Course: The Swedish Model – Problems and Prospects of ”the Third Way” in the 21st Century
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Course literature and schedule - see Mondo
The Swedish Model

“The most successful society the world has ever known”

Polly Toynbee, The Guardian, October 2005

“The Swedish economy is strong like Pippi Longstocking"

OECD secretary general José Ángel Gurría, January 2011.

or

Sweden has ceased to be unique!

“Sweden is no longer among the richest countries and the Nordic welfare state is no longer a guiding star for other countries”

Frankfurter Allgemeine Zeitung, January 2010
Course Content - General Account

Friendly observers have seen “the Swedish Model” as a successful “Third Way” in combining price stability and economic growth with full employment, general welfare, and a fair income distribution. But is Sweden still an example to follow or an extreme expression of European sclerosis? Does the model have a future in a world of globalisation and EU integration? The course analyses the macroeconomic performance of Sweden in terms of the application and effects of the Swedish Model from a *comparative* and *historical* perspective. A central question is whether Sweden’s economic problems in the post-war period reflect economic policy mistakes or shortcomings of the model itself.
Required readings (downloadable from Stockholm University Library (SUB) if no other information is given below)


Note:

The slides constitute an “article” on the course!
Course material

- Literature (articles)

- Lecture notes (slides) 1 - 10

  Can be downloaded from Mondo before each seminar. Read the articles and start at once.

- Statistics – distributed at the seminars
  (especially seminar 2)
Examination

1. Individual term paper – English or Swedish

Write a summary of one of the papers/articles on the course (3-4 pages: double line spacing). The term paper is approved or not approved. Deadline: e-mail to LE before the traditional examination (see below).

2. Traditional examination – Answer in English or Swedish

a) 8 questions requiring short answers (1/2 A4 pages). Answer 7 of the 8 questions!

b) 2 questions demanding a somewhat longer answer (2-3 A4 pages) – choose 1 question!

Marks at the course:

The seven steps of the ECTS!
The lectures are voluntary, but:

- The lectures focus on theories and empirical studies of importance for the examination.

The lecture notes are central!

A. Slides can be reference points for questions at the examination even if they have no parallel in the articles!

B. No questions at the examination on parts of articles that are not corresponded by a slide!

However:

Also valuable new information at the seminars in relation to the lecture notes.

Especially one lecture (Seminar 2) presents economic statistics for Sweden and other countries that can enrich your answer at the examination.
Topics for the ‘long’ question at the examination - see b) above!

- What does the empirical literature say about the effects of job security laws on Swedish unemployment?

- The Swedish growth puzzle. Why an exceptional productivity growth but a more modest GDP per capita growth in Sweden from the early 1990s to the mid-2000s?

- What are the explanations of the deep economic crisis in Sweden in the early 1990s?

- Discuss the effects of Swedish incomes policy (wage restraint) on inflation and unemployment in terms of the so-called Industrial agreement 1997 - .

- What is the explanation for the larger wage divergences in Sweden from the mid-1980s?

- Discuss the relation between the ICT revolution and Sweden’s position in the economic welfare league.
Course Schedule

1. **Introduction - What is the Swedish Model?**


2. **Economic Data on Sweden**

   Tables and statistics will be available at the seminar.

3. **Wage Distribution and Wage Policy**


   Holmlund (2009), pp. 117-118.

   Nordström et al. (2006).

   Gustavsson (2007).
4. **Labour market conditions, labour market policy and education policy**


Forslund & Kreuger (2008).

Holmlund (2009), pp. 110-112.

5. **Swedish macroeconomic policy**

5.1 **Monetary and fiscal policy**

Erixon (2010), pp. 682-683, 687-689, 694-697


Erixon (2012)

Lindbeck (1997), pp. 1302-1312 (Section IV)

Holmlund (2009), pp. 112-117

Gylfason et al. (2010), pp. 20-22
5.2 **Incomes policy**

Erixon (2010), pp. 688-689 and 699

Erixon (2011), pp. 277-279

Holmlund (2009), pp. 117-118

Nickell et al (2005), pp. 6-8 and 10-22 (Section 2-4)

6. **The Swedish trade-off between inflation and unemployment**

Hufner (2007)

Lundborg & Sacklén (2006)

Erixon (2011), pp. 301-307

Holmlund (2009), pp. 123-124

7. **Sweden’s growth performance**

Erixon (2011), 303-305 and 308-312

Lindbeck (1997), pp. 1283-1295

Pontusson (2006), all.

Erlandsen & Lundsgaard (2007), all.
8. **The Swedish Welfare State**

Holmlund (2009), pp. 118-122

Lindbeck (1997), pp. 1297-1301

Nickell et al (2005), pp. 3-6 and pp. 8-9 (Subsection 1.3 and 1.4) and 10-22 (Section 2-4)

Forslund & Krueger (2008), pp. 16-17, 18-20, 28-30

Howell & Rehm (2009), all

Gylfason et al. (2010), pp. 30-31


9. **Globalisation, EU integration and the Swedish model**

Scharpf (2000)


Erixon (2011), pp. 299-301

Greve (2007), pp. 46-49
10. The Swedish model today and in the future


10.2 Why has Sweden (partially) abandoned the Swedish model?: Erixon (2010), pp. 690-694, 700-703 and Erixon (2011), 279-301

10.3 What’s left of the Swedish model (summary)?
View of the Swedish model abroad

1930s - positive

Marquis Childs (U.S. journalist) in the 1930s: Sweden - a middle way between capitalism and socialism.

Social welfare programmes (housing, health, education, etc) and economic-policy programmes to obtain full employment even before Keynes (1936) – see the Stockholm School of Economics. But both programmes were modest in practice!


The Swedish welfare state and the Swedish policy for full employment - an inspiring ‘Social Democratic’ project.
View of the Swedish model abroad, cont’d

1980-1995: (more) negative

In the 1970s and 1980s low growth and high inflation in Sweden even in relation to (many) other OECD countries. In the early 1990s a deep economic crisis in Sweden.

Influential argument: The welfare state (e.g. high taxes) and wage compression have hampered economic growth.

1995-2012 positive

Top-three/five position for Sweden on most ranking lists (social indicators, global competitiveness, sustainable growth, etc). A surplus (or balance) in the public budget since the late 1990s even during the financial/budget crisis 2008-2012.

The Swedish success – the effect of the Swedish model or of departure from the model?
How to Define the Swedish Model (the Swedish Third Way)?

**General definitions of the Swedish Model 1 - Sociology**

A. General (universal) public transfers, tax-financed general welfare programmes (low or zero fees for the provision of public services) and social insurance systems related to income.

Not necessary public sector *production*! See Greve’s definition of the Nordic welfare states.

Aim:

i) To achieve full employment (through ALMP, etc), high labour force participation rates, equality and income security

ii) To gain support to the public sector from the middle class.
**General definitions of the Swedish Model – Sociology, cont’d**

B1. A consensus in politics and/or labour markets.

The Saltsjöbaden Agreement in 1938 – wage negotiations between central trade unions and employer organizations.

Principles: 1) no intervention by the government 2) Labour peace during the contractual periods (few strikes in Sweden since the early 1930s)

B2. No consensus, but a balance of power between strong capital and strong labour (“Historical Compromise”): The business sector creates resources for obtaining the goals of the labour movement while the labour movement guarantees private capital accumulation

C. Centralized labour market organizations are represented in public institutions (corporatism)

D. High degree of membership in trade unions ⇒ strong labour ⇒ small wage differentials and low rates of unemployment

E. Social Democratic governments or Social Democratic ideological hegemony
Governments in Sweden - see Appendix 1 in Erixon (2011)

1932-1939  Social Democratic governments
1939-1945  Coalition between the Social Democrats and the non-socialist parties (WW II)
1945-1976  Social Democratic governments (together with the Agrarian Party 1951-1957)
1976-1982  Centre/right governments
1982-1991  Social Democratic governments
1991-1994  Centre/right coalition government
1994-2006  Social Democratic governments
2006 -  Centre/right coalition government

Thus, mostly Social Democratic governments!
But too easy to identify “the Swedish model” with strong Social Democracy:

1. Political consensus in Swedish politics, e.g. about the Swedish welfare state.

   Example: the current centre/right wing government (2006 - ) supports collective wage agreements, job security laws, labour market policies (primarily employment subsidies and matching services) and the principle of “full employment”. A Social Democratic ideological hegemony?

2. Social Democratic economic policy in the 1990s and 2000s has similarities with that in other Western European countries (“neo-monetarism”, “new consensus”) Also indications of a convergence of the Swedish (Nordic) welfare state to the more modest welfare state models in other (European) countries (see Greve’s article).
General definition of the Swedish Model 2 - Economics

Lindbeck: The Swedish model (experiment) - “Large and centralized institutions”:

Large public spending and taxes

Interventionist stabilization policy incl. labour market policy

Regulations, public sector saving and taxes/subsidies to influence saving and investment

Strong central government control over local government (no federalism as in Germany and the U.S)

Centralized wage bargaining

Strong concentration in the private sector (insurance companies, banks, investment companies, non-financial business sector)
General definition of the Swedish Model 3 – A Synthesis between Economics and Sociology

Gylfason et al (2010):

- Openess to globalization and new technologies leading to high productivity and real wages.

- Collective mechanisms for “risk sharing” to protect citizens against the negative consequences of openness

(i) Strong trade unions

(ii) Generous unemployment benefits

(iii) Active labour market policy (ALMP) to increase mobility on the labour market

(iv) Extensive general education
A weakness with the general sociological and economic definitions of the Swedish model above:

The Swedish model is difficult to distinguish from a “Nordic”, “Scandinavian”, or even “European” (social) model. For instance:

- Universal welfare models and income-related social insurance systems also in other Western countries, especially in other Nordic (Scandinavian) countries.

- Large companies also dominate in Finland, Norway, Switzerland and the Netherlands.

- Consensus and centralized labour-market institutions also exist in e.g. Austria, Germany, Norway and Finland.

- Openness for international trade and foreign investment also in other Nordic and small Western European countries.

Possible conclusion:

1. Sweden differs in degree but not in kind especially where the welfare state is concerned. For example: high taxes/GDP in comparison to other OECD countries (with the exception for Denmark).

2. A more specific definition of the Swedish model is needed.
II. Specific Definition of the Swedish model

A Swedish Economic and Wage Policy - the Rehn-Meidner Model (Erixon, 2010)

No corresponding model even in other Nordic countries

Two Trade Union Economists:

Gösta Rehn (1913 – 1996)

Rudolf Meidner (1914 -2005)

Presented in 1951 in a report to the Swedish Confederation of Trade Unions, LO (central blue-collar worker organisation)
The Rehn-Meidner Model

Background: Overheating and inflation in the Swedish economy after World War II

The Keynesian revolution: Full employment through expansionary fiscal and monetary policy. Incomes policy and selective fiscal policy means to fight inflation.
Rehn and Meidner:

- Inflation threatens the unity of the trade union movement and has negative income distribution effects. The trade union movement should hate not only unemployment but also inflation!

- Keynesian measures to fight inflation - price and wage controls (incomes policy), taxes on overheated sectors etc - are ineffective and also harmful for growth

- “Voluntary incomes policy” (wage moderation) should not be an object of trade unions
The Dilemma for the Trade Union movement:

- How to achieve full employment (below 3% unemployment) without inflation?

and also:

- How to achieve small income differences without hampering economic growth?
The Rehn-Meidner model

- Restrictive economic policy - primarily fiscal policy - in a boom and in the medium term to increase public saving and control inflation by squeezing profits. Underlying theory: high profits lead to extensive wage drift and strong compensatory collective wage claims.

- Labour market policy (ALMP)
  * Selective demand policy
  * Supply measures (retraining, vocational education, public supports to regional labour mobility etc)
  * Public matching measures

- Wage policy of solidarity: equal pay for equal jobs and a central job evaluation to determine “fair” wage differentials

- Marginal employment subsidies (in the model from 1970s)
Unique model in macroeconomics

- All four goals of economic policy must be satisfied (full employment, price stability, equity and growth)

- Each instrument has more than one goal.

Example 1: Labour market policy shall affect all four goals!
Example 2: Wage policy of solidarity shall guarantee equity, stimulate structural change and also prevent inflation!

- Interaction between the instruments

Example: Solidarity wages policy and labour market policy; structural change will not occur through solidarity wages if government are not conducting a matching- and supply-oriented labour market policy.
Arguments for considering the Rehn-Meidner model as distinct to “neomonetarism”, thus the new consensus in macroeconomics

1. Assumes a Phillips-curve relation between unemployment and inflation except under overheated conditions.

2. Emphasis on strong central unions to contribute to a wage pressure on firms in general and on inefficient firms in particular through the wage policy of solidarity.

3. State interventionism to achieve very low rates of unemployment.

But a similarity: a restrictive fiscal and monetary policy in the medium term to fight inflation!
Some basic elements in the theory underlying the R-M policy

Note: Production and employment will fall in the private sector because of active labour market policy (full employment keeps up wages) and restrictive macroeconomic policy, mainly fiscal policy. Actual profits (profit margins) will fall (intra-marginal profits can be measured by the area between price lines and the AS-curves). Lower profit margins:

i) Lower inflation ceteris paribus through lower market-induced wage increases (wage drift) and therefore less wage-wage races. See the Phillips curve below.

ii) Higher productivity. Faster structural change (e.g. through the elimination of inefficient firms) and more rationalisation/innovations.

iii) Less (functional) income inequalities) (lower profits’ share of national income).
The application of the Rehn-Meidner model in Sweden

The Golden Age of the model: 1957-1973

1. Extensive labour-market policy programmes and solidaristic wage policy (These policies were obviously influenced by the model)

2. Large increase in public saving

3. Fiscal and monetary policies became more restrictive

4. The introduction of consumption taxes

5. A significant decline in profit shares – important intermediate goal of the model!

But:

A. Wage policy – more radical than in the Rehn-Meidner model. Wage equalisation, not only for similar jobs but also for dissimilar jobs! No agreement about fair wage differentials.

B. The profit decline, the restrictive general economic policy and the increase in public saving did not reflect a strict application of the model.
Why was the R-M model adopted in the 1960s and early 1970s (though not fully)?


a) Minor macroeconomic shocks

b) Coordinated wage bargaining

c) International regulation of financial flows (providing large room for a national policy of squeezing profits)

d) Swedish multinational companies invested in Sweden

e) Strong labour

f) State interventionist ideas (since the early 1930s)
Relation between the R-M (Swedish) model and the Danish flexicurity model

Similarities:

1. High unemployment benefits

2. Strong emphasize on ALMP programs

3. Weak emphasize on job security (in contrast to employment security)

4. Restrictive fiscal and monetary policies in the medium term in the R-M model. Probably a similar macroeconomic policy in the Danish flexicurity model.

Dissimilarities:

National (coordinated) wage negotiations to achieve solidarity wages (equal pay for equal jobs) in the R-M model. Decentralized wage bargaining to achieve flexible labour markets in the Danish flexibility model.

But note the difference between the practice and theory (see the R-M model) of the Swedish model! See for example the Job Security Act (1974). And also other departures from the R-M model since the mid-1970 (see Seminar 10).