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Economic growth and welfare state: a case study of Sweden

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In this article we analyse the relation between the dynamics of economic growth and the welfare state using the Swedish experience as a case study. We defend three theses concerning the Swedish experience: that the deep economic crisis of 1990–93 constituted the definite breaking point for the accumulation pattern in force since the 1950s (and in crisis since the mid-1970s); that the new accumulation pattern eroded the long-standing symbiotic relationships between economic growth and the welfare state; and that the welfare state has suffered retrenchments and qualitative changes of great importance, which can be fundamentally explained by the transformations in the accumulation pattern. We conclude that the changes introduced in Sweden have continued to subordinate the welfare state's main goals, giving priority to the new accumulation pattern.

Key words: Economic growth; Welfare state; Welfare reforms; Retrenchment; Swedish model
JEL classification: E6, H5, I3

1. Introduction

The relation between the dynamics of economic growth and the welfare state has been long analysed, appearing even in the first works on the origins and development of the welfare state. The so-called industrialist or functionalist approach (e.g., Wilensky, 1975) made a major explanatory variable of economic growth. From a different perspective, economic growth was also notably relevant for those scholars belonging to the neo-Marxist approach (O'Connor, 1973). Other approaches have, in turn, put emphasis on the relationship between the welfare state and the sociopolitical institutional framework, which they considered to not only condition the welfare state but also constitute the indispensable framework for its creation and development (Korpi, 1983; Esping-Andersen, 1985).

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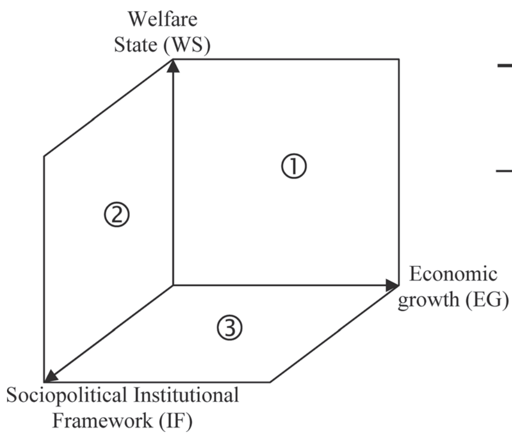
In the 1980s, when the welfare state experienced its first cutbacks, the literature on both types of relationships grew greatly. In this way, relevant authors made new contributions to existing debates in trying to explain the 'welfare state retrenchment', focussing some discussions on the specific form adopted by the growth pattern of the world economy after the 1970s (Huber and Stephens, 2001, pp 223–41; Pierson, 2008 [2001], p 277).

Taking all this into account, we can state that there are complex interactions between the institutional framework, economic growth and the welfare state (Figure 1). In this article we focus on the interactions between economic growth and the welfare state, being the institutional dimension the topic of another paper currently in progress by the same authors. However, to underpin the complexity of the model, we include here some of the results of that paper, albeit due to space limitations, in an abridged form in the text as well as in two tables in Appendix 1. Given the paradigmatic nature that its welfare state achievements have acquired in the specialised literature (see, for instance, Huber and Stephens, 1998, fn 1 and 3; 2001, p 114; Carroll and Palme, 2006, section 3), we have chosen Sweden as our case study.

We begin our analysis by taking into account the most relevant contributions made by authors who have specified the goals of the welfare state, as well as the (four) realms in which it deploys measures to achieve those goals. On one hand, we turn to the contributions of authors like Beveridge (2000 [1942]), Briggs (1961, p 228), Marshall (1950), or Mishra (1990), who consider the main goals of the welfare state to be (i) full employment, (ii) better living conditions, and (iii) decreased inequalities in the distribution of income. On the other hand, we base our arguments on contributions by authors who have analysed the spheres in which the main measures of the welfare state are applied. Among these are the above-mentioned authors, along with others such as Titmuss (2000 [1958], p 156ff) and Jessop (2002, pp 148–49). Following their lines of reasoning, we can consider the main welfare state instruments as being income transfers, social services, and fiscal policy, which enables the state to collect the money required to fund those transfers and services. Following Papadopoulos (2005, p 7) and Bonoli (2007, pp 25–27), a fourth sphere can be also added: the labour market.

The rest of the article is divided in two broad sections. In the first, we analyse the relationship between economic growth and the welfare state during the Golden Age,



Relationship		
①	EG → WS	WS → EG
②	IF → WS	WS → IF
③	EG → IF	IF → EG

Fig. 1. *Explaining the evolution of the welfare state.*

from 1950 to 1975. To do so, we explain how the welfare state consolidated and expanded itself in a context of strong economic growth, and also how that consolidation contributed in turn to the sustainability of the welfare state across more than two decades. The section finishes with an explanation of the dysfunctional relationships that emerged between 1976 and 1993, focussing not only on the interaction between the welfare state and economic growth but also on the interaction between the former and the sociopolitical framework, thus offering an explanation of the process that led to the break-up of the Golden Age growth pattern and the gradual weakening of the welfare state. The second section deals with the emergence of a new growth pattern after 1994 and the substantial modification of the welfare state goals and policies. Both processes are explained. We end by synthesising the conclusions of this article.

We base our thesis on three arguments: (i) that the deep economic crisis of 1990–93 constituted the definite breaking point for the accumulation pattern in force since the 1950s, which entered into crisis in the mid-1970s; (ii) that the new accumulation pattern eroded the symbiotic relationships that had until that time existed between economic growth and the welfare state; and (iii) that the welfare state has suffered retrenchments and qualitative changes of great importance, and these can be fundamentally explained by the transformations that occurred in the accumulation pattern.

2. Economic growth and the welfare state during the Golden Age

2.1 Main features of the growth model

During the Golden Age, the growth dynamics were fostered by strong growth of the aggregate demand, in both its public component and its private component (Table 1). Between 1950 and 1975, private investment reached a growth rate averaging 4.2% annually, whilst private investment grew by 6% per year. The increase in the rate of public consumption was at 4.6%, whereas that of private consumption was at 3%—the latter being the least dynamic component of aggregate demand. On the external side, exports and imports of goods and services expanded by similar average yearly rates of around 5% (calculations made with data from Statistiska Centralbyrån, SCB).

Therefore, sustained by domestic and foreign demand, GDP reached an average annual growth rate of 3.7% during those 25 years in a stable macroeconomic context where, albeit with some minor exceptions, no huge monetary tensions existed.

Table 1. *Evolution of the aggregate demand and its components (yearly averages in every period)*

	1951–75	1976–93	1994–2008
Gross domestic product	3.7	1.3	3.1
Private consumption	3.0	0.9	2.5
Public consumption	4.6	2.2	0.7
Gross fixed capital formation	4.5	0.0	3.9
Exports of goods and services	6.0	3.9	7.3
Imports of goods and services	6.2	2.4	6.6

Source: Developed with data from National Accounts, SCB.

Turning to the supply side, the strengthening of the productive capacity was based on the combination of intense industrial capitalisation and fast productivity growth (Table 2). Employment seldom remained stagnant if it is measured in terms of working hours (–0.1% yearly). The increase in public employment was offset by the null growth of employed persons in the private sector and the slight decrease in working hours per employed person therein. The expansion and modernisation of non-residential capital stock became the decisive factor in the growth of the supply side of production. The capital-labour ratio augmented by a robust 4.8% annually, and the capital-product ratio grew by 0.9%. As a consequence, labour productivity growth reached an average yearly rate of 3.9% measured in terms of production per working hour (calculations with data from Edvinsson, 2005).

Two additional features help explain the sustainability of those growth dynamics and the virtuous circle between demand and supply that they propitiated: income distribution and market structure. Labour productivity growth during the period 1950–75 ascended by a total of 160%, rendering compatible the public policies that were implemented, the increase of business profits—particularly those of the biggest firms—the rise of wages and the increase of public revenues coming from taxes and contributions on firms and labour (Steinmo, 1993, pp 120–21; Glyn, 1995, pp 114–15; Erixon, 2010, pp 682–83).

Apart from the public sector, the economic growth was fuelled by manufacturing, especially by equipment firms and other branches based on technological progress. The big businesses that held oligopolistic positions in their respective domestic markets and were export-oriented thus consolidated their industrial dominion. Tetra-Pak, IKEA, Electrolux, Ericsson, ASEA, Saab or Volvo accelerated their expansion during these years, and Sweden's manufacturing sector became one of the most concentrated in advanced countries (Erixon, 1997, pp 17, 20, 32–34). Those were big firms capable of achieving high productivity gains. They created low employment, which allowed them to make great profits whilst raising their workers' wages and paying taxes and social contributions.

Therefore, the growth model was a response to an accumulation pattern where corporatist relations (with strong unions and a social democratic government) made feasible a distribution of the productivity gains in compatibility with adequate profit levels that preserved employers' expectations to sustain investment. Aggregate demand, productive supply, income distribution, market structure, and institutional consensus gave

Table 2. *Evolution of the supply side of the economy and its components (yearly averages in every period)*

	1951–75	1976–93	1994–2008
Gross domestic product	3.7	1.3	3.1
Employment (in persons)	0.8	0.0	0.8
Capital stock	4.7	1.7	1.9
Capital/employment ratio	3.8	1.7	1.1
Capital/product ratio	0.9	0.6	-1.1
Labour productivity	2.9	1.1	2.2

Source: Developed with data from Edvinsson (2005) for the periods 1951–75 and 1976–93, and from SCB National Accounts for the period 1994–2008.

rise to a loop of virtuous relations that enhanced the reproduction of the accumulation pattern (Erixon, 1997, pp 15–18; Huber and Stephens, 2001, pp 127–31; see also Ryner, 1998, p 105; Blyth, 2002, pp 119–25).

2.2 The four pillars of the welfare state model

The first pillar of the welfare state was composed of a set of institutional arrangements that shaped the functioning of the labour market and was based on four elements:

(i) The wide range of active labour-market policies applied by the government to foster labour qualification and the integration of women into the workforce (Huber and Stephens, 2001, pp 125–27, 130). For example, the employment rate reached 78% of working-age pop ulation, and in the case of female employment, it rose quickly to 75%. Other noteworthy initiatives were the measures introduced to enhance mobility and workers' qualifications (Therborn, 1986; Rehn, 1990).

(ii) Direct job creation by the public sector. According to data by Edvinsson (2005), between 1950 and 1975, the number of public employees increased more than three-fold. Public share of total employment grew from 11% to 25% (see also Olsson, 1986, p 15).

(iii) Centralised bargaining between employers' organisations and union confederations. It was guaranteed that the agreements adopted by the leadership of both organisations would be generally applied.

(iv) Solidaristic wage policy. This was internally accepted by the main Swedish union confederation, Landsorganisationen i Sverige (LO), with the aim of reducing pay inequality amongst workers of different firms and sectors and with different qualifications, to protect the weakest. At the same time, this policy was meant to prevent inflationary pressures due to the wage increases of workers in the most productive firms (Erixon, 2008, pp 378–79).

The second pillar of the welfare state was the notable enhancement of social transfers to workers and, by extension, to the whole population. Thus a dense network of assistance and public subsidies was created and expanded, including old-age pensions, unemployment and sickness benefits, child allowances and parental leave and work accident insurance, amongst others (Olsson, 1987; Esping-Andersen, 1990; Korpi and Palme, 2007). The extent of public support covered the four main aspects of a progressive transfer policy: the amount of benefits, which grew faster than the total economy; the coverage level, affecting almost all potential clients within each benefit; the replacement rates; and the decrease or elimination of the share of financing of those transfers by the insured person. Therefore, in the end of the period under study, the income benefits were amongst the highest in the world by the protection level guaranteed, according to the decommodification and generosity indexes designed by Scruggs and Allan (2006).[1]

The third pillar of the welfare state was composed of public services. Worth noting are the improvements introduced in health care and education services, but also services

[1] These indices represent the extent to which workers in each country reduce their dependency on markets. The decommodification index was designed and calculated by Esping-Andersen (1990), who quantified the main features of old-age pensions, unemployment subsidies and sickness benefits in 18 OECD countries in 1980. Using approximately the same methodology, Scruggs and Allan (2006) created a time series covering the period 1970 to 2002. They offered the decommodification index as well as the generosity index, in which they introduced some changes to better grasp the reality that Esping-Andersen had proposed to study.

such as those related to elderly care, child care, culture and other areas (Olsson, 1987; Morel, 2007). The increase of the human and material resources involved in those services made possible the expansion of the range of services offered and the improvement of their quality.

The fourth pillar that made this welfare state feasible was the fiscal policy adopted by the government to achieve said goals. On one hand, this policy served to finance the social expenditures that were growing as a consequence of the enhancement of transfers and social services. On the other hand, the fiscal policy included a certain degree of discrimination in the allocation of the tax burden. This latter goal had, in turn, two broader goals: to bias the productive specialisation towards big businesses and to promote the equalisation of personal income. As a result, between 1955 and 1975, public revenues went from 25% to 41% of GDP (OECD, 2008). As for the tax structure, the share of corporate taxes went down as the effective tax rate dropped, particularly for the biggest firms (and despite a slight increase in the statutory rate, see Pontusson, 1992, p 73); the share of social security contributions increased strongly and personal income tax became more progressive, with rates augmenting throughout the period (Roine and Waldenström, 2008).

By means of the public policies applied in the four above-mentioned spheres, the welfare state achieved significant completion of its goals: it guaranteed full employment, provided better living conditions and reduced social inequalities. These goals had been at the centre of the aspirations of both leftist politicians and unionists for several decades, so these achievements became big historical conquests.

Unemployment remained at minimum levels (1–3% of the active population), whilst unemployment of duration longer than one year became almost non-existent (Rehn, 1990, p 47; OECD.Stat and OECD Main Economic Indicators). Workers' living conditions improved notably, through an enhancement of their purchasing power through pay rises (by almost 5% yearly, according to Edvinsson, 2005) and due to better public transfers and social services. Last, social inequalities were greatly reduced. Wage dispersion dropped abruptly (Hibbs and Locking, 2000, p 757), whilst the Gini coefficients followed a downward trend for the whole population (data from Spånt quoted at UNU-WIDER, 2008). Finally, data from SCB on manufacturing wages show a great equalisation tendency among the genders, totalling a 15% reduction of inequality during those years.

As a consequence, the use of the label *historical* in describing these conquests is no mere rhetorical flourish; it makes sense if we consider two complementary questions: (i) the achievements reached by the Swedish welfare state at its zenith—in the mid-1970s—had never before been reached, nor taken together have they been repeated in Sweden thereafter; and (ii) these achievements were and remain unheard of in the rest of the world: no other country has reached such levels as the Swedish welfare state at its zenith.

2.3 The symbiotic links between economic growth and the welfare state

Our analysis of the main features of the process of economic growth on the one hand, and of the welfare state on the other, reveals that there a two-way or bidirectional relationship existed between the two (Table 3). The sustained growth of production rendered the consolidation of the welfare state feasible and, in turn, that consolidation became functional to the continuation of growth.

Table 3. *Summary of virtuous links between economic growth and welfare state: 1950s to mid-1970s*

Economic growth → Welfare state	Welfare state → Economic growth
• Public resources to expand social wage • Productivity growth favours pay rises	• Strong public demand required to meet social goals • Active labour market policies to increase qualification and labour supply • Enhancement of social wage favours productivity growth and thereby employers' expectations • Social achievements enable economic stability and soften distributive struggle • Fosters and stimulates structural transformation (e.g., through solidaristic wage policy)

On one side, the sound increase in production, at 3.7% yearly, provided the material resources necessary to develop the welfare state pillars—which required a boost in public expenditures. At the same time, the strong productivity growth provided the margin for making pay raises sustainable.

On the other side, given that the achievement of the welfare state's goals made necessary an increase in public expenditures on consumption and investment, government demand became a central component of aggregate demand. Similarly, active labour market policies fostered qualification, whilst the improvement of public transfers and social services stimulated productivity growth and contributed to favourable business expectations. Moreover, social achievements enabled macroeconomic stability inasmuch as they paved the way for an agreed income distribution, preventing inflation trends that would have jeopardised the growth dynamics.

In addition to these, it is worth mentioning the virtuous links that also existed between the sociopolitical institutional framework and the welfare state (Table A1). The Social Democratic Party and its allied union (the LO) played an important role in the legitimation of expansive fiscal and social policies. The Social Democratic ideology shared by both actors was also decisive for giving shape to social benefits and services as universal, publicly delivered and with legal entity (social citizenship rights). At the same time, the welfare state was a legitimating factor for the Social Democratic governments and the social contract in general, strengthening the position of the unions and political parties whose constituencies were benefitting from it. There was therefore a reinforcing relationship between that institutional dimension and the welfare state.

2.4 The dismembering of the growth model, 1976–93: political and economic aspects of the crisis in the accumulation pattern

To accurately explain the process that started in the mid-1970s and finished with the end of the 1990–93 crisis, we have to turn to the triangular relationship mentioned in the beginning of this article. Although so far we have mainly focussed on the virtuous links between the welfare state and economic growth, the explanation of the break-up of those links requires considering the role played by the sociopolitical institutional framework. Our aim is thus to determine to what extent the dismembering of the welfare state model was due to its dysfunctionalities vis-à-vis economic growth, which in turn would have posed further limits to the welfare state, or alternatively, if there were other factors that negatively affected the economic growth and eroded the welfare state. Connecting the Swedish case with the evolution of the international economy, this was precisely the debate held since the 1980s by several scholars. On one hand, some authors have mainly blamed the welfare state for a purported lagging behind of Sweden compared with the rest of the OECD (Lindbeck, 1997; Henrekson, 2001). Others, in turn, have considered that the problems that Sweden had were in line with what happened in other advanced economies (Dowrick, 1996; Korpi, 2001).

First, the expansion of the welfare state created certain tension lines in the relationship between the welfare state and economic growth (see, for instance, Martin, 1984, section 3; Erixon, 1985, pp 12–30; Whyman, 2003, ch. 4). The development of the welfare state strengthened the labour movement to such a extent that it demanded (i) a further expansion of the welfare state (constraining public finances) along with additional wage increases; (ii) a new emphasis in the solidaristic wage policy (reducing thereby wage dispersion in a context of widening productivity differences); and (iii) from a minority of that labour movement, even a challenge of the private property of the means of production and of the employers' prerogatives. To this we should add some other problems related to the formation of incentives that affected efficiency, namely, the level of the tax wedge or the increase in sickness days per employee (Agell, 1996).

These tension lines, however, did not become so decisive as to explain the decline and subsequent dismembering of the model. The determining factors lie in the interaction of the economic and political factors unleashed since the mid-1970s: (i) the effect of the international economic crisis of the 1970s; (ii) the change in the correlation of right and left forces and (iii) the deregulation policies that lead to the creation of financial bubbles that triggered the 1990–93 crisis.

The deepening of the international economic crisis somewhat severely affected the Swedish economy as it was highly outward-oriented, limiting its growth capacity (Pontusson, 1992, pp 97–110; Martin, 1984, pp 423–38; Erixon, 2010, pp 686–87). As a result, one of the key elements of the accumulation regime, productivity growth, slowed down, accentuating thereby the redistributive struggle and complicating tax collection.

Although the change in the correlation of right and left forces falls directly under the realm of the institutional framework, which is out of the scope of this article, it is necessary to briefly epitomise it here given its influence on economic policies. On the one hand, the left-wing movement became weaker as a result of the erosion of both its main party and union. The support received by the Social Democratic Party decreased until they lost the election after 44 years of government. That was the result of several factors, including the effect of so many years holding power, which affected the support of a part of its constituency, and the mistakes made in some political campaigns (Korpi, 1983, pp 143–44, 225; Whyman, 2003, p 73). Regarding unions, the gradual domination by the service sector lead to a decrease in their inner cohesion; furthermore, the hegemonic union (the LO) became itself affected by deep internal divisions, which ultimately contributed to the decentralisation of wage bargaining (Korpi, 1983, p 230; Martin, 1984, section 3). Besides, the Social Democratic Party started in the 1970s a process of change in their ideological strategy towards more pragmatist positions (Blyth, 2002, pp 219–29; Ryner, 2002, pp 148–53). On the other hand, the right-wing parties accessed the government after several decades in the opposition, whereas the employers' association changed its leadership and adopted a more radical stance (Blyth, 2002, pp 209–19; Ryner, 2002, pp 144–47).

The subsequent new balance of power left its imprint on economic policies, favouring the introduction of some macroeconomic policies that were dysfunctional to the model as it had been working and precipitated the bursting of the crisis. Among them, the policies of liberalisation and economic opening exposed larger firms (already affected by the decrease in foreign demand) to further competitiveness pressures. Finally, the rapid deregulation of the financial sector in a context of low interest rates, fixed exchange rates and a tax system that incentivised borrowing, led to an increase of the credit and the creation of bubbles in the real estate sector and in the stock exchange (Whyman, 2003, p 95).

The combination of liberalisation and stabilisation policies, the slowing down of public demand and the growth of the two bubbles caused fatal errors in the functioning of the economy. When in 1990 international interest rates increased, interest rates in Sweden became under pressure, and the economy was the victim of speculative attacks. The government reacted by increasing interest rates, which became very high in real terms in a context of reducing inflation. The appreciation of the currency depressed foreign demand whilst the increase in the interest rates put an abrupt end to the bubbles and cut domestic demand. As a result, a great part of the banking system failed and had to be bailed out. A currency crisis followed the banking crisis, and faced with the impossibility of keeping a fixed exchange rate, the Swedish crown started to float in the end of 1992. The depreciation that followed put the basis for an export-led recovery, a recovery under a new accumulation pattern, since the above-mentioned events meant the dismembering of the Golden Age growth model (Ryner, 2002, pp 53, 148–51; Belfrage and Ryner, 2009, pp 268–70).

Therefore, the effects of the international economic crisis and, above all, the changes in the institutional framework explain the chain of events that triggered the crisis, preventing the accumulation regime from working. As a consequence, there was a dismembering of the welfare state model, which despite some dysfunctional aspects, had been in tune with that accumulation regime. The point of no return came with the outbreak of a deep economic crisis in 1991–93, after which a new growth pattern emerged (Glyn, 1995, p 119; Ryner, 2002, pp 152–54).

3. The new growth pattern and the new conditions for the welfare state: 1994–2008

3.1 Private sector primacy in the new accumulation pattern

The policies implemented to confront the 1991–93 crises marked a definite break with the previous economic path. They also settled the economic conditions that would give rise to the new growth model, whose main features were distinct from those of the model forged during the Golden Age. Under the new model, the economy was able to return to a growth path after 1994, although the strength of that growth (which averaged 3.1% annually) was lower than that of the 1950–75 period. Furthermore, the difference in the rates of labour productivity growth—measured in working hours—between the two periods was larger (2.2% versus 3.9%) causing labour efficiency to grow by 43% less than it did during the Golden Age.

The most salient feature of the new growth model is the dominance of private activity, both on the demand and supply sides, which contrasts with the previous model. Currently, the two main growth engines are private investment, whose rate of increase has averaged 5% yearly, and the foreign sector, with exports growing by 7.3% and imports by 6.6%. However, public investment has turned slower, and its increase rate hardly reaches 2.5% yearly, while the public consumption growth rate was 0.7% (Table 1).

The prominence of the private sector is similarly evident if seen from the supply side (Table 2). The new model has some capacity to create employment (at 0.8% yearly) thanks to the dynamism of private-sector firms, even as the employment in the public sector decreases. Something similar can be said from an economic sector point of view, given that private services and some manufacturing sub-sectors increased their GDP share, whilst public services experienced the opposite trend. The big industrial firms, financial services and a wide range of other service-related firms have led growth, although the increase in labour productivity has slowed down. This slowdown can be primarily explained by the weakening of the capital/labour ratio (1.1% yearly) despite the reduction in the capital/product ratio (–1.1%), which shows an improvement of capital productivity.

However, the slowing down of labour productivity growth has not prevented profits from soundly rising (over 8% in the case of the profit rate for several years in the period, according to data from SCB), leading to a better position of capital in the distribution of income. In contrast, wages have grown only moderately and have seen their income share go down. The same can be said of public revenues, whose collection has been under restraint after the implementation of measures like a ceiling for expenditures or a fiscal policy target of budget surplus of 2% of GDP (Erixon, 2010, pp 695–696). The recovery of profits and macroeconomic stability have become the major goals of the new economic policy (Ryner, 2002, pp 155–58; Erixon, 2010, pp 688, 702–3).

As a result, although the economic growth between 1994 and 2008[2] was slower than during the period 1951–75, it was notably higher than that of most advanced economies during the past two decades. Not only is Sweden's average growth rate 1 percentage point higher than the EU average (3.1% versus 2%), but the economic growth has been much more stable (data from *European Economy*, European Commission).

3.2 The changes in the welfare state

The welfare state has experienced many changes to its four pillars, and some of these are deep, affecting the central core of achievements made in previous decades and thus jeopardising the welfare state's very goals.

The labour market has suffered a radical transformation. Despite the increase in unemployment, the budget of active labour policies in the 2000s was lower in terms of GDP than in the 1980s, whilst the public employment destroyed since the 1990s amounts to over 200,000 people (data from OECD.Stat and SCB, respectively). Wage bargaining started its decentralisation in 1983, and the solidaristic wage policy has

[2] The year 2008 is the closing year of our analysis, given that, after consulting SCB, we were informed that it was the last year for which disaggregated data on the Swedish economy from the supply side were available when we finished this article. The rest of variables considered follow the same time period, to keep analysis homogeneous.

been severed since then. Therefore, some of the features of the previous period have disappeared, whilst others have been deactivated or toned down. In the absence of these, the new features of the labour market are a growing flexibility in the redeployment of labour (with a decrease in the employment protection standards measured by the OECD), the emergence of some forms of precarious employment (like temporary and part-time jobs, see also Davidsson, 2008), the increase in wage dispersion and the persistence of unemployment levels of 6–7% (data from SCB).[3]

Public transfers have been affected by the budget adjustment policies. The results are notable in the case of the sickness and unemployment benefits, whose replacement rates have been cut and whose durations have been shortened. The effect of budget policies in the area of housing subsidies has been larger, as coverage has declined (Berggren, 2005; Sjögren Lindquist and Wadensjö, 2006). However, the worst consequences of the implemented economic policies have been felt by pensioners. The pension reform linked pensions to economic, demographic and financial (to the extent that it includes a compulsory capitalisation component) variables, thus reducing their capacity to guarantee a decent standard of living to the elderly (Carroll and Palme, 2006, p 22; Belfrage and Ryner, 2009).[4] As a result, although Sweden still holds a privileged position on a worldwide scale in terms of the dimension and extent of social benefits, it is nonetheless noteworthy that the nation has dropped three positions in the decommodification index (falling behind Norway, Denmark and the Netherlands) and one position in the generosity index—again behind Norway (Scruggs and Allan, 2006).

Concerning public services, the most relevant feature has been the withdrawal of the state from certain activities in favour of the private sector, which has gained presence in the delivery of, for example, education and health care. That change has two major consequences. The first is the price rise of some services as a result of the cutbacks in public financing, as was the case with health care, where the average fee of 78 SEK in the mid-1990s reached 100–200 SEK in 2005 (all measured in 2005 SEK). The other consequence, aggravated by the previous, is the appearance of discriminatory practices in terms of residence, workplace and other aspects ultimately related to differences in social status or income level. This happened in cases of services previously delivered by the government on universal and non-discriminatory grounds, such as education and elder care (Blomqvist, 2004; Trydegård and Thorslund, 2010).

Finally, fiscal policy has also experienced fundamental changes which affect their function in the welfare state. Public expenditures were reduced by 16 percentage points of GDP between 1994 and 2008, whilst revenues dropped from 59.3% to 54.7% of GDP, that is, returning to levels reached in the mid-1970s (OECD, 2010). Moreover, progressive taxes have reduced their share in the tax structure, so that after the fiscal reform of 1990, the marginal rates for top incomes declined from 70% to 50% (Roine and Waldenström, 2008). Additionally, taxes with greater redistributive effects have a lower share in the new tax system. By 2007, one third of tax revenues came from

[3] These drawbacks are likewise notable in the employment rate, which fell from above 80% in the late 1980s to below 75% in the 2000s. The female employment rate, which had reached almost 80%, dropped to 73% in 2008 (OECD.Stat).

[4] There has been an exception to this general downwards trend in benefits related to family care (parental leave, child benefits, etc.). These have followed a more favourable path, which can be explained by the articulation of historic feminist demands with certain secular concerns, low birth rates and attempts to increase the labour force (see Huber and Stephens, 2001, pp 125–26 and *passim*; Morel, 2007, ch. 8, esp. pp 284–96).

personal income taxes (the only tax with a progressive structure, albeit not totally, as it has also a proportional component), and another third came from social security contributions (which are proportional) and nearly an additional third was obtained through (regressive) taxes on goods and services (OECD, 2008).

3.3 Breaking the links between economic growth and the welfare state

The lower growth rate of production, compared to the Golden Age, certainly curbs the collection of economic resources, which in turn affects the functioning of the welfare state (Table 4). Similarly, the sluggishness in labour productivity growth strikes at the redistributive possibilities (towards wages and public revenues) on which the welfare state had always rested. These aspects—the slowing down of both production and productivity—although perhaps logical, are not the main-line influences of economic growth on the welfare state. Indeed, the new economic model has hit the welfare state through new economic policies based on fostering profits and maintaining monetary stability (Ryner, 1998, pp 106–9; Erixon, 2008, pp 370–71; Belfrage and Ryner, 2009).

The state has stopped considering full employment, the improvement of living conditions for workers and the decrease of inequalities as its main goals. These goals could at best be secondary goals compared to profit increases and macroeconomic stability. However, data show a different reality, one in which the three basic goals of the welfare state have followed adverse trends compared to the Golden Age. The empirical evidence clearly reveals that:

- Full employment is not a basic policy goal any longer. Even in expansive economic phases, unemployment rates are still around 6% (OECD.Stat). Although this rate is lower than that of most European countries, it certainly represents a deterioration compared to the overall Swedish record.[5]
- The improvement of living conditions of workers is under strain as a consequence of slower wage growth, the worsening of some public transfers and the price increases

Table 4. *The new relationship between economic growth and welfare state: 1994–2008*

Economic growth → Welfare state	Welfare state → Economic growth
• Slower growth and new economic policies restrain resources to develop social wage • Lower productivity growth in a socioeconomic context more favourable to employers, puts a limit to pay rises	• Lower priority of social goals reduces the weight of public demand • Smaller social achievements play a less important in fostering productivity, stability and softening of the distributive struggle—which fall entirely under the social domain exerted by employers • Greater commodification of services creates new sources of profitability for firms

[5] The end of full employment as a priority goal can be traced back to the budget proposal of January 1991, in which the Social Democratic government fixed low inflation as the "major" (*övergripande*) goal of its economic policy (Lindbeck, 1997, p 1303). Huber and Stephens (2001, p 244) provide evidence that public policies began to be designed under the consideration of 5% as a normal unemployment rate, which is an indication of the institutionalisation of the end of public commitment to full employment, given Swedish standards.

and discriminations involved in the privatisation of social services (Ryner, 2002, pp 152–58; Belfrage and Ryner, 2009, pp 268–70).

- The decrease of inequalities in income distribution came to a halt in the 1980s and has been reversed since 1994, owing to three factors: the fall in the labour share of national income (from 77% in the second half of the 1970s to 67% in 2008, using AMECO data), the increase in wage dispersion and the worsening of public social policies. As a result, between 1981 and 2008, the Gini coefficient rose from 0.199 to 0.314, and the top decile's share of income distribution has risen from 17.5% to 25% (SCB, 2010).

Consequently, the welfare state's retreat is evident and subsequently affects economic growth. On one hand, the lower priority given to social goals, along with the loss of prominence of government, limit the growth in public demand, thus damaging aggregate demand. On the other hand, the fewer social achievements and the existing drawbacks restrict (or eliminate) the boost to productivity growth that they used to stimulate. Furthermore, the moderation of the distributive struggle, previously handled through consensus policies, now depend on the social dominion exerted by employers, the political framework and ideology. Nevertheless, these mechanisms can show signs of fragility if workers are capable of strengthening their capacity to bargain and claiming their rights.

With reference to the virtuous links that had existed between the sociopolitical institutional framework and the welfare state, they have also been eroded (Table A2). As has been said, social policies are given secondary importance in the priority-setting of public policies, which allows for cutbacks. Besides, the main features of social benefits (universalism, legal entity and public provision) are damaged under the ideological positions of ruling parties, emerging in turn trends of segregation and privatisation. Simultaneously, the greater presence of private providers in social services reinforces the dominant ideology that subordinates the role of the state. Finally, the re-commodification of labour contributes to its own fragmentation, weakening their positions.

4. Conclusion

After two decades of mutually reinforcing dynamics between economic growth and the welfare state, the confluence of exogenous factors (like the contagion of the international crisis) and other endogenous factors led to a decrease in labour productivity, an increase in the distributive struggle and a raise in the inflation rate. Simultaneously, the change in the correlation of right and left forces gave birth to the introduction of liberalisation and deregulation policies that boosted the formation of financial bubbles.

When those bubbles burst in 1990, a profound economic crisis hit Sweden, giving rise to deep changes in the economy and social organisation. After 1994, a new accumulation pattern took shape, the major features of which have been analysed in this article (see Figure 2). In contrast to the functioning of the economy during the Golden Age, Sweden now created some employment in the private sector, but productivity growth was slower. Specialisation hinged on certain private services and manufacturing branches. From the demand side, private investment was given fresh impetus whilst there was some recovery in private consumption, but above all exports strongly led economic growth. Sweden became a more open economy with a higher exposure

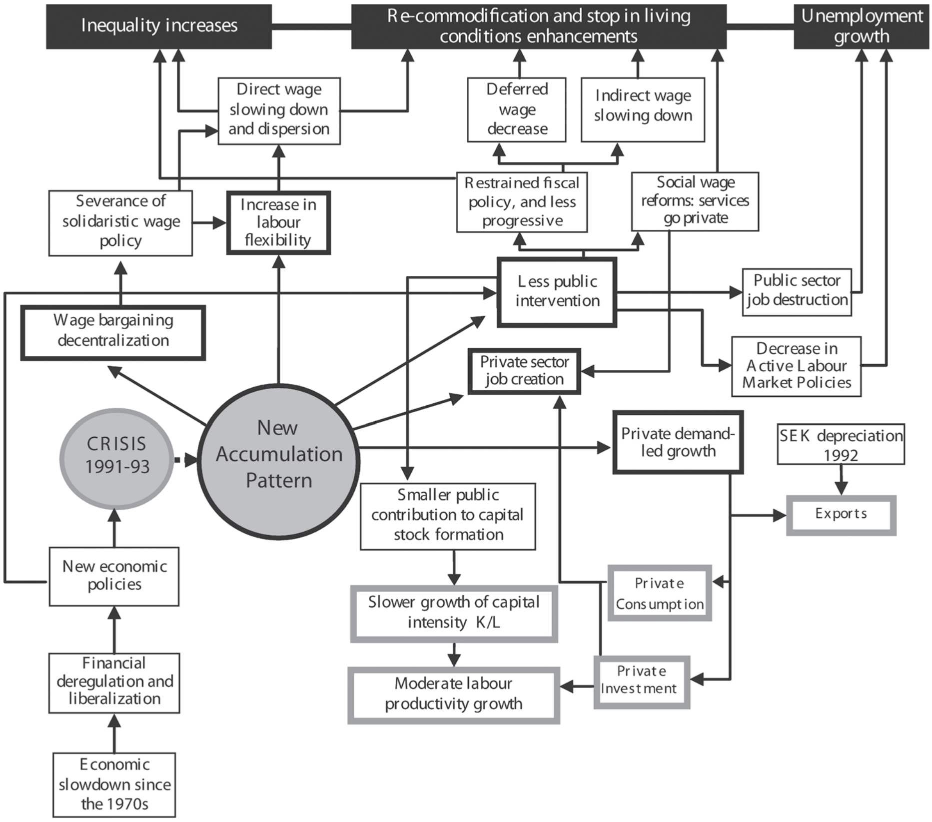


Fig. 2. *The new accumulation pattern and the welfare state.*

to international markets of goods and services, and its trade balance showed a growing surplus.

Under this new pattern, the role of government changed notably: creation of public employment weakened—destroying jobs in net terms—as did the capacity to foster demand through public consumption and investment. The base on which the welfare state had been built was thus damaged. Until that time, the long expansive phase of the welfare state was characterised by symbiotic links between the state and the dynamics of economic growth. After the mid-1990s those links tapered off. A slower growth in productivity limited pay rises, as well as the increase in public revenues; inflation control became the main goal of economic policy, allowing unemployment to grow. In that context of subordination of social goals to the dynamics of growth, private accumulation became the growth engine, and the encouragement of private profitability became the necessary condition. Therefore, trends that would have been previously offset—such as increased inequalities—were now reinforced through the growing commodification of public services.

On the whole, the welfare state has suffered relevant changes whose magnitude is revealed by many indicators, some of which have been shown in this article. These changes have caused the main goals of the welfare state to be subordinated, to be pushed into the background, giving priority to the new accumulation pattern.

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Appendix

Table A1. *Summary of virtuous links between the sociopolitical institutional framework and the welfare state: 1950s to mid-1970s*

Institutional framework → Welfare state	Welfare state → Institutional framework
• Legitimisation of public and fiscal policies • Universalisation of social benefits • Legal entity of social benefits (social citizenship rights) • Exclusion of the private sector in the provision of social services	• Guarantees the social goals accepted by social actors • Legitimates the governments of the Social Democratic Party • Enhancement of unions' strength and its position in the social pact

Table A2. *The new relationship between the sociopolitical institutional framework and the welfare state: 1994–2008*

Institutional framework → Welfare state	Welfare state → Institutional framework
• Undermining of the importance of public and fiscal policies: cutbacks • Erosion of the universalism of social services (segregation) • Partial questioning of the legal entity of some benefits • Boost of the private sector in the provision of social services → "Compensatory neoliberalism": despite regress, some of the old historical conquests remain	• Greater presence of markets in the provision of social services reinforces the subordinate role of the state and reaffirms the dominant ideology • The erosion of social benefits and the re-commodification of social services foster divisions inside labour