

## The Swedish model: an alternative to macroeconomic policy

*O modelo sueco: uma alternativa para  
a política macroeconômica*

ALEXANDRE GUEDES VIANA\*  
PATRÍCIA HELENA F. CUNHA

---

RESUMO: O artigo apresenta as principais características do modelo econômico sueco, o qual começou a ser gestado na década de 1930 e se consolidou a partir de meados da década de 1950. O modelo sueco caracteriza-se por uma política macroeconômica que proporciona estabilidade de preços e espaço fiscal para políticas industriais seletivas e políticas sociais ativas, estas últimas reconhecidas como um amplo e universal Estado do Bem-Estar Social. Esta combinação, que contradiz o receituário econômico convencional, se mostrou exitosa, dado que o país era subdesenvolvido e agrário até o início do século XX e alcançou elevado grau de desenvolvimento socioeconômico desde a década de 1970. Em seguida, expomos a experiência sueca como uma alternativa à condução da política macroeconômica, dada a sua singularidade.

PALAVRAS-CHAVE: modelo sueco; estado; política macroeconômica.

ABSTRACT: This paper describes the main details of the Swedish economic model, which began to be structured on the 1930s and achieved its consolidation on the 1950s. The Swedish model is characterized by a macroeconomic policy which provides price stability, fiscal results for selective industrial policies and social active policies, the latter being recognized as a wide universal welfare state. This combination, which contradicts the traditional economic prescriptions, has been successful given the country was agrarian and underdeveloped until the beginning of 20<sup>th</sup> century and achieved a high social-economic development level on the 1970s. Afterwards, we present the Swedish experiment as an alternative to macroeconomic management, especially due to its uniqueness.

KEYWORDS: Swedish model; state; macroeconomic policy.

JEL Classification: E61; J58.

---

---

\* Respectivamente, Mestre em Economia Política – PUC/SP, e-mail: alegviana@yahoo.com.br; Professora visitante da Universidade Federal do ABC, e-mail: paticunha@uol.com.br. Submitted: 5/April/2010; Approved: 19/May/2015.

## INTRODUCTION

Sweden was a poor and agrarian country until the late 19<sup>th</sup> century. However, during the 20<sup>th</sup> century, it showed a fast socioeconomic development, which has its foundations in the industrial consolidation of the country through large companies, especially the ones related to metal and mechanical engineering. Whyman (2003) points out that the socio-economic performance of Sweden throughout the 20<sup>th</sup> century calls the attention of economists, because it is a mix of a capitalist and open economy with an active social policy characterized by a large universal welfare state.

The Swedish economic development derives from the introduction of a set of socio-economic policies promoted by the State, since the mid-1930s, with the rise of the Social Democratic Party (SDP) to power. This set of policies is recognized by economists, journalists and politicians as the Swedish economic model, or simply the Swedish model.

In the context of the Swedish model, social policies are designed to ensure basic quality of living to all citizens, while economic policies are focused on the labor market and fiscal policy with the goal to achieve economic growth with price stability. During the 1950s and 1960s the Swedish model achieved full employment, promoted consistent growth and maintained price stability. In the early 1970s, the international environment suffered a major overhaul with the end of the fixed exchange rate regimes agreed in the Bretton Woods context in 1944, and subsequently, the process of globalization that promoted the deregulation of main markets and liberalization of financial capital. The turbulent context of the 1970s turned out to challenge the model because there was a drop in industrial employment and it was set off by the State with the increase of Public employment, especially in welfare services. However, despite the problems, the core of the model, which includes the maintenance of full employment, was reached.

In the 1980s, the Swedish economy came from a stagnation scenario in the first half of the decade to overheating in the second half, which was rooted in the financial market liberalization and a boom in the real estate market. Thus, in the early 1990s, Sweden had a combination of factors, including the appreciation of the Swedish krona and a high inflation rate, which led the country to face a strong speculative attack, culminating in a severe economic crisis from 1992 to 1994.

With the crisis, the country had a high unemployment rate and the State began to review some points of its economic policy, including a strong fiscal adjustment and a reduction in public employment, which were later relieved. At that point, it was argued that the Swedish model was overcome and that new alternatives should be discussed in the management of macroeconomic policy. The economic recovery only began in the second half of the 1990s, and it did not ignore the principles of the Swedish model, once Public Employment suffered a reduction but was maintained in high levels.

In the period between 2000 and 2009, the economy recorded growth of around 2% a year, which was significant when we consider the severe recession of the

world's economy between 2008 and 2009. The recession of the main consumer markets affected exporting economies of products with higher added value, such as Sweden. In contrast, even in a turbulent period, it was observed again that some of the classic elements of the Swedish model, including fiscal policy and labor market policy, remained present.

Thus, despite the crisis, the essence of the model is still influential over economic policy decisions in Sweden. The aim of this paper is to present the experience of the Swedish model and regard it as a possible alternative for the management of macroeconomic policy. It is noteworthy that this model contradicts some of the assumptions usually defended by the neoliberal prescriptions, including the assumption that the market is efficient to maximize the welfare of society with minimal regulation. Therefore, the State should have a residual approach regarding to social policies.

In the next section, we describe the main aspects of the Swedish model, highlighting the concept of productive rationalizations as an instrument to achieve full employment with price stability. We recognize the R-M Model, designed by economists Gösta Rehn and Rudolf Meidner, as the synthesis of the Swedish model. Third section presents the indicators of the country's economy, with emphasis on the period after the 1990s crisis, emphasizing the rates of economic growth, inflation, fiscal balance, public employment and unemployment. In this context, we point the elements of the Swedish model still present in the post-crisis economic policy. In fourth section, we present the experience of the Swedish model as an alternative to macroeconomic management, which contradicts the Anglo-Saxon economic model and the alternatives usually presented in Macroeconomics textbooks. Fifth section concludes this paper.

## THE SWEDISH MODEL

### Literature definition

Lundberg (1985) points out that the term Swedish model has been used loosely and imprecisely by economists, journalists and politicians since the 1930s. They highlight different points of economic and social aspects of the country, such as economic growth, the constitution of welfare and the process of democratization policies. Thus, there would be various shapes, and optical to analyze and understand the model.

According to Svanlund (2003), the Swedish model is the result of policies focused in the labor market and the institutional framework of the country:

The Swedish model is referring to the special institutional arrangements of the society that is sometimes described as a middle way between capitalism and socialism. The commonly used definition of the Swedish model in economic history is the specific relations between organisations

on the labour market that developed from 1930s and onwards. Here the central wage bargaining system, the solidaristic wage policy and the low frequency of labour disputes is seen as specific and unique relationships. The term Swedish model is also used to describe the general welfare politics that emerged from the 1930s and onwards (Svanlund, 2003, p. 1).

Erixon (2000) agrees with the understanding that the labor market policy is an important element in the design of the Swedish model:

The Swedish model, synonymous here with the Rehn-Meidner model, represents a unique policy in combining full employment and equity with growth and price stability. The combination is achieved by a wage policy of solidarity and the use of selective instruments – primarily labour policies and marginal employment premiums – within the framework of a restrictive general economic policy (Erixon, 2000, p. 82).

Whyman (2003) confirms the argument presented in Erixon (2000), understanding that the basis of the Swedish model is the Rehn-Meidner model (R-M Model):

Thus, whilst maintaining full employment the over-riding goal of public policy, and endorsing the need for a sufficient level of aggregate demand to prevent involuntary unemployment, the burden placed upon simple demand management was partly alleviated by the introduction of a range of additional policy instruments, the combination of which was to be treated as a self-reinforcing new strategy. This new approach has been designated as the ‘Rehn-Meidner Model’, after its two principal architects, Gösta Rehn and Rudolf Meidner. Outside Sweden it forms the basis of what we term the ‘Swedish Model’ (Whyman, 2003, p. 35).

Therefore, this paper examines the Swedish Model as a combination of economic policies focused on the labor market and complemented by a restrictive fiscal policy in the long term, which we understand as synthesized by R-M Model. This combination of policies occurred in a context of “centralized institutions and extensive income transfers and social safety nets intended to secure a relatively equal distribution of income and wealth” (Cerra and Saxena, 2005, p.4).

## The R-M Model

The R-M Model was formally presented by the report “Trade Unions and Full Employment”<sup>1</sup> during the *Landsorganisationen i Sverige* (LO) Congress<sup>2</sup> in 1951.

---

<sup>1</sup> The original title in Swedish is *Fackföreningsrörelsen och den fulla sysselsättningen*, and the English version was published in 1953.

<sup>2</sup> Swedish Labor Organization.

The common view among economists and politicians of that time was that there would be a trade-off between inflation and full employment, since both would be conflicting goals. Economists linked to the LO showed, through this report, an economic model as an alternative to solve this dilemma, considering the assumption that full employment was a necessary condition for the strength of the union movement. Meidner (1993, p. 213) points out that the analysis of the trade-off between full employment and price stability has been the starting point, and eventually became the center of the Swedish model.

The R-M Model rejects the concept of a rigid Philips curve, since it has the goal to combine full employment with low inflation rates. The understanding was that this combination would be possible if the economy presented a fast growth with productivity gains background (Hjalmarsson, 1990, p. 276). Erixon (2000) argues that the model R-M advocates a prudent management of fiscal policy and the appropriate use of measures in the labor market, which would trigger a series of shifts in the economy. These shifts would allow the country reach the full employment with low inflation at the end. Fiscal policy would work to avoid an over-heating process in the economy and, consequently, would harm the emergence of inflation. To achieve full employment, a strong policy focused on the labor market would be used, including measures to increase the level of human capital and its productivity.

The R-M model approach focuses on the demand management using the fiscal policy, which would allow the full employment at most of the efficient sectors of the economy. Nonetheless, this demand management should reach less than full employment over the whole economy (Whyman, 2003, p. 36). The Rehn-Meidner strategy viewed the excessive profits as an inflationary element. Consequently, the aim of the fiscal policy would be to reduce the inflation rate, squeezing the profits of company. The high profits would stimulate workers in efficient companies to demand wage increases. Likewise, the workers of the least efficient sectors, visualizing the gain of that group of workers, would also request wage increases. Therefore, this whole process would impact the cost of business and tend to generate inflationary pressures (Erixon, 2000, p.13).

The restrictive fiscal policy would also have the role to foster economic growth. The profit squeeze process would push the companies toward an industrial rationalization and to reach productivity gains. These changes would affect the industrial structure of the country (Whyman, 2003, p. 37) and the structural transformation would contribute to enhance economic growth in medium and long terms (Erixon, 2000, p. 14), generating jobs and prosperity.

In fact, the productive transformation of the industry was positive from the perspective of having large Swedish private companies in high-value-added sectors in major worldwide markets. The downside of this policy is the small number of entrepreneurs and small businesses when we compare Sweden with other OECD developed countries (Davis and Henrekson, 1995).

Despite the important role of fiscal policy, the main tool of the R-M model is the Labor Market Policy. In general, we can observe four kinds of Labor Market Policies within the model: (i) Demand-Side Policies; (ii) Supply-Side Policies; (iii)

Compatibility Policies; and (iv) Solidarity Wage Policies. In all these policies, it is possible to emphasize the presence of the State in order to achieve the main goal of full employment.

Examples of Demand-Side Policies include special programs of public service and subsidies for companies to increase the employment. The Supply-Side measures include reducing information costs to search for jobs, subsidies for workers to move to other regions and training programs suiting the Labor market needs (Whyman, 2003, p. 38). Moreover, there were not large social movements against these policies because the economy was growing and unemployment rates were extremely low, between 1% and 2.5% (Trautwein, 1996, p. 109).

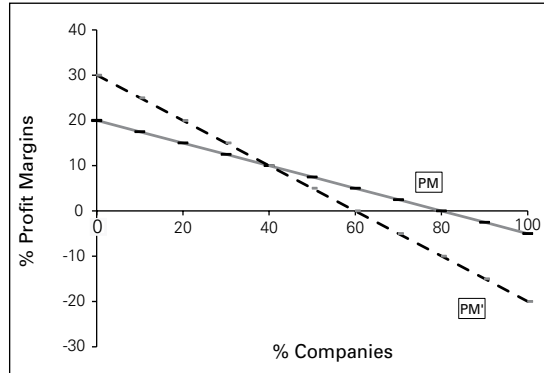
Compatibility Policies had as their main component the Employment Centers. These Centers acted as Employment Agencies that would try to match the needs of the market with the availability of skilled workers. The information should be centralized, with the assumption that it would be more efficient and less expensive to have a unified system that collected all the information about available positions and unemployed workers (Hjalmarsson, 1990, pp. 277-278).

In the R-M Model, the Solidarity Wages Policy is the one with the most unique characteristics (Erixon, 2000; Svanlund, 2003; Högfeldt, 2004; Eklund, 2001). The first proposal of a Solidarity Wage Policy is prior to the formalization of the R-M Model, having been presented at a meeting of the LO Congress in 1936, with the defense of equal pay for equal services, regardless of profitability or the company's ability to pay (Whyman, 2003, pp. 39-40). Companies should compete with each other through productivity and not through cost reductions regarding to labor. However, the model does not suggest a general equalization of wages, but rather a goal to reduce wage differentials, which would tend to improve the distribution of income and thereby become a positive aspect for long-term economic growth.

The most prominent benefit of applying the Solidarity Wage Policy would be the structural adjustments in the economy (Whyman, 2003, p. 41). The reduction of wage differentials would decrease conflicts among different groups of workers, as it would also reflect on income distribution. Due to the "standardization" of wages, some companies face higher costs while other companies a more reduced cost, leading the economy to structural changes, as companies with higher costs tend to go out of business. Thus, the resources that become available due to the rationalization process migrate to profitable companies in the dynamic sectors. (Erixon, 2000, p. 15).

Figure 1 shows the profitability of companies with a wage policy set by the Market (slope PM) and a Solidarity Wage Policy (slope PM'). This figure summarizes the idea of resources migrating from least to most dynamic sectors of the economy. Consequently, the slope PM shows a smaller number of companies working with negative margins (losses) than the slope PM'. Companies with salaries set higher than the initially paid have their profit margins decreased, whereas companies in the opposite situation increase their gains. The point where the two slopes intersect is where the salary defined by market and by this policy is the same. Thus, the existing concept in Solidarity Wage Policy is that it would promote rationalization due to the migration of resources to dynamic sectors of the economy.

Figure 1 – Solidarity Wage Policy



Source: Elaborated by authors based on Erixon (2000, p. 44)

Figure 1 shows the profitability of companies with a wage policy set by the Market (slope PM) and a Solidarity Wage Policy (slope PM'). This figure summarizes the idea of resources migrating from least to most dynamic sectors of the economy. Consequently, the slope PM shows a smaller number of companies working with negative margins (losses) than the slope PM'. Companies with salaries set higher than the initially paid have their profit margins decreased, whereas companies in the opposite situation increase their gains. The point where the two slopes intersect is where the salary defined by market and by this policy is the same. Thus, the existing concept in Solidarity Wage Policy is that it would promote rationalization due to the migration of resources to dynamic sectors of the economy.

The rationalization of the economy would allow higher levels of production and, consequently, would require new markets to absorb these products. The internationalization of the economy through export companies is an important factor for obtaining strong foreign currency for the expansion of the economy as a whole. Then, these processes are connected given that the rationalization would expand production levels and the production would be absorbed by the world market. That would result in more foreign currency, which allows new investments and, finally, restarts the rationalization process. Trautwein (1996) indicates that the structural rationalization caused by the dismissal of workers in less dynamic and competitive sectors of the economy was offset by the Labor Market Policies mentioned above, including training and public employment in welfare services.

Structural rationalizations caused several implications for the economy and demanded high infrastructure investment. This became evident when Gunnar Myrdal<sup>3</sup> defended in the mid-1940s that the Swedish economic policy should com-

<sup>3</sup> Gunnar Myrdal (1898-1987) was an important Swedish economist, awarded with the Nobel Prize in 1974, together with Friedrich Hayek, for his work related to monetary theory and analysis of the interdependence of economics, social policies and institutions. In 1944 he presented a study called "High Taxes and Low Interest Rates" (Höga skatter och laga räntor), which showed the challenges of Swedish

bine high taxes and low interest rates. High taxes had three main objectives: (i) avoid a demand inflation; (ii) obtain resources to enable the labor market policies; and (iii) capital formation. The latter had distinctive characteristics in the Swedish model, especially in the form of collective funds financed by the State, in order to invest in housing and infrastructure as well (Trautwein, 1996, p. 109).

Regarding the low interest rate policy, there would be the possibility of capital flight, especially when considering that Sweden was a small economy in which a competition by major economies might occur, attracting capital with hikes in interest rates. This was avoided by the tight credit and exchange control policy that lasted from the mid-1950s until the late 1970s. Swedish banks were protected domestically from foreign competition, and interest rates were regulated by low ceilings, leading to the credit crunch. In this scenario, the State's policy was to allocate the available credit to priority sectors, highlighting the export sector and real estate (Drees and Pazarbaşıoğlu, 1995, p. 3.). However, in the 1980s there was a major change in the Swedish financial market with a progressive financial deregulation, which resulted in a strong economic growth and the emergence of speculative bubbles in the asset market, highlighting again the real estate market (Ergungor, 2007). This financial deregulation that harmed the classic structure of the Swedish model is considered the major factor for the crisis in the early 1990s.

Returning to the rationalization approach, it is emphasized by Rehn and Meidner because they had the understanding that real wage gains would only be possible with the increase of productivity, otherwise wage increases would result in higher inflation curbing the real income of workers:

It is a generally accepted fact that the total real wage increase in a country cannot, in the long run, differ appreciably from the increase of production in industry as a whole. [...] Wages policy can thus be used to level out wages; but if the wages of all workers rise more rapidly than productivity increases, then prices are bound to rise. An inflationary price trend caused by too rapid wage increases should, if possible, be avoided, as it disrupts the economy, which probably, in turn, hampers productivity (Meidner *et al.*, 1951 [1953], p. 34).

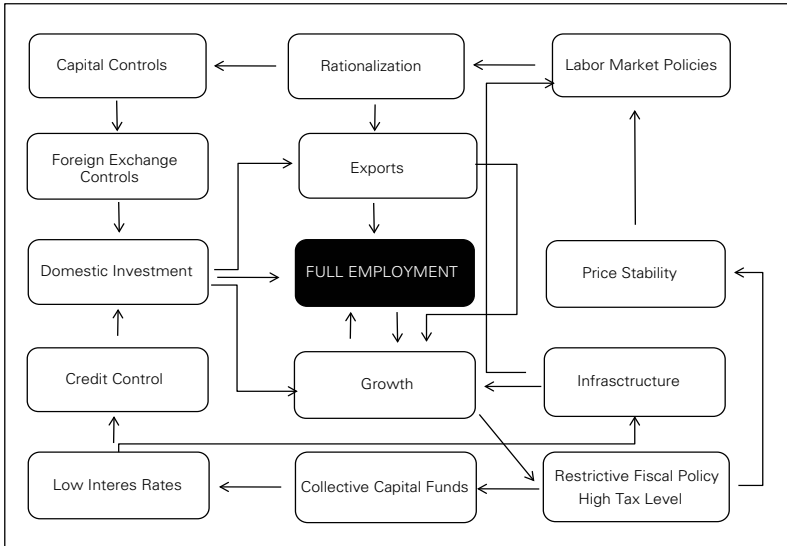
Figure 2 shows the Swedish model, in which each element needs to be considered as a part of an integrated set of policies, therefore the model should be analyzed as a whole. Because each element has multiple objectives, it is difficult to analyze only one policy ignoring the others (Erixon, 2000, p. 20; Whyman, 2003, p. 52). Despite that, we highlight the universal welfare state policies, especially those relating to the labor market. As emphasized by Fujita (2014), welfare state policies influenced the labor market policies directly, elevating the level of human

---

economic policy after World War II. He was also a strong supporter of welfare state policies in order to increase economic efficiency.



Figure 2 – Swedish Model (R- M Model)



Source: Elaborated by authors and based on Marterbauer (2001, p. 226) and Trautwein (1996, p.108).

capital and the inclusion of women in the labor market, which promoted structural changes in the economy and raised productivity.

Fujita (2014) also points out how important the contribution of Gunnar Myrdal was to the defense of universal welfare state policies since the 1930s, not only identifying the social role of the policies but also their economic result. Welfare state policies were not the core of the idealized model by Rehn and Meidner, but at the end they played a structural role, since they raised the level of human capital of Swedish economy. The higher productivity allowed Swedish products to gain new markets and provided room to raise wages without generating inflation. Meidner (1993, p. 214) argues that productivity also fostered the main objective of the model, which is to achieve full employment, without neglecting the price stability.

## SWEDISH ECONOMIC INDICATORS

To verify the real effect of applying the Swedish model, we must analyze the main macroeconomic indicators. Then, we comment on the GDP growth, productivity levels, fiscal results, inflation and unemployment rates. The period covered by the data presented starts in the 1950s, when the application of the R-M model began.

In the 1950-1969 period, the indicators of economic growth, productivity, inflation and unemployment rate were very robust. Annual inflation rates were low in Sweden during this period, with an average rate of 4%. Unemployment was also very low, with rates below 2%. The average annual rate of GDP growth was very high in the 1950s and 1960s, with annual growth of 3.3% a year and 4.4%, respectively.

The combination low inflation, low unemployment and high growth rates are empirical proofs that the main goals of R-M Model were achieved in these two decades.

Table 1 – Swedish economic indicators

|               |     | 1950-59 | 1960-69 | 1970-79 | 1980-89 | 1990-99 | 2000-09 | 2010-2014 |
|---------------|-----|---------|---------|---------|---------|---------|---------|-----------|
| GDP Growth    | (1) | 3.3     | 4.4     | 2.4     | 2.3     | 1.7     | 2,0     | 2.3       |
| Productivity  | (2) | 4,0     | 4,0     | 2.4     | 1.3     | 2,0     | 1.7     | 1.2       |
| Fiscal Policy | (3) | ..      | ..      | 3.1     | -1.9    | -3.6    | 1.2     | -0.7      |
| Inflation     |     | 4.3     | 3.8     | 8.5     | 7.9     | 3.2     | 1.5     | 1,0       |
| Unemployment  | (4) | ..      | 1.7     | 2.7     | 3.3     | 8.7     | 6.8     | 8,0       |

Sources: OECD, 2015; Statistics Sweden, 2004; Krantz e Nilsson *apud* Södersten, 1990, p. 33.

Notas: <sup>1</sup> Data only to the 1951-1959 period (Statistics Sweden, 2004).

<sup>2</sup> Data regarding 1950-1959 and 1960-1969 reflect studies in Krantz and Nilsson *apud* Södersten, 1990, p. 33. Data from 1970s represent the productivity per worked hour in OECD (2015).

<sup>3</sup> OECD (2015).

<sup>4</sup> Data only to 1963-1969 (Statistics Sweden, 2004).

However, in the 1970s the Swedish economy began to face problems and the GDP growth declined sharply, almost 50% in comparison to 1960s (2 percentage points). The low GDP growth rates were a phenomenon that also affected other industrial economies at that time. The Swedish case originated from internal cost pressures (especially labor costs), the world recession and the oil shock.

In the mid-1970s, the Swedish economy began to face increasing cost pressures, something that came to disrupt the dynamism of economic growth. One of the main sources of these pressures was the increase of the wage cost per hour around 38% in 1975-1976 (Öberg, 2006, p. 2), which was the result of negotiation between the industry and trade unions. The sluggish economy in the 1970s was accompanied by a significant increase of inflation rates with an annual average of 8.5%, more than doubling in comparison with the average of 3.8% in the period 1960-1969.

In the 1980s, inflation remained high, and we can analyze it by dividing the decade in two parts. During the first part (1980-1984) the inflation had correlation with the currency devaluations promoted by *Riksbank*<sup>4</sup> in order to keep the competitiveness of exportations. In the second part (1985-1989) the inflationary pressure came from a bubble in the real estate market. The bubble was fed by the financial deregulation process introduced by the Swedish Government with the goal to increase the dynamism of the economy and in line with the neoliberal prescription adopted by several economies in the 1980s.

The Swedish economy remained relatively heated in the second half of the

<sup>4</sup> *Riksbank* is the name of the Central Bank of Sweden, which was founded in 1668. It was established as a result of a crisis in Stockholm Bank, which went to bankruptcy and in this episode thousands of its notes was in circulation, requiring a statement by the Swedish krona and the consolidation of a central bank to avoid a major crisis. When created, the Riksbank received the assignment to manage the notes and the money that was in circulation, but only in 1904 it received the monopoly to issuance the currency.

1980s, but the average growth was 2.3% per year, a much lower rate in comparison with 1960s and in line with the 1970s. The productivity also presented lower growth rates, about 1% per year. Low productivity and high inflation rates are strong evidences that the Swedish economy had structural problems and the golden period of the model (1950-1970) was left behind.

Nonetheless, despite the fall in GDP growth, we can realize that full employment – the main goal of the Swedish model – continued to be achieved. The average unemployment rate for the 1963-1970 period was 1.7% per year, below the average rate of 2.7% and 3.3% p.a. recorded between 1971-1980 and 1981-1990, respectively (OECD, 2015). The definition of full employment is normally vague and differs from each author, but Viana (2007) argues that a rate around 3% would fit the request of full employment in the context of the Swedish model.

Scholars (Erixon, 2000; Whyman, 2003; Lindebeck, 1997) who study the R-M model argue that the main objectives were achieved during the period between 1960-1990, since Sweden has balanced levels of inflation and unemployment:

In terms of the key economic variables, the Swedish economy also performed admirably. The Economist stated that the Sweden had achieved “one of the best trade-offs between unemployment and inflation of any industrial economy”. Unemployment remained low, whilst inflation rates were certainly no worse than the average for European Union countries (Whyman, 2003, p. 50).

Nevertheless, Sweden was hit by a severe crisis in the early 1990s, the hardest recession since the Great Depression. Several factors are regarded as causes, out of which five can be highlighted: (i) the State grew above the necessary point for the economy, including the role of the Swedish model (Lane, 1995; Rojas, 2005); (ii) intensification of the globalization process, reducing macroeconomic freedom (Whyman, 2003); (iii) emphasis on large companies in a period of entrepreneurial dynamism; (iv) priority in fighting inflation instead of achieving full employment (Meidner, 1998); and (v) the financial deregulation of the 1980s. As Trautwein (1996) points out, there is an understanding that the crisis was the result of a perverse combination of monetary, fiscal and exchange problems. Financial liberalization allowed a huge expansion of credit and generated an asset bubble, especially in real estate market, which pushed a demand inflation. Internal inflation harmed the competitiveness of Swedish products and it was offset with devaluations of the Swedish krona. Added to this, the fiscal balance was tight, with the Swedish State with a debt around 80% of the GDP in 1994 and a huge tax burden at 52% of the GDP in 1990 (Confederation of Swedish Enterprise, 2005, p. 69). These fiscal constraints let no room for a fiscal consolidation through an additional increase of taxes.

The GDP fell by 4% in 1991-1993, and industrial production fell by approximately 15% in the same period (Lindebeck, 1997, p. 1304). The severe recession pressed fiscal balance on the revenue and expenditure sides. The recession decreased

tax revenues due to lower taxable income, whereas expenses rose because of the increase of claims for unemployment insurance and other social demands guaranteed by the welfare state. In the context of the crisis, the public sector and the private sector were forced to reduce costs, which included cutting jobs. Table 2 shows that Sweden cut off about 492,000 jobs in 1990-1995 period: 97,000 in the public sector and 395,000 in the private sector.

The elimination of jobs made unemployment rise sharply, reaching 6.7% in 1992 (OECD, 2015), the highest recorded rate since World War II. The situation worsened in the following years, with rates skyrocketing and reaching 10.9% in 1993 and 11.3% and 1994. The level of unemployment remained high for the rest of the 1990s, just returning to acceptable levels for Swedish standards in 2000, when the rate fell to 6.8% (OECD, 2015).

In response to the crisis, Sweden adopted a series of pro-market policies, which aimed to reduce the size of the Government in the economy. First, the country adopted the inflation targeting system, in which the *Riksbank* has the sole purpose of targeting price stability, leaving the background aspects such as income level or export competitiveness to be managed by the exchange rate (Heikensten and Vredin, 2002). Despite criticisms about the consequences of the inflation targeting regime over unemployment rates, it promoted a significant reduction in the inflation. In the 1980s the average of the annual inflation was 7.9%, while in the 1990s the average rate was 3.2% (OECD, 2015).

Table 2 – Public and Private Employment (thousands), 1965-2013

|      | Public Sector | Private Sector | Total |
|------|---------------|----------------|-------|
| 1964 | 498           | 3.091          | 3.589 |
| 1965 | 546           | 3.121          | 3.667 |
| 1970 | 776           | 3.041          | 3.817 |
| 1975 | 1.015         | 2.980          | 3.995 |
| 1980 | 1.270         | 2.869          | 4.139 |
| 1985 | 1.383         | 2.844          | 4.227 |
| 1990 | 1.435         | 3.043          | 4.478 |
| 1995 | 1.338         | 2.648          | 3.986 |
| 2000 | 1.352         | 2.799          | 4.151 |
| 2010 | 1.229         | 3.295          | 4.524 |
| 2013 | 1.263         | 3.442          | 4.705 |

Sources: Confederation of Swedish Enterprise, 2005, p. 22; OECD, 2015.

In addition to the inflation targeting system, the Government carried out the privatization of the telecom and electricity services. In addition, they encouraged a comprehensive reform of the welfare state services, with the introduction of vouchers for education and health services. Through this voucher system, people could choose schools for their children and the doctors of their preference, since they were no longer obliged to only use services located close to their residence (Blomqvist, 2004).

The measures were effective, since the economy began to grow more significantly during the second half of the 1990s. In 1995-1999, the average annual GDP

growth was 3.15% (OECD, 2015), although unemployment remained high for Swedish historical standards, standing at around 9% in this period (OECD, 2015).

On the horizon 2000-2009, there was the economic recovery consolidation, despite the global economic crisis that affected Swedish exports. The GDP registered an annual average growth of 2.0%, resulting in a reduction of unemployment with an average rate of 6.8% in this period (OECD, 2015). In the 2010-2014 period, the economic crisis continued to be strong, particularly in Europe. Nevertheless, the Swedish economy remained showing a robust annual average economic growth of 2.3% and inflation around 1.0% per year. Unemployment stood around 8.0%, substantially lower than the 10.9% recorded by EU-15 (OECD, 2015). The much better performance of Sweden in relation to the rest of Europe is attributed to the economic model of the country and also to the choice of not adopting the euro, which gives flexibility to monetary policy management.

Fujita (2014) notes that despite the economic policy changes after the 1990s crisis, Sweden has not abandoned the Swedish model (R-M model), but adapted to the new global environment. Erixon (2000) believes that the R-M model remains in force in Sweden, given the State's presence of 27% in all employment in 2013 (OECD, 2015). Another point to be highlighted is that the fight against inflation was one of the main objectives of the model, which has a strong emphasis on current economic policy with the inflation targeting system. Erixon (2000) also mentions that the fiscal rigidity of recent years would not contradict the basic and primary design of the model.

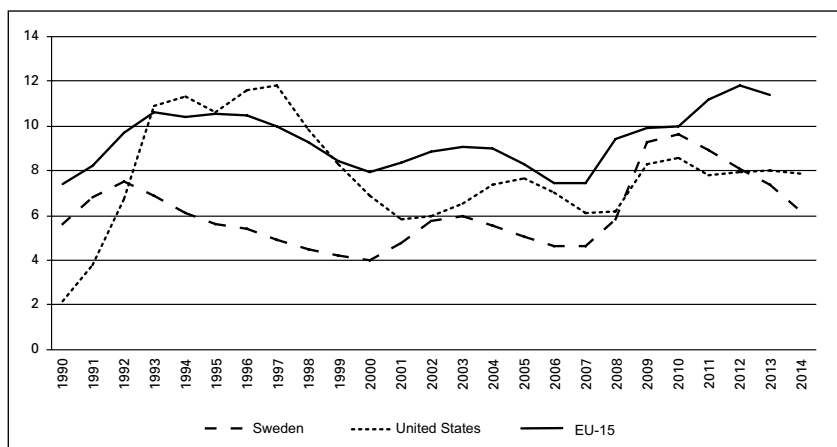
Another empirical evidence of the strength of the Swedish model is the low unemployment level in comparison to the US and EU-15<sup>5</sup>. We can observe in Figure 3 in most of the 1991-2013 horizon, Swedish unemployment rates were lower than those recorded in the EU-15 area. We can also observe that Swedish rates were not misaligned with US rates, a relevant achievement given that American Labor legislation is much more flexible and with substantial lower costs to lay off workers. Data from the OECD (2015) show that the average unemployment in the 2000-2009 period was 6.8% in Sweden and 5.5% in the US, while, between 2010-2014, the average rates were around 8% for both countries.

The low unemployment rates recorded by Sweden, even after the crisis of the 1990s and economic reforms, would be the strongest evidence of the uniqueness of the model that still achieves low unemployment and inflation simultaneously. These results presented by the Swedish model lead us to consider it as an alternative to macroeconomic management, as analyzed in the following section.

---

<sup>5</sup> EU-15 is the group of countries that formed up the European Union before the expansion occurred on May 1, 2004, namely: Austria, Belgium, Denmark, Finland, Greece, Holland, Ireland, Italy, Luxembourg, Portugal, the UK and Sweden.

Figure 3 – Unemployment rates in Sweden, EU-15 and US, 1991- 2014.



Sources: OECD, 2015.

## THE SWEDISH MODEL AS AN ALTERNATIVE TO MACROECONOMIC POLICY

### Models of capitalism

As described in second section, the Swedish model calls the attention of economists, politicians and sociologists because it is very different from the mainstream capitalist economic model that dominated the debate in the 1978-2008 period. During 30 years, the neoliberal Anglo-Saxon model was advocated as the main viable alternative because it is a market model which allows the freedom of choice and economic efficiency, maximizing the welfare of the consumer society. This certainty was questioned after the economic-financial crisis that hit United States and major developed economies in 2008-2009, which adds relevance to the study of other alternatives. In order to introduce the Swedish model as a viable alternative, we briefly describe the five capitalist economic models that are currently practiced, using for that the classification advocated by Bresser-Pereira (2012).

We can use as criteria to classify capitalist models the size of Government and the degree of regulation of the economy, which are tools to achieve social welfare. Considering these criteria, there are five models of capitalism: three would apply to developed countries and two to the developing ones. The models for developed countries are “the liberal democratic” used by Anglo-Saxon countries, the “social model” or “welfare model” applied in European countries, and the “endogenous model of social integration” used by Japan “(Bresser-Pereira, 2012, p. 25). In developing countries there are the “development model” which characterizes China,

India and other dynamic Asian economies, and the “liberal-dependent model” that is used by Argentina, Brazil, Turkey, Mexico and South Africa, countries that have recorded significantly lower economic growth compared to the “development model” in the last 20 years (Bresser-Pereira, 2012).

The Anglo-Saxon model (liberal-democratic) is characterized by a logic called “minimal State”. The State’s role is limited to the maintenance of law and the solidity of macroeconomic fundamentals, such as price stability and fiscal sustainability. In this model, social welfare is maximized when market forces operate freely and as Esping-Andersen (1990) shows, the State has a residual approach regarding welfare policies. The capitalist social model, however, is characterized by a significantly higher state, both in economic activities as in welfare policies. It has collective inclusive public policies, noting that in some cases welfare policies are universal (Scandinavian countries), including the fact that the State has several companies and regulate the strategic sectors tightly. The endogenous model of social integration is defined by State action in protecting families and businesses, and the traditional social organization possesses the role of balancing the other relationships. The developmental model is characterized by a State that establishes a national strategy and structures a system of laws and public policies to achieve their goals, often with a strong intervention in the economy and with welfare state policies of minimizing costs, including Labor costs. Finally, we have the liberal-dependent model in which the economic elites make associations with political leaders without a clear strategy for the country, with the only goal do to maximize their economic power. This type of country has a lower stage of technology, presents high inequality level, which tends to be offset by an inadequate social safety net.

Given the economic capitalist models described above, we can classify the Swedish model as a “social model”. Its uniqueness is not only defended due to the State’s inclusive and universal *welfare state* policies that are more fair and moral correct. The society believes this set of policies to be more sustainable and effective to promote economic efficiency, which includes economic growth, low inflation and low unemployment.

### The case of the Swedish model

The Swedish model approach is important for policy makers in the decision-making process, including but not limited to, the social policies that will be chosen with the goal to raise the social welfare level and economic efficiency. Then, we identify three aspects to consider the Swedish model as an alternative to macroeconomic policy:

1. It is pragmatic, with expressive economic outputs if we consider the GDP growth rates and the low unemployment level. Every economic model re-

flects in some way the political and ideological preferences of the founders and the group ideas that support the introduction of the policy as well. We understand that Rehn and Meidner were pragmatic in the design of the Swedish model and politicians adopted the essence of their ideas, including some controversial ones, such as the rationalization process that could generate tensions between entrepreneurs and workers from sectors with different productivity levels.

2. The induction of rationalizations through Solidaristic Wage Policies, because it forced Swedish companies to be more competitive through new technologies and investment in human capital instead of using low wages. In this context, the State had active policies in the Labor market including training and compatibility of skills to the industrial needs. Empirical evidences of the success of this policy come from the significant presence of Sweden companies with high value-added products in major world markets, such as Volvo, Scania, Electrolux, Aga, ABB, AztraZeneca and Ericsson.
3. The Swedish model does not split economics from welfare state policies. The model's approach is that welfare policies are important in order to achieve the economic efficiency. More balanced societies are very important to promote sustainable GDP growth rates in medium and long terms, including investment in human capital with the goal to turn companies and the economy more competitive.

In addition to the reasons mentioned above to defend the approach of the Swedish model for macroeconomic management, especially in comparison to the hegemonic neoliberal Anglo-Saxon model from 1978 to 2008, for a realistic discussion, it is necessary that we understand the particularities of Sweden, which includes the ideological and social preferences. The combination of an active policy in the labor market as an economic efficiency mechanism and a universal welfare state can be considered the breaking of a paradigm in many countries. As Przeworski argues (2013, p. 7), “a significant policy innovation is only possible when the country has the following issues: (i) the status quo is bad, (ii) there is a party with a credible past implementing the right policies, even when these policies were created by opponents, (iii) this party has good new ideas; and (iv) luck favors the innovator.”

The Swedish case fits the four elements presented by Przeworski. The economic situation was very bad in the early 1930s when the Labor Organizations and the PSD began to discuss a universal welfare state policy as the main element for economic efficiency. Then, PSD won the elections in 1932 and it used to persuade the electors a more responsible discourse, avoiding words like socializing and socialism. Throughout the 1930s and 1940s, there was the discussion of welfare



state policies by Labor Organizations and the PSD, with the economists Myrdal and Ohlin advocating in favor such kind of policies as economic efficiency elements, culminating at the end with the design carried out by Rehn and Meidner. In addition to the internal elements of the country, World War II was disastrous to the world but it was a lucky time for Sweden, due to Hitler's war program and its demand for Swedish metal industry products.

In our opinion the Swedish model is an alternative experiment to macroeconomic policy and it should be analyzed and considered by policy makers when adopting a new economic approach. Swedish economic outputs since the adoption of the model, even with the adaptations promoted during the crisis in 1990s, are empirical evidences of the relevance and effectiveness of policies proposed. However, in order to design a successful model, we have to understand the specificities of Sweden to make the needed adaptations. In this point, nevertheless, we diverge from Erixon (2000) and Whyman (2003) who defend the model should be seen only integrally. Our argument is that the Swedish model maintained its essence even after the abandonment of the solidarity wage policy and the introduction of some Anglo-Saxon model elements. Therefore, policy makers should consider the Swedish model avoiding the trap of believing a unique economic model can be applied to any economy at any time without analyzing historical and political contexts, something Anglo Saxon defenders did in the 1978-2008 period.

## CONCLUSION

This paper presents the Swedish model as an alternative to the management of macroeconomic policy. We consider the essence of the systematic model designed by economists Gösta Rehn and Rudolf Meidner, characterized by the use of Labor and Fiscal policies with the goal to achieve full employment with price stability, without neglecting the welfare state. The great innovation of the model was the solidarity wage policy, which induced the Swedish companies to rationalizations and promoted the increase in productivity, once companies were not allowed to compete using a low-wage strategy. We point out that the Swedish model does not split the economic efficiency and welfare policies, in fact the latter are essential elements to achieving economic efficiency.

The Golden Age of the model was the period between 1950-1970, with robust GDP growth, high productivity and moderate inflation. In the mid-1970s there was a drop in productivity and a significant increase in inflation, resulting in macroeconomic imbalances. In the 1980s, inflation remained high and economic growth showed an even lower rate than that recorded in the 1970s, but full employment was maintained steady. However, in the early 1990s, the country was hit by a severe recession, which dramatically increased unemployment.

The Government took fast actions and introduced several economic reforms, including the adoption of the inflation targeting system, privatization of telephone and electricity services, and a new focus on welfare state policies with the introduction of vouchers. Despite economic reforms implemented in the 1990s, the essence of the Swedish model stands present, with focus on the State role in the Labor Market, either in job creation or training policies. The main evidence of the maintenance of the Swedish model was the reversal of unemployment after the peak of the crisis between 1991-1994, noting that in the 2000-2014 period, Sweden had lower unemployment rates than other developed European countries and rates very close to those registered in the United States.

Whereas the hegemony of the neo-liberal Anglo-Saxon model in the 1978-2008 period, we present the Swedish experience as a successful alternative. Regardless the early 1990s crisis, the country has been able to maintain a combination of low inflation and low unemployment, with a GDP growth at robust rates for a developed country and a more egalitarian society.

Despite the defense of the Swedish model, we believe that innovations in economic policy must be accompanied by a careful analysis of historical and political context. Thus, we do not believe in the approach used by defenders of the Anglo-Saxon model that only a single model meets the needs of any country in any political or historical moment.

## REFERENCES

- BRESSER-PEREIRA, Luis Carlos (2012). "Five models of capitalism". *Brazilian Journal of Political Economy*, vol. 32, n° 1 (126), p. 21-32, January-March/2012. São Paulo: Editora 34.
- BLOMQUIST, Paula (2004). "The choice revolution: Privatization of Swedish Welfare services in the 1990s". *Social Policy & Administration*, Oxford, Vol. 38, No. 2, p. 139-155, Apr-2004.
- CERRA, Valerie; SAXENA, Sweta Chaman (2005). *Euroclerosis of Financial Collapse: Why Did Swedish Incomes Fall Behind?* Washington: IMF. (Working Paper 05/29)
- CONFEDERATION OF SWEDISH ENTERPRISE (2005). *Facts about Sweden's economy 2005*. Eländers: Östervåla.
- DAVIS, Steven J.; HENREKSON, Magnus, (1997). "Industrial Policy, Employer Size, and Economic Performance in Sweden". In: FREEMAN, Richard B.; TOPEL, Robert; SWEDENBORG, Birgitta. *The Welfare State in Transition: Reforming the Swedish Model*. Chicago: Chicago University Press. Cap. 9, p.353-398.
- DRESS, Burkhard; PAZARBAŞIOĞLU, Ceyla (1995). *The Nordic Banking Crises: Pitfalls in Financial Liberalization?* Washington: IMF. 54p. (Working Paper 95/61)
- EKLUND, KLAS (2001). "Gösta Rehn and the Swedish Model: Did we follow the Rehn-Meidner Model too little rather than too much?" In: MILNER, Henry; WADENSJÖ, Eskil (orgs.). *Gösta Rehn, the Swedish Model and Labour Market Policies*. Hampshire: Ashgate. cap. 3, p.53-72.
- ERGUNGOR, O. Emre (2007). *On the Resolution of Financial Crises: The Swedish Experience*. Cleveland: Federal Reserve bank of Cleveland. 12p. (Policy Discussion Paper Nr. 21/2007)

- ERIXON, Lennart (2000). *The 'Third Way' Revisited: A Revaluation of the Swedish Model in Light of Modern Economics*. Uppsala: Uppsala Universitet. 101p. (FIEF Working Paper n. ° 159)
- ESPING-ANDERSEN, Gøsta (1990). *The Three Worlds of Welfare Capitalism*. Princeton, NJ: Princeton University Press.
- FUJITA, Nanako (2014). "Historical Evolution of Welfare Policy Ideas: The Scandinavian Perspective". In: MAGARA, Hideko (org). *Economic Crises and Policy Regimes: The Dynamics of Policy Innovation and Paradigmatic Change*. Cheltenham, UK: Edward Elgar Publishing. cap. 13, p.337-356.
- HEIKENSTEN, Lars; VREDIN, Anders (2002). *The art of targeting inflation. Sveriges Riksbank Quarterly Review 2002:4*. Stockholm: Sveriges Riksbank, 2002. 34p. Disponível em: < [http://www.riksbank.se/Upload/Dokument\\_riksbank/Kat\\_publicerat/Artiklar\\_PV/er02\\_4\\_artikel1.pdf](http://www.riksbank.se/Upload/Dokument_riksbank/Kat_publicerat/Artiklar_PV/er02_4_artikel1.pdf) > Acesso em 08 mar. 2015.
- HJALMARSSON, Lennart (1990). "El modelo Escandinavo de política industrial". In: BLOMSTRÖM, Magnus; MELLER, Patrício (orgs). *Trayectorias Divergentes: Comparacion de Un Siglo de Desarrollo Económico Latino Americano y Escandinavo*. Santiago de Chile: Ediciones Pedagógicas Chilenas. cap. 10, p.263-283.
- HÖGFELDT, Peter (2004). *The History and Politics of Corporate Ownership in Sweden*. Cambridge: NBER. 62p. (Working Paper n.° 10641).
- LANE, Jan-Erik (1995). "The Decline of the Swedish Model". *Governance: An International Journal of Policy and Administration*, Cambridge, Vol. 8, No. 4, p. 579 – 590.
- LINDBECK, Assar (1997). "The Swedish Experiment". *Journal of Economic Literature*, Vol. 35, No. 3, p. 1273-1319, Sep.,1997.
- LUNDBERG, Erik (1985). "The Rise and Fall of the Swedish Model". *Journal of Economic Literature*, Vol. 23, No. 1, p.1-36, Mar.,1985.
- MARTERBAUER, Markus (2001). "Rehn-Meidner and Austro-Keynesianism: Two Post-Keynesian Roads to High Employment". In: MILNER, Henry; WADENSJÖ, Eskil (orgs). *Gösta Rehn, the Swedish Model and Labour Market Policies: International and national perspectives*. Hampshire: Ashgate, cap. 11, p.221-241.
- MEIDNER, Rudolf et al (1951 [1953]). *Trade Unions and Full Employment*. Report to LO Congress 1951. Stockholm: The Swedish Confederation of Trade Unions (LO). 109p.
- MEIDNER, Rudolf (1993). "Why Did the Swedish Model Fail?" In: MILIBAND, R. e PANITCH, L. (eds.). *Real problems, false solutions*, Londres, Socialist Register, p.211-227.
- \_\_\_\_\_ (1998). *An alternative design of macroeconomic policies aiming at restoring full employment*. Stockholm: National Institute for Working Life. 15p. (Working Paper n° II/9)
- ÖBERG, Svante (2006). *Sweden – a low inflation economy*. In: SPEECH – STOCKHOLM UNIVERSITY, 21.03.2006. Stockholm: Sveriges Riksbank. Disponível em: < <http://www.riksbank.se/en/Press-and-published/Speeches/2006/Oberg-Sweden--a-low-inflation-economy/> >. Acesso em: 08. mar.2015.
- OECD (2015). *Stat Extracts*. Paris. Disponível em: <<http://stats.oecd.org> >. Acesso em 08.mar.2015.
- PRZEWORSKI, Adam (2014). "Choices and echoes: stability and change of policy regimes". In: MAGARA, Hideko (org). *Economic Crises and Policy Regimes: The Dynamics of Policy Innovation and Paradigmatic Change*. Cheltenham, UK: Edward Elgar Publishing. cap. 02, p.33-55
- ROJAS, Mauricio (2005). *Sweden after Swedish model: From Tutorial State to Enabling State*. Stockholm: Timbro Publishers, 2005. 92p.
- SÖDERSTEN, Bo (1990). "Cien Años de Desarrollo Económico Sueco (1870-1970)". In: BLOMSTRÖM, Magnus; MELLER, Patrício (orgs). *Trayectorias Divergentes: Comparacion de Un Siglo de Desarrollo Económico Latino Americano y Escandinavo*. Santiago de Chile: Ediciones Pedagógicas Chilenas. cap. 02, p.29-52.

- STATISTICS SWEDEN (2004). *Sysselsättning och arbetslöshet 1975–2003*. Stockholm.
- SVANLUND, Jonatan (2003). *The Swedish income distribution during 20th century*. In: Svenska ekonomisk-historiska Motet, October 17 – 19, 2003. Lund: Lund University, 2003. 19p.
- TRAUTWEIN, Hans-Michael (1996). “Política econômica e o Bundesbank: o Modelo Sueco versus o Modelo Alemão”. *Ensaio FEE*, Vol. 17, No. 1, p. 103-127.
- VIANA, Alexandre G. (2007). *O Modelo Sueco e o Pleno Emprego*. São Paulo, Pontifícia Universidade Católica de São Paulo (Dissertação de Mestrado), 115p.
- WHYMAN, Philip (2003). *Sweden and the ‘Third Way’: A Macroeconomic Evaluation*. Hampshire: Ashgate. 247p.