

# The Swedish Welfare Model

## Counter-arguments to neoliberal myths and assertions

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### Abstract

Once hailed as the prime example of a successful combination of ‘free market capitalism’ and a ‘socialist welfare state’, with both a highly efficient corporate structure and relative equality, ‘social justice’ and welfare, Sweden has for the larger part of post-war history attracted attention world-wide. In recent years, however, from ideological shifts both in political debate and parts of the academia, Sweden is now portrayed as being a welfare state in disarray – and voices both domestic and international have argued that the Swedish model is more and more part of the problem rather than the solution. In the general discussion on ‘Eurosclerosis’, Sweden can, arguably, be put forward as a prime example. Although criticisms of the Swedish welfare model – as well as the calls for the urgent need of ‘structural (market) reform’ – nowadays stretch far beyond neoliberal and neoconservative quarters, these claims against the Swedish model did once originate with the neoliberal counter-revolution of the 1980s and onwards. In this paper, the author deals with some of the more widespread assertions about the demerits of the Swedish model, as they have originated and disseminated with this historical rise of neoliberalism. By way of some basic statistical analysis and correlations as well as a critique of the conception of ‘welfare’ entailed in the neoliberal case against the Swedish welfare model, the author argues that the neoliberal case rests on very weak scientific grounds. Moreover, the paper concludes, since the early 1990s Sweden is already experiencing a ‘neoliberalisation’ of welfare policies, with, arguably, some significant changes in both institutional direction and social outcomes in welfare. Not least initiated trends of decentralisation, privatisation and outright down-sizing in the social service sector, a tax-reform to cut the top marginal tax rates and retrenchment of the national social security system for the working population, have for the last thirty years made it increasingly difficult for the Swedish welfare model to achieve the social and political goals, once set with its inception. This development however provides no support for neoliberal assertions on the Swedish welfare model. It provides, rather, one of the strongest counter-arguments against them.

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## **Preamble**

*This paper is part of my plans and hopes of making accessible to an international audience, thoughts on the Swedish welfare model which have previously been published in two monographs of mine in the Swedish language. The first 'Kris i välfärdsfrågan' (Crisis in the welfare issue) from 2005 dealt with the debate on the future of the welfare state in Sweden with particular emphasis on the self-image of the Swedish model on part of the Swedish labour movement and the Left: what I have dubbed 'the social policy road to socialism'. The second book: 'Marknadsmyter: En kritisk betraktelse av nyliberala påståenden' ('Market Myths: a Critical Look at Neo-Liberal Assertions') from 2008 deals with rebutting neoliberal assertions about the Swedish model. This paper is limited to outlining my main arguments in relation to neoliberal assertions based primarily on the Swedish debate. Hence, any thoughts and criticisms as well as tips on international equivalents to the arguments involved are most welcome. Some of the statistics below also needs to be updated in case of publication in English. However, since I mainly use the statistics for long-term developments and arguments, for this paper I have not made such an update.*

*Arguments pertaining to the limits of prevalent analyses of the Swedish welfare model within the Left and the labour movement – from a Marxian perspective – are for reasons of limited space, and for sharpening of focus of this single paper, left out. However, some of the main arguments on 'the social policy road to socialism' are accessible in a paper of mine: 'The Ontology of the Swedish Welfare Model – The limits of "the social policy road to socialism"', which I am happy to provide for the interested reader.*

*Daniel Ankarloo  
Malmoe, spring 2009*

## **Introduction**

The Swedish welfare model has for some time attracted attention world-wide. In the ‘golden era’ of welfare capitalism (1950-1980) it was hailed left and right for its unique combination of a capitalist ownership structure and a ‘social market’: a ‘middle way’ between ‘unregulated capitalism’ and ‘planned economy’ with striking achievements as regards both economic growth and social equality. In Gösta Esping-Andersen’s famous typology of ‘welfare regimes’ under capitalism, Sweden is the prime example of the ‘social democratic’ model – of which he uttered these optimistic remarks some twenty years ago:

The social democratic model, then, is the father to one of the leading hypotheses of contemporary welfare-state debate: parliamentary class-mobilisation is a means for the realisation of the socialist ideas of equality, justice, freedom, and solidarity.<sup>1</sup>

In more recent years however, Sweden, by criticisms both from within and without, has been put forward as a negative example, as the main target of pointing to the demerits of a developed welfare state, ‘the nanny state’ – even ‘socialism’.<sup>2</sup> The assertion is that Sweden is lagging behind in economic development, exactly because of the problems associated with its welfare model. These thoughts have gained widespread influence both in Sweden and internationally – infiltrating not only the New Right and neoliberalism, from where they originated, but also general public debate and even the labour movement itself. In light of this ideological onslaught of the Swedish model: new social movements and ‘The Far Left’ have rushed to an almost uncritical defence of the Swedish model. This defence, however, I would argue, suffers from serious limitations in that it is guided by a rather utopian view of past achievements and future prospects of the Swedish model, but more importantly, hitherto, the Left has mainly countered the attacks from the New Right on ethical and moral grounds.<sup>3</sup>

This has had the unfortunate consequence that, although consistently weak in Swedish public opinion as regards ethics and ideology, neoliberalism has gained almost total hegemony, as regards being ‘scientific’ and dealing with ‘hard facts’ and ‘harsh realities’. This applies not least within the field of economics. A situation has emerged where

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<sup>1</sup> Esping- Andersen, G. (1990) *The three worlds of welfare capitalism*, Cambridge University Press, p. 12.

<sup>2</sup> In the wake of financial crisis and the presidency of Obama, the ‘Neo-cons’ of the FOX News Network have been warning the US population that Obama is turning USA into Sweden. As I hope to show, as regards ‘welfare’ at least, they should be so lucky.

<sup>3</sup> This line of argumentation has been developed in a number of articles of mine as well as my 2005 book ‘Crisis in the Welfare Issue’ (*Kris i välfärdsfrågan*), Nixon, in Swedish. For a summary in English see Ankarloo, D. (2008) *The Ontology of the Swedish Welfare Model: The Limits of ‘the Social Policy Road to Socialism’*, Paper presented at IIPPE Conference, Procida, Italy, September.

neoliberals, on the one hand, seemingly, have ‘science’ on their side and we, at best, on the other hand, have ethics on our side. It is my contention that these concessions to neoliberalism from the Left and the labour movement are both politically dangerous and scientifically unnecessary – since, as I hope to show in this paper, most assertions and ‘truths’ about the Swedish model that the last 25-30 years of neoliberal hegemony over public opinion has very successfully established on the matters of the welfare state in general – and the Swedish model in particular – have very weak scientific ground indeed.

This paper deals with some of the most widespread neoliberal assertions about the demerits and noxious effects of the Swedish welfare model. I will try to counter these arguments both on empirical, statistical grounds and on some theoretical grounds as regards the very conception of ‘welfare’ that the neoliberal critique of the Swedish model entails.

My paper is structured in the following manner.

In part one I introduce, for the benefit of the international reader, a short overview of the main features of the Swedish welfare model, mainly as a stepping stone for the further argument that follows.

In part two I deal with some general neoliberal claims as regards the correlations between economic growth and development and the alleged demerits of a large, tax-funded welfare state, based on state monopolies – of which Sweden is the prime example. In particular I deal with claims that have loomed large in Sweden for the last thirty years, that Sweden is lagging behind in terms of economic growth because its economy over the same time-period has been burdened by over-regulation, ever higher taxes, government monopolies, ‘inefficiencies’ and a general lack of ‘structural (market) reforms’.

In part three, I critically examine the more direct neoliberal claims of the flaws of the Swedish welfare model. Moreover, from the theory of ‘welfare’, I argue against proposed ‘market’ solutions to the problems of the Swedish welfare model from neoliberal circles, based on their lack of any scientific ground.

In part four, I revisit some of the modern history of the Swedish welfare model, as a further critique of neoliberal assertions about the Swedish model. I show how Swedish post-war welfare history has to be reconstructed into the narrative of (at least) two different periods and how the developments within these two distinct periods themselves provide very strong counter-arguments against the overall neoliberal narrative of the Swedish welfare model. Most of all I try to show how Sweden indeed since 1990 has gone through an important ‘neoliberalisation’ of welfare policies, and that the accumulation and aggravation of problems in the Swedish welfare model in time is strictly correlated to this ‘neoliberalisation’ of

welfare. This fact in itself indicates that current neoliberal trends in Swedish welfare policies are not part of the solution to current and future problems of the Swedish welfare model, but part of the problem.

## **1. Introducing the Swedish welfare model**

On an aggregate level the Swedish welfare state, and the government sector, is comparatively large.<sup>4</sup> Levels of transfers are also comparatively high and for core social services, such as health care, subsidies are substantial and the coverage is universal in relation to citizenship. All of which merits the description of Sweden as an ‘institutional’ welfare state.<sup>5</sup> However, these facts notwithstanding, the Swedish model is best described as inhibiting *different forms* of institutional logic.<sup>6</sup> As a background for the further argument, let me sketch these different systems of the Swedish welfare model.

*Social services* (health and elderly care, schools etc.) consist of the part of the Swedish welfare state, which most resembles the image of a general welfare state. Social services are in Sweden almost fully tax-funded and consist (mainly, to the point of almost exclusively) of a government monopoly both in terms of production and financing. Social services in Sweden are a matter of social rights, and although produced at regional levels (‘landsting’) and local levels (‘kommun’) the centralised state, through regulation and control, has overall influence on the sector to guarantee two important social goals: a. To diminish, and if possible eliminate, regional differences (Sweden is a very centralised country with large areas in the North scarcely populated) so as to create equality in the whole country in terms of access and quality of social services, and b. to promote the principle of distribution of social services on the basis of need, rather than the cash nexus of the market.<sup>7</sup>

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<sup>4</sup> More exact statistics of the extent of the government and social sectors in Sweden follow in parts 3 and 4 below.

<sup>5</sup> For an overview of the Swedish model as ‘institutional’ see Esping-Andersen, G. and Korpi, W. (1987) ‘From Poor Relief to Institutional Welfare States’, Erikson, R. et al. (eds.) *Welfare Research and Welfare Societies: The Scandinavian Model*, M.E. Sharpe.

<sup>6</sup> More comprehensive studies of the characteristics of the Swedish welfare model, as regards both history and theory, abound. For examples in English see: Korpi, W. (1983) *The Social Democratic Class Struggle*, Routledge & Kegan Paul; Esping-Andersen, G. (1985) *Politics against markets – The social democratic road to power*, Princeton University Press; Olsson, S.E. (1993) *Social Policy and Welfare State in Sweden*, Arkiv; Marklund, S. & Svallfors, S. (1987) *Dual Welfare – segmentation and work enforcement in the Swedish welfare state*, Research reports 94, sociologiska institutionen, Umeå Universitet; Ginsburg, N. (2001). ‘Sweden: The social democratic case’, Cochrane, A. (ed.) (2001) *Comparing Welfare States*, 2nd ed., Sage. An explanation of the virtues of the Swedish model from the viewpoints of ethics and polity is Rothstein, B. (1994) *Just institutions matter*, Cambridge University Press.

<sup>7</sup> These principles are ratified e.g. in the specific laws and regulations that regulate health care, *Hälso- och Sjukvårdslagen*, and primary education, *Skollagen*, in Sweden. And I will return to these in my critique of neoliberal assertions about the Swedish welfare model.

Those visiting Sweden for the first time will notice that everything from local hospitals, unemployment offices, social security offices, i.e. the agencies of social services, (as well as e.g. train stations, the alcohol monopoly: 'systembolaget') look more or less exactly the same all over the country. In Sweden the sense of ('imagined'?) community is primarily located in agencies of the welfare state, and especially in the government sector. This helps to ground the sentiment that Sweden is 'A Peoples' Home'. Social services are sometimes described in the logic 'the many (i.e. the tax payers) pay for all', a fact which helps explain the enigma that although very wide-ranging and funded by comparatively high tax levels, core social services in Sweden continue to have strong popular support – even from 'the middle class'.<sup>8</sup>

*Social security* (i.e. the state insurance system for pensions, parental leave, unemployment, sickness etc.) is for the most part not a universal system proper, connected to citizens' rights, but rather best described as *wage-labour based*, to some extent even 'workfare' rather than 'welfare'. In bulk, it is not tax financed, but financed through compulsory payments on the wage to a nationally administered social security system ('*Försäkringskassan*').<sup>9</sup> This agency, nowadays state-owned, via the social security payments on the wage as well as some basic support through taxes from the state, administers a *national system* of social security. Sweden has a 'Bismarkian' social security system where payments are compulsory. Both in the incoming and outgoing directions, they are related to previous wage income. The higher the wage, the more you pay in to the system, but also the more you get out of it. *Social security in Sweden is a nation-based system of 'income maintenance', founded on 'the loss of income principle' ('inkomstbortfallsprincipen')*.<sup>10</sup> Fundamental to the system is also the work ethic, 'arbetslinjen' ('the work-line'), of 'being at the disposal of the labour market', which is the requirement for qualifying for the social security system.<sup>11</sup>

This configuration of a large, close to universal, social service sector, especially with a well-developed municipal child-care system, as well as the 'work-line' in the social security system, is one main contributing factor to the high level of women in the wage labour

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<sup>8</sup> The first comprehensive and most referred-to study on the popular attitudes towards state welfare in Sweden is Svallfors, S. (1989) *Vem älskar välfärdsstaten?* (Who Loves the Welfare State?), Arkiv. In English an update of his findings is Svallfors, S. (1999) 'The middle class and welfare state retrenchment: Attitudes to Swedish welfare policies', Svallfors, S. and P. Taylor-Gooby (eds.) *The End of the Welfare State?*, Routledge. A recent follow-up along the same lines is: Ervasti, E. et al (eds.) (2008) *Nordic Social Attitudes in a European Perspective*, Edward Elgar.

<sup>9</sup> Special rules apply to the self-employed. But I leave that aside here.

<sup>10</sup> A short overview of the historical development of the Swedish social security system as 'loss of income principle', is given in: Edebalk, P.G. (2000) 'Emergence of a Welfare State – Social Insurance in Sweden in the 1910s', *Journal of Social Policy*, 29(4).

<sup>11</sup> See e.g. Lindquist, R. & Marklund, S. (1995) 'Forced to work and liberated from work – a historical perspective on work and welfare in Sweden', *Scandinavian Journal of Social Welfare*, 4.

workforce in Sweden.<sup>12</sup> This also entails ‘the socialisation of the family’, since both parents usually wage-work in the Swedish social service model.<sup>13</sup> Swedish social security is wide-ranging and has for the largest part of post-war history been ‘generous’ in terms of payment levels. (At least, on paper, even today, the payment level is 80 percent of the current wage income in compensation, but it used to be 90 percent).<sup>14</sup> The ‘work-line’, arguably, is the fundamental principle of the social democratic social security system. This ‘work-line’ has been upheld by an ambitious labour market policy of re-training programmes for unemployed and by the ‘encouragement’, and indeed the compulsion, for individuals to move to where jobs are to be had, on threat of being cut off from social security. Between the years of 1950-1990 official unemployment statistics in Sweden were never above 3 percent, and for prolonged periods of time it was substantially lower than that. The year before the great Swedish crisis of 1991-1994 the official unemployment rate was 1,7 percent.

Contrary to some opinions of the New Right, the Swedish labour market has historically been quite flexible, and the social democrats themselves have encouraged this flexibility with the slogan ‘the right to work, but not to your job’.<sup>15</sup> Exceptions to the rule do exist. Some security systems, like pensions and parental leave, have a ground level (a ‘floor’) irrespective of labour market participation; and employment benefits are administered by the unions, but since Sweden historically has an extremely high level of union participation, almost all wage-workers are connected to that system as well. Social security is a system of ‘the many pay for the many’. Like with social services, the social security system with its compulsory elements

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<sup>12</sup> Sweden also ranks the highest in the world in the recent ‘Gender Equality Index’ from UNDP.

<sup>13</sup> A typology characterisation of the Swedish model along these lines is presented in Antonnen, A. and Sippilä, J. (1996) ‘European social care services: is it possible to identify models?’, *Journal of European Social Policy* vol. 6, no 2.

<sup>14</sup> I say ‘on paper’ because, due to the fact that the highest compensation levels in employment insurance (the so-called roof) has not been indexed for the last years, only 30 percent of wage-earners (low-income groups) have an income that provides for 80 percent of income-loss in case of unemployment. For instance for most auto-workers in Sweden in Volvo and SAAB, which are currently being laid-off, the highest compensation level from unemployment insurance is 55 percent, not 80. This in itself threatens both social security as ‘income-loss principle’ but more importantly this low compensation level undermines wage-levels set by collective bargaining.

<sup>15</sup> Employment levels in Sweden, especially for women, have since the 1970s and onwards been comparatively very high. From the year 1970 to 1990 employment levels continuously rose and reached their highest level at 83 percent of the population at the (potential) disposal of the labour market, i.e. 16-64 years old (1990). Over the years, changes in the estimation of the population actually ‘employed’ make comparisons over time somewhat shaky – but statistics between 1970 and 1990 suggest two things: (i) Almost all net growth in the number of people employed was in the government sector. (ii) About 80 percent of the net growth in employment 1970-1990 consisted of women entering the labour market. After the turmoil of 1991-1994 in the Swedish economy, employment levels and patterns have changed in the sense that levels have as compared to 1990 been lower, and the largest growth of employment since 1994 is in the private service sector. In the current financial crisis official unemployment levels in Sweden are expected to climb to historical heights of up to 10-12 percent of the labour force. This paper however does not take these recent developments into account.

and its national administration has fostered a sense of community. In that all wage-workers are part of the same system, loyalty towards the system has, again paradoxically given the extent of it and high costs, continued to be high, especially from ‘the middle class’.

*Marginal welfare* consists of means and needs tested benefits, which are administered at the local levels.<sup>16</sup> Its main component is ‘ekonomiskt bistånd’ (‘economic support’), which is a means-tested benefit system for those with a wage income or income from social security which is below ‘basic living’ (‘existensminimum’). This system is very marginal, especially in terms of costs. The total level of ‘ekonomiskt bistånd’ yearly ranges around 10 billion Swedish Kronor which in relation to GDP is 0,4 percent and comprises little more than 2 percent of total spending on social security in Sweden. Being a system where taxpayers in general pay for benefits for ‘the Other’ (‘the many pay for the few’) marginal welfare systems in Sweden are quite unpopular and popular myths of extensive free-riding in these systems prevail – especially as regards immigrants on ‘social welfare’. And I will come back to such claims below. As traits of the Swedish welfare model these systems are of minor importance – even by some researchers described as an ‘anomaly’, a leftover of Poor Relief.<sup>17</sup>

The genealogy of the concept of a ‘Swedish Model’ includes the specific labour market relations, ‘the tri-partism’ between employers – labour unions (of ‘collective bargaining’) and the state, prevalent in Sweden from the early 1900’s.<sup>18</sup> Below the term ‘Swedish Model’ only relates to the welfare system and not at all to these specific labour market relations. The question analysed here is ‘welfare’.

From this broad sketch of the welfare system we are ready to turn to some of the main criticisms of the Swedish model that emanate from the neoliberal New Right.

## **2. Has the Swedish welfare model hindered economic growth?**

Over the last, say, 30 years, political lobbyist, various right-wing think-tanks, even official agencies such as OECD and ‘The Washington Consensus’, together with the new economic orthodoxy, have put forward their case against ‘big government’ and ‘the Nanny State’, ‘welfare dependency’ as well as the case for the necessity of structural market reform of

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<sup>16</sup> For overview and analysis, see Salonen, T. (1993) *Margins of Welfare*, Hällestad press.

<sup>17</sup> See e.g. Håkan Johansson (2001) *I det sociala medborgarskapets skugga* (In the shadow of social citizenship), Arkiv.

<sup>18</sup> For overviews of the labour market relations of the Swedish model, see: Milner, H. & Wadensjö, E. (eds.) (2000) *Gösta Rehn, The Swedish Model and labour market policies. International and National Perspectives*, Ashgate; Brynér, M.J. (2002) *Capitalist Restructuring, Globalisation and the Third Way. Lessons from the Swedish Model*, Routledge, London.

government monopolies.<sup>19</sup> The term ‘Eurosclerosis’ has loomed large all over Europe. Sweden, by nature of its social welfare model, has perhaps been the main target of this criticism. Swedish economist Johnny Munkhammar, as a presentation of his book *European Dawn – After the Social Model* summarises the neoliberal case against the Swedish model very succinctly in the following statements:

My message is that the European Social Model is the cause of most of our problems, not the solution: High taxes give low growth. A regulated labour market creates unemployment. High taxes on work and high contributions to people who don’t work create a dependency on the state. Having public monopolies deliver welfare services leads to higher prices and worse quality. And, not least, when the state is big, people’s freedom is small.

The big state of this Social Model was a mistake from the start. Taxes increased throughout Western Europe from about 20 % in 1950 to 40-50 % in 1980. Since then, we have had problems.

Now, powerful forces make the need for reform imminent. To compete in a globalised world, we need low taxes and a free labour market. The demographic situation implies that social security and welfare services should be private, not public.

These are challenges. But how to meet these successfully is no secret. Radical reforms that decrease the size of the state can bring about a new dawn for Europe. Other countries have done it.

Ireland, Britain, The Netherlands – to name a few Western European countries. Estonia, Slovakia, Hungary – to name Eastern and Central Europe. And in the world we have New Zealand, Australia, Hong Kong and also the US.

Taxes can be decreased and growth increased. We can have more and better new jobs than the ones that disappear. We can have people being free and not dependent on the state. And we can have better welfare services without public monopolies.<sup>20</sup>

It is my intention in the following parts of this paper to counter such arguments. In this section I will argue against the main theoretical linkage, allegedly providing the evidence of the demerits of the Swedish welfare model, which can be summarized in the following simple sentence: ‘*Sweden is lagging behind – because of its social welfare model*’; or ‘*the higher degree of “economic freedom” the higher the prosperity*’

For almost 30 years now the above assertion has been hegemonic within the Swedish political debate. The fact that Sweden indeed has been lagging behind is shown in graph 1 below which shows how Sweden has fallen from being the 4<sup>th</sup> richest country in the world in the period 1970-1975 to now being in the region of places 10-14 in the internal ranking of OECD-countries. Sweden was on top of the world in the early 1970’s – after that, with

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<sup>19</sup> For a comprehensive argument against the welfare state along these lines see Marsland, D. (1996) *Welfare or Welfare State?*, Macmillan Press. A summary of his positions can be found here: <http://www.libertarian.co.uk/lapubs/econn/econn096.htm>.

<sup>20</sup> Munkhammar, J. (2005) Presentation of *European Dawn – After the Social Model*. Transcript of audio from homepage: <http://www.timbro.se/europeandawn/audio.html>.

the expansion of the government sector and the ‘socialist excesses’ of the mid-70’s and onwards, Sweden has declined to being one of the semi-poor countries of the OECD-world. So the story goes.

**Graph 1: Sweden’s ranking in GDP per capita, OECD-countries, PPP, 1970-2007**



Source: OECD, taken from the homepage:  
[http://www.ekonomifakta.se/sv/Fakta/Ekonomi/Tillvaxt/Sverige\\_i\\_valstandsligan/](http://www.ekonomifakta.se/sv/Fakta/Ekonomi/Tillvaxt/Sverige_i_valstandsligan/), 2009-03-16.

Now, this contention has not gone without opposition. Already in the early 1990s a host of theorists, most notably famous welfare sociologist Walter Korpi, argued against the thesis as such, that Sweden is lagging behind. Korpi argued that previously relatively backward nations in the OECD were rather catching up with Sweden than Sweden lagging behind, and that this was only to be expected since higher growth rates (not least if we count them in percent rather than in absolute figures: dollars and cents) are to be expected from countries that from the outset are relatively poorer.<sup>21</sup> Others have indeed maintained that Swedish growth rates from the 1970’s have been comparatively and unnecessarily low to the rest of the OECD-countries.<sup>22</sup> Among the latter we find a host of neoliberal economists and politicians.

<sup>21</sup> Korpi, W. (1992) *Halkar Sverige efter? (Is Sweden Lagging behind?)*, Carlssons. A summary of the arguments in English is: Korpi, W. (1996) ‘Eurosclerosis and the Sclerosis of objectivity: On the Role of Values among Economic Policy Experts’, *The Economic Journal* 106.

<sup>22</sup> Lindbeck, A. et al (1994) *Turning Sweden Around*, MIT Press; Henrekson, M. (1996) ‘Sweden’s Relative Economic Performance: Lagging Behind or Staying on Top?’, *The Economic Journal* 106.

These facts notwithstanding, I think it can be questioned if the alleged lagging behind of the Swedish economy could be attributed to its social welfare model and the lack of ‘economic freedom’ in the neoliberal meaning that this entails. To ground my counter-arguments I will use the statistics of two influential neoliberal/neo-conservative think-tanks which supposedly have specialized in working out methods to compute the degree of ‘economic freedom’: *Fraser Institute* and *The Heritage Foundation*, which both maintain the neoliberal case that ‘the higher the degree of “economic freedom” (i.e. the more market-orientation) the higher the degree of prosperity’.<sup>23</sup>

If the neoliberal case were correct we would expect a clear correlation between a high degree of ‘economic freedom’ and prosperity, and likewise we would expect countries with lower degree of ‘economic freedom’ (e.g. with high taxes, strong labour market regulations and ‘big government’) to be relatively poorer. Lastly we would expect that a country that increases its absolute and relative ‘economic freedom’, as time goes by, should also rather catch up than lag behind its competitors.

Table 1 below shows a very general trend of the correlation between ‘economic freedom’ and relative prosperity (measured in GDP per capita) among comparable developed countries of the world.<sup>24</sup>

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<sup>23</sup> ‘Wealth’ and ‘prosperity’ are in the following measured in GDP per capita only. This in itself is very questionable, but it is from this measure of ‘wealth’ only that neoliberals can even try their case against the Swedish model. In other measures of ‘wealth’ and ‘prosperity’ such as ‘standard of living’ concepts like gender, class and income inequality or infant mortality, life expectancy and so on, Sweden ranks consistently among the highest in the world, together with Japan and the other Scandinavian welfare states (with the exception of Denmark). An overview in Swedish on this matter from the Statistical Accounting Bureau (SCB) is Vogel, J. & Wolf, M. (2004) ‘Sverige i täten’ (‘Sweden in the Lead’), *Välfärd* 1. The US is the negative outlier in these respects in the OECD countries. E.g. the infant mortality rate in Sweden in 2005 was 0,297 percent. In the USA it was 0,625 percent and in the UK it was 0,516 percent the same year.

<sup>24</sup> As can be argued, on an aggregate world level there is a slight, but rather uninteresting, correlation between ‘economic freedom’ and GDP per capita, but, as I will indicate below, this has more to do with the fact the rich countries of the world are relative democracies with less corruption and with more stable currencies than the poor countries of the world, and nothing to do with high tax-rates or big government. Here I only list comparable ‘welfare states’ – where the relationship is blurry at best, or non-existent.

**Table 1: Internal ranking of general ‘economic freedom’ 2009, selected OECD-countries, + Internal ranking GDP per capita, Atlas Method, 2007.**

<i>Country</i>	<i>‘Econ. freedom’</i>	<i>GDP/capita*</i>
1. Australia	82,6	17
2. Ireland	82,2	5
3. New Zealand	82,0	21
4. USA	80,7	7
5. Canada	80,5	13
6. Denmark	80,0	3
7. Switzerland	79,4	2
8. UK	79,0	10
9. Netherlands	77,0	8
10. Iceland	75,9	4
11. Finland	74,5	9
12. Japan	72,8	16
13. Belgium	72,1	12
14. Austria	71,2	11
15. Germany	70,5	14
15. Sweden	70,5	6
17. Norway	70,2	1
18. Spain	70,1	20
19. Portugal	64,9	22
20. France	63,3	15
21. Italy	61,4	18
22. Greece	60,8	19

Source: *Heritage Foundation* 2009, *World Bank indicators*, 17<sup>th</sup> Oct 2008

\* Internal ranking between countries in the sample only.

As can be seen above, the correlation between level of ‘economic freedom’ and relative GDP per capita among OECD-countries is all but non-existent. Notably Sweden and Norway, both Scandinavian welfare models, have a relatively low level of ‘economic freedom’ but Norway is the richest country of them all, and Sweden is also highly ranked. Good examples of ‘economic freedom’ such as New Zealand and Australia, fare significantly worse in GDP per capita.

In truth, among OECD-countries there is little of value we can say on the supposed relationship at an overall level. However, more interestingly, the measures of ‘economic freedom’ from both *Fraser Institute* and *The Heritage Foundation* turn out to be weighted measures of different indicators. For our purposes the results in the area called ‘government size’ is of utmost importance, because it is here we find the indicators of ‘big government’, government consumption, public ownership etc.<sup>25</sup> If, anything it is in this measure we should

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<sup>25</sup> All the indicators comprising overall ‘economic freedom’ can be viewed in the yearly reports from *The Heritage Foundation* and *Fraser Institute*. They are also very accessible on their respective homepage world rankings of ‘economic freedom’. They are ten in number. Sweden scores high to extremely high in seven of them. On the three others *The Heritage Foundation* says: ‘However, Sweden has some of the lowest scores

be able to find links between welfare models and (lack of) economic development. And, as the tables below show, indeed we can. It is just that the correlations are the exact opposite to those that reside in neoliberal ‘wisdom’.

Table 2 shows the internal ranking of OECD-countries as regards ‘economic freedom’ in ‘government size’ from *The Heritage Foundation* 2009. As can be seen Sweden is hopelessly last in the ranking, which is an indication of ‘high taxes’, ‘big government’ and state monopolies.

**Table 2. Internal Ranking of ‘Economic Freedom’ in ‘Government size’, selected OECD-countries, 2009**

1. Switzerland	65,3
2. Ireland	64,9
3. Australia	64,3
4. Japan	61,1
5. USA	59,6
6. Spain	55,3
7. Canada	53,7
8. Norway	50,6
9. New Zealand	49,6
10. Greece	46,3
11. Iceland	44,0
12. UK	40,3
13. Germany	38,2
14. Netherlands	36,2
15. Portugal	35,4
16. Finland	28,6
17. Belgium	28,3
18. Austria	27,1
19. Italy	24,7
20. Denmark	20,4
21. France	14,4
22. Sweden	7,3

Source: *Heritage Foundation* 2009. High score equals high degree of ‘economic freedom’. Max = 100. NB. World Average in ‘government size’ = 65/100

Sweden’s economic freedom in ‘government size’ is among the lowest in the whole world, according to *The Heritage Foundation*. But Sweden is still both in absolute terms, but also in comparison to OECD-countries, a very prosperous country, even if we stick with the GDP-measure only. The same goes for Denmark. Overall, however, there is a very unclear correlation between relatively high scores in ‘economic freedom’ in ‘government size’ and

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worldwide in fiscal freedom and government size. The wealth tax has been abolished, but taxes are still a huge burden. The top income tax rate of 57 percent is one of the highest in the world. Total government spending is still more than half of GDP. The labour market’s inflexible regulations have caused the labour freedom score to dip below the world average’.

GDP per capita. If anything, in the cases of Sweden and Denmark, the correlation is reverse – as table 3 below shows.

**Table 3: Internal Ranking of GDP per capita, 2007 for selected OECD-countries, Atlas Method + (internal ranking ‘economic freedom’ in ‘government size’, 2009).**

1. Norway (8)
2. Switzerland (1)
3. Denmark (20)
4. Iceland (11)
5. Ireland (2)
6. Sweden (22)
7. USA (5)
8. Netherlands (14)
9. Finland (16)
10. UK (12)
11. Austria (18)
12. Belgium (17)
13. Canada (7)
14. Germany (13)
15. France (21)
16. Japan (4)
17. Australia (3)
18. Italy (19)
19. Greece (10)
20. Spain (6)
21. New Zealand (9)
22. Portugal (15)

Source: *The Heritage Foundation* 2009, *World Bank Indicators*, 17<sup>th</sup> October 2008.

Furthermore, as the tables 4 and 5 below, from the right-wing tanks themselves, show in the area of ‘economic freedom’ in ‘government size’, it is the countries of the poor world that have the greatest ‘economic freedom’. And Sweden is lagging far, far behind.

**Table 4: Top ten countries in ‘economic freedom’ of ‘government size’ + Sweden, 2006, Fraser Institute**

<i>Country</i>	<i>Rate of ‘economic freedom’ in gov. size</i>
1. Hong Kong	9,13
2. El Salvador	9,09
3. Honduras	8,94
4. Albania	8,92
5. Jamaica	8,51
6. Panama	8,37
7. Peru	8,27
8. Zambia	8,19
9. Guatemala	8,14
10. Bangladesh	8,04
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124. <i>Sweden</i>	3,73

Source: Economic Freedom of the World: 2008 Annual Report, *Fraser Institute*. Max. = 10.

**Table 5: Top ten countries in ‘economic freedom’ of ‘government size’ + Sweden, 2009, Heritage Foundation**

<i>Country</i>	<i>Rate of ‘economic freedom’ in gov. size</i>
1. Burma	98,5
2. Liberia	97,2
3. Cambodia	94,5
4. Bangladesh	94,2
5. Central African Republic	94,0
6. Haiti	93,8
6. Singapore	93,8
8. Cameroon	93,6
9. Guatemala	93,5
10. Hong Kong	93,4
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<i>Sweden</i>	7,3

Source: *Heritage Foundation 2009*. High score equals high degree of ‘economic freedom’. Max = 100. NB. World Average in ‘government size’ = 65/100

The fact that the high-scorers in this area are countries that at the same time have very low scores in overall ‘economic freedom’, is related to the fact that these countries at the same time are highly corrupt states with no or little ‘rule of law’.<sup>26</sup>

One should note for instance that the world average score of ‘economic freedom’ in ‘government size’ according to *Heritage Foundation* is 65 out of 100. This means that all developed OECD-countries are on or below average. On a world scale the correlation between high scores ‘economic freedom’ in ‘government size’ is negatively correlated to economic development. Or in other words, on a world scale, ‘small government’ is correlated

<sup>26</sup> ... which means on a world scale that ‘small government’ is negatively correlated to the successful maintenance of ‘The Night Watchman State’ as well...

to underdevelopment, via corruption, dictatorship and ‘big government’ related to high economic development via low(er) rates of corruption and ‘the rule of law’.<sup>27</sup> Despite its very low level of ‘economic freedom’ in ‘government size’, according to the Corruption Perception Index from *Transparency International*, Sweden is the least corrupt nation of them all – together with Denmark and New Zealand.<sup>28</sup> The idea that a ‘big government’ ‘high-taxes’ welfare state breeds corruption relative to ‘small government’ again seems to have no ground whatsoever.

The reasons for Sweden to try to improve its score of ‘economic freedom’ in ‘government size’ are therefore illusive.<sup>29</sup> Especially so, as tables 6 and 7 below indicate, since we have the following historical relationship: *In the case of Sweden there is a clear negative relationship between that what neoliberals call ‘economic freedom’ and Sweden’s relative GDP per capita. The more ‘economically free’ Sweden has become, both in absolute and relative terms, the more Sweden has dropped in GDP per capita in comparison with its OECD-competitors.*

Table 6 shows the internal ranking of ‘economic freedom’ and GDP per capita ranking of selected OECD-countries in 1970; the year that Sweden was at its peak, and supposedly before the excesses of ‘big government’. Note, however, that in 1970, Sweden was the least ‘economically free’ country of all in the sample.<sup>30</sup> Yet this was the time of its peak.

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<sup>27</sup> Admittedly, with two small exceptions: Singapore and Hong Kong. But none of these two are ‘welfare states’. They are barely ‘nation states’ at all.

<sup>28</sup> CPI 2008. Homepage: [http://www.transparency.org/policy\\_research/surveys\\_indices/cpi/2008](http://www.transparency.org/policy_research/surveys_indices/cpi/2008).

<sup>29</sup> The same goes for the area of ‘fiscal freedom’ where the top countries of the world according to *The Heritage Foundation*, are the near perfect (99.9 out of hundred): Bahrain, Qatar, Kuwait and United Arab Emirates followed by Saudi-Arabia (99,6) and Oman (98,5). Sweden has a score of 35, Denmark also.

<sup>30</sup> This means that *The Fraser Institute* regards Sweden of 1970 to be less ‘free’ than Franco’s Spain and Salazar’s Portugal. What’s a little bit of fascism in comparison to the Swedish government sector and strong unions?

**Table 6: Ranking GDP per capita (PPP) selected OECD-countries, 1970 + 'economic freedom' 1970**

<i>GDP-ranking</i>	<i>econ. freedom*</i>	<i>ranking econ. freedom**</i>
1. Switzerland	7,7	2
2. USA	7,0	9
3. Luxemburg	7,9	1
4. Sweden	5,3	23
5. Canada	7,5	4
6. Denmark	6,6	12
7. France	6,4	14
8. Australia	7,1	7
9. Netherlands	7,1	7
10. New Zealand	6,4	14
11. UK	5,9	21
12. Belgium	7,7	2
13. Germany	7,3	5
14. Austria	6,2	18
14. Italy	6,1	20
16. Norway	6,2	18
17. Japan	7,2	6
18. Finland	6,9	10
19. Iceland	6,3	17
20. Spain	6,5	13
21. Ireland	6,8	11
22. Greece	6,4	14
23. Portugal	5,9	21

Source: *Fraser Institute*.

\* Max 10 = high rate of 'economic freedom'.

\*\* Internal ranking between countries in the sample only, 1970.

Gradually, as the next table 7 shows, Sweden has increased its 'economic freedom', but this has been correlated to a relative drop in GDP per capita scores. Quite contrary to neoliberal assertions on the matter.

**Table 7: The relation between 'economic freedom' and GDP per capita ranking in Sweden, selected years, 1970-2006**

<i>Year</i>	<i>GDP-ranking</i>	<i>Econ. freedom</i>	<i>Econ. freedom ranking</i>
1970	4	5,3	39 of 45
1975	4	5,3	44 of 72
1980	6	5,7	45 of 105
1985	6	6,2	25 of 111
1990	7	6,5	30 of 113
1995	12	7,2	24 of 123
2000	11	7,4	19 of 123
2006	10	7,4	33 of 141

Source: *The Fraser Institute*. For GDP-ranking see graph 1 above.

In conclusion then, even if we conclude that Sweden indeed is lagging behind in economic growth over the last 40 years, evidence that this should have anything to do with the Swedish welfare model of high-taxes and ‘big government’ is scarce, at best, but most probably non-existent. If anything there is a negative relationship both in general on a world-scale between ‘small government’ and economic prosperity, but more decisively, in the case of Sweden, the higher the score in ‘economic freedom’ the lower the relative score in GDP per capita.

Our findings are also vindicated by a recent IMF working paper which in the authors’ summary has come to the following conclusion as regards Swedish economic development:

Sweden represents an archetypal welfare state economy, with extensive government safety nets. Some scholars have attributed a decline in its per capita income ranking since 1970 to “eurosclerosis” or sluggish growth caused by distortionary policies. This paper argues rather, that the permanent loss in output following Sweden’s banking crisis in the early 1990s explains the decline in its per capita GDP ratings. The paper finds no macroeconomic evidence that welfare state policies have deterred growth.<sup>31</sup>

### **3. Will privatising Swedish welfare provide for better ‘welfare’?**

Now, granted the argument that evidence of the de-habilitating effects on growth caused by the Swedish welfare model is non-existent, this does not provide counter-arguments against the neo-liberal case that privatisation and de-regulation of state welfare is both necessary and desirable in order to increase both the ‘efficiency’ and quality of ‘welfare’, all the same. This raises questions both of theory (as regards the conception of ‘welfare’) and empirical work, as regards the ‘efficiency’ of welfare provision. Here I will limit the discussion to two related claims from neoliberal critics of the Swedish model: (i) The idea that market competition both as regards production and consumption of social services and social security, will increase the efficiency of welfare provision; (ii) the notion that high-tax, compulsory/collective provision of social services and social security creates ‘welfare dependency’.

#### **‘Wealth’ and ‘welfare’**

To make clear my further argument I will start by pinpointing what I believe to be a crucial, but sometimes overlooked, conceptual difference between ‘wealth’ (or ‘prosperity’, ‘well-being’ etc.) on the one hand and ‘welfare’ (‘social security’) on the other. I do this not to deny that there is a relationship between high levels of economic wealth (‘growth’) or other

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<sup>31</sup> Cerra, V. & Chaman Sweta, S. (2005) ‘Eurosclerosis or Financial Collaps?: Why Did Swedish Incomes Fall behind?’, *IMF Working Paper* 05/29, Abstract.

indicators of ‘well-being’ (high incomes, long life expectancy etc.) and ‘welfare’. The latter, which I will argue relates to social services (most specifically health and elderly care) and social security systems such as pensions, ‘sick leave insurance’, job seekers allowance etc, alone. So, there is a clear difference between the two concepts. Let us again take as a stepping stone an argument from neoliberal economics Johnny Munkhammar. At a meeting on welfare he uttered the following statement:

There are several strong links between growth and welfare ... I find it obvious that you must produce before you consume. Food, shelter, cars, health care, education, medicine, clothing – none of these exist from nothing. The more and the better we produce by using less labour, the higher the growth. And I believe that our well-being now is much better than in 1945 thanks to growth, and that one would be far unhappier if incomes were lowered...<sup>32</sup>

Despite the common sense air of the above statement (and there is a lot to agree with in it) I think this represents a conflation of concepts which confuses rather than clarifies the analysis of welfare states. If we look at the list above that allegedly contributes to ‘welfare’ we see things like ‘food, shelter, cars, health care, education, medicine, clothes’. And even if, as said, I do not wish to counter the notion that bigger and faster cars are better (*ceteris paribus*, as the economist would say) than smaller and slower ones, or that bigger houses are signs of more prosperity and wealth than smaller houses, these have little to do with the function of ‘welfare’ in capitalist economies.

This contention also becomes clear even if we stick with the neoliberal case against the Swedish welfare model, because this does not revolve around the production of cars, clothes and houses in Sweden but exactly around the provision and organisation of social services and social security, i.e. ‘welfare’. In short, *the function of ‘welfare’ and ‘welfare policy’ in a capitalist economy is the reduction of those ‘risks’ associated with a society where the bulk of the individuals’ and groups’ provision of livelihoods is market dependent*. In practical terms most welfare policies, most specifically social security, fulfils the ‘decommodification’ function of providing security against loss of income in those cases in our life-cycles when the individual can not secure livelihood via the market. To clarify in analogies: staying healthy contributes to ‘wealth’ – access to health care when you are ill contributes to ‘welfare’. A big house provides ‘wealth’, - a comprehensive house insurance provides ‘welfare’, and more importantly: higher wages for work increase ones ‘wealth’ – but only

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<sup>32</sup> Munkhammar, J. (2005) *Introduction to debate on growth, welfare and well-being*, 2005-04-01: from [www.munkhammar.org](http://www.munkhammar.org).

social security in cases when one can no longer work (for reasons of ill-health, handicap, old age or plain unemployment) is ‘welfare’.

This far the above claims should not be too controversial, even for the neoliberal, since none of the divisions above disqualifies at the starting gate any section of society from providing for ‘welfare’, whether the market, ‘civil society’ or the state. Nor are we saying that ‘welfare’ is more important than ‘wealth’. No one says that a house insurance is ‘more important’ than a big house, or that a functioning health care system is ‘more important’ than staying healthy. All we are saying is that a house is not a house insurance, good health is not in itself proof of a health care system. And most importantly, a wage is not pension.

Moreover, all forms of welfare provision encompass some form of ‘collective’ spreading of risks. This is the very foundation of every ‘insurance’ system – whether on the private insurance market or in state monopolies. Even ‘private insurance’ is ‘collective’ in that every individual pays a contribution to a collective/common insurance fund, a fund which ‘takes the risk’ in event of individual accidents. By definition, this provides the only reason for the individual even to pay for insurance, to guarantee that in event of an accident, not only the individual herself should pay all the costs, but that all other individuals of the insurance fund chip in too.

So beyond all the smokescreens of ‘individualised welfare’ what the neoliberals are actually arguing for is that the historical substitution of the state for ‘civil society’ and ‘the market’ – which is actually the historical and social function of the post-war ‘welfare state’ – should be reformed (or reversed rather) to provision of ‘welfare’ along market principles and ‘civil society’.<sup>33</sup> Let us look a bit further on the neoliberal case for this contention.

### **Will markets and competition provide for better ‘welfare’?**

The neoliberal economists’ case for privatisation and ‘freedom of choice’ in welfare is quite straightforward. From the point of morality, it is expressed the necessity for freedom of choice of the individual (‘consumer sovereignty’) rather than the collective and compulsory inclusion in a state system of obligations and rights. For the purpose here, i.e. economics, the main arguments are those that emanate from the conception of the market as the insurer for (Pareto) ‘efficiency’ – the idea that markets ‘clear’ in ‘equilibrium’.<sup>34</sup> Since the standard arguments for this market conception apply – so do the standard arguments against them. However, I want to sharpen the counter-arguments a bit in the specific aspect of a market for

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<sup>33</sup> See again, Marsland, D. (2003) at <http://www.libertarian.co.uk/lapubs/econn/econn096.htm>. (2009-04-30).

<sup>34</sup> Or in the case of Austrian economists, ‘co-ordination of individual plans’, whatever they might be.

‘welfare services’ and ‘social security’ – to where, as will be shown, the transfer of standard market arguments is extra ill-suited. This is because the specific form of ‘efficiency’ implied is all but irrelevant – and, moreover, the fact is that ‘freedom of choice’ and ‘consumer sovereignty’ in the areas involved run counter to ‘welfare’

Before going to the arguments head-on, let me emphasize that I only move on the basis of theoretical argument here. We cannot in principle decide on the issue of privatisation of welfare on the basis on individual cases. For every ‘successful’ case of privatisation from the advocates, the opponent could bring forward and an unsuccessful one. This would be kids-play, not science. Moreover, I am not counter-arguing the privatisation case on the basis of ethics – whether it is ‘ethical’ to ‘make money’ out of peoples illnesses and misfortunes or not. If one finds it ‘ethical’ to make money out of peoples hunger (we have private markets for food and groceries) then it is difficult to see why health care should be any different. Lastly, I am not denying that ‘freedom of choice’ will increase ‘freedom of choice’ – that is almost a given. The bone of contention here is whether this market ‘freedom of choice’ will increase ‘welfare’. The advocates of privatisation say ‘yes’. I want to challenge this assertion.

First it is important to remember that the standard conception of the market is an idealised one. Most of all – in this relation – the prerequisites for a well-functioning market, entailed in all the economist’s phrases of ‘perfection’: perfect knowledge, perfect competition, perfect flow of information, full rationality etc. cannot just be assumed. We have to ask how individuals in a market gain information. It is decisive for any conception of ‘freedom of choice’ that the individual should have some rational knowledge of the choices involved. Without rational expectations of the choices involved in the market, and without at least some rational control of what the choices involved are or their respective outcomes, it is difficult to talk of any freedom for the individual at all – let alone ‘consumer sovereignty’. An individual who is tone-deaf will never find ‘freedom’ in music. And we do not choose ‘chance’ or the weather. Only the individual, who is in a position to rationally choose, can be held accountable for the choices made. Individuals may *have* knowledge, but for that to happen we must first *acquire information*.

So the question is: how do individuals gain information on a market? The economist’s case it that market prices function as a signalling mechanism to the market players, carrying all the information needed to make rational choices. On the basis of this mechanism (if it is left undistorted – i.e. ‘free’) the individual can decide on what choice is in line with what he or

she wants – and individual plans are made to converge ‘in the right direction’.<sup>35</sup> Utility then is maximised. Now, even if we accept this picture of the market as is, there still remains the question of how individuals can gain knowledge from price information. In reality the mechanisms of the market can only work *ex post* and not *ex ante*. The single individual can only form rational expectations and choose from different suppliers of a good or service on the market by selection. This selection is based on trial and error – which presupposes that I as an individual am not only free to choose one specific supplier once, but free to choose to switch from one supplier to another consistently, until I have gained all the information necessary to know, which one supplier produces the service that is the one that maximises my utility. This process has to be real and not only imaginary. In order for ‘freedom of choice’ to be real I have to have the real opportunity to switch from one producer to another. How else could I know if what I have chosen is the best, if I cannot gain information of the alternatives? How else could I give the information to the supplier that I have once chosen, that I am unhappy with it if I cannot take my business elsewhere, i.e. move from one supplier to another?

These ‘information costs’ are part of the now well known ‘transaction costs’ as elaborated by advocates of New Institutional Economics.<sup>36</sup> Granted the existence of transaction costs, neo-classical general equilibrium does not happen in the real world.<sup>37</sup> But this fact notwithstanding, within the NIE framework itself, the following theoretical linkage could be brought to light. *The higher the ‘transaction costs’ on the market – the more difficult it is for the market to ‘work’.* As the founding father of NIE, Ronald Coase has argued, as well as his disciple Oliver Williamson in his ‘market versus hierarchy’ framework, if transaction costs on the market are too high, it is more rational and efficient to replace the market with ‘hierarchy’ instead.<sup>38</sup> In less technical terms, one could summarise the notion in the following: *the more difficult it is to gain information on the market – the less well the market mechanism will work.* In a market for lemons – although transaction costs may prevail here too – it is quite reasonable to expect that I as an individual quite easily and smoothly can gain information of

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<sup>35</sup> See e.g. Hayek, F.A. (1945) ‘The Use of Knowledge in Society’, reprinted in Hayek, F.A. (1949) *Individualism and Economic Order*, Routledge and Kegan Paul.

<sup>36</sup> For overviews of New Institutional Economics and its definition, see Eggertson, T. (1990) *Economic Behaviour and Institutions*, Cambridge University Press, Cambridge; Furubotn, E.G. & Richter, R. (1997) *Institutions and Economic Theory. The Contribution of the New Institutional Economics*, University of Michigan Press, Ann Arbor.

<sup>37</sup> North (1990) *Institutions, Institutional Change and Economic Performance*, Cambridge University Press, p. 27-35.

<sup>38</sup> Coase, R.H. (1937) ‘The Nature of the Firm’, *Economica* 4; Williamson, O.E. (1975) *Markets and Hierarchies: Analysis and Anti-Trust Implications*, Free Press, New York.

the different lemon suppliers on the Saturday market of my hometown.<sup>39</sup> If for some reason I am unhappy with the lemons, I have bought on the one Saturday from one supplier, I can without any overarching problems and ‘costs’ take my business elsewhere. The trail and error mechanism is in real play. So let’s admit that the market mechanism works quite well here. But what if we transfer the lemon example to a market for social services and social security?

Here the market reasoning does not function as well at all. First, in the case of social services such as health and elderly care, it is difficult, if not even impossible, to move from one supplier to another. If I am unhappy with the by-pass surgery I have been given by one private clinic, it is difficult, (indeed impossible if I die from it) to show my dissatisfaction by choosing another supplier ‘the next time’. Examples of health care might be a tad exaggerated and not representative, but it is quite reasonable to argue, that changing care centres for the old, day-care for the kids or schools for the young, is not the same as changing lemon suppliers on the Saturday market or hairdressers if one is dissatisfied with the hair-cut. In short, what business economists call ‘lock-in effects’ or ‘path dependency’, is very much in play in a market for ‘welfare’: *A market for welfare services is characterised by a choice situation where the individual is free to choose (once) – but where the possibility to choose again is very limited.* The individual is for all practical purposes bound by his/her initial choice.

This entails that if I am faced with a situation in which I can choose freely, but I find it very difficult to choose again, it becomes extra important that I have all the information and knowledge necessary *before* I make my first choice. If I cannot use the trail-and-error mechanism to gain information *ex post*, I must form my rational expectations of the choices involved *ex ante*, in order for it to make any reasonable sense to claim that what I actually do eventually choose is in accordance with what I want. Given the fact that this information is not given but must be *acquired* on the market, the prevalence of the lock-in effect is a real obstacle here. We face the following paradox of the freedom of choice argument in the market for ‘welfare’: *The more the alternatives to choose from in the market – the more difficult (‘costly’) it is for the consumer to gain information on the market,* the more difficult it is to form rational expectations, the more difficult it is to evaluate the consequences of the initial choice, the more difficult it is to choose in accordance with what maximises individual utility. In short, it is difficult here for the individual to make the right choice.

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<sup>39</sup> The example is chosen with reference to Akerlof, G.A. (1970) ‘The Market for “Lemons”: Quantitative Uncertainty and the Market Mechanism’, *Quarterly Journal of Economics*, 84.

In a market of strong lock-in effects, it is therefore of utmost importance that one does not make the wrong initial choice, since one is bound by it. It is difficult to change one's mind. This leads to a second paradox of the privatisation argument: *the more the alternatives of the market, and the greater the dissimilarities of outcomes of this market, the greater the risk for the individual to make the wrong choice*. Seemingly, the only way to reduce this risk, in case of lock-in (aside from the fact that there must be a limited number of choices) is that the outcomes in the choice situation are more or less the same. It is only in this case that the risks of making the wrong choice are minimised – and my chances of making the right choice are enhanced. But if the choice situation that seems most rational in the case of a market for 'welfare' is one where the choices are few and the outcomes of the choices are more or less the same, then what use is there of 'freedom of choice'? No matter what I choose the outcomes are similar – to the point of the same.

Risk-taking and uncertainty are the main features of the dynamics of the market, what makes for growth and development, argue neoliberals. Let us for argument's sake accept that these are the prerequisites for economic growth and 'wealth'. But is this relevant for 'welfare'? Is it risk-taking and 'chance' that we seek when we find ourselves in need of health care? Is it risk-taking that lures us into abstaining wages to social security and the pension system? In the name of 'welfare' the answer seems to be a clear no. If I want to take a chance, I could buy a lottery ticket – not pension insurance.

The point is that even if we would acknowledge the necessity of 'risk' (as a prerequisite for innovation and entrepreneurship) this contributes very little to our 'welfare'. The function of a health care system is not to 'risk' our health but to secure it. The purpose of any insurance is not for the individual to take a chance and individualise risks of income-loss, but to secure them. I can risk my income without paying for it. Rather I pay for insurance in order for the insurance company to take the risk in my stead. The problem then is that the advantages of the market that neoliberals argue for and the function of 'welfare' go in opposite directions, even if we were to concede that there must be a balance between the two. In short, the more of 'the market', the greater the insecurity, the less the 'welfare'.<sup>40</sup>

Neoliberals in Sweden have therefore argued for what must be likened to a lottery within social security – yet they call it 'welfare'. They have argued for a 'market' for social services, where most of us have very limited possibilities of rational choice in the first place and the possibilities of effectively choosing a second time around is all but non-existent – yet they

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<sup>40</sup> Which has led neoliberals in Sweden to argue for privatisation of welfare not because it is desirable but 'necessary'. I have dealt with these claims in the first part of my *Kris i välfärdsfrågan* (2005), Nixon.

call it ‘freedom of choice’. They advocate risk and chance in the name of ‘welfare’. As an argument for ‘welfare’, however, the market and privatisation emerge as irrelevant. Neoliberal ‘freedom of choice’ might have some things going for it – but the promotion of ‘welfare’ is definitely not one of them.

In reality privatisation reforms in the health care system and social security in Sweden have also encountered the problem that most people are uninterested in these particular kinds of ‘choices’. The need to express one’s individuality in consumption, as argued by post-modern or late-modernity theorists, is very limited in the sphere of choosing what care centre to go to or what pension fund one wants to put ones wages into.

To be fair, the consistent liberals such as Milton Friedman in his *Capitalism and Freedom* or Friedrich Hayek, do not – as do most Swedish neoliberals – try to promote ‘freedom of choice’ in the name of ‘welfare’ or social security.<sup>41</sup> They simply consistently argue for that ‘social security is a bad idea’ and choose ‘freedom of choice’ before ‘welfare’. In Hayek’s direct phrasing, freedom of choice might entail ‘... the freedom to starve, to make costly mistakes or to take life-threatening risks’.<sup>42</sup> Or as the then neoliberal right-wing party in Sweden in the mid-1990s in one of its ideological pamphlets wrote: ‘Feelings of insecurity and anxiety can under the right circumstances become an immense force to mobilise creativity’.<sup>43</sup> That’s fine – if you are so inclined – but starvation, life-threatening risks, and anxiety may be a lot of things, but they do not constitute ‘welfare’.

### **What is ‘efficient’ provision of welfare?**

As I will show further on, the Swedish model has over the last twenty years or so run into problems. Results in education have worsened, cues for hospital care and elderly care have been longer and there is a general sense of deterioration of the quality of social services in Sweden. I do not question that – but the question is, will privatisation of the social services sector provide for more ‘efficiency’. From the model of general equilibrium, the economist has a short cut for deciding what is ‘efficiency’ – as well as ‘inefficiency’. Efficiency is by definition the equilibrium point of clearing markets and any other outcome is therefore by definition more or less ‘inefficient’. Hence, the deregulation and privatisation of social services would move us closer to equilibrium and hence enhance ‘efficiency’.

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<sup>41</sup> Friedman, M. (1962) *Capitalism and Freedom*, The University of Chicago Press; Hayek, F.A. (1960) *The Constitution of Liberty*, The University of Chicago Press.

<sup>42</sup> Hayek, F.A [1960] (1983) *Frihetens grundvalar* (The Constitution of Liberty), Ratio, p. 26. Translation from Swedish.

<sup>43</sup> Moderata samlingspartiet (1997) *Land för hoppfulla* (Land for the Hopefull), Moderata samlingspartiet, p. 17.

***NB! FIRST DRAFT. NOT TO BE QUOTED WITHOUT PERMISSION***

But this conception of ‘efficiency’ is arguably morally incompetent as a guide to evaluating welfare policies, because this equilibrium point disregards any other social or political goal than the one of ‘allocation of scarce resources’ based on an aggregation of separate individual preferences – *whatever they may be*. Or as Gary Becker has argued: ‘de gastibus non est disputandum’.<sup>44</sup> But welfare policies are in general – and most definitely in Sweden – guided by other politically set goals, than that of aspiring for a non-existent and imaginary equilibrium point where markets clear. In the Swedish *Hälso och sjukvårdslagen*, which regulates the regionally organised health care system, we can read:

2 § The goal of health care is good health and care on equal terms for the entire population. Care should be given with respect for the equal value of all human beings and for the dignity of the single individual. The one who has the greatest need should be given precedence to health care.

Seen from the viewpoint of these principles, suddenly what the economist calls an ‘efficient’ allocation of resources turns out to be ‘inefficient’. For the creation of health care ‘on equal terms for the entire population’ and precedence for ‘the one who has the greatest need’, even neoliberals would have to concede that the market is not a very efficient mechanism. *Långtidsutredningen 2003/04* clearly exposes this dilemma in the following:

More of voluntary payments entails however that demand for welfare service to a higher degree will be governed by the contents of one’s own wallet. This however goes against the basic goal that welfare services should be provided according to need and irrespective of the ability to pay and that equality and equivalence should be guaranteed.<sup>45</sup>

To be blunt then, neoliberal solutions within the health care sector are not consistent with current laws and statutes of the Swedish health care sector.

In *Skollagen*, which regulates primary and secondary education in Sweden, we can read:

2 § All children and youth, irrespective of gender, geographical homestead as well as economic and social circumstances, shall have equal access to education in the public school system for children and youth. Education in every form of schooling shall be equivalent, wherever in the country it is provided.

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<sup>44</sup> Becker, G. (1967) De Gastibus non est Disputandum, *American Economic Review* 62(2).

<sup>45</sup> *Långtidsutredningen 2003/04* (The Long-Term Survey of the Swedish Economy 2003/04), p. 159

The same counter-argument to privatisation of the health care system hence applies to the education system. Given the social goals set by law in Sweden, markets and ‘freedom of choice’ are ‘inefficient’.

In summary so far then: *To opt for neoliberal solutions to provision of welfare services and education, does not entail a more ‘efficient’ way to live up to the prevalent goals and principles in the current laws and statutes of welfare policies, but instead that these principles have to be abandoned and replaced by other ones.* This is a serious dilemma for neoliberals in Sweden, and I have heard very few political voices, who aspire at least for some support in public opinion, that wish to revise the principles of the laws governing health care and education in Sweden. There are probably reasons for that.

Well, we must all the same consider privatisation and deregulation of welfare services on their own merits, regardless of current laws. Accepting the pure market theory, neoliberal recipes in welfare should provide for better quality and cost-efficiency. And is not the Swedish social service sector laden with such inefficiencies?

The problems of the sector notwithstanding, the debate has to be nuanced a bit, simply from the fact that in comparison to other OECD-countries, the outlays for the health care sector in Sweden are not particularly high – but rather on the OECD average. Most countries in the OECD area have outlays around 7-9 percent of GDP. The big exception here is USA where outlays for the health care sector are significantly higher than in the rest of OECD. Since the health care system in the USA is much more deregulated and privatised than in Sweden, the US citizen should get much more of the money’s worth in health care. Or no? As hinted above in indices of well-being such as life expectance and infant mortality the USA fares significantly worse than Sweden. Table 8 below provides a further comparison of Sweden and the USA in some other relevant areas of health care.

**Table 8: Outlays for health care services, Sweden and USA, 1999**

<i>Country</i>	<i>Sweden</i>	<i>USA</i>
PPP \$ per capita	1 748	4 373
Share of GDP	7,9 %*	13,0 %
Doctors per 1000 inhabitants.	2,9	2,8
Hospital beds per 1000 inhabitants.	3,7	3,6

Source: *Socialstyrelsen: Hälso- och sjukvårdsstatistik årsbok 2002.*

\* Year 1998

Although not fully to the taste of the consistent neoliberal, arguably the US system of health care is far more privatised than the Swedish health care system. So the evidence for increasing the ‘efficiency’ of Swedish health care by moving more in the US direction is very questionable indeed.

### **On ‘welfare dependency’**

In recent years the most fundamental and loud-voiced criticism of the Swedish model pertains to its function of creating ‘welfare dependency’. In Sweden the individual becomes ‘dependent of the state’ for her livelihood. There is a ‘lack of incentives to work’ – since welfare levels in Sweden are too high for it to be worth the while for low income groups to move from ‘welfare dependency’ to work. David Marsland paints a vivid picture of the demerits of the welfare state in this relation:

... [I]t wreaks enormously destructive harm on its supposed prime beneficiaries: the vulnerable, the disadvantaged, and the unfortunate. It makes of perfectly normal, entirely capable people who happen to be in temporary difficulty, a fractious, subjugated underclass of welfare dependents. It cripples the enterprising, self-reliant spirit of individual men and women, and lays a depth-charge of explosive resentment under the foundations of our free society.<sup>46</sup>

However, to make sense of the arguments surrounding the Swedish model, we must be clear in upholding the dichotomy between ‘social security’ and (marginal) ‘welfare’. The wage-labour based social security system is not ‘welfare’ and definitely not a ‘hand-out’ from the government but a paid-for *insurance* system. Come to think of it – this is not so strange, although neoliberals have consistently muddled the issue. If my house burns down, and if I have paid for house insurance, I do not get a ‘hand-out’ from the insurance company, nor do I become ‘dependent’ upon it. In case of accidents and income-loss, I get reimbursement for a paid-for insurance service – not ‘welfare’. The argument is essentially the same if we talk about retirement and health insurances etc. I have heard no one in Sweden complain that those who have pension insurance in a private company, become dependent upon that company – nor that such insurance creates ‘disincentives to work’. However, and arguably inconsistently, the argument is pursued as regards the state administered social security system. In Sweden social security is not a ‘right’ – but an ‘acquired right’, through wage-work.

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<sup>46</sup> Marsland, D. (2003) ‘Real Welfare: Self-Reliance or State Dependency?’ *Economic Notes* no. 96, Libertarian Alliance. Summary taken from: <http://www.libertarian.co.uk/lapubs/econn/econn096.htm>. (2009-04-30)

However, there are some systems of the Swedish model that could be conceived of as ‘welfare’ and ‘hand-outs’ with no or little connection to individual participation on the labour market. If there is any real ‘welfare dependency’, we should expect to find it here.

In order to appreciate the levels of ‘welfare dependency’ in the Swedish model, below I have sketchily separated outlays of ‘social security’ from outlays in ‘welfare’ – for the year 2004, from the official state social security office (Försäkringskassan). Outlays are related to GDP, since they follow the income-loss principle.

**Table 9: Outlays of ‘social security’, billion Swedish Kronor, percentage to GDP, 2004**

<i>Insurance</i>	<i>outlays in kronor</i>	<i>percentage relative to GDP</i>
Old Age	205,2	8,0
Illness*	114,7	4,5
Unemployment	32,7	1,3
Parental leave	21,3	0,8
Total	373,9	14,5

Source: *Försäkringskassan analyserar 2005:8*, SCB, my own calculations.

\* Including early retirement.

‘Social security’ in Sweden is wide-ranging. But aside from not being ‘welfare’ proper it is also noticeable that the single largest social security system is the old age insurance for those over 65 years of age. The risk of these outlays creating ‘disincentives to work’ or ‘welfare dependency’ is arguably close to zero, since these sections of the population, by definition, are not at the disposal of the labour market.

Outlays for sick-leave and unemployment are considerably smaller, but could at least in theory create ‘disincentives to work’, but as I will argue further on this link remains theoretical with little ground in the evidence of the Swedish model over the last thirty years.

Table 10 below shows outlays for ‘welfare’ (‘hand-outs’) in the Swedish model.

**Table 10: Outlays for ‘welfare’, billion Swedish kronor, percentage to GDP, 2004**

<i>‘hand-outs’</i>	<i>outlays in kronor</i>	<i>percentage relative to GDP</i>
‘Welfare’*	10,6	0,4
Rent support**	11,0	0,4
Child benefits	24,9	1,0
Total	46,5	1,8

Source: *Försäkringskassan analyserar 2005:8*, SCB, my own calculations.

\* = ‘Socialbidrag’, i.e. economic support for ‘the poor’.

\*\* = ‘Bostadsbidrag’, i.e. support to pay the rent for ‘the poor’.

As can be concluded from the table 10 above, outlays for ‘welfare’ in Sweden are far less than those of social security. The main target of the criticism of government ‘hand-outs’ in Sweden pertains to ‘welfare’ (‘socialbidrag’). But as can be seen, the total outlays of this in the year of 2004 was a meagre 10,6 billion kronor. This means that this single form of government outlays (‘welfare’) amounted to no more than 2,2 percent of total government outlays of social security and welfare. In comparison to outlays for old-age for instance, outlays for ‘socialbidrag’ amounted to circa 5 percent.

So in the Swedish system, although for single municipalities a financial burden, outlays for ‘welfare’ in no way form the main economic reason for ‘big government’ or ‘welfare dependency’, which neoliberals so vehemently criticise.

In addition, in order for the argument of ‘welfare dependency’ to stick, one would have to assume certain duration in individual take-up of welfare. Even though, on an aggregate level, ‘welfare dependency’ seems marginal in the Swedish context, maybe for the single individual cases ‘welfare’ still ‘locks in’ people in ‘welfare dependency’ rather than work? Maybe then we find examples of how people ‘choose to live on the system’? Again, all research on the matter goes against neoliberal and popular opinion on the matter. Prolonged and consistent individual take-up of ‘welfare’ in Sweden is very uncommon. Eva Franzén writes:

Most recipients receive welfare for a short period of time ... It aims nowadays to a large group in society, with short-lived and transitory economic problems. On the other hand we can conclude that many households in Sweden live in very meagre circumstances, where the step to finding oneself in an economic situation, one cannot cope with is very common. These situations vary in character, from one where many households live on very low incomes, where an additional cost becomes impossible to cope with within the limits of the household budget, to one where many households need welfare, as support, before other forms of social security are made available. Most interesting here, however, is that the duration of welfare reception ... does not differ between in-born Swedes and those born abroad ... The results show unequivocally that the typical welfare recipient, regardless of origin, receives hand-outs for a shorter period in time.<sup>47</sup>

Genuine individual ‘welfare dependency’ with some duration remains a very marginal phenomenon in Sweden. The economic costs for these hand-outs are close to minimal, seen as a whole. This is so, because the main system of protection from income-loss and/or absence from the labour market in Sweden remains the overall social security system. But it also stems from the fact that reception of social welfare in reality in no way resembles the ‘hand-outs’ portrayed by neoliberals. Even today in Sweden, marginal welfare systems have a deterring

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<sup>47</sup> Franzén, E. (2000) ‘Socialbidrag bland invandrare’ (‘Welfare among immigrants’), In: Puide, A. (ed.) *Socialbidrag i forskning och praktik*, Gothia, p. 137.

and stigmatising effect on ‘the poor’. When the department of social security in Sweden a couple of years ago investigated the question whether too high levels of ‘welfare’ created disincentives to work, they were themselves forced to conclude the following:

If the level of support is so high that a low-income job gives a lower standard than welfare, this could create an unwillingness to work. In such reasoning one does not take into account that the human driving forces for choosing a more active life before a more passive one as welfare recipient, consist of far more than the best economic result. Things like community, participation in society, investment in one’s human capital, acquisition of pension rights ... are equally important in the choice between work and welfare. *Several research reports on welfare reception have also shown that many persons who would need welfare in light of their economic situation do not apply for it.*<sup>48</sup>

Within few areas of social policy there is such a wide gap between conventional wisdom – which neoliberals are so eager to exploit – and the fundamental facts, which research and simple statistics expose, than in the case of ‘welfare dependency’. ‘Welfare dependency’ remains a problem for those individuals who are forced by meagre economic circumstances to form their livelihood on receiving ‘welfare’. It indicates increasing relative poverty in Sweden. But as an economic support system and as a cost in the government budget for social policy it remains such a minimal expense that one is drawn to the conclusion that the campaigns of ‘from welfare to work’ that have loomed large over the Western World of late, at least in the Swedish case, cannot have economic reasons, but rather moral ones. Åke Bergmark, one of the leading researchers in the area, concluded, at the height of the unemployment crisis in Sweden in the 1990s (when costs for ‘welfare’ did have a tendency to rise), with specific address to neoliberals:

The research conducted indicates rather unequivocally that variations in welfare reception in its essentials are caused by the development on the labour market and the level of protection that the rest of social security gives. To one-sidedly stress individual motivation and work ethic in a situation where unemployment is higher than for decades is, to be frank, ignorant. Problematic is also ... the conception that substantial economic gains for society are possible by a tightening of the systems. Welfare represents a comparatively marginal cost and changing conditions can only effect a smaller part of these costs. This is a rather obvious fact that is systematically ignored in much of the criticism.<sup>49</sup>

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<sup>48</sup> Ds 2004:5 (2004) *Rätt nivå på socialbidraget – Är det lönsamt att arbeta?* (The Right Level of Welfare – Does it Pay Off to Work?), p. 11, italics added.

<sup>49</sup> Bergmark, Å. (1996) ‘Välfärdens grundbult? Om individuell moral och försörjningsincitament i socialbidragen’ (The foundation of welfare? On individual morality and incentives for independent livelihood in welfare), *Ojämlighet från vaggan till graven – på väg in i 2/3-samhället?*, FKF Fakta, p. 74.

In this light, and in summary then, we find that what was first put forward as ‘scientific’, economic arguments against the Swedish model for its alleged ‘inefficiency’ and creation of ‘welfare dependency’ falls apart. Consequently, also, emerges the real basis of the New Right moralism that has underpinned the critique of welfare as such, at least since the days of Reaganism and Thatcherism in the West. Swedish right-wing politician and think-tank activist Dick Erixon exposes clearly this underlying trend of argumentation in his pamphlet *Svaghstens moral* (The Morality of Weakness). Here’s a most telling quote:

Those who still try to conduct their operation on voluntary grounds are no longer met with applause ... The Morality of Weakness makes those who proclaim themselves as weak consider themselves as having ‘a right’ to social services. This means that those who receive contributions see them as a natural right, and therefore they feel no gratitude whatsoever to other people who have sacrificed their free time and money to make a contribution ... History shows that voluntary sacrifice is a recurrent phenomenon in human communities ... But this sacrifice demands something in return: it is not a question of reward or praise, but of the recognition from the surroundings that it has been a sacrifice ... [T]he rights think denies this recognition.<sup>50</sup>

Hence, we can conclude that what initially masqueraded as ‘scientific critique’ has deflated into simple upper-class moralism. The welfare state has been replaced by charity.<sup>51</sup> This is a strategy of combating ‘welfare dependency’ by removing welfare but not dependency.

#### **4. The ‘Neoliberalisation’ of the Swedish Welfare Model**

When neoliberal arguments gained ground from 1980 and onwards in Swedish public debate, this has, as I will show in this section, been conducted in a setting of some irony and hence with a portion of outright dishonesty from neoliberals. Because although the neoliberal ideological onslaught on the Swedish model has been precipitated on the idea that ‘welfare grows and grows’ and ‘big government’, the fact is that since exactly 1980 and onwards the Swedish welfare state has been reformed in decisive ways in the neoliberal direction.<sup>52</sup> Most

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<sup>50</sup> Erixon, D. (1999) *Svaghstens moral* (The Morality of Weakness), Timbro, p. 16, 18.

<sup>51</sup> See also Friedman, M. (1962) *Capitalism and Freedom*, The University of Chicago Press, p. 190: ‘One recourse, and in many ways the most desirable, is private charity.’

<sup>52</sup> Privatisation reforms in Sweden within the school system and health and elderly care have been analysed in Blomquist, P. & Rothstein, B. (2000) *Välfärdsstatens nya ansikte* (The New Face of the Welfare State), Agora. A summary in English is: Blomquist, P. (2004) ‘The Choice Revolution: Privatisation of Swedish Welfare services of the 1990s’, *Social Policy and Administration* 38. Decentralisation and the complex relationship between the centralised state and local municipalities in Sweden are analysed in Bergmark, Å. & Minas, R. (2007) *Decentralised welfare or universal standards? The transformation of territorial authority and local discretion in Sweden*, unpublished paper:  
[http://www.allacademic.com/one/www/research/index.php?cmd=www\\_search&offset=0&limit=5&multi\\_search\\_search\\_mode=publication&multi\\_search\\_publication\\_fulltext\\_mod=fulltext&textfield\\_submit=true&se](http://www.allacademic.com/one/www/research/index.php?cmd=www_search&offset=0&limit=5&multi_search_search_mode=publication&multi_search_publication_fulltext_mod=fulltext&textfield_submit=true&se)

of all, since 1980, the government sector in Sweden has been in stagnation and outright retrenchment in quantitative terms for almost 30 years – paving way for ‘structural reforms’ of social policy.

As I have argued elsewhere, one should not exaggerate the scope of these reforms and there is little reason to conceive of Sweden as a liberal market-based welfare regime as yet. But the trends are clear – which merits my conception of a ‘neoliberalisation’ of the Swedish model.

Below I will expose mainly in quantitative terms, some of the more important changes in neoliberal direction of the Swedish welfare model over the last twenty, thirty years. I do this, reminding the reader that this wave of neoliberalisation is correlated in time to Sweden’s decline in relative wealth in the OECD. *In short, as Sweden developed its welfare model in the years between 1950 and 1980, Sweden became one of the richest countries in the world – in the subsequent period of stagnation and retrenchment of government spending on welfare policies, Sweden has declined in relative wealth.*

**Table 11: Government Consumption as percentage of GDP, 1950-2006**

<i>Year</i>	<i>% of GDP</i>
1950	13,0
1960	16,4
1970	22,2
1980	29,8
1990	27,4
2000	26,6
2006	26,8

Source: SCB (Swedish National Accounting Bureau), *PROP. 2006/07:1 Bilaga 2*.

Table 11 above shows the overall trends government consumption in the post-war period – which can be divided into two periods: (i) The period of government growth (1950-1980), (ii) the period of stagnation/decline (1980 and onwards).<sup>53</sup> These general trends have to be disaggregated however. I start with social services.

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<sup>53</sup> For this year government consumption as percentage of GDP has declined to circa 25 percent.

## **The retrenchment of education and health services**

The standard way of looking at the scope of government social services is to look at outlays for wages etc. Arguably, however, in exactly social services, the number of people employed in the sector is an equally important measure of the services involved.<sup>54</sup> Complications in the arguments surrounding the Swedish case over time arise, because, since the privatisation ‘reforms’ induced by the previous right-wing government of 1991-1994, not only government employed but also an increasing number of privately employed persons work in the education and health sectors. Moreover, changes in the statistical measures involved from the Swedish National Accounting Bureau within our time-period make exact comparisons shaky. But as I will show, the trends are clear. Since in its inception in the post-war era, the Swedish education and health sectors were government monopolies, we start with looking at the number of employed in the government sector as a whole (table 12 below).

**Table 12: Number of government employed (state, regional and municipal level), 1980-2004**

<i>Year</i>	<i>Gov. employed</i>
1980	1 509 000 pers.
1987	1 629 000 pers.
1990	1 652 000 pers.
2000	1 321 000 pers. (figure comparable back in time)
2000	1 285 000 pers. (adjusted figure comparable forward in time)
2002	1 317 000 pers.
2004	1 328 000 pers.

Source: SCB. (Swedish National Accounting Bureau)

The table above clearly exposes how a trend of continued expansion of government employed by 143 000 persons 1980-1990, abruptly was replaced by a decline in the number of employed 1990-2000 by 330 000 persons (a figure which equals more than the total net decline in employment in Sweden for the time-period). From the year 2000 to the present there is a small trend of expansion again, but still at a significantly lower level than in 1990. With the ongoing financial crisis and the additional rise in unemployment figures in Sweden, the prediction is again a sharp decline in government employment.

As indicated above, however, the social services sector is no longer a matter of government employment alone – so the above does not tell us the whole story. Luckily, however, the Swedish National Accounting Bureau has provided statistics of employment in the social

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<sup>54</sup> Especially so if we accept ‘Baumol’s cost disease’ and consider the fact that in Swedish national accounts productivity growth in the government sector is assumed to be zero. A critique of this assertion in Swedish national accounts is conducted in my *Kris i välfärdsfrågan*.

sector in its totality. Due to changes in the statistical measures over the time-period, comparable statistics can only be provided for the years 1987-2004, shown in table 13 below.

**Table 13: Number of employed in health and elderly care + education and research**

<i>Year</i>	<i>Employed</i>
1987	1 133 000 pers.
1990	1 194 000 pers.
2000	1 131 000 pers.
2002	1 183 000 pers.
2004	1 198 000 pers.

Source: SCB. (Swedish National Accounting Bureau)

Seemingly, if we look at employment of the social services sector as a whole, there is no trend of retrenchment. Down-sizing in the 1990s has by the year 2004 fully been recovered.

However, if we consider the two groups in isolation, 'health and elderly care' on the one hand and 'education and research' on the other, as the tables 14 and 15 below show, there has been a great expansion of higher education and research on the one hand, which as its flip-coin has significant retrenchment in the health and elderly care sectors. (Note that in the year 2002, employment in pre-school was transferred from the care sector to the education sector in the statistics.)

**Table 14: Number of employed in education and research**

<i>Year</i>	<i>Employed</i>
1987	318 000 pers.
1990	310 000 pers.
2000	361 000 pers.
2002	391 000 pers.
2004	515 000 pers. (including pre-school)

**Table 15: Number of employed in health and elderly care sectors, 1987-2002**

<i>Year</i>	<i>Employed</i>
1987	815 000 pers.
1990	884 000 pers.
2000	770 000 pers.
2002	792 000 pers.
2004	683 000 pers. (excluding pre-school)

Source: SCB. (Swedish National Accounting Bureau)

No absolute certainties can be deduced from the statistics of employment above, but some preliminary conclusions can be drawn all the same.

First, the down-sizing of overall government employment has not been fully compensated by an equal rise in private expansion of employment in the health and elderly care sectors from 1990 to 2004.

Secondly, there seems to be a reallocation of employment within the social services sector from health and elderly care to education and research by circa 80-90 000 employed. This amounts to a down-sizing of employed persons in the health and elderly care sectors by more than 10 percent 1990-2002. Moreover, this development indicates a trend where welfare resources are transferred from areas which have as their main target groups of the population, which are not in the working ages (16-64), that is pre-school, health and elderly care, to higher education, which foremost concerns those in the population within the working force. This indicates an increasing stress on ‘recommodification’ in those sectors that aim at ‘increasing employability’ of the work-force rather than welfare (‘decommodification’) for those that do not work, beyond the logic of wage-work.<sup>55</sup>

Thirdly, the decline of employment in the health and elderly care sectors should be considered in light of the fact that the need for health and elderly care has arisen somewhat over the time-period. The number of elderly in need of elderly care has risen, at the same time as the number of personnel to provide this elderly care has declined by one tenth.<sup>56</sup> To maintain that a down-sizing of personnel in health and elderly care of such magnitude would not have serious negative effects on the quality of social services provision and ‘welfare’ is either dishonest or at best a pious belief in the miracles of increasing ‘cost efficiency’ that privatisation reforms of government social services would entail. Or, in analogy, how many believe that if one were to take away one in ten taxi cabs in the City of London, this would have no negative effects on one’s availability to get a cab?

## **Social security**

For a couple of years now, the Swedish debate on social policy has almost exclusively revolved around the costs of social security. Ideas that there is a cost expansion, related to

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<sup>55</sup> An interesting analysis of the Scandinavian welfare models, using the examples the recent pension reform in Sweden and labour market reforms in Denmark, as recommodification of labour power and how ‘the Scandinavian model has been developed in relation to the imperatives of the market’ is Lenann, J. (2008) ‘The Scandinavian Model and the Labour Market’, *Transform* 03/2008. The quote is from p. 85.

<sup>56</sup> An overall summary of these developments in social services (as well as social security and other parts of welfare) in Sweden is provided in Palme. J. et al. (2002) ‘Welfare Trends in Sweden: Balancing the Books for the 1990s’, *Journal of European Social Policy*

increasing over-usage in the system by means of individual fraud, have dominated political debate, left and right. Most notably the leading Swedish daily journal, *Dagens Nyheter* (Today's News) has consistently in its editorial pages campaigned for social security reforms, based on these conceptions. One of the loudest exponents in this campaign, Anders Isaksson, has been given ample room in the columns to put forward the case. In one editorial he argues that 'income social security is an ever-increasing burden on the welfare state'. This, according to Isaksson, stems from the fact that 'the state is defenceless against the changing norms that year by year legitimise increasing usage' of the social security system. Politicians in search of votes, do not have the power to resist, and the only way out, argues Isaksson, is to replace social security based on income-loss with a state guaranteed 'ground level' at the level of 'socialbidrag' ('welfare'), in order to pave way for private additional insurance for those that are willing (or rather able) to afford it.<sup>57</sup> This is very much in line with what neoliberals have argued for.

The Union for Big Business in Sweden, *Svenskt Näringsliv*, some time ago produced a report with the spectacular heading: '95 percent of the Swedes circumvent the welfare systems' to illustrate the scope of fraud within social security. To deny these facts, argued the authors of the report, Stefan Fölster and Fredrik Bergström, is an 'official lie' which does not accord with what 'many see in their private surroundings'. The authors summarize their results:

The intersection between the official lie and the private truth has created unstable welfare systems. Periodically, when the official lie has the upper hand, the systems are made very generous and controls are abolished. In due course this leads to over-usage which many see in their private surroundings at the same time as costs bolt. This necessitates increased control and cost-cuts. As over-usage has declined, the public debate returns to the official lie and the course of events is repeated ... This is a very dangerous societal development. During the generous period, many are tricked into depending entirely on the welfare systems and institute their lives accordingly. When costs bolt and controls are increased many are caught in the middle ... Now is the time, therefore, to discuss why people actually hang on to Plan B and how we create stable systems which maintain legitimacy.<sup>58</sup>

Those of us living in Sweden have not been able to escape the daily political concerns for the 'instability' of social security, 'costs that bolt' with 'over-usage', which threaten the 'legitimacy' for the system as a whole. We are told that we are in 'a very dangerous societal development'. Best do something about it now!

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<sup>57</sup> Isaksson, A. quoted from editorial in 'DN Opinion', *Dagens Nyheter* 2004-10-04.

<sup>58</sup> *Dagens Nyheter*, *DN Debatt*, 2007-10-17.

This form of moral panic is very hard to account for, if we investigate the basic facts and statistics of the social security system in Sweden over the last thirty years. Again luckily, the Swedish agency for social security, *Försäkringskassan*, on a yearly basis produces basic statistics of outlays for social security over time. And for those that have been gripped by the moral panic of Swedish debate, there awaits a surprising read. We start with the social security sector as a whole.

**Table 16: Social security, current prices, in relation to GDP 1980-2006, billion Swedish Kronor**

<i>Year</i>	<i>Outlays</i>	<i>GDP</i>	<i>% rel. GDP</i>
1980	90,4	548,6	16,5 %
1985	152,4	899,7	16,9 %
1990	257,6	1 433,4	18,0 %
1995	307,6	1 787,9	17,2 %
2000	333,7	2 217,3	15,1 %
2006	436,4	2 837,0	15,4 %

Source: *Försäkringskassan* (Swedish Social Security Agency)

Some clarifications can thus be made.

Firstly, the total outlays in social security in Sweden in relation to GDP was lower in 2006 than it was in 1980. We must go back to the mid-1970s to find numbers as relatively low as they were in 2006. After an upward trend between 1980 and 1990, for 16 years (and now 19 years and counting...) total social security outlays in Sweden have shown a declining trend. A decline of social security by 2,5 percent in relation to GDP 2006 for instance equalled more than the total cost for unemployment benefits that year. That is how big was the relative cost retrenchment in Swedish social security 1980-2006.

Secondly, in absolute terms GDP growth is much faster than growth in social security outlays. In current prices, outlays for total social security 1980-2006 rose by 349 billion kronor whereas GDP in the same measure for the same time-period rose by 2 228 billion kronor. The rising costs of outlays of total social security, hence, comprised no more than 15 percent of total GDP growth during the time-period 1980-2006. In this light it is difficult to conceive of how outlays in social security in Sweden form a financial burden, which the national economy will find it increasingly hard to carry. With or without ‘over-usage’.

In addition, the bulk of increasing costs in social security is related to old age. In this area of social security it is neither possible nor particularly meaningful to try to ‘circumvent the welfare system’, since these outlays come in when the individual has her 65<sup>th</sup> birthday and,

hence, is no longer at the disposal of the labour market. Costs for old age in social security are shown in table 17 below.

**Table 17: Social security for ‘old age’, current prices, in relation to GDP 1980-2006, billion Swedish Kronor**

<i>Year</i>	<i>Outlays</i>	<i>GDP</i>	<i>% rel. GDP</i>
1980	42,2	548,6	7,7 %
1985	72,5	899,7	8,1 %
1990	115,7	1 433,4	8,1 %
1995	155,2	1 787,9	8,7 %
2000	169,9	2 217,3	7,7 %
2006	221,5	2 837,0	7,8 %

Source: *Försäkringskassan* (Swedish Social Security Agency).

As can be concluded, relative outlays in the old age security systems follow the general development of GDP quite well. In 2006 the relative costs were almost exactly the same as in 1980, and yearly fluctuations most probably are related to the number of additional old age pensioners of the particular years rather than anything else. And the questions of ‘over-usage’ and ‘welfare rather than work’ simply do not apply here. Moreover, little more than half of all additional outlays in social security 1980-2006 can be attributed to this sector of social security alone – which in itself at least devalues the ‘welfare dependency’ argument by 50 percent...

The biggest area of welfare fraud, of ‘circumventing the system’, however, concerns sick-leave and early retirement. It is here that costs allegedly tend to ‘bolt’. The simple facts to the contrary are exposed in table 18 below.

**Table 18: Social security for “Illness and Disability”, current prices, in relation to GDP, 1980-2006, billion Swedish Kronor**

<i>Year</i>	<i>Outlays</i>	<i>GDP %</i>	<i>rel. GDP</i>
1980	34,5	548,6	6,3 %
1985	58,1	899,7	6,5 %
1990	100,3	1 433,4	7,0 %
1995	86,9	1 787,9	4,9 %
1998	74,6	1 987,2	3,8 %
2000	104,3	2 217,3	4,7 %
2003	132,3	2 459,4	5,3 %
2006	137,6	2 837,0	4,8 %

Source: *Försäkringskassan* (Swedish Social Security Agency).

Unlike with the case of old age pensions, in this area costs have been fluctuating quite substantially. Notably, between the years 1990-1998 outlays for ‘sickness and disability’ almost halved in relation to GDP; a fact in part explained by the explosion of unemployment for the period. Since 1998 relative costs have risen somewhat again, but the fluctuations now move at considerably lower levels than in the 1980s. In the year 2006 relative outlays in this area were even somewhat lower than in 1995, a year of the very peak of the mass unemployment crisis of the 1990s. Either way, ‘over-usage’ or not, ‘circumvention’ or not, costs in social security for sickness and disability (which, *nota bene*, include early retirement) have a declining tendency for the last twenty years. How is that ‘a dangerous societal development’? How is this proof of ‘increasing welfare dependency’ and an ‘increasing financial burden on the welfare state’?

Our conclusions are further strengthened by the fact that, on a yearly basis, incomes for social security by far outweigh outlays. For the year 2006 *Försäkringskassan* reports a surplus in the system of 119 billion Swedish kronor, a sum that amounts to almost 25 percent of the total budget.<sup>59</sup> How is that ‘unstable welfare systems’?

Most neoliberal assertions about the developments of social security in Sweden fall apart in light of simple statistics. They become myths and dogmas, rather than critical investigation of reality. They should therefore in future be considered as such.

## **Taxes and employment**

One important structural reform in Sweden, which arguably has changed the preconditions for government welfare is the tax-reform of 1990/91. This reform was precipitated on the idea that the tax system had created ‘disincentives to work’ and most importantly, hence, it entailed a reduction in the top marginal tax rates from state income tax. In Sweden taxes at the municipal and regional levels are proportional to income, whereas the state income tax is progressive, in that the percentage of taxes paid per 100 kronor rises with increasing income. These so called marginal effects of the tax system were, it was said, the main culprits in creating ‘disincentives to work’ – and by a reduction of the rate of state income taxes, using the infamous Laffer-curve, it was argued that there would be ‘dynamic effects’ on work, income, and hence tax income for the state as a result of the tax reform.

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<sup>59</sup> This number includes compulsory payments via the tax system from the state. However, that fact notwithstanding, yearly compulsory payments of wages amount to somewhat more than a hundred percent of the total outlays. In other words, wage workers as a collective in Sweden through compulsory deductions from wages put in more in social security than they use up on a yearly basis. What kind of ‘changing norms’ is that?

***NB! FIRST DRAFT. NOT TO BE QUOTED WITHOUT PERMISSION***

Basic facts, however, show that in relative terms state income from income taxes has declined sharply over time. Table 19 below shows the amount of state income tax for the fiscal year before the tax reform. Table 20 shows the amount of state income tax 15 years on – long after the shock wave of the mass unemployment crisis in Sweden of the 1990s.

**Table 19: State income tax in relation to GDP, fiscal year 1989/90, billion kronor.**

GDP	State income tax	% of GDP
1 357,5	107,5	7,92

Source: SCB, Riksrevisionsverket.

**Table 20: State income tax in relation to GDP, fiscal year 2004/05, billion kronor**

GDP	State income tax	% of GDP
2 611	56	2,14

Source: SCB, Finansdepartementet *PROP 2004/05: Bilaga 1*.

This dramatic lowering of state revenue from income tax is probably the one main financial cause of the institutional changes within the social service sector in Sweden, where waves of privatisation and decentralisation have been the main characteristics. But these developments are to be analysed separately elsewhere, and go beyond the scope of this particular paper. The more important argument in this relation, is that these tax-cuts have not had the effects on employment, which were predicted from neoliberals. If anything, as table 21 below shows, the correlation is the reverse: the higher the tax quota, the higher the employment level.<sup>60</sup>

**Table 21: Tax Quota, percentage of GDP, and number of employed, Sweden**

<i>Year</i>	<i>Tax Quota</i>	<i>Employed</i>
1975	43,4 %	3 968 000 pers.
1980	47,1 %	4 162 000 pers.
1990	53,7 %	4 485 000 pers.
2004	50,0 %	4 213 000 pers.

Source: SCB (Swedish National Accounting Bureau): "Sysselsättning och arbetslöshet 1975-2003", AKU: 2004, Skatteverket, *PROP 2004/05: Bilaga 2*, p. 64.

The lowered tax rates, together with the actual down-sizing of government sector employment and the cuts in social security, is most probably a main reason for the widening income gaps

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<sup>60</sup>As said above, the main explanation of this fact is that from 1970 and onwards both net growth and net decline in employment levels in the Swedish labour market are almost fully in government sector employment.

between the top and the bottom income groups that Sweden has experienced over the last almost thirty years now. The table 22 below shows the gini-coefficient in Sweden over time.

**Table 22: Equalised disposable and factor income, gini-coefficient and the share of the income sum that is hold by the family-units with the largest 10 % and 1 % income. Family-units with an older definition of households. Amounts in SEK thousands, 2005 prices**

	Disposable income per F.U.					Factor Income per F.U.				
	Mean value	Median	Gini-coeff.	Top 10%	Top 1%	Mean value	Median	Gini-coeff.	Top 10%	Top 1%
1975	110,3	104,7	0,217	18,3	2,8	126,2	116,7	0,417	25,9	4,7
1978	113,0	107,0	0,205	17,6	2,6	123,4	117,1	0,429	25,7	4,4
1980	117,3	111,8	0,201	17,5	2,6	123,0	115,1	0,423	25,4	4,3
1981	114,9	109,1	0,199	17,5	2,5	118,6	112,3	0,423	25,3	4,1
1982	112,4	106,5	0,203	17,9	2,8	117,5	111,2	0,427	25,6	4,4
1983	112,7	106,7	0,201	17,7	2,6	116,6	111,0	0,431	25,7	4,3
1984	113,5	107,6	0,210	18,3	2,9	117,5	111,7	0,436	26,1	4,6
1985	117,8	110,8	0,211	18,5	3,3	120,2	111,5	0,440	26,7	5,1
1986	120,2	112,2	0,220	19,2	3,9	125,9	116,9	0,448	27,7	5,8
1987	123,2	116,4	0,209	18,3	3,1	128,9	120,2	0,443	27,0	5,3
1988	126,3	119,0	0,209	18,3	3,0	131,2	121,8	0,446	26,9	4,9
1989	132,4	124,6	0,213	18,6	3,2	139,8	128,3	0,451	27,5	5,7
1990	135,6	128,0	0,220	18,8	3,5	143,3	131,6	0,452	27,8	6,2
1989-rev	141,4	129,9	0,234	20,2	4,4	148,4	134,0	0,457	28,6	6,6
1990-rev	142,7	131,8	0,237	20,2	4,7	150,2	135,0	0,457	28,8	7,2
1991	145,8	131,5	0,249	21,1	4,7	139,1	122,6	0,475	29,7	7,0
1992	144,7	132,8	0,241	20,2	3,9	133,3	118,0	0,483	29,2	5,6
1993	138,1	126,2	0,243	20,3	3,9	124,6	106,5	0,506	30,5	6,0
1994	144,1	126,0	0,271	23,2	5,9	133,3	110,2	0,523	33,1	8,2
1995	132,7	121,6	0,244	20,4	4,0	126,5	108,7	0,511	30,7	6,4
1996	135,4	123,0	0,253	21,0	4,0	134,8	115,2	0,515	31,3	6,4
1997	142,1	124,7	0,277	23,2	6,5	148,0	121,5	0,529	33,4	9,5
1998	143,5	128,3	0,263	21,9	4,8	149,6	127,8	0,517	31,8	7,2
1999	152,8	133,8	0,281	23,5	5,4	161,2	135,8	0,520	32,7	7,6
2000	168,6	140,6	0,313	26,6	8,8	180,9	143,8	0,543	36,5	12,4
2001	165,7	145,5	0,282	23,5	6,1	172,0	146,1	0,515	32,8	8,8
2002	168,8	148,9	0,280	22,9	5,5	170,9	145,9	0,514	32,2	8,0
2003	169,0	149,8	0,276	22,7	5,5	171,4	146,8	0,513	32,1	8,0
2004	174,2	153,3	0,281	23,3	5,9	176,9	149,5	0,520	33,0	8,6
2005	180,6	157,2	0,296	24,5	6,9	185,9	153,5	0,528	34,1	9,8

Source: *SCB*

### **Coda: The debate on financing the Swedish welfare state for the future**

This all leads us to what has become the main concern of politics in Sweden, from left to right, from unions and corporate interests, from state-instituted think-tanks and regional and municipal interest groups: how to secure the financing of the Swedish welfare state in the future. This takes us beyond the pure neoliberalisation of the Swedish welfare model, at least in its ideological sense, to the pertaining political situation, what I have called “neoliberalism without neoliberals”. The main argument in this debate, based on ideas of a present and future demographic threat to public welfare, ‘Baumol’s cost disease’, ‘globalisation’ and so on, is that there is an unavoidable necessity to ‘reform’ the Swedish welfare model in the specific neoliberal direction of privatisation. As the government appointed *The Long-Term Survey of the Swedish Economy 2003/04* (written by a group of government-appointed economists, under The Ministry of Finance) bluntly put forward the case, after, as we have pinpointed earlier, it is established that neoliberalisation goes against the governing principles of the Swedish welfare model:

An increase of voluntary payments does however entail that demand for welfare services to an increasing degree will be governed by the content of one’s own wallet. This goes against the basic goal that welfare services are to be provided according to need and irrespective of ability to pay and that equality and equivalence should be guaranteed. This conflict however is *unavoidable* if increasing demand for welfare services in the long run is to be provided for. This is the case no matter if taxes successively are replaced by fees, or if voluntary contributions are allowed to form a complement to a tax-subsidised basic service.<sup>61</sup>

The most recent *Long-Term Survey of 2008* similarly states: ‘One of the main conclusions in this and in the preceding Long-Term Survey is that a greater measure of private financing is necessary to meet the increasing demand for welfare services in the long term’.<sup>62</sup>

Countering the basic assumptions for contentions such as these is of vital importance for the left and the working-class movement to form any viable welfare policy in Sweden for the future. In this paper, however, I have limited my critique to exposing, what I believe to be weak scientific and empirical grounds for most of the neoliberal assertions about the Swedish model, which have been prevalent over the last thirty years, both in Sweden and internationally. In the near future I hope to be able to complete the picture with a critical exposé of the prevalent debate of the future of the Swedish model – both left and right.

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<sup>61</sup> *Långtidsutredningen 2003/04* (The long-term survey of the Swedish Economy 2003/04), p. 159. My italics.

<sup>62</sup> The whole survey can be attained at: <http://www.regeringen.se/content/1/c6/12/14/14/7367eaf7.pdf>. The quote is from p. 209.