

END OF THE “SWEDISH MODEL”?

Why the Social Democrats Lost

During a recent trip to Sweden, I sat through the opening of the new session of Parliament. As I waited along with several hundred other people for King Carl Gustaf and Queen Silvia to arrive, I was struck by how melancholy the festivities must be for the Swedish Social Democrats. They'd foundered in the September elections (their worst showing since 1928) and had given up the reins of government after fifty-three of the last fifty-nine years in power. They couldn't have been in the mood for all the hoopla—folk dancers, high school choruses, processions in costume. Then midway through the program came a bizarre nod to recent events. A punky chanteuse, dressed from head to toe in black except for a single red flower, launched into a reedy rendition of Arlen and Mercer's 1943 classic:

We're drinking, my friend,
To the end of a brief episode,
Make it one for my baby,
And one more for the road.

One more for the road? What a change in fortunes for the Social Democrats since the previous election. When I went to Sweden for the 1988 campaign, there was news of a booming economy, unemployment dipped below 2 percent, groups of prosperous-looking kids from the public day care centers frolicked in Stockholm's well-tended parks. Statistical studies revealed a society that had one of the world's highest living standards, but also the highest levels of democracy and equality. Given that Sweden ranked among Europe's

poorest nations at the start of the century, what I saw vouched for decades of extraordinary creativity on the part of the social democratic movement.

Not surprisingly, in 1988, citizens rated the environment as their primary concern. With material needs met, non-material issues come to the fore. The Green party entered Parliament. The Social Democratic (SAP) vote of 43.2 percent sufficed to set up the party once again as a minority government.

Three years later, on September 15, 1991, the SAP vote fell to 37.6 percent. The party lost 50 of the 194 municipal governments it controlled. (Conservative coalitions won in about 140 of Sweden's 284 cities and towns.) The economy had skidded into recession. Unemployment hit 3.4 percent. Other nations might wish for a rate so low, but for Sweden it amounted to the highest level since the Second World War—and it was still climbing.

Yet everyone I talked to after the elections believed the vote signified more than punishment for bad economic news. The right-wing wave that had appeared to recede in 1988 swept over the political landscape. The catchwords of the conservative parties—market, choice, individualism, freedom—rang with greater resonance. The Moderate party, promoting a Swedish Thatcherism, dominates the new government. Carl Bildt is the first right-wing prime minister in sixty years. (When the Social Democrats lost the government in 1976 and 1979, the less conservative Center and Liberal parties carried more weight.)

Swedes got a shock when 6.7 percent of the electorate chose a recently formed far right party, New Democracy, that specialized in rock

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concert rallies. A political rookie winning so much so fast marked a cultural revolution of sorts; parliamentary democracy had been so stable in Sweden that, before the Greens, no new party had entered Parliament for almost seventy years.

New Democracy pounded away at the Social Democrats' generous policies toward immigrants, refugees, and developing countries. The implicit racism of the message repelled most Swedes, including long-time conservatives. (One Christian Democrat I know summed up the widespread reaction: "This is something new for us and it's bad.") Social Democrats, who thrive on meaty political discourse, could barely stomach New Democracy's campaign message. The rightists railed against meter maids and high taxes on alcohol. One New Democracy municipal candidate called for the free ranging of pigs and won by three votes.

The SAP attracted only 20 percent of the first-time voters (the minimum voting age is eighteen). Three out of four first-time voters opted for one of the conservative parties. The figures on blue-collar voting added to the bad news. The Swedish Trade Union Confederation (LO)—which represents about 90 percent of blue-collar workers and is structurally linked to the SAP—didn't deliver the troops. Only 56 percent of its membership voted SAP, a historic low. Polls show that the Social Democrats lost votes to the left and right—but mostly to the Liberal party and, surprisingly, young males to New Democracy.

What's going on here? Well, it depends on whom you ask.

Younger conservative voters consistently responded like Daniel Rock, a thirty-year-old private insurance consultant enthusiastic about the Moderates. He heaved a sigh of impatience when I mentioned the Social Democrats. "They're so boring! And old fashioned! We need something new, something modern." Beatrice De Geer works in upper management for the state railway system. She supports the Moderates. "In Sweden, the left is conservative," she told me, "and the right is modern. A funny paradox, isn't it?"

For these Swedes, "new" and "modern" go hand in hand with notions of a market triumphant. Like American yuppies of the

Reagan years, they want no limits placed on how they get ahead. They bridle under a system that's structured to increase equality. They dislike what they see as social democratic paternalism. Carl-Gustaf Wahlberg, a sales representative for a Korean computer manufacturer, offered this definition of the Social Democrats: "They're the ones who make you wear a life jacket when you ride a bicycle because twenty years ago two bicyclists fell off a bridge and drowned."

Stefan Svallfors, a left sociologist at the University of Umea, answered my questions about paternalism in a personal vein. "Right after my wife and I had our first baby, we went for an interview with a pediatric nurse, part of the standard procedure. So there we were, with our new baby, really happy, and the nurse began describing what to watch out for to avoid child abuse. Right after we had our second baby, we went away for a few weeks. When we got back, we found several messages on the answering machine from the nurse. I think she was worried that we'd done something terrible to the baby. We thought it was funny, but I suppose some people feel like an insufferably sensible brother is always watching them."

Svallfors couldn't quantify the grumbling about paternalism, but he knew it hadn't undermined strong support for the welfare state through the late 1980s. "In fact," he told me, "the small changes in public opinion from 1981 to 1986 were in favor of *more* public spending."

This explains why the conservative parties didn't challenge comprehensive social welfare. Instead they promised even better services with lower taxes. Moreover, taken together, the four parties that formed the new government (the Moderate, Christian Democratic, Liberal, and Center parties) didn't attract a majority of Swedes. Their combined total came to only 46.6 percent of the vote. So despite what conservatives often said, the desire for something new couldn't stand alone as an explanation for the election results.

In center Stockholm, just up the street from the twin-towered brown building that houses the LO—a landmark for the Swedish left—are

Swedish Model

the cluttered offices of the autonomous Trade Union Institute for Economic Research. I spoke about the election with its director, Villy Bergstrom, a longtime SAP activist.

"To explain the sharp drop in SAP support," Bergstrom began, "you have to go back to the 1988 elections. The Social Democrats promised to extend paid parental leave to eighteen months and minimum vacation time to six weeks. After the election, the economy began to show problems. The SAP had to go back on its promises. Then there was the tax reform. The Liberal party made a modest proposal in 1988 for lowering the marginal tax rate. The Social Democrats attacked them, saying the change would create less equality. But when the government finally passed a tax reform, something we needed, it went much further than the Liberals' original proposal. People felt in their gut that the reform was regressive. As a minority government, the SAP had to compromise to get Liberal votes. But meanwhile it alienated SAP supporters who want equality and strong government.

"Tax reform was the biggest blow, but the party made one-hundred-eighty-degree turns on lots of issues, for example, allowing advertiser-supported television and deals with the conservative parties to delay the dismantling of nuclear power plants. The last really pissed the environmental part of the SAP. Then there was the decision to join the European Community, the most important decision for Sweden in the century, but it was taken all of a sudden by the government. In Norway, they'll have a full-fledged debate in the party and the nation.

"It's not surprising that people were confused," Bergstrom went on. "Taboos were broken down. Many policies were correct in the long run, but they disoriented the SAP base. There wasn't enough discussion. And since the conservative parties had supported some of these policies earlier, it looked like they had been right all along.

"The SAP's image was hurt also by quarrels between the party and the LO. The LO paid a high price to get its membership to agree to lower wage increases, but the union was cheated when public-sector workers and white-collar workers in the private sector got higher increases. Stig Malm, the head of the LO,

made outrageous statements about SAP leaders, calling them rats leaving a burning ship. He had to apologize publicly. He looked bad, but the SAP no longer came across as the stable party that inspired confidence."

Whenever I spoke with Social Democrats, the SAP's loss of initiative came up. Sven Ove Hansson teaches political philosophy and has worked in the past as a campaign strategist for the party. "The SAP," he said, "didn't have even one major issue of social justice or equality of its own to push in this campaign. In recent years, the party's rhetoric has sounded defensive, like an accommodation to the right. So voters decided that they might as well get the 'real thing.'"

Many Social Democrats see the issue of public sector reform as a prime example of how the party failed. Although international surveys rank Swedish public services high indeed—even among the wealthiest nations—Swedes have complaints about day care and health care. In the Stockholm area, parents must sometimes wait for a day care opening after their fifteen months of paid parental leave. Although I never heard anyone claim that public day care wasn't good quality, some parents want a greater variety of choices—for example, day care with a program that emphasizes music. People desire more choice in health care, too. In addition, health-care workers have something of a reputation for being unsolicitous and inefficient, and hospitals have waiting lists for certain kinds of elective surgery.

The conservative parties pounced upon these issues early on and began pushing the notion of privatization; Sweden, they argue, needs a mix of private and public services to generate competition that would beget efficiency and choice. Each of the five right parties sells its own version of privatization, but together they've put the Social Democrats on the defensive.

The SAP's problem isn't just bureaucratic foot-dragging (although that's a factor); difficulties with the public sector touch a sensitive nerve. Dan Andersson, an economist for the LO who is chair of his local SAP organization, told me this story. "There's a retired railroad worker who lives in my district and has trouble

walking. Because I'm his party leader, he asked me whether he should use his savings to pay to have a hip operation done privately, or if he should stay on the list for the public hospital. It's a moral dilemma for SAP people to go outside the public system. I told him to get the private operation so he can live all his remaining time as well as possible, but it was a painful decision."

Because of a commitment to equality and universal provision, the Social Democrats have traditionally opted for centralized, standardized services. Many worry that greater variety will mean, in practice, no standards. They see a mixed private and public system as leading inevitably to high quality private services for those who can pay—and poor services from an underfunded public sector for everyone else.

Most experts on the Swedish left share these worries about privatization, but they believe the SAP has been slow to recognize other options, such as competition and variety *within* the public sector. "The ideas were there," said Andrew Martin, a political scientist who's written extensively on Sweden. "It's political leadership that's been missing." To hear more about these other options, I went to the Swedish Center for Working Life. This government-funded research institute has been under assault by conservatives for years. I spoke there with Casten Von Otter, who studies the public sector.

"Choice has been tried successfully with maternity care since 1988 or 1989," he told me. "The public hospitals offer alternative methods for giving birth, and women can choose any hospital. Funding is linked to the number of patients attracted. But it all stays within the public sector. The strong profit motive of private providers drives up costs. They might keep unit costs down, but then they raise the volume of units. That's why you have overtreatment in the United States."

Von Otter calls the new approach for the public sector "civil democracy." He continued, "We want to empower people—service consumers—because no one listens to the disempowered. We're proposing demand-led competition. The SAP has to get better at listening to what people want."

The overall picture of SAP policies between 1988 and 1991 looks sufficient to explain the party's drubbing in the election. But as Villy Bergstrom said, "These are the short-term things." The long-term issues involve nothing less than the breakdown of the famous "Swedish model"—at least as it's been structured since the Second World War. This is not happy news.

Around the time of the election, American foreign correspondents reported the "collapse" of the Swedish model, but they usually misdefined it. The typical characterization of "high taxes to pay for cradle-to-grave welfare" leaves out the bundle of mechanisms and institutions that distinguish the Swedish system.

The model dates back to the 1930s when the Swedish Confederation of Employers and the LO agreed to bargain in good faith. Employers would retain the right to hire and run their firms; unions would organize workers and represent them in negotiations; the state would not intervene.

A famous agreement signed at Saltsjobaden in 1938 took on the general sense of a "historic compromise" between the two great antagonists of industrial civilization. Labor made the decision not to challenge private ownership. The business elites accepted that labor would equalize income (and, to some extent, power) through universal social welfare. Both sides agreed to work for an efficient, growth-oriented, export economy. In the unequal real world, labor managed to balance capital by means of the LO and the SAP. With the ground rules set, the Social Democrats knew exactly what they wanted: full employment and equality in a democratic context.

The historic compromise actually worked and probably reached its fullest expression in the Rehn-Meidner model, first implemented in the 1950s. Designed primarily by two prominent LO economists, Gosta Rehn and Rudolf Meidner, the model addressed the problem of inflation as well as full employment and equality. The basic mechanisms operated this way: In centralized negotiations, the LO and the Swedish Employers' Confederation agreed upon a solidaristic wage policy, which meant equal pay for equal work *nationwide* regardless

of whether sluggish firms would have trouble keeping up or dynamic firms could pay more. As a result, inefficient firms either shaped up or went under, and productive firms had more surplus to invest, thereby boosting the efficiency of the entire economy.

Workers who lost their jobs could depend on finding new ones through the government's labor-market policies (job placement, training with pay, interim work in the public sector, vocational counseling, grants for worker relocation, subsidies to companies to retrain workers, and so on). High productivity in the economy combined with pay equity allowed wages to rise overall but helped the lowest paid workers most. So equality increased. The gap between average wages in the highest paying industry and the lowest paying industry shrank to only 12 percent by 1976 as against 30 percent in 1960 and much more before the war.

None of this, however, could work without the government imposing a restrictive fiscal policy to hold down demand in a full employment economy. Without tight fiscal policy, prices would rise, and employers would bid up wages in an inflationary spiral. The government, of course, also used fiscal policy to pay the welfare state bill and to channel profits into investment. Under Rehn-Meidner, Sweden enjoyed more than two decades of full employment while both equality and efficiency increased (which is not supposed to happen according to the books).

I wanted to talk to Rudolf Meidner about the current state of the model. In his mid-seventies, Meidner has retired from the LO but works several days a week at the Swedish Center for Working Life and still lectures abroad. "The model," he said, "hasn't collapsed—despite what your newspapers say. But it's being attacked heavily. It's at a critical stage."

Arguing that the model hasn't collapsed puts Meidner in the minority among the economists, political scientists, and sociologists I talked to. The majority is already debating *how* it happened. Did the economic context change so dramatically over the last fifteen years that Rehn-Meidner ceased to fit the situation? Or did the SAP violate the "rules" of Rehn-Meidner during the 1980s, inadvertently causing its destruction? The two explanations aren't

mutually exclusive, but how you weight them says quite a bit about whether any single national government—in Sweden or anywhere else—will be able to sustain strong social democracy in the future.

Said Meidner: "The old solidaristic wage policy covered large groups of workers. It depended on mass production. Now production is more decentralized and individualized. There's still the commitment to some kind of solidarity, but new organizations of work and new technologies lead in a different direction. Another risk is that the Employers' Confederation has withdrawn from centralized negotiations. This means the unions have lost their counterpart. Of course, the employers weren't committed to the system, but in the past, the LO was strong enough to make them negotiate."

I also spoke to Anna Hedborg, deputy minister of social services in the outgoing government and a close collaborator of Meidner in the 1970s. "Sweden has the world record in organizing white-collar workers, but they belong to the Central Organization of Salaried Workers (TCO), not the LO. This has weakened the LO, which, in turn, has weakened the whole labor movement. The LO used to take responsibility for all workers when it bargained with the Employers' Confederation. Swedes used to think of unions in terms of fairness for all. Now, unions act like interest groups. To make the labor movement strong again—which is the basis for the Swedish model—we need a new, closer relationship between the LO and the TCO.

"Another problem," Hedborg continued, "is the internationalization of capital and currency markets. It limits the power of national policy, and there's less room for mistakes."

What Hedborg says about capital and currency holds for production, too. A national wage-and-employment policy counts for much less if firms scatter their production and research, as well as products, all over the globe. In 1985, when the European Community proposed a single market for goods, capital, and labor, Swedish capital started flying out of the country. Swedish businesses

feared losing markets in Europe because Sweden didn't belong to the EC. The capital flight not only jarred the economy, it proved once again the weakness of national policy—especially for tiny nations—in a globalized economy.

In trying to understand what happened to the Swedish model, some experts conclude that, after fifteen years of these structural changes, Rehn-Meidner—brilliant as it was—no longer fit the bill. Others, while not denying that important changes took place, believe they tell only half the story, and that the “structural change explanation” lets the SAP off the hook. According to this view, Rehn-Meidner fell victim to the SAP's botched macro-economic policies of the 1980s.

When the Social Democrats returned to government in 1982, they had to clean up the former government's economic mess. This meant reducing unemployment without increasing balance of payments deficits. The SAP immediately devalued the *krona* by 16 percent. The Social Democrats chose this approach in order to boost export industries (and investment in that sector) which would create jobs but still close the payments deficit.

Political scientist Andrew Martin described what happened to the devaluation strategy: “At first it looked like a success. Brookings and the *Economist* were saying that in the mid-1980s. But it was undone by a loan-financed consumption boom when the government deregulated the domestic credit market. There was real-estate speculation, and then tight labor and high wage drift spread throughout the economy. The yuppie industries—insurance and banking—grew. There was practically no unemployment in the Stockholm area. Some say it was too easy to make profits, and firms weren't pressured to shift to new technologies and products.”

At this point, according to Martin, the SAP violated the Rehn-Meidner model. “The government kept postponing restrictive measures. Restrictive fiscal policy is an essential ingredient of the model. In the context of an inflationary boom, solidaristic wage policy becomes impossible. You can't curb wage rivalry. After 1988, it was especially difficult to take restrictive measures because the SAP

couldn't get support from the Left Communist party. By that time, their turn to austerity was frantic, belated, and futile.”

For Martin, the SAP's policy blunders had negative long-term consequences. “It all played into the hands of the employers and cut the ground out from under the union leadership. In the absence of a boom, the LO and government could probably have brought the employers to the bargaining table for central negotiations. The right-wing offensive was blunted as long as the Social Democrats maintained their credibility as the only ones that could manage the Swedish economy. But once they lost that, the way was opened for a more drastic swing to the right. If the SAP had done better with macro-economic policy, had responded more creatively to public sector reform, and had made its case for tax reform, I think it could have won the election.”

In a paradoxical fashion, Martin's take on Sweden ends up being the more optimistic: He sees a way that the SAP could have stayed in power and upheld the Rehn-Meidner model for the time being. If that's so, then idiosyncratically left-wing social democracy of the Swedish type might still be possible in one country. The more pessimistic conclusion is that Rehn-Meidner was on its way out no matter what the SAP did; “post-industrial” economies can't sustain Rehn-Meidner-type mechanisms, and a single nation can't buck standards set in the global market. If that's so, then social democrats everywhere have but two choices: settle (more or less) for the going standard in the international market, or do some collective policy-making on the international level.

The Swedish Social Democrats have until the 1994 elections to debate what went wrong and how to fix it. The customarily cohesive party doesn't show any serious splits, but on some key issues activists divide into “traditionalists” and “reformers.” “The traditionalists,” said Pierre Schori, former deputy foreign minister and currently a member of Parliament, “are cautious about changing SAP policies. The reformers want to make us more open to market solutions and privatization. But while reformers accept, for example, private day care

co-ops, they don't accept profit-making in social services."

Another debate raises a fundamental identity question: How does a left social democratic movement appeal to the middle classes of a wealthy society? I spoke about this with Yrsa Stenius, former editor-in-chief of *Aftonbladet*, the national newspaper that supports the SAP. "Some reformers argue that in order to win 45 percent of the vote again, the SAP has to shift right, becoming more like the Liberal party. But this doesn't make sense since the Liberals—who stand for the market and a safety net for those who don't succeed—lost 25 percent of their electorate in 1991. The traditionalists say we must keep our politics of equality and full employment even if it means becoming a party of 35 percent. I think we have to reach lower- and middle-class voters with our message of equality. If not, we'll never again be a party of 45 percent."

No one knows how the internal discussion will play out, but many Social Democrats expect the organizational ties between the SAP and LO to loosen in the future (LO representatives now sit on SAP governing committees). "If the LO and white-collar unions merge," said Rudolf Meidner, "the formal links between LO and SAP can't remain the same. The white collar unions are politically unaffiliated. As society changes, perhaps there should be a clearer division of responsibility—the party represents the whole country; the union defends the interests of its members." Andrew Martin, like many others, sees the transition as likely but unfortunate. "The Swedish model depended on the SAP-LO link. The two separate are not as much as the two together. It's the end of what characterized the model."

Conservatives are pursuing just this kind of development. They'd like to put an end to all Swedish idiosyncrasies. Mats Svegfors, editor-

in-chief of the conservative newspaper, *Svenska Dagbladet*, told me, "In the vision that former Prime Minister Olof Palme had for Sweden, we were independent of what happened in the rest of the world. It wasn't true then, and it's less true now. We have to become Europeanized." Expressed as concrete government policies, this means reducing taxes and public sector spending to average European levels, privatizing as much as possible, and paring down the labor movement by means of regulations that discourage membership (conservatives would like to see about 60 percent of the work force organized, rather than the current 85 percent).

The Social Democrats haven't squared off against such a well-prepared, ideologically determined opponent in more than a half century. And the context—integration into the European Community—puts limits on what the SAP can propose. With unemployment above 4 percent and rising steadily, some Swedish leftists despair of ever reestablishing a full-employment society. Sweden may well lose some of the singularity that Rudolf Meidner described to me as "a promise of a humane way of living together."

How much is lost still depends in part on the Social Democrats. They need a revised script for performing in the international arena. Labor economists have started developing a wage policy based on raising employee skills and productivity at the firm level. SAP leaders are planning a close working relationship with the progressive parties of the European Parliament (the latter have encouraged Sweden's entry into the EC because they want to fortify the left). The Social Democrats are veteran players who might yet turn in a fine performance. For now, at least, "One More For The Road" sounds premature. □