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The politics of profits:
Profit squeeze and political-economic change in Sweden, 1975–1985*

Erik Bengtsson♣

Abstract

In the late 1970s, the Swedish economy faced a profit squeeze which threatened to hamper investments and hence the creation of jobs. This engendered a massive debate in the media and among economists and policymakers. This paper investigates the discussion of "the politics of profits", the policy measures directed towards manipulating the distribution between capital income and labour income in the Swedish economy from the mid-1970s to the mid-1980s. The paper indicates that the capital-labour distribution varied significantly over time and that this became a major issue of debate, and shows the relevance of "the politics of profits" for analyses of economic policy change in the 1970s and 1980s.

Keywords: economic policy; Sweden; macroeconomics; history of capitalism; mixed economy

JEL codes: H60 ; N14 ; N44 ; P16

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1. The politics of profits

In the 1980s and 1990s, Sweden, like the industrialized world aa a whole, went through a wave of liberalization. The economic model of the postwar era, with strong trade unions, heavy regulation of the financial sector, extensive taxation and an expanding welfare state, would now be directed towards deregulation, liberalization and lower taxes (cf. Magnusson 1996, Ch. 14). In discussing the upheavals of the 1970s and 1980s, this paper draws attention to a less considered factor of the period: the evolution of corporate profits and, more specifically, of the profit squeeze of the late 1970s. Profits are central to the functioning of any capitalist economy, keeping companies afloat and financing investments that create tomorrow's jobs. Consequently, in several classics of social theory, profits play a central role. Joseph Schumpeter (2003, p. 198), the economist who became one of the fathers of economic sociology, pointed to one of the central contradictions of democratic capitalism when he perceived that "modern capitalism relies on the profit principle for its daily bread yet refuses to allow it to prevail." In the 1980s, during the scrutiny of the profit squeeze of the 1970s, the political scientist Adam Przeworski (1985, p. 219) was alert to the need for a double social compromise: on the distribution of income, and on the financing of investment. Any democratic capitalist society needs to balance the desire for equality, including redistribution from capital owners to workers, with the need for investment, which in the main is financed out of capital income.

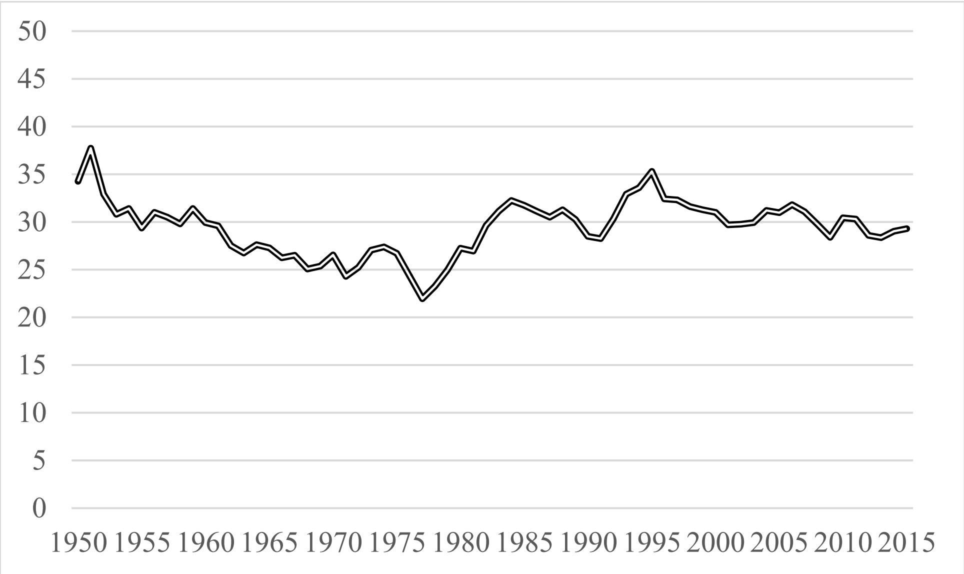
This paper studies what I call the politics of profits – the balancing described in their different ways by Schumpeter and Przeworski – in a historical mode[1], studying a key case of profit squeeze, Sweden in the 1970s and early 1980s. Historians Buggeln, Daunton and Nützenadel (2017, p. 12) characterized Europe in the 1970s: "The squeeze on profits meant that the social contract between labour, capital and the state on which the boom rested was breaking down." In the present study of this episode, I refer to work by political scientists Baccaro, Blyth and Pontusson (2022), but also to the recent work of historians who take an encompassing view of the distributive politics of the twentieth century, considering not only capital versus labour but also agriculture versus consumers and other dividing lines (Jacobs 2005; Levy 2021; Davies 2017, pp. 128–139).

[1] The profit rate is a central variable in Robert Brenner's (2006) Marxist account of economic development and economic policy in the industrialized countries since the 1970s, but in non-Marxist analyses, profits have not played much of a role. Furthermore, in Brenner's framework the profit rate is mostly structurally determined (by impersonal forces of competition); this study instead views the development of profits from a more actor-centred perspective.

The article makes three arguments. First, that the wage-profit distribution has varied substantially over time, which shows the relevance of this variable as a topic of historical concern, beyond the structural theorizations of Schumpeter, Przeworski and others. Second, as such, the profit-wage distribution has been a salient topic of politics and macroeconomic management. Third, a consideration of the wage-profit distribution and the actual profit squeeze which occurred in the mid-1970s gives a new perspective on the turn of the economy to financialization and a turn to new economic policies, less interventionist and, influenced by Monetarism and Public Choice, since the 1980s.

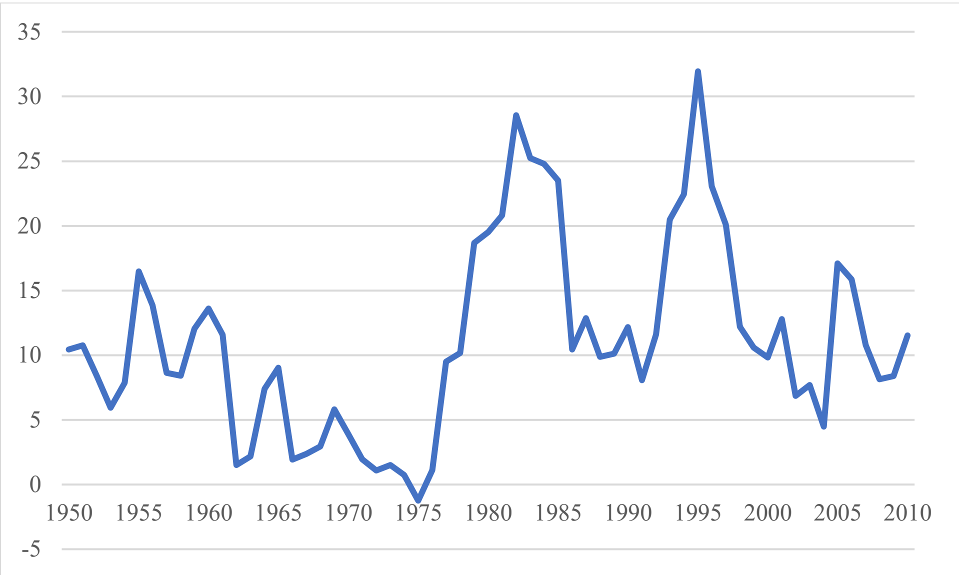
Beginning with the first argument, Figure 1 shows the capital share of GDP from 1950 to 2015. The capital share averaged 31.9 percent in the 1950s, then shrank to 27.2 percent in the 1960s and to only 25.2 percent in the 1970s, before rebounding to 30.2 percent in the 1980s and 31.6 percent in the 1990s. The low level of profits in the 1970s was observed by economists (for example Bergström and Södersten 1979; Wissén 1983) and was, as we will see, broadly debated. Figure 2 shows another relevant macroeconomic indicator: the performance of the stock market, measured as the combined returns of stock price appreciation and dividends, adjusted for inflation. Returns on the stock market are partly determined by profits and expectations of profits (cf. Lettau, Ludvigson and Ma 2019) and therefore it is not surprising that the stock market performance broadly correlates with the capital share: the performance of stocks gradually worsened over the 1950s, 1960s and 1970s, reaching a nadir in the mid-1970s with negative returns, before a dramatic upswing in the late 1970s.

Figure 1. Capital shares in Sweden 1950–2015



Note. Data from Bengtsson and Waldenström (2018) Capital Shares Database, available from Daniel Waldenström's website. The figure presents gross figures: note that the net figures (subtracting depreciation of capital from the capital income sum) are much lower in the late 1970s.

Figure 2. Stock returns on the Stockholm stock exchange, 1950–2014



Note. The measure is real stock returns, i.e. price growth of stocks plus dividends, less consumer price inflation. The measure is shown in rolling seven year averages to even out fluctuations. Source is Waldenström (2014).

The peculiar situation of profits in the 1970s has been studied in Swedish historiography with a view to the development of the labour movement's proposal, first launched in 1975, for "wage earner funds" which would gradually transfer parts of the ownership of large firms, and thereby of decisions over investments, to the trade unions or to the public (precise designs differed between the proposals). Especially, Pontusson (1992) in his seminal analysis of "the limits of social democracy" showed how the labour movement in the 1970s challenged the distribution of power regarding investments and the government of private enterprise by new initiatives of industrial policy, codetermination policy and collective capital formation. There have been several studies of the the wage earner funds project since then (e.g., Stråth 1998; Viktorov 2006; Ikebe 2022) but the investigation here will show that the wage earner funds proposal was only part of a much wider debate.

2. Profits and politics in Sweden

The capital share of national income has varied over time and broadly co-varied with policy changes. The second argument of the paper follows on the first: that profits were a target variable for policy-makers. In contemporary conceptualizations of Scandinavian welfare states they are commonly associated with reducing wage inequality, but without effect on the capital-labour distribution.[2] This does not fit with the history of the Swedish welfare state and the industrial relations system.

While the Swedish labour movement was a thoroughly reformist one, it did inherit a way of thinking whereby the split between worker and capitalist was a fundamental part of the analytical model of the economy. This was supported by the evolution of a new, Keynesian economic thinking in the 1930s, so important for the Swedish Social Democratic party (cf. Berman 2006, Ch. 7), which coincided with the evolution of national accounting. In fact, to characterize the Swedish economic policy of the 1930s-70s, the concept of the "managed economy" is more apt than the narrower "Keynesian" alternative, since it was more a generally interventionist model than a specifically counter-cyclical one (cf. Tomlinson 1990; for a brilliant account of Swedish economic policy in the period, see Lewin 1967). In the national accounting models employed by Social Democratic economists such as Gunnar Myrdal, capital income and labour income were natural components (cf. Johansson 1989, pp. 56, 243–252).[3] To steer the wage share and the profit share was a natural part of the

[2] Moene and Wallerstein (1995, p. 190) in their influential theorization argued that "Unions probably had little influence in Scandinavia on the distribution of income between wages and profits."

[3] In fact, when Myrdal's English-language book *Beyond the Welfare State* was translated into Swedish in 1961, Myrdal remarked in the preface that there was no good Swedish translation of the English word "inequality". Searches in the two major Swedish daily newspapers *Dagens Nyheter* and *Svenska Dagbladet* reveals that the word "ojämlikhet", the Swedish translation of "inequality", was only used twice in DN from 1864 to 1968 before it became common in 1969, and in SvD twice before 1968. Social Democrats and macroeconomists like Myrdal, however, had a language in which to speak about capital and labour.

technocratic economic policy-making in Sweden from the 1930s to the 1980s; below, we see how detailed and frank the policy discussions could be in the 1970s and 1980s. Gunnar Sträng, Minister for Finance from 1955 to 1976, was a politician convinced that profits which were too high could be unfavorable; Sträng dismissed the general stimulus to profits with the argument that "you never know where they will end up" (cited in Åberg 2006, p. 163). This is of course to state a wider issue, what the political scientist Andrew Martin (1985, pp. 403–404) formulated as: "[unions] have no power to assure that the investment needed to achieve the desired economic effects will actually result if the unions squeeze profits less than they would if they fully exerted their power in the market arena." This was the conclusion drawn by the Swedish labour movement in the 1950s and 1960s, as well; Sträng instead stood for a selective, interventionist system of investment funds to stimulate investment; Pontusson (1992, Chs. 4–5) has mapped the intricate system of tax breaks and investment funds used to steer investment countercyclically in the postwar era.

Furthermore, the Swedish wage bargaining system of the postwar age, the Rehn-Meidner model, was explicitly built on holding profits low. Rehn argued that high profits would give irrational investments while low profits forced employers to rationalize production (Ullenhag 1970, pp. 93–94). In the Rehn-Meidner model, unions fought for higher wages (not for restraining them) while fiscal policy should be restrained, and interest rates kept low to stimulate investment. Famously, a solidaristic wage policy ought to push up wages especially to the low paid, so as to push less productive companies out of business, while wages should be restrained at the top of the distribution, to facilitate employment expansion in high-paying sectors and companies. This solidarism had an industrial policy component as well as a solidaristic, egalitarian component. (Cf. Erixon 2018). Interpretations of the postwar Swedish model as a source of wage moderation have focused on the restraint for top companies mechanism, and Pontusson (1992, p. 60) similarly discusses it as "squeezing corporate profits selectively", but in fact, in the 1950s, 1960s and 1970s, as the capital share in Figure 1 has shown, the wage push for the low paid dominated the wage restraint at the top, so total wage growth outpaced productivity, and the income share of labour grew (Bengtsson 2015; Bengtsson and Stockhammer 2021). Gösta Rehn himself (1980, p. 46) in retrospect spoke of the framework of the model as one of a "general low profits policy" (*allmän lågvinstpolitik*).

To go ahead and map how crucial profits were in the economic policy debate, in the following sections, I study the politics of profits, building on three main sources. The first source is the national budget of each year, which presents the calculations and judgments on the economy which built the knowledge base for economic policy. These reports were produced by the National Institute of Economic Research (*Konjunkturinstitutet*) and the Ministry of Finance and present the expert knowledge of policy makers.[4] They are available from the NIER's website in digitalized format. The budgets take up about 200 to 300 pages each year and present in some detail the economic analyses underlying economic policy.

The second set of sources are the yearly reports of the Center for Business and Policy Studies (*Studieförbundet Näringsliv och Samhälle*, SNS) think tank's economic council. (In Swedish the economic council is *Konjunkturråd*.) This economic council has been shown to be important for Swedish economic policy in the 1980s and 1990s by Blyth (2002, pp. 238–242; also Mudge 2018, pp. 316–317), and illustrates how policy-oriented but academically based economists discussed the economic position and policy.

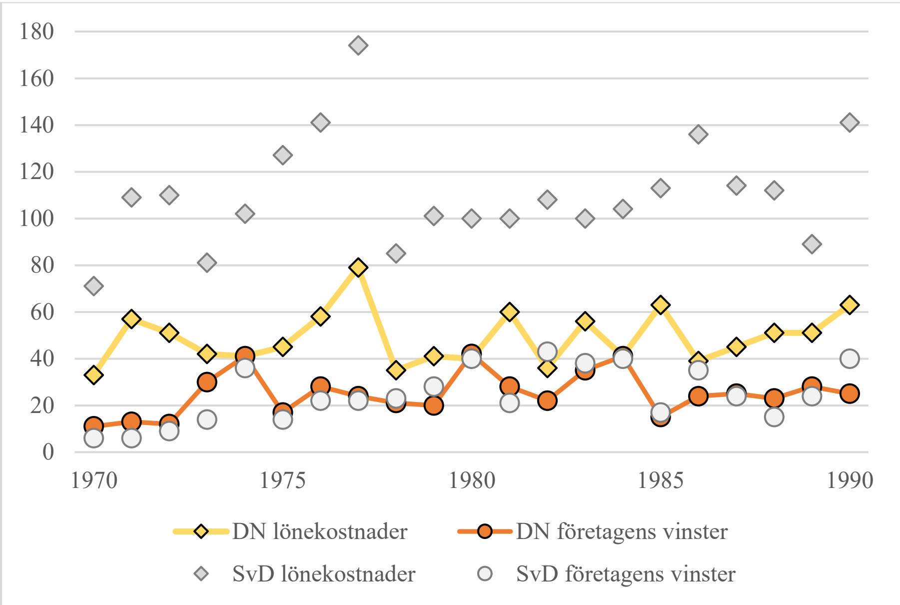
The third source is the digital archive of the country's leading daily newspaper, *Dagens Nyheter* (DN). Media historians describe "the leading position of *Dagens Nyheter* as a vehicle of opinion, news and advertisement" in the postwar period (Engblom 2002, p. 67) and articles from DN represent the mainstream policy debate. I searched for *lönekostnader* ("wage costs") and *företagens vinster* ("corporate profits"), which yielded 554 and 293 articles respectively, providing a corpus of 847 articles to represent newspaper debate over the ten-year period from January 1975 to December 1985. Many of the articles are editorials, presenting the liberal views of the newspaper, and many are from the economy and labour market pages, describing and analyzing current events. I have complemented these three sources with more summary excursions into the 1974 debate on "excess profits" (*övervinster*), *Dagens Nyheter's* Conservative competitor in the broadsheet market *Svenska Dagbladet* (SvD); the economic and political literature of the time (e.g., Nordling 1979); and memoirs and analyses by politicians and others involved (e.g., Åberg 2006).

I turn now to put forward arguments two and three of the present paper. Figure 3 shows the quantitative extent of articles in the two main dailies, *Dagens Nyheter* and *Svenska Dagbladet*, in the years 1970 to 1990. In these years wage costs formed a prevalent topic in the papers, with about 40 to 80 articles in DN every year and a hundred or rather more in SvD in most years. Given the greater role of business reporting more generally in SvD, and that paper's close link to corporate interests (Grafström 2006, pp. 135, 148–150), it makes sense that this paper was interested in covering wage costs.. The number of articles

[4] For an interesting account of this process in the 1960s and 1970s, see Eliasson (2020), pp. 182–189.

mentioning “corporate profits” is lower, with about 20–40 articles per year in each paper, but of course, this is also a fairly steady coverage.

Figure 3. Articles on wage costs and corporate profits in two Swedish newspapers



Note. “lönekostnader” = wage costs. “företagens vinster” = corporate profits. DN = Dagens Nyheter. SvD = Svenska Dagbladet. All articles retrieved from the online archives of the two papers, https://arkivet.dn.se/ and https://www.svd.se/arkiv respectively.

Figure 3 indicates that wage costs and corporate profits were prominent topics of media debate in the 1970s and 1980s. Let us now go into the content and themes of the debates.

3. The profit squeeze and its analysts, c. 1974–1981

The mid-1970s was a very peculiar time in Swedish political and economic history. A wild-cat strike of miners in 1969-70 had started a wave of wild-cat strikes and radicalization was rife in the labour movement (Nycander 2008, p. 275). In 1973 the oil price hike hit the Swedish economy, as a major shock in which capital-intensive and energy-intensive industry played an ever-more-important role. 1974 was a turbulent year in which the trade unions railed against what they saw as “excess profits” (*övervinster*), one of the keywords of the political year, and to curb wage growth the government attempted tripartite talks (Lindvall 2004). 1975 was a year in which the trade union economist Rudolf Meidner presented his proposal of wage earner funds. To understand the road forward, what was going on, it may be helpful to consider Table 1, adapted from the government budget of 1980.

Table 1. Financial savings as share of GDP 1970–1979

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Government	1,9	2,3	0,1	-0,6	-2,2	-0,2	1,4	-1,9	-4,8	-6,4
Municipalities	-1,3	-1,0	0,2	0,4	-0,2	-0,9	-0,9	-0,5	0,9	0,6
Social insurance sector	4,3	4,6	4,9	4,6	4,4	4,1	4,5	4,3	3,7	3,4
Households	2,0	3,1	2,1	2,7	4,2	4,8	3,5	5,1	5,3	4,8
Housing	-3,8	-3,8	-3,8	-3,4	-2,6	-2,6	-2,3	-2,1	-3,1	-3,0
Corporations	-3,9	-4,7	-2,8	-1,2	-5,1	-7,6	-9,6	-9,1	-3,8	-1,3
Total (=exchange balance)	-0,8	0,5	0,7	2,5	-1,5	-2,4	-3,4	-4,2	-1,7	-1,9

Note. Source is government budget 1980, Table 1.11 "Finansiellt sparande som andel av BNP 1968 – 1979". See also SNS Konjunkturråd 1981 pp. 23–25 for a discussion of the same variables for the 1973–1981 period.

The table highlights the very large deficits of the corporate sector in 1974, 1975, 1976 and 1977: in the two latter years, astonishingly, the deficits of the corporate sector were between 9 and 10 percent of GDP. In the household sector, in contrast, surpluses were between 3.5 and 5.3 percent of GDP each year from 1974–79. This means that the households, in times of large wage increases and full employment, were stacking up rather large savings. This would become a matter of importance. Politicians at the time did see a problem, in that money was accumulating in households, while corporations bled. The tripartite attempts to rein in wage growth are well-documented (Lindvall 2004; Nycander 2008), but of greater interest here is the flipside: the ambition to grow profits. Let us begin by examining the analyses of the situation of profits in the years after the oil crisis.

1974 saw a heated debate on "excess profits" (*övervinster*), led by the trade unions. The SNS expert council in 1975, however, launched another neologism, "under profits", (*undervinster*) to counter the "over profits" (*övervinster*) of the trade unions. They warned that the slide of profits (*vinstras*) in 1975–76 would be worse than ever, and argued that the wage share had been around 70 percent in the 1960s, dipped to 62 percent in the last economic boom, and that with the new collective agreements, 77 percent of growth in the companies would accrue to the wage and salary earners (see report in DN 16 December 1975). The worry that profits might be too low was widely shared: among company leaders, of course, but also by politicians both from the Social Democrats and the center-right parties, and by economists, journalists and other participants in the public debate. For example, in

March 1975 the prominent economist Assar Lindbeck[5] gave a lecture at the Savings Banks' yearly conference (*Sparbanksföreningens konferens*) on the topic of "our economic situation". The government – at this point a Social Democratic one, with Gunnar Sträng as Minister of Finance – had two options, argued Lindbeck: either to lower income tax to persuade wage-earners to demand lower wage increases, or to lower taxes so that employers could keep labour costs down. The day after, the head of the central bank (*Riksbanken*) Krister Wickman was interviewed, under a telling headline: "Wage earners – hold back your demands!"

Lindbeck was ubiquitous in the economic policy debates in these years and represents the mainstream of economic expertise. On 14 September 1977 Assar Lindbeck published the daily debate article and argued for lower costs for producers. It is obvious that Sweden has a cost problem, said Lindbeck, and there are only two ways of solving it: either lowering labour costs by lowering payroll taxes, or devaluing the krona so as to lower the prices of Swedish products abroad. Devaluation would give a higher price level and a more marked improvement of the trade balance, but Lindbeck saw inflation as the more acute problem of the time, and hence concluded that lower taxes on employers was the best solution.[6] Would this have negative distributional consequences? Lindbeck argued, in the line pointed out above, that profits anyway were small and so improving them would not make much difference, and possibly the negative distributional consequences could be eliminated by a compensating adjustment of income taxes. In and after 1977, the Swedish Employers' Association chairman Curt Nicolin, newly appointed and with a mandate to pursue a more hardline policy vis-à-vis the ever more ambitious trade unions (Eskilsson 2005, pp. 181, 188) also began to take part in the debate, demanding lower costs. 18 November 1977, Nicolin argued that there was zero room for wage increases, and that the trade union confederation LO and the employers' organization SAF should make a stabilization agreement for several years involving no wage increases at all.[7]

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[5] Lindbeck was a professor at the Stockholm School of Economics from 1964 to 1971, after which he became a professor at Stockholm University and head of the Institute for International Economics. Blyth (2002, p. 215) describes him as "the key figure in Swedish economics in the early 1980s"; he was already prominent in the early 1970s. On Lindbeck as a key actor in the Swedish mixed economy, see Andersson (2022). Among the economists participating in the debate in 1976-77 are also Johan Myhrman, who on 26 October 1976 analyzed and debated the score for wage increases for year 1977 on the leader page. His analysis was that there was little scope for wage growth.

[6] The concept "internal devaluation" is never used in the policy debate in these years, but the parallels of the Swedish policy discussion in the late 1970s and early 1980s with the Eurozone debate in the years after the Global Financial Crisis are obvious.

[7] The day after, 19 November 1977, one of the paper's economics writers, Björn Anders Olson, published an article presenting a calculation of a wage room of 10-11 %.

The national budgets came back to the issue of too low profits. The 1977 budget stated that Swedish export prices in the two preceding years rose about 15 % faster than those of competitors, that the main reason was wage growth, that industry was by now just producing to stockpile, not for immediate sales, and this problematic motivated a major devaluation of the krona, which should ”*not* be used to improve profit margins but should lead to lower export prices in comparison to competitors” (Revised National Budget 1977, p. 13, italics in original) The 1975–76 wage increases would haunt the government for several years (cf. Revised National Budget 1978, pp. 3–4);[8] for example the Budget of 1979 argued that it was agreed across the board that profits were very low in 1977 and that gross savings had even become negative, i.e. that production failed even to cover its running costs (Revised National Budget 1979, p. 16). The economists and bureaucrats of the Ministry of Finance and National Institute for Economic Research repeatedly discussed what might be a reasonable way forward for the allocation of resources between household consumption, public consumption, company savings, and company investments. For example, the Revised National Budget of 1979 (p. 21) calculated private consumption growth of 2.2 % in 1980 and 2.0 % in 1980, in the search for a "reasonable balancing between wishes for a continued real improvement of living standards for the active groups, and demands to create space for an improvement of the exchange balance and growing investments".

Throughout the period, then, at least from 1975 to 1983, the budgets explicitly motivated measures – devaluations, tripartite bargaining – to restrain wage costs and increase profits. This was however always balanced against other aims, such as improved living standards of wage-earners. This clearly exemplifies what I have called the politics of profits. The same debate was being waged in the press. In the newspaper debates, two main arguments for lower wages and higher profits were proffered. First, that it was pure economic necessity to increase profits in order to increase investments and create jobs. Second, that profits were small in any case. Both were regularly put forward especially by the leader writer Nils Eric Sandberg who was DN's most prominent leader writer on economic policy. (See for example 8 June 1975; 14 August 1977.) As we would expect, wage increases were also pitted against consumer interests, linking wage growth to higher prices.[9] Beside the price growth,

[8] In the DN materials there are plenty of leader articles that see the 1975-76 cost explosion, at the same time as the Swedish crown was tied to the D-mark through the "snake", as the root of the evil: for example 19770829; 19781106; 19811206 (referencing "the mad years of 1975-76"); 19820429 (referencing 1974-75 as "the years of frivolity").

[9] 27 July 1975 Nils Eric Sandberg debated the government's ban on price increases for packaging and the relationship between rising prices and rising labour costs; on 24 November 1975 the paper reported on the rising price of potatoes but stated that the Price and Cartel Commission had now lowered prices from 2:30 per kilogram

another recurring theme in the wage costs coverage concerned companies in trouble because of excessive wage costs.[10]

The employer-organization economist Danne Nordling in 1979 published an entire book on profits, *Profits and the desire for profits* (*Vinsten och vinstbegäret*), in which he viewed Swedish criticisms of profits in the 1970s from a historical perspective going back to Aristotle, Christian condemnations of interest, and so on. Nordling argued that profits had become tinged with "dishonesty" even though they were necessary for economic efficiency and had been squeezed for a long time; using statistics on stock dividends and wages since 1914, he argued that Sweden had transferred "from capitalism to a social market economy. 'Capitalist' development peaked in the 1910s. Since then stockholders have not received any durable share of economic growth." (Nordling 1979, p. 155.) Nordling of course engaged very consciously in the debate about the relationship between capitalism and the democratic state, and the degree of "embedding" of capitalism, which goes back to Schumpeter and other interwar theorists.

4. The politics of profits and the concerns for distribution and the balance between capital and labour

The sociologist Wolfgang Streeck (2013, p. 95) has pointed to – and this point has recently also been made in the business press (Sandbu 2022) – an imbalance in that typically wage increases are seen as inflationary and implicitly demand control, while profit claims are not regarded in the same way. The Swedish center-right government resulting from the 1976 election had a conservative minister of finance, Gösta Bohman, and the attacks on Bohman's policies were sometimes quite fierce. In 1977, the LO attacked Bohman for asymmetric demands, demanding restraint from wage earners but no such restraint from capital owners. Bohman was pushed in the debate to impose a ceiling for stock dividends, so as to extend the

to 1:74 per kg. It was not only packaging and potatoes which grew more expensive; but also restaurant visits (9 December 1975), phone rental (27 February 1976), liquor (6 March 1976), bread (14 April 1976, 2 March 1977, 5 December 1977), repairs of household goods (17 March 1977), milk (22 June 1977), phone calls (18 August 1977, 18 April 1979), and rented accommodation (7 September 1977, 6 February 1978, 14 March 1978).

[10] Examples include quarrying on Öland (29 January 1976); post offices (31 January 1976); shipping (19 March 1976); textile industry (25 March 1976); shipbuilding (21 April 1976, 29 September 1976); porcelain (26 April 1979), ferries (16 December 1980). Costs and competition for the sawmills were repeatedly discussed, the labour movement arguing that the prices of Swedish wooden products were high not because of wages, but because of a lack of competition, and high profits (see discussions 27 November 1976; 27 January 1977, 2 September 1977).

same kind of anti-inflationary incomes regulation on capital incomes as on wage incomes (14 January 1977). But this idea never went anywhere (cf. Streeck 2013).

In the years of the center-right government, the capital-labour income distribution was explicitly politicized. In March 1977, the DN leader page attacked some “scandal reporting” (*indignationsreportage*) in the center-left tabloid *Aftonbladet* on rising dividends in Swedish corporations: “millions are raining down on the shareholders”, according to *Aftonbladet*. The DN writer did not agree: inflation should be taken into account, and by 1975 wage costs were 89 percent of incomes from incorporated stock companies, with only 2.9 % going to dividends and 2.4 % retained as profits. The income distribution consequences of the devaluations were repeatedly debated. In June 1977 of the forest product company MoDo was asked why they and other industries had failed to lower prices even after devaluation. The executive replied that market shares would not have been brought back by lowering prices 2-3 percent; 15-20 percent would have been needed, but it would not have been worth it (3 June 1977). In July 1977 the leader page reported on a new econometric model of the effects of prices on Swedish exports; there is a lag in the response, argued the writer, and so the giant wage increases of 1975-1976 will harm Swedish exports for several years (2 July 1977, 14 July 1977). In July 1977 the forestry industry again seemed to request a new devaluation, perhaps by 10 percent (17 July 1977). However, unions and the Social Democrats did not agree that it was wage costs which were the core of the problem – they pointed instead to the composition of Swedish exports, and referred to an OECD report which had a lower estimate of Swedish relative wage growth (11 August 1977).

The arguments over profits and wages, and the just distribution of these, also involved the issue of wage earner funds, and it is interesting that in the debates at this point the white-collar employee union confederation TCO was often more radical in its economic policy proposals than the LO was. The LO in a sense put all its eggs in one basket, for they often accepted short-term concessions, with the (uncertain) proviso that wage earner funds would at some future date compensate for the concessions. On 6 January 1980, the main article on the *Dagens Nyheter* economics page engaged with the LO wage earner fund proposal and debated whether or not SAF-LO negotiations implied negotiations over the level of profits. That capital owners accept “what is left over” after paying wages motivates them to refer to “that capital … as risk-taking”, argued the economics writer: depending on the situation, profits could disappear altogether, or become “provocatively large, what the LO usually refers to as excessive profits (*övervinster*)”. The LO’s economists had explained that wage-earners can accept a low pay increase if they are guaranteed compensation for large price increases. The economics writer found this interesting also for SAF, but: "The problem is of course to define what is a 'just' profit". Economists affiliated with the think-tank SNS had suggested a certain return to invested capital, say 7 percent. Another answer would be to pre-determine which share of value added should accrue to wage-earners, and which share to capital owners. DN's writerfound the SAF lacking in flexibility, and argued that they should take an initiative with "wage-earner shares" (*löntagaraktier*): "It could be worth it to try a 'capitalist' solution for once, and not roll on down the road of function-socialism."[11]

The 1980 wage bargaining round is famously one marked by the most conflict in Swedish history. The SAF wanted a central agreement with low guaranteed wage increases and local wage setting, and under the leadership of Nicolin called a major lockout which Nicolin named "an investment in the future".[12] SAF ardently maintained that there was no money to be distributed, and found support among some economists, like the veteran professor Ragnar Bentzel, who argued that there would be no money at all for any real wage growth during the 1980s (14 March 1980). DN's leader writer in April 1980 advocated understanding for the LO demands and found them relatively responsible, but also advised restraint, quoting a professor of sociology, Sten Johansson: "inflation is a cancer which undermines distribution policy" (23 April 1980). After the closing of the agreement another DN leader writer was more critical, arguing that a wage increase of 11.5 % over 1980 would increase the trade deficit (by stimulating imports) and would "rob industry of profits which would go to investments" (13 May 1980).

5. The road to the turnaround, c. 1976–1982

The third argument of the paper, stated in the introduction, is that a consideration of the politics of profits can help us understand the turn to the financialization and neoliberally influenced economic policies of the 1980s. Let us consider this now. A key principle of the analysis is Amy Offner's (2019, p. 1) statement, in her book on the welfare state and developmental state, that "new orders always grow in some way from old ones." This is highly relevant to the early 1980s in Sweden and the political turnaround of this time, much

[11] *Funktionssocialism* was a stream of thinking within Swedish Social Democracy concentrated on the idea that power over property could be regulated and divided without the socialization of ownership.
[12] Nycander (2008, p. 190) describes the situation in 1980 as follows: "For the employers the 1970s was a period of disappointment and adversity. In 1980, the strategy was revised."

discussed in research on Swedish politics (e.g., Blyth 2002, Ryner 2002, Andersson 2003, Lindvall 2004, Mudge 2018).

An interesting seed of the turnaround, hitherto not observed by the research, is the accumulation of savings in Swedish households in the 1970s, as indicated by Table 1. The combination of great nominal wage growth, low income inequality, and full employment means that the 1970s was in fact a financially good time for Swedish households. This means that there was a market for entrepreneurs who wanted to sell various forms and ways of saving. Among the more exotic offers was one company which, as a tax-free way of investing, sold shares in European railroad cars to Swedish households (DN, 12 August 1975). Diamonds, works of art and other forms of inflation-proof savings were also on the rise at this time, at least among the wealthy. More mainstream was the growth of stock market savings. Against the background of the very poor performance of the Stockholm stock market in the 1970s (Figure 2) this might be surprising, but in the late 1970s stock savings were actually on the up. Previous literature on neoliberalism in Sweden has seen the 1976–82 period of center-right government as rudderless, non-ideological government taken hostage by Social Democratic ideas (Blyth 2002, p. 207), but their importance has been underrated, if we consider the part they played in capital formation and savings. In 1978 the government introduced new "favorably taxed savings and investment accounts called *skattesparkonto* and *skattefondkonto*", which made it possible for wage-earners to automatically put part of their monthly income into a savings account. As Husz and Larsson Heidenblad (2021) state, this was "an example of establishing and consolidating a micro-infrastructure of investment savings accounts and mutual funds and thereby promoting a new financial practice among a broader populace". The savings account became popular, and grew even more so (under the new name *allemansspar*) after 1984, when the stock market was on a good trend.

In the second half of the 1970s, in wage-earner-fund-Sweden, the stock market savers were growing as a movement. The Shareholders' Association (*Aktiespararna*) had been founded in 1966 as an interest group for small investors (Wedin 2016; Husz and Larsson Heidenblad 2021). On election day in September 1976, the DN economics page reported very pessimistically on the situation.

> "Election day is here. Half a million stockowners are going to the ballot boxes. /../ But not even the Shareholders' Association [*Aktiespararna*] have been able to discern any major differences between the four major parties. It was blah blah, oh well and a general embrace of small stock savings in the responses."

Among the worries in 1976 was the looming threat of wage earner funds, but the economics writer in February 1979 perceived shareholders as a coming power, more optimistically this time: against the backdrop of the very poor performance of stocks in 1976, 1977 and 1978, he argued that "the position of power that the Shareholders' Association is achieving can have political consequences in the 1980s. The shareholders are more and more often heard."[13] It is a paradox that these turbulent years of weak stock market performance was the very time when interest in stock saving expanded; a study of the archive of a local stock savers' association records that interest in their meetings grew only in 1976 and 1977 and that the meetings were heavy with excitement over the turbulence in the markets (Nilsson 2003, p. 40). Growing interest in the stock market is also indicated by the fact that the weekly financial magazine *Privata Affärer* was founded in 1978 with the middle class as its target audience (Lindqvist 2001, pp. 33–34), and that the daily financial paper *Dagens Industri* started in 1976, with the ambition of becoming a Swedish *Financial Times* (Grafström 2006, pp. 102–108).

The promised increasing power of shareholders seems to have come true; the reaction of the Shareholders' Association after the 1982 election to the SAP's proposed 20 percentage points' rise in tax on dividends was to speak of "almost hate speech against an ethnic group" (*snudd på hets mot folkgrupp*), that is, the shareholders (DN, 9 November 1982). This increasingly strident rhetoric seems to indicate an increasing confidence of the shareholders by 1982 (they do not appear in the sample around the elections of 1976 and 1979 in the same way). The growing confidence might also be rooted in the fact that in 1982 the alleged "ethnic hatred" according to the Shareholders' chairman was directed towards "Sweden's one million shareholders", which is twice as many as were estimated in the pessimistic economics column of election day in 1976. Since this turbulent juncture in the early 1980s, Sweden has in fact had an internationally high share of the population who are saving in stocks (cf. Engdahl 2016; Larsson Heidenblad and Nilsson 2022).

Before the election of 1982, the Swedish Social Democrats, one of the most influential labour parties of the Western world, took an unprecedented step. Kjell-Olof Feldt (1992, p. 22), one of the party's leading politicians at the time and Minister of Finance after

[13] This was part of a broader debate on the growing voice of the shareholders. The economics professor Hans Tson Söderström argued in 1978 in *Ekonomisk Debatt* that savers who bought shares in the 1950s and expected a stable investment environment over time had become disappointed by the growing corporate costs of wages and taxes, and employment laws which circumscribed corporate freedom. Against this background, it was ironic, in Söderström's view, that it took so long for Sweden's shareholders to realize what "the labour movement realized in the childhood of industrialism: that unity gives strength" (p. 154).

the election, wrote ten years later in his memoirs that: "for the first time, I think at least, the demand was written into a Social Democratic program that the profitability of industry must be improved".[14] As a party of the labour movement, the SAP was not comfortable with this stance, but came to believe during 1982 that it was necessary, given the historically low levels of profits in the private sector, to increase profits in order to get investments growing so as to create jobs (cf. Jonung 1999, pp. 187–194). That this policy coincided with promises of wage earner funds – *Dagens Nyheter* in these years repeatedly ran an ad where a smiling Kjell-Olof Feldt, sitting on a chair, pronounced that "Wage earner funds are a Swedish way of solving Swedish problems" (Picture 1) – indicate how contradictory the political situation, and the political programme of the SAP, were in the early 1980s.

[14] It was not necessarily for the first time. Boyer (1994), referring to the German Social Democratic Chancellor of the 1970s Helmut Schmidt, speaks of such a shift as the "Schmidt theorem", the political idea that profits in a given situation must increase in order to increase investments and job creation. It was in either case a momentous shift for the Swedish SAP. Walters (1985) discussed the 1982 turnaround as "distributing decline". He focused more on cuts to the welfare state, but also looked at the pre-tax incomes that I focus on here.

Picture 1. “Wage earner funds: A Swedish way of solving Swedish problems”

Note. Advertisement from the Social Democratic Party published in *Dagens Nyheter* 11 January 1984. Republished with permission from *Dagens Nyheter* and the Social Democratic Party. The ad is stored in the party archive at Arbetarrörelsens Arkiv och Bibliotek, Huddinge, Sweden and can be accessed with the archival reference 1889/B/10/M-1983-010.

The Social democratic turnaround of 1982 had been presaged in January 1981, when leading SAP economists of a new generation (cf. Mudge 2018, pp. 318–323) formulated a new economic strategy, with an eye to the election in the autumn of 1982. The new Social Democratic economic analysis was controversial especially among TCO economists; they argued that the new SAP pro-profits line over-emphasized Swedish labour cost problems, which were comparatively straightforward (DN, 28 January 1981). The debate raged over the spring of 1981: how bad was the competitive situation, and had relative costs gone down after the costs explosion of 1975-76?[15] This debate has been reviewed elsewhere (see Pontusson 1992, pp. 99–102, Lindvall 2004, pp. 74–78; Ryner 2002, pp. 148–149; Blyth 2002, pp. 219–221), but what is interesting from the DN sample is the breadth of the profits debate at the time.

Already in March 1981, a year and a half before the "Third Way", the stock market was picking up, after the difficult years of the 1970s. The economics writer Lars Ramklint reported that 70-ish stock corporations raised their dividends, often by 10 percent, sometimes by 40 percent. Trade unions were critical, Ramklint stated: "Stockowners giving themselves a rise of 25 percent is a politically efficient formulation", and employer representatives gathered themselves to put counter-arguments. Ramklint pointed to the interest rate shock spreading from the United States as a cause of the dividends boom: in this new high-interest environment stocks had to be competitive investments.[16] It also seems, Ramklint went on, that dividends have become more important for stock pickers: "A positive evolution of profits is not enough, it must also be mirrored in the growth of dividends, if the stock is to be seen as worth buying." The quarterly journal of SE-Banken had just analyzed the corporations' financial reports and found no marked increase of dividends as share of the net result, but the new Riksdag decision to lower marginal tax rates on dividends by 30 percentage points should increase interest in dividends.[17]

The early 1980s became boom years on the Stockholm Stock Exchange. The stock price index (i.e. not counting dividends, but only stock prices) rose by 7.2 percent in 1980, a huge 44.2 percent in 1981, 23.3 percent in 1982, and 52.2 percent in 1983. After a setback in 1984, the double-digit price growth picked up again in 1985 and 1986, and likewise in 1988 and 1989 after a bad intervening year (Waldenström 2014). Swedes reacted accordingly: in 1983 the Stock Savers' Association grew by about 63 percent, to 65,000 members, and in the 1980s they established themselves as a voice in Swedish public debate (Vikström 2016, p. 69.) In 1984, about a third of Swedes stated that they owned stocks in

[15] Villy Bergström of the SAP group defended their analysis on 13 March; the professor of economic history in Uppsala, Bo Gustafsson, dissented on 21 March 1981; Assar Lindbeck concurred on 29 March with the Volvo CEO PG Gyllenhammar that industry needed drastic means to become competitive; the TCO economists proposed their view again on 28 April 1981, and so on.

[16] On (often unintended) consequences of the post-Volcker shock high interest rate on the financial system, cf. Krippner 2011, Ch. 3.

[17] For further interesting discussion of stock market performance in the light of macroeconomic events, see the leader by Nils Eric Sandberg on 20 March 1982 criticizing a report from the LO and SAP which argues that the stock market has little time for industry. Sandberg argues that the stock value in 1980/81 was only 42 percent of the corporations' real value and that corporations need to increase their value to prevent what could anachronistically be called "hostile takeovers". Increasing dividends was a good way to increase stock prices, argued Sandberg.

some form; this grew to slightly more than 40 percent in the late 1980s before the financial crisis of the early 1990s (Engdahl 2016, Fig. 4). A watered-down version of the wage earner funds was implemented in 1984, with the ambition of providing investment capital kept intact, but the 1970s ambition of workers' participating in management toned down. Clearly, the growth of the stock market and the growing involvement of ordinary Swedes in stock speculation shows the contradictory developments of this decade.

Among economic policy makers, by the mid-1980s it was even doubted whether the centralized wage bargaining system of the 1956–1983 period had ever worked: not only had trade union strength caused inflation from 1974 to 1976, but there had been inflationary pressures since the 1950s (SNS Konjunkturråd 1985, pp. 88–90; citing Wissén 1983 among others). The need for economic policy norms was repeatedly stressed, in light of the new rational expectations theory within macroeconomics, and no-one was satisfied by the attempts with negotiated incomes policy during the 1970s (SNS Konjunkturråd 1985, pp. 41–53, 1986, pp. 105–107, 143). The need for tax reform and capital markets deregulation was conceded, but the switch to a norm-based economic policy, which was seriously implemented only in the 1990s with the independence of the *Riksbank*, was in the 1980s expressed in a language directed at the costs crisis, i.e. the profit squeeze, of the 1970s and early 1980s. That Swedish economic policy changed fundamentally in the 1980s and 1990s is of course well documented (Blyth 2002; Lindvall 2004; Mudge 2017). But it has not been made clear how rooted this was in the profit squeeze of the 1970s, and how much the low profits of the 1970s and early 1980s were on the policymakers' minds. The evidence here indicates a degree of continuity in the Swedish economic policy debate and supports a domestic interpretation of the origins of neoliberalism (as in Davies, Jackson and Sutcliffe-Braithwaite 2021; Andersson 2022) rather than a perspective on neoliberalism as a transfer of ideas between nations. Continuity, in the sense that in the 1980s as in the 1950s and 1960s it was accepted that the profits/wages distribution can and should be manipulated by political means, but the question is how and with what target level of profit and wage shares. In this perspective, Sweden in the 1980s just as in the 1950s was a mixed economy grappling with Schumpeter's dilemma - "modern capitalism relies on the profit principle for its daily bread yet refuses to allow it to prevail" – and it is from the perspective of this study more appropriate to see this continuity than to label the 1980s as "neoliberal" and 1950s Sweden as a "welfare state" (cf. Edgerton 2021, pp. 42–47).

6. Conclusions

This paper has put forward three related arguments: (a) that the capital-labour distribution in Sweden has varied significantly over time, (b) that this distribution was a target variable for policymakers and a subject of much debate, and (c) that a consideration of this distribution and the debate – the politics of profits – can give new perspectives from which to view changes in economic policy in the 1970s and 1980s. The evidence for the first argument is macroeconomic and in conjunction with previous research (in the Swedish case Bengtsson 2015; Bengtsson and Stockhammer 2021; more generally Baccaro, Blyth and Pontusson 2022, pp. 6–12) which criticizes the common assumption of the political economy models in the 1990s, 2000s and 2010s of stable capital-labour distribution over time and little political or trade union influence over this distribution. The evidence presented for the second argument is drawn from newspaper debates, academic economists' debates, and the analyses of policymakers. These two descriptive arguments are a bit simpler than the third, so I now return to the third argument. What does this investigation add to the rich literature on political shifts in the 1970s and 1980s?

The focus on the politics of profits has shown a problem very much on the minds of journalists, economists and policymakers: the need for profits, to create investments, to create jobs. Swedish policy debate in the 1970s and 1980s in a sense confronted precisely the issue sketched by Schumpeter in the epigraph of this paper: "Modern capitalism relies on the profit principle for its daily bread yet refuses to allow it to prevail." It was clear to the DN leader writers and business journalists, to economists like Nordling (1979) or Bergström and Södersten (1979) and to policymakers, that there was a contradiction in the Swedish system of democratic capitalism: the system needs profits to create the jobs which citizens need, but politically instituted reforms may encroach on profits. Pontusson (1992) has brilliantly explored Swedish labour politics in the 1970s with a focus on the radical ambitions of the time – industrial policy, codetermination, and collective ownership of capital. If Pontusson's problematic was the (relative) failure of these labour ambitions, here we see rather both the roots of the liberalizing economic policy of the 1980s and 1990s, and the continuity back to the 1950s and 1960s. Politically steering the macroeconomy and variables such as the capital-labour income distribution was an instituted part of Swedish politics, and could also be transformed from the Rehn-Meidner model or Gunnar Sträng's policies of the 1960s of low profits, low interest rates and controlled capital, to a more liberal policy of stimulating profits in the 1980s, introduced by Sträng's old employee Kjell-Olof Feldt. In this sense, the turnaround to liberalism often explored (Ryner 2002; Blyth 2002; Lindvall 2004; Mudge 2018) sprang out of the domestic contradictions of the Swedish model, and the continuity between postwar interventionism and post-1982 policy was greater than has often been assumed.

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