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THE RISE AND FALL OF THE "SWEDISH MODEL"

Stefan de Vylder[1]

Introduction

In 1870, Sweden´s per capita income was less than half of Britain´s, and well below the average of Northern and Western Europe. Over three-quarters of the population eked out a meagre existence from semi-arctic agriculture. Rapid population growth put severe pressure on the carrying capacity of the land, and large parts of the country were subject to massive deforestation and environmental degradation. Between 1850 and 1910, over one million Swedes, out of a population of around four million at that time, emigrated, mainly to North America, in search of a better life.

Today, Sweden is one of the richest countries in the world. In terms of human development, UNDP´s Human Development Index (HDI) gave Sweden a respectable fourth place in the 1991 *Human Development Report* (HDR). In the gender-disparity-adjusted HDI of the HDR of 1992, Sweden improved its rank to number one in the world.

The main purpose of this country study is to summarise the major reasons for this spectacular and sustained success in economic and social development, and to discuss, as a background paper for the 1996 *Human Development Report*, the inter-linkages between macroeconomic development, political and institutional development and human development. Since the early process of industrialisation and modernisation may be of some general relevance, the historical part is given considerable attention.

By and large, the period 1870-1970 can be regarded as an almost uninterrupted success story. However, the expression "the Swedish model", occasionally used in this paper, basically refers to the period between the late 1930s and the early 1970s. During this period, Swedish society did exhibit certain rather unique features. In the last two decades, Sweden has lost her uniqueness; a number of countries have reached, or passed, Sweden´s per capita income, and Sweden´s welfare system today contains few features which cannot be found in many other countries. What remains as unique is the highest tax burden in the world.

Sweden´s entry, in January 1995, into the European Union is likely to reduce the differences between Sweden and other EU members further.

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[1] Valuable assistance has been provided by Mats Svensson.

Lack of economic growth has also served to erode the welfare system in recent years. During the last two decades, economic growth has been sluggish, and since 1991, a severe economic recession has hit the country. Per capita income has declined for several consecutive years, and is today lower than the average for the Europan Union. Unemployment has reached its highest level in sixty years. The traditional welfare system is being seriously questioned and transformed, and new solutions to new problems are being sought.

The indicators of human development used by UNDP in the HDI calculations—such as life expectancy, adult literacy, and infant mortality—are, of course, largely unaffected even by a deep recession in one of the richest countries in the world, although progress in other countries has made Sweden slide down on the global HDI ranking. There are, however, other "softer" indicators of human development that are less resilient to crisis. In a concluding section, an attempt will be made to use certain non-conventional human development indicators to illustrate the relationship between negative growth, increasing inequality and deteriorating human development in a highly developed industrialised country like Sweden.

Part I. Historical Background: Sweden 1870-1960

1870-1930: Export-led industrialisation and transition to democracy

While historians normally take the 1870s as the starting point for Sweden´s industrialisation and economic transformation, important changes were underway much earlier, especially within the agricultural sector[2]. One crucial prerequisite for these changes was the enactment of various enclosure laws that shifted land into more homogenous plots. Before the reforms, each farmer would possess many different plots of land, often situated at long distances from each other. While these reforms served to establish stricter property rights, putting an end to unsecure and disputed tenancy and open access systems for cattle raising, they aggravated the employment problem for landless agricultural workers. The number of people wanting to leave the countryside, and even the country, therefore increased, as did the supply of labour in non-agricultural sectors. From a short-term perspective, landless or semi-landless peasants and agricultural workers were the main losers of the enclosure laws, while small and medium-sized family farmers—who constituted the very backbone of Swedish agriculture—were the winners.

An important consequence was that the land tenure reforms encouraged more intensive production techniques, and rising productivity in agriculture. In fact, progress was so rapid that Sweden developed into a large net exporter of grain between the 1850s and 1880s.

Another factor which helped to lay the foundation for the rapid economic growth of the last decades of the 19th century was the gradual development of a financial system, with commercial banks being relatively well developed already by the mid-19th century.

[2] A brief but useful summary is provided in Södersten (1991).

Helped by declining transport costs and by the booming construction industry in England, timber and wood products also developed into important export products beginning in the mid-19th century. The forestry sector thereby supplemented Sweden´s traditionally heavy reliance upon iron ore exports.

During the entire period, Sweden´s terms of trade developed favourably.

The export sector remained the "engine of growth" until the Great Depression of the 1930s. Technological innovations greatly helped to reduce costs, and diversify production. Domestic manufacturing based on iron, timber and other Swedish raw materials developed rapidly, thereby increasing employment and value added in the export sector (unemployment remained high until the 1910s, however). For example, the development of the paper and pulp industry demanded a more advanced technology, and more labour power, than the simple timber and sawmill products that were exported earlier. Similar developments took place in the mineral sector; instead of exporting iron ore, Swedish exports of steel products expanded rapidly.

Trade policies became increasingly outward-oriented. Import deregulation and trade liberalisation was initiated in the 1840s and 1850s, and further steps were taken in the 1860s, with free trade at its peak. The trade policies pursued by Sweden and her major trading partners provided strong incentives to a dynamic development of both exports and imports, although a protectionist wave reached Sweden and the rest of Europe in the 1880s and 1890s.

During the entire period, between 1873 and until World War I, the Swedish authorities adhered to the gold standard, and the Swedish currency was pegged to major international currencies with a fixed exchange rate. Naturally, this provided Swedish traders with a unique stability as regards the exchange rate regime.

A class of highly successful industrial entrepreneurs developed, and rising real incomes on the domestic market supplemented the traditional reliance upon exports. Unlike many of today´s developing countries, Sweden can be said to have pursued a development strategy based on successful export promotion followed by import substitution.

While Sweden managed to stay out of World War I, demand for Swedish exports remained strong. A number of products based on domestic technological innovations—such as ball bearings, matches, telephones, vacuum cleaners, and others—were highly successful on the world market. Not surprisingly, Swedish producers of gunpowder, dynamite and arms also profited.

A striking feature of Sweden´s export-led development between 1870 and 1930 is the fact that the lion´s share of the revenue was invested domestically. This was done either by the exporters themselves, or by the state, which through the tax system managed to appropriate the rents from profitable exports.

The fact that Sweden all through the 19th century had developed a tradition of a comparatively competent and honest civil service, with high prestige and salaries, contributed to create a constructive atmosphere between the state and the emerging class of entrepreneurs. Corruption appears to have been quite limited, and cooperation between the public administration and industry was regarded as something completely natural.

The capital generated by the booming export sector was complemented by large-scale international borrowing before and around the turn of the century. Capital import exceeded, on average, three per cent of GDP between 1870-1910. While interest payments on the foreign debt often amounted to 10 per cent of exports during this period, the payment capacity was never in danger, and Sweden therefore never suffered from a "debt crisis". Most of the capital that was imported was used to finance directly and indirectly productive investments, not least in physical and social infrastructure.

The danger of a debt crisis was also reduced by a series of fortunate circumstances which enabled Sweden to repay most of its foreign debt accumulated between 1880 and 1913 during and after World War I, at inflationary prices in depreciated currencies.

The overall and sectoral growth of the Swedish economy during this period is shown in table I.1. The figures are far from spectacular; what is most striking is rather the fact that the rate of growth was stable, and sustained, over such a long period of time.

Table I.1. Sectoral Growth of Production in Sweden 1870-1930. Annual averages.

Sector	1870-90	1890-1910	1910-1930
Manufacturing	3.6	5.6	4.0
Agriculture	1.5	1.4	0.7
Construction	2.1	1.4	3.5
Trade	2.4	3.3	3.4
Transport	5.9	5.5	4.3
Housing services	1.1	1.3	1.3
Public administration	1.6	1.3	1.3
Total	2.1	3.1	3.1

Source: Krantz and Nilsson, Swedish National Product 1861-1970 (1975), quoted by Södersten (1991), p. 18.

Human development

While human development lagged behind the high rate of economic growth in the last decades of the 19th century, substantial progress was made in many areas (see Tables I.2 and I.3 below). Various health indicators reveal a steady improvement, as did the general level of education. Already in 1842, legislation about mandatory primary education ("folkskola") was promulgated, thereby replacing older legislation from 1686 which had given the Church the sole responsibility for giving Christian education to all Swedish children. While the coverage of primary schools was far from complete in all parts of the country, there are many indicators showing that the vast majority of Swedish children did learn to read and write as early as in the 1840s. Already before that, the Church had made a substantial contribution to the reduction of illiteracy even among the poorer strata of the population.

The expansion of Swedish primary education between 1850 and 1900 is illustrated in Table I.2. below.

Table I.2. Number of primary school pupils and teachers in 1850 and 1900.

	1850	1870	1900
Number of pupils	270,000	556,000	690,000
Number of teachers	3,500	7,800	13,500
Pupils/teacher	77	71	51

Source: 1850: Nationalencyklopedin, Vol. 6, p. 485.
1870 and 1900: Johansson, Egil (1972).

The amazing development of literacy in Sweden in the middle of the 19th century is shown in Table I:3.

Table I.3. Reading Capability, per cent of Swedish Adult Population 1845-1900.

Year	Reading Capability, %
1845	60.8
1852	81.5
1862	97.4
1875	99.0
1895	99.9

Source: Egil Johansson (1977). Data from 1875 and 1895 are based on reading capacity of male recruits to the (obligatory) military service.

Technical education also expanded rapidly. Two technological universities were established in the late 19th century, and the number of Swedish civil engineers was around 3,500 in 1914. The number of students in technical vocational schools increased from 2,000 in 1870 to over 10,000 in 1910 (Myhrman, 1994, p. 87).

While iron ore and timber often get most of the credit for Sweden´s rapid economic development in the late 19th and early 20th century, the introduction of obligatory primary education a few decades earlier, and consistent efforts to expand the number and quality of vocational schools and higher education, may deserve at least as much credit. Despite widespread poverty and deprivation, the Swedish people´s overall level of education was, in the late 19th century, appreciably better than in most other parts of Europe.

The development of certain human development indicators in 1870-1930 is shown below.

Table 1.3 Human Development Indicators in Sweden 1870-1930.

	1861-70	1891-1900	1921-30
Annual rate of population growth	0.76	0.71	0.39
Birth rate (per 1,000)	31.40	27.14	17.51
Death rate Per 1,000)	20.16	16.36	12.07
Infant mortality (0-1 year) per 1,000 live births	139	102	59
Life expectancy at birth			
Males	43	51	61
Females	46	54	63
Adult literacy rate, % of adult pop.	98	99.9	99.9

Sources: Demographic data: National Central Bureau of Statistics, Historical Statistics of Sweden, Part 1, Population 1720-1967, Stockholm 1969, and (literacy) Egil Johansson (1977).

Political developments

The transition from monarchy and semi-parliamentarism to parliamentary democracy with only a symbolic role for the royal family was a gradual process. In 1907, universal and equal franchise for the Second Chamber of Parliament ("Riksdagen") was introduced, as well as a certain democratisation of the First Chamber, still dominated by the aristocracy. In 1921, the transition to full parliamentary democracy was completed, as both the King and the First Chamber of Parliament were forced to accept woman suffrage and universal and equal franchise for elections to both chambers, and in local elections.

The first genuinely free elections, in 1921, were won by the Social Democratic Party, founded in 1889, which formed a minority government lasting until 1926.

1930-1960. The crisis of the 1930s and the growth and consolidation of the welfare state

The Great Depression and its aftermath

Like most other countries, Sweden suffered severely during the Great Depression of the 1930s. Unemployment, which was around 12 per cent in 1930, rose to 34 per cent in 1934, which in combination with reductions in wages caused a series of strikes and other social conflicts.

The general elections of 1932 resulted in a victory for the Social Democratic Party, and, to some extent, for the Farmers´ Party. The new Social Democratic government offered a comprehensive package of measures, including massive public works and extensive state support to the crisis-ridden agricultural sector, to fight the crisis. After an agreement was reached with the Farmers´ Party, the policy was implemented as from 1933.

Partly as a result of the crisis policy, and of a fortunate depreciation of the Swedish Krona initiated in 1931 when Sweden decided to leave the gold standard, Sweden was able to overcome the economic downturn more rapidly than most other countries. In 1935, the volume of Swedish exports exceeded its pre-depression level, and by 1936, both real wages and the level of production had done the same. By the end of the decade, unemployment had become insignificant. The golden age of the "Swedish model", with several decades marked by low unemployment, Social Democratic political hegemony and consolidation of the welfare system, had begun.

The 1930s can be seen a a decade of preparation for the coming welfare state, with the Social Democrats preparing a large number of radical bills for social reform. The Social Democrats´ political programme also included an enhanced role for the state in the regulation of the economy, and nationalisation of key enterprises, including the large commercial banks. Although the Great Depression, and later rising military expenditures and the Second World War, forced the government to postpone many of the social and economic reforms, the foundation was laid for the "Swedish model", and the post-war period witnessed the adoption of comprehensive welfare legislation concerning, among other things, old-age pensions, child allowances, rent allowances and subsidised housing, education reforms, and a health insurance programme.

Partly as a result of remaining war-time regulations, the post-war period was also characterised by selective state controls and interventions in key areas, such as the housing sector (with a rent control partly in force even today), interest rate and credit controls, and foreign exchange restrictions. Price controls, gradually dismantled during the coming decades, were also prevalent.

Most of the Social Democrats´ proposals for a drastic change in the "rules of the game" of the economy—such as a nationalisation of the large commercial banks, and of a number of other key enterprises—were, however, never implemented. Swedish banks and industries thus remained predominantly privately owned, and nationalisation programmes have never since come back to the Social Democratic political programme.

The Post-war boom

Since Sweden managed to remain neutral also during World War II, with the entire industry and infrastructure intact, the Swedish economy was well equipped to profit from the post-war international recovery. Unlike the situation after World War I, no international recession followed upon the peace in 1945, and demand for Swedish export products was exceedingly strong. The Korean War in the early 1950s gave further stimulus to Swedish exports, while at the same time giving rise to a temporary surge of inflation, hitherto very low.

While traditional export products like iron ore and timber remained important, the earlier tendency towards more skill-intensive industrial processing based on domestic raw materials

accelerated. Engineering products—not least from a couple of rapidly expanding automobile industries—increased their share of total exports to over 40 per cent by the early 1960s.

Despite declining agricultural production, the 1950s witnessed rapid economic growth. In addition to manufactured exports, various domestic sectors, such as public administration, housing services and trade and transportation, showed dynamic growth.

Table I.5. Sectoral Growth of Production in Sweden 1930-1960. Annual averages.

Sector	1930-50	1950-60
Manufacturing	3.8	3.9
Agriculture	1.1	-0.4
Construction	2.5	2.3
Trade	1.5	3.7
Transport	3.8	3.9
Housing services	2.1	5.7
Public administration	3.0	3.5
Total	2.6	3.4

Source: Various official sources, quoted in Södersten (1991), p. 18.

What is striking, again, is the stability of the Swedish success story. Decade after decade since the 1870s, the economy grew by two to three per cent per year; in the 1950s even slightly faster. The key factor was, of course, rising productivity; from 1870 to 1870, Swedish output per man-hour rose seventeen-fold, the highest growth rate among sixteen OECD data for which comparable data are available (Table 1.6).

Table 1.6. Annual Growth in GDP per Man-Hour 1870-1970.

	1870-1970	1870-1913	1913-1950	1950-1970
Sweden	2.89	2.32	2.84	4.20
OECD average (unweighted)	2.26	1.64	1.82	4.46

Source: Davis & Henrekson (1995), based on Maddison (1982).

Behind this development lie a number of factors, some of which have been touched upon earlier, e.g.:

- a comparatively high level of general education;
- good export markets and good luck with international demand; rapid technological progress and a series of successful innovations;
- the rise and consolidation of a production-oriented class of entrepreneurs;
- neutrality during two world wars;
- a crisis policy during the 1930s which helped to reduce the impact and duration of the recession.

All this was important. Still, perhaps even more important was the socio-political and institutional development, in a broad sense, which helped to underpin the sustained economic growth that took place. But before situating the discussion in a Swedish historial perspective, a few words may be said about the role of institutions in economic growth.

Inter-linkages between economic growth, institutions and social capital

While the complex nature of the many different factors behind economic development remains poorly understood, the early emphasis on physical capital formation has, in modern growth theory, been replaced by a number of variables which have one thing in common: they are more related to "software" factors, at the expense of machinery and equipment. In particular, human skills have emerged as the perhaps most important factor of production. It thus appears as if indicators such as primary school enrollment, literacy, etc. are robustly correlated to economic growth. The gender aspect of education also appears highly relevant in this context; in countries where girls are not discriminated against in the educational system, there appears to be an even stronger correlation between general education and economic growth.

Together with the increased emphasis on human rather than physical resources, modern growth theory has also directed attention to a number of institutional and socio-political factors which may accelerate—or decelerate—the growth process. In particular, the role of sound governance has received increased attention. In most interpretations, sound governance must include proper macroeconomic management and a coherent and enforceable legal framework establishing the rules of the game of the economy. In recent years, catchwords like transparency, predictability, accountability, and others have also been rising to prominence in the development debate.

Stimulated and enriched by disciplines outside mainstream economics, the role of institutions and of civic society has become increasingly acknowledged by development economists. Influential economists such as the Nobel prize laureate Douglass North have provided an analytical framework in which the gradual emergence of efficient institutions, rather than investment in machinery and equipment, is regarded as the key to development. In this neo-institutional approach, capital formation can be seen as the effect of development rather than its cause: good institutions come first, while savings and productive investments follow.

Others, like Robert Putman, have stressed the role of a strong civil society as a factor underpinning sustainable economic growth. The essence of civic engagement is that it is based on voluntary participation and horizontal interaction, and networks of civic engagement - whether in sports clubs, neighbourhood associations, trade unions or other grassroots organisations - are key components of social capital. "The denser such networks in a community", comments Putman in his already classical work on the role of social capital in Italy´s economic development, (1993, p. 173), "the more likely that its citizens will be able to cooperate for mutual benefit".

It is still too early to attempt a synthesis of the "new theory of growth and development" which appears to be emerging. The trend is clear, however: a more multidisciplinary approach to development is gaining ground, signifying, among other things, more emphasis on people, ideas and institutions, and less on money and factories. A reformulation of the role of capital is a convenient starting point.

Part of a society´s capital is easily visible: factories, roads, schools, hospitals, universities, telecommunications, etc. But there may also be other, less tangible, forms of capital that constitute a crucial complement to physical and infrastructural capital: parliamentary democracy, a free press, respect for human rights, norms for social interaction, systems for rapid dissemination of new ideas, trade unions and a myriad of other large or small social organisations, a judiciary system which, by and large, defends law and justice, etc. This latter form of capital may be called institutional or social capital (the latter will be used in this paper to include institutional capital).

Following the distinctions made above, a society's total capital can be divided into different categories. Apart from natural capital (arable land, mineral resources, etc.) we have financial capital, that can be used to consume or invest. We have directly productive capital: machinery and equipment, etc. We also have infrastructural capital, and human capital. Finally, we have norms, institutions, networks, organisations, traditions and attitudes which together constitute a society's social capital.

To be rich in social capital can be seen as an end in itself - such a society is, by all criteria, more pleasant to live in than a society where the social capital is weak, or eroding. Social capital can also be regarded as a means, as social capital makes the use of other forms of capital both more equitable and efficient. Transaction costs are drastically reduced when people trust each other, when contracts are enforced, when the legal system is honest and when economic policies are predictable.

If we return to Sweden we may, after this brief digression, interpret Swedish economic history between 1870 and 1970 in a slightly different light. Without downgrading the role traditionally assigned to iron ore, timber and technological innovations, a discussion about political and institutional aspects may lead to the conclusion that Sweden can be regarded as a country with a very fortunate combination, or balance, of various forms of capital necessary for economic and social development.

As indicated earlier, the booming export sector based on Sweden´s natural resources served to finance massive infrastructural and social investments already in the late 19th century, in addition to financing directly productive investments and technological innovations. Through taxes and other measures, Sweden´s natural capital was thus transformed into other forms of capital, rather than being dissipated in the form of rents. One important reason behind this development was the growing strength of the Swedish labour movement, and of a large number of voluntary associations and grassroots organisations which reinforced popular participation. In most cases, these organisations served as "school in democracy", and many also acted as strong pressure groups in favor of social justice, symbolised by the non-excluding character of the social services offered, and financed, by the public sector.

The spectacular progress in primary education in the late 19th century—for both boys and girls—with adult illiteracy virtually eliminated, deserves to be stressed in particular. By all international standards, Sweden was, at the turn of the century, a country with a very well developed human capital base.

The public administration, traditionally characterised by honesty and a sense of working for the public good, appears to have made rather good use of most of the tax money.

Domestic political and social developments also greatly facilitated the accumulation of other forms of capital, such as good institutions and a strong, active and responsible civil society.

Socio-political and institutional development in sweden

At the political level, Sweden since 1870 must be regarded as one of the least dramatic and violent countries in the world. Major political events—such as the dissolution of the union with Norway in 1905, and the transition to parliamentary democracy during the first two decades of the 20th century—took place after heated debates, and the struggle for political democracy and universal franchise was accompanied by street demonstrations, political strikes and political repression. Still, bloodshed was minimal, and the number of political prisoners easily counted.

The crisis programme of the Social Democratic Party in the 1930s was subject to scathing criticism from the right-wing opponents, and the Social Democrats were forced—not too reluctantly— to abandon their nationalisation plans, but the basic concept of the welfare state gained widespread acceptance. Also, the subsequent rise to political hegemony of the Social Democrats in Swedish party politics signified that extremist movements to the left and to the right remained marginalised.

To this picture of relative tranquility in domestic politics may be added that Sweden—with a successful combination of skill, luck and opportunism—has managed to avoid wars ever since 1809, when Sweden was defeated by Russia and forced to surrender Finland after a short war.

Sweden´s political stability has, by and large, been matched by a remarkable stability as regards the basic "rules of the game" of economic management. While the conflict between the Social Democratic Party´s socialist ambitions and inclination towards state interventions, on the one hand, and the liberal and conservative parties´ basic trust in a free market economy on the other has been present ever since the 1890s, and often given rise to virulent polemics, the threat of nationalisations has never been credible enough to stop the Swedish bourgeoisie from investing. And even those who were more afraid than they had reason to be had few alternatives, given the rather strict regulations against capital exports that were in force until quite recently.

The major political issue in the 1950s was the question of compulsory pension for all employees. For the Social Democrats, it was a matter of principle to make the pension system non-excluding and compulsory, and the reform was labelled the most important reform during the entire century. The center-right opposition, on the other hand, fought the proposal energetically, arguing that state control over the huge pension funds that were to be accumulated would signify a step towards socialism. In 1959, the bill was finally enacted, and was eventually accepted by all major political parties during the 1960s and 1970s.

The Social Democrats have consistently pursued an open trade policy. Sweden´s traditionally heavy dependence upon foreign trade has, by and large, served to prevent protectionist experiments; in this respect, there has been a broad consensus among all major political parties.

With the exception of a few periods, Swedish mecroeconomic management was characterised by stability (until the 1970s). Most of the business cycles were imported. Although Sweden, as a small, open economy, was and remains highly dependent upon external economic developments, the impact of international economic downturns was rather shortlived. Even the "booms" were generally handled with prudence; somewhat schematically, one could say that Sweden managed to take advantage of favourable external economic developments and convert these into sustainable domestic development. On several occasions, Sweden simply benefited from good luck.

The various Social Democratic governments which ruled without interruption in the 1930s, 40s, 50s and 60s—at times, in coalition with the Farmers' Party—were characterised by a firm belief in the importance of fiscal discipline, restrictive monetary policies, and a low rate of interest. The rate of interest was strictly regulated, and large amounts of credit were channelled to priority areas, mainly house building. In a situation of full employment, rapid economic growth and a long-lasting boom in the construction sector, the government felt compelled to extend credit market regulations in several steps, and it was not until the 1980s that the credit market began to be deregulated again (for a discussion, see, for example, Davis and Henrekson, 1995).

While the Farmers' Party was willing to compromise on a number of issues, they were always unconditional in their demand for a policy based on low interest rates.

Another cornerstone of the "Swedish model" was the largely successful attempt to combine fiscal restraint with an active labour market policy. In order to make the labour market more flexible, reduce open unemployment and accelerate the restructuring of the economy, generous allowances were granted workers who became redundant and accepted to undergo retraining, or to move to other sectors or geographical regions. Thus, while the lowering of general demand pressure would create pockets of unemployment in stagnating sectors, these problems should be solved by selective measures designed to either create new jobs or to reallocate manpower—often, after vocational training—to expanding sectors and firms (a good discussion is found in Bergström, 1992).

One conclusion from this brief overview is that one prerequisite for sustained economic development—a minimum of political stability, sound governance, macroeconomic responsibility, and accountability to the citizens—was met during most of the period. We may also add that the legal and institutional framework that developed proved highly beneficial for economic development.

While it would be an exaggeration to call the relationship between all major actors—trade unions, employers, government, political parties, and others—consistently harmonious, there developed a high degree of consensus and mutual understanding between the different interest groups. The basic concepts of the welfare state were accepted by almost all, as were state interventions to a number of key institutions and activities in support of economic development (such as research, higher education, basic infrastructure, an active labour market policy, and others).

In this context, the cooperative atmosphere that for many decades characterised relations between the central trade union for blue-collar workers, Landsorganisationen (LO, founded in 1898), and the Swedish Employers' Federation (SAF) deserves to be stressed in particular. The extremely high degree, by international standards, of unionisation of the Swedish labour

force—traditionally, well over 80 per cent of all Swedish wage earners belong to a trade union—contributed to give the unions a high degree of legitimacy and responsibility. For many decades, between the late 1930s and until quite recently, the Swedish labour market was characterised by a few strong labour markets organisations which acted under great freedom without government interventions, and with credible and effective institutions capable of solving threatening conflicts with peaceful compromises. Major strikes or lockouts were, and are, infrequent.

The fact that unemployment remained insignificant all through the 1940s and 1950s (and 1960s) made it possible to make organised labour accept even rather harsh measures, such as rapid industrial rationalisation and mechanisation, fiscal discipline, and a labour market policy which forced workers to move from stagnating to expanding sectors and regions.

Compared to many other countries (England, for example) Swedish trade unions have had a consistently favourable attitude towards technological progress, even when employment has temporarily suffered. As early as in the 1920s, for example, the central trade union, LO, declared the following: "Trade unions should promote the planned development of industry, its structural rationalisation into larger units, the financial reorganisation, and the substitution of old machinery and methods by new plants and innovations." (quoted by Hjalmarsson, 1991, p. 254). While this and similar views may have reflected a remaining legacy of Marxist thought (Swedish Social Democracy has fully embraced only one aspect of Marxism: an enthusiastic belief in technological progress and in large-scale enterprises) it was not difficult to reconcile this position with that of the major industrialists.

The comparatively harmonious relations between the few and centralised labour market organisations since the late 1930s may be used to illustrate a general characteristic of Swedish society: an ability to resolve social and economic conflicts in a way that does not give rise to "winners", "losers" and lasting bitterness. Strong and responsible civil organisations, and a comparatively equal distribution of income, are other factors which may explain the remarkable social peace that accompanied Sweden´s transformation from a poor, agrarian economy to a highly developed industrial nation in a rather short period of time.

It should also be stressed that as a proxy for the existence of social capital in Sweden, we may mention the active participation of people in a wide variety of civic associations—sports clubs, temperance societies, study circles, charity organisations, political and religious organisations, parents´ associations, consumer cooperatives, farmers´ unions, cultural associations, birdwatchers´ associations, etc. All such organisations have, as indicated earlier, longstanding traditions in the Swedish society. Although good data on membership in civic associations from earlier times is scant, as an indicator of the massive involvement by the Swedish people in civic organisations, it may be mentioned that in 1992, every adult Swede was a member of 2.9 different associations, on average. 51 per cent of the population regarded themselves as "active" in one or several associations, and 29 per cent held some kind of elected position (Source: Statistics Sweden, Society Activities in Sweden - a Statistical Illustration, 1993).

A traditional Swedish institution which has been copied in several other countries, the *ombudsman*, with the duty to investigate citizens´ complaints of bureaucractic abuse, can also serve to illustrate one aspect of civil society´s control of the rulers. The ombudsman office originated as

early as 1810, and his scope of authority covers all government institutions and agencies. The ombudsman is supposed to be an independent, impartial arbiter between government and the individual, and although his power is solely recommendatory, the institution carries considerable prestige, and has contributed to make public administration more accountable to the citizens.

As for human capital, universal and obligatory primary education was, as indicated earlier, a goal already in 1842. As the tax base increased towards the end of the 19th century, more and more resources were devoted to education, and higher education expanded rapidly. The accumulation of human capital and of skill-intensive industrial production went hand in hand; while demand for skilled labour increased continuously, a flexbile educational system, not least a large number of vocational schools, guaranteed the supply.

The development of health indicators in 1930-60 also stands out as highly positive.

Table I.7. Demographic Trends and Health Indicators, Sweden 1930-60.

	1931-40	1941-50	1951-60
Annual rate of population growth	0.37	1.00	6.30
Birth rate (per 1,000)	14.45	18.46	14.70
Death rate (per 1,000 live births)	11.67	10.44	9.68
Infant mortality (0-1 years) per 1,000 live births	46	28	18
Life expectancy at birth			
Males	64	68	71
Females	66	71	74

Source: Same as Table I.3.

Sweden 1930-60: Concluding remarks

The dramatic progress made in human development in 1930-60 was financed by large increases in public expenditures on health, education and other social services, and by a high and accelerating rate of economic growth. Contrary to many other countries experiencing rapid growth, Sweden was remarkably successful in combining growth with equity, mainly as a result of three circumstances:

- An obligatory and free primary education system which guaranteed a decent educational level for all;

- All through the 1940s and 1950s, Sweden managed to maintain full, or near full, employment;

- The progressive tax system, in combination with a general welfare system and targetted support to the most needy, resulted in a substantial redistribution of income, and in a safety net for particularly vulnerable groups.

To summarise, balance appears to be a word that covers several aspects of Swedish developments 1930-60. The balance achieved between different forms of capital—natural capital, financial capital, infrastructural capital, directly productive capital, human capital and social capital—proved highly beneficial for both economic growth and human development. Despite the political hegemony exercised by the Social Democrats during the entire period, the spirit of the ombudsman and a strong civil society served to safeguard a pluralistic society, and to guarantee that accountability was exercised "from below".

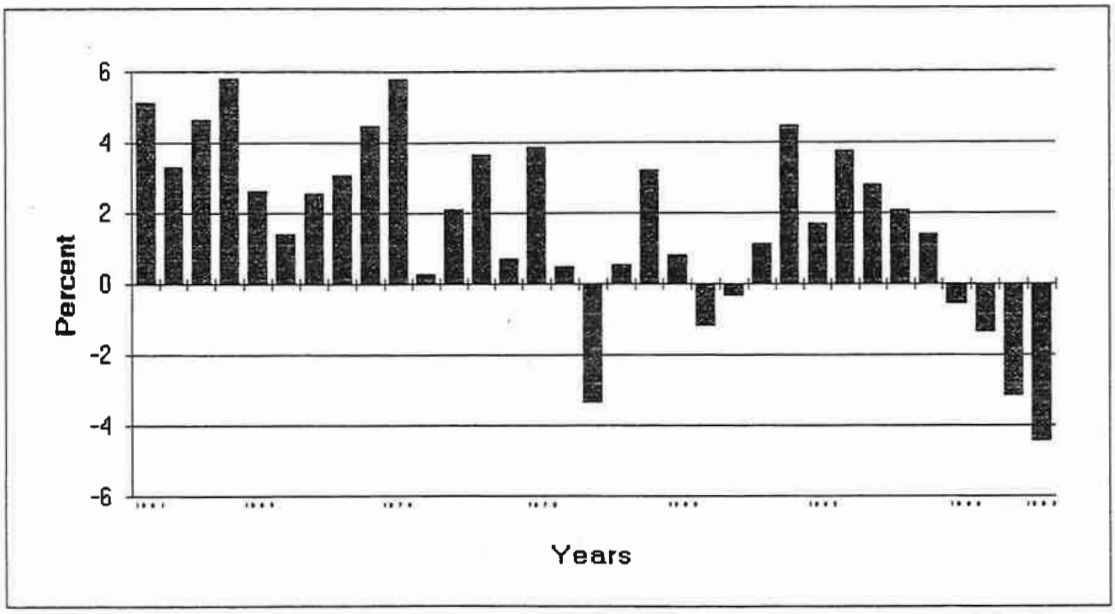
Part II. Swedish Developments 1960-1994

1. Macroeconomic policies and trends

Overall trends

As seen in Graph II:1, the period 1960-94 can be divided into various phases, with quite particular characteristics.

Graph II:1. Growth of real GNP per capita. Sweden 1961-93.



Sources: Statistics Sweden (1975, 1981, 1985 and 1994) "SM 1975:98", "SM 1981:2.5", "N10 SM 8501" and "N10 SM 9401".

The key watershed can be dated to 1973-74, when the collapse of the old Bretton Woods system and the stable exchange rate regime, accompanied by a surge in international inflation, rising oil prices, an international energy crisis and declining growth in most OECD countries, exposed the trade-dependent Swedish economy to a series of external shocks. For reasons that will be further discussed below, the Swedish economy failed to adapt to deteriorating external conditions in a smooth and flexible way, and the period 1975-95 has been characterised by stagnating growth and a number of other symptoms of economic malfunctioning. The situation has aggravated since 1990, with the deepest recession affecting Sweden since the 1930s.

It may therefore be convenient to divide the 1960-94 period into two distinct phases: 1960-74, and 1975-94.

Economic Policies 1960-74

With the foundations laid in for the Swedish welfare state during the preceding decades, the 1960s basically represented a decade without major new socio-economic reforms, but with a quantitative expansion of the existing system.

The "strong society"—read: strong state—became, in the 1960s and early 1970s, the official Social Democratic catchword aimed at summarising the public sector´s responsibility for giving all citizens a good life. The welfare components of the "strong society" were symbolised by a spectacular growth of transfer payments of varous kinds: family allowances, housing subsidies, sickness benefits, generous unemployment compensation, early retirement allowances, and others. The 1960s also witnessed a steady growth of public expenditures on education, health and other social services.

In 1970, the share of public expenditures to GDP has reached 43 per cent, and it continued to rise.[3] Of this 43 per cent, around 10 per cent was spent on health, and another 8 per cent on education.

Exports developed favourably, and the high rate of economic growth enjoyed in the 1950s accelerated further in the next decade. Between 1960 and 1969, industrial production increased by an outstanding 70 per cent, and labour productivity in industry with a similar figure (in absolute numbers, employment in manufacturing industry peaked in the mid-1960s, and has continually declined since then). The annual rate of growth of per capita income reached almost 4 per cent over the decade.

As in the preceding decades, macroeconomic policies were, by and large, successful. Demand management within a classical Keynesian framework dominated policy-making, and all through the 1950s and 1960s, fiscal policies do appear to have had a countercyclical effect (for a good discussion see, for example, Lindbeck, 1975, chapter 5). In textbooks in economics from the 1960s, students were told that business cycles belonged to the past, and that politicians, equipped with modern economic theory based on Keynes, had learned to handle both inflation and unemployment.

The overriding objective of monetary policies was to maintain a low rate of interest, and to channel credit into priority areas (not least to the housing sector, which through a variety of selective interventions received a privileged share of loanable funds).

Trade policies were, as always, liberal. Within the framework of EFTA (European Free Trade Association), GATT and other international organisations, Sweden continued to pursue continued trade liberalisation.

Sweden did maintain, however, a rather strict control of foreign exchange movements, primarily on capital account transactions. With a fixed exchange rate vis-a-vis all major trading

[3] Throughout this paper, the expression "public expenditures" includes spending by municipalities and local government. When reference is made to the state budget, or to the fiscal deficit, only central government is considered.

partners between 1949 and the mid 1970s, the governments did not have to bother about exchange rate policies. The current account deficit run during most of the period 1960-75 was comfortably financed with foreign borrowing.

The 1960s and 1970s witnessed a tendency towards a more active state industrial policy. In the name of job protection, regional balance, or technological progress, selective state interventions in support of industrial development became increasingly common. Towards the end of the 1960s, when left-wing radicalism came to have a certain influence within trade unions and the Social Democratic Party, an active industrial policy was also, in some circles, regarded as a step towards "socialism".

Private productive investment was stimulated through a rather sophisticated system of tax and depreciation regulations, some of which could also be used for countercyclical purposes. For example, special tax privileges were granted if enterprises set aside profits to so-called "investment funds" during good times in order to invest later, when government thought that aggregate demand needed to be raised.

While high industrial profits were accepted, or even encouraged, by the Social Democratic governments, the tax system was thus designed in a way that gave strong incentives to reinvestment. The industrial entrepreneur was supported, while the "rentier" was punished with increasingly high taxes on distributed dividends and capital gains.

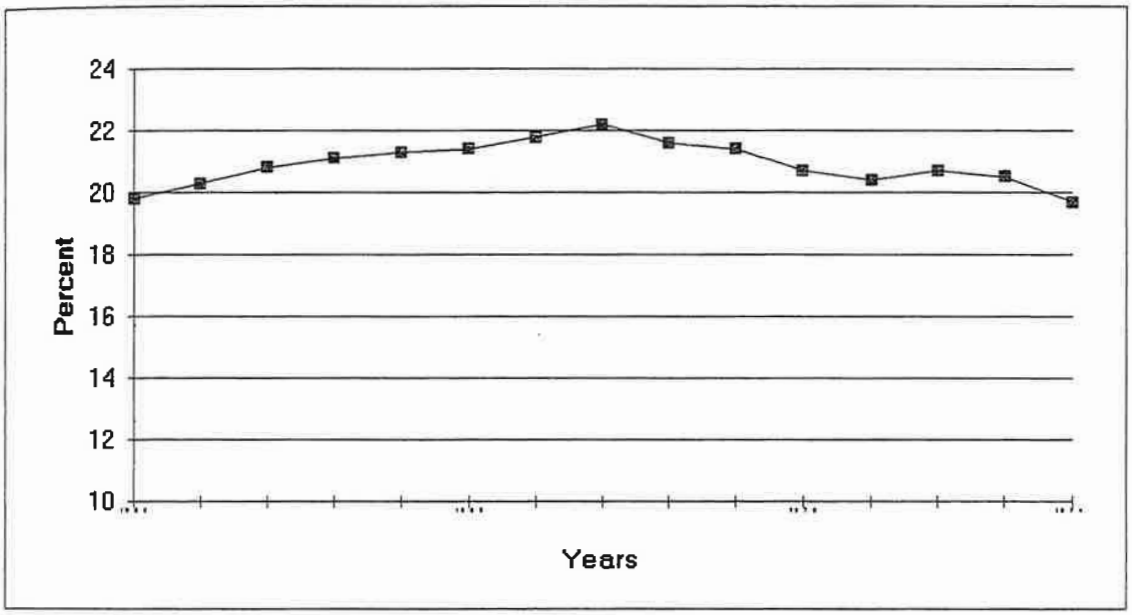
Tax policies, and industrial policies in general, favoured large-scale enterprises. To a large extent, the "Swedish model" was based on strong, centralised trade unions and by a strong, centralised employers' association dominated by the large transnational companies. Consecutive Social Democratic governments firmly believed in large corporations and organisations, and the Swedish economy became heavily concentrated as regards both ownership and productive structure. While this policy may have been functional during a certain period, it also resulted in discrimination of newcomers, and a very low rate of entry of new firms.

To indicate the dominance of large-scale corporations, a comparison between the distribution of employment according to firm size reveals that in 1986, enterprises with more than 500 employees accounted for 60.6 per cent of total private sector employment in Sweden, compared to an average of 30.4 per cent in the European Community (for data and an interesting discussion, see Davis and Henrekson, 1995).

According to a recent study, less than 1 per cent of all state support to private manufacturing enterprises went, in the early 1990s, to companies with less than 25 people employed (source: LO-Tidningen 22 September 1995). Although comparable studies from earlier periods are lacking, there is reason to believe that the situation was similar during the previous decades.

Gross investment during the period 1960-74 was not particularly high by international standards—around 21 per cent of GDP, on average—but remarkably stable (see Graph II:2).

Graph II:2. Gross fixed capital formation as per cent of GDP. Sweden 1960-74.



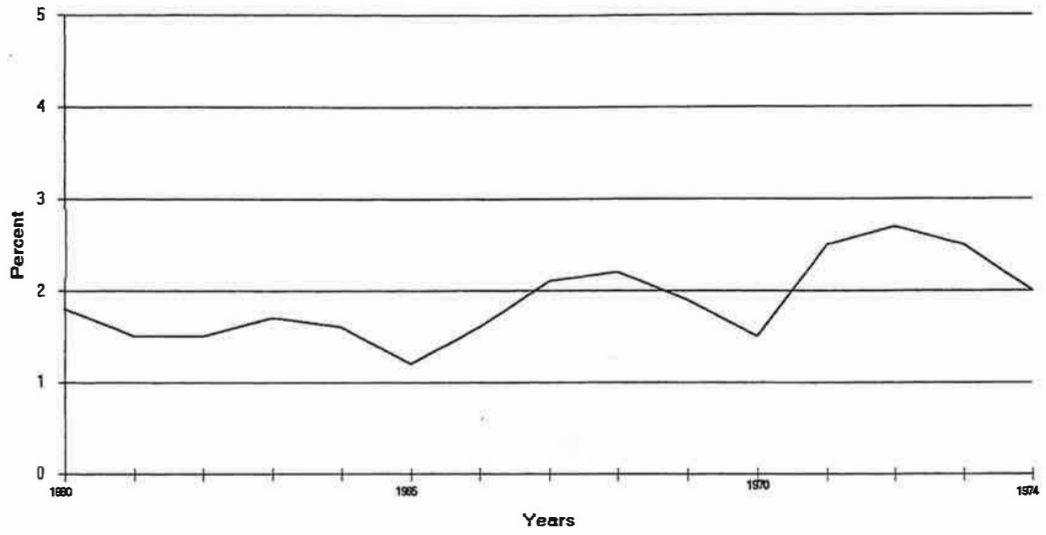
Source: Statistics Sweden (1994) "Statistical Messages N10 SM 9401".

Output, Employment and Prices 1960-74

Between 1960 and 1974, real GDP increased by over 80 per cent, and as seen in Graph II:1 above, Sweden managed to avoid major recessions during the entire period. The stability in the growth rate is, again, remarkable.

Unemployment data confirm the sustained success in macroeconomic management, combined with active labour market policies.

Graph II:3. Swedish Open Unemployment 1960-74 as per cent of total labour force.



Sources: OECD (1972 and 1995) "Labour Force Statistics 1959/70" and "Economic Outlook July 1995".

Inflation remained low, or at least quite manageable, during the entire period. The international tendency towards rising inflation in the early 1970s was, however, also reflected in Sweden, although it lasted until 1975 until Swedish inflation reached two digits.

As an indicator of macroeconomic developments, we may use the sum of the rate of inflation and the rate of unemployment to construct what is sometimes called a "discomfort index". In Table II:1 below, this "discomfort index" has been complemented with a "growth-adjusted discomfort index" in which the annual rate of growth of per capita income has been deducted from the sum of unemployment and inflation:

Table II:1. "Discomfort index" (DI) and "Growth-Adjusted Discomfort Index" (GADI). Sweden 1961-74.

Year	Rate of Unemployment (CPI)	Rate of Inflation (DI)	Discomfort Index	Rate of Growth of per capita Income	GADI
	(1)	(2)	(3 = 1+2)	(4)	(= 3-4)
1961	1.5	2.6	4.1	5.1	-1.0
1962	1.5	4.2	5.7	3.3	2.4
1963	1.7	2.4	4.1	4.7	-0.6
1964	1.6	4.8	6.4	5.8	0.6
1965	1.2	6.1	7.3	2.6	4.7
1966	1.6	6.4	8.0	1.4	6.6
1967	2.1	4.7	6.8	2.6	4.2
1968	2.2	2.6	4.8	3.1	1.7
1969	1.9	3.8	5.7	4.5	1.2
1970	1.5	4.8	6.3	5.8	0.5
1971	2.5	7.5	10.0	0.3	9.7
1972	2.7	7.0	9.7	2.1	7.6
1973	2.5	7.0	9.5	3.7	5.8
1974	2.0	9.4	11.4	0.7	10.7
Average 1961-74	1.9	5.2	7.1	3.3	3.8

Sources: OECD (1972 and 1995) "Labour Force Statistics 1959/70" and "Economic Outlook July 1995", and Statistics Sweden (1975, 1981 and 1989) "Statistical Messages SM 1975:98", "Statistical Messages SM 1981:2.5" and "The Labour Market in Figures".

To this picture of sustained growth plus macroeconomic stability may be added that the income distribution continued to move in a more equitable direction. In the 1930s and 1940s, Sweden's income distribution became appreciably less skewed[4], and already at that time, it appears as if Sweden had a by international standards highly equal distribution of income. This development continued in the 1960s and 1970s. As an indicator of decreased inequality, the Gini coefficient fell from 0.309 in 1967—already very low in an international comparison—to 0.199 in 1980.[5]

There were a number of factors responsible for Sweden's good record in terms of income distribution. Low unemployment is one, key factor. Another is the high level of basic education. The drastic increase in female participation in the labour force—between 1950 and 1973, the share of women in the labour force increased from 20 to 46 per cent (source: official labour force statistics quoted by Lindbeck, 1975, p. 212)—is also reflected in declining disparities in disposable income.

[4] The classic study on the historical development of Sweden's income distribution is Ragnar Bentzel (1952).

[5] See Björklund (1991). The data refer to the households' disposable income per consumption unit.

The progressive tax system reduced disposable income of high-income groups, at least during the 1960s and early 1970s, before various legal and illegal ways to cheat the system had become widespread. A generous system of transfer payments also resulted in a substantial transfer of disposable income between different groups. It has been estimated (see Lindbeck, 1975, Chapter 11) that the state tax system managed to transfer approximately 4.5 per cent of total disposable income from high to low-income groups in the 1960s. Not least important is the fact that the tax and transfer system to a large extent was designed to even out purchasing power and living standards between different stages of each individual´s life. All this contributed to a reduction of the Gini coefficient, although the effects on actual living conditions of the tax and transfer system became increasingly disputed, and less transparent.

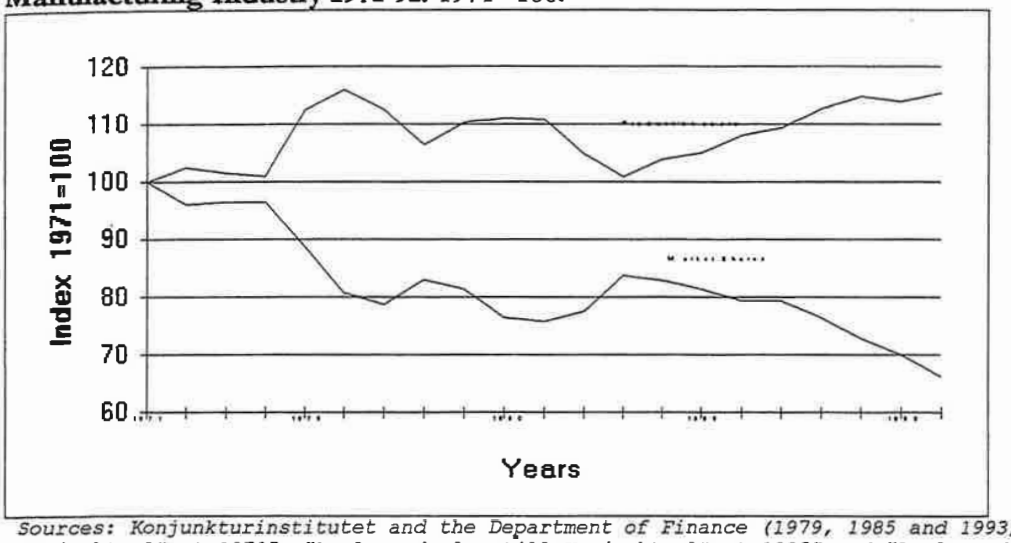
It should however be stressed that almost the entire Swedish "welfare system" was, and is still, based on general, rather than selective, coverage. This has been an overriding principle for the Social Democrats ever since the 1930s, and has contributed to a high degree of legitimacy of the various transfer schemes. While always existing, as a last resort, social allowances based on income testing have never, during the last decades, accounted for more than 2-3 per cent of all transfer payments. Virtually all transfers, such as umemployment benefits, family allowances, sickness allowances, pensions, etc., are insurance schemes based on past income, up to a certain limit. Child allowances, which are equal for all income groups, constitute the only important exception.

2. Economic Policies and Developments 1975-94: Sluggish Growth and Mounting Problems

Deteriorating international conditions as from 1973 had a profound impact on the Swedish economy. Contrary to the situation in earlier decades, when external shocks had been overcome relatively smoothly, the crisis of the mid 1970s turned out to have a lasting impact.

The oil crisis and declining terms of trade led to a crisis of international competitiveness of the Swedish economy, which was aggravated by rising domestic costs. Between 1974 and 1976, nominal wages in industry rose by 40 per cent. The development of Swedish industrial unit costs and market shares between 1971 and 1991 is illustrated in Graph II:4.

Graph II:4. Unit Costs of Production and Relative Market Shares for Swedish Manufacturing Industry 1971-91. 1971=100.



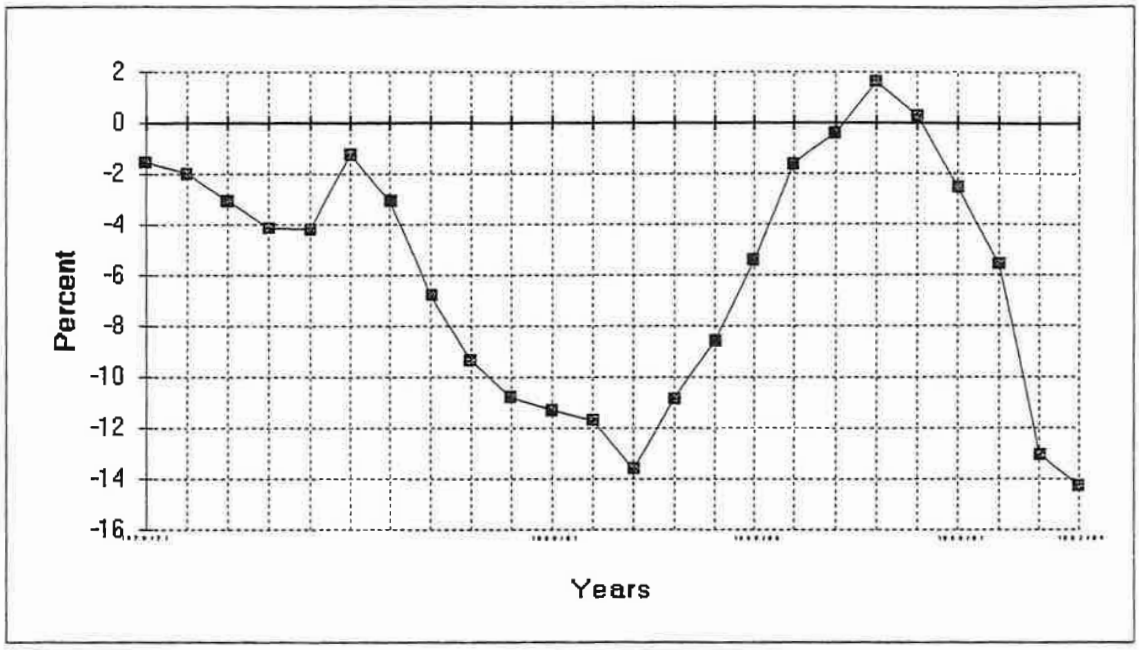
Sources: Konjunkturinstitutet and the Department of Finance (1979, 1985 and 1993) "Konjunkturläget 1979", "Analysunderlag till Konjunkturläget 1985" and "Analysunderlag till Konjunkturläget 1993".

The government attempted to "bridge over" the effects of the international recession by stepping up public expenditure, not least to ailing industries, in particular the steel industry, shipyards and the mining industry. Public spending on industrial policy—read: subsidies to loss-making enterprises—grew from 2.3 billion kronor in 1970 to 15.4 billion in 1979 (source: Axelsson, Löfgren & Nilsson, 1987, pp. 91-93).

The coalition of center-right parties that ruled the country between 1976 and 1982[6], breaking almost four decades of ininterrupted Social Democratic rule, only accelerated the growth of public expenditures. The Social Democrats had always sought to finance high and rising public expenditures with high and rising taxes; when finally in power, the former opposition parties only maintained the expenditure side of the welfare formula. The result was a drastic increase in the fiscal deficit, which by the early 1980s reached over 10 per cent of GDP.

[6] Except for a brief period in 1981-82, when the Liberal Party formed a minority government.

Graph II:5. Fiscal Deficit 1970-93 as per cent of GDP



Sources: Statistics Sweden (1971, 1985 and 1995) "Statistical yearbook of Sweden" (1971,1985 and 1995).

While the recession of 1974-75 was international, the effects of Sweden´s attempts to pursue countercyclical policies rather made things worse.

The situation for Sweden in the mid 1970s was quite different from before. After World War II, Sweden enjoyed the great privilege of having a perfectly intact economy and labour force. The need to rebuild large parts of Europe, in combination with a hefty devaluation in 1949 which made the Swedish currency undervalued, meant that international demand for Swedish products remained strong. All through the 1960s, the expansion of the international economy, and continued global trade liberalisation, favoured Swedish industrial and skill-intensive exports.

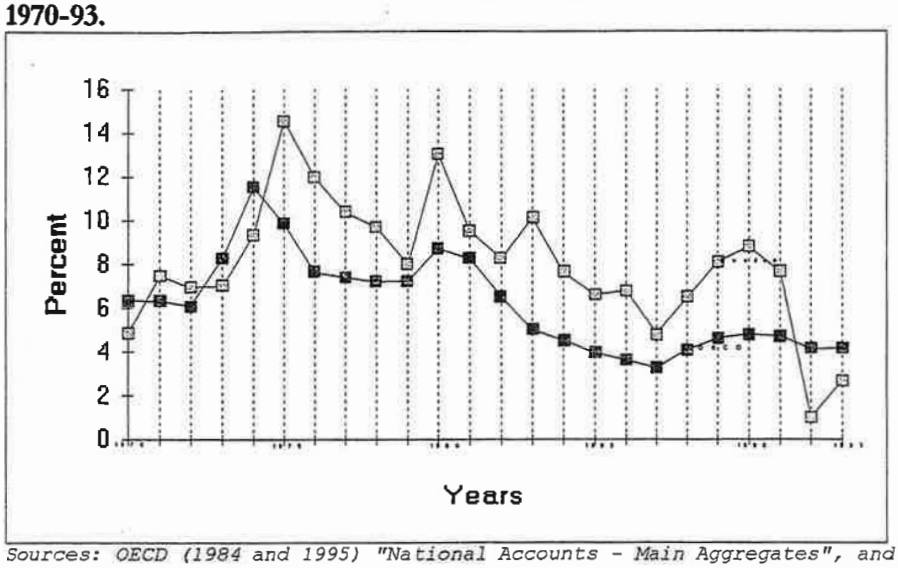
In the 1970s, the situation had changed. The European economies had fully recovered from the impact of the war, and the technological and educational gap that Sweden had enjoyed vis-a-vis major European competitors had largely been bridged.

As a result of underlying long-term trends, in combination with an acute cost crisis, Sweden failed to benefit from the improvement in the international economy that took place in 1976-77. The balance of trade deficit widened, and successive devaluations in 1976-77 kept inflation high, without restoring the international competitiveness of the Swedish economy. After the second oil shock in 1979-80, Sweden did not try to repeat the experience from 1974-75 by pursuing an expansionary policy, other than through exchange rate adjustments.

During 1981 and 1982, Sweden devalued the currency again, a total of 24 per cent. The monetary and exchange rate discipline in Swedish economic policies in the 1950s and 1960s gave way to a policy of accomodation; if domestic costs rose too rapidly, as they did again in the 1980s, the easiest solution was a currency devaluation.

The development of inflation in Sweden and in the rest of OECD is illustrated below.

Graph II:6. Inflation in Sweden (CPI) Compared to the Average for OECD Countries 1970-93.



Sources: OECD (1984 and 1995) "National Accounts - Main Aggregates", and Statistics Sweden (1994) "Statistical Messages N10 SM 9401".

The recovery of production and employment that took place internationally as from 1982 helped Sweden to overcome the recession, but also to hide the underlying crisis.

Industrial restructuring—one of the hallmarks of the "Swedish model" in the past—stagnated, and the entire expansion of employment that took place in the period 1965-85 was in the public sector. While labour productivity continued to increase rapidly in most goods-producing sectors, growth was jobless, and the "transfer gains" witnessed in previous periods, when labour was transferred from stagnating to dynamic areas and firms, failed to materialise.

Gross capital formation declined to 18.8 per cent of GDP (average 1975-93), compared to 21 per cent in 1960-74. The rate of return on new investment, as expressed by the ICOR (Incremental Capital Output Ratio), declined even more.

The lack of dynamism is also reflected in a very low rate of creation of new enterprises (for data and a discussion, see Davis and Henrekson, 1995). Barriers to entry, and a tax and subsidy system that discriminated against small and medium-sized firms, aggravated the sclerosis of the Swedish economy.

Large-scale capital outflows, facilitated by the removal of remaining restrictions on capital movements in the 1980s, reflected systemic problems related, inter alia, to the heavy tax burden, distorted incentives and rising allocative inefficiency, and a lack of flexibility on the labour market. All this served to undermine Sweden´s future growth prospects.

Political developments also weakened the spirit of consensus traditionally characterising Swedish society. A certain ideological polarisation took place in the 1970s and early 1980s. Left-wing radicals outside and within the Social Democratic Party managed to get support for a number of controversial proposals, the most controversial of which was the bill, enacted in 1984 after one decade of heated debate, to implement a scheme for compulsary savings through which part of industrial profits should be converted into so-called "wage earners funds", managed by trade unions and used to increase labour's control over large-scale enterprises. On the political Right, the welfare state was increasingly challenged by conservative and neo-liberal currents which sought to reduce the role of government, and to replace collective responsibility with private schemes for social security.

When the Social Democrats returned to government in 1982, the international recession was over. The new government gave first priority to a reduction of the fiscal deficit. Between 1982 and 1989, public expenditures decreased from a staggering 67 per cent of GDP to 60 per cent. At the same time the progressive tax system automatically raised public revenue, and the state budget was strengthened from both the income and the expenditure side. The budget situation thus improved dramatically (see Graph II:5).

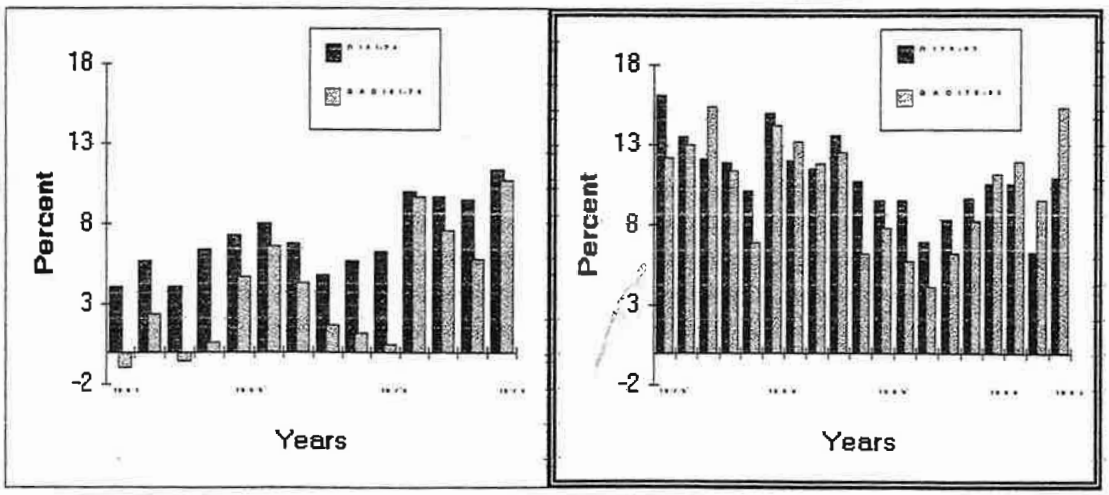
The devaluations in 1981 and 1982, and favourable world market developments, gave a strong impetus to exports. Domestic demand also rose vigorously, stimulated by full employment, rising incomes and a tax system which punished savings and encouraged consumption and borrowing. The deregulation of the domestic credit market in the 1980s also gave rise to a drastic increase in private spending; at the end of the 1980s, Swedish household savings amounted to 4 per cent of GDP.

Good luck with declining oil prices as from 1986, and strong foreign demand for Swedish exports, helped to conceal the underlying problems. As illustrated by the "discomfort index (Table II:2), the development 1982-90 looked good, in several respects. By the end of the 1980s the Swedish economy was, however, overheated, and both the current account and the state budget began to show rising deficits. The price eventually to be paid for correcting the mounting macroeconomic imbalances turned out to be a very deep recession, from which the economy has not yet recovered.

Table II:2. "Discomfort index" (DI) and "Growth-Adjusted Discomfort Index" (GADI). Sweden 1975-93.

Year	Rate of Unemployment	Rate of Inflation (CPI)	Discomfort Index (DI)	Rate of Growth of per capita Income	GADI
	(1)	(2)	(3 = 1+2)	(4)	(5= 3-4)
1975	1.6	14.5	16.1	3.9	12.2
1976	1.6	11.9	13.5	0.5	13.0
1977	1.8	10.3	12.1	-3.3	15.4
1978	2.2	9.7	11.9	0.5	11.4
1979	2.1	8.0	10.1	3.2	6.9
1980	2.0	13.0	15.0	0.8	14.2
1981	2.5	9.5	12.0	-1.2	13.2
1982	3.2	8.3	11.5	-0.3	11.8
1983	3.5	10.1	13.6	1.1	12.5
1984	3.1	7.6	10.7	4.5	6.2
1985	2.9	6.6	9.5	1.7	7.8
1986	2.7	6.8	9.5	3.8	5.7
1987	2.1	4.8	6.9	2.8	4.1
1988	1.8	6.5	8.3	2.1	6.1
1989	1.5	8.1	9.6	1.4	8.2
1990	1.7	8.8	10.5	-0.6	11.1
1991	2.9	7.6	10.5	-1.4	11.9
1992	5.3	1.0	6.3	-3.2	9.5
1993	8.2	2.7	10.9	-4.4	15.3
Average 1975-93	2.8	8.2	11.0	0.6	10.4
Average 1961-74	1.9	5.2	7.1	3.3	3.8

Sources: Same as Table I:1.



The Emerging Crisis of the Public Sector

As indicated above, both the Social Democratic governments and the center-right coalition that ruled Sweden between 1976 and 1982 continued to expand the "welfare state". The problem was, however, that the financing of the all-embracing welfare system required a rapidly growing economy.

Towards the end of the 1980s, the emerging crisis of the Swedish economy was, to a large extent, a crisis of the tax and transfer system, and of the "strong society".

A selection of indicators can illustrate the development. Between 1970 and 1989, the share of public expenditures to GDP had increased from 43 to over 60 per cent. While this reflected an international trend of rising public expenditures, the corresponding figures in European OECD countries was an average of 36.6 per cent in 1970 and 47.6 per cent in 1989 (source: OECD Economic Outlook December 1991, quoted in Henrekson, 1992, p. 51). Social security benefits expenditure reached, in 1991, 33.7 per cent of GDP, against an average of 16.2 per cent in industrial countries (source: UNDP, Human Development Report 1994, Table 40, p. 196). At the same time, public expenditure on health and education continued to expand, to reach around 11 and 9 per cent of GDP, respectively, in the early 1980s.

Table II:3 illustrates Sweden´s total expenditure on education in 1975 and 1980, as share of GDP and of total government expenditure.

Table II.3. Total Educational Expenditure. Sweden 1975 and 1980.

	GDP	Educational Expenditure as per cent of Total Government Expenditure
1975	7.1	13.4
1980	9.1	14.1

Source: UNESCO, Statistical Yearbook 1985. Table 4.1

Of total educational expenditures, approximately 65 per cent went to primary and secondary education, 22 per cent to tertiary education and the remainder to vocational training, adult education, etc.

Demographic developments, and the changing structure of the labour force, can also be seen as both cause and effect of the malfunctioning of the Swedish economy. While the total size of the labour force has changed little since the 1960s, when the process of increased female participation in the Swedish labour force was virtually completed, continous reductions in working time have led to an actual reduction in the aggregate number of working hours. At the same time, the share of population living on transfer payments has increased gradually. For example, the number of pensioners— including those benefitting from early retirement—increased from 988,000 in 1965 to 1.643,000 in 1980 and 1.900.000 in 1992. (Sources: LOU 1982:14, p. 37, and Eklund, 1993, p. 112).

The only major sector where employment has expanded over the last 30 years is the public sector, where the number of employees increased from 572,000 in 1965 to 1.5 billion in 1992, when it peaked. The sum of people working in the public sector and living on various social security schemes, including pensions, increased from 1.863,000 in 1965 to 4.350,000 in 1992. At the same time, total employment in the private sector decreased from 3.634,000 in 1965 to around 2.800,000 in 1992.[7]

The ratio between private sector employees and people employed in the public sector or not employed at all thus decreased from 1.95 in 1965 to 0.64 in 1992.

The steady increase in the tax burden should be seen against this background. In the mid-1980s, public revenue amounted to around two-thirds of GDP. While successive tax reforms, the most comprehensive one being implemented in 1989, managed to reduce income taxes, the overall tax burden remained exceedingly high.

The development of marginal income taxes—of some relevance for incentives for savings and higher education, and for the allocation of the labour force— is illustrated in Table II:4.

Table II:4. Average marginal taxes for industrial workers and employees 1960-88.

Year	Workers		Employees	
	Annual income (SEK)	Marg. tax (%)	Annual income (SEK)	Marg. tax (%)
1960	13,500	38.5	20,000	43.3
1970	27,500	50.3	40,000	57.6
1980	71,000	62.1	98,100	71.7
1988	127,500	50.6	170,900	64.6

Source: Myhrman (1994), p. 183.

3. The welfare state under siege: The crisis of the 1990s

The deepest recession in 60 years

Since 1990, Sweden´s macroeconomic development in a conventional sense has been dismal. While the recession of the early 1990s was international, it became particularly deep, and long-lived, in Sweden. Per capita income declined by some ten per cent between 1990 and 1994, and Sweden continued to slide:

[7]To avoid possible misunderstanding, this comparison does not in any way imply that employees in the public sector are less "useful" or "productive" than workers in the private sector. The comparison only serves to illustrate that the declining share of private sector employment necessarily implies a rising share of public expenditure to GDP.

Table II.5. Sweden´s per capita Income Rank (PPP) 1870-1994.

1870:	14
1971:	4
1988:	7
1994:	17

Sources: 1870-1988: Bergström (1992). 1994: Henrekson/Jonung/Stymne (1995).

The decline in per capita income between 1990 and 1994 was accompanied by a virtual collapse of the financial sector, whose losses amounted to several percentage points of GDP during the worst years 1992-93. The collapse was preceded by an unprecedented "bubble" on the stock exchange and on the real estate market, where prices had been rising by over 20 per cent per year between 1985 and 1990, only to decline by some 35 per cent, on average, in 1991-93.

With hindsight, many observers of the Swedish development have argued that the timing of the liberalisation of the credit and foreign exchange markets was highly unfortunate, as it took place in the midst of an artificial boom, and preceded a major overhaul of the derelict tax system.

In the early 1990s, the Swedish economy was hit by an interest rate shock. From having been negative in the late 1980s, the real rate of interest rose to almost 10 per cent in 1991-94. Among the reasons for this development, which the major actors in the financial and real estate markets failed to anticipate, can be mentioned here:

- the re-unification of Germany, which led to a rise in the rate of interest all over Europe. As the Swedish currency was linked to the major currencies in the European Union through the EMS (European Monetray System), the effect could not be neutralised by an exchange rate adjustment without a severe loss of confidence;

- as Sweden´s underlying macroeconomic imbalances, mounting fiscal deficit and cost crisis became increasingly evident, the credibility of Sweden´s unilateral declaration of a fixed rate of exchange and adherence to the EMS was eroded. As a result, the nominal rate of interest was some three-four percentage points higher in Sweden than in the European Union, reflecting currency risk (the true size of which was, however, underestimated);

- as economic policies underwent a change in favour of price stabilisation, which became the prime objective as from 1991, the rate of inflation decreased from around 8 per cent in 1989-91 to only 1-2 per cent in 1992-94, while the nominal rate of interest rose further.

The far-reaching reform of the income tax system in 1989, which reduced marginal taxes and made speculative borrowing less attractive, also contributed to make the financial crash exceedingly severe through its effects on real estate prices.

The Swedish households responded, in a textbook manner, to the tax reform and rising real interest rates with increased personal savings.

One result of these developments was a fiscal deficit which reached 14 per cent of GDP in 1993/94. The dramatic shift in financial savings from the public to the private sector is illustrated in Table II:5, which also shows Sweden's balance of current account (which is by definition equal to total financial savings).

Table II:5. Private and Public Financial Savings in Sweden 1991-94. Billions of SEK.

	1991	1992	1993	1994
Private financial savings	-3	61	162	165
Public financial savings	-17	-112	-193	-158
Balance of current account	-20	-51	-31	7
GNP, current prices	1,405	1,389	1,385	1.455
Public sector deficit as per cent of GNP	1.2	8.1	14.0	10.9

Source: Konjunkturinstitutet, quoted in Söderström (1995), p. 194, and SCB, "Statistical Abstracts of Sweden".

In the wake of the recession, the fiscal situation was seriously eroded from both the revenue and the expenditure side. Not least because of mounting debt interest payments on the Swedish national debt, which became by far the largest item in the Swedish state budget, public expenditures as a share of GDP rose to over 70 per cent of GDP in 1993. Massive bailing-out operations, in which loss-making commercial banks and other financial institutions were saved by the Treasury, also contributed to a rapid erosion of public finance (and of the Swedish people's trust in their banks).

The current account deficit increased from two per cent of GNP in 1989 to 3.2 per cent in 1992. While this may not appear alarmingly high, the underlying cost and confidence crisis made the situation unsustainable. After large, speculative outflows of capital in late 1992, the Swedish government was forced to abandon the EMS, and let the Swedish *Krona* float. Or, rather, sink: in just a few days in November 1992, the Krona fell by over 20 per cent against the US dollar, and it has today, despite a slight recovery recently, depreciated by more than 25 per cent vis-a-vis the major European currencies.

The low value of the Krona since late 1992 has restored the international competitiveness of the Swedish economy, and stimulated the production of tradables. The current account shows a healthy surplus as from 1994. Depressed domestic demand and a booming export sector have given the Swedish economy a pronounced dualistic character in the last few years, and unemployment has remained very high (see below). There are fears that Sweden in the rest of the 1990s will experience a period of "jobless growth", as rapid growth and labour-saving investments in an already capital-intensive export sector coexist with a stagnating domestic market, and drastic cuts in labour-intensive sectors such as the public administration.

The welfare state under siege

The severe macroeconomic crisis of the first half of the 1990s has forced Swedish politicians to a thorough questioning of the very foundations of the Swedish welfare system. The re-thinking—which formed part of an international trend to "roll back the state", and to increase the role of market forces—was initiated already during the last years of the successive Social Democratic administrations in 1982-91. The process was accelerated by the assumption of power, in 1991, of a center-right coalition dominated by the Conservative Party, which used the economic crisis as a good excuse to achieve the old goal of reducing the size of the public sector.

While the Social Democrats, who returned to power in 1994, have tended to deplore the fact that savings in the welfare system have had to be made, the slogan "strong society" has never come back in their political vocabulary. The need to "do something" about the huge public sector and heavy tax burden has been acknowledged by all major political forces, and the process of dismantling of parts of the welfare system has actually been more drastic after the change of government in 1994 than in 1991-94.

During the last five years, fiscal austerity has affected, in particular, transfer payments of all kinds: unemployment benefits, child allowances, sickness allowances, and others. For example, while the old level of compensation in the various schemes for unemployment and sickness allowances was 90 per cent (in some caes even 100 per cent) of past income, up to a certain maximum amount, this level has been cut to 80 per cent, and the new Social Democratic government decided to reduce the level to 75 per cent as of January 1996.

Public expenditures have however been curtailed in virtually all areas, including health and education, foreign aid, defense, etc. Cost sharing has become increasingly common in sectors such as health, where patients are now obliged to pay for a large portion of the health care they use. Subsidies to public daycare centers have been drastically reduced, and many parents can no longer afford to send their children to kindergarten. In education, the teacher/pupil ratio has decreased, and various other indicators show that declining public support to education has begun to affect the quality of education.

Profound institutional changes have taken place on the labour market. In the name of "flexibility" and "decentralisation", the old Swedish model of centralised wage bargaining has become modified, to allow for more scope for negotiations at the company level, and for individual wages and salaries. Many of the old restrictions against, for example, shedding redundant labour have also been abolished. In the public sector, where job security was regarded almost as a civil right, the "rules of the game" have become thoroughly altered, and massive layoffs have taken place, and continue to take place. It is estimated that total employment in the public sector, which reached 1.5 million in 1992, will be reduced by some 200,000 full-time jobs during the 1990s.

Women, who constitute the majority of public sector employees, are expected to be most seriously affected.

The end of an era

Sweden´s entry, on January 1st, 1995, into the Europan Union has given further weight to those who have been arguing that Sweden´s public sector and welfare system must be reduced to "normal" Europan standards. The so-called convergence criteria established in the Maastricht treaty as a condition for enhanced economic cooperation within the framework of a future Europan Monetary Union also put an upper limit to, among other things, the size of the fiscal deficit.

Free capital movements and a close financial integration with the rest of the world also reduces Sweden´s freedom of action in terms of macroeconomic management, tax policies, and welfare system. Keynesianism in one single country appears utopian today. There is also very little scope today for taxes on wealth and capital gains which diverge too much from those of other countries, to which capital can move without restrictions. A frequent argument in the Swedish tax debate has been that taxes must be lowered for the rich, in order to make them keep their money in Sweden.

January 1st, 1995, may conveniently be seen as the end of an era. Between 1870 and 1975, Sweden had the second highest rate of economic growth in the world (only Japan´s rate of growth was higher). A rather unique welfare system was built up, in particular between the late 1930s and 1970. During the last twenty years, the rate of growth has been sluggish, and Sweden´s per capita income has fallen below the average for Western and Northern Europe. The severe crisis of the last five years has shown the lack of sustainability of the Social Democrats´ dream of the "strong society", where the state would assume the major responsibility for all citizens´ welfare.

With Sweden´s entry into the European Union, "harmonisation" with the rest of Europe has replaced attempts to present Sweden as an almost unique case of welfare and equity.

4. Human development trends 1960-94

General

Despite the fact that the "Swedish model" is dead, albeit not completely buried in all political circles, the fact remains that Sweden still represents a very high level of human development, as testified by a number of different indicators.

Table II:6. Human Development Indicators, Sweden 1992 and Average for Industrial Countries.

	Sweden	Average ind. countries
Life expectancy at birth (years)	77.7	74.5
Adult literacy rate (%)	99.0	99.0
Mean years of schooling	11.4	10.0
Human development index	0.928	-
Maternal mortality rate (per 1,000 live births in 1988)	7	24
Population per doctor	370	390
Enrolment ratio for all levels of education (% age 6-23)	70	79
Daily newspapers (copies per 1,000 people)	53	30
Intentional homocides by men (per 100,000 males 1985-90)	1.7	5.4
Reported rape (per 100,000 women age 15-59, 1987-89)	43	48
Suicides by men (per 100,000, 1989-91)	27	21
Total public expenditure on education as % of GDP, 1991	5.9	-
Total health expenditure as % of GDP, 1991	8.8	9.4
Scientists and technicians (per 100,000 people 1986-90)	262	85
Women in labour force (per cent of total labour force), 1991	48	43
Women in parliament (% of seats occupied by women), 1992	33	10
Social security benefits expenditure (as % of GDP) 1985-90	34	16
Ratio of income of highest 20 % to lowest 20 % (1980-91)	4.6	6.8*

*Source: UNDP, Human Development Report 1994. - indicates not available. * refers to average for OECD countries.*

The development over time also shows that although Sweden´s relative position may have deteriorated slightly, the HDI index—which combines life expectancy at birth, infant mortality, adult literacy rate, and real GDP per capita (purchasing power parity)—shows a highly positive development between 1960 and 1992:

Table II:7. HDI Values and HDI Rank, Sweden 1960-92.

	1960	1970	1980	1992
HDI value	0.867	0.881	0.899	0.929
HDI rank	1	2	5	10

Source: UNDP, Human Development Report, various issues.

Trends in income distribution

Some of the reasons behind Sweden's relative success in combining growth with equity even during an early phase of the industrialisation process were briefly discussed in Part I of this report. In particular, the elimination of illiteracy in the late 19th century, and the comparatively equal access to basic education for all genders and social classes, deserves to be stressed in this context.

Between the late 1930s and early 1990s, low unemployment emerged as another key factor, complemented with a welfare system that had as its prime objetive to even out income differences between different income groups, and between different stages of each individual's life. The policies were largely successful—but increasingly expensive, complicated, and open to abuse—until the 1980s. To judge from a large number of indicators, the distribution of disposable income became more and more equal until the early 1980s, while the tendency during the past decade has been the opposite.

Table II:8. Income Distribution in Sweden (disposable income) 1975-93.

	Share of income, quintiles					
Year	1st (20 % lowest)	2nd	3rd	4th	5th	Ratio of 20 % highest to 20 % lowest
1975	6.9	12.6	17.6	25.2	37.7	5.5
1980	7.6	12.4	16.4	28.2	35.4	4.7
1985	6.9	11.8	16.1	28.7	36.5	5.3
1990	6.6	11.7	16.2	28.7	36.8	5.8
1993	6.0	11.3	16.1	28.5	38.1	6.4

Source: Based on the following publications from Statistics Sweden: Statistical Messages BE 21 SM 8701, Stockholm 1987, Statistical Messages BE 21 SM 9201, Stockholm 1992, Statistical Messages BE 21 SM 9501, Stockholm 1995.

The development towards increasing income inequality in Sweden in the 1980s appears to have been part of an international trend, underpinned by international economic and political transformations. After 1990, the accentuation of inequality in Sweden has largely been due to domestic factors: rising unemployment, successive tax reforms benefitting high-income groups, and reductions of a number of welfare schemes. It should however be stressed that the income distribution in Sweden remains rather even, in an international comparison. The coverage of basic social services like health and education also remains very broad, although the higher emphasis on cost sharing, and a move towards privatisation of a series of formerly public services, is affecting a growing number of people's access to services in areas such as health and child care.

As will be further discussed in a concluding section, there is a clear tendency towards aggravated social segregation in today's Sweden.

The income distribution between the genders follows a similar pattern, i.e. a remarkable decrease in inequality until the early 1980s, followed by slightly larger income differences during the last ten years.

Table 11.9. Women´s Wages in per cent of Men´s in Sweden 1961-93 (members of LO).

Year	Women´s wages (per cent of men´s)
1961	66.8 %
1982	87.5 %
1985	88.0 %
1989	86.8 %
1993	86.7 %

Source: LO, Klass och kön 1995 (1995), p. 83

This leads us over to one, important aspect to human development in Sweden: the relative success registered in reducing inequality between the sexes.

Gender aspects

In the gender-adjusted HDI, Sweden moves to first place. The other Nordic countries also show a high gender-adjusted HDI:

Table II:10. Gender-disparity Adjusted HDI, Five countries with the highest rank in 1990.

Country	Gender-disparity-adjusted HDI
Sweden	0.919
Finland	0.918
Norway	0.911
Denmark	0.904
USA	0.901

Source: Human Development Report 1995, Table 3.4.

The Gender Empowerment Measure (GEM) elaborated by UNDP also places Sweden in the first place, followed by Norway, Finland and Denmark (Human Development Report 1995, Table 3.5). The GEM measures women's empowerment as expressed by percentage of seats in Parliament held by women, percentage of women among administrators and managers, the percentage of women among technical and professional workers, and the share of total income accruing to women.

To explain this positive, albeit not yet satisfactory, development in Sweden, a brief digression on the rights of women may be justified. While equal opportunity is far more difficult to achieve than equal legal rights, the following summary of milestones in the long stuggle for equity

between the genders may illustrate progress in a historical context:

1845 Equal inheritance rights for women and men.
1863 Unmarried women attain majority at the age of 25
Marriage implies return to minority status.
1864 Husbands lose legal right to strike their wives.
1873 Women gain right to take college degree (with some exceptions).
1874 Married women gain the right to control their own incomes.
1884 Unmarried women attain majority at 21.
1901 Women gain the right to a four-week, unpaid maternity leave.
1921 Women gain national suffrage and the right to hold office at the national level.
Married women gain majority at the age of 21.
The new marriage code makes wives and husbands legal equals.
1922 The first five women are elected to Parliament.
1931 Maternity insurance benefits introduced.
1938 Universal maternity allowance established.
Legalisation of contraception.
1939 Gainfully employed women may not be dismissed due topregancy, childbirth or marriage.
1947 First woman Cabinet Minister.
Equal pay for equal work for state employees established in principle.
Child alowances introduced.
1950 Both parents declared a child´s legal guardians.
1955 Three-month paid maternity leave for working women upon birth of child.
1969 Compulsory schools adopt new curriculum. Encouraged to promote equal opportunity.
1971 Separate income tax assessment for wife and husband introduced.
1974 Parents entitled to share parental allowances upon birth of child.
1976 New abortion law. A woman has the right to decide through 18th week.
1979 Right to six-hour working day for parents of small children.
1980 Law against sex discrimination in employment.
1983 New equal opportunity settlement between employers and unions.
All occupations open for women, including in the military service.

Source: Statistics Sweden, Women and Men in Sweden, Facts and Figures 1995 (1995).

Some Indicators of the Impact of the Present Crisis

Depreciating Social capital

The indicators of human development used by UNDP in the *Human Development Report* are too blunt to capture the effects of an economic recession in a highly developed industrialised country. The rate of adult literacy, for example—which reached 99.9 per cent in Sweden one hundred years ago—cannot be expected to go down as a result of a few years of declining per capita income and rising unemployment. Also, another set of indicators may change with a long time lag, and many of the effects of today´s recession may not be noticeable during the present century.

There are, however, other indicators which are less resilient to crisis, and although some of these indicators may appear "soft" or even anecdotal, there is a need to develop non-conventional criteria which may be used to illustrate human development in a rich country like Sweden.

To begin with, it should be observed that while Sweden remains a country characterised by political compromises, social peace and a high degree of human security, the last decade has seen a certain weakening of the social fabric.

The social capital accumulated earlier (see Part I) has depreciated. While different observers would give quite different reasons for this development, and emphasise different symptoms, the trend towards reduced trust and confidence since the 1980s, if not earlier, is undisputed.

The tax and transfer system that developed was, to begin with, based on the citizens' honesty. However, as marginal taxes came to exceed sixty per cent for a majority of wage earners, tax evasion became both very profitable and common. Attitudes towards tax evasion underwent a concomitant transformation. While tax evasion in the 1960s was regarded as a shameful crime, forcing respected citizens even to commit suicide if caught, the honourable tax payer became, in the 1980s, almost regarded as a ridiculous relic of the past.

The increasingly generous social insurance systems also invited people to cheat. There were less and less "self risks" or deductions in case of, say, sickness; in the 1980s, workers were paid 100 per cent of their income from the first day of sick leave, and there was no need to present a doctor's certificate to stay home and get paid.[8] It was also, to take another example, possible to enter retirement from the age of 60 on rather generous terms, and the result was a gradual creeping downwards of the average retirement age to 62 years of age, while the statutory retirement age was 65.

It is, of course, impossible to assess how many people took unfair advantage of the schemes. There are, however, clear indications that they were numerous, and that part of the social security system became discredited. For example, the average number of days of sick leave increased from 11 days per year in 1955 to 26 days in 1989, which was the peak year (figures taken from Bergström, 1992, p. 15). It is difficult to believe that this development reflected deteriorating health conditions.

While the social insurance system thus became open to abuse from ordinary citizens, the financial crashes of the early 1990s served to reveal massive economic mismanagement and criminality within the Swedish economic elite. The successful financial speculator was depicted in almost heroic terms during the boom of the late 1980s; however, later developments made public confidence in the financial sector virtually disappear. To this may be added that a large number of "scandals" involving leading businessmen, public officials and politicians have been exposed by mass media in recent years.

Economic morale has undoubtedly declined. Outright cheating is, according to businessmen and the public in general, far more common today than in the past. This erosion of one of the

[8] This example, and part of the dicussion, is taken from Bergström (1992).

cornerstones of the old "Swedish model" can be seen as both cause and effect of economic developments during the past two decades.

Political participation has gone down continuously during the past ten-fifteen years, and party loyalties have weakened. Youth organisations have suffered in particular; in the youth wings of the major political parties, membership has declined by more than fifty per cent over the past decade. The distance between the political leadership and the voters has, according to most observers, increased.

At the municipal level, participation in local politics has gone down drastically, not least as a consequence of reforms in the 1960s and 1970s, which reduced the number of municipalities ("kommuner") in Sweden. It has been estimated that the number of elected representatives holding positions of trust in Swedish municipalities has gone down from over 200,000 a few decades ago to around 60,000 at present (Source: Nationalencykopledin, Vol 11, 1995, p. 202).

A large number of other organisations and voluntary associations have suffered a similar development, i.e. towards specialisation and concentration.

Ideological developments might also have contributed to declining popular participation in various civic associations. The neo-liberal offensive against trade unions and other collectivities—which were often being dismissed as representing harmful "vested interests" or "market distortions" by neo-liberal currents, particularly in the 1980s—may have served to undermine the legitimacy of strong civic organisations. Clearly, the 1980s was not a good decade for collective efforts.

One strand of conservative criticism against the "strong society"—that it tends to take away responsibility from the people themselves—has gained increased acceptance, not least among leading Social Democrats, during the past decade. "Modernist" currents within and outside the Social Democratic Party are looking for new solutions, based on indivual rather than collective choice. Also, the lack of sustainability of the traditional welfare system in times of economic stagnation and decline is today an almost undisputed fact in the Swedish public debate. Equally undisputed is the fact that the income distribution has become less equal, and that the distributional impact of many of the austerity measures undertaken are regressive in nature.

Unemployment and Increased Social Segregation

The most obvious indicator of deteriorating living conditions in the last few years is the rise in unemployment. Between 1990 and 1993, around 600,000 jobs were lost, and the rate of open unemployment increased from 1.6 to 8.2 per cent of the labour force. The number of participants in different labour market programs (labour market training, replacement schemes, job introduction projects, specific youth measures, and others) increased, during the same period, from less than one to over five per cent of the labour force (for data, see Ackum Agell, 1995).

If we add hidden unemployment—people who have to accept early retirement because of the labour market situation, people who do not bother to actively search for jobs because they know that there is none available, people who work less hours than they would like to, and others—the number of people suffering from un- or underemployment increases further.

Long-term unemployment, as a share of total unemployment, has also shown a pronounced tendency to rise, from around 10 per cent of total unemployment in the early 1970s to approximately 33 per cent in the last two years. In this sense, Sweden has become more like the rest of Western Europe, where long-term unemployment has traditionally been far higher than in Sweden.

The employment situation is particularly difficult for youth (Table II:11) and for newly arrived immigrants (Table II:12).

Table II:11. Unemployment in Sweden by age group, 1993.

Age group	Rate of open unemployment
16-24	18.4 %
25-34	10.5 %
35-54	5.4 %
55-64	5.5 %

Source: Statistics Sweden, Sysselsättning och arbetslöshet 1970-94, (1995).

Table II:12. Unemployment by native country, Sweden 1992

Native country	Rate of open unemployment
Finland	6 %
Rest of Scandinavia	6 %
Western Europe	4 %
Eastern Europe	9 %
Southern Europe	10 %
Latin America	14 %
Africa	21 %
Middle East	24 %
Average immigrants	9 %
Average total population	5 %

Source: Socialstyrelsen, Social Rapport 1994, Stockholm 1994.

A seen in Table II:12, the unemployment problem is particularly serious for people coming from more distant countries (who, on average, have arrived later than immigrants from more neighbouring countries). The differences are only marginally related to different educational levels, or language skills; basically, labour market statistics reflect the strong discrimination against immigrants that today exists on the Swedish labour market.

In the 1960s and early 1970s, when the rate of economic growth was high and unemployment low, many Swedish companies recruited labour abroad, in particular in Southern Europe. At that time, there was no discernable difference in unemployment between people of Swedish and non-Swedish origin. Since the mid 1970s, immigration to Sweden has been dominated by political refugees, and the labour market has become increasingly difficult for newcomers. A

growing number of immigrants simply fail to enter the Swedish labour market today.

In 1994, over 50 per cent of all social allowances based on means testing, i.e. lying outside the social insurance system and targeted to the most needy, went to people who were born outside Sweden. Of the newly arrived immigrants who arrived between 1991 and 1994, around 90 per cent of all households were dependent on social allowances.

High and rising unemployment among today´s immigrants has reinforced an ethnic and social segregation that has become more pronounced in the wake of the economic crisis. Particularly alarming is the increased residential segregation, which also affects the quality of basic social services such as primary education and public child daycare centers. In certain low-income suburbs outside the major cities, over eighty per cent of the pupils in primary education are of non-Swedish origin.

Non-conventional indicators of human development - and distress

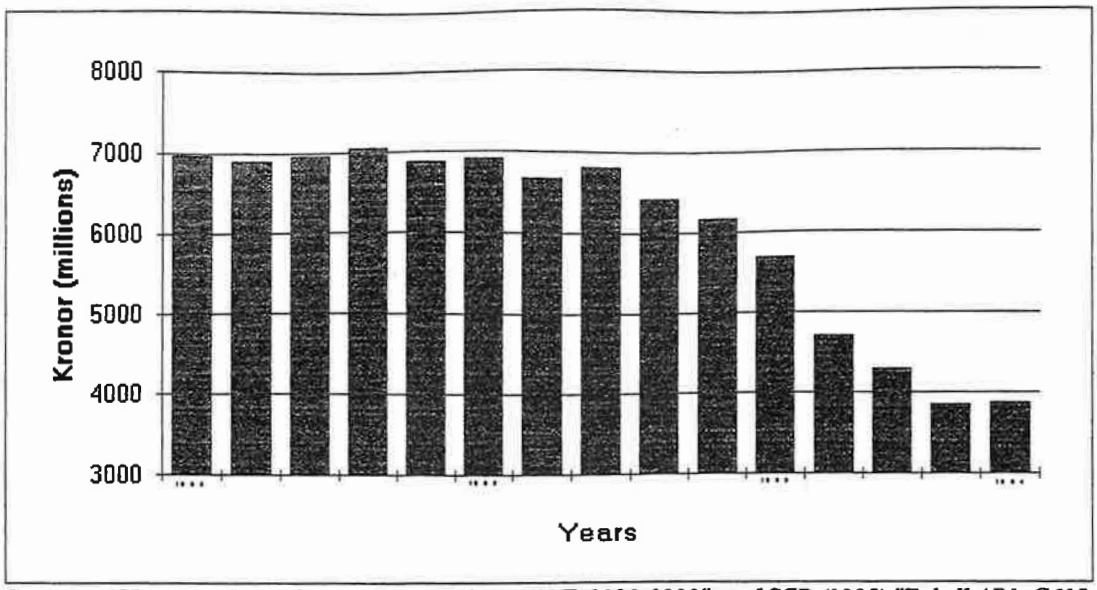
In an affluent society like Sweden, the margins are large enough to allow people to enjoy high living standards even in the midst of a deep recession. Well-being is a relative concept, however. According to a common definition of the "new poverty" that has emerged in Sweden, a family is poor if the parents cannot afford to buy new bicycles for their children.

People who perceive that their material well-being has deteriorated in comparison with that of their parents' generation tend to regard themselves as poorer than people who have witnessed steady progress during their life-time.

Economic stress is common in Sweden today. A high standard of living has been taken for granted, and in the late 1980s, the artificial boom made people consume and borrow in an unsustainable way. The number of evictions from people´s homes increased by 58 per cent between 1989 and 1994. A growing number of Swedes have become unable to pay their rents and mortgages.

Non-essential expenditures are, however, reduced first. As a startling illustration, Graph II:7 shows total expenditures on hair and beauty-care, in fixed prices, between 1980 and 1994:

Graph II:7. Private consumption of hair and beauty-care in Sweden 1980-94 (millions of SEK of 1991).



Sources: SCB (1994) " N10 SM 9401, appendix 1 till NR 1980-1993", and SCB (1995) "Tabell AP1, C615 privat konsumtion på ändamål", version 1, 95-03-20.

The average age of private cars in circulation has increased from 6.9 in 1980 to 9.1 in the first half of 1995. Cars older than ten years increased from 29 to 44 per cent of the total vehicle fleet. While quality improvements might explain part of this trend, the share of cars not approved in the annual, obligatory vehicle test has shown an increase from 21 per cent in 1980 to 27 per cent in 1995 (Source: AB Svensk Bilprovning, Information Department).

Although this information may appear anecdotal, it may also reflect a gradual depreciation of Sweden´s physical capital stock. Scattered evidence from a large number of areas—not least in the public sector where, for example, the physical deterioration of primary schools is a matter of public concern—appears to confirm that lack of maintenance and new investment is seriously affecting the quality of basic infrastructure.

The share of members of LO (the central trade union for blue-collar workers) stating that they cannot afford to travel anywhere during the summer vacation increased from 23 to 29 per cent between 1991 and 1993.

In 1990, only 19 per cent of all LO members did not have access to a daily newspaper at home. In 1993, this share had risen to 31 per cent (Source: LO, LO Granskar no. 1/1995).

The number of young people wanting to live by themselves but unable to do so because of their bad economic situation has increased considerably during the last few years. Today, some 165,000 people over 20 years of age are still living with their parents against their will (and often

against the will of their parents as well).

According to unanimous polls, young people are appreciably less optimistic about their future job prospects and material living standards than their own parents were when they were young.

Concluding comments

The impact of the Swedish crisis in the last few years should not be exaggerated. Sweden remains a country with an exceptionally high level of human development, as measured by any conceivable criteria. However, a large number of serious symptoms of lack of social cohesion—such as the increase registered in violent crime, not least involving young immigrants as perpetrators or victims—have surfaced recently.

The recent crisis has also exposed the lack of balance that had developed. The balance between the private and the public sector, and between collective and individual choice, had been shaken, as the "welfare state" was stretched to its limits; a ratio of public expenditure to GDP of around 70 per cent does indicate a serious lack of balance, and of sustainability. Also, the delicate balance between different forms of capital—natural capital, financial capital, infrastructural capital, human capital, directly productive capital, and social capital—that once characterised Sweden´s century-long success story was seriously endangered by developments long before the crisis of the early 1990s erupted.

A resumption of economic growth is probably necessary for further improvements in human development in Sweden. To judge from past experience, there appears to have been an historically quite close relationship in Sweden between growth in a conventional sense and human development.

But growth is clearly not enough today. In terms of per capita income, the decline in the 1990s has made Sweden slide back to the same level as six or seven years ago, when nobody argued that Swedes were poor. The situation today is quite different, however. Few Swedes would sustain that people are as well off today as they were in the end of the 1980s.

The quality of the growth that takes place matters very much for human development. There is a serious danger that growth over the coming years will be of poorer quality than in the past.

The old formula "growth with equity" appears utopian today. Growth with full employment is also distant. While a certain recovery from the deep recession of 1991-94 is already under way, many observers expect the rest of the century to be characterised by sluggish growth, increasing inequalities, a further marginalisation of large segments of the population from the regular labour market, and an accentuation of the past decade's trend towards social segregation.

The key to recovery, both in a conventional macroeconomic sense, and in terms of sustainable human development, is a restoration of social capital, including good and trustworthy institutions. By comparison, the fiscal crisis appears far easier to solve.

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