Chapter Eight

The Swedish Model: Relevant for Other European Countries?*

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and

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The Swedish economy has long been regarded as a distinctive case of a capitalist regulated market economy in three respects.

Sweden has an ambitious "welfare state" which provides generous social insurance and pension benefits, essentially free health care, and education at no charge at all levels (with stipends for post-secondary students). In Sweden, total public expenditures (comprising government purchases of goods and services as well as transfer payments) are equal to about two thirds of the gross national product. In turn, tax rates are high. For example, payroll taxes are equal to more than one third of the payroll, and the marginal personal income tax rate is 40 percent for the average industrial worker.

Also, the Swedish government seeks to keep unemployment low through a combination of fiscal and monetary policy measures sustaining aggregate demand, on the one hand, and labor market measures such as placement services and retraining, on the other. Thus, frictional umemployment of 1 to 2 percent of the labor force has been considered acceptable, but the overall rate of unemployment has not exceeded 4 percent even in recessions.

Another feature of the "Swedish model" has been highly centralized collective bargaining by representatives of workers and employers. The aim has been to reach reasonable wage settlements with a minimum of labor disputes. To preserve the international competitiveness of Swedish industry, the general principle was established that—in terms of average annual percentage increments—wage in-

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creases should not exceed the sum of labor productivity growth and the rise in export prices.

In this chapter, the authors consider the second and third elements of the "Swedish model"—government labor policy and centralized collective bargaining.

Swedish labor market policy is characterized by the principle of "the right to work" rather than "the right to income." Thus, Sweden pursues "active" labor market measures such as job placement services, training and retraining, relocation grants, and subsidies to private firms to create jobs. Although Sweden has a generous unemployment compensation program, benefits may be stopped immediately if a person refuses to take a job or a training assignment.

For decades, strong national employers' and workers' organizations undertook centralized negotiations to keep wage increases within the limits of "macroeconomic balance" determined by the inflation rate and the trade balance. Employers favored central bargaining in the expectation that it would retard wage growth and avoid strikes. Unions believed centralized bargaining would help achieve a policy of "equal pay for equal work," regardless of the specific financial position of a firm, and thus reduce wage differentials across enterprises, industries, regions, sexes, and age groups. This centralized wage bargaining supported an incomes policy that restrained wage growth despite the low rate of unemployment resulting from the government's labor market measures. However, since the mid-1980s, wage bargaining has become more decentralized, as employers, especially producers of exports, seek smaller wage increases and workers pursue larger wage increases for particular industries and enterprises.

The authors compare the performance of Sweden versus other European countries with respect to unemployment, economic growth, inflation, and inequality in pay. The authors conclude that other nations could reduce (especially, long-term) unemployment by adopting some of Sweden's active labor market measures. But the authors question whether centralized collective bargaining can be achieved and can succeed in curbing wage increases.

INTRODUCTION

By the 1970s, supply-side theory had become something of a new economic orthodoxy. From the supply-side perspective, labor market inflexibility explains mass unemployment. In this context the presumably greater flexibility of the labor market in the United States was seen as an explanation of its superior employment record relative to European economies. Many European employers' organizations and public authorities came to believe, in fact, that flexibility and deregulation are a useful weapon in the fight against unemployment. Although many have adopted policies in this direction, unemployment rates in Europe seem to have stabilized at a high level. Unlike most European countries, Sweden, which is highly regulated, does reasonably well in employment terms. The country seems to be in an enviable position. In addition to the low unemployment rate, another remarkable aspect of employment in Sweden is the high labor force participation rate. Recently, however, the Swedish model has been the subject of debate both inside and outside Sweden. Inflation has risen, and economic growth and the balance of payments have deteriorated.

This has led to discussion about the stability of the system. The study goes into this debate. The central question addressed is: What can be learned from the Swedish experience by other European countries suffering from high (long-term) unemployment?

This study is organized as follows. First, the main characteristics of the Swedish model are outlined. Next, some major outcomes that have been achieved are presented and compared with those in other European countries. In the final section, the relevance of (parts of) the Swedish model for other European countries is examined.

THE MAIN CHARACTERISTICS OF THE SWEDISH MODEL

The term *Swedish model* has some very different connotations. It sometimes refers to the fact that the Swedish economy is a cross between a market economy and a state-regulated economy—a combination of private ownership in the production sphere and collectivization of consumption, and a highly centralized wage policy with powerful confederations of unions and employers' organizations as the main agents, based on the principle of solidarity. Another way to define the Swedish model is to take as a starting point its two dominant goals: full employment and equality. The highly developed labor market policy and the exceptionally large public sector in Sweden resulted from the commitment to these goals. In a narrow sense, the Swedish model can be seen as a model for combining full employment and price stability by a restrictive general economic policy complemented by selective measures for maintaining high employment and investments. Others refer to the Swedish model as a negotiation/consensus model in the labor market. Following Ahlén,[2] we define the Swedish model as a combination of an unusual labor relations system with a sophisticated bargaining approach founded on macroeconomic concerns.

Sweden has a high rate of unionization and employer organization. It probably has the highest (overall) unionization rate in the world (80–85 percent). During the first two postwar decades, the main players in the Swedish model (apart from the government) were the Swedish Trade Union Confederation (LO),[3] the largest employees' organization (primarily blue-collar), and the Swedish Employers' Confederation (SAF), the main employers' organization in the private sector. The LO represents some 90 percent of the blue-collar workers, and the SAF represents about 42,000 firms in private industry, including all of the largest firms. In the 1970s, with the expansion of (public-sector) services, came the rise in prominence of public-sector and white-collar unions, and the dominance of the LO-SAF axis came to an end. By 1978 the

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[2] Kristina Ahlén, "Swedish Collective Bargaining under Pressure: Inter-Union Rivalry and Income Policies," *British Journal of Industrial Relations* 27, no. 3 (November 1989), p. 331.

[3] The LO has for decades cooperated closely with the Social Democratic Party (SAP)—a fact that has contributed to the strength of the reformist labor movement in Sweden.

Swedish Municipal Workers' Union was the largest union in the LO.[4] The Central Organization of Salaried Employees (TCO) is the largest central white-collar workers' organization, representing about 75 percent of white-collar workers in both private and public sectors.

The Swedish model is based on the first basic agreement signed by the LO and SAF in 1938, but has, in fact, its original roots in the "December compromise" of 1906 between the SAF and LO.[5] The Saltsjöbaden[6] Agreement of 1938 later laid down procedures for negotiations between employees' and employers' organizations and placed restrictions on industrial action. It constituted the cornerstone of the centralized Swedish model in which strong national organizations negotiated freely without government intervention and assumed responsibility for keeping wages within the limits of macroeconomic balance. Most problems between labor and management were resolved through negotiations and agreements. As a result, there were relatively few laws governing conditions on the labor market until the late 1970s.

The Swedish model was developed by Gösta Rehn and Rudolf Meidner, two economists associated with the LO. Their main proposition was that "labor market policy should no longer be simply a matter of establishing labor exchanges to bring together the unemployed and unfilled jobs, and paying unemployment benefits to those without a job. Instead it should be developed into a preventive policy instrument, part of an integrated model of economic, pay, and labor market policy." In the 1950s and the 1960s these ideas were adopted by the LO and by the ruling Social Democratic Party (SAP). The aims of this integrated model were full employment, price stability, economic growth, and a fair distribution of wages. Instead of the traditional measures used by Keynesian-oriented policymakers, they made a plea for an active labor market policy in order to reach these goals. In the original outline, a central point was that the responsibility for full employment and economic stability should rest with the government, while the unions, together with the employers' organizations, should be responsible for the process of wage formation. Below we summarize the main characteristics of this Rehn–Meidner model and those added in the course of time.[7]

Centralized Wage Bargaining

Sweden has traditionally been regarded as having one of the most centralized systems of wage bargaining among OECD countries.[8] It was believed that

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[4] Ahlén, "Swedish Collective Bargaining," pp. 331–32.

[5] It meant that the LO accepted the principle that the employer is entitled to direct and allot work, and to hire labor, including nonorganized labor. In return, the SAF promised that the employers would respect the employees' free right of association and negotiation.

[6] Editor's note: Saltsjöbaden is a town in Sweden.

[7] "Survey: The Swedish Economy," *The Economist*, March 3, 1990, pp. 5–6; and Guy Standing, *Unemployment and Labor Market Flexibility: Sweden* (Geneva: International Labor Office, 1988).

[8] Editor's note: The member countries of the Organization for Economic Cooperation and Development (OECD), located in Paris, are Australia, Austria, Belgium, Canada, Denmark, Finland,

centralized bargaining could deliver a lower aggregate wage increase in line with what the economy could afford. Swedish unions supported this centralized wage bargaining process because it facilitated the policy of wage solidarity (see following subsections). Swedish employers were also in favor of central bargaining, since they believed it would prevent wage inflation and guarantee peace. In fact, they were the driving force behind the first central negotiations, which resulted in a settlement in 1952. At central level, negotiations resulted in *framework agreements*, which set the level of wage-cost increases (i.e., total costs for the factor labor, thus not only wages but also payroll taxes, overtime work, and so forth, and costs of improvement of working conditions or working time reduction) to be granted. Next, the framework agreements were supplemented by industry contracts which specified how the centrally agreed arrangements were to be allocated among employers. Most collective bargaining contracts in Sweden were based on agreements between the SAF and LO or PTK (Bargaining Cartel of Salaried Employees in Industry and Services), and between their counterparts in the national and local government sectors. Finally, companies negotiated with local branches of the unions about the terms as applied to the individual. Throughout the duration of the central contract (1–3 years), the parties pledged to respect the peace obligation, which debarred them from resorting to industrial action to settle disputes over matters regulated in the agreement. In the 1980s, however, centralized wage bargaining came under increasing pressure and eventually broke down.

Throughout the postwar period, the labor market in Sweden has been well known as highly stable and harmonious in comparison with most other European countries. Few working days have been lost because of disputes. However, after the 1980 conflict the Swedish industrial relations model has been the subject of a growing debate. In 1983 the Engineering Employers' Association (VF) signed a separate agreement with the Metal Workers' Union. This impetus for change came from the employers' side. It was the SAF which, in line with the government's wishes, insisted on centralized bargaining in the 1950s, but it was the VF, the leading member association in the SAF, that signaled the break in 1983. The LO and SAF agreed that there would be no centralized negotiations in 1984 (for the first time since 1956). In 1985 and 1986 there was again strong pressure for industry-level bargaining. The 1985 LO-SAF agreement was only a recommendation. In the 1988 bargaining round, full decentralization returned. The LO's role was reduced to coordinating general demands and holding weekly meetings during negotiations to discuss strategies. The demands for decentralized negotiations came chiefly from industries such as metalworking, which had a large export propensity and were highly dependent on the international market. The need to restructure to remain competitive, as well as the current high profits in many of these firms, has created the need to

France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

adjust remuneration to fit market conditions, while encouraging greater productivity. There has always been a sizable element of wage drift,[9] but in recent years wage drift accounted for more than half of the total wage increase. In addition, the LO and SAF failed once again to agree on a national norm for wage increases in 1990, with the unions refusing to restrain wage claims despite the deteriorating economic situation.

Until the current phase of labor shortages and high profits ends, which is unlikely for some time, the likelihood of a return to totally centralized negotiations seems small.[10] Even if the 1991 bargaining round leads toward a central agreement providing for moderate pay rises, they will be undermined by correspondingly higher wage drift. However, decentralized wage bargaining, advocated by the employers, may backfire and create an even bigger upward pressure on wages, as recent bargaining results show. Wage drift has reached record levels in 1990. The unemployment–inflation dilemma has turned out to be the most vulnerable part of the Swedish model. It is not only the employers' new wage policy that confounds wage solidarity: it is also the unions' inner tensions that need resolving.[11]

"Solidaristic" Wage Policy

The framework agreements determined the room for wage-cost increases. With regard to wages, the wage policy of solidarity played an important role. According to this policy, all employees should receive equal pay for equal work, regardless of the particular financial position of their employer. The interindustry and interenterprise link between productivity and wages should be broken, and this should produce a more equitable distribution of wages. Gradually wage rate differentials should disappear among industries, enterprises, regions, sexes, and age groups. However, as it has worked out in practice, there have been some other consequences as well. Less profitable companies were unable to pay these wages and were forced to reduce their work forces or go out of business altogether. More profitable firms were paying wages below the level that they could actually afford. They could not attract additional labor by paying higher wages, and wage-cost inflation was supposed to be avoided; the excess profits could be used for new investments. Although small wage differentials could inhibit labor mobility, the model's architects argued that in their model narrow wage differentials would actually stimulate mobility. The model has been perceived as a way of accelerating structural adjustment and economic growth. The solidaristic wage policy harmed low-productivity sectors by

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[9] Editor's note: Wage drift is an increase in the effective rate of pay per unit of labor input, resulting from arrangements outside central agreements. For example, wage drift may occur because of company or plant bargaining, larger differentials for work on the second or third shift, or greater bonus or productivity payments.

[10] Ahlén, "Swedish Collective Bargaining," pp. 334–35.

[11] Ahlén, "Swedish Collective Bargaining," p. 344.

raising the relative wages of workers in these sectors. It favored high-productivity ones by holding back wage growth and speeding up the transfer of employment from old labor-intensive sectors to modern, technologically advanced, capital-intensive sectors. The solidaristic wage policy presupposed a coordination of wage negotiations not only among the LO-affiliated unions but also between the LO and the white-collar confederations.

In the 1980s profit-sharing, productivity-based deals, and employee "convertible loans"[12] have undermined the solidaristic wage policy. Considerable wage drift and profit-sharing schemes are the alternatives for profitable companies to use their high capacity to let their employees share in the firms' profits—both alternatives running counter to the solidaristic wage policy. It is obvious that these consequences of the Swedish wage policy so far have remained unsolved. Even more important in this respect have been the local wage negotiations, which tend to restore wage differentials. Centralized bargaining and the solidaristic wage policy are mutually dependent. However, the LO has now proposed a somewhat modified wage solidarity policy. The guiding principle is to be "equal pay for equal work: different pay for different work," and thus establishes that some pay differentials are fair.[13]

Active Labor Market Policy

With centralized wage bargaining and a solidaristic wage policy, a special kind of dynamics arose in the economy, namely, a combination of a large demand for and a large supply of labor. Because demand stemmed from high-productivity sectors and supply emanated from low-productivity sectors, matching problems on the labor market could easily occur. To tackle this problem, an active labor market policy was developed. This policy aims at enhancing the mobility of workers who lose their jobs, without relying totally on the price mechanism. It is supposed to perform the role of wage differentials in balancing labor supply and demand and in achieving full employment. A great variety of measures have been developed under the heading of "active labor market policy" (e.g., relocation grants, training or retraining programs, temporary public-sector schemes, and private-sector recruitment subsidies intended to create jobs). This policy stemmed from the idea that the longer people are inactive in the labor market, the more difficult it is to get them back to work. The Swedish model is characterized by the "right to work" model instead of the "right to income" model. Another effect of the model is that the workers would, at least theoretically, find new employment in more viable enterprises and sectors, and higher employment and wage levels would thus be attained in the longer run.

The Swedish model is best known for its active labor market policy. There

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[12] Editor's note: In British terminology, a "convertible loan" security is a debenture which the holder can convert into ordinary stock shares.

[13] Ahlén, "Swedish Collective Bargaining," p. 343.

is one budget for all measures, and the policy is coordinated by the National Labor Market Board (AMP), in which employers' organizations, employees' organizations, and the government participate. Such an approach guarantees a strong interdependency of all measures. Unemployment is dealt with as follows. First, the labor exchange tries to find a job. It operates with caseloads of 15–30 unemployed persons per member of staff, compared with, for example, 375 in Britain, 370 in West Germany, and 160 in the Netherlands. Unlike most European countries, in Sweden all vacancies and planned layoffs have to be notified to the employment service, so that it has a thorough understanding of the local labor market.[14] If the labor exchange cannot find a job, a training program is often organized. Where workers are declared redundant, hard-to-place workers are sent to high-quality training courses—even *before* they become unemployed in some cases.[15] Thus, economic change is welcomed as an opportunity to provide experienced workers for the industries of the future. If workers have not been placed within six months, employers recruiting them are offered a 50 percent wage subsidy over a six-month period. If this program does not get them a job, workers are entitled to unemployment benefits. These benefits are not open-ended, but are paid for a maximum of 300 days and are subject to a strict work test to discourage scroungers. If a recipient refuses to take a training place or a job, benefits may be stopped immediately.

Sweden has one of the most generous unemployment benefit systems in the world. However, it has also strict eligibility rules. If all these measures fail, the public sector (mainly local authorities) acts as the employer of last resort. It provides work for up to six months, mostly in construction or the caring services. Anyone whose benefit entitlement has run out is entitled to such work by law. This approach contrasts sharply with other European countries. Sweden, however, is not soft touch for the jobless. A vital ingredient of Sweden's success is that it combines the carrot—the promise of training or a job—with a stick.

A Restrictive Fiscal Policy

Centralized wage bargaining with a solidaristic wage policy and active labor market policy kept unemployment low and aggregate demand high in the economy; thus, the danger of inflation could be round the corner. Therefore another

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[14] Owing to the fact that notification of vacancies is obligatory for employers, the proportion of all job openings notified to the Public Employment Service is as high as 2/3 in Sweden. Similar laws exist in Belgium, France, Italy, and Spain, though apparently with less effect. The corresponding share varies between 1/10 and 1/6 for Austria, Canada, the Netherlands, and Switzerland. It is 1/4 for France and 1/3 for Australia, Germany, and the United Kingdom. See OECD, *Labor Market Policies in the 1990s* (Paris, 1990), pp. 27 and 89.

[15] Labor market training is not an alternative to work; it is meant to make work possible. In part, its effectiveness depends on the quality of the labor market information on which individual training decisions are based. A large coverage of vacancy information may therefore be crucial.

element of the Swedish model is a restrictive fiscal policy. Budget disequilibria were adjusted in the short term. The Swedish model was known for the high tax rates. (Personal income tax had a top rate of 72 percent; the corporate tax was 57 percent.) Moreover, progressive taxation was essential to finance the Swedish "welfare capitalism," implying a large and growing public sector. In the model, economic growth and investment were to be left to private enterprises. In essence, the model was based on the assumption that, whereas individual firms could be efficient, the market system itself would not be. Although profits were heavily taxed, "excess" profits put into special "investment funds" or "renewal funds" were not taxed, channeling company profits into regional investment, investment in the education and training of workers, or new technology.

Policy of Selective Economic Growth

As can be deduced from the foregoing points, the Swedish model corrected the results of the free market system. Apart from the points already mentioned, a policy of selective economic growth was used. This policy aimed at the development of subordinated regions and provision of goods that would otherwise not be supplied in sufficient amounts (socially necessary services).

Scandinavian Inflation Model

The original Rehn–Meidner model was incomplete, insofar as there was no mechanism for determining the level or rate of change of prices or wages. The Scandinavian inflation model was a policy guideline for collective bargaining. The production process was divided into an "exposed," export-oriented *tradable* goods sector and a "sheltered" domestic goods sector. Wages in the exposed sector were supposely set by reference to its productivity growth and internationally determined price increases. The exposed sector acted as a wage leader for the wages in the sheltered sector, with prices being determined as a markup on unit labor costs.[16]

The realism and practical application of the Scandinavian inflation model were undermined during the 1970s by the emergence of the public sector as the new wage leader. Public-sector jobs expanded to include over 35 percent of the work force. In 1987 this model was reformulated by the LO, TCO, and SAF. The new model adds adjustments for international economic factors that the previous model had failed to take into account (factors that affect competitiveness, such as changes in the rate of exchange or in the value of the dollar). The thesis was that the trend toward decentralization had to be reversed, because the system's stability depends on centralized wage bargaining that can permit macro wage flexibility. According to the new model, the economy is divided

[16] Standing, *Unemployment*, pp. 46–47.

into three sectors, called "competitive," "private sheltered," and "public sheltered." It specified that bargaining results of the largest industries in the international tradable goods sector should determine pay increases in the rest of the economy and that pay developments in the tradable goods sector should be determined by productivity growth and international price developments in that sector. In this way, pay developments could be kept within the limits the country could afford. The model continues the tradition of sophisticated labor market thinking, but like its predecessor has little practical utility. Locally produced wage drift remains an intractable problem.[17]

Wage-Earner Funds

The wage-earner funds can be seen as an extension of the solidaristic wage policy. As a consequence of the latter, large profitable companies were gaining extra profits. In 1976 the LO Congress adopted Meidner's proposal for wage-earner funds, to be financed by these extra profits which arose as a result of employees refraining from claiming higher wages in accordance with the principles of solidaristic wage policy. The basic idea was that the capital should remain within the firms but the ownership should successively be transferred to the employees as a collective. Collective profit sharing was seen as a means of making wage restraint more acceptable to workers who might otherwise have seen high profits as a reason for pushing for higher wages. In December 1983 Parliament passed the Employment Investment Fund Bill. Five regional wage-earner funds of very limited size were introduced in 1984. The employers still strongly resist these funds. SAF maintains that profit sharing by the individual is to be preferred. The nonsocialist parties have said they will repeal the legislation once their government returns to office.[18]

WHAT HAS BEEN ACHIEVED

Full Employment

Unemployment remains high in many European countries. In Sweden the unemployment rate is well below that of other countries. During the second half of the 1970s it was about 2 percent. It peaked in 1983 (2.9 percent), was a mere 1.4 percent in 1989, and is currently running at about 2 percent. However, skill shortages rose sharply during 1988, reaching their highest level since 1970.[19] The employment–population ratio may serve as an indicator for the utilization of labor resources. This ratio in Sweden, already the highest in the world, has

[17] Ahlén, "Swedish Collective Bargaining," and Standing, *Unemployment*.

[18] Richard B. Peterson, "Swedish Collective Bargaining—A Changing Scene," *British Journal of Industrial Relations* 25, no. 1 (March 1987), pp. 31–48; and Standing, *Unemployment*, pp. 139–43.

[19] OECD, *Employment Outlook* (Paris, 1989), p. 21.

continued to grow, while it has fallen in all the main European Community (EC) countries.[20] Sweden probably has the highest rate of labor force participation (82.6 percent in 1988) among major industrial countries. Furthermore, the female labor force participation rate is very high (80.3 percent in 1988). However, when the hours actually worked are taken into account, the utilization rate in Sweden is only a little higher than that of Canada or the United States. This is caused by two factors: (1) Swedish workers are, more often than other workers, "with a job but not at work"; and (2) there are more part-time workers in Sweden.[21] Sickness absenteeism amounts to more than 13 percent for blue-collar workers and about 6 percent for white-collar workers. In addition, absenteeism caused by parental leave and job training must be added.

In spite of the need to improve the adaptability and efficiency of the Swedish labor market, the composition of labor market policy up to 1987 did not give the impression that more emphasis was being put on supply-side-oriented measures. During the 1970s there was a rapid increase in demand-oriented measures.[22] New subsidies were provided to companies to help keep workers in employment. These included financial assistance for stockpiling, in-plant training, and temporary employment subsidies. In 1982, with the return to the government of the Social Democrats, there was a move toward serving the needs of employers directly. A new emphasis was put on "placement efficiency," that is, on a strengthening of employment offices to help fill job vacancies in companies quickly and efficiently. Practice shows that such an approach is effective. It reduces the duration of unfilled vacancies as well as the likelihood of mismatch placements that lead to subsequent unemployment.[23] To counteract rapidly increasing unemployment, a number of labor market policy measures were implemented. From the end of 1982, the number of temporary jobs (relief work) increased; in particular, there was a targeting on youth and disabled workers. For other displaced workers, unemployment benefits had become more significant. Standing concludes that during the 1970s there was a slow erosion of the "right to work" principle and a shift toward the "right to income" principle.[24] This continued into the 1980s, despite strong efforts to reverse the trend.

Sweden's success in achieving full employment and a high level of labor force participation has been due in large measure to its active labor market policy. Also, the tax structure encourages high (part-time) female labor force

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[20] Richard Layard, "European Unemployment: Cause or Cure?" (Discussion Paper no. 368; London School of Economics, Center for Labor Economics, 1989), p. 19.

[21] Chris de Neubourg, *Unemployment, Labor Slack, and Labor Market Accounting. Theory, Evidence, and Policy* (Amsterdam: North-Holland Publishing Company, 1988), p. 99.

[22] Supply-oriented measures are defined as those designed to improve matching, geographical and occupational mobility, and rehabilitation. Demand-oriented measures are temporary jobs, regional measures, employment for the handicapped, and other employment-creation measures.

[23] Standing, *Unemployment*.

[24] Standing, *Unemployment*, p. 103.

participation, in that married women working part-time are treated most favorably.[25] Other facilities, such as part-time parental leave, child care, and part-time early retirement, also contribute to the high female labor force participation rate.

The special characteristic of Swedish labor market policies as compared with those of other European countries is not the size of the total expenditures, but their composition. Despite the fact that Sweden's overall budget is no higher than that of other European states, the share of active labor market policy in total labor market expenditures is around 70 percent. Around 30 percent is spent on unemployment benefits. In most European countries this division of expenditures is reversed.[26] It has been claimed that Sweden is thus investing in competence, while other countries are investing in unemployment.

Long-Term Unemployment

From the beginning of 1984, efforts have been made to increase measures designed to counteract long-term unemployment and youth unemployment, and thereby limit the need for relief work and unemployment benefits. A new recruitment grant has been introduced, aiming at facilitating recruitment in the manufacturing industry. In January 1984 the government also introduced the Youth Team Act for 18–19-year-olds who register as unemployed. This guarantees a public-sector job for four hours a day. In principle, the right to a youth team job replaces the right to unemployment benefits. The tendency to direct measures to the long-term unemployed was accentuated when a recruitment grant for employment by county and municipal councils was introduced in January 1985. The reorientation of the labor market policies toward the long-term unemployed also entailed giving preference to the long-term unemployed in placement in ordinary policy measures. Furthermore, special programs and efforts for the long-term unemployed were introduced, such as individual follow-up and counseling; job clubs aimed at strengthening self-confidence, motivation, and job search; cooperation with local trade unions; and so forth.

Some critics argue that the active labor market policy is just unemployment in disguise. However, even if all those on such schemes are included, the total jobless rate is just over 5 percent—still below that of most European countries. In 1988, 3.7 percent of the Swedish labor force was involved in labor market programs. Yet this misses the real point of the measures, namely, to keep the unemployed in touch with the labor market, to improve their chances of employment, and to prevent long-term joblessness. In 1988 only about 8

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[25] OECD, *Employment Outlook* (Paris, 1990), pp. 163–69.

[26] Since the programs vary with the unemployment situation, the best way to measure a country's commitment to the active labor market policy is to measure expenditures per unemployed person (relative to output per person). This degree of commitment varies considerably, with Sweden doing much more than any other country, and West Germany doing more than any other EC country. [Sweden is not a member of the EC.] See Layard, "European Unemployment."

percent of Sweden's unemployed were jobless for more than a year, compared with 50 percent on average in EC countries. The hysteresis effect is thereby also counteracted.[27] Effects of human capital losses and signaling[28] are minimized. The differences in unemployment rates mainly reflect differences in the duration of unemployment, rather than in the proportion of people who become unemployed. Since 1979 unemployment in the EC countries has grown mainly because of the rise in duration, rather than a rise in inflow.

Economic Growth and Inflation

Sweden's economic situation, like that of a number of other Western European countries, worsened after the oil crises of 1973 and 1979. Subsidies were pumped into industry (e.g., state-financed inventory building in the shipbuilding and steel sectors) and public-sector projects were expanded. (The local government's service sector was opened up for relief work in the 1970s.) The results were predictable: the budget and external current account went deep in deficit, and inflation rose. In 1982 the reelected socialist government adopted the so-called "third way": export-led economic growth, linked to price and income moderation. The defensive industrial policy was abolished in order to reduce the budget deficit. Also in 1982 the krona[29] was devaluated by 16 percent, and the budget deficit of 13 percent in 1982 turned into a surplus of 1 percent in 1988; exports boomed and unemployment and inflation fell. However, by 1988 relative unit labor costs were more or less at the level observed before the 1982 devaluation. High domestic wage increases were the main cause for the trend.[30] Moreover, since 1985 GDP had grown by an average of 2.3 percent, well below the OECD average of 3.5 percent. The growth figures for 1990 and the forecast for 1991 for Sweden are 0.7 and 0.1 percent, respectively, compared with 2.9 and 2.8 percent for OECD Europe. The change in compensation per employee as well as in unit labor costs in Sweden in the period 1987–91 is higher than in OECD Europe.

Given these figures, it is not surprising that employment growth in Sweden is slower than for OECD Europe. Only with regard to the (standardized) unemployment rate does Sweden perform better than other OECD countries, and this picture does not change in the period 1987–89. It would be interesting to know whether these changes can be attributed to changes in Swedish industrial relations or to the aftermath of the Swedish model as it functioned until the

[27] The hysteresis effect denotes cases where the "natural" level of unemployment (a proxy for the unemployment due to market imperfections) is a function of past unemployment. See Olivier J. Blanchard and Lawrence H. Summers, "Hysteresis in Unemployment," *European Economic Review* 31, no. 1–2 (March 1987), pp. 288–95.

[28] Editor's note: In the terminology of labor economics, higher-ability workers "signal" their availability when they compete against lower-ability workers for less-skilled jobs.

[29] Editor's note: The Swedish currency.

[30] OECD, *Economic Surveys: Sweden* (Paris, 1989), p. 14.

early 1980s. It is certain that the changes occurred in a period of declining consensus and decentralization in wage bargaining.

Large wage increases and sluggish productivity growth have pushed up inflation and ended industry's international competitiveness. Swedish industry now invests more abroad than in Sweden—a tendency that undermines the selective economic growth policy, which relies on profitable companies investing in Sweden. The reasons given for this flight of capital out of the country include a need to move nearer to other markets, rising labor costs, labor shortages, high rates of absenteeism, and the taxation system.[31] Sweden's current account deficit is forecast to widen to 4 percent of GDP in 1991. Thus, the devaluation of 1982 brought only temporary relief and concealed low productivity and high production costs. Therefore a new devaluation is not deemed desirable, and a more structural approach is now thought necessary. A labor market policy to increase and improve labor supply could in our view be a part of such a structural approach, which fits well into the Swedish model. For instance, the recently proposed entitlement to at least two weeks' vocational training per year for employees and lower marginal income tax rates could be applied to improve the quality of the labor force, and later retirement could be applied to increase labor supply. Absenteeism through illness could be reduced by making employers more responsible for paying sickness benefits to the workers and by linking the employer's contribution to the sickness benefit fund and the level of sick leave in the enterprise. Better rehabilitation and measures to reduce absenteeism through improvements in working conditions could stimulate labor supply and promote labor mobility.

Swedish inflation has been higher than the OECD average inflation rate for some time. These differences in inflation rates are especially noticeable in the second half of the 1980s. The 1978–87 average inflation rate in Sweden was 8.3 percent against 6.3 percent for the OECD countries. Sweden did not fully succeed in dampening inflation as many other OECD countries did in the early 1980s, and this certainly holds for the second half of the 1980s. The average inflation rate in 1988–90 in Sweden was 8.2 percent, compared with 4.1 percent for the OECD. However, Sweden has undoubtedly achieved a better trade-off between unemployment and inflation (Phillips curve) than most countries, thanks to its active labor market policy.[32] Despite the rise in unemployment, inflation in Sweden is expected to rise to 10 percent in 1991. This suggests a shift in the Phillips curve.

Labor Market Flexibility

The Swedish labor market shows a significant amount of flexibility. The relationship between the unemployment rate and the vacancy rate (Beveridge curve) is often used as an indicator of the degree of labor market flexibility. In

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31 "Survey: The Swedish Economy."

32 OECD, *Economic Surveys*, pp. 55–56.

most European OECD countries, the Beveridge curve has shifted outward in the last two decades, indicating a rising mismatch between labor demand and supply. In Sweden, this relationship has remained broadly unchanged. Compared internationally, the nonaccelerating inflationary rate of unemployment (NAIRU), long-term unemployment, and youth unemployment are low, and part-time employment is high. Moreover, real-wage rigidity is low and mobility patterns seem favorable.[33]

Labor mobility has two dimensions: employment mobility and job mobility. Employment mobility refers to internal mobility, involving no change in employment. Job mobility refers to external mobility, the move from one enterprise to another. In Sweden internal or functional flexibility has replaced external or numerical flexibility. Training is seen as the top priority by all enterprises, government programs, employers' organizations, and unions. In other European countries the lack of functional flexibility is compensated by more external numerical flexibility. It is the latter that is stressed by the supply-side economists in their proposal for deregulation and greater flexibility. However, research in the Federal Republic of Germany and in France shows that the reduction in employment protection by means of increasing the opportunities for temporary contracts does not result in more employment. Further, the net employment effect of the special government temporary employment programs in Europe is also limited. They merely result in redistribution of unemployment and a shift in the recruitment pattern in the direction of subsidized temporary jobs. Moreover, the countries that have gone the furthest with short-term flexibility may run greater risk that employers will not pay sufficient attention to the source of their long-term flexibility and efficiency, that is, to manpower training.

In Sweden long-term unemployment is avoided and the hysteresis effect is reduced by means of an active labor market policy. This includes the development of training programs with compulsory participation and job guarantees, whereby the government acts as an employer of last resort. Finite unemployment benefits and vacancy registration cover these measures. In 1988 about 70 percent of all unemployed receiving training found a job within six months. It appears also that after training most individuals were able to command higher wages.[34]

Pay Differentials

The LO's primary objective has been to reduce pay differentials between various groups in the labor market. Wage differentials in Sweden are the lowest in the OECD area.[35] A certain degree of equalization has been achieved, despite

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[33] OECD, *Economic Surveys*, and Standing, *Unemployment*, pp. 52–56.
[34] OECD, *Economic Surveys*, p. 82.
[35] Richard B. Freeman, "Labor Market Institutions and Economic Performance," *Economic Policy* 6 (April 1988), pp. 64–80.

the fact that market forces were detrimental to the goal. The wage solidarity policy has also been important in reducing pay differentials between men and women. Nevertheless, the gap is still wide. Recent trends toward more decentralized collective bargaining have been accompanied by a worsening of women's relative pay position. It tends to restore wage differentials. The Swedish labor market is more segregated along gender lines than in most other European countries. Women tend to work in a small number of (part-time) jobs, principally in social services or unskilled manufacturing, while men are found in all categories of employment.

As a consequence of the solidaristic wage policy, the link between profitability and wage levels would be broken and smaller wage differentials would stimulate mobility. The relationship between value added per employee and the percentage of employed (Salter curve) for the Swedish manufacturing sector indeed indicates that the wage profile is independent of profitability, and only a small fraction of employment takes place in firms with low profitability.[36] The Swedish experience, moreover, shows that the narrowing of wage differentials between industries has contributed to the structural adjustment of Swedish industry (e.g., the car and textile industries). The narrowing of wage differentials has also encouraged the growing concentration of employment in large, innovative, relatively profitable companies and has impeded the emergence or growth of small firms, which are a source of employment growth in the longer run.[37]

Legislation

In the early 1970s, the trade unions were forced to conclude that certain issues of importance to them could not be resolved by means of direct contract negotiations with the SAF. The unions asked the government and Parliament to pass legislation to bring about improvements in areas such as job security and employee participation in decision making. These trade union demands resulted in a number of new laws. The most important was the Act on Employee Participation in Decision Making (MBL), which came into force in 1977. This law required employers to negotiate not only in the area of social affairs but on all major changes in working conditions, including questions of what to produce and how production should be organized. Employers have to give the union access to almost all of the company's economic information. However, the extensive union rights were used primarily to negotiate employment levels and the timing of dismissals.[38] The law became operational through a so-called Development Agreement. The signing of the Development Agreement between the SAF and LO/PTK in April 1982 meant that MBL regulations had been

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[36] OECD, *Employment Outlook* (1989), pp. 77–78.

[37] Standing, *Unemployment*, pp. 50–51.

[38] Hans Slomp, *Labor Relations in Europe: A History of Issues and Developments* (Westport, Conn.: Greenwood Press, 1990), p. 162.

implemented in all of Sweden's collective bargaining sectors. In the Development Agreement the SAF gained acceptance from the LO and PTK that the law would be implemented at company level.

THE SWEDISH MODEL: RELEVANT FOR OTHER COUNTRIES?

The Swedish Model in Discussion

The Swedish model has recently been the subject of more critical scrutiny. High inflation, current account deficits, and high capital exports seem to be the most important problems. In 1990, strikes and a rejection of the proposed economic policy resulted in the resignation of the Social Democratic government. The recent problems shed new light on the question whether the Swedish model can or should be exported. Meidner and Rehn state that the recent problems do not represent the failure of the model, but only the failure of a modified version of the model. The main modifications are a decentralization of wage negotiations, general as opposed to selective expansionist programs, absence of fiscal restraints, and absence of solidaristic wage policy. However, it is also argued that the problems show the failure and the imminent end of this model. Supply-side rigidities and the fixing of unemployment below the NAIRU are responsible.[39] According to this view, the Swedish economy can recover only when taxes are reduced[40] and government expenditure is decreased in order to improve the supply side of the economy. Moreover, decentralization of wage determination and an increase in wage dispersion would improve the quality of labor via wage competition, and an increase in unemployment is needed to take the heat out of the Swedish economy. The adoption of these supply-side policy options will greatly influence the basic features of the Swedish model. An increase in unemployment will influence the active labor market policy, notably the "right to work" principle. Decentralization of wage bargaining endangers both the solidaristic wage policy and the active labor market policy. In evaluating Swedish industrial relations, it should be borne in mind that the Swedish approach follows from a view on unemployment:

> There is no Swedish model that can be accepted or rejected, bought or sold. There is simply an approach—founded on dedicated innovative hard work. Unemploy-

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[39] Peterson, "Swedish Collective Bargaining"; and "Survey: The Swedish Economy."

[40] After January 1991 the highest income tax rate will stepwise be reduced to 50 percent and the variable corporate tax rate will be replaced by a uniform 30 percent rate. However, the tax base will be broadened to finance this tax cut. Tax revenue losses are to be made up through higher rates on capital, fewer tax deductibles, and a broader application of the value-added tax. The main motives behind this reform are to make the market function more efficiently, to encourage people to work harder and cheat less on taxes, and to revitalize the public sector. See Ahlén, "Swedish Collective Bargaining," p. 342.

> ment is in itself a burden on society, and a cost. It represents a valuable production capacity that is wasted. No country is rich enough to afford unemployment.

An increase in unemployment does not comply with such a view.

Corporatism and Economic Performance

The debate on the Swedish model fits into the discussion on the relationship between corporatism and economic performance which has been the subject of much research and consideration in the 1980s.[41] The results are ambiguous, but point in the direction of a hump-shaped relationship.[42] This implies that both highly centralized and highly decentralized labor market arrangements give better economic performance (i.e., with regard to real-wage flexibility, unemployment, and inflation) than intermediate cases. Despite the poor theoretical basis and the consequently poor measurement of corporatism, empirical results seem to be in favor of a positive relationship between corporatism and macroeconomic performance. This implies that the path toward decentralization may lead to a deterioration in Sweden's economic performance.

The most striking results of the Swedish model concern long-term unemployment. Evidence with regard to OECD countries is provided by Layard.[43] He shows that half of the OECD unemployed have been out of work for over a year; the figure for Sweden is only 8.2 percent. Layard concludes that three elements seem to be important in fighting long-term unemployment: finite benefits, active labor market policy, and centralized wage bargaining. His conclusions are confirmed by Calmfors and Nymoen[44] and Jackman.[45] From these analyses it follows that, whereas the "right to income" policy has led to increasing long-term unemployment, the "right to work" principle has improved the supply side of the economy. Another conclusion is that it is not the level but

[41] We are aware of the fact that the term *corporatism* is not unambiguously defined in the literature. However, centralization of wage negotiations, shared perspectives on the goals of economic activity, and explicit attention to the aims of wage-setting seem to be important characteristics of a corporatist society. See Lars Calmfors and John Driffill, "Centralization of Wage Bargaining," *Economic Policy* 6 (April 1988), pp. 13–61; Lars Calmfors and Ragnar Nymoen, "Real Wage Adjustment and Employment Policies in the Nordic Countries," *Economic Policy* 11 (October 1990), pp. 398–448; Freeman, "Labor Market Institutions"; Richard Jackman, Christopher Pissarides, and Savvas Savouri, "Labor Market Policies and Unemployment in the OECD," *Economic Policy* 11 (October 1990), pp. 450–90; and OECD, *Economic Surveys*. Calmfors and Driffill, "Centralization," give an overview of some definitions and the ranking of countries according to these definitions. They show that, whatever definition is used, Sweden is characterized as a corporatist country.

[42] Calmfors and Driffill, "Centralization."

[43] Layard, "European Unemployment."

[44] Calmfors and Nymoen, "Real Wage Adjustment."

[45] Jackman, Pissarides, and Savouri, "Labor Market Policies."

the duration of unemployment benefits that influences economic behavior, and this supports the idea of finite benefits as applied in Sweden.

In our view, the Swedish experience with active labor market policy shows that high rate of long-term unemployment in parts of the OECD is avoidable. One may wonder why the "benefit principle" dominates. There is little to recommend the payment of social security benefits without job opportunities. Passive labor market policies create a labor reserve that cannot be used when necessary. It does not help in relieving either quantitative or qualitative discrepancies on the labor market. Moreover, empirical data on expenditure on labor market policies show that, in countries where employment services are organized around the "employment" principle (as in Sweden, Austria, and Denmark), unemployment is lower.[46] In Sweden, part of the active labor market measures can be classified as supply-side activities enhancing labor market flexibility.[47] We agree with Layard[48] that it is worthwhile for countries to follow Swedish thinking when allocating expenditure on labor market programs.

However, this kind of labor market policy has one drawback, as has been made clear by a recent contribution of Calmfors and Nymoen. They state that, if inflow into labor market programs and inflow into unemployment are not regarded as perfect substitutes by unions and individuals (and if participation in labor market programs is preferred to unemployment), wage adjustments might slow down. Active labor market policy acts as a cushion to relieve the consequences of too high wages and consequently provides insufficient incentives for the unions to adjust wage demands. One of their conclusions makes this point clear: "Our most controversial finding is that accommodative labor market policies, designed to reduce open unemployment, *raise* real wages."[49] This result confirms their statement that labor market programs and open unemployment are not substitutes, and it has important implications for labor market policy. Wage moderation can be seriously hampered by the Swedish approach to unemployment. The results of Calmfors and Nymoen relate to labor market policies in Sweden, Denmark, and Finland, while this result could not be found for Norway.

Adjustments to labor market disequilibria are not, of course, the only indicators of economic performance. For the Swedish system to be viable, long-term developments are important. Calmfors and Driffill[50] distinguish between centralized economies (e.g., Sweden), intermediate economies, and decentralized economies. They show that for 1974–85 both the level and the

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[46] Jackman, Pissarides, and Savouri, "Labor Market Policies."

[47] In 1989 demand-oriented measures amounted to more than 45 percent of total expenditure on labor-market policy, while supply-side measures accounted for roughly 30 percent and cash unemployment benefits for 24 percent.

[48] Layard, "European Unemployment."

[49] Calmfors and Nymoen, "Real Wage Adjustment," p. 431.

[50] Calmfors and Driffill, "Centralization."

change in the Okun misery index and an alternative performance index for Sweden are lower than the average for the other types of economies.[51] From Freeman[52] it follows that Sweden is ranked 11th of 19 OECD countries with regard to the percentage change of real GDP during 1973–84. Swedish performance is about the same as that of Germany, Denmark, or France. Because of the large growth in employment, real GDP growth per worker is of course less (coming 15th), but real GDP growth has been twice as high as in the United States, while, regarding the level of GDP per worker, Sweden is ranked 8th. Calmfors and Nymoen[53] report a productivity growth for Sweden that shows about the same picture as for Western Europe during 1967–87. From their steady-state wage equations it can be concluded that, of the Nordic countries, wages in Sweden are the most responsive to unemployment. These results indicate that long-term economic performance in Sweden gives no reason to place any doubt about the viability of the model. However, as we have described, this viability depends for a large part on the way corporatism is given shape (i.e., on the way consensus is reached and wages are set). Note that the majority of the research covers 1970–85, while the main problems on which the criticism of the model is based showed up after 1983–85.

The Swedish Approach and the Wage-Setting Process

For the Swedish model to be effective, consensus is a condition *sine qua non.* This point is much stressed in the literature.[54] Albeda[55] mentions three elements that are characteristic of Swedish labor relations. First, he states, in Sweden there is little polarization and the Social Democrats have been in government since 1932. Only in 1976–82 was there a non-socialist government. Second, Sweden has a very high level of organization on both sides of the labor market. Third, there is (close) cooperation between the trade unions and the Social Democratic Party. Thus, Albeda concludes, this "neo-corporatist" society is very manageable and Sweden is a country with a consensus. In the Swedish model labor market parties not only negotiate about wages, but also make arrangements about employment measures and incomes policy measures. Centralized bargaining seems the only way to reach a workable agreement in such a

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[51] The Okun misery index is defined as the rate of inflation plus the rate of unemployment. The alternative performance index is measured by the sum of the rate of unemployment plus the current account deficit as a percentage of GDP.

[52] Freeman, "Labor Market Institutions."

[53] Calmfors and Nymoen, "Real Wage Adjustment."

[54] W. Albeda, "The Rebirth of Tripartism in the Netherlands," in *The Challenge of New Technology and Macro Political Change*, ed. William M. Lafferty and Eliezer Rosenstein (International Handbook of Participation in Organizations, vol. 3: Oxford: Oxford University Press, forthcoming 1993); Calmfors and Driffill, "Centralization"; Nils Elvander, "Bargaining Systems, Incomes Policies, and Conflict in the Nordic Countries," in *Current Approaches to Collective Bargaining* (Labor–Management Relations Series, no. 71; Geneva: International Labor Office, 1989), pp. 127–36; and Layard, "European Unemployment."

[55] Albeda, "The Rebirth."

case. Without some kind of centralized bargaining, active labor market policy would be difficult to implement. With decentralized bargaining, parties may assume that other sectors in the economy will take care of prevailing unemployment. They may simply shift the unemployment problem onto the rest of the economy. No sector will make enough room for schooling and job guarantees, shifting the problems onto the government. Moreover, decentralized wage bargaining may also cause problems in a tight labor market (e.g., a wage-price spiral). Central bargaining is a means to internalize the externality that exists when, under decentralized bargaining, the parties ignore the effects of their actions on others.

Evidence from several countries, including the Netherlands[56] and the Nordic countries,[57] shows that centralized wage determination is difficult to arrange and maintain. The Swedish LO blames decentralization for the wage explosion and has urged a return to central bargaining. For centralized bargaining to work well, wages must be set by the sector that is exposed to international competition, and then the rest of the economy must keep in line. However, in Sweden, wage leadership was partly shifted to the public sector. In this environment, centralized bargaining is flawed. The Scandinavian model for setting general wages cannot function fully without a centralized negotiation system. However, the public employer function of the government can be an effective instrument of incomes policy. Experience in Sweden over the last few years suggests that this is almost the only weapon in the incomes policy arsenal that has not been exhausted. But this would imply, for example, that the automatic element in the wage drift for public-sector employees would be dropped.

Elvander also asks whether it is possible that a combination of central agreements on general issues (general wage limits, working hours, and equalization of benefits) on the one hand, and agreements at the sectoral union level on the other, could solve the problem of satisfying overall long-term interests as well as specific national union demands.[58] Our answer would be that, for the Swedish model to survive and to be imported by other countries, ways have to be found that deal with these tensions between the various negotiation levels. Of course, this is more easily said than done, but Swedish experience with more decentralization has not been unambiguously positive.[59] For a country

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[56] Albeda, "The Rebirth."

[57] Elvander, "Bargaining Systems."

[58] Elvander, "Bargaining Systems."

[59] The point can be illustrated by a quotation from the OECD: "In regard to the negotiation structure, developments through the 1980s have not been propitious, though it may be expected that in the 1989 wage round the trend toward greater decentralization will be stopped . . . The question arises whether higher differentials in recent years have not been more to the advantage of those employed in sectors protected against foreign employment rather than in skill categories associated with a dynamic industrial development. It may be that more centralized negotiations, accompanied by measures to allow wage structures better to reflect underlying demand and supply trends, would significantly improve the outcome of the wage-setting process." OECD, *Economic Surveys*, p. 80.

such as Sweden with its openness, the relation between wage-setting and macroeconomic performance is of great importance. It is not surprising, therefore, that a revision of the Swedish model in the direction of a return to central negotiations is under discussion.[60] The SAF is now talking about a definite end to national bargaining. However, recent developments in wage drift and the deterioration of Swedish economic performance could be important incentives for a continuation of this discussion.

Finally, another problem needs to be pointed out. This deals with the relationship between industrial relations and the structure of the labor force. The core of the Swedish model has been developed in a period of high participation with manufacturing as its main occupation area. However, employment in the service sector has grown, especially during the last two decades, as has the heterogeneity of the labor force. This will hamper organization in large unions and may lead to an increase in the number and variety of unions and create coordination problems if wage-setting is centralized. Moreover, the individual employment relationship itself will change: there will be more temporary contracts, more flexibility, and more part-time labor. Both of these developments may lead to other types of industrial relations than the ones that have existed so long in Sweden.[61]

Sweden and the European Community

Finally, we want to mention one development that must be kept in mind when discussing the suitability of the Swedish model. After 1992, the European internal market comes into being. This will increase competition (and wage competition) and promote labor mobility. What will happen when some countries adopt a Swedish approach and others do not? Will labor leave the "Swedish" countries in times of high employment and return in times of high unemployment? Sweden has now applied to join the EC. If she becomes a member, she may have to follow labor market policies that will be dictated by European economic performance. A convergence of labor market policies can be forced by economic circumstances.

CONCLUSION

In our view, the Swedish model has proved its value with regard to labor market policy, especially concerning the duration of unemployment compared with other European countries. The principle of "active" rather than "pas-

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[60] In February 1990 the Swedish government announced a wage, price, and rent freeze. These measures underline the government's concern about the state of the economy. Although they deviate from the Swedish model of free wage negotiations, the LO has backed the plan. See also Ahlén, "Swedish Collective Bargaining."

[61] Lei Delsen, "European Trade Unions and the Flexible Work Force," *Industrial Relations Journal* 21, no. 4 (Winter 1990), pp. 260–73.

sive" labor market policy has prevented an increase in long-term unemployment and counteracted hysteresis. In our view, this part of the Swedish model can be imported by countries that suffer from high long-term unemployment, and in this sense the Swedish model is (partially) relevant for other countries. It is a way out of the unemployment trap. Supply-side policies such as training or retraining programs and a system of finite benefits have increased functional flexibility. Swedish experience has proved that active labor market policy may serve as an alternative to deregulation in order to augment the flexibility of the labor market. Although the Swedish labor market is highly regulated, it is as flexible as that of the United States[62] or Japan. However, as the recent past shows, the Swedish model is under attack. It is an open question whether this model can survive in a setting of decentralized bargains, increasing wage differentials, and an increasingly competitive world.

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[62] OECD, *Economic Surveys*, p. 83.