

Occasional Paper 26 - THE RISE AND FALL OF THE "SWEDISH MODEL"

THE RISE AND FALL OF THE "SWEDISH MODEL"

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Introduction

In 1870, Sweden's per capita income was less than half of Britain's, and well below the average of Northern and Western Europe. Over three-quarters of the population eked out a meagre existence from semi-arctic agriculture. Rapid population growth put severe pressure on the carrying capacity of the land, and large parts of the country were subject to massive forestation and environmental degradation. Between 1850 and 1910, over one million

Swedes, out of a population of around four million at that time, emigrated, mainly to North America, in search of a better life.

Today, Sweden is one of the richest countries in the world. In terms of human development, UNDP's Human Development Index (HDI) gave Sweden a respectable fourth place in the 1991 *Human Development Report* (HDR). In the gender-disparity-adjusted HDI of the HDR of 1992, Sweden improved its rank to number one in the world.

The main purpose of this country study is to summarise the major reasons for this spectacular and sustained success in economic and social development, and to discuss, as a background paper for the 1996 *Human development Report*, the inter-linkages between macroeconomic development, political and institutional development and human development. Since the early process of industrialisation and modernisation may be of some general relevance, the historical part is given considerable attention.

By and large, the period 1870-1970 can be regarded as an almost uninterrupted success story. However, the expression "the Swedish Model", occasionally used in this paper, basically refers to the period between the late 1903s and the early 1970s. During this period, Swedish society did exhibit certain rather unique features. In the last two decades, Sweden has lost her uniqueness; a number of countries have reached, or passed, Sweden's per capita income, and Sweden's welfare system today contains few features which cannot be found in many other countries. What remains as unique is the highest tax burden in the world.

Sweden's entry, in January 1995, into the European Union is likely to reduce the differences between Sweden and other EU members further.

Lack of economic growth has also served to erode the welfare system in recent years. During the last two decades, economic growth has been sluggish, and since 1991, a severe economic recession has hit the country. Per capita income has declined for several consecutive years, and is today lower than the average for the European Union. Unemployment has reached its highest level in sixty years. The traditional welfare system is being seriously questioned and transformed, and new solutions to new problems are being sought.

The indicators of human development used by UNDP in the HDI calculations - such as life expectancy, adult literacy, and infant mortality - are, of course, largely unaffected even by a deep recession in one of the richest countries in the world, although progress in other countries has made Sweden slide down on the global HDI ranking. There are, however, other "softer" indicators of human development that are less resilient to crisis. In a concluding section, an attempt will be made to use certain non-conventional human development indicators to illustrate the relationship between negative growth, increasing inequality and deteriorating human development in a highly developed industrialised country like Sweden.

Part I. Historical Background: Sweden 1870 - 1960

1. 1870 - 1930: Export-led industrialisation and transition to democracy

While historians normally take the 1870s as the starting point for Sweden's industrialisation and economic transformation, important changes were underway much earlier, especially within the agricultural sector². One crucial prerequisite for these changes was the enactment of various enclosure laws that shifted land into more homogenous plots. Before the reforms, each farmer would possess many different plots of land, often situated at long distances from each other. While these reforms served to establish stricter property rights, putting an end to insecure and disputed tenancy and open access systems for cattle raising, they aggravated the employment problem for landless agricultural workers. The number of people wanting to leave the countryside, and even the country, therefore increased, as did the supply of labour in non-agricultural sectors. From a short-term perspective, landless or semi-landless peasants and agricultural workers were the main losers of the enclosure laws, while small and medium-sized family farmers - who constituted the very backbone of Swedish agriculture - were the winners.

An important consequence was that the land tenure reforms encouraged more intensive production techniques, and rising productivity in agriculture. In fact, progress was so rapid that Sweden developed into a large net exporter of grain between the 1850s and 1880s.

Another factor which helped to lay the foundation for the rapid economic growth of the last decades of the 19th century, was the gradual development of a financial system, with commercial banks being relatively well developed already by the mid-19th century.

Helped by declining transport costs and by the booming construction industry in England, timber and wood products also developed into important export products beginning in the mid 19th century. The forestry sector thereby supplemented Sweden's traditionally heavy reliance upon iron ore exports.

During the entire period, Sweden's terms of trade developed favourably.

The export sector remained the "engine of growth" until the Great Depression of the 1930s. Technological innovations greatly helped to reduce costs, and diversify production. Domestic manufacturing based on iron, timber and other Swedish raw materials developed rapidly, thereby increasing employment and value added in the export sector (unemployment remained high until the 1910s, however). For example, the development of the paper and pulp industry demanded a more advanced technology, and more labour power, than the simple timber and sawmill products that were exported earlier. Similar development took place in the mineral sector; instead of exporting iron ore, Swedish exports of steel products expanded rapidly.

Trade policies became increasingly outward-oriented. Import deregulation and trade liberalisation was initiated in the 1840s and 1850s, and further steps were taken in the 1860s, with free trade at its peak. The trade policies pursued by Sweden and her major trading partners provided strong incentives to a dynamic development of both exports and imports,

although a protectionist wave reached Sweden and the rest of Europe in the 1880s and 1890s.

During the entire period, between 1873 and until World War I, the Swedish authorities adhered to the gold standard, and the Swedish currency was pegged to major international currencies with a fixed exchange rate. Naturally, this provided Swedish traders with a unique stability as regards the exchange rate regime.

A class of highly successful industrial entrepreneurs developed, and rising real incomes on the domestic market supplemented the traditional reliance upon exports. Unlike many of today's developing countries, Sweden can be said to have pursued a development strategy based on successful export promotion followed by import substitution.

While Sweden managed to stay out of World War I, demand for Swedish exports remained strong. A number of products based on domestic technological innovations - such as ball bearings, matches, telephones, vacuum cleaners, and others - were highly successful on the world market. Not surprisingly, Swedish producers of gunpowder, dynamite and arms also profited.

A striking feature of Sweden's export-led development between 1870 and 1930 is the fact that the lion's share of the revenue was invested domestically. This was done either by the exporters themselves, or by the state, which through the tax system managed to appropriate the rents from profitable exports.

The fact that Sweden all through the 19th century had developed a tradition of a comparatively competent and honest civil service, with high prestige and salaries, contributed to create a constructive atmosphere between the state and the emerging class of entrepreneurs. Corruption appears to have been quite limited, and cooperation between the public administration and industry was regarded as something completely natural.

The capital generated by the booming export sector was complemented by large-scale international borrowing before and around the turn of the century. Capital import exceeded, on average, three percent of GDP between 1870-1910. While interest payments on the foreign debt often amounted to 10 percent of exports during this period, the payment capacity was never in danger, and Sweden therefor never suffered from a "debt crisis". Most of the capital that was imported was used to finance directly and indirectly productive investments, not least in physical and social infrastructure.

The danger of a debt crisis was also reduced by a series of fortunate circumstances which enabled Sweden to repay most of its foreign debt accumulated between 1880 and 1913 during and after World War I, at inflationary prices in depreciated currencies.

The overall and sectoral growth of the Swedish economy during this period is shown in table I.1. The figures are far from spectacular; what is most striking is rather the fact that the rate of growth was stable, and sustained, over such a long period of time.

Table I.1 Sectoral Growth of Production in Sweden 1870-1930. Annual averages.

Sector	1870-90	1890-1910	1910-1930
Manufacturing	3.6	5.6	4.0
Agriculture	1.5	1.4	0.7
Construction	2.1	1.4	3.5
Trade	2.4	3.3	3.4
Transport	5.9	5.5	4.3
Housing services	1.1	1.3	1.3
Public administration	1.6	1.3	1.3
Total	2.1	3.1	3.1

Source: Krantz and Nilsson, Swedish National Product 1861-1970 (1975), quoted by Södersten (1991), p. 18

Human development

While human development lagged behind the high rate of economic growth in the last decades of the 19th century, substantial progress was made in many areas (see Tables I.2 and I.3 below). Various health indicators reveal a steady improvement, as did the general level of education. Already in 1842, legislation about mandatory primary education ("folkskola") was promulgated, thereby replacing older legislation from 1686 which had given the Church the sole responsibility for giving Christian education to all Swedish children. While the coverage of primary schools was far from complete in all parts of the country, there are many indicators showing that the vast majority of Swedish children did learn to read and write as early as in the 1840s. Already before that, the Church had made a substantial contribution to the reduction of illiteracy even among the poorer strata of the population.

The expansion of Swedish primary education between 1850 and 1900 is illustrated in Table I.2. below.

Table I.2. Number of primary school pupils and teachers in 1850 and 1900.

	1850	1870	1900
Number of pupils	270,000	556,000	690,000
Number of teachers	3,500	7,800	13,500
Pupils/teacher	77	71	51

Source: 1850: Nationalencyklopedin, Vol. 6, p. 485. 1870 and 1900: Johansson, Egil (1972).

The amazing development of literacy in Sweden in the middle of the 19th century is shown in Table I.3.

Table I.3. Reading Capability, percent of Swedish Adult Population 1845-1900.

Year	Reading Capability, %
1845	60.8
1852	81.5
1862	97.4
1875	99.0
1895	99.9

Source: Egil Johansson (1977). Data from 1875 and 1895 are based on reading capacity of male recruits to the (obligatory) military service.

Technical education also expanded rapidly. Two technological universities were established in the late 19th century, and the number of Swedish civil engineers was around 3,500 in 1914. The number of students in technical vocational schools increased from 2,000 in 1870 to over 10,000 in 1910 (Myhrman, 1994, p.87).

While iron ore and timber often get most of the credit for Sweden's rapid economic development in the late 19th and early 20th century, the introduction of obligatory primary education a few decades earlier, and consistent efforts to expand the number and quality of vocational schools and higher education, may deserve at least as much credit. Despite widespread poverty and deprivation, the Swedish people's overall level of education was, in the late 19th century, appreciably better than in most other parts of Europe.

The development of certain human development indicators in 1870-1930 is shown below.

Table I.4. Human Development Indicators in Sweden 1870-1930

	1861-70	1891-1900	1921-30
Annual rate of population growth	0.76	0.71	0.39

Birth rate (per 1,000)	31.40	27.14	17.51
Death rate (per 1,000)	20.16	16.36	12.07
Infant mortality (0-1 a year) per 1,000 live births	139	102	59
Life expectancy at birth			
Males	43	51	61
Females	46	54	63
Adult literacy rate, % of adult population	98	99.9	99.9

Sources: Demographic data: National Central Bureau of Statistics, Historical Statistics of Sweden, Part 1, Population 1720-1967, Stockholm 1969, and (literacy) Egil Johansson (1977).

Political developments

The transition from monarchy and semi-parliamentarism to parliamentary democracy with only a symbolic role for the royal family was a gradual process. IN 1907, universal and equal franchise for the Second Chamber of Parliament ("Riksdagen") was introduced, as well as a certain democratisation of the First Chamber, still dominated by the aristocracy. In 1921, the transition to full parliamentary democracy was completed, as both the King and the First Chamber of Parliament were forced to accept woman suffrage and universal and equal franchise for elections to both chambers, and in local elections.

The first genuinely free elections, in 1921, were won by the Social Democratic Party, founded in 1889, which formed a minority government lasting until 1926.

2. 1930-1960. The crisis of the 1930s and the growth and consolidation of the welfare state

The Great depression and its aftermath

Like most other countries, Sweden suffered severely during the Great depression of the 1930s. Unemployment, which was around 12 percent in 1930, roes to 34 percent in 1934, which in combination with reductions in wages caused a series of strikes and other social conflicts.

The general elections of 1932 resulted in a victory for the Social Democratic Party, and, to some extent, for the Farmers' Party. The new Social Democratic government offered a comprehensive package of measures, including massive public works and extensive state support to the crisis-ridden agricultural sector, to fight the crisis. After an agreement was reached with the Farmers' Party, the policy was implemented as from 1933.

Partly as a result of the crisis policy, and of a fortunate depreciation of the Swedish Krona initiated in 1931 when Sweden decided to leave the gold standard, Sweden was able to overcome the economic downturn more rapidly than most other countries. In 1935, the volume of Swedish exports exceeded its pre-depression level, and by 1936, both real wages and the level of production had done the same. By the end of the decade, unemployment

had become insignificant. The golden age of the "Swedish Model", with several decades marked by low unemployment, Social Democratic political hegemony and consolidation of the welfare system, had begun.

The 1930s can be seen as a decade of preparation for the coming welfare state, with the Social Democrats preparing a large number of radical bills for social reform. The Social Democrats' political programme also included an enhanced role for the state in the regulation of the economy, and nationalisation of key enterprises, including the large commercial banks. Although the Great Depression, and later rising military expenditures and the Second World War, forced the government to postpone many of the social and economic reforms, the foundation was laid for the "Swedish Model", and the post-war period witnessed the adoption of comprehensive welfare legislation concerning, among other things, old-age pensions, child allowances, rent allowances and subsidised housing, education reforms, and a health insurance programme.

Partly as a result of remaining wartime regulations, the post-war period was also characterised by selective state controls and interventions in key areas, such as the housing sector (with a rent control partly in force even today), interest rate and credit controls, and foreign exchange restrictions. Price controls, gradually dismantled during the coming decades, were also prevalent.

Most of the Social Democrats' proposals for a drastic change in the "rules of the game" of the economy - such as a nationalisation of the large commercial banks, and of a number of other key enterprises - were, however, never implemented. Swedish banks and industries thus remained predominantly privately owned, and nationalisation programmes have never since come back to the Social Democratic political programme.

The Post-war boom

Since Sweden managed to remain neutral also during World War II, with the entire industry and infrastructure intact, the Swedish economy was well equipped to profit from the post-war international recovery. Unlike the situation after World War I, no international recession followed upon the peace in 1945, and demand for Swedish export products was exceedingly strong. The Korean War in the early 1950s gave further stimulus to Swedish exports, while at the same time giving rise to a temporary surge of inflation, hitherto very low.

While traditional export products like iron ore and timber remained important, the earlier tendency towards more skill-intensive industrial processing based on domestic raw materials accelerated. Engineering products - not least from a couple of rapidly expanding automobile industries - increased their share of total exports to over 40 percent by the early 1960s.

Despite declining agricultural production, the 1950s witnessed rapid economic growth. In addition to manufactured exports, various domestic sectors, such as public administration, housing services and trade and transportation, showed dynamic growth.

Table I.5. Sectoral Growth of Production in Sweden 1930-1960. Annual averages.

Sector	1930-50	1950-60
Manufacturing	3.8	3.9
Agriculture	1.1	-0.4
Construction	2.5	2.3
Trade	1.5	3.7
Transport	3.8	3.9
Housing services	2.1	5.7
Public administration	3.0	3.5
Total	2.6	3.4

Source: Various official sources, quoted in Södersten (1991), p. 18.

What is striking, again, is the stability of the Swedish success story. Decade after decade since the 1870s, the economy grew by two to three percent per year; in the 1950s even slightly faster. The key factor was, of course, rising productivity; from 1870 to 1970, Swedish output per man-hour rose seventeen-fold, the highest growth rate among sixteen OECD data for which comparable data are available (Table 1.6).

Table I.6. Annual Growth in GDP per Man-Hour 1870-1970.

	1870-1970	1870-1913	1913-1950	1950-1970
Sweden	2.89	2.32	2.84	4.20
OECD average (unweighted)	2.26	1.64	1.82	4.46

Source: Davis & Henrekson (1995), based on Maddison (1982).

Behind this development lie a number of factors, some of which have been touched upon earlier, e.g.:

- a comparatively high level of general education;
- good export markets and good luck with international demand; rapid technological progress and a series of successful innovations;
- the rise and consolidation of a production-oriented class of entrepreneurs;
- neutrality during two world wars;
- a crisis policy during the 1930s which helped to reduce the impact and duration of the recession.

All this was important. Still, perhaps even more important was the socio-political and institutional development, in a broad sense, which helped to underpin the sustained

economic growth that took place. But before situating the discussion in a Swedish historical perspective, a few words may be said about the role of institutions in economic growth.

Inter-linkages between economic growth, institutions and social capital.

While the complex nature of the many different factors behind economic development remains poorly understood, the early emphasis on physical capital formation has, in modern growth theory, been replaced by a number of variables which have one thing in common: they are more related to "software" factors, at the expense of machinery and equipment. In particular, human skills have emerged as perhaps most important factor of production. It thus appears as if indicators such as primary school enrollment, literacy, etc. are robustly correlated to economic growth. The gender aspect of education also appears highly relevant in this context; in countries where girls are not discriminated against in the educational system, there appears to be an even stronger correlation between general education and economic growth.

Together with the increased emphasis on human rather than physical resources, modern growth theory has also directed attention to a number of institutional and socio-political factors which may accelerate - or decelerate - the growth process. In particular, the role of sound governance has received increased attention. In most interpretations, sound governance must include proper macroeconomic management and a coherent and enforceable legal framework establishing the rules of the game of the economy. In recent years, catchwords like transparency, predictability, accountability, and others have also been rising to prominence in the development debate.

Stimulated and enriched by disciplines outside mainstream economics, the role of institutions and of civic society has become increasingly acknowledged by development economists. Influential economists such as the Nobel prize laureate Douglas North have provided an analytical framework in which the gradual emergence of efficient institutions, rather than investment in machinery and equipment, is regarded as the key to development. In this neo-institutional approach, capital formation can be seen as the effect of development rather than its cause: good institutions come first, while savings and productive investments follow.

Others, like Robert Putnam, have stressed the role of a strong civil society as a factor underpinning sustainable economic growth. The essence of civic engagement is that it is based on voluntary participation and horizontal interaction, and networks of civic engagement - whether in sports clubs, neighborhood associations, trade unions or other grassroots organisations - are key components of social capital. "The denser such networks in a community", comments Putnam in his already classical work on the role of social capital in Italy's economic development, (1993, p. 173), "the more likely that its citizens will be able to cooperate for mutual benefit".

It is still too early to attempt a synthesis of the "new theory of growth and development" which appears to be emerging. The trend is clear, however: a more multidisciplinary approach to development is gaining ground, signifying, among other things, more emphasis

on people, ideas and institutions, and less on money and factories. A reformulation of the role of capital is a convenient starting point.

Part of a society's capital is easily visible: factories, roads, schools, hospitals, universities, telecommunications, etc. But there may also be other, less tangible, forms of capital that constitute a crucial complement to physical and infrastructural capital: parliamentary democracy, a free press, respect for human rights, norms for social interaction, systems for rapid dissemination of new ideas, trade unions and a myriad of other large or small social organisations, a judiciary system which, by and large, defends law and justice, etc. This latter form of capital may be called institutional or social capital (the latter will be used in this paper to include institutional capital).

Following the distinctions made above, a society's total capital can be divided into different categories. Apart from natural capital (arable land, mineral resources, etc.) we have financial capital, that can be used to consume or invest. We have directly productive capital: machinery and equipment, etc. We also have infrastructural capital, and human capital. Finally, we have norms, institutions, networks, organisations, traditions and attitudes which together constitute a society's social capital.

To be rich in social capital can be seen as an end in itself - such a society is, by all criteria, more pleasant to live in than a society where the social capital is weak, or eroding. Social capital can also be regarded as a means, as social capital makes the use of other forms of capital both more equitable and efficient. Transaction costs are drastically reduced when people trust each other, when contracts are enforced, when the legal system is honest and when economic policies are predictable.

If we return to Sweden we may, after this brief digression, interpret Swedish economic history between 1870 and 1970 in a slightly different light. Without downgrading the role traditionally assigned to iron ore, timber and technological innovations, a discussion about political and institutional aspects may lead to the conclusion that Sweden can be regarded as a country with a very fortunate combination, or balance, of various forms of capital necessary for economic and social development.

As indicated earlier, the booming export sector based on Sweden's natural resources served to finance massive infrastructural and social investments already in the late 19th century, in addition to financing directly productive investments and technological innovations. Through taxes and other measures, Sweden's natural capital was thus transformed into other forms of capital, rather than being dissipated in the form of rents. One important reason behind this development was the growing strength of the Swedish labour movement, and of a large number of voluntary associations and grassroots organisations which reinforced popular participation. In most cases, these organisations served as "school in democracy", and many also acted as strong pressure groups in favour of social justice, symbolized by the non-excluding character of the social services offered, and financed, by the public sector.

The spectacular progress in primary education in the late 19th century - for both boys and girls - with adult illiteracy virtually eliminated, deserves to be stressed in particular. By all

international standards, Sweden was, at the turn of the century, a country with a very well developed human capital base.

The public administration, traditionally characterised by honesty and a sense of working for the public good, appears to have made rather good use of most of the tax money.

Domestic political and social developments also greatly facilitated the accumulation of other forms of capital, such as good institutions and a strong, active and responsible civil society.

Socio-political and institutional development in Sweden

At the political level, Sweden since 1870 must be regarded as one of the least dramatic and violent countries in the world. Major political events - such as the dissolution of the union with Norway in 1905, and the transition to parliamentary democracy during the first two decades of the 20th century - took place after heated debates, and the struggle for political democracy and universal franchise was accompanied by street demonstrations, political strikes and political repression. Still, bloodshed was minimal, and the number of political prisoners easily counted.

The crisis programme of the Social Democratic Party in the 1930s was subject to scathing criticism from the right-wing opponents, and the Social Democrats were forced - not too reluctantly - to abandon their nationalisation plans, but the basic concept of the welfare state gained widespread acceptance. Also, the subsequent rise to political hegemony of the Social Democrats in Swedish party politics signified that extremist movements to the left and to the right remained marginalised.

To this picture of relative tranquility in domestic politics may be added that Sweden - with a successful combination of skill, luck and opportunism - has managed to avoid wars ever since 1809, when Sweden was defeated by Russia and forced to surrender Finland after a short war.

Sweden's political stability has, by and large, been matched by a remarkable stability as regards the basic "rules of the game" of economic management. While the conflict between the Social Democratic Party's socialist ambitions and inclination towards state interventions, on the one hand, and the liberal and conservative parties' basic trust in a free market economy on the other has been present ever since the 1890s, and often given rise to virulent polemics, the threat of nationalisations has never been credible enough to stop the Swedish bourgeoisie from investing. And even those who were more afraid than they had reason to be had few alternatives, given the rather strict regulations against capital exports that were in force until quite recently.

The major political issue in the 1950s was the question of compulsory pension for all employees. For the Social Democrats, it was a matter of principle to make the pension system non-excluding and compulsory, and the reform was labeled the most important reform during the entire century. The center-right opposition, on the other hand, fought the proposal energetically, arguing that state control over the huge pension funds that were to be

accumulated would signify a step towards socialism. In 1959, the bill was finally enacted, and was eventually accepted by all major political parties during the 1960s and 1970s.

The Social Democrats have consistently pursued an open trade policy. Sweden's traditionally heavy dependence upon foreign trade has, by and large, served to prevent protectionist experiments; in this respect, there has been a broad consensus among all major political parties.

With the exception for a few periods, Swedish macroeconomic management was characterised by stability (until the 1970s). Most of the business cycles were imported, and although Sweden, as a small, open economy, was and remains highly dependent upon external economic developments, the impact of international economic downturns was rather shortlived. Even the "booms" were generally handled with prudence; somewhat schematically, one could say that Sweden managed to take advantage of favourable external economic developments and convert these into sustainable domestic development. On several occasions, Sweden simply benefited from good luck.

The various Social Democratic governments which ruled without interruption in the 1930s, 40s, 50s and 60s—at times, in coalition with the Farmers' Party—were characterised by a firm belief in the importance of fiscal discipline, restrictive monetary policies, and a low rate of interest. The rate of interest was strictly regulated, and large amounts of credit were channelled to priority areas, mainly house building. In a situation of full employment, rapid economic growth and a long-lasting boom in the construction sector, the government felt compelled to extend credit market regulations in several steps, and it was not until the 1980s that the credit market began to be deregulated again (for a discussion, see, for example, Davis and Henrekson, 1995).

While the Farmers' Party was willing to compromise on a number of issues, they were always unconditional in their demand for a policy based on low interest rates.

Another cornerstone of the "Swedish model" was the largely successful attempt to combine fiscal restraint with an active labour market policy. In order to make the labour market more flexible, reduce open unemployment and accelerate the restructuring of the economy, generous allowances were granted workers who became redundant and accepted to undergo retraining, or to move to other sectors or geographical regions. Thus, while the lowering of general demand pressure would create pockets of unemployment in stagnating sectors, these problems should be solved by selective measures designed to either create new jobs or to reallocate manpower – often, after vocational training – to expanding sectors and firms (a good discussion is found in Bergström, 1992)

One conclusion from this brief overview is that one prerequisite for sustained economic development—a minimum of political stability, sound governance, macroeconomic responsibility, and accountability to the citizens—was met during most of the period. We may also add that the legal and institutional framework that developed proved highly beneficial for economic development.

While it would be an exaggeration to call the relationship between all major actors—trade unions, employers, government, political parties, and others—consistently harmonious, there developed a high degree of consensus and mutual understanding between the different interest groups. The basic concepts of the welfare state were accepted by almost all, as were state interventions to a number of key institutions and activities in support of economic development (such as research, higher education, basic infrastructure, an active labour market policy, and others).

In this context, the co-operative atmosphere that for many decades characterised relations between the central trade union for blue-collar workers, Landsorganisationen (LO, founded in 1898), and the Swedish Employers Federation (SAF) deserves to be stressed in particular. The extremely high degree, by international standards, of unionisation of the Swedish labour force—traditionally, well over 80 per cent of all Swedish wage earners belong to a trade union—contributed to give the unions a high degree of legitimacy and responsibility. For many decades, between the late 1930s and until quite recently, the Swedish labour market was characterised by a few strong labour market organisations which acted under great freedom without government interventions, and with credible and effective institutions capable of solving threatening conflicts with peaceful compromises. Major strikes or lockouts were, and are, infrequent.

The fact that unemployment remained insignificant all through the 1940s and 1950s (and 1960s) made it possible to make organised labour accept even rather harsh measures, such as rapid industrial rationalisation and mechanisation, fiscal discipline, and a labour market policy which forced workers to move from stagnating to expanding sectors and regions.

Compared to many other countries (England, for example) Swedish trade unions have had a consistently favourable attitude towards technological progress, even when employment has temporarily suffered. As early as in the 1920s, for example, the central trade union, LO, declared the following "Trade unions should promote the planned development of industry, its structural rationalisation into larger units, the financial reorganisation, and the substitution of old machinery and methods by new plants and innovations." (quoted by Hjalmarsson, 1991, p. 254). While this and similar views may have reflected a remaining legacy of Marxist thought (Swedish Social Democracy has fully embraced only one aspect of Marxism: an enthusiastic belief in technological progress and in large-scale enterprises) it was not difficult to reconcile this position with that of the major industrialists.

The comparatively harmonious relations between the few and centralised labour market organisations since the late 1930s may be used to illustrate a general characteristic of Swedish society: an ability to resolve social and economic conflicts in a way that does not give rise to "winners", "losers" and lasting bitterness. Strong and responsible civil organisations, and a comparatively equal distribution of income, are other factors which may explain the remarkable social peace that accompanied Sweden's transformation from a poor, agrarian economy to a highly developed industrial nation in a rather short period of time.

It should also be stressed that as a proxy for the existence of social capital in Sweden, we may mention the active participation of people in a wide variety of civic associations sports clubs, temperance societies, study circles, charity organisations, political and religious

organisations, parents' associations, consumer co-operatives, farmers unions, cultural associations, birdwatchers associations, etc. All such organisations have, as indicated earlier, longstanding traditions in the Swedish society. Although good data on membership in civic associations from earlier times is scant, as an indicator of the massive involvement by the Swedish people in civic organisations, it may be mentioned that in 1992, every adult Swede was a member of 2.9 different associations, on average. 51 per cent of the population regarded themselves as "active" in one or several associations, and 29 per cent held some kind of elected position (Source: Statistics Sweden, Society Activities in Sweden - a Statistical Illustration, 1993)

A traditional Swedish institution which has been copied in several other countries, the *ombudsman*, with the duty to investigate citizens' complaints of bureaucratic abuse, can also serve to illustrate one aspect of civil society's control of the rulers. The ombudsman office originated as early as 1810, and his scope of authority covers all government institutions and agencies. The ombudsman is supposed to be an independent, impartial arbiter between government and the individual, and although his power is solely recommendatory, the institution carries considerable prestige, and has contributed to make public administration more accountable to the citizens.

As for human capital, universal and obligatory primary education was, as indicated earlier, a goal already in 1842. As the tax base increased towards the end of the 19th century, more and more resources were devoted to education, and higher education expanded rapidly. The accumulation of human capital and of skill-intensive industrial production went hand in hand; while demand for skilled labour increased continuously, a flexible educational system, not least a large number of vocational schools, guaranteed the supply.

The development of health indicators in 1930-60 also stands out as highly positive.

Table I.7. Demographic Trends and Health Indicators, Sweden 1930-60

	1931-40	1941-50	1951-60
Annual rate of Population	0.37	1.00	6.30
Birth rate (per 1,000)	14.45	18.46	14.70
Death rate (per 1,000 live births)	11.67	10.44	9.68
Infant mortality (0-1 years) Per 1,000 live births	46	28	18
Life expectancy at birth			
Males	64	68	71
Females	66	71	74

Source: Same as Table I.3.

Sweden 1930-60: Concluding remarks

The dramatic progress made in human development in 1930-60 was financed by large increases in public expenditures on health, education and other social services, and by a high and accelerating rate of economic growth. Contrary to many other countries experiencing rapid growth, Sweden was remarkably successful in combining growth with equity, mainly as a result of three circumstances:

An obligatory and free primary education system which guaranteed a decent educational level for all;

All through the 1940s and 1950s, Sweden managed to maintain full, or near full, employment;

The progressive tax system, in combination with a general welfare system and targeted support to the most needy, resulted in a substantial redistribution of income, and in a safety net for particularly vulnerable groups.

To summarise, balance appears to be a word that covers several aspects of Swedish developments 1930-60. The balance achieved between different forms of capital—natural capital, financial capital, infrastructural capital, directly productive capital, human capital and social capital - proved highly beneficial for both economic growth and human development. Despite the political hegemony exercised by the Social Democrats during the entire period, the spirit of the ombudsman and a strong civil society served to safeguard a pluralistic society, and to guarantee that accountability was exercised "from below".