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THE SWEDISH MODEL IN HISTORICAL CONTEXT

By LARS MAGNUSSON

It is not altogether clear, of course, what we may mean by the concept “Swedish model”. Most commonly it is recognized as a particular socio-economic formation with origins long back in Swedish history, but which had its breakthrough during the Middle War period, especially in the 1930s. The Swedish model is recognized for its highly ambitious social welfare policies, its egalitarian social structure compared to most other countries and, (most of the time at least) peaceful conditions on the labour market – but also for its successful industries and its high growth rates over sustainable periods.

1.

From the 1890s and onwards we can see the establishment of what later became known as the “Swedish model”. A vision of an “organised capitalism” arose especially in the context of a political discussion around social policy questions in the 1880s. During the next decades this discussion led to the introduction of political, administrative and legal institutions, which aimed at to empower the market economy and enforce rapid industrial expansion. Also this period saw the emergence of new social relationships between employers and organized labour, which later on played a dominant role for the establishment of a full-grown “Swedish model”.

The kernel of this Swedish model was made up by the organized collaboration between especially three parties: the employers, organised labour and the state. However, also popular movements as well as other interest groups, such as the peasants, were also included in this matrix. The concept “Swedish model” can certainly be used to denote different things. In its most wide sense it has been used to characterise the kind of collaborative framework which developed since the end of the 19th century and experienced its definite breakthrough during the 1930’s with the Social Democracy’s rise to power and its application of the so-called “cow-trading policy” (named after the compromise in Parliament between the social democrats and the peasant party in 1933). This most certainly laid the ground for the long period of social democratic governments in Sweden (1932-1976, 1982-91 and again 1994-2006) as well as the establishment of a particular Swedish welfare state.

However, the “Swedish model” can also be used in order to define the particular relations, which evolve in the labour market after the middle of the 1930s. Hence, the trade unions were successful especially in the middle-war years to come to agreement with the employers and their organisations not only on questions of pay and general work conditions but also with regard to rationalisation, etc. Especially the general agreements in the 1930’s and 1940’s between the Swedish confederations of Trade unions (LO) which controlled a majority of Swedish workers in this period and the mighty Swedish employers Association (SAF) has been

seen as especially important in this sense. The building up of an organizational structure through voluntary and binding collective agreements have in fact also been picked out as a main characteristics of the “Swedish model”.

Also in a comparative perspective Swedish employers were positive towards social legislation etc., long before the First World War - in fact there is clear breakthrough for such a more active interest already in the 1880's and 1890's. Further, in Sweden this interest from the employer's side - as well as their direct campaigning for such ends in the Swedish parliament during this period - seems to have been directly correlated to the rise of organised labour. Thus the development of independent trade unions and working class political organisations were clearly linked both to the development of social legislation and the introduction of social welfare-policies and also more generally to the rise of an “organised capitalism” in Sweden from the late 1900's characterized by a quite close collaboration between employers and state.

However, what makes a big difference from most other countries, Swedish employers already from this early beginning recognised organized labour within this matrix of collaboration. Without doubt, this construction of a three-sided constellation of forces was of crucial importance for the future. Thus in Sweden three important and powerful organisations in a broad sense - the LO, SAF and the state - already from the turn of the century created a system of counter-balancing forces. Of course, this by no means implied some kind of total integration or cooperation between the threesome. On the contrary, clear-cut oppositions and clashes of interest have not been uncommon, for example between LO and SAF in the early 1910's and the early 1930's as well as between the state and the employers in the late 1920's or in the middle of the 1930's when the latter protested against any interference in the free collective bargaining process which the Social Democratic government prepared for - and in this resistance paradoxically enough were supported by the LO. Rather, the peculiarity of the Swedish model has been that such disagreements have been solved within a general commitment to industrial peace and stability, growth and rationalisation among the three members of the constellation. Thus, in relation to for example Britain, the relationship between state and employers has always also included a third part, a powerful and very centralised trade union structure.

2.

During the last decades it has been popular to criticize models like the Swedish for not being flexible enough and too little adaptive to changing market forces. Both the generous welfare model as well as the peculiar Swedish model on the labour market - with its strong “social partners”, the high level of collective agreements on the labour market, centralized wage-bargaining etc., - have been scrutinised as obstacles to growth. Certainly, there might be some sense and truth in this neo-liberal gospel. Most importantly, the emerging knowledge based economy built on services and high productivity does not behave exactly as the “old” industrial economy. On the other hand it is perhaps too early to totally dismiss the old Swedish and

similar models. At least in its proper historical context they without doubt played a progressive and growth-enduring role. This is important to remember today and we will look a bit into these –nowadays often forgotten – circumstances. I will most particularly discuss the centralized wage bargaining system of the old Swedish model – perhaps the nowadays most criticized part of this model.

Hence, with regard to the current discussion, therefore, it might seem odd that the same (centralized) system of wage-bargaining not so long ago was recognized as having provided an important basis for stability and growth in many Western economies after the war and at least up until the late 1960s. On the whole there seems to be a general agreement that collectivist wage-bargaining of the “old” type provided a framework which stimulated productivity growth and lowered all sorts of transaction costs related to the hiring and contracting of labour - at least up until the 1970s. Moreover, in many countries in North and West Europe a highly centralized system of wage bargaining with strong trade unions and (perhaps less so) strong employment confederates played the game of “responsibility” for the benefit of the “general” interest rather than to push only for its particular interests.

Without any doubt this system played a major role for economic stability and growth in the decades after the Second World War. Hence it is an open question whether it is the bargaining system **in itself** which is the root of the rising complaints against it, its alleged “datedness”, its alleged lack of adaptive ness to modern forms of production, etc, or whether the main problem lay in how these models have come to be used in later years. Hence, it can certainly be argued that “responsibility” gave way to more cutthroat bargaining during the period of so-called “stagflation” and the crisis of the old industrial structure in the early 1970s. To some extent - most certainly - this can be explained as a consequence of problems broadly related to the transition from “fordism” to “post-fordism”, a lowered rate of growth, the structural problems of the old base industries, rising unemployment, etc. However, this seems not to be the only important factor in this context. Of equal importance has without doubt been the crisis of the welfare state - based on both fiscal difficulties and problems of legitimacy. Hence, the old “responsible” wage-bargaining model to a large extent hinged on state’s abilities to provide for more welfare especially for the workers but also for the lower middle-class white-collar employees. When the state no longer could - or wished - to provide such welfare schemes the old formula of responsibility withered away. Hence, one important conclusion from this is that rise of the welfare system was closely connected to the development of wage bargaining in the post-war era. Secondly, it seems clear that the current discussion on wage-bargaining systems have concentrated too much on the technical and organizational modes of the bargaining system rather than on its use. Also it has neglected the connection between wage bargaining and a broader sets of issues such as welfare politics and perhaps also to the power balance between different social groups in society. Thus, if it is true that the old wage-bargaining systems are old-fashioned and in need of reform the discussion especially with organized labour must recognize these wider spectrum of issues. Otherwise reform is less likely to occur at all - or take the form of a bitter struggle between antagonized parties who seek to destroy

each other. This however, seems to be a most destructive path to take and would undoubtedly do much harm especially to the West European “social” market economy so strongly emphasized especially within the European of today.

3.

The steps in the establishment of the so-called “Swedish model” of labour market relations from the 1930s onwards are fairly well known. However, from the perspective of the early 1920s there was nothing, which in itself pointed to such a “model”. At this time Sweden was one of the West European countries that was most plagued by strikes and conflicts. However this attitude gradually changed during the 1920s. Responding to an initiative by the state, in the late 1920s the parties on the labour market took part in a discussion on how a more peaceful solution could be reached. The real breakthrough of a new period of compromise was marked by the so-called “Saltsjöbad agreement”, the principal agreement between the Swedish confederacy of Labour (LO) and Confederacy of Employers (SAF) forged in 1938. The agreements immediate background was the threat by the government to prepare legislation pertaining to labour peace. But SAF was opposed to legislation - and LO concurred. After several complicated political maneuvers the parties chose to put the government to one side and tried instead to achieve a voluntary agreement.

Thus the outcome was the main agreement between LO and SAF. In the agreement regulations a set of negotiating patterns in the event of conflicts were established which, mainly, made it much less easier to initiate strikes and lock-outs. However, the concept of the “Saltsjöbad agreement” also often hints at something else. After 1938 a series of follow-up agreements was signed and similarly a dialogue on mutual understanding between the parties was initiated. In this manner, post-1938, a negotiating structure was established which could be used to settle hard issues, which had once served to sour relations between the parties. All in all, these negotiations created a unique cooperative climate, which furnished an important prerequisite for the rapid economic and social developments of the post-war period. To this should be added the fact that the division of power and responsibility in relation to the government was now established for a long time to come - up to the mid-1970s. The core of this balance of power was that the state should keep out of the labour market. Hence, from then and up to the 1980s centralized negotiations between LO and SAF formed the backbone of the bargaining system providing a strict framework which set the standard for local agreements between the parties. It was seldom that the state in a direct manner intervened in these negotiations - even though such occurrences grew much more common in the 1980s and thus signaled the downfall of total centralization at the end of this decade.

This did not mean that the state played no role in these negotiations before the 1980s. The bulk of the negotiations between LO and SAF at least to the 1980s were carried out independently by the social partners in a “responsible” manner, i e they were adapted to the macro economic policies carried out by the government in order to achieve stability and

growth. Moreover, the state played an important role in the building up of a welfare system, which to a large extent was a necessary precondition for the Saltsjöbad agreement as well as the “Swedish model”. For example already when coming in power in 1932 the social democratic party (SAP) had launched a redistribution and welfare programme, which went under the heading of building a “people’s home”. The notion of a “people’s home” encouraged a social policy offensive and building a society that eliminated social need. “In the good home equality, consideration, cooperation, and helpfulness prevail”, the Prime Minister Per Albin Hansson, asserted in his famous people’s home speech from 1928. During the 1930s his social affairs minister Gustav Möller, stood behind many of the reforms, which in the long implied the establishment of a welfare state. Möller’s approach was that the social reforms whose base he had helped build in the 1930s - unemployment insurance, prenatal care clinics, state employment offices, housing for large families, etc - should have a general appearance. This “universalist line” would also prove the base for the Swedish welfare model up until the 1970s when distribution of welfare in relation to income became more prevalent. This design was by no means unchallenged. Hence already in the 1930s especially Gunnar and Alva Myrdal had asserted for a more selective principle. According to their view those on society’s lowest rungs had to be helped above all.

The 1950s and 60s were the period during which officially administered welfare reaped its benefits. Following the Second World War a rapidly increasing share of society’s income was invested in public sector consumption. Between 1950 and 1980 this share more than tripled from 11 to 34%. The basis for this, as we have seen, had already been laid in the 1930s with Möller’s reforms. In 1946 all of the political parties supported a new, generally designed national pension law. The following year (1947) the general tax deductions for children were introduced. The first vacation law was inaugurated in 1938, instituting a one-week long annual vacation; in 1945 this was increased to two weeks and starting in 1951 the vacation law was expanded to three weeks. Later it was expanded to include four and five weeks. The working week was shortened to 40 hours and work-free Saturdays were introduced. At the same time the educational system was expanded: comprehensive schools were introduced in 1950 and in 1962 the decision was made to introduce nine years of compulsory elementary schooling. In 1955 compulsory health care insurance was established and expanded workman’s compensation insurance was similarly introduced. In 1957 a social assistance law was adopted to replace the old poor relief legislation. In succession a complex system of housing subsidies was built up. Then in the early 1970s there were reforms affecting, *inter alia*, part-time pensions, expanded health insurance and an extension of the time parents could be home with their young children after birth (all 1974). However, these reforms signaled the end of the build up of the Swedish welfare state. From then on harder times would come leading to an actual dismantling of some of these reforms especially in the beginning of the 1990s.

4.

Hence, as I have argued, welfare schemes and social reforms were introduced on a broad scale especially from the late 1940s and onwards. Also, as we have argued, this build up was a necessary “political” pre-condition for the “Swedish model” of labour- employer relations prevailing during the same period. Interestingly enough, the crisis of this arrangement - or rather this matrix of relationships - only emerged after the social reform period had ended, i.e. in the late 1970s. The close relationship between welfare and “responsible” wage bargaining was explicitly formulated in the discussion within LO (The Swedish Confederation of Trade Unions) already in the late 1930s. In fact, this connection was a leading idea in the very influential LO-report that was presented at its path-breaking congress in 1941: “The trade union movement and industry”. In this report it was recognized that with the social democratic party in power the trade union movement could no longer act like a “special interest”. Instead, LO and the trade unions were part of the establishment and must take full responsibility for its actions. Wage bargaining must be organized in a way, which guaranteed growth and economic stability. Only by taking full responsibility for the national economy as a whole the trade union movement would be able to fulfill its major function: to guarantee a rising living standard for its members. As a proxy wage increases should not in the longer run exceed the increase of productivity within industry and the economy.

Without any doubt, this view formed one of the backbones of the so-called “solidaristic wage policy” which became famous from the late 1940s and onwards. The doctrine that wage increases must closely follow the level of productivity increase was also a main pillar of the famous so-called EFO-model of wage bargaining baptized after their initiators Edgren (from the white-collar confederation of trade union, TCO), Faxén (SAF) and Odhner (LO). In their model - unique in an international context - the main organizations on the labour market agreed to follow a model of wage bargaining which basis was productivity increase within the export industry or such home industries, which lived, in a highly competitive milieu. Trade unions within the domestic (less competitively driven) and within the public sector would in their negotiations with the employer’s side accept the productivity increase of the export sector as the absolute maximum also for its own members.

However, the solidarity wage policy also included other aspects, which are closely connected to the economic situation of Sweden after the Second World War. Paradoxically enough, preparing itself for a downturn of the same magnitude as after the First World War the social democratic government instead had to handle a situation of full employment, soaring demand high above existing resources, inflationary pressures, a rising import and a highly negative balance of payments. In 1948 the situation was so critical that the government were ready to resign if the LO was not prepared to accept wage agreements in order to freeze current wages. This threat formulated by the finance minister Wigforss served as a point of departure for a lengthy - and sometimes bitter - discussion within the trade unions and LO dealing with the issue of responsibility and the functions of the trade unions in “modern society”. Given the

current economic situation with full employment - and the SAP in charge of government - LO and the trade unions had all the power in their hands. They could of course bid for much higher wages - but would then run the risk of inflation and severe macro economic balance problems. Against this background a majority within LO argued that the trade unions must take responsibility and work in the interest of the country as a whole. Under the given circumstances this meant only slightly rising wages - or no rise at all.

Most certainly, this form of responsible wage bargaining had its limits and dangers. In the long run it was impossible for the trade unions to accept only prolongations of the agreements with the employers. This would imply mean that the trade unions had no real function at all and would find it difficult to find any support from the floor. Moreover, the policy of responsibility 1948-49 and again in the beginning of the 1950s led to difficult internal problems within LO and bitter conflicts between such members who opted form more aggressive wage policies and those who feared inflation and sinking real wages as the main consequence of such a policy. Hence in the discussion in the end of the 1940s two alternative strategies were identified. The first was the so-called Rhen-Meidner solidaristic wage policy model. Its main message was that the government must help the trade unions to pursue a policy of responsibility through the means of a very strict finance and economic policy. By rising taxes and holding back private demand the government would hold back inflation, create island of unemployment, allow less productive firms to close down, etc. At the same time the trade unions should follow the policy of "equal pay for the same kind of work". This would also imply the closing down of unproductive plants and the migration of workers from less productive to more productive areas in the economy. However, although the Rhen-Meidner model has become very famous it is not at all certain whether it had such an important impact at all from the early 1950s onwards. On the whole it seems that the SAP-government never really followed the very strict finance policy that would have been necessary in order to hold down the inflationary pressures caused by full employment. Nor did this policy create unemployment in a way that would really have knocked down excessive demand. Rather, it seems that the social democratic government during the 1950s and 60s in practice had full employment as its first priority. For this reason they would accept inflation - at least to a certain degree. Without doubt, this is certainly the clue to why inflation continued to prevail as a main threat to macro economic stability in Sweden for the coming decades.

However, also a second and perhaps more successful strategy was pursued. It was argued in the 1940s and 1950s discussion within the trade unions and LO that responsibility and only a slight increase of real wages - in a situation of full employment - necessitated other methods to increase the general living standard. Hence, welfare schemes were made a precondition for responsible wage bargaining. Against this background we can certainly draw the conclusion that it was reforms of this kind which up until the middle of the 1970s made politically viable a model of wage-bargaining - manifested for example in the EFO- model - which was related to productivity and as a whole served as an important institutional precondition for the high growth achievement of Swedish industry during the 1950s and 60s.

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