The Decline of the Swedish Model

Jan-Erik Lane

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"The Decline of the Swedish Model"

Jan-Erik Lane
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Political Economy Research Group,
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London, Ontario, Canada  N6A 5C2
phone: (519) 661-3877
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THE DECLINE OF THE SWEDISH MODEL

by Jan-Erik Lane, University of Oslo

ABSTRACT

The argument in relation to the decline of the Swedish model of a full scale comprehensive welfare state is that the international literature on Sweden has failed to realize the severity of the economic crisis. The Swedish malaise is entirely home made and started much earlier than international commentators realized. The sharp down turn in the performance of the public and private sectors in Sweden is a result of the overemphasis on the public sector, upsetting the earlier established balance between markets and politics. Since 1975 Sweden is ruled by a distributional coalition that has not yet come up with any system reform that can take the country out of its economic difficulties.

INTRODUCTION

The recent developments in the Swedish economic crisis have been followed closely by the international community. The attention given the mounting economic difficulties in Sweden is the mirror image of the admiration that used to be given to the country. How could things go so wrong?

Actually, the present economic crisis started already when the Swedish model of a welfare state was at its peak in terms of international admiration, i.e. in the late 1970s and early 1980s. In the analysis of the Swedish model few if any international experts saw what was coming (Esping-Andersen, 1985, 1991; Tilton, 1990; Milner, 1991; 1994). In stead, almost all books and articles continued to express admiration for a country that - it was believed - had found or invented a unique model that was eminently worth exporting to other countries, solving the logic of collective action problems connected with economic growth by corporatist institutions (Olsen, 1990). The literature on the Swedish model is interesting, not because of what it observed and explained but because of what it bypassed.

The purpose of this article to point out that the Swedish difficulties are hardly accidental and cannot be blamed upon the
economic depression. They result from certain weakness in the model itself and they call for vast institutional redesign in the public sector. Let us first survey some of the crisis symptoms and then discuss the causes.

THE SWEDISH OR SCANDINAVIAN MODEL

The Swedish model comprised a specific set up of political, social and economic institutions that were believed to enhance major objectives such as economic efficiency, social equality and democratic responsiveness. The gist of the model is a combination of the public and the private sectors involving markets institutions in the private sector and large scale welfare state spending in the public sector (Petersson 1990; Lane, 1991). High rates of economic growth were to be combined with low levels of inflation and unemployment by means of corporatist interest intermediation and representation, based on encompassing and hierarchical interest organizations. The model worked up until 1975, but has since that time disintegrated more and more. The continuing crisis of the Swedish welfare state is that noone knows what to do instead.

In the international literatue the model is either called the "Swedish" one or the "Scandinavian Model", as it has also been dominant in Denmark and Norway (Kuhnle, 1990; Kuhnle and Solheim, 1994). Yet, somehow the Norwegians and the Danes have escaped the worst excesses of the model. The Danish economy was in bad shape in the early 1980s, but a policy reversal towards monetarist ideas resulted in a stunning turnaround in the early 1990s. The Norwegian economy is resource based, dominated by the oil producing off-shore industry. Neither the Danes nor the Norwegian experienced such a model decline as the Swedes did from 1975 and onwards. One may ask why international observers failed to notice the early symptoms of a declining performance of the Swedish model.

ECONOMIC DECLINE

The economic basis for the Swedish welfare state was an efficient economy which delivered a surplus that could be taxed and redistributed in the form of welfare programmes at either the national or the local government level. Between 1913 and 1950 average economic growth was higher in Sweden than in Western Europe, but also after the Second World War there was talk about Japanese growth rates - the Swedish miracle with an average growth of more than 3% per year. For some reasons the high rates of economic began to decline in the 1970s and in the 1980s and 1990s there were even years with a negative economic growth rate.

Table 1 presents data about the developments since 1970 using OECD statistics about aggregate GDP growth. The growth rates have been consistently lower in Sweden than in most other West-European countries, particularly during the last decade but the decline was initiated long before the most recent depression in
the world economy. In the early 1990s there was a 6 per cent decline in the GDP.

Table 1. Economic Growth in Sweden 1970 -

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>1.5</td>
<td>1.7</td>
<td>2.1</td>
<td>0.1</td>
</tr>
<tr>
<td>OECD</td>
<td>2.8</td>
<td>3.8</td>
<td>2.5</td>
<td>2.3</td>
</tr>
<tr>
<td>OECD Europe</td>
<td>2.3</td>
<td>2.5</td>
<td>2.0</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Source: OECD Economic Outlook, June 1993.

There has been much debate about the "growth problem" in the Swedish economy (Henrekson, Jonung and Symne, 1994). A number of factors have been mentioned: too much investments in the housing sector and too little in growth generating infrastructure, weak entrepreneurship, too small wage differentials as well as wage rigidities between various sectors in the economy and too little investments in human capital. However, the most plausible explanation is the expansion of the public sector. Public expenditures have grown much faster than the overall growth of resources in the economy meaning that the state has resorted to deficit spending on an ever increasing scale.

PUBLIC EXPENDITURES

By every measure Sweden has the largest public sector among the OECD countries. Total outlays now stand at 70 per cent which is far in excess of the average of 42 per cent for OECD and 50 per cent for OECD Europe. Dividing public expenditures into public resource allocation and transfer payments, Sweden has the highest percentage with regard to the first category whereas the Netherlands spends more than Sweden on the latter category. This is the result of the exception public sector growth process since 1970. In 1960 total outlays stood at 31 per cent of GDP, which was in line with the OECD average of 28 percent and the OECD Europe figure of 31.3 per cent.

The expansion of the public sector in Sweden involves sharply increased outlays on three items: (1) public resource allocation, (2) social security expenditures and (3) interest payments on the state debt and some additional subsidies. Let us look at these items separately. The first category comprises the enormous expansion of the local governments, responsible for the delivery of a number of welfare services, whereas the second category covers the transfer payments in the Swedish welfare - the redistributive state (Table 2).
Table 2. Public Expenditures: Consumption and Transfer Payments

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Consumption</th>
<th></th>
<th>Transfer Payments</th>
<th>Total Public Outlays/GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>National Gov</td>
<td>Local Gov</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1960</td>
<td>8</td>
<td>10</td>
<td>8</td>
<td>29</td>
</tr>
<tr>
<td>1970</td>
<td>8</td>
<td>14</td>
<td>12</td>
<td>37</td>
</tr>
<tr>
<td>1980</td>
<td>9</td>
<td>20</td>
<td>19</td>
<td>57</td>
</tr>
<tr>
<td>1990</td>
<td>10</td>
<td>22</td>
<td>21</td>
<td>59</td>
</tr>
<tr>
<td>1995</td>
<td>11</td>
<td>24</td>
<td>24</td>
<td>70</td>
</tr>
</tbody>
</table>

Source: OECD National Accounts; Finansplanen 1995/96.

The public sector expansion process that dominates Swedish society after the Second World War starts first and foremost as a growth in public resource allocation. In the sixties and the seventies there is a considerable increase in public consumption, i.e. in the provision of goods and services almost free of any charges. Around 1980 comes the next growth process, namely the sharp increase in transfer payments. The rapid expansion in the costs for social security has not yet been halted at the same time as there is actually a complete standstill in the allocative expenditures. Since 1990, however, the fastest growing item in the public household is the interest payments on the state debt. The amount of deficit spending as well as the running costs for the state debt is still not under control, but keeps going up every year. Sweden expects that its state debt will keep growing as a percentage of GDP until 1998. The deficit is as high as 10 per cent of GDP still in 1995.

Public sector expansion has not been a continuous smooth process. In stead we see two major jumps in overall public expenditures, one occurring in the 1970s and the other in the early 1990s, i.e. during periods of severe economic recession.

DEBT

The most conspicuous expression of the crisis of the Swedish welfare state is the huge deficit on the state budget. One needs to distinguish between the yearly deficit, the accumulated state debt, the total public and private foreign debt as well as the interest payments on the state debt (Table 3).

Table 3. State Debt, Budget Deficit and Foreign Debt (Current prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>Budget Deficit</th>
<th>State Debt</th>
<th>Foreign Debt</th>
<th>GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>0.5</td>
<td>20</td>
<td>-</td>
<td>76</td>
</tr>
<tr>
<td>1970</td>
<td>4</td>
<td>31</td>
<td>+15</td>
<td>172</td>
</tr>
</tbody>
</table>
1980  43  192  -50  528  
1990  +3  583  -580  1340  
1995  171  1470  -836  1580  

Source: Statistical Yearbook of Sweden; Finansplanen 1995/96.

Two major developments are indicated in Table 3. On the one hand, there is the ever increasing incapacity of the Swedish state to pay for all its public sector programmes. Deficit spending on a large scale starts already in 1976, which shows up in the drastic expansion of the accumulated state debt. Although there are a few years in the 1980s when the state budget is balanced, during almost all the years since 1976 there have been deficits. In the early 1990s any kind of control over the size of the yearly deficits was lost, as the deficits moved up to 15 per cent of the GDP in 1994. The accumulated state debt is now almost 100 per cent of GDP, whereas in 1975 it was less than 25 per cent.

The continued resort to deficit spending has had the consequence that interest payments on the state debt is the single largest item on the national budget, amounting to over 100 billion Swedish Crowns. It should be pointed out that the local governments are not generally part of the deficit spending process, as they are under the legal requirement to balance their books, at least roughly so. However, the huge state debt has consequences for the local government, as a substantial part of their income comes from a general state grant, which no longer can be kept up in against the inflationary erosion.

It is sometimes claimed that the deficit is not so worrisome, because there is a large surplus in the national social insurance funds. However, even considering the consolidated public sector there are heavy deficits each year. And one must recall that these funds are earmarked for pension outlays. Actually, there is for the first a fear among many men and women that the state will not be able to deliver upon its pension promises in the future.

As if these negative figures were not enough, Sweden has also indebted itself heavily abroad. The accumulated foreign debt for both the public and private sectors amounts to a considerable commitment of roughly 50% of the GDP. The foreign debt literally exploded during the 1980s, when both the state and private organizations borrowed heavily abroad. At the moment 60% of the foreign debt is with the state whereas the other 40% is with the private sector.

THE CURRENCY

Such a prolonged process of deficit spending building up such a giant state debt in combination with a significant foreign debt can only jive one impact upon the Swedish currency. Table 4 shows how the Crown has fallen in value in relation to other major currencies since the deficit period was initiated.
Table 4. The Value of the Krona against Major Currencies

<table>
<thead>
<tr>
<th></th>
<th>US Dollar</th>
<th>Yen</th>
<th>Pound</th>
<th>D-Mark</th>
<th>Danish Crown</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>5.2</td>
<td>-</td>
<td>12.4</td>
<td>142.4</td>
<td>69.4</td>
</tr>
<tr>
<td>1970</td>
<td>4.2</td>
<td>1.9</td>
<td>9.9</td>
<td>233.3</td>
<td>75.3</td>
</tr>
<tr>
<td>1980</td>
<td>5.9</td>
<td>4.1</td>
<td>10.6</td>
<td>366.9</td>
<td>96.0</td>
</tr>
<tr>
<td>1990</td>
<td>7.6</td>
<td>7.5</td>
<td>11.8</td>
<td>481.2</td>
<td>124.3</td>
</tr>
</tbody>
</table>

Source: Statistical Yearbook of Sweden

The depreciation of the Crown against the D-Mark, the Yen and the Danish Crown is spectacular. The reduction in the value of the Crown is only to a limited extent intentional, because Sweden has only devalued its currency a couple of times in the late 1970 and in 1982. In 1991 Sweden was forced to have the Crown float freely, which led to a dramatic depreciation of around 25 per cent.

The failure to have a stable currency reflects macroeconomic difficulties. Although much of the public expenditures were always motivated with macroeconomic arguments about a full employment regime, the fact is that Sweden has succeeded less and less with the implementation of its macroeconomic objectives. Fundamental imbalances may be found not only in the state finances and the currency market but increasingly so also with regard to inflation and unemployment.

Typical of Swedish macroeconomic policy-making has been the preference for a highly discretionary regime, involving many policy reversals adding to the uncertainties from external shocks. There has been a belief in demand management in a short term perspective.

**INFLATION AND UNEMPLOYMENT**

When the Swedish model worked at its best, then it delivered not only low levels of unemployment but also little inflation. The overall policy framework was derived from Keynesian principles, which were interpreted in a novel fashion by the economists belonging to the Stockholm School of Economics (Jonung, 1993). The fact that the Swedish model has been so much admired stems from the simple circumstance that it worked from around 1935 up until 1970. There was high economic growth, almost none unemployment and very little inflation. However, first the inflation target had to be abandoned and then unemployment soared to record highs (Table 5).
Table 5. Unemployment and Inflation

<table>
<thead>
<tr>
<th></th>
<th>Open Unemployment in per cent/year</th>
<th>Yearly Inflation in per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-69</td>
<td>1.8</td>
<td>4.1</td>
</tr>
<tr>
<td>1970-79</td>
<td>2.3</td>
<td>9.2</td>
</tr>
<tr>
<td>1980-89</td>
<td>2.3</td>
<td>7.8</td>
</tr>
<tr>
<td>1990-95</td>
<td>6</td>
<td>4.6</td>
</tr>
</tbody>
</table>

Source: Statistical Yearbook of Sweden; Finansplanen 1995/96.

The recession in the early 1990s resulted in levels of unemployment that Sweden had not experienced since the 1930s. If open unemployment hit a high 8% in 1993, then total unemployment went up to almost 12%, given the traditional ambition of the government to retrain unemployed within various schemes. Some 4 per cent of the labour force is engaged in retraining programmes in the early 1990s, which is costly for the state.

Such a high level of unemployment completely wiped out all kinds of wage induced inflationary pressures, inflation dropping to some 2% only. Actually, it has been claimed that the persistently low unemployment figures made it possible for the trade unions to carry through considerable nominal wage increases in the 1970 and 1980s, which though did not increase the real wages in any significant amount. Instead, the huge nominal wage increases paved the way for recurrent cost crises for Swedish enterprises, which were temporarily resolved by several devaluations of the currency. For some reason, since 1970 the highly centralized wage bargaining system failed to tie the salary increases together with the productivity gains in industry.

EMPLOYMENT: PUBLIC AND PRIVATE

When the Swedish model operated at its best, then there were few strikes or lockouts. Wage bargaining involved two key players, the LO on the blue colour workers' side and the SAF on the employers' side. However, with the expansion of the public sector this highly centralised pattern could not be maintained. Instead, wage negotiations involved several actors, not only the white colour workers but also the public employees and the central and local governments. The petrification of the bargaining system, which made opportunistic strategies much more attractive, reflects the transformation of the occupational structure (Table 6).

Table 6. Employment

<table>
<thead>
<tr>
<th></th>
<th>Public Sector</th>
<th>Public</th>
<th>Private Sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>State</td>
<td>Local Gov</td>
<td>Enterprises</td>
<td></td>
</tr>
<tr>
<td>1960</td>
<td>266</td>
<td>150</td>
<td>170</td>
<td>2,658</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3,244</td>
</tr>
</tbody>
</table>
1970  353  
1980  281  
1990  242  

Source: Statistical Yearbook of Sweden.

There has been a steady growth in the total number of those gainfully employed, adding some one million over the last thirty years. However, all the increase has taken place within the public sector. The almost phenomenal growth of local government employment, municipalities and county councils, reflects to only a minor extent a transfer of state officials to the local government sector. The expansion of local government employment was incredibly heavy in the 1970s and the 1980s and has abated first in 1993.

Private sector employment has been reduced not only relatively sparingly but also in absolute numbers, despite the one million increase in employment. The decline in private sector employment involves the considerable reduction in agricultural employment, from some 450,000 in 1960 to roughly 150,000. This means that there has actually been a small decrease also in the employment in the basis of the Swedish economy, namely manufacturing and mining: from 1,150,000 in 1960 to 1,000,000 in 1990, in spite of the one million addition to the workforce during the same time. Private sector employment constituted 80 per cent of all employment in 1960 but amounted to only 56 per cent in 1990. If private employees are more productive than public employees in general, then the overall level of affluence of Sweden could not possibly develop but in one direction.

In the national accounts of a country the contribution of the public sector to the Gross Domestic Product is entered from the cost side whereas the private sector contribution is measured in terms of the market prices for its goods and services. This implies that only the private sector can display productivity and efficiency gains, producing more valuable product at less cost year by year. However, for Sweden it entails that the rate of economic growth had to go down, simply because the relative size of the private sector was shrunk in such a dramatic way. In addition, the private sector has not developed favourably.

**INVESTMENTS AND PRODUCTIVITY**

The private sector in Sweden is dominated by its internationally well-known export industry. Although one point out several leading firms the truth is that the performance of the large companies have been characterized by extreme volatility as a result of many currency depreciations and large swings in macroeconomic policy-making. Discretionary fiscal and monetary policies have been employed by the Swedish authorities for the purpose of fine-tuning, but these policies have consistently failed since 1975 (Bergman and Jonung, 1994).
The private sector in Sweden has had to struggle with the basic difficulty that its market shares have been declining since the early 1970s when wage inflation started to pick up. Table 7 gives a few relative indicators on private sector performance (Jakobsson and Jagren, 1993).

Table 7. Performance indicators, the private sector 1970-90 (relative trends)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Absolute Wages</td>
<td>100</td>
<td>103</td>
<td>110</td>
<td>115</td>
<td>125</td>
</tr>
<tr>
<td>Relative Wages</td>
<td>100</td>
<td>105</td>
<td>97</td>
<td>83</td>
<td>81</td>
</tr>
<tr>
<td>Market shares</td>
<td>100</td>
<td>90</td>
<td>80</td>
<td>78</td>
<td>70</td>
</tr>
<tr>
<td>Productivity</td>
<td>100</td>
<td>100</td>
<td>95</td>
<td>92</td>
<td>85</td>
</tr>
<tr>
<td>Investments</td>
<td>100</td>
<td>120</td>
<td>100</td>
<td>120</td>
<td>150</td>
</tr>
</tbody>
</table>

Note: The trends are expressed in terms of the 1970 scores which have been set to 100 per cent. The productivity level in 1970 refers to Swedish productivity in relation to the average level in the OECD countries.

The combined effect of high absolute wage increases and several currency depreciations has left Swedish workerers with a lower relative wage. The decline is substantial, involving an almost 20 per cent reduction in real wages in comparison with neighbouring industrial countries.

However, the shocking observation in relation to the data in Table 7 is that Sweden despite lower wages have lost much of their international market shares. Evidently, manipulating the currency is of little help when the basic problem is low productivity. Since 1970 Sweden has had the lowest increase in factor productivity among the advanced industrial economies. The problem is not investments, as they have gone up although not impressively. The difficulty is that investments have been made in sectors where factor productivity is lower than in other countries with the consequence that the return on investments has been weaker in Sweden.

The relative decline of the Swedish private sector is apparent when one looks at the share of Europe’s industrial output among OECD countries. It declined from 3.6 per cent in 1965 to 2.8 per cent in 1990 - a 25 per cent reduction. The fact that many large Swedish firms have invested heavily abroad has hardly resulted in any spin off effects at home (Isaksson, 1993). Private investments have increased as a percentage of GDP from 14 to 18 percent between 1950 and 1990, but this has not been enough to counteract the relative decline in the role of the private sector in the Swedish economy.
THE SWEDISH MALAISE

The Swedish developments involve that the public sector is driving out the private sector. This is true of both public resource allocation and public income redistribution. The allocative state and the redistributive state is at their maximum in the Swedish welfare state, although retaining a market economy of some sort.

The preference for public resource allocation in stead of markets has meant that almost all types of education, health care and social care are allocated by the state, financed by taxation, where the burden of provision falls upon the local government system. The almost phenomenal increase in the number of local government employees testifies about the fact that any private provision of these goods and services have been rules out. This is a very risky strategy, given the probability of inefficiencies in the administrative state due to startegic interaction and opportunistic behaviour. The productivity measurements of budget allocation between 1960 and 1980 at both the national and local government levels revealed profound efficiency problems (Murray, 1987).

The preference for public income redistribution has meant that the Swedish transfer state has grown tremendously over a very short time due to very generous entitlements. It was not until the major economic crisis in 1991 that the rules about entitlements were reformed, but the costs in the many transfer programmes are still growing as a percentage of GDP. There is still, despite the huge budget deficits, an ambition to secure each and everyone a 90 per cent income maintenance protection against each and every risk. This redistributive ambition has hurt the incentive system in the economy, making employment in the private sector less and less attractive when such a scheme is combined with a heavy expansion of employment opportunities in the public sector.

When the Swedish model worked effectively, i.e. up to 1975, then it delivered a delicate balance between the private and the public sector, between a capitalist market economy and a welfare state with socialist ambitions. The trade off was a compromise which all the major players supported out of pragmatic deliberations. Behind the succesful compromise politics in Sweden stood a firm growth coalition, consisting of the Employers' Association (SAF), the LO and the Social Democratic Party, supported not only by the centre parties but also by the conservative party (Rustow, 1955).

The erosion of the Swedish model depends upon the coming to power in the 1970s of a different kind of coalition, a distributional coalition which cared only for the distribution of the gains in the economy, not economic growth. Actually, only the SAF has argued for the growth alternative in economic policy-making, all the other major players favouring distribution. It favoured public resource allocation, because it implied that everyone would have the same and equal access to vital goods and services.
It engaged in heavy redistribution, channeling money from various groups to other groups in an ever more increasingly complex system, compensating for all kinds of income losses that people may suffer. A sign of the redistributive ambition is the phenomenal increase in the number of persons with a complete or partial disability pension. In 1995 10 per cent of the labour force has been given a disability pension, or some 400,000 people. Table 8 shows that still in the early 1990 the redistributinal state, the transfer payments, remain at a very high level, still increasing absolutely moneywise though not relatively as a percentage of GDP.

Table 8. Transfer Payments 1990-1995 (Billion kronor)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment</td>
<td>11</td>
<td>22</td>
<td>46</td>
<td>57</td>
<td>56</td>
<td>48</td>
</tr>
<tr>
<td>Sickness</td>
<td>45</td>
<td>43</td>
<td>32</td>
<td>30</td>
<td>29</td>
<td>28</td>
</tr>
<tr>
<td>Pensions</td>
<td>154</td>
<td>173</td>
<td>186</td>
<td>192</td>
<td>204</td>
<td>214</td>
</tr>
<tr>
<td>Family and Youth</td>
<td>67</td>
<td>79</td>
<td>85</td>
<td>91</td>
<td>96</td>
<td>99</td>
</tr>
<tr>
<td>Total</td>
<td>277</td>
<td>317</td>
<td>349</td>
<td>370</td>
<td>385</td>
<td>389</td>
</tr>
</tbody>
</table>

There are two great problems in relation to the transfer programmes. On the one hand there is the gigantic size of the GDP amounting to 33 per cent when one also include the remaining transfer programmes outside of those rendered in Table 8 (housing, agriculture, EU-membership fee). This is surely the most expensive transfer state in the world. On the other hand, there is the problem of deficit financing. The transfer state is far from fully financed with the result that Sweden runs the largest current budget deficits on the state budget in the OECD set of countries. The interest payments is the single most expensive item on the national budget, soaring to 8 per cent of GDP in 1996. This has driven up the interest rates to levels that are far higher than those in neighbouring countries such as Norway, Denmark and Germany.

CONCLUSION

The decline of the Swedish model for mixing a market economy with a welfare state is interesting from a systematic point of view. It shows what happens when the delicate balance between economic efficiency and social justice is lost by an overemphasis upon equality in outcomes. When politics becomes predominant in relation to economics under a redistributive regime, then the losses in economic output will in the end also drag down the state in mountains of debt and deficits. Several Swedish firms are still doing well on international markets, but the private sector is despite that too small in Sweden.

The problem for the Swedish welfare state is no longer that it is a model for other countries. No one argues that any longer,
although it took considerable time before international scholars realized the difficulties in Sweden. Now the question is whether at all the Swedish welfare state can fund itself or if other kinds of solutions have to be attempted, more reminiscent of those of the so-called welfare societies.

There is no turn around in sight for Sweden, as the attempts of welfare state reform have been too weak. There is still a basic circulus vitiosus: the enormous running deficits on the national budget drives up the interest rates in the capital markets, which reduces economic activity resulting in sustained high levels of unemployment, which calls for more spending in the transfer programmes, resulting in deficit spending, and so on. No Swedish political party has any recipe for how to stop halt the public sector crises, which threatens to drag also the private sector down. Can a distributional coalition reform itself into a growth coalition?

LITERATURE


