy aims and strategies – showed up in the bargaining arena. The homogenous union movement became fragmented and conflicting interests debilitated LO's fight for an egalitarian wage structure. When LO requested its well-paid groups to accept modest wage increases and to exercise solidarity with their low-paid colleagues, they looked at the members of white collar unions who were not subjected to the same restraint. Although blue and white collar organizations have friendly relations, with few conflicts around demarcation, they frequently run into competitive situations in the area of wage determination.

A fourth and final reason for the demise of the wage policy of solidarity was that the support both of an accommodating labour market policy and of profit-squeezing arrangements could not be maintained. Certainly, no such support is available at present. The non-socialist government has renounced all responsibility for labour redundancy resulting from wage claims too high for inefficient firms. The LO wage earner proposal which aimed to squeeze excess profits was vehemently opposed by all non-socialist parties and, of course, by SAF. In 1983 the socialist government reluctantly accepted the principle of collectively owned wage-earner funds but it watered down the original intentions so much as to make the funds a largely symbolic gesture.

At this point the story of the wage earner fund issue, its passage from an overtly socialist union proposal to a number of toothless share holding funds of a rather conventional type, may be briefly recalled.

Wage earner fund schemes had been discussed in Western Europe in the early post-war years. The German DGB put forward the idea of national wage earner funds in the mid-fifties;-aimed at correcting the inequitable distribution of wealth which followed with the rapid restoration of the German economy after the war. In the Netherlands the unions proposed in the sixties a similar fund scheme with its origin in the government-inspired incomes policy during the first post-war years. When the Danish unions in 1971 published a report suggesting a wage earner profit and investment fund the focus was mainly on economic and industrial democracy.

All these initiatives and debates had little influence on the Swedish labour movement. Its attention to collective savings was given to the introduction of a general pension system which was successfully accomplished in 1960 after a long and arduous campaign. When the idea of wage earner funds cropped up in Sweden in the 1970s the main motive was different from the motive in other countries. As has been already mentioned, the wage policy of solidarity, which for decades had been the very basis of Swedish unionism, implies the need for restrictive wage claims for well-paid groups, even if they are in profitable firms. It follows that an 'unused potential for wage increases' in profitable firms accrues to the capital owners as extra profits. The fact that wage restraint results in higher profits is a dilemma inherent in the wage policy of solidarity but it became more accentuated and obvious as Swedish export trades boomed in the beginning of the seventies.

The 1971 LO convention commissioned the confederation's executive board to initiate a thorough examination of the problem and to report back to the next convention in 1976. A small working group of experts was set up in 1973 and presented two years later a proposal which was intended to achieve three tasks: (1) complementing the wage policy of solidarity in such a way that modest wage claims would not enrich the owners of highly profitable firms; (2) counteracting the ongoing concentration of private capital; and (3) strengthening employees' influence at the workplace through co-ownership.

The solution which the working group report offered was a scheme for collective profit sharing, i.e. the establishing of a number of wage earner funds, financed by profit-related payments in the form of shares, and administered by union-dominated boards. The proposal was discussed intensively in the union movement, mainly in a large number of rank and file study circles which reacted in a surprisingly positive way. Many active unionists hailed the wage earner fund issue as an important step on the road towards economic democracy. The original motive – to lend support to the wage policy of solidarity – was overshadowed by the broader anti-capitalist aspects of the proposal which had a vitalizing effect on the union movement.

The LO leadership which originally had taken a rather neutral position vis-a-vis the working group report, was influenced by the positive, even to some extent enthusiastic reception by the union elite and decided to present the report with minor changes to the 1976 LO convention. It was adopted by acclamation followed by the singing in unison of the *Internationale*. An issue had been created capable of mobilizing and activating the union movement.

This only marked the beginning of an intensive and lengthy debate on the LO proposal. The fierce opposition of all non-socialist parties and business organizations forced the labour movement to make repeated retreats. When the social democratic government finally in 1984 introduced wage earner funds it was the first time that a Western country had realized the idea of employee-owned funds. But the scheme had been changed beyond recognition from the original LO proposal. Five small regional funds were established, mainly financed by an excess profit tax. The fund capital was used for purchasing shares in the stock market. The scheme was intended to be annulled after only seven years and the total assets of the funds amounted at the end of the period (1991) to less than five per cent of the total value of the Swedish stock market. None of the original tasks has been achieved and the whole scheme must now be considered a rather symbolic gesture. The strong Swedish labour movement had proved its inability to encroach upon private ownership, the very core of the capitalist system.

In the tumultuous campaigns arranged to fend off 'socialist aggression', the original motive for wage-earner funds was totally neglected: to solve the dilemma that wage restraint in profitable firms leaves the latter more profit than would accrue to them in a normal market. This problem is still unsolved. The question 'Cui bono', put by a Volvo worker under wage restraint to his shop-steward, remains as yet unanswered. A good answer from his point of view – but a bad answer from the perspective of a national wage policy – is local wage drift which posed a serious threat to the principle of solidarity throughout the eighties.

The internationalization of the Swedish economy

So far we have focused on the internal problems which have contributed to the decline of the Swedish Model: the government's inability to combine full employment and economic stability; the dismantling of the universal welfare system, and the increasing difficulties besetting the wage policy of solidarity. Another way to describe the same course of events is to say that the labour movement has lost its hegemonic position, and has failed to mobilize the working class for the defence of the model which was based on the movement's traditional values. The Swedish system, balancing private ownership and social control, has broken down because real power has shifted from labour to the owners of capital.

Of equally decisive importance for the fate of the Swedish Model is the internationalization of the Swedish economy. Large Swedish companies, favoured by governments and by the wage policy of solidarity, have grown into multinationals, expanding their employment more in their foreign subsidiaries than in the Swedish mother firms. Some of them have transformed themselves into transnationals – companies owned by Swedes but located outside the country. Ironically, a few of them have expanded thanks to social democratic policies. Thus Tetrapac, the world-wide packing industry, had its origin in the Swedish agrarian regulation system which permitted the dairy industry to act as a monopoly, thus guaranteeing the use of the company's milk pack by all Swedish households. IKEA had its domestic basis in furnishing the million apartments which were built as part of the social housing program in the 1950s and 1960s. Domestic mass consumption has been the precondition for many Swedish firms which moved out from the country as the home market became too small. They are products of the national Swedish welfare model but act as ungrateful internationalists. Swedish capital, liberated from all legal restrictions, is moving out of Sweden to get closer to foreign markets or simply to find cheaper labour. And the resulting loss of jobs in manufacturing industries has not been compensated for by an increase of jobs in private service trades or in the public sector.

The continuous outflow of Swedish capital, especially after the deregulation of foreign exchange controls in the latter part of the 80s, is only part of the internationalization of the Swedish economy. With or without formal membership of the EC, and economy of Sweden's population size (9 million) and high export share of GDP (30 per cent) is integrated in the Western European economy to such an extent that the scope for national priorities is utterly limited. Recent events have demonstrated Sweden's dependence upon international financial markets: the Swedish currency was one of the targets of international (and national) speculation and the central bank could defend the Krona only by increasing interest rates to absurd heights – an infallible method for depressing the economy and causing unemployment further to rise. The fight was in vain: in November 1992, the Swedish Krona was devalued.

Two scenarios

There are two main scenarios for the future of the Swedish Model, which, of necessity, must be presented in a rather simplified form. The first one is an extrapolation of the erosion which has been going on for more than a decade. The unique features of the model will vanish, one by one. The hegemony of the reformist labour movement for more than 60 years can then be interpreted as a short period of Swedish history when the country was transformed from a remote agrarian economy into a modern, highly industrialized welfare state.

History, traditions, ideological strength and the leadership's ability to mobilize the working class and to find allies in other classes gave the social democrats the leading role in this process. It could be that in these few decades Sweden came closer to the ideal of a classless society than any other country.

Internal and external factors have, however, hollowed out the basis for the model. The attempts to realize the concept of a classless society within a framework of an internationalized market economy will be brought to an end, not because the model was a failure, but because the conditions have changed. Social democracy has fulfilled its purpose well in a singular phase of Swedish history but must step down as a driving force as Sweden becomes just a small part of a large block of capitalist states. There is no room in this scenario for a specific Swedish profile.

There is another possible scenario, brighter but less likely to materialize. The increasing opposition to the concept of a super-national, centralized European organization can force its architects to modify their original plans. National states may in that case be in a better position to adhere to their own commitments and priorities.

If Western Europe is continuously hit by mass unemployment, an alternative model which aims at full employment and equality can attract attention in other countries. The precondition is that the Swedish labour movement is strong enough to restore the original model, to eliminate unemployment, to stop the dismantling of the welfare system, to find generally accepted norms for the wage policy of solidarity, and to support its wage policy by some kind of collective capital formation. I do not conceal my own preferences. The concept of a society which is built on moral values is, in my view, too promising to be extinguished by inhuman market forces.

NOTES

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3. Quoted from the English transition in Tilton, op. cit.
4. Olsen, G.M., *The Struggle for Economic Democracy in Sweden,* Avebury, 1992.
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8. *Trade Unions and Full Employment,* A Report delivered to the 1951 LO Convention, Stockholm 1953. For a survey of the Swedish labour market policy see Standing, G., Unemployment and Labour Market Flexibility: Sweden, ILO, Geneva 1988.
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15. Pontusson, J. & Swenson. P., ***Markets, Production, Institutions and Politics: Why Swedish Employers have Abandoned the Swedish Model,*** Paper prepared for Eighth International Conference of Europeanists. The Council for European Studies, Chicago, March 1992.