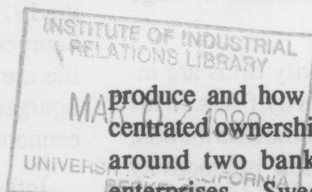


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## SWEDEN: FULL EMPLOYMENT IN A FREE MARKET ECONOMY

by David Levine • //

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Conservative policy-makers in the United States have stressed the need for high unemployment and weak labor unions to fight inflation and keep productivity high. Swedish social democracy shows that other paths to prosperity are possible.

Sweden has long enjoyed the second-highest standard of living in the world (Switzerland has the highest). It has the biggest public sector of any industrial economy, and the highest taxes, and the narrowest wage differentials. It is the most generous "welfare state" in the world, and it has powerful trade unions. Ninety-five percent of blue collar workers are members of the largest labor organization (LO) and 75% of white collar workers are members of three smaller federations. Sweden has an excellent education system, well organized day care for children, and a socialized health system.

### The Swedish "Model"

Nonetheless, the Swedish model is capitalist, not socialist, since it relies on the market in making decisions about what to

produce and how to produce it. Sweden has extremely concentrated ownership of its businesses, with 15 families clustered around two banks controlling the majority of the major enterprises. Swedish capitalists are highly organized in an employers' federation that represents 90% of private sector employment. Instead of public ownership or socialized production, the Swedish model gives the government two fundamental roles: (1) making the market work better by training workers, reducing wasteful unemployment, and improving information about the economy; and (2) eliminating the rough edges of the market by ensuring full employment for all who want work, and by providing generous benefits for those who are hurt by changes in market conditions.

### Labor and Government in Sweden

In the late 1800s, blue collar workers represented by the LO combined with the Social Democratic Party (SDP) to become the key players in the long Swedish struggle for democracy. The labor movement, therefore, has had the historical role that the AFL-CIO might have had if its agitation had led to the Declaration of Independence and the Bill of Rights.

The SDP took power in 1932 during the depths of the Great Depression. Since that time the unity and the power of capitalists and employers have helped to advance Swedish democracy. Workers became solidified against a clear and common adversary. Further, the power of the employers' federation over its affiliates meant that workers and firms could make deals that would stick. For example, in 1938, the employers' federation agreed to bargain centrally with the LO, and to work together with the unions to increase productivity and to avoid strikes and lockouts. The threat of greater government intervention led the firms to end their long opposition to recognizing unions, and turned one of the world's most strike-prone nations into one of relative labor peace. The results have been impressive.

The SDP ruled Sweden from 1932 until 1976, and has been back in power since 1982. In these years, the key to the close alliance between the SDP and the Swedish unions has been the government focus on full employment. Since 1952, the Swedish unemployment rate has never risen above three percent. The SDP has also worked effectively to equalize incomes and to provide a strong social service system.

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## How the Swedish Model Works

Partly through design and partly through luck, the pieces of the Swedish model fit together rather well. Swedish wage bargaining is highly centralized. The LO and a federation of private sector employers meet to establish an overall wage pattern which other union federations usually follow. The objective has been to narrow wage differentials by reducing the efforts of some unions to outpace the gains of others. Also, since the LO is closely associated with the ruling SDP, labor usually takes into account the government's inflation goals when it makes its wage bargains.

Under centralized bargaining, low-productivity firms are required to pay the same wages as high-productivity firms. This policy has aided the SDP goal of more equal income distribution, and has aided efficiency. It has also forced low-productivity firms out of business, shifting workers to firms where productivity is higher. Such a strategy of letting plant closures redirect labor would be inhumane, except that it occurs in an environment of full employment. National and regional Labor Market Boards coordinate information and facilitate movement of workers to industries, occupations, and regions where there are jobs. These Boards consist of union, government, and management representatives. They usually have time to plan, since firms inform them (to some extent) of their hiring and layoff plans.

Employers are required to report all job openings to the Labor Market Boards, which are able to direct many workers to appropriate openings. Workers who lose their jobs are given extensive retraining, focused on occupations with labor shortages. Displaced workers are also eligible for moving assistance, including payments to finance a trip to other regions to look for a new job, funds to finance a new home, guidance toward appropriate careers, and other benefits.

The full employment goal also results in subsidizing private investment during recessions. More recently, the government has begun subsidizing firms to provide in-plant training, not to lay off workers, and to hire new workers. Local governments also track projects that need to be carried out, and during times of weak labor demand the national government subsidizes employment for these projects. Unemployment benefits are generous, but little used. Thus full employment is reached not by holding on to old jobs, but by making it easy for people to move into new jobs.

In effect, the SDP and the LO have reached a deal with employers to keep productivity high enough largely to offset both high wages and redistributive social policies. Thus, many government policies that help workers (retraining) are also intended to help firms (those having difficulty finding qualified workers). Many aspects of the "welfare state," including day care and the education and health care systems, increase the quantity and quality of workers that are available, and do so with no direct payments by firms.

## Economic Winter in the Arctic North

In the second half of the 1970s, Sweden, a heavy user of energy, was hit harder than most countries by the jump in oil prices. At the same time, competition from Korea and Japan devastated Sweden's major heavy industries of steel and shipbuilding. By 1977, Sweden was trapped with 11% inflation and rising unemployment.

Partly because of the state of the economy, and partly because of the SDP's strong endorsement of nuclear power, the SDP lost the 1976 election. For the first time since 1932, a coalition of the bourgeois parties (as the Liberal, Center, and Conservative parties are universally known) ruled Sweden. The ensuing series of bourgeois governments did not have a positive effect on the economy.

Inflation accelerated. The unions were much less concerned with helping bourgeois party governments hit their inflation targets than they had previously been in helping the SDP hit its targets, and no longer trusted pronouncements about the value of wage restraint. Unemployment increased slightly—from just below 2% in the 1960s and early 1970s, to nearly 3% during the bourgeois governments. But government expenditures for labor market policies rose to the point that about 4% of the labor force was employed in a variety of special training and other programs. To some extent the additional funds for labor market programs increased workers' skills and helped move workers out of stagnating industries. But much of the additional money was spent merely disguising unemployment and postponing the movement of workers into jobs with higher productivity. This method of dealing with weak labor demand is more humane than using unemployment as the chief policy, and it leaves a labor force that is not as badly scarred (especially with long-term unemployment). But it does not reflect a healthy economy.

The labor market policies of the bourgeois governments were not as flexible as the old Swedish model policies. In an era of SDP-ensured full employment, workers were willing to move to new jobs when their firms no longer found their current jobs profitable. In the 1970s, the combination of higher unemployment and a bourgeois government made workers distrustful that there would be new jobs if they left their current jobs. Workers were unwilling to move, and the active labor policies of the earlier Swedish model were replaced with costly subsidies to the ailing steel and shipbuilding industries.

One interesting feature of the bourgeois party rule, from 1976 to 1982, was how completely it was influenced by the SDP policies. Even though the business-dominated Conservative party was a major partner in government, there was no mention of using unemployment to fight inflation. Almost all Swedes, even in the bourgeois parties, seem to have a vision of Sweden as a nation with egalitarian policies and full employment.

The opposition of labor, weakness in the world economy, and poor management led to unimpressive results after six years of bourgeois party rule: slow growth of the economy was coupled with enormous budget deficits, peaking at 13% of gross nation-

al product. Growth ceased completely during the bourgeois governments, a devastating change for a nation that had become accustomed to a 3% average yearly growth during the golden age of the Swedish model.

### **A Cool but Warming Spring for the Social Democrats (1982-1988)**

In 1982, the voters returned the SDP to take over the ailing economy. Shunning the Reagan/Thatcher path of using unemployment to fight inflation, SDP has been able to use its special relationship with labor to carry out policies that no bourgeois government could be trusted to perform in a fashion helpful to the majority of the nation. These have included a devaluation, ending subsidies to some industries, and lowering income tax rates. For example, devaluing the currency by 16% reduced Swedish real wages as imports became more expensive for consumers, but also lowered the price of Swedish goods for foreigners, and increased the demand for Swedish exports.

The new government returned to the traditional Swedish model for dealing with declining industries, abandoning the defensive policies of the bourgeois governments. The SDP ended subsidies to ailing smokestack industries, and replaced them with policies focused on new job creation; for example, encouraging small businesses, and subsidizing research and development and investment. As in the United States, Sweden is lowering its official income tax rates and removing many of the deductions used by the wealthy to avoid taxation. "Supply-side" tax cuts were rather fancifully named in the U.S. They were more realistic in Sweden where, with inflation, some marginal tax rates above 100% could be found.

All of these policies involve risk for many workers: Will the weaker currency push up import prices without expanding employment? Will the end of subsidies to ailing industries lead to more long-term unemployment, as in the U.K. and the U.S.?

Will lower tax rates favor the wealthy? In each case, the fact that a social-democratic government carried out the reforms made it plausible for workers to believe that the government would achieve the desired results: expanded employment, more investment, and fewer tax loopholes.

The results of the reborn Swedish model have been encouraging. Growth has returned, at rates somewhat higher than in the U.S. and in Common Market countries. Employment is rising, and unemployment rates are lower than in Europe or the U.S. Inflation has fallen from its 14% peak (to 4% last year, but up to 7% this year). The budget deficit has fallen from 13% to a reasonable 3.7%

### **Sweden in the Age of Bush/Dukakis and Thatcher**

The success of Sweden's economy still hinges on labor's cooperation, and recent events indicate new strain. Competition among unions has led to wage increases beyond government inflation targets (see *LCR* No. 236, June 1988), slowing economic growth and raising the inflation rate in the last year. Unless SDP can persuade labor to restore greater wage uniformity and restraint, "eurosclerosis" may set in. Also, Sweden's small, open economy is poised precariously; any recession in the U.S. or Western Europe could damage the SDP's recovery since 1982.

On the other hand, the Swedish experience demonstrates how a social democratic state can function effectively in a harsh international climate. The ability of the SDP to promise full employment in exchange for union wage restraint has helped Sweden fight inflation--a marked contrast to the typical strategy of using high unemployment to fight inflation. Unlike Thatcher or Reagan, the Swedish system has successfully relied for most of the last 60 years on a strong and united labor movement, working with a strong government, to make its economic policies work. Sweden has shown that its prosperity depends not on suppressing labor, but on making labor a full partner in government.

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