The New Swedish Model

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The Swedish Case

- Perhaps the most famous welfare state
- One of the richest, but also perhaps the most equal countries in the world
- Handled the GFC comparatively well
- What can we learn from the Swedish experience?

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Three Swedish Models

1. The capitalist model 1870-1970
2. The interventionist model 1970-1990
3. A capitalist welfare state? 1995 -

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The Capitalist Model 1870-1970

- 1840: GDP per capita was 40% of England's
- 1870-1970: Sweden became the 3rd richest country in the world
- Standard explanations: Iron ore, steel, wood, paper, welfare expansion etc.

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Real Explanations

- Market-liberal reforms 1846-1860
  - Secure property rights
  - Freedom of trade and contract
  - Reforms of the political system
  - Non-corrupt administration
  - Sound money
  - Open boarders
  - Low taxes
  - Etc

- Infrastructure, human capital investments
  - Railroads, schools

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The Capitalist Model 1870-1970

The golden years of growth **also** made Sweden into the perhaps **most equal country in the world** (in terms of Gini-coefficient)

The Interventionist Model 1970-1990

- The classical **“welfare state”**
- Huge transfer systems
- Growing public sector and bureaucracy
- Public production of welfare services
- Labor market regulations (EPL)
- Progressive income taxes
- High capital taxes
- Dramatic increase in tax burden

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Numerous policy failures followed…

1. **Macro economic failures**
   – deficits, devaluations, inflation
2. **Tax failures**
   – tax avoidance, weak incentives to work
3. **Labor market failures**
   – insiders & outsiders, industrial conflicts
4. **Micro economic failures**
   – few start-ups and entrepreneurs, few new jobs created
5. **Welfare failures**
   – weak incentives to work, welfare dependency

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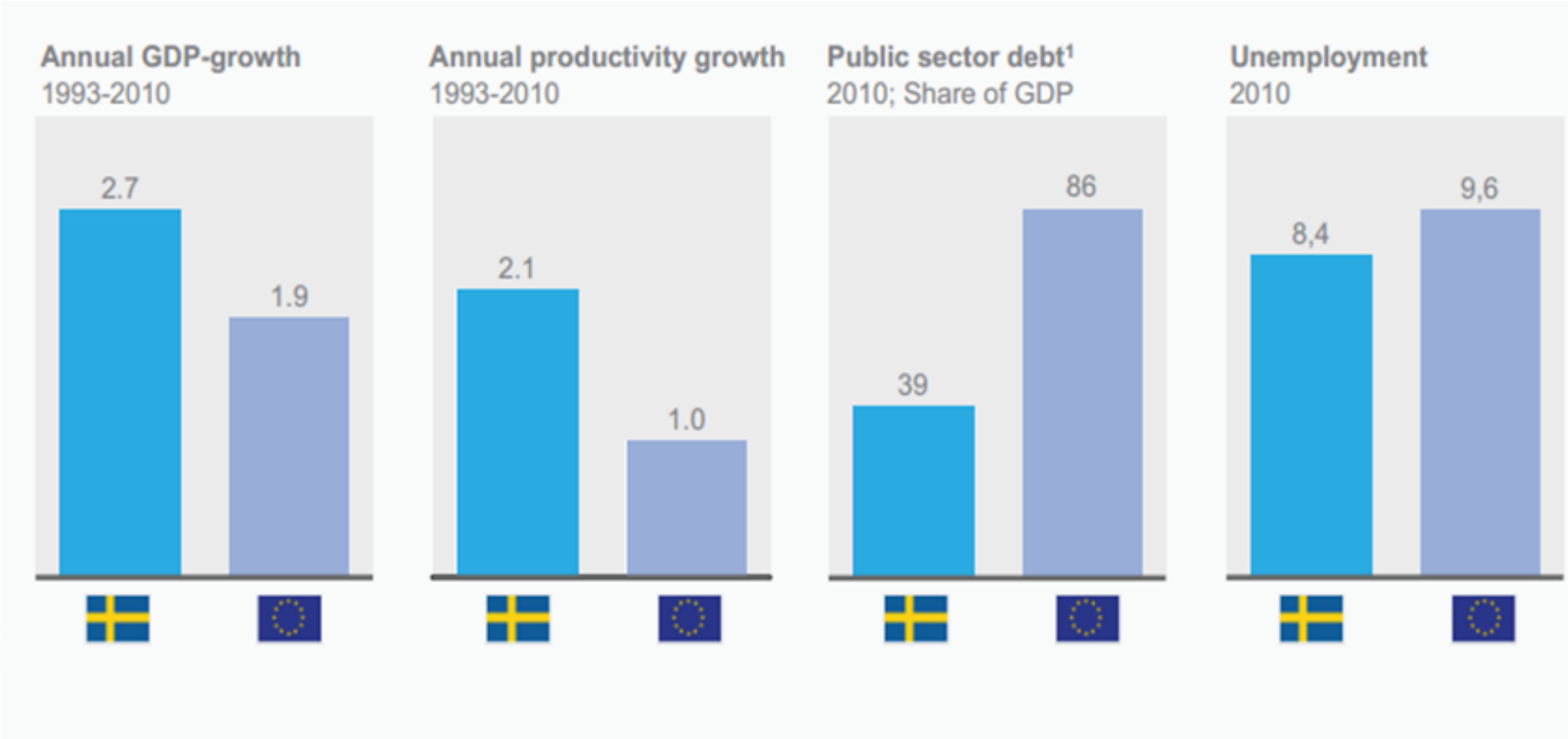
The Crises 1990-1994

- Interest rates of 500% 1992
- Open unemployment quadrupled to 8.2%
- Budget deficit of around 8% of GDP
- Public debt over 70% of GDP
- Public expenditures 73% of GDP (!)
- Negative growth rates 1991, 1992 and 1993

But also a shift of another kind

Performance compared to EU15



Source: McKinsey & Company 2012

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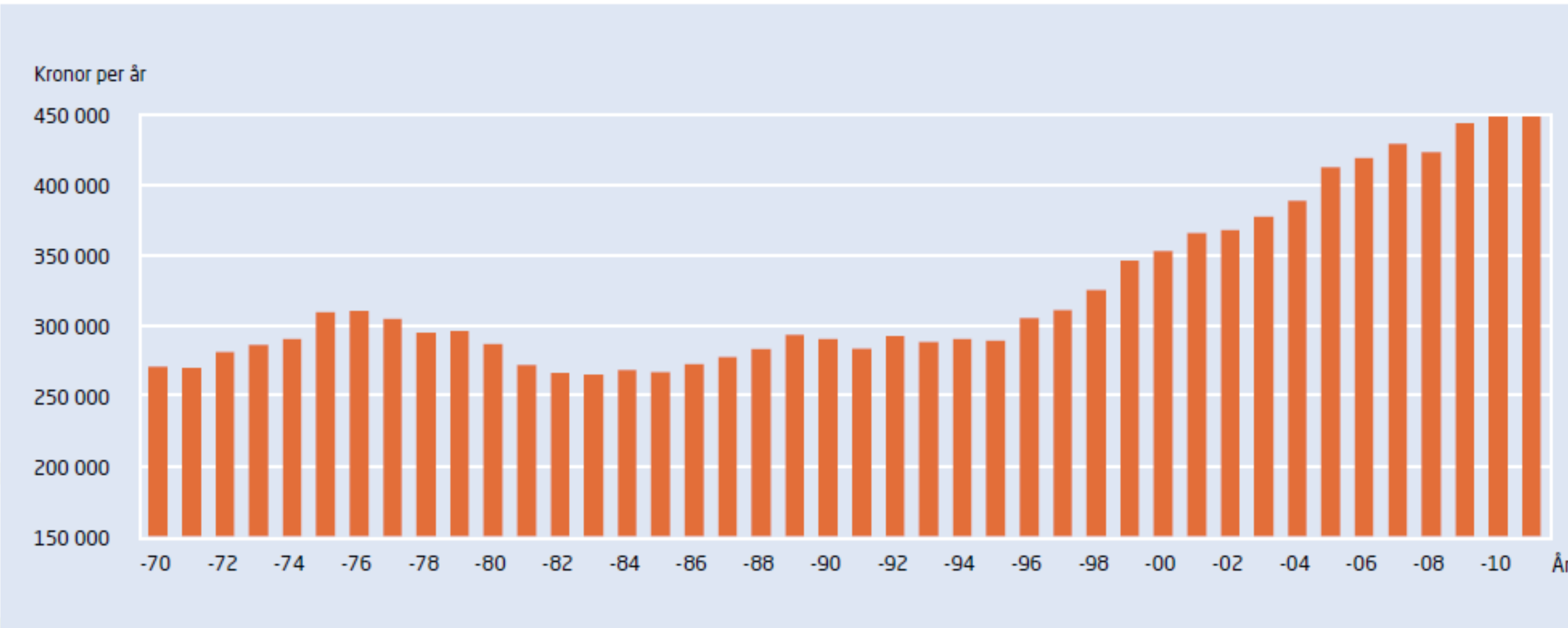
Real wages, white collar
1970-2011(SEK)



Källa: Svenskt Näringsliv

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Public debt as a share of GDP

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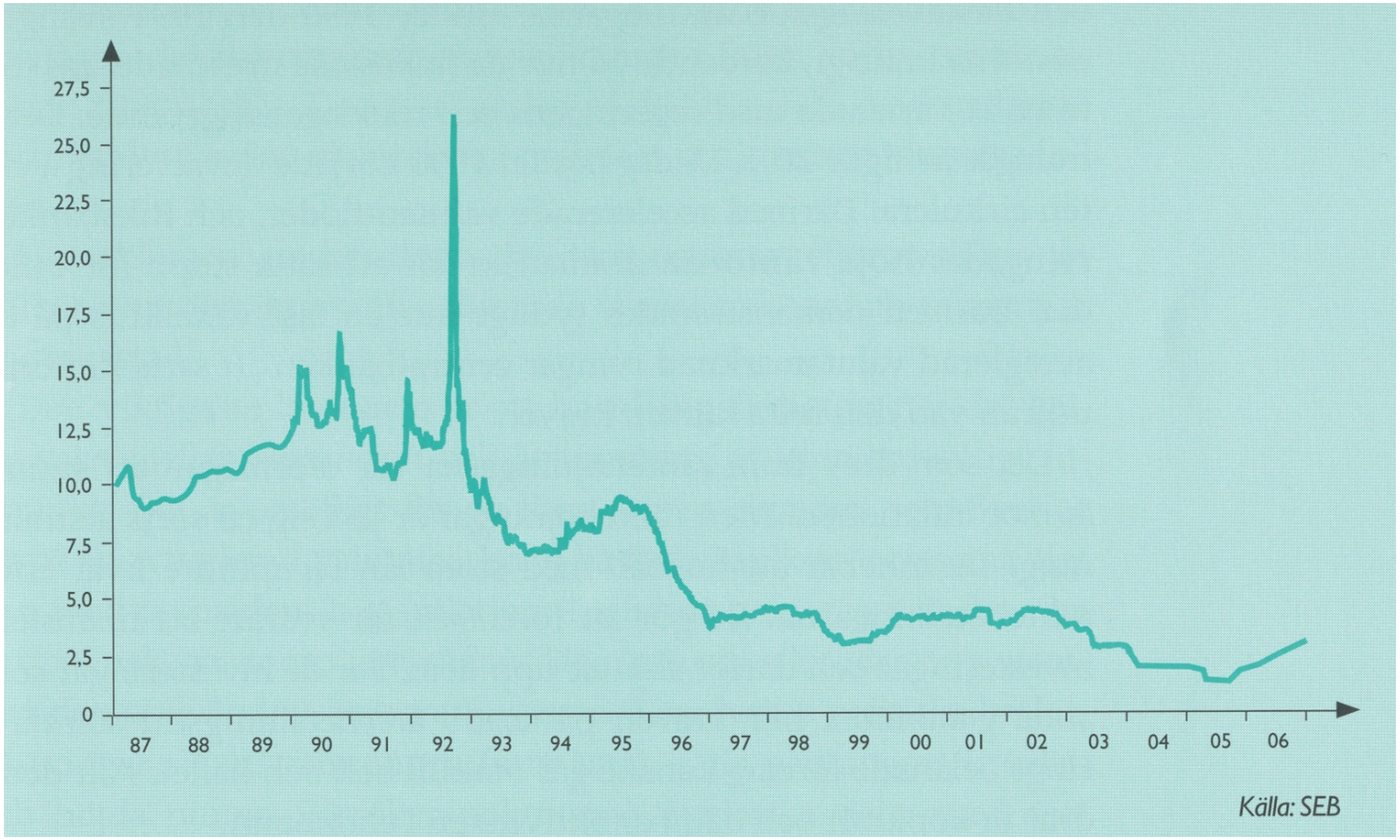
Interest rates



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How was this possible?

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A process of **sustained liberalization**

- Sweden liberalized its economy during the late 1980s, 1990s and 2000s more than almost any comparable country
  - Measured in terms of the index of globalization and the index of economic freedom
  - Numerous liberalizing reforms
- The emergence of a *New Swedish Model:*

  A Capitalistic Welfare State

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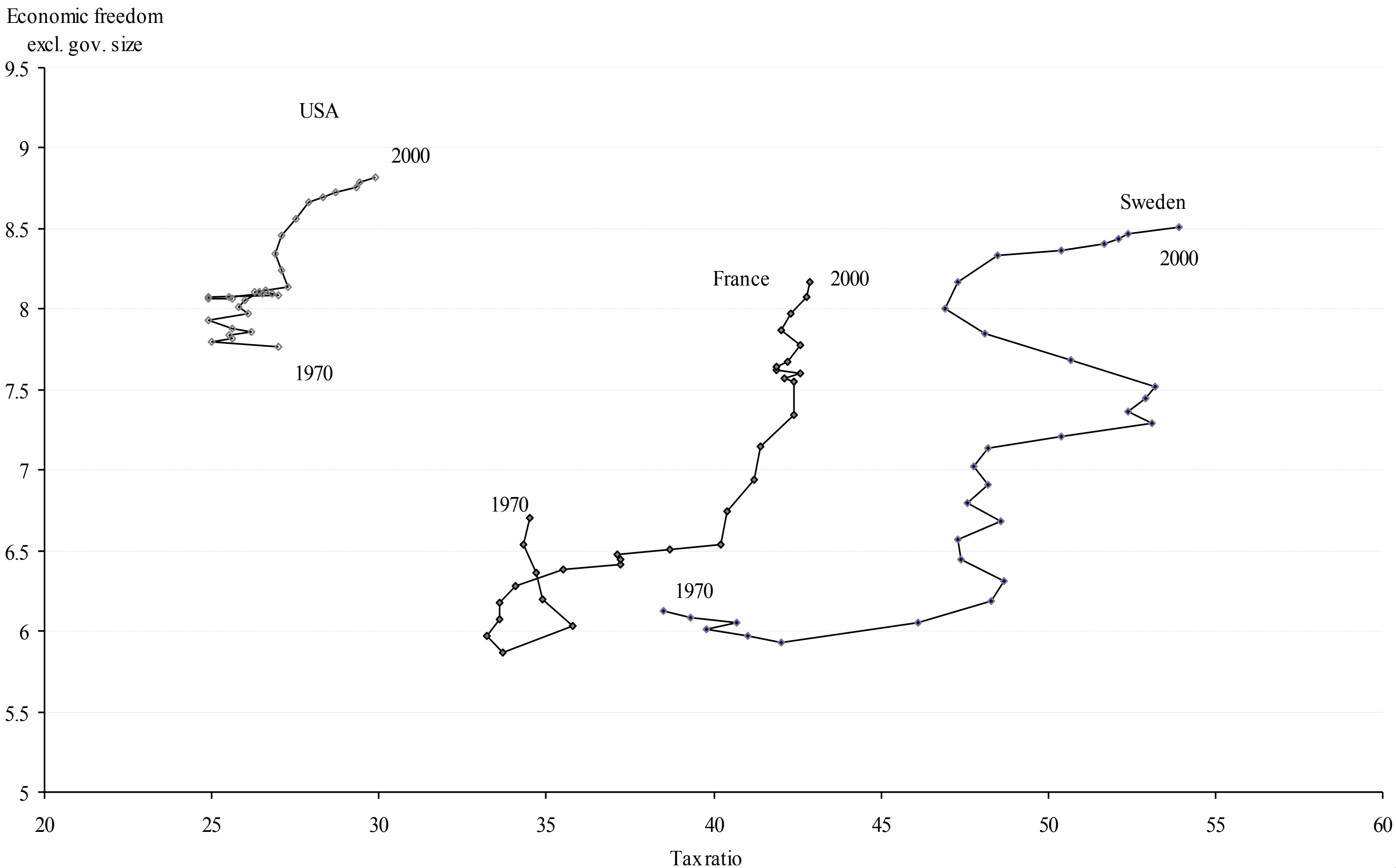
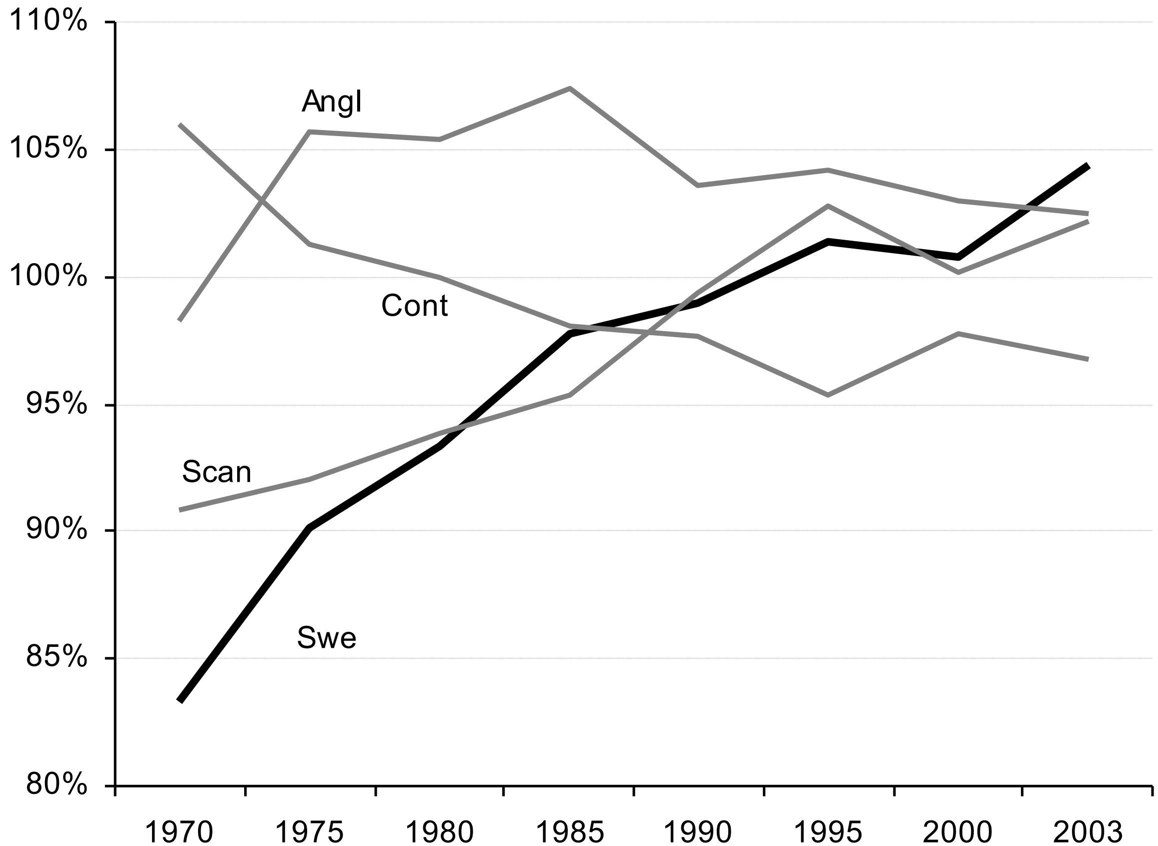
Taxes and economic freedom 1970-2000 (Fraser)



EFI2-5, dispersion around the mean 1970-2003



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Reforms 1985-1991

- 1985: Deregulation of credit and foreign exchange markets
- 1990 - : Deregulation of energy, postal, telephone, railway, airline markets
- 1990 - 91: Tax reform
  - lowering marginal taxes from 73 to 51 percent, capital gains taxes to 30 percent
- 1991 - : Sales of state-owned companies

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Reforms 1991- 1994

- 1991: End of wage-earners funds
- 1992: School voucher system
- 1992: Sales of state-owned companies
- 1992: Labour market reforms
  - for small businesses, private job agencies, wage stabilization
- 1993-: Banking rescuing
  - guarantees, recapitalizations, nationalizations
- 1993: Higher education reform
- 1993: Choice in health, elderly care

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Reforms (cont.)

- 1994 - 97: New macro economic regime
  - independent central bank, new budgetary process, required surplus over business cycle
- 1995: EU membership
- 1995 -: Cuts in virtually all welfare systems
- 1997: New pension system
  - partly funded, automatic balancing
- 1997, 2000: Collective bargaining reforms
- 2004: Inheritance and gift taxes abolished

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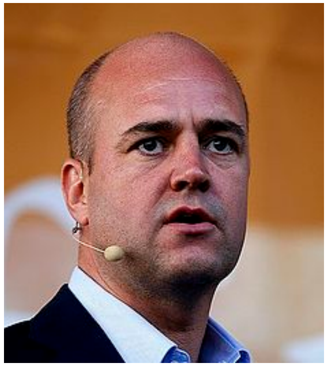
Reforms 2006 –2013



- Wealth tax abolished
- Earned income tax credits
- Tax deductions for “household services”
- Increased conditionality and actuarial social insurance reforms
- Increased choice in health and elderly care
- Property rights strengthened and regulatory reforms
- School reforms focused on quality
- Corporate tax cut, 22 percent

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The *New* Swedish Model – *Emerging Characteristics*

1. Individual responsibility and choice have been extended, while the role of politics have been reduced

2. Taxes and welfare benefits have been lowered, markets deregulated, business privatized and publicly financed welfare services produced by private actors

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The *New* Swedish Model (cont.)

3. More actuarial and less redistributive social insurance systems

4. A new macro economic regime credibly established, with budget surplus and inflation targeting

Still a welfare state where everyone is guaranteed social security and welfare services.

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Reform pattern

1. Pragmatism rather than ideology, but ideas still central
2. Both social democratic *and* center-right governments
3. Policy failures, policy entrepreneurs and Machiavellian strategies important
4. Necessary that major interests favor reforms
5. Crisis early 1990s shifted the perspectives
6. Resulting shift of policy paradigm largely unintended, but today supported by voters and all major parties

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But there are remaining problems…

1. Weak job creation in private sector
2. High unemployment among the young and those born abroad
3. Remaining welfare dependency

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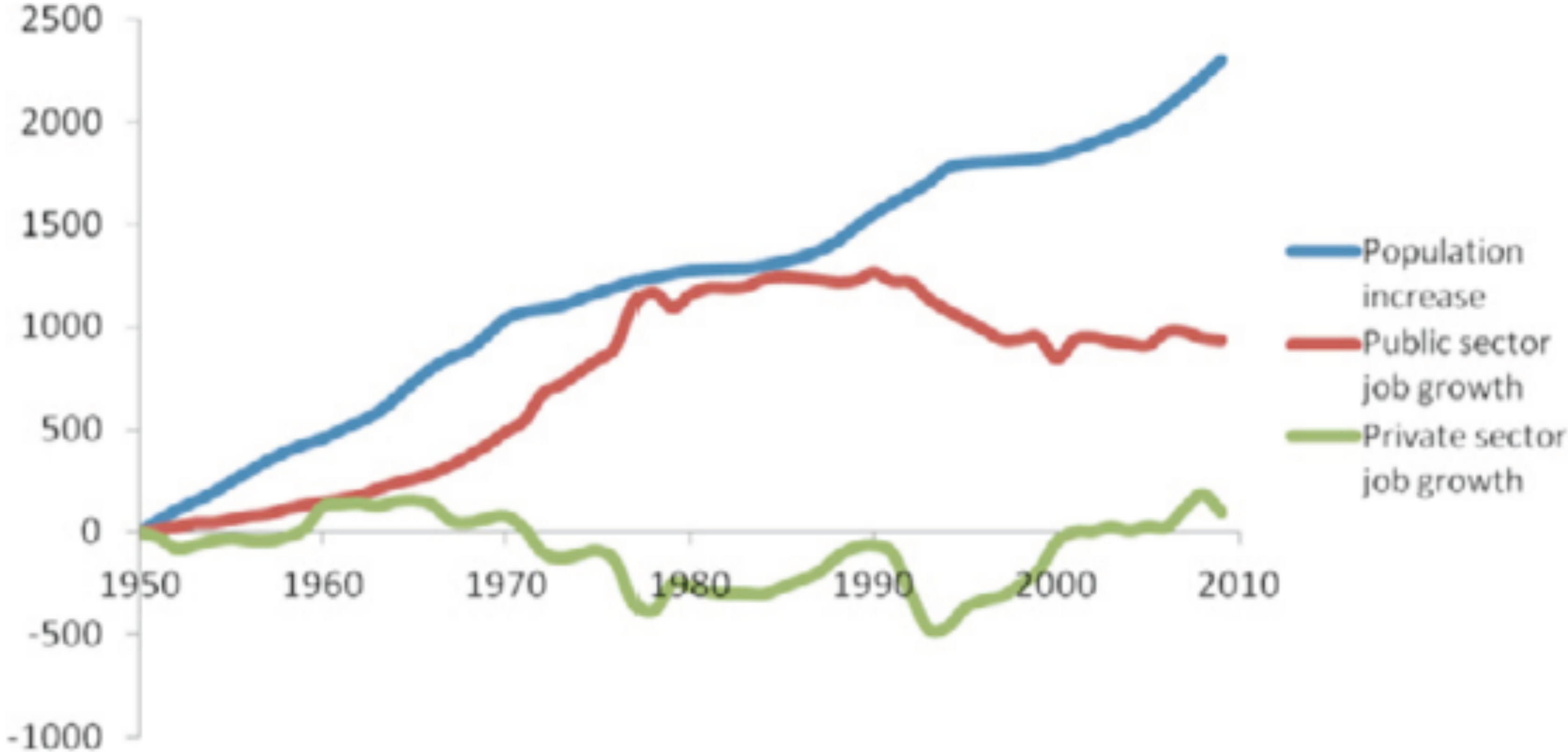
Job growth, private and public



Source: Ekonomifakta

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Major causes

1. Still very high taxes
2. Labour market regulations
   – EPL, central collective bargaining, high minimum wages
3. Housing regulations
   – low mobility, very low rates of construction
4. Restriction on freedom of enterprise
   – primarily in services

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Swedish lessons

1. Sweden have developed extremely well when it has implemented capitalist institutions
2. Sustained liberalization the explanation behind the Swedish success
3. Earlier structural reforms largely behind GFC performance
4. The areas were Sweden have remaining problems are the areas where few or no reforms have been implemented

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