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The Swedish Welfare State Model: A Brief Overview

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Abstract

The Swedish welfare state model has its roots in home turf as well as in the soil of other nations, mainly Germany and Britain. It took on its characteristic shape as the People's Home in the 1930s, when national models to the left and right of the political spectrum in many countries were built around "the people". At the time it was also labelled "the middle way" between capitalism and socialism. During the 1960s "record years" the Swedish welfare state grew rapidly. It stood at its zenith around 1970, hailed internationally as the Swedish model. However, the welfare state and the economy, closely intertwined, soon entered into a protracted structural crisis. In the early 1990s, Sweden experienced a deep and to a large extent home-made financial crisis and the Swedish model became a warning example in some quarters. Out of the crisis arose a revised model in which welfare services were still provided more or less "for free" (i.e. funded by tax money) while at the same time there were customer/user choice of and competition between public and private providers. Today this revised model is under attack due to the existence of "welfare profits". It is also challenged by demographic developments – an ageing population and many immigrants lacking entry to the labour market.

Key words: Welfare state, Peopleôs Home, Swedish model, financial crisis, bumblebee, revised model, welfare profits, immigration, trust.

Introduction[1]

For some 80 years, the Swedish welfare state has attracted international attention, sometimes as a model, sometimes as a warning example. The ñSwedish modelò became a world-famous brand, especially around 1970 when Sweden reached a top position (no. 4) in the OECD ñleague of wealthò (measured as GDP per capita; today Swedenôs position is no. 11)[2] and when prime minister Olof Palme established Sweden as (what came to be known as) ñthe moral superpowerò (Nilsson, 1991) among developing countries; the stage had been set already in the 1950s by United Nations Secretary-General Dag Hammarskjöld.

The purpose of this article is to provide a brief overview of the origins and development of the Swedish model.[3] Now, this concept has two meanings. Firstly, there is the welfare state model constructed by Social Democratic governments beginning in 1933, the so-called *People's Home* (*Folkhemmet*). Secondly, there is the labour market model established through the Saltsjöbaden Agreement signed in 1938 between the Swedish Trade Union Confederation and the Swedish Employers Association with the intent that these parties should handle labour market agreements and

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[1] We are grateful to Professor Lars Jonung for his valuable comments.

[2] http://www.ekonomifakta.se/en/facts-and-figures/economy/economic-growth/gdp-per-capita-/?graph=/12524/1/all/ (accessed on 02 December, 2016).

[3] It is not possible to offer references in systematic way in an overview of such a huge area; only some examples of interesting reads are given. For a recent overview of the Swedish welfare state, see Bergh (2014). The economic context in which the welfare state was formed is portrayed in Jonung & Ohlsson (1997) and Schön (2010). The spirit of the ñwelfare yearsò is captured in Hägg (2005). Much of the literature on the Swedish model is naturally but unfortunately only published in Swedish.

conflicts without much interference from the government (Lundh, 2010; Swenson, 2002). Another important element of this model was the so called Rehn-Meidner model, which intended to increase structural change through ñsolidarity wage policyò.[4] This article will focus on the welfare state, although there are no bulkheads between the two models.

At present, the Swedish model is a hot topic among Swedish politicians. Prime minister Stefan Löfven, Social Democrat, in a speech on February 29, 2016, called for a ñbattle on the Swedish modelò with no small ambition: ñWe should not be ashamed of striving for a world-leader model [é].ò[5] Löfven promises to develop the Swedish model. The Sweden Democrats, a party based on nationalism and social conservatism and the third largest party in parliament, is also ready to rumble, although from a more backward-looking perspective.

A Not So Old Concept

In todayôs debate, it is more or less taken for granted that the Swedish model is an old concept. In both left and right rear-view mirror one seems to behold a machinery running smoothly before globalization and mass migration made it squeak; the left side blames the noise on the mobility of capital, the right side blames it on the mobility of people.

However, a search in the digital newspaper database at the Swedish Royal Library reveals that the Swedish model, referring to welfare state or labour market, was hardly ever mentioned before the mid-1960s. The ñtake offò for this concept came in the 1970s, when a trade union economist wrote a book on ñThe Swedish Modelò (Leion, 1974). Between 1911 and 1965 ñthe Swedish modelò was mentioned off and on in the press, but referring to a lot of other things: machine guns, bayonets, uniforms, refrigerators, shoes, caps, dresses, glasses, vermin on horses, bathing suits, diving suits, canoes, football, handball, tennis, boxing, weightlifting, speedway, Volvo cars, Hasselblad cameras and much more.

The predecessor concept, the *People's Home* (*Folkhemmet*), on the other hand, was established from the very start of the creation of the modern Swedish welfare state. Originally, international class struggle (ñworkers in all countries, unite!ò) had been the leitmotif for a socialist party like the Social Democrats. However, in a speech in parliament in 1928 the leader of Social Democrats Per Albin Hansson launched the *People's Home*. Some of his words have echoed through history: ñA home is founded upon community and affinity. The good home is not aware of any privileged or underprivileged, any pets or stepchildren.ò This meant a new course for the Social Democrats. Instead of class warfare, the working class was to be integrated into the nation. Consequently, in the 1930s Social Democrats shifted emphasis from socialization of the means of production to planned economy, i.e. control over the use of the means of production. However, the *People's Home* was not an entirely new concept when Per Albin Hansson launched it. We need to go back in time to find the roots.

Some Foreign Roots

As is well known, Germany was a pioneer on the road towards a welfare state. Many German intellectuals to the left and right were united in their animosity towards liberalism and in their belief in a strong government and ñsocial kingdomò. They collaborated with the Prussian chancellor Otto von Bismarck, ñthe white revolutionaryò, who, during the 1880s, set out to render Social Democracy

[4] This model was named after two trade union economists, Gösta Rehn and Rudolf Meidner, and launched in 1951. The basic idea was that all industries, irrespective of their profitability, pay the same wages for similar work. Less efficient companies would then eventually go out of business, efficient companies would make huge profits and expand and the government would through its labour exchanges transfer workers from the former to the latter.

[5] http://www.regeringen.se/tal/2016/02/tal-av-stefan-lofven-striden-om-den-svenska-modellen/ (accessed on 02 December, 2016).

harmless by using both whip, anti-socialist legislation, and carrots, social insurance covering industrial injury, health and pensions.[6]

Ideas about how to solve the ñsocialò or worker question spread from Germany to Sweden from the 1870s and up to World War I. To begin with, German ideas were imported by a liberal politician, Adolf Hedin. Also, Swedish social scientists of different political colours ï among them economists who would become world-famous like Knut Wicksell and Gustav Cassel ï studied at German universities and were inspired by German ñsocialist of the chairò professors like Adolph Wagner and Gustav von Schmoller (Carlson, 2016; Hort, 2014a). Many of these scholars also studied in Britain and were affected by similar ideas over there, developed by Sidney and Beatrice Webb and other members of the Fabian Society. German ideas were also imported by socialists; the Swedish Social Democratic pioneer August Palm was inspired by socialists like Ferdinand Lassalle and August Bebel.

Around the turn of the century 1900, a kind of proto-fascist and German-friendly intellectual movement saw the light in Sweden, aiming at integrating the working class in the national ñorganismò. Before WWI, the leader of the movement, political scientist Rudolf Kjellén, named this organism the *People's Home*.[7] When Germany lost the war, its model was discredited and not invoked any more. When Per Albin Hansson reinvented the *People's Home* there was of course no mention of Kjellén. Nonetheless, it has been said that Kjellénôs ñidea of national consensus probably affected Social Democracy at least as much as Karl Marxò (Ljunggren, 1994, pp. 18-19).

Two important social insurance reforms were implemented in Sweden before and during WWI, a national pension system in 1913 by a Liberal government and industrial injury insurance in 1916 by a non-parliamentarian government. These reforms were inspired by what had been achieved in Germany. However, the pension reform was not designed after the Bismarck model, since it covered the whole population and not just the working class (Edebalk, 2013a).

The People's Home

Social Democrats had been in power several times before the 1930s ï in coalition with the Liberal party during 1917-20 and by themselves, with Hjalmar Branting as prime minister, in 1920, 1921-23, and 1924-26. However, the creation of a *People's Home* was not begun until they gained power in the autumn of 1932, just as the Great Depression reached its nadir. The Social Democrats came very close to a majority of their own in parliament. They soon ï in May 1933 ï entered into a horse trade[8] with the Farmerôs party which meant that they secured a public works programme in exchange for protectionist policies aimed at agriculture. The fact that Social Democrats seemed to offer a powerful programme in the midst of the depression and that they instigated an alliance between workers and farmers meant a political realignment that would keep them in power for 44 years!

The policies pursued by Per Albin Hanssonôs government could be summarized as crisis policy, welfare policy and economic planning. The crisis policy was mainly designed by the minister of finance Ernst Wigforss, with a theoretical underpinning developed by the so-called Stockholm school of economists ï among them Erik Lindahl, Gunnar Myrdal and Bertil Ohlin and the somewhat younger Dag Hammarskjöld, Erik Lundberg and Ingvar Svennilson ï who had arrived at similar conclusions about counter-cyclical policies as John Maynard Keynes in his *General Theory* (1936) (Jonung, 1991a). Sweden made it through the depression relatively unscathed. The main reason for this was not the public works programme but the depreciation of the Swedish *krona* after Sweden

[6] See e.g. Barmeyer (2002), Beck (1995), Retallack (1988), and Wehler (1973).

[7] Kjellén also wrote in an almost prophetic way of national socialism and the leader principle.

[8] In Sweden, this agreement was actually called cow trade, *kohandel.*

left the gold standard in September 1931, and the ensuing under-valuation when the *krona* was pegged to the British pound in 1933 (Lundberg, 1994).

Welfare policies were designed by two competing Social Democrats: Gunnar Myrdal and Gustav Möller, minister for social affairs. Myrdal swiftly established himself as a ñsocial engineerò and leading architect behind the *People's Home*. This position was strengthened not least by his and his wife Alvaôs 1934 book on the ñpopulation crisisò. In a stroke of genius, the Myrdals captured this issue from the conservatives and used it for their own purpose: only ambitious social reforms aimed at low-income families could reverse the trend of falling birth-rates. ñThe architecture of the Swedish welfare state was thus put in place under the smokescreen of the population argument.ò (Barber, 2008, p. 59)[9] The book resulted in a Population Commission, working 1935-38 (with Gunnar Myrdal as one of its members). Myrdal continued full steam ahead in politics until 1938 when the Swedish government announced a ñreform pauseò at the same time as the Carnegie Corporation invited him to conduct a study on the American race issue. The main results of the Myrdalsô activities were housing for working class families and means-tested child benefits.

The other leading architect, Gustav Möller, was not like Myrdal an elitist social engineer. He advocated general reforms with benefits for everyone to avoid stigmatization, and served as minister for social affairs for two decades (1932-51) (Rothstein, 1985).

Economic planning was another major topic in the 1930s. A debate flared up in 1934 when Social Democrats declared that they would continue to strengthen the stateôs influence over economic life even though recovery was well on its way (Carlson, 1994, chapter 7; Lewin, 1967). Gunnar Myrdal was in the forefront, allied with the more liberal Bertil Ohlin. Their former teachers, economists like Gustav Cassel, Eli Heckscher and Gösta Bagge, lined up to fight against this belief in planning which was now practiced in countries like the Soviet Union, Nazi Germany, Italy and the United States. However, the many committees of inquiry into different industries did not produce any sharp policy recommendations and the debate calmed down. In 1939, when the economy had to be converted from peacetime to preparedness for war, everyone agreed that economic planning was needed.

The *People's Home* may not have been a widespread buzzword outside of Sweden in the 1930s. What caught on was instead ñSweden, the middle wayò, the title of a book written by the American Journalist Marquis Childs (1936), who portrayed Sweden as treading a middle way between capitalism and socialism. ñPeople saw in Sweden a continuing social reform, the building up of a welfare state, and experimentation with stabilization policy, while preserving the conditions of an expansive free-market capitalist economy.ò (Lundberg, 1985, 1)

Post-War Planning

If Keynesô 1936 book became a world-wide recipe for how to combat unemployment and economic crises, William Beveridgeôs 1942 plan became a similar recipe for how to arrange social insurance in a uniform way, covering the whole population. Gustav Möller was inspired by Beveridge, but did not manage to break the Swedish tradition, stemming from the 1916 industrial injury insurance, based on fees and compensation related to loss of income. However, he managed to introduce a tax-funded pension system in 1946 offering basic security for all over 67 years of age. (Edebalk, 2013b)

At the end of World War II, another battle over planned economy broke lose. It was triggered by the Social Democratic 1944 post war programme, which declared that wartime economic planning had shown that resources could be fully utilized and unemployment eliminated and that this system of planning should continue also in in peacetime ï or, as it was said ï harvest time. Once again,

[9] See also Carlson (1990) and Tilton (1992).

Gunnar Myrdal was in the front line, as chairman of the Commission on Postwar Economic Planning, the ñMyrdal Commissionò. The non-socialist parties and organizations representing business and industry organized a resistance movement, PHM,[10] and there was a replay of the 1930s battle, with Wigforss and Myrdal on the one side, and Bagge and Heckscher on the other.[11] A major difference was that Ohlin had now, as leader of the Liberal party, switched sides and that new ammunition, Fredrich von Hayekôs *The Road to Serfdom* (1944), was brought into the line of fire. The epilogue to this battle played out in the elections of 1948, which Social Democrats won by a very thin margin. The result of their offensive was rather meagre due to the massive resistance. Once again, the heated feelings cooled down.

The Golden Age

The 1950s and 1960s have been labelled ñthe golden ageò. Europe was rebuilt with the help of Marshall Aid after the wartime destruction and Sweden, one of the few European countries not directly involved in the war, met the demand with an unscathed production apparatus. Full employment and active labour market policy became attributes of the Swedish model (Lundberg, 1985). An era of labour force immigration began, where migrants came first from the Nordic countries, then from Italy, and in the 1960s, the so called ñrecord yearsò, from Greece, Yugoslavia and Turkey (Lundh & Ohlsson, 1999). Women also entered into the labour market in large numbers; their participation rate increased from 49 to 82 per cent between 1963 and 1988 (Stanfors, 2014, table 4). The 1960s also saw a forceful housing programme. One million apartments were built, meant to house the Swedish working and middle classes in an era of rapid urbanization. However, the million programme areas gradually deteriorated into ñghettosò for immigrants.

Child allowance for all had been introduced in 1948. A public health insurance reform was the subject of a protracted power struggle and when a it was implemented in 1955, Möllerôs original proposal of a basic standard for all had been replaced by a system with income-related sickness benefits. A (new) law on occupational injuries was also implemented in 1955.

At the same time, another major political battle erupted, this time around the issue of an income-based pension system. Among other things, there was a fear within non-socialist parties that huge pension funds could be used to control business life. In 1957, three alternatives, launched by the Social Democrats, the Farmers party (from this time named the Centre party) and the Conservative/Liberal parties, respectively, were put before the Swedish people in a referendum. The result was inconclusive and the coalition government between Social Democrats and Farmers was dissolved. An extra election in 1958 resulted in a hung parliament but in 1959, when one Liberal member abstained from his vote, the Social Democratic alternative won the day. Thus an income-based supplementary pay-as-you go pension system, the so-called ATP, was established. This system naturally generated gradually increased expenditure. In 1970, the ATP constituted about 10 per cent of all public expenditure for retirees (pensions and housing allowances), twenty years later it constituted 50 per cent (Ringqvist, 1996, p. 295).

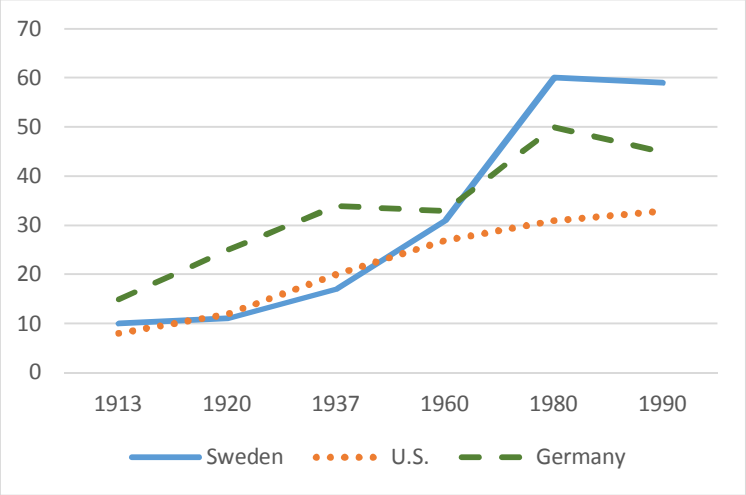
One would think that Sweden at the beginning of the 1960s, after 30 years of Social Democratic rule, would have had an exceptionally large public sector. However, as can be seen from *figure 1*, government expenditure as percentage of GDP was by this time almost the same ï about 30 per cent ï in Sweden, the United States and Germany, countries representing the Social Democratic, Liberal and Conservative/corporative welfare model respectively according to Gösta Esping-Andersenôs (1990) well-known typology. The extraordinary expansion of Swedenôs government expenditure occurred during the next twenty years. The welfare element within this broad category of expenditure shows a somewhat different starting point: in 1960 social transfers as percentage of

[10] Abbreviation for *planhushållningsmotståndet*.

[11] Cassel passed away in early 1945. The planning side was strengthened by economist Karin Kock and the resistance movement by political scientist and editor of *Dagens Nyheter,* Herbert Tingsten.

GDP were 11 per cent in Sweden, 7 per cent in the U.S. and 18 per cent in Germany; in 1980, the corresponding figures were 26, 15 and 26 per cent, respectively (Lindert, 2004, table 1.2). The trends are thus similar to the ones in figure 1. Sweden and the U.S. display very moderate transfers in 1960 but in the next twenty years they increased rapidly in Sweden.

Figure 1: Government expenditure as percentage of GDP in Sweden, U.S. and Germany 1913-1990



Source: Tanzi & Schuknecht (2000), table I.1.

Explanations for the exceptional expansion of the Swedish public sector during this era have variously focused on factors of demand and supply. Tage Erlander, Social Democrat and prime minister for 23 years (1946-69), used to talk about a popular dissatisfaction rooted in rising expectations. Erik Höök (1962), who wrote the first dissertation on the expansion of the Swedish public sector, concluded that the development was more or less automatic, due to rising incomes, expenditure complementary to private demand and some transfer of expenditure from private to public sector. His explanations were accordingly in line with Wagnerôs Law of increasing public expenditure from the late 19th century. His opponent, Göran Ohlin (1963), was critical and used a powerful metaphor to characterize Höökôs view of politicians: they are like locusts floating down the Mississippi, thinking they are good swimmers. Danier Tarschys (1983) pondered rather upon the effects of ñthe public revolutionò. Magnus Henrekson (1990) found no support for Wagnerôs Law or Peacock and Wisemanôs ñdisplacement effectsò but leaned towards the supply side: bureaucratic pressure, Baumolôs disease and interest group activities. Emil Uddhammar (1993) concluded that many reforms had been adopted by consensus.

Coming back to Esping-Andersen for a moment, his typology, according to which the Swedish Social-Democratic model is ñuniversalò, has been questioned since, in the basic social security systems, benefits are based upon earned income up to a certain level (see e.g. Magnusson, 2006). Moreover, Esping-Andersen claims that the Social Democratic model is based upon the idea of ñdecommodificationò, i.e. people shouldnôt be forced to sell their labour in order to survive. However, Sweden has one of the highest employment rates in the world. The paradox thus seems to be that in order to free people from being coerced to work, government has to coerce people to work. A Catch 22 situation!

Structural Crisis

In 1973, the world was struck by the first oil-crisis. By now, Swedenôs industrial competitiveness had weakened. Japan and newly industrialized countries (NICs) out-competed Swedish shipping, steel and textile industries. Sweden fell into a structural and competitiveness crisis.

An economist, Erik Dahmén, had for a long time warned about an upcoming structural crisis.[12] However, Swedish politicians, blinded by fast economic growth during the ñgolden ageò, or affected by ña kind of national hubrisò (Lundberg, 1985, 4), figured the crisis was a temporary phenomenon which could be ñbridgedò through Keynesian policy and huge subsidies to troubled industries. This reaction characterized the Social Democratic government as well as the Conservative-Liberal-Centre government which gained power in 1976.

The result of this ñbridgingò was a protracted cost-crisis which successive governments tried to counteract through a series of devaluations: three times in 1976-77 (3, 6 and 10 percent), in 1981 (10 per cent), and, finally, the big one when Social Democrats returned to power in 1982 (16 per cent) (Jonung 1991b). There was now talk of ña third wayò, and, according to the new minister of finance Kjell-Olof Feldt (1991), the ambition was to restrain the expansion of the public sector and allow export industries to grow. However, this was easier said than done, especially when public sector unions took control of wage formation. Between 1975 and 1991 nominal wages increased sharply but real wages hardly increased at all. Credit market regulations became obsolete as money flowed through grey/black channels, and during the 1985 ñNovember Revolutionò the credit market was deregulated (Svensson, 1996).

Meanwhile, the welfare state for a while continued its expansion: dental care, parental and unemployment insurances were introduced in 1974, a new law on industrial injuries in 1977, and child allowances were increased almost every other year. Around 1980, the expansion was however halted, as can be seen from *figure 1*. ñThe time of a rapidly expanding public sector is goneò, noted Erik Lundberg (1985, 28).

Government also intervened in the labour market, thus affecting the balance of power between employersô and workerôs organizations within the framework of the Swedish labour market model. Legislation on job security was introduced in 1974 and legislation on co-determination in working life in 1977; these laws put an end to employersô right to freely manage and distribute work and to hire and fire workers. 20 years later, Kjell-Olof Feldt (1994, p. 157) wrote about this: ñGovernmentôs deep ï and biased, sometimes in one, sometimes in another direction ï involvement in the conditions of production makes trade unions and employers more antagonistic than they would be if they had to settle their disputes by themselves.ò

Above all, the political climate was poisoned by a proposition from the Swedish Trade Union Confederation (*Landsorganisationen, LO*) to introduce collective wage-earnersô funds. The proposal was designed by the economist Rudolf Meidner, whose ambition was to shift the power over industry from capitalists. Once again, non-socialist parties and business organizations mobilized a resistance movement. In October 1983, 75,000 people took to the streets of Stockholm to protest against the proposal. A watered down version was approved by parliament shortly thereafter. When a no-socialist coalition government was formed in 1991, the fund system was scrapped and has not since been renewed.

The 1990s Crisis and Its Aftermath

At the end of the 1980s, the Swedish economy was overheated, partly due to the deregulation of the credit market. There was a severe lack of labour ï unemployment was only 1.6 per cent in 1990. Three years later it was 8.2 per cent.[13] Sweden had entered into a largely homemade financial crisis, a currency crisis ï in 1991 the Swedish central bank fixed the krona against the EU currency (ecu) and tried to defend this exchange rate with an interest rate of up to 500 per cent! (Dennis, 1996) ï a real estate crisis, a banking crisis, in other words ï a depression.

[12] Dahmén was nicknamed ñthe Cassandra of Swedish economyò by Social Democratic minister of finance Gunnar Sträng. See Eklund (1986).

[13] http://www.scb.se/statistik/am/am0401/sysselsattning_och_arbetsloshet_1975-2004.pdf (accessed on 02 December, 2016).

A coalition government led by the Conservative (Moderate) Carl Bildt was formed in the autumn of 1991, just as the crisis was unfolding. Government expenditure as percentage of GDP reached almost 70 per cent in 1993 as expenditure caused by the crisis (e.g. unemployment benefits) increased at the same time as GDP decreased. The figure subsequently fell back to 50 per cent in 2007, on the eve of the next financial crisis.[14]

During the 1990s crisis, the Swedish model became a warning example and proclaimed a failure in newspapers and journals like the *Wall Street Journal* and the *Economis*t; this caused Peter Lindert (2004) to include (ten years later, when the Swedish economy had recovered) a chapter ironically captioned ñOn the Well-Known Demise of the Swedish Welfare Stateò in his book *Growing Public*. Lindertôs (2004, pp. 291-295) general conclusion was that there was nothing wrong with the Swedish welfare state. Swedenôs crisis was solely caused by ñ*defective macroeconomic policies*ò.

In late 1992, the government appointed a commission, chaired by the renowned economist Assar Lindbeck. Within three months, the commission presented an analysis of the crisis and no less than 113 recommendations about what to do (Ekonomikommissionen, 1993). The general message was that Swedenôs economy should be liberalized in order to enhance stability and efficiency. One of the recommendations (no. 61) said that all production within the public sector which is not exercise of authority should in the long run be exposed to competition. Lindbeck, a former Social Democrat, followed up his recommendations with an analysis of ñthe Swedish experimentò (1997) in which he argued that the Swedish model had not been designed according to a plan but was the result of many separate decisions over a long period of time. However, behind these decisions an ideology could be discerned: faith in economies of scale, centralized interventions and a sceptic attitude towards markets, economic incentives and private entrepreneurship (except for large-scale corporations). Lindbeck argued that the Swedish experiment had gone too far and that Swedenôs economic growth had been lagging behind since 1970. This debate on welfare state and economic growth had been going on for quite some time with sociologist Walter Korpi (1991) as the main adversary to the lagging behind thesis.

Some privatizations of welfare services had occurred already in the 1980s, inspired by the international trend which was in turn inspired by Margaret Thatcherôs privatizations in Great Britain. In 1983, a private kindergarten opened, owned by Electrolux, one of Swedenôs largest corporations. Leading Social Democrats immediately reacted against ñmaking money on childrenò and a law (*Lex Pysslingen*) was instituted to prohibit this experiment. In 1991, the new non-socialist government abolished this law and declared it was heading down ñthe only wayò. Gradually, under socialist as well as non-socialist governments, the welfare sector opened up for private initiatives.

In 1994, the Bildt coalition government was replaced by Ingvar Carlssonôs Social Democratic government, with Göran Persson as minister of finance. In 1996, Persson took over as prime minister, a position he held for ten years. He launched the idea of the ñGreen Peopleôs Homeò and brought order to public finances. Persson liked to play around with a metaphor ï he likened the Swedish model with a bumblebee. This metaphor even became title of a 2003 book on Sweden published by the International Monetary Fund, in which the following words by Persson were quoted: "Think of a bumblebee. With its overly heavy body and little wings, supposedly it should not be able to fly ï but it does." (Thakur et al., 2003, cover page) In a speech in 2005 he went even further: ñThe bumblebee can fly [é]. We have a welfare state which was considered to be too heavy and clumsy to get along in the new and open world. But it is not only doing well, it is apparently doing best of all.ò[15]

[14] http://www.scb.se/statistik/_publikationer/OE0903_2009A01_BR_03_OE06BR0901.pdf (accessed on 02 December, 2016).

[15] http://www.socialdemokraterna.se/Var-politik/Arkiv/Kongresser-och-konferenser/Kommunkonferensen-2005/Goran-Perssons-tal/ (accessed on 02 December, 2016).

A new revised Swedish model gradually took shape; sometimes it was even described as a ñliberal revolutionò (Eriksson et al., 2012) or ñthe lost world of social democracyò (Hort, 2014b). The welfare sector ï education, health care, care of children and the elderly ï opened up for customer/user choice and competition between public, private for-profit companies, non-profit organizations, and cooperatives. There had been two basic arguments against privatization: everybody should have access to services of the same quality irrespective of ñthe size of the walletò, and corporations should not be allowed to make profits from these services. The first argument was made irrelevant in the new model, where services, irrespective of who was the producer, were overwhelmingly paid for by tax money. The second argument lingered on and eventually, as we shall soon see, erupted.

The development of this model has been summarized in the following words:

> A pervading pattern is that non-socialist governments have pressed for privatizations through national reforms while Social Democrats, when in government, have mainly checked the development without preventing or abolishing already implemented privatizations. Several national reforms saw the light of day during the term of office 1991-94. In its own words the non-socialist government laid the foundation for a ñrevolution of choice within welfare policyò. (Jordahl & Öhrvall, 2013, p. 84)

When two Swedish economists, Andreas Bergh and Magnus Henrekson (2012, pp. 133-134), asked themselves why Sweden was doing so well they came up with the following answer: ñSweden does well largely because we have reduced the size of the public sector. The Swedish model (the bumblebee) flies because it is no longer as ótheavyôò. They pointed to the fact that public expenditure and tax rate as percentage of GDP had been reduced by about 10 percentage points since 1990 and that ñan overall assessment of research implies that a 10 percentage point lower tax or expenditure ratio is associated with between 0.5 and one per cent higher growth rate, which is a relatively large effectò.

The Great Recession

When the Great Recession broke out in 2008, history in some sense repeated itself. Just as in the 1930s, the United States, the origin of the crisis, was seriously hit whereas Sweden got off lightly. Unemployment in the United States doubled between 2008 and 2010, from 5 to 10 per cent,[16] whereas in Sweden it increased from 6.2 to 8.6 per cent.[17]

In 2006, Sweden got a coalition government ï the Alliance ï under the leadership of Conservative (Moderate) Fredrik Reinfeldt. In spite of rising unemployment, a series of earned-income tax credits were introduced, intended to increase the supply of labour. The fact that this government managed to navigate through the storm pretty successfully produced a result unusual in Swedish context: a non-socialist government that could stay two terms in office. During this eight-year regime there was a benign attitude towards customer/user choice, private alternatives and competition within the welfare sector.

Welfare Profits

The core of Swedish welfare ï the mantra repeated by politicians to the left and right: health care, school and care[18] (*vård, skola, omsorg*) ï has thus to a certain extent been privatized. In 2012, about 15 per cent of welfare services were produced by non-public actors, a little more in child care and a little less in health care. The most privatized sub-sectors are high schools (about 25 per cent),

[16] http://data.bls.gov/timeseries/LNS14000000 (accessed on 06 December, 2016). Age group: 16 years and over.

[17] http://www.sverigeisiffror.scb.se/hitta-statistik/sverige-i-siffror/samhallets-ekonomi/arbetslosheten/#819ca7e3-d0fc-493f-ae0d-7c0c3ddd01fd (accessed on 06 December, 2016). Age group: 15-74.

[18] i.e. care of children, elderly and handicapped.

home care (almost 25 per cent) and primary health care (more than 30 per cent) (Jordahl & Öhrvall, 2013).

For several years the privatization trend was discussed in pretty nuanced terms (see e.g. Blomqvist & Rothstein, 2000). However, in 2011-12 media revealed a ñscandalò within a corporation offering care for the elderly. From then on, the argument that ñwelfare profitsò is an abomination gained ground. The Left party (former communists) made it into their big slogan in the 2014 election campaign. After this election Social Democrats formed a government in coalition with the Green party, supported by the Left party. An investigator was appointed and in the autumn of 2016 he proposed the introduction of a profit cap of 7 per cent on invested capital for private firms in the welfare sector.

The latter-day arguments against private sector involvement in welfare have been that it is (a) immoral to make profits from human needs, and that (b) private actors make these profits by lowering the quality of services and thus withdraw tax money which is supposed to be used for the benefit of customers/users. The counter-argument against (a) is quite simple: a lot of other human needs (food, housing, clothing etc.) are covered by private providers. The counter-argument against (b) is more complicated: people have over time chosen more of services produced by private providers and they would hardly do so (unless being stupid) if the quality of these services were deficient. So, how come private providers can make big profits without lowering the quality of their services compared to public providers? A logical answer would be that competition does not work properly in these ñmarketsò, much due to inefficiencies within the public sector (which then makes ñwelfare lossesò).

However, there are some serious issues concerning the new Swedish model. As just said, competition does not work as in a regular market. In a regular market producers compete with prices and the barriers to entry and exit are low. This is not the case within the welfare sector which has consequently been defined as a quasi-market (Hartman, 2010). There is also the problem of ñcream-skimmingò, choosing only customers/clients who are less costly for the service provider.

It is at the moment impossible to predict what will happen with the new Swedish welfare model. The 7 per cent cap proposal will hardly pass todayôs parliament, where the government does not have a majority, but the situation could be different after next (2018) election.

Immigration – Solution or Challenge?

Let us finally have a look at the issue of welfare state and immigration. The Swedish population is, as most populations in the Western world, growing older (Kruse & Ståhlberg, 2013). For a long time, immigration has been seen as a corrective to this development as there is a need for more young people to work and pay taxes in order to keep the pension and health care systems sustainable. However, an ever increasing immigrant population from all parts of the world entails not only a possible solution but also a challenge for both facets of the Swedish model, the welfare state and the labour market, especially if a large portion of these immigrants fail to get a foothold in the labour market.

The Swedish model is labelled universal. This label may lead our associations down the wrong alley. Many social services and social security programmes are universal in the sense that they are general, covering the whole population, in contrast to selective. However, the model is not universal in the sense that it is understood by or suites the needs of people from all over the world. The Swedish model is more or less an ethnic model, developed to integrate the working class in a society with an ethnically homogeneous population. Now, during the last half-century Swedenôs population has been taken on a new face. Today, 17 per cent of Swedenôs population is born abroad,[19]

[19] http://www.scb.se/sv_/Hitta-statistik/Statistik-efter-amne/Befolkning/Befolkningens-sammansattning/Befolkningsstatistik/25788/25795/Helarsstatistik---Riket/26040/ (accessed on 06 December, 2016).

coming from some 200 countries. To many of these people the Swedish welfare state looks like a veritable labyrinth.

New arrivals to Sweden are to be enrolled in a two-year establishment programme, in which they learn the Swedish language and about Swedish society. After this establishment phase there will be no more integration policies. Immigrants and natives are going to be treated ñequallyò which in the worst case means they will be treated identically even if they have very different needs. There may still be some truth in Göran Häggôs (2005, p. 192) words referring to the attitude among Swedes in the 1960s: ñinside all foreign born [é] there was a little Swede waiting to break outò. The difference between equal and identical treatment is made clear by Bhikhu Parekh (2000, p. 242):

> In a culturally homogenous society, individuals share broadly similar needs, norms, motivations, social customs and patterns of behaviour. Equal rights here mean more or less the same rights, and equal treatment involves more or less identical treatment. The principle of equality is therefore relatively easy to define and apply, and discriminatory deviations from it can be identified without much disagreement. This is not the case in a culturally diverse society.

Integration is defined in the European Union Common Basic Principles as ña dynamic two-way process of mutual accommodation by all immigrants and residents of Member Statesò (European Commission, 2010, p. 160). This definition is only about people. However, must there not also be an integration between people and model? Since it is difficult to adapt a model to suit everyone there are only two ways forward: control and guide people so that they ñfitò into the model or relax control and direction at the margins and give people more of freedom and responsibility to integrate in their own ways.

The labour market model also faces challenges due to migration. Up to the late 1960s, during the labour immigration era, immigrants had higher levels of employment compared to native Swedes. From around 1970, when Sweden entered into the refugee migration era, an employment gap opened up between immigrants and native Swedes, which widened until the mid-1990s and then became permanent. In 2014, the gap between native-born and foreign-born men was 11 per cent (79 versus 68 per cent) and between native-born and foreign-born women 18 per cent (77 versus 52 per cent) (OECD, 2016, p. 305).

There are many explanations for the existence of such a gap: Migrants in general experience depreciation of their human capital, loss of networks/social capital and difficulties in getting their exams and work experiences recognized and validated. Many immigrants to Sweden are refugees from countries in the Middle East and Africa with cultures, institutions and economies very different from their Swedish equivalents, which the World Value Survey makes very graphic.[20] Furthermore, the Swedish environment provides some particular barriers. The political ambition has for many years been to root out unqualified jobs. This ambition has an in-built logic as long as every new generation gets the opportunity to become more educated, but results in few openings for new arrivals who have little education or are even illiterate. Tax and welfare systems create considerable threshold effects for those moving from work to welfare. Job security legislation means that employers are hesitant to take risk and in the case of lay-offs the general rule is ñlast in (often an immigrant), first outò. The collective bargaining system means that new arrivals cannot underbid agreed entry wages. If they try to underbid as self-employed, they have to tamper with a lot of red tape. And, finally, there is as always discrimination in the labour market.

In Government We Trust

Sweden, with its powerful welfare state, is in a way a collectivistic society. At the same time, however, the state, by disengaging the individual from ñdependenceò upon family, relatives, religious

[20] http://www.worldvaluessurvey.org/WVSContents.jsp (accessed on 08 December 2016).

institutions etc., has produced a society displaying (according to the World Value Survey) a quite unique combination of secular and self-expression values. Swedes trust their government as few other people in the world. This particular relation has been labelled ñstate individualismò (Berggren & Trägårdh, 2006).

From where does this trust stem? Some, like the political scientist Bo Rothstein (2005), argue that the welfare state promotes trust when/if it produces popular services and egalitarianism. Others, like economic historian Mauricio Rojas (2005), argue that the roots of trust in government can be found deep down in Swedenôs history, among free farmers represented in parliament and efficient bureaucracy. Economist Andreas Bergh (2015, pp. 46-47) is also leaning towards the position that trust came before the welfare state: ñ[é] the fact that Swedish descendants in the USA even today show more trust than Americans in general indicates that trust was strong in Sweden at the time of emigration to the USAò, i.e. before the *People's Home* was erected. The most ardent argumentation for trust before welfare, using Swedish (or Nordic) Americans as ñproofò, has been launched by Nima Sanandaji (2016).

This issue, as all issues concerning the chicken or the egg, is not easy to resolve. One can perhaps in a truly Swedish way tread the ñmiddle wayò and conclude that it is all about reciprocity. However, if trust develops slowly over long periods of time, an interesting question arises: will immigrants who have not in their countries of origin developed trust in a welfare state (sometimes because there was none), or in a state at all, be able to trust the Swedish welfare state in the same way as the native population does?

Closing Remarks

The Peopleôs Home is a concept framed a hundred years ago. The construction of it began 80 years ago. This construction became world-famous as the Swedish model half a century ago. Soon thereafter Swedenôs welfare state and economy got into difficulties which culminated about 25 years ago. However, the bumblebee proved able to fly and, after losing some weight and being injected with some doses of competition, showed new signs of vitality. The question today, when there is a nostalgic reaction in much of the Western world, is whether the bumblebee will fly forwards or backwards.

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