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The Middle Way: Swedish Social Democracy*

[In Sweden] the state, the consumer, and the producer have intervened to make capitalism "work" in a reasonable way for the greatest good of the whole nation... That this constitutes a...middle course seems to me obvious; it is a course between the absolute socialization of Russia [the USSR] and the end development of capitalism in America. In Russia...the rulers of the state attempted to make all of life conform to an idea, an ideal. In the United States the profit motive was put above every other consideration and it worked to the end of blind self-destruction.

—Marquis Childs, *The Middle Way*, 1936 (143-4)

Think of a bumblebee. With its overly heavy body and little wings, supposedly it should not be able to fly—but it does.... This is how so-called analysts view the Swedish economy. We 'defy gravity.' We have high taxes and a large public sector, and yet, Sweden reaches new heights. We are still flying, so well that many envy us for it today.

—Göran Persson, Swedish Prime Minister, March 10, 2000

INTRODUCTION

What Marquis Childs describes in the passage quoted above are two forms of economic extremism. The Soviet Union developed an economic system based on command-style communism, where the state controlled almost all aspects of the economy, while the United States over the course of its history has always had a market system, where capitalists and individuals made most economic decisions. What we will discuss below is an example of what Childs refers to as the *middle way* between command communism and unregulated capitalism: *social democracy*. Sweden developed an economic system that successfully incorporated many of the ideas

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of Marx, Keynes, and Veblen into the economy. As a result, we can see in Sweden's system the practical application of many of the ideas of these influential thinkers. The Swedes created a society that demonstrates impressive levels of equality, stability, and productivity. To use Göran Persson's analogy, quoted above, the Swedish economy can be likened to a bumblebee, with a large, cumbersome public sector that should drag it down, but which actually helps it to soar.

The Social Democratic Labor Party (Socialdemokratiska Arbetarparti, or SAP) that governed Sweden for most of the twentieth century took its cue from Marx, and actively worked to make Sweden an egalitarian society where there was little poverty and where all people had the opportunity to build a good life for themselves. The SAP believed that all Swedish citizens should have the right to a decent job, to security in their old age, to health care, to day care, and to a decent standard of living. These rights evolved over the years through the ongoing implementation of innovative policies, which we will show in our brief sketch of Sweden's economic history.

In Sweden's system we also see the application of the ideas of John Maynard Keynes. Sweden was the first industrialized nation to employ Keynesian policies. Moreover, Swedish economists took Keynes' ideas much further than most. During the 1920s, the Swedish government made some small efforts at stabilizing the economy, such as creating low-wage private-sector jobs for the unemployed. But during the Great Depression of the 1930s, under the direction of the "Stockholm school" of economists, the Swedish government began a large-scale implementation of Keynesian stabilization policies.[1] By 1936, the year Keynes' *General Theory* was published, when other developed countries had only begun to consider Keynes' ideas viable, Sweden had already successfully used these stabilization policies to create jobs and raise wages to their pre-Depression level. Beginning in the 1950s, Sweden took even bolder steps, carefully managing the economy so that *even in recessions*, the unemployment rate remained exceptionally low.

Sweden also incorporated the ideas of Thorstein Veblen into its system. Swedish policymakers sought to limit the predatory and wasteful aspects of capitalism, such as advertising, and instead emphasized the productive side of the economy. For instance, much of the media in Sweden is publicly owned and operated, and high-quality programming is aired without commercials. Likewise, companies in Sweden are allowed to keep their profits as long as they are reinvested in productive activities, but wasteful or destructive practices, such as polluting and downsizing, are penalized.

In short, Sweden has a remarkable economic system that is worthy of careful study, as it provides an interesting counterpart both to the command economies of the former Soviet bloc and the lightly regulated market economies of the United States and United Kingdom. In what follows below, we outline what it means to have an economic system described as "social democracy." We then take you through a sketch of Sweden's economic history, which describes the evolution of what came to be called the "Swedish model" or the "Middle Way." Finally, we make the argument that Swedish social democracy is a humane, productive, and civilized economic system that improves upon many aspects of the U.S. economy. We begin by exploring the curious resistance to forms of socialism seen in America.

WHAT IS SOCIAL DEMOCRACY?

The terms used to describe the Swedish economic system, as a rule, do not carry positive connotations for Americans. For example, the term "socialism" often draws a suspicious reaction, as does the idea of a "big government" interfering with the "free" market. Consider your own reaction when you see or hear the word "socialism." Does it conjure images of Communist Russia? Anti-Americanism? A vast and inefficient bureaucracy that limits personal freedom and rights?

But what is the real meaning of "socialism"? In a 1967 Webster's dictionary, socialism is defined as "any of various economic and political theories advocating collective or governmental ownership and administration of the means of production and distribution of private property." Yet in a 1923 Webster's dictionary, the definition of socialism is "a political and economic theory of social reorganization, the essential feature of which is governmental control of economic activities, to the end that competition shall give way to cooperation and that the opportunities of life and the rewards of labor shall be equitably apportioned..." Consider the difference between these two definitions. What happened to the meaning of this word over a period of 44 years? In the early 1900s, the philosophy of socialism was a response to the philosophy of individualism, which was a cultural philosophy and movement that encouraged self-awareness and personal gain and under which greed is considered a good thing. Therefore, this earlier "socialism" was not strictly political, but social, cultural, and essentially philosophical. However, over time its meaning became more and more politically extreme as the opponents of socialism sought to demonize it. As one can see, we have so politicized the term over the years that our more contemporary dictionaries, our supposedly non-biased sources for meaning, have lost sight of its roots and define it only in political terms.

The word "democratic" has also been politicized over the years. In the United States, we promote democracy as government by and for the people. Yet there are other possible applications of democracy. Democracy in the workplace can mean workers having input into how things are produced and how the workplace is run. (We will see in the final chapter on the Mondragón cooperatives in Spain the details of how worker democracy actually works.) Democracy in a community can mean people deciding how to allocate health care and jobs. The U.S. focus on *political* democracy, especially electoral activity, over and above other arenas for democratic action, demonstrates the extent to which we narrowly define social philosophies in purely political terms.

Similarly, the word "freedom" is heavily politicized in the United States. We are used to referring to "free markets," where the word "free" applies to freedom from a meddling government. But freedom comes in many forms, and historically Sweden's Social Democrats have been more concerned with a broader range of freedoms: freedom from the domination of an employer, from poverty, from the ravages of a recession. Central to this definition of freedom is the idea that access of all to a dignified life is its essential component.

In this chapter we will challenge the traditional definitions of "socialism," "democracy," and "freedom" by moving beyond the simplistic, politicized uses of these terms. Unlike the caricature of socialism as a massive bureaucracy controlling every aspect of our lives, socialism, as practiced in social democracies, is an economic system designed to promote cooperation, equality, and a high standard of living, but not necessarily at the expense of individualism. Social democracy means the freedom for people to control collectively many aspects of their lives, not simply to choose political leaders. As we trace the evolution of the Swedish model below, we will see a genuine example of real social democracy in practice.

THE ORIGINS OF THE SWEDISH "MODEL": 1847-1932

Many books and articles written about Sweden's economic system refer to it as the "Swedish Model." Implied in the word "model" is the idea that this was an experiment, something planned by a centralized group of intellectuals, and then implemented for the world to observe and critique. This was not the case. Sweden's system developed slowly but persistently throughout the twentieth century as a result of many decisions made by many groups striving toward the same goals of equality and quality of life. These groups included the business community, unions, politicians, and scholars. In other words, the majority of Swedish citizens built this socio-economic structure democratically over time.

Sweden's democratically created socioeconomic system is also referred to as a "welfare" state. "Welfare" is another term that has been politically demonized. But the fact that Sweden has a welfare state does not mean that people don't have to work, or that poverty is so pervasive that widespread welfare benefits are required just to keep its citizens in shoes. It means exactly what it says: "welfare" is to "fare well." In other words, the welfare state is designed for the benefit of the whole society.

Historically, Sweden's welfare state evolved from a society that was admirably enlightened long before its Western counterparts, and even before the Social Democrats first came to power in 1920. In 1847 and 1853 Sweden passed "poor relief laws," taking the first step toward implementing its social philosophy of helping those whose impoverished circumstances were beyond their control. In contrast, most of Europe still had debtors' prisons and indentured servitude at this time: people who were too poor to pay their debts were imprisoned, enslaved, or forced into "workhouses" to work for a pittance. As examples, Paris had prisons, such as the Bastille, for many of its impoverished; most of the first colonists in America were indentured servants from Europe; and Australia was a penal colony for Britain's criminals, many of them debtors. Whether it was a mother of three whose husband died, or a worker who was injured and disabled, the cause of indebtedness was irrelevant. The inability to pay one's debts in these countries was treated as a willful, punishable act. But Swedish officials recognized that poverty was usually neither willful nor deserving of punishment. The Swedes saw poverty as a product of economic factors, and began taking responsibility for helping their people out of poverty.

The Social Democratic Labor Party (SAP) was founded in 1889. Around this time, the philosophy that produced the "poor relief laws" began to mature and expand. Instead of assessing the health of their economic system through stock prices and GDP, the Swedes began to develop a system wherein the health and value of the economy was gauged by the quality of life of its entire population. In 1913, Sweden's (non-socialist) Liberal Party government, with the support of the populace, began broadening the range of social benefits. They passed the National Pension Act in 1913 to provide security for the aged, more than twenty years before the United States implemented its own social security system. In 1918 a Liberal-SAP coalition government passed a new poor law, turning over the responsibility of assisting anyone in need to local governments, while the central government contributed administrative support. This law was to remain the cornerstone of Sweden's assistance programs for the next 40 years. It took most other developed countries until the Great Depression of the 1930s to take that path.

THE SAP'S FUNCTIONAL SOCIALISM: 1932-1968

Social and Political Philosophy

The SAP began to influence economic policy immediately after its formation in 1889. At that point, it stated its guiding principles as follows:

1. Legislation to guarantee to every Swedish citizen a simple and decent standard of living...[Social Democrats] hold that it is the duty of society to provide for the needs of the aged, invalids, widows, and those who have lost their income through no fault of their own.
2. Housing and child benefits for needy families so that they should not be forced to lower their standard of living because they have children to raise. [The] idea is to distribute the expense over the entire population as a collective responsibility.
3. Social welfare [is]...the inherent right of every citizen irrespective of his financial status.

In order to implement its philosophy, the SAP was forced to compromise with employers and political opponents. Compromise was possible because although the philosophy behind the SAP's ideas was socialist in nature, the SAP was not dogmatic or rigid. The Social Democrats pursued the goal of a better life for all Swedes, and allowed the economy to operate within a capitalist system as long as it could achieve this goal.

The Social Democrats saw the problems associated with free-market as well as with state-controlled systems. From 1920 to 1932, recessions plagued Sweden's free-market economy as a succession of governments, some including the SAP, failed to stabilize the economy adequately. There was also an unequal distribution of income and wealth, and a significant percentage of the population lived in poverty. But the SAP did not adhere to the idea of state-controlled production in response to these problems, fearing the inefficiency that could come from a command-style economy. Instead, once the SAP was firmly entrenched as Sweden's ruling party in 1932, it allowed the capitalist norm of private ownership to continue, intervening in the economy whenever the needs of labor were not met. As in the U.S. capitalist system, there were wealthy entrepreneurs who owned and controlled much of Swedish industry, but the SAP limited their power and influence. The SAP devised taxes on income and profits so that it was profitable for business owners to reinvest in productive activities and to create jobs. Entrepreneurs were allowed to make a fortune in Sweden, but only if they expanded employment, produced socially useful products, and limited the destruction of the environment. Thus the SAP permitted the private sector to pursue profits as long as firms achieved social goals. In some sectors, the SAP organized consumer and producer cooperatives, and in other sectors, such as health care, dental care and child care, the SAP socialized the provision of services, but overall the SAP preserved private ownership.

The Social Democrats established early on that equality and economic growth were not necessarily incompatible. Conservative Swedish economists who followed the ideas of Adam Smith insisted that some measure of inequality was necessary to stimulate growth: if investors, business owners, and the wealthy in general were not allowed to keep what they earned, they would have no incentive to continue investing and growth would stagnate. Thus they argued that measures to improve equality through high taxation of corporations and wealthy individuals would slow growth. Swedish Social Democrats rejected this argument, and demonstrated that public investment, stability, and careful macroeconomic management could stimulate growth, which would ultimately be very profitable for industry and private individuals, providing incentives for continued investment. The Social Democrats prevailed and were able to win over industry leaders to this approach.

By no means did the Social Democrats have free rein when they came into power. The democratic electoral process remained in place, with political parties (socialist and non-socialist) and special interest groups wielding influence and power, keeping partisan measures from dominating the political arena. Powerful interest groups included both labor unions and employers' associations, and all actors within the economic system were included in the decision-making process for negotiating mutually beneficial policy and legislation. The leaders of the SAP could not have achieved their egalitarian goals without the cooperation of employers, and the fact that employers cooperated indicates the benefits all parties realized in a social democratic economy. Thus through pragmatism and compromise, the SAP gradually implemented numerous socialist policies and ideals *without* a revolution or large-scale nationalization. It was the first socialist party in the world to do so.

De-Commodification

One of the primary goals of the SAP was the de-commodification of the things Swedish people needed to live decent lives. This meant improving wages and working conditions and providing essential services to all rather than using markets to determine how these things were allocated. People need certain basic goods and services in order to live full lives. In the SAP principles mentioned above, child-care, for example, is treated as a fundamental need because, as is stated, "[Swedish citizens] should not be forced to lower their standard of living because they have children to raise." In many market systems, families that have children must lower their standard of living because, in paying for the costs associated with caring for and raising children, they have less money to spend on other goods. In the United States, child-care is sold as a commodity only to families that can afford the service. From the SAP's perspective, privatizing childcare is an exploitative practice that has the most dramatic impact on lower wage-earners.

The same can be said for housing, medical care, dental care, and services for the disabled. In an unregulated market system, these fundamental needs are at the mercy of for-profit industries where the bottom line, and not quality of life, is the primary concern, and not everyone can purchase these necessary items. In the United States, those who cannot pay for these basic, life-sustaining services are often forced to go without, and suffer the consequences. But Sweden will not deny these necessities to those without money. All Swedish citizens have the *right* to essential goods and services under the Swedish welfare state.

After the Social Democrats were voted into power in 1932, they introduced legislation that began to fulfill the principles of de-commodification embedded in their social philosophy. Augmenting the Pension Act of 1913 and the Poor Law of 1918, the SAP instituted housing subsidies and a national pension scheme in 1935, and in 1938 added socialized dental care. By the 1950s, the SAP had installed a national health plan and laid the foundation for a comprehensive network of de-commodified rights for all Swedish citizens.

To this point, the provisions mentioned are those needed to survive physically. But the SAP wanted to guarantee a full quality of life as well. Their two main goals when they came into power were equalization and integration. "Equalization" refers to a better distribution of wealth and income, and "integration" refers not to racial or ethnic issues, but to issues of social class. The primary objective in this realm was full employment. Putting everyone to work would reduce the exploitation of labor and income inequality, thereby further reducing class divisions. This policy would also eliminate what Marx referred to as the "reserve army of the unemployed." As we will describe in more detail below, policies designed to achieve full employment were put into action after World War II, policies that went far beyond simple stabilization of the economy and provision of basic services.

Equalization and integration were also accomplished through investment in *human capital*. This was, and is, primarily accomplished through education. Although the primary reforms in the Swedish educational systems took place between the 1950s and 1970s, education had for a long time been considered vital to the well-being of the nation. Schooling is free at all levels in Sweden. As a result, inequality of the sort seen in the United States, for instance, where personal wealth buys the best education, is much less prevalent. All citizens are entitled to an excellent education, regardless of financial status, giving every person a start from a more level playing field. Sweden's population is one of the most broadly and best educated in the world. This is one of the major reasons why there is greater class mobility in Sweden than in the United States.

As we can see, the "Swedish model" was not a planned experiment, but rather an evolutionary process that resulted from a series of actions over long periods of time. And although the pace of structural change picked up in the 1950s, the groundwork had been in place since 1889.

Economic Stabilization and Full Employment

Most countries instituted Keynesian stabilization policies, designed to boost spending and create jobs during recessions, following the advent of the Great Depression. As noted above, Sweden's stabilization efforts preceded the Depression. The national pension system of 1913 and the comprehensive poor law of 1918 both served to boost spending when times were tough, and the Swedes instituted policies to stabilize employment as early as the 1920s. Stabilization policies in the 1930s were even more aggressive and successful. But because capital was privately owned, there was still a natural dependency on industry to stimulate the economy. The state recognized this, and a pattern of compromise between capital, labor, and the government became the method for ensuring stability, equality and growth within a highly regulated, but still capitalist, system.

The Swedish government implemented an extensive stabilization policy beginning in the 1930s, spending money counter-cyclically. When an economy enters a recession, tax revenues decrease as businesses downsize and workers lose jobs. In such circumstances, sometimes governments decrease spending to counter the reduction in tax revenues, thereby keeping the budget balanced. But cuts in government spending during a recession put even more people out of work, making the recession even worse. Instead, Sweden *increased* spending in recessions by borrowing money to invest in public works projects, to train workers, and to create jobs. This way, the flow of production and income was stabilized, spending didn't decrease dramatically in recessions, industry was encouraged to invest, and the economy was bolstered until industry's investments brought employment back to normal levels.

In addition to using government spending to stave off recessions, the Swedish government instituted a counter-cyclical investment tax credit system called the Investment Reserve in 1938. Firms were allowed to deposit funds with the government which could be invested tax free if invested *in Sweden at specified times*—during a recession, for example. If invested at another time, the firm would have to pay taxes on the funds. Thus the government encouraged the private sector to invest counter-cyclically, stabilizing the economy even further.

In the 1950s, the Rehn-Meidner plan, named after its two economist authors, was implemented to manage the economy more carefully. Included in the plan were two main areas: the solidaristic wage policy, and active labor policies. The primary goal of this plan was to ensure *full employment.*

In the United States, full employment (what economists call the "natural rate of unemployment" or the "non-accelerating inflation rate of unemployment"—NAIRU) is considered to be an unemployment rate of about 5.5%. Many mainstream economists believe that an unemployment rate of less than 5.5% guarantees inflation. Labor becomes more powerful when unemployment is low because there are fewer workers available to fill jobs, and at the same time firms need labor to increase production because more goods are sold when more people are employed. Workers are able to demand wage increases, thereby driving up costs. In theory, a wage-price spiral would result from dramatically low unemployment: labor's demand for higher wages forces business to raise prices to cover the higher cost of labor; the higher prices of goods force workers to demand even higher wages, and so on. But this theory, that low unemployment always causes inflation, does not have to be the case.

With cooperation among unions, employers' associations, and the government, unemployment in Sweden exceeded 3% *only three times* from 1951 to 1991, without causing significant inflation. The agreement was that real wages were increased annually at the rate of one-half percent below the national average rate of labor productivity growth. This meant that if workers increased their productivity by 3%, they would receive a raise of 2.5%, and employers would keep the rest. This formula insured that workers benefited from increases in productivity but also guaranteed that wages did not increase too quickly, thus keeping inflation in check.[2] In other words, wages were voluntarily limited by labor unions so that they wouldn't increase faster than productivity, keeping inflationary pressures down despite full employment and the accompanying power that a tight labor market gives to unions. As a result, workers did not need to strike to force pay increases, and workers and employers were cooperative rather than antagonistic—both labor and capital had a direct incentive to increase productivity since both groups benefited. Following this pattern of compromise, Sweden had full employment without spiraling inflation for 40 years (1951-1991) and laborers received a substantial share of the benefits from economic growth, equalizing incomes to a significant degree.

Sweden's experiences call into question the theory that equality and growth aren't compatible, as well as the assumption that simultaneous full employment and low inflation aren't possible. This is a striking contrast to the U.S. system, where increases in labor productivity often do not result in higher wages. For example, from 1973 to 2014, the average productivity of a U.S. worker increased by 72.2%, but the median wage for workers increased by only 9.2%. U.S. workers received only 12.7 % of their productivity increases in the form of higher wages, with the rest becoming a huge surplus-value bonanza for the bosses! This, of course, is one of the main contributing factors to the explosion of inequality in the United States.

Solidaristic Wage Policy

Another key economic policy was Sweden's *solidaristic wage policy.* This meant equal pay for equal work: all workers at all firms doing the same type of work would be paid the wages that workers in the most efficient, internationally competitive firms were paid. Wages were set nationally in a centralized bargaining process that included employers, labor unions, and the government. The equalization of wages reduced competition between workers, creating a more cooperative environment for labor and removing the inequality of less pay for comparable work. An important byproduct of this policy was that women began receiving pay equal to men. All workers then received the same annual wage increases, based on productivity growth. A provision was later added to the solidaristic wage policy to increase the wages of low-wage workers faster than the rest, to make Sweden even more equal.

Another consequence of the solidaristic wage policy was that firms experiencing rapid growth did not have to raise wages faster than other firms did. Typically, firms in growing industries (such as 1990s high-tech firms in the United States) have to pay laborers a premium in order to keep them. But because of the solidarity wage policy in Sweden, the best, most competitive firms did not have to grant additional wage increases when they were doing well, allowing them to make large profits. Meanwhile, firms experiencing hard times were not able to reduce wages. As an example, in a year with 3% average productivity growth, a firm that increased productivity by 10% would only have to raise wages by the national rate of 2.5% (one-half percent below the average rate of productivity growth). A firm with only 1% productivity growth would still have to increase wages at the same rate of 2.5%. The former firm earns excess profits, while the latter firm loses money. Thus the solidaristic wage policy caused expanding industries to do better, and contracting industries to struggle even more. The result was a reallocation of capital to profitable, expanding industries from contracting industries. The systematic elimination of the least efficient, least profitable firms, and the promotion of the most productive firms, was an explicit goal of the SAP—an attempt to encourage the best businesses with the greatest competitive advantage. And it succeeded: from 1950 to 1970, the golden age of U.S. Keynesian capitalism, Sweden's per capita GDP increased by an average of 4% per year, higher even than the U.S. growth rate of 3.5%. Sweden found that the economy's overall productivity improved as the firms that increased productivity gained excess profits, which were then pumped back into the firm, generating rapid economic growth. The unions, employers' associations, and government, working to energize the economy, supported this reallocation of capital.

An interesting point here is that declining industries were not "bailed out" by the government. If they failed, they were reabsorbed by successful industries. This harsh but pragmatic approach kept the economy growing and competitive. Instead of pouring funds into dying industries, the Swedish government promoted the investment of resources in growth industries, thereby stimulating productivity and improved competitiveness. This is one of the reasons why Sweden's economy performed successfully even with all of the restrictions on corporate behavior imposed by the SAP.

Active Labor Market Policies

Another way of maintaining full employment was via *active labor market policies*. For those who became unemployed, there were generous unemployment benefits with a time limit, training and education with a stipend, and money for relocation costs if needed. If a worker was still unemployed when the benefits ended, employment was available in short term public works projects because the Swedish government established itself as the "employer of last resort" for those workers who could not find work after a certain period of time. Unemployed Swedish workers were given money, time, training, and moving assistance to make sure they could find a good job to replace the one they lost. And if they could not find a job, they were put to work in community projects that needed attention.

Active labor market policies, along with stabilization policies, produced full employment without accelerating inflation in Sweden from 1951 to 1991, as noted above. Full employment is beneficial to any economic system: all workers remain productive, the stream of income and spending supports the economy, industry profits and invests, and tax revenues support the government, which in turn supports the full employment system, resulting in a self-sustaining economy in which everyone benefits. The cooperation among labor, capital, and the government in the institution of the "middle way," and the benefits that each group received as a result of it, help to explain the widespread support in Sweden for a social democratic model of development that is likely inconceivable to most Americans. By 1968, Sweden's system was the envy of much of the world. Swedish firms were internationally competitive, Swedish workers were among the best paid in the world, and poverty and homelessness were eliminated. But labor leaders still thought Sweden could be improved.

SWEDEN BECOMES MORE SOCIALIST: THE LABOR OFFENSIVE, 1968-1976

Despite the relative generosity of the Swedish welfare state, labor leaders during this period decided that it was time for Sweden to become even more socialist in nature. They were dismayed at the vast profits being earned by Sweden's huge transnational corporations that in part resulted from the solidarity wage policy that controlled wage increases at the most profitable firms. The SAP believed that the vast wealth being generated for a few individuals was unfair and threatened the integrity of the system. Labor wanted to negotiate a fairer distribution of the excess profits that firms were receiving because of union wage restraint.

Furthermore, labor leaders became increasingly concerned with the boring, stressful jobs, typical in Swedish industries (and in many old-line manufacturing industries), that Marx would have described as alienating in nature. In keeping with the idea that all Swedes have the right to meaningful work, labor leaders began to push for greater labor control over the workplace. A series of strikes and work slowdowns led to concessions from employers and workers did in fact gain more control over the workplace. Factories were redesigned to be more flexible, to increase efficiency, and to give workers more control over the work process. Jobs were rotated so that no one laborer was stuck with a particularly dull task for too long a period. The most repetitive jobs were mechanized and workers were retrained for more highly skilled work. Workers also gained more control over job security and promotion. Thus Swedish workers were able to avoid many of the negative consequences of deskilling that Marx saw as an inevitable part of capitalism.

During this period, the SAP also increased the benefits provided to Swedish citizens. Employees were given the right to take educational leaves to upgrade their skills or change professions, health benefits and industrial safety measures were expanded, and the government instituted new programs to promote gender equality. In 1976, the SAP also began to move more explicitly towards traditional socialism through the institution of *wage-earner funds*: employee investment funds that were to be funded by taxes on corporate profits. The SAP intended the funds to be used to buy up shares of companies, so workers could gradually gain a voice in all business decisions. Once labor leaders became owners, they would sit on corporate boards and directly influence corporate decision-making. Laborers could then keep firms from moving overseas, or downsizing the workforce unnecessarily. The funds would also inject Swedish firms with new capital for investment, and gradually generate a more equitable distribution of ownership and wealth, as workers became part owners, and eventually majority owners, in all large Swedish firms. The idea was that the workers in each firm would control how it was run, thus differentiating the Swedish approach from that of the Soviet Union, where a centralized government bureaucracy controlled the direction of all firms. Swedish economist G. Adler-Karlsson eloquently stated the ideals behind the push for wage-earner funds:

> Let us look upon our capitalists in the same way as we have looked upon our kings in Scandinavia. A hundred years ago a Scandinavian king carried a lot of power. Fifty years ago he still had considerable power. According to our constitutions the king still has equally as much formal power as a hundred years ago, but today he is in fact powerless. We have done this without dangerous and disruptive internal fights. Let us in the same manner avoid the even more dangerous contests that are unavoidable if we enter the road of formal socialization. Let us instead strip and divest our present capitalists of one after another of their ownership functions. Let us give them a new dress, but one similar to that of the famous emperor in Hans Christian Andersen's tale. After a few decades they will then remain, perhaps formally as kings but in reality as naked symbols of a passed and inferior development stage. (Adler-Karlsson 1970, 95-6)

Thus the SAP pushed for the gradual transition from highly regulated private ownership to a socialization of the means of production in the hands of the working class—a peaceful transition to socialism. As one can tell from Adler-Karlsson's statement, the SAP believed that socializing the means of production would lead to a superior society. But it was not to be. Wage-earner funds were controversial even within the SAP, and they were never fully instituted.

One reason for the SAP's failure to fully implement wage-earner funds was that their campaign came at a time when the world was facing a global recession. The oil crisis of 1973 began a period of worldwide economic instability that would change the economic landscape of many industrialized nations. Sweden in particular suffered, because it was totally dependent on imported oil as its energy source. Inflation reached 10% in 1974, unemployment increased, and capital experienced rapidly rising costs in a highly regulated system that limited the ability of a firm to escape these high costs. This is when profound economic, political and welfare changes began to take place, resulting in what some have termed "the decline of the Swedish model."

CAPITAL'S OFFENSIVE, 1976-1994

The economic difficulties of the early 1970s caused Swedish voters to oust the SAP and elect a center-right government that was more conservative, and more sympathetic to industry. This ushered in an era in which big corporations successfully fought to roll back taxes and the welfare state. The rise of Sweden's business interests and the subsequent decline of the power of labor unions parallels the experiences of the United States as well as other developed nations with the advent of globalization. In essence, globalization erodes the power of labor, because instead of paying organized laborers higher wages at home, businesses can move to countries where wages are low and where labor unions are suppressed. As a result we see employers worldwide pursuing a race to the bottom, seeking out the lowest wages and the least organized labor, just as Marx predicted would occur under unregulated capitalism.

The erosion of the Swedish system began in the early 1980s when employers, with the support of the conservative government, abandoned the practice of centralized bargaining with labor that had been in existence since 1938. Instead, they began to bargain individually with their labor unions, undermining the solidaristic wage policy that had been a cornerstone of Swedish social democracy. The "divide and conquer" strategy was somewhat successful. With such a vital element of the system disempowered, corporations excluded workers more and more from the decision-making process, and increasingly moved operations overseas.

The center-right government also worked to cut taxes and decrease government spending and control over the economy. For example, the investment tax credit system, which gave businesses incentives to invest during recessions, was abolished. Corporations were now free to invest whenever they wished without tax penalties. But an even more significant change was the deregulation of capital markets in the 1980s, as Swedish firms were allowed to invest abroad instead of just at home, and funds could be moved freely internationally for the first time in many years. The chief result of capital's newfound ability to invest wherever it wanted, along with tax cuts that increased the amount of money at capital's disposal, was to create a boom in asset markets. Money flowed rapidly into real estate, art, and other speculative, nonproductive assets, resulting in huge price increases for these assets—a speculative boom. Unfortunately, as spending increased but productivity did not, an overheated economy resulted, generating inflation as high as 10.5% in 1990. Gregg Olsen describes the debacle that followed:

> The Swedish credit market...was rapidly deregulated throughout the 1980s. By the end of the decade, Sweden's long-standing system of controls over foreign investment and exchange and the financial sector were effectively eliminated. Finance houses proliferated during this period, and money flooded into office buildings and real estate, both in Sweden and abroad. However, the speculative boom ended in short order. The Swedish credit system foundered by the end of 1991, forcing the government to divert tax revenues to bail out several of its major banks at a cost of 3% of GDP. The near collapse of the key banks and insurance companies that comprise the financial industry helped to bring the international recession to Sweden. (Olsen 1999, 241ff)

Readers may note the uncanny similarity to the U.S. financial crisis of 2007-2009.

As a result of the collapse of the speculative boom, many assets became worthless, leading to large financial losses for many banks and businesses. Sweden's central bank responded to the inflation of the late 1980s with tight money policies, generating huge increases in interest rates to rein it in. Real interest rates reached an incredible 14% in 1992, leading to significantly higher unemployment, as consumer spending dropped and business investment collapsed. The combination of high interest rates, the bursting of the speculative bubble of the 1980s, and an international recession all during the same period proved devastating. In 1991, the Swedish economy entered its deepest recession since the Great Depression, with unemployment reaching 8%.

However, despite the rise of corporate power, some aspects of the government's solution to the financial crisis of the early 1990s proved that social democratic principles were still alive. Like U.S. banks during the financial crisis of 2007-2009, Swedish banks had large amounts of worthless, toxic assets. To shore up the financial system and to prevent the crisis from worsening, the Swedish government had no choice but to bail out banks. Nevertheless, the Swedish government demanded that taxpayers be granted something in return for the bailout: an ownership stake in the banks receiving government money. This imposed direct costs on the bank owners and insured that banks had strong incentives to insure that such failures never happened again. The Swedish government poured an amount equal to 3% of GDP into the financial system (roughly the same percentage of GDP the United States government used to bail out banks in 2008-9) in exchange for equity. At one point, the government controlled more than 20% of the banking system. No such conditions were imposed on U.S. banks. Once the economy recovered, the Swedish government recouped the bailout funds when it sold off the equity.

A major goal of the conservatives who ruled Sweden from 1976-1982 and 1991-1994 was to reduce the size of the Swedish welfare state, by reducing taxes and cutting government spending on social programs. They reduced the top tax rate from 85% to 50%, extended sales taxes to make up revenue, and reduced but did not eliminate benefits for parental leave, health and dental care, housing, unemployment, retirement, and sick leave. These policy changes helped to produce a doubling of the poverty rate in Sweden from 1978 to 1992, although the Swedish poverty rate remained the lowest in the world. Sweden also experienced the inevitable decrease in equality in all areas—the rich grew richer while the poor grew poorer, wage inequality between men and women increased, and opportunities were no longer as equal. The "fare well" state was under attack.

Even more drastic changes in the welfare state were enacted during the 1991-1993 recession. The new center-right government, elected in 1991, instituted corporate welfare programs (subsidies and tax breaks for corporations), and privatized education, child-care, and health care in some cases. Prior to this time, Swedes had widely accepted the idea that benefits should be universal, and not subject to the inequities of the market (in other words, they should not be treated like commodities), so these changes marked a significant departure in the nature of Sweden's welfare state. Nevertheless, much of the Swedish welfare state remained in place and the system still guaranteed a high degree of equality. For example, the voucher system in education gave all Swedish citizens enough funding to attend excellent public schools, though wealthier citizens were able to use vouchers and their own money to purchase a more expensive private education. The allowance of private health care spending worked in a similar fashion: all citizens were guaranteed excellent public care, but the wealthy were able to purchase more expensive private health care if they wished. Sweden's welfare system evolved from a public system to a public-private hybrid where all citizens were guaranteed access to education, health care, and other basic needs, but some of these services were now provided by the private sector, and rich people were able to buy higher-quality services.

In 1994 voters rejected the conservative government because of its failure to improve Sweden's economic performance and returned the SAP to power, signaling a renewed commitment to social democracy. The partial erosion of the welfare state in Sweden led some conservative commentators to talk about the "end of the Swedish model." However, as we will see below, Sweden retains a vast government sector that still safeguards the social and economic rights of its citizens. And overall, Sweden's recent experiences are not unique: the Swedes faced the same hardships that all developed countries faced beginning in the early 1970s.

Sweden's Economic Performance Since 1970

In general, the economic performance of Sweden deteriorated after 1970 due to a number of factors, including globalization, industrial decline, and the aging of the population. With the advent of increased global competition, traditional manufacturing industries that Sweden specialized in, such as cars and household durable goods, faced more competitive markets. Furthermore, Sweden's huge industrial giants were unable to adjust and move out of declining sectors and into rising sectors of the global economy, much as the rust belt industries in the United States had trouble adjusting. Some industries even gave up producing in Sweden and moved operations to less costly locations in the Third World.

Sweden also faced an aging population, which meant fewer working people supporting more and more elderly retirees. By the end of the 1990s, Sweden had the largest proportion of seniors in the world. (Olsen 1999) A natural byproduct of these demographic changes was a less productive economy. The United States will soon be facing a similar problem as the baby boomers—those born between 1946 and 1964—retire in larger and larger numbers.

These forces—global competition in traditional manufacturing, the flight of transnational corporations to the developing world, and the aging of the population—have presented problems throughout the developed world. For instance, both Sweden and the United States have experienced slower economic growth and a more unequal distribution of income since 1970. Sweden faced higher levels of unemployment and stagnation in the 1990s, while the U.S. economy experienced relatively more economic growth. Overall, Sweden's average real economic growth rate per capita from 1970 to 2015 was 2.4%, while the real growth rate per capita in the United States was 2.7%. Since 2000, Sweden's per capita GDP growth has averaged 1.5%, while the United States and the European Union have only managed 1% per capita GDP growth.

Conservative commentators argue that the generous benefits of the Swedish welfare state may have also contributed to the difficulties in staying competitive in the global marketplace, although the evidence on this issue is mixed. Sweden's welfare state expanded dramatically after World War II, yet as noted above, Sweden's average real economic growth rate from 1950 to 1970 was 4%, a half a percentage point higher than the U.S. average real rate of growth over the same period. Given this fact, there is clearly no reason to think that the welfare state is inherently inefficient or that it constrains economic growth. In actuality, it was when the welfare state was eroded and markets deregulated that Sweden's economic performance began to decline significantly, a trend we also saw in the United States in the 1970s and 1980s.

Sweden's economy has rebounded since 1993, and now features one of the most dynamic technology sectors in the world. This rebound can be attributed to some modest tinkering of the Swedish approach to economic policy to "mend it, not end it." The Swedish government adjusted labor laws, business regulations, and tax policies, and it reduced federal budget deficits, freeing up funds for investment. These reforms, when combined with a highly educated, hard-working, tech-savvy work force, and extensive, modernized infrastructure, attracted numerous information technology firms beginning in the mid-1990s. Even with its extensive welfare state and high taxes, Sweden's business environment was ranked 3rd or 4th most competitive in the world from 2004 to 2013 by the decidedly pro-capitalist World Economic Forum (in 2013, the U.S. ranked 7th), meaning that it was one of the best places in the world in which to do business. In fact, Sweden's extensive welfare state proved instrumental in helping Sweden adjust to global realities. Workers and entrepreneurs were willing to take risks, trying new jobs and forming new businesses because they knew that the welfare state would support them if they failed. Extensive training and education programs meant that Sweden's workers had the latest skills. Family-friendly policies freed more people for work, especially women, allowing businesses to tap a larger pool of productive people. Most importantly, the welfare state provided security and stability, helping the economy to weather shocks and promoting a safe environment for long term business investment. Thus, it appears that Sweden has weathered the storm and adapted into a nimble, internationally competitive country specializing in high tech and biotechnology.

The Swedish Welfare State Since 1994

Since 1994, Swedish governments have pursued a less regulated form of capitalism. Even when the SAP has been in power, as recently as 2014-2016 in a coalition with the Green Party, it too largely pursued a market-based agenda. The pursuit of these policies on the part of all political parties in Sweden is strikingly similar to political developments in England and the United States, where conservative groups pushed the economy in a free-market direction, formerly liberal groups (Democrats in the United States, the Labor Party in England, the SAP in Sweden) turned to a moderate market-based approach, and organized labor ceased to be as powerful a voice in national politics.

As in the United States, Sweden is dominated by huge transnational corporations (TNCs). Industrial concentration in Sweden is extremely high (a small number of large firms dominate the economy), in part because of the solidaristic wage policy that created more profitable conditions for large, efficient, export-oriented companies. As these companies increased in size and power, they pushed for a deregulated market approach to the economy, along with membership in the European Union so that they would have even more mobility and more markets in which to operate. Swedish TNCs now attack any form of government regulation in the popular press, criticizing the "public sector," the "welfare state," and "collectivism," while supporting the market economy, which supposedly generates a "free and good society." Sweden's CEOs now regularly threaten to relocate outside of Sweden unless the government creates a more business-friendly environment for them. And many businesses are carrying out these threats. Despite being profitable, Volvo closed its taxpayer-financed plants that experimented with worker autonomy and a more humane workplace, moved some operations overseas, and then sold out to Ford (after which it was sold to a Chinese company).

Meanwhile, as TNCs offer a united front in favor of unregulated markets, Swedish labor unions fight amongst themselves, and the SAP is no longer directly associated with the labor movement. The welfare state is largely intact, shored up by the return of the SAP to power from 1994 to 2006 and again in 2014, but industrial relations between employers and unions have been dramatically altered, and the new government's ability to pursue equality and stability is, in the words of Gregg Olsen, "severely circumscribed in a neo-liberal (*laissez-faire*) environment dominated by TNCs and global financial markets" (Olsen, 1996, 16). Nevertheless, Sweden remains committed to a high degree of equality and to collective decision-making, with the participation of labor, capital, and the government in major decisions.

Indeed, recent developments indicate that Sweden's new approach is bearing fruit. First, their "Triple Helix" approach to developing new industries has been remarkably successful. The government works with local industries to identify promising sectors for economic development, such as biotechnology. The government provides the appropriate infrastructure for the industry in question, while the local university develops training programs to give workers industry-appropriate skills and research programs to stimulate innovation. Private businesses are only too happy to invest given this level of support. The result has been to push Sweden to the forefront in several key industries, and to establish Sweden as the most innovative economy in Europe.

Second, while most developed countries were crushed by the global financial crisis, Sweden's economy has been the "rock star of the recovery" (Neil Irwin, "Five economic lessons from Sweden, the rock star of the recovery," *Washington Post*, June 24, 2011). Its successful navigation of the crisis was a direct result of the country's devotion to Keynesian policies, and the automatic stabilization provided by their extensive welfare state. More specifically, Sweden followed Keynes's advice and ran surpluses during the boom of the early 2000s, leaving it with a lot of headroom to spend money once the crisis hit. Second, the Swedish government didn't have to spend months wrangling over whether or not to spend money and what to spend it on, as the U.S. government did. The Swedish welfare state automatically provided unemployed workers with income support, training, and even employment. Third, they supported banks with expansionary monetary policy, but they didn't have to do very much because their banks were tightly regulated and therefore less exposed than banks in other countries.

Is the Swedish version of social democracy in danger of being replaced finally by another bustling, increasingly unequal capitalist state? This is not at all likely. The SAP continues to be the largest political party in Sweden. Even out of power, with the SAP enjoying broad-based support and with labor unions still relatively powerful, the "Swedish model" will be in place for the foreseeable future, albeit in a somewhat less progressive form than its 1970s incarnation.

CONCLUSION: THE CASE FOR SWEDISH SOCIAL DEMOCRACY

Despite the recent erosion in some areas of the welfare state, Swedish social democracy remains intact, and there is no denying the effectiveness of the model over the last 70 years. Ultimately, Sweden's system for most of the past century has been, and still is, based on the following general goals and principles:

1. **Economic development and efficiency.** In order to have a prosperous society, the economy must function efficiently, and in a worker-friendly manner. This means cooperative management of the economy to serve the needs of society, but not necessarily government control of the entire economy. Cooperation between labor and capital can increase efficiency and productivity, resulting in fewer strikes, less litigation, more rapid technological change, and innovative forms of work organization.
2. **Economic well-being and security for all.** The benefits of prosperity should be shared with all citizens. This can only be accomplished with the de-commodification of all basic necessities. Those who fall on hard times should be given support and opportunities.
3. **Solidarity.** Individuals are members of a community, not only with rights but with obligations to that community as well. A society based on mutual cooperation is preferable to one based on unmitigated competition.
4. **Universality and equality.** Most Swedes rely on the same network of services and participate in deciding how the local government operates these services. This network gives everyone a stake in the system as well as a voice. The provision of a wide range of services is a buffer against the predatory nature of an unregulated market system, while local control over services is a buffer against an overly controlling or inefficient national bureaucracy. This builds both equality and community.
5. **Democracy and cooperation.** Every society needs rules, which should be determined by the people themselves, and not unduly influenced by money. True democracy means that workers should have input into management decisions as well as political decisions, otherwise society degenerates into a barbaric system in which only the wealthiest and most aggressive prosper, and where workers are exploited. Firms influence the direction of the economy, as do labor unions and community groups. These groups must work together and compromise for the economy to work effectively.
6. **Education and access to information.** In order for a democratic society to work, all citizens need to be well educated and informed. One measure taken by the Swedes is public control of some of the media in order to insure an unbiased flow of information. A number of Swedish

radio and television stations are run by the Swedish Broadcasting Corporation and contain no commercials. Programming emphasizes education and information in addition to entertainment.

7. **Pragmatism.** The SAP is remarkably free of dogmatism, and has shown itself to be quite flexible. The goal is to establish a society that benefits all people, and if this can be achieved without worker control of the means of production, then the SAP accepts that. On the other hand, the SAP refuses to accept the social costs associated with unregulated capitalism.

In Sweden, social democracy has resulted in an economy that is remarkably prosperous, and one that has the least poverty, the most equitable income distribution, and, proportionally, the highest levels of spending on health and education in the developed world.

Further, Sweden succeeded in Keynesian stabilization policy and the pursuit of full employment far better than any other developed country. From 1950 to 1991, a period of 42 years, Sweden's unemployment rate only exceeded 3% a total of three times, whereas U.S. unemployment exceeded that level 38 times. Sweden's average rate of unemployment, even including the deep recession of 1991-1993, was kept relatively low when compared with the United States and other European and developed (OECD) countries, as Figure 1 indicates. Figure 1 also shows that Sweden had a somewhat higher unemployment rate than the United States from 1995-2008, and a slightly lower unemployment rate than the U.S. in the post-financial-crisis years of 2009-2014. Many economists note, however, that this is misleading due to the extremely high rate of underemployment (people working fewer hours than they want to and performing work below their skill level) in the United States.

Figure 1. Average Unemployment Rates for Sweden, the U.S., and OECD Countries, 1960-2014.

Country or Group of Countries	Average Rate of Unemployment 1960-1994	Average Rate of Unemployment 1995-2008	Average Rate of Unemployment 2009-2014
Sweden	2.4%	7.2%	8.09%
All OECD countries	5.2%	6.6%	7.94%
United States	6.0%	5.1%	8.24%

Source: Olsen 1999 and OECD Stat, http://stats.oecd.org/Index.aspx.

Sweden was able to maintain full employment between 1960 and 1991 because of the following factors: 1) wage restraint on the part of labor, as part of the nationwide collective bargaining agreement; 2) an unemployment benefit system with a fixed duration of benefits, a wide range of labor-market programs to promote the acquisition of skills, and strict work requirements; 3) an active labor-market policy in which the government creates jobs through public works and employment subsidies, provides training, assists people in finding jobs and moves them to areas where there are jobs (there is a nationwide labor-market exchange which matches job seekers with jobs).

During this period, Sweden demonstrated conclusively that there is no reason for a country to live with a high "natural" rate of unemployment in order to have price stability. As Swedish economist Rudolf Meidner stated, "There is no such thing as a natural rate of unemployment. The level of employment and unemployment is significantly influenced by what the government does. It is a result of economic policies...Price stability and full employment are not incompatible goals." (Quoted in Silverman 1998, 86.) Sweden's inflation rate averaged 6.4% from 1961 to 1994, 33% higher than the U.S. average inflation rate of 4.8% over the same period, but the average unemployment rate in the United States was *150%* higher than Sweden's unemployment rate.

Despite the existence of extensive benefits for those who do not work, Sweden has the highest labor participation rate in the world. Whereas mainstream economists predict that generous welfare benefits provide a disincentive to work, the Swedish experience demonstrates that people *want* to be productive (recall Veblen's idea of the instinct of workmanship), and that if work is not drudgery, people will work willingly and enthusiastically.

Sweden's experiences with economic growth are similar to those of the United States, with relatively high rates of growth for much of the 1870-1970 period and slower growth since 1970. The build-up of the welfare state in Sweden was quite compatible with economic growth. The benefits of social peace and stability along with public investment in infrastructure and human capital more than offset the high taxes and the restraints on businesses. The cooperative nature of economic decision-making, with businesses, labor unions, and the government all participating, insured that economic growth could occur in a socially responsible context.

Meanwhile, Sweden also succeeded in creating one of the most peaceful, crime-free, egalitarian societies in the world. It de-commodified many aspects of the market system, thereby insuring that all citizens have the right to a good education, housing, health care, and a job. As Figure 2 indicates, the rights of a Swedish citizen are much more extensive than the rights of an American cit-

Figure 2. Rights of a Swedish Citizen vs. Rights of a U.S. Citizen

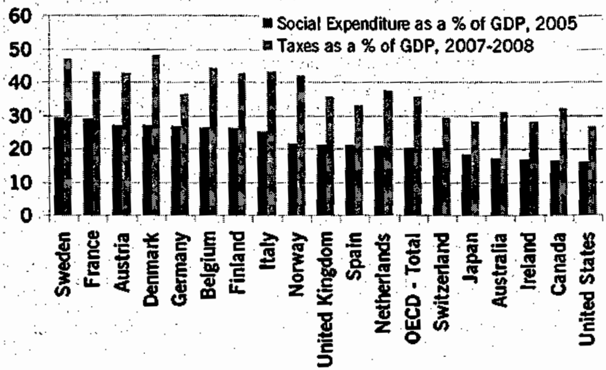
	SWEDEN	UNITED STATES
PARENTAL LEAVE	All parents have the right to stay home and care for an infant for up to one year per child at 90% of normal salary. All parents receive a child allowance to cover the costs of raising children.	All parents have the right to six weeks of unpaid leave to care for a newborn child. Some receive monetary assistance for a limited time if they are very poor.
VACATIONS	All workers get at least five weeks of paid vacation per year plus extensive sick leave benefits.	U.S. workers may get two weeks of unpaid vacation per year if they are permanent employees; there are no mandatory vacations for temporary employees. No one is guaranteed sick leave. Permanent employees usually get two weeks of paid vacation.
HEALTH CARE	All citizens receive high-quality health and dental care, with modest co-payments up to a maximum yearly payment. Care is generally so good that many of the wealthy use public health care.	Most workers receive health insurance through their employer, or they get it from the government. Medicare and Medicaid provide health insurance to the elderly and very poor. But in 2014, 33 million Americans, including 5 million children and many of the working poor, had no health insurance.
EDUCATION	Free education is provided (via vouchers) for everyone at all levels, including college, vocational and adult education (for those who want to explore new careers). Adult students receive time off from work and a stipend. The quality of education is so universally high, that it is common for the children of the wealthy to attend public schools.	Free primary and secondary education is available to all, with the quality varying widely. People living in poorer school districts generally receive inferior education. Limited funding is available for college students, but college is often beyond the reach of the poor. What funding is available is usually in the form of loans, creating long-term debt for most.

	SWEDEN	UNITED STATES
JOB TRAINING	Free training is provided to all citizens who desire it. Those undergoing training receive a stipend from the government.	Some training programs exist, but they are limited in nature, and usually only for the poor. Trainees do not usually receive a stipend.
EMPLOYMENT	In Sweden, every citizen has the right to meaningful work. Unemployed workers receive unemployment benefits, retraining, or a job in a public works project.	Some of the unemployed receive up to 6 months of unemployment benefits and job search assistance. After six months, benefits are usually cut off.
SOCIAL SECURITY	All Swedish citizens receive a pension from the state, which pays people at least 75% of what they earned when they were working, or a guaranteed minimum amount if they did not work.	Most U.S. citizens receive Social Security benefits, but often the payments are not enough to live on.
HOUSING	If Swedish citizens cannot afford a house, they are given a housing subsidy. Sweden does not have a problem with homelessness due to the success of their housing and anti-poverty programs, and they have no slums.	Some U.S. citizens receive housing subsidies or a spot in public housing. But many citizens do not qualify for these benefits, and the U.S. has a significant number of homeless people. Every major U.S. city has slums.

izen. If you came from an average family, which society do you think would be the most pleasant one to live in?

Because of its extensive system of benefits and rights, proportionally Sweden has the largest government sector in the world. The Swedes believe this to be necessary to control aspects of life that should not be left to the market. As Figure 3 (below) indicates, Sweden devotes the largest percentage of GDP in the world to social expenditures (poverty, inequality, health, social security, family, unemployment, labor, housing, and other programs), which it pays for with the world's second-highest tax rate. (Note, we use are using data from before the financial crisis in this table for an important reason: after the financial crisis and the economic collapse in much of the European Union, many countries were forced to increase their social spending on unemployment and other programs. Thus, current expenditures on social expenditures in many countries are more reflective of the ongoing crisis in Europe than a long-term commitment to social expenditures, such as we see in Sweden. In 2014, Sweden spent 28% of its GDP on social expenditures, while the U.S. spent 19%.) Sweden and the other social democracies of Europe have the largest proportional governments, while the United States, United Kingdom, and Japan have among the smallest governments. This is a clear indication of the economic philosophies of the different countries. Sweden, Denmark, Norway, France, and the Netherlands, to name a few, use government programs to insure that all citizens have the right to a decent standard of living and real opportunities. The United States, the United Kingdom, and Japan do have substantial governments, but these countries leave

Figure 3. Social Expenditure and Taxes as % of GDP, 2005 and 2007-8



Source: OECD Social Expenditure Database, stats.oecd.org.

much more up to the market than does Sweden. The box on Norway below discusses how differently a social democracy handles the discovery of new resources compared with a country like the United States.

As Figure 4 shows, through extensive spending on education, labor, and social programs, Sweden has almost eliminated poverty. Sweden's large government is accompanied by the second-lowest poverty rate in the world, a byproduct of its highly regulated economy and generous allocation of rights. Meanwhile, the United States has one of the smallest governments in the world, but also the highest poverty rate and highest child poverty rate of all

NORWAY'S OIL BOOM: A BOON FOR ALL NORWEGIANS

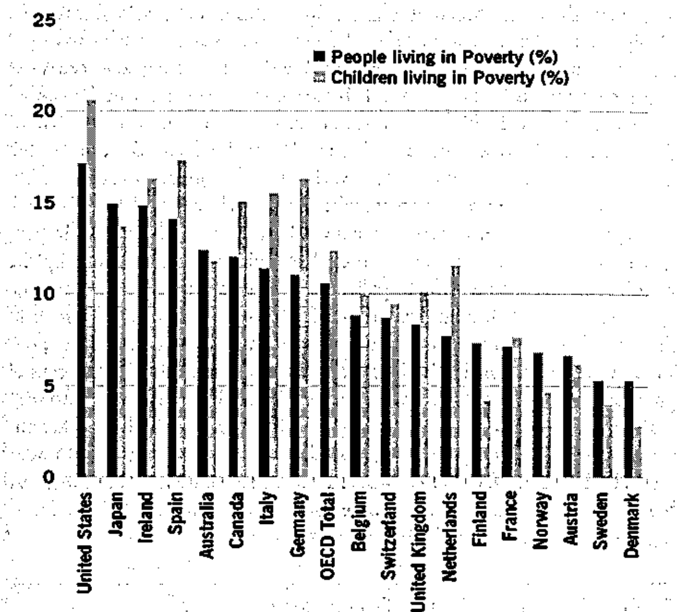
Sweden's Scandinavian neighbors, Finland, Denmark and Norway, are also social democracies with large welfare states and successful, dynamic economies. The commonalities of these economies, along with their relative successes, have led political economists and even conservative publications such as *The Economist* ("The Next Supermodel," February 2-8, 2013) to extol the virtues of the "Nordic Model." One particularly fascinating story about how the Nordic countries run things differently is the manner in which Norway responded to the discovery of oil off its coast in 1969.

Economists often talk about a "resource curse" that hits economies when abundant natural resources are found. The massive influx of easy money that usually follows causes the domestic currency to grow stronger and displaces other industries, even destroying the economy's other productive sectors. Once the money from natural resources is spent, the economy has few industries left to fall back on.

To avoid the resource curse, Norway's labor-dominated government strictly limited the amount of oil drilling, doling out drilling permits in small doses. They established a state oil company, Statoil, to ensure that society as a whole would benefit from the oil bonanza. Then, the Norwegian government took the funds from oil and, instead of squandering them, established the Petroleum Fund. The government decided it would only spend the interest from the fund and a maximum of 4% of the principal in any year. By 2016, the fund had grown to over $873 billion, amounting to 1% of global equity markets! This fund will still be available to support Norway's economy many, many years after the oil is gone. Meanwhile, the oil funds the state does spend help to fund free health and dental care, free education through college, free day care, subsidized housing and vacations, the development of non-oil industries, and active labor-market policies.

Oil has made Norway one of the richest countries in the world, and all its citizens have benefited as a result of the government's careful stewardship of this resource. One wonders what the United States might be like had we invested the money from our oil and natural resources in the national interest instead of letting oil tycoons keep most of it.

Figure 4. Percentage of People and Children Living in Poverty, mid-2000s



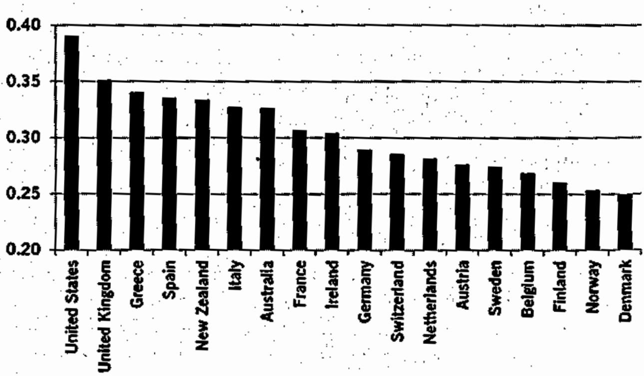
Source: OECD Social Expenditure Database, stats.oecd.org.

developed countries. Many, if not most, poor people in the United States are not able to lift themselves out of poverty through their own efforts, and often those who are more privileged characterize them as lazy or incompetent. (Once again, we are using pre-financial-crisis data here, since poverty rates after the crisis have shifted dramatically due to macroeconomic events. Just to illustrate that these trends still exist, in 2014 in Sweden the poverty rate was 9% and the child poverty rate was 8.3%, whereas in the United States the poverty rate was 17.9% and the child poverty rate was an astounding 20.9%.)

The reality is that most poor people want to work, but do not have the necessary resources (education, training, a car, work clothes, child care, or opportunities) available to them that would allow them to find self-sustaining employment. Together, Figures 3 and 4 conclusively demonstrate that a country can eliminate poverty if it is willing to spend the money, but without such intervention, many people will remain poor.

In addition to eliminating more poverty than any other country, Sweden has one of the most egalitarian societies in terms of income distribution. Its highly progressive tax and transfer system insures that those who have the most contribute the most, and those who have the least are guaranteed a decent income. Figure 5 shows how much more equal Sweden is than the United States as a result of its different tax and transfer system. The bottom 80% of the population does much better in Sweden than in the United States. Sweden's highly progressive tax system contains within it a value judgment about different kinds of consumption based on the ideas of Thorstein Veblen. It is assumed that the consumption of basic necessities by all people is more important than the consumption of additional conspicuous luxury goods by the wealthy. In contrast, most U.S. politicians argue that the wealthy have the right to spend all their money as they see fit. Many conservative politicians in the United States even want to create a flat tax, where the rich and the poor would pay the same marginal tax rate. In the United States, with the central position given to individual choice in consumption decisions, there is no stigma attached to a rich person spending $10 million for a yacht, but politicians who propose that society has a responsibility to spend an equivalent amount on health insurance for 2,000 uninsured children are criticized for advocating big government. Most political economists find this U.S. method of allocating resources immoral and barbaric.

Figure 5. Inequality (Gini Coefficient), 2012



Source: OECD Social Expenditure Database, stats.oecd.org.

Sweden's center-right government eliminated the country's high inheritance tax in 2005, but the tax code is still highly redistributive. The government levies an annual wealth tax of 1.5% on the net worth of any single-person household above 1.5 million kroner (or about $200,000), and above 3 million kroner for couples. Explicit in such tax policies, which help reduce incomes at the top, is the egalitarian idea that everyone should start life at a reasonably similar level. Most Swedes agree that people with money should not be able to live on the dividends coming from an inheritance simply because their ancestors made a fortune. True equality of opportunity means that all people have equal access to education, even the children of the rich should have to work, work should be meaningful, and workers must have some control over the workplace. As you can see in the box on speeding tickets in Finland, Nordic countries also believe in extending the idea of equality into the legal system, where fines are based on your ability to pay.

Another Swedish practice that coincides with Veblen's ideas is their policy of restricting advertising while simultaneously channeling funds into productive areas such as research and development. As noted above, the Swedish Broadcasting Corporation runs much of the television and radio programming, which it airs commercial-free. Newspapers receive state subsidies so they are not entirely dependent on ads. Again, Swedes make a value judgment about economic activity: advertising is wasteful and commercial impulses distort the content of television and newspapers. While the U.S. media resists "restrictions" on programming, most Swedes believe that the commercial nature of the media in the United States is much more restrictive, and not in society's best interests. Can we really depend on the huge corporations that own the media to present a balanced version of the news? If so, then why haven't we all heard more about the success of Sweden's economic system?

It is often said that the United States is the land of opportunity; yet most working people do not have an equal opportunity to succeed because they lack access to equal education and training. In Sweden, all citizens have access to a high quality education. The United States is spoken of as the land of the free because we have few government regulations over the marketplace. This gives us the freedom to succeed and to keep most of the money we make. We also have the freedom to work wherever we want—but for millions this means working at jobs that don't pay a living wage. This is, of course, a freedom much admired by some Swedes: the corporate bosses.

Swedish economists also question whether the United States is truly prosperous in any meaningful sense. Despite a very large GDP, should the United States be boasting about a level of prosperity that fails to provide crucial necessities like health insurance for over 30 million people, that is benefiting only a small percentage of the population, and that was built on the low wages of workers with declining, or no benefits? Shouldn't U.S. citizens be concerned that despite this supposed prosperity, millions of people in the United States, including many children, are condemned to poverty, and over two million mostly poor people are in prison or jail? The debtors' prisons of the 1800s are reviled in history books, but is imprisoning poor,

EQUAL TREATMENT UNDER THE LAW: SPEEDING TICKETS IN FINLAND

As is the case in so many areas, Scandinavian countries have different definitions of equality than does the United States. For example, in the United States, every person who receives a ticket for speeding pays the same amount based on how fast s/he was going compared to the speed limit. But Scandinavian countries determine traffic fines based on income. As Erkki Wuoma, special planning adviser at the Ministry of Interior in Finland, stated, "We have progressive taxation and progressive punishments. So the more you earn, the more you pay" (*Wall Street Journal*, Jan. 2, 2001).

The most dramatic example of this is Finland's system of "day fines." They divide a person's annual net (after tax) income by 365 to get the amount of money a person receives per day. Then, they divide that amount by two to arrive at the amount of spending money the person has available per day. This is the amount of their day fine. Then, the severity of the offense determines the number of day fines the offender must pay. For example, going 15-25 miles per hour (mph) over the speed limit gets you a 22-day fine (22 multiplied by half your daily net income), whereas going up to 15 mph above the speed limit gets you a 12-day fine (12 times half your daily net income).

The differences in fines in Finland from this system can be dramatic. A middle class person usually pays $30 to $50 per-day fine, which would mean fine of $660 to $1,100 for going 15 to 25 mph over the speed limit (a 22-day fine). But Swedish multimillionaire Anders Wiklof was fined $130,000 for going 18 mph over the speed limit in Aland, Finland. Other huge fines ranging from $39,000 to $103,000 have been paid by a star hockey player and various business executives, all based on their net incomes and how fast they were going.

The result is a system in Finland which is equal in the sense that everyone experiences the pain of the fine equally. This is a very different kind of equality than in the United States, where a speeding ticket is equal in that every person pays the same amount of money, but tickets affect the poor much more severely because they pay a much larger share of their income. Unfortunately, as reported by the American Civil Liberties Union, traffic tickets in the United States can even result in poor people being sent to prison when they cannot pay their fines.

So, which system is more fair, the U.S. system where every person pays the same dollar amount for speeding regardless of their income, or the Finnish system where every person pays the same percentage of their net income for speeding?

desperate people who resort to crime really so different? Is the purpose of an economy to generate billions for Bill Gates and the Walton family (that owns Wal-Mart) or to generate the greatest standard of living for all that belong to that society? In all of these ways and more, the social democracy of Sweden serves most of its people better than the (largely) unregulated capitalism of the United States.

And, in perhaps the ultimate irony, the United States, with its relatively unregulated market system, doesn't always generate better economic growth than Sweden. As noted above, once Sweden adjusted its policies after its economic crisis of the early 1990s, it experienced more rapid growth in GDP per capita than the United States and other European countries (1.5% in Sweden vs. 1.0% in the U.S. and the European Union).

Thus the experiences of Sweden demonstrate the possibility of a "Middle Way" between unregulated capitalism and command communism: social democracy. Sweden may not be a paradise on Earth. Sweden has problems just like all other countries. Swedish citizens do complain about their high taxes and their sometimes-inefficient government. But building on the ideas of Marx, Keynes and Veblen, Sweden proved that a country can maintain full employment, be efficient and productive, and give every citizen the right to decent levels of food, clothing, health care, to a job, and to some control over their lives. Ultimately, each country must decide what things to leave up to the market and what things should be determined by the collective decisions of all citizens. In the United States, most things are allocated based on how much money a person has, which gives unprecedented levels of freedom and choice to the very wealthy, but leaves much of the population without the basic necessities of life.

Perhaps, as most Americans tend to believe, the United States is the land of the free. But this might not be the case if your definition of a "free people" is one that includes everyone. To us, based on what we have argued in this chapter, because their nation's social democracy provides everyone with such benefits as free education, excellent, low-cost health care, and civilized working conditions, the Swedes have a much stronger claim than do Americans that they are a truly free people.

SUGGESTIONS FOR FURTHER READING

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