

Sweden's new social democratic model

Proof that a better
world is possible

Robert Taylor

“What Sweden and the other Nordics have achieved is of crucial importance in the much wider public policy debate of how the European left should respond to the complex challenges being imposed on modern societies by globalisation and the impact of communication and information technologies on the world of work. Their success as both social market economies and democratic societies continues to confound the fashionable dogmas and orthodoxies of prevailing neo-liberalism”

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To the memory of Robin Cook 1946–2005
A true European social democrat

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Foreword

The abiding political triumph of Thatcherism was the conviction that TINA ('there is no alternative'). It became commonly held across the political classes that globalisation, free markets, the small state and the right to manage had finally triumphed over the nation state, the public sector, democracy and the labour movement. It was even proclaimed that there was no such thing as society. History, in the 'final' form of strong markets and weak democracies, had apparently come to an end. After four straight election defeats this was the pessimistic context in which New Labour came to power. Ever since the left has been paralysed by this powerful blow to its self-confidence. Crucially New Labour gave up the fight to make people the masters of the market – rather the limit of its ambition is to secure social justice but only through economic efficiency as defined by the demands of global markets. The result is an inevitable decline in democracy, the public realm and social mobility and an increase in inequality.

Put simply, the example of Sweden shows that a better world is possible. Here Robert Taylor

demonstrates that in Sweden it is social justice that creates economic efficiency and that you get the public services you are prepared to pay for. He shows that modern trade unions are essential to an enterprising economy and that pluralism and long termism are vital in building a progressive consensus. Crucially, he shows that it is the commitment to an ideology rooted in the values of equality, liberty and solidarity that provide the left with the lodestar that enable us to adapt to a rapidly changing world on our terms.

Swedish social democrats were never old Labour and will never be new Labour. Instead they combine a commitment to idealism with a determined pragmatism. Crucially social democrats in Sweden have decided to make the political weather rather than meekly decide how best to shelter from it.

Our Compass may be rooted in Britain, but as this pamphlet convincingly and eloquently argues, it should point towards Sweden – not a place of our dreams but a living example of a thriving new social democracy. Don't believe anyone who repeats the mantra that TINA – there is an alternative – it's called Sweden.

Neal Lawson
Chair, Compass

Introduction: no end of a lesson – Sweden in the modern world

It was fashionable ten years ago to talk glibly about the death of the famed Swedish Model and the resulting crisis that it brought for the future of that country's social democracy. But over the past decade Sweden has undergone a remarkable economic and social renewal after a period of turbulence which saw relatively high levels of open unemployment. Once again, the country ought to become the subject of immense interest in debates on the future of European social democracy in the age of globalisation. It is no exaggeration to argue that Sweden has created what amounts to a new model, which carries with it important lessons for the democratic left everywhere. The deregulation, liberalisation and privatisation of economy and society is the dogmatic neo-liberal response to settling the problems of the modern world. But it is not the most effective way forward in the reconciliation of economic success with social justice. This is why Sweden today provides a serious counter-challenge to the conventional wisdom that insists flexible labour markets, minimalist social regulation, low levels of personal taxation and limited government spending are essential preconditions for how advanced societies should respond effectively to the dual challenges posed by global integration and technological change.

A hundred years ago Sweden and the other countries of northern democratic Europe were among the most poverty-stricken on the continent. Between 1840 and 1914 more than one million Swedes migrated to North America, mainly to Wisconsin and Minnesota in the United States, in search of a better life. Their departure provided eloquent testimony to the backwardness of the country they had left behind them.

But during much of the last century after the 1920s Sweden, along with the other Nordic nations,

was transformed through its own efforts. From being one of the poorest countries in Europe it became among the most successful political economies in the world as measured by an impressive range of international comparative statistics. Today Sweden alongside neighbouring Denmark, Norway and Finland remains an affluent and equitable society with a higher standard of living for the overwhelming majority of its citizens than almost anywhere else. Swedes can claim to enjoy not only the longest life expectancies for both men and women outside Japan (78 years and 83 years, respectively), as well as widespread material comfort, revealed in their patterns of personal consumption, but also a relatively equitable distribution of income and wealth between their citizens and families.

It was really during the first three decades after the end of the Second World War that Sweden and the other Nordic countries were able to construct comprehensive and generously funded welfare states, based on the application of the universalist principles of common provision for all citizens irrespective of their income and status and funded through progressively redistributive forms of taxation and national insurance systems. Under the often paternalistic direction of a rational and enlightened state, Sweden led the way in the conscious formation of what were genuinely social democratic societies. This admirable development reflected a conscious and deliberate government strategy to translate the abstract concept of social citizenship into a practical reality.

This twentieth-century success, which became known as the Swedish Model, derived in particular from the creation of prosperous and socially cohesive countries but without the need for any

direct challenge to the fundamental features of an open market economy and representative parliamentary democracy with high levels of popular participation. Moreover, Sweden and the other Nordic countries did not sacrifice their economic well-being in pursuit of any elusive egalitarian dream. The ruling Social Democrats in Sweden and their sister parties in the region when in government were always principled pragmatists and not Utopian socialists. As small nation states, the Nordics were well aware that their ultimate success stemmed from a full and successful integration into a wider global economic system as believers and practitioners of open trade and genuine internationalism. This was certainly apparent as early as the end of the nineteenth century and the commitment to a multilateral trading system grew in importance after 1945 as Sweden in particular became an active economic participant in an increasingly integrated world.

The country's evolutionary and gradualist approach was based on a coherent and judicious balance in the shaping of its public policy priorities. The role of the democratic state in Sweden was of crucial strategic importance. It created the necessary climate for the establishment of co-operation and collaboration between capital and labour, between its institutions and its citizens. It also established a progressive policy agenda that was centred on a practical application of what was believed to constitute the public interest. The active encouragement of intricate social and economic networks of power and influence among efficient and competitive privately owned companies in a triangular relationship with an enlightened state and a well-organised and strong trade union movement was a precondition for economic success. In Sweden representative autonomous national institutions of employers and trade unions representing employees as producers but also as citizens worked in harmony together in the creation of a common interest. In doing so they were to provide the necessary institutional means for the construction of a corporatist but democratic and pluralistic model based on the principles of a humanistic rationalism.

As one Swedish writer has written recently:

Few social experiments have caught the imagination of politicians and students of political economy like the Swedish Model. To successive generations of the centre-left searching for their Third Way Sweden was something of a paradise. This exotic Nordic country was a kind of real life Utopia, an idyllic country full of beautiful people with a Social Democratic government which worked, a nation combining high rates of economic growth with unprecedented levels of equality.¹

The Swedish Model's undoubted achievements in the 1950s and 1960s were built on the steady and firm application of economic strategies that encouraged the creation of productive and efficient workplaces through co-ordinated collective bargaining over a widening negotiating agenda between strong and progressive trade unions and socially responsible employers. The emphasis was on the development of a disciplined system of wage bargaining at the centre, which was based more on notions of social solidarity and equality between workers in different sectors, companies and regions than on the free play of market forces of supply and demand. Swedish trade unions developed an egalitarian programme for their members that stressed not only the need to narrow pay differentials but the added importance of the 'social wage', which was funded by the state through high taxes on the better off to encourage a convergence in income distribution. The old Swedish Model provided the institutional means for the successful pursuit of industrial restructuring and greater concentration of ownership in the companies as private capital moved from inefficient and uncompetitive sectors like textiles to the manufacture of products in demand on global markets such as cars and trucks.

But Swedish Social Democratic governments also sought to dampen down any potential internal divisions between the social classes through the pursuit of demand management economic policies. Their aim was to achieve growth rates that ensured that the country maintained full employment. Such a strategy was designed to stimulate and reinforce confidence and stability in the economy. In the 1960s Sweden and the other Nordic countries were able to

combine impressive economic expansion year after year with policies that sought to establish genuine social cohesion between their citizens. In doing so they transformed themselves into some of the most dynamic and equitable societies in the world.

But during the 1970s the Swedish Model came under increasingly acute stress in the face of growing international financial pressures, rising wage push inflation and a vulnerable and uncompetitive currency which began to generate a feverish uncertainty. Sweden's growing army of critics argued that the country was becoming over-dominated by what they saw as an excessively expanding and monopolistic public services sector that they claimed was crowding out private enterprise from investment resources and stifling individual initiative. The country was said to be coming under the irresponsible power of the trade union movement, which was asserting bold ambitions for domination and control over the political economy that in turn threatened to damage the workings of a relatively free market. Wage push inflation became a source of real concern among the policy-makers. Deficits in trade and the balance of payments added to the widespread anxiety. Devaluations of the currency were used to maintain competitiveness. Worries also grew that Sweden and the other Nordic states had now reached the outer limits of what was possible in the advance of the state through high taxation and spending for the well-being of modern economies that did not threaten democratic values. The burdens of tax and spend were said to have grown too onerous and it was alleged that they were weakening the will to save and undermining personal freedom of choice. It is true that open unemployment still remained low by international standards in the 1970s, but opponents of the Swedish Model argued that the once strong Lutheran work ethic was coming under sustained attack with evidence of an increase in the number of welfare dependants and threats of labour militancy. Suddenly foreign outsiders turned from being rather unrestrained enthusiasts of the country into indiscriminate critics as they began to argue that the Swedish Model was no longer one to be admired and emulated but instead a warning, and

that Sweden was a problem country whose generous values and practice of social democracy were no longer enough to guarantee success.

Such a commonly held view was always exaggerated and overdone at the worst of times. The Swedish Model may have fallen into some difficulties but the death notices turned out to be somewhat premature. Indeed, the country revealed that despite the relative adversity it was inherently flexible and dynamic enough to renew itself without any need for unhelpful strictures from abroad. As a result, at the beginning of the twenty-first-century Sweden remains well positioned strategically to advance its lasting achievements still further. The reason for this is that the Swedish Model established and expanded ways of thought and action that were the most likely to respond successfully to the increasing forces of globalisation and technological change as they made a dramatic impact on its product, labour and financial markets. The resulting vibrant economy and relatively equitable social system it had formed in the so-called post-war golden age ensured that Sweden was flexible, adaptable and innovative enough to meet the challenges of the modern world with an understandable optimism and self-confidence. Sweden and the other Nordics still remain among the best equipped of modern societies because of their very resilience and dynamism, which stems from specific cultural traditions and histories and above all through the establishment of the hegemony of the progressive and flexible ideology of social democracy. The Nordic countries proved a long time ago how it has been possible to pursue a winning national strategy that could somehow combine individual prosperity and business success with the pursuit of social justice and provision of a genuine sense of security for all their citizens.

The necessary drive for modernisation in any democratic society requires as much emphasis being placed on the formation of a coherent public policy for the advance of genuine social equality as it does on one that is designed to stimulate open markets, entrepreneurial energies and corporate profitability. Today democratic policy-makers across the world are wrestling with the same fundamental problem:

how to reconcile the need to achieve and sustain economic growth and business competitiveness through a commitment to structural reform of the political economy with the agreement and active co-operation of those who are the most affected by the impact of change. Modernisation through consensus lies at the heart of the new Swedish Model as much as the old, and those of its neighbours.

Much of the current public policy debate in Britain on this critical question of how to achieve popular consent for necessary economic and social change is poisoned by spin, manipulation of the facts and an unappealing hyperbole. We have witnessed the rise of a New Labour nationalism that is based on the unconvincing and questionable assumption that this country has become the envy of our allegedly more sclerotic European continental neighbours and therefore has no apparent need to learn any constructive lessons from the experiences of others. Such an official British attitude is not only based on ignorance and bluster but it is also contrary to any recognisable reality. The recently conceived British Model is founded on profound delusions, a cavalier abuse of the facts as well as an insufferable arrogance, which stretches across much of our political class. Indeed, its endless propagation in public debate has turned into a serious obstacle to holding a sensible discussion about the future of social democracy.

This is why we need to question the growing conventional wisdom about the superior virtues of a supposed British Model within the context of a wider discussion on the relevance and strategic importance of Sweden's creation of its new model if we want to develop a credible social democratic response to modernisation. There are other and better ways than those of our own on how to respond successfully to pressures without any need to abandon our core progressive beliefs centred around an amalgam of liberty, equality and solidarity. We must stimulate a more intelligent and wide-ranging debate on the progressive centre-left that can focus on how we should embrace and accommodate global integration and technological innovation. But this strategic approach can only make any sense if it is based on a rational and

nuanced discourse as well as on empirical, verifiable and objective evidence. Of course, it would be absurd to suggest that Britain could simply transplant the values and practices of Sweden and the other Nordic countries into its own complex political economy and society. But it would be equally naive to assume that we can or should export our so-called British Model elsewhere across the countries of continental Europe. Cultural and social differences, and above all a wide range of diverse national historical experiences, make such an endeavour both futile and counter-productive.

But on the other hand we need to abandon many of the simplistic assumptions about our continental European neighbours that continue to dominate too much of the current British public debate in what is a genuine struggle between varieties of capitalism. The current misplaced denigration of France, for example, is a good example of British blindness to unwelcome realities. French levels of labour productivity, its investment in research and development and its state spending on health and education remain significantly superior in volume and value to our own. The false image of a rigid and uncompetitive France based on an outmoded dirigisme of the state may reassure our political class but it remains a sad caricature of the truth. A similar national myopia can be found in official British attitudes to the contemporary achievements of Sweden and the other Nordic countries. Here we can often detect an unpleasant mixture of patronising condescension and what looks like a deliberate blindness to a scrutiny of the empirical evidence. It is true that there are those on the democratic left in this country who are ready to make some favourable comments on specific experiences in Sweden and Denmark, such as their comprehensive childcare facilities for working families or their active labour market measures to bring the unemployed back into paid work through training and subsidised work experience, but they do so without giving sufficient attention to the wider perspective and to recent history to find out how those countries have modernised themselves so successfully.

Depressingly few in the British labour movement have ever displayed much genuine and consistent

interest in, let alone any real understanding of, the Swedish Model. In the late 1930s the New Fabian Research Bureau dispatched an inquiry team to Sweden to examine the wonders of its so-called Middle Way (as defined by the American journalist Marquis Childs in a book with that name published in 1936²), which appeared to have conquered the scourge of mass unemployment and was actively constructing a national welfare state without abandoning its basic democratic socialist principles between a rigid collectivism and free-wheeling individualism. An admiring volume was published as a result of that Fabian visit³ but the onset of the Second World War ensured it enjoyed only a limited impact. Senior Labour figures like Clement Attlee and Herbert Morrison admired the Nordic experience but they did so mainly from afar. The Party's arch revisionist Tony Crosland in the 1950s also took a keen interest in Sweden and wrote about it briefly but positively in his seminal work *The Future of Socialism*, published in 1956.⁴ He regarded the country as a flourishing social democracy that proved how egalitarian goals could be pursued successfully without the need to resort to state ownership and control of the commanding heights of the economy. At its zenith in the 1960s and 1970s, the country's much-admired model drew enthusiastic acclaim internationally from social democratic modernisers as diverse as Willi Brandt in West Germany and Michel Rocard in France, as well as union leaders such as George Woodcock, the TUC's general secretary, and Walter Reuther, the US Autoworkers Union president.

At this stage I ought to declare an interest. I was Nordic region bureau chief for the *Financial Times* based in Stockholm for five years – from March 1988 to December 1992. It was an eventful time to work as a British correspondent in what has always been a rather misunderstood and under-reported area of the world. During my years there I witnessed and reported on the sweeping modernisation of Sweden and the other Nordic countries that was taking place in their relations with the outside world and in particular towards the European Union. Both Sweden and Finland applied to become EU members in 1991, something they were both to

achieve in January 1995. Norway was also an applicant but its people rejected EU membership in a national referendum. In the business world after 1987 the Nordic region went through waves of corporate mergers and amalgamations as a growing number of important and large Nordic-owned transnational companies sought to readjust and restructure themselves in response to fierce market competition stimulated by greater global integration. The region's financial markets were rapidly deregulated and liberalised and opened up to international capital. Regulations were made more flexible, especially in Sweden, in order to encourage inward investment and to enable foreign companies to buy their way into home-grown firms. The creation of a broader social base for share ownership in a growing number of publicly listed companies began to erode the traditional protections that had been previously upheld for the benefit of indigenous owners of capital. Swedish and other governments invariably (though not always) pursued prudent budgetary policies to curb inflationary pressures and trim their own spending programmes, but none of them did so by abandoning basic social market principles as they adjusted their political economies to the changing demands of the business community on whom the affluence of their societies depended.

The Nordic countries during the late 1980s and early 1990s also experienced considerable political turmoil. In September 1991 the ruling Social Democrats in Sweden lost the general election. As they had been in government for all but six of the previous fifty-nine years since September 1932 this came as a shock to many Swedes. A coalition of centre-right political parties under Moderate Party leader Carl Bildt as prime minister came into power. Unfortunately for them a financial crisis, mainly to the result of international speculative turbulence in the country's vulnerable banking sector, hit Sweden hard a year later in the autumn of 1992. A number of British journalists – especially from the rightwing tabloid newspapers – even flew into Stockholm for a few days in order gleefully to confer the last rites on what they declared to be the death of the Swedish Model as interest rates shot up briefly to 400 per

cent. But British critics shared profound difficulties in determining just how the Swedish Model ought to be defined. There was a tendency to view the Model as a static and mechanistic concept rather than being an infinitely adaptable and dynamic construct whose underlying achievement was its ability to be able to adjust itself successfully in response to the challenges and pressures imposed on it from the outside world.

In fact, since the mid-1990s the Swedish economy has enjoyed a substantial and impressive recovery from the recession in the early years of that decade, the worst to hit the country since the early 1930s. In recent times the country has achieved some of the highest economic growth rates in the world, a strong upsurge in its labour productivity in manufacturing, the creation of a substantial financial surplus on its current account, a healthy trade balance and an active labour market policy of training and job subsidies, which has cut back open unemployment significantly, although in the past year the level of joblessness has risen again. Back in government after September 1994 the ruling Social Democrats once more applied their traditional combination of pragmatism and idealism to resolve their country's troubles with a resulting enviable success. It is no exaggeration to argue that Sweden has created what amounts not just to a modified model but to a new model, though one that is still based on those underlying values of freedom and social cohesion, prosperity and solidarity that characterised its original form.

In Sweden today the mainstream opposition parties do not advocate neo-liberal strategies. On the contrary, they have accepted – if only tacitly – the basic social democratic approach. In some recent past general elections they campaigned for government on a radical right or neo-liberal agenda of rolling back the welfare state and cutting taxes and public spending but they lost decisively at the ballot box as a result. Indeed, the opposition parties in Sweden have recently formed a new electoral alliance that appears to accept current levels of welfare spending and opposes tax cuts except for the less well off. If they were to win the 2006 general election they are likely to emphasise continuity and

not any fundamental change in the defence and advance of the new Swedish Model. Their resulting coalition government would not challenge but accept the contours of the social democratic state.

What Sweden and the other Nordics have achieved is of crucial importance in the much wider public policy debate of how the European left should respond to the complex challenges being imposed on modern societies by globalisation and the impact of communication and information technologies on the world of work. Their success as both social market economies and democratic societies continues to confound the fashionable dogmas and orthodoxies of prevailing neo-liberalism. In Britain it has become almost an unquestioned conventional orthodoxy – from the ranks of New Labour through the young Turks of the Liberal Democrats Orange book to the Conservative Party – that modern market economies cannot flourish and survive in the age of globalisation unless they create flexible labour markets through deregulation, open up what remains of the work of their public sectors to private profit-making providers and sub-contractors, drastically roll back the central directing role of the state and eradicate as much of the public sector as possible outside the maintenance of law and order, and encourage risk taking and wealth creation in business through the dilution or repeal of social regulations that are designed to protect workers and consumers but perceived to hold back the dynamics of entrepreneurship. The deregulation and liberalisation of the modern economy across the western world is now hardly questioned by policy-makers and media commentators who believe – almost as an act of faith – that countries must abandon any residual commitment they may still have to collectivist values of social cohesion and equality if they want to survive and prosper in the future. As a result, our current public debate about the competing models of capitalism in Europe has become over-simplistic. The stark, familiar picture that contrasts a dynamic and booming Britain of flexible and lightly regulated labour and capital markets with sclerotic and failed states in continental Europe strangled by bureaucratic red tape and ossified social structures and ways of work

organisation is not just misleading but plain wrong. It has become a dangerous substitute for hard thought.

In fact, the picture is much more complex and nuanced than most British politicians and media commentators like to suggest. The importance of the Swedish Model in particular is that it demonstrates through example that it is perfectly possible to uphold and practise social democratic values of social cohesion, liberty and equality in the process of modernisation and that those values remain of crucial importance to a country's ultimate economic success. In other words, we do not need to abandon or emasculate the left's achievements of the recent past in order to establish more prosperous and equitable societies.

In the second half of the twentieth century Sweden and the other Nordic countries created some of the most competitive and productive market economies in the world as well as some of

the most prosperous and egalitarian. Their ideological conviction that it was perfectly possible both to encourage the development of markets as well as build comprehensive welfare states provided a civilised and effective response to the problems of that earlier period that were posed by industrialisation and the rise of urbanised societies. The real and current achievement of Sweden and the other Nordics is that they have shown how their basic values – shaped by earlier experiences of what were quite distinctively different societies divided more painfully by class, wealth and power – remain of urgent relevance in facing the challenges of our new, post-industrial information age. This is why we need to know far more about the nature of Sweden's current impressive performance if we want to renew and modernise European social democracy in the face of the serious neo-liberal threat to social justice and the prosperity of all our citizens.

Sweden compared with the rest of its competitors

Sweden remains one of the most economically successful and relatively affluent countries in the world. The facts of its current performance contradict the conventional wisdom that it is not possible to operate relatively high rates of taxation as well as administer substantial and generous public expenditure programmes on welfare, health and education without threatening a country's economic dynamism. The comparative international statistics reveal an impressive picture of both Swedish and wider Nordic achievement. If we examine the most recently available facts we can better appreciate the magnitude of what has been accomplished.

The most prominent success of the Swedish Model lies in the workings of its labour market. The creation of full employment for all became the highest priority for the country's governments since the early 1930s depression. It remains so today. Sweden continues to allocate a higher proportion of its gross domestic product to active labour market programmes than any other country in the world. As a result, Sweden along with the other Nordic states has already reached the overall 2010 target of a 70 per cent employment rate for adults of working age, which was set by the European Union heads of government Lisbon summit conference in 2000. But the Swedish government has set itself a more ambitious target with an 80 per cent employment rate by 2010 for the adult age population between 20 and 64. Even more impressively, Sweden and its neighbours – Denmark and Norway – are the only three European countries that have reached employment rates for women based on full-time equivalents that are now above 60 per cent.

The unemployment statistics reveal an equally impressive picture in Sweden. During the Model's golden age in the 1950s and 1960s the country

enjoyed virtually full employment and resulting labour shortages of key workers. In the early 1990s open unemployment climbed to nearly 10 per cent but in recent years it has fallen back to around 5.5 per cent. This remains high by Swedish standards and the numbers out of work rose during the brief 2002–03 recession and they have done so again recently. The government's target is to reduce the figure to 4 per cent but it has admitted this will not be achieved in the foreseeable future. The most striking achievement, however, can be seen in the small proportion of long-term joblessness in Sweden as measured by the proportion of people who have not been in paid work for at least twelve months or more. All the Nordic states have some of the lowest proportions of their labour forces among European Union member states that are classified as long-term unemployed. In the United Kingdom today nearly one in four of the registered jobless have not experienced paid work for over twelve months whereas in Sweden the figure is 18 per cent.

But it is not only Sweden's relative recent achievement in tackling open unemployment and raising its employment rate that underlines the country's performance relative to its competitors. The growth in its labour productivity rate and that of the other Nordic countries is also striking. Only the United States and Ireland have achieved a comparable record during recent years. Certainly the United Kingdom lags well behind the Nordic region in its productivity performance. In 2003 Finland's growth rate was 2.6 per cent, followed by Sweden with 2.5 per cent and Denmark with 2.1 per cent. The British growth rate was 1.7 per cent for that year while in Germany it was only 0.9 per cent and in France 0.8 per cent. The longer-term perspective confirms the substantial advance in

labour productivity in manufacturing in the Nordic countries. Between 1994 and 2003 the annual growth rate averaged 5 per cent in Sweden. By contrast the growth rate was only 2.2 per cent in Britain over the same period of time.

Another impressive comparative achievement has been in Sweden's modest level of wage increases and low unit labour costs, which has improved the country's competitive advantage on world markets. And yet Sweden continues to have one of the most powerful trade union movements in the world. The majority of its workers (getting on for 85 per cent) are organised and collective bargaining remains the main method by which their wages are determined. But in recent years pay settlements have been responsible and restrained. From the mid-1990s the country moved away from a flirtation with decentralised bargaining as both companies and trade unions recognised the perils of a wages free for all and competitive wage bidding. Instead it was agreed to restore a more flexible form of wage co-ordination backed up by a mediation procedure. As a result unit labour costs have remained competitive and compare favourably with the country's main international rivals. In Sweden there was even an actual fall of 0.6 per cent in unit labour costs in 2003 while in Finland unit labour cost growth was a mere 0.6 per cent and in Denmark 2.1 per cent. Compare this with a 2.8 per cent increase in Britain and 4.8 per cent in the United States.

An important feature of Sweden's comparative advantage in modernisation has been its commitment to gender equality at work and in society. Women in Sweden are among the most empowered of any in the world. The latest statistics from the World Economic Forum found the five Nordic nations occupied the top five global positions in the extent of female empowerment, in a survey that covers 58 countries. Sweden was the most advanced followed by Norway, Iceland, Denmark and Finland. Britain was in ninth position in the table. The aggregate rating is determined by the extent to which women have achieved full equality with men in five distinctive areas – economic participation and opportunity, political empowerment, educational attainment, health and

well-being. The impressive record of Sweden and the other Nordics is no accident. It stems from a persistent and enlightened public strategy to conquer gender inequalities that has been pursued successfully for more than forty years.

The fundamental commitment to stability and security that characterises Sweden has not meant any rearguard defence by either firms or workers of old industries and archaic labour intensive employment practices. On the contrary, some of the most impressive indicators of the modernity of Sweden and the other Nordic countries can be found in their global rating positions in the extent to which their people make use of information and communications technology in their daily lives. The 2004 survey carried out by the independent World Economic Forum rated Finland as head of the nation state league table. Sweden came in fourth place after the United States and Singapore, respectively, while Denmark was eighth. The results were calculated on the basis of seventy different variables on the 'network readiness of people, businesses and the public authorities'.

The impressive performance in the application of information technology in Sweden and the other Nordics is accompanied by an equally positive focus on the level of expenditure on research and development. In 2003 – the latest year for such comparative statistics – Sweden topped the international league table rating with 4.3 per cent of its gross domestic expenditure being allocated for research and development. This compared with Finland on 3.4 per cent and Denmark with 2.2 per cent. Interestingly the record in France and Germany was superior to that of Britain. Those two countries spent 2.2 per cent and 2.3 per cent respectively of their gross domestic product on research and development compared with 1.8 per cent in Britain.

Investment in knowledge also found Sweden and Finland were close to the American figure. In 2004 Sweden devoted 7.2 per cent of its gross domestic product to knowledge investment compared with 6.2 per cent in Finland and 6.8 per cent in the United States. In contrast Britain devoted 4.3 per cent of its gross domestic product to such investment, which

was significantly less than Germany (4.8 per cent) and France (4.6 per cent). By international standards, Sweden can claim to enjoy the highest proportion of a country's labour force employed in knowledge intensive jobs followed by Norway and Denmark, with Finland in fifth position. Table 1 illustrates the extent of IT in business services in the Nordic countries.

Table 1 The Nordics and information technology 2002: IT sector share in value added as a percentage of total business services

	Telecoms	Computers	ICT	Total
Sweden	4.5	5.7	2.5	12.6
Denmark	3.2	2.6	3.9	9.7
Finland	5.9	4.0	2.7	12.6
Norway	3.2	3.5	2.6	9.3
UK	4.2	5.0	2.7	11.9
France	2.8	4.0	2.3	9.1
Germany	3.2	3.6	0.0	6.8

Source: OECD 2004

Needless to say, Sweden and the other Nordics have much wider individual ownership of personal computers than other western countries. More than three-quarters of their people now use them compared with half in the United Kingdom and the United States. The proportion of the population who are internet subscribers is twice as high as in this country.

A range of comparative statistical tables produced annually by The Economist Intelligence Unit further emphasises the supremacy of the Swedish achievement in communications and information technology. In its 2004 league table the country came fourth in the EIU's innovation index, following the United States, Taiwan and Finland. The United Kingdom was in 13th position behind Germany but ahead of France. This measure is formed from a compilation of human resource skills, market incentive structures and the degree of interaction between business and scientific sectors. In a separate information and communications technology index Sweden came in third position in 2004 after Iceland and Finland. This was made up of the use of information technology as well as per

capita measures of telephone lines, internet usage, personal computers and mobile phone users. The United Kingdom trailed in 15th position in that particular index.

Further evidence of Sweden's modernisation can also be found in the number of patents granted to residents. The number in force per 100,000 inhabitants in 2000 – the last year for comparative data – was an impressive 1,097, which put the country in third place behind Luxembourg and Switzerland and far ahead of the United Kingdom, which came in 13th place.

Other comparative data provides evidence of the extent to which Swedes enjoy a greater quality in their lives. Zurich Cantonal Bank has been carrying out a comparative sustainability survey every year since 1999 and this indicates the relative success of Sweden and the other Nordic countries in creating modern societies that combine social cohesion with a high quality of life for most of their people. The Bank's 2004 report was based on an assessment of a hundred individual indicators covering social and environmental performance in thirty advanced countries. The environmental areas covered included water quality, the amount of energy consumption, the level of carbon dioxide emissions, air quality, levels of environmental protection, the standard of public transport as well as corporate and public policies on environmental issues. The social indices included levels of crime and corruption, civil rights, living standards, life expectancy, gender equality, international commitments on aid, arms and refugees, levels of alcohol and tobacco consumption.

Sweden achieved first place in the Bank's 2004 sustainability league table, followed closely by Denmark. Their high ratings were mainly due to their undisputed record on the range of social indicators, especially in the achievement of gender equality but also in health care, standards of living and human rights. By contrast, the United States came bottom of the sustainability league just behind Mexico and Turkey. It was the social rather than environmental rating that ensured Sweden came out well ahead of other countries in the survey. The survey also pointed in particular to that country's high spending on research and development (4.6 per

cent of gross domestic product) and the social responsibilities displayed by their companies. In addition Sweden benefited from the impressive size of its educated female population in the labour market as well as from a generous overseas aid budget, its enlightened attitude towards political refugees and a low level of arms exports. Swedish environmental policies also lifted the country to its premier position in the league table. The low emission levels of greenhouse gases, its above average performance in biodiversity and the proportion of farmland devoted to organic production were further admired features of the Swedish experience.

The annual human development report published by the United Nations development programme provides an authoritative picture of the quality of life in the world's nation states. In 2004 Norway came top of its human development index, followed closely by Sweden, Australia and Canada. The United States was in eighth position and the United Kingdom in twelfth, just ahead of Finland.

The relative social achievement of Sweden and the other Nordics can be seen in some but not all of their health statistics. Take infant mortality, for example. In 2002 Sweden suffered only 2.8 infant deaths per 1,000 live births, followed by Finland with 3.0 and Norway with 3.9. Contrast this with a figure of 5.3 per 1,000 live births in the United Kingdom and 6.8 in the United States. Over the first five years of the present decade Sweden averaged 3.4 infant deaths per 1,000 live births just behind Japan and Singapore but far ahead of this country and the United States.

One of the most impressive comparative statistics remains the extent to which Sweden and the other Nordic countries – in line with more than a century old tradition of global philanthropy – continue to be the most generous in their provision of international aid, far more so than the United Kingdom or the United States. All five of the Nordics meet the United Nations target of a nation's 0.7 per cent of gross domestic product being devoted to foreign aid. Sweden – despite its small size – devoted as much as 0.83 per cent in overseas aid in 2004, substantially more than the United Kingdom. The country was

the fourth most generous in its aid budget in that year, just behind Saudi Arabia, Denmark and Norway. It is actually the world's eighth largest donor of aid to developing countries in absolute terms. The country needs to hear no moralising lessons of what ought to be done from the British government. If the United Kingdom achieved the proportion of gross domestic product allocated to aid that Sweden does it would have something to boast about.

Of course, the better quality of life in Sweden comes at a price but it is one that it seems Swedes are willing to pay. The high position of Sweden and the other Nordics in the comparative international statistics is apparent in their levels of taxation and public expenditure. Total tax revenue as a percentage of gross domestic product remains the largest in all of the Nordic countries, even though it has fallen back from the levels of thirty years ago. The latest comparative figures on this from the Organisation for Economic Co-operation and Development (OECD) reveal that Sweden is top with 51.9 per cent followed by Denmark on 49.8 per cent and Finland on 46.0 per cent. In Norway the proportion is less at 43.3 per cent. In Britain the proportion was only 37.3 per cent compared with 45.0 per cent in France and 36.8 per cent in Germany.

Sweden's production workers are heavily taxed by international comparison. In Sweden taxes on the average worker as a percentage of labour costs amounted to 46.6 per cent in 2003, compared with 44.5 per cent in Finland and 42.7 per cent in Denmark. By contrast the figure in Britain and in the United States was 31.1 per cent. Taxation on incomes and profits combined was also relatively greater in the Nordics. In Denmark it amounted to 29.5 per cent, in Norway 19.9 per cent, in Sweden 19.3 per cent and in Finland 19.0 per cent. In Britain the figure was only 14.8 per cent, but this was higher than in France at 11.4 per cent and 10.6 per cent in Germany.

The most striking international comparison between Sweden and other advanced western economies lies in the degree to which the country is more equal in the distribution of income. A recent

study carried out by the OECD reported that inequality in the distribution of household disposable income in western countries increased slightly during the second half of the 1990s and that relative poverty – measured at half median income – also grew to cover 11 per cent of the OECD population.⁵ Sweden and the other Nordics were no exception in experiencing a widening of income distribution but the comparative statistics reveal that those countries continue to remain significantly more equitable than their competitors. This is the most striking when you examine what is the widely accepted indicator of income inequality – the so-called Gini coefficient. This figure is based on a spread from 0 in the case of perfect equality, where everybody in the society gets exactly the same share of income, to 100, where all income goes to those with the highest income. Sweden was about 24 and the other Nordics recorded in 2002 figures of around 26, which was 15 per cent less than the OECD average value. By contrast Britain was about 31 and the United States as high as 36. The study found that Sweden and Finland experienced the strongest increase in income inequality, with a widening in the top quintile from the rest between the mid-1990s and 2000. But those figures are misleading unless you recognise that in both

countries the levels of income equality were still much higher than elsewhere.

This array of comparative statistics helps to place Sweden in an international perspective. The country along with its Nordic neighbours can fairly claim to be one of the most efficient, affluent and equitable countries in the world. The Economist Intelligence Unit produces an annual quality of life index based on a range of economic and social indicators. The main one is income but the others cover health, freedom, unemployment, family life, climate, political stability and security, gender equality and family and community life. In 2005 Ireland came in first position in the table but Norway was third and Sweden fifth. The United Kingdom was only 29th in the table, just behind France and Germany.

Sweden and the other Nordic states are hardly perfect societies or ultra successful economies but across a wide range of international indicators compiled by independent and impartial research and forecasting bodies they rank among the best in the world. It seems their blend of market economics and social welfare politics is continuing to succeed despite globalisation and the speed of technological change.

Now we need to take a closer look at Sweden's new model and examine how it provides lessons for social democracy.

The Swedish Model and its economic achievements

Sweden and the other Nordic countries are open, thriving and efficient economies operating on global markets. Their prosperity stems from the business success of their competitive private companies in the wider world. Without an impressive export and investment performance it is improbable that Sweden would now be among the most affluent. As much as 45 per cent of Sweden's gross domestic product derives from its exports. But the country's economic revival since the mid-1990s has depended on the ability of its governments to pursue sensibly prudent and responsible financial policies without undermining their publicly funded welfare states.

Sweden in the so-called 'golden age' of its earlier model during the 1960s and 1970s suffered the consequences of a relatively high level of wage push inflation. Today the country is experiencing only a modest increase in its consumer price index and real wage growth while its currency remains both strong but also competitive. In 2004 Sweden's consumer price index averaged a mere 0.4 per cent rise and in 2005 it is expected to run at only 0.5 per cent. The Ministry of Finance believes that such a low rate of price increases stems from restrained voluntary wage bargaining between the social partners of capital and labour. The nominal rate of wage rises since the end of the recession in the mid-1990s was half as high as it had been during the speculative boom of the 1980s.

The Swedish economy looks as if it is now being well managed. The country is now enjoying a substantial surplus on its current account. That trend is expected to continue over at least the next three years. In 2004 this amounted to as much as 6.8 per cent of Sweden's gross domestic product and the figure is forecast to climb to 7 per cent by 2007. The current achievement stems from buoyant exports,

which grew at the phenomenal rate of 9.5 per cent last year. This result was mainly due to the large world demand for the country's manufactured telecommunications equipment. The trend is forecast to continue healthily until at least the end of 2007. The picture is broadly similar in the other Nordic countries. All four of them are now in the top seven in the world with the largest balance of payments surpluses. They also enjoy low inflation rates by international standards, low interest rates and modest wage growth. The prudent management of the political economy across the Nordic region has been the necessary precondition for their current modernisation drives.

The Swedish picture looks equally buoyant in the level of its current investment trends. A 4.7 per cent growth rate in investment in the business sector was recorded in 2004 and in 2005 it is expected to climb to 7.3 per cent, with more than 9 per cent in the goods producing sector. The forecast suggests overall business investment will remain at over 5 per cent next year and remain that high until at least the end of 2007. Interestingly this investment growth is occurring over a wide range of the country's export industries – pulp, paper and paper products; mining and quarrying; as well as chemicals and transport equipment.

An especially impressive achievement can be found in the size of the inward flow of foreign investment over recent years. Between 1994 and 2003 Sweden enjoyed an actual balance in its investments with a Skr1.4 billion inward growth compared with an outflow of investment overseas of Skr1.3 billion. The internationalisation of business in Sweden was substantial during that period. The country's leading companies – Volvo, Saab, Ericsson, Electrolux – are now under the control of foreign majority ownership. It is estimated that as many as

three-quarters of the Swedish workforce in the private sector are now employed by companies who depend for commercial success on their overseas operations. Moreover the country's openness has established important networks of collaboration in research and innovation through the creation of foreign-domestic partnerships. The picture is similar though less extensive in the other Nordic countries. It does not seem that their welfare state models have turned out to be a disincentive for foreign investors and companies.

Moreover, Sweden's own public finances in recent years have registered a regular surplus on its current accounts. As the Ministry of Finance argued in its 2005 budget statement: 'Surpluses in the public economy when times are good make it possible to avoid cutbacks in harder times – when welfare services are needed most. Sound public finances are also a question of fairness to future generations.'⁶ In fact, since 2000 Sweden has enjoyed a growing surplus, ensuring that it stays well within the lending and borrowing limits set by the European Union's growth and stability pact. In 2004 its net surplus rose to 2.1 per cent of the country's gross domestic product. Since 1997 the Swedish government itself has set a ceiling on its expenditure and its public finances have stayed within that limit. The soundness of the public finances has enabled Sweden as well as Denmark to become two of the handful of European Union states who have already reached the ambitious 2000 EU Lisbon targets for growth and competitiveness. It does not seem as if the country has suffered from remaining outside the constraints of the euro zone after the voters rejected membership of the common currency in a national referendum.

The current good management of the state's finances was the necessary precondition that enabled the Swedish government to launch an ambitious programme of renewal and innovation in June 2004. It recognises that the country must compete internationally on the basis of knowledge, skills and creativity. This is being achieved in part through a highly active government industrial policy. This approach has not meant subsidising losers or propping up failed or decaying industrial sectors and companies. On the contrary, the Swedish state is

keen to stimulate new industries and products that can compete on global markets. As much as Skr2 billion of public money is being allocated by the state over the next ten years to encourage the formation of new firms 'in the borderland between ideas and product'. A new innovation company – Innovationsbron AB – has been established by the state to carry out that purpose. The Swedish Industrial Development Fund is also being used to help in the provision of more risk capital. The Swedish government declared that 2005 would be a year to promote design. But it has not abandoned the country's traditional and still important industries – wood and forestry products, metallurgy and auto production. In close strategic alliance with the country's trade unions and private companies, it is developing programmes for modernisation in those sectors as well. In addition, a new holding company is being formed by the Swedish government, which aims to increase the transfer of knowledge between higher education and industry. Government-backed industrial development centres now exist in more than nineteen regions of the country and they are taking a special interest in promoting the activities of small firms. Sweden continues to have a state-owned industrial sector, which the government insists must operate on strictly commercial lines and it is also being harnessed fully in the government's new innovation strategy.

As the Swedish government policy paper on innovation published in October 2004 argued: 'Neither market forces nor policies alone can create more innovation. A coherent policy aimed at facilitating renewal requires co-operation and interaction between people, enterprises, the education system and the public sector at national, regional and local level.'⁷ In this process the Swedish state has become the driving creative force. But its key determining role should not be seen in isolation from the dense and wide network of autonomous institutions that have determined the evolution of the Swedish political economy since the 1938 agreement, or the 'historic compromise' that brought the powerful trade union movement into a national understanding with private sector employers on how Sweden should be managed. Of

course, most of the corporate world based on manufacturing that shaped the Swedish Model in the first three decades after the end of the Second World War has gone. Wages and benefits are no longer determined through national level negotiations. Moreover, companies have abandoned any pretensions to unilateral management of their affairs. The moves to a more decentralised but still disciplined approach to workplace change and the greater use of an active worker and trade union participation have not been reversed – on the contrary they continue to colour the distinctive character of the Swedish business system. Indeed, the current ability of companies to respond so effectively to the modernisation challenge owes a great deal to the traditions and practices established more than four decades ago. The early version of the Swedish Model proved flexible and protean enough to outlast the political economy of big manufacturing firms and centralised decision-making that dominated its beginnings. The institutions that were established then did not ossify and decay. The market pressures for more individualism and autonomy were contained within the deeply rooted corporatist and democratic ethos of the Model.

Sweden likes to emphasise how the strength of its system of employment relations and labour markets are based on the presence of strong and progressive trade unions. Organised labour remains an important reason for the country's business success. During most of the twentieth century the trade union movements of all four Nordic countries were unapologetic modernisers in the world of paid work on behalf of the interests of their members. They were self-confident and secure enough in their legitimacy to welcome industrial and workplace change rather than resist or obstruct what needed to be done to ensure business success. Indeed, it was their positive attitude to the internationalisation of their country's economies that ensured peaceful and innovative transformations in their occupational and industrial structures. The Swedish trade unions – like those of other Nordic countries – have always believed in open markets, private and public investment in research and development in new

products and industries, and in a positive strategy of workplace co-operation and participation to humanise work and to raise the adaptable skill levels of their members, as well as restructure business in response to external competitive pressures. In Sweden, unlike elsewhere, this strategy did not stem from a position of weakness or defensiveness in organised labour's relations with business. On the contrary, the trade unions often seized the initiative in pressing for workplace modernisation that improved not only business competitiveness but also the real wages and benefits of their members. As a result, the quality of working life agenda has been seen to be at the centre of Swedish collective bargaining ever since the 1960s. This approach helped to make many of the country's workplaces some of the most environmentally friendly and healthy in the world despite the current high levels of sickness absenteeism.

The centrality of Sweden's trade unions must, however, be seen within a broader picture of corporate modernisation. The gains that they were able to make did not arise from a bitter war between capital and labour exclusively under the banner of workplace justice. On the contrary, all the Nordic labour movements argued that the forms of worker security and well-being accomplished through the negotiation of a broad bargaining agenda for their members was vital if the companies they worked for wanted to restructure and modernise in order to meet the competition they faced on markets at home and overseas. It is true that in the 1960s and the early 1970s the trade unions pressed governments to regulate the workplace through new laws to ensure that the fruits of the achievements made in the large companies were extended to all employees, irrespective of the performance or circumstances of the employers whom they worked for. The cause was certainly often articulated in the radical language of social justice and the rights of labour. In Sweden this approach shifted the trade union movement to the left. As a result, the manual trade union confederation LO (Landsorganisationen i Sverige) pressed for the introduction of a scheme of so-called wage earner funds in industry in 1975. Initially that

bold plan envisaged the gradual takeover of private industry by the trade unions over twenty years but it was watered down heavily under pressure from employers and the apparent indifference of trade union members and a Social Democratic Party that feared such an approach would undermine its electoral popularity. Eventually a compromise was reached in 1985 that fell far short of the original purpose of the fund project, and the whole debate on trade union dominated industrial democracy came to an end.

Today in Sweden and across the Nordic countries the trade union movements argue the case for worker rights and participation in corporate decision-making not only as an integral part of a social justice agenda within a progressive workplace programme but very much as a modernisation imperative to enable firms successfully to meet the challenges of globalisation. The state funded Invest in Sweden agency, established in 1996 to encourage foreign investors into the country, makes a strong point in its promotional literature to emphasise the positive good that the country's trade unions make to the achievement of corporate success. It argues that they 'provide the foundation for social cohesion' that is so vital in ensuring co-operative and profitable change in the workplace.

Sweden's business achievement also owes much to the constructive attitude of the country's employers who practise and do not merely pay lip service to notions of corporate social responsibility. A less recognised result of co-operative but strong employment relations in the Nordic models are the existence of cadres of highly professional and progressive managers in its export-led companies. The open and consensual style of their management of adaptable and well-organised employees has provided such firms with a competitive advantage. Far more companies across Sweden and the rest of the Nordic region have abandoned the old discredited command and control systems of management that still remain surprisingly common in Britain. They not only preach the virtues of flat hierarchies, workplace diversity, informal team-working, direct communication and commitment but they apply such human resource management

techniques in a coherent and holistic way with positive effect. There is an obvious and imaginative symbiosis between progressive trade unionism and modernising management in the emergence of such an innovative and dynamic approach to the organisation of work. This has become a crucial and often overlooked part of the Swedish Model and the wider Nordic experience. In short, the pervasive influence and creative strength of trade unionism in mutual co-operation with openly progressive companies has worked effectively to stimulate the most advanced forms of work humanisation and corporate success.

It is important to emphasise how much this impressive achievement in Sweden has not occurred at the expense of a clear advance in the influence and power of an independent, autonomous and vibrant trade union movement, which continues to buck the widespread trend of union decline in membership density and collective bargaining power that is happening across most western economies. The trade unions in Sweden and the other Nordic countries in strategic alliance with companies remain at the core of the modernisation process and by doing so they have helped to ensure its uncontested success. It is not a coincidence that trade unions in Sweden and the rest of the Nordic region represent the majority of people at work and yet continue to thrive in the development of affluent societies that emphasise risk taking, innovation, entrepreneurship and research and development in new product markets. Strong representative institutions of labour not only go hand in hand with the modernisation process in Sweden and elsewhere in the Nordic region but they actually remain the precondition for its ultimate success. If the region's trade unions were growing ever weaker and being forced to battle on the defensive, facing meltdown in the private sector and without organising strategies for recruitment in the burgeoning private services, then the Nordic success story would have remained an unfulfilled dream.

But it is also necessary to recognise the importance of corporate strategies in the business achievements of the Nordic models. Firms across the region practise good management techniques in the

way they organise and reward work. As Peter Auer at the International Labour Organisation has argued, 'mature' companies are not in favour of applying unilateral hire and fire policies towards their own employees that are based on short-term responses to a sudden share price change or an unexpected shift in consumer preferences. Such flexibility is not seen as an asset to the firm. On the contrary, successful companies are those that already have 'employment retention policies in place, regulate their turnover and appreciate experience'.⁸ Of course, such a strategy is not always possible. Swedish companies also need to restructure themselves in the face of competitive pressures like those in other countries. But many of them have established and negotiated structural readjustment programmes that seek to avoid compulsory redundancies except in the most extreme circumstances. Instead, the emphasis is placed on job relocation, training in new skills for employees, provision of help in job searches and generous financial support and compensation for those adversely affected by the consequences of workplace change. Such an enlightened approach in Sweden has helped workers and their trade unions to recognise and respond positively to workplace modernisation.

It is not just the progressive role played by trade unions, companies and their employees in the Nordic region in ensuring the peaceful transition of workplace change that is of such importance to capital in its response to the ever-widening demands of the global market, however. We now need to turn to the other pillar of the Swedish Model – to its pursuit of the 'good life' in a strong and democratic society and its serious efforts to translate the concept of social citizenship into a practical reality for everyday living. The formation of more egalitarian and socially cohesive societies is not seen as a threat to the success of the Nordic style of a socially collaborative market economy. On the contrary, it needs to be emphasised that its very existence has made it much easier for the countries of the region to accommodate and embrace the forces of globalisation and technological innovation. The business achievements and maintenance of the

welfare state sides of the Swedish and other Nordic models do not merely co-exist. As we shall see, they depend on an interaction between each other in order to achieve ultimate success. The October 2004 Swedish innovation policy document explained: 'Sweden's social security systems and its tradition of consensus between the social partners have put us in a good position to manage a structural transformation. Historically far-reaching structural changes have been made in a spirit of consensus between the social partners which was born out of a shared insight into the necessity of maintaining a competitive business sector.'⁹ Too often observers of the Swedish Model tend to focus too much on the operations of its welfare state and fail to recognise that this cannot be treated in isolation from the country's business and economic achievements. Moreover, the close inter-connection between the social and the economic does not merely stem from the fact that the comprehensive and relatively generous nature of social benefits by international standards are paid for by high levels of taxation and public expenditure generated by entrepreneurial success on global markets.

The link between the two faces of the Swedish Model lies in its strong commitment to the pursuit of active labour market policies under the direction of enlightened governments of all political parties. For the past half century Sweden has always made the creation and maintenance of full employment its key priority. All the Nordics believe strongly in the Lutheran work ethic for their citizens. But they have also mostly rejected the harsh Anglo-American view that a distinction needs to be drawn between work-shy scroungers and genuine job seekers. The systems they have established are not based on punitive or openly coercive forms of social discipline with very low levels of benefit for those without paid work. On the contrary, the financial support for the unemployed in Sweden in particular remains remarkably generous by British standards. However, Nordic labour market programmes are concerned to ensure that very few people actually need to receive such passive financial assistance. The emphasis is on encouraging the jobless to get back quickly into paid work in the labour market and not remain passive

recipients of state financial support or on job subsidy or training schemes. The provision of widespread training and education facilities as well as the existence of an increasingly intensive job search approach for those who are unemployed provides the key.

The next section of this report will argue that it is the very interdependence between those two sides of the Swedish and the other Nordic models that explains their undoubted success. The region's official attitude to welfare and equity is not an

altruistic or sentimental gesture towards its less well-off citizens but a crucial part of a hard-headed economic and political bargain that is based strongly on the enforcement of the work ethic and the concept of an active social dimension. As the 2004 Swedish government's innovation policy paper has explained: 'Well functioning social security systems, combined with good opportunities for skills development, increase the prospects of achieving change without excluding significant groups from the labour market.'¹⁰

The Swedish model and the pursuit of a strong society

Many observers of modern Sweden fail to recognise that the country's modern achievements derive mainly from the creative work of its extraordinarily successful labour movement. The malleable Swedish Model has always been a conscious political project. The Social Democrats remain the most successful left-wing party in the democratic world. The Party's longevity in government is quite remarkable. The Social Democrats ruled Sweden either on their own or in coalitions for forty-four years from August 1932 to September 1976 without interruption. Again, they formed the government between September 1982 and September 1991. Since September 1994 they have once more been in office. In other words, the Party has governed Sweden for all but nine of the past seventy-three years and it has done so in a multi-party parliamentary democracy that is based on a proportional representation electoral system, which is not generally known for producing strong and decisive governments but weak coalitions. But it is not just their length of time in running the state that should attract the attention of the left everywhere to the achievements of the Swedish Social Democrats. It is the way in which they have developed and refined their concept of social democracy in response to changing times and then translated its core values into practice with the democratic approval and active consent of the Swedish electorate that is of the greatest significance. In the past, as now, the Party's leaders have proved to be highly effective pragmatic idealists. Moreover, their success has always been incremental and circumspect in the best tradition of progressive reformism. Swedish social democracy was never an ad hoc, hand to mouth or frenetic response to unforeseen events. Its lasting strength derived from its deliberative commitment to clear

and realisable strategic goals that were to be achieved over time. The Social Democrats sought to mould Sweden in a progressive way through the creation of a wide consensus and not by imposition or executive fiat. It has always been sensitive to the often conflicting tides of public opinion and social and economic trends at work in a democratic society, and ever-conscious of the need to absorb and reshape their collective response to developments that often appeared to endanger social democratic values.

The deep historical experience and practice of the party in government has helped to ensure the Social Democrats can display the intellectual rigour and self-confidence needed to revise and renew their basic ideology in the light of changing circumstances. The current modernisation of social democracy through the creation of what amounts to a new Swedish Model during the past ten years provides a good example of what this has meant in practice. The Party has produced a cogently argued document that not only sets out a highly attractive vision of Sweden's social democratic future in the twenty-first century but provides the ideological underpinnings for the new Model.

In its November 2001 declaration, the Party sought to reconcile its fundamental principles to the new world of globalisation and technological innovation. The resulting revisionism has a coherent relevance, which contains important political lessons for the wider European left and not just in Sweden. Freedom remains central to the Party's social democratic vision. The Social Democrat programme declares that:

Everybody must be free to develop as an individual to govern their own lives and to influence their own society. Freedom involves both freedom from external

compulsion and oppression, hunger and ignorance and fear of the future as well as the freedom to participate and to decide on questions together with others, to develop as an individual to live in a secure community and the freedom to live one's own life and to choose a future of one's own.¹¹

But the Party's commitment to the concept of individual freedom for all the country's citizens also presupposes they share a strong belief in the pursuit of genuine equality:

Equality means that all people despite different preconditions are given the same opportunities to build their own lives and to influence their society. This equality presupposes the right to choose and develop differently without differences leading to social ranking and to social divisions in power and influence over everyday life and in society.¹²

In other words, the abstract concepts of freedom and equality are seen to be interconnected in the creation of both a common good and a public interest. But the programme also adds that it is solidarity that binds the resulting strong society together:

Solidarity is the unity that originates from the insight that we are all mutually dependent on each other and that the best society is the one that is built on co-operation, on mutual consideration and on respect. Everybody must have the same right and opportunity to influence solutions; everybody must have the same obligation to be responsible for them. Solidarity does not exclude striving for individual development or success; it excludes the egoism that enables people to exploit other people to their own advantage.¹³

As in the past, the Swedish Social Democrats argue today that the pursuit of freedom, equality and solidarity can only be made possible through the creation of a vibrant democratic society, which in the end assumes a clear primacy over the priorities of the market economy:

All power in society must start from those who together form society. Economic interests never have the right to set limits to democracy; democracy always has the right to state the terms for the economy and to set limits for the market. Social Democrats strive for a social order where people as citizens and individuals can influence both developments at large and community work at the level of everyday life. We strive for an economic order

where every person as a citizen, a wage earner and consumer can influence the direction and redistribution of production, the organisation and conditions of working life.¹⁴

These fundamental democratic values lie at the core of the new Swedish Model as much as they did of the old one.

The new programme evokes the ultimate vision of social democracy with some eloquence:

Our aim is a society without divisions into lower or higher orders, without class differences, sexual segregation or ethnic divisions, a society without prejudices and discrimination, a society where everybody is needed and has a place, where everybody has the same right and the same value, where all children can grow up to become free and independent adults, where everybody can run their own affairs and in equal and solidaristic co-operation work for the social solutions that serve the community best.¹⁵

But Sweden's Social Democrats also argue in what amounts to an ideological manifesto for the new age that their underlying values have to be applied in a credible and coherent way so that they are rooted in the realities of our dangerous and complex world. On the one hand, modern society may provide the opportunities for all individuals to realise their full potential as human beings, but on the other it can also strengthen the unequal and insatiable power of capital. The Party does not hold a benign or complacent view of such market capitalism. It adopts a highly critical attitude to the volatility of international speculation, the concentration in the ownership of large companies beyond democratic control and the environmental degradation that stems from unregulated capitalism's inherently destructive forces. As in the past, the Swedish Social Democrats argue that it is necessary to construct countervailing influences in society and the economy to limit the ability of capital to dominate and threaten democracy. The declaration asserts: 'Social Democracy is and it remains an anti capitalist party which has always built up the counter weight to the demands of capital for power over the economy and society'.¹⁶ But it also honestly acknowledges that those progressive influences have grown weaker than they used to be.

Today's political challenge on the democratic left is to find a way that can strengthen the democratic constraints on the destructive force of global capitalism. The primary answer lies in the reassertion of the concept of the public interest through the progressive activities of an enlightened state, effective and strong trade unions, independent non-governmental movements in civil society, professional associations and wider democratic forces at local, national and international level. As the programme states, 'Swedish Social Democracy seeks to be part of this political force which makes globalisation an instrument of democracy, of welfare and social justice.'

Interestingly the document draws on explicit inspiration from the works of Karl Marx and Friedrich Engels and what it describes as their development model of the political economy. It also makes an important distinction between capitalism and the market. The former is described critically as a 'power system', which brings about exploitation and injustice through an exclusive focus on the compelling need for making a return on capital to meet the demands of shareholders. But the latter is praised as 'a system of distribution where goods and services change ownership with money as the medium of exchange and the price mechanism is a fast and effective signal system between producers and consumers'. The programme explains that what the Party seeks in Sweden is 'an economy controlled by popular interests', one where capital is not the undisputed master. This is why the creation and advance of the democratic state is of such crucial importance. It sets out clear limitations on the primacy of both the power of capital and that of the free market. 'Social Democracy rejects a development of society where capital and the market dominate and commercialise social, cultural and human relations. The norms of the market must never determine people's worth nor provide the norm of social and cultural life', argues the Party.¹⁷ The market cannot be free to act without any political control on its activities because its inherent tendency is always towards concentration and monopoly. Moreover, the price mechanism remains inherently unpredictable and as a result it can

undermine the very stability that is required for the market to function effectively in the interests of people as a whole. The rules and regulations required to manage the market economy effectively have to be made and enforced by 'public bodies independent of the market', so that the market is 'only one part' of a much wider economic and social system.

The Swedish Social Democrats continue to insist that social rights must be upheld as well and these can only be available for everybody in society if they are 'kept out of the distribution principles of the market and distributed according to other principles'. The programme argues that the country's public care services, education and health lie in this defined area along with the legal system, the 'social infrastructure', housing and culture. The choice between public interest commitments and the market economy has to be decided by which of the two 'provides the best result as regards justice and efficiency'. Above all, the non-market areas must be strongly protected in the name of equality.

Such equality is linked to the provision of personal choice in health and education, which in turn is being made compatible with a non-market approach to public sector service provision. In an important section, which ought to be of particular interest to New Labour theorists, the programme argues:

It is one of the main tasks of the public sector to develop alternatives in its own services in order to meet the different needs and wishes of citizens. But co-operative, idealistic and individual alternatives can also play a role. They must have access to public financing if they follow the same rules as public services. Other possible alternatives involve the opportunities for citizens to choose schools, care and health services, not the opportunity for individual producers to choose the pupils and patients who are the most profitable. The citizen's access to welfare must not be determined by the profit motives of individual companies.¹⁸

But the Social Democrats are concerned to ensure that the diversity and open access to a wide range of personal choices in the public services should not strengthen the forces of social inequality:

Social insurance and the social services such as care, schools and health can never be reduced to goods in a market, where the task of society only is to distribute

taxation money towards individual purchases. Welfare systems presuppose the responsibility of the citizens not only for their own benefits but also for the rights of everybody else. They must be designed in such a way that this common responsibility can be exercised. The so-called models of customer choices, which turn social utilities such as schools, care and health into goods in a service market, are inconsistent with the demands for solidaristic responsibility. The principles of the market and competition must not characterise the public services. Democratic principles, openness and clear terms governing responsibility must prevail. We cannot accept the development towards increased elements of private insurance in the area of welfare. They pose a threat to universal welfare and create unacceptable injustices when it comes to access to welfare for all citizens.¹⁹

This statement sets out what are clearly defined limits and obligations on the use of private provision in Sweden's public services. The Social Democrats remain strong champions of equality. This is why in the continuing improvement of their country's welfare state they seek to widen the life chances and security of everybody in society and not merely those who have the financial means to better their lives. The Party remains committed to the concept of social equality even if it has revised the institutional means of pursuing that laudable objective. As a result, today there is greater flexibility in the means of provision with a key role in the delivery of services not just for the local authorities in Sweden but to non-profit making bodies, co-operatives and other associations. The Swedish Model remains an inspiration to those on the democratic left who continue to believe in the pursuit of equality in the name of freedom. The Party programme states:

Schools, care and health play a central role in redistributing the opportunities in life. Unequal opportunities for education, care or health care are inherited and magnified into unequal opportunities for personal development, in social life and in the labour market. Such social divisions harm the individual and they harm society. Equal access to these utilities, providing high quality for everybody is a key element of equality policy. Care, schools and health must also be aware of the importance of class and sex related

patterns of behaviour and work deliberately to change them. This is why education, care and health care are the concerns of society. The distribution of these benefits must never be left to the price mechanisms of the market and the supply of these benefits must never be determined by the individual producer's interests in a profit of their own.²⁰

While the new Swedish Model continues to seek an accommodation with a more individualistic society in Sweden in its welfare state reforms, it also emphasises that the management of democratic change is best achieved through a clear focus on the need to attain and maintain stability in the widest sense of that word. One of the primary features of the old Model was its determination to protect people from the consequences of adversity, especially those who lacked the material means to fend for themselves in a deeply class divided society. Per Albin Hansson sought to establish what he called the 'People's Home' in Sweden during his years as Social Democratic Prime Minister from 1932 until 1946. Over the next twenty years his successor Tage Erlander continued that work under the slogan – 'The Strong Society'. Both men constructed a social model that aimed to establish a sense of security for everybody – from the cradle to the grave – through universal provision of rights and responsibilities and publicly funded benefits and services. But this model was never a soft option that threatened the future of the market economy. Nor was it designed to provide a cushion or subsidised life style for those who were not prepared to play a full and active part in the labour market. On the contrary, the Swedish Social Democrats have always argued that the achievement of security – material as well as psychological – remains an understandable human desire and not least because it is the most effective way to win the consent and co-operation of people to accept and participate in the process of modernisation. The horrible word 'flexicurity' has been coined recently to describe this phenomenon. It is crucial to our understanding of the new model as it is of the old one. The vast insurance-based public welfare system established in the second half of the last century in Sweden underpinned the country's economic successes.

A similar approach was followed in the other Nordic countries.

The ideological foundations of the new social democratic revisionism have been backed up by a range of policies that are designed to develop a strong society through the commitment to an effective and defined public interest, but which is less centralised and bureaucratic than the old system. One of the most impressive features of the Swedish Model has been the advances it has made towards greater gender equality. The Social Democratic Party programme repeatedly stresses that the Party's fundamental commitment is to equality and in particular to what this means for gender and ethnicity. Women as mothers and workers are close to the centre of the social democratic vision. The feminisation of Sweden may still have a long way to go but the Party's radical policies to eradicate gender inequalities not only at work and in society but within the family or household are the most advanced in Europe.

It took a long time to reach the current status for women. The active family friendly welfare policies, which were a necessary precondition for the advance of the equality cause, first began during the 1930s under the newly elected Social Democrats who were concerned at that time with the country's falling birth rate and the likely adverse economic consequences for meeting its future labour market needs. The advance to gender equality accelerated in the 1970s when the party in government introduced a more comprehensive publicly funded childcare system for the whole of Sweden, a parental insurance scheme that ensured parental working leave by law and an individual tax law so that women were taxed in their own right and not jointly with their spouses. That state-driven approach has been crucial for the impressive advance in the status and well-being of Swedish women. But perhaps the most important result of this policy was the undoubted enhancement in the self-confidence and independence that women experienced. The gender equality agenda underpinned a cultural change in Swedish society in the role and power of men and women, which continues to this day. Of course, the outcome has fallen far short of the ideal. Evidence

indicates that women remain less likely than men to hold senior positions in companies in the private sector. But the huge public services sector practises gender equality in its promotion and recruitment and Swedish professional women are far less likely to hit a career glass ceiling in their working lives than in most other European countries.

Much of the country's comprehensive social strategy derives from the official commitment to gender equality. The most influential evidence of this can be found in its childcare system, which first took centre stage in the early 1970s. The government now argues:

Public childcare is a natural part of everyday life for the great majority of Swedish families. The aim has been to provide quality childcare with full access to those requiring it, run principally by local authorities and financed out of the public purse. The main incentives have been consideration for the well-being of the young and a desire for greater equality between the sexes.²¹

In 2002–03 important reforms were made to the public childcare system so that it has now become a part of general welfare provision and available to all families irrespective of income. The stated principle is that every child in Sweden who is aged one to five has the right of access to childcare and the public fees that are charged must be kept relatively low so that nobody is excluded. Moreover, after 1996 childcare has been linked to the education system so that pre-school children can begin the important process of lifelong learning at an early age and a national curriculum has been devised that lays down commonly agreed standards and values. Local authorities are the main providers of childcare facilities but they also pay out grants for private or non-market co-operative undertakings to act as providers. However, the fees that are charged in such bodies cannot exceed those that are charged in the municipal childcare centres. It is estimated that in 2003 around 17 per cent of all Swedish children attending pre-schools were at those provided within the private sector. Today it is estimated that 80 per cent of all one- to five-year-olds attend pre-school and as many as three-quarters of six- to nine-year-olds receive school-age childcare. The cost of all this on the taxpayer is considerable. It amounted to

Skr46 billion in 2003, 13 per cent of the total amount spent by local authorities and nearly 2 per cent of Sweden's gross domestic product. But since January 2002 a maximum payment has been required, which amounts to no more than 1 to 3 per cent of a family's income, depending on the number of children. A fee cannot exceed Skr1,260 a month for a family's first child. But in 2002 parental fees amounted to only 11 per cent of the gross costs of providing public childcare.

In recent years private provision has also made some, though still limited, advances in the management of Sweden's huge public welfare state through a process of sub-contracting and as a result of the split in functions between the public funding and the providers. It is estimated that the proportion of employees who work in the welfare sector for private companies has risen from 6 to 12 per cent over the past ten years. But the experience has varied from one area to another and it has not overwhelmed or dramatically undermined the existing system, at least not until now. Indeed, there are some clear and unmistakable signs of an actual revival in a public policy approach to welfare reform. As Joachim Palme, director of Sweden's Institute for Future Studies, has argued, the country is experiencing 'greater backing for major public undertakings in the various areas of social policy. Faith in private alternatives, however, does not appear to have increased.'²² There is clearly no apparent popular appetite for a wholesale dismantling of the public welfare system, which is why the opposition political parties have abandoned any neo-liberal or radical plans to cut taxes and enhance the private over the public in the provision of services. But there can be no room for complacency.

Sweden – like every other modern country – faces a number of serious social problems in the years ahead to which its governments will have to respond in the very near future. The modest birth rate and the massive growth in the size of the older population over sixty-five are going to place an increasing strain on the finances of the welfare state. This was an important point made strongly in the 2005 Sweden survey from the Organisation for

Economic Co-operation and Development. There is a real added problem of a shortage of labour to meet the demands of the modern economy, which could undermine its strength. The Swedish Model has already been revised to embrace immigrants and their families to ensure they can be integrated into society. It would be wrong to suggest the Model was mainly successful because of the relative homogeneity of the population in the past. But the necessary self-discipline and the regime of rights and responsibilities that characterise the Swedish approach will certainly be tested if the country becomes more multicultural.

Despite this it is untrue to say that Sweden today takes a harshly restrictive attitude towards foreigners who wish to come and live and work in the country. In the past the country did display an unwelcoming approach, especially in the 1930s when German Jews were seeking desperately to escape from Nazism and could find no refuge in Aryan Sweden. But that policy of its time reflected the lack of much experience of inward migration as well as an obvious racialism. Back in 1910 Sweden was the European country with the smallest proportion of foreign-born among its citizens. The census of that year explained this by suggesting that it reflected Sweden's 'remote location'. After the Second World War official attitudes changed significantly as boom conditions produced a serious labour shortage. Workers from southern Europe were officially encouraged to come to Sweden to fill manual jobs in manufacturing and acquire Swedish citizenship. Even so, in 1955 only a mere 3.7 per cent of the population were foreign born and in 1968 restrictive legislation put a stop to immigration for economic reasons.

However, in the difficult 1970s Sweden took a relatively generous view of asylum for foreign refugees who were escaping from oppression in countries like Chile, Iraq and Eritrea. The country also became the home for more than thirty years for many exiled members of the African National Congress. It came as no surprise that Nelson Mandela travelled to Sweden soon after his release from prison on Robben Island in 1990, to show his gratitude to the country for its practical assistance during the years of apartheid. It is also worth

recording that during the early 1990s an estimated 170,000 people migrated to Sweden from the disparate parts of former Yugoslavia.

Today it is estimated that as many as one in five Swedish citizens are either foreign born or have a parent who is. Just over 11 per cent of the employed population are estimated to be migrants. They are mainly working and living in the conurbations of Stockholm, Gothenburg and Malmo. Sweden may not practise an open door migration policy. Its officials speak of 'regulated immigration'. But the country has signed up to the Schengen accords of the European Union and this involves acceptance of a completely free labour market with all the countries of the European Union. It is notable that Sweden – along with Britain and Ireland – has been one of only three EU member states that has not imposed any temporary restrictions or a transition stage for the free movement of people from the new member states in central and eastern Europe into the country.

On the other hand, anybody who seeks permanent or temporary residence in Sweden from outside the EU and the European Economic Area must first of all acquire a work permit as well as a residential permit before travelling to the country. However, Sweden remains a relatively generous recipient of political asylum seekers, operating an annual quota established by the United Nations High Commission for Refugees.

From time to time racist incidents occur in Sweden that worry the authorities, but the country has not seen the appearance of any threatening populist movement of the radical right in its political life that seeks to incite racial and religious hatred. Moreover, the state remains determined to pursue enlightened policies of integration and assimilation through the provision of substantial financial support for language learning, cultural adjustment and labour market adaptation. By European standards, Sweden is genuinely multicultural despite the obvious strains and anxieties that this produces. With the prospect of a shrinking indigenous workforce and an ageing population the country may have to come to terms with a much higher rate of inward migration than in

the past if it intends to advance its economic success and affluent life-styles. Up until now the prospect of such a strategy has not aroused much national disquiet. However, it is going to be a real test for the resilience of the new Swedish Model when Sweden begins to plan for the growth of a much more diverse labour force than it has already.

Surveys suggest that Swedes are among the happiest people in the world. Their appetite for suicide, alcoholism and depression is exaggerated by outsiders. What is most striking about the country, however, is that it nurtures a clear and distinctive sense of national identity. Nowhere in the democratic world outside the United States can you see such a widespread affirmation of this through the prominent public display of the national flag, which even flutters atop poles in gardens in private homes across Sweden. The close identification between social democracy and the nation remains surprisingly strong. But this has ensured the encouragement of a rather benign and peaceful form of national identity, less defined by any exclusive attempt to distinguish 'us' from 'them' but founded on the creation of a genuinely internationalist image of well-being, altruism and moral virtue. Such common feelings can occasionally seem rather complacent. However, they have so far protected Sweden from the ethnic tensions and cultural confusions of other European countries. The radical right has failed miserably to make any significant inroads into the People's Home. Of course, this could change in the future but there are no signs that it will. The existence of a vibrant progressive politics to the left of the Social Democrats in the shape of the Left Party (the former Communists) and the Greens, who support the current government in Parliament, as well as the strong ethically based Swedish Liberals and Christian Democrats, reflects a continuing broad political consensus of moderation and restraint. It suggests the foundations of the new Swedish Model remain as resilient as the old in pursuit of a successful market economy and a strong society based on liberty, equality and solidarity.

Conclusions: the Swedish Model and the lessons for social democracy

Sweden's dynamic new Model proves it is not only possible but necessary for the achievement of successful modernisation that a country must combine the pursuit of economic competitiveness with social cohesion in equal measure. But it also suggests that neo-liberalism, in its repudiation of basic social democratic values, is not the most effective way for creating affluent and efficient political economies. Peter Auer from the International Labour Organisation has argued that:

It is not the countries that have reduced social spending most, have curbed government intervention drastically or minimised social partnership that are the leading successes today. It is rather those that have retained while adapting their institutions which now see their economic success spilling over into the labour market. It is not the flexibility of the market but the existence and adaptability of institutions and regulations that explain success.²³

This perception is confirmed not only by the recent experience of Sweden and the other Nordic countries but in other small nations as diverse as Ireland, Austria and the Netherlands. The OECD in its national state surveys may criticise aspects of their economies but they also acknowledge the remarkable achievement of those European countries in demonstrating how it is perfectly possible to respond in a positive and equitable way to the challenges posed by globalisation without abandoning the basic values of social democracy. Indeed, it needs to be emphasised that genuine social democracy, as Sweden illustrates, still provides the most credible political strategy for modernisation because its fundamental commitments to the democratic values of liberty, equality and solidarity ensure the most effective means for developing the public policies and

strategies that are required to ensure economic success in the market economy.

During the depression years of the 1930s Sweden and the other Nordic countries began to create models of modernity that were designed to bring about a return to full employment without any resort to excessively deflationary financial policies of austerity, balanced budgets, minimalist welfare states or a social Darwinist ideology of the survival of the fittest and the deserving among their citizens. They succeeded in creating such models during the first two decades after the end of the Second World War only to be confronted by serious economic problems caused by spiralling trade and current account deficits, wage push inflation and excessive public spending to fund their burgeoning welfare budgets. After enduring its worst recession since the inter-war years in the early 1990s Sweden renewed its once-famous model to meet new and different challenges in an increasingly open and global trading and financial system. Its example has once more become a standing contradiction to the pervasive dogmas of neo-liberalism because the new model has cast severe doubt on many of the common assumptions that lie behind the familiar refrain that more external flexibility in labour markets is the only way to achieve greater employment creation and commercial success. As Professor David R. Howell has written:

The unemployment problem cannot be blamed on labour market rigidities imposed by the welfare state. The evidence simply does not support the free market view that convergence with the American model – reduced wages, increased inequality and greater economic security – is the only path to good employment performance. Markets are essential to the effective functioning of all modern economies but they

cannot function well without sensible regulation and strong social safety nets.²⁴

Of course, it would be wrong to suggest that Britain could simply import Swedish style policies into its own more disorganised and ad hoc political economy with its weaker intermediate institutions and more rampant individualistic culture as an alternative to pervasive neo-liberalism. Sweden's experience of social democratic hegemony through the performance of a democratic state, strong intermediate institutions and above all a broadly accepted tradition of solidarity, consensus and compromise is significantly different from our own. But we ought to recognise from the current Swedish experience what the important ingredients that are of wider application in any successful modernisation strategy for the creation of a successful social market economy can be.

Defending the concept of the public realm

We require a clear and firm commitment by the democratic state to the encouragement and defence of the concept of the wider public interest that lies beyond the market economy. This means a revival in recognition for the values of professionalism and an emphasis on the virtues of the public service ethic in policy making. Sweden has always benefited from a relatively high level of popular trust among its own people at the workings of the institutions of its democratic state. Some Swedes may worry about falling participation rates in public life and complain about the apparent decline in civic pride as well as growing anxieties about crime and social disorder but by international standards their country retains a strong and vibrant sense of democratic well-being. There is certainly much less evidence of excessive moral corruption and cronyism on display, even if there are growing signs of some widening in income and wealth distribution among the richest from the rest of the population. Sweden has become a much more individualistic and competitive society, more concerned with personal consumption than mass production, when compared with what it was like thirty years ago. But it still remains a highly socially disciplined place with a relatively egalitarian structure of wealth and income. The workings of the democratic

state have not stimulated a widespread cynicism nor any populist resistance in an upsurge of racist feelings or tax cutting social movements. The provision and protection of public space remains a continuing high priority for the Social Democrats. The Party is opposed to the commodification and commercialisation of every aspect of human life. Resistance to the excesses of the market society and a clear determination to set limits on its advances is not campaign rhetoric but vital to its vision of the future.

Modernising social partnership

The revision of the Swedish Model owes much of its success to the ability of the country's intermediate and autonomous institutions to modernise themselves through an extension of social dialogue and consensus. The trade unions may have their problems in their relationship with the Social Democrats but they continue to embrace technological change and co-operate in the restructuring of companies and promotion of worker empowerment. Organised labour seeks to improve the quality of working life and not to obstruct progress but to welcome it. For their part, employer associations, private companies, public authorities, financial institutions and the like remain important partners in the modernisation process. Sweden is a prime example of how necessary structural change in our global world can be achieved through the creation of an institutional consensus.

An enabling state

A new and positive role for the democratic state has been vital to the creation of the new Swedish Model. Historically the Social Democrats never believed that the state should own and control the means of production, distribution and exchange. The old Swedish Model was founded after 1938 on the foundations of an historic compromise between capital and labour, which established clear and agreed divisions of interest to unify the demands of the market with the needs of society. In that voluntary process the state did not act as an enforcer but as an enlightened enabler and catalyst. It has been performing the same function today in different and perhaps more hostile circumstances.

The new Swedish Model has indicated how the state can take the lead and set an example in driving forward the modernisation process both in the public services and in the wider political economy. The Swedish state provides much of the inspiration for the creation of the information economy, for innovation and creativity in the private sector and in the construction of a freer but also more socially responsible society.

Pluralism and long termism

The Swedish Model provides us with a sensible and enlightened way on how the democratic left ought to reach political decisions of a progressive kind in a modern society. The emphasis ought to be on the creation of a consensus, a broad agreement that has to be achieved across the wider society before bringing about particular policy changes. Sweden has never believed in an elective dictatorship even if it may often look like a benign one-party state. The Social Democrats have governed for the most part not by dictat but through the achievement of genuine popular consent and co-operation. The Party has avoided any tendency to populist authoritarianism or a cult of the personality. The Swedish way is always to inquire and investigate through the use of impartial research institutes, universities and professional experts in the examination of specific issues and problems in the search for rational and effective solutions. It has meant including a wide and diverse range of people and institutions on deciding what has to be done. It involves the active pursuit of democratic government through an impartial and objective process of rational debate and argument. The emphasis on the slow but steady evolution of change rather than the resort to ill-judged instinctive responses to daily newspaper headlines is what characterises Swedish social democracy. This means that the Swedish Model as it has developed has achieved a remarkably wide popular support in society that transcends all of the political parties. As a result, when economic and social reforms are introduced and carried through they tend to become firmly rooted and thereby they tend to last. In other words, the Swedish Social Democrats are concerned

to ensure that the means they use to initiate and implement change and their social and economic objectives are as pluralist and democratic as possible. This provides an impressive underlying strength to the country's social market economy. The democratic left everywhere should draw inspiration from such an approach on how to carry through progressive reform with active popular consent in a modern society. The underlying strength of the Swedish Model, old or new, stems from this often overlooked but vital attitude of mind.

Social justice drives economic efficiency

Another important lesson for the European left is that the new Swedish Model is demonstrating to the rest of the world how the pursuit of economic competitiveness and achievement of business efficiency are compatible with the creation of greater equality and social cohesion. There is a civilised and workable alternative to the neo-liberal model with its relative lack of concern for the existence of growing income and wealth inequalities, its opposition to high taxes and public spending by the state and its hostility to sensibly regulated labour markets that seek greater social justice for workers. The new Swedish Model has revised the traditional concept of equality but it has not abandoned an ideological commitment to its achievement. Moreover, it has shown how the pursuit of a more socially cohesive society is the necessary precondition for modernisation by consent. The external forces of globalisation and technological innovation have not been allowed to dictate an exclusive public policy response that requires ever more flexible labour markets, a minimalist state, weak social institutions and a more unfettered surrender of power and authority to capital.

The ideology of the left is freedom

But perhaps the most important lesson of all the European left needs to draw from the recent Swedish experience is that the core values of social democracy are more relevant than ever to the way in which people can live their lives in the modern world. Sweden has succeeded in creating a grand narrative for a progressive process of modernisation

in response to the complex challenges of our times. It is based primarily on an idealistic and attractive focus on the meaning of freedom in a democratic society. This is not a selfish, individualistic egoism concerned with the mere satisfaction of material wants and appetites through the acquisition of ever-more consumer durables. Nor is it based on a stifling conformity of outlook and behaviour imposed on a reluctant people by an excessively intrusive and paternalistic state. It is a social freedom that while it balances rights and responsibilities in the interests of the wider society also affirms a genuine emancipation for men and women of all classes, races and creeds from the rapacious power of an unregulated market economy. As the Swedish Social

Democrats pronounced in their 2004 interim programme:

We all share the experience of how life has its different phases. Everyone is fragile at some point in time. We need each other. We live our lives in the here and now, together with others, caught up in the midst of change. We will all be richer if all of us are allowed to participate and nobody is left out. We will all be stronger if there is security for everybody and not only for a few. Together we will achieve much more than we would do on our own. It is this basic view that has guided Swedish Social Democracy through the whole process of building the welfare state, from early industrialisation to the globalised and rapidly changing economy of today.²⁵

Endnotes

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- 7 Swedish government, Innovation Policy 2004.
- 8 Peter Auer and Sandrine Cazes, *Employment Stability in an Age of Flexibility*, International Labour Organisation, Geneva 2003.
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- 21 Report on child care policy, Swedish Institute for Future Studies, Stockholm June 2005.
- 22 Joachim Palme, *How Is The Swedish Model Faring?* Swedish Institute for Future Studies, Stockholm October 2002.
- 23 Peter Auer (ed.), *Changing Labour Markets in Europe*, International Labour Organisation, Geneva 2001.
- 24 David R. Howell, in David R. Howell (ed.) *Fighting Unemployment – The Limits of Free Market Orthodoxy*, Oxford University Press, Oxford 2005.
- 25 The Social Democratic Programme November 2004.

Further reading

You do not have to know the Swedish language to keep abreast of developments in the country. The best guide can be found on the portal sweden.se, which opens the way to a remarkably wide range of websites in English. The best are those provided by the Swedish government, but the Swedish Social Democrats also have an English language section on their own website whose address is socialdemokraterna.se.

The annual Swedish budget statements and state economic reviews are obtainable from the Ministry of Finance in Sweden. The publicly funded Swedish Institute provides a rich and up to date series of fact sheets in English that provide the reader with a substantial knowledge of what is going on in the country. All these sources can be downloaded from Sweden.se

Unfortunately we have no new books specifically on modern Sweden available in the English language that either describe or explain the modernisation of the past ten years. However, *Sweden after the Swedish Model* by Mauricio Rojas, published by Timbro in Stockholm, Sweden, as a pamphlet in May 2005, is very useful and a stark contrast to the more critical view of the author in his

Rise and Fall of the Swedish Model, published in 1998 by the Social Market Foundation in London.

A number of older volumes are still of some relevance in our understanding the evolution of contemporary Swedish history. These include *The Social Democratic Image of Society* by Francis Castles, Routledge, London 1978; *Creating Social Democracy: a Century of the Social Democratic Labor Party in Sweden* edited by Klaus Misgeld, Karl Molin and Klas Amark, Pennsylvania State University Press, Philadelphia 1992; *The Political Theory of Swedish Social Democracy – Through the Welfare State to Socialism* by Tim Tilton, Clarendon, Oxford 1990; *Politics Against Markets – The Social Democratic Road to Power* by Gosta Esping-Anderson, Princeton University Press, Princeton 1985; *Social Democracy in Capitalist Society* by Richard Scase, Croom Helm, London 1977; *The Swedish Social Democrats: Their Ideological Development* by Herbert Tingsten, Bedminster Press, Totowa NJ 1973, English translation of the Swedish edition published in 1941; and *The Working Class in Welfare Capitalism: Work, Unions and Politics in Sweden* by Walter Korpi, Routledge and Kegan Paul, London 1978.

About the author

Robert Taylor was Nordic correspondent of the *Financial Times* from 1988 to 1992 and is now an adviser to the European Trade Union Confederation. He was labour editor of the *Observer* from 1976 to 1987 and employment editor at the *Financial Times* from 1994 to 2001.

More recently Taylor has been media fellow on the Economic and Social Research Council's future of work programme, which he is drawing together for publication in 2007. He was also research associate at the Centre for Economic Performance at the London School of Economics and Political

Science where he worked on the Leverhulme Foundation funded future of the trade unions project. He is researching a book on labour in the globalising economy.

Taylor has written six books on labour markets, the world of paid work and industrial relations. These include *The Future of Trade Unions* in 1994 and *The TUC: From General Strike to New Unionism*. He is also author of 'Social Democratic Trade Unionism', a pamphlet for Catalyst published in 2003. At present Taylor is completing a history of the parliamentary Labour Party.

Useful contacts

Compass is an umbrella of organisations and individuals who believe in greater equality and democracy. Listed below are some of the organisations who have been involved with Compass or who think are operating in an interesting and complimentary space.

Active Citizens Transform (ACT)
info@actnetwork.org.uk / 020 7278 5788

Catalyst catalystforum.org.uk /
catalyst@catalystforum.org.uk / 020 77332111

Centre for Reform cfr.org.uk / info@cfr.org.uk /
020 7631 3566

Citizen's Income Trust www.citizensincome.org /
info@citizensincome.org / 020 8305 1222

Citizens For Europe new-politics.net/campaigns/
citizens-for-europe / james@new-politics.net /
020 72784443

Comprehensive Future
comprehensivefuture.fsnet.co.uk / mtulloch@poptel.org

Co-operative Party co-op-party.org.uk /
p.hunt@party.coop / 020 73570230

Demos demos.co.uk / hello@demos.co.uk / 0845
4585949

Electoral Reform Society electoral-reform.org.uk /
ers@reform.demon.co.uk / 020 79281622

Fabian Society fabian-society.org.uk /
info@fabian-society.org.uk / 020 72274900

Fawcett Society fawcettsociety.org.uk /
info@fawcettsociety.org.uk / 020 72532598

Foreign Policy Centre fpc.org.uk / info@fpc.org.uk /
020 73886662

IPPR ippr.org / info@ippr.org / 020 7470 6100

Joseph Rowntree Reform Trust jrtrt.org.uk /
info@jrtrt.org.uk / 01904 625744

Labour Party labour.org.uk / info@new.labour.org.uk /
08705 900200

Labour Students labourstudents.org.uk /
labourstudents@new.labour.org.uk / 020 7802 1234

Local Government Association lga.gov.uk /
info@lga.gov.uk / 020 76643000

Make Votes Count makevotescount.org.uk /
info@makevotescount.org.uk / 020 79282076

NEF neweconomics.org.uk / info@neweconomics.org /
020 78206300

New Local Government Network nlgn.org.uk /
info@nlgn.org.uk / 020 73570051

New Politics Network new-politics.net /
peter@new-politics.net /

New Statesman newstatesman.co.uk /
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Opinion Leader Research opinionleader.co.uk /
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About Compass

Compass is the new democratic left pressure group, whose goal is to both debate and develop the ideas for a more **equal** and **democratic** society, then **campaign** and **organise** to help ensure they become reality.

We organise regular events and conferences that provide real space to discuss policy, we produce thought provoking pamphlets and we encourage debate through online discussions on our website. We campaign, take positions and lead the debate on key issues facing the democratic left. We're developing a coherent and strong voice, for those that believe in greater **equality** and **democracy** as the means to achieve radical social change. We are:

- ➔ **An umbrella grouping** of the progressive left whose sum is greater than its parts.
- ➔ **A strategic political voice** – unlike think-tanks and single issue pressure groups Compass can and must develop a politically coherent position based on the values of **equality and democracy**.
- ➔ **An organising force** – Compass recognises that ideas need to be organised for and will seek to recruit, mobilise and encourage to be active, a membership across the UK to work in pursuit of greater **equality and democracy**.
- ➔ **A pressure group focussed on changing Labour** – but recognises that energy and ideas can come from outside the party, not least the 200,000 who have left since 1997.

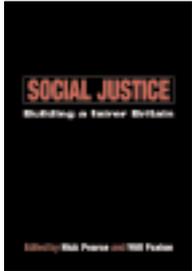
The central belief of Compass is that things will only change when people believe they can and must make a difference themselves. In the words of Gandhi '**Be the change you wish to see in the world**'.

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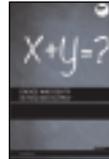


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