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Expansion and Retrenchment of the Swedish Welfare State: A Long-Term Approach

Luis Buendía

Abstract

In this article, we will undertake a long-term analysis of the evolution of the Swedish welfare state, seeking to explain that evolution through the use of a systemic approach. That is, our approach will consider the interrelations between economic growth (EG), the sociopolitical institutional framework (IF), and the welfare state (WS)—understood as a set of institutions embracing the labor market and its regulation, the tax system, and the so-called social wage—in order to find the main variables that elucidate its evolution. We will show that the expansive phase of the Swedish welfare state can be explained by the symbiotic relationships developed in the WS-EG-IF interaction, whereas the period of welfare state retrenchment is one result of changes operating within the sociopolitical IF and EG bases.

Keywords

Swedish Model, welfare state retrenchment, economic crisis, welfare state

Explaining the Evolution of the Welfare State: Theoretical Considerations

Given the vast amount of works studying the "welfare state," we must begin by making explicit the definition we shall use: we understand the welfare state to be

Isabel I University, Department of Economics, Fernán González, 76 09003, Burgos, Spain

Corresponding Author:

Luis Buendía, Isabel I University, Department of Economics, Fernán González, 76 09003, Burgos, Spain.
Email: luis.buendia@ui1.es

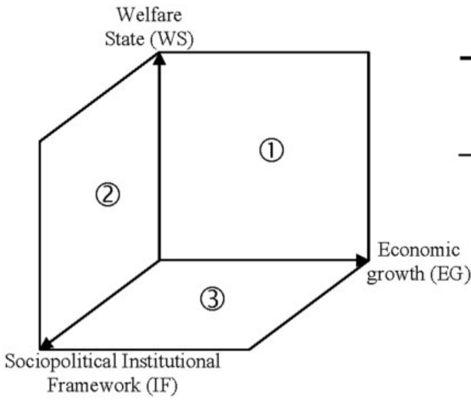
an institutional set composed of four major instruments in order to reach three main goals. A first goal, as can be found in certain pioneering texts on the welfare state (1–3), is to guarantee a certain minimum standard in the living conditions of a population. A second goal is to reduce social inequalities to a certain extent (2, 4). Beyond these two goals (security and equality), Beveridge (1) made a connection between the welfare state and a third goal—namely, full employment—without which the welfare state lacks a significant attribute, leaving the whole social policy vulnerable to challenge (5). To achieve these three goals, the instruments available are: (*a*) cash benefits, (*b*) social services, (*c*) labor market policies and regulations, and (*d*) fiscal policy.

Concerning the theories that explain the evolution of the welfare state, we will focus on the most outstanding (6–8). According to the functionalist or industrialist approach, social policies would have emerged from needs arising from the industrialization process and the modernization of economies, the political variables being of lesser importance in understanding the evolution of welfare states (9). A second theoretical category is neo-Marxism, for whose authors the welfare state is an outcome of capital's need to guarantee social reproduction, always functional to its own interests (10). With the exception of Ian Gough (11), these authors downplay the role of sociopolitical mobilization in explaining the evolution of the welfare state.

Other theories place sociopolitical variables at the center of their outlook, such as the power resources approach, which maintains that it is through the welfare state that political actors move the distributive struggle from the labor market to the political arena. In this case, working-class strength—expressed through unions or political parties—becomes the main variable in understanding welfare state expansion and regression (12, 13).

More recently, the new politics of the welfare state have required a search for novel explanations for the retrenchment of the welfare state, different from those used to explain its expansion. The emphasis is here put on stakeholders, such as pensioners or public employees, whose prominence has been enhanced during recent decades (14, 15). The argument goes further to maintain that the welfare state is the new *status quo*, and that path dependency makes radical changes to welfare states highly unlikely.

All in all, these theories can be represented through a bidirectional system of reference wherein the explanation of the welfare state draws on the dynamics of economic growth (EG) and on the sociopolitical institutional framework (IF), but also on the interaction between the two (Figure 1). We shall apply this framework to the Swedish case, given the paradigmatic nature that its welfare state (WS) achievements have acquired in the specialized literature (16, p. 114; 17, Section 3; 18, pp. 23, 30–35); and we will focus on the period from 1950 to 2006, a year that marked the end of an age for Swedish Social Democracy, whose evolution has been closely linked to that of the welfare state.



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

Figure 1. Explaining the evolution of the welfare state.
Source: Buendía and Palazuelos (19, p. 762), by permission of Oxford University Press and the Cambridge Political Economy Society.

In this article, we argue that: (*a*) two phases can be clearly distinguished in the evolution of the welfare state, an expansion phase and a retrenchment phase, with a transition phase between them; (*b*) the duration and conditions of the expansive phase are the result of the symbiotic relationships developed in the interaction of WS-EG-IF; and (*c*) welfare state retrenchment can be explained through changes operating in the sociopolitical IF and EG bases.

Apart from the present introduction, this article has five sections. The first presents the above-mentioned framework during the expansive phase of the welfare state, finishing with an analysis of the implications of the situation in the 1970s. Next, we study how changes were introduced into the Swedish system, and then we measure the evolution of the welfare state using a series of indicators related to the welfare state's own goals. In the final section, we report on the conclusions of our study.

Consolidation and Expansion of the Swedish Welfare State

The Building of the Social Democratic Hegemony

In 1932, the Social Democratic Party (SAP) was able to form its own government for the first time, launching an era of Social Democratic governments that would persist until 1976 (with the exception of three months in 1936). Still in need of support from other parties (namely, the Agrarian Party), and with harsh opposition from the employers' association (the SAF), the SAP managed to compel an understanding between employers and unions despite a context of continuous labor conflict (12). In 1936, the government forced unions (led by the most important of them, the Social Democratic LO) and employers to initiate talks to put an end to labor-market conflicts, and employers chose to accept, changing their previous strategy, given the force position acquired by the labor movement (20, p. 72; 21, p. 72 ff.). After the Saltsjöbaden agreements in 1938, the SAF recognized the LO's right to organize and to strike, while employers obtained fiscal advantages introduced by the SAP government and full prerogatives over the management of firms. Furthermore, after that time, exporting firms would become wage leaders in collective bargaining.

After the Second World War, the SAP and the LO completed the shaping of a strategy that involved a "retreat from planning" (22, p. 53) and the use of a system of incentives within the framework of a market economy. The Rehn-Meidner model must be taken as a part of this global strategy. This included the application of restrictive policies to avoid situations in which profits were so high that wage drift gave rise to inflation, and also to promote public savings, whereas full employment would be achieved by means of active labor market policies. Moreover, fiscal incentives were created to stimulate investment and thus private-sector employment creation. Another element of the model was the wage policy of solidarity, by which the only differences allowed between wages would be those related to the working environment and the nature of a given job (22, 23).

All these elements shaped a social agreement (an "historical compromise," according to Korpi) in which investment remained within the responsibility of private firms, suggesting that adequate profitability levels should be guaranteed (see Figure 2). In addition, those firms were the only actors allowed to decide on the evolution of their management, and labor unrest could challenge neither investment nor a firm's prerogatives. Meanwhile, working-class representatives in unions and in government would try to improve the situation of labor by enhancing the welfare state and moving closer to its original goals: full employment, equality, and the improvement of living conditions. The main instruments to achieve those goals were the public policies implemented by (Social Democratic) governments and centralized wage bargaining between unions and employers. In the center of the overall picture, we have as a common goal the commitment of both social classes to economic growth, this being understood as the tool that would allow the existence of a positive-sum game, at least in theory.

The Accumulation Pattern During the Expansion of the Welfare State

The accumulation pattern had a major pillar in the social pact reached between unions and employers. Consequently, between 1950 and 1975, economic growth reached an annual average of 3.7 percent (calculated with data from Statistiska

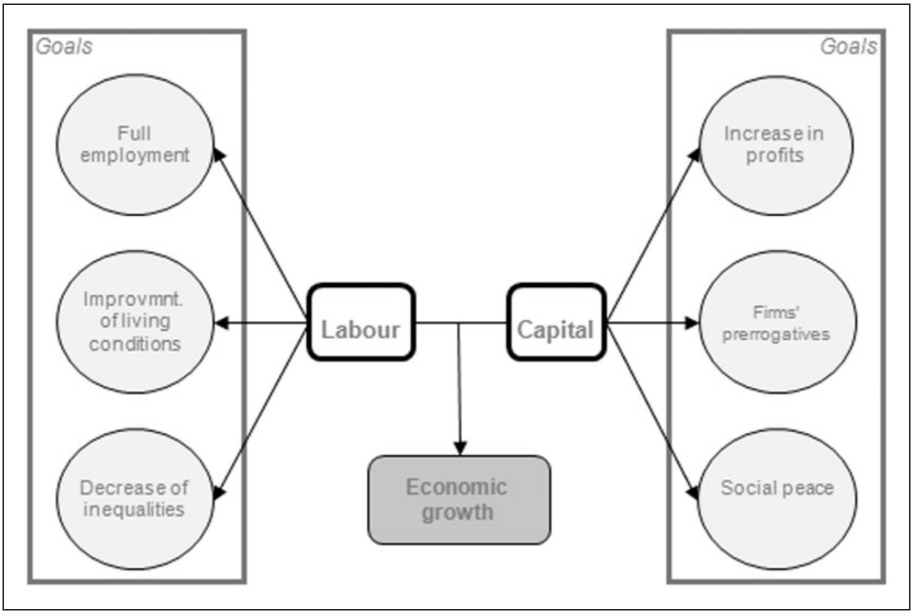


Figure 2. The historic compromise.
Source: Own elaboration.

Centralbyrån [SCB]), fostered by the strong increase in private and public demand. Turning to the supply side, the most dynamic factors were labor productivity, with an average growth of 3.9 percent annually, and strong capitalization, with the capital-labor ratio augmenting by a robust 4.8 percent per year (for calculation data, see 24).

The evolution of labor productivity was strong enough to allow for the implementation of generous public policies and greater public revenues and to keep business profits at a high level (particularly for big businesses), while wages kept growing at a steady pace (by 3.5% annually, in the case of the manufacturing sector, according to SCB data). The biggest firms became central actors in the economic pattern, given that they benefited from a more favorable fiscal treatment (22, pp. 71–74; 25, p. 44), the demand from the public sector in expansion (26, p. 54), and an environment of peaceful labor relations (like their smaller partners). Those bigger firms held also dominant positions in the manufacturing sector—the engine of economic growth, along with public services. This ensured that, despite the decline that profitability experienced during those years, the level of profits remained high enough to lead to an intense capitalization and to sustain investment.

On the whole, the virtuous relationships between aggregate demand, productive supply, income distribution, market structure, and institutional consensus favored the reproduction of the accumulation pattern over two and one-half decades, serving as the productive base of a growing welfare state.

Consolidation and Expansion of the Welfare State

Although some improvements had already been introduced in the 1930s, it was not until after the Second World War that the welfare state expanded to reach its period of greatest splendour. Regarding the first of its instruments, the labor market, four measures can be highlighted. First, active labor market policies were implemented to increase the active population, the employed population, and the mobility of employees. Therefore, by the end of the 1960s, Sweden's public expenditures in this area amounted to 1.2 percent of gross domestic product (GDP), while Japan, Germany, and Canada were all below 0.4 percent (27, 28). Second, the role of the public sector as an employer was enhanced in such a way that public employees more than tripled in number between 1950 and 1975 (24). Third, centralized bargaining between unions and employers guaranteed the application of the agreements reached by the leadership of their organizations. Fourth, the wage policy of solidarity was designed to reduce wage dispersion and to avoid wage drift in high-productivity sectors in order to curb inflation.

Cash benefits during these 25 years experienced considerable expansion and improvement, with this trend accelerating from the end of the 1960s (29–31). Existing benefits were improved through parametric reforms by softening or eliminating qualifying conditions (e.g., lowering the retirement age in 1974 and reducing waiting days for sickness benefits and work accident insurance in 1967), increasing benefit duration (in sickness benefit, work accident insurance, unemployment benefits, maternity allowance), and raising benefit amounts (which grew well over inflation across all benefits). Furthermore, new benefits were created, including general child allowances and housing allowances for families in 1948 (32). In 1955, a compulsory sickness insurance scheme was created to replace the prior system of state subsidies to voluntary societies; since 1963, it has been a part of the national insurance system. In 1960, the compulsory supplementary pension (ATP) was introduced, involving old-age pensions, invalidity pensions, and survivors' pensions. Since 1974, those unemployed who do not qualify for ordinary unemployment insurance have been able to rely on a cash labor market support. Finally, in that same year, new parental insurance replacing the old maternity allowance was created, along with a parental benefit for temporary childcare (33).

Meanwhile, social services followed the same growth path. After the mid-1960s, the government invested large amounts of money to expand elderly care and childcare services. For example, there was a fivefold increase in kindergartens between 1965 and 1975 (34). On the other hand, there were several major reforms in health care services, the most important being the introduction of national health insurance and the restriction of private provision of health care (35, p. 212). Finally, education services were promoted by the introduction in 1964 of study loans and educational allowances (as an extension of child allowances for children between the ages of 16 and 19 in lower and upper secondary schools). In addition, municipal adult education was instituted in 1967, and free admission to universities was established in 1975 (30, pp. 25–26).

Fiscal policy during these years had three main missions: it had to provide the economic resources to finance the above-mentioned instruments; it had to contribute directly to achievement of general welfare goals, decreasing inequalities in particular; and its design would help shape economic specialization, which (as we have seen) hinged upon the largest firms. According to Olsson (30, Table 13), total public revenues went from 24.2 percent to 50.7 percent of GDP between 1950 and 1975. Concerning the composition of tax revenues (36), the declining share of corporate taxes is remarkable, owing (at least in part) to the drop in the effective rate—particularly for the biggest firms (and despite a slight increase in the statutory rate; 22, p. 73). The share of social security contributions in total tax revenues augmented notably as a result of changes introduced in the financing system of income maintenance benefits (reducing the share paid by the insured), whereas personal income tax became more and more progressive, with rates augmenting throughout the period (37).

Beyond the Welfare State

The outcome of this process of consolidation and expansion of the welfare state was successful if measured by the welfare state's own goals. Although we shall examine this in detail presently, suffice for now to say the following: (*a*) full employment was a reality following the Second World War and until 1975, insofar as the unemployment rate varied between 1.4 percent and 2.7 percent (38, p. 47; Organisation for Economic Co-operation and Development [OECD] Statistics and Main Economic Indicators); (*b*) improvement in living conditions was achieved through the growth of both direct wages and social benefits, as mentioned above; and (*c*) inequalities were reduced in all their forms (i.e., wage dispersion [39, p. 757], Gini coefficients [see data from Spånt, 40], and gender inequality [judging from SCB data on the manufacturing sector]).

However, some portions of the working class demanded movement beyond that welfare state, in order to extend democracy from the political sphere to the economic sphere. Therefore, the LO argued for a series of new laws that strengthened the participation of labor in the decision-making process of businesses (41, p. 60), and those laws were passed between 1972 and 1976. In addition, the LO launched a proposal to create so-called wage-earner funds. These funds would be composed of 20 percent of firm profits in the form of shares and would remain under union representative control, meaning that as firms acquired profits, a large part of their ownership would feed into these funds controlled by workers, thus socializing the ownership of production in a gradual way. But these funds were also an attempt to provide capital and thus contribute to employment creation, so that this initiative could be coordinated to apply to industrial policy (42, 43).

Both initiatives (legislation on workers' participation and wage-earner funds) clearly signaled the position of the correlation of forces then present in Sweden, showing the strength that the working class had achieved by the 1970s. At the same time, the initial reaction of the employers' federation to the wage-earner funds proposal was adaptive. It published reports that, instead of rejecting the idea, merely attempted to tone the proposal down, but implicitly recognized certain validity to the original proposal made by Meidner (see 44). Nevertheless, harsh disagreements arose inside the SAP and outside, which, given that the 1976 elections were close, led the SAP to postpone any official decision on the issue.

In conclusion, the historical compromise reached between the 1930s and the end of the Second World War established the sociopolitical institutional framework of corporatist relations around three main agents: the SAP, the LO, and the SAF, shaping the system from a non-conflictive basis. The economic outcomes were a success thanks to the symbiotic links developed between the growth pattern, on the one hand, and the sociopolitical institutional framework and the welfare state, on the other. There were, however, some sources of potential problems: (*a*) the system provoked the strengthening of the working class, giving rise to new demands surpassing the perimeter of the old compromise; (*b*) the decisions emerging from centralized bargaining were causing problems at a micro level in those (mainly smaller) firms incapable of improving their productivity; and (*c*) the growth of the services sector had the capacity to change the balance of power toward the workers' side, since the hegemonic LO could see other unions with different political positions or allies (such as TCO or SACO) grow.

Reform And Retrenchment Of The Swedish Welfare State

The year 1976 represented a turning point in the political economy of Sweden. To start with, it was then that the international economic crisis hit Sweden: according to data from SCB, during the period 1976–1978 the annual growth rate of the economy was at 2 percent or below, with 1977 being the first year with negative growth since the Second World War. Also in 1976, the right-wing coalition (the "bourgeois parties") managed to form its own stable government for the first time in 44 years.

Both events heralded a new era in Sweden. However, this era has not been continuously uniform. Analysis of the Swedish political economy during the long period between 1976 and 2006—still the last year in which the once-hegemonic Social Democracy governed Sweden—reveals the existence of two shorter periods of analysis, split by the deep crisis of 1991–1993. So between 1976 and 1990, the dismembering of the old model took place in the form of a transition period, until the crisis hit. Then, once this crisis had been surmounted, after 1994, a new growth pattern took shape.

Transition and Economic Crisis

The 1970s started with a radicalization of the labor movement and ended with the bourgeois coalition forming its second government in a row. With a right-wing government in place, the employers toughened their position (20, p. 144). Moreover, this happened in a context in which Swedish firms intensified their export orientation and reduced their reliance on domestic raw materials, which reinforced capital structural power (16, pp. 250–251; 45, p. 381). After that, employers began launching their attack against the model then in operation, and they did so using two strategies: favoring a change in discourse, with heavy expenditures on propaganda, and refusing to participate in corporatist institutions (41, p. 78). Furthermore, to clarify their position of strength, a 1980 labor conflict with the LO was solved by employers calling for a lock-out which, according to Korpi (12, p. 159), proved to be the greatest labor conflict ever in a Western nation, provoking the loss of 4,116,198 workdays and affecting 687,550 employees (data from the Medlingsinstitutet).

In parallel with the strengthening of employers, the cohesion of the labor movement eroded due to the growth of the service sector and disagreements between unions concerning the wage differentials that had emerged (43, p. 223). As a consequence of actions by employers and trends inside the labor movement, there was a decrease in bargaining centralization, which meant the end to the wage policy of solidarity long favored by the cohesion of the labor movement (42). Added to this, the progress of labor participation in corporation management decisions was halted during the period 1976–1982 (46), and the wage-earner funds were finally introduced by the Social Democrats but in a watered-down configuration (41, p. 79). All these measures represent the increasing marginalization of LO from economic policymaking (see also 27, p. 692; 47, pp. 213–214).

Nevertheless, the welfare state remained largely unchanged. The commitment to full employment was maintained by both right-wing and Social Democratic governments, and cash benefits and social services in general continued to improve during these years, but at a slower pace. The only notable exceptions to these trends were the above-mentioned decentralization of bargaining in the labor market and cuts in personal income marginal tax rates (48, p. 38).

Of greater importance were the changes applied within the regulatory framework of economic relations. With the aim of stimulating growth of the economy, regulation of the financial sector and other markets was radically reduced. In the financial sector, the degree of liberalization was below the OECD average in

1973, but by the end of the 1980s, it was well above that average (49). These measures caused a partial recovery of economic growth rates but also gave way to the creation of two bubbles: one in the stock exchange and one in the real estate sector. Meanwhile, the slowing down of public demand and the stabilization policies applied to curb inflationary pressures, in combination with those bubbles, ended in the emergence of fatal errors in the economy's overall functioning.

The point of no return came in the form of a deep economic crisis in 1991–1993, after speculative bubbles burst (20, pp. 148–154; 50, p. 119). The effects of this crisis were huge: between 1990 and 1994, employment was reduced by 16.6 percent, while national income and industrial production dropped by 13 percent and 17 percent, respectively, between 1990 and 1993 (51, Table 1). According to Reinhart and Rogoff (52, p. 164), the cost of bailing out the banking sector was between 3.6 percent and 6.4 percent of GDP, and public debt grew by 24 percent, excluding the effect of the GDP fall (53). But the most important consequence of the crisis was that it marked the beginning of a new accumulation pattern (or a "new economic order" [54]), as we shall see presently.

The Weakening of the Social Democratic Movement

After three years of right-wing government, Ingvar Carlsson was elected in 1994, starting a new period of Social Democratic government that would last until 2006. This time, however, changes inside the party were a clear sign that its priorities were different. In the later part of their previous term of office, the Social Democrats had sacrificed the goal of full employment, with low inflation becoming the "overall goal" (*övergripande*) of the economic policy (55, p. 1303; 56, p. 265). On the other hand, if the SAP government in 1982 had rejected and canceled the cutbacks that the bourgeois government had applied to social benefits, by 1994 they were accepted (57, pp. 72–73). Only in the late 1990s, when the economic situation improved, did the government restore some of the regressive changes introduced earlier—but never to historic high levels. Above all, the changes in economic policy were crucial for subsequent evolution. Fiscal austerity became the cornerstone of the economic policy when a ceiling for expenditure was introduced in 1995, and an intense program of privatization was made over in the period 1994–2006 wherein average revenues generated $1.4 billion per year, 18 percent greater than the average attained during the Moderate mandate (data from 58).

This ideological transformation also had quantitative consequences. During the 1990s, the number of SAP militants declined by almost one-third (59, p. 19, Table A2) and the percentage of votes they obtained declined from 45 percent in 1994 to 35 percent in 2006, reaching a level similar to that of the 1920s (data from SCB). The LO in turn attempted to confront these changes, which led to the so-called war of roses between it and the SAP (20, p. 151; 28, p. 87). However, ideological changes permeated even the Social Democratic union, leading it to accept measures such as pension reform (46).

Without much opposition from the left, the economic-policy paradigm of Swedish Social Democrats changed by adding some neo-monetarist elements: destruction of public employment, tax cuts, self-imposed budget constraints, and the curbing of inflation as the only monetary policy goal (23, Appendix 1).

Characterization of the New Accumulation Pattern

The economic policies implemented by the new governments succeeded in restoring economic growth, which averaged 3.3 percent annually between 1994 and 2006 (better than during the 1980s, yet still below the rate it reached in the period 1950–1975). However, labor productivity slowed, making distributional arrangements harder to achieve. Beyond this, the most salient feature of the new growth model was the dominance of private activity: private investment, whose rate of increase averaged 5.3 percent yearly, and the foreign sector, with exports growing by 7.9 percent, became the two main growth engines. However, public investment slowed, and its increase rate hardly reached 2.5 percent yearly, while the public consumption growth rate was 0.7 percent.

Concerning the supply side of the economy, there was some job creation between 1994 and 2006 (0.7% annually, if measured in persons) but this was thanks to the private sector, since the public sector destroyed employment throughout the period. Moreover, the economic sectors that increased their share in the economy were certain private services (data consultancy and data services, telecommunications) and some manufacturing branches (e.g., electrical and optical equipment), while public services retreated. Therefore, driven by foreign demand, the economic specialization hinged upon the information and communication technologies sector, intensifying previous trends and leaving behind traditional leading sectors, such as the wood and paper/pulp industries. Corporate strategies also changed during this period, introducing more flexible forms of labor hiring and reducing stocks and turnovers (20, 46).

In terms of the distribution of income, the slowing down of labor productivity did not prevent corporate profits from soundly growing. In contrast, wages increased at a moderate pace and the labor share in the national income distribution declined. The same occurred with public revenues after their growth was limited by budget restrictions implemented by both right-wing and Social Democratic governments. Macroeconomic stability and the recovery of corporate profits became the basic goals of the new economic policy (20, pp. 688, 702–703; 27, pp. 155–158), and this had effects on the development of the welfare state.

Welfare State Reforms in Sweden

The four instruments of the welfare state—labor market regulation and policies, cash benefits, social services, and fiscal policy—suffered from many changes, including deep modifications that affected the core of the historical achievements of Swedish labor. Changes in the labor market have certainly been radical. The decentralization of collective bargaining in 1983 reached even the public sector, where flexible compensation schemes were introduced (60, pp. 93–94). As a result, the Swedish wage system in the second half of the 1990s was more decentralized than that of Finland, Germany, Ireland, Italy, or the Netherlands (27, p. 702). Another radical change was the destruction of public employment, reduced by more than 200,000 jobs since 1990. At the same time, active labor market policies reduced their expenditures per user in real terms, so that levels attained in the second half of the 1980s were never again reached, despite the necessity implied by rising unemployment rates. Finally, more flexible labor market regulation was introduced, particularly after the 1997 reform (61).

Budget adjustment policies affected cash benefits. Replacement rates and the duration of sickness and unemployment benefits were cut. Coverage of housing subsidies declined (31, 33). Meanwhile, pension reform linked pensions to economic, demographic, and financial (for those with a compulsory capitalization component) variables, thus reducing their capacity to guarantee a decent standard of living to the elderly (17, p. 22; 46). Other benefits, namely those linked to family care, experienced smaller changes and, when cut, were often restored to their initial levels.

Regarding public services, the withdrawal of the state from many sectors was noteworthy. The so-called choice revolution initiated by the Moderate Party in 1991 allowed the private sector to increase its presence in the provision of social services. When the SAP returned to government, it reversed only a portion of those reforms (62). Childcare improved throughout this period, reaching quasi-universal coverage (34, pp. 341–342), but elder care coverage was reduced, becoming more selective but of higher quality and service, and it was partially privatized through the adoption of a purchaser-provider model (34, pp. 183–238; 61).

Finally, as a result of the ceiling introduced in 1995, public expenditures were reduced by 14 percentage points of GDP between 1994 and 2006. Public revenues in turn dropped from 59.3 percent to 55.8 percent of GDP (i.e., returning to levels reached in the mid-1970s [63]). At the same time, the tax structure became less progressive: after the tax reform of 1990, the marginal rates for top incomes declined from 70 percent to 50 percent (37, 64), and the share of the income tax (the only tax with a progressive structure, although only partially) in total tax revenues went down from 38.6 percent in 1990 to 31.9 percent in 2006 (36).

Measuring the Evolution of the Swedish Welfare State through its Goals

To better understand the effect of the changes experienced by the welfare state, we compare the fulfilment of its goals during the expansive phase to that of the retrenchment phase. To do this, we have selected several indicators divided into three areas, one for each goal: full employment, improvement of living conditions, and equality (see Figure 3).

Employment creation always remained low when measured in persons, but after 1994, it became even lower, whereas employment creation measured in working hours reached positive growth rates for the first time during this second phase. This means that the reduction in working hours per employee halted after 1994 (calculated with data from 24; SCB and Konjunkturinstitutet). The employment rate and the activity rate followed a growing trend until the crisis of the early 1990s, after which the former never managed to regain levels reached in the 1970s. The female employment rate and the female activity rate experienced a similar trend, but the crisis hit them less severely, and these levels thereafter continued higher than in the 1970s (data from OECD.Stat). Finally,

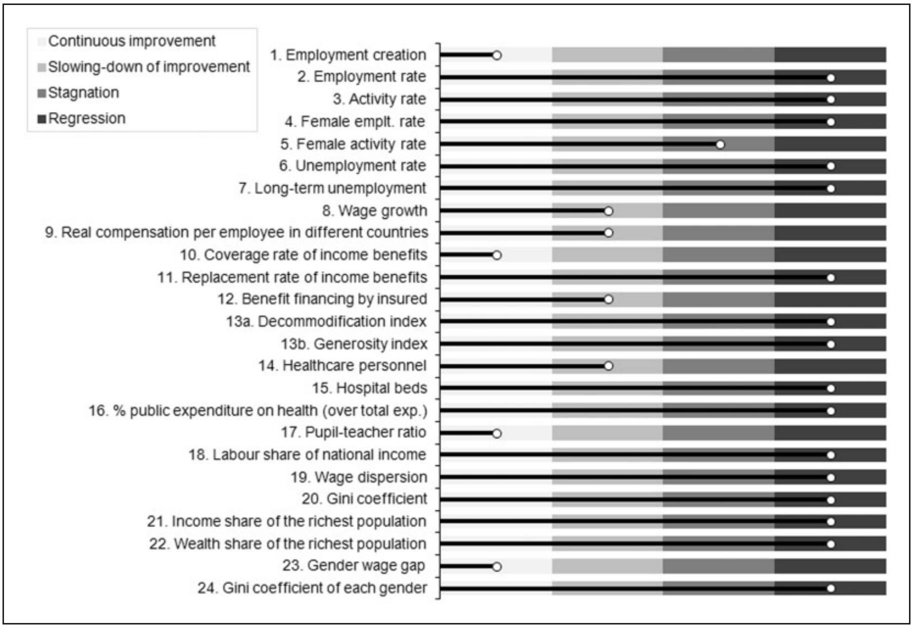


Figure 3. Evolution of the Swedish welfare state by indicators.
Source: Own elaboration.

the unemployment rate increased after the crisis and never returned to previous levels (data from OECD.Stat).

The improvement of living conditions is assessed through the evolution of wages, cash benefits, and social services. According to data from AMECO, real compensation per hour grew by 3.3 percent per year in the period 1961–1975 and by 2.3 percent per year in the period 1994–2006. As a consequence, the convergence that had occurred vis-à-vis the United States in this area became a divergent trend, and other countries such as France and the United Kingdom (which had registered lower compensations per hour) reached and even surpassed Swedish levels.

Cash benefits experienced a continuous increase in coverage to 100 percent in the most important categories (old-age pensions, unemployment and sickness benefits, and work accident insurance), as well as a general reduction in the percentage paid by the insured; replacement rates, however, were affected by austerity measures and never again reached levels seen before the crisis (32). Using a synthetic indicator of cash benefits like those developed by Scruggs and Allan (65), the regress is clear from the late 1980s using both the decommodification and generosity indexes. On the other hand, qualitative reforms that have already been discussed, such as the old-age pension reform, are not considered in these data—and their sign is incontrovertible, turning a defined benefit system into a defined contribution system and introducing a compulsory funded component that made pensions partially dependent on financial markets (46, p. 274).

The evolution of social services we assessed through indicators of staff, resources, and fees. Health care personnel (physicians and nurses) and education personnel increased throughout the period, with the crisis having only a slight impact; indeed, the ratios of pupils per teacher, for example, were lower in 2006 than in the 1970s. Nevertheless, hospital beds were substantially reduced after the Ädel reform of 1992 that fostered home-based care for the elderly, thereby lowering the ratio of beds per 1,000 population to well below the OECD average, for both general and acute care (66, 67). As a result, "patients were sent home "quicker and sicker" (68). On the other hand, the minimum general health care fees paid by patients grew by 23 percent in real terms from 1990 to 2005 (69). At the same time, data on the presence of the private sector in the provision of social services demonstrate a steep increase since the 1990s (17, p. 25; 62, pp. 142, 148–149; 66; 69, p. 50), the consequences of which we shall consider later.

Finally, inequalities, which had followed a fast downward trend until the late 1970s and early 1980s, began growing again, albeit with some exceptions. The labor share of national income grew until 1978 and decreased thereafter, owing to the slowing down of wage growth and the increase in unemployment (24; AMECO). Personal income distribution became more unequal due to: (*a*) the increase in the capital share of national income (capital income is more concentrated than labor income); (*b*) the growth of wage dispersion as a result of the decentralization of wage bargaining, the expansion of unemployment, and the worsening of other labor-market conditions; and (*c*) the decline in the redistributive capacity of government (70). Therefore, the income share owned by the richest 10 percent of the population went from 22 percent in 1982 to 28 percent in 2004 (37), while the Gini index of disposable income increased by 56 percent, moving from 0.199 in 1981 to 0.311 in 2006 (71). Another area in which inequalities experienced a surge was in the segmentation of demand of social services: private providers have proliferated in higher-income areas, and the children of richer families tend to avoid schools with a high percentage of immigrants (62, pp. 142, 147–150; 69, p. 50). This process damaged the universalist essence of the Swedish welfare state. Only in the case of gender inequalities do we observe a more positive trend: data from SCB for the manufacturing sector show that the wage gap between genders for employees decreased throughout the period, reaching the lowest figures in the series in 2006.

Conclusions

The 1970s represented a turning point in the evolution of the Swedish welfare state. The sociopolitical framework embarked on its most profound changes during those years (with a turn to the left and then to the right), while the dynamic of economic growth suffered its first serious interruption in decades. However, it was after the deep economic crisis of 1991–1993 that a new accumulation pattern appeared with modifications to the growth model and the consolidation of political changes that had begun to emerge during the 1980s.

The expansive phase of the welfare state lasted so long that symbiotic relationships between economic growth and the welfare state were unquestionable. The sustained growth of production made the consolidation of the welfare state feasible by providing the material resources needed to develop the welfare state pillars, which required a boost in public expenditures. Furthermore, the strong productivity growth allowed for a sustained increase of wages and other incomes. In turn, the consolidation of the welfare state became functional to the continuation of growth through government demand and to some of the welfare state instruments. Moreover, social achievements enabled macroeconomic stability inasmuch as they paved the way for an agreed income distribution, preventing (high) inflation trends that would have jeopardized the growth dynamics.

These symbiotic links were not limited to the area of economic growth, as the sociopolitical institutional framework contributed to justifying the role of social and fiscal policies and shaped the welfare state along three main features: universality, legal entity (in the form of social citizenship rights), and exclusion of the private sector from the provision of social services. At the same time, the welfare state made real the social goals included in the historical compromise, provided a source of legitimacy for the SAP governments, and increased the strength of unions.

Nevertheless, comparison of the 1970s to the evolution thereafter shows the existence of a retrenchment of the welfare state (Figure 3), given that: (*a*) only some aspects of cash benefits (such as coverage), social services (education), or inequalities (gender) kept improving at the same pace; (*b*) a slowdown was notable in the growth rate of wages, in some aspects of cash benefits (financing by the insured), and in services (health care personnel); and (*c*) in some cases before the crisis and in others thereafter, owing to the economic policies applied, most indicators used in this analysis (16 out of 24) experienced clear regressive trends.

Welfare state retrenchment in Sweden was partially induced by some factors related to its own functioning: the strengthening of the labor movement, which led some factions to demand the increase of social expenditures and wages, creating budget problems and inflation; the intensification of the wage policy of solidarity, despite the context of widening differences in productivity between firms; and the questioning of the historical compromise. Other exogenous factors, such as the impact of the international economic crisis in the mid-1970s, also played a role in that retrenchment. However, neither the endogenous nor the exogenous factors were decisive, given that the most significant worsening in the welfare state took place afterward, once the labor movement had lost ground.

Rather, our research shows that the determining causes of the erosion of the welfare state were in the deep changes that occurred in its political and economic bases. In the socioeconomic institutional framework, the SAP, after losing the elections in 1976, initiated a revision of its political positions; when it returned to power in the 1990s, motivated also by the deep economic crisis, it advocated an economic policy that modified the welfare state. Moreover, the weakening of the union's inner cohesion and the ultimate decline in membership damaged the capacity to influence economic policy, particularly after some leaders embraced change. Meanwhile, the right-wing parties managed to hold the reins of power during three terms of office between 1976 and 2006. Allied with employers, they first intensified their opposition to wage-earner funds and to other measures in line with economic democracy, then they challenged the welfare state as it had been developed to that time. As a consequence of both processes, an economic policy based on liberalization, deregulation, privatization, and prioritization of inflation over all other economic goals persisted, regardless of the ideological position of the party in office.

The dynamics of economic growth also experienced severe changes. During the transition period, 1976–1993, economic growth slowed down and the government tried to reverse this trend through liberalization and deregulation of the economy, giving way to the formation of speculative bubbles in the stock exchange and the real estate sector. At the same time, growing tensions in the labor market after the consensus had been broken led to inflationary pressures, which were curbed by adjustment policies. After 1994, the new accumulation pattern offered greater and more stable growth rates, but its relationship with the welfare state had changed. The economic role of the government weakened, as did the capacity to foster demand through public consumption and investment. The basis on which the welfare state had been built was thus damaged, and the symbiotic links between the state and the dynamics of economic growth that had existed during the Golden Age tapered off. A slower growth in productivity limited pay rises, along with the increase in public revenues; inflation control became the main goal of economic policy, allowing unemployment to grow. In that context of subordinating social goals to the dynamics of growth, private accumulation became the growth engine and the encouragement of private profitability became the necessary condition.

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